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Food Strategy and Development in Bangladesh

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CHAPTER 3

FOOD STRATEGY AND DEVELOPMENT IN BANGLADESH

by

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INTRODUCTION

Development policies, (i.e. macro-economic policy and economy-wide policies), have important consequences for food security or food strategy. Similarly, the nature and content of food strategy have implications for development policies. The inter-relationships between these two sets of policies have been recognised but not always adequately emphasised. Provision of food security - an assured supply of food at all times to meet at least the minimum nutritional needs of all people, especially of the poor and the hungry - requires not only adequate but also stable food supplies over time. At the same time, the poor and the hungry need access to food.

Macro-economic policies, especially trade and exchange rate policies, have an important impact on the adequacy and stability of food supply. An overvalued exchange rate and a high rate of domestic industrial protection discriminate against the agricultural sector. Resource allocations, including investment, are thus skewed towards the industrial sector which yields high returns. An overvalued exchange rate also discriminates against exports, including agricultural exports. Furthermore, agricultural inputs produced by high-cost, protected industries impose heavy burdens on the agricultural sector and militate against its competitiveness.

In Bangladesh, the overall incentive structure, (i.e. exchange rate policy and industrial protectionism), still continue to discriminate against agriculture. An important example of industrial protectionism hurting agriculture is possibly the domestic fertilizer industry which supplies a crucial input for agriculture. The degree of discrimination has been reduced significantly in recent years with the liberalisation of the foreign exchange and trade regime. This is evidenced in (a) a relative decline in scarcity margins on the landed cost of imports, and (b) a small difference between the exchange rate under the Wage Earners' Scheme and the official rate of exchange (Stern, Mallon and Hutcheson, 1986). However, these distortions are less than those prevalent in many developing countries - both high and low income ones.

Two comments seem to be in order in this context. First, the degree of foreign exchange overvaluation or otherwise in Bangladesh has been closely linked to the flow of external economic assistance over the years: a generous flow of foreign aid has added to the availability of foreign exchange. Second, the low rate of growth has limited the demand for foreign exchange. With an acceleration in the overall growth rate, the equilibrium rate of exchange is likely to deteriorate and the current rate may, therefore, become overvalued. More importantly, if the present flow of foreign assistance is not sustainable in the long run, the equilibrium rate of exchange today should be higher than is indicated by either the nominal rate of exchange or the rate of exchange under the Wage Earners' Scheme. This has, therefore, important implications for the future growth of the agricultural, as well as the export sectors in Bangladesh.

Instability of food supplies and prices arises from fluctuations not only in domestic production but also in import prices and the availability of food aid. As recent experience of floods continues to remind us, weather-induced variations in food production in Bangladesh are probably greater than in many developing countries. Food aid is notoriously sensitive to the availability of food surpluses in the donor countries. In recent years, Bangladesh has been fortunate in having annual flows of food aid varied roughly in proportion to her import requirements. Sixty per cent of the total value of foodgrain imports was financed by food aid on average during 1983-86.

Access to food - the third critical component of food strategy - is also dependent on the overall development policy, with its impact on the pattern of growth and the distribution of income.

INCREASING FOOD PRODUCTION: DEMAND OR SUPPLY CONSTRAINT?

Increasing food supplies in Bangladesh is very closely linked - on both supply and demand sides - with expanding access to food for all, especially net food purchasers (small deficit farmers, landless labourers and the urban poor). A large proportion of domestic food production is undertaken by small farmers and hence an increase in their productivity is essential for a substantial increase in domestic food production. At the same time, any significant increase in per capita food production, in the absence of expanded demand by the poor, may result either in the accumulation of stocks or a decline in price below the opportunity cost of food production. In the context of the current large food imports this may not seem a realistic possibility in the near future; a rate of growth in supply in excess of growth in demand would, up to a point, substitute food imports by domestic production. However, all food imports in Bangladesh do not satisfy market-related demand. Food aid imports which provide food for direct consumption under the Food-for-Work Programme, Vulnerable Group Feeding and Test Relief add, at the time, to both demand and supply of food, at least partially. The substitution of food aid by an increase in domestic food production is likely to exercise a downward pressure on prices, unless these programmes of non-price[1] distribution of food are financed out of the increase in domestic food production.

Supply constraints in the near future seem to dominate the agricultural scene rather than the problem of deficient effective demand, barring the non-price 'demand' for food. In the long run, however, an acceleration in the rate of growth in per capita food production would depend largely on the simultaneous expansion of effective demand on the part of the poor, who spend the largest proportion of their income on food.

To the extent that increased food production takes place amongst the small farmers, who are also deficit farmers, increased production would be mainly consumed by them, leading to an improvement in their consumption and nutritional status. Forty per cent of the farming population in 1973/74 were deficit farmers who, in most cases, owned 2 acres or less, whereas 60 per cent of the farming population were surplus farmers producing 78 per cent of the output of rice (Ahmed, 1981).

[1] i.e. commodities distributed directly to final beneficiaries who do not make a cash payment, including Food-for-Work, free distribution of food to vulnerable groups and other feeding programmes.

Can agriculture provide more employment and a larger income for the growing rural labour force? Can a redistribution of land provide additional employment and income for the poor? Even though the average size of land holding per capita or per household is small, its distribution is highly unequal. A redistribution of land would help ameliorate to some extent the incidence of landlessness, at least in the near future, especially if the productivity per acre on small farms could be significantly increased. Over time, however, the pressure of population on land is likely to lead to further subdivision and fragmentation of holdings.

Because of the small average size of land holding per capita or per farm household, the scope for significant additional employment creation in the longer run through land redistribution is very limited (though it may provide a short term relief). Furthermore, in view of a close inter-relationship, both political and economic, between interest groups in the farm and non-farm sectors, as well as in the rural and urban sectors, a significant redistribution of land, or any other rearrangement of the system of ownership and cultivation with a view to maximising rural employment, is judged to be politically infeasible.

Given the structure of agriculture, and the state of technology, current and likely to evolve in the future, growth in employment in response to growth in agricultural output has been, and is likely to be, moderate. A 10 per cent rate of growth in output in the agricultural sector has been roughly associated in the past with a rate of increase between 3-4 per cent in employment. An increase in labour productivity in agriculture implies a higher rate of growth in output than in employment. As a result of technological progress, labour requirements per unit of output would go down, as has happened in the past in other developing countries.

Research to date seems to indicate that technological progress in irrigated areas has benefited all categories of farmer, including tenants and sharecroppers, but in varying degrees and only after a time lag. The positive impact on the absolute income of the poor is inadequate partly because growth in output was not very high, sustained or widespread. The benefits have been unequally distributed among different farm sizes, with large farmers having benefited more than small ones.

SELF-SUFFICIENCY OR SELF-RELIANCE IN FOOD

Should Bangladesh aim at self-sufficiency in food? As in Bangladesh, so also in most developing countries, public policy pronouncements emphasise food self-sufficiency as a goal. In a very few cases governments have sought to achieve, or in fact have achieved, a rate of growth in domestic food production intended to meet not only the market-related effective demand but also the nutritional requirements of the population, which invariably exceed the level of effective demand. Moreover, in most developing countries, food self-sufficiency has been pursued in terms of self-sufficiency in cereals rather than in the whole range of food items. For example, India's self-sufficiency in cereals has been matched by increasing imports of edible oils and rising prices, or increasing scarcity, of pulses. What was frequently sought was a substantial acceleration in the rate of growth of domestic food production and, in more heavily food aid dependent countries, a decrease in or an elimination of dependence on food aid in the long run.

Efficiency considerations warrant that the search for a desirable degree of self-sufficiency in food is determined by comparative cost considerations, evaluated at an equilibrium or an appropriate rate of exchange, and modified by a country's perception of how reliable is dependence on world food supplies at times of need. The higher the perceived unreliability of dependence on world markets, the greater is the likelihood of departure from comparative cost considerations. The reference to the appropriate or equilibrium rate of exchange takes into account the possibilities or potentials of export expansion in relation to future import requirements. The higher the scarcity price of foreign exchange, the greater is the extent to which an increase in domestic food production at a rising cost is justified.

In fact, in the past, countries which attained a very high rate of growth in domestic food production in many instances also rapidly increased their food imports. This was because a rapid increase in domestic food production was associated with a very high rate of growth in overall income; this in turn led to an increase in demand for food which exceeded the rate of growth in domestic production in the medium term. At the same time, a high overall rate of growth led to or enhanced the possibilities of expanding agricultural and non-agricultural exports to finance the increase in food imports.

The emphasis on accelerating food production in Bangladesh stems from Bangladesh's perceived comparative advantage in food production. A distinction needs to be made between self-reliance in food and self-sufficiency in food. Self-reliance in food is achieved first through an increase in food production consistent with comparative costs and the scarcity price of foreign exchange, and second through enhanced ability to earn foreign exchange to finance the food import gap. Whether a part of the food import should be financed by food aid depends on how much dependence on food aid is politically acceptable and how much food aid is in fact available. In Bangladesh over the years on average about two-thirds of food imports were financed by food aid, even though in years of bad harvest, the ratio of commercial purchases greatly increased. The desirability or otherwise of dispensing with food aid is no different from reducing or eliminating dependence on foreign aid in general.

The search for food self-reliance in Bangladesh should encompass not only cereals but also other food items. With an increase in per capita income and urbanisation, and a consequent shift in the consumption pattern towards the non-cereal and non-crop foods such as fruits and vegetables, livestock products and fish, the need for agricultural diversification gains in urgency. At the same time, unexplored possibilities of producing non-traditional agricultural commodities, partly intended for export markets, need to be explored. It is not at all clear that a pattern of agricultural production in the future which seeks to achieve self-sufficiency in cereals, combined with rising imports of non-cereal and non-crop agricultural products, is the optimum policy objective for Bangladesh given its agro-ecological potential and relative cost structure.

Various attempts have been made to quantify the future supply and demand for cereals in Bangladesh by the year 2000 or beyond. Under different alternative scenarios the estimates of the rate of increase in demand for cereals up to the year 2000 range between 2.5-3.0 per cent per annum. The increase in cereal demand crucially depends on the assumed rate of increase in per capita income and in population. At present, there are differences of opinion amongst experts about the current, as well as the projected, rates of growth in population which have a dominant effect on growth in cereal demand. If it is assumed, for the sake of illustrating the broad orders of magnitude involved, that demand for cereals increases by 2.7 per cent per annum, let us say,

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by the year 2000, and if it is further assumed that production increases by 2.9 per cent per year, the cereal import gap is estimated to be about 3 million tonnes by the year 2000. The persistence of a cereal import gap is due to the assumption that the rate of growth in production is not accelerated sufficiently in excess of growth in demand to more than offset the initial substantial import gap. The wheat import gap widens, while the rice import gap narrows.

The rate of growth in cereal demand is consistent with a per capita income growth of 1.4-1.7 per cent and with a population growth rate of 2.4-2.6 per cent for two subperiods 1985-95 and 1990-2000. A reduction in population growth to 1.7 per cent for the period 1990-2000 would substantially reduce the growth rate in cereal demand, let us say, to 2 per cent or so per annum. This would radically reduce or even eliminate the import gap, given the assumption regarding growth rate in production.

Can the growth rate in cereal production be higher than is projected above? This depends upon one's evaluation of the assumptions on which the projected growth rate is based. The critical assumptions are as follows: 2.8 per cent rate of increase in yield with a marginal increase in cropping intensity above the current level; 2.6 per cent rate of increase in harvested area under irrigation, and an increase in the rate of value of fertilizer inputs to gross value of crops from 5.4 to 9.8 per cent.

Informed opinions may differ as to the realism or otherwise of each one of these assumptions. However, a comparison between projected rates of increase in yield per acre and in cereal production with the corresponding rates which were achieved for different periods in the past since the early 1960s may be useful.

The projected increase in both yield and aggregate production are in the range of the highest rates which were attained in any period in the last 23 years.

Table 3.1: Bangladesh Past and Projected Growth Rates in Cereal Production
(per cent per annum)

	Yield Per Hectare	Aggregate Production
1961 -70	0.40	2.43
1970 - 80	2.23	3.19
1980 - 85	1.46	1.33
1975 - 85	1.71	2.61
1985 - 2000 (Projected)	2.80	2.90

Source: Unpublished FAO data.

If the rate of growth in cereal demand is assumed to be 2.7 per cent up to the end of the century, a rate of growth in cereal production of about 3.75 per cent per annum will eliminate the cereal import gap by the year 2000; a higher rate of growth in production will eliminate it earlier. The crucial assumptions in any such projection exercise are the rates of growth of population, per capita income and food production.

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What is needed is a systematic analysis of how rapidly cereal production can be increased given the agro-ecological constraints of Bangladesh. Simultaneously, the optimum pattern of diversification of agricultural production for the future should be analysed. The feasibility of achieving the rate of growth (a) in irrigated area, and (b) in the use of fertilizer associated with the diffusion of new High Yielding Varieties, which is required in order to eliminate cereal imports along with the investment and institutional implications, is well worth examination in the light of the past experience of Bangladesh as well as of other countries which are similarly situated. The historical rates of growth in cereal production achieved by a few Asian countries are given below.

Table 3.2: Comparitive Annual Rates of Growth in Cereal Production
(per cent per annum)

	1961-70	1970-85	1961-85
Bangladesh	2.4	3.0	2.6
India	2.9	2.9	3.1
Pakistan	6.7	3.7	4.7
Sri Lanka	5.3	4.8	4.3
Philippines	4.7	3.8	4.2
Indonesia	4.2	5.0	4.7
Thailand	3.9	3.6	3.4
Asia	4.4	3.7	3.8
All Developing Countries	4.0	3.4	3.5

Source: Unpublished FAO data.

It is noteworthy that several countries maintained for a long period higher rates of growth than Bangladesh. But few of them succeed in accelerating their rates of growth very significantly above an initial low level, or sustaining such an increase for long periods of time (i.e. 5-10 years), except Indonesia. The crucial questions are: what are the constraints, both agro-ecological and institutional, in the way of Bangladesh achieving the rates of growth achieved by Pakistan, Sri Lanka, Philippines and Indonesia? Do the soil and climatic characteristics in terms of (a) rainfall or water availability or (b) temperature and sunshine put Bangladesh apart from these rice producing countries? Can concentration on wheat and rice production in winter obviate the need to solve the difficult problems of rainfed or deepwater rice? What are the possibilities of technological breakthrough in the near future in High Yielding Varieties of rice? Are there cost-effective alternatives in crops other than rice which can save or earn foreign exchange?

INTERSECTORAL LINKAGES OF AGRICULTURAL GROWTH: EXPORT-LED VERSUS AGRICULTURE-LED DEVELOPMENT STRATEGY

An increase in effective demand for food on the part of the poor, amongst whom the rural poor constitute the majority, requires an expansion of non-farm employment and income. Where will the demand for non-farm goods and services come from? A part of the demand will come from

the non-farm sector itself. Also, so long as a large proportion of the population is engaged in food and agricultural production, increased income in the food sector generates demand for the non-food goods and services. Unless the main stimulus to the extension of the non-agricultural sector - rural and urban - comes from export trade (an unlikely possibility in the context of Bangladesh, however export-oriented overall development strategy may be) the demand stimulus has to come predominantly from the agricultural sector.

Increase in agricultural productivity and expansion of exports must act in a mutually supportive manner in fueling economic expansion in Bangladesh. A time-series-cum-cross-section study of 34 developing countries for the period 1961-84, which related the rate of growth of the non-agricultural sector to the rate of growth of agriculture and exports, estimated the elasticity of growth in non-agricultural output with respect to agricultural output and exports at 1.30 and 0.25, respectively. These countries had 20 per cent or more of their Gross Domestic Product (GDP) originating in agriculture. This indicates that the stimulating or growth-inducing effect of the agricultural sector on the overall economy is much higher than that of the export sector. Moreover, for individual countries in Asia the elasticity was found to vary from 0.22 in Korea to 1.60 in Malaysia. In South Korea, the share of agriculture in the economy rapidly declined under a purposeful policy of concentration on export expansion as an engine of growth.

This is not to deny that export expansion deserves high priority in Bangladesh's development policy. Export growth requires in the first instance a neutrality of incentive structure between import substitution and export promotion. In other words, the effective real rate of exchange for exports, i.e. the nominal rate of exchange for exports augmented by a variety of prevailing export incentives, should be no lower than that for imports. To the extent that the effective exchange rate for exports in Bangladesh lags behind that for imports, corrections are needed. In fact, it can be argued that, in the early stages of growth, a developing economy anxious to industrialise and stimulate exports may opt for an undervalued exchange rate, i.e. one which is depreciated below the equilibrium exchange rate. This should provide the necessary infant industry protection for import substituting activities on the one hand, and incentives for new exports on the other. One may go one step further and suggest that the effective rate of exchange for exports should be more depreciated than that for imports. This is on the grounds, firstly, that export markets are more uncertain and involve greater risks than the domestic markets and, secondly, that techniques of export marketing and familiarity with world market conditions involve higher costs or require a longer period of learning. This was the case in Korea - the model of export-oriented development strategy.

However, such an export-oriented strategy does not warrant a system of export incentives which are highly differentiated in terms of individual exports or categories of exports. This results in a wide dispersion of effective exchange rates for exports and misallocates resources. It often ends up by providing maximum incentives to the most costly or least efficient exports under the pressure of particular commodity or industry interest groups seeking to secure whatever incentives are necessary to overcome its cost disadvantages. Such a policy results in excessive domestic resource costs of export promotion, given the lack of knowledge about costs and relative efficiency of individual commodities.

The identification and development of new and non-traditional exports is best left to market incentives once an appropriate effective exchange rate has been established. However, in several countries, public policy has sought to identify a few dynamic new exports and to provide a higher

than average degree of export incentives to them. It is doubtful whether the public authority has greater insight or efficiency than the mechanism of markets and private initiative to identify dynamic exports in the context of changes in world market conditions.

At the same time, however, the provision of market intelligence through a careful and systematic analysis of world markets, i.e. future supply and demand prospects, for potential exports from Bangladesh, and a wide dissemination of the results of such analysis constitute an important responsibility of the Government. Also, it is increasingly recognised that comparative cost advantages are dependent, amongst other things, on (a) research and development expenditure with a view to reducing costs and improving product quality and design, (b) being among the first to enter the export market, and (c) economies of scale in export production and marketing. The physical and institutional infrastructure for export promotion in terms of transport and communication facilities, wide-spread availability of market intelligence, and, above all, export credit facilities, are crucial. In the provision of these overhead facilities in the early stages of export development, the public sector has an important role to play. The greater the maze of cumbersome government rules or regulations which affect exports, the greater is the tendency to concentrate on the more secure domestic market rather than venture into uncertain export markets.

The pattern of comparative cost advantage changes over time. What is a dynamic export today may not be so tomorrow. What is essential is to retain and establish a framework of flexibility, for the economy and the exporters to be able to adjust to changes in export market conditions. The relative factor costs in different countries also change. For example, in recent years, under the impact of the severe structural adjustment programmes in a few countries, urban real wages have fallen in some countries by more than one-half, thus altering the relative cost advantages amongst developing countries in respect of labour-intensive products like garments. Provided incentive structures and infrastructure facilities can preserve and maintain high profitability in the export sector, new exports are likely to emerge, spawned on the basis of the initiative and enterprise of individual exporters.

AGRICULTURE-LED DEVELOPMENT STRATEGY

It is the potential impact of agricultural growth on overall income growth which provides the rationale behind an agriculture-led development strategy, especially in countries where agriculture dominates as a source of income and employment. Recent studies indicate that in countries where agriculture provides 20 per cent or more of GDP, a 10 per cent increase in agricultural value added leads to 13-14 per cent increase in non-agricultural value added. The relative strength of growth linkages between the agricultural sector and the rest of the economy depends, amongst other things, on the state of infrastructure and supportive policies in respect of credit, extension and education facilities, etc., in the non-farm sector. Many years ago it was Arthur Lewis who said that one of the most important factors contributing to a vigorous growth of the non-farm sector, especially the small-scale non-farm sector - both rural and urban - was an abundant supply of secondary school graduates, especially from technical schools.

Empirical evidence to date in Bangladesh and elsewhere indicates that, as rural incomes go up, the proportion of income spent on non-farm goods and services (i.e. manufactured consumer

goods, transport, trade, and personal services, health, education, etc.) goes up rapidly. This is especially true of the surplus producers, particularly middle farmers; they spend a larger proportion of their incremental income on non-farm goods and services as shown below.

Table 3.3: Share of Incremental Income Spent on Non-Farm Goods and Services (per cent)
(By income quartiles and by state of development of villages - as indicated by infrastructure)

	Developed Villages	Underdeveloped Villages
1st Quartile	24.4	12.1
3rd Quartile	43.3	21.1
4th Quartile	46.0	19.0

Source: Ahmed and Hossain, 1988.

The incremental budget share for non-food goods and services is not only higher for high income groups than for low income groups in both sets of villages, but in developed villages it is higher by a much wider margin than in underdeveloped villages. The non-farm goods and services for which demand is stimulated are frequently produced in the rural or semi-urban centres. For example, a 10 per cent increase in aggregate expenditure by the farm sector leads to 12 per cent increase in demand for rural processing activities, whereas the demand for urban processing activities increases by 15 per cent, and that for services increases by 22 per cent. With an acceleration in income growth in agriculture in infrastructurally well-endowed villages, the corresponding percentages in demand growth for various types of non-farm foods and services are higher, i.e. 16, 18 and 22 per cent respectively.

The increase in demand for non-farm goods and services is higher at the same income level in the villages well-endowed with infrastructure, partly because of the availability of a wider range of goods and services at lower prices due to better transport and communications.

Why is the rural non-farm sector not taking off? Is there a demand constraint? Is the pattern and magnitude of industrial import substitution not sufficiently conducive to the expansion of urban employment and income? A detailed answer to these questions is beyond the scope of this paper. However, a few observations in this context may be relevant. The percentage of income generated, and the proportion of population employed, in the non-agricultural sector have expanded in the last few years. But even as late as 1986, about 48 per cent of Gross Domestic Product originated in agriculture, a percentage which was higher than that not only in neighbouring Asian countries (i.e. India, Pakistan, Sri Lanka), but also in many low-income countries around the world. It is only matched or exceeded by a few countries such as Ethiopia, Burma, Burundi, Tanzania, and Somalia.[2] The proportion of population employed in agriculture in Bangladesh has declined; according to one estimate it declined from about 80 per cent in 1974 to about 68 per cent in 1983/

[2] The average proportion of income originating from agriculture was 38 per cent for all low-income countries, and 32 per cent, if China and India are excluded. (World Bank, 1988b).

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84.[3] The largest increase in non-farm employment seems to be in trade, transport and construction - sectors with low and declining productivity - the result more of a 'push' of rural unemployment rather than the 'pull' of a dynamic non-farm sector.

In order to maximise the beneficent interaction between agricultural growth and overall growth of the economy, several well-known preconditions need be met. In the first instance, agricultural growth must be high and sustained. An accelerated rate of investment in agriculture, strengthened by technological progress and supported by appropriate incentives, institutions and infrastructure, are crucial for enabling sustained agricultural growth. Rural infrastructure, including transport and communications, market towns and electrification, as well as credit facilities, etc., are needed not only to accelerate progress in agriculture, but also to promote and strengthen interlinkages with the rest of the economy. A recent study of the impact of infrastructure on agriculture in Bangladesh indicated that the income differential between infrastructurally developed and underdeveloped villages was to the tune of 40 per cent. The proportion of population under the poverty line fell by 33 per cent with the improvement in infrastructure and the associated progress in agriculture and non-farm employment.

There is a tendency in developing countries in general, including Bangladesh, to underinvest in infrastructure; this is partly due to the faulty or inadequate evaluation of the social returns on such investment, including its indirect contribution to development. Rural infrastructure contributes, amongst other things, to a wider diffusion of modern technology, an effective provision of extension and education services, economies of scale, and a reduction in marketing and distribution costs for both farm and non-farm goods as well as increased regional specialisation in production.

SAVINGS AND INVESTMENT

The issue of infrastructural investment is closely related firstly to the mobilisation of savings, both rural and urban, and secondly to the size and composition of public expenditure. In the light of recent improvements in incentive structures in Bangladesh - in which no doubt further improvement is desirable and necessary - a substantially enhanced emphasis on (a) institutions and (b) increased efficiency of investment holds the key to future growth. Also important is the need to increase the marginal rate of saving, (i.e. savings out of incremental income), especially of high-income rural and urban groups.

Bangladesh has one of the lowest gross savings rates in the developing world. As a percentage of Gross Domestic Product, gross domestic savings was about 2.4 per cent in 1985/86. The gross national savings rate, as a proportion of gross national income which included substantial remittances from abroad, however, was estimated at 5.3 per cent in 1985/86. The low rate of saving compares unfavourably with the gross savings rates for the entire group of low-income countries, excepting India and China, which was estimated at about 7 per cent. Only 6 out of 33 countries in the low-income category, as defined by the World Bank in 1986, had savings rates

[3] There are different estimates of this proportion and various interpretations thereof (Khan and Hossain, 1988).

equal to or below that of Bangladesh. They were Burkina Faso, Mozambique, Tanzania, Somalia, Central African Republic, and Lesotho.

The gross private savings rate, however, is much higher; it is offset by negative public saving. Fragmentary data indicate that, depending on farm size, the gross rural savings rate varies from 5 to even 10-15 per cent. How to augment domestic savings is a challenge that needs be faced. High-income groups, especially in urban areas, demonstrate very high consumption propensity. The rich in Bangladesh emulate very effectively the consumption standards of the rich in the advanced countries. The taxation system is ineffective in restraining a high level of consumption. One might argue that even if the rich saved more, the impact on the aggregate savings rate, in view of their very small number, is not likely to be very high. However, the externalities of their saving behaviour are important. The demonstration effect of the high consumption standards of the rich pulls up the consumption level of the middle and lower income classes and consequently depresses their savings rate.

Not only the savings rate but also the investment rate is low in Bangladesh. The rate of gross investment was estimated at 12 per cent in 1985/86 as against 15 per cent for low-income countries excluding India and China, and 29 per cent including India and China. Sixty per cent of total gross investment in Bangladesh was financed by foreign aid. The percentage of public investment financed by foreign aid was, however, considerably higher.

The transfer of capital abroad, especially the savings of the upper income groups in rural and urban areas - a common phenomenon in many developing countries - is a possible reason for this. Uncertainty regarding the future, including instability in economic policies, may contribute to it. In aggregate terms, the amount of money transferred abroad is unlikely to be large and it is also offset by a very substantial amount of remittances from low-income groups working abroad. But the underlying conditions contributing to this phenomenon are likely to affect adversely the entrepreneurial behaviour of the private sector.

Bangladesh, like all heavily aid-dependent countries, is faced with the problem of how to achieve a balance between three inter-related policy choices or objectives: mobilisation of domestic resources; more efficient utilisation of resources, foreign and domestic; and, dependence on external assistance. Ideally all three objectives should be pursued together, with a view to achieving self-reliance in the long run. Bangladesh today is in the very favourable circumstances - if one could call them 'favourable' - of being very high on the list of all aid-giving countries and institutions, bilateral and multilateral, due to its poverty and physical resource constraints. During the mid-1980s, net official development assistance constituted almost 11 per cent of the Gross National Product (GNP) of Bangladesh. In the entire developing world, only 24 countries - all of them among the Least Developed Countries in Africa - had a ratio of foreign aid to GNP which was equal to or more than that of Bangladesh. In fact, in the ten least developed countries, foreign aid as a proportion of GNP was less than in Bangladesh. (World Bank, 1988b; OECD, 1985, 1986, 1987).

The availability of generous foreign assistance provides Bangladesh with an opportunity to raise not only the rate of investment but also the rate of incremental saving over time. It is in the latter respect that performance falls short of expectations. Any foreign assistance, be it food aid or non-food aid, is expected to lead to an increase in consumption as well as in investment, as happens with any other form of addition to resources or income of a country. What is, however, critical is

that the increase in consumption should be of the type which contributes to long run growth in human capital rather than to unproductive public expenditure. Secondly, the pattern and efficiency of the investment should be such that it promotes growth.

There is another problematic aspect of the triangular inter-relationship mentioned earlier concerning efficiency of resource utilisation and use of external assistance. Given the choice between the difficult and arduous task of improving the efficiency of resource use through improved organisation, management and incentives, on the one hand, and the pursuit of a policy of increasing foreign assistance, on the other, it is very difficult to resist the temptation to pursue the latter course. During the last 15 years or so, public development expenditure in real terms (as indicated by the size of the Annual Development Programme) has doubled in Bangladesh. However, it is a moot question whether the capacity to design and implement policies, programmes and projects has increased or improved correspondingly.

THE ROLE OF THE PUBLIC SECTOR

All over the world, the trend is towards privatisation and rolling back the role of government. Both centrally planned and market economy countries place increasing emphasis on the role of markets and prices as a source of efficiency and growth. At the same time what is of crucial importance or relevance is not so much the size as the composition of public investment. In fact, government expenditure as a proportion of GNP in Bangladesh was about 10.9 per cent in 1986, whereas the average for low-income countries as a whole was 21 per cent. Out of 17 low-income countries on which data are available, only one had a lower ratio of public expenditure to GDP than Bangladesh, while others had a higher ratio.

The priority tasks of the Government or public sector remain as follows: (a) formulation, design, and efficient implementation of coherent and consistent macro-economic and sectoral policies; (b) setting and enforcing the framework of rules and regulations for the operation of the economy, including the private sector; (c) mobilising resources and undertaking investment for social and physical overhead capital, and (d) efficient management of such investments.

Direct intervention by the public sector is also needed to correct or rectify private market imperfections, which generate both inequity and inefficiency as well as instability. Also relevant is the public sector's role in the pursuit of other urgent social goals (apart from efficiency) which require direct public intervention or enterprise as a second best solution, because alternative regulatory policies are either unavailable or inefficient. It should also intervene in areas where risks are too high and where private costs fail to attract private enterprise.

It is relevant to examine whether the essential, priority tasks enumerated above are performed well and adequately by the public sector in Bangladesh and whether they are currently straining its capacity. It is in this context that recent changes in the relative roles of public and private enterprise, especially in respect of irrigation investment and marketing and distribution of agricultural outputs and inputs, need to be assessed. Two points need to be made in this connection. First, there is no net social gain if market failures are replaced by equal or even greater failures of the Government or the public sector. Second, one wonders whether there is much

difference, in terms of incentives as well as efficient use and allocation of resources, between public sector on the one hand, and the private sector, which the Government substantially regulates, controls and subsidises, on the other. The lessons of recent policy changes in both centrally planned and market economy countries around the world seem to indicate that it is competence rather than ideology which matters. Lack of competence not only reduces efficiency but also subverts the objectives of equity and stability.

Insofar as public expenditure on agriculture is concerned, it has declined in recent years in real terms and as a share of total public expenditure. This has taken place in the context of relative stagnation in total public expenditure. Total public expenditure in real terms more than doubled between 1973/74 and 1980/81 and has stagnated since then. Its share of GDP fell from 10 per cent in 1980/81 to 8 per cent in 1986/87. Between 1973/74 and 1980/81, public expenditure on agriculture in real terms doubled and then fell by 40 per cent between 1980/81 and 1986/87; its share of total public expenditure fell from 34 per cent in 1973/74 to 32 per cent in 1981/82, and 19 per cent in 1986/87. A part of this decline was due to a substantial reduction in subsidies such as fertilizer subsidies, which were counted as development expenditure. Savings in reduction of subsidies were not utilised in expanding other components of public expenditure on agriculture as was expected.

However, the decline in expenditure in agriculture was partly offset by an increase in allocations to (a) Upazilas, and (b) miscellaneous expenditures; the share of the latter increased from 1.7 per cent in 1980/81 to 12 per cent in 1987/88. The percentage of public expenditure on physical infrastructure as a whole (both rural and urban) declined from 40 per cent in 1980/81 to 32 per cent in 1986/87. How much of the decline in expenditure on rural infrastructure was offset by increased expenditure by Upazilas is not readily known. A part of the expenditure by Upazilas was intended for small-scale rural infrastructure.

Public expenditure on agriculture as a proportion of total public expenditure is substantially less than the share of agriculture in national income or in employment-generation. This is not to suggest that its share in GNP or employment is necessarily an indicator of higher potential for profitable or productive expenditure, current and capital, in agriculture. Moreover, the potential of a high rate of return on investment in agriculture is not independent of technology, institutions and an incentives structure. Available evidence indicates, however, that given new technology and potential for extension of irrigation, returns on additional investment in increasing agricultural production are higher than elsewhere in the economy. High rates of return are expected on investment in agricultural research, especially from an increase in the share of research expenditure on crops other than rice and wheat.

SOCIO-POLITICAL INSTITUTIONS AND DEVELOPMENT

There is a growing trend in both developed and developing countries towards decentralisation and delegation of responsibility to regional and local governments for both the mobilisation of savings and the implementation of development programmes. Experience indicates that a more direct and closer link between resource mobilisation on the one hand, and projects and programmes on the other, in respect of both design and implementation, contributes to a high rate of resource

mobilisation as well as to increased efficiency and equity through the enhanced participation of beneficiaries. The attempts at decentralisation in Bangladesh are, therefore, a step in the right direction.

Without going into details of organisational structure, it is worth remembering that decentralisation throughout the developing world creates its own problems, both administrative and political. More often than not, it leads to possibilities of disharmony between the group in power in the central government and the group which runs the local government, especially if they belong to different political affiliations. The possibilities of tension and conflicts are bound to arise and may hamper, under the worst of circumstances, the development effort itself. Even if the same group is in power at both levels, there are inherent tensions between the members of the national and local governments. They both vie or compete for the loyalty and the patronage of the same constituency. Furthermore, a diminution of the authority and power of the centre also creates tensions between central officials working at the local level on the one hand, and representatives or officials of the local government on the other. Experience in all developing countries indicates that irrespective of the nature of the central government, these problems do arise and no perfect solution exists, but their recognition may encourage the search for safeguards to minimise the pitfalls.

From the point of view of a national development strategy which seeks growth as well as equity, both interpersonal and also inter-regional, decentralisation leads to at least two side-effects. First, it tends to strengthen the power of the local elite who may gain control of local institutions and thus may seek to assign to itself most of the benefits of local progress. Secondly, regions or localities which are more richly endowed or start from a higher base of income are likely to progress faster than others, thus accentuating regional disparity. To offset side effects such as these, national leadership needs to withstand or to rise above the pressures of special regional interest groups and seek partly to offset such emerging disparities through inter-regional transfer of resources either by providing incentives for private enterprise, or by direct interventions by the public sector in the lagging regions.

A few additional socio-political considerations impinge upon economic development. One is the ineffective implementation and enforcement of contractual obligations such as the non-repayment of bank loans or lax administration of the rules and regulations governing economic transactions. The legal framework relating to business transactions and contractual obligations needs to be effectively enforced. At the same time, the perception that corruption exists in public life - perception is more important than reality - tends to demoralise and to breed resentment, cynicism, apathy and loss of confidence in public activities. Entrepreneurial energies tend to seek exceptional profits, i.e. engage in 'rent-seeking' by means of circumvention or manipulation of the rules rather than by productive pursuits. Second, stability in economic policies and institutional framework plays an important part in promoting development. Frequent changes generate uncertainty of expectations and militate against long run investment decisions.