

**Apprehending Agriculture:
Cease the implementation of *WDR 2008* in Bangladesh**

Md. Golam Sarwar



House-19/A, Road-16 (New), Dhanmondi, Dhaka, Bangladesh
Tel: + (88-02) 8158274 Fax: +(88-02) 8159135
Email: info@unnayan.org
Web: www.unnayan.org

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Author

Md. Golam Sarwar

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For orders and request please contact:

Unnayan Onneshan – The Innovators

House: 19A, Road: 16 (New), Dhanmondi, Dhaka-1209, Bangladesh.

Tel: + (880-2) 815 82 74, 911 06 36; Fax: + (880-2) 815 91 35

E-mail: info@unnayan.org; Web: www.unnayan.org

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Executive Summary

In October 2007 the World Bank published its World Development Report (WDR) 2008 *agriculture for development*. In this publication the Bank prescribed a raft of market-based approach towards poverty reduction and agricultural growth. Bangladesh is categorised as a *transforming country* in the report. The policies prescribed for transforming countries in general are to endorse private sector investment in agriculture, remove the subsidies and price distortions from agriculture, promote contract farming, and develop the rural non-farm sector and urban led migration. These policy measures are found awfully inappropriate for Bangladesh agriculture while the policy makers at the government level take the recommendations as granted. As the policies prescribed in WDR 2008 are evidently proved wrong for Bangladesh the implementation of such policies has a disastrous impact on Bangladesh agriculture in terms of production growth, food security and farmer's livelihoods. Therefore, it is now crucial to cease the implementation of WDR prescriptions for Bangladesh agriculture since there is a need for policy reversal than further initiating the market-based measures for the same.

Introduction

World Bank's most influential yearly publication World Development Report (WDR) on 2008 was titled *Agriculture for Development* which emphasises the role of agriculture in reducing poverty and attaining MDGs (Millennium Development Goals) in the national and global level. The recommendations put forward in the report were taken as granted in the government policy level in Bangladesh to implement in a gradual basis; in the same manner it had pursued agriculture policy reforms in the early 1980s immediately after the publication of two influential reports from the World Bank – one, in 1979, on food security and the second, in 1982, on “Food Grain Self-sufficiency and Crop Diversification”.

One hundred and twelve million Bangladeshis – 76 per cent of the country's 13, 67, 00,000 (BBS, 2004) people – live in rural areas and 90 per cent of these villagers depend directly on farming and related activities for their living. Although agriculture's contribution to Gross Domestic Product (GDP) has been declining relative to other sectors, it still generates one fifth of GDP and employs more than half of those in formal employment. Moreover its share of employment is rising relative to other sectors - up from 48.7 per cent in 1995-96 to 51.69 per cent in 2003. The policy prescriptions advanced in the WDR have potential negative impacts on the livelihoods of these millions of poor people living in rural Bangladesh primarily due to its inability to take into account the internal dynamics of Bangladesh agriculture. The sectoral approach of agrarian development with a narrow emphasis on growth offered in the WDR is inadequate to address the real problem of Bangladesh agriculture regarding the livelihood concerns of the small producers, food security and comparative disadvantages of the poor in the disintegrated market structure. In this backdrop, it is crucial to stop the implementation of the WDR 2008 prescription in Bangladesh agriculture and the paper intended to put forward the critical evaluation of the policy prescriptions advanced in WDR and also move on the policy recommendations to ensure the sustainable agriculture growth along with ensuring farmer's life and livelihood.

WDR 2008 and prescriptions for Bangladesh

After 25 years, in 2008 the Bank again went for agriculture as a means of development. The report was intended to resolve three main questions around world agriculture and the issues of rural poverty reduction stated in the report as *What can agriculture do for development?*, *What are the effective instruments in using agriculture for development?* and *How can agriculture-for-development agendas best be implemented?* While answering such questions, the report suggests structural transformation such as liberalization, diversification, large scale production and private sector involvement to consider agriculture as a machine of development and poverty reduction. On the instrument part, the report strongly recommends market based production, private sector involvement, public investment—especially on infrastructure, roads, and communications to improve market access, unprotect import, large scale production than small holding farming, shift to technology based modern cultivation than labour, less protection, develop modern marketing, non subsidize input market. And while answering the how question the report gave emphasis on social peace, adequate governance, and sound macro fundamentals as precondition of efficient implementation of the agendas. The Report uses a simple typology of countries based on the contribution of agriculture to overall growth, and the share of rural poor in the total number of poor. *Agriculture-based countries*- include most of Sub-Saharan Africa, where agriculture is a major source of growth, accounting for 32 percent of GDP growth on average – mainly because agriculture is a large share of GDP—and most of the poor are in rural areas (70 percent). *Transforming countries*- include most of South and East Asia and the Middle East and North Africa, where agriculture is no longer a major source of economic growth, contributing on average only 7 percent to GDP growth. This group, typified by China, India, Indonesia, Morocco, and Thailand, has more than 2.2 billion rural inhabitants. *Urbanized countries*- include most of Latin America and much of Eastern Europe and Central Asia where agriculture contributes directly even less to economic growth, 5 percent on average, and poverty is mostly urban. Bangladesh, with most other South Asian countries falls under the category of transforming countries. The report puts forward a number of recommendations for each category of countries so that the

countries can be able to eradicate poverty and achieve the MDGs. The content of the report includes every dimensions of agriculture including trade, GMOs, subsidies, public expenditure and so on.

The major policy options outlined in the WDR 2008 for transforming countries in general and specifically for Bangladesh can be summarized in three broad policy areas.

New agriculture

The emphasis is given to the processing and marketing of high-value products. Specific recommendations went for the institutional innovations such as ‘contract farming’ and the improvement of the investment climate for agribusiness and facilitate collective bargain through producers’ organizations to reach the scale in marketing. The most important recommendation is to reform the price and subsidy supports (abolish the subsidies and price supports)

Tackling Water Scarcity

Specific recommendations for water resources are to reforming institutions in irrigation i.e. removing the policy distortions such as water and electricity subsidies and providing a conducive environment for ‘trade’. Other extreme recommendation was the allocation of water right and development of a water market.

Non-farm Rural Development

The Bank prioritizes the policies like investments in infrastructure and skills and improvements in the investment climate for the private sector to trigger the non-farm developments. In densely populated countries, urban based industries will drive the rural non farm sector through urban-to-rural subcontracting. The other priority option advanced for development of land market to enable small farms to consolidate for efficient operation and to shift labor to non-farm activities and migration.

Incompatibility of policy prescriptions to Bangladesh agriculture: evidences.

Contract farming

Some agricultural processing companies initiated contract farming in Bangladesh in the late 1990s. The main objection with the contract farming is that the arrangements limit the farmers' access to the market and the contractors usually pay less (administered price) to the farmers and sometimes they do not buy the products in seasons when price is high in the market rather they wait for the price to fall and then buy the produce in a cheaper price. The agribusiness firms are able to exploit the system as 1) the contracted i.e. the small farmers often do not understand the contract's terms and conditions; 2) very informal setting of contract through the selection of group leaders from the farmers who are close to the agribusiness firms, and 3) small farmers do not have bargaining power to get the contract right. Farmers are not compensated with the production loss due to externalities. In a country like Bangladesh where 82 percent farmers are small producers (less than 2.5 acre land possession) and having no bargaining power in respect to their counterparts' i.e. corporate business *Contract farming* as a means to achieve the *new agriculture* is not a prudent choice.

Abolishing the price and subsidy support

In Bangladesh, there is no explicit price and subsidy support for agriculture. There is only implicit support on the production of a nitrogen-based fertilizer called Urea. The fertilizer is implicitly subsidised and distributed through a controlled channel keeping the prices relatively stable. During last fifteen years, price of Urea is increased, only marginally, 24.7 % whereas for TSP it was 187 %, for MoP 180 % and for SSP, it was 90.4 %. Price distortions in the market sometimes serve as the incentive for farmers to use Urea as a substitute for other types of fertilizers. The high price of the fertilizers is one of the major concerns for the producers in Bangladesh. Every year, in peak seasons, farmers demonstrate for timely supply of fertilizers in an affordable price. Unregulated private sector import for fertilizer is not only responsible for a sharp increase of prices but also for the prevalence of adulterated fertilizers in the market. The withdrawal of the only remaining subsidy in Bangladesh agriculture i.e. subsidy on Urea would be disastrous for the farmers and also for the production growth of Bangladesh agriculture.

Removing subsidies on water and electricity and promoting trade

Cost of irrigation in Bangladesh is the highest in South Asia. Irrigation sector of Bangladesh is fully liberalised in the 1980s under the Structural Adjustment Programme. Still there is some targeted subsidy components in the price of diesel i.e. the fuel used for running the LLPs (Low Lift Pumps) and STWs (Shallow Tube Well) to lift underground water for irrigation in the dry season. The privatised irrigation water market in Bangladesh is already highly concentrated in the hands of rural elite due to many reasons; first, it requires a large initial amount of investments to set-up a water pump that many small and medium farmers lack; second, pumps need to be maintained and troubleshoot occasionally-small farmers are usually unable to tackle such hassles; third, ownership of tube well is a symbol of power and prestige in rural areas. Citing and maintaining of STW is very difficult for a normal farmer as he will face some immediate problems with his STW. First, he will not find water buyers as the farmers will buy their water from the most powerful pump owner who can ensure sustained supply of water; second, ensuring the security of machineries cited in the remote fields is very difficult for the small farmers. WDR prescription for further promotion of water trade in the rural Bangladesh is prone to create a new class of 'water lords' along with the traditional land lords.

Promoting non-farm rural development

The Bank's prescription for the non-firm rural development is very important for Bangladesh and also very relevant to the effective reduction of poverty in rural areas. But the idea of urban led growth of non-farm activity in the form of urban-to-rural subcontracting seems very ambitious in Bangladeshi context. The failure of early industrialization and the high prevalence of urban poverty along with a highly centralised administrative and power structure essentially undermines the immediate possibility of urban-led rural non farm development.

Policy Recommendation

While prescribing policies for Bangladesh agriculture, one should keep in mind some very important characteristics of Bangladesh agriculture. First, the strong prevalence of

small-scale producers who are mainly subsistence farmers; second, Bangladesh is a net food importing country and in the wake of international price volatility for food stuffs, food security has become the most crucial issue for Bangladesh; third, Bangladesh is a disaster-prone country and one of the most vulnerable countries of the world in the face of climate change; fourth, Bangladesh does not have any farmer's association that can increase the bargaining power of the farmers in the market; fifth, a very fragmented market structure prevails in the agriculture product market due to the power structure in the society- the absence of the legal and administrative decentralisation is one of the major causes for it. Bearing in mind these characteristics, the further market based reforms are the less priority for Bangladesh agriculture.

Timely and affordable inputs

Bangladesh needs to produce more agricultural products than she produces today to gain the food self-sufficiency and reduce the dependency on food imports. The only way to achieve it is to create an incentive structure for the small producers. Timely availability of inputs i.e. fertilizers and irrigation water in an affordable price is the key to make a substantive production growth. Subsidy on the most used fertilizer-*Urea* should be kept to ensure its price stability. There should be measures to ensure the quality of imported fertilizers and there should be measures to protect the input market syndication and oligarchy.

Food-security and climate change: Buffer stock

As Bangladesh is the most vulnerable country to climate change, there should be a buffer stock of food grain to tackle the unexpected production failure in the country. The government should buy the grain directly from the farmers in a supporting price so that the farmers are willing to sell to the government and the government can create a substantive amount of grain in buffer stock. Again this measure can provide incentive to the producers to produce more as they are getting higher price than before.

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