

# Why Poverty Won't Go Away

**In an email interview, Dr Geof Wood shares with Amitava Kar of The Daily Star why poverty and inequality persist despite all the fuss. Emeritus Professor of International Development at the University of Bath, Dr Wood is an internationally renowned development anthropologist and author of several books and numerous journal articles, with a regional focus on South Asia. On March 9, he presented a seminar titled "The Security of Agency: Towards a Sociology of Poverty" at Bangladesh Institute of Development Studies (BIDS). Here is a condensed version of the interview.**

## What doesn't cause poverty?

If a society has a political leadership which recognises the political dangers to itself of increasing inequality as the economy grows, and therefore invests in public goods, widens its direct tax base (i.e. progressive rather than regressive indirect taxation), uses revenues for redistribution through social protection, and acknowledges that such ambitions rely upon improved and transparent governance so that rights are actually enacted, poverty can be reduced.

The core problem at present is that the 'duty bearers' of the society in both government and industry are also the major rent-seekers through corruption in the public sector, especially using the regulatory apparatus in discretionary ways to extract rents from those seeking avoidance from regulation. This avoidance enables industrialists to deepen the exploitation of their workers. Officials also issue contracts to their private sector friends with payback expectations. So there is an unholy alliance between the state and the type of capitalism emerging in many countries which works against the interests of its ordinary citizens.

## A hungry person is a hungry person. Why do we need so many theories to understand how to alleviate poverty?

Partly of course because women and children, especially girls, are likely to be hungry before the men in their families become hungry. So, immediately, you have one set of theories around gender inequality leading to gendered and intergenerational poverty within households as a function of both patriarchal society and labour markets



Professor Geof Wood

which privilege adult male earners over female ones.

Poverty is multidimensional and not just about food security. People need to be healthy and they need to be secure over time. If the investment in public goods such as public health and water and sanitation is low, or below quality due to corruption, then the poor are even more exposed and dependent upon bad deals, to achieve short term assistance. These bad deals reinforce relations of dependent security and thus postpone a rights-based, more autonomous security. I have called this the Faustian Bargain.

These are all examples of 'theory' statements based upon evidence, which answer questions about how poverty and unequal access to essential services is reproduced and why. And there are other theories too: about how access is limited; about under what conditions people morally care for others rather than treat them instrumentally for their

own purposes; about whether people can act for themselves (actor-oriented perspectives) or whether they are constrained by relationships and institutions; about whether people have the 'freedom to' act for themselves or only the 'freedom from' being subordinated by others (the subaltern argument); about whether they can trust each other enough to act collectively to manage their own lives as well as protest against commonly perceived enemies or threats. To understand how poverty and inequality is reproduced, we need to understand all these things and more.

## Does poverty persist because we want it to?

It is true that many people like some inequality and thus the poverty which accompanies it. Inequality offers rank and status, and some economists would argue that rank and status relative to others is a driver of creativity, innovation, risk taking which all societies need to move forward and grow. The aphorism 'The Poor will always be with us' is a convenient way of saying that the poor are responsible for their own condition through laziness and lack of application, a kind of 'culture of poverty' argument which attributes poverty to the wilful behaviour of those experiencing it, to the point where no one else is responsible for their plight but themselves. This way of thinking becomes an alibi for those in power to do nothing.

## Is it possible to combat poverty without addressing corruption and man-made disasters like wars?

The two issues (corruption and war)

have to be disentangled, and anyway the man-made disaster which affects poverty most will be climate change.

There are some who argue that historically and globally, economic growth occurs alongside corruption, and if growth delivers poverty reduction, therefore corruption and poverty reduction are compatible. I do not share this view, because unfortunately growth does not automatically lead to poverty reduction. Corruption is another word for rent-seeking in a poorly governed society where no one, therefore, can enjoy secure rights. The poor suffer the effects of uncertainty and insecurity more acutely than any other classes.

With reference to war, we should remember that conflict is sometimes unavoidable. It would be satisfying to imagine a world of peace and harmony, and thus release resources for social protection and so on. But preferences for inequality and prejudicial discrimination based upon images of the undeserving poor, or ethnicity, or race, or gender etc. appear to remain a feature of the human condition. So some wars (international or civil) have to be fought to combat poverty.

I raised the issue of climate change as a more significant man-made disaster in terms of poverty. Bangladesh is in the frontline of this evolving man-made disaster, which will likely entail a large scale movement of the human population as habitats and residential locations become untenable under well predicted effects of global warming. These 'climate refugees' will lose their livelihoods. Does Bangladesh, or indeed the world community, have the values and institutions to cope with this prospect?

This reminds us that poverty

eradication is not a linear process towards zero. Under hazard, i.e. predictable conditions, it may go in reverse. Constant vigilance and institutional, not just technological, innovation is required.

## As long as countries keep on spending a big portion of their national budgets on many non-productive sectors, how can we expect people's conditions to improve?

Are we talking about defence budgets or welfare budgets? Many neo-liberals, especially in my own country, the UK, regard welfare budgets as 'non-productive'. If military budgets contribute to positive order and aid ordinary people to combat aggressors who might make their lives worse off economically, socially, politically and culturally, then some defence capacity (and capability) is required. So military budgets are not always a negative trade-off. But if those budgets are being used for internal repression and to keep certain rent-seeking elites in power, including the arms industry around the world, then no doubt they are part of the problem.

Welfare budgets perform functions which can be considered productive: employment insurance, for example, enables the rhythm of capitalism to continue its inherent process of destroying jobs, dislocating labour, alongside the creation of new opportunities employing different people with new skills, sometimes in new locations. They also subsidise private capital by underwriting living wage/family reproduction costs—tax credits in the UK, for example. So hardly non-productive in the sense of supporting capitalism!

# Reducing cyber risk of banks

M. R. Khan

IN the blockbuster film *Terminator II*, a young John Connor (played by Edward Furlong) steals money from an ATM using his laptop. The film was released in 1991, however, the story was set in 1995. While in 1991 the technology used by John Connor in the film seemed cleverly 'new', in reality, by 1995, hackers were way ahead of the game.

But back then such threats did not seem real in Bangladesh. Why? Possibly because our banking and financial institutions were not as connected to each other and with the world as they are today. We depended on manual processes, not as much on technology. In other words, the hackers' playground was not quite ready yet. Now, on the other hand, Bangladesh is now a fertile soil for cyber predators.

The risk management and insurance industries worldwide knew well that this was a long time coming. Incidents such as the ATM hackings and embezzlement of US \$100 million are the early manifestations of the new risk landscape in Bangladesh. As far as cyber security, cyber terrorism, and internet based risk exposures are concerned, we have learned painfully that life can, in fact, imitate a movie.

Similar to computer viruses, treatment towards internet viruses and cyber related threats, including cyber terrorism, are a 'lagging' process; that is, the people involved in such criminal activities are always ahead of the game. Those involved in fighting the crimes are simply reactively learning and fixing the loopholes by putting up fences (anti-viruses, fire-walls, etc). This is not new to the world – the West has been actively fighting the cyber war since the 1980s. It is not by accident that cyber security is one of the most important industries in the modern world today. It has been a steep learning curve for the Western countries, where cyber criminals have preyed much done it all – starting from stealing credit card details, thefts from ATM, transfer of funds through hacking private and corporate accounts, to shutting down major utility services

across nations.

The banking industry has been a locked target for hackers since the inception of the internet. Individual banks and/or their branches have significant exposures in terms of high-frequency / moderately low-severity. However, central banks, which handle large transaction values between a limited numbers of participants (primarily other banks), are exposed to losses that are less frequent but when they do happen, are colossal. Such was the case of Bangladesh Bank. While branch and private bank level heists mostly go unreported (primarily due to lower loss amounts), it is usually impossible to contain information regarding thefts, burglaries and cyber crimes at the central bank level due to their significantly higher loss amounts, such as the \$87 million reported losses at the Tanzania Central Bank due to fraud, \$70m robbery at the Brazilian Central Bank in Fortaleza, attempted fraud involving a €20bn transfer from the UAE Central Bank, and several other cases, including, of course, the most recent attempted heist of \$1bn and actual heist of \$100m from Bangladesh Bank.

To counter these issues, several international standards have been promulgated and adopted by the financial industries within the international community. In June 2006, the Basel Committee on Banking Supervision issued a revised framework on the basis of a compilation in June 2004. Risk-based capital adequacy of banks under Basel II Framework was adopted and came into force on January 1, 2010 in Bangladesh. Its section 677, under the Advanced Measurement Approaches, (AMA) states that "a bank will be allowed to recognise the risk mitigating impact of insurance in the measures of operational risk used for regulatory minimum capital requirements. The recognition of insurance mitigation will be limited to 20 percent of the total operational risk capital charge calculated under the AMA." Basel Committee recognises the fact that the best of standards and security may not be able to prevent or deter the treats

that banks are exposed to. And as such, the industry must transfer some of the residual risks to insurance. Bangladesh Bank, a party to Basel II framework by adoption, needs to mandate the statutes of Section 677 and 678 within the banking industry. In the digital and globally connected environment, it is vital for today's institutions to have modern security systems and risk management controls in place supported by sophisticated insurance products.

Guidelines on Internal Control & Compliance for Banks were issued by the central bank on March 8, 2016, which recommended the commercial banks to take insurance as a risk mitigation measure. Such insurances are not over-the-counter products, and must be customised as per each bank's unique exposures. All of this is likely to take some time to put together. However, we need to move fast since we remain exposed and vulnerable in the meantime.

The most typical insurance product to protect the banks' interests is the Comprehensive Crime Policy, which should consist of Bankers Blanket Bond + Computer Crime + Internet Banking. This insurance indemnifies the bank against losses incurred or sustained to itself (first party), and covers employee fidelity, external fraud & theft, and computer crimes, among several other features. Additionally, banks must also protect themselves against the claims arising from the customers (third party). The typical product covering third party exposures are Professional Liability and D&O (Directors & Officers). These protect both the clients and the goodwill of the bank, and allow the bank to settle customers' claims and recover the loss through insurance.

Comprehensive Crime and Liability Insurance products are designed to counteract unforeseen catastrophic loss and aid balance sheet protection following an insured event. To assure that such insurances will, in fact, respond adequately in the event of a catastrophic loss, a few key features must be adhered to: (1) refrain from non-disclosure or withholding material

facts regarding past losses. Remember, an underwriter can and usually will do a simple Google search on your bank, which should not tell a different story than what has been noted in the proposal form. Any non-disclosure is likely to prejudice a claim; (2) insufficient policy limits – insurance is not meant to pay for small and day-today (attrition) losses. The small losses can easily be retained (self-insured) by the banks. Insurance should in fact cover significantly large losses over and above the banks' own retention capacities which are likely to bring financial hardship to the institution. Saving insurance premium costs through under-insurance is the oldest trick in the book, and surely not a risk management strategy; (3) security – in other words, the claims paying ability of the insurer and reinsurer. Basel II Section 678 rightfully recognises the fact that a minimum of 'A' rated security is imperative to substantiate the effectiveness of insurance. While the local insurance companies are not rated by S&P, AM Best, or other international agencies, it is imperative that the reinsurance is backed by 'A' rated securities.

In the current scenario, the central bank should strictly enforce the statutes it

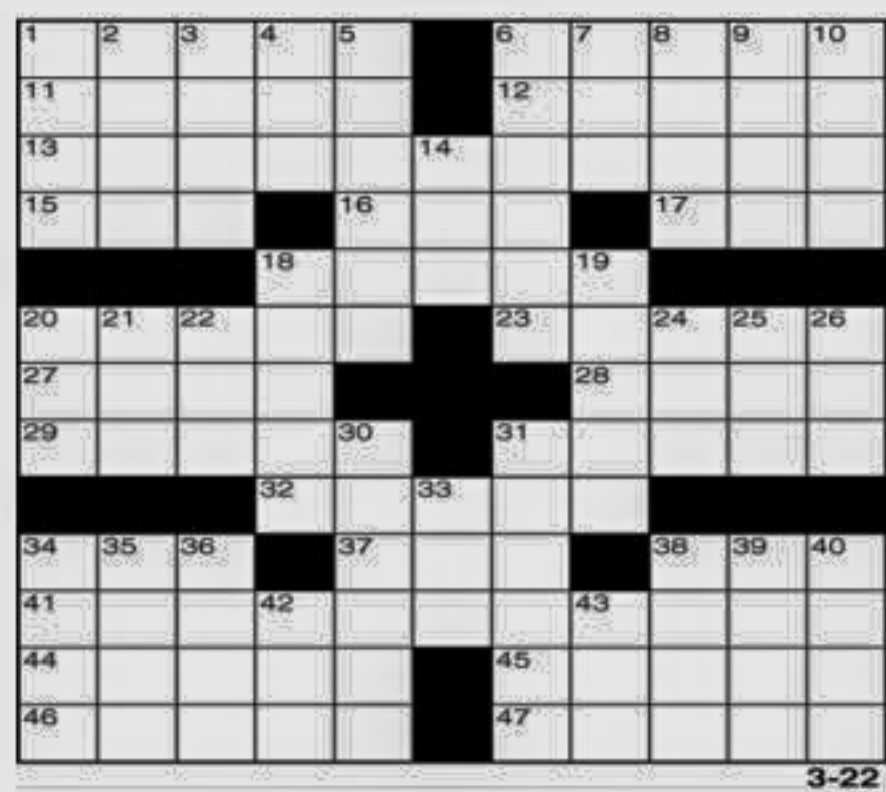
adopted more than five years ago (Basel II framework, sections 677, 678) and make it mandatory for all the commercial banks to accurately assess the Capital Requirement (Capital Charge) against credit risk and operational risks and buy adequate insurance which covers comprehensive crime, professional liability, and D&O. Furthermore, the Bangladesh Bank should avail the same for itself to mitigate its risk exposures and set an example for the industry to follow – this applies to insurance as well as other measures of risk management and security. One of the best advice I received on risk management was from my brother, a veteran investment banker in the US, who would tell me that it's cheaper to learn from other's mistakes. There is certainly much truth and wisdom in that saying. There is in fact enough information, data, and strategy out there in the cyber world to learn from. Our future resilience will depend on how well we learn the lessons from not just our own failures, but from the failures and successes of others around the world, and swiftly act upon it.

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## CROSSWORD BY THOMAS JOSEPH

- ACROSS**
- Boutiques
  - Splinter groups
  - Funny
  - Island greeting
  - He played Professor Snape
  - Fellows
  - Bible boat
  - Auction signal
  - velocity
  - Jockey Arcaro
  - Metal fastener
  - Nullified
  - Hand over
  - Building wing
  - Hive head
  - Showed interest
  - Alien craft
  - Neckline shape
  - Do a yard job
  - She played Professor McGonagall
  - Liquefy
  - Rich cake
  - Snide look
  - Setting item
- DOWN**
- Con game
  - Donut feature
  - Yemen neighbor
  - Grenade part
  - Predicament
  - Blitz participant
  - Antlered animal
  - Rooster topper
  - Asian language
  - Dune makeup
  - Fury
  - Flanks
  - Uncover
  - Juan Peron's wife
  - Mafia head
  - Racket
  - Compete
  - Cain's mother
  - Finger count
  - "X-Men" professor
  - Searches
  - Kickoff aid
  - Game callers
  - Satyr's kin
  - Storybook monster
  - Catalan painter
  - Director Premiering
  - Question of time
  - "My word!"
  - Janitor's tool



## YESTERDAY'S ANSWER

R I C E T I N A  
M I N E D O R A L S  
E V A D E M A P L E  
D E F E N D K I N  
A R I D E S P I E D  
L A X A S P E N S  
N I C E R  
G U I D E D O P A N  
H A P P E N S O R E  
A S H D E P E N D  
S H I E S T I N G E  
H E L L O C R E E D  
S L I D H E R S

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