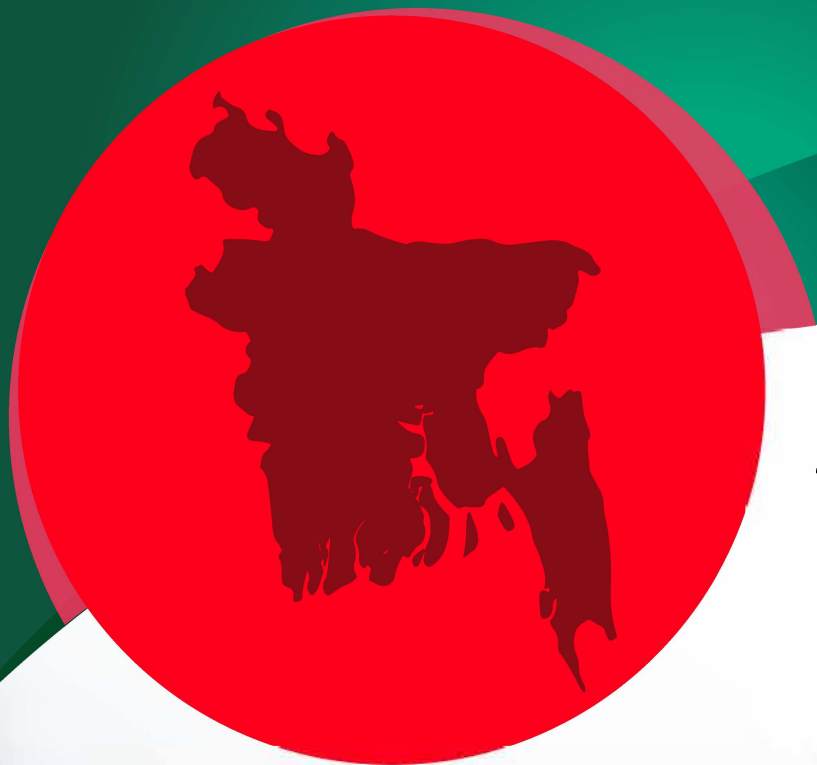


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FROM THE EDITOR

Bangladesh continues to be an enigma. Its recent ascent to lower middle income status suggests that the country has made reasonable economic progress. The cognoscenti, however, know that an “average” can be misleading: a small part of the population may have “made it” (by whatever means) while the large majority may still be languishing, desperate and huddling in want. Thus the ascent to a new status needs to be parsed by looking at many other indicators — political stability, social development, psychological mind-state, education, health, infrastructure and much more.

The biggest contributors to economic growth — agriculture, the RMG sector, and manpower exports — seem to have maintained steady advancement with minor hiccups, despite political turmoil that was purported to unleash dire consequences. Private and public efforts appear to have stifled the predicted adversities. Health and related indicators have also done reasonably well, although education quality at all levels recently came under serious criticism. The question being raised above all is the quality of the country’s human resources and one of the biggest indicator of this “quality deficit” is the outsourcing of jobs at higher levels to other countries that is reportedly growing. Serious ramifications for the country’s foreign exchange reserves should also be obvious to the discerning citizenry.

Social indicators also seem to be going in the opposite direction: the assault on human rights reflects a heightened tenor of depravity — children being killed for minor infractions, rising cases of rape, continuing violence, spreading unrest across sectors, a flawed justice system, and more.

In this milieu, the Journal of Bangladesh Studies continues to publish “research” papers intended to provide analysis, insight, and guidance not on the basis of hearsay or opinion but on strict methodological foundations and consequent empirical data.

This year we combined two issues into one. The reason is largely our editorial policy of publishing papers vetted by senior scholars through a serious review process. That means after the review process many submitted papers receive guidance to meet standards; more often than not these papers do not come back. Some may even get published elsewhere. The tragedy is that the number of journals has risen markedly in Bangladesh with apparently much lower bars in their editorial policies. In their

bid to publish (or perish) it is not unlikely that researchers will choose the easy alternative. It is critical for academia to insist on higher standards in the publication domain and improve at least one aspect of higher education.

In this issue we present five papers. Dick Durevall and Farzana Munshi examine the relationship between trade liberalization and income inequality in Bangladesh. While several studies predict an inverse relationship between the two variables, the authors analyze the relationship between trade liberalization and skilled-unskilled wage inequality in the Bangladesh cotton textile industry to find a lack of support for the purported association in this particular industry. Bangladesh’s international trade data served as a proxy for trade liberalization. When associated with real wages for both skilled and unskilled workers, it was found that while both relative skilled-unskilled workers’ wages increased with liberalization, there was little evidence that the wage “gap” between the two income categories narrowed. In other words increased openness to trade did not have any noticeable and desired effect on wage inequality.

Kazi Iqbal examines the effect of competition among Microfinance Institutes (MFIs), especially in the evolution of this sector, as well as the welfare of the borrowers. Using branch level information of the MFIs in two districts — Rangpur and Lalmonirhat, the study finds indications of competition in all three spaces — location, product and price. Interestingly the study shows that as the number of MFIs increase in a union they tend to i) locate their branch where larger numbers of MFIs already exist, ii) offer greater number of products and iii) lower prices. This obviously gives borrowers a wider range of products to choose from and softer loan terms. The question this study raises is its implications for backward areas that will tend to be neglected by the MFIs unless some form of government or NGO intervention is devised.

Akhlaque Haque’s study on a growing Digital Bangladesh suggests that information technology for government reform has reached a new level and public organizations are “rushing to reorganize and adapt to the new technological environment.” The author argues, however, that when a rational technological system is institutionalized as the central structural element in the organization, the constraints inherent in technology can make the institutions less adaptable to social values. Since institutions are the embodiment of the public they serve, institutional

reform should first deliberate the positive human and social elements, especially service to citizens that the public institutions ought to prioritize before the choice and utilization of technology. The paper also argues that meaningful institutional reform requires the consideration of culture to play a central role in refocusing institutional attention towards a deliberative democracy.

M. Muaz Jalil explores the furniture industry of Bangladesh and its transformation from a cottage-based industry into a semi-mechanized industry with strong export potential. *Katalyst*, a multi-donor funded private sector developmental project in Bangladesh contributed to transforming this industry from being largely carpentry shops to manufacturing factories with shop floor management, production scheduling, standardization, inventory control and much more. By focusing on the theory of change to improve competitiveness of the industry, *Katalyst* was able to achieve overall poverty reduction through better income and employment opportunities.

By identifying the underlying constraints in the sector, systemic changes were triggered in the market system by working with the market leaders in the private sector. *Katalyst*'s experience especially focusing on deal making, strategic outlook, market analysis, and private sector engagement is quite instructive regarding developing an industry by inspiring systemic change. Importantly, the collaboration that was generated by *Katalyst* between suppliers, associations, manufacturers and government bodies (like Export Promotion Bureau) reminds us of the need for cooperation to install systemic changes within both micro and macro systems.

Mohammad Abdul Malek and Koichi Usami examine the situation of non-farm enterprises in rural Bangladesh, especially the significance and growth linkages of household non-farm enterprises (HNFEs) in four villages at a typically advanced rural location: Comilla Sadar Upazila. The authors opine that in relation to the limited scope of earning income from farming and in-country remittance employment, households' higher dependency on out-country remittance employment and local low-return non-farm employment (NFE) could threaten sustainability of local livelihoods. Thus, the increasing contribution of non-farm self-employment and non-farm wage employment is critically important. The HNFEs were found to be locally linked, purchased inputs locally and sold outputs in distant markets with higher profit and income potential. The government's role in promoting HNFE is highly recommended by the authors.

Two books written by eminent political scientists Rounaq Jahan and Navine Murshid are also reviewed in this issue. Jahan's book examines the role of political parties in democratization while Murshid covers interesting terrain on refugee issues. The reviewers — Ahrar Ahmad and Farida Khan — provide additional depth and dimension to provoke further thinking among readers. I trust this issue will engender serious discussion on the topics addressed. I would also like to take this opportunity to thank, deeply, the editorial assistance provided by the Brac Institute of Languages and BRAC University.

Syed S. Andaleeb
Editor in Chief

Mapping Transnational Narratives of Gender Violence and Human Rights Advocacy

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Abstract

In this paper, I argue that to truly understand the complexity and “*high prevalence*” of acid violence against women in Bangladesh, we must pay attention to the confluence of political, economic and historical forces that make certain social groups more vulnerable to such extreme violence and suffering. By tracing the life history narrative of survivors of gender based violence, I hope to make it evident that acid throwing — a form of gendered violence — has to be understood beyond a “*culturalist*” framework, which explains this phenomenon as a product of harmful patriarchal cultural practices, seemingly more prevalent in certain South Asian cultures. Rather, I argue, acid violence has to be understood within a broader “*structural inequality*” framework, which maps the vulnerability of the victims onto their life trajectory shaped by the complex forces of globalization, neoliberal development, patriarchy and poverty. Focusing on the systemic oppression faced by vulnerable social groups, whether embedded in family, kin and community structures or the global capitalist system, I argue that mapping a trajectory of suffering can aid in imagining a more nuanced and humane transnational analysis and response with regards to violence against women.

1 Introduction

Chronicling the vulnerability and suffering of marginalized populations in Haiti, the poorest country in the Western Hemisphere, researcher Farmer (2005, p. 369) asks the critical question, “*By what mechanisms, precisely, do social forces ranging from poverty to racism become embodied as individual experience?*”. A remarkable feature of Farmer’s analysis includes charting the biographies of victims of violence to bring to light the trajectory of suffering they experienced as a consequence of their gendered vulnerabilities. Farmer underscores the point that, “*social forces at work [in Haiti] have also structured risk for most forms of extreme suffering, from hunger to torture and rape*”. He demonstrates that in order to truly understand how and why certain victims met with tragic deaths by AIDS and political violence, one has to further contextualize their lives within the intersecting axis of colonialism, poverty, racism, and sexism. Farmer’s methodological approach enables us to understand violence as gendered and structural as opposed to an act encapsulated within the contours of a single incident.

In this article, I will argue that to truly understand the complexity and prevalence of the phenomenon of “*acid attacks*” and other violence against individual women and girls in South Asia, we must pay attention to the confluence

of political, socioeconomic and historical forces that make certain social groups more vulnerable to such extreme violence and suffering. By examining case studies of survivors in the Acid Survivors Foundation (ASF) Bangladesh- commissioned report, *Conflict Dynamics of Acid Violence: 10 Case Studies on Conflicts Dynamics of Acid (Patriarchal) Violence in Bangladesh* (ASF 2007), I hope to shed light on the way that acid throwing — a form of gendered violence — must be understood beyond the “*culturalist*” framework that predominantly shapes transnational human rights campaigns for gender justice. These campaigns rely on narratives that are made intelligible as human rights stories through the deployment of ideological and hegemonic categories of patriarchy and cultural difference.

Through a powerful transnational media circuit, these concepts are assumed to be a logical analytic framework to explain why violence against women is seemingly more prevalent in certain cultures — namely those in the Global South. Instead, I believe that acid violence has to be understood within a broader “*structural inequality*” framework, which maps the vulnerability of the victims onto their life trajectories shaped by the multiple complex forces of globalization, patriarchy and poverty. As such, this essay is a continuation of two decades of my work

on acid violence in Bangladesh. While, previously, I have written extensively on acid violence as structural violence, based on ethnographic research including in-depth interviews with activists, practitioners and survivors, (Chowdhury 2011) in this essay I intend to focus on the narrative production of acid violence within a transnational human rights regime. Deploying multi-disciplinary theoretical and methodological approaches including discourse, narrative and political economic analysis, as well as use of primary and secondary sources, I argue for the importance of examining historical, economic, cultural and political processes that make certain social groups more vulnerable to extreme violence. In addition, by examining the frames of gender violence deployed in narratives of human rights within non-governmental organization or NGO-reports, I want to draw out the underlying assumptions shaping responses to this phenomenon mounted by the state and transnational activist networks. Focusing on the systemic oppression faced by vulnerable social groups and considering their contextual realities will aid in the development of what Landgren (2005) describes as a more “*protective environment*” for marginalized populations to live more freely from abuse, exploitation and violence.

2 Narrative and Human Rights Campaigns

In this paper, I want to draw attention to the importance of stories and testimonials in human rights campaigns and the ways in which narratives give meaning to experiential truths as well as aid in strategic mobilizing while both assisting and impeding transnational movement building. Though testimonials and stories are inherently about the individual, like Farmer, I am interested in the ways in which analyzing the life trajectories of an individual can be used to illuminate the structural factors related to gendered violence. To do so, I draw on recent case studies compiled in *Conflict Dynamics of Acid Violence* (ASF 2007), a report commissioned by the Acid Survivors Foundation in Dhaka Bangladesh. The objective of this ASF report is to engender greater understanding of the phenomenon of acid violence and to offer recommendations to address it. The analysis of the narratives in this paper is an attempt on my part to further discussions on more effective transnational human rights advocacy with regards to gender violence. It is not my intention to assess the authenticity or value of the narratives, but rather to bring attention to the processes of narrative construction, interpretation, circulation, and reception in order to demonstrate how all of these registers are imbued in power relations that shape and inform human rights campaigns. Furthermore, I deploy a transnational feminist analysis, which illuminates the far-reaching relations

of domination and oppression in these every day narratives (Stone-Mediatore 2002).

Conflict Dynamics of Acid Violence locates the root cause of acid violence in patriarchy and hegemonic masculinity. Even though the report lists myriad factors contributing to acid attacks including material interests, lack of women’s rights, political instability, and capitalist development in the region, it prioritizes a “*common sense*” logic of patriarchal values and attitudes as the main cause of violence against women. It suggests that marriage and kinship systems form the core of societal organization in Bangladesh. These systems are a derivative of feudal patriarchal arrangements which, when threatened, lead to expressions of hegemonic masculinities manifested through domination and control. Additionally, the report brands acid violence as a crime limited mostly to the rural and lower socio-economic groups. While this may be the case for acid violence in particular, another recent survey conducted by the Government of Bangladesh and sponsored by the United Nations Population Fund (UNFPA) has confirmed domestic violence against women in Bangladesh transcends class, religion, and the rural-urban divide. An astonishing 87% of married women in this survey across various axes of identity reported abuse (Hossain 2014). In this context, to label acid violence against women as a problem inflicting the poor population contributes to the overall sentiments in the region that poverty and violence are naturally intertwined, and that acid violence is a form of exceptional violence among the poor. The ASF report chooses to make this claim based on the method of inflicting harm on women: that is, the use of acid as a weapon with the express desire to disfigure women. Here too, the report suggests that the use of acid is a particular choice made by impoverished men socialized to enact hegemonic masculinity in a patriarchal society. Acid as a weapon is intended to destroy the feminine self and subjectivity of the targets by permanently disfiguring women’s bodies. Because of the population of the men in question — undereducated, under or unemployed — the aggression is understood to be a pathology of those men who want to assert power and domination to compensate their experiences of insufficient masculinity.

The report also places substantive blame on the perpetrators’ psychosocial temperament and suggests that many of them might suffer from “*personality problems*.” Based on interviews with male perpetrators currently in prison, the report also concludes that these personality problems might explain their propensity towards violence. The report states, “*Also most men had some deeply ingrained psychic hatred towards women folk and wanted to ‘punish’ them for whole life. The attitude might be related to their social upbringing*” (p. 5). In addition, the report finds that the six perpetrators interviewed for this

study came from large families and low socio-economic backgrounds “where there is no basic education including moral teachings” (p. 35). Spiritual practice among the group was low, and they also had contacts with local political parties. While none of them had “specific mental illness... they had a personality profile in which they had intolerance and low frustration threshold to other people’s attitude, feelings, likings and disliking” (p. 5).

Contrary to the report’s position on acid violence as an exceptional form of violence enacted by poor men on women, I would argue that while the use of acid as a weapon to disfigure the victim might be more highly prevalent in poorer communities, the intent behind the crime cannot be reduced to a pathology of the poor. Certainly, the report provides no explanation regarding the causal link it makes between low socioeconomic status and lack of moral teachings. In 2011, the domestic abuse suffered by an assistant professor at Dhaka University, who was also a graduate student in Canada pursuing a Ph.D. degree, made national and international headlines. Her husband, an engineer, brutally attacked her in the presence of their 5-year old daughter in the home of his in-laws. He did not want his wife to pursue a Ph.D. degree and accused her of infidelity. His intention, not unlike perpetrators from lower socioeconomic groups, was also to disfigure and disable his wife in order to end her public and professional life. He not only intended to jeopardize his wife’s career but also in the process he physically imprinted the impact of the violence on her. Elsewhere, I have written extensively about the intent behind men throwing acid at women as an attempt to end their public lives as well as their economic and social mobility (Chowdhury 2011). This case helps broaden our understanding of gender violence as complex — involving cultural (symbolic) as well as economic and political factors — and cutting across class, education and rural/urban divides. The perpetrator in this case, an educated, middle-class male did not use acid as the chosen weapon, but the intent was similar. Urban and middle class men’s family, community and spiritual morals however are rarely perceived as contributing to violent action to the extent they are for poor men. Six months following the attack on the Ph.D. student, a Bangladeshi migrant worker to the UAE cut off the fingers of his wife’s right hand so that she could not sit for her college exam. One newspaper reports, “The incident is one of a number of acts of domestic violence targeting educated women in recent months” (Ethirajan 2011). The assistant professor commented in an interview with CBC News that, “When you belong to the privileged class, you never think domestic violence can happen to you.” (Wells 2013). Her statement confirms extreme violence is not limited to the poor or under-educated classes and neither is the motive to disfigure and disable women as a means to end their social and eco-

nomic mobility. Surprisingly, neither of these cases were referred to as examples of long-term abuse. In contrast, the story of Banu in the ASF report follows a trajectory of long-term abuse accompanied by jealousy and suspicion, ultimately leading to the acid attack. Banu was a migrant domestic worker in Kuwait whose husband upon her return “checked” her uterus to find out whether or not she was pregnant by another man. He was convicted of the crime of acid throwing and continued to harass his wife by sending letters with messages such as “who can love has the right to hit” (ASF 2007, p. 32). These three cases were neither “crimes of passion” nor caused singularly by poverty as cases of extreme violence are often characterized. In each situation, the act of disfiguring/markings was preceded by years of abuse known to the families of the victims, and the planning of the attack was methodical and elaborate. Moreover, abuse that precedes the “acid violence” is routinely sanctioned by family, community and society who expect women to abide by social codes of femininity such as obedience and compromise (*manicholo*) (Saleh 2011).

Contrary to the assumption that violence against women is more prevalent in “traditional cultures” where misogyny is embedded in family and kinship structures [see for instance, Asra Nomani’s (2011) evaluation of the Bangladeshi Ph.D. student’s case as an “honor crime”], my analysis of the three examples above and of other ASF case studies departs from existing understanding of gender violence and human rights advocacy in two key ways. First, it highlights how the risk of violence increases when women move beyond existing gender norms. Second, it shows how violence coincides with significant social transformations in gender relations. Together, these insights challenge a predominant narrative that links gendered violence in “developing” countries like Bangladesh with tradition and cultural stasis within the intimate realm of the family. Instead, my analysis points to the possibility that violence signals the opposite: societal transformations occurring in the economic and cultural realms and the resistance to these shifts that encompass the larger public. More women in Bangladesh are now educated, and more are joining the labor force. Social mobility for women can actually incite more violence, especially against those who are more educated or better employed, when traditional forms of social control become ineffective.

Therefore, it is analytically dangerous, I believe, to relegate broader economic and political forces that impede women’s human rights to peripheral causes of gender violence as is done in the ASF report. Further, locating the reasons for violence in men’s psychosocial (pre)disposition and within low socio-economic groups takes attention away from the fact that violence against women cuts across class and urban-rural divides in

Bangladesh and makes it an individual rather than structural problem. It reifies anti-poor and anti-rural myths that these populations are excessively patriarchal and backward, unable to transcend traditional culture that sanctions violence against women. Grewal (2013) has recently argued patriarchy as an analytic concept that has been “outsourced” by western (U.S.) and urban Indian locales and relegated to distant national and rural cultures respectively. What this outsourcing achieves is to make a static patriarchy the site of the problem, which then has to be overcome by the backward regions of the world. She argues that this kind of analysis forecloses the possibility of more nuanced, historicized and conflictual kinds of analyses, particularly in relation to “*spectacular violence*.” Grewal looks at the production of the concept of honor killings in transnational media circuits and critiques how, where, and when violence against women gets named as a specific crime.

Similarly, acid violence against women evokes a particular meaning, identity and culture that follows a class and racial logic in the media. The ways in which such crimes enter popular consciousness are thoroughly mediated by a transnational circuit where culture and patriarchy are coded as difference, excessively so in regions such as the Middle East and South Asia. A closer look into human rights reporting — particularly NGO documents — reveals the term acid violence is deeply ideological. The implicit and sometimes explicit assumption is that patriarchal violence is an expression of hegemonic masculinity and happens exclusively in the context of an unchanging traditional culture where men are motivated by emotions like unbridled anger and jealousy; “*modern*” men however, whether in western or urban contexts, are above such pathological expressions. Yet, the astounding rates of violence against women in the U.S. and in urban locales such as Dhaka completely belie these powerful myths. This lazy treatment of patriarchy as essential to particular locations while overlooking economic and political issues can serve to generate only partial and often misguided recognition of gender violence as a complex phenomenon.

Despite its developmentalist portrayal of the relationship between poverty, tradition, and violence, a deeper reading of the ASF report can help counter the myth that acid attacks are crimes of passion committed by young men who are driven to the edge of sanity when rejected by women. Instead, as in the case of Banu and others in the report, it is evident that the perpetrator(s) methodically planned the attack and chose acid as the weapon in order to inflict a certain kind of damage — disfigurement, marking the body — as opposed to murder. In that sense, the crime is certainly patriarchal, encompassing a relation of hierarchy and subordination and expressing control through masculinist behavior. However, patriarchy

alone as an analytic category may not adequately explain the phenomenon of acid violence. In at least eight of the cases described in the ASF report, it is evident that the underlying reasons leading to the attack included disputes over property and money, family conflict, ethnic tensions, and political clout or lack thereof. In two cases written up in the report, women were doused with acid by men who wanted to marry them and were rejected by the women’s families, rather than directly rejected by the women themselves. While it is true that women are targeted for individual and family shaming, it is also important to note the family decision to reject the men in such cases in accordance with the individual women’s choices. This often hidden layer is emphasized here in order to disrupt the orientalist narrative that individual women perceived to be operating outside of family and community boundaries who defy patriarchy are singularly made to pay the price because women’s agency is not tolerated in “*traditional*” societies. Two of the victims in the report were male, and in one of these cases a female perpetrator was involved in the crime. The two cases of acid violence against men — which I will briefly mention below as a way to broaden our understanding of patriarchy and its relation to the feminization of certain men — underscored a different kind of hierarchy between men. The attacks in all ten cases were preceded by verbal and in some cases physical abuse, threats and intimidation. Furthermore, in some instances, there were longer periods of ongoing disputes, all of which show that the violence is not a singular act motivated by blinding rage rather a calculated and planned course of action.

3 Shukhibanu’s Story

The longest case study in the ASF report is one that maps the life trajectory of a twenty-five year old woman, Shukhibanu, and it is instructive because it enables an analysis of the confluence of factors leading to her gendered vulnerability and victimization. Shukhibanu was an orphan who was raised by her elder siblings. Not wanting to be a burden to her sister’s family, she left their home and made her way to Dhaka. There, she met a woman whom she refers to as “*Apa*.” Apa took her in and found her a job in a garment factory. For four years, she worked in the garment factory and dutifully handed over all her earnings to this woman. She moved up the ranks from helper to operator and earned Tk. 5000/month (US \$625). Apa arranged her marriage to a day laborer, and Shukhibanu began giving her salary to her father in law and husband. Eventually she found out that her husband had a wife and two children in his village home. When Shukhibanu had a daughter, she ended up taking care of all three children as the first wife “*cut off her relationship with their [the children’s] father*” (p. 12). De-

spite Shukhibanu's clear disappointment in her husband's deceptions and other abuses including verbal and physical, she says, "*Then I made myself understand that once I got married then nothing remains in life. I decided to be with him*" (p. 12). Shukhibanu's in-laws began pressuring her to bring money from her brothers, but this money was neither "*enough*" for her husband and in laws nor put to good use. When she moved in with her brothers, her husband made her return to his house despite the brothers' objections. Surprisingly, Shukhibanu took her husband's side in this argument and told her brother, "*He is my husband. If I do anything wrong, he has the right to punish me.*" Verbal harassment and beatings continued. Her husband brought his first wife home, and when Shukhibanu objected her father in law said, "*This is what is called punishment for not bringing money from your father's house. From now on, you two wives will have to be in this house together. You both have to work in the garments factory. It will be judged who is good, who is bad, and who can survive the test*" (p. 14). All of Shukhibanu's earnings were controlled by her in laws, and even after many years of backbreaking labor in the garment factory she was not able to save anything for her daughter. When she bought a pair of jeans and a shirt for her daughter, her husband became very angry and asked, "*Why on earth should you buy pant shirt for a girl?*" Shukhibanu describes her situation saying "*My life is shattered, earnings are finished. I could not fulfill my smallest desire of buying a gift for my daughter*" (p. 15). She declared that she would give her husband her earnings but no longer sleep with him. She began to spend her nights at her landlord's house with his mother instead of with her husband. It is at this juncture her husband poured acid on Shukhibanu at night while she slept.

While common assumptions about violence blame patriarchal structures like inequality in marriage as well as a lack of "*moral teachings*" that result in personality problems in individuals, applying a life trajectory analysis in Shukhibanu's case can illuminate broader social structures that exacerbate gender-based violence. A structural reading of Shukhibanu's life trajectory reveals that she did not have family/patriarchal provision or protection from an early age. This lack of protection/provisioned her to what appears to be a benevolent patriarchal situation where she deposited her earnings and salary to the "*Apa*" who provided her with shelter and a job and then arranged her marriage to a day laborer. Her husband then turned to his Shukhibanu — another instance of the failure of patriarchal contract — to provide a steady source of income. It is through her earnings she bought her husband a rickshaw and a cow. Family/patriarchal protection was always tenuous for Shukhibanu even though she held on to its elusive structure. She overlooked her husband's deceptions and even acquiesced to his abuse by telling her

brother that her husband (provider/protector) had the right to "*punish*" her. Yet unable to secure any financial security or family support in this marriage, she finally refused to continue sexual relations with him. Her husband was, on the one hand, angered that Shukhibanu chose to buy jeans and a shirt for their daughter (western garments and linked to the overall anxiety about women's emancipation rhetoric through NGOization and neoliberal economic development such as garment factories with primarily female employees), and on the other, humiliated in front of neighbors when she refused a sexual relation with him. The first act defied his control of her earnings and reflected her choice in clothing for her daughter as signifying westernization, and the second denied him access to her body.

The choice of acid as weapon is symbolic at multiple levels. It disfigures (so Shukhibanu will no longer be desirable to anyone else), permanently marks (leaves an imprint on her body of the violence that is intended to shame her for defying his authority) and potentially impairs vision and hearing (she is no longer readily employable and, thus, inhibits her economic mobility as well as social mobility). The use of acid needs to be contextualized within the shift to more modern economies and rapidly industrializing societies, like that of Bangladesh. Sulfuric and nitric acid are widely, cheaply and easily available from auto mechanic stores, leather factories, garment factories and jewelry shops. Studies in Bangladesh link those areas with high frequency of acid attacks to the existence of higher number of facilities that use acid (Chowdhury 2011). Economic and social initiatives of the state, private industry and NGOs have made women central to the vision of development in South Asia. The targeted integration of women into industrialization with the concomitant under and unemployment of men has weakened male provision/protection and shifted gender norms and practices. It is Shukhibanu who was the primary wage-earner in her household although her economic mobility did not alter her social roles/value. Should human rights reporting prioritize culture and patriarchy over the societal transformations linked to such modernizing processes, or point to how these registers are intricately interwoven? What purpose does such culturalist life narratives like the ones in the ASF report serve in activating human rights advocacy?

4 Narrative, Violence, and Human Rights

Feminist scholars Kay Schaffer and Sidonie Smith (2004) and Wendy Hesford (2004) have critiqued the use of life narratives in human rights campaigns featured in transnational media circuits that contribute to spectacularizing

third world violence. These narratives aid in the service of generating public response, yet at the same time reinscribe problematic and simplistic generalizations. Schaffer and Smith define life narrative as a broad term encompassing a range of personal storytelling based on the experiential. Hesford locates the deployment of the genre of life narratives, or "*testimonio*," specifically within the transnational human rights movement. These testimonials, often by victims of gender violence in third world contexts, play a key role in advancing an international human rights agenda by mobilizing diverse kinds of public into action, even as they further romanticize spectacularized renditions of the speaking subject. Hesford, citing Ulrich Baer, cautions that scholars and practitioners must account for the "*ungovernability of trauma and the methodological and ethical crises posed by its representation*" (p. 98). This means recognizing that documentations, interpretations, circulations, receptions, and representations of trauma narratives cannot be contained and are always incommensurable. Hesford terms this instability of narrative genre a crisis of reference to mean "*the inability of representation to capture, as in fix or make static, the truth*" leading to difficulty yet opportunity in using these narratives within human rights campaigns as stable referents to persuade legal and social action (p. 107).

The mediated nature of life narratives or their intersubjectivity has pushed transnational feminist studies to consider not only the social location of the writer, and the "*speaking subject*," but also the circumstances in which the text is produced. The critical negotiation involved in the struggle within which trauma narratives are told, listened to, and interpreted occurs within "*available cultural and national scripts and truth-telling conventions*" (Hesford 2004, p. 108). Here, the ASF-commissioned report is a vehicle for furthering awareness, generating support and resources, and recommending responses to acid violence. The discursive subjectivity and agency of the narrator, the Foundation itself, and the ethical responses the narratives evoke from diverse actors are shaped within such rhetorical conventions. Elsewhere, I have written about the donor-driven agenda of the ASF and how it espouses a neoliberal vision of rehabilitating victims to reintegrate them into the productive machinery of the state (Chowdhury 2005; 2011). This particular vision in animating action and advocacy, I have argued, locates the oppression of women in hegemonic notions of culture and patriarchy; however, it does not recognize the structural violence embedded in individual acts of violence.

Of particular interest to this discussion are the ways in which "*distant*" narratives of trauma and suffering are mediated within international human rights regimes, as are the strategies and methodologies that render intelligible the experiences of "*foreign subjects*" in local and transnational sites. Pointing to the success of linking lo-

cal campaigns of gender violence to transnational movements of human rights, Schaffer and Smith (2004) remind us that

"In these instances, transits between the local and global and within pockets of modernity involve complex negotiations of traditional and modernist discourses and practices. In other instances, stories may be framed within traditional, communal, religious, or philosophical frameworks different from, but arguably consonant with, modernist aspirations for human dignity and social justice" (p. 17).

In other words trauma narratives located at the intersection of local and global spaces might rely on "*common sense*" scripts but also throw into crisis existing paradigms of cross-border communications. Shukhibanu's testimony in the ASF commissioned report can be deployed in explaining acid violence against women in the dual registers of "*backward rural patriarchy*" and "*aberrant third world patriarchy*" yet and also unwittingly in opening up discussions of complex, layered structural conditions of vulnerability. In that sense, reading against the grain allows us to tap into the Report's *ungovernable* potential. Anthropologist Merry (2009) argues that "*violence in intimate relationships is inseparable from societal conflict, violence, and injustice*," and that gender violence is embedded not only in kinship and family structures but just as much within economic and political inequalities (p. 2). In other words, gender violence is inextricably linked to structural violence. Narratives, like the ones in the report, are gendered life trajectories and ought to be understood at the intersection of political protectionism, globalization, poverty and sexism.

While most media reports focus on younger, often adolescent, women being burned by rejected suitors, this demographic makes up less than a quarter of all acid attack cases in Bangladesh. Despite the numerical minority, it is this profile that has been highlighted most persistently in transnational campaigns to mobilize support from the global community. The reasons, I believe, are two-pronged: first, and this is particularly true to the Bangladesh context, organizing against acid violence really took off in the post-Beijing era where women's NGOs in the Global South were able to use international human rights instruments, such as the Platform of Action with its specific mandate on the "*girl child*," to urge governments to act; second, and by no mean less critical, is the power of the "*spectacular violence against women*" narrative in human rights advocacy that elicits humanitarian action on behalf of the third world victim subject. The reining in of young women's sexuality through seemingly

patriarchal violence of acid attacks generates more attention and fits a certain script of third world violence within the apparatus of human rights, which frequently resurrects colonial tropes of “victim”, “savage” and “savior.” Legal scholar Makau Mutua (2011) calls the constellation a three-pronged metaphor where the victim and savage are located within third world cultures and the savior in the enlightened West. Even as these familiar narratives can bolster human rights campaigns by mobilizing international support, they can impede in mounting a layered response whereby processes of neoliberalism and economic restructuring, which have been studied as factors making women’s lives more insecure and vulnerable to interpersonal and structural violence, are left unquestioned. Thus, focusing on the adolescent third world victim subject can elicit more speedy and concerted humanitarian intervention, yet at the same time, it can underemphasize broader structural questions.

Pointing to the inattention to global power relations when analyzing gendered violence in the Global South, Kamala Visweswaran (2004) posits that human rights reporting with regards to South Asia tends to rely on the language of universal feminism and human rights, reducing this region, and the nations and states within, to a static set of cultural practices that are not only excessively harmful to women but also erasing the long history of democratic contestations and feminist activism on behalf of women in the countries in question. Moreover, the role of political conflict in exacerbating gender discriminatory practices in distinct local contexts are subsumed under the catchall explanation of what Uma Narayan (1997) calls “*death by culture*.” Such strategies fore grounding gender essentialism, albeit important in mobilizing support for women, tend to extricate women’s rights from those of their community and nation state and relocate them “*in an abstract international realm*” that perpetuates the age-old colonial logic famously articulated by Gayatri Spivak (1988) of saving brown women from brown men (Visweswaran 2004, p. 484). Merry (2006) has cogently demonstrated in her ethnography of the United Nations that activists resort to using culture as an alibi to mount human rights advocacy campaigns. In this way, the use of culture both bolsters and impedes human rights advocacy in campaigns against gender violence. The other side of this narrative is the obscuring of violence against women in the Global North and the inextricable ways in which violence against women worldwide is linked to global economic restructuring and neoliberalism. In addition, this cultural script underemphasizes the role of political conflict in exacerbating gender discriminatory practices. In case after case in the ASF report, while misogyny certainly played a role in the mode of violence chosen, equally culpable in the design of this mode of violence was the fact that perpetrators knew that they were protected because of their sta-

tus (that of being affiliated with powerful political parties). In contrast, however, most human rights policy reports tend to downplay political conflict and overemphasize the notion of honor and shame as patriarchal cultural enforcers keeping women in South Asia more silent and, therefore, victimized. Kamala Visweswaran’s (2004) eloquent questions are critical reminders here of a double standard where women in the Global South are considered exclusively to be victims of human rights abuse based on culture. She asks,

“First, what would it mean to understand domestic violence [and, I would add here, gender violence in general] in South Asia and its narrative production, as a product not only of culture, but of state-level policy and the neo-liberal economy? Second, what would it mean to speak of a culture of violence against US women, and to understand domestic violence in the United States as a human rights issue?” (Visweswaran 2004, p. 511)

Attending to these questions aids in the shifting of the discourse of gender violence, particularly acid violence, from a purely culturalist to a much needed structural analysis.

5 National Realities of Acid Attacks

Acid attacks against women have been reported in many countries around the world on the continents of North America, Africa, Europe and Asia. Bangladesh, India, and Cambodia are among the nations with the highest frequency of acid violence. While there are common patterns to the phenomenon across the region of South and Southeast Asia, there are also important differences, and looking at what is happening in Bangladesh specifically can help us to better understand the experiences of the survivors recorded by the ASF. According to a report written by Kalantry and Kestenbaum (2011) and released by the Avon Global Center for Women and Justice (2011), since 1999, there have been roughly 3,000 reported cases of acid attacks in Bangladesh. These numbers, however, are not entirely reliable as not every case of acid attack is reported. Governments do not maintain statistics on acid attacks, a task usually undertaken by different NGOs that at times yield reports with varied information. Perpetrators, particularly in India and Bangladesh, are predominantly men, constituting more than 80%. (Kalantry and Kestenbaum 2011, p. 14). In Bangladesh, nearly 60% of victims are between the ages of 10 and 19. Often these children are unintended targets who are hit as a result of being close to the intended targets.

Acid violence is perceived to be a gender-based violence with women and girls constituting the majority of the victims with their lower social, economic and political status contributing to their overall vulnerability, though the story is much more complex. When the ASF (2009) in Bangladesh researched the causes of acid violence for their 2009 Annual Report, their study indicated that only 17% of the acid attacks in Bangladesh over the time period of 1999 – 2002 were caused by rejection of love, marriage or sex proposals. A study of newspapers in India indicated only 35% of attacks were by rejected male suitors, yet this is the profile of the crime that seems to make it into media and policy reports with persistent regularity (Kalantry and Kestenbaum 2011, p. 20). This particular profile perhaps overemphasizes the violence within the framework of culture. The assumption here is that men in patriarchal societies cannot handle rejection and, therefore, brutalize women who dare to transgress cultural codes of conduct. In reality, land and business disputes are the leading causes for acid violence, and older women are frequently targeted as a means to desecrate families involved in these disputes.

Two of the case studies in the ASF commissioned report involve young women, Rupabanu and Chandbanu, both in their teens when the attack occurred. In both cases the rejection was compounded by social inequality between the victim and perpetrator. A cousin who wanted to marry Rupabanu splashed her with acid 20 days after her marriage to a NGO worker. She says that her parents arranged her marriage to this man very quickly to protect her from her cousin's advances. It is evident that Rupabanu's family held a higher status as they lived in their own house but her cousin's father was a farm worker. Her cousin's mother was eager to have her as a daughter in law but did not have the courage to approach the family. Rupabanu's family aspired to marry her to a government employee. She attended school and came from a more financially solvent family than her cousin, Anis, whom she describes as a "*mastaan*" (muscle man) who did not work nor study was involved with a political group. This political affiliation gave him clout, and he even went as far as to threaten to carry Rupabanu off in a car if her parents arranged her marriage elsewhere.

Chandbanu was also a teenager when she was attacked by Abdul, who had worked in her father's hand-loom factory. His proposal to marry Chandbanu was turned down by her family as they did not consider him a suitable match. Chandbanu was a student of Class Seven (Seventh Grade) at the time. Following the rejection, Abdul stopped working in the factory. He made many threats about destroying her face and that nobody else could marry her. The night of the attack, he came with two other young men and threatened the neighbors to prevent them from helping Chandbanu. In both these cases, it is rele-

vant to pay attention that the women are more educated and from higher socioeconomic status. The men wielded influence through affiliations to political party and other men.

Because the violence is often rooted in various structural inequalities, men can also be victims of acid violence. The ASF report cites two cases where the victims are male. In one, Kabil, a fifty-year-old man was attacked when he tried to save his daughter-in-law from Ali, his step-daughter's former husband. This outcome was a result of a long and complicated animosity between Kabil, Ali, and the step-daughter. Ali had tried to get Kabil arrested on false charges numerous times. He had brutally shot and murdered the second husband of Kabil's step-daughter. The step-daughter, complicit in these crimes, had been continuing a relationship with her former husband even after her second marriage. The couple was angry for being cut off financially by the dead husband's brother and wanted revenge. She helped Ali lure Kabil's daughter-in-law into the jute fields where he tried to rape her, presumably to inflict further harm to the family. When Kabil intervened, he was attacked with a knife and then splashed with acid. It is not clear for whom the acid was intended: Kabil or his daughter-in-law. In the report Ali is stated to have affiliation with a political party emboldening him in his criminal activities — a characteristic that was also shared by all of the perpetrators profiled in the report.

The second case involving an eighteen-year-old man, Rahman, appears to be linked to a dispute over land and money between step brothers. Rahman's father had two wives. The perpetrator was the son of the first wife. He was older, had multiple wives and, therefore, felt more entitled to his father's property. All the wives and their children resided in the same household, and Rahman's father controlled the finances tightly. The family was financially solvent and owned a lot of land. However, the perpetrator seemed to squander money and get into trouble with the law quite frequently. He also had connections to a political party. When Rahman's father gave Rahman a piece of land to plough and earn his keep, the older brother became angry. He felt that as a bachelor Rahman had no need for land, so he poured acid on the sleeping Rahman at night. The older brother wanted to teach him a lesson and punished him by marking him permanently — an expression of gendered power — not unlike the ways in which women are marked by acid burn by their abusers.

Despite these two examples and because of the ways that inequalities often intersect, it is disproportionately women family members who are made to pay the price for disputes that lead to violence. Because women are considered carriers of culture, they are singled out not only as a vehicle through which to send a message of shame and

defilement but also to further devalue their gendered status and to bring economic hardship to the family. That women are more likely to be burnt on the face — as opposed to other parts of the body as is the case with male victims of acid attack — is a sign of both their social and economic vulnerability. Political and historic forces exacerbate this vulnerability. Whereas historically in South Asia the groom's family paid money or gave gifts to the bride's family upon marriage, processes of industrialization, consumer capitalism, and labor migration have reversed the trend (Kabeer 2000, p. 60). As women are increasingly perceived as economic burdens, unmet dowry demands and other forms of domestic disputes are met with violence and abuse towards these women. Processes of globalization have frequently made women's positions less secure and weakened the so called "*patriarchal contract*" or men's obligation towards women and their families. Even greater than the promise of male provision is the notion of male protection without which women would be deemed unworthy of respect and at greater risk (Kabeer 2000, p. 187).

While Bangladesh does have the ASF dedicated to meet the multi-pronged needs of victims, medical, legal, or rehabilitative services available for victims are still woefully scarce. One medical challenge is the widespread ignorance about treating acid burns. The fact that washing the wounds with water in the immediate aftermath of acid burns significantly minimizes damage is not well known among health care professionals (particularly at the local levels), let alone the lay public. Nurun Nahar, a survivor in Bangladesh told me that her family tried to wash her wounds with Dettol, an anti-septic, which caused her more pain and wounding (personal communication, April 2003). One study in Bangladesh found that 71.5% of burn victims had "*grossly infected wounds*" indicating lack of proper treatment (Kalantry and Kestenbaum 2011, p. 39). In my own research into medical, legal and rehabilitative issues in Bangladesh, I came across many patients who told me that doctors refused to treat them for fear of retaliation by the same perpetrators. Some of these perpetrators were sheltered by powerful political leaders who enabled them to falsify police reports and bribe state agents not to file charges. Families of victims faced routine harassment and threats from the perpetrators as well as their associates and relatives. Treatment for acid burns requires long-term care and multiple surgeries stretching over several months if not years — a process particularly costly and challenging for victims who, on top of the horrific injuries, face fear, shame and a lack of resources when pursuing redress. In the case of children or individuals younger than 18 whose bodies are still growing, skin grafting surgeries must take place in routine intervals.

Another problem that victims face is that they are not always protected by the laws in their countries. Legis-

lation for criminal prosecution of acid violence perpetrators was introduced in Bangladesh in 1984, and in 2002 the Acid Crime Control Act and the Acid Control Act were enacted. This legislation demands heightened penalties and special court procedures for acid attack cases as well as "*regulate[s] and monitor[s] the use, sale, purchase, storage, transportation, import, and export of acid in Bangladesh*" (Kalantry and Kestenbaum 2011, p. 27). While it is commendable that since the introduction of these new laws Bangladesh has seen a 20% decrease in acid violence, the legislation nevertheless needs critical evaluation at both practical implementation and conceptual framework levels (Kalantry and Kestenbaum 2011, p. 2). In terms of implementation, fewer than one in five acid attack perpetrators in Bangladesh have been convicted. Despite the existence of Acid Control Act for nearly a decade, in Bogra, only 31 out of an estimated 2,800 acid users have licenses. In Satkhira, a district with high acid violence, only five out of 100 shops that sell acid have a license (Kalantry and Kestenbaum 2011, p. 29).

With regard to the framing of the law, victims' bodies are objectified and compartmentalized to body parts, with loss or damage to certain parts deemed worthy of higher punishment. The degree of punishment to be meted out to the perpetrator is measured against the specific injuries to the victim. For example, sentences of death penalty or life imprisonment and a fine of up to Tk. 100,000 (\$1,450 USD) are given if the victim loses hearing or sight or if their face, breasts, or sexual organs are affected. Injuries to any other part of the body are met with 4–14 years of imprisonment and a fine of up to Tk. 50,000 (\$700 USD) (Kalantry and Kestenbaum 2011, p. 27). By equating the more severe punishment with the degree of injury and considering sexual organs as more important than other body parts, the law fails to acknowledge the integrity and quality of human life as a whole. Additionally, in cases where the victims are perceived "*unmarriageable*" or cannot bear children as a consequence of the attack, judges are more prone to impose stringent punishment on the accused. In this way, the assumption that women's primary roles in society are those of mother and wife is validated. Obstacles on so many levels send out a message that women are weak and exploitable and that perpetrators will not be convicted. These are urgent reminders that implementation and regular monitoring of law leave much to be desired.

Institutionalized biases and ineffective legal mechanisms became apparent to me in my discussions with ASF staff in Bangladesh. The Acid Control Act of Bangladesh demands special tribunals for acid cases, in which investigations must be completed within 30 days, with provision for up to 60-day extension. Trial proceedings must be completed within 90 days from the date of receipt of the case (Chowdhury 2011, p. 3). If the proceedings are

not completed within this time frame, which they often are not, the accused can be released on bail. My discussions (personal interview, 2003) with the legal coordinator of the Acid Survivors Foundation revealed that the police were over-burdened and the 90-day time frame put serious pressure on them, particularly in light of the fact that in Bangladesh, there is about one police officer for every 1,138 inhabitants (Kalantry and Kestenbaum 2011, p. 29).

In the various cases I have tracked in my research, common patterns emerged where victims and their families had to pay bribes to file a complaint or the First Information Report (FIR). Information on the FIR was often falsified by the police upon threat and intimidation by powerful perpetrators and their political associates. Victims and families were threatened and offered money and even awkward marriage of victim to perpetrator as a means to keep them silent and drop charges. I found cases where young girls were married off to the same men who had thrown acid at them because their families found that to be the most logical arrangement in a situation where they lacked social and economic security and were faced with a legal system to which they had minimum access. Complicated, lengthy and inadequate forensic procedures contributed to delays in filing charges, giving perpetrators more time to flee. There is only one police laboratory in Dhaka for the entire country. In many cases in India and Bangladesh, victims had filed complaints against the perpetrator prior to the attack for harassment, but the police neglected to take any action. Victims of acid attacks often expressed hesitation in contacting the police because of fear of harassment, ridicule and victim-blaming. The convenor of a leading women's NGO in Bangladesh told me that the Police Commissioner of Dhaka had expressed to her the opinion that "*Women are like fragrant flowers. It is only natural that men will pursue them*" (Anonymous, personal communication, April 2003).

While legal structures are important, they can hardly be effective when inaccessible or irrelevant to the vast majority of the population, namely women and the poor. Gender and class biases are institutionalized in the social and legal structures, which the mere enactment of law cannot transform. Furthermore, the state occupies an ambiguous role through the provision of anti-violence legislation while failing to secure processes for its effective implementation. In Bangladesh, most interventions have been in the medical and legal fronts, without adequate attention to the pervasive social and economic vulnerabilities of women. These laws are hardly commensurate with the long term social isolation, stigmatization, discrimination and loss that acid violence survivors, particularly women and girls, experience. In the case of young teenaged women, they often have to stop going to school either because of severe health issues or the social stigma that ensues, thus, limiting their social mobility through a

lack of education. Bina Akhter, a teenaged survivor from Bangladesh, told me that she was teased relentlessly about her appearance on the streets. She was even likened to a "*monkey in a zoo*" (personal communication, December 2004). Speaking to the specific losses adolescent girls experienced, Nasreen Huq, the coordinator of the anti acid violence campaign at the time told me, "*It is important to recognize that these are children we are talking about. They have a right to live their childhood. They have a right to be on the streets*" (personal communication, April 2003). Her observation reminds us of the urgent need for human rights advocacy that address deep rooted gendered and structural inequalities including women's access to public space.

6 Conclusion

In Huq's comment above, she encourages a recognition of the multiple and complex layers of structural inequalities when designing meaningful services for victims/survivors of violence. Such an approach is embedded in Karin Landgren's (2005) broad framework to protect vulnerable groups from violence, abuse, and exploitation, which includes not only attention to harmful "*traditional practices*" but also more effective national and international commitment. In addition, she urges expanding palliative responses focusing on legal reform and service delivery to preventive approaches towards systemic change. She suggests a closer cooperation between the human rights and development communities as a crucial strategy.

It is important to emphasize both the centrality of human rights to development initiatives and the critical relationship between human rights and national development. To that end, Landgren proposes a series of inter-linked elements for creating and strengthening a secure environment for vulnerable groups: government commitment and capacity, legislation and enforcement, culture and customs, open discussion, life skills, knowledge, and participation, capacity of families and communities, essential services, and monitoring, reporting and oversight (p. 227). While some of these may appear to be commonsensical, the comprehensive and integrated approach is key. It would create legislation as well as mechanisms for enforcement and oversight, approach cultural change in tandem with open dialogue, and promote life skills development with provisions for services and the capacity building of families and communities.

An additional area that is increasingly becoming more important is the role of the private sector in promoting and securing human rights, particularly for vulnerable groups. This is especially important given the role of transnational corporations in the ongoing economic neoliberal restructuring wreaking havoc on marginalized populations

in the Global South. Here, the Avon Global Center Report's (2011) recommendation to require corporations to act with due diligence to prevent violations of international human rights law is important. The report reminds us that even when "governments have not adopted laws to protect citizens' human rights, businesses are not free of a responsibility to act" (Kalantry and Kestenbaum 2011, p. 45). Given that acid violence is recognized as a gender-based violence prohibited by international human rights law, states are obligated to act to prevent acid attacks. Companies that operate in countries where acid attacks are a problem must ensure safe practices surrounding acid's sale, storage, use, and purchase. In this way, the private sector must be held more accountable for their operations and practices.

Nurun Nahar, now 32, a survivor of an acid attack in 1995 and an activist and counselor to acid victims in Bangladesh, remembers lying in a hospital bed and thinking of "The school pranks, walks, giggles, exam notes, teenage dreams." The message she now conveys to other survivors is, "It will hurt; you might not recognize your face, but if I can get through, so will you" (Das 2011). The young woman whose fingers were cut off by her husband and who went on to sit for her exams said in an interview, "My right hand has been cut off, but I can use my other hand" (Buncombe 2011). "With my legal experience in Bangladesh, I was thinking if I could be a lawyer, I could better represent myself," said the assistant professor of Dhaka University who is currently studying law (Wells 2013). Indeed, these individual stories of struggle, and survival should not go unmentioned in our investigation of gender violence and human rights. Tracing these individual stories of victimization and survival are critical to understanding the multi-faceted phenomenon of gender-based violence and for developing just advocacy pathways. Broadening our analytic framework to address structural inequalities is key to building better services and societies for vulnerable groups.

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Trade Liberalization and Wage Inequality: Evidence from Bangladesh's Cotton Textile Industry

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Abstract

The prediction of standard economic theory that trade liberalization reduces income inequality in developing countries has been challenged by several studies during recent decades. This paper explores this issue by analyzing the relationship between trade liberalization and skilled-unskilled wage inequality in the Bangladesh cotton textile industry. First cointegration analysis is used to test for long-run relationships between real wages and trade liberalization over the period 1971–2010, and then a two-equation error correction model is estimated for wages of skilled and unskilled workers. Trade liberalization, proxied by the evolution of Bangladesh's international trade, is associated with increased real wages for both skilled and unskilled workers. The relative skilled-unskilled workers' wage fluctuates over the study period, but it has no trend and is not related to increased openness. Trade liberalization thus seems to have increased labor productivity in the cotton textile industry without any noticeable effects on wage inequality.

1 Introduction

According to several studies, a number of developing countries have experienced a substantial increase in wage inequality between skilled and unskilled workers after adopting trade liberalization policies (Arbache, Dickerson and Green 2004, Gasparini and Lustig 2011, Goldberg and Pavcnik 2007, Williamson 1997). Wage inequality here refers to the wage gap between skilled and unskilled workers, where skilled labor includes all professional and technical workers, managers, and craftsman who have advanced education or substantial training or work experience (Wood 1994). Such findings are not in line with what traditional trade theory predicts; greater openness to trade should narrow wage inequality in developing countries by increasing the relative demand for unskilled workers compared to skilled workers (Stolper and Samuelson 1941). The conflict of evidence has sparked an intense debate about the impact of trade liberalization on wage inequality that is far from settled (McNabb and Said 2013).

Bangladesh embarked on a policy of trade liberalization in the early 1980s. Only a few studies evaluate its impact on inequality, and they obtain conflicting results: Ahmed and Sattar (2004) report that manufacturing

sector wages of unskilled workers increased more than those of skilled workers during the 1990s; Nath and Mamun (2007) find some evidence that trade drives sectoral wage inequality, via its response to growth; Hossain (2011) concludes that the ratio of non-production to the production workers' wages in manufacturing increased due to liberalization; and Munshi (2012) finds that liberalization decreased wage inequality in five manufacturing.

The purpose of this study is to investigate how trade liberalization has affected wage inequality in Bangladesh manufacturing sector by analyzing skilled and unskilled workers' wages in one of the largest manufacturing sectors, the cotton textile industry. Time series data for 1969–2010 are used, which cover recent years not included in earlier studies. We focus on a sector that was heavily protected before the 1980s, and therefore belong to those on which the debate on adverse effects of trade liberalization policies has concentrated (Ahmed and Sattar 2004).

Our major finding is that in the long run both skilled and unskilled real wages move closely together with our indicators of trade liberalization (trade-to-GDP and exports-to-GDP ratios). Opening up to trade liberalization thus seems to have affected unskilled and skilled real wages, but in the same way as there is no change in wage

inequality. Moreover, there is strong evidence that increased openness has raised real wages across the board.

These findings do not preclude that trade liberalization generates wage inequality among some types of employees or workers, both within and across different sectors, but one would expect the impact on the wage structure to be particularly pronounced in the cotton textile industry, which was heavily protected before the 1980s compared to other sectors of the Bangladeshi economy, such as agriculture and construction. Moreover, the cotton textile industry has grown rapidly since the early 1980s, as predicted by standard trade theory, which should have raised demand and real wages for unskilled workers. However, there has also been substantial technical upgrading (Ahmed and Sattar 2004), and as technical upgrading requires qualified workers, this has most likely raised demand for skilled workers. Thus, the combined effect of trade liberalization and technical upgrading are likely to explain the finding of no clear change in wage inequality.

The rest of the paper is organized as follows. The next section provides an outline of theories and gives an overview of the existing empirical evidence on trade liberalization and wage inequality. Section 3 describes Bangladesh's trade liberalization and labor market issues, while Section 4 outlines the main features of the cotton and textile industry. Section 5 presents the empirical model, the data and results from tests of the stochastic properties of the variables. Section 6 reports the results from the econometric analysis. The final section concludes the paper.

2 Literature Review

The main theory used to explain the effects of trade on wage inequality is that of Heckscher-Ohlin-Samuelson (H-O-S). The H-O-S theory asserts that, under a liberalized regime of international trade, a country's production structure is determined by its relative factor endowments. Accordingly, under certain assumptions, countries should produce and export those goods that use their abundant factor intensively, and import those goods that use their scarce factor intensively. Given that developing countries have a large supply of unskilled labor relative to skilled labor compared to developed countries, it is to their benefit to specialize in unskilled-labor-intensive goods. For skill-intensive developed countries, on the other hand, the best strategy is to specialize in producing skilled-labor-intensive goods. Increased trade between developed and developing countries, then, is predicted to increase the relative price of unskilled-labor intensive goods with a consequent increase in unskilled-labor wages in developing countries and that for skilled wages in the developed country. Consequently, a reduction in wage inequality in

developing countries and vice versa in developed countries is expected (Stolper and Samuelson 1941).

The empirical evidence on developing countries so far provides mixed evidence (Goldberg and Pavcnik 2007, McNabb and Said 2013). In general, greater openness to trade seems to have reduced wage inequality between skilled and unskilled workers in East Asia (Wood 1994; 1997), in India (Kumar and Mishra 2008), in Kenya (Bigsten and Durevall 2006), and in Malaysia (McNabb and Said 2013), but the Latin American experience is mixed (Gasparini and Lustig 2011, Goldberg and Pavcnik 2007). One reason for this divergent finding in developing countries could be due to differences in factor abundance; most Latin American countries are abundant in natural resources whereas most Asian countries have a relative abundance of unskilled labor. Openness may also affect wage distribution through changes in industry wage premiums. Goldberg and Pavcnik (2004) note that industrial wage-premiums account for a significant portion of wage-inequality in poor countries, and when there are labor-market rigidities hindering smooth reallocation of labor across sectors, this channel might be important. And recent studies have shown that trade liberalization might enhance the dispersion of revenues across firms within sectors, and that this can increase wage inequality among workers with similar jobs, possibly because of search and matching frictions or efficiency wages (Akerman, Helpman, Itskhoki, Muendler and Redding 2013, Helpmate, Itskhoki, Muendler and Redding 2012).

Nonetheless, according to recent research, the most important factor is likely to be technical change induced by increased international competition and awareness of best-practice technology abroad, in combination with improved access to imported capital (Feenstra and Hanson 1996, Gasparini and Lustig 2011). Technical upgrading usually takes the form of skill-biased technology transfers from developed to developing countries, resulting in increased demand for skilled workers. In some developing countries this effect might have had a stronger impact on wages than the increase in demand for unskilled workers. Acosta and Gasparini (2007) and Arbache et al. (2004) show that this was the case in Argentina and Brazil.

As mentioned, only a few studies analyze the relationship between trade liberalization and wage inequality in Bangladesh, and the methodologies used and findings differ greatly. (Ahmed and Sattar 2004) review the period 1991–2002 in detail, arguing that the development of real wages in the manufacturing sector was in accordance with H-O-S theory, raising the wages of unskilled labor more than for skilled labor. As the manufacturing sector was the focus of the protection from international competition, it is likely that the evolution of the wages was related to trade liberalization. Nevertheless, Ahmed and Sattar

(2004) only assume that the decline in wage inequality was due to trade liberalization, they do not show it.

Nath and Mamun (2007) use vector-auto regressions (VAR models) to examine the causal relations among trade, growth, and inequality for the period 1971–2000. Inequality is measured by the coefficient of variation for average wages in manufacturing, agriculture, construction wage, and fishery. This measure differs greatly from those mostly used in the literature since it focuses on sectors with varying degree of exposure to international trade, not on skilled and unskilled labor. Moreover, the measured inequality is small, the coefficient of variation is only about 12% on average, the maximum, 18%, was reached in the mid-1970s and early 1980s, and it was lower in late 1990s than in the mid-1980s. Hence, the evidence for increased inequality is not particularly strong.

Hossain (2011) finds that wage inequality, the ratio of non-production to production workers' wages, increased in the manufacturing sector during the period 1973–1994 due to trade liberalization. This finding is interesting but the change in wage inequality is small (as evident from his Figure 2), and the period analyzed ends in 1994, when there were still a number of trade restrictions in place (Ahmed and Sattar 2004). Furthermore, the measure used does not distinguish between skilled and unskilled production workers, which are the ones most likely to be affected by increased openness.

Finally, Munshi (2012) estimates a dynamic panel data model for wage inequality, measured by the ratio of skilled to unskilled wages in five manufacturing industries. She finds evidence of decreasing wage inequality due to increased openness during 1975–2002. Our study uses the same measure of wage inequality as Munshi (2012), but includes another eight years of data and focuses on the largest of the five sectors, the cotton textile industry. And more importantly, it explicitly models the long-run relationship between the key variables, real wages and indicators of trade liberalization, using cointegration analysis and multivariate error correction models.

3 Trade and Labor Market Issues in Bangladesh

In this section we first provide an overview of the trade liberalization process in Bangladesh and then briefly describe the labor market, since labor market conditions affect the impact of trade liberalization in several ways.

After independence in 1971, Bangladesh followed an import substitution industrialization strategy for a decade. Liberalization of the trade regime started in the early 1980s under structural adjustment reforms initiated by the World Bank and the International Monetary Fund. The

major objective of the trade reform was to encourage exports by reducing policy-induced anti-exports bias and import competitiveness. The various reform measures included simplification of import procedures, reduction and harmonization of tariff rates on similar products, gradual reduction of non-tariff barriers. The process accelerated and deepened in 1991, setting off the second phase of trade liberalization (Nath and Mamun 2007), and around 2000 there was a change towards greater emphasis on pursuing free market economy under the WTO rules. The average applied MFN (Most Favored Nation) tariff rate was reduced from 70.6% in 1992 to 14.9% in 2012, and to simplify tariff structure the customs tariffs were based on the Harmonized Commodity Description and coding system (HS). The simplification procedure still continues with significant reductions in the inspection of the traded goods and in the number of signatures needed for clearance of import and export consignments.

The labor market in Bangladesh comprises of formal and informal markets. Like most other developing countries, formal-sector employment is low and the informal sector is dominant; nearly 90% of the employed populations over 15 years are in the informal sector (BBS 2011). Formal workers are mostly employed in the manufacturing sector.

Wage setting is regulated by the government and has not changed much over the decades. The first labor policy of Bangladesh was declared in 1972. Under this policy, public sector wages were determined by the government with the recommendation of the Industrial Worker Wage Commission; a commission comprised of representatives of private employees and government. In 1977 the commission was expanded and representatives of workers were included. Wages in the formal private sector were determined by collective bargaining, taking government-determined wages as the reference point. In sectors where trade unions did not exist or collective bargaining failed due to weak trade unions, minimum wages were determined on the basis of the recommendation of the Minimum Wage Board. The Minimum Wage Board recommended minimum wages after consultation with labor and the employer (Rashid 1993). The second labor policy, declared in 1980, did not alter public and private sector wage setting and the minimum wage determination mechanism. However, a strong Tri-partite Consultative Committee, comprising of the government, labor and employers, was formed with the objective of giving more rights to workers. The law declared that all future labor policies would be formulated on the recommendation of the committee and in conformity with ILO convention. The policy emphasized the role of collective bargaining, where workers were given the right to strike. On the other hand, the employers were given the right to lockout. However, these two instruments could be used only after exhausting

all available legal processes.

The current labor policy framework was declared in 2010. It has many good features, such as gratuity and pension funds for all workers in public and private firms. And it commits the government to creating an institutional framework for enactment and implementation of appropriate laws to secure the rights and welfare of the informal sector workers. The revised policy thus stresses the protection of the domestic household workers. The limitation of the policy framework, however, is lack of clear direction on how to implement it.

Although the government makes decisions on public sector wages and allowances unilaterally, political pressures created by trade unions have historically played an important role. Trade unions represent only 3% to 5% of the labor force and one-third of the formal workers, but they are powerful since almost all of them are linked to political parties. According to the latest statistics provided by the Ministry of Labor and Manpower (March 2011), there are in total 2843 trade unions from 29 sectors of which 2136 are labor unions, 671 are employers union, and 36 federations. In spite of active unions, however, regulations regarding minimum wages, working hours, occupational safety, etc are often not enforced. Lack of organizational structure and legislative provisions are important reasons for private sector employees often getting wages that are below minimum wages. Market forces thus seem to have played an important role in the labor market during a large part of our study period, although adjustment was probably slow.

4 The Bangladesh Cotton Textile Industry

West Pakistani entrepreneurs owned the majority of the Bangladeshi industries before independence. Since most of them moved to West Pakistan during the war of liberation in 1971, the government formally nationalized all abandoned or private large and medium scale industries three months after independence. The cotton textile companies were organized under Bangladesh Textile Mills Corporation (BTMC). After the political change in 1975, the new government abandoned public industrialization and adopted policies to encourage privatization, and by 1981 many of the small mills had been denationalized. The process of privatization got momentum with 1982 New Industrial Policy and 1986 Revised Industrial Policy. This, in combination with import liberalization, led to significant changes in the sector. Many state-owned-enterprises and inefficient private enterprises were forced to close down, and by 1997, 27% of the labor force had been retrenched in the private sector (ILO 1999).

Currently the cotton textile industry is one of the most important industries in the tradable sector, contributing nearly 5% to the GDP, while its share in manufacturing production is nearly 25%. It provides close to 10% of the formal employment.

The cotton textile industry comprises of many composite textile mills, including activities like spinning, weaving, specialized weaving, knitting and hosiery, and dyeing-printing-finishing. Fiber (the raw material) is transformed into fabric (the final product) following these steps. The process begins with spinning where raw cotton is cleaned and twisted into yarn using spindles. The yarn is transformed into grey using looms in the second step. Because of the lack of specialization and coordination among small-scale manufacturers, the locally produced greys are mostly of inferior quality. In the final stage, following the process of dyeing-printing-finishing, the grey is transformed into fabric. The fabric is sold either in the market or used in ready-made garments. However, locally produced fabric meets only 32% of the local demand and 10% of the woven requirement for the export oriented garments industry.

Prior to trade liberalization in the mid 1980s, the cotton textile industry was heavily protected. However, the industry benefited from liberalization; tariff reduction and removal of quantitative restriction improved access to raw materials and machinery, as the industry depends heavily on imported raw materials. For instance, cotton (fiber) which is the basic raw material of the industry and all types of textile machinery (except spare parts if imported separately) are exempted from duties since the mid-1990s. The effective rate of protection on yarn and fabric declined significantly, and 100% export oriented enterprises are enjoying duty free imports irrespective of rates since early 1980s. In addition, export incentives particularly to the ready-made garments also contributed to a substantial increase in volume of trade in this sector. Exports of yarn, for example, increased from US \$19,947 million in 1990 to US \$30,810 million in 2002, while imports of yarn grew from US \$19,623 million in 1990 to US \$31,770 million. The exports and imports of woven cotton fabrics increased from US \$11,935 million and US\$13,133 million in 1988 to US \$26,480 million and US \$21,712 million respectively in 2003 (WTO 2006).

5 Empirical Model and Data Description

To investigate the impact of trade liberalization on wages, we first use cointegration analysis to test for long-run relationships between real wages and trade liberalizations. Since we find cointegration, we estimate reduced form wage equations for skilled and unskilled workers, spec-

ified as error correction models. The general error correction model is formulated as

$$\begin{aligned}\Delta rwsk_t &= \alpha_{10} + \alpha_{11} \Delta rwsk_{t-1} \\ &+ \alpha_{12} \Delta rwusk_{t-1} \\ &+ \alpha_{13} \Delta open_t \\ &+ \alpha_{14} \Delta open_{t-1} \\ &+ \alpha_{15} [rwsk - \beta_1 open]_{t-1} \\ &+ D \\ &+ \varepsilon_{1t}\end{aligned}$$

$$\begin{aligned}\Delta rwusk_t &= \alpha_{20} + \alpha_{21} \Delta rwsk_{t-1} \\ &+ \alpha_{22} \Delta rwusk_{t-1} \\ &+ \alpha_{23} \Delta open_t \\ &+ \alpha_{24} \Delta open_{t-1} \\ &+ \alpha_{25} [rwusk - \beta_2 open]_{t-1} \\ &+ D \\ &+ \varepsilon_{2t}\end{aligned}$$

where Δ is the difference operator, $rwsk$ is the log of real wages for skilled workers, $rwusk$ the log of real wages for unskilled worker, $open$ is the log of a proxy for level of openness, and α_{ij} and β_i are coefficients. The speed of adjustment to long-run equilibrium relationships, $[rwsk - \beta_1 open]_{t-1}$ and $[rwusk - \beta_2 open]_{t-1}$, are measured by α_{15} and α_{25} , while β_i show how real wages are linked to openness in the long run. Since we use annual data, two lags of each variable are sufficient to capture dynamics of the model, implying one lag of the first differenced variables. We allow lagged wages for skilled workers to affect current wages for unskilled workers, and vice versa, to capture delayed interaction between the two groups. The coefficients of interest are α_{15} , α_{25} , β_1 and β_2 , since they show how trade liberalization impact real wages for skilled and unskilled workers in the short and long run.

6 Data Description

The variables used in the analysis are plotted in Figures 1 through 3 for the time period 1969 to 2010. Bangladeshi data are usually reported for the fiscal year July–June. We use 1973 to represent 1972–73 and so on. Figure 1 depicts the evolution of average daily wages of skilled and unskilled workers in the cotton textile sector, measured at constant 1996 prices. The GDP deflator is used as the price index when converting series to constant prices. However, the consumer price index produces, for all practical purposes, the same result. A skilled worker is a person who possesses professional training and skill received

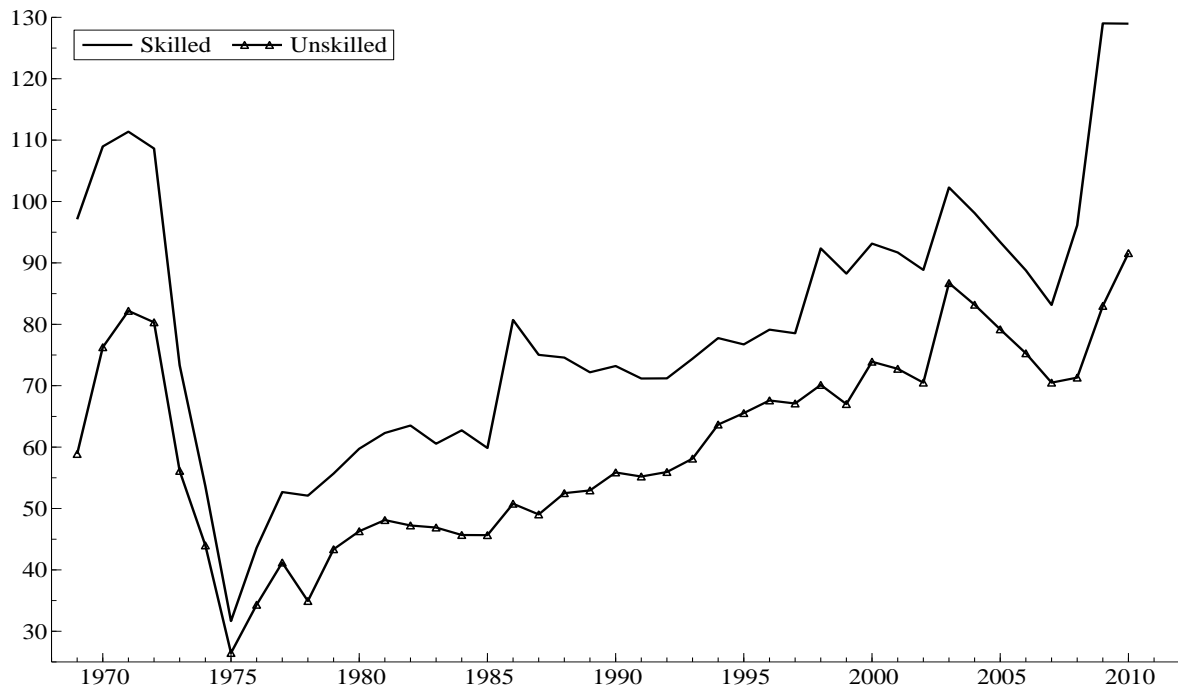
either on-the-job or from any formal or informal training institute, while an unskilled worker is a person who has no professional training or skill for doing a job (BBS 2013). The upper panel shows that both series exhibit a sharp decline during the first half of the 1970s, clearly related to independence in 1971. There is partial recuperation during the following years, but it is only after the beginning of the liberalization process in the mid-1980s that we observe strong upwards trends. Both wage series grow over most of the sample, albeit intermittently. However, it is first after 2005 that they have returned to the pre-independence levels.

The lower panel shows the spread between skilled and unskilled wages, measured as the log difference of the wage series. It is about 30% on average until from 1980 to 1986, when it rises to over 45%. The spread then declines and in 1995 skilled wages are only 16% higher than unskilled wages. There are also fluctuations in the spread the following decade but it is well below 25% most of the time. In 2008 the spread starts rising again and reaches 44% in 2009, then in 2010 it declines somewhat. Relative wages are thus highly volatile, but there is no clear trend.

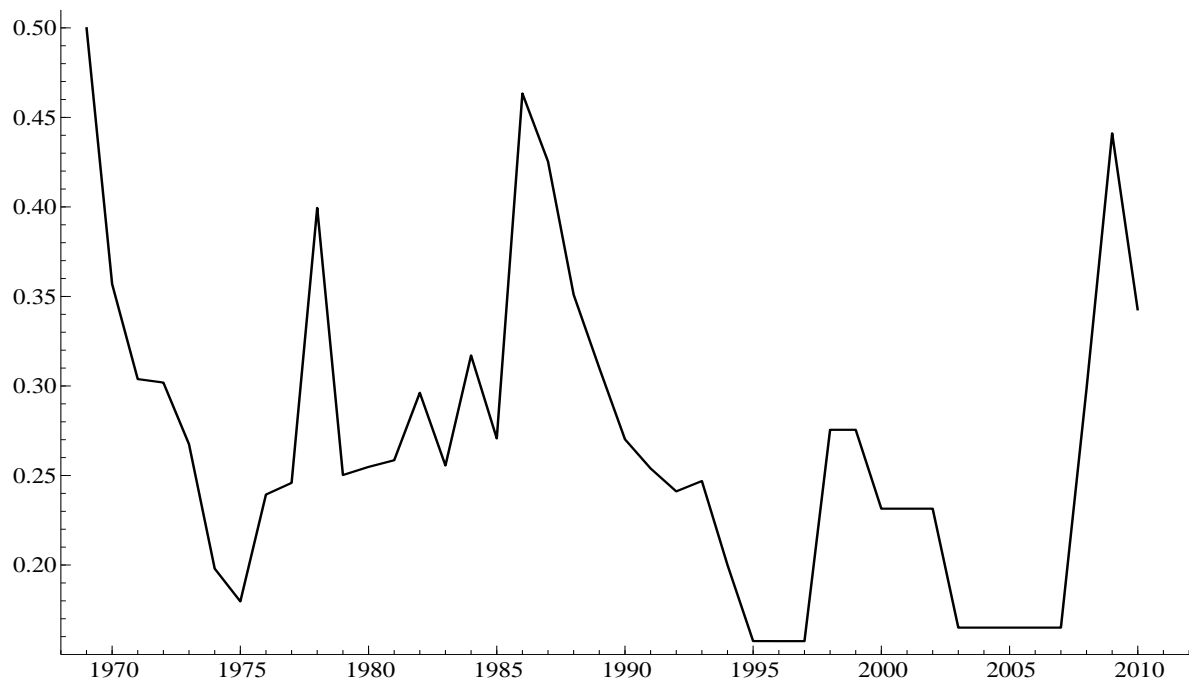
It is a challenge to find time series data on trade policy, so we consider two commonly used measures of openness: the trade dependency ratio, defined as the ratio of exports plus imports to GDP; and the export orientation ratio, defined as the ratio of exports to GDP. See McCulloch, Winters and Cirera (2002) for a general review of openness measures used by different researchers. Most importantly, both of them to some extent capture the outcome of trade liberalization, which can cause an endogeneity problem. However, they correspond well to the expected evolution of international trade based on qualitative information about Bangladesh's trade policy reform, and the Johansen cointegration approach allows us to test for endogeneity.

The trade dependency ratio, used by Nath and Mamun (2007), for example, also suffers from the weakness of only covering actually traded goods, not all tradable goods. In this sense the measure underestimates the degree of openness in a country. Another potential problem with this measure is that the ratio can increase because of terms of trade improvements, resulting from exogenous export and import price changes. The export orientation ratio is even more restricted and suffers from the same weaknesses; though it seems reasonable that trade liberalization should result in increased export share, while imports could grow due to aid inflows or external borrowing. Nevertheless, Jalil (2011) finds that exports and imports of Bangladesh are cointegrated, and both indicators work well empirically.

Figure 2 depicts both series over 1969–2010. As evident, they convey the same message from the mid-



(a)



(b)

Figure 1: Real wages and relative wages in Bangladesh cotton textile sector 1969–2010: (a) Average daily real wages for skilled and unskilled workers in 1995-96 constant prices, (b) Log difference between wages for skilled and unskilled workers.



Figure 2: Trade dependency ratio and export orientation ratio (1969–2010)

1980s and onwards, in line with the general view of Bangladesh's opening up process. However, there are some notable differences during the period 1969–1980; the trade dependency ratio drops sharply during the war of independence, while the export orientation ratio is quite stable.

7 Econometric Analysis

In this section we report the results from the econometric analysis. Since the variables have trends, the Johansen (1988) method is used to test for integration and cointegration, that is, whether the variables are non-stationary, and whether the non-stationary variables have stochastic trends that can be removed by taking linear combinations. This allows us to test whether skilled and unskilled real wages are cointegrated with each other, and whether they are cointegrated with our measures of trade liberalization. Since we find cointegration, we then estimate a two-equation error correction model for wages of skilled and unskilled workers to evaluate the dynamic adjustment to the long-run relationships obtained with the cointegration analysis. See Juselius (2006) for a readable description of the Johansen approach.

The results from the application of Johansen's maximum likelihood procedure are reported in Appendix. The

key finding is that real wages and the openness measures are cointegrated, though we only report the results with the export orientation ratio, because they are a bit stronger than the ones with trade dependency ratio. The long-run relationship for skilled workers is ($rwsk - 0.65open$) and the one for unskilled workers is ($rwusk - 0.66open$). Figure 3 shows the relationships (deviations from the long-run "equilibrium"), which appear to be stationary. Both long-run relationships are included as error correction terms (ECTs) in the error correction model (ECM).

The bivariate general ECM model, estimated over 1970–2010, has one lag of each variable and the ECTs lagged one period. The number of lags in the ECM is the same as in the VAR model used to test for cointegration, but it is formulated in log-differences, while the VAR is in log-levels. The variable *open* is weakly exogenous, as shown by the lack of feedback effect reported in Table 2. This means that its adjustment coefficient is insignificant, implying that we can include the contemporaneous rate of change of *open* in the ECM without having a simultaneity problem. In addition, we added three impulse dummies that have the value of unity in the year indicated and zeros elsewhere. They capture exceptional events not explained by the other variables: Both wage series declined sharply in 1975 due to a rapid increase in inflation, and there are two instances of rapid increases in real wages; in 1986 for

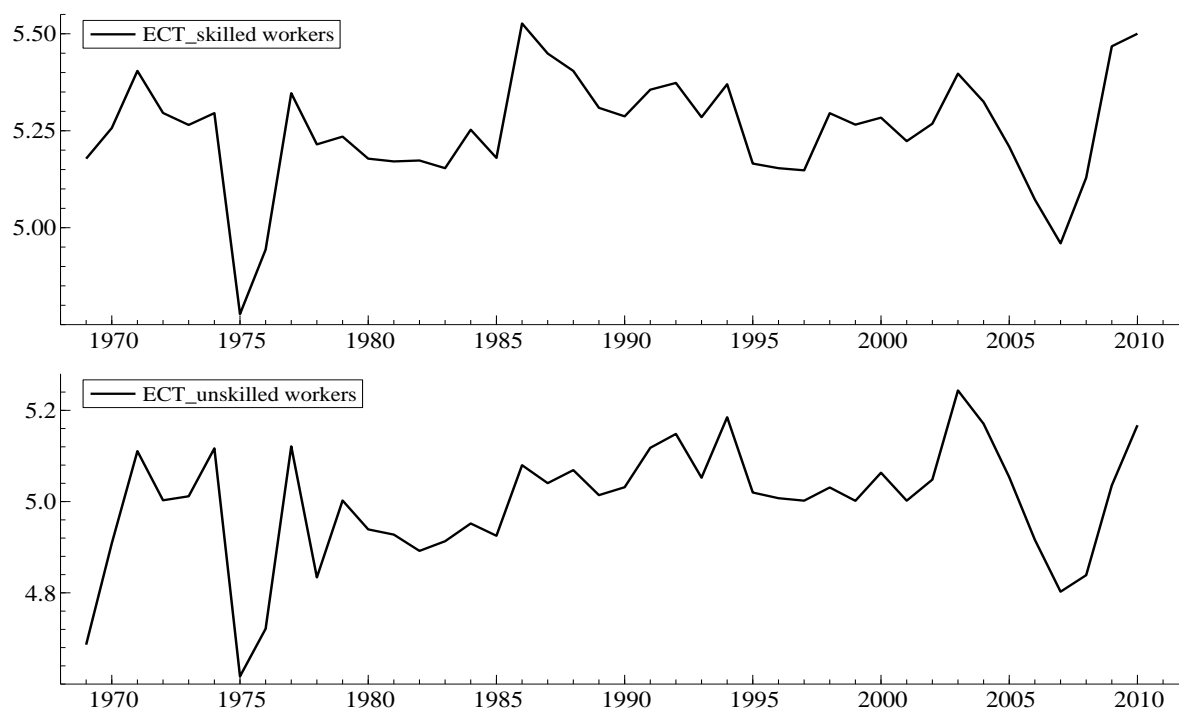


Figure 3: Cointegrating vectors for wages of skilled and unskilled workers (1969–2010)

skilled workers and in 2003 for both skilled and unskilled workers (see Figure 1).

The model is estimated with Full Information Maximum Likelihood (FIML). Table 1. reports the parsimonious model; the general model is available on request. See Ericsson, Campos and Tran (2007) for a comprehensive and accessible description of the general-to-specific methodology. Three variables are excluded from the general model: the rate of change of lagged unskilled wages in both equations, the rate of change of lagged skilled wages and the first difference of lagged *open* in the equation for unskilled workers. We keep $\Delta ruwsk_1$ in the equation for unskilled wages for illustrative purposes, although it is clearly insignificant.

The ECTs, $(rws_k - 0.65 \text{ open})$ and $(rwusk - 0.66 \text{ open})$, are highly significant. The adjustment is rapid: 0.67% (skilled wages) and 0.48% (unskilled wages) of a deviation from long-run equilibrium is removed within one year. This supports our results from the cointegration analysis by showing that openness drives real wages. Moreover, increased openness has increased real wages for both skilled and unskilled workers. Interestingly, skilled wages seem to respond faster than unskilled workers to changes in openness.

The contemporaneous coefficients on $\Delta open$ are also

significant in both equations with the expected sign; though some of the strong response of skilled wages are removed by the negative effect of lagged $\Delta open$. The lagged growth rate of real skilled wages, Δrws_{t-1} , affects current real skilled wages, while lagged unskilled real wages, $\Delta open_{t-1}$, is insignificant. This, and the rapid adjustment in skilled real wages, is signs of the leading role of skilled wages and passive role of unskilled wages.

Statistically the model appears well specified; there is no evidence of vector serial correlation (EGE-AR test), vector heteroscedasticity (Vector Hetero test), and vector non-normality (Vector Normality), or in the single-equation diagnostic tests. The reduction of the general model was carried out by removing one clearly insignificant lag at the time, and then using likelihood ratio tests to check the validity of the simplification. The χ^2 test reported in Table 1 is insignificant, $p\text{-value} = 0.46$, implying that our simplification is statistically valid.

8 Concluding Remarks

In the early 1980s Bangladesh embarked on a trade liberalization process to adopt an export-oriented industrialization strategy. The purpose of this study was to investigate how this change of policy has affected wage inequality.

Table 1: Error correction model for skilled and unskilled workers

Variables	Δr_{wsk}^d	Δr_{wusk}^d
Δr_{wsk}_1	0.26 ^c (0.08)	
Δr_{wusk}_1		0.07 ^c (0.08)
ECT _{skilled} _1	-0.67 ^c (0.08)	
ECT _{unskilled} _1		-0.48 ^c (0.08)
$\Delta open$	-0.39 ^c (0.08)	-0.34 ^c (0.08)
$\Delta open_1$	-0.18 ^c (0.05)	
Dum 1975	-0.58 ^c (0.09)	0.45 ^c (0.09)
Dum 1986	0.22 ^c (0.04)	
Dum 2003		0.11 ^c (0.04)
Constant	3.52 ^c (0.40)	2.39 ^c (0.39)
Vector SEM-AR 1-2 test	$F(8, 60) = 1.01[0.43]$	
Vector Normality test	$\chi^2(4) = 7.75[0.10]$	
Vector hetero test	$F(36, 77) = 1.34[0.14]$	
Test of model reduction	$\chi^2(3) = 2.57[0.46]$	
Estimation method FIML	Time period 1970–2010	

Notes:

^a denotes statistical significance at 10%^b denotes statistical significance at 5%^c denotes statistical significance at 1%^d Standard errors are in parenthesis

Our major finding is that there is no evidence that trade liberalization has changed the relation between wages of unskilled and skilled workers in the cotton textile sector. Thus, we fail to find that greater openness has decreased wage inequality, as predicted by standard trade theory. On the other hand, trade liberalization seems to have raised real wages for both skilled and unskilled workers. The reason for this is not analyzed but a possible explanation is that trade liberalization led to more rapid technical progress and capital accumulation. This is also consistent with the finding of no change in relative wages. Because technical change usually generates demand for skilled workers, there have probably been two countervailing forces at work, the standard Stolper and Samuelson mechanism where relative prices change in favor of labor intensive goods and increase the relative demand for unskilled workers compared to skilled workers, and skill-biased technical change that raises demand for skilled workers.

Our findings do not support many of the pessimistic views about globalization, free markets and inequality that currently are popular in many circles, not at least after the publication of the book by Piketty (2014). The policy implication of the study is thus that the government should continue in its pursuit of free trade. Although, wage inequality might have increased in other sectors or among other types of workers, such as non-production and pro-

duction workers, there seems to have been a rapid increase in real wages across the board in Bangladesh, at least during the recent decade (Xiaobo, Rashid and Ahmad 2013). Income inequality is best addressed by collecting taxes and providing services to the poor. There is also ample scope for improving working conditions among manufacturing workers in Bangladesh, enforcing existing regulations on safety, child labor, minimum wages, etc.

A limitation of this study, and all the previous ones, is that technical progress is not directly analyzed. Moreover, the use of aggregate data hides possible changes within the groups studied, and these might be substantial. However, analyzing these issues requires access to better data, particularly firm and individual data. Furthermore, all studies ignore the informal sector, also due to paucity of appropriate data. There is thus scope for further research.

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Table 2: Cointegration analysis of real wages and openness, 1969–2010

<i>Rank test</i>			
Null hypothesis	$r = 0$	$r \leq 1$	$r \leq 2$
Eigenvalues	0.43	0.27	0.06
Trace statistic	39.64	15.76	2.47
Probability-value	0.002	0.044	0.12
<i>Standardized eigenvector β_1</i>			
	<i>rws</i>	<i>rwus</i>	<i>open</i>
	1.00	−0.80	−1.26
	−0.92	1.00	−0.10
<i>Standardized adjustment coefficients α_i</i>			
	−0.33	−0.18	0.21
	−0.003	−0.48	−0.43
<i>Exclusion/Stationarity tests $\chi^2(2)$ test statistic and p-values</i>			
	<i>rws</i>	<i>rwus</i>	<i>open</i>
	19.480 [0.0001]	11.651 [0.003]	15.864 [0.0004]
<i>Restricted and identified eigenvectors β_i</i>			
	<i>rws</i>	<i>rwus</i>	<i>open</i>
	1.00	—	−0.65 (0.08)
	—	1.00	−0.66 (0.13)
<i>Restricted adjustment coefficients α_i</i>			
	−0.60 (0.098)	—	—
	—	−0.30 (0.089)	—
Likelihood ratio test, restricted cointegrated vectors: $\chi^2(4) = 4.37[0.36]$			
<i>Alternative identification and test of log-run homogeneity</i>			
	<i>rws</i>	<i>rwus</i>	<i>open</i>
	1.00	—	−0.67 (0.062)
	1.00	−1.00	—
Likelihood ratio test, restricted cointegrated vectors: $\chi^2(1) = 2.51[0.11]$			

Notes:

(.) Standard errors are in parenthesis

[.] p-values are in brackets

The VAR includes two lags on each variable

Appendix: Co-integration Test

In this section we report the results from the cointegration analysis. Since the variables have trends, the Johansen (1988) method is used to test for integration and cointegration, that is, whether the variables are non-stationary, and whether the non-stationary variables have stochastic trends that can be removed by taking linear combinations. This allows us to test whether skilled and unskilled real wages are cointegrated with each other, and whether they are cointegrated with our measures of trade liberalization. Since we find cointegration, we then estimate a two-equation error correction model for wages of skilled and unskilled workers to evaluate the dynamic adjustment to the long-run relationships obtained with the cointegration analysis. See Juselius (2006) for a readable description of

the Johansen approach. Ericsson et al. (2007) give a comprehensive description of the general-to-specific methodology.

Results from the application of Johansen's maximum likelihood procedure are summarized in Table 2. The vector autoregressive model (VAR) consists of the log of wages of skilled workers, *rws*, log of wages of unskilled workers, *rwus*, and the log of the aggregate trade to GDP ratio, *open*; the other openness indicator, exports to GDP ratio, performed less well over the whole sample due its behavior during the 1970s, as evident when comparing Figures 1 and 2. The model is estimated over 1969–2010, to use as many observations as possible. Two lags are sufficient to capture the dynamics, as indicated by an *F*-test for the exclusion of the third lag; $F(9, 70) = 0.99[0.45]$.

The first row in Table 2 lists the estimated eigenvalues. Two of these are clearly larger than zero, indicating that there are two cointegrating vectors. Evidence of two long-run relations in the data is also given by the trace eigenvalue statistics (λ_{trace}), for rank 0 and 1, which both reject the null of no cointegrating vector at the 95% significance levels. As indicated by the exclusion tests, all three variables are significant, which also implies that all variables are integrated of order one (see Figures 1 and 2). Table 2 also reports the standardized eigenvectors, β , and the adjustment coefficients α . They show that the β 's for *rwsk* and *rwusk* are close to unity, and that their adjustment coefficients are large -0.33 and -0.48 , indicating that *rwsk* and *rwusk* are endogenous variables.

To identify the cointegrating vectors, we restricted *rwsk* and *rwusk* to enter one cointegrating vector each, and set adjustment coefficients to zero for *open*. As reported under “*Restricted and identified cointegrating vectors*”, the test statistic is insignificant; p -value = 0.36, and the estimated coefficients are significant. Hence, real wages seem to adjust to changes in *open* in the long run, and as expected, there is no feedback effect from real wages to *open*.

To test whether real wages for skilled and unskilled workers follow each other in the long run, we also tested if there is one cointegrating vector consisting of *rwsk* and *rwusk* with equal coefficients (of opposite sign) and one consisting of *rwsk* and *open*. This seems to be the case, as reported under “*Alternative identification and test of log-run homogeneity*”. The p -value = 0.11, so there is no evidence that trade liberalization has increased wage inequality by generating a more rapid growth in real wages for skilled labor.

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How Competitive is the NGO-MFI Market? Evidence from Two Districts of Bangladesh

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Abstract

The microfinance institutions in Bangladesh have evolved over time in terms of coverage, product design, pricing and also source of finance. This study asks if the competition among Microfinance Institutes (MFIs) has any role in the evolution of this sector. Using branch level information of the MFIs in two districts — Rangpur and Lalmonirhat, we show that there are indications for competition in all three spaces — location, product and price. Estimation results indicate that as the number of MFIs increases in a union (and also in the bordering unions), an MFI tends to i) locate their branch in a union where greater number of MFIs already exist, ii) offer higher number of products and iii) lower prices. This gives a borrower wider range of products to choose from a larger number of MFIs with lower nominal price and more lenient terms and conditions. Therefore, while crafting policies or regulations for microfinance industry one should be aware of the competitiveness of this market (or lack thereof) and its impact on prices and products and thus the welfare of the borrowers.

1 Introduction

Over the last two decades the growth of NGO-MFIs in Bangladesh has outpaced the growth of any other institution, be it Government or Non-Government. The NGO-MFIs initially started their operations in response to crises such as cyclone in 1970 and the Independence War where rehabilitation and relief were the prime goals. However, over the last four decades they have evolved substantially in terms of coverage, product design, pricing and also source of finance. NGO-MFIs are now covering new regions and reaching new clients who were once left outside their program. NGO-MFIs are designing new financial (e.g., targeted customized credit products, micro-insurance, micro-leasing, remittance service, etc.) and non-financial products (e.g., health, education, specialized training, advocacy, etc.) and tying them up to create complex packages of credit and non-credit (e.g., tying credit with insurance), and financial and non-financial (tying credit with training) products. Prices of these products have also gone through substantial downward revisions. Though the nominal price (interest rate) has gone down substantially, effective interest rates of these products may not have decreased much due to other hidden costs (e.g., various upfront deductions and fees).

This study aims at answering whether competition among MFIs has any role in the evolution of the micro-

credit industry in terms of new products, choice of branch location and pricing. While there is a huge literature on the impact of microcredit in developing countries on a myriad of income and non-income issues, research on the supply side of the story is very limited. Also there is a large empirical literature on the strategic behavior of firms (see Kalnins 2003, Levinson 1996, Sarmiento and Wilson 2005), but no empirical work has been done studying the role of competition and cooperation between not-for-profit organizations such as MFIs. Like firms, MFIs also make strategic decisions in choosing the location of a branch, size of the branch in terms of employees and coverage, diversifying products and also setting its price.

Conceptually, higher competition ensures better products and lower prices with a wider range of options. It is argued that the effects of competition hinges on the maturity of the market — the effect in a new nascent market will not be the same as in a matured saturated market. There are three phases of market development: pioneer, take-off and consolidation and the level and scope of competition vary with each phase. In the initial stage of market development, MFIs may compete more in choosing geographical location than in product and price. In the later phases of a saturated market, competition over product and price may dominate. However, this observation is not based on any rigorous empirical study.

MFIs may differentiate products to obtain a compet-

itive edge over their competitors. Product differentiation may take various forms such as flexible terms, improved services, product add-ons, inter-locking contracts, etc. Note that similar products across MFIs may vary with length of grace period, waiting-period for a new member to get loan, collateral, loan processing fees, application fees, compulsory saving against the credit product, interest rate on this saving, insurance against the credit, etc. Though microcredit is known for its collateral free credit, in most cases a minimum savings is required to qualify for borrowing. Sometimes it requires a co-signer, permanent or temporary assets as collateral to obtain credit. As the competition among the MFIs gets fierce, these terms and conditions may get relaxed over time for a product with similar price.

Sometimes MFIs also add products, both financial and non-financial, that come with the existing ones. For example, access to some credit products may give access to other financial services such as saving facilities, credit insurances, life insurance, emergency funds, etc. and also to non-financial services such as basic health care, training, etc., creating some complex contracts. Once committed to such contracts, it may be difficult for the clients to switch to other MFIs, even if there are other better options.

Current literature shows that the number of MFIs in a region has grown substantially indicating that MFIs may compete for geographical location. Mahmoud, Khalily and Wadood (2009) found that as many as 40 MFIs operated in Pathrail union of Tangail district in 2009 of which 32 of them were small MFIs. This study argues that there is competition between national level large MFIs and the local smaller ones for market share. There was evidence of market segmentation offering two types of products — smaller loans with lower interest rates and larger loans with higher interest rates.

“Overlapping” of microcredit borrowers — where one borrower borrows from several MFIs — is a salient feature of this industry; it is also an indication of high MFI penetration. However, the literature does not find a positive correlation between overlapping loans and lower repayment rate, which the theoretical literature predicts as one of the adverse consequences of greater competition.

Our study adds to the current body of empirical literature on the market of MFIs. To the best of our knowledge, this is the first study which uses historical administrative data on program placement, products and prices to study the competition in this market. This study collects information on the MFIs in two districts of North Bengal — Rangpur and Lalmonirhat to test the presence and effects of competition. We argue that if competition among MFIs exists, the following four things should be manifested: i) higher penetration of MFIs, ii) larger number of products and greater diversification, iii) more relaxed

terms and conditions of the products and iv) lower prices (service charges).

As there is higher penetration of MFIs, we ask whether an MFI locates a branch closer to another MFI because there are both costs and benefits of doing so. Or, do they avoid a region where the number of incumbents is very high? Estimation results show that MFIs tend to locate a branch where the penetration is already high. Since greater numbers of MFIs signals the potential market for microfinance, new MFIs decide to locate their branch in the crowded region. We also test if greater competition leads to higher number of products and lower prices offered by the MFIs. In line with the descriptive statistics, estimation results also indicate that as the number of MFIs increases, MFIs tend to offer more products with lower prices.

Data show that there are evidences of all these four elements. There are greater number of MFIs and branches in a union and they are now offering more products than before. The MFIs have relaxed the waiting-period to get loans, and are offering higher interest rates on saving. Nominal service charges for most of the products have also declined significantly over time.

The rest of the paper is organized by the following sections: the relevant literatures description of the data collection procedure and the sample used for this study; descriptive statistics; empirical tests of hypotheses, and conclusions.

2 Literature Review

Literature on competition of NGO-MFIs is very limited. In this section we survey the prominent theoretical literature to predict the outcome of competition based on MFIs' objectives as well as a few empirical studies relevant for our paper.

Though competition is argued to lower prices with a wider range of better products, the impact of competition among MFIs, especially price competition, is not unambiguous. Competition may generate perverse effects which may make all the micro borrowers worse off. McIntosh and Wydick (2005) show that client maximizing objective of MFIs leads to cross subsidizing among the borrowers — the poorer unprofitable borrowers and the richer profitable borrowers. Competition may lead to shrinking rent from profitable borrowers with elimination or reduction of subsidy. That is, as price competition intensifies, MFIs may drop poorer borrowers or the programs targeting only poorer people, or the backward poorer regions.

This paper also shows that the type of source of fund can play an important role in promoting/dampening competition. Donor-funded client-maximizing MFIs can always undercut non-donor funded MFIs to capture the mar-

ket. Paolo Casini (2008) also shows that the motives of the incumbent and the new entrant are pivotal in understanding the impact of competition among MFIs. The presence of altruistic MFIs in the market makes all the borrowers better off in terms of lower rationing and higher borrowers' rent. It also provides incentives for the potential entrants to enter the market.

Following the above arguments, it is essential to ask — what does an MFI maximize? Ideally and also according to the stated mission, the MFI's are not profit maximizers; they maximize the impact on poverty subject to budget constraints and good repayment rates. The literature considers MFIs maximizing a wide range of objective functions — borrower's welfare, poverty impact, coverage, number of client — depending on the questions the study intends to answer. Since borrowers' welfare and poverty impact are not readily observable/verifiable to the principal (e.g., PKSF, donors), one can argue that MFIs focus more on expanding coverage and the number of clients. One can think of MFIs objective function as simple as maximizing coverage subject to high repayment rates.

There is a literature on determinants of choice of branch location which sheds light on the objective of NGO-MFIs. Gauri and Fruttero (2003), using a pooled cross section data, showed that the net change in NGO programs in a particular community was not tied to the community needs and the NGOs were keen on establishing programs where they themselves had no previous operation, but they were not concerned with duplicating the efforts of other NGOs working in the same community. In a very closely related paper, Zeller, Sharma, Ahmed, and Rashid (2001) using cross section data tried to identify the determinants of branch placement for group-based lending institutions, without addressing the endogeneity of placement choices. Ravallion and Wodon (2000) using cross-section data compared the geographic branch location choices of Grameen Bank and traditional government banks as a function of the potential gain from non-farm rural activities. Their findings indicate that Grameen bank chose bank locations so that more gains accrue to the poor who switch to more profitable non-farm activities. The other banks located in the same area are biased towards the gains realized by the non-poor.

The most cited empirical paper on uncovering MFI's objective is written by Salim (2010). This study, using the strategic branch location, choices of the two largest MFIs in Bangladesh — Grameen and BRAC, tries to reveal their motives: whether they are maximizing profit or poverty impact. The study suggests that profit maximization alone can not explain branch placement patterns for the two largest MFIs in Bangladesh and that their deviations from pure-profit are in the direction of poverty al-

leviation. If Grameen Bank targets one higher standard deviation of poverty head-count, it costs them 35.2% of its potential profits and the corresponding figure is 51.4% for BRAC. Since branch placement depends on whether the MFIs are for-profit or not-for-profit, this study sheds light on the debate on efficient institutional arrangement to impact poverty.

3 Data

3.1 Study Area

We selected only two districts — Rangpur and Lalmonirhat for this study. Note that it was a pilot project of the Institute of Microfinance (InM) and these two districts provide ideal setup in terms of logistic support and knowledge about these two districts to conduct the survey.

3.2 MFIs and Branch Level Data

We use two modules of questionnaires: i) NGO-MFIs Module and ii) Branch Module to collect the data. The first module contains detailed information on the NGO-MFI: its birth, growth, products, and price while branch module has information on branch location, union coverage, description of credit and non-credit products. We collected historical information on number of borrowers, number of employee, interest rate, credit disbursement, credit outstanding, credit overdue, insurance or emergency fund.

We used Microfinance Regulatory Authority's (MRA) list of MFIs who already received licenses and also who have applied for the registration to collect the name and contact details of the NGO-MFIs operating in these two districts. Initially we selected 19 Partner Organizations (PO) of Palli Karma Shahayak Foundation (PKSF) and 52 Non-POs. However, some of them were later referred to share information with us. Having identified the MFIs in these two districts, we collected their annual reports for most of the years starting from the year of inception of credit program. These reports helped us to understand their credit and non-credit products and also their delivery mechanisms to serve as background materials to develop the questionnaires.

We sent the questionnaires to 467 branches of 71 NGO-MFIs and asked their staff to fill it out with a monetary incentive of 700 Taka for each branch module and 1,000 Taka for an NGO-MFI module. The type of data we asked for was not readily available at the branch or local offices as these are historical data. It took us about six months to collect the completed questionnaire.

A majority of the small Non-POs refused to send back the questionnaires. Most of them have a very small credit portfolio and operate without Microfinance Regulatory

Authority's license. Though we assured them that their information would be used only for research purposes, their responses were not satisfactory. Among the big NGO-MFIs, Grameen Bank did not respond to our request though they received our questionnaire. During that time, the tension was running high between the Government and Grameen Bank over ownership and management issues. Grameen Bank has 61 branches in two districts and this was a big setback for our study. BRAC provided us with the branch level information of product and borrowers, but not the location of branches over time. As a result, we ended up with 346 branches of 25 MFIs (Table 1).

3.3 Union Level Secondary Data

We collected two types of union level secondary data: information on adjacent union and union level characteristics. There are 42 unions in Lalmonirhat and 83 unions in Rangpur district. We listed the name of the bordering unions for each union. This information was collected from the maps found on the internet and also from the maps of Bangladesh Bureau of Statistics (BBS) Community Series Maps of Lalmonirhat and Rangpur districts. For example, Monishkhocha is one of the unions in Lalmonirhat district which shares the same borders with Palashi and Bhadaai union. These three unions are located in the same upazila, Aditmary. But, all the unions are not necessarily from the same upazila; one union may share a boundary with another union which may be from a different upazila, or a different district.

4 Competition Among MFIs

Identifying the incidence and extent of competition, or lack thereof, is basically testing the prediction of the outcomes of competition that the theoretical literature makes. The most obvious and easily verifiable one is the number of MFIs and their branches. One can easily document the incidence of the entry and exit of MFIs in a particular region but its impact on the incumbents and on the entrants in terms of price, product and location choice is less obvious. In this section, we check with some descriptive statistics if higher degree of penetration of MFIs has led to greater product diversification, more relaxed terms and conditions, and lower prices.

4.1 Higher Degree of Penetration of MFIs and Their Branches

The number of MFIs and their branches saw a substantial growth over the last ten years in these two districts. Since we could not cover all the MFIs in these two districts, the absolute number gives only a partial picture of the growth of MFIs. In the year 2000, the number of reported MFIs was below five in both districts. In ten years, the reported

numbers grew significantly to 14 MFIs in Rangpur and 8 MFIs in Lalmonirhat (Figure 1). In the year 2000, the reported number of branches in Rangpur and Lalmonirhat were 60 and 40 respectively but in the latter half of the decade, the growth of branches in Rangpur outpaced the growth in Lalmonirhat (Figure 2). In 2009, Rangpur and Lalmonirhat had 182 and 101 branches respectively.

However, though the number of branches has increased significantly over the last 10 years, the number of branches per MFI in these two districts has been moderately stable (Figure 3). It indicates that growth of branches is due to entry of new MFIs in these two districts. In Rangpur, on an average, each MFI has about 40 branches and in Lalmonirhat it is about 25, though it dipped around the year 2004.

On an average, the number of borrowers or the amount of credit disbursed per MFI has also seen dramatic increases after 2002, with MFIs in Rangpur having a higher number of borrowers than the MFIs in Lalmonirhat (Figure 4). This is also reflected in the growth of credit in these two districts (Figure 5).

It is interesting to note that the number of branches per MFI in both districts has not increased much. However, the number of borrowers and the amount of credit each MFI has disbursed increased significantly. The number of employees per branch has not increased as well. In fact, it decreased for Lalmonirhat. It indicates that efficiency of the MFIs and their branches has improved over time in delivering credit. This can be regarded as an outcome of higher competition.

4.2 Higher Number of Products and Greater Diversification

The number of credit products offered from each branch, on an average, has also increased significantly. In the year 2000, on an average, a branch would offer about 2 credit products but the number had increased significantly in 2004–06 (Figure 6). After 2006, the number decreased slightly for both districts. In 2009, a branch in Rangpur and Lalmonirhat districts offered about 3.5 and 3 credit products respectively. Data show that there are branches that offer as many as eight credit products simultaneously (e.g., Bhelabari Branch, RDRS). These products are RMC, UMC, UP, Flexible loan, Seasonal loan, Agricultural loan, Micro Enterprise (ME) loan, and Emergency loan.

It is important to note that a branch does not make only decision on how many credit products it would offer. This decision is made at the regional or central level of the MFIs. Sometimes new branches are opened just to offer a single or multiple new products through some projects (e.g., PRIME project of Palli Karma Shahayak Foundation (PKSF)).

Table 1: Name of NGO-MFIs and number of branches

Name	Number of Branches
ASA	106
BEES (Bangladesh Extension Education Service)	2
BRAC	81
Center for Mass Education IN Science (CMES)	1
Dustho Unnayan Sangstha (DUS)	10
Heed Bangladesh	2
MSS (Manobik Shahojjo Sangstha)	3
NAJIR (Natun Jibon Rochi)	1
PMUK (PadakhepManobikUnnayan Kendra)	6
POPI (Peoples Oriented Program Implementation)	10
RDRS	27
SKS Foundation (Samaj Kallayan Sangstha)	11
Sonali Unnoyan Foundation	3
SSS (Society for Social Service)	5
TMSS (Thengamara Mohila Sabuj Sangha)	30
UDDIPON	14
UDPS (Uttara Development Program Society)	5
OVA (Own Village Advancement)	4
SERWTCI (Self-Employment for Rural Destitute Women Through Cottage Industries)	5
PROSHIKA	4
ESDO (Eco Social Development Organization)	12
Development Organization of Rural People (DORP)	1
Palli Sampad Shamannoy Kendra (PSSK)	1
ARANYA (Alokito Manobadhiker and Unnayan Sangstha)	1
Manoshika	1
Total 25 NGO-MFIs	346

The average size of the standard credit products such as Rural Microcredit (RMC), Urban Microcredit (UMC) and Flexible credit has not changed much over the last 10 years (Figure 7). Average sizes of these credit products have hovered around 3,000–6,000 Taka. However, in real terms the average size has declined. The average size of Micro enterprise (ME) loan has increased sharply after 2003 and in 2009, the average size reached to about 60,000 Taka. Interestingly, the average size of UMC has also increased in 2007, making it a different credit product from RMC.

Two standard credit products — Rural Microcredit and Urban Microcredit have dominated both in terms of share of credit and also the share of borrowers in Rangpur district. In 2002, both RMC and UMC together accounted for about 53 percent of total credit portfolio of the MFIs and this share remained same also in 2009. The share of flexible loan made up about 42 percent in 2002 has declined in 2009 to about 16 percentage point. This is due to significant rise in the share of ME loan over time. The share of Micro Enterprise loan (ME) has increased from

about 3 percent in 2002 to about 12 percent in 2009. The share of credit for the Ultra Poor (UP) has also increased over the years. The distribution of credit corresponds well to the distribution of borrowers in Rangpur.

However, in case of Lalmonirhat district, there were only two major products — RMC and ME where RMC's share was about 94 percent. However, over time, the share of other products such as UMC, Flexible, UP has also increased. Share of ME doubled in 8 years in Lalmonirhat district.

In short, branches are offering more products to larger number of borrowers than before. Branches are allocating greater share of their portfolio to new non-standard products such as ME of much bigger loan size. Greater competition may have forced the branches of MFIs to introduce new products and also venture into a different segment of the market (e.g., richer borrowers).

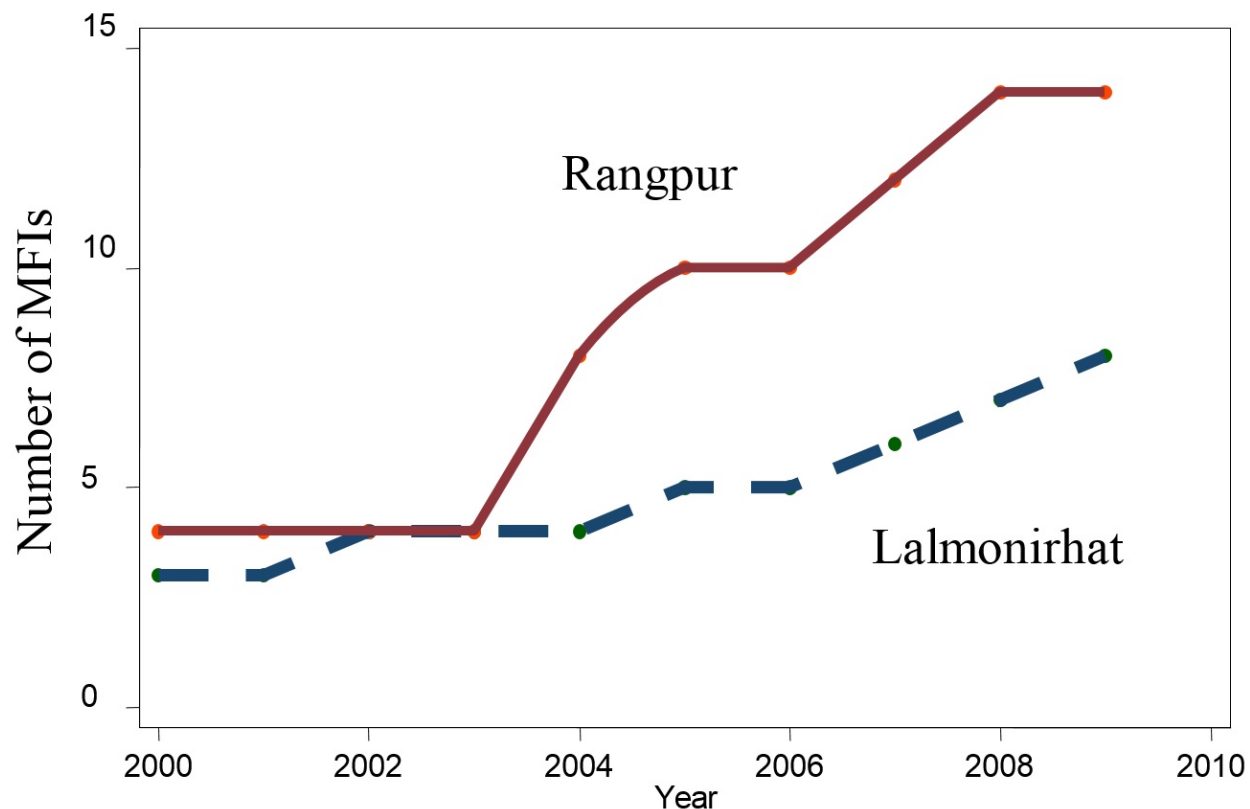


Figure 1: Growth of number of MFIs in two districts 2000–2009

4.3 Softer Terms and Conditions of the Products

Greater competition may also result in relaxed terms and conditions of the credit products. We found that waiting-period to get loan has decreased for RMC, UMC and ME (Figure 8). For example, a potential borrower had to wait about 6 weeks to get RMC in 2000 but in 2009 one had to wait about 4.5 weeks, on an average. Waiting-period for ME has also decreased from about 4 weeks in 2003 to 2 weeks in 2009.

Grace period for RMC has not changed much, remaining stable at around 2 weeks. But for ME, the grace period has declined significantly from about 6 weeks in 2000 to about 2 weeks in 2009 (Figure 9). Application fees for the standard RMC and UMC have not changed much over the years. The nominal application fees have remained stable at around 15 Taka (Figure 10), though in real terms it has declined. Loan processing fees have increased for RMC but remained same for UMC (Figure 11). Nominal interests on savings for both RMC and UP have increased substantially by about 1.5–2.0 percentage points over the last 8 years or so (Figure 12).

In short, the time series data on the terms and con-

ditions and some upfront costs such as application fees, processing fees, grace period, waiting-period shows that most of them have been relaxed over time. Competition among MFIs appears to have induced MFIs to soften these terms and conditions, to make their product more competitive. Competing MFIs are now offering better interest on savings as well attracting new borrowers and keeping the existing ones.

The fact that nominal costs have not changed over time but non-monetary costs (e.g., waiting-period) have changed indicates competition first forces MFIs to reduce non-monetary costs in order to get an edge over their competitors. When competition gets fierce, it may exert downward pressure on the upfront deductions and other hidden monetary costs of borrowing.

4.4 Lower Prices (Service Charges)

Service charges for all major products have declined over the last ten years. Flat rates have been converted to the rates based on declining methods using number of installment and size of the loan. For example, the service charges for RMC, ME and UP were about 15 percent in 2000 (Figure 13). Now the charges for RMC and ME have fallen to about 13 percent and that of UP has de-

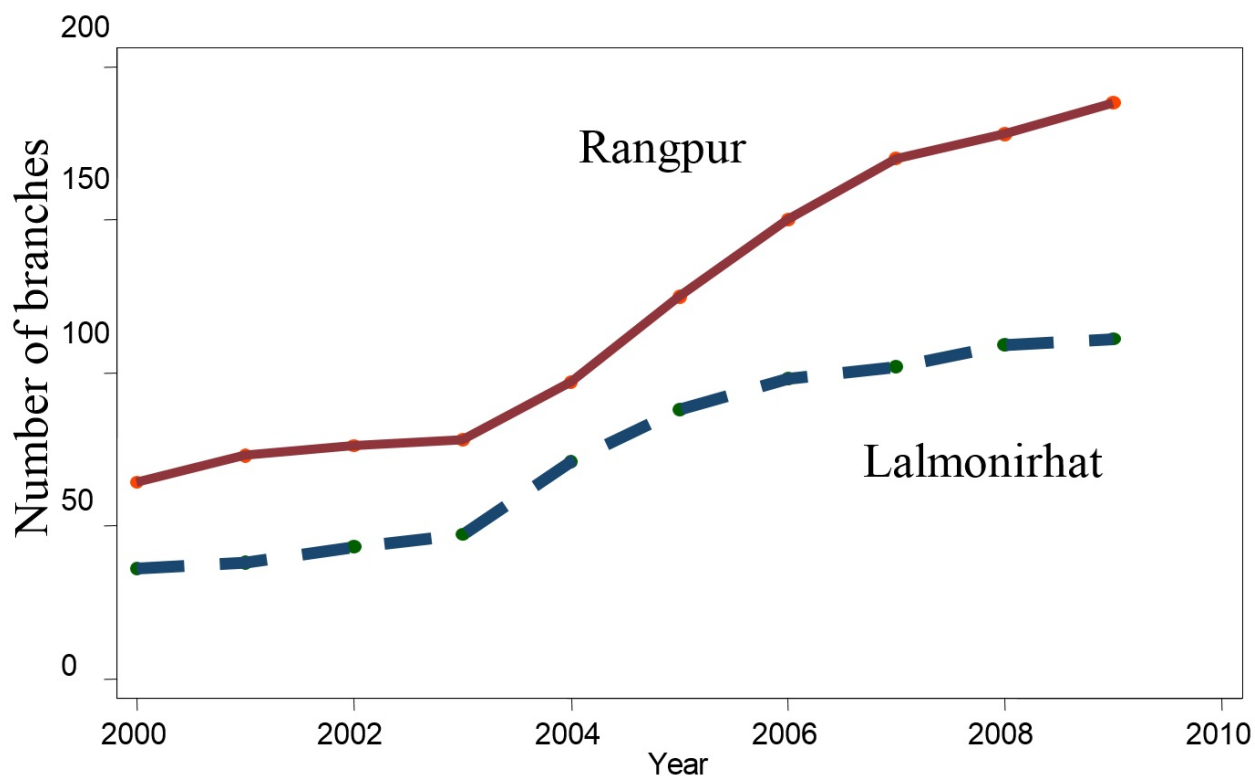


Figure 2: Growth of branches in two districts 2000–2009

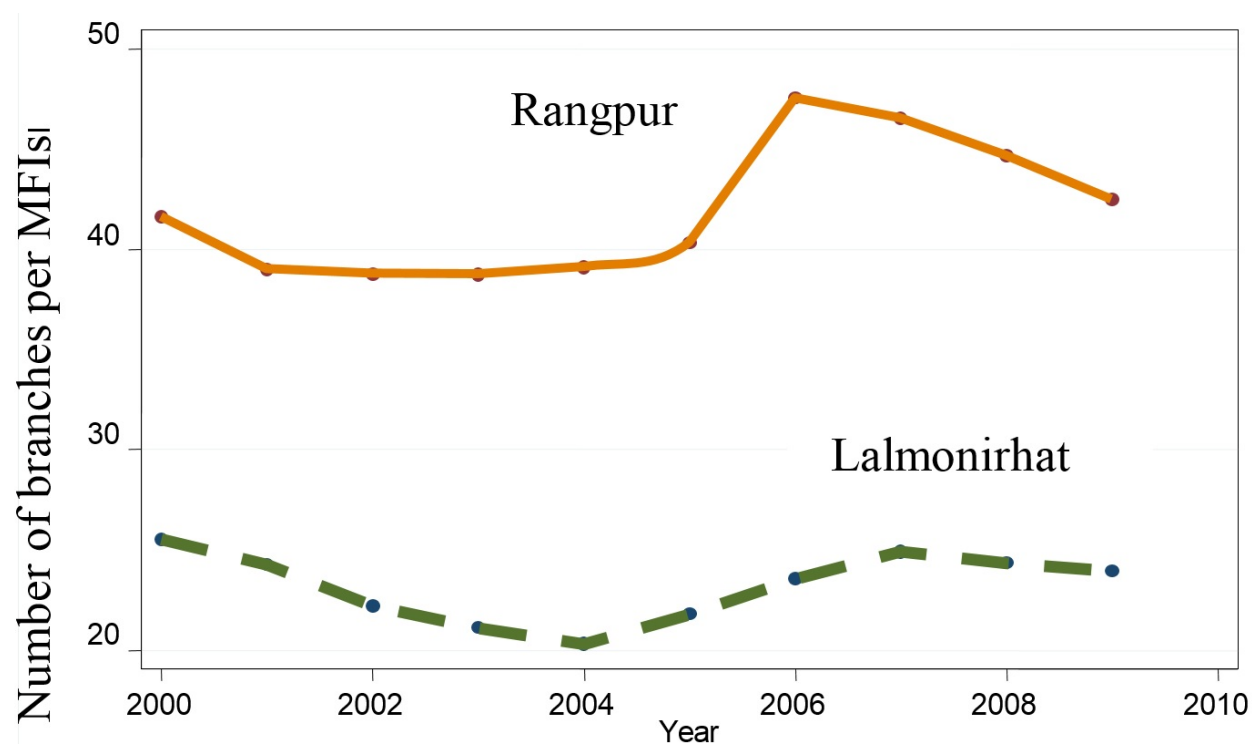


Figure 3: Growth of branches per MFI in two districts 2000–2009

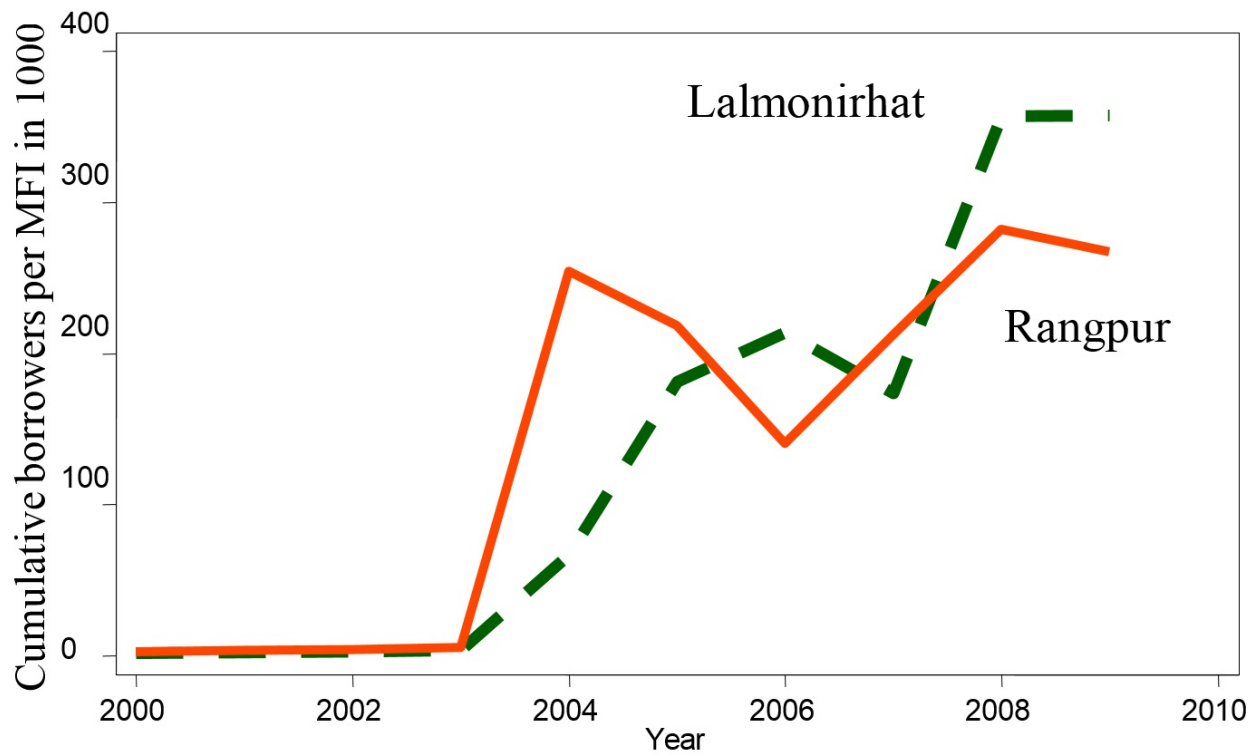


Figure 4: Growth of the number of borrowers per MFI

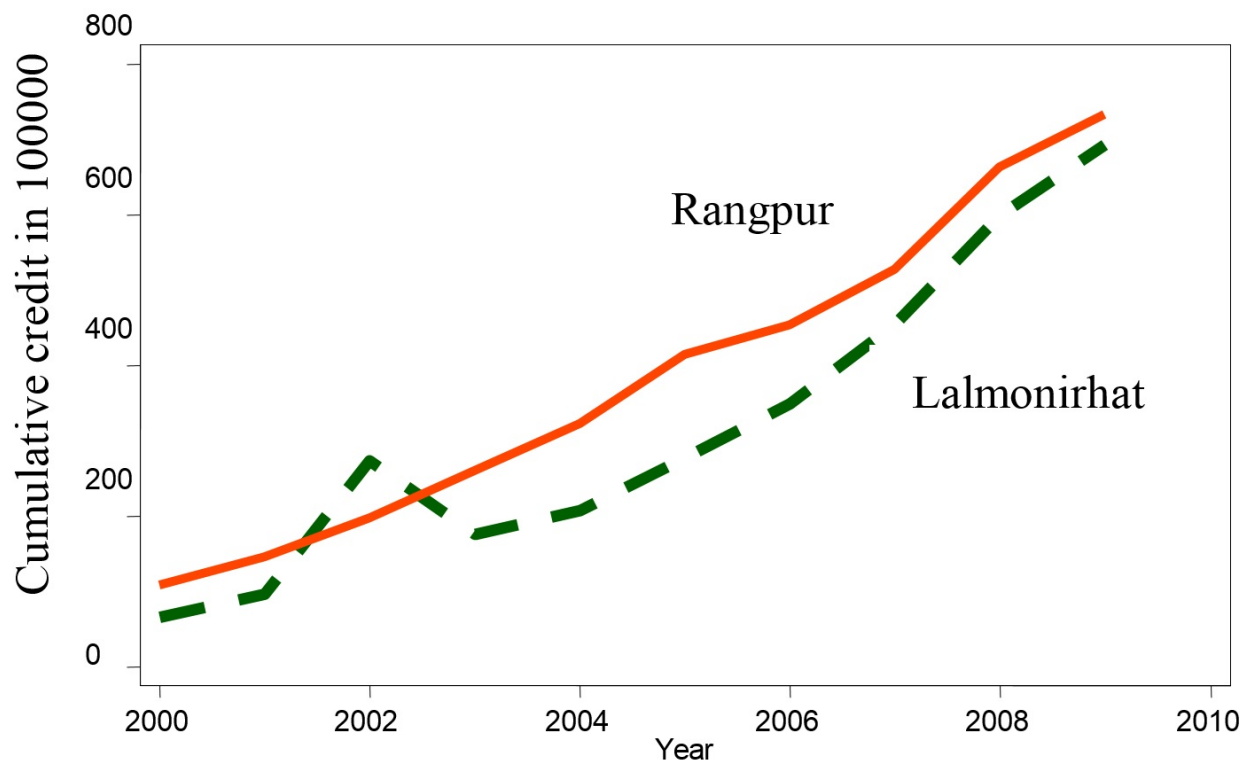


Figure 5: Growth of credit per MFI in two districts

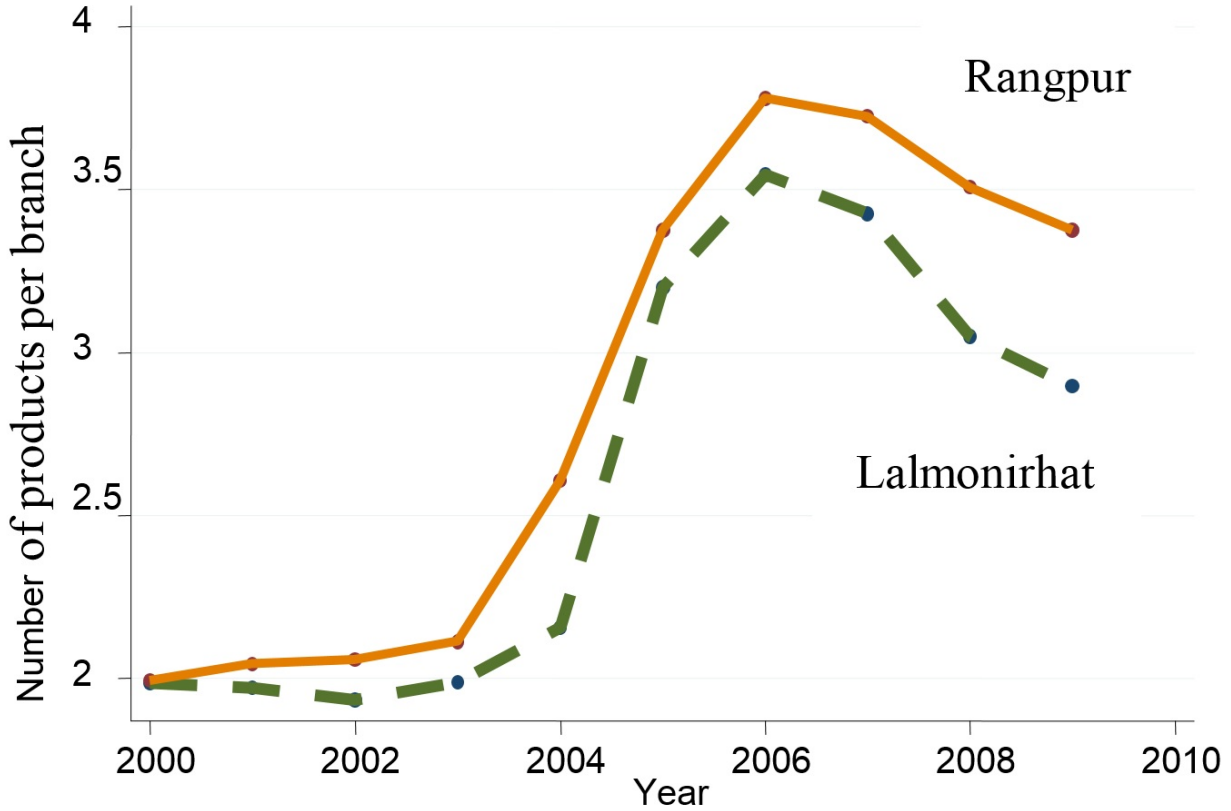


Figure 6: Growth of number of products per branch

clined more to about 11 percent. The service charges are pure nominal charges and not the effective rates.

The Figure 14 shows the changes in nominal effective APR which takes into account the methods of periodic payments, declining balances and upfront costs and deductions. It shows that effective rates have declined for RMC and ME and has increased a little for UMC.

It is to be noted that the nominal service charge for UMC has been constant over time and the effective rate has increased. This is due to the deductions and upfront costs. Also, though the effective rate has increased, it is still below the effective rates of RMC and ME. The effective rates were not very different from each other in 2009 — effective rate for UMC, RMC and ME were around 27, 28 and 28 percent respectively.

5 Some Testable Hypotheses

5.1 Competition Over Program Placement

The research question we are interested in is: Does an MFI locate a branch closer to another MFI? There are both benefits and cost for locating a branch in an area where there are other MFIs. While the information about the market

for credit is not publicly available, incumbents provide a signal about the market. MFIs can exploit marketing externalities, i.e. the new entrant can benefit from the incumbent's investment in marketing/advertising microcredit. When an incumbent helps discipline the borrowers in repayment and establishing some norms in the locality, the new entrant can also take advantage of it. On the other hand, there are costs from competition — lower coverage will lead to higher operating cost per loan staff. Even if there is demand for multiple loans, marginal cost of selling credit to a person who had borrowed from another source may be higher than selling it to a new borrower. A loan officer may need to invest more in information gathering about the former.

Regression Model:

$$\begin{aligned}
 L_{i,j,t} = & \beta_0 + \beta_1 \text{MFI}_{-i,j,t-1} \\
 & + \beta_2 \text{BU.MFI}_{-i,t-1} \\
 & + \beta_3 E_{i,t} \\
 & + \beta_4 R_t \\
 & + u_{i,j,t}
 \end{aligned}$$

The dependent variable $L_{i,j,t}$ is a binary variable which assumes a value of 1 when an MFI/NGO i has a program

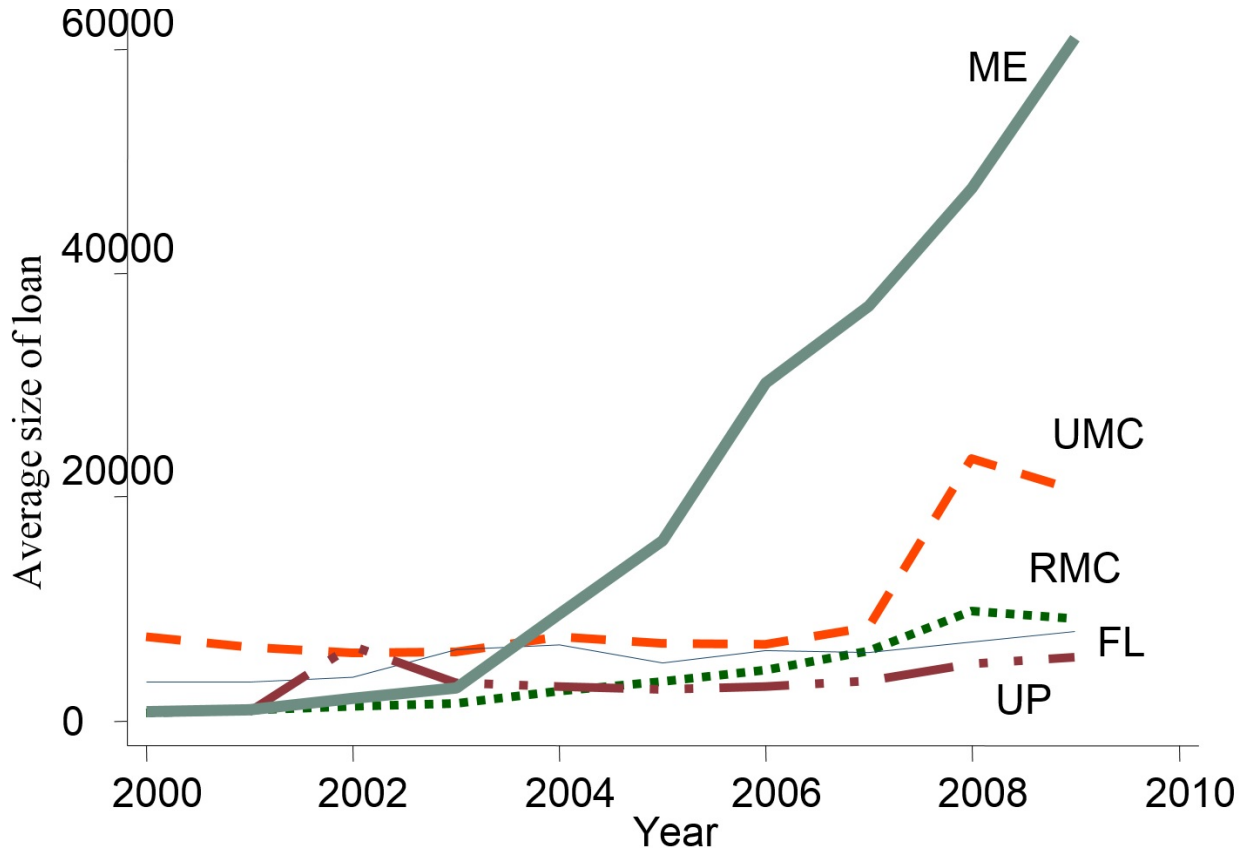


Figure 7: Trend in average size of loan by products

in union j in the period t , zero otherwise. An NGO/MFI i 's branch location and the actual program area can be different. One branch typically manages program that covers multiple unions. $\text{MFI}_{-i,j,t-1}$ implies the number of other MFIs in union j in the period $(t-1)$. $\text{BU_MFI}_{-i,t-1}$ is the number of other MFIs in the bordering unions in period $(t-1)$. $E_{i,t}$ denotes basic characteristics of the new entrant such as the number of borrowers, whether it is a national, regional or local MFI, whether it is a partner organization of PKSF. R_t denotes union level characteristics

The marginal effects of the Probit model are presented in Table 2. The results indicate that as the number of incumbent MFIs increases in a union, the probability of locating a branch of a potential entrant increases. The results are not very strong as when we include the characteristics of the MFIs and the union in the model. We categorize MFIs into national, regional and local and include dummy variables of the first two. None of these coefficients are significant.

5.2 Competition over Product

We have already seen in section 4 that the average number of products a branch offers has increased over time. Here

we test if this is due to higher competition among MFIs. That is, we particularly test the hypothesis that as competition increases whether the greater number of MFIs and branches leads to higher number of products.

Regression Model:

$$\begin{aligned} P_{i,j,t} = & \beta_0 + \beta_1 \text{MFI}_{-i,j,t-1} \\ & + \beta_2 \text{BU_MFI}_{-i,t-1} \\ & + \beta_3 E_{i,t} \\ & + \beta_4 R_t \\ & + u_{i,j,t} \end{aligned}$$

The dependent variable $P_{i,j,t}$ is a count variable which counts the number of credit product a branch of MFI i offers in union j in the year t . Since the dependent variable is a count variable, we run Poisson regression model.

Table 3 presents results of the Poisson regression model. Though none of the coefficients of the variable MFI are significant, all of them are positive. Interestingly the coefficients of the variable BU_MFI (total number of branch of the adjacent unions of the other MFIs — excluding that one — in that union in the previous year) are positive and statistically significant. If we combine these two

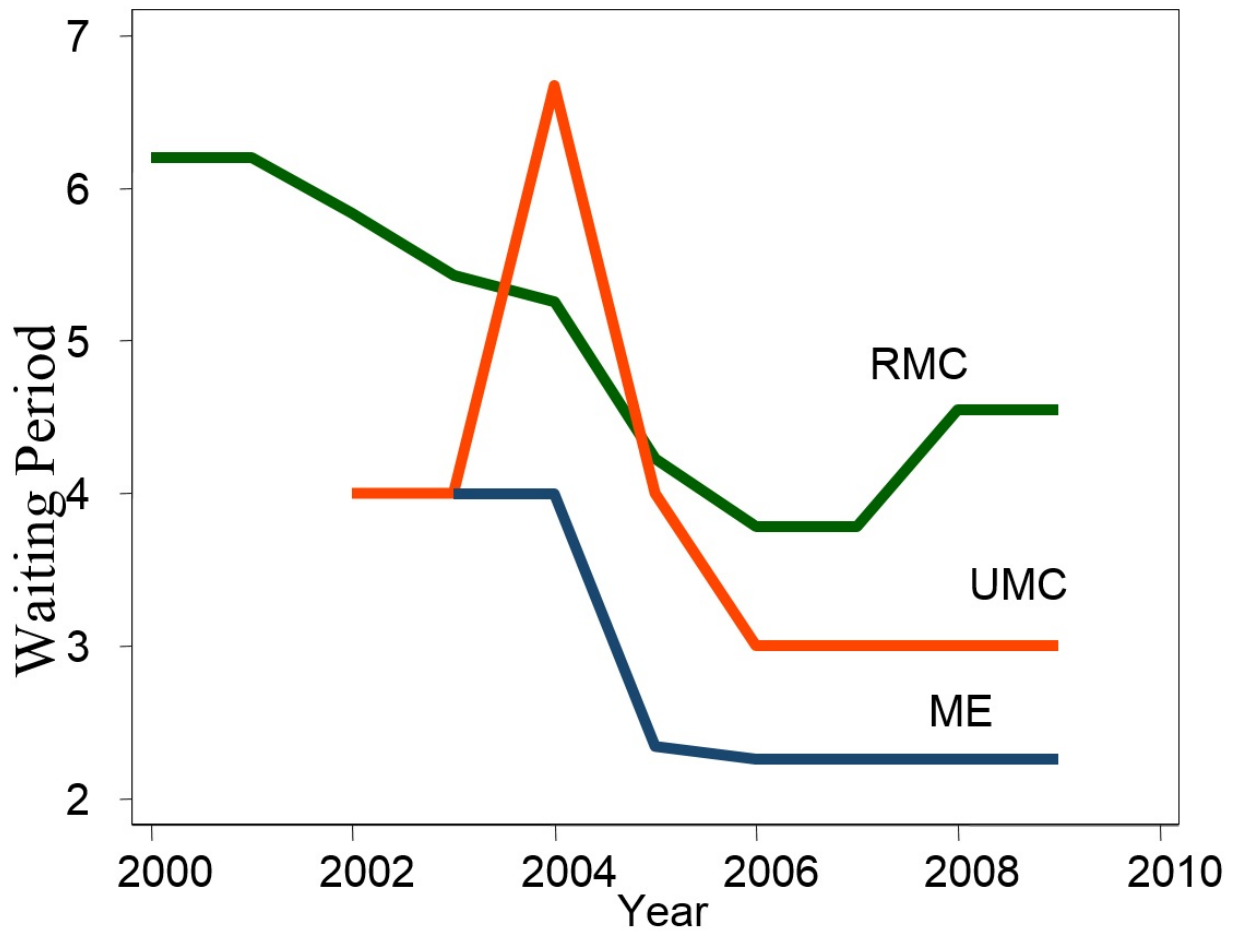


Figure 8: Change in waiting-period by products

variables, that is the number of branches in a union and the nearby bordering unions, the coefficient becomes positive and significant (this result is not presented here). Therefore, the results indicate that greater number of MFIs in a market, defined by a union and its bordering union, is associated with higher number of credit products.

Regression Model

$$\begin{aligned} \text{PRICE}_{i,j,t} = & \beta_0 + \beta_1 \text{MFI}_{-i,j,t-1} \\ & + \beta_2 \text{BU_MFI}_{-i,t-1} \\ & + \beta_3 E_{i,t} \\ & + \beta_4 R_t \\ & + u_{i,j,t} \end{aligned}$$

The dependent variable $\text{PRICE}_{i,j,t}$ is the weighted average of the price of the products. The weights are given according to the share of a product in the total credit portfolio. We use service charge of all products of an MFI i in union j in the year t .

5.3 Competition over Price

Section 4 indicates that the nominal service charges as well as the APR have declined for most of the products over time. In this section we test if competition among MFIs has anything to do with it. More specifically, as the number of MFIs and branches increases, does it force an MFI to lower its service charge?

Table 4 presents results for price competition. OLS results show that as the number of MFIs increases in a union, the service charges decline. Service charges of Partner Organizations (POs) are lower than the non POs. Interestingly service charges are lower for local MFIs than national and regional ones.



Figure 9: Change in grace period by product

Table 2: Probit Estimation: Dependent Variable *L*

Variable	1		2		3	
	Value	<i>p</i> -value	Value	<i>p</i> -value	Value	<i>p</i> -value
MFI	0.0820 ^a	(0.000)	0.0740 ^b	(0.022)	0.0390 ^c	(0.053)
BU_MFI	0.0154	(0.233)	-0.0038	(0.218)	0.0022	(0.104)
Partner Organization of PKSF	-0.2446 ^c	(0.081)	0.3320	(0.252)	0.4667	(0.358)
National MFI	-0.4332	(0.128)	0.5640	(0.141)	0.8660	(0.177)
Regional MFI	-0.3240	(0.141)	0.4430	(0.490)	0.4890	(0.556)
Number of borrowers	—	—	-0.0004 ^b	(0.020)	-0.0003 ^b	(0.039)
Population density	—	—	—	—	-0.0773	(0.280)
Share of literate population	—	—	—	—	0.0408 ^b	(0.050)
Whether the union has electricity	—	—	—	—	0.0189	(0.258)
<i>N</i>	1,025		1,025		1,025	

Notes:

^a Statistical significance at 1%

^b Statistical significance at 5%

^c Statistical significance at 10%

(.) *p*-values are in parenthesis

N = 1,025

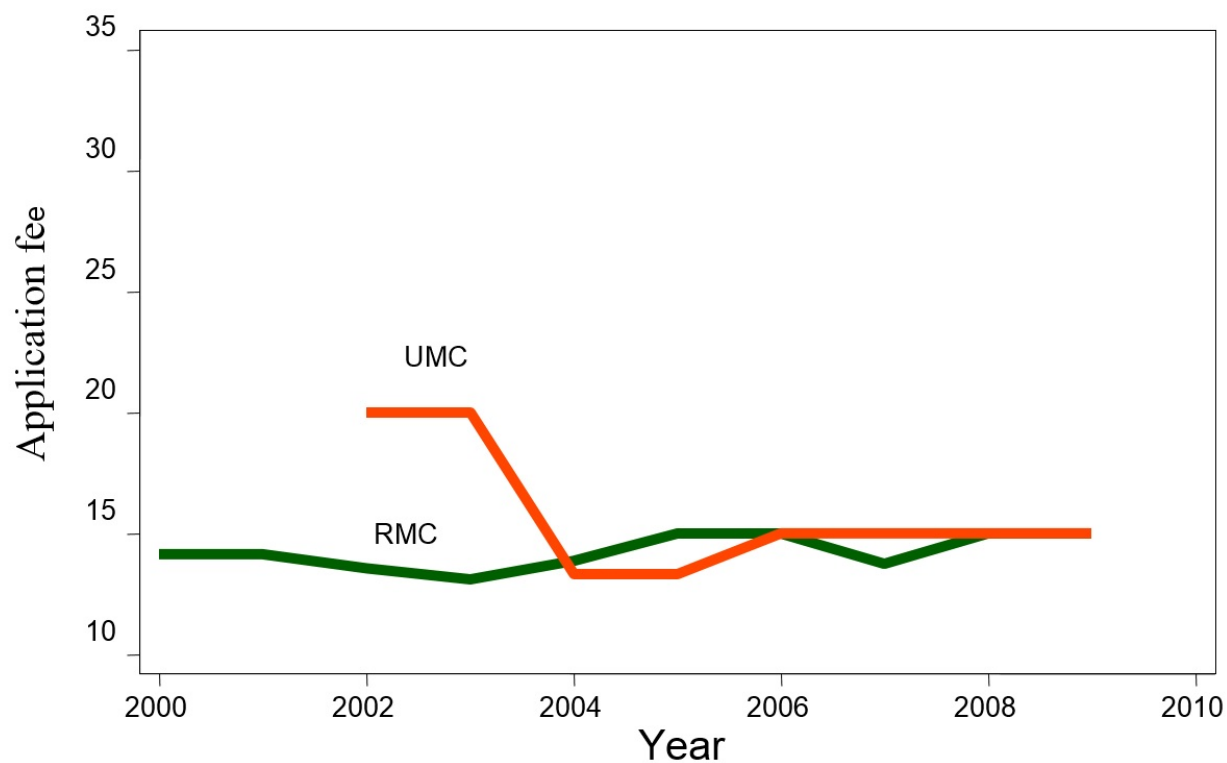


Figure 10: Change in application fees by product

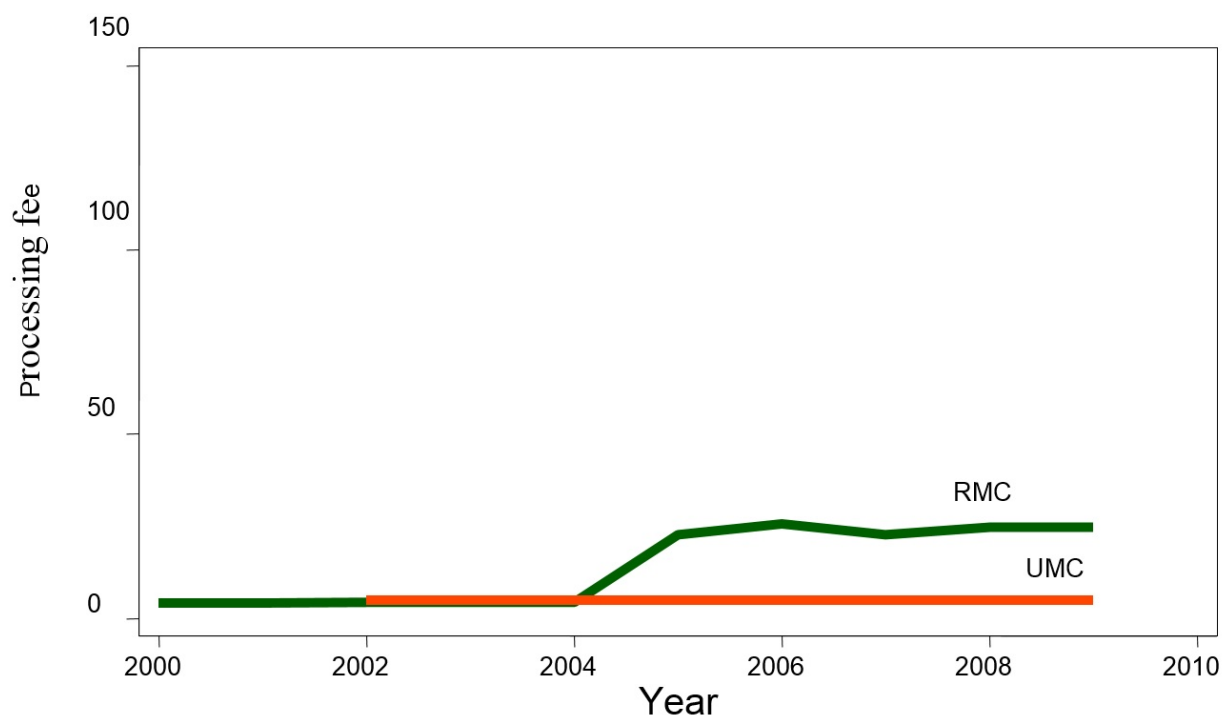


Figure 11: Change in processing fees over time by product

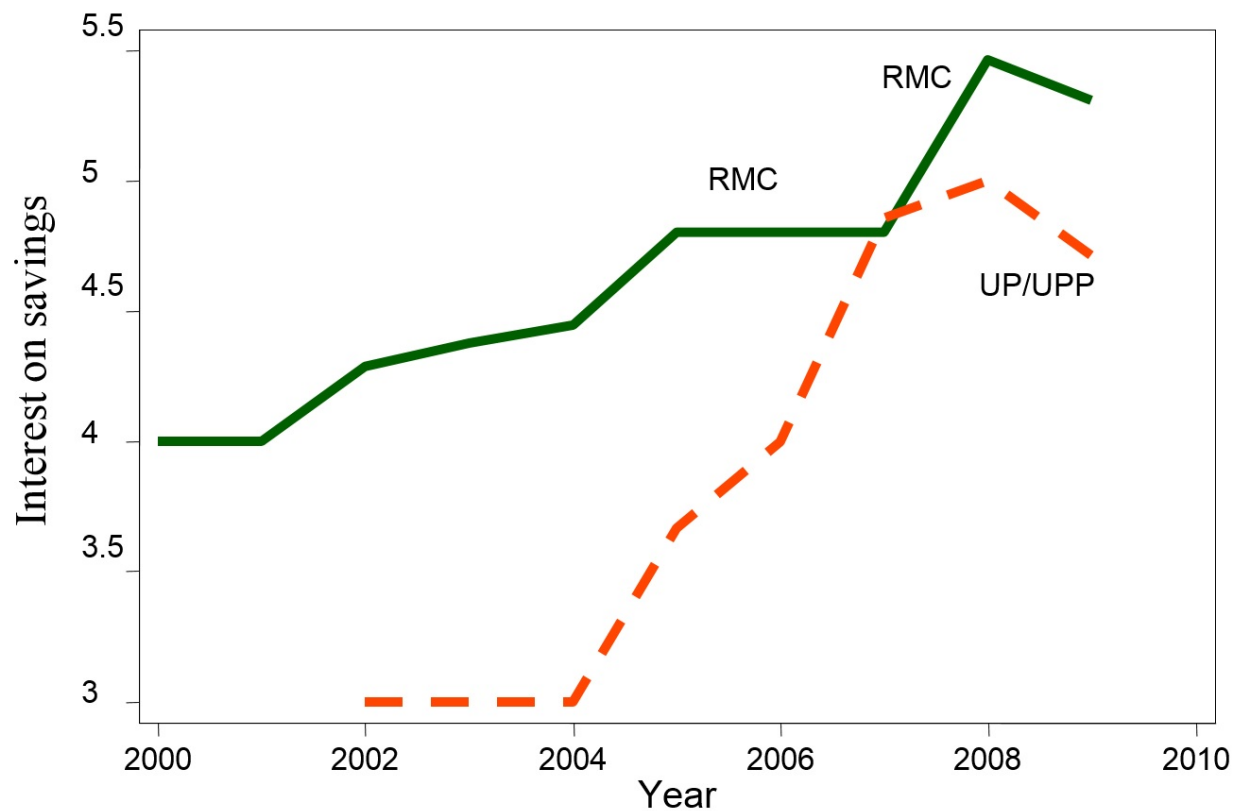


Figure 12: Change in interest rates on saving by product

Table 3: Poisson Regression: Dependent Variable is *P*

Variable	1		2		3	
	Value	<i>p</i> -value	Value	<i>p</i> -value	Value	<i>p</i> -value
MFI	0.0110	(0.368)	0.0130	(0.277)	0.0180	(0.177)
BU_MFI	0.0058 ^a	(0.010)	0.0047 ^b	(0.036)	0.0062 ^a	(0.010)
Partner Organization of PKSF	1.1040 ^a	(0.000)	0.9000 ^a	(0.000)	0.8980 ^a	(0.000)
National MFI	-0.1143	(0.588)	-0.0834	(0.693)	-0.0690	(0.772)
Regional MFI	-0.2950	(0.175)	-0.2403	(0.269)	-0.2446	(0.323)
Number of borrowers	—	—	0.0001 ^a	(0.000)	0.0001 ^a	(0.000)
Population density	—	—	—	—	-0.0731 ^a	(0.000)
Share of literate population	—	—	—	—	0.0052 ^b	(0.036)
Whether the union has electricity	—	—	—	—	0.0028	(0.165)
<i>N</i>	1,008		1,008		1,008	

Notes:

^a Statistical significance at 1%

^b Statistical significance at 5%

^c Statistical significance at 10%

(.) *p*-values are in parenthesis

N = 1,008

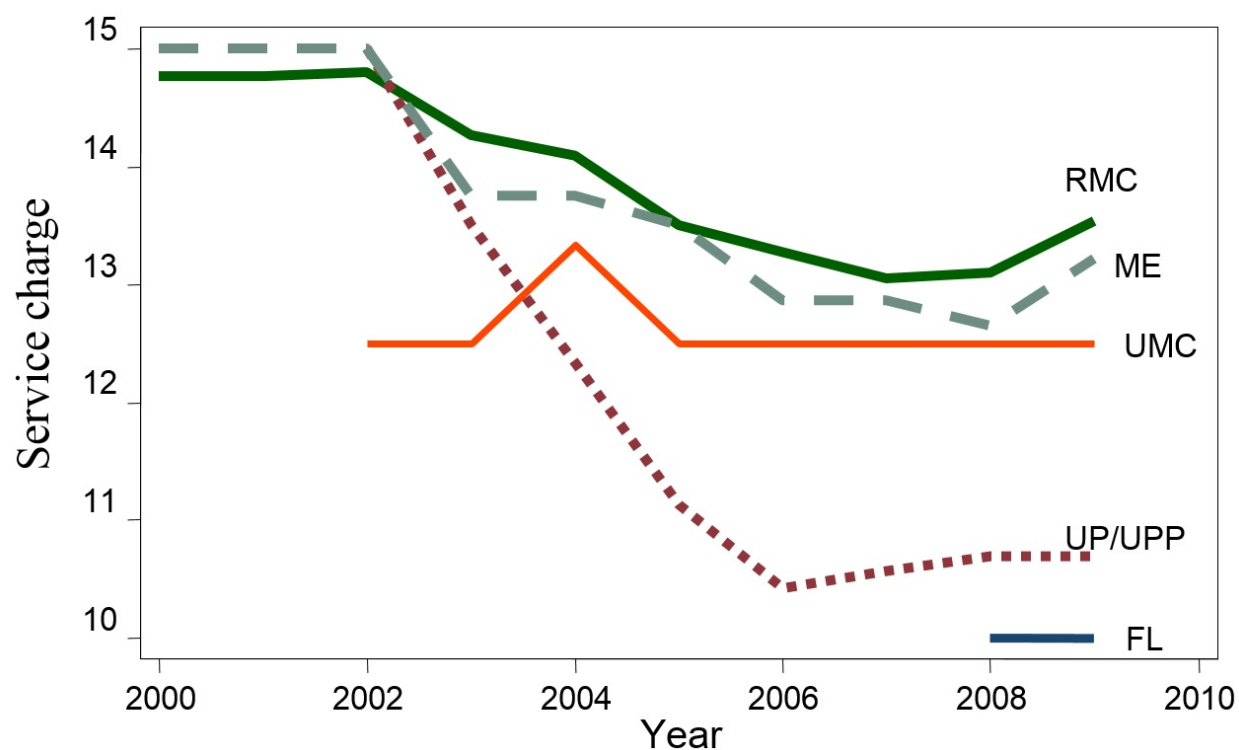


Figure 13: Changes in nominal service charges

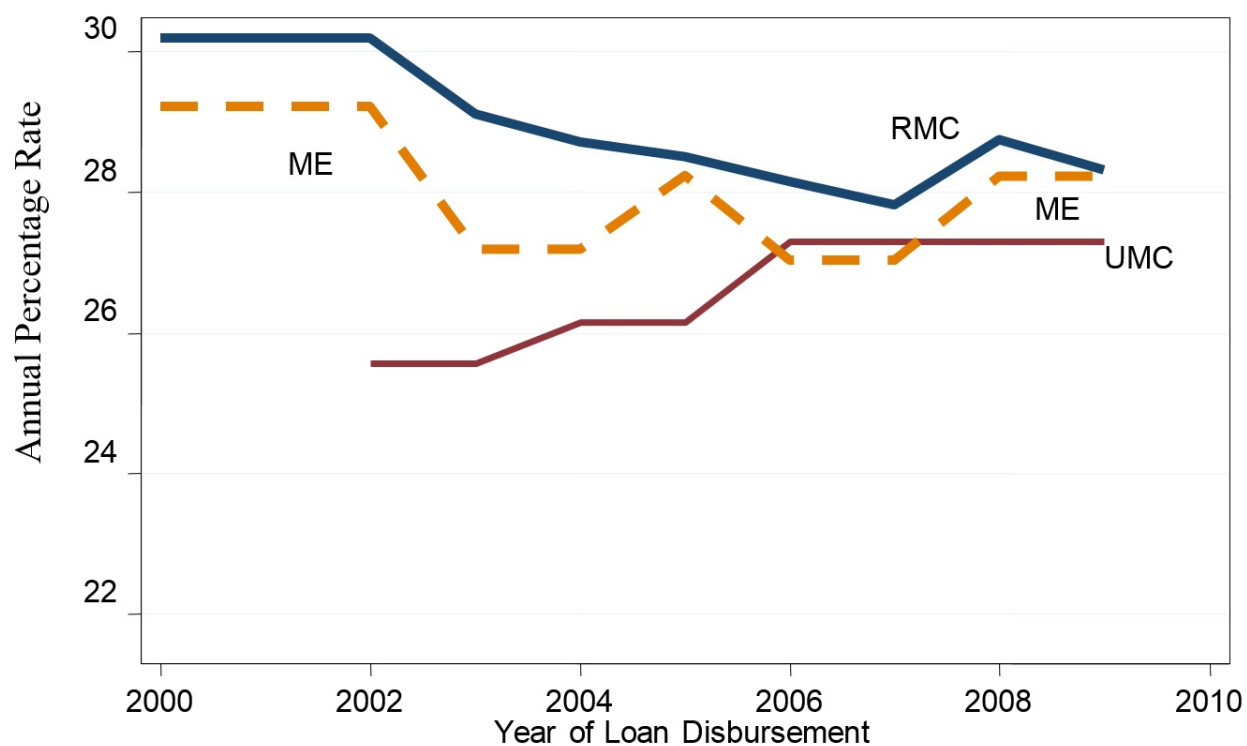


Figure 14: Changes in nominal APR

Table 4: OLS estimation: Dependent Variable: Service charge

Variable	1		2		3	
	Value	p-value	Value	p-value	Value	p-value
MFI	-0.085 ^a	(0.000)	-0.097 ^c	(0.084)	-0.081 ^c	(0.100)
BU-MFI	0.002	(0.302)	0.002	(0.401)	0.001	(0.445)
Partner Organization of PKSF	-1.860 ^a	(0.000)	-1.981 ^a	(0.001)	-1.887 ^a	(0.001)
National MFI	10.771 ^a	(0.000)	11.007 ^b	(0.000)	12.997 ^a	(0.000)
Regional MFI	5.123 ^a	(0.000)	5.778 ^a	(0.000)	7.932 ^a	(0.000)
Number of borrowers	—	—	0.000	(0.802)	0.000	(0.900)
Population density	—	—	—	—	0.236	(0.189)
Share of literate population	—	—	—	—	-0.045	(0.245)
Whether the union has electricity	—	—	—	—	-0.022	(0.127)
<i>N</i>	754		754		754	

Notes:

^a Statistical significance at 1%^b Statistical significance at 5%^c Statistical significance at 10%(.) *p*-values are in parenthesis*N* = 754

6 Potential Econometric Problems

The main challenge for identification is the common unobserved characteristics of the unions. The entry or exit decision of MFI may be a response to the other MFIs or to common factors in a given union. Since we are studying a MFIs' behavior over time, the estimates might suffer from serial correlation in the error term. Even after controlling for various characteristics of the entrant MFI, and other geographical features, our estimates might suffer from omitted variable bias.

7 Conclusion

This study aims at understanding the nature and impact of competition among MFIs in choice of branch location, product and price. Higher penetration of MFIs, greater number of products, softer terms and conditions, and lower prices indicate the presence of competition. Estimation results also indicate that MFIs tend to locate their branches where other MFIs already exist. That is, MFIs want to avoid virgin territories. One policy implication is that Government's intervention (e.g., subsidy) is required to have MFIs open their branch in remote economically backward areas. Estimation results are also indicative of the presence of competition in product and price spaces — greater number of MFIs in a union leads to higher number of products and lowers prices. Therefore, any policy or regulation that weakens the competitiveness of the micro-finance industry might have perverse effect on the number of products and interest rates.

8 Acknowledgement

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Technology vs. Institutions: Towards Institutional Reform in Digital Bangladesh

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Abstract

Information technology for governmental reform has reached a new level of synergy in recent years. Public organizations are rushing to reorganize and adapt to the new technological environment. This paper argues when a rational technological system is institutionalized in terms of becoming the central element that has to be maintained by the organization, the constraints inherent in technology can make institutions less adaptable to social values given the changing demands of society. Since institutions are the embodiment of the public they serve, institutional reform should first deliberate the positive human and social elements within institutions and find ways to utilize technology to improve the public institutions and service to citizens. The paper argues that meaningful institutional reform requires culture to play the central role in refocusing institutional attention towards a deliberative democracy. We should rely on the *actors* themselves who make decisions rather than upon technology that efficiently acts on those decisions.

1 Introduction

Information and Communication Technologies (ICT) are inseparable from government and its operations. Governments are increasingly relying on ICT on a range of issues: from managing large-size projects (building bridges, roads and telecommunications) and routine service provision (bill payments, money transfer, learning about government services) to improve the lives of its citizens. Ubiquitous presence of the internet and mobile connectivity has sparked wider interest in information technology. In addition, the demand for technology in the government has gained momentum because of the prevailing faith in technology that promises to remove bureaucratic barriers and pave the way toward more transparent and citizen-centered public institutions.

With the hope of reaching out to citizens across the nation through broadband fiber optic network, the current Government of Bangladesh has embraced the vision of “*Digital Bangladesh*” that promises its citizens online access to routine governmental services. The initial concerns for ICT-based governmental operation have been about how to widen internet connectivity across agencies for information sharing purposes; however, it has become increasingly clear that such information sharing must also occur with citizens for the sake of strengthening democracy and building public institutions as *public trusts*. Although technology changes the perception of government

and its role in the larger democracy towards an apparently more citizen-centric approach to reform, the process by which it occurs is unclear. Even less obvious is how ICT influences institutional norms at the organizational level in developing democracies, particularly where political patronage directly influences formal institutional behavior.

Using the context of Bangladesh this paper argues institutional reform must start through human intervention and social mobilization, and then adapting to the new ICT-based institutional environment. Using social mobilization as the primary toolkit for institutions’ social development, the paper argues ICT can be a catalyst in re-energizing democratic ethos through unifying spirit and creating a techno-cultural civilization towards citizen-centric institutional reform.

Using the works of institutional economics and cultural theory, the paper contributes to the theoretical understanding of the role of ICT in public organizations in developing democracies. The first part of the paper distinguishes among goals of the public and the needs facing administrator and highlights areas where technology is most applicable. The second part develops a theory of institutions and technological adaptability and highlights why many ICT-based institutional reforms fail. The third part of the paper is devoted to the theory of culture and the idea that culture is a resource toolkit that can be used for guiding action, particularly to strengthen public trust in institutions. The final section discusses the implication

of information technology in the Bangladeshi context. It concludes with a discussion of how technology can be a powerful mediator for social change.

2 The Theory of Technology Adaptability

The apparent disconnect between information technology and institutional reform in the developing countries is based on the technological determinist agenda that predominantly reifies technically rational business practices to bring about public institutional reform (Heeks and Stanforth 2007). Moreover, what the technology is designed to do and the context under which it is to be applied significantly differ from the situations on the ground. Greater challenge than investment in technology for institutional reform is to change the mindset embedded in people, including the cultural and motivational factors that influence public service activity (Heeks and Mundy 2001, United Nations 2008). The mismatch between technology and context not only makes institutional reform much more challenging but also forces public institutions to compromise democratic values for the sake of expediency and a false sense of technical supremacy (La Porte 1971). The question, therefore, is “*Can ICT have an impact on government? If so, how?*”

Information technology increases the capacity of institutions by efficient transfer of information through digital or wired connectivity. Whereas voice connectivity transfers data in 56 kilobytes per second, fiber optic can transfer more than 100 gigabytes per second or 1.8 million kilobytes per second. The unprecedented speed by which data can be transferred across institutions (G2G), to business (G2B), and on to households (G2C) increase the public institutions’ administrative capacity and give governmental institutions a strong advantage for reaching out to citizens. Technology enthusiasts have argued that the information and communication technology will change how government operates. Particularly they argue that ICT will improve the delivery of government service. Indeed rather than standing in lines for driver’s licenses or some permits, citizens can make the same request from home or internet café and receive the authorization by mail or online. When the transaction involves governmental authorization or administrative clearance, technology plays an important role in “*supplying*” the “*product*” based on the criteria it sets in the system. However, when the transaction involves governmental decision regarding substantive policies that require value judgments, technology fails the litmus test for executing that responsibility. For example, a retired government official who seeks to receive his/her retirement income through online application may find it convenient to do so. However, what

happens on the other side of the electronic portal once the application is submitted may explain the complexity and challenges within a given institutional arrangement.

Filing the required pension documents online completes the first step, and possibly the only step taken by the applicant assuming all other contingencies related to computer and online access, understanding online forms etc. are given. Getting approval may be another matter given the existing institutional arrangements for approval of such a document. First, it will involve the authenticity of the request through evaluation of the documents submitted. Second step will involve policy matters regarding eligibility of the client and notification of the other agencies involved in ensuring available funding. The final step may possibly involve a personal interview with the applicant followed by the approval for the monthly pension fund. In this example we have assumed a perfect world that controls for the *uncertainties* involved in the transaction, for example, not having access to computer or internet, finding someone who can understand what to file, and competent public administrators who are available to execute the responsibilities etc.; and the *cost* to maintain such a system for delivering pensions to citizens. The cost includes the tangible cost of technology as well as the cost to learn the system; and the intangible cost (physical, mental) involved in the process. By overly relying on information technologies’ standardized input-and-output we have been forced to control for the uncertainty and the cost that are inevitable in the real world. If technology was really able to control the uncertainty and the cost, legitimizing it for the purpose of serving citizens would be in order. Even though technology is considered an important tool for executing routine actions, it does not change the behavior already embedded in the system. Therefore, an inefficient system can become “*routinely inefficient*” with the power of information technology unless perceptions of the actors who are involved in the process also change. Taking the previous example, the retired citizen seeking pension may find a middleman who can submit the online form on his behalf for a fee. The middleman can subsequently guarantee approval of the pension for another fee (much higher, of course) a similar situation can arise on the receiver side of the electronic portal where the agency clerk withholds the application unless the authenticity of the document is proven with a fee. The middleman analogy can be carried out all the way to the top manager who makes the final decision. In this example the technology has been efficient as expected; however, the system was hijacked by human intervention when the middle-men withheld the information for a fee at different stages and created layers of “*artificial*” authentication. Therefore, the institution failed, and so did the system, that was designed to be executed with responsibility.

If the traditional mode of service delivery in

Bangladesh remains intact then the above scenario does not change even with the most sincere declaration for a Digital Bangladesh. The traditional mode of service delivery in Bangladesh has built in incentives for corruption and rent-seeking behavior (Haque 2002, Heeks 1999). The idea of rent seeking is to benefit from a mutual transaction without making any contribution to the productivity. By virtue of holding an office an individual can exploit their status to earn from any transaction that happens in that office although the person holding the office had no contribution to earn that extra benefit. In order to change the *modus operandi*, there must be significant change within the mindset of the actors (citizens and public administrators) themselves — “*Technology can only bring them closer but the trust must be earned through a mediator and not simply from a medium*” (Haque 2010).

If we overly rely on the power of technology we set ourselves in the dangerous path of letting technology lead the way for some of our substantive decisions. The social value of public institutions is not to maintain an efficient state-of-the-art technological system, but to deliver services to citizens. The technology driven management practices as espoused by Fredrick Taylor work well to manage efficient business practices, however it is in direct conflict with how public institutions should use technology for furthering the value of public service. Hirschhorn (1984) so aptly states, “*Taylorism dampens human creativity by forcing people to tie their skill to technology*” (Hirschhorn 1984, p. 57). Moreover, in a public organization, when a rational technological system is institutionalized in terms of becoming the central element that has to be maintained by the organization, the constraints inherent in technology can make institutions less adaptable to social values given the changing demands of society. Since institutions are the embodiment of the public they serve, I argue institutional reform should first deliberate the positive human and social elements within institutions and find ways to utilize technology to improve the public institutions and service to citizens. For meaningful institutional reform, the central theme is to rely on the *actors* themselves who make decisions rather than upon technology that efficiently acts on those decisions.

Herbert Simon (1986) instructs us:

“If . . . we accept the proposition that both the knowledge and the computational power of the decision maker are severely limited, then we must distinguish between the real world and the actor’s perception of it and reasoning about it. That is to say we must construct a theory (and test it empirically) of the process of decision. Our theory must include not only the reasoning processes but also the processes that generated the actor’s subjective

representation of the decision problem, his or her frame.” (Simon 1986, p. S210–211)

3 Public Institutional Reform

Institutions are the primary vehicles by which a government executes citizen mandates and exercises its authority to preserve the democratic rights of its citizens. I take the approach that the purpose of institution is “*the embodiment of public purpose*” (Selznick 1957). When institutions fail to fulfill their purposes, institutional reform is called for in order to meet those obligations.

The philosophical debate about the purpose of institutions can be distinguished into two broad categories based upon a distinction of the normative and rational reasoning for the purpose of institutions in a democratic society. Following the normative arguments by Rawls (1971) and Jürgen Habermas (1998), institutions ought to run on the precept of political justice — a term that can be defined as an end result of a political compromise (through cooperation) among citizens and government. The first encounter of citizens with government is through public institutions. If these institutions fail to operate under the principles of political justice, citizens will clearly be ambivalent about relying on institutions and will find other means to seek political compromise. In contrast to the normative view of institutions, the institutional school of economics argues that citizens rely on institutions to minimize their transaction cost. Transaction cost refers to the cost of uncertainty in the transaction outcome and the information cost of the exchange that makes transaction valid under the given law of the land (North 1993/1998). In a perfect world, institutions serve as neutral intermediary with minimum enforcement cost due to its effectiveness. However, because of formal laws (constitutional and legally binding) and informal constraints (customs, traditions and culture), institutions vary from country to country. According to Douglas North 1990, “*the major role of the institution in a society is to reduce uncertainty and [establish] a stable (but not necessarily efficient) structure of human interaction*” (p. 6). North also affirms that institutions play a very important role for economic empowerment because they “*form the incentive structure of a society and the political and economic institutions, in consequence, are the underlying determinant of economic performance*” (North 1993/1998, p. 250). Clearly institutions have a significant impact on society, particularly on how government interacts with its citizens. In order to change institutions we must first know beforehand: change for what?

Institutions not only embody public purpose but also, over time, emanate a fundamental value to society in the form of trust. Relying on this trust, institutions become the gatekeeper of a government and its services to its

citizens. With active mutual interaction between institutions and citizens, institutions act as tools to achieve certain objectives. For example, getting a land permit (to own land) or paying property taxes (to receive neighborhood services), citizens rely on these tools to get the job done. Unlike owning a tool, such as a hammer or computer to get the job done, citizens rely on the tools owned by the government. This becomes problematic as the “tools” become aware of their “power” and, without formidable checks from external stake-holders, can engage in rent-seeking behavior (Krueger 1974). Any fundamental change in institutions must also address the way to change the informal behavior of the institutions. As North argues, “any fundamental long run source of change is learning by individuals and entrepreneurs of organizations” (North 1993/1998, p. 4) and that “institutions are created by human beings. They evolve and are altered by human beings” (North 1990, p. 5). In other words how to change a routine operation becomes the formidable task for reforming institutions. The question is not how to avoid using technology but how to use technology in ways that can instill and institutionalize positive behavior within public institutions.

4 Institutional Design in IT: The Human Framework

4.1 The Principal-Agent Model

For technology to have any impact on institutions, we must address the role of the actors and their relationship to each other. The public administration institution in Bangladesh is rooted in a tradition of serving the sovereign — the superior master instead of the citizenry (Haque 2002). The bureaucracy in Bangladesh has the remnants of a legacy established by British rule in India where public administrators were primarily involved in collecting taxes from the peasantry. This grew under the impression that public administration is primarily the servant of the political regime and the citizenry are to be ruled by bureaucrats for generating revenue for the master (mother country). After the British left the Indian soil, public administration remained subservient to the local Governors (“Nawabs”) and landlords of the regime. Later in the absence of a foreign regime, public administration was expected to serve the interest of the political masters. Clearly after the independence of Bangladesh, the politicians exploited the strength and maturity of the bureaucratic regime to protect their own political interests and aligned with bureaucrats for private gain (Monem 2006).

Using the principal-agent theory we can gather further insight into how technology can play an important role for institutional reform. According to principal-agent theory, in a traditional hierarchical institutional structure, the

superior as the principal polices its subordinate agents to ensure that they maximize the principal’s interests. We assume that the principal has the power of disciplining the agent and hence enforcing agreements. The principal here is used to denote the head of the department or chief administrative officer and should not be confused with earlier example of a politician as the master. Enforcement cost is minimal when both parties agree on the goals of the institution. Failure to see eye-to-eye will logically lead to greater cost for enforcement and policing the agent than if both are in consensus. The cost of institutional reform therefore will be determined by the differences in principal-agent attitudes towards each other and the institutions they serve. The positive supervisor-subordinate relationship can be shaped by the organizational environment or culture often triggered by a common set of values. I argue that the values generated by Bangladeshi culture can be powerful symbols that act as an informal constraint and reduce the cost of enforcement. This is not unusual. Many of the Far East countries including South Korea, Singapore, and Malaysia have used an inner spirit of nationalism to bring institutional reform. According to Rostow (1971) whose work on stages of economic growth has been well received in developing countries argues, “[S]tages of economic growth do not infer on economic interpretation of politics, rather it is the primacy of reactive nationalism over any other motives that drive nations for economic change” (p. 24).

4.2 Culture Framework

Ann Swidler in her seminal work on Culture in Action (1986) argues that culture “is more like a style or a set of skills and habits than a set of preferences or wants” (p. 275) that people can acquire by being part of a society. Swidler argues that our actions are not guided by our values; rather “action and values are organized to take advantage of cultural competence” (p. 275). In other words cultural patterns provide the structure that individuals use to develop particular strategies to achieve a certain goal. For example, individuals have used marriage as a strategy to move up to higher ranks in the society (Bourdieu 1977). Strategies are a general way of organizing our actions based on available cultural tradition. Culture is like a toolkit that individuals utilize to select differing pieces for organizing a line of action. People living within a cultural tradition all have a good understanding of the culture. They use their culture as a source to adapt to circumstances. What endures over time is not ones interest driven by a set of values but the *style or line of action* by which one attains the end.

The argument here challenges Max Weber’s notion that culture plays an important role in influencing outcomes. Rather “culture provides the materials from which

individuals and groups construct strategies for action" (Swidler 1986, p. 280). Culture is a resource that shapes action, not determines its end. In new democracies ideologies play the dominant role in controlling action, and competing cultural views create new modes of action. In developed democracies culture is a melting pot with varying cultures encapsulated into one. It has weaker control over action. However, the skills and habits are routinized as if they are common sense and habitual.

4.3 Culture as Resource Skill: The Bangladeshi Context

Bangladesh is a nation of a long cultural heritage. It is the only country in the world that used the native language (*Bangla*) as a civil rights struggle that led to the independence of the country from Pakistan in 1971. February 21, 1952, was the day when many students were killed because they protested making Urdu (Pakistani language) the national language. A short time ago, UNESCO declared February 21 as the International Mother Language Day that is observed annually throughout the world. The Bengali language is the fifth most-spoken language in the world. Until today the nation has been governed by leaders who seek legitimacy in the predicament of a deep rooted heritage connected to the liberation war of 1971. The Prime minister chair has revolved around two leaders (Sheikh Hasina and Khaleda Zia) both connected via direct family members who were directly involved in the liberation of the country. In the last 40 years, more than 30 years have been ruled by one of the two leaders.

Today the war of independence is part of the cultural tradition beyond mere patriotic symbolism. The nation takes pride in its cultural roots, particularly its independence from Pakistan, and the population in general empathizes with such sentiments. The young and new generation, even though never part of the independence movement, has overwhelmingly embraced that tradition. In recent years there has also been a revival of cultural traditions. The traditional clothes, handicrafts, and folk songs that were once regarded somewhat as relics of the past are now appreciated as a part of the modern culture. Despite the fact that an overwhelming majority of the population is Muslim (more than 80%), most people maintain a cultural identity that has roots in the Hindu religious tradition. Culture is often used to shore up support for a cause, to fight against injustice and even to topple oppressive regimes. (Recently a Bangladeshi film-maker who was renowned for making a film based on the Liberation war died on a road accident. That sparked a mass movement against road accidents and bad road conditions in Bangladesh.)

Culture is a resource and strength for a nation. However, for culture to have any effect on action it must be sta-

ble, implying it does not give conflicting messages for action. The last 40 years in Bangladesh has been a relatively unsettled cultural period where differing ideologies have competed, making it difficult for one culture to have substantive impact on people's actions. After passing through troubled political periods and economic downturns in the last 40 years, there has emerged a distinct cultural identity and a sense of ownership of the Bengali culture that touches the full spectrum of the society. At the global level Bengali culture has set its mark, particularly through the work of the Grameen Bank pioneered by Noble Laureate Professor Mohammad Yunus. The BRAC organization in Bangladesh leads the way as the world's largest nonprofit organization using innovative method of alleviating poverty in Tanzania, Uganda, Haiti, Afghanistan and Central Asia (Bornstein and Davis 2010, Davis 2011, The Daily Star 2011, Waldman 2003).

Evidence suggests that Bangladesh has been culturally stabilized to guide action towards empowering the marginal class. The culture is settled and has developed its own ethos for the citizens. It is prime time for the new generation to utilize the cultural resource to direct action in ways that will improve institutions. Aided by the proliferation of mobile telephones and the internet revolution, culture is an asset to be used to complement information and communication technologies. Public administrators can use cultural competency to fulfill expanded social responsibility for creating social value. Technological process will be an outcome rather than a cause for the establishment of new social relations to build trustworthy institutions in Bangladesh.

4.4 Use Technology Where It is Needed

Investing in ICT is a costly enterprise for government. Disaster is imminent when there are unrealistic expectations as to how technology will mediate within the existing social and institutional infrastructure. According to Goldfinch (2007) most information technology projects in government die before they are launched and the success rate is less than 26% percent (p. 917). In the United States for example, a staggering US \$150 billion dollars is wasted for IT investments that fail and another US \$140 billion in the European Union (Goldfinch 2007, p. 918). Yet, surprisingly, the rising cost of failure does not appear to dampen the enthusiasm in IT investments. As noted by Goldfinch (2007), "*the overblown and unrealistic expectations that many have regarding information technology*" continue to overshadow the failures of IT investments in the public sector (p. 918). Developing countries do not have the luxury to tinker with technology; however, to compete for international donor assistance, and more so, for political gain, they follow-suit with proposals that are competitive and attractive to donor standards.

With rising optimism regarding technology and modernity, the socioeconomic and political barriers for implementing such plans are often overlooked, if not undermined. Policy planners ought to follow sound and prudent ICT investment practices. As argued below, technological demands are often incompatible with public institutional goals and values.

Adapting technology to any given institution is a complex and often confusing business. Technology, as an entity, seeks conformity through standardization and control under a stable environment. Public institutions neither produce standardized output nor work under a stable environment. For institutions to adapt to technology and realize its benefits (efficiency, productivity) they must create a system that (1) standardizes what it produces, (2) controls the environment and, (3) monitors changes on a continuous basis. With available resources such plans are theoretically feasible and often workable under private sector agreements. Public institutions will often fail to fulfill the three conditions of technological adaptability.

The relationship between technology and institution can be described using the work of Thompson and Bates (1957). They lay the foundation to describe where technology would be most applicable given the institutional goals and the means (including administrative arrangement and human skills) by which it can attain them. Institutions having objective and quantifiable goals, and capable of adapting to a changing environment, can maximize technology use. On the other hand, if the goal is subjective and non-quantifiable, technology usage is limited given the cost of re-tooling technology and human skills. In extreme cases such re-tooling not only will be costly but also dangerous because the ends are vague, undefined, and uncertain. It is not surprising then why 70 percent of government technology projects often fail (White 2007). Wrong assessment of technology and human skills is most often blamed, but the problem is more with the decision to depend on technology to solve the problem. A business explanation is found here (Goodman 2009).

Successful technological adaptation depends on how well institutions have been able to define their goals and how well they have been able to match the type of technology to achieve those goals. One of the fundamental requirements to maintain the rational relationship between goals and technology is the type of workforce that have to be matched to work under the changing institutional external environment. Figure 1 describes a schematic diagram of technology adaptability and institutional goal in a continuum space.

Figure 1 suggests that technology is most suitable when goals are objectively defined and when technology and humans can be retooled within the changing environment (See quadrant I, PV). Tangible commodities pro-

duced in the private sector can be tailored with technology to produce the goods and services. Goods that are the products of nature can be privately owned and produced efficiently but cannot be artificially reproduced. Here technology can be adopted for efficiently managing the products including excavation or harvesting, delivery and packaging (See quadrant IV, PV). Private and government sectors both are involved in making use of technology in this area. Some are highly controversial around the issue of using technology to tinker with nature.

The left hand side of the diagram (quadrant I and III) deals with products that are value based. Value based products can be defined as products that require collective value judgments in order to produce them or to “commodify” them. Commodification is giving meaning to a value-based concept through habits and narratives (Latour 2005, Thompson 2010). For example, the goal to reduce poverty or improve the quality of life can be discussed as to how to obtain that goal. Empowering women can be a way of commodifying reduction of poverty. Technology can be applied when vague objectivity can be commodified so that the end can be defined. When solutions require a value judgment, the use of technology is not only problematic but misleading and dangerous. There are products where technology is adaptable, but collective value judgment is required regarding its allocation due to high fixed cost and free-rider problem (individual using it but not paying for it).

With regard to human skills the above scheme is very instructive. When technology is adaptable regardless of objective or subjective goal (upper two quadrants), high technical skill is required to produce and manage such products. Retooling of skills is continuous, and innovation and adaptation to new technology are requisites. In contrast, when a goal is value-based, technocrats are needed less, and the challenge demands value-based skills of professionals with high ethical standards, leadership skills, social skills, and deep commitment to democratic values.

Using the logic of goals and adaptability to technology as described above we can argue that technology usage in public institutions should be based on how well the “product” can be defined by the collectivity. If a public institution’s product cannot be defined or generally agreed upon by the democratic polity, we should be wary about the role of technology in those institutions. This should be instructive for developing countries in particular because they are in a unique position to start afresh after learning from the early starters in the industrialized world. The type of technology that dominate public institutions in the developed world is based on flow concept borrowed from business and manufacturing sectors. Enterprise Resource Planning (ERP) is a widely used business management

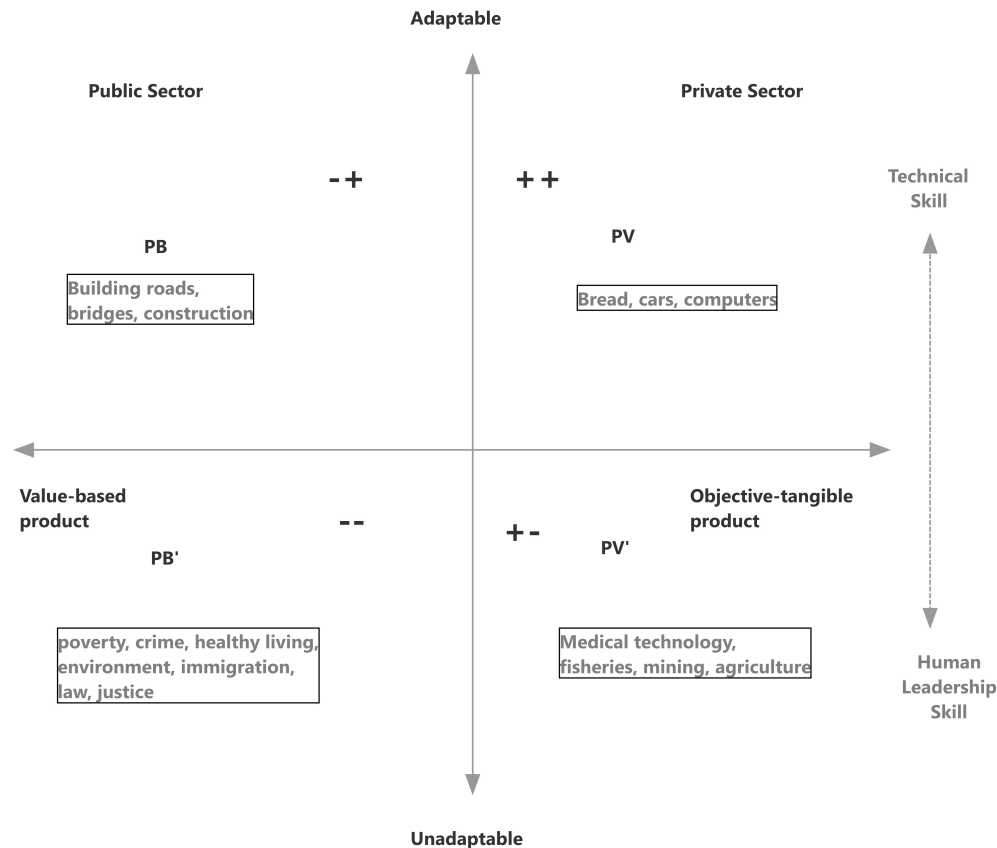


Figure 1: Institutional goals and technology adaptability space. The schematic diagram is based on arguments by Thompson and Bates (1957). More details can be found in Haque (2015).

software whose main goal is to streamline large organizations' administrative and policy directives by linking every department under one enterprise. The E-Government movement reinforced the use of ERP through Business Process Re-engineering (BPR) and Customer Relationship Management (CRM) models. As of 2011 almost all federal agencies in the US are part of the ERP and almost all state governments have migrated to one form of ERP system. There appears a global movement towards integrated business management practices in government using work flow management software such as ERP.

Public institutions that are not in the business of delivering products should be careful about how they utilize information technology and their practices. Thus Ministry of Land Development or Telecommunication will have very different technology implications than the Ministry of Social Welfare.

5 Implications and Conclusion

Institutions should not be seen as tools or technocratic power hubs where transactions take place between citi-

zens and government to get things done. Profit from holding a government office (exemplified in corruption) is predominant within institutions that maintain such practices. The current principal-agent, or more practically, master-slave mentality, among government and its citizens does not help the people of a nation, even with the most advanced state-of-the-art information technology. Information technology can be the enabler of trust when culture is used as a resource to bind citizens and government towards a common goal. As mobile technology becomes common place, it can enable culture to be the resource, for guiding action towards a truly liberated democracy.

I reaffirm that Bangladesh's investment in ICT should be encouraged. However, this must not be done to make institutions more powerful, as argued earlier, but to make agency the deliberators of shared values to its citizens. How are values deliberated to citizens through information technology? The recent example is the Ministry of Education that released all public school textbooks in e-book format and delivered online (See <http://www.ebook.gov.bd/>). Free public education is a policy that is expected to educate its citizens, but free e-

books in the hands of the citizens is the direct *action* for improving education. Even in many prosperous parts of the industrialized world this is not a reality given corporate interests. The Ministry of Agriculture through its Agriculture Information Service (AIS) provides hands-on knowledge and skills and timely information to farmers through multi-media and interactive web-based tools (<http://ais.gov.bd/>). These web-based applications are not transactions with citizens to provide license tags or land permits but deliberative actions that communicate to its citizenry. All Ministries in Bangladesh should be building at least one signature deliberative act that connects to its larger community.

Corruption is not a Bangladeshi governmental value; it is a mind-set drawn from routinized behavior of institutions. Bangladesh must prepare for a “*cultural shock*” or a “*cultural tsunami*” in order to revive its cultural ethos and reclaim the *Bengali identity*. This will come from the people who must demand that corruption is not part of the Bangladeshi culture, rather a behavior of corrupted minds. It must be uprooted by hating the act that has no corollary in the rich heritage of the *Bangla* culture. Information technology can play a fundamental role, and so can the young generation of Bangladeshis who have embraced a Digital Bangladesh.

According to Lindstedt and Naurin (2010), reforms focusing on increasing transparency should be accompanied by measures for strengthening citizens’ capacity to act upon the available information if we are to see positive effects on corruption. This is also supported by Fung, Graham and Weil (2007) who argue that information by government passed on to citizens for the sake of being more transparent must take into account as to how the new information can be easily embedded into the routine of the information users — the citizens. Again, as an example, information on a website about the potential hazards of arsenic contaminated water will do nothing to save a village whose daily routine is centered on using the contaminated water. Without an alternative water source conveniently accessible to the villagers (to the extent that it becomes part of their routine), information about the hazard is of little value. Information must stand on tacit knowledge of improving the capacity of citizens to understand the information. In other words it must be contextualized to the routine of a citizen. To imagine a prosperous future is to prepare for it and build action towards its realization (McCurdy 1995, p. 504). In other words it must be contextualized to the routine of a citizen Haque (see 2015, chapter 3):

“[T]he empirical reality of “*good*” public administration may arise from the same societal values that shape policies. Society may recognize good administrators as those peo-

ple who skillfully promote dominant ideals. Someone skilled in promoting competition would be a good manager in a society that valued rivalry, as in a market economy. The same manager would seem out of place in a society more oriented toward cooperation. Each system of administration could prove successful in its own setting since each would appeal to values that its participants recognize.”

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Transforming the Furniture Industry of Bangladesh: The Case of Katalyst Project

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Abstract

This paper explores the furniture industry of Bangladesh and how it was transformed from a cottage-based inward looking industry into a semi-mechanised industry with strong export potential. The article discusses the case of Katalyst, a multi-donor funded private sector developmental project in Bangladesh, and how it contributed to the transformation of the furniture industry. The paper discusses how underlying constraints in the sectors were identified by the project, and then systemic changes were triggered in the market system by working with the private sector. Katalyst's experience is shared, especially focusing on deal making, strategic outlook, market analysis, and private sector engagement. The conclusions drawn from its work is discussed, which can benefit other donors or projects working in the industrial sector and trying to encourage systemic change.

1 The Context: Furniture and Pro-Poor Growth

In Bangladesh, agriculture provides employment to half the labor force while contributing around 20% towards national GDP. In the case of industry the figures stand at around 30% for both employment and GDP contribution. The share of agriculture in GDP has been declining, although it still remains a significant force while the industrial sector has started growing rapidly with annual growth rate hovering at around 7–8%, which is higher than the economic growth rate. This industrialization process that has been continuing over the last few decades is very much in line with historical evidence from other developed and newly industrialized countries. Industrialization is essential for economic growth and for long-run poverty reduction but the pattern of industrialization decides whether economic growth is likely to be pro-poor or not.

Numerous studies identify employment expansion as the major link between poverty reduction and economic growth; it can only materialize if the industrialization process entails raising returns to unskilled labor, especially manufacturing sector's ability to absorb surplus labor from agriculture and offer productive employment (Bekkers 2009, Kniivilä 2007). Thus urban pro-poor growth strategies for programs like Katalyst consciously focus on promoting sectors which have low entry barriers,

which can “*absorb*” low skilled workers and also offers them opportunities to acquire skills (“*transformation*”), enabling workers to work their way out of poverty. Productive employment creation therefore requires a balance between “*absorption*” and “*transformation*”, as too high absorption of less-skilled labor most likely will take place at the expense of productivity (e.g. informal waste management sector) while highly developed sector with very high labor productivity will most likely recruit the skilled workers (e.g. IT). According to Rahman and Islam (2003), the furniture sector in Bangladesh could offer productive pro-poor employment.

The furniture sector in Bangladesh has been growing rapidly both internationally and especially locally as the disposable income of the urban and peri-urban population has increased with economic growth (Export Promotion Bureau 2010). The local demand for furniture has expanded roughly by 240% from USD 1.14 billion in 2000 to USD 2.71 billion. The figure is based on furniture consumption estimates taken from the original dataset of Household Income and Expenditure Survey (HIES), for the year 2000 and 2010. HIES usually has nationally representative sample of over 10,000 households. The sector includes over 80,000 enterprises, including carpenters, employing over 300,000 poor people (Katalyst 2012a). Internationally the industry is the largest growing low-tech sector with a higher volume of trade than garments and footwear (Kaplinsky, Memedovic, Morris and Read-

man 2003). The global industry is worth about US \$347 billion, with developing countries contributing 48% of the total output, and this contribution is rapidly increasing CSIL (2010). Given the high growth potential, the sector can be very important for the country's economy. In the next section, we look into the labor and poverty dynamics within the sector.

2 Labor Market in the Furniture Sector

The sector is very labor intensive in general with significant involvement of SMEs (Table 1), which offers scope for productive employment. Only focusing on firms with 5 or more employees there are roughly 10,000 firms employing over 100,000 workers. The sector has around 70 large enterprises, which are the market leaders, and employ about 20% of the furniture workers. Thus less than 1% of firms, scale agents and industry leaders account for more than one-fifth of the employment in the sector.

The workers usually migrate from rural areas with very little skills, and join as helpers with an initial salary of BDT 2,400 per month, which increases to BDT 8,000 per month with increased skill level and experience; helpers form almost two-thirds of the furniture labor force (Figure 1).

According to Bekkers (2009) around 7,000 workers enter the furniture sector annually (permanent and temporary) and around 80% earn less than USD 2 dollar a day. Thus the furniture sector reflects strong growth, export and local, and offers opportunities for productive poor employment.

3 Why Katalyst Intervened in the Sector?

Katalyst program was launched in 2002 with a mandate to work in urban and rural sectors, focusing on improving SME competitiveness and creating jobs. Historically, in Bangladesh, industries usually have developed in clusters, which is not an uncommon pattern among developing countries. Academic literature supports the notion that industrial clusters can spur economic development through technical innovation and growth (Nadvi and Barrientos 2004). The furniture sector in Bangladesh is no different with major clusters located mostly in Dhaka (Mirpur, Gulshan, Sutrapur, Panthapath, etc.) and Chittagong, which are the two largest cities in the country (INSPIRED 2013).

Katalyst launched its industrial programs in the furniture sector in 2004, focusing on the Mirpur cluster, the largest wooden furniture cluster in the country dominated

by small and medium scale manufacturers. The cluster was facing steep competition from Panthapath cluster, which was the hub of imported furniture. Consumer surveys carried out by Katalyst showed that imported furniture was cost efficient and of better quality (new finishing: lacquer, using Medium Density Fiber instead of wood). Predominance of traditional motif, low labor productivity, low level of mechanization, and high dependency on imported wood as primary input meant that when price of teak doubled within a year, in 2005, the cluster was in rapid decline and in disarray. The constraints faced by the sector was something that was prevalent industry-wide, later to be reinforced with external visits and research.

Thus initial program activities focused on enhancing firm level productivity (labor and mechanization) and improved trade promotion (trade fair, after sale service, guarantee card, customer responsive program etc), to retain and expand the customer base. The activities were a major success, enabling the cluster to turn around; it has remained till date the largest cluster in the country. Cluster-wide sales campaign in 2006 and 2007, facilitated by the program in collaboration with the association, attracted over 10,000 sensitizing enabling manufacturers to clearly understand the shifting demand of the consumers. Thus they started developing sleeker designs, using processed wood, introducing power tools, providing lacquer finish, while ensuring after sales service, warranties and other means to cater to this high-value market (Table 2). Leveraging this success the program quickly evolved to include other clusters, focusing at the national level and export (Nahid 2010). From 2010 onward the local market focus interventions were implemented by *Innovision Consulting Private Limited*, who acted as co-facilitator of Katalyst.

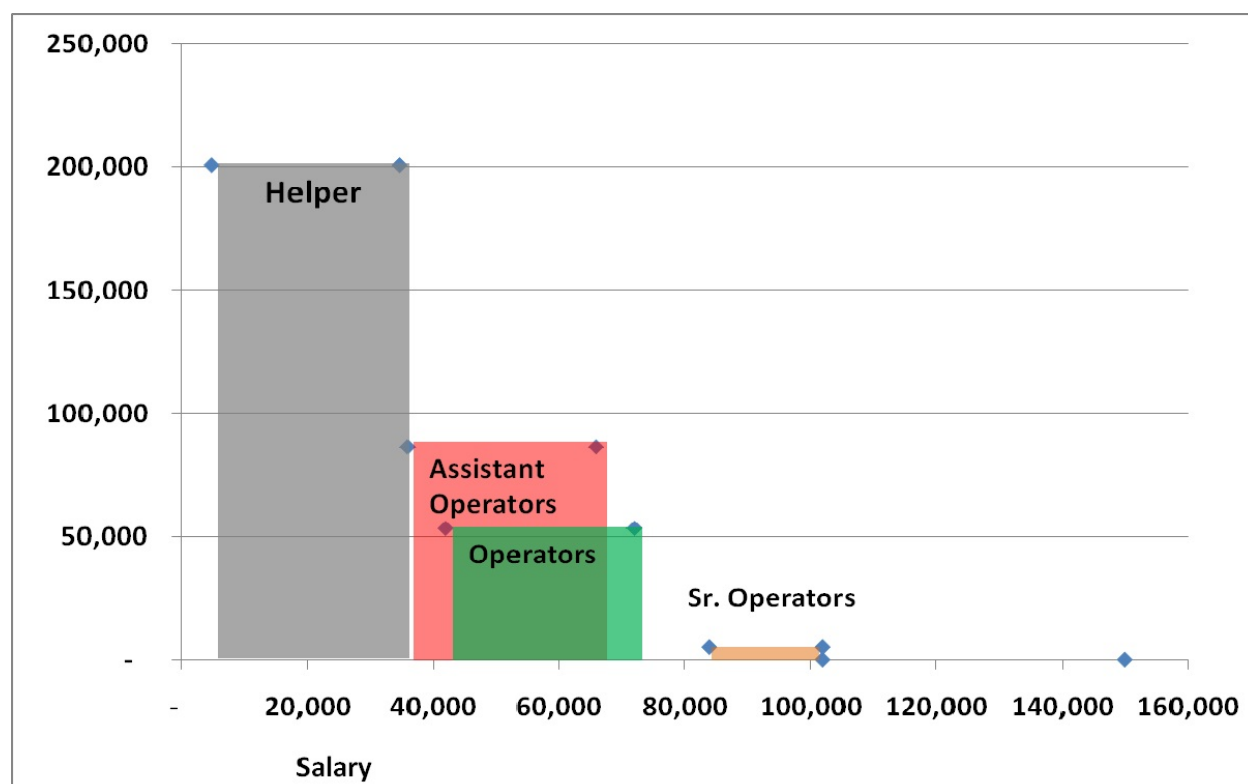
3.1 Key Constraints in Export

Katalyst from early on recognized the export potential of the furniture sector; research showed a positive relationship between export and economic growth. Furthermore, engaging in export could result in positive externality through technology transfer and overall productivity growth. On a tactical level, by working in the Mirpur cluster, Katalyst was already gaining credibility in the industry and was able to engage the market leaders who were also very much interested in export. To this end in March 2005, Katalyst and exporter forum members met to develop a road-map. A study on export readiness assessment was conducted on eight potential exporting firms, which were the largest in the country, by world renowned furniture consultancy firm Aktrin-Dossenbach Associates. The key finding of the study was that while Bangladesh had a competitive cheap labor market the industry was far from export ready and had a few key constraints:

- Most companies were essentially large carpentry

Table 1: Enterprise and employment

Category	Number of Workers (number)	Number of Enterprise (percent)	Total Employment (percent)
Micro	< 10	80.30	42
Small	10 to 25	16.90	27
Medium	26 to 70	2.80	10
Larg	> 70	0.80	21

**Figure 1:** Salary structure in furniture sector**Table 2:** Transforming Mirpur Cluster

Year	2005	2010
Number of branded Outlet	2	8
Number of Stores	10	15
Laborers employed	2200	4500
Firms using mechanized tool	32	86
Using MDF/Particle board	19	80

Source: Data taken from Katalyst MRM system, which has been DCED audited twice and according to DFID mid-term review (DFID 2010), provides evidence of impact with “*validity and reliability that is probably unparalleled.*” In 2005 MDF was not in use, and so the figure in the last line reflects use of particle board. However, 2010 data refers only to MDF.

shops instead of manufacturing factories, lacking in modern industrial production, trained workers and planning.

- Building custom designed low quality furniture rather than following batch manufacturing.
- Dependent on carpenters instead of mechanized factory setup.
- Unable to compete with higher quality and lower priced imports in the domestic market.

If this was the situation among the leading firms in the industry then one could only imagine the general situation prevailing in the sector. The study was a reality check and enabled Katalyst to reformulate its strategy, along with the manufacturers, to develop a more long term vision. The discussion following the study made the large manufacturers realize that:

- They had to reorganize themselves and seek technical assistance to streamline production and planning, focusing on modern technique and tools.
- Invest in human resource development, both at worker and management level.
- Engage in market research both locally and internationally to understand the customer.
- Work together to become a globally competitive industry rather than just focusing on individual firms.

3.2 Exposure Visits to Understand Constraints

The key constraints were endemic to the industry as a whole and not just for firms with export potential, although the realization was limited to the large enterprises. Based on the findings in 2005 and 2006, there were a number of exposure visits on a equal cost sharing basis with the program, to *Bangladesh Expo* in the UK in 2005, *International Furniture Fair* in Tokyo and production facilities in China in 2006. Most of the companies participating in these activities were the large firms who were the market leaders. The visit to the fairs provided initial understanding of the export market demand. The exposure visit to industrial zone in Dongguan China was an eye-opener as some of them were quoted saying “*we need to import more raw materials like MDF please get me pricing*” and “*pneumatic hand tools are required for the Bangladesh factories*” (Sarwar 2007). Another major learning from these visits was the realization that manufacturing few products in assembly line production could increase productivity by multiples.

During the same period Katalyst worked with Hatil Complex, one of the largest manufacturers and one of the few importers of Medium Density Fiber (MDF) board and lacquer, to develop a documentary on how to use MDF and lacquer finish. The documentary was showcased by

the furniture association during different workshops and was picked up by Mirpur furniture manufacturers after the success of the first cluster fair in 2006. At the same time activities in the form of sector assessment were initiated with Gulshan and Chittagong clusters with an initial view to look at them as separate sub-sectors. However, international experience gained from the exposure visits suggested that a more holistic approach was required with strategies developed at the national industry level but rolling out activities and developing tactics on a cluster level, taking into account the local context. *This thinking ‘national’ and acting ‘local’ became the mantra for the program.*

3.3 Constraints Facing Firms in the Policy Space

There are two national furniture associations: Bangladesh Furniture Industries Owners’ Association (BAFIOA) is the central association, represented by the active local chapters located mostly in Dhaka and Chittagong. The national association takes different initiatives for the growth of local companies. Another association, comprising of export oriented firms, called the *Bangladesh Furniture Exporters’ Association* (BFEA), takes up different activities for export market expansion; this was previously part of BAFIOA and was called the exporter’s forum. When Katalyst started operating in the early 2005, the national association was almost not operational although the exporter’s forum, which was explicitly formed in May 2005 as a common platform to engage (Katalyst 2005), was more organized. The Mirpur cluster chapter association of BAFIOA was the most organized local association in the industry.

From an operational standpoint it is crucial to have a strong national association that can engage public institutions like the National Bureau of Revenue, Export Promotion Bureau, etc. But more importantly, from a strategic level, a well-functioning national association is necessary to foster continuous technical innovation, identify pressing constraints in the business environment, formulate evidence-based policy proposals, advocate for business-friendly laws and regulation, and promote information sourcing, and sharing (ENABLE 2013, Nadvi and Barrientos 2004). Associations act as intermediaries between the public and private sectors. While the industry demand was growing locally and internationally, furniture enterprises were unable to capitalize on these growth opportunities within the sector. Their inefficient production capacity, limited access to technical knowledge and inputs, and limited access to information on and links with rising high-end markets were impinging upon their ability to realize these opportunities.

4 How Katalyst Facilitated Change

Katalyst activities in the furniture sector was based on the theory of change which states that interventions (activities and inputs) lead to systemic change in market systems (including changes in information, services, and rules) which leads to increased firm competitiveness and growth which in turn results in poverty reduction through increased income and employment — Katalyst’s overall goal (Figure 2).

Katalyst worked with input suppliers, associations and manufacturers, and government bodies, like Export Promotion Bureau (EPB) of the Bangladesh Government. The purpose was to increase the skills of and promote outsourcing to small manufacturers, to diversify markets and products, creating a foothold in exports, to increase employment opportunities, to build the capacity of associations, and to further stimulate the sector’s growth.

4.1 Facilitation Process

Katalyst primarily channeled its activity through the central association BAFIOA, its local chapter representatives, and BFEA, ensuring buy-in from large scale manufacturers as they are the drivers of change. Understanding this political economy was crucial to the success of Katalyst’s interventions. The project focused on the largest clusters mainly in Dhaka, Chittagong, and finally Bogra, since they are the trend-setters in the industry and play a major role in the national association. Since the sector was at its early growth stage and for innovation to gain traction, there needs to be a critical mass of adoptions before it becomes a practice. Katalyst followed a heavy-handed approach which often entailed support for multiple years. As DFID (2013) document states *“Risk of adopting new business models (though successful) remains considerably high, until there are significantly large numbers (critical mass) of users or providers of products/services.”* As such, to cross the *“tipping point”*, Katalyst used a *“big push”* strategy to create complementary demand in multiple interconnected markets. Figure 3 gives an overview of Katalyst’s efforts in transforming the furniture market system in Bangladesh and key interventions in the sector.

A salient feature of Katalyst’s approach was that in some cases interventions were undertaken with a tactical view to achieve strategic goals. For instance in order to strengthen association capacity and firm level productivity, Katalyst organized a series of workshops on joinery, polishing and new types of inputs like lacquer finishing and MDF, with the help of associations and with owners of export-oriented or large manufacturing units who often acted as credible resource person. In many cases such workshops were followed by cluster-wide trade promotional activities. These activities may not have been

meant to be sustainable in their existing format, but were deployed to create linkages with input providers, foster trust in the association and, most importantly, create the necessary effective demand through increased profit during the sales campaign to trigger investment in capital goods (Jalil, Sarwar and Jahan 2007); sequencing of interventions was therefore critical. The overall process of facilitation can be seen as a broad sequence of phases, although in reality implementation was not completely linear and chronologically some activities may have taken place simultaneously (Figure 4).

Initially, project work originated with the Mirpur cluster but then it gradually expanded to include other major clusters and export-oriented large firms. This was possible because in most cases the underlying constraints faced by the manufacturers were similar. Leveraging the success of transforming the Mirpur cluster and credibility thus gained among stake-holders, the project facilitated the national furniture association and the exporter’s association to build a *“bridgehead”* and engage in dialogue with the public sector bodies to create a conducive environment for the sector.

4.2 Market Analysis: Building a Basis for Credibility

Katalyst fostered trust and helped create a network among the manufacturers both within local chapter associations and among members of exporters’ associations. Another major contribution of the project was the creation of a body of literature on the furniture market of Bangladesh, detailing its size, structure, poverty dynamics, local and international growth potential, etc., which was almost non-existent before Katalyst intervened. These formal studies were important for four reasons:

- In helping Katalyst to advance its own learning beyond symptoms to underlying causes;
- In establishing credibility among players, especially in dealing with government organizations like Regulatory Reform Commission or EPB. A sound factual basis to discussions was essential to give weight to arguments and credibility to Katalyst as a facilitator seeking to bring about change. As Katalyst sought, through many individual meetings and roundtables, to facilitate establishment of linkages with manufacturers themselves and key stakeholders, its research proved an important resource.
- As a continuous record of market change: the data from studies was updated regularly, thus providing a *“living record”* of the process of change.
- In creating a body of literature that could be drawn upon by other actors in the market, Katalyst documents were used to develop the base paper of

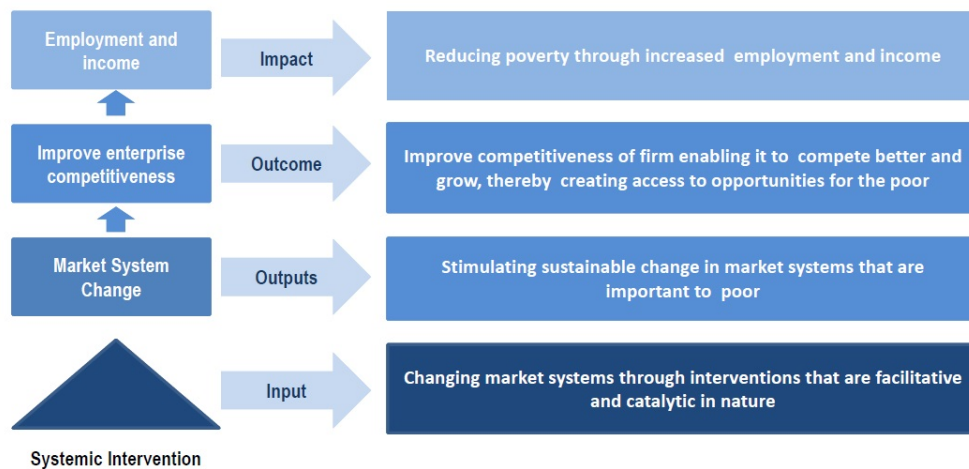


Figure 2: Katalyst approach in furniture sector

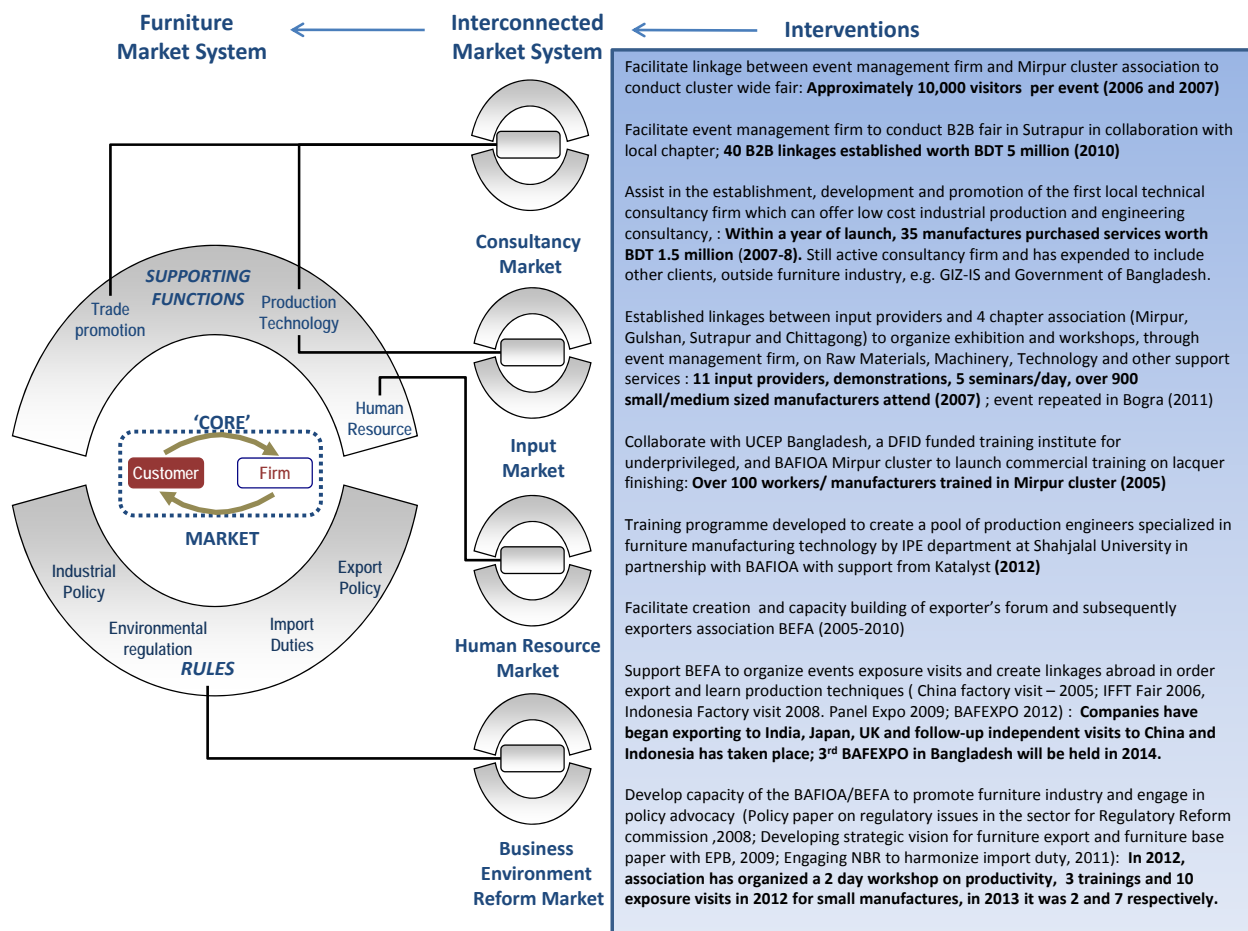


Figure 3: Furniture market system and Katalyst interventions

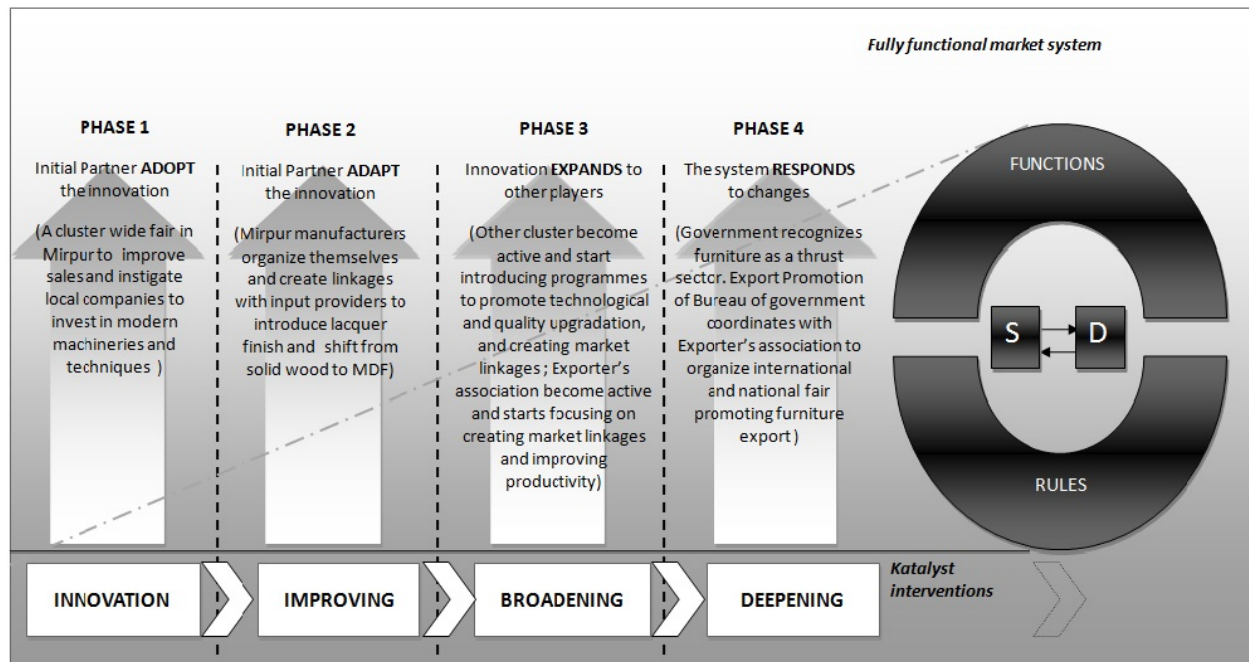


Figure 4: Pathway to systemic change

EPB for the formulation of EPB's furniture strategy. Findings from export related studies were extensively used in the website developed for the Bangladesh furniture export fair. INSPIRED, a challenge fund facility co-financed by the European Union, developed its sectoral report on furniture significantly drawing on findings from various reports generated by Katalyst. The documentary on product design, joinery, lacquer finish, MDF are still being used by BAFIOA in workshops organized in newer clusters.

5 Signs of Market System Change

5.1 Changes in the Input Market

With Katalyst's support, several major input suppliers now provide embedded information on the usage and application of tools and raw materials (e.g. adhesive, lacquer, MDF), alongside quality inputs to small enterprises producing furniture. Medium and large sized manufacturers have already become significantly mechanized and have implemented industrial production planning. Manufacturers have also started using consultancy services for market research, production planning, etc. that has been strongly supported by the project and was missing when Katalyst started its operation. Engagement with different clusters for organizing regional workshops on joinery, tools and production techniques has not only enabled skill development, technology and knowledge transfer, but has

also enabled local chapter associations, who organized it, to become more operational, leading to greater social capital. When Katalyst started its operation in 2004, only the Mirpur cluster association was active but was in decline, as mentioned before, but now "four clusters are active, organized and more functional within the respective clusters namely, Sutrapur region-Dhaka, Gulshan region-Dhaka, Mirpur region-Dhaka, and Chittagong region-Dhaka." (INSPIRED 2013); being the largest clusters all of these were actively targeted by such regional workshops. The Figures 5 and Figure 6 show annual import values of furniture related machineries and MDF board from 2006 to 2012.

As can be seen from the aforesaid figures (Figures 5 and 6), MDF import really took off after the success of the furniture cluster fair in 2007 followed by road show events in 2007–08 (Figure 3), where MDF was promoted by major importers and suppliers of the product in major furniture clusters of Bangladesh. It is worth noting that Katalyst was the first donor project which worked with Hatil, Brothers and Pacific industries to facilitate import and promotion of MDF to Bangladesh. In case of machinery import, one has to realize that there is likely to be a lag effect between exposure to understanding the benefit of mechanization and widespread adoption. However, it is interesting to note that after the road-show linkage program in 2007–08, Indonesian factory exposure visits in 2008, followed by single country export fair in India in 2009, and national fairs in 2008–09, there has been a

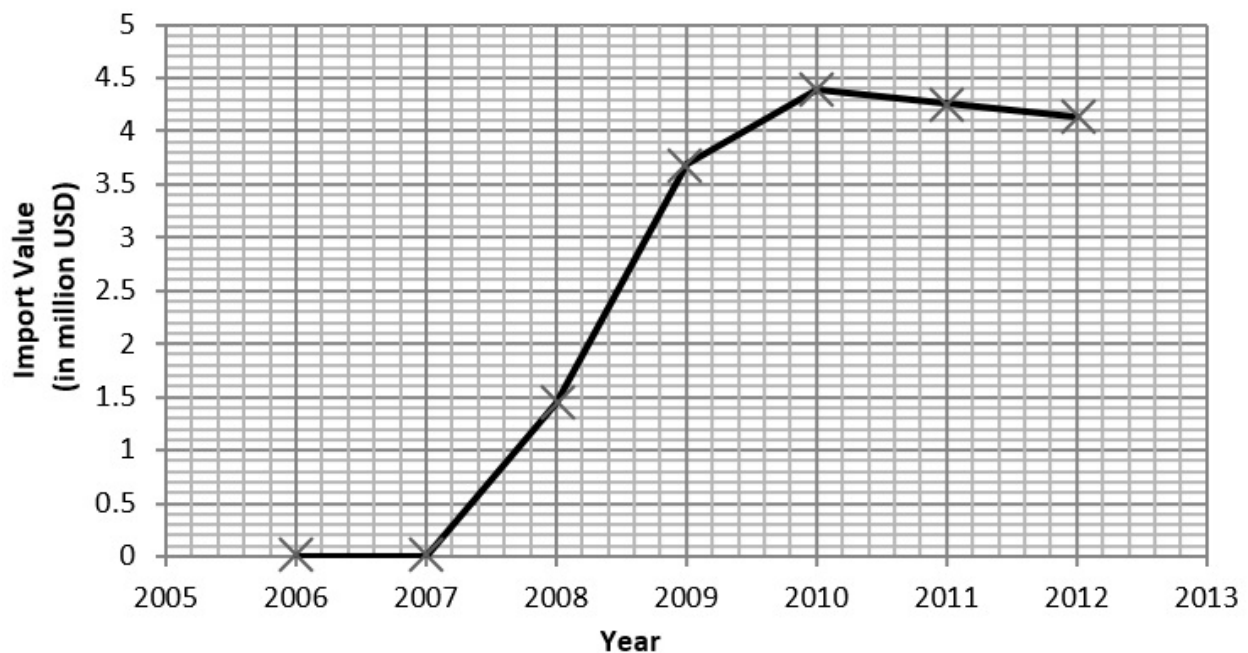


Figure 5: Annual Import of MDF (The data are taken by aggregating import data for furniture related commodities at 4 digit HS code taken from website of International Trade Centre (ITC), which is subsidiary organization of the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD))

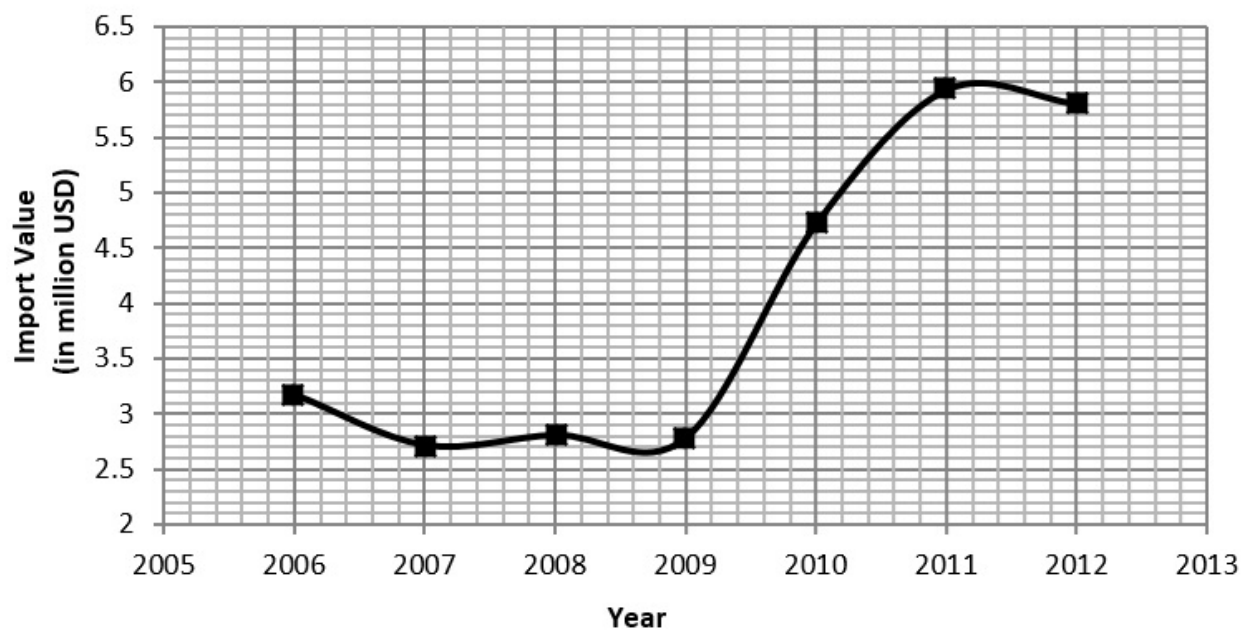


Figure 6: Annual import of furniture related machineries (The data were taken by aggregating import data for furniture related commodities at 4 digit HS code taken from the website of International Trade Centre (ITC), which is a subsidiary organization of the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD))

surge of machine imports. Since machineries are assets and have long service life requiring less periodic purchase or replacement, the continued surge in machine import implies more factories are now mechanizing. Preliminary estimates show that this has already led to appreciable increase in labor productivity in the major furniture clusters of Bangladesh, which was previously nearly stagnant (Figure 7). The estimates are based on national private-sector survey of enterprises in Bangladesh (Daniels 2003), industry relocation study (Moniruzzaman, M. and Sarwar, A. and Khan, M, J. 2007), and baseline survey of furniture industry in Bangladesh (Khan, N, A. 2011).

5.2 Expanding Export Market

Similarly through a number of exposure visits, the large manufacturers have established linkages abroad and export has surged with Hatil recently establishing a store in Australia (Saha 2013). Hatil signed a global supply agreement with Paul Robert Inc. USA to manufacture and export Paul Robert's customised designed sofa, chair and other household furniture (The Daily Sun 2013). Bangladesh Furniture Exporters Association (BFEA) has created avenues to reach new markets (both domestic and international) which have resulted, among others, in additional sub-contracting opportunities for smaller manufacturers. Beginning in 2011, Katalyst supported BFEA to establish linkages with EPB and then explore the potential for the first-ever international furniture fair in Dhaka, which was subsequently organised by BFEA in 2012. Its success has resulted in launching and implementation of the next fair, held jointly by BFEA and EPB in June 2013, without Katalyst's support. Furthermore, planning for the next fair has already been initiated. Figure 8 shows furniture exports between 2006–2012 periods.

Since the project started its operation in 2006 the export of furniture and associated products has expanded by a factor of over 9. Katalyst was among the very first development projects to have started working in this sector and until quite recently was the only one. The following quotes from Selim H. Rahman, the owner of Hatil Complex, the leading manufacturer, and the chairman of BAFIOA clearly capture the transformation of the sector, from one being threatened by import to one that is promisingly poised to capture the export market (Ovi 2014, Rahman 2005, Shawki 2014, Tanim 2014):

“The abnormal increase in price of timber and import of foreign furniture. Especially the treated rubber furniture from abroad is destroying the local industry,” (Tanim 2014) and *“local furniture industry is losing out in the local market as some importers are still importing furniture from China, Indonesia and Malaysia and selling them at lower*

prices” (Rahman 2005). *“The present condition of the country's furniture industry is very promising as there is a huge potentiality of exporting the product”* (Shawki 2014) and *“It has transformed from a cottage to a technology-based industry”* (Ovi 2014).

In 2011, a favourable raw material import tariff aimed at improving the competitiveness of the industry was adopted by the government after successful lobbying by BFEA, which was supported by Katalyst. After a sustained period of project support, EPB and BFEA have now both initiated programs to explore the market and to promote furniture and home accessories. At the same time, large furniture retailers and intermediary suppliers have begun to introduce soft furnishings as a profitable product line and are promoting them alongside sales of furniture.

5.3 Stronger Associations

In 2012, BAFIOA independently organized a two-day workshop on productivity where representatives from 38 medium sized firms were present. During the same period the association also organized production and machine operation related training in 3 clusters and organized 10 exposure visits for small manufactures (numbering around 300) to large mechanized furniture factories and machine importers for demonstration and learning. The programs were repeated in 2013 but due to political turmoil it was reduced to 2 training sessions and 7 exposure visits. In 2014, BAFIOA officially approached the government of Bangladesh to reduce import tax on sand paper, screw bolt, lacquer and wood cuttings in the upcoming budget (The Financial Express 2014, Based on field interview with member of BAFIOA).

Akthar furniture, whose owner is the President of BAFIOA, opened up a vocational training academy specifically targeting workers in the furniture sector. Recently they have received support from Skillful Project of Swisscontact to develop Competency Based Training (CBT) curriculums, and improving quality of on-the-job training being conducted at the furniture sector (Katalyst 2012b). It is worth noting that the initial discussion of establishing a worker vocational training institute started when the representatives of BAFIOA visited Indonesia in 2009 and met with members of ASMINDO, the furniture association of Indonesia, who imparted the importance of such training institutes. Later, the Bangladeshi contingent visited PIKA, in Semarang Indonesia, which is a vocational institute providing education about carpentry and furniture making since the 70s. There is currently an ongoing discussion proceeding between members of BFEA and INSPIRED to help establish a larger furniture vocational training institute in Bangladesh.

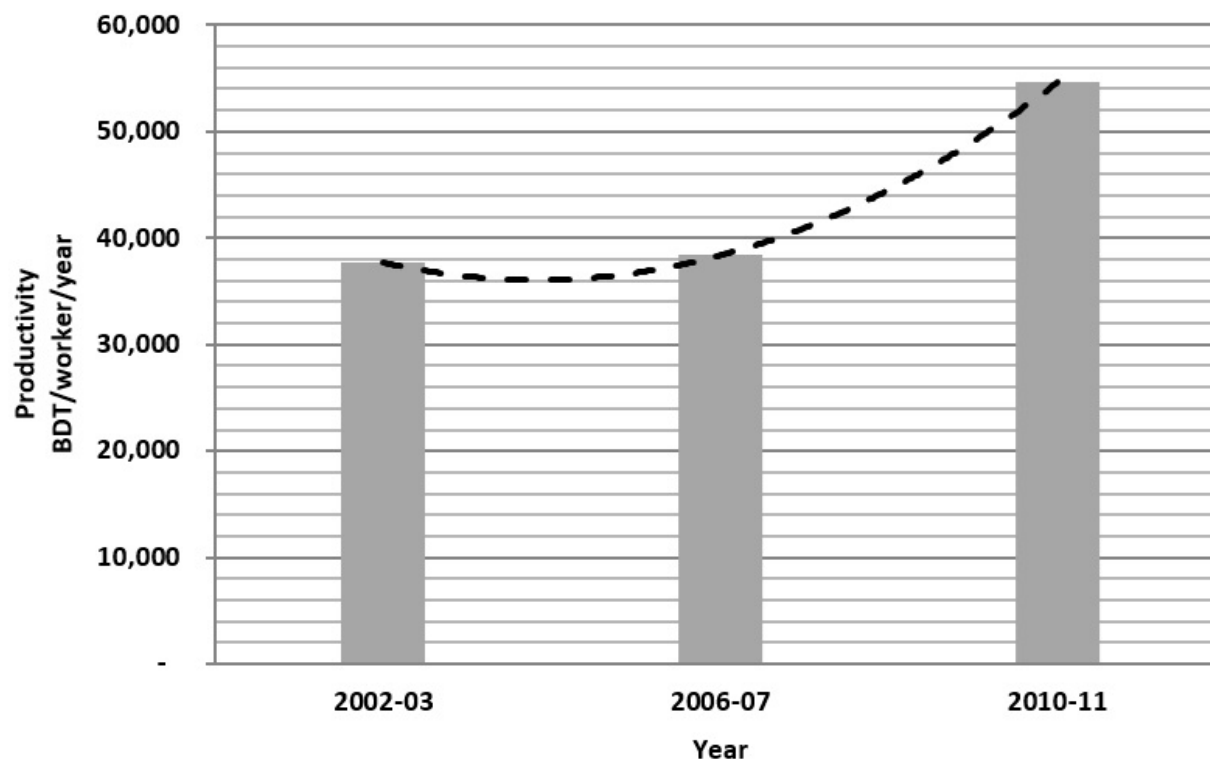


Figure 7: Average Labor Productivity (The estimates are based on national private-sector survey of enterprises in Bangladesh (Daniels 2003), industry relocation study (Moniruzzaman, M. and Sarwar, A. and Khan, M, J. 2007), and baseline survey of furniture industry in Bangladesh (Khan, N, A. 2011).)

6 Key Lessons and the Way Forward

Taking into account the extensive support provided by Katalyst to the furniture sector, early sign of systemic changes in the sector, new donor mandate to focus on income creation (the choice of furniture as a sector was mainly driven by a job creation focus), and the rural orientation of the rest of the Katalyst portfolio, further attention to the furniture sector was gradually brought to an end by 2012. The experience of Katalyst in the furniture sector has been a difficult but positive one that has essentially transformed the furniture sector of Bangladesh from a cottage-based carpentry driven sector to a modern, industrialized, productive sector poised to becoming a dominant export-oriented industry in the country. Over the eight-year period between 2004 and 2012, Katalyst has aimed to bring about systemic change. Their approach has been characterised by engagement with different players in public and private sectors, understanding of the political economy around the association, flexible and tactical interventions based on opportunity and recognition of the importance of ownership in the process of change.

6.1 Caveats and Further Research

The generally positive conclusions regarding the scale and transformational nature of change brought about in the furniture sector through the facilitative effort of the Katalyst project are based on good evidence. However, given the complexity of the furniture market system and the fact that the changes are just showing tentative signs, inevitably there is scope for improving the evidence base. Further research in these areas is necessary to provide better information in the following inspiring areas:

- *Impact on labor:* Expanding the furniture industry is likely to provide productive employment and greater opportunities for low skilled workers to enter the sector. Export orientation has already resulted in large firms investing in workers' training, both on the job and formal. It is important to see the interplay between increased emphasis on labor productivity growth and the sector offering opportunity for absorbing low skilled workers. It might happen that the sector may get separated into two groups: one using high-skilled labor targeting premium local or export markets while others remain trapped in low-level productivity, targeting the low profit margin market. If this were to happen it is

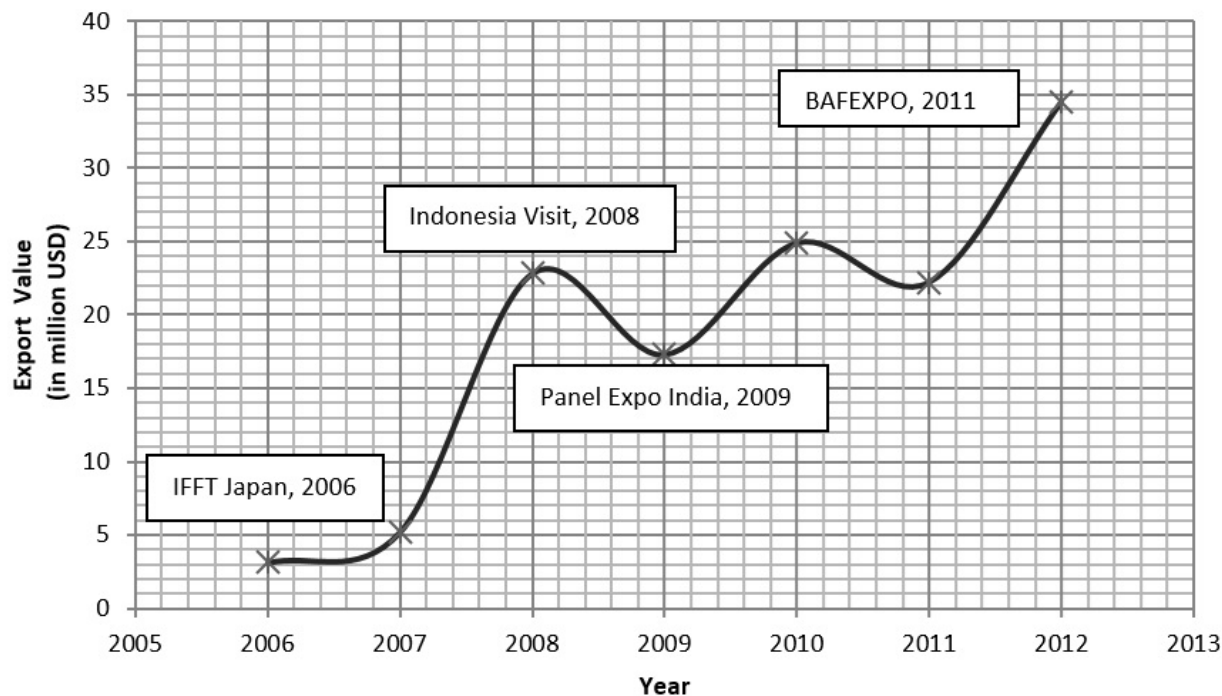


Figure 8: Annual Furniture export from Bangladesh (Export data are taken from ITC website)

likely to significantly affect the pro-pooriness of the sector.

- The sustainability of government change:** Interventions were designed to create linkages between furniture manufactures and government stake-holders so that a conducive environment can be built. While there seems to be greater recognition of furniture as an important sector and even as a major exported-oriented sector, there still remains concerns regarding the durability of such a mind-set. As per EPB strategy, in the first phase it plans to continue and promote the furniture export fair in Bangladesh till 2015. The plan was initially crafted with BAFIOA but facilitated by Katalyst. It will be interesting to see how EPB and BAFIOA respond after 2015, without Katalyst's support.
- Association continuing to deliver:** Since Katalyst support ended in 2012, the national and exporters associations have both remained very active. They have launched new programs and engaged different stake-holders; furthermore they were able to roll out activities even during 2013 when there was serious political turmoil in the country. While there is little chance of these associations returning to their pre 2005 inactive stage, the road ahead clearly depends on how the key players in the association play their role and continue to share the common vision of collectively taking the furniture industry forward.

- Contributable change:** Since Katalyst was the only project working in the furniture sector, much of the initial positive changes in productivity, introduction of new materials techniques, services and export promotion can be traced and attributed to its project activities. But what needs to be explored is how this is contributing to wider systemic changes by transforming, for instance, the training market system of the furniture sector, greater investment by input providers to target the industry, etc.

6.2 Challenges Ahead

Katalyst has primarily facilitated the building of bridge-heads and establishing linkages. What we see is an industry in its early stages of transformation. Katalyst primarily targeted the creation of networks among manufacturers to strengthen the social capital, but many challenges still remain: For instance, capacity building of staff in training institutes, facilitating other players to enter the training market, and improving backward linkages particularly focusing on timber and saw mills. However, with active and committed associations, large enterprises with a foothold in the export market and the government eager to diversify its export base and promote the furniture sector, the future of the industry does seem to look very positive. This sector holds much promise and prospect for the future of Bangladesh and can one day be another RMG sector in

Bangladesh. Katalyst has played a pivotal role in jump-starting this process and the industry is now ready to take-off.

7 Acknowledgement

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Significance and Growth Linkages of Household Non-Farm Enterprises in Rural Bangladesh: A Case of Advanced Villages

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Abstract

Since micro-level understanding of the non-farm sector (NFS) seems to be insufficient for promoting sustainable livelihoods in rural Bangladesh, this paper examines the significance and growth linkages of *Household Non-Farm Enterprises* (HNFEs) in four villages at a typically advanced rural location: Comilla Sadar Upazila. The findings show that in relation to the limited scope of earning income from farming and in-country remittance employment, the households' higher dependency on out-country remittance employment and local low-return NFE could be a threat for sustainability of local livelihoods. Thus, the increasing contribution of non-farm self-employment and non-farm wage employment by promoting HNFEs is critically important. The HNFEs were also found to be locally linked. The HNFEs that purchased inputs locally and sold outputs in distant markets might have higher profit potential.

1 Introduction

In recent years, livelihood diversification in rural Bangladesh has become a major challenge for the development partners. Non-farm activities (NFAs) played a pivotal role in the improvement of rural livelihood. Past studies on the growth potential of the non-farm sector (NFS) supported the notion that the “*subsistence*” nature of the sector was in decline and could no-longer be viewed as the persistence of a “*residual*” sector phenomenon (Bakht 1996, Sen 1996). However, doubts continued to persist about employment generation and growth potential of the sector (Bhattacharya 1996, Hossain 2004). Since the early nineties employment/income in the NFS compared to the farm sector had been increasing at a faster rate, but the growth of the NFS in the early 2000s was not impressive (GOB 2006, Hossain 2004; 2005, Nargis and Hossain 2006); our estimation from Household Income and Expenditure Survey: HIES, 2000 and 2005). Although the government identified the NFS as a “*leading sector*” (GOB 2006) in practice, it did not get due attention like the farm sector. The reason might be that the government might not have been able to intervene and support the NFS due to lack of understanding of the NFAs from the micro point of view. Since it is argued that the

Household Non-Farm Enterprises (HNFE) might be the single most significant NFA which creates employment for household non-farm workers and hired laborers as well as in the locality, the study on the significance and growth linkages of HNFEs could provide some clues for accelerating growth of the NFS by enhancing development of HNFEs.

As summarized by Davis, Winters, Reardon and Stamoulis (2009) and Lanjouw and Lanjpouw (2001), the relevant empirical literature on the NFS focused as follows: one strand of literature showed that the literature was rich in description of trends and analyses of the determinants of non-farm employment (NFE). A second strand of research on the growth linkages of NFA were of two types. The first type, econometric studies, estimated the impact of non-farm income (NFI) on farm production/investment and these analyses contributed mainly to production linkages. One similar study using individual level employment data from the household survey of Bangladesh estimated the farm and urban linkages of NFE (Deichmann, Shilpi and Vakis 2009). The second type, focusing on both production and consumption linkages, was mostly based on social accounting matrices (SAM). These studies usually require a rich database. Subject to

time and resource constraints, sometimes the gathering of such database is difficult. The final strand of literature used economic geography and examined the development stages of the NFS (Start 2001). Though the relevant literature is rich in its approach and empirical significance, similar studies on the significance and growth linkages of HNFES using econometric tools is scant. In this backdrop, we explored alternative and simple approaches which used household/firm level data. Mazzola and Bruni (2000) found the relevance of inter-firm production linkages in analyzing firm success based on Hirschman industrial production linkages in less-industrialized areas of southern Italy. Drawing insights from this study, we were motivated that analyzing the success of HNFES might be one of the best possible approaches to investigate the growth linkages of HNFES. Based on our understanding of Mellor's (1976) study the growth linkages of HNFES were defined in terms of both production and expenditure linkages. Thus, we analyzed the success of HNFES for a typically advanced rural location in Bangladesh namely, Comilla Sadar *Upazila*, where the NFAs were relatively developed and diversified. We used Probit regression for analyzing the success of HNFES.

Using simple household survey information on empirical study of this type could increase micro level understanding of the NFAs that could contribute to identifying high-return NFEs, and promote the rural economy as a whole.

2 Definitions, Study Area and the Data Collection

We used a broad definition of NFS (Malek and Usami 2009). Household workers participate in diverse NFE. These include both local NFE (farm wage employment, non-farm self-employment, and non-farm wage employment) and remittance employment (both within the country and outside the country). As noted earlier, HNFES are the single most significant activities among local NFAs which create employment for household workers and hired laborers. Household income is defined as the sum of net income resulting from the engagements of household workers in local NFE, remittance employment and other income (transfers including rental income, pensions, interests, gifts and disadvantaged allowance).

For this study we selected Comilla Sadar *Upazila* as a relatively advanced rural location in Bangladesh. For justification of selecting this case study area, see Malek and Usami (2009) for details. From this *Upazila* four villages were selected randomly. Thus, the selected villages represented typically advanced villages in Bangladesh where the NFAs are relatively developed and diversified. As the number of full-time farm households was not very high

(about 9%), the NFE in such villages might have been diversified. Therefore, the selection of such villages could be justified. It was perceived that in such villages various growth linkages of HNFES (to be defined latter) could be realized.

The study was based on the data of two field surveys conducted at selected villages in August–September 2006 and March–April 2008. For examining the significance of the HNFES we used the first intensive field survey data while the second field survey data were used for analyzing the growth linkages.

We took a random sample of 214 (about 19% of the population) non-farm households (part-time farm and full-time non-farm households) excluding full-time farm households proportionately from all strata according to land holding (large, medium, small and marginal, and landless) for the first intensive survey. The survey was designed for collecting detail data on participation, time allocation, and income earned by the household members/workers participating in economic activities including farming and non-farming for the year 2005–06. As per the view of household members/neighbors, we selected the best informed household member and interviewed the person using a structured questionnaire. In addition to observations, four separate focus group discussions in the four villages were used to collect qualitative and community level information.

The field survey of 2006 found that 95 households of the sample (44%) were engaged in HNFES. Accordingly, for understanding growth linkages of HNFES, the field survey of 2008 was conducted for 80 households (out of 95 households) that were engaged with HNFES in 2005–06 and continued their engagements with HNFES up to 2007. In the 2008 survey, we found sufficient data on the accounts of 75 households (out of 80 households) on their HNFES through recall method and found these 75 households continued their engagement in total 81 HNFES in the year 2007. Finally, we calculated growth performances based on net sales of these 81 HNFES in the year 2007 in comparison with the establishment year using the recall method to perform our analyses. The following section clarifies why net sales of HNFES were used as an indicator for growth performances.

3 Growth Linkages of Household Non-Farm Enterprises (HNFE)

The HNFES are linked both with local and non-local (hereinafter, distant) markets. In our definition, the geographical area of a local market covers the native villages (where HNFES are located), other neighboring villages, growth centers or rural towns, municipality at the district head quarter and *Pouroshova* at *Upazila* head quarter,

while distant market covers the market beyond the local market (for example, markets located at other districts, big cities, abroad, etc.). Based on the understanding of Mellor's growth linkages (Mellor 1976), the literature identified two types of growth linkages (Davis et al. 2009): production and expenditure. In case of production linkages, theoretically HNFEs could be linked with household farm enterprises (HFEs) in either local or distant markets (Figure 1). The relevant evidence suggested that the production linkages were further divided into backward and forward linkages (or up-stream and down-stream linkages). HNFEs' backward production linkages refer to linkages from the farm (HFEs) to the part of the NFS (HNFEs) that provides inputs for farm production. On the other hand, HNFEs' forward production linkages refer to the part of the NFS that make use of farm output as an input. The distribution and processing of farm outputs are the basic components of HNFEs' forward production linkages. With a view to diversifying NFE and its further development, taking the aspect of non-farm production linkage with farming into account, we consider HNFEs' production linkages with HFEs (both backward and forward) in the local market exclusively.

The HNFEs' expenditure linkages can be of two types: consumption and investment. The consumption linkages refer to enterprises that are related to household consumption goods and services (food and non-food) while investment linkages refer to enterprises related to household production (either HFEs or HNFEs). Considering the HNFEs' development stage in the case study villages, we assumed that the HNFEs that were creating investment linkages were not strong enough to consider it separately. Therefore, HNFEs' consumption linkages and expenditure linkages are interchangeably used where investment linkages are included in the consumption linkages. The HNFEs which could create consumption linkages in the local market are particularly important because returns on such enterprises may be invested to initiate or expand their enterprises either in local or distant markets in the long run and vice versa. The HNFEs' linkages with the supply market (local vs distant) are also considered.

4 Modeling Success of HNFEs

Analyzing the success of HNFEs is relevant to having a development clue for the NFS as a whole. With insights from Mazzola and Bruni (2000), along with supply market linkages, we were motivated to investigate HNFEs' production linkages (both backward and forward) with farming and consumption linkages by observing HNFEs' success. HNFEs' success could be defined in terms of sales, productivity and employment. In our survey, the HNFEs were mostly marginal family enterprises. In addition to self-employment, on average, each HNFE created

one additional wage-employment regardless of household workers since their establishment. Thus, the HNFEs' success regarding employment growth was marginal though the enterprises were somehow surviving. We also did not consider the issue of productivity growth, achieved by firm restructuring accompanied by the introduction of labor-saving technologies, because labor-saving technologies were rarely used in the HNFEs of the study area. Thus, we defined the success of HNFEs in terms of their lifetime net sales growth. Since the HNFEs' performance data in the case study villages or similar socio-economic contexts are not available, findings of similar studies conducted in less-industrialized areas of a developed country is pertinent, where it was found that successful firms experienced a net sales growth of 40% or more in an urban settings. Due to the rural nature of the HNFEs in the advanced villages, to have a reasonable number of observations in terms of HNFEs' success, the net sales growth of 15 % or more during their lifetime was (Table 1) considered a successful group. In the context of local economic development, this criterion for a successful HNFE may be justified.

We estimated an econometric model of the HNFEs' probability of success by following an idea similar to the one used by Mazzola and Bruni (2000) and (Reid 1993), noting that a dependent variable related with profitability or good performance (*Pent*) was latent and unobservable. We thus assumed that the observable variable had a value of 1 when a HNFE could be considered as successful; and a value of 0 otherwise. The relevant factors of the HNFEs' probability of success were selected from the literature related to post-entry performance of small firms. David (2004) investigated the main determinants of post-entry performance which were derived from existing theoretical concepts in the industrial economics literature, learning models and founding characteristics. Mazzola and Bruni (2000) found some other characteristics, for example firm position in the supply market, organizational structure, financial condition and stage of the business cycle were statistically important for firm success. Based on these theoretical and empirical findings, he specified an empirical model as follows:

$$P_i^o = \delta_a + \delta_s S_i + \delta_o O_i + \delta_l L_i + \delta_f F_i + \delta_g G_i \quad \text{for } i = 1, 2, \dots, N, \text{ and}$$

where S_i , O_i , L_i , F_i , G_i are column vectors of variables, respectively, related with the supply market, HNFEs' relational structure and organization, learning curve and strength, financial conditions, and growth linkages of NFA. δ_o is a parameter and δ_j (where $j = S, O, L, F, G$)

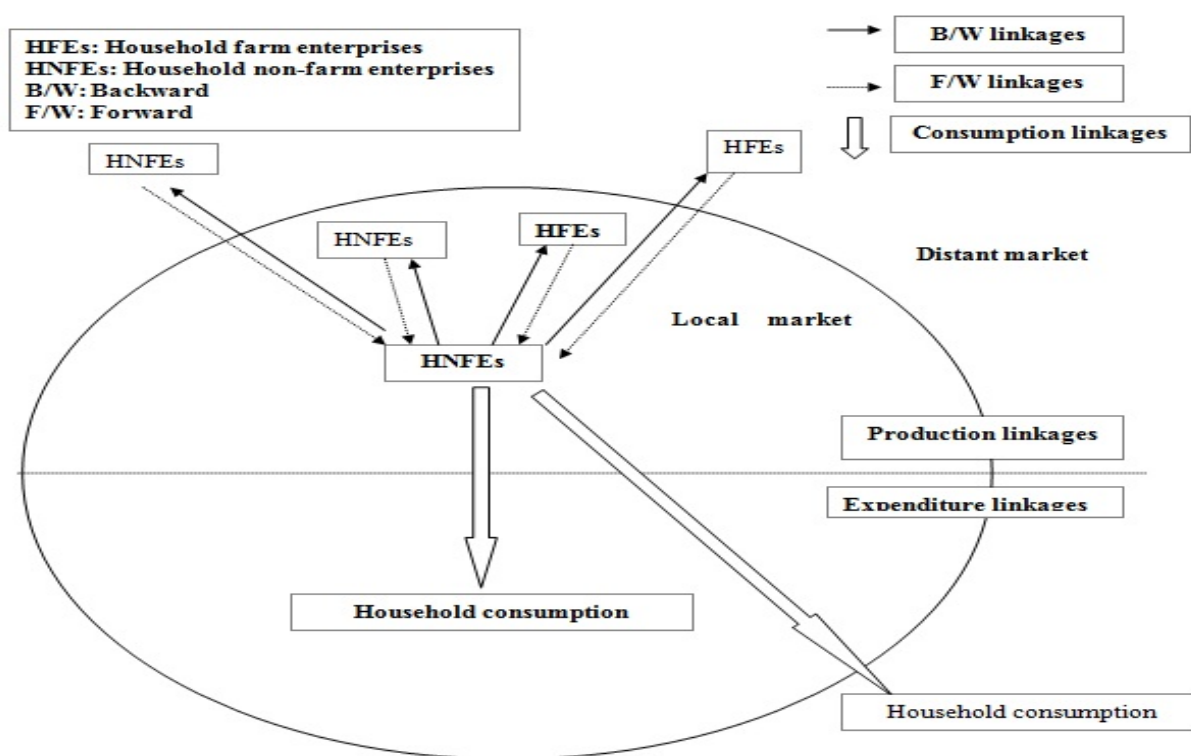


Figure 1: Theoretical growth linkages of HNFEs in a developing rural setting

Table 1: Status of household non-farm enterprises according to net sales growth in Comilla Sadar Upazila in 2007

Net Sales Growth (percent)	Number of Enterprises	
	(number)	(percent)
≤ 7	49	60.5
8–14	13	16.0
15–21	7	8.6
22–28	3	3.7
29–35	1	1.2
≥ 36	8	9.9
Total	81	100.0

Source: Field survey (2008)

is a row vector of parameters with dimensionality T_j , where T_j is the number of variables in the group j considered. P_i^o is a variable capturing profitability and is unobservable. The dummy dependent variable, success (S), was defined as

$$S = \begin{cases} 1 & \text{if } P_i^o > 0, \\ 0 & \text{if otherwise.} \end{cases}$$

The model was estimated by Probit regression. The justifications of selecting explanatory variables are given below:

- Supply market, defined as two dummy variables:
 - inputs/raw materials purchased locally (*In-ploc*), 1 if yes; and
 - sales in local market (*Salesloc*), 1 if yes.

The first variable had a positive expected sign while the second one had a negative sign since it was assumed that the HNFE that purchased inputs locally but sold outputs in distant markets might have a higher profit potential.

- Relational structure and organization, defined as two dummy variables, respectively:
 - if the HNFE was owned by partnership beyond household workers (*Ownd*), 1 if yes; and
 - and is the HNFE working as sub-contractor/production for order? (*Subc*), 1 if yes.

Both variables had positive expected signs since partnership with other household workers and sub-contracting with other enterprises were assumed to be important factors of a HNFE's success.

- Learning curve and strength: As for the variables capturing accumulated knowledge, experiences and strength of a HNFE, we expected a positive impact on the probability of success. Indeed, learning factors (knowledge, experiences, etc.) were important in ensuring continuity in a HNFE's decision process, in reducing risks connected with entrepreneurial activity, in determining favorable expectations, and on personal evaluation of efficiency which in turn reduced the probability of failure (Jovanovic 1982, Mazzola and Bruni 2000). Household strengths (household head's profession, landholding, etc.) are particularly important. The variables considered in this group were:
 - HNFE's age since establishment (*Entage*);
 - schooling years of the principle entrepreneur (*Sageentr*);
 - is household head's profession related with non-farming (*Hhhp*)? 1 if yes;
 - employment size of the HNFE (*Emps*);

- did the entrepreneurs/workers have any related prior experience/training (*Exptrg*)? 1 if yes; and
- household landholding in acres (*Landh*).

- Financial conditions: The inclusion of financial variables originated from recognition of the importance of financial aspects and credit availability in the decision process concerning HNFE's survival. The unavailability of complete data on more relevant financial variables forced us to include some pertinent variables that approximated the financial condition of a HNFE, namely:
 - is household farm income/land sale reinvested in HNFE (*Finclands*)? 1 if yes;
 - is household foreign remittance reinvested in HNFE (*Outcr*)? 1 if yes;
 - is household income from other non-farm sources (except foreign remittance and HNFE's profit) reinvested in HNFE (*Onfs*)? 1 if yes;
 - did HNFE receive any credit from micro-finance institutions and non-government organizations (MFI-NGO), cooperatives (*Mfocr*)? 1 if yes;
 - did HNFE receive credit from nationalized commercial banks (NCB), private banks (PB) (*Ncbpb*)? 1 if yes;
 - did HNFE receive informal credit (*Infolend*)? 1 if yes;
 - did HNFE invest personal/family thrift savings (*Tfsav*)? 1 if yes; and
 - was financial problem perceived by the entrepreneur as the main barrier (*Finp*)? 1 if yes.

- Finally, to understand the relative importance of growth linkage variables on the success of a HNFE, we considered three dummy variables:
 - namely if the HNFE had backward production linkage to HFEs (*Backlin*), 1 if yes;
 - if the HNFE had forward production linkage from HFEs (*Entfos*), 1 if yes; and
 - if the HNFE had consumption linkage with other HNFEs (*Conslin*), 1 if yes.

While considering such variables, it was assumed that each HNFE had one major linkage (backward production, forward production or consumption linkage) and the influence of such linkage variable on a HNFE's success might be positive or negative or zero.

5 Results and Discussion

5.1 Significance of Household Non-Farm Enterprises

5.1.1 Participation: Time Allocation and Income Shares

The household workers who participated in NFE earned more income than from farming (Table 2) and was consistent with findings from similar studies conducted in South Asia (Hossain 2004; 2005, Lanjouw and Lanjpouw 2001, Mishra 2007, Premeratne and Senanayake 2009). One of the main reasons is that the landless households constitute a sizeable population (about 20% for our sample) where the importance of NFE is inevitable. Compared to their participation (66%), more labor time (about 93%) was allocated to the NFE and more income shares (87%) were gained as well. That means the relative returns from NFE are higher compared to farming. Compared to males, female participation was considerably lower (17%) in economic activities as well as NFE. Of the household income sources from the participating NFEs, non-farm self-employment showed the highest share (about 28%) of household income, followed by non-farm wage employment (20.3%), foreign remittance (20.1%), and in-country remittance employment (6%). Apart from local NFE, about 16% of the household workers participated in remittance employment. The household workers (4%) participated in in-country remittance employment with government organizations, NGOs, commercial banks and private companies mainly in the capital city (Dhaka). The foreign remittance employment (12%), where they participated mainly in the Middle East (for example, Saudi Arabia) and Southeast Asia (for example, Malaysia and Singapore) were listed under the unskilled and semi-skilled category.

5.1.2 Low-Return vs. High-Return Local Non-Farm Employment

Our results had sharp differences in the household net income from high-return (Mean: BDT 89,324 and Standard deviation: BDT 57,347) and low-return (Mean: BDT 55,254 and SD: BDT 31,451) NFE (Bangladesh Currency/Taka (BDT): US \$1.00 = BDT 67.08 as of 2005–2006 (GOB 2006)). Among the local NFE, about 68% of the participation was observed in low-return NFE which typically required no particular education and little or no start-up capital. This was due to the households' landlessness, poor education, and credit/cash constraints on the one hand, and significant entry barriers to high return NFE and market segmentation on the other hand. In the study villages, such low-return NFEs were road-side and weekly market vendors, grocery shops/retailers with temporary sheds, mechanics and artisans, rickshaw pullers,

etc. In the informal self-employed category, construction/mill workers and other unskilled poorly paid non-farm and farm day-laborers, etc. were under the wage-employed category. On the contrary, only 32% of the participation was observed in relatively high-return NFE which usually required certain skills, education and capital. These include salaried jobs with GOs, NGOs, export processing zone (EPZ) and other private companies working in the locality under the wage employment category, as well as wooden and steel furniture manufacturing, farm input and equipment manufacturing, food processing, egg/poultry feed/fish trade, grocery shops/retailers with permanent sheds, pharmacy, hotel and restaurant, information communication services, etc. These categories had demand in the locality under the self-employed category and belonged to the high-return local NFE.

5.1.3 Significance of Household Non-Farm Enterprises in Household Income Variation

In terms of returns, we observed the dominance of remittance employment income (mainly foreign) over any other local NFI sectors. The dominance of low-return NFE in the local NFS was also observed. We examined the strength of the sectors in household income variations by step-wise multiple regression. Table 3 presents the estimated result for this analysis which indicates that all the sectors finally entered into the regression and were jointly explained. Among the sectors, foreign remittance employment, non-farm self-employment, other income and non-farm wage employment were particularly important. The first income to enter the step-wise multiple regression was foreign remittance employment which had the highest contribution of 35% in predicting household income variation, while in-country remittance employment had a minor contribution (about 7%).

On the other hand, the local sectors altogether contributed 49%, comprised of 5% from farm self-employment and 44% from NFE, in predicting household income variation. There is a limited scope of household income increase by farming and in-country remittance employment, and for Bangladeshi rural workers foreign remittance employment could be unsustainable in course of time; in terms of sustainability of the local livelihoods, higher dependency on local NFE appears desirable. But the estimated results found remarkably higher dependency on foreign remittance employment and a lower dependency on local NFE with greater share of low-return enterprise. Thus, the higher dependency on foreign remittance employment and local low-return NFE will be a threat in the future. We also report that among the local NFE, the most significant sectors — non-farm self-employment and non-farm wage employment together (where HNFEs had a major contribution) with a 48% in-

Table 2: Participation, time allocation and income share in Comilla Sadar Upazila in 2005–2006 ($N = 442$)

Activities/ sectors	Participation (%)	Time Allocation (%)	Income Share (%)
Farm self-employment	34.4	6.5	12.8
NFE as a whole	65.7	93.4	87.4
Farm wage employment	8.6	12.8	5.1
Non-farm self-employment	20.8	18.8	27.7
Non-farm wage employment	20.2	18.1	20.3
In-country remittance employment	4.2	20.0	5.7
Foreign remittance employment	11.9	23.7	20.1
Other income (rental income, pensions, interest, gifts, etc.)	—	—	8.5
Total	100.0	100.0	100.0

Source: Filed survey (2006)

Table 3: Summary of the stepwise multiple regression analysis on the contribution of sectors to household income variation in Comilla Sadar Upazila, 2005–06 ($N = 214$)

Equations	Coefficient of determination (R)	Adjusted R^2	Percent of increase in adjusted R^2	F^*
Foreign remittance	0.598	0.354	35.4	117.940
Foreign remittance + Non-farm self-employment	0.784	0.611	25.7	168.186
Foreign remittance + Non-farm self-employment + Other income	0.868	0.749	13.8	213.102
Foreign remittance + Non-farm self-employment + Other income + Non-farm wage employment	0.926	0.854	10.5	313.598
Foreign remittance + Non-farm self-employment + Other income + Non-farm wage employment + In-country remittance employment	0.962	0.925	7.1	522.996
Foreign remittance + Non-farm self-employment + Other income + Non-farm wage employment + In-country remittance employment + Farm self-employment	0.987	0.974	4.9	1331.306
Foreign remittance + Non-farm self-employment + Other income + Non-farm wage employment + In-country remittance employment + Farm self-employment + Farm wage employment	1.000	1.000	2.6	—

Source: Field survey (2006)

* All the equations (F -value) are statistically significant at 1% level.

come share — explained household income variation of 36%. Therefore, the increasing contribution of non-farm self-employment and non-farm wage employment by promoting HNFES is critically important for sustainability of the local NFS.

5.2 Success of Household Non-Farm Enterprises

5.2.1 Summary of Characteristics

Based on the relative performance criteria set earlier, we found that about one-fourth of the HNFES (23.5%) showed success since its establishment for over a decade ago (Table 4). About 91% of the HNFES collected their inputs and raw materials from local markets, whereas 6% sold their goods and services to distant markets. That means the HNFES are locally connected. Most of the HNFES were family business. Seven percent of the HNFES had partnerships beyond household workers and 11% had sub-contracts with other enterprises. On average, the entrepreneurs had primary level schooling. These results indicate that the HNFES are mostly informal, which do not require higher levels of education or skill. About 81% of the household heads were involved in NFAs as their main profession. Further, before starting the HNFES, 36% of these entrepreneurs or relevant household workers had related training or had worked in similar enterprises. The financial problem was still perceived as the main problem by more than 50% of the HNFES, though they financed themselves from diverse sources. We found that personal and family savings formed the highest contribution (38%) in financing such enterprises. Additional financing sources were credit from MFI-NGOs (31%), household farm income or land sales (25%), farm/non-farm wage employment and in-country remittance (22%), foreign remittance (12%), informal lending from friends, relatives, money lenders, etc. (12%), and NCBs and PBs (7%).

The HNFES created all three linkages (backward production, forward production and consumption), though the extent of consumption linkages (58%) were higher followed by forward (32%) and backward linkages (9%). The HNFES related to farm input business usually created backward linkages. The HNFES related to trading of farm products and agro-processing contributed towards forward linkages, whereas the HNFES related to transport and construction business, restaurants, garments, grocery, etc. generated consumption linkages.

5.2.2 Econometric Results

As about one-fourth of the HNFES (23.5%) were successful since their establishment, we could not predict the growth linkage variables and other contributing factors

on the success of HNFES. Therefore, we investigated the growth linkages of HNFES by analyzing their successes. As defined earlier, the success of HNFES was estimated by Probit regression. Results are presented in Tables 5 and 6, both in terms of the coefficient on and the marginal effect of each explanatory variable. As evident in Table 6, the likelihood ratio χ^2 of 26.43 with a p -value of 0.1520 tells us that our original empirical model considering all variables as described in section 2 estimated for equation (1) as a whole was not statistically significant. Then, we excluded highly insignificant variables ($p > 0.60$) from the original model and found the predicted models as a whole to be statistically significant (with the likelihood ratio χ^2 of 25.67 with a p -value of 0.0188) (Tables 5). Thus, using the predicted models to interpret the results was justified. We report all the three predicted models where growth linkage variables (*Backlin*, *Entfos*, *Conslin*) were considered as reference categories by turn. Both coefficients and marginal effects in all the three predicted models stressed the importance of the variables related to supply market, relational structure and organization, financial condition, and growth linkages of HNFES.

For a HNFES that purchased additional input/raw materials locally (*Inploc*) the probability of success increased by 24 percentage points, while for an enterprise that sold its additional products locally (*Salesloc*) the probability of success decreased by 26 percentage points. The mean characteristics of the supply market variables elaborated earlier and the marginal effect of input supply market variables (*Inploc*) would help us predict the development stage of HNFES as Start (2001) suggested where he verified the development stage (traditional, locally linked, leakages to urban areas and new urban linkages) of the NFS. The results also suggest that the HNFES that purchased input locally and sold output in distant markets might have a higher profit potential. Sub-contracting with other enterprises and partnerships beyond household workers also enhanced the success of HNFES. At this stage, as explained by Start (2001), the farm sector and some NFA should be merged and modernized with some technology and capital improvements from pre-modern situations and rural diversification should be fueled by income enhancements. The implication is that the micro/small-scale initiatives in the local NFS might have some potential.

Considering backward/consumption linkages under the reference category (predicted model 2 and 3), we found the coefficients and marginal effects of the forward linkages (*Entfos*) to be negative and statistically significant while the other linkage variables (*Backlin* in predicted model 3 and *Conslin* predicted model 2) to be statistically insignificant. However, in predicted model 1, while the forward linkage variable was taken under the reference category, the other two growth linkage variables

Table 4: Summary statistics of household non-farm enterprises in Comilla Sadar Upazila in 2007 ($N = 81$)

Variable Name and Dependent Variable	Mean Value	Standard Deviation
Explanatory variables		
Pent (%)	23.5	42.6
Supply market (Local/Non-local)		
Inploc (%)	91.4	28.3
Salesloc (%)	93.8	24.2
Relational structure and organization		
Ownd (%)	7.4	26.4
Subc (%)	11.1	31.6
Entrepreneurs' learning curve and strength		
Entage	12.4	9.5
Sageentr	5.2	4.4
Hhhp (%)	81.5	39.1
Emps	2.0	1.6
Exptrg (%)	35.8	48.2
Landh (acre)	1.3	2.6
Financial condition related variables		
Finclands (%)	24.7	43.4
Outcr (%)	12.3	33.1
Onfs (%)	22.2	41.8
Mfcr (%)	30.9	46.5
Ncbpb (%)	7.4	26.4
Infolend (%)	12.3	33.1
Tfsav (%)	38.3	48.9
Finp (%)	51.9	50.3
Growth linkage variables		
Backlin (%)	9.9	30.0
Entfos (%)	32.1	47.0
Conslin (%)	58.0	50.0

Source: Field survey (2008)

were found to be positive and statistically significant. Thus, we could interpret that the backward (*Backlin*) and consumption linkages (*Conslin*) had stronger positive effects on entrepreneurial success than forward linkages (*Entfos*). For a HNFE creating additional backward linkages (*Backlin*) than an enterprise creating additional forward linkages (*Entfos*), the probability of HNFEs' success in terms of profitability or good performances increased by 61 percentage points. At the same time, for an enterprise creating additional consumption linkages (*Conslin*) than an enterprise creating additional forward linkages (*Entfos*), the probability of the corresponding success increased by 49 percentage points. Their effects were also more robust than all other explanatory variables.

Referring to Vogel's (1994) points on growth linkages for this study, we interpret that the overall development of HNFEs was still at a low stage (positive consumption linkage effect, but the marginal effect was not the high-

est); the HFEs were relatively capital intensive (positive backward linkage effect); and the HNFEs related with agro-processing were negatively effective (negative forward linkages effect). First, at very low levels of development the strongest linkages are created through consumption. The backward production linkages, via farm inputs, become stronger with development as farming becomes more capital intensive. Finally, the forward production linkages, via agro-processing, are never strong and decline as agro-processing becomes less important in the overall economy.

The negative and significant coefficients (and marginal effects) of financial capital variables (*Finclands*, *Onfs*, *Infolend*) suggest that these variables did not enhance the success of HNFEs. Instead, other financial capital variables (*Outcr*, *Mfcr*, *Ncbpb*, *Tfsav*) excluded in our restricted model might enhance the success, though such results were not statistically confirmed. However, we envis-

Table 5: Household non-farm enterprises' success in Comilla Sadar Upazila in 2007: Results from Probit Estimates ($N = 81$)

Variable	Predicted Model 1			Predicted Model 2			Predicted Model 3		
	Coefficient Value	Standard Error	Marginal Effect	Coefficient Value	Standard Error	Marginal Effect	Coefficient Value	Standard Error	Marginal Effect
Inploc	1.2379 ^c	0.7544	0.2412 ^c	1.2379 ^c	0.7544	0.2412 ^c	1.2379 ^c	0.7544	0.2412 ^c
Salesloc	-1.3363	0.8765	-0.2603 ^c	-1.3363	0.8765	-0.2603 ^c	-1.3363	0.8765	-0.2603 ^c
Ownd	1.5902 ^b	0.7103	0.3098 ^b	1.5902 ^b	0.7103	0.3098 ^b	1.5902 ^b	0.7103	0.3098 ^b
Subc	1.9927 ^a	0.8496	0.3882 ^a	1.9927 ^a	0.8496	0.3882 ^a	1.9927 ^a	0.8496	0.3882 ^a
sEntage	-0.1545	0.2432	-0.0301	-0.1545	0.2432	-0.0301	-0.1545	0.2432	-0.0301
Exptrg	-0.6749	0.4591	-0.1315	-0.6749	0.4591	-0.1315	-0.6749	0.4591	-0.1315
Finclands	-1.3084 ^b	0.5908	-0.2549 ^b	-1.3084 ^b	0.5908	-0.2549 ^b	-1.3084 ^b	0.5908	-0.2549 ^b
Onfs	-1.0472 ^b	0.5351	-0.2040 ^b	-1.0472 ^b	0.5351	-0.2040 ^b	-1.0472 ^b	0.5351	-0.2040 ^b
Mficr	0.2933	0.4343	0.0571	0.2933	0.4343	0.0571	0.2933	0.4343	0.0571
Infolend	-1.2880	0.8102	-0.2509 ^c	-1.2880	0.8102	-0.2509 ^c	-1.2880	0.8102	-0.2509 ^c
Finp	-0.6858	0.4391	-0.1336	-0.6858	0.4391	-0.1336	-0.6858	0.4391	-0.1336
Entfos	— ^d	— ^d	— ^d	-3.1332 ^a	1.1318	-0.6104 ^a	-2.5157 ^a	0.9464	-0.4901 ^a
Backlin	3.1332 ^a	1.1318	0.6104 ^a	— ^d	— ^d	— ^d	0.6175	0.6548	0.1203
Conslin ^d	2.5157 ^a	0.9464	0.4901 ^a	-0.6175	0.6548	-0.1203	— ^d	— ^d	— ^d
Constant	-1.9613 ^c	1.0300	— ^e	-1.9613 ^c	1.0300	— ^e	-1.9613 ^c	1.0300	— ^e
Log likelihood	-31.2879								
LR χ^2	25.67								
Prob > χ^2	0.0188								

Notes: Statistical significance: ^a at 1%, ^b at 5%, ^c at 10% levels, respectively. The variables are standardized. ^d Among the growth linkage variables, the variable is under the reference category in the respective predicted model. ^e Not available. Source: Field survey (2008)

age that though the financial problem was still perceived as their main problem for more than 50% of the HNFES, special attention to the use of financial capital, both by the household non-farm entrepreneurs and financiers (for example, MFI-NGOs, NCBs, PBs, etc.), was important.

The variables related to entrepreneurs' learning curve and strength considered significant by other theoretical and empirical analysis was not confirmed by the findings. This might be due to the informal nature of HNFES in Comilla Sadar Upazila.

6 Conclusions and Recommendations

We found that in relation to the limited scope of enhancing income from farming and in-country remittance employment, households' higher dependency on foreign remittance employment and local low-return NFE could be a threat for sustainability of local livelihoods. Thus, the increasing contribution of non-farm self-employment and non-farm wage employment by promoting high-return HNFES is critically important. We also found that the

HNFES were locally linked: those that purchased inputs locally and sold outputs in distant markets might have a higher profit potential. Sub-contracting with other enterprises and partnerships beyond household workers also enhanced the success of HNFES.

To strengthen forward linkages in high-return and demand creating ventures, the role of growth centers, institutions, access to formal credit, and access to organizations are particularly important. Business environment in growth centers could be improved in terms of physical infrastructure (road connectivity, power supply, etc.) and network building. In addition to supporting low-return HNFES, the relevant institutions (GOs, micro-finance NGOs, Commercial Banks, Cooperatives, etc.) have to extend their credit ceiling and technical support to relatively high-return non-farm ventures. Because the NFS has been receiving priority in many developing countries, as a course of income diversification, the conclusions drawn from this study could be applicable to rural areas of Bangladesh and other developing countries. In the case of Bangladesh, besides identifying NFS as a "leading sector", specific policies are required to develop this sector. Given the importance of NFE in re-

Table 6: Household non-farm enterprises' success in Comilla Sadar Upazila in 2007: Results of original predicted model from Probit Estimates ($N = 81$)

Variable	Coefficient Value	Standard Error	Marginal Effect
Inploc	1.2218	0.7751	0.2457
Salesloc	-1.2078	0.9508	-0.2429
Ownd	1.6082	0.7450	0.3235
Subc	1.9865	0.9477	0.3996
sEntage	-0.1931	0.2537	-0.0388
sSageentr	0.0009 ^f	0.0026	0.0002 ^f
Hhhp	0.1876 ^f	0.6540	0.0377 ^f
sEmps	-0.0102 ^f	0.0366	-0.0021 ^f
Exptrg	-0.7120	0.5026	-0.1432
sLandh	-0.0086 ^f	0.0177	-0.0017 ^f
Finclands	-1.0559	0.7082	-0.2128
Outcr	0.2155 ^f	0.6949	0.0433 ^f
Onfs	-1.0039	0.5763	-0.2019
Mficer	0.3388	0.4953	0.0681
Ncbpb	0.3393 ^f	1.3092	0.0682 ^f
Infolend	-1.2587	0.8679	-0.2532
Tfsav	0.0644 ^f	0.4499	0.0129 ^f
Finp	-0.7755	0.4725	-0.1560
Backlin ^d	3.2049	1.2441	0.6446
Consln ^d	2.4412	0.9842	0.4910
Constant	-2.1603	1.5161	— ^e
Log likelihood	-30.9069		
LR χ^2	26.43		
Prob > χ^2	0.1520		

Notes: Statistical significance: ^a at 1%, ^b at 5%, ^c at 10% levels, respectively. ^d The reference category for farm/non-farm linkage variables is forward linkage (*Entfos*). The variables are standardized. ^e Not available. ^f Coefficients and marginal effects show highly insignificance of the respective variables which are excluded in the predicted models as reported in Tables 5. Source: Field survey (2008)

ducing the problems of low productivity both at farm and NFS, poverty and food insecurity, such policies should be directed not just at farm sector development, but in promoting the rural economy as a whole (Matshe and Young 2004). This entails policies directed towards providing incentives that encourage households (especially, the poor) to participate in high-return NFE as well as increasing the ability of the households to respond to new opportunities.

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Book Review: “*The Politics of Refugees in South Asia: Identity, Resistance, Manipulation*” by Navine Murshid

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Perhaps no single topic could be more important today than that of refugees. In a system of nation states, refugees are the global homeless, and the world responds to them as they would to the homeless with sympathy, condescension, hostility, or even fear. Practically every day we are voyeurs of hordes of refugees from Libya, Syria, Sudan, the Congo, and other places as political crises and violence create wreckage out of people's homes and lives. Today's refugees are forgotten by the next month, only to be replaced by a new wave of horror somewhere else in the Third World. Murshid reminds us of the ongoing presence of refugees throughout South Asia and examines them with a new lens informed by previous scholarship and founded in political history. She examines primarily intra-South Asian refugees — coming from and going to South Asian countries, focusing on refugees in India, Pakistan and Bangladesh.

Unlike works by Abrar (2001), Ahmed (1996), Tamibia (1997) or Zamindar (2010), Murshid (2014) does not dwell on the history of the rise of communal hatred, how South Asia's nation state projects came about, or on the long drawn out, perhaps even unfinished, experience of the India-Pakistan partition. She, instead, takes on a more contemporary approach, combining various methods of inquiry ranging from theoretical reflection, deconstruction of established terms, interview narratives, quantitative analysis, and hones in on the conditions of refugees in each country, their vulnerability, demands, and prospects and looks at how each country has fared with hosting refugees.

The first introductory chapter briefly mentions how refugees resulted from nation state creation and their lack of rights within these nations, and provides a backdrop to understand the extent of poverty, weak judicial system, and the shadow of communalism in each country. She skirts defining who refugees are — using the word now and then, and says (p. 7) that the definition is problematic in a South Asian context. It is used as a derogatory term to signal who does not “belong”, referring for instance to people who migrated during partition, or the stateless

populations; therefore, even though many people in South Asia have no state “*of habitual residence*” or “*other nationality*”, these categories being defining triggers for UN legal classifications, they are nonetheless refugees. The basic freedoms and un-freedoms in each state is outlined, as is data on public expenditure on refugees (and citizens), underscoring the long duration of refugee presence and the depiction of refugees as “*illegal immigrants*”. Surveying the literature on refugees in political science, she finds that most of this literature focuses on intrastate civil wars and understand refugees as a by-product of such wars. Conceptualizing them as voiceless victims or militant terrorist, is not uncommon and “*this dichotomy is a convenient state-centric construct further marginalizing them*”. Murshid's book is also grounded in understanding how refugees are permitted inside borders (or not) so as to serve the interest of the state.

The second chapter examines personal stories of refugees from her fieldwork. These include two Bihari refugees in the Geneva Camp in Dhaka, Bangladesh; a seventy-two year old woman from Murshidabad (West Bengal) in Dhaka; a Rohingya man in Cox's Bazaar; a Chin refugee and a Tibetan refugee born in Delhi, India; a second generation refugee from West Punjab in Delhi; a Pakistani born Afghan refugee in Kabul; a second generation Muhajir in Karachi; a second generation Bangali refugee in West Bengal; and a Tamil refugee from Sri Lanka in Bangalore. The common thread through these narratives is the hardships and the hysteria regarding identity described by ordinary people in the multiple circumstances of ethno-religious violence and nation state creation.

The third chapter examines victimhood and agency among refugees. This stand-alone chapter is framed in the literature on contentious collective action or protest, and carries out an empirical study to examine under what conditions refugees are able to find a voice or protest against their conditions. The author separates out variables that give rise to grievances and form the basis of protests from those non-state factors that do so. She finds

that protests are influenced by how safe refugees feel in camps, whether they felt "protected" by the host state, and whether they had a minimum standard of living.

The same data set is used in chapter four, which is similar in approach, to examine the militarization of refugees and provides empirical backing for Murshid's hypothesis that refugee camps tend to become militarized if there is explicit or implicit state support for the cause of the refugees. The manner in which the author frames camp militarization is sympathetic to the cause of the refugees — she calls these protest warriors representatives of the refugee groups who seek to bring about political change in their home country so as to make return and repatriation possible.

The fifth chapter is a relatively understudied phenomenon of the state manipulation of refugees which is to serve national and international interests, and often for material gain. Thus, the hosting of Tibetan refugees, including the Dalai Lama, is seen as an opportunity for Nehru to show India's humanitarianism in international cooperation to the world, while increasing Indian military presence in the disputed Sino-Indian of Tibet. In the Sri-Lankan case, the support for Tamil refugees was combined with the Indian Peace Keeping Force (IPKF) fighting the LTTE in Northern Sri Lanka. The support for Bangladeshi refugees in 1971 is juxtaposed by the production of "illegal Bangladeshis", whom the BJP charge would form as a vote bank for the Congress party. The Chin refugees from Myanmar do not serve any such strategic purpose and are therefore invisible.

The Bangladeshi state pursues a similarly contradictory stance towards the Rohingya refugees, against whom it wages a "low intensity war", preventing influx while having diplomatic interaction with the Myanmar government, with whom this issue is not raised. Pakistan, on the other hand, has been able to garner a continued inflow of aid owing to the presence of the Afghan refugees. However, the support offered to refugees in 1980, under the influence of cold war politics, has become far more complex after 9/11, shaking the very fabric of statehood in the country.

This concept of strategic manipulation is extended in chapter six in which India's intervention in the Bangladesh war is recast as a means to establish India as a dominant player in regional politics. The concluding chapter asks the question — "can any state provide a solution for stateless refugees?"

The author does an excellent job of cataloging a wide variety of refugees in the three countries to make an important point about the creation and preservation of the post-colonial states in South Asia. Refugees are fallouts of the process of boundary creation, but they are also useful in asserting boundaries and garnering resources from

the international community. In describing this, Murshid brings out the problematic nature of state creation in South Asia, epitomized by the situation of Biharis, who left India, want to be in Pakistan, and have, until very recently, been stateless in Bangladesh.

The author's figure on refugees of Pakistan is 2,197,821 and is dwarfed by the numbers for 1947 (for both India and Pakistan) and 1971 (for India). Looking at the most recent report from UNHCR (2014), we find that "Pakistan continued to host the largest number of refugees in the world nearly all from Afghanistan". The size and duration of these refugees, accompanied by US military intervention, makes the refugee problem in Pakistan altogether of another scale and opens up the engagement of that country with its Western border outside the sub-continent.

Examining current trends, it may have been useful to show that the refugee problem in South Asia has declined in terms of global importance because of the extent of violent outbreaks in Africa. This would allow the assertion of the importance of global capital in creating boundaries, battles over resources/land, and producing refugees. We also see today that a new player, Myanmar, is now expected to generate more refugees as it produces more outsiders in the process of consolidation of a new "democratic" identity.

There is a strong "correction" in perception of the nation states concerned in this study. For instance, the author says that the creation of Pakistan was a way for the Indian Muslim minority to escape the problem of discrimination and under-representation, but the post-colonial state of India did not see these resolved and made the remaining Muslims weak in number and political influence, especially with the rise of a Hindu nationalism. An Indian narrative would see this differently — while many Muslims wanted to leave and create their own state, the remaining Muslims still preferred the stable, plural, and secular home that India has provided them. It is precisely the creation of a Muslim state that has provided a rationale for Hindu nationalists to attempt to win over the relatively secular flag of India.

Contested narratives are difficult to examine, particularly when they are not robustly verifiable. However, the notion that the Bangladeshi military-backed caretaker regime has granted citizenship to Biharis en masse so that they may form a vote bank for the Jamaat-e-Islami is somewhat speculative. It exemplifies South Asian stories of arbitrary, underhanded, state manipulations. The advent of hard, conflict ridden states in a region that is historically infused with multiple identities, mixed religious practices, and migration is fraught with problems, and accompanied by competing conjectures on the part of those who try to read in to motives, actions, even "facts".

Within this complex terrain, Murshid does a laudable job of compiling scholarly work and creating a readable, researched, substantive book.

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Book Review: “*Political Parties in Bangladesh: Challenges of Democratization*” by Rounaq Jahan

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Bangladesh abounds in paradoxes. It has confounded many developmental pundits by maintaining a fairly brisk pace of economic growth while continuing to be mired in dysfunctional politics, rampant corruption, and routine bureaucratic inefficiencies. It won a long and intense struggle to gain its independence, establish its identity based on cultural and linguistic markers, and commit itself to some secular and humanistic ideals, only to see the creeping shadow of disillusionment and rising religious assertiveness complicating the nation's previous clarity and confidence about itself. In a country where the Prime Minister and the Leader of the Opposition (since 1991), and the Speaker of the House (since 2014) have all been women, it is also true that women face objectification and prejudice throughout the land that is pervasive, crude and, often, violent.

Professor Rounaq Jahan's latest book (2015) refers to a few other paradoxes more explicitly political in nature. But before we discuss the book, it should be noted that the project itself is situated within a more apparent conundrum. It is abundantly clear that Bangladeshis care deeply, perhaps obsessively, about politics. The people, particularly the highbrow classes, talk incessantly and cleverly about political matters. There is also a long and rich intellectual/creative tradition that is closely associated with the region. But strangely, perhaps lamentably, this passion for politics has neither been informed by, nor reflected in, much serious scholarly effort that has been dedicated to its study. Consequently, there is an academic vacuum in the field that is quite inconsistent with the country's own history, opportunities and needs.

Standing against that trend, and seeking to redress that imbalance, have been a few scholars in the social sciences and the humanities (economists are exempt from this category because many of them have pursued lively research agendas), who have remained intellectually engaged and productive. Dr. Rounaq Jahan has been a pre-eminent member of that small band of the faithful, and has continued to generate work on issues related to development, women, parliament, and so on, that is both sophisticated and relevant. Her current book serves to underscore her

reputation as one of the premier political scientists working, and consistently publishing, on Bangladesh today.

The book is, ostensibly, about political parties and democracy in Bangladesh but is actually framed within a wider context of an apparent disjuncture between the country's stated, and supposedly enthusiastic, commitment to democracy on the one hand, and the many customs and practices seemingly inherent in the system itself that seem to threaten the very essence of that ideal.

Thus, its leaders speak fulsomely, and with much chest-thumping puffery, about the need for democracy, congratulate themselves on their struggles and sacrifices to protect it, encourage their supporters to uphold it, and warn against dark conspiracies that seek to undermine it.

At the same time, some of the habits of thought and action embraced by these “*fighters for democracy*” have more often served to jeopardize the practice of democracy rather than further it. They have:

- lowered the level of political discourse through employing a rude, polarizing, inflammatory rhetoric that assumes that all “*opponents*” are “*enemies*”, makes it into a self-fulfilling prophecy, and ensures that no compromise can be possible;
- created an intimidating environment for writers and journalists through political threats and judicial actions which have a “*chilling effect*” on free speech;
- cultivated a culture of impunity so that the rule of law is only selectively applied;
- manipulated the apparatus of the State, and politicized its institutions, to advance partisan advantages in ways that are often arbitrary and sometimes vicious (which has led to a palpable erosion of civil rights and liberties in the country);
- devalued the Parliament with opposition parties routinely boycotting many, if not most, of its sessions and, in the process, turning the streets into the primary platform to vent political disagreements (which inevitably leads to costly economic disruptions, deeply frustrating public inconveniences, and bloody political encounters); and

- problematized the electoral system itself through pursuing a win-by-any-means strategy, or if-I-do-not-win-I will-not-play tactics, that clouds the credibility and the moral authority of the entire exercise.

Professor Jahan explores this tension through the perspective of political parties. In the process she offers a broad overview of political parties in Bangladesh in the context of three eras which she has identified – between 1972 and 1975 when Bangladesh transformed itself into a one-party state, 1975 and 1990 when state sponsored parties launched by erstwhile military rulers controlled the system, and the third after 1991 with regular (if, at times, controversial) electoral contests that led to the emergence of the current system of two-party dominant clusters that commands the political landscape of the country.

She goes on to delineate the basic policy orientations and ideological inclinations that differentiate the parties, examine their structures and internal procedures, scrutinize their leadership and membership base as they have evolved over time, analyze their electoral strategies and outcomes, and investigate both the internal factions and the lived experience of the parties at the grass-roots level. The tone is objective and judicious, the information substantive and well organized, the observations astute and insightful.

But Professor Jahan goes beyond providing merely a competent and comprehensive narrative about the parties she has chosen to investigate (the Awami League, Bangladesh Nationalist Party, Jatiyo Party and Jamat-i-Islami party). She also raises some other issues (paradoxes) that are germane to the notion of democracy itself, and its relevance and survival in Bangladesh. Several are worth pointing out.

For example, it is generally assumed by most political theorists that competing political parties are an indispensable part of the democratic process and the longer they have functioned, the stronger become the prospects of democracy; that electoral contests are expected to facilitate the consolidation of democratic principles and practices; and that an essentially two-party dominant system (with minor parties allied with them) should lead to greater democratic stability than a plethora of parties that can generate unnecessary, and often unwieldy, complexity. But, the extent to which these assumed relationships have been expressed, or realized, in Bangladesh is very much an open and intriguing question. In spite of enjoying almost all the advantages that are supposed to lead to the institutionalization of democracy in the country, Bangladesh continues to flounder at various levels and expose its democratic “deficits” in many self-evident ways.

One answer to that enigma is explored by Professor Jahan. She poses this question rather provocatively – can parties really be expected to encourage and support the

ideals of democracy at the national level when the parties themselves are indifferent to democratic norms and practices in terms of their own structures and procedures? Can democracies be really safe, or at all functional, in the hands of institutions that are organized in a fundamentally undemocratic manner? How can democracy flourish if the parties which advocate it do not practice what they preach?

Professor Jahan’s book deals with this issue at some length and analytical rigor. The picture that emerges is not pretty. Party leadership remains in the hands of single individuals who dominate it for decades often spawning dynastic inheritance of the position. The council meetings (the highest deliberative body of the parties) are not held regularly, and when they are, the meetings are reduced to opportunities for sycophancy and rubber-stamping of the leader’s wishes rather than meaningful debate or discussion. Parties are ridden with internal factions which necessitates constant bargaining that leads to a further strengthening of the leader’s position because only s/he can negotiate/garner their support through spreading the rewards of sprawling patronage networks. Political campaigns followed by the parties deliberately utilize street agitation, intimidation, and the denial of political space to others. These strategies are reinforced by the increasing influx of money and mastans (thugs) in the political process.

Moreover, the parties typically ignore their own constitutions in terms of leadership selection, candidate nomination and policy setting, with the principal leader (and his/her chosen underlings) making most decisions. They are equally casual about meeting the stipulations demanded by the RPO (Representation of the People Order, 1972, with subsequent amendments) in terms of achieving diversity (both women and minorities are woefully under-represented), campaign finance regulations, or requirements of transparency. None of the parties have established procedures through which disagreements can be handled, or conflicts resolved, either within the parties or with external forces. There is little wonder then that such institutions could not possibly be the guardians and exemplars of democratic governance, and their rhetoric about their respect for, or commitment to, democracy is probably cynical and hypocritical froth.

But, while the book describes well, it does not explain as effectively. Several questions come to mind. First, why is it that the situation has developed in this direction? What is it that is so unique about the party system in Bangladesh that compels this kind of behavior? Is it political culture, historical quirks, leadership failures, social structure, or something else? Some explanatory framework would have greatly added to the value of the book.

Second, can we really refer to these institutions as po-

litical parties with philosophical and policy differences that are clear and specific (except for the Jamaat), or as groups formed around a dominant leader whose personal interests, ambitions and ego drive the group and lead to ideological shape-shifting, opportunistic alliances and factional bickering? (It should be borne in mind that it is entirely possible for the same person to belong to different governments in power, and it is typical to have break-away factions claim the name of the original party with the names of the new leaders in parentheses). In other words, are political parties in Bangladesh merely extensions of personalities rather than formally systematized structures that are supposed to follow the organizational rules and precedents that are usually, and perhaps universally, acknowledged?

Third, can we really discuss the patronage networks through which party leaders seek to secure their positions and extend their authority without reference to the pervasive patron-clientelism that defines a rentier state (hence the desperate scramble to gain governmental power), or the hierarchies and behavior patterns of the semi-feudal class structure that is so entrenched in rural Bangladesh? Thus, are political parties really contravening the democratic aspirations and commitments of the people, or are they merely reflecting, and in some ways reinforcing, the

traditional modes of personal conduct and social transactions that are intrinsic to the system itself? Can parties be really expected to behave differently from the way in which other institutions, work-places or even families are organized, the way in which wealthier classes treat the less fortunate, or the way in which women are usually disregarded and made invisible?

Such minor quibbles notwithstanding, Dr. Jahan's book is an impressive contribution to the (admittedly meager) literature on political science in Bangladesh. She presents her case with care, precision and authority. Her style is crisp and steady. Her message is sobering. She does not dazzle us (there are far too many in Bangladesh who try to), but she enlightens, provides a fine example of scholarly research (which, hopefully, may also inspire younger academics), and provokes us to think. For all that, Dr. Jahan deserves our gratitude and, more importantly, deserves to be read and discussed.

References

- Jahan, R. (2015), *Political Parties in Bangladesh: Challenges of Democratization*, Prothoma Prokashan, Dhaka.

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