

Political Economy of Rural Non-farm Sector Development in Bangladesh

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Abstract

Bangladesh is one of the first 35 countries, which adopted Breton Woods institution sponsored Structural Adjustment Programme (SAP). In pursuit of SAP, Bangladesh initiated major reforms in different sectors. In agricultural sector, it reduced subsidies on agriculture; in trade and industrial sector, it rationalized and simplified the tariff structure and eliminated quantitative restrictions on imports. Bangladesh also took initiatives in privatisation of public enterprises and improved operational performance of public utilities. In the financial sector, the country implemented reforms aiming at promotion of free market economy, privatised a number of national commercial banks and strengthened commercial bank loan recovery programmes.

Key Words: Rural non-farm-sector, Labour force survey, Bangladesh Institute of Development Studies, Government of Bangladesh.

Introduction

The South Asian States have given varying degrees of attention and priority to rural development since the beginning of de-colonial period. The motivations and objectives of public policies have varied over time and among countries owing to a complex combination of political, economic and social factors as well as opportunities for development provided by foreign assistance and global economic trends¹. According to the World Bank (1975), rural development is a strategy designed to improve the economic and social life of a specific

group of people, the rural poor. It is concerned with extending the benefits of development to the poorest among those who seek a livelihood in the rural areas, namely small scale farmers, tenants and the landless.

In recent decades, there has been a great deal of discussion in policy making and planning circles about the need to encourage non-farm pursuits, specially small and medium scale industries in rural areas for the creation of off-farm job opportunities in addition to the modernisation of rural agriculture. It is difficult to give a single, global strategy

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for the development of rural industries because the social, cultural, political and economic conditions in the rural areas are very different. The United Nations suggests that the pattern of industrial development in any country must become more relevant to the aspirations, needs and capabilities of the majority of its population. In fact, two strategies have been evolved for the achievement of this objective such as a top down or bottom up approach or a combination of the two.

Evolution of Rural Non-farm Sector in Bangladesh

The People's Republic of Bangladesh² is located in South Asia and bordering India and Myanmar. The territory constituting Bangladesh was under Hindu rule prior to 1200 AD. From 1201 to 1751 over five and half centuries Bangladesh was under Muslim (Mohammedan) rule. The British ruled the Indian sub-continent including this territory from 1757 to 1947 near about 190 years. In August 1947 with termination of British rule the sub-continent was partitioned as India and Pakistan based on religion. Bangladesh was a part of Pakistan and was known as East Pakistan. In December 16, 1971 after a bloody liberation war this state appeared on the world map as an independent 'Bangladesh' and sovereign state (Malek and Usami 2010).

The history of industrial relations system of Bangladesh can be traced back to the Trade Union Act of 1926 introduced

by British rulers. The main purpose of the Act was to provide for the registration of trade unions and in certain respects, define the law relating to registered trade unions. But the Act did not contain any provision regarding strikes. In 1929 the Trade Disputes Act put restrictions on strikes in public utility services. The Act provided for the establishment of tribunals to adjudicate upon the labour disputes. In 1947 the Industrial Disputes Act placed the conciliation and adjudication machinery for the settlement of industrial disputes on a permanent footing.

In the decade following Partition of India, the then Pakistan government mostly adopted the colonial legacy with regard to labour laws. However, a major development took place in the legal framework of industrial relations in 1965 when the East-Pakistan Trade Unions Act, 1965 was enacted repealing the Trade Unions Act 1926. But the Act could not facilitate healthy growth of trade unions as it was more restrictive on the freedom of association and right to organize.

The period between 1947 and 1969 was thus marked by a host of repressive laws that witnessed labour agitation and widespread industrial unrest. Subsequently, the Labour Disputes Act 1965 and Trade Unions Act 1965 were integrated into one law, namely Industrial Relations Ordinance (IRO) 1969, which made provisions for recognition of collective bargaining agents for establishment or group of establishments. Thus, the Ordinance was a landmark

development in the evolution of collective bargaining in Bangladesh. After the emergence of Bangladesh, development of industrial relations was strained by imposition of martial laws, proclamation of state of emergency at different times, and promulgation of host of other laws and policy which inhibited the growth of sound industrial relations in Bangladesh.

In 1973, the right to strike and lockout, as granted by IRO 1969, was withdrawn. Meanwhile the 'Emergency Power Ordinance 1974' was promulgated and the rules formulated under the Ordinance completely suspended the democratic rights of workers by prohibiting trade union activities such as strikes, lock-outs, collective bargaining. The military regime of 1975 imposed restrictions on the rights of collective bargaining and striking through Industrial Relations (Regulation) Ordinance 1975. The Industrial Relations (Amendment) Ordinance 1977 liberalized the Rights of Freedom of Association to some extent. Another improvement took place through adoption of the Labour Policy of 1980, which restored the right to freedom of association to a considerable extent. The situation worsened again with the imposition of martial law in 1982 when the military regime proclaimed the Industrial Relations (Regulation) Ordinance 1982 by which the government suspended trade union activities, strikes, and right of freedom of association. The scenario improved in 1990 with the fall of the military regime and full trade union

activities were restored by the democratic government in 1991.

The period between 2001 and 2006 saw great achievements, with a huge consultation process on labour law reform to enact an updated, consolidated and unified version of labour laws. These began to be implemented in October 2006. After proclamation of Emergency on 11 January 2007, political and trade union activities, including rallies and demonstrations were again banned. During the Emergency that lasted 23 months, trade unions and collective bargaining were prohibited and the determination of collective bargaining agent could not be made. Thus, frequent interference by government and military regimes on different occasions has curtailed the development of a healthy and congenial atmosphere of industrial relations system in Bangladesh.

The growth of rural population has caused a growing stream of new entrants into labour market each year resulting in a large number of unemployed labour forces. The growing unemployment adversely increase incidence of poverty, affect young generation, create unrest in the society and even frustrate the career of the employed people. Like other developing countries of Asia, employment opportunities in rural Bangladesh are also becoming scarce for the young people. Backwardness of the rural industries and non existence of diversification of rural economic structure has led to a vast reservoir of unemployed and

underemployed labour force. The bulk of labour force, therefore have to look to agricultural sector for their livelihood. But this sector is already overcrowded and beset with problems of unemployment, underemployment and low earnings.

Factors in the evolution of the contemporary rural non-farm sector are to be found in the sectoral pattern of absorption of a rapidly expanding labour force. The expansion of the rural non-farm sector has resulted from a sustained squeezing out of labour from the agricultural sector. Conceptualising in terms of supply push and demand pull factors, it is clear that the past evolution of a section of the rural non-farm sector has resulted generally from a push out of agriculture into the rural non-farm sector.

The issues in the growth and development of the rural non farm sector have already received considerable attention from the World Bank and major stock-holders in Bangladesh. The World Bank (1997) report titled "*Bangladesh: The Non-Farm Sector in A Diversifying Rural Economy*", dealt with many issues in the development of rural non-farm sector in Bangladesh. The main focus of the report was on producing a consensus in defining the coverage of the sector, discussing the main features such as composition and labour productivity in the sector, the role of micro-finance in promoting rural non-farm activities and designing a strategy for promoting a virtuous circle of non-farm growth, and poverty alleviation as well as employment

generation. The study proposed a two-part strategy: a primary strategy of improving infrastructure, finance and agricultural performance, and a secondary strategy of creating (in partnership with NGOs and private sector³) an enabling environment for private sector-led rural industrialization and for stronger linkages to agriculture.

This report uses the broader definition of rural areas. In literature two different definitions of the rural areas can be identified. In the narrower definition the rural areas consist of villages. For instance in the official statistics of Bangladesh, the semi-urban areas like *thana* headquarters, areas adjacent to municipalities, and other areas based on electricity consumption and population densities are often classified as urban. In practice, these areas may be predominantly rural in nature. Moreover, rural people often have access to employment opportunities in nearby towns and peri-urban areas. According to the broader definition, the term rural includes villages, rural towns and peri-urban areas. In this report, the broader definition of rural areas is used and whenever feasible detailed breakdown by different locations are presented.

According to Mahmud (1996), the rural non-farm sector in Bangladesh has received considerable attention from policy makers and development practitioners during the eighties. The interest in the rural non-farm sector has arisen partly out of the need to look for

all sources of growth in a densely populated, predominantly rural economy such as Bangladesh afflicted with a high incidence of rural poverty.

About three-quarters of the people of Bangladesh live in rural areas. Incidence of poverty in the country generally, is quite high, about 40 per cent of people live below the (upper) poverty level, and incidence of extreme poverty is higher in rural areas. Some 44 per cent of people live below the poverty line in rural Bangladesh (BBS 2005), and incidence of extreme (hardcore) poverty in rural areas is 29.3 per cent. Hence, poverty reduction and improving the livelihoods of the rural poor is an important part of the agenda in the development policy of Bangladesh. From this point of view, pro-poor growth is something that Bangladesh has been striving for since its independence with the ongoing poverty reduction strategy also keeping it central.

The change in rural Bangladesh from farm to non-farm economy has been occurring in two ways: (i) diversification within agricultural employment, and (ii) diversification between agricultural and rural non-farm activities. It is important to define the scope of non-farm activities at this point. The Bangladesh Bureau of Statistics (1992) includes the following categories into the domain of rural non-farm sector in Bangladesh: (i) small scale manufacturing (in permanent establishments), (ii) wholesale and

retail trade, (iii) hotels and restaurants, (iv) services, and (v) the household sector.

Sen (1996) shows that the growth of rural non-farm sector in Bangladesh has been pro-poor and, that it has had a considerable poverty reducing impact in the rural economy. However, this view has not gone unchallenged. Mahmud (1996), argues that the expansion of low productivity self-employment has been the major contributing factor in the growth of rural non-farm sector. Raising doubts about the sustainability of this pattern of growth of the sector, he further argues that while the provision of such employment opportunities has been crucial for absorbing the growing numbers of rural workers coming from landless households, the labour shift may have created some degree of overcrowding in the low-productivity non-farm activities, thus undermining the growth of overall productivity and income levels in the rural non-farm sector.

Bangladesh has made significant economic progress since her independence in 1971. Consistent with the trends of free market economy, Uruguay Round Accord and Agreement with the World Trade Organisation (WTO), Bangladesh has been pursuing a liberal economic and trade policy since 1990s. Extensive reform programmes have been implemented in trade during the last two decades. Major economic reforms in Bangladesh came in the form of implementation of a package of structural

adjustment policies under the auspices of the World Bank and the IMF in 1980s and early 1990s.

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At present, very few countries in Asia regularly collect data on informal employment and the informal sector, which ironically is perceived to be prevalent in many developing countries in Asia. In Bangladesh, the informal sector is roughly estimated to contribute about 64 per cent of total Gross Domestic Product (GDP). This rough approximation was arrived at by applying many assumptions on the composition of various national accounts sectors on existing survey data. The surveys that were used, however, were not really conducted for purposes of studying the

informal sector, hence the difficulty of making the standard definitions of informal sector and informal employment operational.

The Labour Force Survey and Population Census have been used to estimate the size of rural non-farm sector and its growth over time. While there are some discrepancies between the estimation provided by the two sources, both confirm a rising trend in the share of employment in rural non-farm activity. In a companion paper Bakht (1996) has traced the growth of rural non-farm sector using the Labour Force Survey. He found that the share of non-farm sector in the rural economy increased from 33.5 per cent to 38.6 per cent between 1983-1984 and 1990-1991, and 4.1 per cent growth over the reference period. During this period, the manufacturing sub-sector registered the highest growth of 12 per cent, while other activities, such as community and personal services, registered a decline.

In another companion piece, Mahmud (1996), in an analysis of the Population Census, finds that between 1981 and 1991, the relative size of rural non-farm sector increased from 24 per cent to 26 per cent of the total labour force, 43 per cent to 57 per cent of the non-agriculture labour force, and from 29 per cent to 34 per cent of the rural labour force. If semi urban areas are included, these proportions are found to be much higher in 1991, 33 per cent, 71 per cent and 38 per cent respectively. The inclusion of semi urban areas significantly increases

the share of non-farm sector in the economy. In fact, more than one fourth of the increase in rural non-farm labour force appears to have been in the semi urban areas.

Surveys on Rural Non-farm Sector in Bangladesh

The Bangladesh Bureau of Statistics (BBS) is the apex official organisation responsible for collection and dissemination of statistics in Bangladesh. However, in the past, the BBS was less involved in the collection of data on rural industry. For national income accounting, the BBS estimates value added in small and cottage industries on the basis of a number of dated surveys.

The official data pertaining to manufacturing industry in Bangladesh is available from several sources such as: (i) Labour Force Survey (LFS), (ii) Economic Census (EC), (iii) Annual Establishment and Institution Survey (AEIS), and (iv) Census of Manufacturing Industries (CMI). These censuses and surveys are all carried out by the BBS. However, the reference period of the manufacturing data is not the same in all cases. There are also differences with regard to coverage, definitions and methodology used both between data sources and also within each source at different points in time.

The BBS carried out a sample survey of the sector in 1976 in Bangladesh. Earlier in 1969 it had undertaken a survey of small and household industries in the

rural areas of Bangladesh. At around the same time the Central Statistical Organisation of the then Pakistan conducted surveys of small and cottage industries in some selected urban centres. The employment growth rate between 1969-1970 and 1976-1977 as obtained from these surveys is applied to extrapolate employment in later years. Value added is then estimated by multiplying the employment figure by benchmark (1976) estimate of value added per worker. Only recently, the BBS has updated the values of these parameters on the basis of some recent surveys.

In December 1986, the BBS conducted a complete census of all non-farm economic activities in Bangladesh, which came to be known as Economic Census of 1986. Based on the listing generated through the Economic Census, the BBS carried out in 1989 a sample survey of units having less than 10 workers which covered both household based units as well as enterprises having separate permanent establishments. The sample survey which was titled as the 'Integrated Annual Survey' provided detailed financial and operating information on the surveyed enterprises.

With a view to providing detailed employment data pertaining to the overall economy and its various sub-sectors, the BBS had carried out a pilot manpower survey in 1979, and this was followed by the initiation of the annual Labour Force Survey (LFS) in 1983-1984. The

successive LFS provide information on the changing employment level in various segments of the economy.

The Labour Force Survey is considered as the primary source of employment statistics in Bangladesh. It conducts surveys at 2 or 3 year intervals since 1983-84. The LFS reports provide comparable time series estimates of rural employment for the 1980s broken down by sub-sectors. Since its initiation till 1985-1986, the LFS used a particular definition of labour force participation. According to the definition, a person of 16 years age or above has to put in 15 or more hours of work during the reference week to qualify as economically active. From the LFS 1989-1990 onward, this minimum labour input requirement has been dropped from the definition of economically active person which caused the size of the civilian labour force to go up significantly from 30.9 million in 1985-1986 to 50.7 million in 1989-1990.

After 1986, the Economic Census (EC) was repeated in 2001 but was limited to the urban areas. Enumeration of the rural undertakings was done in 2003. The main limitation of the EC data is that information for less than 10 workers category is not available broken down by smaller size groups (e.g. 1-5 workers and 6-9 workers category). Similarly, beyond 100 workers, the information is not broken down by disaggregate size groups such 100-299 workers, 300-499 workers etc.

The EC data also does not provide value added information.

The other source of official macro data pertaining to small cottage industries is the BSCIC. In 1962, East-Pakistan Small Cottage Industries Corporation (EPSIC), which was the predecessor of the BSCIC carried out for the first time surveys of small and cottage industries in the then Pakistan. The surveys were carried out in two phases. In the first phase a comprehensive listing of all small cottage industrial units was carried out with the help of chairmen, members of union councils and municipal committees. In the second phase, a sample of the listed units was intensively surveyed. The results of the surveys were published separately for small and cottage industries in the form of statistical tables.

During the late seventies, another set of surveys of small cottage industries was conducted by the BSCIC. The BSCIC surveys of small and cottage industries were repeated during the late eighties. These surveys were initiated in Deccan 1987 but could not be completed due to administrative problems in June 1991.

The centre piece of analytical studies on the aggregate rural industries sector of Bangladesh is the Rural Industries Study Project (RISP), carried out by the Bangladesh Institute of Development Studies (BIDS) during 1978-1980. The RISP provided a set of benchmark on the size, structure, composition, supply side characteristics level and determinants of

demand etc. pertaining to the rural industries sector of Bangladesh.

Several other studies on various aspects and components of rural industries of Bangladesh followed the RISP. These studies however, differed from the RISP in some important ways. Unlike the RISP many of these studies were based on secondary data while others based on micro level surveys. One major post of the RISP study on rural industry was the Study on Rural Industry Development (SRID) conducted by the BIDS during the mid eighties. The SRID was *Upazila*⁴ specific study of potential rural industries and was conducted in 40 *Upazilas* scattered throughout the country.

A second major analytical work reveals potentials, problems and policy issues concerning employment expansion through rural industrialisation in Bangladesh that was carried out by the ILO-ARTEP in 1985. This study was based on available secondary data and was supplemented by limited field survey.

Importance of Rural Non-farm Sector for Bangladesh

The economic viability of Bangladesh has long been in question because of its over-population, poor natural resource base, vulnerability to natural disasters and undiversified economy dependent on the production of two crops: rice and jute. At independence in 1971, the population density was over 500 persons per sq/km. growing at 3 per cent annually; the cultivated land frontier

was exhausted with two-thirds of the total land area already brought under cultivation; only 6 per cent of the GDP originated from manufacturing, mostly jute and cotton textile; and 85 per cent of the export earnings came from jute and jute goods which had weak international markets. Productive capacity and infrastructure was underdeveloped, domestic savings rate which was nearly 12 per cent of the GDP in 1960s, had fallen to almost zero because of a sharp fall in national income in early 1970s; and an entrepreneurial class of Bangladeshi origin was yet to be developed. Despite these adverse initial conditions, over the last quarter century Bangladesh has managed to increase in national income at 4.0 per cent per year, feed its growing population with the same amount of cultivated land, reduce its dependence on jute for export earnings, substantially curtailed the population growth rate, and build up economic infrastructure, particularly roads, electrification and irrigation facilities.

The rural non-farm sources of income are important for the rural poor people of Bangladesh for two reasons. First, the direct agricultural income obtained by the poor is not enough to sustain their livelihoods, either because of landlessness or because the land they own or lease is insufficient. Second, wage-employment in agriculture is highly seasonal. The rural non-farm activities are especially suitable for the poor households of Bangladesh because they require little capital and generate more employment per

unit of capital than do farm sector activities.

The rural non-farm sector promote equitable distribution of income by providing employment for women, unemployed or underemployed youths, small farmers, landless workers and poor people living in rural towns. Women engaged in non-farm activities not only provide the household with additional income but also gain respect and status by contributing to their families' welfare in Bangladesh. Moreover, they also gain the confidence needed to play a role in decision-making at the community level. This prevents out migration and the consequent loss of human capital, retaining potential entrepreneurs in rural areas of Bangladesh. Finally, given the declining land-person ratio in Bangladesh and the number of households that remain landless, engagement in rural non-farm activities seems to constitute one of the few employment generating sources.

The rural non-farm sector has considerable scope to complement farming because of the strong linkages with the farm sector and also the non-farm sector forges linkages between rural and urban areas. The rural non-farm sector is particularly important to the rural poor. Low investment manufacturing and services (including weaving, pottery, gathering, food preparation and processing, domestic and personal services, and unskilled non-farm wage-

labour) typically account for a greater share of the rural poor's income than that of the better-off. Non-farm income is also important to the poor as a means to help stabilize household income in years of natural disasters, such as drought years.

Hence, the employment in rural non-farm activities has become an important aspect of the lives of a large number of people in the rural areas of Bangladesh as in several other developing countries. While this is basically an economic phenomenon, it has an important social aspect because those affected are mostly the rural poor. For the growing number of these people who are not being absorbed enough in agriculture or in urban based industry and are actually obliged to leave the land partially or fully, non-farm activities are perforce a part of their personal survival strategies.

Despite the debate regarding the nature and sustainability of the growth and evolution of rural non-farm sector, it has been clearly evidenced that it has achieved positive growth in terms of generating rural employment and income since the early 1980s. Several papers have undertaken analysis regarding the factors contributing to the growth of the rural non-farm sector. However, institutional analysis to investigate which institutions or institutional mechanisms have been responsible for the growth of the rural non-farm sector and how the institutions contributed in the process etc. hardly exists.

Notes

- ¹ For an extensive survey of the changing themes of rural development and their interaction with the parallel debates on development strategies (albeit mainly from the donors' perspective) see the special issue of ODI's *Development Policy Review*, December 2001, 19 (4), especially the articles by Caroline Ashley and Simon Maxwell (*Rethinking Rural Development*) and by Frank Ellis and Stephen Biggs (*Evolving Themes in Rural Development 1950s-2000*).
- ² Bangladesh was known as East-Bengal before Partition and East-Pakistan after partition of India-Pakistan in August, 1947 respectively.
- ³ At present it is popularized as PPP (Public Private Partnership).
- ⁴ The term *Upazila* means Sub-District in *Bangla*

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