

# Agricultural Transformation and Rural Poverty in Bangladesh

*Essays in Memory of Dr. Mahabub Hossain*

edited by  
K A S Murshid & Atiqur Rahman

*In association with*



## Contents

<i>List of Tables and Figures</i>	ix
<i>Acronyms</i>	xiii
<i>Contributors</i>	xxi
Editors' Introduction	xxiii
<i>K A S Murshid and Atiqur Rahman</i>	

### Part A

Chapter 1: The Transformation of Bangladesh's Agriculture	3
<i>Azizur Rahman Khan</i>	
1.1 Introduction	3
1.2 Historical Experience of Structural Change in Employment and Output	3
1.3 Recent Asian Experience	6
1.4 Search for Solutions: Some Early Responses	10
1.5 Actual Evolution of the Structure of Employment	13
1.6 Structural Change of the Bangladesh Economy in the Historical Context	18
1.7 The Magnitude of the Task Ahead	22
Chapter 2: Agricultural and Food Policy Framework in Bangladesh: An Assessment	31
<i>Quazi Shahabuddin and Atiqur Rahman</i>	
2.1 Introduction	31
2.2 Policy Reforms and Their Impacts	32
2.3 Reforms and Assessment of Food Policies	42
2.4 The Political Economy of Agricultural Policy	51
2.5 Concluding Remarks	54
Chapter 3: Indian Agriculture after Liberalisation	59
<i>Abhijit Sen and Jayati Ghosh</i>	
3.1 Introduction	59

	3.2 Agriculture and “Economic Reforms”	59
	3.3 Factors Affecting Agricultural Output Growth	61
	3.4 Nature of Technology in Indian Agriculture	68
Chapter 4:	Determinants of Adoption of Rice Yield Gap Minimisation Technology in Bangladesh	79
	<i>M. Asaduzzaman and Asif Reza Anik</i>	
	4.1 Introduction	79
	4.2 The NATP (Phase I) Project	80
	4.3 Methodology	82
	4.4 Results	84
	4.5 Concluding Remarks	93
Chapter 5:	Bangladesh Experience in Rural Development: The Success and Failure of the Various Models Used	101
	<i>Kazi Ali Toufique</i>	
	5.1 Introduction	101
	5.2 Dynamics of Rural Economy of Bangladesh	102
	5.3 Key Approaches, Policies and Programmes	108
	5.4 A Comparative Analysis of Various Rural Development Models and Their Experiences in Bangladesh	110
	5.5 Recent Trends in Rural Development Projects in Bangladesh: A Smorgasbord of Projects	118
	5.6 Conclusions and Recommendations	120
Chapter 6:	Smallholder Agriculture and Inclusive Rural Transformation	123
	<i>Atiqur Rahman</i>	
	6.1 Introduction	123
	6.2 Transition of Small into Large Farms: The Debate and Unrealised Expectations	124
	6.3 The State of Small Farms, Their Persistence and Reverse Transition	126
	6.4 Emerging Opportunities for Smallholder Agriculture and Inclusive Rural Transformation	137
	6.5 Concluding Remarks	147

## Part B

Chapter 7:	Addressing the Structural Sources of Risk and Vulnerability for the Resource Poor	157
	<i>Rehman Sobhan</i>	
	7.1 Understanding Vulnerability	157
	7.2 Sources of Vulnerability	158
	7.3 Building a Secure Future	185
	7.4 Conclusion: The Political Economy of Structural Change	187
Chapter 8:	Is Microcredit a Debt Trap for the Poor? Sifting Reality from Myth	193
	<i>S. R. Osmani</i>	
	8.1 Introduction	193
	8.2 Overlapping Borrowing	197
	8.3 Borrowing for Repayment	206
	8.4 Identifying Debt Traps	221
	8.5 An Ethnographic Account of Debt Trap	226
	8.6 Summary and Conclusions	231
Chapter 9:	Remittances and Poverty: A Comparison of Bangladesh and Pakistan, 2000–2016	237
	<i>Rashid Amjad</i>	
	9.1 Introduction	237
	9.2 Economic Performance	239
	9.3 Key Variables: Measurement and Data Sources	242
	9.4 The Direct Impact of Remittances and Poverty	251
	9.5 The Remittances — Poverty Dynamic	252
	9.6 Remittances and Poverty: The Macroeconomic Impact	255
	9.7 Remittances and the Balance of Payments	257
	9.8 The Impact of Remittances at the Local Level: The “Ripple Effect”	258
	9.9 The Recent Decline in Oil Prices, Remittances and its Impact on Poverty	260
	9.10 Conclusions	261

Chapter 10: Structural Transformation and Absorption of Surplus Labour	267
<i>Rizwanul Islam</i>	
10.1 Introduction	267
10.2 Structural Transformation: Some Theoretical Underpinnings	269
10.3 Structural Transformation: Some Empirical Evidence	271
10.4 Structural Transformation: In Search of Alternative Pathways	276
10.5 Is Surplus Labour in Bangladesh Exhausted?	288
10.6 How Promising are the Alternative Pathways to Structural Transformation?	292
Chapter 11: Changes in the Situation of Agricultural Labourers in Bangladesh	301
<i>Rushidan Islam Rahman</i>	
11.1 Introduction	301
11.2 Structure of Employment and Share of Casual Agricultural Employment	302
11.3 Poverty among Agricultural Labourers	306
11.4 Real Wage Trends in Agriculture and Non-Agriculture	309
11.5 Seasonal Pattern of Underemployment and Wages of Agricultural Labours	314
11.6 Concluding Observations	318
Chapter 12: Is There an Economics of Social Business?	323
<i>Wahiduddin Mahmud</i>	
12.1 Introduction	323
12.2 Can Social Business be Uniquely Defined?	324
12.3 Reconciling with Economic Theorising	330
12.4 In Lieu of a Conclusion: The Risks and Pitfalls	333
Index	337

## List of Tables and Figures

### Tables

1.1 Structural Change in Employment and GDP in the Republic of Korea	7
1.2 Structural Change in Employment and GDP in China	9
1.3 Sectoral Distribution of Employed Labour Force	14
1.4 Sectoral Composition of GDP at Current Prices	15
2.1 Step-by-step Liberalisation of Agricultural Input Markets	33
2.2 Chronology of Food Policy Reforms	44
4.1 Determinants of <i>T. Aman</i> (RYGM) Technology Adoption and Level of Adoption	86
4.2 Determinants of <i>Boro</i> (RYGM) Technology Adoption and Level of Adoption	88
5.1 Poverty Trend in Bangladesh 2000–2010	105
5.2 Share of Rural Employment (%)	107
5.3 Rural Development Approaches, Policies and Programmes in Bangladesh	109
6.1 Current Status of Smallholder Farming in the World	128
7.1 Human Development Index Trends	161
7.2 Inequality Adjusted Human Development Index, 2012	162
7.3 Monthly Real Wages in 15 of the Top 21 Apparel Exporters to the United States in 2001 Currency	178
8.1 Prevalence of Overlapping in the Microcredit Sector: 2007–2013	200
8.2 Recent Trend in Overlapping in the Microcredit Sector	201
8.3 Distribution of Overlapper Households by the Number of Overlapping Loans Taken	202
8.4 Distribution of Overlapper Households by Main Use of Loan	205
8.5 Trends in “Borrowing to Repay” by Microcredit Borrowers: 2007–2013	209
8.6 Proportion of Microcredit Borrowers Taking Loans-for-Repayment	210
8.7 Average Proportion of Microcredit Borrowers Taking Loans-for-Repayment Per Year: 2007–2013	211
8.8 Distribution of Microcredit Borrowers by the Intensity of Borrowing-for-Repayment	211
8.9 Uses of Microcredit by ‘Borrowing to Repay’ Status of Borrowers: 2007–2013	212

8.10	Current Economic Condition of Microcredit Borrowers by ‘Borrowing-for-Repayment’ Status	215
8.11	Profile of Microcredit Borrowers by “Borrowing-for-Repayment” Status	216
8.12	Consequence of “Borrowing to Repay” on Current Income and Assets	218
8.13	Consequence of “Borrowing to Repay” on Asset Transition	219
8.14	Current Economic Condition of Microcredit Borrowers by B2R Status and “Debt Trap” Status	225
8.15	Profile of Microcredit Borrowers by B2R Status and “Debt Trap” Status	225
9.1	Results of Regression Model: Bangladesh and Pakistan (Pooled Data)	252
10.1	Share (%) of Different Sectors in Total GDP and Employment in Selected Developed Countries of the World	272
10.2	Change in the Sector Composition of GDP in Selected Developing Countries, 1960–2010	273
10.3	Sector Composition of Employment in South Asia (% of Total Employment)	274
10.4	Sector Composition of Employment (Percentage of People Engaged) in Rural Non-Agricultural Activities, 2002-2003 to 2013	284
10.5	Bangladesh: Employment in the Rural Non-Agricultural Sector, 2002-2003 to 2013	285
10.6	Bangladesh: Wage Rate (Weekly Average Wage Rate) by Sector/Activities, 2005-2006 and 2013	287
10.7	Bangladesh: Employment in the Informal Sector	291
11.1	Share of Day Labour in Total Employment in Agriculture and Non-Agriculture, 2010 and 2006	304
11.2	Share of Day Labour in Total Employment in Agriculture and Non-Agriculture, 2013	304
11.3	Size and Share of Agricultural Labour Households	305
11.4	Poverty Incidence by Occupation of Worker: 2000–2010	307
11.5	Extent of Extreme Poverty by Occupation Groups	307
11.6	Characteristics of Households with Different Types of Employment of Head of Household	308
11.7	Growth of Nominal Wage Index of Day Labourers in Major Sectors and Inflation Rate	311
11.8	Nominal and Real Wage of Male Workers in Agriculture: Bangladesh 1993–2013	312
11.9	Wage Rate of Male Casual Workers in Mymensingh and Netrokona	317

**Figures**

3.1 GDP Growth Rates for Agricultural Value Added (CAGR %)	63
3.2 Value of Crop Output by Category (Rs crore)	65
3.3 Rate of Growth of Cereal Output (CAGR %)	66
3.4 Per Capita Availability of Foodgrains (gms per day)	67
5.1 Structural Transformation of the Bangladesh Economy (1981–2014)	103
5.2 Structure of Employment in Bangladesh 1996–2013	104
5.3 Comparison of Contribution of Agriculture to Output and Employment (1996–2013)	104
5.4 Agricultural Production in Bangladesh 2006–2014	105
5.5 Share of Rural Income from Different Sources (%)	107
8.1 Distribution of Number of Loans Taken by Microcredit Borrowers by Sources of Loan	207
8.2 Distribution of the Amount of Loans Taken by Microcredit Borrowers by Sources of Loan	208
8.3 The Flow Pattern of B2R by Microcredit Borrowers: 2007–2013	221
9.1 Bangladesh and Pakistan, Real GDP Growth, 2000–2016	240
9.2 Bangladesh: Poverty Headcount Ratio at NPL and US\$1.90 Poverty Line, 2000–2015	242
9.3A Pakistan, Poverty Headcount Ratio at Old and New Poverty Lines, 1998-1999 to 2013-2014	243
9.3B Pakistan, Poverty Headcount Ratio at US\$1.90 Poverty Line, 2001–2015	244
9.4 Bangladesh and Pakistan, Remittances, 2000–2016	249
9.5 Bangladesh and Pakistan, Remittances as a Percentage of GDP, 2000–2016	249
9.6 Average Multidimensional Poverty in High and Non-high Migration Districts	259
10.1 Changes in the Share of Different Sectors in GDP	271
10.2 Index of Real Wages, 1993-1994 to 2008-2009 (1969-1970 = 100)	289
10.3 Increase (%) in Nominal Wages and Consumer Price Index, 2011-2012 to 2014-2015	290





**Dr. Mahabub Hossain**  
(1945–2016)

## **Mahabub Hossain<sup>1</sup>** **(2 Jan 1945–3 Jan 2016)**

Dr. Mahabub Hossain, former Director General of BIDS passed away in January 3, 2016 at Cleveland Clinic, USA, at the age of 71. He was born on 02 January, 1945 in a village called Bangaljee in Nadia district, West Bengal, India. During the partition in 1947, Mr. Hossain's parents migrated from West Bengal to settle in Karpashdanga village in Damurhuda upazila, Chuadanga.

Mahabub Hossain obtained his B.A. (Honours) in Economics, from the University of Calcutta, India, in 1966. Then he did his M.A. in Economics, from the University of Dhaka, Bangladesh, in 1969. He also did a Diploma in Development Economics from the University of Cambridge, England, in 1973 before he achieved his PhD in Economics from the same university in 1977.

Mahabub Hossain joined PIDE as a Staff Economist in 1970. He became a Research Director at BIDS in 1988, where he also served as Director General from 1989 to 1992. Apart from this, he was a Distinguished Professor and the Chairperson of the Department of Economics and Social Sciences of BRAC University and Advisor to the Executive Director, BRAC, of which later he became Executive Director. He also worked as Economist and Head of Social Sciences at IRRI, Philippines and served as the President of the Asian Society of Agricultural Economists and as a member of the Global Panel for Agriculture and Food Systems for Nutrition.

Dr. Mahabub Hossain was a great believer in hard work and rigorous research. Gentle, soft spoken and amiable in nature, he quickly made a name for himself in academic circles, especially for his detailed, painstaking field work amongst farmers and peasants, and his carefully conducted empirical studies based on primary data. He excelled in this and played a key role in introducing and inspiring high quality, empirical work in BIDS. Mahabub Hossain was instrumental in establishing a comprehensive rural baseline survey and the subsequent creation of a multi-panel data set which has emerged as one of the most interesting data sets available today, going back to 1984 and still continuing to be revisited, regenerated and revised.

---

<sup>1</sup> BDS Special issue.

There are few researchers of his caliber and commitment in his field, and the academic community and especially his peers in the agricultural economics and rural development arenas are yet to recover from the deep loss left by his sudden departure. Although Mahabub Hossain later went on to work for other organisations like IRRI and BRAC, his core identity has always been that of a researcher and an alumnus of BIDS. He retained a lasting interest in rural research up until his very last breath.

Mahabub Hossain's work spanned almost all aspects of the agricultural-rural economy of Bangladesh, beginning in his early years with his seminal work on tenancy and share cropping, engaging vigorously in the farm size-productivity debate, assessing the potential for agricultural reforms and taxation, and issues related to the green revolution, food production, and input policies, like fertilizer pricing and distribution. His concern for equity and welfare is reflected not just in his work on agrarian reforms but also in his quest to explore the changing fate of small and marginal farmers, rural employment in the farm and non-farm sector, and later, the role of microcredit on poverty and women's empowerment. He was one of the first researchers to take a hard, objective look at the Grameen Bank microcredit model.

As head of the Social Science Division at IRRI, he was directly confronted with the challenge of identifying economic constraints to farm-level adoption of new rice varieties, not just in the Philippines but throughout Asia and the world. His work at IRRI went well beyond academic curiosities and into practical application of the tools of an agricultural economist. After retiring from IRRI, he was picked up by Sir Fazle Hassan Abed, Chairman of BRAC in Bangladesh and was made its chief executive. This time, he was thrown headlong into the actual challenges of grassroots development and poverty eradication, cutting across many sectors, and not just confined to agriculture. He took to this challenge with renewed energy and left a deep imprint on BRAC's work.

When Mahabub Hossain began his professional career, Bangladesh was overwhelmingly rural and agricultural, and deeply entrenched in its "basket case" trap, characterised by high poverty rates, massive underemployment, a mono-cropped, rain-fed agriculture, very little industrial activity and a tiny middle or professional class. All this combined with political instability and poor governance, to make the task of economic development even more complex. Under such circumstances, the choice of the research agenda for Bangladesh's economists would be obvious: it would have to be related to transformation of the agrarian economy, reforms, tenancy, poverty reduction, adoption of the Green Revolution and so on. It is therefore

## Mahabub Hossain

no coincidence that Mahabub Hossain and his generation devoted much of their research energy grappling with these and related issues. Indeed, Mahabub Hossain quickly assumed the mantle of leadership in research on agriculture and rural development, encouraging and instigating many young researchers along the way.

As Bangladesh changed and transformed, Mahabub Hossain kept abreast of these developments as witnessed by his work on microcredit, RMG workers, gender issues, remittances, infrastructure, and later, nutrition, education and health.

He has written widely, and published more than 50 papers in various journals. He also wrote a number of books, both in Bengali and English. His writings will inspire young scholars for many generations to come.

## Contributors

**Rashid Amjad** is Professor of Economics and Director, Graduate Institute of Development Studies, Lahore School of Economics, Pakistan.

**Asif Reza Anik** is Assistant Professor, Department of Agricultural Economics, Bangabandhu Sheikh Mujibur Rahman Agricultural University, Bangladesh.

**M. Asaduzzaman** is former Research Director, Bangladesh Institute of Development Studies (BIDS).

**Jayati Ghosh** is Professor of Economics at Jawaharlal Nehru University, New Delhi, India.

**Rizwanul Islam** is former Special Advisor, Employment Sector, International Labour Office, Geneva.

**Azizur Rahman Khan** is Professor Emeritus of Economics at the University of California, Riverside, USA and an Adjunct Professor of Columbia University, New York.

**Wahiduddin Mahmud** is former Professor of Economics at University of Dhaka, Bangladesh.

**KAS Murshid** is former Director General, Bangladesh Institute of Development Studies (BIDS).

**S. R. Osmani** is Professor of Development Economics at Ulster University, UK.

**Atiqur Rahman** is former Lead Strategist and Senior Policy Coordinator, International Fund for Agricultural Development (IFAD).

**Rushidan Islam Rahman** is former Research Director, Bangladesh Institute of Development Studies (BIDS).

**Abhijit Sen** is former Professor of Economics at Jawaharlal Nehru University, New Delhi, India.

**Quazi Shahabuddin** is former Director General, Bangladesh Institute of Development Studies (BIDS).

**Rehman Sobhan** is Chairman, Centre for Policy Dialogue (CPD), Dhaka, Bangladesh.

**Kazi Ali Toufique** is Research Director, Bangladesh Institute of Development Studies (Dhaka).

## Editors' Introduction

Dr. Mahabub Hossain deserves to be remembered and admired for he has set a unique example before us all. A mild-mannered, self-deprecating academic, he never thrust himself before the limelight although inevitably, the limelight fell squarely on him. A great believer in hard work and dedication to research, he quickly made a name for himself in academic circles, especially for his detailed, painstaking field work amongst farmers and peasants, and his carefully conducted empirical studies based on primary data. He excelled in this and played a key role in introducing and inspiring high quality, empirical work in Bangladesh. Mahabub Hossain was instrumental in establishing a comprehensive rural baseline survey and the subsequent creation of a multi-panel data set which has emerged as one of the most interesting data sets available today, going back to 1984 and still continuing to be revisited, regenerated and revised.

There are few researchers of his caliber and commitment in his field, and the academic community and especially his peers in the agricultural economics and rural development arenas are yet to recover from the deep loss left by his sudden departure. This book draws upon a commemorative volume of essays put together by his colleagues, friends and admirers, mainly fellow scholars who overlapped with him at Cambridge during his graduate student years, and colleagues from the Bangladesh Institute of Development Studies where he spent the bulk of his professional/academic life, including serving as its Director General. Although Mahabub Hossain later went on to work for other entities and was Managing Director of BRAC — the world's largest NGO, his core identity has always been that of a researcher. He retained a lasting interest in rural research up until his very last breath.

Mahabub Hossain's work spanned almost all aspects of the agricultural-rural economy of Bangladesh, beginning in his early years with his seminal work on tenancy and sharecropping, engaging vigorously in the farm size-productivity debate, assessing the potential for agricultural reforms and taxation, and issues related to the green revolution, food production, and input policies, like fertilizer pricing and distribution. His concern for equity and welfare is reflected not just in his work on agrarian reforms

but also in his quest to explore the changing fate of small and marginal farmers, rural employment in the farm and non-farm sector, and later, the role of microcredit on poverty and women's empowerment. He was one of the first researchers to take a hard, objective look at the Grameen Bank microcredit model.

After leaving BIDS, he took up a position as a Social Scientist at the International Rice Research Institute (IRRI), Manila, ultimately assuming leadership of the Social Science Division. Here, he was directly confronted with the challenge of identifying economic constraints to farm-level adoption of new rice varieties, not just in the Philippines but throughout Asia and the world. His work at IRRI went well beyond academic curiosities and into practical application of the tools of an agricultural economist. After retiring from IRRI, he was picked up by Sir Fazle Hassan Abed, Chairman of the 'largest NGO in the world', namely BRAC in Bangladesh, and made its chief executive. This time, he was thrown headlong into the actual challenges of grassroots development and poverty eradication, cutting across many sectors, and not just confined to agriculture. He took to this challenge with renewed energy and left a deep imprint on BRAC's work.

The contributions to this volume incorporate many of the concerns that were close to Mahabub Hossain's heart. The Bangladeshi contributors have largely drawn upon their research on Bangladesh's fast changing rural context while others have written either on the Indian experience or taken a more pan-South Asian view. The topics span a large canvas but are joined together with a common refrain around agriculture, rural development and poverty-inequality, including both 'thought pieces' as well as assessment of specific interventions and programmes, combining policy, application and practice.

When Mahabub Hossain began his professional career, Bangladesh was overwhelmingly rural and agricultural, and deeply entrenched in its 'basket case' trap, characterized by high poverty rates, massive underemployment, a mono-cropped, rain-fed agriculture, very little industrial activity and a tiny middle or professional class. All this combined with political instability and poor governance to make the task of economic development even more complex. Under such circumstances, the choice of the research agenda for Bangladesh's economists would be obvious: it would have to be related to transformation of the agrarian economy, reforms, tenancy, poverty reduction, adoption of the Green Revolution, and so on. It is therefore no coincidence that Mahabub Hossain and his generation devoted so much of their research energy grappling with these and related issues. Indeed,



Mahabub Hossain quickly assumed the mantle of leadership in research on agriculture and rural development, encouraging and instigating many young researchers along the way.

As Bangladesh changed and transformed, Mahabub Hossain kept abreast of these developments as witnessed by his work on microcredit, RMG workers, gender issues, remittances, infrastructure, and later, nutrition, education, and health.

The contributions in this book have been arranged under two sub-themes: 1. "Agricultural Transformation, Structural Change and Policy Reforms", and 2. "Poverty, Labour Markets and Microcredit". There are six articles or essays in each segment.

### **Agricultural Transformation, Structural Change and Policy Reforms**

Structural transformation of developing countries has been, and still is, one of the most popular topics in the development literature. The view that development and prosperity of poor countries lies with the development of modern manufacturing gained currency in the early (post-World War II) development literature. Based on the experience of the now developed countries, it was suggested that manufacturing (which produces more value per unit of labour) along with the services sector will gradually become the major contributor to national income, and the agricultural sector which traditionally contributed most to income and employment earlier will increasingly take a back seat. Higher productivity and higher wage rates will attract labour away from agriculture into urban-industrial areas. Thus, higher investment in the manufacturing sector is the way to reap the dividend of higher productivity and move along the path of prosperity.

The first chapter in this volume is by Professor A. R. Khan on the "Transformation of Bangladesh's Agriculture" where the author focuses on the evolution of the role of agriculture in the process of the country's development. Khan notes that the broadly agreed, stylized path of successful structural transformation reflected in the declining share of agriculture in both GDP and employment has not generally materialised in many developing countries. The pace of growth of the urban/industrial sector has not been sufficient to absorb labour rapidly enough for successful structural transformation, raising concerns for inequality in the distribution of income.

Interesting differences were, however, noted in the experiences of China and People's Republic of Korea.<sup>1</sup> Korea experienced a much higher rate of growth in the early phase of transformation followed subsequently by a strong employment response. The problem of income inequality and poverty was addressed mainly through income transfers and subsidies. Luckily, the export-oriented industries and services that emerged were adequately labour intensive.

China, on the other hand, deviated from this classical pattern. Employment rose slowly and tardily due to rigid institutional obstacles to labour mobility during the reform era when the tertiarisation of the economy was slow. The author argues that the Chinese economy is still going through structural transformation but also observes "... China's surging inequality during the period of growth since the beginning of reform had much to do with the country's inability to move labour out of agriculture at a faster rate."

For Bangladesh, a country overwhelmingly dominated by agriculture in the 1970s, possibility of the Lewis transition (i.e. absolute decline in agricultural employment) seemed remote. A demographic transition by way of fertility reduction did not seem to be a realistic solution (at least in the short-medium run) and the increase in labour absorption in industries and services fell much short of the needed rate.

Creation of non-farm employment within the rural sector was another alternative. Khan argues that this solution was not much different from the conventional industrialisation solution. The ultimate solution would really have to await the classical transfer of labour from agriculture to industry and services. Fertility reductions would obviously be quite useful as well.

Khan also argues (with the benefit of hindsight) that the 'most favourable factors have been playing out and the easiest options have largely been exhausted...'<sup>2</sup> Apart from further policy reforms, the author identifies physical infrastructure and education as major stumbling blocks to future growth, which in turn is closely influenced by governance and delivery of private incentives. As evidence of the stumbling nature of progress, the author points to the disproportionately high concentration of employment in agriculture that continues to exist today even after substantial industrialisation.

The next two contributions examine the policy framework for agricultural growth. Shahabuddin and Rahman trace the evolution of policy reform measures adopted in the field of agriculture and food policy

---

<sup>1</sup> Henceforth referred to as Korea only.

<sup>2</sup> At the time, of course, what now seems 'easy' seemed rather difficult.

in the 1980s and 1990s that ultimately ushered in food security through rapid growth in food production. These have included liberalisation of fertilizer and input markets, rationalisation of the public food distribution system and opening up food imports to the private sector to stabilise the domestic market.

On the other hand, Sen and Ghosh explore the Indian experience with market reforms in agriculture where the outcome appears much more mixed. In fact, the authors point to "... the inability to resolve the pressing concerns with respect to food production, distribution and availability as one of the important failures of the entire economic reform process" which presumably has played into the Indian "agrarian crisis" and farmer-suicides, which gave rise to much public outcry.

The story of the relative neglect of Indian agriculture by policy makers is similar to those of many developing countries, including Bangladesh. Bangladesh, reeling from famine in the post independence period, opted for a much greater focus on agriculture and food security (phrased in terms of "food self-sufficiency") than on industrialisation, especially in the decade of the 1980s and 1990s.

In India, on the other hand, there was a shift in public attention away from agriculture. Financial liberalization was aimed at the (urban) formal sector while subsidies were reduced and access to subsidised inputs declined. Trade liberalisation lifted restrictions on exports of agricultural goods, and moved away from quantitative restrictions to tariffs on imports of agricultural goods (imports were opened up to the private sector and tariffs were lowered). Subsequent slump in global prices of agricultural commodities led to negotiated increases in tariff rates; in general, however, Indian farmers were increasingly exposed to global competition at a time when protection in the form of support prices, input assistance and public extension services were gradually eroded or even withdrawn. Instead of making domestic prices more stable, trade liberalisation made domestic prices in India more volatile; farmers were forced to compete against highly subsidized, large scale producers and agribusinesses in the developed countries.

The policy to put Indian agriculture on a more stable path would require policy measures in several interlinked policy areas such as sustainable water management, financial inclusion, focus on the special problems of dry land agriculture, policies to encourage cheaper and sustainable input use, dampening the impact of price volatility on farmers, economic diversification, and emphasis on value added activities in the non-agricultural sector.

Sen and Ghosh seems to blame liberalisation for the agrarian crisis. Most observers in Bangladesh, however, (including Shahabuddin and Rahman) would readily attribute Bangladesh's excellent agricultural performance to policy reforms along with trade liberalisation and massive investments in water control and green revolution technologies. It would seem that India's foray into liberalisation of its agriculture was substantial although this may have fallen short, at least in comparison to Bangladesh. The reforms undertaken in their respective public food distribution systems, is a case in point.

The role of technology has always figured heavily in discussions on agricultural transformation. Even though the Green Revolution is now kind of *passé*, Asaduzzaman and Anik remind us that there still remain residual opportunities to further exploit additional potential. Thus, the authors examine the determinants of adoption of yield-gap minimising technologies in Bangladesh. Studies in Bangladesh have long shown that the gaps remain substantial for different crops (e.g. rice, wheat, potato, oilseeds, pulses, etc.) — ranging from 19 per cent to about 64 per cent. Their analysis shows that the yield gap is not the main factor determining choice of crop varieties for cultivation — farm decisions are complex and are determined by a wide range of socio-economic, demographic and natural-physical factors (such as education, farm size, off-farm income, access to extension services, adoption of related practices, as well as agro-ecology).

The authors also argue in favour of specific policy interventions, and emphasize the importance of designing strategies for technology dissemination considering farm level factors. “Depending on these constraints, a given technology may appeal differently to different categories of farmers.”

The chapter should not, however, divert us from the fact that while whatever marginal gains are available should certainly be exploited, it is certainly the case that Bangladesh agriculture, as it now stands, needs a breakthrough in terms of technology, possibly combined with much more diversified cropping systems and cost-lowering incentives in order to be able to usher in the next big push or even ‘second green revolution’.

The next contributor is Kazi Ali Toufique, who takes a step back to raise another important issue: the success of public sector driven rural development models, of which there have been many in the country. The last to be introduced is the ‘One House-One Farm’ or Ekti Bari Ekti Khamar programme which began in 2009.

Toufique's chapter takes the reader through the evolution of rural development policies and strategies in Bangladesh, starting with V-AID in the 1950s to the much celebrated, Comilla model, and later, its various incarnations as an Integrated Rural Development Programme (IRDP). The rural development approaches and policies undertaken in Bangladesh followed the path of global thinking on rural development. The main strategy pursued by the Government since the 1980s involved development of physical infrastructure including roads, storage and markets; irrigation, minor drainage and flood control works and employment of the rural poor through various public works type interventions.

In the 1990s, NGOs began to exert a strong influence and address gaps, which were not and could not be addressed by public institutions, such as in microcredit, health, education and water- sanitation areas. The government followed a cooperative-based approach, which continues even today although, informal groups supported by civil society organisations became the main tool for reaching development assistance to poor rural people. The key development focus included a shift from "peasant farmer sitting at the centre of the rural economy" to poverty reduction, and from co-operatives to informal groups. This is one area where the public sector has learnt much from the NGO sector resulting in a broad convergence in the approach to rural development centered on the poor, women and landless, supported by both soft and hard interventions and training.

The last chapter in Part A is on smallholder agriculture and rural transformation by Atiqur Rahman. Rahman re-examines the role of the smallholder whose existence as a group was believed by many, to be threatened, but which in fact continued to expand and thrive. The author thinks it would be useful to follow a segmented approach towards the agricultural sector, inducing more farmers to link up with both local and external markets through linkages into modern value chains, including processing and modern retail. These processes are well underway although still at an early stage in Bangladesh, and therefore needs to be carefully nurtured. The main argument posited is that the smallholder along with rural Small and Medium-sized Enterprises (SMEs) can play a much more dynamic role if properly encouraged. This is an area that requires particular thought because the modern sector, including urban manufacturing, has so far failed to generate more dynamic and more inclusive employment. Not everyone is as optimistic, as the dominant view seems to be that transformational changes will ultimately depend on how we manage industrialisation (see Islam, R. in this volume).

## **Poverty, Labour Markets and Microcredit**

Professor Rehman Sobhan is the guru of the economics profession in Bangladesh and has a long history of providing a political economy perspective to the question of poverty, inequality and development. In the first essay under this sub-theme (Chapter 7), he provides a well-rounded discussion on 'structural sources of risk and vulnerability' faced by the resource poor. He has been consistent in his stance that for true democracy, meaning equality of opportunities and freedom of choice, structural constraints pose a threat that is difficult to overcome. In this chapter he highlights the inequalities in education, productive assets, health disadvantages of the poor, and asymmetric exposure (and impact) of market forces, and indeed a host of other factors, including the justice system where the poor are systematically disadvantaged, even institutionally discriminated against. He thus puts forward an agenda for change that would serve to put the poor not just out of poverty but hopefully, well beyond it.

Thus, the author argues that iniquitous property structure condemns the resource poor to be at the wrong end of the market, unable to benefit from opportunities and often getting poor deals. Even in the export-oriented rural economy, in areas linked to the more dynamic agro-processing sector, a major part of the profits generated accrue to those classes who control corporate wealth. Capital markets accentuate the deprivation, and the poor, he notes, "remain impounded in the ghetto of the micro-economy".

Microcredit has, however, alleviated poverty and reduced the vulnerability to risk for many of its members but it provides no silver bullet to eliminate poverty or to withstand the hazards of the market (also see Osmani's chapter in this volume). Nor do formal capital markets provide the financial instruments needed to attract the savings of the poor and transform these into investment assets in the faster growing corporate sector. This market failure extends to the failure of the insurance companies to provide appropriate products to meet the specific needs of the resource poor in the urban and rural areas.

A major tool against poverty that received much attention in the 1990s and beyond is microcredit, which was first introduced by the Grameen Bank and was seen as a major tool in the anti-poverty arsenal, earning Professor Mohammed Yunus a Nobel Prize. However, microcredit has not been without its detractors, and one of the main accusations against it has been that in fact it leads to deepening poverty, and indeed, a debt trap resulting from stacked or overlapping loans and borrowing to repay, that

are used to temporarily gain repayment time but which ultimately leads to despair and sorrow.

The next chapter is by Professor S.R. Osmani, who takes on this debate head on. He uses data from a large-scale nationally representative household survey to forcefully argue that while 'these practices could sometimes lead to a debt trap...,' neither of these practices is inevitable, and a careful analysis reveals that only a small fraction of borrowers—a maximum of 4.5 per cent, could be said to be so affected. Moreover, most of the households in the 'risky category' belong to the lowest socio-economic groups, and small declines in income or loss of assets can put them in danger. The reality is, "the occurrence of debt trap is not so much a failure of microcredit, nor even of credit markets in general, as it is a failure of the society at large to look after its most vulnerable people." The remedy lies not in terms of withdrawing microcredit from them, but removing their vulnerabilities, through appropriate support mechanisms. In a normal economic environment with tolerable margins of risks, they will need finance to improve their economic conditions just as much as other borrowers. This is a powerful message from Osmani, which should go a long way in settling a long standing dispute, somewhat polarized between economists and others.

The third chapter in this segment provides a broader perspective from the lens of a senior Pakistani economist (Rashid Amjad) who compares and contrasts the experience of Pakistan and Bangladesh in harnessing remittances for poverty reduction, or at least explores if there is a relationship between the two. Over the period 2000 to 2016, remittances increased manifold in both Pakistan and Bangladesh, accounting for over 7 and over 10 per cent of GDP by 2015. This was also a period when poverty declined substantially in both countries. Rashid Amjad attempts to understand the remittance-poverty linkage as well as the routes through which the relationship is being exercised.

The trends in poverty reduction are similar for both Pakistan and Bangladesh although Pakistan's performance seems better, despite the sanctions on external loans faced by Pakistan and a more stable macroeconomic environment in Bangladesh. The author, thus, asks how far the flow of remittances explains this differential performance?

The author thinks that in Pakistan, the impact of remittances on poverty has not played out in the same way as in Bangladesh. Growth rate in Pakistan was lower (due to deterioration of security and law and order) and inflation was higher. While the former did not create the necessary conditions for

rapid poverty reduction, the latter (high inflation) would have created adverse conditions for the poor.

Amjad's analysis of the effect of remittances on poverty in Bangladesh and Pakistan and his attempt to explain the different behavioural paths in the two countries also led him to examine the issue of balance of payments. Bangladesh with growing access to foreign exchange earnings through remittances and Readymade Garments (RMG) exports was in a much better position than Pakistan, which faced sanctions by International Monetary Fund (IMF) for engaging in nuclear tests. The growth rate in Bangladesh was higher but income inequality dampened the impact of growth on poverty.

Three major conclusions emerge from his chapter: (a) remittance flows in both Bangladesh and Pakistan have not reached the poorest households adequately; therefore, their direct impact on poverty is not very large; (b) the impact of even large flows of remittances can be small in countries suffering from recurrent bouts of macroeconomic instability, as in the case of Pakistan; and (c) the high visible 'impact' of remittance flow on poverty was due to the fact that such flows were concentrated largely in relatively small geographical areas. However, looking to the future, both countries need to reassess their dependence on remittances as a stable, dependent variable that can be relied upon for development. Given adverse political-economic risks in the Middle East, the declining oil revenues and thus economic growth there, demand for foreign labour is unlikely to rebound any time soon.

The next two contributions relate directly to agricultural labour. The first is by Rizwanul Islam on the question of structural change with respect to labour absorption and, in particular, to the existence of surplus labour — a debate that has surfaced based on rising real wages and a narrowing of rural-urban wage differentials, leading to the question of whether we have crossed the Lewis turning point.

While Islam's detailed analysis is Bangladesh-centric, he also draws from a wider canvas wherein Indian and Nepalese experiences also figure. The central direction of his inquiry was to explore alternative pathways to surplus labour absorption, given that the South Asian record did not seem so promising in terms of the traditional pathways (based on industrialization and labour migration out of traditional agriculture). After exploring alternatives, e.g. Information and Communication Technology (ICT) and service sector growth in India, tourism in Nepal and the non-farm sector in Bangladesh, Islam is of the firm opinion that without large-scale industrialisation it is difficult to see how surplus labour could be adequately absorbed in the three South Asian countries.



The other piece, by Rushidan Islam Rahman, focuses specifically on the state of agricultural labourers in Bangladesh, which has gone through some important changes. Thus, attached labourers' dependence on the employer has given way to piece rate work as well as in a rise in real wages. While there are still substantial seasonal aspects to labour earnings in agriculture, the real challenge is to accelerate labour demand and sustain the positive real wage trend that more recent data suggests, has begun to be reversed. Rahman suggests that agriculture alone cannot meet this demand and must be assisted by the non-farm sector, which as we have already observed, has shown some dynamism in recent years.

If we take the findings of the above two studies together, what we see is a reinforcement of the traditional approaches to development, by (a) strengthening the non-farm sector to boost rural wages and employment, and (b) this is of much greater importance, rapidly expanding the manufacturing sector to enable large-scale, sustainable transfer of surplus labour, as the basic pathways to move the poor into employment and out of poverty.

The last chapter in this volume is by Professor Wahiduddin Mahmud who has tried to make sense of the concept of 'social business' from the perspective of an economist and has sought to answer the question of what factors would actually lead to its growth, acceptance and, more fundamentally, its economic viability and thus sustainability in a developing country context like that of Bangladesh. This is a pioneering essay on a subject that has received scarce attention from the economics community which has tended to look at it somewhat quizzically, and perhaps also with a tiny sense of disdain. This is not so surprising given that the social business concept challenges a basic fundamental criterion of Economic Man — that of profit maximization. Professor Mahmud concedes that the concept is laudable and society would benefit if it can be implemented. Problems and pitfalls seem to relate mainly in designing and implementing a sustainable social business model. This will require concerted efforts from economists, business schools and practitioners.

The set of papers in this volume contribute immensely to our changing understanding of the economy from the perspective of structural transformation and poverty reduction in a context that seems to be poised to emerge out of its dependence on agriculture. A strong view that has emerged here supports the contention that while agriculture, the non-farm sector and indeed services have much potential in terms of their contribution to GDP and employment generation, our economic and social success depends crucially on whether we will be able

to industrialise along classical lines. Although a somewhat disappointing conclusion to arrive at, it does point to the need to organise ourselves firmly to attain this vital objective, suitably assisted by further innovations in anti-poverty tools and grass-root development models — an area in which Bangladesh has been a pioneer.

Dhaka, October 2021

**K A S Murshid**  
**Atiqur Rahman**