

Promoting Rural Non-farm Economy of Bangladesh*

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INTRODUCTION

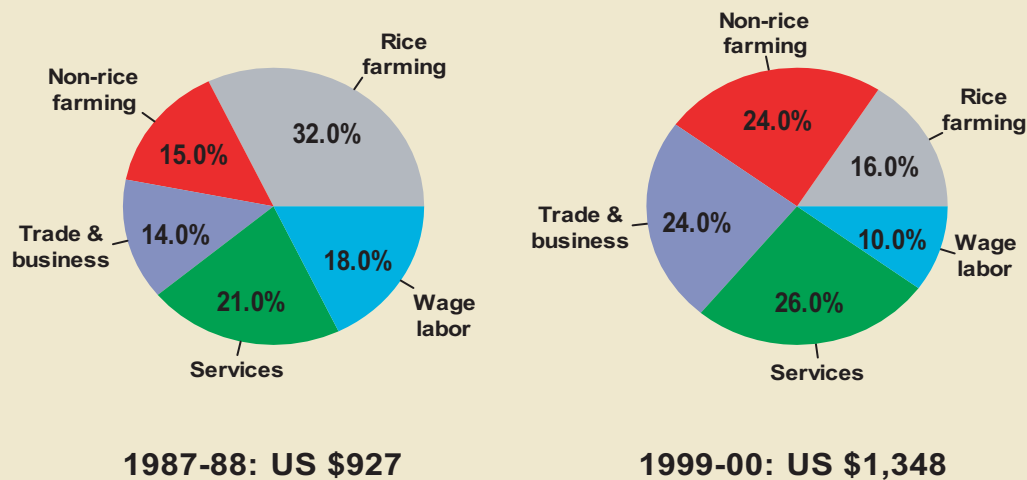
Rural Non-Farm (RNF) activities accounts for over 40 percent of rural employment. The RNF sector grew at 5 percent per annum between late eighties and mid-nineties. In 1995/96, it contributed 36 percent to the country's total GDP compared to about 31 percent by agriculture.

The RNF activities include activities outside agriculture that include livestock, fisheries and forestry. Non-farm activities can be classified into three categories: (i) Mostly manual labor based, (ii) Human capital based occupations, (iii) Physical and human capital intensive activities. Mostly manual labor based activities include self-employed subsistence-oriented cottage industries, wage employment in rural business enterprises, transport operation, and construction labor. Human capital based occupations include salaried service in public and private organizations, teachers and imams, village doctors, and various types of personal services. Physical and human capital intensive activities include commercial type rural industries, including agro-processing, shop-keeping, peddling, petty trading, medium and large scale trading, and contractor services.

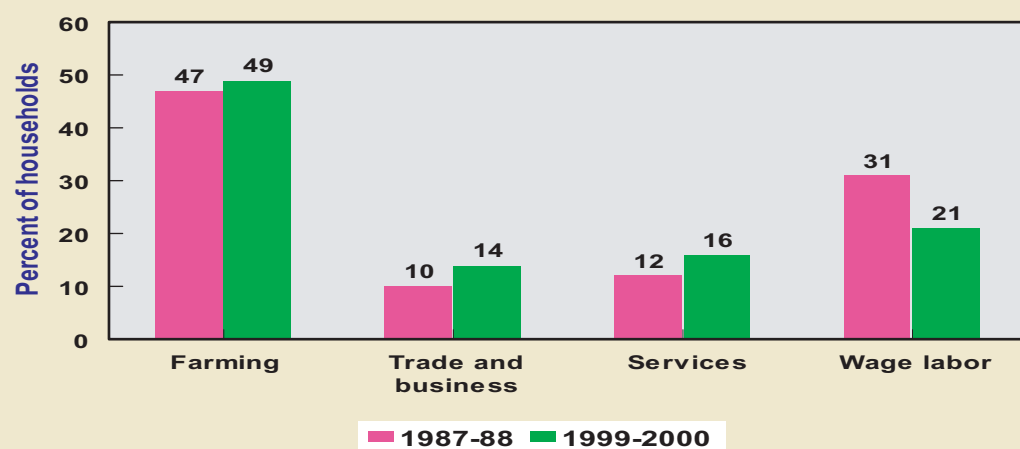
CHANGES IN THE RURAL ECONOMY

The BIDS-IRRI sample household survey in 62 villages revealed that the employment in the rural non-farm sector has increased by 4.5 percent per year while the number of workers employed in agriculture has declined by nearly 1.2 percent per year. In 2000-01, 52% of the earning members of the households in Bangladesh reported RNF activities as their primary occupation and another 14 percent as secondary occupations, which means that nearly two-thirds of the rural workers are involved in rural non-farm activities. Non-farm activities account for 52 per cent of the income in rural Bangladesh. Over the 1987-2000 period the household income grew at 3.8 percent per year. Most of the growth came from the rural non-farm sector (mainly from services and trade and business and rural transport operations). The income from RNF activities increased at 6.8 percent per year compared to only 1.4 percent per year growth in agricultural incomes. As a result, the share of non-farm sector in rural household income has been increasing very fast.

Composition of household income



Livelihoods: Major source of income



KEY DRIVERS OF RNF GROWTH

Macro economic drivers

- large-scale liberalization of market and trade regime
- Reduction of tariff and non-tariff barriers to trade and privatization of agriculture

Sectoral level drivers

- Rapid spread of irrigation technologies for rice production
- Increased mechanization of tillage
- Growth of equipment manufacturing
- Support services for farm equipment
- Increased trade in agricultural inputs
- Increased cereal production and subsequent grain storing, trading, rice parboiling and milling etc.
- Agricultural diversification i.e. poultry, fishery, plant nurseries, etc
- Rural transportation facilitated by rural infrastructures
- Rural electrification
- Rise in household income induced demand for new RNF products
- Remittances from outside the rural sector.

KEY CONSTRAINTS TO RNF SECTOR

Market related constraints are lack of adequate demand for conventional RNF products, although there is a growing demand for new types of RNF goods and services. The Physical constraints include lack of physical infrastructures, electricity, standard equipment and know-how. The policy constraints include inadequate credit, irrational tax structure, bias against rural industrialization. Pricing agricultural inputs/output and construction materials, airfreight charges for agricultural exportable items do affect RNF sector growth. The absence of business advisory services for RNF sector enterprises can be identifies to be an institutional constraint to the growth of this sector.

STRATEGIES AND POLICIES FOR THE DEVELOPMENT OF RNF SECTOR

The government so far has created a number of institutions such as the Bangladesh Small-scale and Cottage Industries Corporation (BSCIC), Handloom Board, and Sericulture Board, to cater to the needs of small scale and cottage industries, but they are inadequately backed by allocation of financial resources and appropriate management support to ensure sound institutional health. Therefore to ensure sustained growth of the rural non farm sector there should be an Institutional home for RNF activities.

Implement the following proposals of previous plans.

- Development of Rural growth centres in important market places
- Set up *Employment and Resource Centres* at the thana level for the promotion of rural non-farm employment
- Role of GOs in the development of skills of the poor and other disadvantaged groups through motivation and training and proposed to encourage, coordinate and integrate NGO activities with public sector programmes for rural industries
- There is a need for *specific allocation for rural areas in normal development* programmes such as secondary education, road and other transport network, Rural electrification, Infrastructure for telecommunication and information technology etc.
- *Special programmes should be launched* such as vocational training for secondary school drop-outs, storage and processing facilities for perishable products, a fleet of modern transport with refrigeration facilities.
- The *Bangladesh Agricultural Development Corporation (BADC)* may also be reorganized for providing training on the operation and maintenance of agricultural and non-farm machinery particularly for the high school drop-outs. BADC may also establish storage and processing facilities for perishable products, and invest in developing a fleet of modern transport with refrigeration facilities, the services of which may be rented-out to rural traders and entrepreneurs.

CONCLUDING REMARKS

Exploitation of development potential of non farm sector will however require support from the public sector for creating an enabling environment; by developing rural infrastructures in the field of transport, power and communications, improving the quality and coverage of secondary and technical education, providing information on markets and facilities for training for entrepreneurship development as well as providing access to finance to the resource-poor households.