



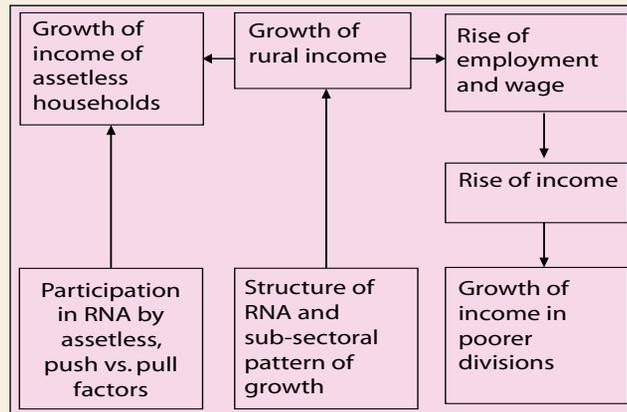
Growth of Rural Non-Farm Activities in Bangladesh: Implications for Household Income and Employment¹

This Policy Brief examines a few interrelated issues on the implications of growth of rural non-farm activities (RNA) for improving household income and employment, especially for the landless and poor households in Bangladesh.

1. Introduction

The policy brief focuses on some issues related to the rural non-farm activities (RNA) in Bangladesh. Figure 1 shows the focus of the analysis and the inter-linkages.

Figure 1: Linkages among RNA, employment, income and poverty



A major concern of the analysis is to examine whether RNA in Bangladesh has been induced by push or pull factors. A number of earlier studies observed that engagement in RNA reflects a combination of both push and pull factors. Whether the same type of balancing still continues or the current weight of the sector is more on the pull factors needs to be assessed.

The impact of RNA on poverty situation of rural households has also been examined.

2. Empirical Findings Role of RNA in rural income and employment growth

The study traces the growth of RNA over the last one decade (2000 to 2010) on the basis of Household Income and Expenditure Survey (HIES) and Labour Force Survey (LFS) data. The data show that the real income from both agriculture and RNA has increased over the period by nearly 49 percent and 62

percent respectively. These positive changes stand in sharp contrast to the picture during the 1984 to 1994 period when income growth from agriculture was negative. During the 2000 to 2010 period, the share of agricultural income declined from 49.9 percent to 47.8 percent which was offset by an increase in the share of RNA from 50.1 percent to 52.2 percent (Table 1).

¹This policy brief is based on the study, Growth of Rural Non-farm Activities in Bangladesh and Implications for Household Income and Employment, carried out by Rushidan Islam Rahman under the Policy Research and Strategy Support Program (PRSSP) being implemented by BIDS with support from IFPRI and USAID.



Table 1: Changes in income and employment in agriculture and RNA: 2000 and 2010

Sector	Item	Year		% increase in ten years
		2000	2010	
Agriculture	Employment (million)	18.70	22.74	21.6
RNA	Employment (million)	11.60	18.92	63.1
Agriculture	Annual income of rural hh (million Tk., 2010 prices)	613307	913566	49.0
RNA	Annual income of rural hh (million Tk., 2010 prices)	615426	995461	61.7
Agriculture	Share of income (%)	49.9	47.8	-
RNA	Share of income (%)	50.1	52.2	-

Source: Author's calculation based on HIES, LFS (various years) data.

The structure of employment in rural areas went through a significant change during this period. Employment growth in RNA was rather slow (8.3 percent) during the 1996 to 2000 period. During the 2006 to 2010 period, however, the growth of employment was 8.0 percent and 25.5 percent

respectively in agriculture and RNA. The share of labour force employed in RNA stood at 45.4 percent in 2010 compared with 39.9 percent in 1996. The increase is not spectacular, but has been steady in the last decade (Table 2).

Table 2: Number and share of employed rural labor force in agriculture and RNA: 1996-2010

Year	Agriculture			RNA		
	Number (million)	Percentage change over previous year	Share (%)	Number (million)	Percentage change over previous year	Share (%)
1996	16.14	-	60.1	10.71	-	39.9
2000	18.70	15.9	62.7	11.60	8.3	37.3
2006	21.06	12.6	55.5	15.08	30.0	41.7
2010	22.74	8.0	54.6	18.92	25.5	45.4

Source: Author's calculation based on LFS (various years), BBS.

The study makes an effort to estimate rural income by sector for 2000 and 2010. In 2010, leaving aside agriculture, the two sectors of RNA making largest contributions are trade and manufacturing, 11.2 percent and 8.9 percent

of household income respectively. Next in importance is service which contributed 7.2 percent of income. Transport and construction contributed 5.5 percent and 3.0 percent of household income respectively (Table 3).

Table 3: Contribution of agriculture and non-agricultural sectors in rural income: 2000 and 2010

Source	Share of households (percent)	
	2000	2010
Crop income	30.0	27.8
Manufacturing	4.9	8.9
Construction	1.3	3.0
Trade	20.5	11.2
Service	5.7	7.2
Transport	3.1	5.5

Source: Author's calculation based on HIES data.

Over the 10 years from 2000 to 2010, crop agriculture's share of rural household income declined (from 30.0 percent to 27.8 percent) but not very much. The RNF sector which experienced substantial decline in household's income share is trade. Service sector's share, however, increased from 5.7 percent in 2000 to 7.2 percent in 2010. The share of manufacturing also increased from 4.9 percent to 8.9 percent while that of transport increased from 3.1 percent to 5.5 percent over the ten year period.

The shares of households engaged in manufacturing and transport sectors increased between 2000 and 2010. However, the share of households engaged in trading significantly declined from 25.6 percent to 14.4 percent during the period (Table 4).

Table 4: Share of rural households involved in different sectors: 2000 and 2010

Source	Share of households (percent)	
	2000	2010
Crop income	73.2	69.3
Manufacturing	8.8	15.1
Construction	3.1	5.9
Trade	25.6	14.4
Hotel & Restaurant	0.5	1.3
Transport	6.3	9.8

Note: One household may be involved in more than one activity.

Source: Author's calculation based on HIES data.





Role of push and pull factors in RNA participation

In 2010, the landless group has the largest share (about 60 percent) of households in RNA, followed by the marginal landowners (50 percent). The larger landowners also show a substantial involvement in RNA. The participation in RNA was about 40 percent among owners of more than 5 acres of land. Thus both push and pull factors seem to have contributed to the expansion of RNA.

It may, however, be noted that the extent of participation in RNA by landless and marginal landowners has remained more or less unchanged at 60 percent and 50 percent respectively in both 2000 and 2010. On the other hand, the households with larger landholdings have reduced their participation in RNA. In 2000, about 44 percent and 41.4 percent of those households owning above 5 acres and 2.50-5.0 acres of land respectively participated in RNA. The figures were 39.6 percent and 35.5 percent in 2010. This implies that among all households engaged in RNA, the share of landless and marginal landowners increased. Thus the contribution of the push factors towards RNA participation seems to have increased over time.

Role of RNA in poverty reduction

When the poverty situation in 2000 and 2010 are compared, improvements are observed for all three groups – engaged in agriculture only, engaged in RNA only and engaged in both agriculture and RNA. However, poverty incidence is observed to be the lowest among those with both farm and non-farm sources of income.

The poverty reducing impact of RNA, however, cannot be fully captured from the data on sectoral poverty incidence. The RNA's role in the rural economy in the form of employment generation and income growth is likely to affect other segments of the economy. In particular, the absorption of labor in RNA tightens the labor market and has a positive impact on agricultural wages. Moreover, the large farmers' shift towards non-farm activities is often associated with leasing out land to the small and marginal farmers. This mechanism also creates a poverty reducing impact which can be considered as an indirect impact of RNA.

Problems faced by non-farm enterprises

The problems faced by the RNA have been identified in the HIES through a direct question for the existing



entrepreneurs. The overwhelming majority (33.7 percent of the respondents) mentioned 'inadequate capital' as a major constraint. Other problems faced by the respondents include lack of buyers/customers (possibly this happens for the small traders, reflecting inadequate demand for the retailing services). The lack of knowledge, especially technical knowledge, has also been mentioned by a few.

The entry into RNA requires some savings because most enterprises start with their own funds. It also requires ownership of some minimum assets like land and homestead. Such assets may also provide the storage facility for the small business activities. These constraints may reinforce one another and form a cycle of barriers.

Wage and employment in RNA

The benefits from participation in the RNA and its positive impact on poverty reduction depend on the wage received and days of employment obtained by the workers. The average days of work are 219 and 307 per year in agriculture and non-agriculture respectively, the latter being 40 percent higher than the former. Women's average employment in RNA and agriculture is 274 days and 175 days respectively, the former being 56 percent higher.

During the 2000 to 2010 period, the average standard days of work for women has risen from 256 days to 274 days per year in non-farm activities, while the work days of male workers has risen from 306 days to 325 days. The data also show a considerable increase in the share of female workers in non-farm activities (from 51.6 percent to 64.6 percent). The increase has been larger compared with that of rural male workers (from 43.6 percent to 51.1 percent).

The data for 2010 show that the daily wage in RNA is 1.14 times higher than the daily wage in agriculture. The daily nominal wage in RNA increased by 124 percent over the ten year period. On the other hand, the increase of wage in agriculture was lower (116 percent) as compared with increase of wage in RNA (124 percent).

Regional difference in non-farm activities

The RNA's share in total employed labor force varies from 43.1 percent in Rangpur Division to as high as 62.6 percent in Barisal Division. The three Divisions with high shares of employment in RNA are Barisal, Sylhet and Dhaka.





Barisal Division can be viewed as a typical case of push factor induced RNA growth. This Division is not known for traditional non-farm skills. Its links with large cities are weak. Agricultural productivity in some of its districts is also very low due to poor quality of arable land.

The share of labour force in RNA is not only high in Dhaka, Sylhet and Barisal, but these shares also considerably increased during the last ten years. During the period, Barisal Division experienced a few devastating cyclonic storms and tidal surges which may have pushed people to seek RNA employment.

Sylhet, Dhaka and Chittagong Divisions rank high in terms of household income from RNA. In Barisal Division, the share of employment in RNA is the highest but the average income from the source is lower than those in the three Divisions mentioned above. Rangpur, Rajshahi and Khulna Divisions have high ranks for agricultural incomes but have low ranks for non-farm incomes. The reverse is true in the case of Sylhet, Dhaka and Chittagong Divisions.

3. Policy Implications

The findings of the analysis demonstrate a positive impact of non-farm activities in terms of employment and income generation. Therefore, one would obviously look for policy

options for expansion of the RNA and for improving the productivity of both existing and potential activities. The findings provide some general guidelines for such improvement. The growth of rural non-farm activities in Bangladesh can be promoted through economy-wide policies which affect both rural and urban non-farm sector growth as well as through policies specifically designed for RNA development.

The analysis highlights a few policy suggestions which are more specific in nature. These suggestions are directly linked with specific findings of the analysis. Specific policies should first take into account the problems mentioned by the respondents.

Effective steps for easing access to institutional credit include expediting the process through simplification of procedural complexities. For landless and marginal landowners, collateral requirement needs to be reviewed as they do not possess land which is usually accepted as a collateral. Microfinance institutions are engaged in provision of microcredit in the rural areas. The size of microcredit is usually small and inadequate for starting an enterprise of a reasonable size. For enterprises with significant fixed assets, the existing enterprise value can provide a basis for access to credit. In this respect, pragmatic approach has to be adopted by the financial institutions.



Power supply problem has been reported by some of the entrepreneurs. While frequent disruption of power causes loss of productivity of the existing enterprises, it can be a major inhibiting factor for new entrants. In fact, getting new connections is becoming increasingly difficult thereby restricting establishment of new enterprises.

Certain production activities may have been discouraged by the lack of marketing facilities. Improvement of marketing outlets, although not identified by the existing non-farm enterprises, may help expand the scale of activity. Availability of information about demand for non-farm products and skill training facilities is inadequate. Provision of such information and building a mechanism through which rural entrepreneurs, especially prospective female entrepreneurs can seek assistance, can be particularly helpful at the initial stage.

Transport problem has been mentioned by some respondents. Lack of technical knowledge has also been mentioned; although it may not mean technical training alone but includes accounting and management knowledge as well. These are problems of general nature and cannot be solved only for the existing RNA. Appropriate policies in these two spheres are needed for overall growth and development of the country.

Regional differences in RNA growth have been highlighted earlier. In this context, the policy makers are faced with a choice of focusing on agriculture in the North and Western regions while improving productivity of RNA in the progressing areas. In fact, they can opt for a more balanced approach. For ensuring self-sufficiency in food grains, the impetus of agricultural growth in the Northern region must continue. In this case, policies may emphasize more targeted farm subsidy, especially for the small farmers.

The policies for RNA expansion should be such that these do not impede the current agricultural growth momentum. This implies that policies for expansion of RNA in these regions may focus on targeting female workers whose participation in crop agriculture is relatively low.

Policies for women's participation in RNA

Although women's involvement in RNA has been observed to be substantial, often it is not properly recognized and, therefore, policies for improving their role are lacking. Productivity and wage of female labor have often been found to be much lower than those of male labor. Moreover, the



scope for women's employment in the crop sector is rather limited. In this context, the following policy suggestions merit serious consideration.

- Specialized skill training and management education for women, especially young women, can help women's entry into the RNA and also improve their productivity.
- A combination of training, credit and business services can be a more effective strategy for women's involvement in RNA.
- Large RNA enterprises may consider subcontracting to local women if appropriate skills are available. The local NGOs and government machinery may consider providing relevant training. Linking of training with jobs (paid and self employment as well as sub-contracted) can be critical in this context and the NGOs may take up initiatives for creating such linkages.

4. Further Research: What We Need to Know

This study examines a few interrelated issues on the implications of growth of RNA for improving income and employment, especially for the landless and poor households. The analysis is based on secondary data which preclude in depth analysis of all relevant issues. In this context, following issues deserve special attention in future studies on rural non-farm activities in Bangladesh.

- The present analysis uses information of existing enterprises which are likely to be a reflection of successful cases. It is necessary to probe into the cases which faced failure. Although there have been a number of studies on determinants of participation in RNA, these studies have excluded the "failed" cases. But these cases can have important implications for perpetuation of poverty and may also identify the factors resulting in such failures.
- The role of remittance in the growth of RNA should be examined since a large percentage of households mentioned "lack of capital" as a problem faced in the expansion of RNA.
- Regional aspects of RNA development merit further investigation. The constraints that hinder the progress of RNA in the Southern and Western Divisions need closer attention.

Author

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