Understanding Exclusion – An Analytical Approach

Biva Arani Mallik
East West University
Iftekharul Huq
East West University
Mehnaz Rabbani
BRAC

Abstract

The concept of exclusion although not termed as such, is not new in development practices in Bangladesh. Existence of government and non -government programs such as free education for women, the upsurge of micro-finance etc are all evidence of the fact that certain groups in society are 'excluded' from the regular delivery network. As such special programs or new modes of delivery have to be designed to include the 'excluded'. This paper aims at explaining the process of exclusion through an economic perspective using the typical demand- supply abstract. We have shown that excluded individuals face additional costs in order to gain access to particular spaces which leads them to reduce consumption in these fronts. Using the concept of consumer surplus we have identified certain economic motives that encourage the persistence of exclusion by non-excluded groups.

Introduction

Government and non-government agencies have traditionally engaged in addressing exclusion by targeting services toward those who they deem to be as deprived. In Bangladesh, examples of such programs range from relief operations amongst victims of economic and natural crisis, health & sanitation, upsurge of micro-finance for rural women and, more recently, legal services for establishing citizen's rights and good governance. Clearly, all these programs had well-defined targets – for example, residents of flood-affected areas, rural women without a minimum level of assets, retrenched workers from state owned enterprises, and rape and acid victims. All such programs were designed on the valid assumption that the target groups were outside the scope of regular service delivery network (all services provided by the state and private sectors). The success of many of these programs is evidence that exclusion is not a static phenomenon. Individuals and groups who were once excluded are 'included' as a result of these programs. The methods that cause this process of transition are diverse and depend on the type and process of exclusion. In the case of micro-finance, for instance, a change in the mode of delivery (defining an innovative form of banking to reach out to those who were excluded from the regular credit market mechanism) has proved to be an effective method, while for health and sanitation awareness programs, the method used was to influence the effective demand (i.e. creating demand for these commodities/services through awareness generation). All these programs are evidence of the presence of exclusion but there is no clear understanding of the cause or process of exclusion. This paper aims to revisit exclusion in order to enrich our understanding of the subject from an economic perspective.

We[1] begin by looking into the existing literature to develop the concept of exclusion in the context of Bangladesh. From there we move on to developing a market framework, to using the basic demand-supply analysis and attempting to look at the incidence and process of exclusion from an economic perspective.

The Concept of Exclusion

The concept of exclusion is not new in the history of social studies. Development practice has been using it implicitly by the implicit recognition of "exclusion" although it was not termed as such. In academic literature the term "social exclusion" was first used by Richard Lenoir in 1974 in the context of France. He defined the socially excluded as those who did not have access to welfare state. These people constituted of 'social misfits', mainly the physically and mentally disabled. Traditionally, sociologists have dominated the conceptualization of social exclusion. They define exclusion as deprivation from social participation.

As mentioned earlier, the discourse on exclusion began in Europe in the context of parts of the population being excluded from enjoying certain government welfare services. In England concerns arose in the nineteen-eighties about social exclusion, whereby individuals were excluded either by active measures against them or passively. Immigrants without the right to vote and the unemployed who are unable to participate in social activities are examples of

[1] The paper has been developed by a group of three: Iftekharul Huq and Biva Arani Mallik from East West University and Mehnaz Rabbani from BRAC-RED, through interaction with some seniors while they were working on a mapping exercise of NGO activities in Bangladesh which was jointly undertaken by the Economic Research Group, BRAC, under the funding of the Aga Khan Foundation.

instances of social exclusion. Exclusion in developing countries requires a slightly different approach. The socio-political context of a country like Bangladesh introduces the complexities of imperfect markets and poor governance. Explaining exclusion in such a case by using theories developed in the west is too simplistic a procedure. The absence of formal markets and institutions in developing economies makes it difficult to identify exclusion within a conceptual framework that can clearly capture the incidence and dynamics of exclusion for policy formulation.

Poverty and exclusion

The study of poverty has evolved in the literature of social sciences by distinguishing groups of individuals by their income through scrutinizing each individual in the context of his or her unique socio-political environment. Recognition of the fact that the poor are neither homogeneous nor a static group of the population led to studying the many factors that lead to deprivation for individuals. The evolution of poverty measurements from the income poverty line to the Human Development Index shows the growing importance of understanding the multi-dimensionality of poverty. Apart from economic factors, the nature of the interlinkage of the several markets in the economy and the social and political forces determine the process that leads to poverty in its different dimensions. Just as individuals are unique in their position in the economy, markets are also different in the roles they play in each individual's life. The multidimensionality of poverty is yet something that economists are still struggling to deal with. The term "poverty" itself fails to aptly capture the role of non-financial factors in the economy that lead to various forms of deprivation. A theory of exclusion based on a more comprehensive approach to the study of deprivation and inequality, compensate for this problem to a greater extent. There is no doubt that poverty and exclusion are closely related. They are largely overlapping and sometimes indistinguishable. However, there are instances of exclusion that can exist in the absence of of poverty. Exclusion allows a more holistic approach to understanding the inequalities that exist in society.

In tackling exclusion, most academics first try to disentangle the concepts of poverty and exclusion. Spicker (1998) distinguishes poverty and social exclusion clearly by defining the first as a lack of resources and social exclusion as a lack of relative levels of social networks. We take a broader view of exclusion by including social and economic factors as indicators of exclusion. Sen (2000) views social exclusion from a relational perspective. To Sen, poverty is capability deprivation, i.e. the lack of capability to live a minimally decent life, while social exclusion is both a constitutive part of capability deprivation and an instrumental cause of capability failures. This is more in line with our take on the concept, for we distinguish poverty and exclusion as concepts that are independent but not mutually exclusive in reality. Kabeer (2000) focuses on the exclusionary effect of institutionalization. Her perspective leads her to deal with the creation of relational differences. As we discuss later in the paper this is important in understanding the process of exclusion. Osmani (2003) considers social exclusion as a part of poverty. When poverty is defined from capability perspectives, exclusion adds the relational aspect that enriches the analysis of poverty. However, Osmani recognizes that individuals are often excluded independent of poverty. In our study, we use the terms like "social exclusion", "exclusion" and "poverty" slightly differently. We use "exclusion" as a comprehensive term that encompasses social exclusion and poverty. For our view, any individual who is unable to take part in activities that is the norm for the community, for reasons beyond his/her control, is excluded.

Osmani (2003) draws from Sen's broad explanation of exclusion to investigate who are excluded and why. Here, exclusion is explained in terms of poverty. Sen recognizes that an individual can be excluded from different areas for different reasons. Our discussion attempts to dig deeper into this insight and attempts to reconstruct the concept of exclusion within a framework created through the use of traditional economic tools – in some cases, broadening the concept underlying such tools.

We define exclusion in line with Chakravarty's (2003) discussion on social exclusion: 'a person is excluded if he/she is unable to participate in the basic economic and social activities of the society in which he/she lives.' Exclusion, according to him, is the cause of fragmentation in social relations, and hence the result of a lack of cohesion. Of course, this leads to the valid question on what is 'basic' in his statement. For our purposes, we will ignore this question for the time being and assume that there is a benchmark. This allows us to separate the excluded from the non-excluded in the economy. While Chakravarty moves in the direction of quantifying exclusion, we focus our discussion on the process and reasons of exclusion. We focus on the individual as a unit and try to identify and explain the process of exclusion in a given social context.

The broad goal of this study is to investigate exclusion in the context of Bangladesh. Although there have been extensive studies on poverty in Bangladesh, there is no comprehensive study on exclusion. This paper is an attempt to compile some of the existing thoughts on exclusion and offer a conceptual framework that facilitates its understanding.

Our take on the concept

The discussion of exclusion for this paper began with a focus on Bangladesh. A child who cannot go to school because she lives too far from the nearest school, a woman who does not find a job that will give her wages equal to her male counterpart and a member of an ethnic minority group who has no electricity at his house because he is politically under-represented are all too familiar cases of exclusion in Bangladesh. Many children in Bangladesh find it difficult to go to school due to the lack of public transportation and inadequate number of schools. Gender inequality and social norms often force a lower wage on women in most occupations. Ethnic groups are inadequately represented in the parliament, which means investment in infrastructure is lowest in their constituencies. In all these cases individuals are deprived from access to rights as citizens of the country. The first step in clearly analyzing each of these cases is to ask the basic questions: Who is excluded? What is s/he excluded from?

In thinking of the answers to these questions, we can distinguish between the two dimensions of the subject. The child in the first case is excluded from access to education. And this occurs due to his distance from the nearest school. The geographical location of this child answers the first question (who is excluded), while access to education answers the second (what is she excluded from?). The first dimension is a characteristic of the individual, which is often beyond his/her control and that leads to exclusion from the second dimension, i.e. access to education. We describe the first dimension as an 'attribute' of the individual which is causing him/her to be excluded from a particular 'space', which is the second dimension. For the other two cases mentioned earlier, the attributes are gender, and ethnicity, while the spaces are employment, and political participation. If an exhaustive list of all those who are excluded in a society was made available, it would be possible to generate a complete list of attributes and spaces related to exclusion.

Each individual is excluded from a number of spaces as a result of a set of attributes. The particular combination of attributes and spaces decides each individual's position in the world of exclusion.

As a starting point in developing this framework, we listed all the dimensions we could gather from the Bangladesh context. Attributes assembled are characteristics of individuals that lead to exclusion in one or more spaces.

Individuals might be born with these attributes (for example, ethnicity), or they might be acquired (example: low holding of financial assets). These attributes might also be permanent (physical disability) or temporary (low assets). The set of attributes considered relevant for the context of Bangladesh are assets (physical, social or financial)[2] , health condition, religion, age, ethnic/cultural background, geographic location and gender.

We define spaces of exclusion as facilities/ services from which individuals are denied equal access compared to other individuals within the same community because he/ she possesses one or more of the attributes (attributes). The list of spaces that we think is most important for Bangladesh in such an exercise is education service, health service, employment/occupation, housing, access to financial markets, and access to markets[3] .

Having thus identified the incidence of exclusion occurring in certain spaces due to a set of attributes, we move on to account for the process of exclusion. It is often seen in Bangladesh that institutions, or social structures, direct the process of exclusion. In certain institutions, such as the traditional patron-client relations of rural Bangladesh, the excluded are broadly identified as those who have low access to markets because they do not benefit from the informal relational network. When institutions change, however, the same group of people might not be excluded. New markets might emerge which either replace or compliment the old markets. When formal institutions replace the informal, existing relations do not determine an individual's position in the economy. The new institution defines who is excluded. Hence when institutions change, some individuals cease to be excluded, some remain excluded, and some among those who were not excluded in the old institution are excluded in the new. Perhaps a look into the credit institutions of Bangladesh will throw more light on the situation discussed above. The introduction of formal markets such as microfinance has changed the face of excluded and non-excluded populations. While it has successfully included large segments of previously-excluded population into the credit market, its strict repayment requirements and high interests continue to exclude segments of the extreme poor in rural Bangladesh. It is important to remember that new institutions do not eliminate exclusion. They change the form of exclusion and hopefully reduce exclusion in some cases.

[2] Physical assets are productive assets such as agricultural land, property, or domestic animals. Social assets are mainly social networking/ connections or even relative social standard/status. Financial assets relate to financial holdings of an individual.

[3] The ability to participate or enter into markets for regular goods and services without any discrimination.

Although there is much discussion on the absence of markets in the rural economies of the developing world, traditional economies have their own arrangements that work as markets. In the Bangladesh context, rural institutions have been changing rapidly with the influx of NGOs. NGOs essentially identify excluded populations and design programs that are targeted towards them. Many of these programs succeed in reaching their targeted population. However, the 'crowding out' of old institutions might be of consequence for the economy in terms of exclusion. Those who were not excluded in old institutions face the threat of being excluded in new institutions. Hence it is expected that there will always be certain interest groups who will develop mechanisms to strengthen existing institutions, i.e. promote existing exclusion.

Explaining Exclusion

Close observation of the attributes of exclusion reveals that it mainly takes place on two fronts: economic and social. The economic front refers to those attributes that result in a higher cost of participating in a space. For example, if an individual is physically disabled, transportation cost for him/her will be higher in order for him/her to participate in a particular space. The social front (more widely recognized in literature) mainly addresses exclusion resulting from the perspective of social norms and beliefs. Examples include individuals suffering from HIV being considered as *untouchables or social outcasts* and sex-workers being denied access to mainstream housing markets. Even though some cases of exclusion are viewed as cases of social phenomena they also can be translated into the economic costs for the excluded. Going back to our example of the sex-worker, if she were to participate in the mainstream housing market she would most likely have to pay a much higher rent than a regular non-excluded individual. She might even need to bear additional costs such as hiding her identity within her own neighborhood.

Picking up on these additional expenditures we try to use the demand/supply construct to explain the process of exclusion. At first glance, it may appear that the discussion is restricted to the economic front of exclusion. However, we will later reveal that this simple micro model can be used to explain some of the social motives as well.

If we view each of the space as a separate market, then the examples above illustrate that exclusion involves lack of participation in economic activities or limited participation at a higher than market equilibrium price. An analysis of markets will reveal that eliminating exclusion can enhance economic productivity and thereby generate growth.

Close scrutiny of each of the spaces reveal that a single market model is inadequate to fully encompass incidences of exclusion. Clearly, each of the spaces exists with its own unique characteristic. While health, education, access to markets and access to credit can be described as a normal goods and services market where the 'goods/services' can be availed at a determined market price, employment/ occupation is a space that is better described by factor market analysis. Even within the goods and services markets, complications arise when we look into the different segments. Apart from the obvious segmentation of the government, NGO and the private sector, there exists further segmentation. For example, government schools are free for female children only. Setting aside these segmentations, in our paper we view every single space (apart from employment)[4] as a market where the good/ service is availed at a positive 'price'.

We understand that every individual faces an expenditure when availing any product/service or simply participating in any social activity. The expenditure is in the form of price (determined by the market or administered by the state or a NGO); and also in the form of complementary expenditures such as transportation, sporting proper attires, social cost, or even in terms of opportunity cost. Even when certain goods/services are offered free of charge (example: primary education provided by the state or NGOs), the complementary expenditures will prevail. So the 'effective price' that every individual face in the market includes price as well as complementary expenditures.

We consider each of the spaces in our earlier discussion as a market where the demand is a function of required expenditure for availing the good/service (effective price), income and other non-price factors. So for each of the spaces discussed above there exists a downward sloping demand curve in the effective price/ quantity plain. As long as the expenses of availing the product are high, the demand for the commodity will be low. With falling expenditures, the demand for the commodity will increase. Supply for goods and services are positively related to prices.

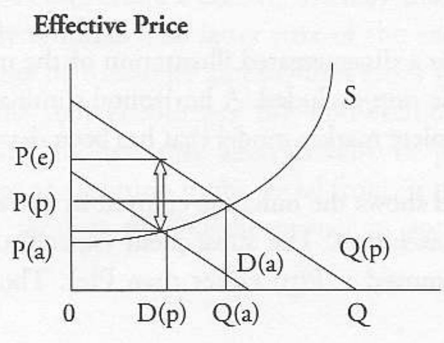
With reference to the figure below, demand curve D(p) represents zero exclusion which, in other words, is the potential demand for the good/service in question. With the presence of exclusion the actual demand is depicted by D(a). As the complementary expenditure for the excluded individuals is higher, s/he

[4] Employment has been described by an analysis of the labor market in a different paper by Huq Iftekhar, Mallik Biva and Rabbani Mehnaz. For this paper, the analysis is restricted to the goods and service market.

faces higher effective price which leads him/her to demand less of the commodity. The relatively higher complementary expenditure is the 'exclusion premium' that the excluded are required to pay. The exclusion premium is similar to the idea of tax imposed on particular consumers (individuals with special attributes), hence it affects the demand curve rather than the supply.

For example, consider a hardcore-poor family living in a remote village trying to avail health services from a hospital at the nearest town. For this family transportation cost would be an obvious complementary expenditure that would increase their reluctance to avail the service. They might also face additional social costs. The hardcore poor, because of their social standing, often fail to present themselves in mainstream markets. Thus even if they could find the means to meet transportation costs they might find the town hospital inaccessible because of their voicelessness. So the family in discussion is required to pay an 'exclusion premium' in terms of both higher transportation costs and possible humiliation resulting from their social standing.

As the figure below illustrates, as long as exclusion prevails in the market, there exists a discrepancy between the effective price borne by the excluded and the non-excluded. While the non-excluded individuals incur the effective price of P(a), the excluded pay P(e), which is the effective price plus the exclusion premium. As markets evolve, and exclusion is eliminated, the exclusion premium will gradually subside for these individuals, leading to increased demand for the goods. Thus when the hardcore poor family in the example above joins an NGO, the institution might bear the cost of transport. Also, if he/she is accompanied by an NGO worker, this will increase the individual's accessibility to the town hospital. Such actions reduce the hardcore poor family's exclusion premium. Eventually, as all of exclusion is eliminated, the two demand curves in the figure will converge to D(p) only. In that case, all individuals in the market will face an equal effective price of P(p).



Clearly, from a social point of view removal of exclusion is beneficial. To begin with, market distortions will be eliminated since all individuals, irrespective of their attributes will face a uniform effective price for availing a good/service. Also, the removal of exclusion will result in greater quantities of consumption (and increased surpluses) which leads to increased output for the economy as a whole. Especially when the commodity in question is a merit good such as education or health service, increased consumption will result in synergies that will accelerate economic development.

However, the discussion above brings forward the conflicting interest of the two groups involved in the market (the excluded and the non-excluded). While removal of exclusion seems beneficial to the excluded individuals (since now they are exempt from the exclusion premium) and society at large (resulting from greater quantities of consumption), for the non-excluded group, the situation results in higher effective price. Such high effective prices may result from greater crowding in the market that occurs from increased demand. Going back to the example given above, increased participation of the hardcore poor in the town hospital will result in longer queues. So for these groups, removal of exclusion will actually result in a loss of consumer surplus. To demonstrate the distinct effect on the two groups, we have split the market into two: one for the excluded and one for the non-excluded (see figure below).

Market for the Excluded **Market for the non-excluded**

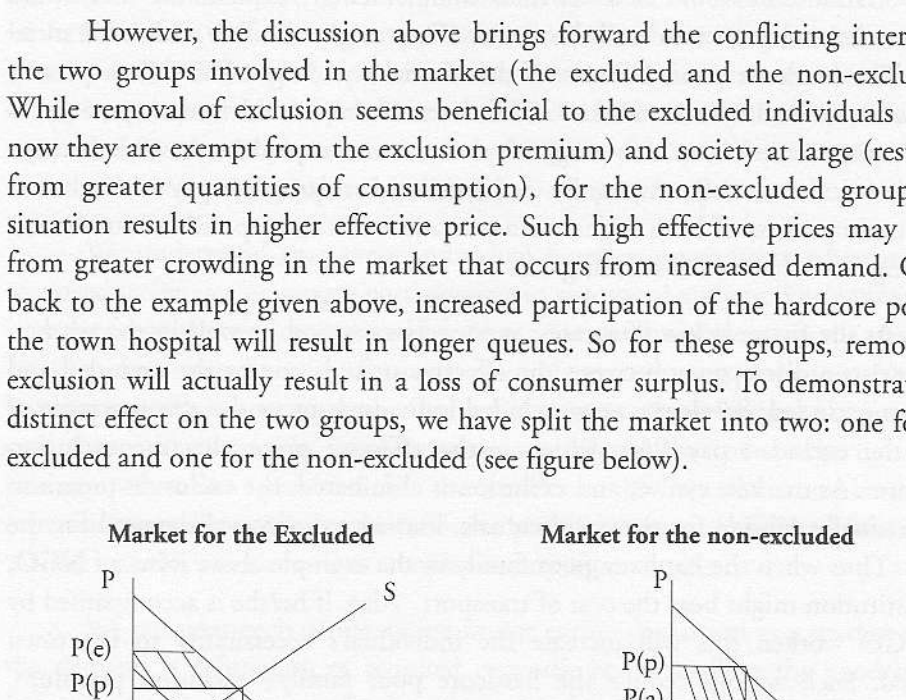


figure above is a disaggregated illustration of the market situation faced by the excluded and the non-excluded. A horizontal summation of the two markets will give us the complete market model that has been developed in Figure 1.

The left panel shows the outcome enjoyed by the excluded individuals as a result of removing exclusion. The subsequent expenditure that individuals face after exclusion is removed is P(p) rather than P(e). Therefore, these individuals enjoy a gain in consumer surplus equal to the shaded region.

The right panel illustrates the loss of consumer surplus suffered by non-excluded groups ensuing from the removal of exclusion. After the market demand curve converges to D(p), the effective price rises from P(a) to P(p), thereby reducing their consumer surplus represented by the shaded region. A point to note here is that such loss of consumer surplus would not have arisen if the supply of commodity in question had been increased. For example: increasing the number of hospitals and health centers in remote locations would have made a difference. But in practice, resource constraints lead to situations where the increase in demand through removal of exclusion is proportionately greater than the increase in supply. Thus, in many cases, removal of exclusion lead to crowding in markets that result in higher effective price for the non-excluded.

This loss of consumer surplus may be an implicit economic motive that drives the social fronts of exclusion. In other words, non-excluded individuals have an economic motive that encourages them to retain the traditional norms of society and thereby continue with incidences of exclusion.

Conclusion

The concept of exclusion has been largely dominated by socialists and explained by these groups as a phenomenon arising from inequalities in society. The causes of inequality are largely social and caused by factors such as gender and religion. Using the market model in this paper, we have demonstrated that although not apparent in the market system, these factors may have an implicit economic force behind them. The term "exclusion premium" is used to capture the additional costs that excluded individuals face in order to gain access to particular spaces. Hence in many cases the excluded are not entirely denied the benefits of these spaces, but the additional costs create a barrier, whereby the participation of the excluded are significantly reduced. The latter part of the analysis highlights the fact that the threat of loss of consumer surplus that arises from the removal of exclusion act as a factor that encourages the non-excluded to support and continue exclusion. Even though this analysis fails to provide a complete explanation of the process of exclusion in the social front, it provides readers with some of the economic motives that might prevail in society leading to the phenomenon.

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