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TABLE OF CONTENTS

From the Editor

Syed S. Andaleeb iv

ARTICLES

Tariff and Non-Tariff Barriers in South Asia Trade:
A Bangladesh Perspective

Zaidi Sattar 1

Productivity Change in Bangladesh Agriculture

Bilkis Raihana 17

Supportive Agencies and Their Support for Small
Enterprises in Bangladesh: An Exploration

Serazul Islam 26

Bangladesh-India Water Sharing Disputes:
Possible Policy Responses

Shariful Islam 38

COMMENTARIES

Commentary on "Bangladesh-India Water Sharing
Disputes: Possible Policy Responses"

Tariq A. Karim 50

Microfinance and its Discontents: Response to Munir Quddus (cont.)

Taj Hashmi 53

Microfinance and its Discontents: Response to Taj Hashmi (cont.)

Munir Quddus 55

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Journal of Bangladesh Studies (JBS) is a peer-reviewed publication of Bangladesh Development Initiative (BDI). The purpose of the journal is to promote the development of Bangladesh.

JBS is for individuals who are interested in development issues and policy. Thus, it should be of interest to a wide audience including academics, students, researchers, policy-makers, administrators, practitioners, donors and their agents, and others interested in Bangladesh and its pursuit of development.

Articles are solicited from a variety of fields including agriculture, anthropology, basic sciences, business, economics, education, engineering, management, political science, psychology, sociology, and related fields. This diversity of perspective is sought by JBS because comprehensive development requires a broad foundation of knowledge. The articles should, therefore, address Bangladesh's development problems and prospects from a theoretical or analytical perspective prevalent in academic disciplines. Authors are also encouraged to prescribe measures that are meaningful, practical, and amenable to the sectors or issues they address. In addition, while the articles must be grounded in theory, analysis, and referenced work, they must also be comprehensible to an audience outside the specific disciplines of the authors without being perceived as popular, journalistic writing.

Both short communications and full-length articles may be submitted. Analysis of recent developments, short reviews of newly published books, and comments on specific issues are treated as short communications, which should be limited to about 2,000 words. A full-length article should be about 5,000 words and include a review of the literature. JBS also invites critiques or commentaries on articles published in the journal to foster debate and discussion. These may be published on the basis of space availability and the advice of the editorial board. Critiques must be about two JBS pages and must be written in a positive demeanor to ensure healthy discussion. JBS will attempt to obtain responses from the authors whose articles are critiqued. Opinions expressed in the selected articles, commentaries, book reviews, etc., are solely the responsibility of the author(s).

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TABLE OF CONTENTS

From the Editor	Syed S. Andaleeb	iv
------------------------	-------------------------	-----------

ARTICLES

Tariff and Non-Tariff Barriers in South Asia Trade: A Bangladesh Perspective	Zaidi Sattar	1
Productivity Change in Bangladesh Agriculture	Bilkis Raihana	17
Supportive Agencies and Their Support for Small Enterprises in Bangladesh: An Exploration	Serazul Islam	26
Bangladesh-India Water Sharing Disputes: Possible Policy Responses	Shariful Islam	38

COMMENTARIES

Commentary on “Bangladesh-India Water Sharing Disputes: Possible Policy Responses”	Tariq A. Karim	50
Microfinance and its Discontents: Response to Munir Quddus (cont.)	Taj Hashmi	53
Microfinance and its Discontents: Response to Taj Hashmi (cont.)	Munir Quddus	55

FROM THE EDITOR

With the impending elections in Bangladesh, the political rhetoric is beginning to sound more like that of the United States of America where attack ads have yet again begun to play dirty. While such ads are not aired in Bangladesh, the language is certainly reminiscent, especially the verbal exchanges between the stalwarts of the two major parties, each faulting the other for all of Bangladesh's problems: price increases, Padma Bridge debacle, transit issues, water sharing, violence in the campuses and more. As this vitriol continues, it dashes all expectations of bringing closure to the country's divisive politics and prospects of cooperative endeavors, a necessity of the day to embark on mega ideas and mega projects that could catapult Bangladesh into the 21st Century.

As long as this deep rift continues to haunt the nation, synergistic development will not take place. And while the piecemeal progress that has been made in various sectors through individual initiative is laudable, such progress remains effectively tethered because of political discord. Such tethering of a teeming population of about 160 million people through various instruments of control has again set the cauldron boiling and its unpredictable and explosive energy can have seriously disruptive consequences, further disorienting the nation and draining its productive potential.

While oft-repeated, it needs to be said once again that Bangladesh, today, needs inspirational leaders and not rulers – at all tiers – who will forge the way to a better future. Such leaders must strengthen the process of democratization and give everyone a sense of ownership to the country's development path. In fact, when the present government came to power, a bold and practical vision was publicly proffered to them by the editorial board members of this journal, stressing six policy priorities:

1. Ensure human rights, establish democratic values, improve governance, and establish rule of law.
2. Generate employment.
3. Achieve adequate and long-term food security.
4. Increase investment in infrastructure and energy.
5. Invest in education and develop human resources.
6. Manage the nation's health and population

While some advancements have been made in several of the items, the saga of political infighting and the alienation and deep uncertainty it has fostered about the future of the nation have already set in motion

innumerable negative externalities, the price of which is very high. The progress of the present government and the difference it has made in the lives of the citizenry is up for evaluation: The people will again judge in the coming election.

In this issue we present four articles and three commentaries. Zaidi Sattar ponders the state of inter-regional trade in South Asia where the trading volume accounts for barely 4%, compared to 70% in Europe, 40% in NAFTA, and 25% in East Asia, spurring growth and promoting efficiencies through exchange of comparative advantages. But South Asia seems stuck and reluctant to reap the benefits of inter-regional trade. Sattar examines a number of hypotheses – lack of integration, discrimination against neighbors, similarity of exports, lack of complementarity, and the imposition of mindless tariff and non-tariff barriers – accounting for the existing situation. His analysis suggests that member states, especially Bangladesh, have not played their role in trade facilitation to the extent expected. Deep-rooted mistrust between the nations is perhaps a reason accounting for such behavior. Sattar suggests that by phasing out the sensitive list, addressing trade diversion costs, building trade and transportation infrastructure, removing restrictions on services and investments, and changing the role of customs administration in the region, can gains be made in intra-regional trade with net benefits for all involved.

Bilkis Raihana examines the question of whether the agriculture sector in Bangladesh has experienced productivity growth due to adoption of irrigation-fertilizer technology. Adopting the Divisia index, her findings suggest that between 1973-2008 total factor productivity growth rate was 1.97% and that farmers' economic condition "slightly" improved over the period.

Serazul Islam's study focuses on the challenges to small entrepreneurship development and examines both demand and supply side constraints. Based on two surveys of small entrepreneurs and the officials providing support to these entrepreneurs through their respective agencies (BSCIC, BASIC, MIDAS, and BRAC), a number of problems were found on both sides. Dearth of capital, lack of business knowledge, lack of skilled and reliable employees, poor power supply, and transactional difficulties (high interest, complex formalities, delays in loan processing) were among the main hurdles for the

entrepreneurs. The supporting agencies listed similar problems, in addition to diversion of funds by loan recipients and their failure to provide appropriate documents to facilitate loan administration. Recommendations are made to strengthen the role of small entrepreneurs in the growing Bangladesh economy.

Shariful Islam addresses the water-sharing problems between Bangladesh and India that date back to the 1970s. With the construction of many dams on the Indian side and diversion of water from the transboundary rivers, Islam highlights the significant reduction of water flows on the Bangladesh side that has caused much suffering, especially economic loss. Such unilateral action by India, he feels, will trigger deeper conflicts, cause instability and even regional tensions. As solutions he suggests the need for regional cooperation and better water governance through an integrated water resource management policy including Bangladesh, India, Nepal, Bhutan, and China. A recurrent theme in his article is that Bangladesh wants justice, not favor or benevolence in the matter of water sharing.

To examine the validity of some of the claims made by Islam, a commentary was sought from Ambassador Tariq Karim, given his long experience in negotiations with India on water issues. Karim first lays the blame squarely on the “BNP-Jamaat rightist parties” as playing an obstructionist role on arriving at any amicable solution. He also attributes India’s lackadaisical problem-solving attitude to Bangladesh’s hostile and unfriendly stance towards India that has resulted in a vicious cycle of non-cooperation. Karim also corrects a few observations of Islam, especially on the use of statistics to monitor water flow and means of establishing Bangladesh’s due share. Karim concludes with a philosophical perspective on how South Asia must evolve to a regime of water governance by establishing a South Asian Water Resource Management Authority (which will have real authority and powers vested in it, as opposed to the present configuration of a “South Asian Association for Regional Cooperation”) to set the ground rules for distribution and consumption of water in the entire South Asia region. He concludes

poignantly by stating, “I do believe that we must indulge in anticipatory thinking now, and move away from the present paradigm of water profligacy to a safer regime of equitable water availability for all.”

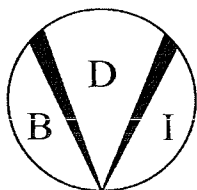
Finally we continue the thread of scholarly exchange on the pros and cons of microfinance that was initiated in the first “Special Issue on Microfinance” introduced by JBS. Taj Hashmi had written a blistering critique of microfinance based on Lamia Karim’s book on microfinance to which Munir Quddus gave a forceful rejoinder. In this issue we present Hashmi’s reactions to Quddus’s rejoinder which drew additional responses from Quddus. This exchange has generated grist for the mill that will hopefully enable microfinance to reach new heights by addressing the accusations leveled against it and marching forward to emancipate those living at the bottom of the pyramid.

I would like to take this opportunity to thank a wonderful team of editorial board members who have been very generous of their time and have provided constant support; the growth of JBS is to a large measure the achievement of the entire team. Reviewing the growing number of manuscripts and providing detailed guidelines to authors is a task they have willingly shouldered to help ensure quality.

I am particularly pleased to welcome a new member to the editorial board of JBS – Dr. Sadiq Ahmed – formerly of the World Bank and presently Vice Chairman, Policy Research Institute, Bangladesh. His addition to the editorial board will help us further our cherished goal of raising the stature and reach of JBS. In this endeavor, we also look forward to contributions from experts, critics, and subscribers to advance JBS’s mission.

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**Journal of Bangladesh Studies dedicates this page to its partners in
knowledge generation and dissemination.**



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Journal of Bangladesh Studies

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Tariff and Non-Tariff Barriers in South Asia Trade: A Bangladesh Perspective

Zaidi Sattar

Abstract

After 25 years of SAARC, 15 years of SAPTA, and another 6 years of SAFTA, there is scant progress in the area of trade and investment under the regional accord umbrella. Intra-South Asia trade lagged far behind the growth of the region's trade with the rest of the world due to the persistence of substantial tariff and non-tariff barriers to trade in the region, thereby impeding growth of trade and investment despite efforts at regional cooperation. Though tariffs have come down in all the countries, they are still high compared to other major regions of the world, thus presenting the first barrier to economic integration. Realizing that South Asian countries had some of the highest tariffs globally - something that was surely hurting intra-regional trade- the leaders agreed to scale down these tariffs on an accelerated schedule under the auspices of SAFTA in order to improve market access. Though SAFTA does provide preferential access to these markets, NTBs and sensitive lists remain major impediments to smooth access to markets for competitive exports from Bangladesh. Given that the common dominant theme of national policies in the region is to accelerate growth and reduce poverty, boosting intra-regional trade could be an integral part of that strategy, which gives SAFTA the sound basis and the greatest opportunity for more tangible results in the future than has been observed in the past. This paper articulates how the key challenges need to be addressed to make SAFTA yield results.

Regional cooperation leading to economic integration in South Asia in the form of intra-regional trade and investment was paramount in the minds of South Asian leaders who gathered to form the South Asian Association for Regional Cooperation (SAARC) in December 1985. Since then, top political leaders of member countries have met in Summits as many as sixteen times. Yet, after 25 years of SAARC, 15 years of SAPTA, and another 5 years of SAFTA, progress on the ground has faltered in the area of trade and investment under the regional accord umbrella. This occurred despite several institutional processes having been put in place, like periodic summits of policymakers and officials with the objective of removing barriers to trade and investment.

The total volume of regional trade lags far behind the quantum of intra-regional trade in other regions of the world, such as in East Asia, where such trade hit 25%; in NAFTA, where it is 40%, and, in Europe, where it is as high as 70%¹. At the close of 2010, the volume of trade within the region is estimated to be barely 4% of total trade of South Asian countries. It used to be about 20% back in 1947 when the Indian subcontinent was partitioned. A logical inference would be that political barriers created after 1947 seem to have played a big role in curtailing trade within the region.

This is not to say that the region as a whole was not making progress on the trade front. All the major

countries of South Asia² embarked on trade reforms in the early 1990s, opening up their economies for trade and investment flows. Consequently, the volume of trade expanded significantly as is evident from the rise in trade-GDP ratio in all of the countries (Figure 1). For more than two decades, thus, South Asian countries as a group have been marching in step with the rest of the world. In these circumstances, a fair question to ask is: why has intra-South Asia trade lagged far behind the growth of the region's trade with the rest of the world (Table 1). The short answer to this question is that tariff and non-tariff barriers to trade in the region remain substantial, thereby impeding growth of trade and investment despite efforts at regional cooperation.

This study examines tariff and non-tariff barriers to trade from the Bangladesh perspective as part of a regional effort to identify and remove existing impediments and boost intra-regional trade and investment.

This paper will seek to explore the reasons behind the lack of progress in intra-regional trade despite the progress in trade openness, examine the veracity of some of the hypotheses that have been put forward, and then lay down a road map for greater regional integration through removing barriers to trade and investment in the region. The principal focus of this paper will be on the tariff and non-tariff barriers that arguably impedes intra-regional trade in South Asia, from a Bangladesh perspective.

Figure 1: Merchandise Trade as Percentage of GDP

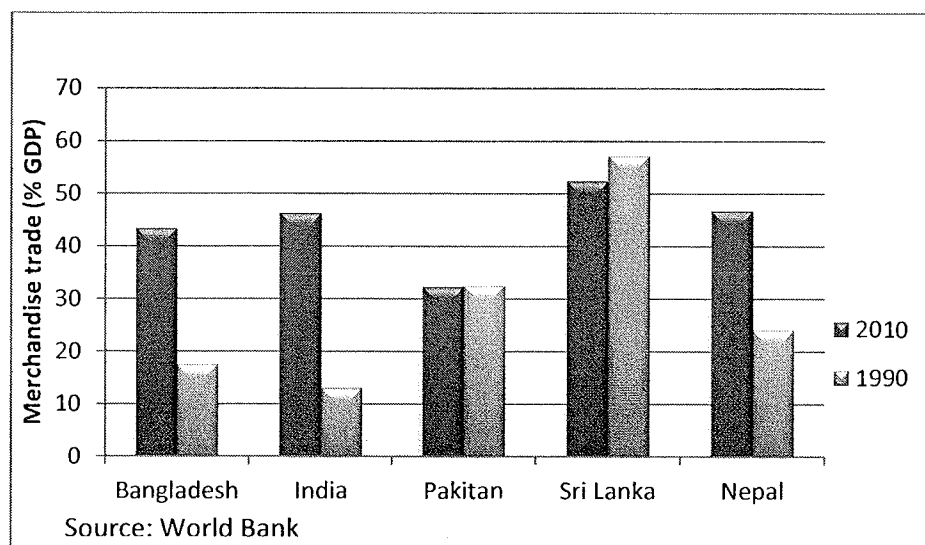


Table 1: Trade Indicators for SAFTA Countries, 2010

Country	Population (thousand)	GDP current US \$m	Trade (current US\$m)	Trade (% of GDP)	SAFTA Trade % of Total Trade
Afghanistan*	29,021	17,243	11,906	69	16.8
Bangladesh	150,000	100,357	43,577	43	9
Bhutan	687	1516.078205	2073	137	79.4
India	1,139,965	1,727,111	799,976	46	2.3
Maldives	305	1,908	2,233	117	18.1
Nepal	28,810	14,445	6,761	47	59.6
Pakistan	166,111	176,870	57,160	32	8
Sri Lanka	20,156	49,552	26,020	53	16.8
South Asia	1,545,055	2,089,002			4.4
East Asia & Pacific	583,651	16,184,757	10,188,664	63	
Low Income	976,220	416,486	216,623	52	

Source: World Development Indicators, The World Bank Group; UN Comtrade

Lack of Integration Hypotheses

Several hypotheses have been put forward by analysts to provide the rationale behind the lack of trade integration in the region. The major ones may be listed as follows:

- South Asia is the least integrated region of the world;
- Countries in the region discriminate against

their neighbors in favor of rest of the world (ROW);

- Similarity of exports of the region put countries in competition with each other;
- There is lack of trade complementarity among the region's trading partners;
- Tariff and non-tariff barriers are significant enough to impede growth of trade.

Each of these hypotheses is examined below in turn. The paper concludes with some directions and suggestions for the way forward.

South Asia the Least Integrated Region

South Asia lags behind other regions in economic integration for several reasons. First, high border barriers have traditionally limited all trade – political borders have become barriers to economic integration through trade and investment. Though the situation has improved recently, the region has been historically less welcoming of foreign direct investment, a powerful integrating force in other regions. Political hostilities between India and Pakistan have curtailed officially recognized trade. The attempt in the mid-1990s to promote trade through a preferential trading arrangement (SAPTA) was less successful than similar efforts in other regions in generating intra-regional trade. Though tariffs have come down in all the countries, they are still high compared to other major regions of the world (Figure 2), thus presenting the first barrier to economic integration. Bangladesh tariffs sit uncomfortably on the high side, thus accentuating trade barriers.

Countries Favor Trade with the Rest of the World (ROW)

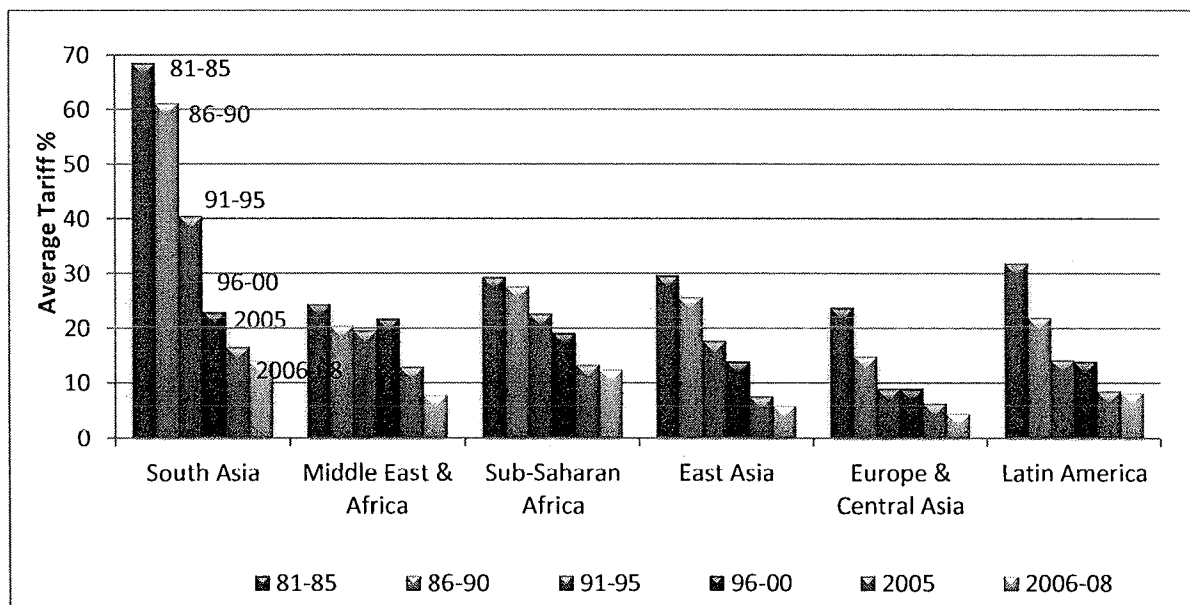
While the average overall trade-GDP ratio for the region is estimated to be 35%, intra-regional trade-

GDP ratio works out to less than 5% in 2010, indicating the region's preference for trading with the rest of the world. The two largest economies – India and Pakistan – whose potential for bilateral trade annually is estimated by businesses in the region of \$10 billion, actually traded in the amount of \$1.7 billion in 2009 officially³. The fact that Pakistan continues to deny MFN status to India – a signatory to SAARC and SAFTA – and trades on the basis of a limited positive list of importables serves as the biggest barrier to growth of trade, thus weighing down the quantum of intra-regional trade. Land ports, which should have been the principal gateway for intra-regional trade, are characterized by limited cargo handling capacity. Moreover, absence of transportation throughput across borders leaves the use of seaports as the only viable channel for trade in large volumes. Consequently, the comparative advantage of contiguity that South Asian countries have over ROW is all but lost. As Bangladesh is nestled between the Northeastern region of India and the rest of its territory, without any transportation across borders, it is a victim as well as the cause of a lack of connectivity between countries of the sub-region: NE India, Bangladesh, Nepal and Bhutan.

Is Export Similarity a Problem?

The similarity among export basket of South Asian countries has been cited by several researchers as the

Figure 2: Average Tariffs in Major Regions of the world



reason for lack of intra-regional trade⁴. Though all countries in the region now have a predominant share of manufacturing exports, they compete with each other in global markets of textile and clothing, erect high trade barriers for these and other products in which they have export interest, resulting in minimal intra-regional trade in these products. Using data for 1999-2006, Usman Khan (2010) shows that India and Pakistan have the highest export similarity index, which has also remained practically unchanged for the entire period. Bangladesh and Nepal have much lower indices implying that they have higher potential for exports within the region, provided tariff and non-tariff barriers are lifted.

While the export similarity indices in Table 2 might give the impression that South Asian countries export similar products to the rest of the world, they are unlikely to be trading much amongst themselves. Then consider the case of the huge volume of trade between Europe and North America which takes place in a wide set of largely similar products – agricultural products or technologically sophisticated goods. What makes trade possible and sustained of course is the differentiation and brand sophistication even within similar class of products. Such a stage in trade might also happen in South Asia once their exports undergo sufficient transformation from low end to high value products. Indications are that, that of product transformation providing impetus to rising trade volumes might occur within the decade.

Is Trade Complimentarity the Problem?

In trying to explain the low intra-regional trade, some research makes the argument that there is lack of complimentarity in production chains within the region, quite unlike what we see in East Asia⁶ where trade in intermediate goods has now reached close to 70% [Brooks and Hua (2009), Hayakawa (2007)]. China has indeed become the super assembler in the region importing much of the parts and components of a wide range of electronic goods, machineries and consumer durables from other countries in East Asia, thus ensuring growth of intra-regional trade. Interestingly, China maintains a trade deficit with source countries for its intermediate inputs, yet ends up with enormous surpluses in its global trade. The strategy of creating inter-linked production chain within East Asia in accordance with the region's comparative advantage has paid huge dividends to China as well as the component suppliers. It is this inter-linkage of supply chains and vertical integration

of production that drives the high volume of intra-regional trade, something that South Asia apparently lacks, if the complimentarity argument is to be believed.

But the history of intra-regional trade in South Asia reveals otherwise. At the time of partition in 1947, regional trade within South Asia accounted for 18% of total trade⁷, suggesting the existence of adequate production complimentarity within the region. It follows that emergence of political borders since then have impeded, if not significantly curtailed trade transactions within the region, by fragmenting trade and transport infrastructure networks. Political borders thus took the form of economic barriers to cross-border trade and investment resulting in a miniscule volume of intra-regional trade at present.

That said, a closer look at the character of goods trade between Bangladesh and its South Asian neighbors produces interesting insights on the degree of inter-linkages in production chains. An examination of imports from India at a disaggregated level reveals a high degree of intra-industry linkages: basic raw materials (22.1%), intermediate inputs (37.7%), capital goods (16.5%), and final consumer goods (23.7%), for FY2010-11 (Fig.3). This pattern remains practically unchanged for the past three years. It reveals strong intra-industry linkage between India and Bangladesh where the latter's industrial sector relies heavily on inputs from India. However, there is a difference in this form of inter-industry linkage with that of East Asia. Bangladesh's major export industry – RMG – is only partly relying on Indian supplies of yarn while most of its inputs of fabric, cotton, and even yarn are sourced from China, Korea and elsewhere. So Indian inputs are essentially feeding Bangladesh manufacturing which caters to the domestic market. As such the current flow of inputs from India is not generating the kind of jobs and income that is possible were these inputs going into the export-oriented sectors.

On the other hand, India's exports have been growing at an average of 15-20% over the past two decades while continuing to be significantly diversified. Given strong export-import linkages, and supporting import liberalization, the Indian economy also experienced rapid import deepening, reaching import-GDP ratio of 24% by 2009. With Bangladesh lacking a diversified manufacturing base with little or no production of intermediate goods, Bangladesh could hardly be the supplier of intermediate inputs, parts and components to the rapidly expanding export

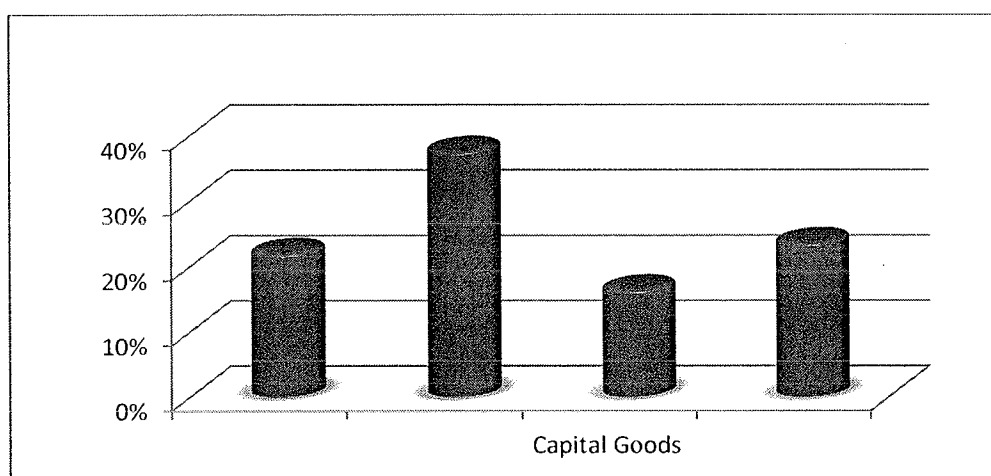
Table 2: Intra-SA Export Similarity Index, 1999-2006⁵

Country	1999	2000	2001	2002	2003	2004	2005	2006
Bangladesh	37.3	37.2	36.8	33.9	31.6	31.6	29.2	28.4
India	83.5	83.7	82.6	85.0	84.3	84.2	85.1	85.3
Sri Lanka	53.7	56.3	51.6	49.1	44.6	42.4	43.8	44.7
Nepal	38.7	41.5	44.2	48.2	44.5	45.2	44.4	44.2
Pakistan	51.0	51.9	54.0	52.5	52.4	48.7	51.5	50.4

(*) Closer the Index to 100, more similar are exports, lower the trade potential

Source: Mahbub Ul Haq Human Development Center. (2010).

Figure 3: Bangladesh Imports from India by categories(%)FY10-11



Source: PRI Staff Estimates and NBR ASYCUDA database

sector of India, at least not yet. That was the case with China playing the assembler of multifarious exports whose parts and components were supplied by the East Asian neighbors. Thus, while strong intra-industry linkage between India and Bangladesh is evident, it is not of the East Asian variety that would have reversed or at least mitigated the large unfavorable trade balance that now exists for Bangladesh with India.

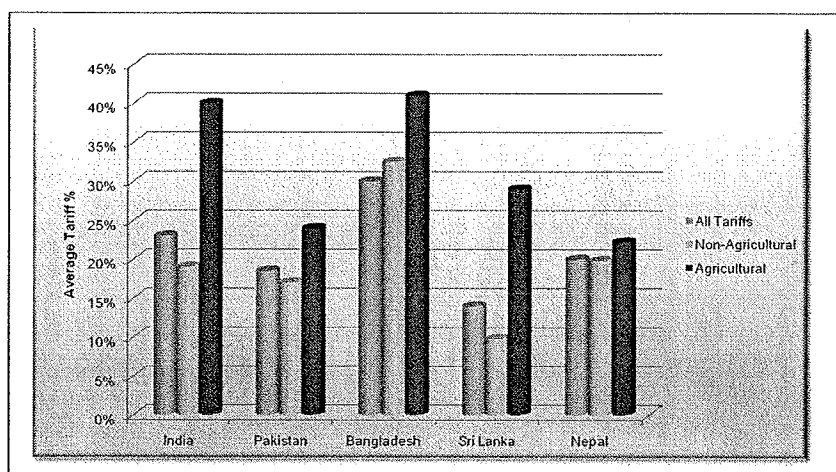
High Tariffs Remain as Trade Barriers despite SAFTA

The low levels of regional trade cannot be faulted for the dearth of efforts at the highest policy level. Top political leaders have repeatedly endorsed moves to open up respective markets with India taking the lead. These moves notwithstanding, freer trade still faces serious antithetical political economy developments in each member country. At the ground

level, therefore, results are not so notable as mind sets of business leaders and bureaucrats are still mired in the old tradition of suspicion and occasional downright resistance to opening their own markets.

Realizing that South Asian countries had some of the highest tariffs globally (Figure 4), something that was surely hurting intra-regional trade, the leaders agreed to scale down these tariffs on an accelerated schedule under the auspices of SAFTA, though giving the LDCs of the region slightly more time to adjust. India moved to the ultimate tariff range of 0-5% within two years of SAFTA implementation. LDCs like Bangladesh had until 2013 to implement the reduction schedule. SAFTA CD rates are significantly below applied general rates of duty (Fig 5). Table 3 shows that, given current CD tariff slabs, Bangladesh will be in compliance of the 0-5% range of customs duty by 2013. However, the problem, as far as Bangladesh is concerned, lies with the

Figure 4: Average Tariffs in South Asia 2003-04



Source: World Bank (2004)

Table 3: Status of Bangladesh Tariffs and SAFTA Reduction Schedule

Tariff Slabs	31st December 2006, Scheduled Reduction: 5% MoP	31st December 2007, Scheduled Reduction: 5% MoP	31st December 2008 – 31st December 2013, 0-5% *
25	23.75%	22.50%	4.50%
12	11.4%	10.80%	2.16%
5	4.75%	4.50%	0.90%
3	2.85%	2.70%	0.54%

* Subject to reductions of equal annual installments of not less than 10% annually.

Source: SAFTA Agreement

Table 4: Tariff Concessions Under SAFTA (8 Countries of SAARC)

Concessions exchanged				
Country	To all Countries		To LDCs	
	No of products	Concession	No of products	Concession
India			All products except 25	Duty free and quota free
Pakistan			All products except 936	5% duty
Sri Lanka			All products except 1042 items	4.5% duty
Bangladesh	4329	40% of 2006 tariff		
Nepal	All items except 1257 items	30%-40% of 2006 tariff		
Bhutan	All items except 150 items	40% of 2006 tariff		

Source: Ministry of Commerce, Government of Bangladesh

significant proportion of para-tariffs⁸ in its nominal tariff structure whereas SAFTA reductions only encompass customs duty leaving effective protective tariffs at relatively high levels.

Table 4 presents a snapshot of SAFTA tariff concessions for LDCs and Non-LDCs prevailing as of January 2012. The highlight of the latest situation is the accordance of duty free and quota free exports to India from South Asian LDCs (Bhutan, Nepal, Bangladesh), with the exception of 25 products in the sensitive list. Pakistan and Sri Lanka have also brought their tariffs down to 5% and 4.5%, respectively, for LDCs. These concessions, however, are subject to ROO, listed in Table 6. In order to get the specified tariff concession under SAFTA, a product must satisfy the criteria of change in tariff heading (CTH) at four-digit level and at least a value addition of 40 percent of fob value.

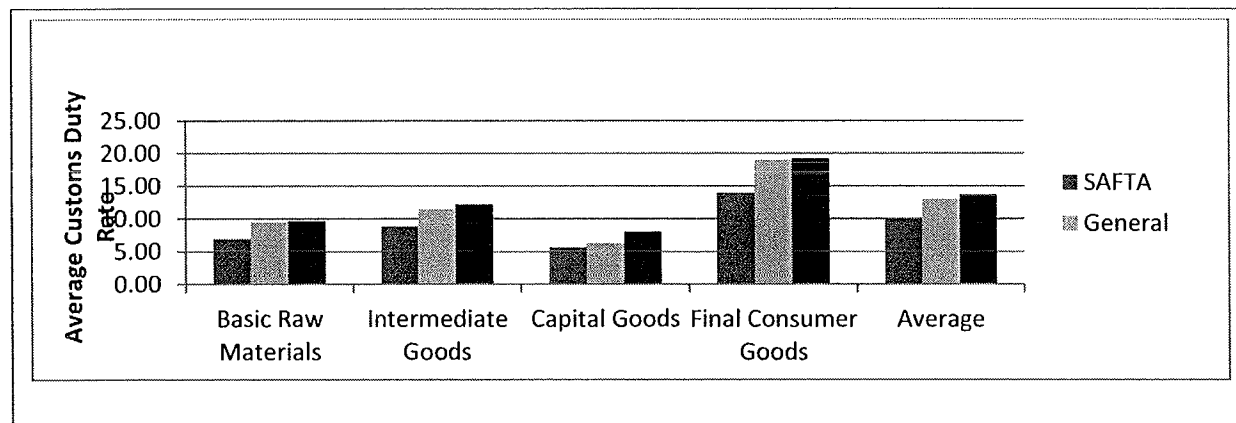
Figure 6 summarizes South Asian tariffs in the post-SAFTA period which are lower than pre-SAFTA tariffs shown in Figure 4. One more problem that remains is the substantial size of sensitive lists (World Bank, 2010). Though members tried hard to limit the proportion of SLs to 10%, they had to reach a cap of 20% of 5224 six-digit HS codes, along with Rules of Origin requirement that did not help matters either. That allowed a lot of scope for keeping markets restricted for most products that members produced (Table 6). In mapping the sensitive lists to imports of SAFTA member countries, Weerakoon (2010) finds that some 53% of South Asian imports

are actually excluded from the SAFTA tariff liberalization scheme (Table 5), rendering the tariff reductions largely ineffective in significantly boosting regional trade. The array of sensitive lists formulated by the SAFTA members makes a classic study of the political economy of South Asian trade regimes. A remarkable confluence of protectionist mindsets among bureaucrats, policymakers, and business leaders continue to guide and influence trade policy decisions. When you look at the sensitive lists in their totality, it practically covers the entire spectrum of products produced by the member countries for their respective domestic markets or for exports. The exclusion mechanism of the sensitive lists therefore effectively obliterates potential competing imports from the region.

In so far as tariffs are concerned, Bangladesh does not sit pretty. Prior to 2002, India had the highest average tariffs and the most restrictive trade regime in South Asia, with Sri Lanka as the most open economy. Now, post war Sri Lanka has become the most protected economy in view of heavy revenue demands coming after the end of its insurgency. Bangladesh continues to have average tariffs at relatively high levels, with para-tariffs assuming significant proportions in the nominal tariff structure (Table 7).

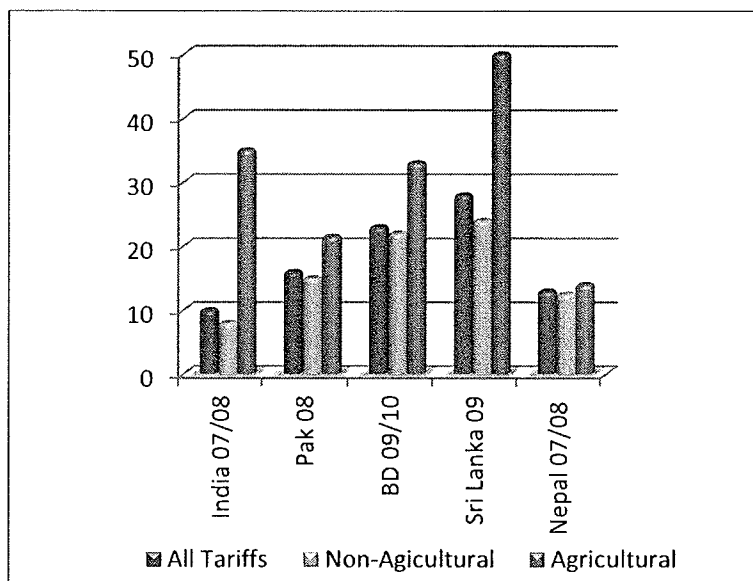
Earlier, we described the state of current Bangladesh tariffs in light of the tariff liberalization program under SAFTA. It was also noted that, like other SAFTA members, Bangladesh is on track to meet the

Figure 5: Bangladesh: Comparison of Un-weighted average SAFTA CD rates with General Applied Rates, FY 2009-10



Source: NBR ASYCUDA database

Figure 6: South Asia Tariffs Post-SAFTA



Source: India and Nepal -- UNCTAD TRAINS database.
 Pakistan, Sri Lanka--PRI Staff estimates from various country Reports
 Bangladesh -- NBR ASYCUDA database

Table 5: Trade Impact of Sensitive Lists Under SAFTA

Country	Value of imports from SAARC subject to SL (%)	Value of exports to SAARC subject to SL (%)
Bangladesh	65	22
India	38.4	56.5
Maldives	74.5	57.6
Nepal	64	46.4
Pakistan	17.2	34
Sri Lanka	51.7	47
Total	52.9	

*Sensitive List (SL); Source: (Weerakoon, 2010)

Table 6: Size of Sensitive Lists and ROO

Country	SL Tariff Lines 2004	SL Tariff lines 2012	ROO
India	744LDC 865NLDC	25LDC 865 NLDC	CHT+40%
Bangladesh	1249LDC 1254NLDC	987LDC 993 NLDC	CTH+30%
Nepal	1299LDC 1335NLDC	998LDC 1036NLDC	CTH+30%
Maldives	671	152	CTH+30%
Bhutan	157	150	CTH+30%
Pakistan	1191	936	CTH+40%
Sri Lanka	1079	1065	CTH+35%

Source: SAFTA Agreement 2006; Bangladesh Tariff Commission 2012

Table 7: Trends in NPR with CD and Para-tariffs

Fiscal Year	Avg. CD	Avg. Para tariffs	Avg. NPR	Para tariff in NPR (%)
FY 01	21.1	7.44	28.54	26.07
FY 02	21.02	8.41	29.43	28.58
FY 03	19.91	6.51	26.42	24.64
FY 04	18.82	10.29	29.11	35.35
FY 05	16.31	10.19	26.5	38.45
FY 06	15.49	10.98	26.47	41.48
FY 07	14.85	9.42	24.27	38.81
FY 08	15.93	7.94	23.87	33.26
FY 09	13.82	6.26	20.08	31.18
FY 10	13.68	10.2	23.88	42.71
FY 11	13.52	10.16	22.11	38.94

Source: NBR ASYCUDA database, Bangladesh

phased reduction of tariffs in accordance with the agreement. However, it would be premature to make an assessment of the degree of removal of tariff barriers on the basis of reduction in customs duty (CD) alone when Bangladesh's tariff structure comprises other levies and charges on imports in addition to CD. In order to make an assessment of the degree of trade openness created under the SAFTA umbrella, it is necessary to look at the broad structure of tariffs and their restrictive impacts on imports from the region or rest of the world.

In reviewing the structure of Bangladesh tariffs, as presented in Table 7, what is clear is that trends in CD alone fail to give the true picture of trade restrictiveness arising from tariff barriers, because of the existence of other levies and charges, such as supplementary duties (SD), infrastructure development surcharge (IDSC, removed in 2008), and even the supposedly trade-neutral VAT, all of which take the shape of para-tariffs. The fact is that SAFTA tariff liberalization scheme applies only to CDs, leaving para-tariffs out of its ambit.

A review of trends in Bangladesh's overall tariff structure, based on *ex ante* levels of tariffs and para-tariffs during the past decade, reveals the actual state of affairs. Average un-weighted CDs (Table 7) have indeed trended downwards, from 21% in 2001 to 13.7% in 2010. But the decline in average nominal protection rate (NPR) appeared less steep thanks to the presence of para-tariffs which trended upwards, their share in NPR rising from 26% in 2001 to 43% in 2010. A closer look at the trend in para-tariffs reveals the predominance of supplementary duties

(SDs) which were ostensibly levied on top of the top CD rate of 25% in order to discourage imports of luxury and non-essential consumption goods. In reality, a closer examination of the range of goods subject to SDs shows that roughly 70% of SDs imposed on some 1100 tariff lines serves protective ends⁹. To conclude, NPR trends give a better picture of the restrictiveness of Bangladesh tariffs on imports from SAFTA countries as well as from ROW. With over 40% of protection coming from para-tariffs SAFTA tariff concessions that apply only to CD are of little consequence in stimulating SAFTA imports into Bangladesh (Table 8). Consequently, growth of SAFTA imports has lagged typical growth of imports from ROW.

Non-Tariff Barriers to SAFTA Trade

As far as tariffs are concerned, SAFTA trade liberalization program appears to be on track with all members complying with the agreed phased reduction in tariffs. India took early initiatives and implemented an accelerated schedule. In the previous section, we described the problem with Bangladesh tariff structure where the existence of significant para-tariffs undermines SAFTA tariff reductions. Nevertheless, it is fair to conclude that tariffs facing intra-regional trade are now substantially lower than a decade ago. Yet the outcome in terms of trade volumes appears pathetic with little or no noticeable improvement in intra-regional trade. In the circumstances, attention has now shifted to non-tariff barriers (NTBs) within regional trade. In the circumstances, attention has now shifted to non-tariff barriers (NTBs) with a

Table 8: Bangladesh Imports from SAFTA Countries (US\$ million)

Country	2006-07	2008-09	2010-11
India	2126.02	2328.88	4,572.49
Nepal	0.17	3.90	48.55
Bhutan	0.00	0.01	18.62
Sri Lanka	17.30	21.83	27.63
Maldives	0.00	0.00	1.46
Pakistan	252.60	348.07	672.05
Afghanistan	12.68	0.55	12.66
China	3394.89	4191.04	5,923.92
Other	12161.95	15584.31	22,443.92
Total	17,966	22,479	33,721.29
Imports from SAFTA	13.4%	12%	15.9%
As % of Total			

Source: World Development Indicators, World Bank

chorus of complaints from members about significant NTBs faced by exporters to the region.

By far the largest number of NTB complaints has been directed against India, the largest importer and exporter of the region. These complaints range from problems with inter-state movement of imported goods to the standard WTO compatible rules relating to sanitary and phyto-sanitary (SPS) and Technical Barriers to Trade (TBT) measures. There often appears to be confusion with regard to SAFTA tariff concessions and the WTO compliant practice of national treatment when imports into India cross state boundaries leaving SAFTA concessions at the border. It turns out that imports are subject to the same state taxes and levies as domestically produced goods. However, it is also true that WTO-compliant rules such as SPS, TBT, anti-dumping and countervailing duties could all be stretched to serve protective ends and restrict trade. This is seen to happen in bad times such as the recent global economic crisis that saw enormous growth of anti-dumping proceedings, including by India. There is ample evidence around the globe of countries manipulating WTO-compliant rules to serve protectionist ends. Such efforts tend to rise when times are bad. The challenge for SAFTA policy makers is to ensure that member countries, while adhering to WTO-compliant regulations, do not let administrators get carried away to the point that these legitimate rules turn into trade barriers or NTBs in the region.

Potential Non-Tariff Barriers (NTBs) for Exports to Bangladesh

1. *Specific Limitations on Trade:*

- (a) Sensitive list: The first NTB faced by SAFTA exporters to Bangladesh is the large sensitive list (1245 tariff lines). (b) Quotas: Bangladesh has a clean slate as far as protective QRs are concerned, though restrictions apply for health, national security, religious or environmental grounds. (c) Import Licensing requirements were also eliminated back in 1991. (d) Proportion restrictions of foreign to domestic goods (local content requirements) are non-existent.

2. *Customs and Administrative Entry Procedures:*

- (a) Valuation system: Though Bangladesh is a signatory to WTO Agreement on Valuation, which stipulates duty assessment on the basis of normal values (typically invoice values of imports), the Customs Administration is generally suspicious of invoice values and tends to impose its own valuation criteria. PSI certification (CRF), now covering some 50% of tariff lines, usually averts any valuation hassles. Typically, imports from South Asian countries are valued at an average of 5%

above invoice values for assessment purposes. Disputes over valuation could delay import clearance unless the importer chooses to go along with the customs assessment of value. (b) Though all SAFTA members follow WCO classification standards of 6-digit Harmonized System Codes, at the 8-digit national classification in Bangladesh, some classification disputes arise due to discrepancies between SAFTA notification and Bangladesh Customs Tariff. (c) For a number of tariff lines with bulk imports (e.g. sugar), tariff values are assigned which amounts to arbitrary fixation of value. (d) Anti-dumping practices: this could assume the role of an NTB but Bangladesh has not instituted any anti-dumping proceedings so far, though the requisite Act exists. (e) Documentation requirements: Bangladesh has adopted UNCTAD's import-export clearance package, ASYCUDA++, which does help rapid clearance. There is plenty of scope to improve electronic clearance of customs cargo with greater utilization of ASYCUDA capacity with the imminent installation of the next version, ASYCUDA World.

3. *Standards – SPS and TBT:*

- (a) Lack of harmonization of standards creates hurdles for cargo clearance. (b) Bangladesh Standards Testing Institute is not recognized for its efficiency and competence in performing an acceptable job of testing and certification and lacks regional or international recognition. Intergovernmental acceptances of testing methods and standards can improve the situation. Efforts are under way to raise the capacity of BSTI. (c) Packaging, labeling, and marking: These TBT requirements are being applied universally. Improvements in Bangladesh domestic market on these aspects of product marketing will ensure minimal hassles for cross-border trade.

4. *Para-tariffs:*

- (a) Supplementary and Regulatory duties: Bangladesh applies supplementary duties on the top rate of customs duty (25%) for a wide range of consumer products – 1100 tariff lines. Though originally conceived as

a trade neutral tax to ostensibly discourage import of luxury and non-essential goods, SD has over the years taken the form of a protective para-tariff that restricts competing imports. Regulatory Duty (RD) is frequently applied as an ad hoc measure to raise revenue or restrict certain types of imports. (b) Variable levies: a number of variable levies exist, such as advance trade VAT (ATV) of 2.5%, and advance income tax (AIT), and a 1% administrative fee levied as landed charge. An across-the-board infrastructure development surcharge (IDSC) was removed in 2008.

5. *Others:*

- (a) Restricting imports through land borders, partly on grounds of capacity limitation and partly to restrict imports (Figure 7). The restriction is implemented through the framing of a positive and/or negative list. (b) Customs administration in Bangladesh has ways to go before taking full advantage of available IT capacities. Bangladesh ranks poorly in terms of days taken for import clearance [World Bank (2010)], thanks to inefficiencies or corruption in customs administration, which becomes an NTB. (c) Inadequate port infrastructure (land and sea port) could pose serious problems for handling import-export cargo. Lack of warehousing and testing facilities at land ports are problems. (d) Rules of Origin requirement, if made too stringent, could pose as NTBs as well. Together, these conditions could severely impede trade facilitation.

SAFTA, Regional Trade and Bangladesh

Post-war developments of the world economy showed the potential of trade as an engine of growth and a catalyst for improving living standards across the globe. With that record before them, South Asian leaders saw the need for stimulating trade in the region as a way to prop up When the 1995 their own growth performance and reduce poverty. preferential trading arrangement, SAPTA, failed to stimulate regional trade, SAARC member countries agreed to undergo deeper liberalization of their trade regimes for one another, in the hope that it will eventually foster greater intra-regional trade. The signing of SAFTA in 2006 brought about deeper tariff cuts but

Figure 7: Restrictions on Imports via Land Ports, 2009

Land Port (Tax Stations)	Importable Goods	
	Positive List	Negative List
Benapole	All other importable goods	Milk Powder and Yarn
Jakiganj	Livestock, fries, fresh fruits, plant, seed, wheat, stone and boulders, coal, chemical fertilizer, china clay, wood, timber, onion, chilli, garlic, ginger, quartz, ball clay, dry fish, limestones and those goods that satisfy the rules and regulations of the circular posted by ERD on September 19, 2002, SRO 255-law/2002/1973/tax by maintaing the quality of the good, amount, price and tax classification certified	Fish, yarn, milk powder, sugar, potato (HS code 0701.90.19 and 0701.90.29)
Hilly	All other importable goods	Duplex board, newsprint, craft paper, cigarette paper, all kinds of paper and paper board, yarn, milk powder, juice, tobacco.
Dorshona	Livestock, fries, fresh fruits, plant, seed, wheat, stone and boulders, coal, chemical fertilizer, china clay, wood, timber, onion, chilli, garlic, ginger, quartz, rice corn, poultry feed, ball clay limestone	Fish, yarn, milk powder, sugar, potato (HS code 0701.90.19 and 0701.90.29)
Shona Mosjid	All other importable goods	Duplex board, newsprint, craft paper, cigarette paper, all kinds of paper and paper board, yarn, milk powder, juice, tobacco.

Source: National Board of Revenue , Bangladesh

intra-regional trade still shows no sign of picking up. In 2010, while the South Asia region recorded a total trade volume of \$711 billion, intra-regional trade at \$31.2 billion was barely 4 % (See Table 1)

Just as more trade has been good for the world economy and its standards of living, so also is expansion of regional trade expected to accelerate growth in South Asia and reduce poverty. Why is SAFTA not yielding results? What more can be done within or outside the SAFTA regime that will remove barriers to trade further and augment trade volumes in the region?

From the Bangladesh perspective, the key rationale behind its membership in an RTA lies in the opening of markets. The largest market of course is that of India, but other regional markets are no less important to a country whose domestic market is far

too limited to create jobs for the millions joining the labor force every year. SAFTA does provide preferential access to these markets but, as we have seen earlier, NTBs and sensitive lists remain major impediments to smooth access to markets for competitive exports from Bangladesh. Its primary export – RMG – adorns the sensitive list of all SAFTA partners thus robbing it of significant immediate economic benefits from an RTA like SAFTA. It proves the point that preferential arrangements are not enough to open markets if such arrangements are riddled with provisos that render them quite ineffectual.

That said it is also important to reflect on the fact that the largest potential market, India, has reduced tariffs to internationally competitive levels thus opening up its own market for stiff international competition, particularly in manufactures. To take

advantage of this openness along with SAFTA concessions, Bangladesh has to come up with items of non-traditional exports that are internationally competitive. This is where Bangladesh's own trade regime does not help. First, Bangladesh's manufacturing is dominated by production of final consumer goods which are produced under high tariff protection not geared to facing stiff international competition. Second, domestic incentive structure is heavily biased in favor of final consumer goods with practically little support for intermediate goods industry that is yet to emerge. If the present East Asian model of production chain segregation across diffused regional networks is to be emulated, one particular configuration would see a South Asian hub and spoke system with India (in place of China) as the chief assembler for global markets and with SAFTA members supplying inputs, parts and components. This means that for Bangladesh the current dependence on India for manufacturing inputs need to be reversed, something that will take time. Yet this interpretation of SAFTA market access presents a different perspective as well as a challenge for right positioning of Bangladesh's manufacturing sector to take advantage of regional preferences. This is not to say that Bangladesh should be ignoring further development of a competitive consumer goods sector but that policy needs to be geared for developing backward linkages to the present manufacturing industries.

Making SAFTA Effective in South Asia

For all its shortcomings, SAFTA is a trading arrangement that can deliver benefits to its members depending on what they put into it. At least five key challenges need to be addressed to make SAFTA yield results:

- *Sensitive list.* For one, the sensitive list ought to be phased out if trade augmentation is to become reality. Just like the tariff reduction schedule, a phased elimination of SLs should be formally agreed to and made binding upon members. With perhaps the longest SL, Bangladesh has a long way to go. Perhaps this is where Bangladesh policymakers face the most formidable political economy challenge. But not dealing with it makes a mockery of the intent to foster regional trade. At present, Bangladesh's SL covers almost all manufactured consumer products assembled in the country. To shield them from regional

competition as is done for the ROW will not make these products competitive in the long run, globally or regionally.

- *Trade diversion costs.* Benefits of SAFTA will depend on whether it is trade creating. If trade diversion costs outweigh any trade creation, negative welfare outcomes will follow. On this score, Bangladesh is in a bind. The existence of high tariffs exacerbate trade diversion costs as preferences are biased in favor of high cost imports from Preferential Trade Agreement (PTA) members. Since China and India are the two largest sources of Bangladesh's imports, China's exclusion from SAFTA raises the likelihood of high trade diversion costs. These costs can be minimized only through unilateral tariff reductions.
- *Behind-the-border issues.* So far SAFTA agreement has not focused much attention on several behind-the-border issues that impede if not restrict intra-regional trade. Trade and transport infrastructure – ports, rail and road links, waterways, transport throughput, connectivity – could facilitate trade and significantly augment trade volumes in the region, if properly managed to create seamless movement of goods within the regional trading arrangement. More attention is needed to improve the payments mechanism for trade in the region. Banking and financing arrangements need to be modernized in order to speed up payment for goods and services in intra-regional trade. This applies to Bangladesh as well as its SAFTA partners.
- *Services and investment.* It has been argued by most researchers on South Asia trade that an important complement to goods trade that is missing under SAFTA is the scope of cross-border investment. Investment regimes in member countries are still riddled with significant restrictions on movement of capital and in sectors open to investment. These restrictions have to be ironed out to make intra-regional investment profitable without limits on profit repatriation. Moreover, as another complement, the focus has to shift beyond trade in goods on to services – e.g. health,

education, finance, tourism.

- *Trade facilitation.* One common problem that South Asia encounters in trade originates from the Customs Administration which, for all countries, is still geared to the collection of revenue. Trade facilitation is still far from the minds of customs officials whose primary objective is to maximize revenue collection at the border. Such an objective is clearly at odds with the need for trade facilitation that can augment intra-regional trade. It is for this reason that in the component, *Trading across borders*, World Bank's *Doing Business* report shows poor scores for most South Asian countries. Nevertheless, improvements in the time taken for customs clearance are expected as Customs Administration in all countries move into the electronic environment with post-clearance audits becoming the norm. Bangladesh needs to consider unilateral or joint actions to make a mark on trade facilitation. Steps that may be considered in future include (a) one-stop border posts with single customs declaration and unified or border crossing processes, (b) harmonization of transit charges, (c) throughput across borders, with door-to-door delivery of cargo in the offing, regional carriers license, and regionally valid insurance. Finally, there is no question that trade can be amply facilitated with simplification of visa and travel rules to facilitate movement of people.

The Way Forward

Overall, the regional effort at trade augmentation through the auspices of SAPTA (1995) and SAFTA (2006) has not produced tangible results so far. This paper has shown that tariff and non-tariff barriers are still significant though India has done its part in substantially scaling down its tariffs in the past decade. Bangladesh remains a laggard in this respect when it comes to its multilateral tariff stance. Though technically it is in compliance of SAFTA schedules, the existence of para-tariffs in its tariff structure mars the progress made in terms of CD reduction. Yet, perhaps the one factor that hits SAFTA initiative the hardest is the combined coverage of sensitive lists of all members which, as one estimate shows, preclude some 53% of regional imports from taking advantage of SAFTA

concessions. Strong protectionist under-currents among business leaders and policymakers alike play a key role in bolstering the political economy of formulating and sustaining large sensitive lists, thus undermining efforts at meaningful trade openness for intra-South Asia trade.

Yet all cannot be lost on the regional trade front as globalized production and supply chains take hold across the globe. With regard to tariffs members should continue bringing down tariff peaks unilaterally providing impetus to their own trade openness on an MFN basis while embedding regional policies in their overall trade strategy. In modernizing customs administration with strong IT capacities, the goal should be to shift the focus of customs from revenue collection to trade facilitation in a cooperative venture amongst members. This is likely to happen as revenue authorities shift their emphasis from reliance on trade taxes to internal domestic taxes – the way of the future in revenue mobilization.

Opening up trade in services – banking and finance, tourism, health and education – ought to be made an integral part of the SAFTA trade liberalization process. The scope in this area is vast as is the potential for cross-border investment that could be the catalyst for cementing inter-industry linkages within a South Asian framework of “fragmented agglomeration” of production in the future, something akin to the highly successful inter-industry linkage forged in East Asia. The strategic policy choice needed for this to happen is keeping rules of origin simple and aspirations for investment protocol limited.

Given that the common dominant theme of national policies in the region is to accelerate growth and reduce poverty, boosting intra-regional trade could be an integral part of that strategy, which gives SAFTA the sound basis and the greatest opportunity for more tangible results in the future than has been observed in the past.

Endnotes

1. PRI staff estimates from Direction of Trade Statistics, IMF
2. Sri Lanka was the first among South Asian countries to embark on substantial trade liberalization at the close of 1970s decade
3. UN Commodity Trade Statistics (UN COMTRADE)

4. The latest report from Mahbub-Ul-Haq Human Development Center, "Human Development in South Asia 2009", cites "high export similarity" as a reason for untapped potential for intra-regional trade in South Asia.
5. Drawn from Usman Khan (2010)
6. Athukorala P and Nobuaki Yamashita (2007); Feenstra (1998); Dobson, W and C. S. Yeu (1997)
7. World Bank (2004)
8. Para-Tariff refers to various taxes and levies on imports other than custom duty.
9. Structure of Tariffs and Rationalization (2010), unpublished report, NBR

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APPENDIX

Abbreviations

AIT	- Advance income tax
ATV	- Advance trade VAT
ASYCUDA	- Automated System for Customs Data
BSTI	- Bangladesh Standards Testing Institute
CD	-Custom Duty
CHT	- Change in Tariff Heading
CRF	- Clean Report of Finding
IDSC	- Infrastructure Development Surcharge
LDC	-Least Developed Country
MFN	-Most Favored Nation
MoP	-Margin of Preference
NPR	-Nominal Protection Rate
NAFTA-	-North American Free Trade Agreement
NTB	-Non-Tariff Barrier
PSI	-Pre-Shipment Inspection
PTA	-Preferential Trade Agreement
QR	-Quota Rates
RMG	-Read Made Garments
ROO	-Rules of Origin
ROW	-Rest of World
RTA	-Regional Trade Agreement
SAARC	-South Asian Association for Regional Cooperation
SD	-Supplementary Duties
SAPTA	-South Asia Preferential Trade Agreement
SL	-Sensitive List
SPS	-Sanitary and Phyto-Sanitary
TBT	-Technical Barriers To Trade
WCO	-World Customs Organization
WTO	-World Trade Organization

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Productivity Change in Bangladesh Agriculture

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Abstract

In this study, an attempt is made to determine whether productivity growth has increased due to the adoption of irrigation-fertilizer technology in Bangladesh's agriculture sector. The period of the study spans from 1973 to 2008. Using the Tornqvist approximation to the Divisia index, total factor productivity (TFP) was estimated; it was found that TFP increased during the sample period and there was an average annual TFP growth rate of 1.97 percent for the entire study period. The results also show that farmers' terms of trade deteriorated and their economic condition improved slightly over the period.

In recent years, both the concepts of total factor productivity and flexible weight indexing procedures have been used in productivity studies. Following recent developments in the study of productivity measurement, the superiority of total factor productivity (TFP) index is emphasized by several researchers (Hossain, 1973; Brown, 1978; Islam, 1982; Griliches and Lichtenberg, 1984; Wolff, 1985; Gray, 1987; Ali, 1991; Sharma, 2004; Kiani, A. *et al.* 2008; and Ali, A. *et al.* 2009). In case of agricultural productivity, the works of Lee and Chen (1978), Brown (1978), Lawrence and McKay (1980), Islam (1982), Whittaker (1983), Ball (1985), Bottomley, P. *et al.* (1990), Ali (1991) and Ali, A. *et al.* (2009) are noteworthy for adopting the Divisia indexing method. In the Bangladesh agricultural sector, the simultaneous use of these two concepts is rare in the recent productivity studies. Using the Divisia indexing procedure, the total factor productivity indexes are employed in this study as an improved measure of productivity growth (Christensen, 1975; Diewert, 1976).

Input Use and Output Growth in Bangladesh Agriculture

Since independence, a significant change was witnessed in the use of major agricultural inputs due to adoption of modern technology like fertilizer and irrigation in Bangladesh's agriculture sector. As a core factor of production, total cropped area increased moderately. In 1972-73, the total cropped area was 29,039 thousand acres which increased to 34,845 thousand acres in 2005-06 (BBS, various issues). In 1974, 77.2 percent of the labor force engaged themselves in traditional agriculture while the remaining 22.8 percent were engaged in non-agricultural activities. But in 1991, the occupational dependence on the agriculture sector declined, with 54.6 percent of the labor force engaged in agriculture and 45.4 percent engaged in the non-agricultural

sectors. This occurred due to transfer of labor force from the traditional agriculture sector to the non-agriculture sector (BBS, 1994). Consumption of chemical fertilizers also increased markedly. In 1972-73, Urea consumption was only 277 thousand metric tons while it rapidly increased to 2,523 thousand metric tons in 2004-05. As the most modern component, the use of irrigation also significantly increased. The area irrigated by low lift pumps (LLPs) was about 1,165 thousand acres in 1972-73 and in 2004-05 it increased to 1,982 thousand acres (BBS, various issues).

During the post-independence period, agricultural production suffered mostly due to readjustment, reorganization and rehabilitation problems. In the mid-sixties, the seed-water-fertilizer technology was introduced but these technological transformations failed to show satisfactory growth rates. In the mid-seventies, the average rate of growth of food grain output was about 3 percent while in the eighties it declined to about 2.2 percent. This happened due to a significant growth of production in *boro* rice and wheat while the *aman* crop showed a very moderate upward trend and *aus* production exhibited a declining trend (GOB, 1990). Since the contribution of secondary sector to the GDP increased, the direct effect of this situation created the relatively slower growth rate of agriculture and in the 20-year period from 1972-73 to 1991-92, the growth rate of agriculture was found to be 2.16 percent per annum (BBS, 1993). Therefore, dependence on technological change caused marked agricultural growth in Bangladesh.

This study addresses the following objectives: 1) To estimate rates of growth in productivity using total factor productivity approach and applying the flexible weight Divisia indexing method. 2) To analyze the distributional impacts of productivity change using estimates of changes in farmers terms

of trade and returns to cost ratios.

Review of Selected Agricultural Productivity Studies in Bangladesh

In Bangladesh, several studies have been conducted on agricultural productivity. Most of these studies are not conceptually or methodologically same as our study. An early study of partial factor productivity (PFP) in Bangladesh agriculture was conducted by Hossain (1977). Using farm level data of Phulpur and Thakurgaon, he classified farms as owner I comprising small and medium farms and as owner II comprising large farms. He estimated the difference in land productivity between these two groups of farms and reported an inverse relationship between farm size and productivity. He attempted to improve his tenancy analysis by comparing productivity of owned land with that of rented land with the help of paired t-test. Mandal (1980) attempted to measure and compare resource use and productivity with respect to farm size and tenancy in Bangladesh. By using empirical data collected through a lengthy intensive farm survey in Mymensingh district, he found productivity per acre increased up to a certain level (about 4.0 acres), then declined as farm size increased. Medium farms appeared to be more productive than small and large farms. With the help of paired t-test, share cropping tenancy was found to be inefficient in resource use and production. Abedin and Bose (1988) found a positive relationship between farm size and productivity. Both tabular and production function analysis were employed to estimate the productivities of small, medium and large farms. Using farm level data on irrigated HYV *Aman* rice in Thakurgaon, it was observed that large farms have a higher level of output per hectare than small and medium farms. Matin (1989) observed a very poor inverse relationship between farm size and productivity for rice in Bangladesh. Using farm level data, a log (natural) linear transformation of the Cobb-Douglas production function was estimated by the ordinary least square method to find the effect of size and input use on the productivity of rice. Farm size, agriculture labor, concentration of cultivation, use of pesticides had significant positive effect on the yield of rice. Rahman (2004) applied the sequential malmquist index to calculate multilateral, multifactor productivity (MFP) indexes for agriculture in 16 regions of Bangladesh from 1962 to 1992. He found productivity grew at an average rate of 2.2% per annum; this growth occurred mainly due to technological progress estimated at 2.1 % per year. No one examined the issue of farmers benefit from

productivity gain perspectives; by including this issue the present study examines a significant issue and contributes to the existing literature on agricultural productivity growth in Bangladesh.

Concept of Total Factor Productivity

The ratio of output to all productive inputs taken together is known as total factor productivity (TFP). In practice, it is not possible to include all the inputs in the production process. So, the ratio of the single aggregate output to the single aggregate set of the traditional inputs is used to measure total factor productivity. In recent years the TFP approach has gained popularity due to its ability to consider all productive inputs. Thus, to obtain a meaningful perspective on productivity growth, the TFP measure is used in this study.

Growth Rate in TFP

Following Pesek (1961), Griffin (1974), Veeman (1975) and Islam (1978), the following trend equation (1) has been fitted for the period 1973 to 2008 for computing the annual growth rates.

$$L_n g(t) = a + bt + u \quad (1)$$

Where $g(t)$ is the variable for which the rate of growth is estimated and t and u stand for time and stochastic error respectively. Here the compound growth rate was obtained by the antilog of the estimated coefficient on time minus one. Here L_n implies the natural logarithm of the variable.

The Divisia or Flexible Weight Approach

The Divisia indexing procedure was proposed by Divisia (1928). It involves a flexible weighting method. In its continuous version, the Divisia index can be presented as:

$$Q_t/Q_0 = \exp \left\{ \int [W_i(t) (\dot{q}_i(t)/q_i(t))] \right\} \quad (2)$$

W_{it} implies the share of the i -th factor in total cost or the share of the i -th output in total value and a dot (.) over the variable indicates the logarithmic derivative of that variable. Equation (2) shows the continuous version of the Divisia index. But its empirical implementation requires a discrete approximation and the Tornqvist approximation is a discrete approximation to continuous Divisia index. This widely used approximation was proposed by Tornqvist (1936). Following equation (2), the

Tornqvist approximation to the Divisia quantity index can be written as

$$\ln Q_t - \ln Q_{t-1} = \sum \bar{w}_{it} (\ln q_{it} - \ln q_{i,t-1}) \quad (3)$$

where Q denotes quantity and i refers to sub components.

In case of both the price and quantity indexes, the weights (w) are the same. A given weight implies the arithmetic mean of the shares in two adjacent periods and the weight can be presented as

$$\bar{w}_{it} = \frac{1}{2} (w_{it} + w_{i,t-1}) \quad (4)$$

The weights in (4) are flexible over time. The Tornqvist approximation is used in this study to estimate productivity in Bangladesh agriculture.

The Data

In order to derive an index of total factor productivity, it is necessary to construct quantity indexes of total output and all inputs. In our study, the quantity index of aggregate output is constructed by combining all crops together with a total of twenty five crops including cereals, cash crops, pulses, oilseeds, vegetables, fruits and spices. Quantity indexes of aggregate input are constructed by combining all inputs (land, labor, fertilizer and irrigation) together. The quantity of land is the total cropped area, the quantity of labor is persons employed in agriculture, forestry and fishing, fertilizer includes annual use of Urea, Triple Super Phosphate, and Muriate of Potash (in '000 metric tons), and area irrigated by various methods include low lift pumps (LLPs), deep tubewells (DTWs), and shallow tube wells (STWs) in terms of acres.

In order to obtain the index of terms of trade, it is necessary to construct the aggregate price indexes of output and inputs. In case of prices of output, mainly the harvest price of major agricultural crops is used. To construct the price indexes of aggregate inputs, the price of land in taka per acre, daily wages of agricultural labor, prices of fertilizer by type (in Taka per ton) and the operating and maintenance cost paid by farmers for the respective irrigation methods were combined. The data cover the period 1973 to 2008 and the time series data are entirely obtained from the official statistical sources of Bangladesh such as the Bangladesh Bureau of Statistics (BBS, *Statistical Yearbook of Bangladesh*, *Yearbook of Agricultural Statistics* and *Monthly Statistical Bulletins*, various

issues). The estimation was done by using the econometric software *SHAZAM*.

Estimates of Total Factor Productivity

The Divisia quantity indexes of aggregate output and aggregate inputs are reported in column 2 and column 3 of Table 1. The year 1973 is considered as the base year. The index of agricultural output was 1.146 in 1974 and it increased steadily and stood at 3.932 in 2008. During this period, the annual growth rate of output index was 3.08 percent. The quantity index of all inputs gradually increased over time and its annual growth rate was 1.09. The aggregate output index grew at a faster rate while the aggregate input index increased very slowly even though the increased use of fertilizer and irrigation, which enabled technological progress in Bangladesh agriculture, most likely contributed to the increased output. Total factor productivity is the ratio of the index of output and the index of all inputs and it is shown in the last column of Table 1. Though the total factor productivity index fluctuated, an overall rising trend was observed during the sample period. In 1974, the TFP index was 1.113 and it increased to 2.698 in 2008. During this whole period, TFP index increased at an annual growth rate of 1.97 percent. It seems the consumption of fertilizer and irrigation significantly affected productivity growth in Bangladesh agriculture. At the initial stage, prices of inputs were kept low as a part of induced technical change but over time farmers used more fertilizer and irrigation due to gradual awareness of the benefits in spite of the increasing prices of these inputs.

The graphical presentation of TFP indexes are shown in Figure 1 where it is observed that during the study period there was an overall increase in productivity but with some periodic fluctuations. The last few years of the sample period showed gradual increase in TFP and it may be partially attributed to the reduction of price of non-urea fertilizers and cash incentive for diesel. The government took various steps to provide agro-input assistance and favorable impacts of these steps in turn contributed to the increased agricultural output (GOB, 2011).

Distribution of Productivity Gains

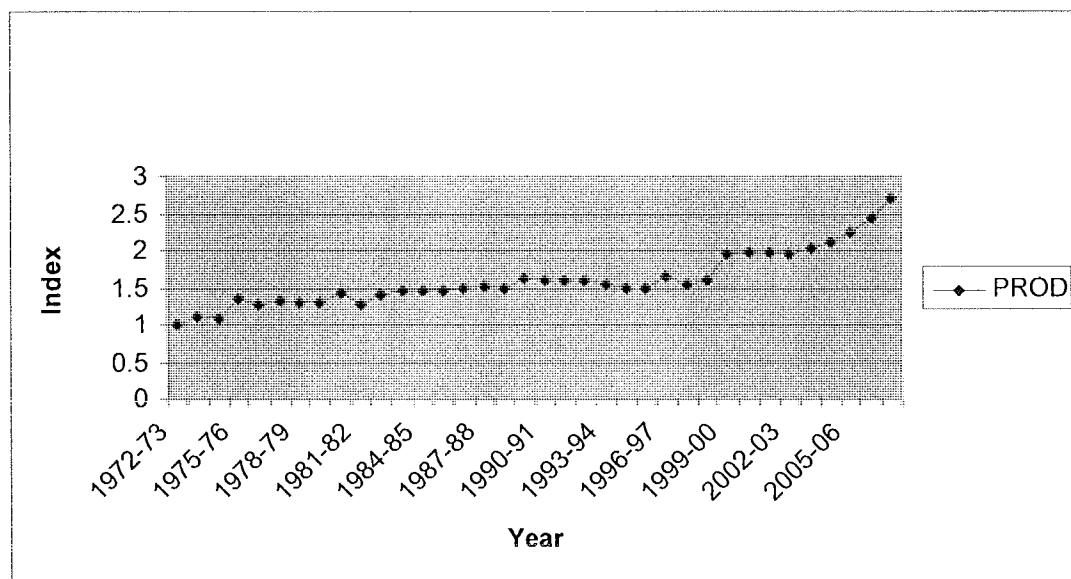
In the study of productivity, it would be reasonable to explore the benefits of productivity growth and this will enable us to know how much the farmers benefited from the distributional impacts of productivity changes in Bangladesh agriculture.

Table 1: Indexes of Agricultural Output, Inputs and Total Factor Productivity in Bangladesh, 1973-2008 (1973=1.000)

Year	Output	Inputs	Productivity
1973	1.000	1.000	1.000
1974	1.146	1.029	1.113
1975	1.091	1.014	1.076
1976	1.377	1.024	1.345
1977	1.299	1.024	1.268
1978	1.382	1.045	1.322
1979	1.391	1.073	1.296
1980	1.384	1.078	1.284
1981	1.516	1.061	1.429
1982	1.409	1.105	1.274
1983	1.564	1.123	1.393
1984	1.636	1.124	1.455
1985	1.651	1.139	1.449
1986	1.714	1.173	1.461
1987	1.736	1.167	1.486
1988	1.778	1.167	1.522
1989	1.766	1.188	1.486
1990	1.971	1.212	1.626
1991	1.947	1.226	1.587
1992	1.970	1.236	1.593
1993	1.991	1.243	1.601
1994	1.916	1.250	1.533
1995	1.869	1.264	1.479
1996	1.916	1.277	1.499
1997	2.125	1.291	1.645
1998	2.024	1.306	1.549
1999	2.094	1.320	1.585
2000	2.584	1.335	1.936
2001	2.666	1.349	1.975
2002	2.688	1.364	1.970
2003	2.701	1.379	1.958
2004	2.845	1.394	2.040
2005	2.980	1.410	2.113
2006	3.216	1.425	2.256
2007	3.513	1.441	2.437
2008	3.932	1.457	2.698
Annual Growth Rates (in percent)			
(1973-08)	3.08	1.09	1.97

Source: Own estimation.

Figure 1: Total Factor Productivity in Bangladesh, 1973-2008 (1973 = 1.000)



Following Lawrence and McKay (1980), Islam (1982) studied Canadian agricultural productivity and Ali (1991) examined this issue for the UK agriculture. Both studies adopted the concepts of terms of trade and returns to costs ratio.

Terms of trade is defined as the ratio of the index of output price to the index of inputs prices. The price index of aggregate output and price index of aggregate input and terms of trade are presented in columns 2, 3 and 4 respectively of Table 2. From 1973 to 2008, the terms of trade declined over time. In the early years of the sample period, the terms of trade were improving because during this period output prices were higher than input prices. But from 1976, the terms of trade tended to deteriorate and this situation continued over the latter period. This occurred due to increases of input prices. During the sample period (1973-2008), the terms of trade had a negative annual growth rate of -0.95 percent.

A graphical representation of terms of trade is presented in Figure 2, which shows from 1976 it tended to fall which continued over the latter period.

To know farmers' economic position, both the growth rate of terms of trade and the growth rate of productivity have to be examined. Improved welfare position of the farmers can be achieved if growth of productivity is higher than the decline in the terms of trade. As given by Lawrence and McKay (1980), the

relationship between returns to costs ratio, terms of trade and productivity can be presented as:

$$\left[\begin{array}{c} \text{Growth rate of} \\ \text{Returns to costs} \end{array} \right] = \left[\begin{array}{c} \text{Growth rate} \\ \text{of productivity} \end{array} \right] + \left[\begin{array}{c} \text{Growth rate of} \\ \text{Terms of trade} \end{array} \right] \quad (5)$$

Corresponding to equation (5), the derived growth rate of the returns to costs is +1.02 (since growth rate of productivity is 1.97, and growth rate of terms of trade is - 0.95,). Since the negative growth rate of terms of trade is obtained, the growth rate of returns to costs is found positive and it occurs due to the higher positive contribution of productivity growth rates which seems to be attained by the technological progress. Though the annual growth rate of returns to cost was very low, the positive growth rate of returns to costs may indicate that the farmers' welfare position in Bangladesh, based on farm income, slightly improved during the sample period. If the growth rates of returns to costs, productivity and terms of trade are all positive, the farmer's welfare position, based on their farm income would seem to be improve. It should be mentioned that the measurement of farmers overall welfare is a much more complicated issue, because it needs consideration of many other related determinants such as off-farm income, capital gains and losses from off-farm investments, etc.(Ali, 1991).

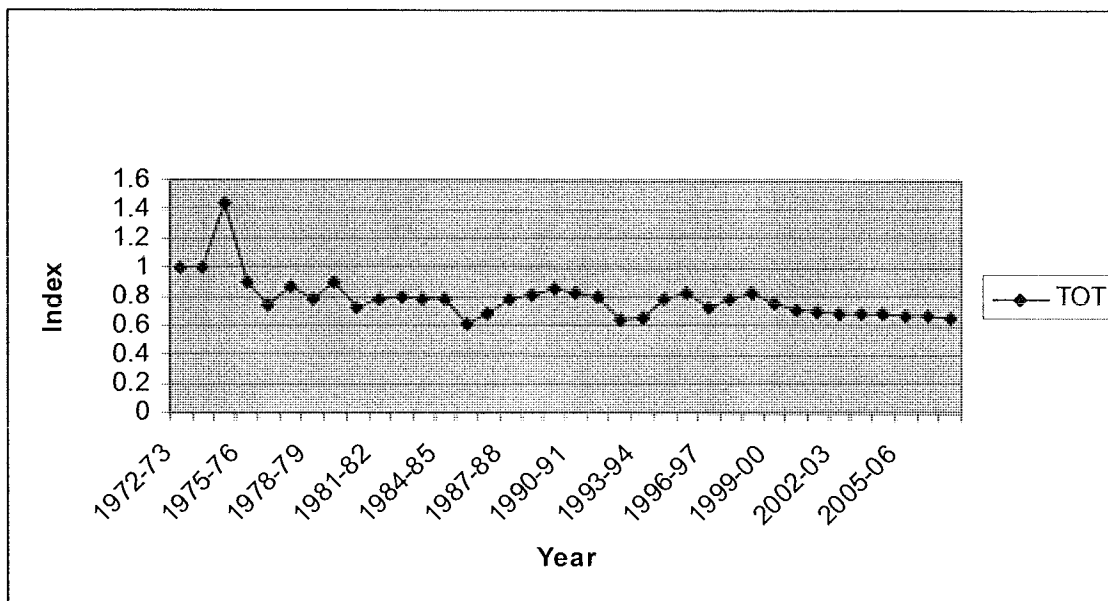
Despite some differences in methodology, estimation procedure and data, it may be worthwhile to compare the findings of this study with other countries'

Table 2: Price Indexes of Aggregate Output and Aggregate Input, and Terms of Trade in Bangladesh, 1973-2008 (1973=1.000)

Year	Price Index of Aggregate Output	Price Index of Aggregate Input	Terms of Trade
1973	1.000	1.000	1.000
1974	1.366	1.371	0.996
1975	2.681	1.864	1.438
1976	1.721	1.900	0.905
1977	1.540	2.062	0.746
1978	1.992	2.270	0.877
1979	2.106	2.657	0.792
1980	2.751	3.052	0.901
1981	2.525	3.495	0.722
1982	3.030	3.871	0.782
1983	3.286	4.135	0.794
1984	3.685	4.674	0.788
1985	4.354	5.523	0.788
1986	4.076	6.572	0.620
1987	4.762	6.963	0.683
1988	5.101	6.509	0.783
1989	5.510	6.735	0.818
1990	5.984	6.940	0.862
1991	6.082	7.320	0.830
1992	6.251	7.800	0.801
1993	6.345	8.284	0.765
1994	6.739	8.679	0.776
1995	7.124	9.029	0.789
1996	7.507	9.039	0.830
1997	7.069	9.768	0.723
1998	7.968	10.159	0.785
1999	8.816	10.565	0.834
2000	8.258	10.988	0.751
2001	8.118	11.427	0.710
2002	8.258	11.884	0.695
2003	4.538	12.360	0.690
2004	8.828	12.854	0.686
2005	9.093	13.368	0.680
2006	9.365	13.903	0.673
2007	9.646	14.459	0.667
2008	9.936	15.038	0.660
Annual Growth Rates (in percent)			
(1973-08)	5.89	6.90	- 0.95

Source: Own estimation

Figure 2: Terms of Trade in Bangladesh, 1973-2008 (1973 = 1.000)



experience. Islam (1982) and Ali (1991) studied TFP and distribution of productivity gain for Canadian agriculture and U.K agriculture respectively. Islam (1982) used the Tornqvist approximations to the Divisia index and obtained a TFP growth rate of 1.31 percent in 1962-78 period for Canada and for western Canada the TFP growth rate was 1.70 percent in the same period. The growth rate of terms of trade and the growth of returns to cost, both were found to be negative. Ali (1991) estimated the TFP indexes by using the Tornqvist-Theil approximation to the Divisia index for the period 1967-87. The TFP in U.K agriculture increased at an annual growth rate of 1.16 percent. The growth rate of terms of trade was 0.46 percent in the pre-EEC 1968-73 and it was 0.80 percent in the post-EEC 1974-87. In the pre-EEC period the growth rate of returns to cost was negative while it was positive in the post-EEC period.

Policy implications and Conclusions

This study outlines and illustrates improved theoretical and empirical approaches to study productivity growth in Bangladesh agriculture. Given these improvements, it is recommended that particular attention be paid in future to further improvement of the basic data series, especially input series which underlies this work. Studies of productivity change in Bangladesh agriculture will be greatly facilitated if Bangladesh Bureau of statistics provides more complete data of price and quantity on various agricultural inputs on a yearly basis.

In the study of productivity, total factor productivity (TFP) of Bangladesh was estimated by using the flexible weight Divisia indexing procedure and annual TFP growth rate was found 1.97 percent. Turning to the policy implications of the TFP results, it may be noted that if the desired level of productivity growth is to be maintained, it is important to increase research and development expenditures both in the public and private sector simultaneously. In addition, development of new cropping patterns by selecting crops on the basis of their suitability to soil conditions and cost effectiveness to farmers in each area would also be very useful to the farmers.

Though total factor productivity (TFP) increased, at the same time, a great deal of this gain was consumed by the adverse movement of terms of trade (the price of inputs grew at a much higher rate than the price of outputs) so that farmers' economic condition did not appreciably improve. Terms of trade deteriorated largely because of continuous upward increases in input prices. If a better level of returns to cost growth is to be attained, the terms of trade have to be improved. It is necessary that the government adopt proper policy measures to ensure the supply of agricultural inputs at reasonable prices. An important policy implication of this is that input subsidy policy should be not abruptly abandoned.

Finally, in estimating productivity growth rates, different sub periods can be considered to take into

account floods, cyclones, droughts, excessive rainfalls etc. This is likely to generate a more accurate measure of productivity change. It is hoped that this study will stimulate additional research on productivity.

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Supportive Agencies and Their Support for Small Enterprises in Bangladesh: An Exploration

Serazul Islam

Abstract

The objective of the study was to explore the problems that supportive agencies and small entrepreneurs encounter in entrepreneurship development. To this end, a mail questionnaire was administered to a randomly selected set of 40 officers of the supportive agencies and an interview schedule was administered to 400 small entrepreneurs. The findings of the study revealed that lack of entrepreneurs' education, business knowledge, and cooperation, as well as their tendency to repay loans late and their diversion of funds were, among others, the major problems for the supportive agencies. The main problems for which the entrepreneurs could not run their enterprises smoothly included shortage of capital, lack of business experience, unskilled employees, weak infrastructures (road, drainage, electricity, gas, and water), high priced raw materials and finished goods, and tight credit policy. Several recommendations are offered which may be considered by the supportive agencies and the entrepreneurs to overcome their problems.

During the last few years, the term SME (Small and Medium Enterprise) has become a buzz word in the entrepreneurship and economic development literature, and the government of Bangladesh has undertaken sizeable programs on SME development considering the sector's contribution to the country's economy. Unfortunately there is no unique definition of small enterprise in Bangladesh. However, the Agricultural Credit and Special Programs Department (ACSPD) of Bangladesh Bank, in a circular (No.8), defined small enterprise as shown in Table 1. Later, the SME division of the Ministry of Industries, the Government of the Peoples' Republic of Bangladesh, after discussion with the Bangladesh Bank, Bangladesh Statistical Bureau, Board of Investment, and other agencies issued a circular on June 12, 2008, supporting the definition of SMEs offered by the Bangladesh Bank.

Most of the small enterprises are unable to achieve their goals by themselves. To do so, they need support and resources from 'outsiders' such as other firms (Meller & Marfan, 1981; Visser, 1997), supportive agencies (Allesch, 1993; Gibb, 1993; Lim, 1994; Gibb & Haas, 1996; Sarder et al., 1997), and relatives and friends (Birley, 1985; Johannisson, 1988; Bridge et al., 1998).

The term 'support services' in the context of small enterprise development, refers to financial assistance such as loans, credit, grants, etc., and non-financial assistance includes entrepreneurship education, technical and management skill development training, market information, entrepreneurship

development training, industrial estates, registration of unit, infrastructural facilities, pre- and post-investment counseling, etc. (Sharma, 1979; Manu, 1988; Ball, 1991; Akhouri, 1997). Supportive agencies, in the study, are those institutions which provide such assistance.

Entrepreneurship is defined by different scholars in different ways. While Cantillon (1755) calls entrepreneurship *risk-bearing*, Schumpeter (1959) views it as *innovating*, and yet others consider it as *thrill-seeking*. In the present study, entrepreneurship refers to the process of initiating, organizing, managing, and controlling the affairs of a business unit that combines the factors of production with supply of goods and services whether the business pertains to industry, trade or services. The person who performs these functions is known as an entrepreneur. The entrepreneurs selected for the study fall in the definitions of Cantillon, Schumpeter, and others as they started new enterprises or restarted the existing enterprises in different ways and were assuming risks of loss (from keen competition, high operating expenses, etc.). While new entrepreneurs are those who come to the supportive agencies for the first time, existing entrepreneurs are the individuals who came to the support services earlier. Development means the gradual growth of something so that it becomes more advanced (Oxford Advanced Learner's Dictionary, 2004). Entrepreneurship development is, therefore, the gradual growth of entrepreneurs' activities so that the enterprise grows and matures with overall development of the economy.

Table 1. Definition of Small Enterprise Given by Bangladesh Bank and Ministry of Industry

<i>Type of Enterprise</i>	<i>Criteria</i>	
	<i>Fixed Assets (excluding land and building)</i>	<i>No. of Employees (full time)</i>
Trading	Tk .05 million to Tk. 5 million	Maximum 25
Manufacturing	Tk. 05 million to Tk. 15 million	Maximum 50
Service	Tk .05 million to Tk. 5 million	Maximum 25

Note: Tk. is short for Bangladeshi currency, the Taka. The current exchange rate (31 December 2009) is US\$1= Tk. 69.59735.

Source: Bangladesh Bank Circular No.8, May 26, 2008

The entrepreneurs with or without previous business experience and supportive agencies' support services may initiate business activities. Supportive agencies then try to develop entrepreneurship in the country through assessing the entrepreneurs' needs and supporting their requirements. But during the entrepreneurship development process, both parties face different types of problems. At home and abroad a large number of studies were conducted on the problems of entrepreneurship development, but most of them were on the problems of SMEs. Very few studies were carried out on the problems of the supportive agencies and small entrepreneurs and no specific studies were conducted on the problems that both the financial and the non-financial supportive agencies encounter, and on the problems that small entrepreneurs encounter during commencement and running their enterprises, especially in dealing with the supportive agencies. This study is, therefore, an attempt to bridge the gap.

Objectives

The broad objective of the study was to explore the problems the Bangladeshi supportive agencies and their supported small enterprises encountered in entrepreneurship development. To this end, the following four specific objectives were pursued:

- (i) To identify the problems that supportive agencies encountered, especially in dealing with the new and existing entrepreneurs;
- (ii) To investigate the difficulties the selected small entrepreneurs faced in starting and running their enterprises;
- (iii) To discover the problems the small entrepreneurs faced especially in dealing with the supportive agencies; and
- (iv) To recommend some actions in light of the findings.

Methodology

Sample Design

In Bangladesh, though there are no systematic, updated, and reliable statistics on the number and categories of supportive agencies. It can, however, be estimated that there are at least 25 public supportive agencies and more than 40 (including a number of traditional non-government organizations-NGOs) private supportive agencies, which are directly or indirectly providing financial and non-financial support services to the small enterprises (Ahmed, 1985; ADAB, 1993). According to Sarder (2000:119), in Bangladesh, there are 39 supportive agencies of which 11 appeared to be entirely, 14 partially, and the remaining 14 agencies occasionally engaged in providing support services to the small enterprises. From the 11 agencies entirely engaged and especially set up for the development of small enterprises, 4 supportive agencies were randomly selected for the purpose of the study. These agencies are as shown in Table 2.

Due to non-availability of up-to-date statistics and a large number of small enterprises in Bangladesh, multi-stage random sampling was used to keep the enquiry within manageable and yet reliable limits: for the first stage, 2 divisions (Dhaka and Rajshahi) from 6 divisions were randomly selected as the primary sampling areas. At the second stage, 6 districts (Dhaka, Narayanganj, and Gazipur districts from Dhaka division and Rajshahi, Bogra, and Pabna districts from Rajshahi division) from the 33 districts of two divisions were randomly selected. In these 6 districts, the exact number of small enterprises was not readily available. Thus, to determine the number of sample small enterprises, the formula developed by Kothari (1996) was used. According to him, if the population is large (infinite), the most conservative

Table 2: Distribution of the Selected Supportive Agencies

<i>Types of Supportive Agencies</i>	<i>Name of Supportive Agencies</i>	<i>Types of Support Services</i>
Public	BSCIC(Bangladesh Small and Cottage Industries Corporation)	Non-financial only
	BASIC(Bangladesh Small Industries and Commerce) Bank Ltd.	Financial only
Private	MIDAS (Micro Industries Development Assistance and Services)	Both financial and non-financial
	BRAC (Bangladesh Rural Advancement Committee)Bank Ltd.	Financial only

sample size will approximately be 384 to conduct statistical tests and to draw conclusions (See Annex 1). Based on this statistical convention and the opinion of several researchers, while considering cost, difficulty in determining actual population size and other issues, 400 small enterprises instead of 384 were selected to be studied. In addition, 40 officers (10 from each) of the sample supportive agencies (fulfilling the law of large sample) were selected as respondents.

Types and Sources of Data

The types of data used in the study covered both primary and secondary data. The officers of the supportive agencies and the owners, partners, or managing directors of the sample enterprises were considered as the major sources of primary data. Secondary sources consisted of books, articles, journals, magazines, newspapers, annual reports, websites, unpublished PhD theses, research reports, and other publications.

Data Collection and Processing

With a view to collecting primary data from the selected supportive agencies and the entrepreneurs, a questionnaire and an interview schedule were prepared respectively. The instruments were given final shape by (i) reviewing the related literature extensively; (ii) taking the opinion of research experts; and (iii) conducting pilot surveys on 30 respondents. Primary data were collected by adopting face-to-face interview and telephone interview methods. Secondary data were obtained through desk research by using different websites and libraries. The collected data were verified to ensure that the respondents answered all relevant questions and that no answers were missing. The values of the variables

were coded as numerical figures for analysis of the data.

Data Analysis

Data were analyzed descriptively and inferentially using Statistical Package for the Social Sciences.. The descriptive statistics included frequencies and percentages. To examine the relative importance of the problems, rank order was computed.

Scope and Limitations

The present study was confined to the four leading supportive agencies and the small enterprises which have sought support from these agencies. The branches of the supportive agencies and the small enterprises which started operations, but not before January 2006, were excluded from the purview of the study. The study did not cover other supportive agencies like NGOs, membership associations, and educational and training institutions. It also did not study medium and large scale enterprises which are vitally important for the economic development of the country. Due to time and resource constraints, the study of all small enterprises of the country in general and of the selected areas in particular was not possible. These limitations, it is believed, would not seriously affect the representativeness and validity of the data because the characteristics and activities of small enterprises all over the country are almost similar. To overcome the limitations, appropriate methodology, proper research design, and appropriate statistical tools were used in the present study.

Findings and Analyses

The major findings and the corresponding analyses are given in Table 3 below.

The greatest challenge, according to 20 percent of the officers, was that the entrepreneurs could not use the financial support effectively for lack of business knowledge and skills, while 16.7 percent of the officers indicated that the applications of the entrepreneurs took a long time to process because the applicants did not produce the appropriate documents in the required formats. Also, 13.3 percent of the officers faced some problems in dealing with the entrepreneurs lacking formal education as they could not prepare a project proposal or a business plan. Another problem the officers of financial supportive agencies (12.2 percent) encountered in sanctioning financial support services was that the applicants (entrepreneurs) did not maintain proper accounts

relating to the stock, sales, income, etc. A major problem that 11.2 percent of the officers often encountered, was that the entrepreneurs exerted pressure through top-level influential agents for prompt disbursement and larger amounts of financial support than was needed. 8.9 percent officers mentioned that the entrepreneurs often applied for more financial support than their actual requirements for the business. These entrepreneurs also demanded for increasing the number of installment payments which is not always possible for the supportive agencies to approve. While 7.8 percent officers did not get different documents like trade license, national ID card, TIN, VAT certificates, etc. from the applicants (entrepreneurs), 5.6 percent particularly of

Table 3: Problems Encountered by the Supportive Agencies Especially with New Entrepreneurs (N=40)

<i>Type of Problems Created by the New Entrepreneurs</i>	<i>No. of Respondents (Multiple Responses)</i>	<i>Percentage</i>
Lack of entrepreneurs' education	12	13.3
Lack of business knowledge and skills	18	20.0
No documents of trade license, national ID card, TIN, VAT, etc.	7	7.8
No maintenance of proper accounts relating to stock, sales, income, etc.	11	12.2
Failure to provide appropriate documents in the required format	15	16.7
Shortage of adequate collateral	5	5.6
Application for more financial supports with increased number of installments	8	8.8
No maintenance of bank accounts	4	4.4
Pressure exertion by top level externalities for prompt and desired services	10	11.2

Source: Field Survey

Table 4: Problems Encountered by the Supportive Agencies Especially with Existing Entrepreneurs (N=40)

<i>Types of Problems Created by the Existing Entrepreneurs</i>	<i>No. of Respondents (Multiple Responses)</i>	<i>Percentage</i>
Diversion of funds	12	19.1
Failure to repay installment or service charge in time	6	9.5
Intention to make overdue and hide existing loan information	7	11.2
No renewal of the documents	4	6.4
Lack of education and business knowledge	6	9.5
Non-cooperation and contact with the officers	6	9.5
Estate's insufficient fund to provide infrastructural facilities	6	9.5
Other problems*	8	12.7
No problem	8	12.7

* Other problems include lack of technical know-how; no up-to-date accounts, etc.

Source: Field Survey

financial supportive agencies pointed out that the small entrepreneurs did not have adequate collateral required for disbursement of financial support services. Only 4.4 percent officers, the officers of BRAC Bank Ltd. in particular, complained that the businessmen did not maintain bank accounts with any commercial bank. In Bangladesh, the results of the studies of Karim (2001:60); Mazumder & Chowdhury (2001:17); Rahman & Jamal (2001: 125); Saha et al. (2001:61); and Ashraf & Alam (2004:46) are consistent with the present study.

Table 4 exhibits that 19.1 percent officers of the financial supportive agencies experienced small entrepreneurs intentionally diverting the financial support to long-term activities like construction of building or purchase of land, which then took many days for pay back; and they often failed to repay the installments in time. While 9.5 percent of the respondent officers expressed their dissatisfaction over the entrepreneurs' inability to duly repay the installments or service charges (for BSCIC only), the same percent of BSCIC's officers mentioned that, with their limited funds, they encountered problems in providing infrastructural facilities to the existing entrepreneurs. According to 9.5 percent of the officers, the existing entrepreneurs did not know how to keep accounts and even were not aware of their installment repayment schedule for lack of business education. Another problem for the officers of supportive agencies (6.4 percent) was that they (entrepreneurs) did not renew the documents like the trade license. The same percent of officers said that the existing entrepreneurs often gave misleading

information in order to get larger financial support than was needed for their business. In their studies, Karim (2001: 60); Mazumder & Chowdhury (2001:17); Rahman & Jamal (2001: 125); and Saha et al. (2001:61) found more or less similar results.

In the study, the entrepreneurs were asked to state, in order, three important problems they encountered while starting and running their present enterprises. Then the problems were rated by weighted scores with three points being given to the problem ranked first, two points to the problem ranked second, and one point to the problem ranked third. As evident in Table 5, dearth of capital was ranked first (weighted score of 33.7 percent) of all the start-up problems. Around 68 percent of the entrepreneurs listed this problem as one of the three problems. Of them 190 entrepreneurs (about 70 percent) indicated this problem as the number one problem, while 49 and 34 entrepreneurs ranked this problem second and third respectively. The results of the studies of Manu (1988:271); Kumar (1990:152); Goheer (2003: 22) and Mintoo (2006:27) supporting these findings.

Lack of business knowledge and prior experience was ranked second (23.6 percent), while the third ranked problem was lack of skilled and reliable employees as found in the studies of Ahwireng et al. (2001: 84) and Jahur & Azad (2004: 79). The problems relating to infrastructure and proper site selection were ranked fourth (weighted score 9.6 percent) and fifth (9.3 percent) respectively. About 15 percent of the entrepreneurs lacked confidence and self-esteem during establishment of their

Table 5: Start Up Problems Faced by the Sample Small Entrepreneurs

<i>Types of Problems</i>	<i>Entrepreneurs' Ranking</i>			<i>Weighted Score</i>	<i>Rating (%)</i>	<i>Rank</i>
	<i>No.1</i>	<i>No.2</i>	<i>No.3</i>			
Failure to proper site selection	13	36	81	192	9.3	5
Dearth of capital	190	49	34	702	33.7	1
Lack of skilled and reliable employees	20	105	82	352	16.9	3
Lack of confidence and self-esteem	5	17	37	86	4.1	6
Lack of business knowledge and prior experience	99	89	17	492	23.6	2
Infrastructural problems	13	48	64	199	9.6	4
Non-cooperation from family members	7	4	1	30	1.5	7
Non-cooperation from other businessmen	4	3	10	28	1.3	8
No response	-	-	25	-	-	-
No problem	49	49	49	-	-	-
Total	400	400	400	2081	100.0	

Source: Field Survey

enterprises. Only 3 percent of the sample entrepreneurs, particularly the women entrepreneurs, got no cooperation from their family members, especially from their husbands. Ayaduri & Sohail (2006: 17) with exception did not term these factors as problems of the entrepreneurs. Another 3 percent of the entrepreneurs mentioned that their counterparts did not extend cooperation to them during start-up of their business. It may be noted that all 400 entrepreneurs rated the first and second start-up problems but 25 entrepreneurs among them did not indicate the third problem, while 49 of the sample entrepreneurs encountered no problem when they started their present business.

After start-up, when the enterprises started growing in terms of operations, they faced some problems. Table 6 explores these problems, where shortage of working capital was rated most (weighted score 23.7 percent) of all the problems the entrepreneurs mentioned. More than one half of the sample entrepreneurs indicated this problem as one of the three important problems. Around three-fourths of them listed this problem as the topmost significant problem for their business growth, while 33 and 20 respondents ranked this problem as second and third, respectively. Harper (1984:26); Chee (1986: 81);

Liedholm & Mead (1987:103); Rahman & Jamal (2001:102); Karim (2001:28); Rahman (2002:172); Ahmed (2003: 7); ILO (2003:31); Stevenson & St-Onge (2005:19); and Minto (2006:18) also identified shortage of working capital as the topmost problem constraining growth of small enterprises.

Of all of the problems that the sample entrepreneurs encountered, the second-ranked problem was the high price of the raw materials, chemicals, and finished products, whereas erratic supply of power and gas was ranked as the third problem. Kazooba (2006: 33) also identified this problem in his study as the critical problem. In his study, D'Cruz (2003:35) marked raw materials and related problems as the most critical problem constraining the smooth growth of the enterprises. The problems relating to unavailability of required financial support with easy terms and conditions (12.8 percent) and keen competition (8.3 percent) were ranked fourth and fifth respectively. Patnaik (1992:136), Ahmed (2003: 7), and Okpara & Wynn (2007:9) identified inadequate financial support services as the main factor constraining growth of small enterprises. Al Ashi (1991:424) in Ghana revealed fierce competition as the most critical problem of small enterprise growth.

Table 6: Growth Problems Faced by the Sample Small Entrepreneurs

<i>Types of Problems</i>	<i>Entrepreneurs' Ranking</i>			<i>Weighted Score</i>	<i>Rating (%)</i>	<i>Rank</i>
	<i>No.1</i>	<i>No.2</i>	<i>No.3</i>			
Lack of efficient and reliable employees	18	25	19	123	5.3	6
Shortage of adequate working capital	156	33	20	554	23.7	1
Paucity of raw materials	4	9	7	37	1.6	11
Required loan with easy terms and conditions is not available	41	74	28	299	12.8	4
Administrative obligations	10	9	11	59	2.5	9
Increased price of raw materials or finished products	59	97	65	436	18.7	2
Weak infrastructure like road, drainage, building, etc.	8	16	23	79	3.4	7
Keen competition	9	45	77	194	8.3	5
Marketing problem	9	14	23	78	3.3	8
High tax rate	0	4	17	25	1.1	12
Erratic power supply	71	56	76	401	17.2	3
Large amount of bad debts	4	7	23	49	2.1	10
No problem	11	11	11	-	-	-
Total	400	400	400	2334	100.0	

Source: Field Survey

Another problem regarding shortage of efficient and reliable employees as indicated by the entrepreneurs was ranked sixth, while the seventh ranked problem was weak infrastructure like road, drainage, building, etc. Kumar (1999: 152) found the shortage of efficient and reliable employees as the topmost problem hindering smooth running of the enterprises. This problem was acute in the BSCIC's industrial estates. About 12 percent of the respondents encountered the problem of marketing; and this problem was ranked eighth. The findings of Mahiuddin et al. (1998:52) and Manoilova (2006:46) supports this result. The administrative obligation over trading hours, items, etc. as stated by the entrepreneurs, was ranked ninth. They expressed their dissatisfaction over the change of timig query. The other problems the small entrepreneurs encountered during study included large amounts of bad debts (2.1 percent), paucity of raw materials (1.6 percent), and high tax rates (1.1 percent). These problems were ranked tenth, eleventh, and twelfth respectively. It should be mentioned that 11 entrepreneurs out of 400 sample entrepreneurs interviewed encountered no problem.

Among the entrepreneurs who encountered problems, the highest percent of entrepreneurs (19.8 percent) complained that they did not receive needed support in time due to delays in approval by the head office. The entrepreneurs receiving support from the public agencies suffered these problems more than those working with the private agencies. While 18.3 percent of the entrepreneurs expressed their dissatisfaction over the high interest rate charged by the financial agencies, 14.9 percent of the entrepreneurs mentioned that the actual transaction costs were more than the official figures and the

service charges received by BSCIC were more than the service quality. Nine percent of the entrepreneurs stated that the supportive agencies required different types of documents, certificates, and guarantees to process and provide services. They termed these 'too much formalities', an obstacle to receiving prompt and timely support services; 7.5 percent entrepreneurs who received training from BSCIC and MIDAS opined that the training period was not enough to be fully trained in entrepreneurship and business management. Another important problem the entrepreneurs (5.2 percent) faced in getting support services was too much personal and fixed asset collateral requirements or third party guarantees. Another 2.4 percent of the entrepreneurs who received support services from public supportive agencies complained that the officers adopted a negative attitude towards small enterprises in general and toward women entrepreneurs in particular. Rahman & Jamal (2001:123), Saha et al. (2001: 61), Ashraf & Alam (2004:46), and Manoilova (2006: 46), in their studies, found more or less similar results. It should be mentioned that more than one-fourth (21.8) of the respondent entrepreneurs, most of whom received support services from BASI bank an MIDAS Ltd., encountered no problem.

Conclusions and Recommendations

The preceding discussions suggest that due to the entrepreneurs' low level of education, lack of business knowledge and skills, inability to maintain and produce required documents, and exertion of pressure by local ruling political party men, the supportive agencies could not provide prompt services to the entrepreneurs who applied for

Table 7: Problems Faced by the Small Entrepreneurs Especially with Supportive Agencies (N=400)

<i>Types of Problems Created by Supportive Agencies</i>	<i>No. of Entrepreneurs (Multiple Percentage Responses)</i>	
High transaction costs or service charges	81	14.9
High interest rate	100	18.3
Too much formalities	49	9.0
Too much collateral or guarantee	28	5.2
Non-cooperative attitude of the officers	13	2.4
Excessive delay in providing supports	108	19.8
Inconsistent training materials	6	1.1
Short training period	41	7.5
No problem	119	21.8

Source: Field Survey

assistance the first time. Delay or non-repayment of loans by the existing entrepreneurs, because of their diversion of funds to other projects primarily limited smooth functioning of the financial supportive agencies. In Bangladesh, the entrepreneurs could not launch their enterprises duly because of their shortage of capital, lack of business experience, lack of skilled and reliable employees, weak infrastructures (like road, drainage, electricity, gas, water, etc.), etc. Expansion of existing business units was not possible as indicted by almost all entrepreneurs for shortage of working capital, raw materials, efficient employees and power supply, tight terms and conditions, and heavy competition. Because of the supportive agencies' lengthy loan approval processes with too many formalities and collateral, and high service charges, the entrepreneurs could not utilize the support services effectively and efficiently.

In order to overcome the problems, the following recommendations are offered for the supportive agencies and small enterprises:

1. All categories of entrepreneurs suffered from shortage of capital in expanding their business activities. The amount of financial support provided by the supportive agencies, according to them, was not sufficient to meet their needs. Sometimes the entrepreneurs' demand for financial supports is more than their actual requirements. The supportive agencies should assess the financial needs of the enterprises properly and disburse funds accordingly.
2. To prevent the diversion of funds by the entrepreneurs, the financial agencies may shift their lending approach from providing concessional finance to need-based finance with close monitoring. The small entrepreneurs should keep their commitment and use the financial support services in the project they specified in their application forms.
3. The financial supportive agencies should take initiatives for liberal credit policy including simple lending procedures with shorter appraisal time, low transaction cost, single-digit interest rate, and using moveable assets (say receivables) instead of plant assets as collateral.
4. BSCIC should ask the ministry of industry to use a certain percentage of the service charges collected from the industrial units for prompt infrastructural (road, factory, sewerage, water,

gas, etc.) development. The supported small entrepreneurs can form an association among themselves and create a common fund. This association will play a vital role in lobbying the government and other business associations for their interest.

5. The supportive agencies can provide the entrepreneurs with practical training on business management for at least two weeks. The training materials are also to be periodically revised to update them and make them more practical. The small entrepreneurs should enroll with adult education centers and gather experience from other business ventures.
6. A good number of entrepreneurs lacked efficient and reliable employees to start and run their enterprises. To overcome this problem, the entrepreneurs may attempt to: (i) make their employees obtain more training; (ii) devise different incentives; (iii) be friendly at their enterprises; and (iv) monitor the employee activities frequently and guide them where possible.

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Appendix 1

In case of infinite population, Kothari in 1996 suggested the following formula to estimate the sample size.

$$n = \frac{z^2 \times p \times q}{2e^2}$$

Where,

n= size of the sample

z= the value of the standard variate at a given confidence level and to be worked out from table showing area under normal curve.

p= sample proportion

q=1-p

e= the expected range within which estimated sample size would be.

Kothari also suggested the value of p to be .5 for the most conservative sample size. A confidence level 95% has been selected that the estimated sample size would be within 5% of the conservative sample size.

$$\text{Thus, } n = \frac{(1.96)^2 \times 0.5 \times (1 - 0.5)}{(0.05)^2} = 384$$

Bangladesh-India Water Sharing Disputes: Possible Policy Responses

Shariful Islam

Abstract

This paper assesses the Bangladesh-India water-sharing disputes which date back to the early 1970s with India's ill-conceived construction of the Farakka Barrage on the Ganges. Unfortunately, the bypassing of international laws and unilateral diversion of water from transboundary rivers has been the long-standing policy of India. Without any agreement with Bangladesh, it has embarked on constructing dams and diverting water from many transboundary rivers such as Teesta, Gumti, Khowai, Dharla, Dudkumar, Monu etc. India also reportedly blocked rivers such as Muhri, Chagalnaiya, Fulchari, Kachu, and many others in Tripura flowing into Bangladesh. This caused a steady reduction in water flow, mainly due to intensive water diversion by India. Meeting increased water demand of the fast-growing population in the coming decades will be a great challenge for Bangladesh while India continues its non-compromising attitude on water sharing from the international rivers. Against this backdrop, water scarcity will trigger conflicts and instability, its consequences may spill over state borders, and regional tensions will become a threat to international peace and security. The paper argues that the water issue need not be a cause for tension; rather, it can be a catalyst for cooperation as in the eastern Himalayas and Mekong river basin. Such cooperation is the only remedy to avert future water conflicts, obtain collective gains, and ensure sustainable ecosystems.

Why are existing policies not working with regard to water sharing disputes between India and Bangladesh? The conventional wisdom is lack of political and national consensus in both countries and lack of regional cooperation. An alternative explanation is that there are other hidden reasons like poor water governance, water scarcity in both countries, diplomatic incompetency of Bangladesh, big-brother attitude and unwillingness to abide by international law of rivers from the Indian side, etc. In this backdrop, there is no alternative but regional cooperation in water management; particularly India and Bangladesh must respect each other's legitimate rights and understand each other's needs to avoid any future water-related conflict.

The India-Bangladesh environmental conflict dates back to the early 1970s. In the case of Bangladesh, conflict rages with India over Ganges and Teesta water sharing. Remarkably, Bangladesh shares fifty-four rivers with India, and as a lower riparian country, has no control over them. Unilateral water diversion or withdrawal of water from transboundary or international rivers has been the long-standing policy of India. Without any agreement with Bangladesh it has embarked on constructing dams or diverting water from many transboundary rivers such as Teesta, Gumti, Khowai, Dharla, Dudkumar, Monu, etc. India had reportedly blocked rivers such as Muhri, Chagalnaiya, Fulchari, Kachu and many others that flow into Bangladesh from Tripura.¹

Since the transboundary rivers are within the territory

of India, it did not discuss or come to any agreement with Bangladesh on the blockage or diversion of waters of the rivers although the Indo-Bangladesh Joint River Commission (JRC) exists since 1972. India constructed the huge Farakka Barrage in 1975 in order to divert a portion of the dry season flow to increase the navigability of Calcutta port. Thereafter, when it went into operation in 1975, the fresh water supply of the Ganges decreased considerably with a number of consequent effects in the south-west part of Bangladesh. Especially agriculture, navigation, irrigation, fisheries, forestry, industrial activities, salinity intrusion of the coastal rivers, ground water depletion, river silting, coastal erosion, sedimentation, as well as normal economic activities have been adversely affected.

Since the very birth of Bangladesh, water-sharing disputes with India and Bangladesh have continued. In this regard, former United Nations water expert Dr. S.I. Khan said that, "The water dispute with India is as old as the inception of Bangladesh. It started even before Bangladesh when India's ill-conceived Farakka Barrage on the Ganges was built to divert water for flushing silt from the Hooghly River".² He also said that "Although Bangladesh has fifty-four trans-boundary rivers with India, there is only water sharing treaty with India on the Ganges River signed on December 12 in 1996. But India removed the guarantee and arbitration clauses in getting minimum water from the treaty". Maryam Mastoor (2011) argues that, "The Farakka Barrage was a major breach of trust by India as it had repeatedly claimed

before it started the project that the barrage would not cause any damage to Bangladesh. The same assurances are again being given over the Tipaimukh dam".³

Meeting increased water demand of the fast-growing population in the coming decades will be a great challenge for Bangladesh. Water scarcity can trigger conflicts; instability and the consequences may spill over state borders and may lead to regional tensions and conflicts.

Research Questions

This research investigates the major hindrances with regard to India-Bangladesh water sharing disputes. Two central questions are especially examined:

- Why are the existing policies not working?
- What are the likely policy responses to settle the water sharing disputes?

Significance of the Study

This study has great significance for both Bangladesh and India. As a crucial and basic life supporting element, water is the most precious resource for any country. It is indispensable for the continued security and survival of a state. While the demand for fresh water is increasing day by day around the world, its supply is decreasing. Thus, the gap between demand for fresh water and its supply has been ever-increasing globally. In this regard, a major report recently issued by the 2030 Water Resources Group including the World Bank estimated that, the gap between global water demand and reliable supply could reach 40 percent over the next 20 years; particularly in the developing regions, the water deficit could rise to 50 percent.⁴

Therefore, fresh water shortages are becoming a major cause of conflict both domestically, as well as between states. The growing world population, further need for irrigated agriculture, and rapid industrialization will make increasing demands on scarce water resources which will create future conflict. Therefore, water scarcity is one of the major ingredients in the security discourse. In the case of Bangladesh, water insecurity will be the greatest threat or challenge with regard to ensuring national security as its vulnerabilities come from both internal and external sources.⁵ On the other hand, India also

faces shortages in meeting fresh water demand. Furthermore, to meet growing demands, India and China are going to build 200 big and small dams on the Ganges, Brahmaputra, Meghna, and Yangtze rivers which will bring disastrous impacts on Bangladesh, leading to tensions between these states.⁶ Therefore, this topic is of great importance for both countries.

The gap between supply and demand of water in Bangladesh is ever increasing. When the state will fail to provide it, this can lead to intense unrest and social instability. In this regard, the Chairman of National Disaster Management Advisory Council said, "water availability in Bangladesh is around 90 billion cubic meters (BCM) during the dry season against the demand of about 147 billion cubic meters, a shortage of nearly 40 percent, resulting in drought-like situation in large parts of the country".⁷

On the other hand, India's overall per capita water availability has also declined from over 5,000 billion cubic meters in 1950 to 1,800 billion cubic meters in 2005.⁸ It may reach the threshold level of 1,000 billion cubic meters per capita in 2025.⁹ The dominant perception in India is that the growth of population, pace of urbanisation, and economic development will accentuate the pressure on a finite resource and that the answer lies in large supply-side projects and long-distance water transfers.

The growing demand for fresh water will create competition over access to water resources, thus becoming an existential issue. Lastly, if we examine the Hasina-Manmohan Summit (2011), it is easily understandable how important the issue is for both countries. Although India was committed to signing a Teesta water sharing treaty, it was in vain as Mamata Bannerji, chief minister of West Bengal, was not willing to give more than 25 percent of water to Bangladesh.¹⁰

This is a matter of concern regarding the future of India-Bangladesh water sharing negotiation, as India has not shown any compromising attitude. Thus, this research has important legal, policy, and theoretical implications.

Conventional Wisdom

The conventional wisdom is that, with regard to water sharing with India, the existing policies are not working for lack of political and national consensus

in both countries and for lack of regional cooperation.

An alternative explanation is that there are other hidden reasons like poor water governance, water scarcity in countries, selective (regime-wise) foreign policy, and unwillingness to abide by international law of rivers from the Indian side.

Data and Research Method

This research paper is basically qualitative in nature and based on secondary data. Secondary sources are books, reports, published research studies, case studies, newspaper articles, seminar and conference papers, publication of national and international journals, magazines and documents available in the internet, government policies and plans. The interpretation of data was carried out keeping in mind the overall perspective of the research study. Efforts were made to integrate the data collected from different sources.

Testing the Conventional Wisdom and Alternative Explanations

The existing policies are not working as there is absence of integrated water sharing management, and from the Indian side there is no sign of concession. Being an upper riparian country, India diverts water according to its own will. Besides, there is a lack of strong diplomacy of Bangladesh and India doesn't obey international law of rivers. Moreover, due to lack of regional cooperation, the existing policies are not working with regard to water sharing with India.

The political party in power is another factor rendering policies ineffective. For example, when Awami League is in power, the relationship between Bangladesh-India is favorable. Thus, the Ganges water sharing treaty was signed by the Awami League regime in 1996 and the Teesta water sharing agreement was supposed to be signed in 2011.

The arguments for conventional wisdom on water sharing, as well as alternative explanation, are offered next. Conventional wisdom suggests lack of political and national consensus and, lack of regional cooperation; the alternative explanations include selective foreign policy, poor water governance, water scarcity in both countries, and India's unwillingness to abide by international law of rivers.

Lack of Political, National Consensus

Lack of political and national consensus works as an impediment towards reaching any agreement. In this

regard, Syed Saad Andaleeb, Editor of the *Journal of Bangladesh Studies* claimed, "We have developed a great deal of mistrust between the two nations. If we cannot insure that agreements with India will remain consistent over the long haul because of internal political discord between the two major parties, why would India commit to anything?"¹¹

Ramswami R. Aiyar, former water resource secretary of India, in an interview almost a decade ago said that, "The fate of water sharing depends on political decision. When bilateral relations between Bangladesh and India are not as sweet as it should have been, all bilateral issues including water sharing become tough to resolve. Politically, good relations are the key to water sharing disputes. You see, when Hasina was elected as Prime Minister in 1996, it was possible to reach an agreement on the Ganges."¹²

According to water expert Ainun Nisat, "It is not possible to get Teesta water without political consensus of both (India-Bangladesh) the parties. Water sharing between Bangladesh and India is not a technical matter but political. If the political leadership is cordial then technical resolution is not a [difficult] matter at all".¹³ Faridul Alam, Chairman, Department of International Relations, Chittagong University also believes that, "Lack of political understanding between the ruling party and the opposition always criticizing each other, is one of the major obstacles with regard to water sharing with India".¹⁴

Furthermore, absence of national consensus in both India and Bangladesh works as a hindrance with regard to water sharing. In the recent Hasina-Manmohan Summit (2011), there was severe absence of political, as well as national, consensus within the Hasina government. On the other hand, there was also absence of political consensus between Congress and Mamata's Trinomul Congress.

Lack of Regional Cooperation on Water Sharing

Lack of regional cooperation with regard to water sharing is a prime cause. Many scholars and experts think that it is not scarcity but lack of coordination and cooperation with regard to water disputes between the two countries. In this regard, Professor K.B. Sajjadur Rashed claimed that, "There are reasons for dispute between countries over sharing water, but basically it is because of lack of coordination, cooperation, and lack of legal umbrella".¹⁵

Selective Foreign Policy

Selective or regime-wise foreign policy is observed in Bangladesh-India relations. Some think that anti-Indian attitudes of BNP, Jamaat and the left-leaning parties work as a hindrance with regard to settling water disputes with India. When BNP-led Jamaat government is in power they avoid India and their brand of foreign policy is usually anti-Indian. In this regard, Smruti S. Pattanaik argues that, "While Awami League follows a policy of engaging India, Bangladesh Nationalist Party justifies its approach towards India as its attempt to portray its position as 'saving sovereignty and territorial integrity' of Bangladesh. As an ideological opposite of Awami League, the party has nurtured a domestic constituency that sustains a discourse of anti-Indianism".¹⁶ Similarly, Indian foreign policy toward Bangladesh is also regime-wise. When Awami League is in power, Indian policy towards Bangladesh is a little soft as some argue. But, one can raise the question that, at present Awami League is in power: why has no agreement been signed on Teesta water sharing?

Poor Water Governance

Around the world, poor water governance is one of the major reasons for water crisis rather than water scarcity. In this regard, United Nations Secretary General, Ban Ki Moon argues that, "Water crisis is a crisis of governance, weak policies and poor management, rather than one of scarcity".¹⁷

According to Mr. Sompal, former Union Minister of State for Agriculture and Water Resources of India, none of the countries concerned—India, Bangladesh and Pakistan—has worked out a national perspective plan related to water resources.¹⁸ For instance, in India, agriculture and water resources do not rank high on the list of government priorities although 60 percent of India's workforce is in agriculture and which still produces around 20 percent of GDP and accounts for up to 16 percent of total exports.¹⁹ In fact, only 3.2 percent of all the planned resources are allocated for agriculture, and irrigation receives only a small share of this money, Mr. Sompal claimed. Even when money is allocated for water-related investments, most of it goes into flood management rather than for any kind of development. He also argued that it is not uncommon to see villages with good telephone connections but no access to good water supply. Furthermore, there are tremendous problems with water-related infrastructure. For

example, canals are neglected and not properly managed, even though they are of great importance to water management.

In Bangladesh also, a severe water management problem is observed. In this regard, A.K. Shamsuddin, former Executive Engineer of BADC argued, "Although Bangladesh has the highest per capita freshwater available at its disposal among South Asian countries, it can hardly make proper use of it due to very poor internal water governance practices".²⁰ He also claimed that the most pertinent factors are: absence of a combined and comprehensive water use policy, inadequate regulatory measures, poorly structured institutions and their inefficient performance, lack of coordination between various institutions, and finally virtual non-existence of stakeholders' participation at the implementation level.²¹ Therefore, absence of proper attention to water management is one of the prime reasons for water scarcity which leads to uncompromising attitudes towards any agreement.

Water Scarcity in Both Countries

Syed Muhammad Ibrahim claimed that, "Without water and reasonable water, Bangladesh will soon become a desert".²² According to a survey conducted by the Bangladesh Water Development Board (BWDB), there are three hundred and ten rivers in Bangladesh. Out of these, fifty-seven are border rivers, the condition of one hundred and seventy five is miserable, and sixty five are almost dead.²³ Eighty percent of the rivers lack proper depth. The latest study of BIWTA reveals that one hundred and seventeen rivers are either dead or have lost navigability. Such rivers include Brahmaputra, Padma, Mahananda, Meghna, Titas, Dhaleswari, Bhairab, Sitalksha, Turag etc.

As the rivers become polluted, people become more dependent on ground water as a source of drinking water. It is reported that presently 86 percent of WASA's drinking water comes from ground water.²⁴ Besides, excessive use of ground water during the Boro season may have an adverse effect on the country's drinking water, warned International Food Policy Research Institute on January 23, 2010.²⁵ Given excessive use due to widespread urbanization, ground water recharge is not occurring as before. As a result, the water level is falling between 1-3 meters every year. For example, during the last 12 years the ground water level has fallen almost 34 meters.²⁶ According to a study conducted by the Bangladesh

Agriculture Development Corporation (BADC), in 1996 the ground water level was 26.6 meters in different parts of Dhaka City which fell below 60 meters in January 2008.²⁷ If this decline of ground water is to go on, it's a salient question as to what will be the real picture in 2050 when deep tubewells will also be unable to strike water. For example, in 2001, deep tubewells could strike water at a depth of 200 to 300 feet but now they have to go down about 1000 feet to get uninterrupted supply.

In Chittagong, Khulna, Jessore, Sathkhira, Madaripur, Shariatpur, Cox'sbazar, Narail, in North Bengal and in many parts of Bangladesh, water crisis has reached an alarming situation. To resolve the water crisis, even the army has been deployed in Dhaka City.²⁸ People are buying water from water agents. According to a report in *The Daily Star*, most residents of Rajshahi City Corporation are out of water supply network and therefore, Rajshahi City Corporation has initiated a program of selling bottled water even though one-third of the city's population is poor.²⁹

Besides, in most places of North Bengal, hand-driven tube-wells have become dysfunctional because the water level has fallen beyond the extractable limit. In a word, the picture is grim. Along with this, arsenic pollution and salinity intrusion has added a new dimension to accelerate the acute water crisis in Bangladesh. It is ironic that Bangladesh has too much water during the monsoon season and too little during the winter months when no rainfall occurs. Thus the country is subject to both floods and drought.

India is now the biggest user of groundwater for agriculture in the world.³⁰ Ground water irrigation has been expanding at a very rapid pace since the 1970s. The data from the Minor Irrigation Census conducted in 2001 shows evidence of the growing number of ground water irrigation structures in the country. Their number stood at around 18.5 million in 2001. Of the addition to net irrigated area of about 29.75 million hectares between 1970 and 2007, groundwater accounted for 24.02 million hectares (80%).³¹ On an average, between 2000-01 and 2006-07, about 61% of the irrigation in the country was sourced from ground water.³² It is a matter of concern that, the share of surface water has declined from 60% in the 1950s to 30% in the first decade of the 21st century.

Unwillingness to Abide by International Law of Rivers from Indian Side

This is one of the prime reasons behind the Bangladesh-India water sharing disputes. Unilateral water diversion or withdrawal of water from trans-boundary or international rivers has been a long-standing policy of India. It has also constructed a huge Farakka barrage in order to divert a portion of the dry season flow to increase the navigability of Calcutta port in 1975.

By commissioning the Farakka Barrage in 1975, India seemed to have violated international law intended to deal with water-sharing disputes.³³ The Farakka barrage was grossly unfair in and of itself.³⁴ The diversion of Farakka waters caused enormous losses in food and fisheries production in Bangladesh over two decades. According to Ashok Swain of Sweden's Uppsala University, "Farakka changed the river's hydrology, disrupting fishing and navigation, brought unwanted salt deposits into rich farming soil... and caused an annual loss estimated at 2-2.5% of GDP."³⁵

On sharing of "common rivers" Article 9 of the 1996 Ganges Water Treaty obliges India to abide by the "water sharing agreements" with Bangladesh on principles of equity, fairness and no harm to either party".³⁶ But the real picture is different. Although a thirty-year water treaty has been in effect between the two countries since 1996, India has diverted water according to its own will, depriving Bangladesh from her just share during the dry season.

It is very unfortunate that India has postponed the proposed Teesta water sharing deal with Bangladesh amid opposition from West Bengal Chief Minister Mamata Banerjee. Mamata had expressed her unhappiness about sharing of Teesta waters and strongly believes that Bangladesh should get only 25 percent of the share. But, it is the inalienable right of Bangladesh to have equitable share of the common rivers.³⁷ Mamata also thinks that the pact is unfair. The situation raises questions about her law abiding mentality and respect for international law as no state has the right to divert the natural flow of water within its territory through unilateral action. The question of water sharing treaty should not arise for an international river. If one looks at West Europe and North America the matter will be clearer. They do not divide the waters; instead, they engage in its joint

and collaborative use, development and preservation. During the last twenty years East Europe (i.e., Save river), Africa (i.e., Lake Victoria, Zambezi river), South America (i.e., Pantanal, Paraguay river) did the same.

Actually, water sharing for international rivers will be on the basis of international law of rivers. India has no right to embark or divert waters of international rivers like Ganges or Teesta. The International Law Institute in 1961 stated that every state has the right to utilize waters of international rivers subject to international law.³⁸ The International Law Association in 1966 laid down that every riparian state is entitled to a reasonable and equitable share in the beneficial uses of waters of international drainage basin. The UN International Law Commission in Article 7 also emphasizes that states shall utilize an international river in an equitable and reasonable manner and the riparian states shall exercise due diligence to utilize waters of an international river in such a way as not to cause significant harm to other co-riparian states.³⁹ Therefore, it is a legal right of Bangladesh to get an equitable share of international rivers. It is not benevolence that Bangladesh seeks but justice.

Moreover, the construction of the Tipaimukh dam for generating 1500MW on the transboundary Barak River' which is contrary to international law. has raised a hue and cry both in Manipur state in India and in Bangladesh. which is contrary to international law. According to Barrister Harun ur Rashid, It may be strongly argued that the proposed dam is contrary to:

- The 1997 UN Convention on the Law of Non-Navigational Uses of International Watercourses
- Fourth preambular paragraph of the Indo-Bangladesh 1996 Ganges Water Treaty
- Article 6 of the 1989 ILO Convention concerning Indigenous and Tribal Peoples
- The 1992 Convention on Biological Diversity.⁴⁰

Furthermore, the south bloc of India is divided in its attitudes towards friendship with Bangladesh.⁴¹ M. Harunur Rashid in his article also claimed that the sentiment of the average Indians is that Bangladesh has been ungrateful for the sacrifices they made in 1971 for the liberation of Bangladesh.

Besides, we can also argue that opposition to Bangladesh by Mamata and some other parties is a politics of votes. This is also true for some political parties in Bangladesh like BNP, Jamayat, and Leftist

parties who also oppose India for votes. Moreover, some argue that the bureaucracy of India functions as a prime hindrance towards relationship development with Bangladesh. With regard to settling bilateral issues including water sharing, the bureaucracy of India gives veto.⁴² Furthermore, along with the absence of political and national consensus, lack of coordination among water and foreign ministry and the incompetency of Bangladeshi diplomats is another factor towards failure of reaching water sharing agreement. In this regard, Faridul Alam claims that, "There are many obstacles behind the existing water sharing issues: firstly, in the Joint Rivers Commission meeting Bangladesh is less active in bargaining than India, secondly, inclusion of experts in this particular issue is ignored; thirdly, our diplomatic inefficiency is notable".⁴³

Many scholars think that, China, Nepal, and Bhutan can be included in the Joint Rivers Commission. In this regard, Islam Shafi Noor argued, "Now we have only bilateral agreement between Bangladesh and India but the river catchments cover the territories of five countries; therefore, JRC members should be Bangladesh, India, China, Nepal and Bhutan. Need for cooperation among the five countries on the water-sharing issue should follow international rules and regulations."⁴⁴

Central Research Findings

The major areas of research findings are presented below.

Inter-state Conflicts

Fresh water scarcity may one day lead to Third World War if proper steps are not taken immediately, since the demand for fresh water is increasing while supply on the other hand is decreasing drastically. Since water security directly impacts human security, it is a potential source of conflict with growing concerns that climate change would undermine water resources and engender greater water conflict. The study reveals that in Bangladesh, water insecurity will be the biggest challenge with regard to ensuring its national security as its vulnerabilities come from both internal and external sources. The suffering of Bangladesh is going to be intensified in the near future as India and China will build 200 big and small dams on the Himalayan rivers: Yangtze, Brahmaputra and Ganges to meet their growing water needs.⁴⁵ In this context, disputes are very much likely between the states since scarcity of fresh water

resources are intensifying drastically. Besides, the non-compromising attitude of India towards water sharing can lead to conflict between Bangladesh and India.

Intra-state Conflicts

Water shortages are also a key concern in areas affected by salinity. Stagnant saline water on the soil surface often seep into ground water stores, contaminating fresh water and making it useless for irrigation or drinking purposes. Tension can arise between communities in areas where tube-wells are located at a low altitude and are vulnerable to contamination by salt water. Water scarcity can lead to health concerns and can also intensify competition and tensions between communities which will lead to intra-state conflicts. Besides, reduced access to water has a severe effect on women who are often responsible for providing water for the family. It can increase female insecurity and sexual violence.

Political and Economic Instability

Environmental factors also have the potential to play a negative effect on the domestic politics of Bangladesh. It is possible for certain pressure groups like radical Muslim groups to use a particular environmental factor like water-sharing as a political issue, especially against India. This can upset domestic power balances and cause political instability. The study also reveals that the impact of fresh water scarcity will accelerate the economic instability of Bangladesh as water is essential for irrigation.

Increase in the Prevalence of Diseases

The decline in the availability of fresh water will increase the prevalence of diseases. The contamination of water after flooding can intensify outbreaks of skin diseases, eye infection, cholera, diarrhea, dysentery and fever. Communities in low lying areas that use tube-wells to access water are particularly vulnerable. Saline inundation of river waters is having a significant effect on people's health in Bangladesh as people will be forced to drink pond water once river water becomes contaminated.

Theoretical and Policy Implications

Many theories have been developed with regard to the environment. It can be said that from a realist perspective, two central concepts are power and

national interest. The international society is an anarchical state-system. The system is therefore a self-help one. Realism assumes that states and their populations need natural resources to survive. There is competition between states for these scarce resources. War is often the result of such competition and conflict. As Hans Morgenthau indictes, it leads to "the struggle for power and peace." Extreme versions of realism, such as the geopolitical theories of Karl Haushofer, look at the security implications of strategic raw materials. Both German and Japanese expansion in the 1930s was partly a search for raw materials.⁴⁶ Some see President George Bush's intervention in Iraq as an attempt to secure the oil resources of the Middle East.⁴⁷ Many scholars think that the recent USA-led coalition intervening in Libya was not for protecting human rights but to insure its energy security.⁴⁸

Lastly, if we look at the present Manmohan-Hasina summit (2011), India did not show any compromising attitudes with regard to water sharing although commitments were made. In this regard, Mamata Banerjee said:

"We have no enmity with Bangladesh but first we have to uphold our national interest. We cancelled the agreement as we found the agreement 'detrimental to the interests' of West Bengal".⁴⁹

A realist point of view is clearly reflected in Mamata's stand with regard to Teesta water sharing.

Policy Implications

Water scarcity has to be taken as a serious problem from a long-term perspective. As a gradual process, it may seem less severe today, but we have to think about the next generation and whether they will get fresh water to meet their thirst. To address the issue of water scarcity, some policy recommendations are presented below for the government of Bangladesh and India.

Integrated Water Resource Management and Promoting Regional Cooperation

As water management of Transboundary Rivers of GBM basins involve different countries namely, Bangladesh, India, China, Nepal, and Bhutan, integrated water resource management is essential. There is no alternative but cooperation with regard to regional and global issues of water sharing. Regional cooperation of the co-riparian countries is crucial for

Bangladesh. It needs to build coalitions and strengthen lobbying with Nepal, Bhutan, as well as with Pakistan, as there is a water sharing dispute between India and Pakistan. Many experts suggest that it is not possible to resolve water dispute with India bilaterally and, therefore, we have to bring the issue to a multilateral forum like the UN. In this regard, former Joint Secretary A. B. M. S. Zahur said, "We have waited for 36 years and failed to solve the problem bilaterally. It appears we have no option except taking the matter before the UN to draw the attention of the world community to our miserable plight. We want dispensation of justice, not favor or benevolence."⁵⁰

According to Shamsheer Chowdhury, "The water sharing dispute goes back three decades and such disputes are seldom resolved through bilateral agreements. Time has come for the ruling establishment to internationalize the issue involving the UN and the International Court of Justice."⁵¹ Air Commodore (Retired) Ishfaq Ilahi said, "Unless the riparian countries join together to ensure optimum use of water, there is the likelihood of conflict and tension in the region in the future".⁵²

M. Rashed Chowdhury claimed, "SAARC can play an important role in reducing vulnerability of future water-related disasters through regional cooperation on water management and conservation and development of cooperative projects at the regional level in terms of exchange of best practices and knowledge, capacity building, and transfer of eco-friendly technologies."⁵³ Lastly, there are a number of initiatives with regard to promoting regional cooperation which must be implemented. In this regard, the Abu Dhabi Dialogue can be considered (which includes Bangladesh, India, Nepal, Bhutan, Pakistan, Afghanistan and China) as one avenue for facilitating regional cooperation in water management in the Himalayan region.⁵⁴

Dealing With Teesta Waters

Equity and fairness must be ensured from the Indian side not only in dealing with Teesta but other common rivers as inequity exists in the current Teesta water sharing pattern. In this regard, Praful Bidwai argues that, "India reportedly has access to 32,000 cusecs during the lean season for 8 million people, while Bangladesh makes do with just 5,000 cusecs for 20 million".⁵⁵

During the dry season, especially beginning in

September and going up to March, Bangladesh requires the Teesta waters for agriculture. Thus, there is an urgent need for an agreement on Teesta water sharing with India. During the dry season, the flow of the Teesta goes down anywhere between 5,000 and 6,000 cusecs while the demand for water by Bangladesh and India are 8,000 cusecs and 21,000 cusecs respectively.⁵⁶ Therefore, it is an issue that needs careful handling. It can be said that the Teesta agreement will definitely be a foundation on which further cooperation can be forged especially on sharing of the waters of Dhaka, Dudkumar, Manu, Khowai, Gumti and Muhuri rivers to meet future water demands.

Moreover, there is a need to assess the realistic water needs in both countries and should have appropriate plans which will be supported by adequate budgets to face future water scarcity. Lastly, it is reported that, in the bilateral meetings with India, we depend mainly on Indian statistics.⁵⁷ Thus, the decisions in such meetings are usually favorable to India. We must take immediate measures to improve our weaker position in this regard.

From the above arguments, it is clear that the existing literature supports both the conventional wisdom, as well as the alternative. But India's non-compromising attitude in the negotiation table and lack of integrated water sharing management ideas are the main reasons which require immediate attention.

Bangladesh's largest and most significant neighbor is India. Both countries share a vast land boundary and scholars and policy makers of both countries believe that Bangladesh's relations with India are very important geographically, politically, economically, and strategically. Bangladesh has to utilize its geo-strategic importance with India while negotiating. The deal on transit will fulfill India's long-standing demand for easier and shorter connectivity between its mainland and land-locked north-eastern states. Therefore, at the negotiation table, Bangladeshi negotiators must keep in mind the tactics of conducting diplomacy that obviously we must get something for giving something and, particularly, we must ensure our national interest through strong diplomacy. Bangladesh can ensure just and fair water sharing through strong diplomacy.

Turning to the supply side, large dam projects are not the only answer for India; there are other possibilities. Local rainwater harvesting and watershed development are also part of the supply

side answers to the demand. Through a combination of these two approaches, on the demand side, the practice of utmost economy and efficiency in water-use and of resource-conservation, and on the supply side, efforts to augment the availability of usable water through extensive recourse to local water-harvesting and watershed development, it may be possible to avert a crisis, though the situation will undoubtedly be difficult and will call for careful management.

Relations between Bangladesh and India have often been complicated, challenging, tense, crisis-ridden and overwhelmed by accusations and counter accusations. But, however negative one might be to India and vice versa, a strong, bold, healthy relationship is a must for the betterment of both countries. And with regard to water disputes, mutual cooperation is a must to resolve the issue.

Finally, Bangladesh and India must respect each other's legitimate rights and understand each other's needs. Besides, mutual trust on commitments, implementation of commitments, and refraining from confusing statements and actions are also imperative for resolving disputes. And considering the future, both parties should minimize their differences for the sake of maintaining good neighborly relationships; Bangladesh should also maintain close contact with states adjacent to India to avoid future misunderstanding.⁵⁸ Lastly, if other regions or countries can reach equitable agreements, why should Bangladesh not be able to reach similar agreements?

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Commentary on “Bangladesh-India Water sharing disputes: Possible Policy Responses”

Tariq A. Karim

The author’s approach to water sharing issues between Bangladesh and India is worthy but, to my mind, somewhat incomplete. While a valid scholarly approach is adopted, with some good and substantive ideas, the author’s analysis of the causes and hindrances that prevent the two countries from resolving their disputes is somewhat loosely stitched together.

The author has correctly identified the various causes, whether conventional or hidden. However, there is some danger in making a generalization, since the causes/malaise in the two countries, while somewhat similar in manifestation, vary in nature and form. While there is a palpable lack of political will on the part of one side in the schizophrenic polity of Bangladesh (BNP-Jamate Islami-rightist parties) to address this issue and try to arrive at an amicable resolution, the other side of this political divide (AL and its centrist-left leaning allies) has consistently displayed inclination, and even firm will to the contrary.

The point regarding lack of consensus is more valid for Bangladesh than for India where, by and large, there exists a national all-party consensus on foreign policy issues even when parties across the political divide sometimes differ widely on the means and methods of attaining their common goals. As regards the perception of India’s indifference to issues of interest to Bangladesh, it has to be acknowledged that this apparent lackadaisical attitude is in reaction to the former’s perception of latent or overtly-manifested hostility or unfriendly acts/attitude on the part of Bangladesh towards its larger neighbor, particularly in security related-matters; in other words, perception of the one feeds the perception of the other, pushing both into a vicious cycle. However, whenever Bangladesh has displayed a concrete resolve to address India’s security concerns, India has reciprocated positively, even commendably: first in 1996-97, when the two countries successfully addressed (a) the Farakka issue and (b) the problem of the Chittagong Hill Tracts (CHT) and cross-border insurgency; and then, more currently, in 2009-11, when India, among other things, (a) opened up trade prospects for Bangladeshi exporters by removing from its negative list virtually all items that are or could be of interest to Bangladesh, and allowing their unfettered entry into

India duty-free and quota free, (b) arriving at a framework agreement that casts aside the six-decades long bilateral paradigm in which India had boxed itself in and agreeing publicly to entering into sub-regional dialogue and agreements on holistic (basin-wide) water management including hydro-power generation, (c) signing the Protocol to the 1974 Land Boundary Agreement that resolves once and for all the various problems related to border demarcation left by the Radcliffe Award of 1947, (d) opening up the Teen Bigha corridor in Dahagram-Angarpota for 24-hour unfettered access by otherwise marooned citizens, and (e) agreeing to Bangladesh’s participation in power generation schemes (whether hydro or gas/thermal), either jointly or entirely on its own, whether in India, Bhutan or Nepal, thus assisting Bangladesh in attaining its medium/long term energy security goals, including allowing evacuation of power so generated across Indian territory and via its grid lines into Bangladesh. These are no mean achievements, considering over three decades of inertia and varying levels of obtuseness or outright hostility on all these issues.

True, there has been a lot of hype among certain quarters in Bangladesh about what remains unresolved, namely an agreement on sharing of the Teesta river waters, which has become hostage to the recalcitrance of the Trinamul Congress state government of West Bengal elected in April 2011 that chose to embarrass its coalition partners in the Union government at an unfortunate juncture of time. This validates the author’s contention that in India, lack of proper homework or forging consensus between state and Union government (provincial and national authorities), if not correctly assessed or anticipated, can exacerbate rather than resolve festering problems since the nature of division of powers in the Indian Constitution creates grey areas of jurisdiction, while foreign policy and the conduct of foreign relations is a federal subject. Thus, domestic political dynamics within a provincial configuration may create a disjoint between provincial and national perceptions, which if not handled with finesse can cause problems for India in conducting relations with its neighbours. On water sharing issues, clearly the prerogative of entering into agreements with other sovereign entities vests with the central government – but the situation becomes complicated because water management and use

within the boundaries of the provincial entity is a state subject (but construction of dams is a central subject). On Teesta, it should be noted, unless West Bengal undertakes construction of additional dams for diversion of waters (which it cannot do because that is squarely a central subject) Bangladesh will continue to receive the same quantity of waters that it has been receiving for close to three decades, and the only fluctuations that may result will be on account of Divine dispensation on quantity of rainfall affecting the levels of the river and its tributaries or distributaries. The Teesta issue has assumed importance leading to the current political hype, primarily on account of its increasing politicization for the almost three decades, mainly by one party in Bangladesh that has forced the other party, for defensive purposes, to echo this hype. In the purely political context, it has transformed into a lightning rod that needs to be insulated and grounded quickly so as not to electrocute anyone in the political landscape (or waterscape). The draft interim agreement that was arrived at by the senior officials of the two sides (that also had the acquiescence of the West Bengal provincial dispensation then in power) in early 2011 was meant to do precisely that. Having said that, there is a very broad consensus at the federal level (spanning across the political divide) and indeed broadly across civil society as well, that India must keep its commitment to Bangladesh on this issue. The central government is continuing its efforts to quietly persuade the West Bengal government to come on board by addressing its concerns and economic demands. Bangladesh needs to have patience for some time – I am personally very optimistic that this issue will be resolved amicably, sooner rather than later.

The other issue that had caused consternation in Bangladesh was the matter of India planning to construct a dam on the Barak River at Tipaimukh (in Manipur state) for hydro-electricity generation. Despite repeated assurances from the highest political levels in India that the proposed dam was not for diverting waters for agricultural or other purposes but designed for power generation, and that nothing would be done that would hurt or have harmful impact on Bangladesh, certain sections in Bangladesh have continued to harp on this “non-issue” for political mileage. In order to allay Bangladesh’s fears, as a measure of transparency, India has agreed to a joint working group comprising experts from both countries to examine this project, still in the drawing board phase, in its entirety and report its findings. Should Bangladeshi experts record a

dissenting voice to aspects of the project or to the project in its entirety, India has assured that it would not pursue it but look for alternatives. At the same time, India has also invited Bangladesh to become a shareholder in the project if its experts conclude that the project would benefit, and not harm, Bangladesh. It must be pointed out in this context that in 1972, the Joint Rivers Commission of Bangladesh and India had agreed to look into the possibilities, jointly, of a project that would address the twin objectives of mitigating ravaging floods as well as augmenting lean season flows in downstream areas of the Barak River. Bangladesh, until 1982, had continued to adhere to this stand, changing the rhetoric only thereafter – a step that served progressively to politicize the issue and lend it toxicity in the increasingly zero-sum politics of the country.

Policy responses

The author is spot on in advocating integrated basin-wide management of water bodies and entering into regional cooperation arrangement. I find it intriguing that while the world at large is drawing closer to thinking along this line, there are still some people stuck in a time warp and harping on internationalizing the issue and involving the International Court of Justice. I am afraid the latter approach indicates that we have not learnt anything from the past, and resorting to this will lead us into a dead end. The greater regional approach (that is involving the entire SAARC region, for example) is also not practicable at this point of time because of the built-in problems that bedevils forward movement of South Asia Association for Regional Cooperation (SAARC) as a whole. Recognizing this, it was Bangladesh that took the initiative in 1995 of advocating sub-regionalism within the SAARC, and the adoption of this proposal a couple of years later led to the formation of the South Asia Growth Quadrangle (SAGQ) in the late nineties. The rationale under-pinning this approach was essentially this: that the entire SAARC regional grouping comprises three distinctive sub-regions, namely, the eastern sub-region (Bangladesh-Bhutan-India-Nepal); the southern sub-region (India-Maldives-Sri Lanka); and the western sub-region (Afghanistan, India and Pakistan); that while the entire (or greater) SAARC region with all eight countries may not be interested in all schema of cooperation at the same time, the eastern or southern sub-region may have arrived at a stage where they can get on the fast track in some areas of cooperation. The time appears to have arrived now for adoption and active pursuit of the sub-regional approach in the eastern sector. This is

evinced by the fact that Bangladesh, Bhutan and India have publicly indicated their willingness to enter into such a formalized arrangement on water management and renewable (and green) power generation. Nepal has also publicly declared its willingness in principle to eventually joining this configuration. Again, credit must be given where it is due: this sub-regional configuration is coming into place because of the visionary leadership and initiative of the present governments in power in Bangladesh and India. Once Bangladesh and India had agreed and conveyed this to Bhutan, Bhutan very readily, and spontaneously, also came on board. Domestic political developments in Nepal, one is hopeful, will also persuade its people and leadership into looking dispassionately at the merits of joining this new paradigm of cooperation in its own larger interest.

The author, however, makes a couple of assertions which are uninformed and not valid. One is that “in bilateral meetings with India we depend mainly on Indian statistics. Thus, the decisions of such meetings are usually favorable to India”. This is certainly not true in respect of Bangladesh negotiators in the Teesta water talks. In fact, Bangladesh was able to establish the case that because the two sides have completely different (and conflicting) data on water availability in this river, the two sides can only enter into an interim arrangement under which, while in effect, the existing or historical (for almost last three decades) water flow is not adversely affected in any way, the two sides will jointly measure the water availability and flows over the next fifteen years to finally determine the size, shape and volume/weight of the cake to be shared equitably between them. The author also refers to “India’s non-compromising attitude in the negotiating table”. Again, the slew of major agreements that have been arrived at during the last three years by the two sides belie this simplistic assertion and point to, if anything, the remarkable spirit of mutual understanding and accommodation displayed that have resulted in win-win arrangements that eluded both sides in the last thirty years.

Finally I would like to leave the author and readers with some food for thought. I would posit that the entire world, by dint of progressive population expansion, is moving into a stage in this century where the fresh-water to human population ratio will become more exacerbated and adverse to human population. With glaciers world-wide on the retreat, and unpredictable effect of global warming on global,

regional and local climatic factors, recharging of fresh water sources will also very likely be adversely affected – at the very least, it would be prudent for us to assume this ultimate scenario. We may well imagine a depleting fresh-water world where mankind, as a whole, needs to re-examine his approach to water consumption and water management. In such a diminishing fresh-water world, water may have to be declared as a scarce and fungible commodity whose management and administration needs to be reposed with an authority that is larger than the present geo-political configurations of states-provinces and national governments. Citizenry of such a hard-pressed fresh-water world must adopt rules analogous to the rights of citizenry in today’s nation-states, the fundamental underpinnings of which are two, namely: rights go hand in hand with responsibilities (to the state and fellow citizens); and no one citizen’s rights can be at the expense of the rights of another fellow citizen. In this context, we in South Asia must, sooner rather than later, politically evolve to a regime of water governance in which the member states will have, by mutual consensus and consent, set up a “South Asian Water Resources Management Authority” (which will have real authority and powers vested in it, as opposed to the present configuration of a “South Asian Association for Regional Cooperation”). This supra-national authority will measure, monitor and keep track of all available water resources (ground and surface), set strict usage, conservation and management regulations, and oversee adherence to and enforcement of these regulations, to ensure the rights equally for all its denizens. This may appear at present to be a far cry from where we are today. But I do believe that we must indulge in anticipatory thinking now, and move away from the present paradigm of water profligacy to a safer regime of equitable water availability for all.

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The views expressed in this commentary are in his personal capacity and not attributable to the Government of Bangladesh.

Microfinance and its Discontents: Response to Munir Quddus (cont.)

Taj Hashmi

Professor Munir Quddus raises the question if my review is “balanced and scholarly”. He also believes that my narrative could be “powerful, stunning, and even scandalous, except that it is based largely on Mr. Hashmi’s perceptions, with little evidence to support it”. With due respect to him, I find his commentary quite condescending as he assumes that I have given “unsubstantiated opinions” based on mere “perceptions” and without any “credible statistics or hard evidence” to buttress them. I am familiar with this genre of writing where writers not only disagree with another viewpoint, but also assume that what the other writer has written is due to her/his ignorance and/or prejudice. I have only one problem with his generalized assumption; it is misleading. He seems to be unwilling to accept that as there are thousands of hagiographies on Dr. Yunus, there may be an equal number reflecting just the opposite view. I think hyperbole cannot make something delicious; the proof of the pudding is in the eating.

Since I like Lamia Karim’s and other critics’ deconstruction of microcredit as a myth, a half-truth at best, which rests upon a structure that may be exploitative and a public relations campaign that may be quite deceptive, despite Professor Quddus’s objection to my not citing microcredit’s admirers, I have absolutely no reason to mention what the global admirers of microcredit have said and how many countries have replicated it in a short review paper. I am quite familiar with what the Clintons, Queen Sophia of Spain and other blind admirers of Grameen in the East and West (including academics) have said and written. They are at best imaginary statements by ill-informed celebrities and at worst simply innocent distortions of truth and deliberate lies. Does Amartya Sen or Jeffrey Sachs (Hillary Clinton or Queen Sophia) know more about the ground reality of microcredit in Bangladesh than those loan defaulters who run away to cities or the lucky ones, who have not killed themselves, and have only lost their household goods, tin roofs, goats and jewelry to repay their debts? An embarrassing and “blasphemous” question indeed!

By the way, I had spent months together in Bangladesh villages and talked with scores of villagers, including Grameen and BRAC borrowers, clients, critics and BRAC staff in 1998 and 1999 before I wrote a 46-page-long chapter on Grameen-NGO activities and the mythical “empowerment” of

rural women in Bangladesh in my book, *Women and Islam in Bangladesh: Beyond Subjection and Tyranny* (Palgrave-Macmillan, New York-London 2000), which was mainly based on empirical research. What I heard from villagers in Comilla, Sri Mangal, Manikganj, Sylhet and Mymensingh about the Grameen-BRAC activities is far more valuable than what 500 scholars, politicians, and laymen have to say about them. I have the fond memory of what one elderly villager in Comilla (near Kotbari Academy) told me in 2000 (I was supervising IUB students’ “Live-in-Field Experience (LFE)” village study group): “*Sir, amader gramey amra Grameen dhukte dei nai, tai amra pasher gramey jekhane Grameen achhey, tader chaite anek bhalo achhi*” (“Sir, we have not allowed any Grameen Bank operation in our village, and as a result, we are much better off than villagers in the neighboring village, which has allowed Grameen operation”). Not surprisingly, my students on another LFE at a Sri Mangal village told me the same story.

To my great surprise, Prof Quddus has traced elements of “pronounced bias” and “even animosity towards microfinance and its founder” in my review. Before I address the allegation, I clarify that Dr. Yunus is not the “founder” of microcredit. In Grameen Bank, we find the replication of the collateral-free five-member group-lending system introduced by Rabindranath Tagore through the Kaliganj Krishi Bank at Patishar village in Naogaon in 1905, which remains unacknowledged by Dr. Yunus, or most of his admirers.

I was rather kind in my review by only giving the darker side of the traditional Mahajani moneylending system in Bangladesh. Even the proverbial Kabuli (Pathan) moneylenders charged around 24% on their collateral-free loans. Wolcott’s research reveals that moneylenders in colonial India “followed many of the same practices which have been praised in the Grameen Bank They loaned without collateral based purely on their personal knowledge of the borrower Colonial moneylender rates were similar to the rates charged by the Grameen Bank today.” [Susan Wolcott, “Microfinance in Colonial India” S.Wolcott-www.-siepr.stanford.edu – pdf - 2007]. So why should we single out the Grameen Bank as the first collateral-free lending institution in the world? Again, the Grameen rate of interest on microcredit from villagers is 28% (20% + 4% membership fee + 4% service charge) on the average.

I assume Professor Quddus is possibly right in that Dr. Yunus advanced the equivalent of \$27 to 42 poor women in Jobra village. Dr. Yunus tells us how these poor basket makers returned the debt. I have two questions in this regard: a) Since, in the early 1970s, the exchange rate between US dollar and Bangladeshi taka was \$1= Tk 20, how could \$27 or Tk 540 generate enough capital for 42 borrowers (at Tk 12.8 each) to make their basket making business viable? b) Why should Dr. Yunus or anybody else compare this interest-free loan with microcredit, which charges 20% or more as interest from borrowers?

Again, I personally respect Dr. Yunus as a nice and honest gentleman. I know him since 1972 as my colleague at Chittagong University. I have already indicated in my review, I do not condone Sheikh Hasina's slanderous vitriol against Dr. Yunus or what has been unfairly done to him. I did not like the allegation made by the Prime Minister's son (Sajib Wajed Joy) at a workshop in October 2009 at my previous work place (US Navy's College of Security Studies, APCSS, Honolulu) that Dr. Yunus had been promoting Islamist politics in Bangladesh.

By now several hundred scholars have rejected microcredit as panacea to poverty. I have cited a not-so-kind DFID report on microcredit in my review. Again, Professor Quddus has every right to deny the concept of neo-imperialist exploitation of the Third World, as I have every right to believe neo-imperialism (and its agents in the Third World) to be the main hindrance to the development of the Third World.

Dr. Yunus often gets carried away by innovations and gimmicks. He once wanted to import Monsanto's degenerative genetically modified seeds to Bangladesh (thanks to Vandana Shiva's success in

dissuading him from doing so). He allowed Norwegian telecom company Telenor (as a partner of Grameen Phone) to rip off Bangladesh through more than a decade-long tax-holiday in the name of running a "charity" (called "Grameen Phone" !). After French food conglomerate Dannon opened its yoghurt plant in Bangladesh (*Shakti Doi*), I remember Dr. Yunus's exuberance: "Now, Bangladesh's children will take Shakti yoghurt". He once said that eradicating corruption from Bangladesh was as easy as getting ripe fruits fall into one's mouth by simply lying on his/her back under a fruit-laden tree with a wide-open mouth. He thought the Chairman of the Anti-Corruption Commission could eradicate corruption by simply publishing the names of the corrupt people in national dailies.

Without being disrespectful to Dr. Yunus, I think his rhetoric and simplifications do not solve problems like poverty and bad governance. I have only pointed a few gaps between his public assertions and the reality; not to undermine him but for the sake of saving Bangladesh from the delusional concept that microcredit would send poverty to the "museum" (by 2030) as he had claimed. One does not become hateful of Dr. Yunus by simply citing some of his acts and assertions, or by sincerely critiquing some of them.

In the same way that NGOs cannot be substitutes for good governance, neither is microcredit a solution to poverty. I think Lamia Karim's work helps us understand this reality. In sum, it is time that more anthropologists, sociologists and political scientists study the problem of poverty, underdevelopment and backwardness as they are primarily *cultural and social problems*, not "*economic problems*", as some people, however well-intentioned, generally assume them to be.

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Microfinance and its Discontents: Response to Taj Hashmi (cont.)

Munir Quddus

In my commentary on Prof Taj Hashmi's (TH henceforth) review of Lamia Karim's book *Microfinance and its Discontents* published in the previous issue of JBS¹, I had raised a number of concerns.

- I found the review to be one-sided and lacked scholarly balance.
- The review rehashed a number of conspiracy theories suggesting the entire NGO movement is an attempt by Western powers to maintain their economic hegemony over the Third World nations (neo-imperialism); the paper failed to make a distinction between home-grown development NGOs (such as the GB and BRAC) and foreign NGOs working in Bangladesh.
- The reviewer employed language not commonly used in scholarly publications.
- The review at places read more like a personal attack on Prof Yunus (he is mentioned 24 times, and not once favorably!) and the Grameen Bank (GB) rather than a scholarly discussion of the pros and cons of the microfinance industry (or micro-credit, henceforth, MF).
- Unfortunately, a number of easily verifiable factual errors were identified in the review that had to be corrected.
- The review included numerous unsubstantiated statements on the history and origins of MF movement, and its shortcomings as a development strategy; this made it difficult to verify if the author's conclusions are evidence based or specious.
- Taking a harsh view, one could argue that in his zeal to criticize MF, the author at times abandons scholarly standards, distorting or ignoring facts that are contrary to his own arguments on the role of business, NGOs and MF.

Taj Hashmi's Rebuttal

How did TH use the opportunity to clarify and answer questions raised in my commentary? Unfortunately, I found little of substantive value or evidence-based response in his latest article. He continues his harsh tone, criticizing and undermining the work of the Nobel Prize winning Grameen Bank (and the world famous BRAC and ASA) in helping millions of rural poor, mostly women, with small

doses of collateral-free loans at rates that would sustain these institutions over the long run. Although impressed by his consistency, I am saddened to see a scholar's lack of appreciation for facts and real world evidence available from numerous sources in Bangladesh and beyond attesting to the good that MF has delivered for the world's poor.

To briefly summarize his latest response, first, TH feels no obligation to restate what he considers to be the propaganda by the global admirers of MF. He considers the proponents of MF to be ill-informed who propagate "concoctions of truth and motivated lies." He includes in the list of ill-informed admirers of MF scholars such as, Amartya Sen and Jefferey Sachs.²

Second, he writes of his respect for Prof Yunus as a man of integrity ("nice and honest gentlemen"), but returning to the "pronounced bias" detected in the first article, he makes additional statements ("innovative ideas and gimmicks often carry Dr. Yunus away;" "he allowed...Telenor...to rip off Bangladesh..") without appropriate arguments to support these.³ Given these are poorly referenced the statements are misleading, and may be entirely spurious.

On factual errors that were identified in his review article, he grudgingly *acknowledges only one error* regarding the size of the first loan that Yunus gave from his personal funds. TH had initially written that the first loan of \$27 equivalent went to a single borrower Sufia Begum. In fact the first loan amounted to total of \$27 (taka 856) disbursed to 42 families, of which Sufia Begum was one.⁴ TH ignores the other errors identified in my commentary.⁵

Finally, instead of taking advantage of the opportunity to provide references to back up the unsubstantiated statements in his earlier write-up, he makes new comments, again without appropriate references.

Setting the Record Straight

I will limit my comments to only a few issues raised by TH in his original review article and the more recent response.

First, the issues surrounding the story of Yunus' earliest efforts in helping the poor with a personal loan that eventually led to the idea of micro-credit and the creation of the Grameen Bank in 1983. TH asks two new questions.

1. Why should we compare Yunus' first interest-free loan to 42 families in Jobra with MF that we see today where the borrowers pay 20% or more interest?
2. How could a small amount (\$27 to 42 families, or Tk.12.8 per borrower according to TH's estimates) of loan to borrowers in the village Jobra in the midst of the famine of 1974 make their basket weaving business viable?

These are good questions. It may be best to let Yunus answer these questions.⁶ Below are a few passages that tell the story of his early efforts in helping poor villagers in Jobra in 1974. These passages show how he reached the conclusion that the only feasible way large number of poor families can be assisted (so that help themselves increase their earning power) is by establishing institutions that would specialize in giving small loans to the poor at affordable interest rates (so that the programs can be expanded and are sustainable in the long run),

"...I lay in bed feeling that I was part of a society which could not provide \$27 to forty-two able-bodied, hard-working skilled persons to make a living for themselves...Over the next week, it struck me that what I had done was not sufficient because it was only a personal and emotional solution. I had simply lent \$27 but what I had to do was to provide an institutional solution...my thinking up until then had been *ad hoc* and emotional. I needed to create an institutional response on which they could rely." (Yunus and Jolis, p. 12)

"...I decided to approach the local bank manager and request that his bank lend to the poor. What was required was an institution that would lend to those who had nothing. It seemed simply, so straightforward." (Yunus and Jolis, p. 12)

"That was the beginning of it all. I was not trying to become a money-lender, I had no intention to lending money to anyone; all I really wanted was to solve an immediate problem. Even to this day I still view myself,

my work and that of my colleagues in Grameen, as devoted to solving the same immediate problem: the problem of poverty which humiliates and denigrates everything that a human being stands for." (Yunus and Jolis, p. 12)

In short, Yunus (or Abed of BRAC) could have resorted to giving interest-free loans, but that would have meant that they would need "charity" or "foreign aid" dollars to support their operation. The poor like Sufia begum were not seeking charity. This would have also meant that instead of nearly 20 million poor families in rural Bangladesh having access to institutional credit today, such charity dollars would have been available to only a tiny segment of those interested in such loans.

The answer to the second question is also plainly available in these pages. If TH had consulted the book, he would know that the average loan was not Tk. 12.9 that he estimates, but Tk. 20.38 (Tk. 856 divided by 42 borrowers). Is this amount too small to help anyone? Here is a lesson on extreme poverty that we all need. When Yunus first met Sufia Begum, he asked how much does the bamboo to weave the basket cost. She responded, taka 5 (22 US cents). He asked if she had taka 5, and her response was that she did not ("No, I borrow it from the *paikars*"). He inquired into the arrangement. She said, "I must sell my bamboo stools back to them at the end of the day, so as to repay my loan. That way what is left over to me is my profit." "How much do you sell it for?" "Five taka and 50 paisa." (page 7). This is when he realized that for an entire day of labor she earns only 50 paisa (2 cents). He inquired why does she not borrow the necessary funds to buy her own bamboo to increase her earnings? She remarked that the money lender will charge 10 percent per week, or in some cases 10 percent per day (more than 500% annually!).

So yes, faced with extreme poverty, even small amounts of credit can make a huge difference in the lives of the poor, hence the surprising success of "micro" credit.

Philanthropy versus Social Business

One of the crux of the critique by TH is that the poor, who he agrees certainly need loans (credit), should receive such loans at low, preferably zero interest rate. In other words, TH is arguing that the poor need and deserve "charitable" support. Although never

fully articulated, many critiques of MF believe that it will be best if these loans are grants that do not have to be paid back. They believe subsidized or free credit will help the poor meet some of their urgent needs and avoid going into increasing debt.⁷

There is no disagreement that the poor need support from all possible sources, including charitable support. There are a number of development and philanthropic organizations worldwide, private and public, which work in this area. Certainly when it comes to short-term assistance, such as disaster relief, aid or grants is the predominant form of assistance for the suffering poor. BRAC, in fact, started out as a disaster relief organization but eventually came to realize that the only viable solution to poverty is to work on structural problems for long-term solutions.

There are a number of reasons why charity is not the best solution to alleviating poverty.

1. Charity dollars are limited; once given away, the funds do not come back and therefore, cannot be recycled by the donor organization.
2. Charity does not develop self-respect, but the opposite. Most poor would prefer loans that they can return over time, rather than handouts.
3. Charity often leads to dependence and lack of initiative making is even more difficult to break free from the poverty mindset.
4. Organizations that deal with donated funds (foreign aid, other) are often wasteful, inefficient and corrupt.
5. Unlike a business, charity is often not sustainable.

In 1998, Yunus wrote about the fallacy of considering charity as an antidote to poverty,

“Charity is no solution to poverty. Charity only perpetuates poverty by taking the initiative away from the poor. Charity allows us to go ahead with our own lives without worrying about other people. Our conscience is adequately appeased by charity.” (Yunus and Jolis, page 293).

This thinking has led to the idea of social business as a superior strategy for overcoming poverty. The underlying premise of creating a social business (like GB and BRAC) is to create business-like organizations to address poverty related issues. To be impactful, these mission-driven organizations

must be sustainable so that they can continue to support the mission and expand the services to other poor over the long run.⁸

This can be stated in somewhat concrete terms. Given a choice between helping (say), 100,000 or even 1 million poor families with charity, and helping more than 20 million poor on a consistent basis for more than 20 years across more than 81,000 villages in Bangladesh with savings these communities generate, what would TH prefer? This is the power of social business. This is what has led to a movement that now brings institutional credit (and savings opportunities) to more than 150 million poor across the globe giving them with a real chance to escape extreme poverty.

This debate has similarities with the “aid vs. trade” debate. Most development scholars and even politicians agree that trade is better than aid - it is far better for the donor nations to provide poor countries with generous access to their markets (trade opportunities) than to provide aid (handouts). Why? Because with aid comes strings and dependency, corruption and waste. With trade, there is pride, new jobs, and long-term benefits in creating one’s future. Bangladesh’s own experience with the success of Readymade Garment (RMG) export industry is a telling example of how trade opportunities are superior to foreign aid.

The Museum Theory of Poverty

In both the original and the second article, TH makes fun of what he calls the “museum theory of poverty.” This refers to the now famous metaphor which Prof Yunus often employs to describe his vision of a world free of extreme poverty in concrete terms.

“So the real question is not so much where do I think we will be in the year 2050, but where would I like the world to be in 2050...By that time I want to see a world free from poverty...Poverty does not belong to civilized human society. Its proper place is in a museum. That’s where it should be.” (Yunus and Jolis, page 283)

Like every inspirational leader, Yunus understands the importance of advancing a vision, something that will inspire others with a sense of common purpose, and guide them through difficult challenges. A familiar mantra is - if you can imagine something, you can achieve it. The vision is usually a “stretch”

goal in the future. It may not be measurable or even achievable in our lifetimes.⁹

Instead of ridiculing the idea, I wish TH could appreciate the significance of a vision to inspire people to achieve what looks impossible at present. The point of the “poverty in museum” metaphor is to focus the society’s attention on poverty as a major problem that can be solved, if we are genuinely interested in eradicating all forms of poverty. By describing his vision in concrete terms, Yunus was following the time-honored strategy of leadership. From the evidence on hand, it is fair to say that he has been successful with his metaphor. The World Bank and other development organizations despite initial misgivings have now come to embrace MF as a significant breakthrough idea in alleviating poverty. Nations across the globe have launched their own versions of MF. The United Nations Millennium Development Goals (MDG) includes a specific goal on eliminating poverty. For example, goal number one is, “Eradicate Extreme Poverty and Hunger.”¹⁰ This demonstrates that when Yunus challenged that we should dare imagine a world free of poverty, others responded. Today more than 150 million poor around the globe have access to some form of developmental microfinance. The movement has come a long way from the \$27 in personal loans Yunus gave to 42 struggling villagers in 1974.¹¹

Who Owns the Copyright on the Idea of Micro-credit?

Once again, TH brings up the issue of who was first to come up with the idea of micro-credit (or MF). “I clarify that Dr. Yunus is not the ‘founder’ of micro-credit.” He goes on to claim, again without any reference or scholarship to back the claim that Rabindranath Tagore had experimented with similar models of credit to help the poor in 1905.¹² This may be true. However, it must be pointed out that this line of criticism is not original – certainly TH is not the first or the only critic to make such a claim. Bhagwati, a well-known economist, wrote in a recent opinion piece that Yunus should not be credited as the pioneer of microfinance (a claim that that Prof Yunus himself has never made).¹³ He proposed that Ela Bhatt of India should get the credit given her work with the Self-Employed Women’s Association (SEWA) that has been involved in credit to the poor since 1974. Interestingly, Bhagwati does not mention Tagore’s efforts in lending to the poor. In the West, among others, Jonathan Swift (1667–1745), the Anglo-Irish essaying, poet and satirist, is credited

with being one of the earliest given his role in establishing the Irish Loan Funds.¹⁴ I am sure there have been other precursors across the world who may have attempted to help the less fortunate in their communities with small loans in some organized fashion.

Aghion and Morduch (2005) write appropriately:

“The roots of microfinance can be found in many places, but the best known story is that of Muhammad Yunus and the founding of Bangladesh’s Grameen Bank...” Aghion and Morduch, page 11, Italics added)

I wish to make two points. First, for many observers it is clear that the genius of Yunus is not as much in the concept of collateral-free, group-based small loans, but in his demonstrated ability to focus on the problem seeking a workable solution, and eventually creating a unique and iconic organization, the GB, that has served not just a few, but many millions across the nation. If one thinks about what GB has achieved, the numbers are staggering by any stretch of imagination. Today GB has 8.35 million members of whom 96% are women achieving a loan recovery rate of 97%; to date the bank has recovered \$10.11 billion of the \$11.35 billion it has disbursed since 1984. Most observers discover that the GB is not a fancy organization with well-heeled executives. Starting from the Managing Director down, the working conditions are modest, and yet efficient. The fieldwork is arduous and risky, and yet its 22,000 plus employees in 2,565 branches serving more than 81,000 villages, who receive government level wages, and work efficiently with very little corruption. The same can be said about the remarkable BRAC, considered the world’s largest NGO and a major player in microfinance.¹⁵

Secondly, successful leaders often borrow an existing idea that is in sync with local traditions and culture, and take this to an entirely different level. Take the case of Mahatma Gandhi and the concept and strategy of using non-violence in the political arena to win political independence. The idea of non-violence did not originate with Gandhi - one can trace it back to Jesus of Nazareth and others in history. However, Gandhi is universally considered as the greatest practitioner of non-violence as a political tool. Leaders including Martin Luther King and Nelson Mandela who followed Gandhi’s footsteps in employing the strategy of non-violence with great success trace their inspiration to Gandhi’s success in

using non-violence with great political success. *This is not because Gandhi was the first proponent of non-violence*, rather he was the most prominent practitioner of non-violence, winning independence and nationhood for his people. In my view the same applies to Muhammad Yunus and the idea of micro-credit.

Concluding Remarks

Given his response, I must conclude that TH is either unwilling or unable to change his mind on the subject, no matter what logic or facts are presented in support of MF. My own view is that critics of MF have an important role to play in this discourse. There is no doubt that just as MF has the potential to help many millions, it can also hurt some borrowers. This is true with any financial transaction, but given the vulnerability of the poor, the negatives are sometimes amplified. However, MF is now part of the conventional wisdom in economic development. One can debate as we have done here if MF is *the* solution to poverty, but most experts would agree that it is certainly an important part of the solution to alleviating poverty. Since the Nobel Prize in Peace was awarded to Grameen Bank and Professor Yunus in 2006, one finds authors of textbooks on economic development, experts in international development organization playing catch up with realities on the ground in MF. Additionally, for continuous improvement and to prevent mistakes, it is important that we have a free flow of ideas including critical analysis on the theory and practice of MF. However, the criticism must be fact-based, theoretically sound and above all sincere in seeking better strategies in poverty alleviation. Unfortunately, TH's criticism of MF fails to meet these standards.

I wish to end this exchange on a positive note. Let us remind ourselves that the real enemy is global poverty, and not men and women of goodwill working across the globe to improve the conditions of the poor. Poverty is a complex problem. No development strategy is perfect. No single idea or theory will help us eradicate global poverty. No one discipline has all the answers. I am in full agreement with Professor Hashmi that more anthropologists and sociologists and political scientists must get involved in poverty studies. Economists cannot solve the riddle of poverty by themselves. I will go further to argue that scholars of all stripes, from social scientists to natural scientists, from doctors to engineers, must work together in the crusade to better understand poverty and find breakthrough solutions.

Along with the practitioners and field workers, we must continue to think, research, criticize and experiment if we want to significantly improve our chances putting "poverty in the museum" in the not too distant future.

Endnotes

1. Hashmi (2012)
2. He leaves out from his list Rehman Sobhan, Wahiduddin Mahmud and Salim Rashid, all Bangladeshi scholars of repute who have studied MF for years, have been involved with its theory and practice, and are convinced of its many benefits.
3. Providing tax holidays to foreign investors in exchange for technology and knowhow is a standard practice in development. There is keen competition for foreign direct investment (FDI). The returns to the host economy can be enormous in new jobs and wealth created as is obvious from the example of Readymade Garment (RMG) export industry in Bangladesh. On the issue of how GB came to partner with Telenor, see Sullivan (2007). The author traces the story of young Bangladeshi professional Iqbal Quadir sought help from Dr. Yunus to realize his dream of bringing mobile phone technology to help the poor in Bangladesh improve their lives through better connectivity. This is a fascinating story of how technology, hard work, and visionary leadership can come together to transform the future of a people.
4. Yunus and Jolis (1998), page 11
5. He raised two new questions on the subject to which I respond later in this article.
6. If TH had carefully read Yunus' book, he would have found answers to both questions. Once again this shows a lack of effort in consulting the original sources. Perhaps his mind on the perceived evils of MF was made up years ago, and no amount of evidence or logic will convince him otherwise. Alternately, TH may be unconvinced of the sincerity of Yunus, Abed, and other MF pioneers in trying to help the poor. Why this distrust? If from his perch in academe in the United States, he can feel for the poor, why not be gracious enough to believe that others too are sincere in their efforts to help the poor, and fortunately for us, some have even made this their lives mission.

7. Karim (2011) writes, "There should be governmental oversight in the interest rates these NGOs charge. Failure to do so allows many NGOs literally operate as loan sharks towards their poor clients." P. 203. Karim (and Hashmi) fail to acknowledge that the Bangladeshi NGO's involved with MF are regulated by PKSF.
8. Yunus (2010), page 1
9. Jim Collins, former Stanford University professor and author of *Good to Great: Why Some Companies Make the Leap...and Others Don't*, writes that for top ("level 5") leaders and CEOs who lead their companies to greatness it is critical to have an ambitious vision. Collins calls such visionary goals - Big Hairy Audacious Goals (BHAG) which is "a key way to stimulate progress while preserving the core. Collins (2001), page 202.
10. See United Nations Millennium Development Goals.
11. Yunus and Jolis (1999) page 11.
12. A search on Google reveals a recent story reported in a local newspaper that such evidence has surfaced fairly recently. I am unsure if Yunus or for that matter anyone else was aware of Tagore's work in this arena. I am not aware that any of Tagore's biographers mention this work, if this has been investigated by any Tagore scholar.
13. Sobhan, Z (2011), "He opens by sneering that Yunus is not the pioneer of micro-credit, a claim that Yunus has in fact never made..."
14. See Wikipedia (Microcredit, July 23, 2012).
15. See Grameen Bank at a glance (2012).

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Conference Announcement

Bridging the Policy-Action Divide: Challenges and Prospects for Bangladesh

Organized by *Bangladesh Development Initiative, USA (BDI)*

Tentative Dates: March 29 & 30, 2013 (Friday & Saturday)

Venue: The Faculty Club

University of California, Berkeley

Berkeley, CA 94720, USA

Following the success of the 2008 and 2009 conferences at Harvard University, Bangladesh Development Initiative (BDI) is once again organizing a two-day international conference to examine the gap between development policies and their implementation in Bangladesh. The goal of the conference is to generate new ideas for transforming Bangladesh into a prosperous nation in the early decades of the twenty first century. The conference, planned in partnership with the Center for South Asia Studies, UC Berkeley, is scheduled for March 29–30 (Friday, Saturday...subject to change), 2013 at Berkeley, California. Scholars, educators, students, policymakers, social entrepreneurs, and research and development organizations are invited to attend.

Topics of interest

- A) Governance and Political Development
- B) Poverty Alleviation
- C) Human Rights and Law and Order
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- L) Foreign Policy

Conference Related Information

Detailed registration information will be forthcoming on BDI's web site (www.bdiusa.org). The early (on or before December 1, 2012) registration fee for the conference is \$250. After December 1, 2012 the registration fee is \$350. This fee will cover access to all sessions for both days, a formal dinner, access to all plenary sessions, and available papers on compact disks. The registration fee for participants from Bangladesh is \$100 (after December 1, the fee is \$150). This registration fee applies to students from USA and abroad. BDI will reserve hotel rooms near the venue, and share details in the coming days. Directions to the venue and other details will be posted at the BDI website as these become available. Participants will be generally responsible for their own travel arrangements.

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