

PROBLEMS AND PROSPECTS OF EMPLOYMENT AND INCOME GENERATION IN THE COTTAGE INDUSTRY SUB-SECTOR IN BANGLADESH

**BY
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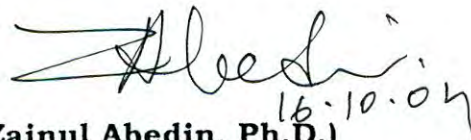
Dedicated To
My Father and Mother

CERTIFICATE

I have the pleasure to certify that the dissertation entitled "**Problems and Prospects of Employment and Income Generation in the Cottage Industry Sub-Sector in Bangladesh**" is the original work of Mr. Molla Mhamud Hassan. As far as I Know, this is the candidate's own achievement and is not a conjoint work. He has completed this dissertation under my direct guidance and supervision.

I also certify that I have gone through the draft and final version of the dissertation and found it satisfactory for submission to the Institute of Bangladesh Studies, Rajshahi University in partial fulfillment of the requirements for the degree of Doctor of Philosophy in Economics.

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DECLARATION

I do hereby declare that the dissertation entitled "**Problems and Prospects of Employment and Income Generation in the Cottage Industry Sub-Sector in Bangladesh**" submitted to the Institute of Bangladesh Studies, Rajshahi University for the degree of Doctor of Philosophy in Economics is exclusively my own and original work. No part of it in any form, has earlier been submitted to any other University or Institute for any degree, diploma or for other similar purposes.

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I had to repeatedly visit BIDS and BSCIC for the purpose of data collection. All the while the officers, staffs and librarians helped me spontaneously and some times they shared some of their professional experiences with me and that helped me considerably. I am grateful to all those persons for their help and assistance. My respondents who are poor and not educated enough even to understand the meaning of "research" sacrificed their valuable working hours for me and provided me with all the possible information. They never feel disturbed and received me with cordial hospitality. With all of my heart, I am grateful to the respondents of my research.

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ABBREVIATIONS

ADB	Asian Development Bank
ADBP	Agricultural Development Bank of Pakistan
BASIC Bank	Bangladesh Small Industries and Commerce Bank
BBS	Bangladesh Bureau of Statistics
BHB	Bangladesh Handloom Board
BIDS	Bangladesh Institute of Development Studies
BKB	Bangladesh Krishi Bank
BRAC	Bangladesh Rural Advancement Committee
BRDB	Bangladesh Rural Development Board
BSB	Bangladesh Sericulture Board
BSCIC	Bangladesh Small and Cottage Industries Corporation
BUET	Bangladesh University of Engineering and Technology
CIDA	Canadian International Development Agency
EPIDC	East Pakistan Industrial Development Corporation
EPSCIC	East Pakistan Small and Cottage Industries Corporation
ESCAP	Economic and Social Cooperation for the Asia and Pacific
FYP	Five Year Plan
GB	Grameen Bank
GBP	Grameen Bank Project
GDP	Gross Domestic Product
GO	Government Organization

HYV	High Yielding Varieties
IDA	International Development Agency
IFAD	International Fund for Agricultural Development
ILO	International Labor Organization
IRDP	Integrated Rural Development Project
LDC	Less Developed Country
NCB	Nationalized Commercial Banks
NGO	Non Government Organization
NIP	New Industrial Policy
OCED	Organization for Economic Cooperation and Development
RISP	Rural Industries Study Project
RKB	Rajshahi Krishi Unnayan Bank
RMG	Ready Made Garment
SCI	Small and Cottage Industry
UN	United Nations
UNDP	United Nations Development Program
US-AID	United States Agency for International Development
WEDP	Women Entrepreneurship Development Program
WTO	World Trade Organization

ABSTRACT

Unemployment associated with poverty is a serious problem in Bangladesh. In this country the existing economic sectors like agriculture, large and medium scale industries and service sector have failed to provide the required employment opportunities for growing unemployed people.

The agriculture is the single largest sector in terms of employment generation. But this sub-sector is already over crowded and the incidence of disguised unemployment is very high. In fact, to ensure mechanized and market-oriented agricultural sector, it is necessary to transfer labor force from this sector to some other non-farm economic sector. Among the non-farm economic sectors the formal industrial sector of Bangladesh is historically backward and a quick expansion of this sector is still a far cry. More over, the capital-intensive large and medium scale industries are not competent to provide employment opportunities for the unskilled rural people who are the surplus labor of agricultural sector. On the other hand, the service sector in Bangladesh is surprisingly expanding in terms of its contribution to national income but not in terms of that much in employment generation. Likewise this urban-based sector is also suitable only for the skilled and educated people.

The cottage industries are the traditional non-farm economic activities in Bangladesh. As a non-farm source of employment and income generation, this sub-sector is popular among the craftsmen, rural poor and idle agricultural workers. In various capacities, the participation of women workers in the cottage industries is very significant. This sub-sector can form a strong base for the sustainable industrial as well as agricultural development by linking those sectors.

Through this study a modest attempt is made to review the growth trend of cottage industries, to examine the effectiveness of this sub-sector in income and employment generation, in upgrading the level of income of the workers and the owners with the special reference to the women and poor

people and to see the prospects of this sub-sector by finding out the major obstacles faced by this sub-sector and their possible solutions. At the same time on the basis of the findings some measures are suggested for the promotion of this sub-sector.

In this study both primary and secondary data are used. For the primary data both random and purposive survey techniques were used. Primary data were collected from six upazila of six districts of six administrative divisions of Bangladesh with a view to include the various types of cottage industries. These districts are Cox's Bazar, Dhaka, Rajshahi, Satkhira, Jhalkathi and Maulvi Bazar. To study handloom industries, one upazila from each of three districts- Sherajgang, Kushtia and Tangail-districts selected, as most of the looms are located in these areas. This research studied 10 industries of each selected upazila and 90 cottage industries in total from the above nine districts. The secondary data were collected from the recognized published sources.

The available data show that during the last three decades the growth rate of cottage industries was on an average 2.25 percent. The growth of this sub-sector dropped down to 1.70 percent in 1995 from 2.05 percent in 1991, which recovered in 1995-2000 and reached at the level of 3.5 percent. In the case of handloom during period (1985-90) the number of operational looms increased from 1.32 percent to 3.87 percent. Again in 1995-2000 this sector grew upwardly after facing a recession in 1990-95.

About 67 percent of the industrial employment is provided by this sub-sector. In the last three decades the average growth trend of employment in this sub-sector was 2.53 percent. But the growth rate of employment in the cottage industries contracted from 3.13 percent in 1970-80 to 2.38 percent in 1995-2000. The situation will be worsening if the handloom sector is set aside out of consideration. On the other hand, the contribution of this sub-sector to GDP has increased from 1.1 percent to 4.2 percent during the same period.

In all of the development plans, programs and industrial policies so far pursued in the country these industries have received theoretical priority as a measure for poverty eradication through employment generation in the productive sector. The government policies, in practice, have a strong preconceived notion towards the development of the mechanized formal industrial sector. The policy makers set their mind to achieve overall development through the quick expansion of the formal industrial activities. But their attempts succeeded a little to achieve the target. From the Third Five Year Plan, the allocation for this sub-sector increased gradually, but on an average in all the Five-Year Plans so far implemented, this sub-sector hardly got 15 to 20 percent of the total allocation of the industrial sector. The trade and commerce policy, fiscal and monetary policy as well as the industrial policies of the government mainly favored the large and medium scale industries. It is always mentioned in the different industrial policies and long term plans that initiatives would be taken to link the cottage industries with the large and medium scale industries. But, no actual progress in this regard was found. Even still now there is no separate industrial policy or schedule for this sub-sector. The government policies have failed to reform the existing institutes to provide this sub-sector with proper financial, marketing and technical support.

About 60 percent of the studied cottage industrial units mention that lack of financing is their basic problem and 80 percent of them want financial assistance. But this sub-sector has to depend largely on self-financing. As found in these study, the industries more than 80 percent of the primary capital and 47 percent of the working capital are accumulated from the personal savings and earnings of the proprietors. The institutional sources provide only 10 percent of the initial capital requirement and 18 percent of the working capital requirement. No long-term credit is provided by the non-institutional sources, and 35 percent of the working capital is provided by the non-institutional sources at a very high rate of interest. The

modal long-term and short-term capital requirements of the enterprises are found less than Tk. 80,000 and less than Tk. 5,000 respectively.

The high collateral demanded by the lending institutions, inadequate bank branches at the grass-root level, the lengthy official formalities and inadequate information about credit are discouraging the interested owners of the cottage industries to borrow from the institutional sources. At the same time, the bankers are shy to finance the cottage industries considering those risky and less profitable. Some of the specialized institutions are also lacking proper trained field workers to administer such type of credit. The rate of interest charged by the institutional sources is higher than that of the desired one. The withdrawal of the interest rate subsidy for the credit disbursed to the small industries by the government has further worsened the situation.

The owners of the cottage industries are facing double-edged deprivation either in procurement of raw materials or in marketing of the output produced. About 63 percent of the studied units are totally dependent on domestically grown agricultural raw materials and only 11 percent consume mostly imported raw materials. Majority of the industries are procuring raw materials from the indirect sources, of which 32 percent are dependent on the *mahajans* to purchase the raw materials on credit by paying higher prices and receiving less prices of their products, as they have to sell their products to the *mahajans* because of adverse prior agreements. In the case of output marketing only, 18 percent of the owners are using direct channel of marketing, and about 32 percent are somehow dependent on the *mahajans* to market their products. As found in the field study, 92 percent of large cottage industries sell their products indirectly, while 87 percent of medium and 59 percent of small-scale cottage industries sell their products in the same way.

Indirect marketing reduces the profits of the owners by increasing the cost of production and in this way the loss of revenue is, on an average about 25 percent of the total revenue earned, which is hindering income

and employment generation prospects of this sub-sector. In addition to the seasonal supply problems of raw materials, inadequate supply of raw materials because of the increasing use of land for cereal cultivation, competition with the formal industrial sector producing the close substitutes and selling those at lower prices by utilizing the scale of production and lack of product diversity are creating other marketing problems.

About 72 percent of the owners are primarily involved in this sub-sector. The proprietors who have other primary sources of income are not much interested to make their industries economically viable. Such industries are mainly operated by the unpaid family workers and responsible for the poor income generation. Generally, the comparatively large industries, operating commercially, offered more employment than that of the others but a few female workers are employed in these industries. The average number of employment in the cottage industries is about 4.65 person of whom 67.5 percent are full time workers and 54.5 percent of the employed workers are paid. Most of the unpaid workers are female family members. In the studied industrial units, on an average 40 percent are female workers and in mat, coir and fish products' industries, the majority of the workers are female. Though, a number of workers are working in this sub-sector, yet the average number of working days is 227 per year and the average weekly working hour is 38. Seasonal production of raw materials and lack of storage facilities are mainly responsible for low yearly working days as well as low weekly working hours.

The average fixed capital per worker is Tk. 3801.03; while per worker working capital per worker is about Tk.830. That is to say if all other things remaining unchanged, only Tk. 4631.03 is required to create a fresh employment in this sub-sector. In this study lack of finance, increasing cost of production, inadequate supply of raw materials and in adequate demand for their products are identified as the basic problems to generate employment in their cottage industries.

In this sub-sector 72 percent of the owners are employed primarily but 59 percent of the owners' primary source of income is provided by this sub-sector. That is to say 10 percent of the owners primary source of income and employment are different. The average value-added per enterprise per week is about Tk.2000 and weekly family income is Tk. 934.26.

Generally, the skilled workers are paid more than that paid to the unskilled workers. The wage of the skilled male workers is higher than that of the agricultural wage laborer and in the case of female workers it is less than the agricultural wage laborer.

There is a clear wage discrimination in wage payments as the female workers are paid on an average 35.5 percent less than that of their male counter parts having the equal level of skills and in the case of unskilled workers it is about 19 percent. It happens, as the females are not in good position in terms of bargaining power and opportunity cost of employment.

The average rate of profit is about 17 percent. Though the average does not reflect the whole truth. If we keep the top three profits making industries out of consideration it will drop down to below 10 percent. Alarming thing is that only 16 percent of the net profit is re-invested, which is also against the expansion of this sub-sector, and a reflection of non-commercial attitude of the owners.

On the other hand, the labor productivity is not up to the mark as compared to the rate of wages. Generally, the commercially operated medium sized industries are at the better position in terms of income generation. Poor labor productivity, less attractive profit margin, inadequate wage of unskilled workers, wage discrimination, existence of unpaid workers, subsistence level of operation, higher input prices along with inadequate supply, exploitation of the middlemen and very poor amount of investment from net profit are the major problems of income generation in the cottage industries.

In this sub-sector it is possible to generate employment and income at a lower cost; where the higher capital productivity, participation of the poor people, female, family workers and unskilled workers in the cottage industries are remarkable. But still this sub-sector is lacking in utilization of its potentialities. For this purpose modernization of this sub-sector is very necessary through training, technical assistance, financial support, proper and year round supply of raw materials, storage facilities, widening the market of the products and by extending infrastructural facilities etc. To ensure all these things, the government will have to come to the scene by designing a long-term integrated plan for supporting this sub-sector. It is necessary to establish exclusive zones in the countryside to provide the cottage industries with all types of institutional supports by reforming the present institutions specially to serve the cottage industries.

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CHAPTER-1 INTRODUCTION

1.1 Industrialization and Its Importance in Bangladesh

An economy may be divided into three major sectors which are (i) primary or agricultural sector; (ii) secondary or industrial sector; and (iii) tertiary or service sector. These sectors are somehow related to each other. They have either backward or forward linkages. Industrial sector has forward linkage with the service sector but has a strong backward linkage with agricultural sector. Again, these sectors are also inter-related in the reverse way.¹

From the experiences of developed countries of the world, it is generally argued that an economy begins to develop with the support of its primary sector and it becomes matured through attaining greater degree of industrialization. In fact, where the agricultural sector becomes ineffective in attaining the desired rate of economic growth, the industrial sector is assigned priority role in the economy.² For attaining a desired level of development, the share of industrial sector in GDP should rise and that of agricultural sector decline.³ Now, industrialization means a process of investing a part of national income in manufacturing consumer goods and services and capital goods; and in creating social overhead capital in order to provide goods and services to both individuals and business.⁴

In an over populated LDC like Bangladesh, the agriculture is the leading economic sector in terms of its contribution to the national income, but it suffers from the problems like small, subdivided and fragmented land holdings, low per-acre yield, traditional method of cultivation, surplus labor, capital deficiency, and so on. It is therefore, a very much difficult and time consuming

¹Gerlad M. Meier, *Leading Issues in Economic Development*, 5th ed. (Delhi: Oxford University Press, 1990), pp. 283-286.

²M. L. Jhingan, *The Economic Development and Planning*, 22nd ed. (Delhi: Kenart Publishers Private Ltd., 1989), p. 338.

³Sobrata Ghattak and Ken Ingersent., *Agriculture and Economic Development*, (Sussex: Wheatsheaf Books Ltd., 1984), pp. 26-31.

⁴Douglas Green Wall and Associates, *The Concise McGraw-Hill Dictionary of Modern Economics*, 3rd ed. (USA: McGraw Hill Book Company, 1981), p. 175.

task to improve agricultural sector to the desired level. But industrialization programs may help agricultural sector by supplying fertilizer, farm machineries and other inputs, and through trickle down effects other sectors or sub-sectors may also be benefited.⁵ It may be argued that an LDC's industrial sector will provide increasing returns to scale as well as economies of production. It is expected that the situation will improve through industrialization.⁶

Bangladesh has a surplus labor-force in agricultural sector. Here unemployment is the major socio-economic problem. For its sustainable and balanced development, it is necessary to provide its labor-force with proper productive employment. The unemployed and surplus labor can be transferred from the over crowded agricultural to industrial sector without any loss in agricultural output.⁷ Since the marginal product of labor is higher in industry than in agriculture, transferring of such workers to the industrial sector will raise aggregate output.⁸ Industrialization is the only remedy for solving unemployment problem in an LDC. Thus, Bangladesh has no choice but to industrialize her economy.

Bangladesh exports primary products specially agricultural raw materials and import final output. As a result, the country suffers much from the unfavorable terms of trade. Through import substituting and export oriented industrialization she may solve this problem considerably. Moreover, import-substituting industries may bring the unemployed resources into the production process.⁹ Industrialization in an LDC like Bangladesh also rests on psychological boost, and such a policy provides her citizens with incentives for marching towards modernization. Through intensive industrialization, innovation of new technology, improvement of existing technology, upgrading the skill of the workers, raising the savings propensity of the people etc. are

5M. L. Jhingan, *op. cit.*, p. 337.

6*Ibid.*, 339.

7R. Nurkse, *Problems of Capital Formation in Under-developed Countries*, (Oxford University Press, 1953) p. 33.

8Arthur Lewis, *Development Planning*, (London: George Allen and Unwin, 1956), p. 31.

9Hirschman, *Strategy of Economic Development*, (1958), p. 123.

possible. Finally, industrialization brings social transformation, dynamic urbanization, social equality, balanced regional development and helps the process of macro economic development.

1.2 Cottage Industries and Its Role in a Developing Economy Like Bangladesh

Bangladesh is a developing country with a very low per-capita income of US \$350 only in 2000. The estimated population of this country in 2001 was 130.00 million and density of population was 850 people per square kilometer. Bangladesh is now the 9th most populous country of the world. The economy of Bangladesh is predominantly agricultural and rural. In absolute term, Bangladesh is the fourth largest agricultural society in the world and in relative term that is, in term of the percentage of the rural population and their direct involvement in agricultural activities, it is more rural than the three other larger agricultural countries in the world.¹⁰ An estimated labor force of 25.4 million out of 29.6 million live in the rural areas and 65 percent of them are engaged in agriculture and agriculture related occupations.¹¹ The contribution of agriculture to GDP is about 20 percent and to employment it is about 58 percent.¹² But in spite of this paramount role of agriculture, the performance of this sector over the last two decades and a half was not satisfactory at all. During this period the volume of total agricultural product increased, but it failed to keep the pace with the growth of population and labor force. Low per capita land holding, high rate of growth of labor force as compared to the rate of growth in agriculture, increasing landlessness, inadequate investment, lack of crop diversification etc. are major obstacles to create employment opportunities in this sector.¹³ The World Bank report on the unemployment

10Ataul Huq, "Unemployment in Bangladesh," *Arthaniti Journal*, ed. by Ataul Huq (Department of Economics, Chittagong University, Chittagong), Vol. 3 (November, 1984), p. 43.

11United Nations, "Non-farm Employment for Rural Poverty Alleviation," A Report on the Regional Seminar, Pilot Projects and Country Papers, (New York: 1993), p. 53.

12 Bangladesh Bureau of Statistics, *Statistical Pocket Book*, (Dhaka: BBS, 1995), p. 27.

13M. Mahbubur Rahman, "Promotion of Employment Through Cottage Industrial Activities in Bangladesh," *Journal of the Institute of Bangladesh Studies*, Vol. 18 (Rajshahi: 1995), pp. 233-235.

problem of Bangladesh (1983) estimates that on an average 1.2 million per annum join the labor force during 1980-2000, against the capacity of agricultural sector of absorbing only one fourth of them, if it grows at the rate of 3.7 percent per annum, which was a very ambitious assumption considering the past achievements. Another study reveals that about 0.9 million people are entering into the labor market each year, but agriculture can absorb maximum 78 thousand of additional workers and the prevailing non-farm sector can provide fresh employment opportunity for 3 lakh in a year.¹⁴ As a result, surplus labor force is increasing by 0.53 million yearly and in agriculture this rate of increase is 3.5 percent.¹⁵

A good number of micro studies show that land ownership pattern in this country is highly skewed where only 30 percent rich farmers own about 70 percent of the total arable land and 50 percent of the farms are of below one acre. The large owners tend to let their land out for share cropping which is less efficient and not profitable in all respects.¹⁶ In the 1960s, there was a sharp growth in agricultural output due to the introduction of HYV technology. But the growth rate in the demand for agricultural labor force was less than the growth rate of agricultural output.¹⁷ Although the High Yield Varieties (HYVs) employ 85 percent more labor per acre than the local varieties usually employ, but the acreage under HYV is not yet more than 30 percent of the total arable land.¹⁸ Again, some of the policy makers are in favor of modernization and mechanization of agricultural sector to increase its total volume of production. Hence, labor will be substituted by more valuable capital and will reduce the existing employment opportunities.¹⁹ In fact, modernization of agriculture may worsen the income distribution pattern, which is considered as

14Dilip Kumar Roy, "The Employment and Growth: Empirical Results from Bangladesh Industries," *Bangladesh Development Studies*, Vol. XVI, No. 1 (Dhaka: BIDS, March, 1995), p. 58.

15North-South Institute, *Rural Poverty in Bangladesh: A Report of the Like Minded Group* (Dhaka, 1983), p. 13.

16A. R. Khan, *The Economy of Bangladesh*, (London: Macmillan Co., 1973), pp. 10-42.

17Ataul Huq (1984), *op. cit.*, p. 44.

18*Ibid.*, p. 42.

19 Mahbubur Rahman (1995), *op. cit.*, p. 211.

one of the most responsible factors for rural poverty. Moreover, under the WTO agreement, Bangladesh may have to give up that agricultural production for which it does not have any comparative cost advantage and it may put a limit on the agricultural activities. Now, if we take the above stated realities into consideration, it will not be very prudent to seek further employment and income opportunity in this sector as it is already over crowded.

Trade and commerce, service and industrial sectors constitute the main non-farm economic activities in Bangladesh. Here we shall confine our concentration to the industrial sector as the principle and basic non-farm economic activities. Generally, on the basis of the scale of production, there are three types of industries- (a) large scale industries, (b) medium scale industries and (c) small scale and cottage industries. Though it is very important to define the scales but there is no universally acceptable separate definition. The ambiguities and confusions are acute specially in defining the small scale and cottage industry separately. Again, it is almost difficult to draw any precise and meaningful distinction between the small scale and the cottage industries.

Any way, the scale of an industry is defined on the basis of quantitative and qualitative criteria. In quantitative criteria the scale of an industry is defined in terms of the number of employment, volume of out-put, total amount of fixed and working capital, technical equipments etc.

On the other hand, in qualitative terms the scale is defined on the basis of specialization in management, type of ownership, pattern of employment, ownership management relationship, customer-management relationship, access to the capital market, the types of output produced, and so on. According to the famous economist Hansen a cottage industry is a domestic system of production in which the workers produce goods at home and the merchants who travels round to collect the finished products provide them

with the required raw materials.²⁰

The first systematic definition of small and cottage industries in Bangladesh was given by the East Pakistan Small Industries Corporation (EPSIC) Act XVII of 1957. According to this act a small industry was that which was run either by hired or by family labor and did not use the power driven machineries, but employed less than fifty workers and the total capital of which was not more than Tk 2.5 lakh in value. This EPSIC²¹ Act also attempted to make a distinction between the cottage and small-scale industries by mentioning that the cottage industrial activities were mainly carried on by the family labor and those did not use any power driven machineries. But this is an amalgamation of the definitions, as it cannot make the sense clear. Finally, in 1970 the government changed the definition of the small-scale industry. In fact, all the definitions centered around small scale and cottage industries during the period 1957-1970 pointed out that each of those industries was a small and cottage industry which did not use power driven machineries; the total number of employment of which did not exceed fifty, and the value of the capital of which was less than Tk. 1.0 million.

After independence, in the first Five Year Plan (1973) the small and cottage industries were defined as the industrial activities, which did not have capital over Tk. 2.5 million. It further stated that in cottage industries the uses of power and modern technology were absent and those were managed by family labor.²²

Bangladesh Small and Cottage Industries Corporation (BSCIC) in 1997 defined the cottage industry as an establishment with a maximum investment of Tk. 0.5 million which is supposed to be operated solely by the members of a family either as a full time or as a part time basis. On the basis of employment criterion the Bangladesh Bureau of Statistics (BBS) has identified an industrial

²⁰J.L. Hansen, *A Dictionary of Economics and Commerce* (London: Macdonald and Evans Ltd., 1969), pp. 104 & 137.

²¹EPSIC means *East Pakistan Small Industries Corporation*.

unit to be in cottage industry, which employs less than 100 persons. According to the Cottage Industry Survey Report - 1994, conducted by BSCIC, a cottage industry is that which employs maximum 20 persons if power is not used and employs maximum 10 persons when power is used and its total capital never exceeds Tk. 0.5 million. Finally a working definition of a cottage industry is framed here. This is as follows:

An industry may be called cottage industry if its total capital is less than Tk. 0.5 million in value, number of workers are not more than fifty and most of them are family members. No difference exists between the ownership and management. Close and non-formal relationship among the customers, management and environment. Here mainly consumer goods are produced and everything is produced domestically.

Until recently, most of the developing countries of the world have attempted to venture upon the rapid economic development through the modern large scale industries depending on the imported technology, and Bangladesh is not an exception to this. Since independence, it has been observed that industrial policy, credit policy, foreign trade policy, fiscal and monetary policy, investment policy etc. of the country are framed for favoring the large-scale industry.

But this type of attempt made by the country has failed to a considerable extent to generate income and employment opportunities because of capital scarcity, lack of efficient and skilled labor force, backwardness in the field of technology, and inadequate foreign exchange.²³ Again, as the large-scale industries are capital intensive, those can contribute a little to reduce high rate of unemployment in a labor surplus economy like Bangladesh. Like other developing countries Bangladesh is also suffering from high incidence of

22 Government of Bangladesh, *First Five Year Plan*, (Dhaka: The Planning Commission, 1973), pp. 161-70.

23 MAHbubur Rahman (1995), *op. cit.*, p. 243.

unemployment and the present rate of unemployment is no less than 40 percent.²⁴ Professor Turner estimated that the annual rate of increase in unemployment is 8.5 percent in the developing countries. He predicted it on the basis of a survey of fourteen developing countries. On the other hand, Singer considers that the present unemployment rate of the developing countries is of the extent of 25 percent. From a survey undertaken in Bangladesh in 1974, it was found that the rate of educated unemployment was about 44 percent.²⁵ This gloomy picture of unemployment has already been worsened by the continuous flow of rural population to the urban areas not because of the pull of industrial employment in the urban areas, but because of the push of unemployment in the rural areas.²⁶ That is to say, in this country not only illiterate and unskilled people are unemployed but also the educated. The necessity of a job to an unemployed is far beyond the income it provides and as a result, it is causing the loss of human dignity, social order and harmony.

The present economic situation of Bangladesh demands the absorption of surplus workers from the over crowded agriculture and normal increased population. Generally, it is assumed that the industrial sector has highest potentiality to create new employment opportunity. After the World War II, the newly independent countries based their industrialization policies over last four decades largely on establishing import substitute large-scale industries, which required specialized labor, management, huge capital, modern technology, and foreign exchange.²⁷ As a result, this type of industry has failed to bring the effective and positive result to create employment opportunity. In a number of developing countries employment in the manufacturing sector grew less rapidly than their labor force and in some cases even declined in absolute

24 Bangladesh Bureau of Statistics (1995) *op.cit.*

25A. A. Rushdi, "The Economic Dualism and Unemployment Problems", (in Bengali), *Political Economy*, Vol. 3, No. 1 (Dhaka: 1977), p. 195.

26 Muhammad Rawshan Kamal, *Problems of Small-scale and Cottage Industries in Bangladesh*, (Nagoya: University of Nagoya Press, Japan, 1985), p. 41.

27 *Ibid.*, p. 42.

term.²⁸

In the same way the import substitution strategy also failed to reduce the income inequalities by creating income generating employment opportunities. A number of studies conducted by the various agencies reveal that the value of 'gini co-efficient' is much higher in Bangladesh and it is around 0.31 which shows that income is more unequally distributed in this country than that of the other developing countries of the world.

In Bangladesh the results so far achieved are even more disappointing. Presently, the percentage of landless farmers are no less than 50 percent and 60 percent of the total population are living below the poverty line. Unless these people are not absorbed in some non-agricultural activities the rural unemployment issue will remain as a serious socio-economic problem. Since large-scale industries can not be developed anywhere in the rural areas as those are not foot-loose type industry but are time consuming and very much capital intensive, those can not offer adequate employment to the rural poor and landless farmers. Again, the marginal farmers who need part time job specially during the agricultural slack period, the large scale industries which provide mainly full time employment can not do anything remarkably good for them. Although the imported high yield varieties of rice can absorb more agricultural workers per acre, but this type of initiative has increased the total volume of agricultural production but has failed to increase employment.²⁹ This objective can be made successful only when adequate supply of inputs for high yield varieties of rice are available in the country and this again depends on the development of small and cottage industries.³⁰ Therefore, even to expand employment opportunity in the agricultural sector the role of this sub-sector is significant and it is the small and cottage industries, which can solve

²⁸M. U. Ahmed, "Development of Small-scale and Cottage Industries in Bangladesh with Special Reference to Draft Two Year Plan: Some Observation", *Seminar Paper Presented at the 3rd Conference of Bangladesh Economic Association*, (Dhaka: June 18-20, 1978), p. 3.

²⁹Rashidul Islam, "Employment in the Two Year Plan: Only Measure Against Poverty and Inequality", *Seminar Paper Presented at the Seminar on the Two Year Plan*, (Dhaka: June 16-18, 1978), p. 9.

the unemployment problem within a reasonable period of time.

In a capital scarce country like Bangladesh, the capital intensity of enterprises is normally expected to be less in comparison to the industrialized countries like U.S.A., U.K. and Japan. But, in contrast to this notion, industries in Bangladesh are more capital intensive than that of the industrially developed countries.³¹ Such a high capital intensity is mainly due to substantial imports of technology through tied aids and loans, and engineering and entrepreneurs biases.³² For this reason it was not possible for the country to resort to labor intensive techniques of production so that each unit of capital could engage more labor and create gainful occupations.

Women are about fifty percent of our population, but only 11 percent are employed in true sense and as a result, the incidence of poverty among them is very common and acute. The question of female employment on the one hand, is very necessary for poverty alleviation, and on the other hand, it is also sensitive because of social barriers. According to a study only three percent rural women are economically active and almost all of them are active in agricultural work though they have a high potentialities specially, for joint ventures such as vegetables growing, poultry raising, fish net making, etc.³³ Another study shows that 34 percent women workers are engaged in the cottage industry.³⁴ This is due to the facility to work within home and in a family environment. Therefore, the small and cottage industries can provide income and employment opportunities both for male and female workers. As these industries are based on domestic technology and locally produced input therefore, expansion of these industries are cost effective in any regard and can

30Kamal, *op. cit.*, p. 43.

31A. R. Khan, *op. cit.*, p. 261.

32Rizwanul Islam, "Some Constraints on the Choice of Technology," *The Bangladesh Development Studies*, Vol. 5, No. 3 (Dhaka: 1977), p. 39.

33R.B. Dixon, "Mobilizing Women for Rural Employment in South Asia: Issues of Class, Caste, and Patronage", *Economic Development and Cultural Change*, (Chicago: University of Chicago, 1982); as cited in Muhammad Rowshan Kamal, *op. cit.*, p. 45.

34 Bangladesh Institute of Development Studies, *Rural Industries Study Project- Final Report*, (Dhaka: BIDS, 1981), p. 231.

provide income and employment at a minimum cost. Moreover, these industries have contribution in the production of consumer goods, rural development, balanced regional growth, development of entrepreneurship and management, accumulation of capital, and finally make the ground for the development of the large-scale industries.³⁵

The present level of employment creation by cottage industry sub-sector is given in Table-1.1 with the reference of some years and it is exhibiting that the new employment creation in the cottage industry is increasing gradually except in 1994-95 to 1996-97 because during this period the whole economy faced an adverse effect of political unrest and natural calamities.

Table - 1.1: Yearly New Employment Creation in Cottage Industry Sub-Sector.

Sector	1991	1992	1993	1994	1995	1996	1997	1998	1999
	-	-	-	-	-	-	-	-	-
	1992	1993	1994	1995	1996	1997	1998	1999	2000
Cottage Industry	45,697	65,197	81,521	76,802	21,856	14,243	16,738	38,563	49,911

Source: (a) BSCIC, Bangladesh Small and Cottage Industry Survey, 1996.

(b) BSCIC, Annual Report, Various Issues.

Values added by the small and cottage industry sub-sector in Bangladesh is not ignorable as compared to large and medium scale industries. However, Table-1.2 shows that the growth trend of the small and cottage industry sub-sector is almost stagnant and far behind the growth trend of large-scale industries. One of its reasons may be that the government is not paying proper attention to this sector and its industrial programs and policies are arranged to favor the large-scale undertakings. Tables-1.2 and 1.3 represent a picture of a comparative value added to GDP by the different industrial sub-sectors, and sectoral shares of GDP of those sectors respectively.

³⁵ Muhammad Rowshan Kamal, *op. cit.*, pp. 40-53.

Table-1.2: Manufacturing Sub-sectoral GDP in Constant 1984-85 Prices and their Growth Trends (in Crore Tk.).

Industrial Sub-sector / Year	1990 - 1991	1991 - 1992	1992 - 1993	1993 - 1994	1994 - 1995	1995 - 1996	1996 - 1997	1997 - 1998	1998 - 1999	1999 - 2000
Small and Cottage Industry	2115 (2.9)	2178 (2.9)	2241 (2.9)	2330 (4.0)	2428 (4.2)	2523 (3.9)	2621 (3.9)	2799 (6.8)	2820 (0.7)	2932 (4.0)
Medium and Large Scale Industry	2927 (4.2)	3234 (10.5)	3663 (13.2)	4037 (10.2)	4488 (11.2)	4751 (6.0)	4919 (3.3)	5462 (11.0)	5690 (4.2)	5938 (4.3)

Source: GOB, Economic Survey, (Ministry of Finance, Dhaka: 2000).

Table - 1.3: Sectoral Share of GDP at Constant (1984-85) Prices (%).

Industrial Scale Categories/ Year	1990 - 1991	1991 - 1992	1992 - 1993	1993 - 1994	1994 - 1995	1995 - 1996	1996 - 1997	1997 - 1998	1998 - 1999	1999 - 2000
Small and Cottage Industry	4.1	4.0	4.0	4.0	3.9	3.9	3.9	3.9	3.7	3.7
Medium and Large Scale Industry	5.7	6.0	6.5	6.9	7.4	7.4	7.2	7.6	7.5	7.4
Total	9.8	10.00	10.5	10.9	11.3	11.3	11.1	11.5	11.2	11.1

Source: GOB, Economic Survey, (Ministry of Finance, Dhaka: 2000).

Despite this downward growth trend of cottage industrial sub-sector, the total industrial units in this sector are increasing day by day. The number of newly registered industrial units was highest in 1999-2000, but declined during 1997-98 to 1998-99 the following years. Table-1.4 exhibits this fact.

Table -1.4: New Registration of Cottage Industry Under BSCIC (in number).

New Registration	1991 - 1992	1992 - 1993	1993 - 1994	1994 - 1995	1995 - 1996	1996 - 1997	1997 - 1998	1998 - 1999	1999 - 2000
	9850	9983	8389	9160	9865	15311	11555	13698	16827

Source: BSCIC, Annual Report, Various Issues.

Some economists put some arguments against the cottage industries. They argue that these labor-intensive industries are less profitable than the large-scale industries and hence, they have little positive role in quick economic development. Fortunately, these views don't hold the whole truth.

Nobelist Professor Tinbergen's Study (1982) has revealed that labor-intensive activities maximizes national product in the early phases of development and it contributed maximally to reduce unemployment. Dilip Kumar Roy (1988) empirically has shown that in the perspective of Bangladesh the rate of profit in labour intensive industries is not lower than one would expect from the investment in the capital-intensive industries. His study also indicates that there is no cause and effect relationship between the rate of return on the capital and capital intensity.³⁶ "Through the implementation of an employment oriented industrial policy it is possible to upgrade the country's product mix without sacrificing its competitive position by misallocating scarce resources", is the argument offered by Dilip Kumar Roy in favor of small and cottage industries.³⁷ Chowdhury Naimuddin (1986) observes that labor-intensive industries can raise both savings and consumption propensities of the rural people through income addition, which may finally play an important role in favor of economic diversification.³⁸

Another argument against cottage industry is that the output per worker is very low in these industries as compared to the large-scale industries. This is empirically true, but cannot be a vital issue that may go against the economic viability of these industries. A.R. Khan's (1974) counter argument in this regard states that the low capital requirement while considered against a very high productivity of capital, then the output per worker in this case will not be seemed so low.³⁹

Schumacher (1974) observes that work places are created in those areas where people live but not in those where metropolitan cities are situated; and in those areas goods may be produced with relatively low capital, domestically

³⁶Dilip Kumar Roy, *op. cit.*, p. 62.

³⁷*Ibid.*

³⁸Chowdhury Naimuddin, "Strategies of Rural Development", *The Journal of Political Economy*, Vol. 7, No. 1B (Dhaka: Dec., 1986), p. 88.

³⁹A. R. Khan, *op. cit.*, p. 67.

available input, and technology for the local uses.⁴⁰ In such a case the cottage industry is only suitable. Kamal (1985) also observes that the lack of uniformity of demand of the products and fluctuation in demand are the two important market conditions which favor small-scale and cottage industries because of their flexibility.⁴¹

In the practical world, the development experiences of Japan, China, and Taiwan also speak in favor of labor-intensive cottage industry.⁴² Even in 1972, the small-scale and medium-sized industries in Japan accounted 99.4 percent of industrial enterprises and 69.2 percent of the industrial products and on the other hand, in 1958 in the United States Small Industries produced about 50 percent of the total value added to GDP.

Therefore, from the above discussions, it is clear that the effectiveness of labour intensive cottage industry is very significant at least at the early stage of economic development and Bangladesh is now at that stage.

1.3 Statement of the Problem and Setting the Objectives

About 50 percent of the total population of Bangladesh are living below poverty line and among them 50 percent are in a critical situation. Unemployment is a responsible factor for this massive poverty. So, the government, politicians, economists, intellectuals, non-government organizations, and various development agencies are now emphasizing much on generating more income through productive employment.

If the socio-economic facts, mentioned earlier, are considered, non-farm economic sector like cottage industry sub-sector normally reveals its brightest potentialities as a source for creating income and employment at a minimum cost. As a non-farm source for generating additional income and seasonal

⁴⁰E. F. Schumacher, *Small is Beautiful: A Study of Economics as if People Mattered* (London: 1974), pp. 146-47.

⁴¹Kamal, *op. cit.*, p. 12.

⁴²Naimuddin, *op. cit.*, p. 81.

employment, cottage industry is very popular among the rural people since long. This sector offers full-time employment for the traditional craftsman and landless rural poor, specially, for the distressed women. The participation of the rural female in the cottage industrial activities is very significant in all respects.

In the light of resource endowment and other socio-economic realities of Bangladesh, small scale and cottage industries should have formed the base of her industrial development. Unfortunately, industrialization strategies pursued in the country have historically assigned a peripheral role to those industries and no serious effort has been expended to provide them with adequate promotional assistance. Because of these reasons, the contribution of this sector in generating income and employment is not up to the expectation, despite of its potentialities in this regard. Its inadequate performance against desired level has made us interested to know what is the existing level of the generation of income and employment in this sector? How can this sector generate more income and employment for a given labor force during a given time period? What is its growth trend? Does this sector possess any potentialities to create long-run income and employment? What are the obstacles that hinder the growth of this sector? What financial and marketing problems are faced by this sub-sector? How the obstacles can be removed or at least be reduced? How the previous policies of the government did help the promotion of this sector? What new measures are required for further promotion of this sub-sector?

This study makes a modest attempt to answer these and other relevant questions. It aims at investigating into the problems and prospects of employment and income generation in the cottage industry sub-sector of the economy of Bangladesh. In the view of the above inquiries, the following specific objectives are set for this study.

The Objectives

- (1) To review the growth trend of cottage industry sub-sector in Bangladesh.
- (2) To inquire about the contribution of this sub-sector in income and employment generation.
- (3) To explain the role of cottage industry in upgrading the level of income of the workers and owners of those.
- (4) To examine how the rural women and poor people are benefited from the cottage industrial activities.
- (5) To estimate the possibilities of income and employment generation in this sub-sector.
- (6) To find out the major obstacles faced by the cottage industry sub sector.
- (7) To suggest measures for the promotion of cottage industrial sub-sector.

1.4 Review of Literature

To justify the undertaking of this research project, an evaluation of relevant works is necessary. Here some of the works relating to the cottage industry have been discussed critically.

1.4.1 Q. Kholiquzzaman and M. Ahmed (1979)⁴³

"A Study on the Small and Cottage Industries of Bangladesh, 1976-77" was conducted by Q.Kholiquzzaman and M. Ahmed as a part of the background study series carried out in connection with the preparation of the Second Five Year Plan and the perspective plan. In order to measure the value of capital invested, labor force employed, input-output structure and value

⁴³Qazi Kholiquzzaman and Mohiuddin Ahmed, *A Study on the Small and Cottage Industries of Bangladesh, 1976-77* (Dhaka: Planning Commission, 1979).

added, this study considered the industries like *gur*, edible oil, salt, bidi making, food and drinks, handloom, leather products, pharmaceuticals, bricks, metal products furniture and wood products, etc. But the study excluded grain milling and jute bailing from its purview.

This study was based on secondary data supplemented in some cases by limited field surveys. The study accepted BSCICs definition of small and cottage industries and considered all industries covered under the census of manufacturing industries to fall in the large category. The value of production was estimated by commodity flow method and where it was not applicable, the BSCIC survey report was used as the basis of estimation.

According to this study in this sector the total value added, employment, capital stock and the overall capital output ratio etc. were Tk. 5527.74 million, 2.3 million workers, Tk. 3314.23 million and 0.184 respectively during the period 1976-77.

This study excluded grain milling and jute bailing where a large number of people were employed and those industries hired a considerable number of workers.

On the other hand, it included some industrial units like edible oil which were playing insignificant role in generating income and employment. In this study the pattern of employment and ownership, profitability, productivity and the problems faced by this sector etc. were not discussed seriously.

1.4.2 Bangladesh Institute of Development Studies (BIDS) (1981)⁴⁴

BIDS conducted a study during 1978-81 which was published in 1981 with the title, "Rural Industries Study Project (RISP) - Final Report." This study was carried out in 11 purposively selected *Upazilas* (police stations) and study areas were selected on the basis of concentration of rural industrial activities.

⁴⁴Bangladesh Institute of Development Studies, *Rural Industries Study Project - Final Report* (Dhaka: BIDS, 1981).

The study was conducted in two phases. In Phase 1, house to house enumeration was carried out to prepare a list of all rural industrial enterprises. While in the second phase 2.27 percent sample was drawn for in-depth investigation. During this phase information was collected from the persons related to the rural industries through twice weekly interview for a period of two year. Rural industry was defined in this study as manufacturing or repairing units having an employment size of 50 or fewer workers.

The survey found that 25 percent of all workers in the study areas were involved in rural industrial activities and average size of employment per enterprise was 3.8 persons. This study also mentioned that 71 percent of the workers were unpaid family members and of them 37 percent are female. This study also found that incidence of under employment was acute in the rural industries located in the study areas. According to this study textiles, food and agricultural products, cane, bamboo and wood products etc., are the most potential industries in rural areas. This study also discussed the profitability, productivity, income generation, ownership pattern etc. of rural industries. In fact, this study covered most of the aspects of rural industries.

But this study did not discuss the marketing, financing, and other issues which are treated as the major problems of this sector. Handloom sector did not get proper and required attention in this study. The concentration of cottage industries in the study areas was very high and it was found that 30 percent of laborers were engaged in this rural manufacturing sector. Whereas in Bangladesh less than 10 percent laborers are engaged in industrial sector as a whole. Therefore, the findings of the study may not be consistent with national statistics. It means that the sampling method was not country representative. Finally, it is more than an era old study, which may not be suitable in respect of present period, as by this time the rural economic structure has been changed to a considerable extent.

1.4.3 Hossain (1984)⁴⁵

This work of M. Hossain was done on the basis of *Rural Industry Survey Report*, which was conducted and published by BIDS. Hossain pointed out a good number of aspects of this sector. He also considers some issues like full time and part time employment in cottage industries, nature of employment of labour force in terms of age, sex and religion; social status of the owners of the cottage industries in terms of land holding, rate of wage; and under-employment issue and employment of female workers. This article identifies some cottage industrial units which are most potential from the view point of income and employment creation. This study however, overlooks the economic feasibility question of this type of industries and the possibilities of income generation in this sub-sector.

1.4.4 Kamal (1985)⁴⁶

Kamal in his research work defines small scale and cottage industries and precisely compares with those of India, Japan, the USA, and the UK. The book elaborately discusses the prospects of these industries and reveals that small scale industries might be a platform for the overall industrialization as well as the economic development of Bangladesh. The author categorises the problems of cottage industries as (i) General problems, (ii) Special problems and (iii) Marginal problems. He discusses all these problems, and recommends some remedies in the light of the experiences of India and Japan. But he did not touch the problems and prospects of income generation in this sector.

But it did not discuss the employment and income generating issue in details. Again the author did not draw any clear distinction between the cottage and the small scale industry. In his writing the present employment situation of rural areas in the different sector was not discussed and the issue of women

⁴⁵Mahbub Hossain, "Employment and Labour in Bangladesh Rural Industries," *The Bangladesh Development Studies*, Vol. 12, Nos. 1 and 2 (Dhaka: BIDS, March-June, 1984), pp. 1-25.

⁴⁶Muhammad Rawshan Kamal, *Problems of Small-scale and Cottage Industries in Bangladesh*, (Nagoya: University of Nagoya Press, Japan, 1985).

employment was neglected.

1.4.5 Rahman and Others (1986)⁴⁷

The authors conducted a study titled "A Study on the Small and Cottage Industries of Bangladesh" as a part of series of studies initiated by the Planning Commission for providing background information for the preparation of the Third Five Year Plan. The main thrust of this study was to measure the size of capital stock, labor force employment, input-output structure and value added in small and cottage industry sub-sector in 1980-81. This study was also depended on the secondary data provided by the surveys conducted by BSCIC in 1977-78 and 1980-81, though in some cases secondary data were supplemented by limited field surveys. In fact, for most of the cottage industrial activities, estimates for 1980-81 were directly drawn from the results of BSCIC surveys and in the case of those cottage industrial activities for which BSCIC survey data were considered to be deficient the study estimated production figure by using 'commodity flow method'. On the other hand, input-output data were generated mainly through field survey. This study also extrapolated BSCIC data to estimate the growth rates. In this study handloom sector was excluded. It also failed to estimate the possibilities of income generation in this sector.

1.4.6 Ahmed (1987)⁴⁸

Here the researcher looks into the employment status of the rural poor. His study reveals that women who are engaged in homestead and household tasks are not included in the Labor Force Survey conducted by the Government. If included, then the labor participation rate of the rural women would be not so low. The study examines the activities and functions of a leading NGO, BRAC (Bangladesh Rural Advancement Committee) and indicates

47A. H. M. Habibur Rahman and others, *A Study on the Small and Cottage Industries of Bangladesh*, (Dhaka: Planning Commission, 1986).

48Q. Kholiquzzaman Ahmed, *Employment Creation in Rural Bangladesh: Policies and Programmes*, BIDS Research Report No. 57 (Dhaka: BIDS, 1987).

some policy measures. The author argues that the activities of NGOs should be coordinated with central and local government plans. The scope of employment expansion in different broad sectors was analyzed and rural employment policies were looked into this study. Here priority was assigned to the cottage industry as source of rural non-farm employment but the study did not analyze the details of the problems of cottage industries in employment and income generation.

1.4.7 Ahmed (1987)⁴⁹

Ahmed in his book discusses the contributions of cottage industries from various angles. He clearly puts the arguments in favor of the cottage industry. This book also defines the small-scale industry of Bangladesh and compares it with those of Japan, the USA, and the UK. From this study we also get a profile of these industries and relevant policies undertaken by the Government of Bangladesh. The author also critically shows the role of various government and non-government agencies or financial institutions in solving the financial problems of this sector. Here many issues of small-scale industries of Bangladesh are compared with those of Japan. Here the author highlights the importance of cottage industries in the overall industrialization as well as economic development. He also prescribes some measures to solve the problems of small-scale industries. Here, the author mainly considers the financial problem of this sector as the major problem and ignores other problems of this sector. In this book the issues of income and employment generation are not discussed.

1.4.8 Bangladesh Institute of Development Studies (1984-87)⁵⁰

The basic objective of "Studies on Rural Industries Development" conducted by Bangladesh Institute of Development Study (BIDS) on behalf of

⁴⁹Momtaz U. Ahmed, *The Financing of Small Industries - A Study of Bangladesh and Japan*, (Dhaka: University of Dhaka, 1987).

⁵⁰Bangladesh Institute of Development Studies, *Studies on Rural Industry Development* (Dhaka: Planning Commission, 1987).

Ministry of Planning was to identify viable income and employment generating rural industrial activities for promotion in 40 selected *upazilas* (police stations). The study areas were selected on the basis of geographical distribution, economic conditions, dominance of non-farm economic activities, local factors of production endowment etc. This study included river and bay fishing, pisciculture, livestock rearing and poultry with rural manufacturing sector and considered all of those in rural industrial sector.

In this study a broad range of possible rural industrial activities were identified for each *upazila* on the basis of preliminary assessment of resource endowment of the *upazilas* and their existing demand conditions. For this purpose available secondary statistics were consulted, and opinions and information were solicited from local people.

The rural society of Bangladesh is traditional and its economy is highly non-monitized. Therefore, the effectiveness of cost-benefit analysis to identify the potential rural industries is arguable. Again, employment creation issue has been discussed in isolation of income generation, but in the presence of under employment and disguised unemployment such an effort will be devoid of reality and may misguide the policy makers. Finally, various important aspects like commodity demand, income and employment generation etc. are not taken into serious account in this study.

1.4.9 Ahmed (1993)⁵¹

The author in his article titled "Selected Issues in Small and Cottage Industry Sector: Bangladesh and Small Asian Countries", discussed some important issues of medium, small and cottage industries of Bangladesh and Asia and Pacific region.

In this paper secondary data provided by BSCIC, BBS, Planning Commission, Handloom Board, and ESCAP were used. The author accepted

⁵¹Dr. Quazi Mesbahuddin Ahmed, "Selected Issues in Small and Cottage Industries Sector: Bangladesh and Small Asian Countries Context," *Bank Parikrama*, Vol. XVIII, Nos. 3 & 4 (Dhaka: BIBM, September and December, 1993), pp. 125-135.

the definitions of small and cottage industries given by BSCIC. But he also mentioned the definitions given by BBS on the basis of employment criterion.

This paper highlighted the importance of small and cottage industries in generating income and employment. It was expected that the potentials of this sector in generating income and employment had to be explored in different countries of Asia and the Pacific regions. This study briefly compared the role of cottage, small, medium and large-scale industries and had shown that small and cottage industries were essential for preparing the ground to flourish the large-scale industries.

The author observed that SCIs needed three types of finance- (a) equity, (b) loan capital; and (c) working capital. Quoting from a report of ESCAP (1993) he stated that in the Asian countries none of those three required financial assistance were provided for SCIs, though almost all of the countries had special financial institution to finance those. In fact, these financial institutions are lacking in loanable fund, promptness and simple terms and conditions for lending. He observed that the financing was the crux of the problem faced by the cottage and small industries in Bangladesh and he suggested some measures in this connection.

1.4.10 Rahman (1995)⁵²

Rahman wrote an article on cottage industry on the basis of information obtained from the various national and international sources. It reveals that the unemployment problem is one of the most burning issues of our economy. It cannot be solved with the help of agricultural sector alone. For solving this problem he highlighted the importance of cottage industry sub-sector. This article discusses advantages of these industries over large-scale industries. He narrates that the economic viability of this sector and its impact on the distribution of income is bright. Finally, the author prescribes that the cottage

⁵²M. Mahbubur Rahman, "Promotion of Employment Through Cottage Industrial activities in Bangladesh," *Journal of the Institute of Bangladesh Studies*, Vol. 18 (Rajshahi University, 1995), pp. 233-252.

industry sub-sector is a measure of solving the unemployment problem of Bangladesh.

1.5 Justification

Poverty is the main problem of the economy of Bangladesh. Unemployment, underemployment and disguised unemployment in the agricultural sector are the major factors responsible for poverty. Like all other LDCs the government of Bangladesh has declared an all out war against poverty and a number of NGOs are also working for fighting it. Not only to eradicate poverty, but also to achieve the desired economic growth rate of the country, non-farm activities under cottage industry sub-sector have to be encouraged and promoted. It is very essential to create income and employment opportunity in the productive sector for supporting the growing labor force with a view to accelerate economic growth. The unemployment situation is very critical in the rural areas in the absence of economic diversification. As the agriculture is a stagnant sector, policy makers are emphasizing the non-farm sector specially, the cottage industry sector to generate income and employment at minimum cost. But there are no effective measures to solve or even to identify the problems of the cottage industry sector. Through this study the problems of this sub-sector are discussed and identified to help the planners to design proper plans and remedial measures. This research has tried to draw the attention of the policy makers towards this vital and potential sector for income and employment generation. Again, through this study attempts are made to evaluate the programs of the government and that may be helpful to design more effective and appropriate programs for the development of this sub-sector.

From the above discussion it is clear that the potentiality of this sub-sector in income and employment generation is beyond any doubt. A good number of studies on this field have already been done. The policy makers of

the country are now paying their interest and attention to this sub-sector in order to generate income and employment for the people living on the edge. But one thing is remarkable that almost all the studies on this field are mainly revolving around some conventional problems of this sub-sector, except targeting the areas of generating income and employment. But, employment creation is the most logical argument in favor of the cottage industry, which is unfortunately absent in various works on this field. Again, the cottage industry sub-sector is considered as a solution for the unemployment problem of rural areas. But the prospects of income and employment generation in this sub-sector is yet to analyze from the pure economic point of view despite its essentiality in designing proper and meaningful plan for development. The review of literature reveals that there exist knowledge gap in this field and undertaking of this study is justified to fill up this knowledge gap.

1.6 Scope of the Study

This study has discussed the present state of employment in the cottage industry sub-sector and also examined its potentiality to create long-run income and employment at a minimum cost. This research tries to analyze how this type of economic activities may be fruitful for the rural poor, women, landless people, marginal farmers and the rural unemployed. Its effectiveness as a weapon to fight against the much-talked poverty is examined in this study. It shows the growth trend of this sub-sector in the post liberation period. Its importance in balanced economic development through resource mobilization and exploitation of regional factor endowments is also analyzed here. Attempts are made to find out whether this type of industry is viable or not from the economic point of view. At the same time, through this study we have tried to make an attempt to identify the major problems often faced by this sector in its way to create income and employment opportunities. Financing and marketing problems of this sub-sector, those have been

discussed in detail. This study makes attempt to measure the relationship between capital intensity, labor productivity and profitability with the help of primary data in order to check how far it is feasible to generate employment and income. At the same time this study discussed how the existing problems could be addressed. In this regard, the role of government for the development of the cottage enterprises was discussed critically by reviewing various government policies. The role of major government and non-government organizations in the development of this sub-sector was also discussed here. Some relevant solutions to the identified problems has been recommended with a view to assist policy makers to design a proper economic policy to deal with this sub-sector.

1.7 Limitations of the Study

This research does not cover those cottage industries, which are located in urban areas of the country. Similarly, in this single study it is not possible to discuss all the aspects of cottage industries, such as the entrepreneurship pattern, income and demand elasticities, productivity, profitability, etc. Our study has not analyzed the socio-political changes resulting from the changes in income distribution caused by the income and employment generation in this sub-sector. In fact, these have been left for future researchers.

1.8 Methodology

The proposed research has used both primary and secondary data. To represent the current situation primary data are required, while to find out the trend on the basis of which conclusions are drawn, data from the secondary sources are used. This research has combined both primary and secondary data to a suitable extent so that the objectives of the study can be realized. For this purpose both survey method and documentary analysis method were used

in this study. By survey method we draw inferences and conclusions by examining the characteristics of a representative portion of a population. Documentary analysis method rearranges and classifies the secondary data to draw inferences and conclusions from those.

1.8.1 Primary Data

Through this study for the purpose of sample survey nine districts of all of the six administrative divisions of Bangladesh were selected.

1.8.2 Sample Selection

To study handloom industries, three districts including Sherajgang, Kushtia and Tangail were selected, as most of the looms are located in these areas. This research selected a *upazila* from each of these three districts and two villages from each of these three *upazilas*, while five handloom industries from each of these six villages were selected for the study on the basis of stratified sampling. The volume of employment, investment and profitability were considered here for stratification. In this way, this research intensively studied 30 handloom units intensively from those areas.

On the other hand, to study cottage industries other than handloom, six districts, including one from each of the six divisions, were selected by using purposive sampling technique. This selection was made on the basis of the concentration of cottage industries in selected areas. Factor endowment and regional consideration were also made in making this selection. These six districts are Cox's Bazar, Dhaka, Rajshahi, Jhalkathi, Satkhira, and Maulovi Bazar. One *upazila* from each of these six districts were selected for the study by depending on the concentration of cottage industrial units. These six *upazilas* are (i) Cox's Bazar Sadar of Cox's Bazar; (ii) Keraniganj of Dhaka; (iii) Puthia of Rajshahi; (iv) Assasuni of Satkhira; (v) Swarupkati of Jhalkathi; and (vi) Baralekha of Maulovi Bazar district. In fact, from each district one *upazila* or police station was selected purposively.

One village from each of these six *upazilas* was also selected on the basis of purposive sampling technique. Ten industrial units from each of six villages were included into this study by using the stratified sampling technique. Once again, stratification here was done on the basis of the volume of employment, investment and profitability.

Thus finally, this survey included 90 industrial units in order to identify their problems and prospects in income and employment generation.

1.8.3 Selection of Respondent

All the owners and three workers from each of 90 industrial units were selected as respondents. Among the three workers the ratio of male and female were determined by their percentage representations in respective industry. From each of the sex group workers were selected on the random basis. In this way the total number of respondents became 360 persons. Moreover, some concerned officials, bankers, policy makers and economists were interviewed for attaining their opinions on various related issues.

1.8.4 Methods of Survey

Relevant persons were interviewed through a structured questionnaire. All of the respondents were interviewed to collect necessary data. The questionnaire for each type of respondent was designed differently as per the requirements of the study (these are enclosed in appendices 1 and 2).

1.8.5 Secondary Sources of Data

- (a) Monthly data on economic trends published by Bangladesh Bank.
- (b) Statistical issues published by Bangladesh Bureau of Statistics.
- (c) Reports from Bangladesh Small and Cottage Industries Corporation and Bangladesh Handloom Board.
- (d) Various Plan documents of the Government of Bangladesh.

- (e) Data published by the international organizations such as UNO, UNDP, World Bank, ILO etc.
- (f) Reports from various NGOs, which are working in the rural areas, especially in the study areas.
- (g) Other published materials like books, journal articles and unpublished documents like thesis.

1.8.6 Techniques of Data Analysis

(i) Socio-economic Analysis: The conclusions of this thesis have both qualitative and quantitative aspects. Therefore, attempts were made to give economic and social interpretation of various trends and phenomena obtained from the analysis of the data.

(ii) Statistical Analysis: All the quantitative data taken from both the sources were presented in simple tabular forms. Averages and percentages have been used mostly. The methods of correlation to establish relationship between the different variables were used here.

1.9. Conceptual Framework

To avoid any type of ambiguity, in this section the key terms of the thesis are defined.

1.9.1 Concept of Cottage Industry Sub-sector

There are three major sub-sectors under the industrial sector. These sub-sectors are - (i) large and medium scale; (ii) small scale; and (iii) cottage industry sub-sector. In this study cottage industry sub-sector included handloom and any other industry which has maximum investment of Tk. 0.5 million and employment of 10 workers only.

1.9.2 Concepts of Employment

Employment and income are very known concepts. Generally, employment means some economic activities, which can generate income for

those who are engaged in. In macro-economic analysis these terms are interchangeable, since in the long-run national income depends on the volume of total employment or economic activities in a country.⁵³ But in the strict sense of economics all the economic activities merely generate income are not employment as the question of disguised un-employment and under employment arise. In fact, a man may be fully employed on the basis of time criterion, but the wage may be so low that he does not earn a subsistence living even when he is fully employed.⁵⁴ In our present study we shall use the following three criteria to define employment more clearly and precisely:

(a) Time Criterion: It considers employment to be an equivalent to the number of days during a year or any other unit of time. According to this criterion an unemployed person is one who is working less than the desirable minimum time period. In this criterion the three different concepts are used. These are: (i) man-days concept, (ii) man power concept; and (iii) household concept.⁵⁵

In these study we consider those as fully employed who work for at least forty two hours weekly and 250 days yearly and have no alternative job.

(b) Income Criterion: According to this criterion under employed persons are those who have a level of income less than the desirable minimum which is considered to be required for bare subsistence. This study considers those who are fully employed and earn at least Tk. 5 for an hour.

(c) The Productivity Criterion: It is used to consider the disguised unemployment. A man is disguised unemployed if his marginal productivity is zero so that, he can be withdrawn from a given job without any loss in output.

1.9.3 Defining the Scale of Cottage Industry

This research uses both qualitative and quantitative criteria to define the

53K. K. Dewett, *Macro Economic Theory*, (New Delhi: 1987), p. 330.

54Mahbub Hossain (1984), *op. cit.*, p. 16.

55Ataul Huq (1984), *op. cit.*, p. 13.

scale of cottage industries. The proposed study however, is limited in those industries, which have the following features:

- (i) Total fixed capital is not more than Tk. 0.5 million.
- (ii) The number of employed labor force in each unit does not exceed 20.
- (iii) Ownership and management are inseparable,
- (iv) Modern machineries are not used and
- (v) The location of the industries is in the rural areas of Bangladesh.

1.10 Chapter Outline

The findings of the study are presented in the following chapters. The titles of the chapters are mentioned below:

- Chapter – 1:** Introduction
- Chapter – 2:** The Growth Trend of the Cottage Industries.
- Chapter – 3:** Review of Government Policies.
- Chapter – 4:** Financing of the Cottage Industries.
- Chapter – 5:** Marketing Problems of the Cottage Industries.
- Chapter – 6:** Problems and Prospects of Employment Generation in the Cottage Industries.
- Chapter – 7:** Problems and Prospects of Income Generation in the Cottage Industries.
- Chapter – 8:** Summary, Recommendations and Conclusions.

CHAPTER-2

GROWTH TREND OF THE COTTAGE INDUSTRIES.

Bangladesh, like many other developing countries, has achieved medium rate of economic growth. Since the independence, in true sense the economic growth rate of Bangladesh never exceeds the benchmark of pre-liberation period and it revolves around 4 to 5 percent per annum. During the last 25 years, except the first half of the present decade, the growth rate of the industrial sector was very low and the overall economic growth was dependent on the growth of service sector at large. Despite this exorbitant situation of industrial sector, cottage industry as a sub-sector played better role in terms of income and employment generation than that of large and medium scale industries during the 1970s and the 1980s. During this period the growth rate of cottage industries was no less than that of medium and large-scale industries.

In this chapter by using secondary data an attempt has been made to trace out the growth trend of cottage industries in Bangladesh. Here, the mere increase in the number of cottage industries has not been considered, rather the employment and the income aspects of cottage industries has been taken into account. Thus, the attention has been given to find out growth trend of employment and income generation in the cottage industry sub-sector. However, the growth trend of cottage industries in terms of number has also been discussed in this chapter. This chapter represents a brief profile of cottage industrial sub-sector in Bangladesh.

2.1 Growth Trend of Cottage Industries

Paucity of information about cottage industries in Bangladesh precludes any attempt at examining the nature and extent of such industries in any meaningful detail. The EPSIC, the former name of BSCIC, conducted a survey on SCI for the first time in 1962. According to that survey the total number of cottage industrial units in the then East

Pakistan was 2.35 lakh, while the second survey conducted by BSCIC showed that the total number of cottage industries increased to 3.22 lakh by 1980, which further increased to 4.05 lakh in 1991 and to 4.33 lakh in 1995 and that increases to 4.9¹ lakh in 2000.¹ The number of cottage industrial units has become double during the last three decades. Table-2.1 is giving more clear and precise picture in this regard.

Table- 2.1:Growth Trend of Cottage Industrial Sub-sector.

Year	No. of Units	Increase (in %)	Average Rate of Growth Per annum (%)
1962	234934	-	-
1980	321745	37	2.05
1991	405476	26	2.60
1995	432763	7	1.70
2000	490154	13.26	2.65

Source: BSCIC, Annual Report, Various Issues.

From Table-2.1 it is clear that new establishment of cottage industries is growing at a mixed rate. Among the 8 broad categories, food, textile and wood product industries consist of the largest number of units, and as a single category textile industries are at the top of the list.² The major seven cottage industries in terms of the number of units are (i) tailoring, (ii) bamboo and cane products, (iii) salt crushing, (iv) fish net manufacturing, (v) rice mill, (vi) pottery, and (vii) wood products which cover about 50 percent of total number of cottage industrial units.³

If the district-wise distribution of cottage industries is considered, then Cox's Bazar district ranks first in the list and thereafter comes Chittagong, Dhaka, Comilla, Pabna, Rajshahi, Mymensingh and Bogra in

¹Bangladesh Small and Cottage Industries Corporation (BSCIC), *Annual Report 1994-95* (Dhaka: BSCIC, 1996), p. 24.

²Bangladesh Small and Cottage Industries Corporation (BSCIC), *Survey Report on Cottage Industries of Bangladesh* (Dhaka: BSCIC, 1994), p. 3.

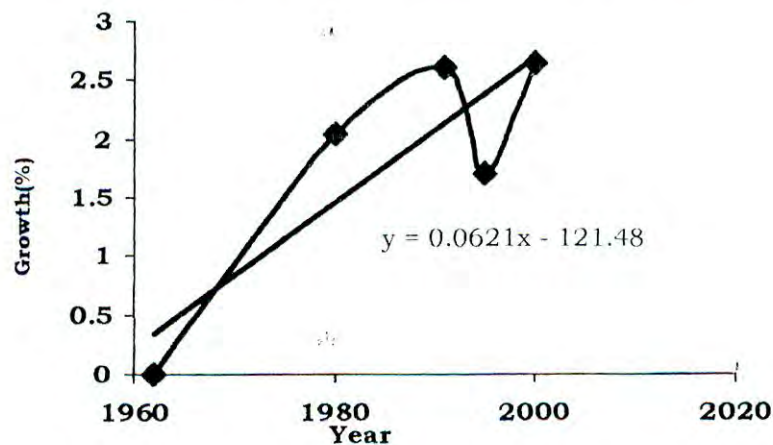
³*Ibid.*, p. 1.

regular order. In these districts about 70 percent of the total cottage industrial units are located.⁴

Though the number of some cottage industrial units is expanding, the same of some others are contracting. The cottage industrial units like *dhenki* products, mat products, *ghani shilpa*, pottery etc. are at the verge of ruin. The number of these cottage industrial units is sharply declining because of the introduction of their substitute goods at cheaper prices produced by the large and medium scale industries. On the other hand, handloom and textile industries, light engineering works, metal works etc. are gradually expanding.

In fact, traditional cottage industries are disappearing day after day and comparatively modern and well-diversified cottage industries are flourishing. Figure-2.1 is showing that the growth trend of cottage industries is positive, but the slope of the trend line is revealing that growth rate is gradually declining from 1991 to 1995 but later steeply moves upward from 1995 to 2000.

2.1 Growth Trend of Cottage Industries.



⁴Ibid.

2.2 Growth Trend of Handloom Sector

Handloom sector plays vital role in generating income and employment in this industrial sub-sector. According to the census of Handloom Board, there were nearly 260 thousand operational and about 177 thousand non-operational looms of which, 5.5 percent looms producing non-cotton cloths, while the remaining looms were involved in weaving cotton cloths during 1978.⁵ But a later study conducted by BIDS shows that the total number of looms in the country was about 400 thousand and average number of operational looms per enterprise had risen from 1.32 percent in 1978 to 3.87 percent in 1987.⁶ Handloom Census of 1991 recorded that there were 500 thousand handlooms of which 317 thousand were operating.⁷ During the last twenty years modernization has touched this sector to a considerable extent. The more productive semi-automatic *Chittaranjan* looms have increased from 30 percent to 50 percent during this period and the less productive pit fly shuttle looms have declined to 45 percent from 60 percent.⁸ The average value added per loom is about Tk. 17.2 thousand and value-added in this sector as a whole is Tk. 5000 million which is 33 percent of total valued added by the small and cottage industry sub-sector.⁹ Presently, the handloom sector is mainly producing *sarees* which cover 60 percent of its total production, though a good number of looms are now increasingly producing some fine cloths for the readymade garments industries.¹⁰ Employment per operational loom is 2.44 and on that basis the total employment in the handloom sector is about 7.5 lakh.¹¹

⁵Bangladesh Bureau of Statistics (BBS), *Report on Bangladesh Handloom Census* (Dhaka: Bangladesh Handloom Board, 1983-84), pp. 1-5.

⁶Bangladesh Institute of Development Studies (BIDS), *Report on Bangladesh Handloom Sector Study*, Vol. 1 (Dhaka: BIDS, 1989), pp. 9-13.

⁷BBS, *Handloom Census* (Dhaka: 1991), p. 8.

⁸Zaid Bakht and Mahabub Hossain, *Value Added and Employment in Services, Small-Scale and Cottage Industries in Bangladesh: A Critical Review*, Research Report No. 109 (Dhaka: BIDS, December 1989), p. 23.

⁹*Ibid.*, p. 25.

¹⁰*Ibid.*, p. 24.

¹¹BBS, *Labour Force Survey Report* (Dhaka: 1997), p. Summary Table.

Thus, about 3 percent of the total civilian labor force is employed in this sector and it accounts for 35 percent of total employment generated in small and cottage industry sub-sector.¹² But due to modernization the average size of employment per loom during the last two decades declined from 2.66 percent to 2.44 percent.¹³ Adult male workers cover 50 percent of the workforce engaged in this sector and they carry out the basic task of weaving and warping, while ancillary works are left to female and child workers. Under employment is found more pervasive amongst female and child workers as compared to male workers.¹⁴

It may be concluded that during the last two decades the total number of looms has increased and value added per loom has also increased. While, during the same period the employment per loom has declined slightly. It may be because of modernization of looms, which increases capital intensity by reducing labor intensity.

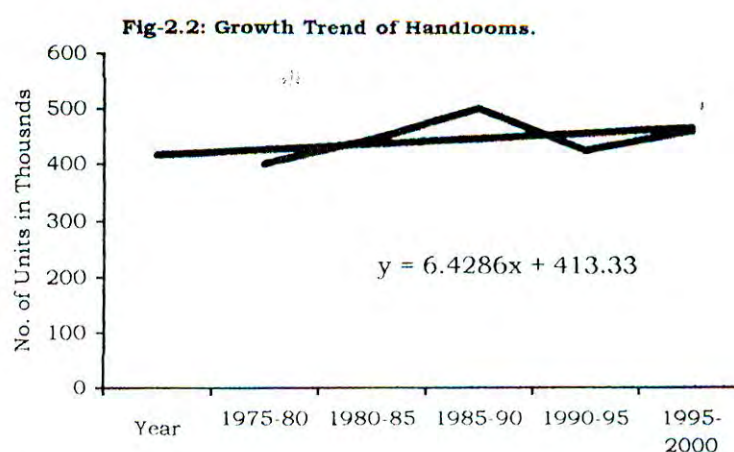


Fig-2.2 is representing the growth trend of handlooms. According to this trend line, the growth of handloom gradually increases and reaches at the top during 1985-90 but later, faces a heavy recession during 1990-95. While in 1995-2000 it is gradually growing up.

¹²Zaid Bakht and Mahabub Hossain, *op. cit.*, pp. 26-27.

¹³*Ibid.*, p. 26.

¹⁴*Ibid.*

2.3 Employment in Cottage Industries

Out of total 120 million population (1997), only 40.31 million are employed in the various economic activities in Bangladesh.¹⁵ A good number of studies on the unemployment issue of Bangladesh reveal that the rate of unemployment is no less than 40 percent of its total labor force. Out of the total number of employment, 20.39 million persons are engaged in agriculture including forestry, fishery, livestock, and nursery; 2.98 million work in manufacturing sector, and remaining 16.94 million are employed in other sectors.¹⁶ Table-2.2 shows the above facts.

Table-2.2: Sectoral Employment in Bangladesh.

Sectors	No. of Employment	Sectoral Share (%)
Agriculture	20386000	50.56
Manufacturing	2983266	7.40
Others	16944764	42.04
Total	40314030	100.00

Source: (a) Labor Force Survey Report, 1996, Table: u-10.

(b) The Fifth Five-Year Plan, 1997, p. xii.

From Table-2.2, it is clear that the contribution of industrial sector in income generation and employment creation is insignificant; and employment creation in productive sector is exclusively dependent on the agricultural sector. On the other hand, among the industrial sub-sectors large and medium, small and cottage industries including handlooms provide employment opportunities to 0.19, 0.79, and 1.99 million persons respectively.¹⁷ Thus, the lion's share of industrial employment comes from the cottage industry sub-sector. Table-2.3 is exhibiting the above data more precisely.

¹⁵Bangladesh Bureau of Statistics (1997), *op. cit.*, p. Summary Table.

¹⁶Bangladesh Small and Cottage Industries Corporation (1996), *op. cit.*, p. 25; and The Government of Bangladesh (GOB), *The Fifth Year Plan* (Dhaka: Planning Commission, 1997), p. XIV-6.

¹⁷*Ibid.*

Table - 2.3: Sub-sectoral Share of Industrial Employment in Bangladesh.

Sub-sectors	No. of Employment	Sub-sectoral Share (%)
Large and medium scale industries	194922	6.53
Small scale industries	799490	26.80
Cottage Industries and Handloom	1988854	66.67
Total	2983266	100.00

Source: (a) BSCIC, Annual Report 1994-95, p.25;
 (b) GOB, Labor Force Survey Report 1996, Table: u-13;
 (c) GOB, The Fifth Five-Year Plan 1997, p.xiv.

The available data show that the cottage industry alone contributes to about 67 percent of total industrial employment. Thus, role of the cottage industry sub-sector in employment generation is significantly higher than the other industrial sub-sectors.

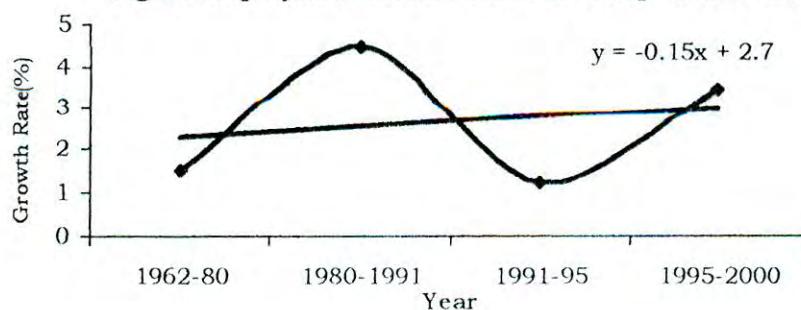
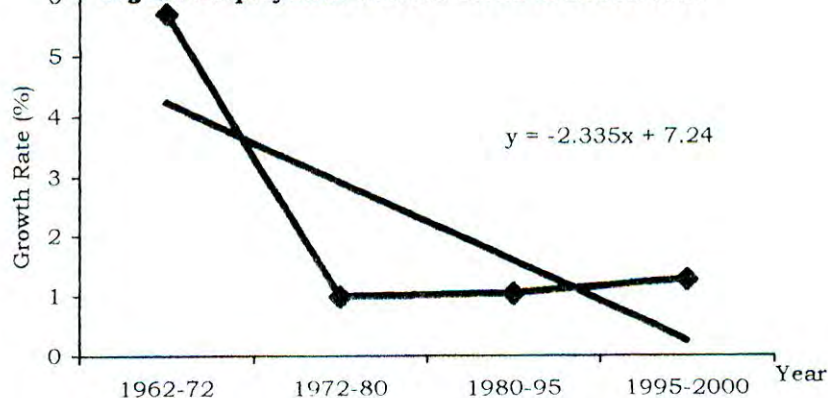
2.3.1 Growth Trend of Employment in Cottage Industry Sub-sector

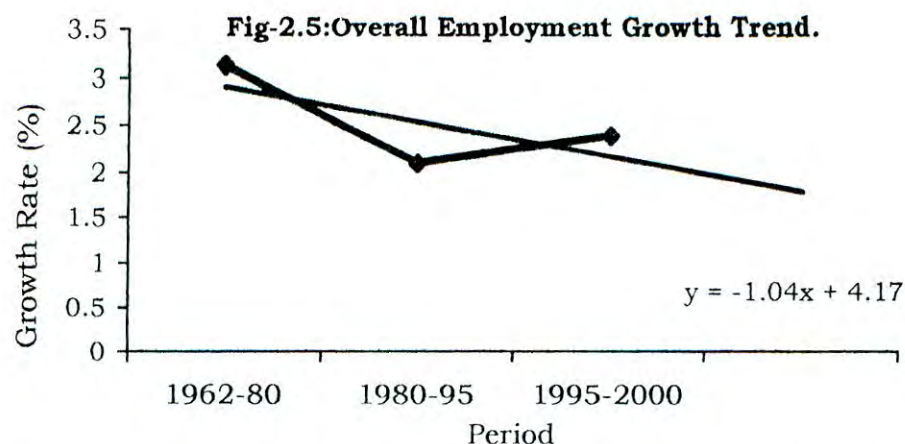
The different reports, prepared by EPSIC, BSCIC, BIDS, and Handloom Board reveal that the employment in cottage industries is gradually increasing. But the growth trend was mixed during the period 1961-95. The average growth rate in employment generation was 1.5 percent during 1961-80, but it increased to 4.5 percent by 1990; and again, declined to 1.2 percent during the period 1990-1995. On the other hand, the growth rate of employment in handloom during 1967-74 was 5.7 percent, which declined to 0.98 percent later, but further marginally increased to 1.03 percent during 1980-95. Table-2.4 and figures 2.3, 2.4 and 2.5 give a detail and precise picture.

Table- 2.4:Employment in Cottage Industries and Handlooms.

Year	Cottage Industries		Handlooms		Total	Total Average Growth rate (%)
	Employment	Growth rate (%)	Employment	Growth rate (%)		
1962	669562	1.5	520000	5.70	1189562	3.13
1972	NA		850000		NA	
1980	961806	4.5	900000	0.98	1861806	2.09
1991	1331032	1.2	NA	1.03	NA	
1995	1416237	3.5	1030000	1.26	2446237	2.38
2000	1466148		1043000		2525148	

Source: (a) BSCIC, *Annual Report 1994-95*, p. 25;
 (b) BBS, *Report on Bangladesh Handloom Census*, 1990;
 (c) BSCIC, *An Outline of Third Five Year Plan* (Dhaka: May, 1984), Table-6, p. 40.
 (d) BHB, *Annual Report*, Various Issues.

Fig.2.3:Employment Growth Trend in Cottage Industries.**Fig-2.4:Employment Growth Trend in Handlooms.**



From the Table-2.4 and above figures-2.3, 2.4 and 2.5, it is clear that the present situation of cottage industry sub-sector is showing a downward trend in the case of employment generation. During 1980-90 the growth rate in cottage industrial sub-sector in terms of employment generation was considerably higher than the other periods. This was because of government's policies, NGOs' activities, banking and credit facilities, expansion of domestic markets, and BSCIC's initiatives to spread the cottage industrial activities over the Hill Tracts and other parts of Bangladesh. At the same time during that decade, the country pursued a conservative import policy that assisted the growth of this sub-sector by increasing the demand for local commodities. On the other hand, the growth in the handloom sector was sufficiently assisted by the export of readymade garments, import policy, and the introduction of new designs and modern technology. The growth rate in employment generation by handloom sub-sector though declined in the post liberation period, yet the absolute number of employment in the sub-sector increased. In this sub-sector as a whole the total number of employment also increased at a decreasing rate and as a result, the trend line (fig-2.5) shows a negative slope.

2.3.2 Employment in Some Major Cottage Industries

The number of cottage industrial units in Bangladesh is about 4.05 lakh, which employ about 13.31 lakh people and each industrial unit employ 3.38 persons, which were only 2.85 during 1980s.¹⁸

The cottage industries are categorized into eight broad groups. Among these groups, Food and Allied Products; Textile, Wearing, Apparel and Leather Industries; and Wood Products together generate about 75 percent of total employment of this sub-sector.¹⁹ Other industries, of remaining five broad groups are responsible for generating rest 25 percent of total employment.

During 1981-91, the average annual growth rate of employment in Paper, Paper Products, Printing and Publishing industries was the highest. Other cottage industries like Fabricated metals, Machinery and Equipments showed luxuriant growth. While some others showed negative growth (as shown in Table-2.5). But the average growth rate of employment during 1981-91 was 4.5 percent in this sub-sector.²⁰ Among these eight broad categories the following ten industries give most of the employment: rice mills, ready made garments, biscuit and bakery, hosiery and other knitted fabrics, printing and publishing, light engineering, flour mills, oil mills, saw mills and lime products. These industries jointly generate 72.2 percent of total employment of this sector.²¹ In fact, rice mills and ready made garments provide 41 percent of employment in cottage industries. But the handloom sector alone provides 50 percent of total employment generated by this sector.²²

¹⁸Bangladesh Small and Cottage Industries Corporation (BSCIC), *Cottage Industries of Bangladesh: A Survey* (Dhaka: BSCIC, 1984), p. 3.

¹⁹BSCIC (1994), *op. cit.*, p. 2.

²⁰*Ibid.*

²¹*Ibid.*, p. 5.

²²*Ibid.*

Table - 2.5: Employment and Growth in Major Cottage Industrial Units.

Sl. No.	Name of Industrial Groups	1981		1991		Growth Rate (%)
		No. of Workers	Weight (%)	Workers	Weight (%)	
1.	Food and Allied Products	232414	25.34	348889	25.08	+5.00
2.	Textile, Wearing Apparel and Leather Products	229404	25.02	340583	24.39	+4.80
3.	Wood and Wood Products	215449	23.5	327660	23.52	+5.02
4.	Paper, Paper Products, Printing and Publishing	7586	0.82	16353	1.23	+11.50
5.	Chemicals, Petroleum, Rubber and Plastic	5075	0.55	18788	1.27	+27.00
6.	Non-metallic Mineral Product	83145	9.05	75766	9.06	-0.90
7.	Fabricated Metals, machinery, Equipment	60148	6.60	123932	9.28	+10.60
8.	Other manufacturing industries	83586	9.12	82091	6.17	-0.20
Grand Total		916807	100.00	1334062	100.00	+4.50

Source: BSCIC, *A Survey Report on Cottage Industries of Bangladesh 1994*, Annexure,

During 1981-91, ready-made garments industries showed maximum growth in generating employment; and rice mills, oil mills and light engineering works showed better performance; while the number of employment was declined in lime, hosiery, bakery and biscuit and saw mills (exhibited in Table-2.6). Despite this downward trend in some of these 10 industries the employment generated by them increased at an average annual rate of 7.12 percent.

Table - 2.6: Employment in the Top Ten Industrial Units.

Sl. No.	Name of Industries	No. of Employment		Growth Rate (%)
		1981	1991	
1.	Lime	2556	1694	-3.3
2.	Light Engineering	10106	16688	-1.9
3.	Saw Mills	6706	5418	-1.9
4.	Hosiery	3331	3146	-0.5
5.	R. M. Garments	6375	16246	+15.9
6.	Rice Mills	43672	87978	+10.0
7.	Oil Mills	21130	12998	+10.3
8.	Flour Mills	2312	2462	+0.6
9.	Bakery and Biscuit	12063	10570	-1.2
10.	Printing and Publication	6563	9452	+4.4
Total		114814	196662	+7.12

Source: (a) BSCIC Cottage Industry Survey, 1994, Annexure- 'A', Fig. 3.

(b) BSCIC, Cottage Industry Survey, 1984, Summary Table, pp. 06-53.

2.3.3 Pattern of Employment

The rural industries are basically of informal types and both part-time and full-time laborers are found in these industries. Generally, it is assumed that part-time workers are majority in cottage industries, but it has been proved wrong by a number of studies. On an average, 82 percent workers are employed in this sub-sector for full-time against 18 percent of part time workers.²³ Interestingly the part-time workers constitute major part of family laborers.

In fact, part-time workers are large in number in those industries, which are operated on the seasonal basis, and completely dependent on locally produced agricultural inputs and the proprietors of which have other sources of income. The major proportion of part-time workers are found in *gur* making, fishing nets, jute rope and handicrafts, timber processing, *lac*,

²³Qazi Kholiquzzaman, and et. al., *A Profile of Rural Industries in Bangladesh, 1978*, BIDS-Research Report No. 87 (Dhaka: BIDS, December 1988), p. 31.

iagar and *atar* industries, *shital pati* and mats, and jute baling industries.²⁴ In these industries workers on an average work less than 150 working days (6 hours in a day) in a year. While the industries which are not solely dependent on the locally produced agricultural inputs, and the proprietors of which have no alternative sources of income and which operate round the year employ most of the full-time workers. Dairy products, grain milling, handloom, jewellery, metal furniture, soap making, plastic products, carpentry, blacksmithy, paper bag, and lime industries employ cent percent full-time workers who work more than 301 days in a year.²⁵ But most of these industries are located in the urban areas. The Table-2.7 is representing the pattern of employment in this sub-sector in brief.

Table -2. 7:Pattern of Employment.

Types of Workers	Pattern of Employment	
	Full-time (%)	Part-time (%)
Family	79.3	20.7
Hired	86.0	14.0
Male	89.0	11.0
Female	76.9	24.0
All Workers	81.5	18.5

Source: Mahabub Hossain, "Employment and Labour in Bangladesh Rural Industries," *The Bangladesh Development Studies*, Vol. XII, Nos. 1-2 (Dhaka: BIDS, March-June, 1984), p. 9.

2.3.4 Under Employment in Cottage Industries

Under employment problem prevails in the cottage industries located in the rural areas to a considerable extent. There are two types of cottage industries: seasonal industries and year round industries. In the true sense, the cottage industries located in the rural areas are mostly operated on the seasonal basis and cannot offer full-time employment for the workers. If we consider 48 hours a week as full employment, then only 16 percent workers

²⁴Mahabub Hossain, "Employment and Labour in Bangladesh Rural Industries," *The Bangladesh Development Studies*, Vol. XII, Nos. 1-2 (Dhaka: BIDS, March-June, 1984), p. 9.

²⁵BIDS, *Rural Industries Study Project - Final Report* (Dhaka: BIDS, 1981), p. 85.

are full-time employed in the cottage industries.²⁶ But this rate decreases when the proprietors of those are also dependent on agricultural sector for income. In such a case, the rate of under employment is more than 80 percent and only 38 percent of the workers in those industries work for more than 12 hours but less than 48 hours a week.²⁷

Insufficient supply of raw materials, dependence of proprietors on agricultural sector, inadequate marketing and credit facilities, inadequate demand, infrastructural problems, non-commercial attitudes of the proprietors, etc. are responsible for under employment in the cottage industries.

2.3.5 Types of Workers

A large portion of the total industrial labor force of Bangladesh is employed in the cottage industry sub-sector. The participation of female workers is very remarkable in this sub-sector. Among the employed persons in this sub-sector; 7 percent are children, 34 percent are women, and 59 percent are male.²⁸

The family members mainly carry on the cottage industrial activities. Approximately, 71 percent workers of these industries are family members, while only 29 percent are hired labor.²⁹ Among the family laborers, 42 percent are male and 29 percent are female, and 21 percent are male and 8 percent are female among the hired laborers.³⁰ On the other hand, 65 percent of the female and only 35 percent of the male workers are unpaid in this sub-sector.³¹ On an average 44 percent of total laborers engaged in these industries are unpaid and almost all of them are family members. More over, during the last decade, number of hired labor decreased by 10

²⁶*Ibid.*, p. 88.

²⁷Mahabub Hossain, *op. cit.*, p. 22.

²⁸Qazi Khaliquzzaman Ahmed, and *et al.*, *op. cit.*, p. 31.

²⁹BIDS (1981), *op. cit.*, p. 79.

³⁰*Ibid.*

³¹Qazi Khaliquzzaman Ahmed, and *et. al.*, *op. cit.*, p. 79.

percent and consequently, the employment generation in this sub-sector is reportedly playing a declining role in income generation.³²

The incident of unpaid labor force is acute in those industrial units where marginal productivity of labor is lower than the subsistence level of wage. Under such a situation the proprietors find it profitable to employ their family members for whom they have to pay nothing since the opportunity cost of family members as workers is nearly zero, especially in the case of female family members. Therefore, those cottage industries generally hire labor, which make handsome profit and need specialized workers. The family members carry on the traditional cottage industries. Again, among the hired laborers only 1.5 percent, who are the relations of the proprietors, are paid regularly and properly and only 12 percent are permanently hired.³³

Hired labor is maximum in wood processing, jute baling, structural lay products, tobacco processing, and soap and perfumes industries (Table-2.8).³⁴ These industries hire more than 70 percent of its workers and participation of women in those industries are minimum.

Table - 2.8: Top Ten Industrial Units Employing 'Hired Labor'.

Sl. No.	Name of the Industries	% of Hired Labor in Each Unit
1.	Jute baling	95
2.	Bidi making	85
3.	Saw mills	82
4.	Bricks and tiles	80
5.	Printing	80
6.	Metal furniture	79
7.	Soap and tooth powder	70
8.	Grain milling	64
9.	Motor repairing	63
10.	Bakery	60

Source: BIDS, *Rural Industry Survey Project - Final Report*, (Dhaka: 1981), p. 73.

³²BSCIC (1984), *op. cit.*, p. 52.

³³Qazi Khaliquzzaman Ahmed, and *et. al.*, *op. cit.*, p. 31.

³⁴BSCIC (1984), *op. cit.*, pp. 46-53.

On the other hand, footwear repairing, *Shital pati* and mats, basketry, fishing equipments, *dhenki* products, *chatai* making, fishing net making, and lime industries are mainly carried on by the family workers and in these industries a large number of female workers are engaged (Table-2.9).³⁵ In *chikka* making, rope and cordage, salt crushing, preserving of food, silk products, and handloom, the participation of female workers are maximum (Table-2.10).³⁶

Table- 2.9: Top Ten Industrial Units Employing 'Family Labor'.

Sl. No.	Name of the Industries	% Family Labor in Each Unit
1.	Footwear	99.00
2.	<i>Shital pati</i> and mats	98.00
3.	Basketry	97.50
4.	Fishing equipments	96.00
5.	Dhenki products	95.80
6.	<i>Chatai</i> making	93.00
7.	Fishing net	93.00
8.	Coir ropes	92.00
9.	Pottery	91.00
10.	Reeling and dyeing yarn	91.00

Source: Mahabub Hossain (1984), *op.cit.*, p.7

From the above discussions it seems that the cottage industries are mainly dependent on unpaid family laborers. Though, the participation of female workers in this sub-sector is significant but a few of them are wage laborers and as a result, this type of employment is not helping them to get free from the economic deprivation. At the sometime, the percentage of hired labor is declining gradually, which is showing that the cottage industries are not running profitably as the profitable industrial units mainly hire labor. However, the composition of different types of workers in this sub-sector may be summarized in Table-2.11.

³⁵Mahabub Hossain, *op. cit.*, p. 7.

³⁶BSCIC (1984), *op. cit.*, pp. 46-53.

Table- 2.10: Top Ten Industrial Units Employing 'Female Workers'.

Sl. No.	Name of the Industries	% of Female Workers in Each Unit
1.	Jute handicrafts	68
2.	Lime making	68
3.	Paper bag and box	67
4.	Rope and cordage	64
5.	Fishing net	63
6.	Mat making	63
7.	<i>Dhenki</i> products	56
8.	Basketry	49
9.	Salt crushing	47
10.	Reeling of year	48

Source: BSCIC (1994), *op.cit.*, p. 2.**Table - 2.11: Composition of Different Types of Workers.**

Types of Workers	Male, (%)	Female (%)	Both Sexes (%)
Family Workers	41.9	28.8	70.6
Proprietors	26.5	0	26.5
Unpaid Laborers	15.4	28.8	44.1
Hired Workers	20.9	8.4	29.3
Hired Relations	0.9	0.6	1.5
Hired Non-Relations	19.0	7.5	26.5
Apprentices	1.0	0.3	1.3
All Workers	62.8	37.2	100.00

Source: BIDS(1981), *op.cit.* p. 73.

2.3.6 Education and Training of the Workers

The majority of the rural industrial workers are devoid of any formal education and training. Alike the national literacy situation, male workers are more literate than the female workers. On the other hand, among the workers the rate of vocational training is less than the literacy rate. The cottage industries like reeling yarn, handloom, general tailoring, cane and bamboo furniture, drug making, leather footwear, pottery, and repairing services engage most of the trained and semi-trained workers, but the number of these trained and semi-trained workers is not more than 10 percent of the total workers employed and again, in these industries the rate of literacy is higher than that of the other industries in this sub-sector.³⁷ As

³⁷BIDS (1981), *op. cit.*, p. 89.

a result of poor educational and training background, the productivity of the workers is very low and it is considered as an obstacle to the development of this sub-sector.

2.4 Growth of Value-Added and Income Generation in this Sub-sector

The economy of Bangladesh is agro based. The contribution of agriculture to GDP is still the highest as a single economic sector, while the contribution of industrial sector is very insignificant and even much lower than that of newly flourished service sector. Table-2.12 is presenting the above facts more precisely.

Table -2.12:Sector-wise Contributions to GDP and Sectoral Growth in 1999-2000.

Sectors	Contribution to GDP (%)	Rate of Growth (%)	Contribution to GDP (in crore Tk.)
Agriculture	31.9	7.2	25566
Industry	11.1	4.2	8870
Service	24.4	5.13	19653
Others	32.6	7.5	26082
Total	100	6.0	80171

Source: GOB, Economic Survey, (Ministry of Finance, Dhaka: 2000).

From Table-2.12, it is clear that industrial sector as a whole is not revealing any better performance than other sectors in terms of income generation. Generally it is argued that a decrease in the contribution of agriculture is accompanied by an increase in the contribution of industrial sector. But in Bangladesh the picture is different. In this country the contribution of service sector has sharply increased as that of agricultural sector has declined and productive sector, like industrial sector, has failed to play desired role in this context.

2.4.1 Income Generated in Industrial Sector

An industrial dualism exists in the economy of Bangladesh. This reveals from the fact that among the industrial sub-sectors, the lion's share

of income is generated in the large and medium scale industries, though the small and cottage industries create maximum industrial employment. Moreover, the contribution of small scale and cottage industries is gradually declining. During the last decade, the sectoral share of small and cottage industry sub-sector declined from 4.6 percent in 1985 to 4 percent in 1995, whereas, during the same period, the contribution of large and medium scale industries increased from 5.2 to 7.5 percent. Table-2.13 is exhibiting the above mentioned facts more precisely.

Table-2.13: Contribution of Industrial Sub-sectors to GDP and Growth Rate (in crore Tk.).

Industrial sub-sectors/ Years	Small scale and cottage industry		Large and medium scale industry		Total
	Annual Contribution	Average Annual Growth (%)	Average Annual Contribution	Growth rate (%)	
(1)	(2)	(3)	(4)	(5)	(6)= (2+4)
1980	1778 (5.2)	1.1	2051 (6.0)	1.7	3829
1985	1883 (4.6)	1.18	2128 (5.2)	0.75	4011
1990	2056(4.1)	2.9	2870 (5.8)	10.06	5087
1995	2428 (4.0)	4.2	4488 (7.4)	11.20	7274
2000	2932(3.7)	4.0	5938 (7.4)	4.3	8870
Average	2215.4 (4.3.)	2.64	3568 (6.13)	5.6	5814.2

Note: Figures in brackets show percentage.

Source: BBS, *Statistical Year Book* (various issues).

As shown in the above table, the average rate of growth of small and cottage industrial sub-sector in terms of its contribution to GDP during the last 15 years was only 2.6 percent as against about 5.6 percent in large and medium scale industries. Again, during the same period, the contribution of large-scale industries to GDP increases more rapidly than that of small and cottage industries. More over, value added per worker is the highest in large and medium scale industries and lowest in cottage industries. But, on the other hand, wage cost per worker, capital-labor ratio, and value added-

capital ratio, etc., are lower in cottage industries than those in medium and large scale industries (Table- 2.14).

Table-2.14: Labour and Capital Productivity in Cottage, Small and Large Industries (in Tk.).

	Cottage	Small	Large
Value Added per worker 1981/82	4701	13332	38542
Wage Cost per Worker	3164	3198	9659
Capital (Fixed)/Labor ratio	1790	8509	78438
Value Added/Capital (Fixed) ratio	2.61	1.36	0.37

Source: Mahbubur Rahman, "Promotion of Employment through Cottage Industrial Activities in Bangladesh," *Journal of IBS*, Vol. XVIII (Rajshahi: 1995), p. 250.

When cottage industries are compared with other industrial sub-sectors, it is observed that capital per labor is 4.7 times higher in small-scale industries and 43.8 times higher in large-scale industries. But value-added in small scale and large-scale industries are respectively 2.8 and 8.19 times higher than that of cottage industry.³⁸ Moreover, from the value-added and capital ratio, it is clear that capital is more efficiently used by the cottage industry sub-sector as compared with the remaining two industrial sub-sectors.

2.4.2 Income Generated in Some Major Cottage Industrial Units

The average value added by this sub-sector is Tk. 6.6 billion per year. Out of this total amount, about 50 percent of the total value is added by ten major cottage industrial units which are: hosiery and knitted fabrics, automobile servicing and repair, saw mills, biscuits and bakery, printing and publishing, lime products, light engineering, wooden furniture and fixture, jewellery, and flour mills.³⁹ In fact, among these ten industrial units only hosiery and other knitted fabrics, and automobile servicing and repair contributed 20 percent of total value added. While other eight's contribution ranged from merely three to five percent. Value added generated in the

³⁸BSICS (1994), *op. cit.*, pp. 45-51.

³⁹*Ibid.*

broad eight types of cottage industries with their respective weight has been given in the Table-2.15.

Besides these, contribution of handloom products in this regard is very significant. The annual value added by this industrial unit is about Tk. 5000 million which covers 60 percent of the income generated in cottage industries sub-sector. In terms of contribution to total value-added in this sub-sector, some other cottage industrial units like carpentry, grain milling, tailoring, sugarcane, *gur*, *dhenki* products, oil making etc. also play vital role.⁴⁰

Table – 2.15: Value-Added in Broad Eight Types of Cottage Industries.

Sl. No.	Types of Industries	Value-added (Amount in '000' Tk.)	Percentage
1.	Food and allied products	2011813	38
2.	Textile, wearing, apparel and leather	874222	16
3.	Paper, paper products, printing and publishing	79555	01
4.	Wood, wood products, including furniture	800329	14
5.	Chemicals, petroleum, rubber, and plastics	90345	01
6.	Non-metallic mineral products	294013	05
7.	Fabricated metals, machinery and equipments	843813	15
8.	Other manufacturing industries	674816	10
Total		5668906	100

Source: BSCIC, Survey Report on Cottage Industries of Bangladesh, 1994.

But most of the cottage industries contributing significantly in income generation are mainly located in the urban areas, operated by the hired labor and relatively those are high capital intensive.⁴¹ These industries generate value-added up to Tk. 5000 per-enterprise. The industries like jute bailing, grain milling, saw milling, soap making, plastic products, brick -

⁴⁰BIDS (1981), *op. cit.*, p. 138.

⁴¹Qazi Kholiquzzaman and *et. al.* (1988), *op. cit.*, p. 39.

making, etc. on an average generate over Tk. 5000 per-enterprise as the value-added per month. On the other hand, the industrial units, which are carried on by the family workers, especially by the female workers and operated on the seasonal basis, generate relatively less income.⁴² The various studies on this field show that the owners of these industries are poor and landless and these cottage industrial units can hardly generate income between Tk. 250 to Tk. 1000 per-enterprise per month. But the industries having higher contribution to value added, have lower contribution to employment generation and its a great dilemma for the cottage industries in Bangladesh. On the other hand, some modern cottage industries like metal works, chemicals, plastic products, leather products etc. account for a very low contribution to value added.⁴³

Most of the cottage industries use agricultural or domestically produced intermediate goods as inputs. Of the total raw materials used, 52 percent is agricultural products and 4.3 percent is processed agricultural products. While the imported raw materials account for about 13 percent of the total value of intermediate consumption.⁴⁴ Imported inputs are mainly used in plastic products, jewellery, handloom products, soap and tooth powder, metal furniture, foot-wear making industries etc. and most of these industries are of small scale type and are located in urban centers.

2.4.3 Profitability of Cottage Industries

In this sub-sector, on an average about Tk. 6.2 billion net profit is generated in a year. But the top ten industrial units earn 49 percent of this net profit. These industries are readymade garments, automobile servicing and repair, hosiery and other knitted fabrics, lime products, jute and textile

⁴²Mahabub Hossain Hossain, *op. cit.*, pp. 13-24.

⁴³BIDS (1981), *op. cit.*, pp. 136-138.

⁴⁴Mahabub Hossain, *op. cit.*, pp. 12-13.

mills, saw mills bricks and tiles, light engineering, steel re-rolling, and tannery.⁴⁵ The profit generated in 8 broad industrial categories has been given in Table-2.16.s

Table-2.16: Net Profit Generated in Cottage Industry Sub-sector (in '000' Tk.).

Sl. No.	Name of industrial groups	Net Profit	% of Total
1.	Food and allied products	804,647	50
2.	Textile, wearing, apparel and leather industries	1,47,847	09
3.	Wood and wood products	1,19,219	07
4.	Paper, paper products, printing and publishing	19,176	01
5.	Chemicals, petroleum, rubber, and plastics	22,320	01
6.	Non-metallic mineral products	135,958	09
7.	Fabricated metals, machinery and equipments	314,998	20
8.	Other manufacturing industries	54,216	03
Total		1618381	100

Source: BSCIC, *Cottage Industry Survey Report, 1994*.

The maximum total net profit comes from black smithy, but net profit per unit is not satisfactory, while the industries manufacturing lampshade are incurring maximum loss. Yearly average net profit rate per unit of enterprise is Tk. 13.50 while the net loss of the industries of loosing concerned is Tk. 27.60 per enterprise.⁴⁶

Profit is satisfactory in those cottage industries that are of medium size in respect of both the scale of operation and capital-intensity. Some industrial units like dairy products, fish drying, grain mill, *bidi* making,

⁴⁵BSCIC (1994), *op. cit.*, p. 6.

⁴⁶*Ibid.*, p. 51.

jute handicrafts, jewellery, footwear etc. have profit over 75 percent. While *dhenki* products, juice *gur*, basketry, mat making, bamboo handicrafts, pottery, paper bag etc. are incurring losses and jute baling, hosiery and printing industries are earning profit of very negligible amount.⁴⁷

2.5 Conclusion

During the last 30 years the number of cottage industrial units increased at the average rate of 2.25 percent per year. But during the period 1991-1995, the rate of increase declined to 1.7 percent, which recovered during 1995-2000 and reached at the level of 3.5 percent. On the other hand, In the case of handloom during period (1985-90) the number of operational looms increased from 1.32 percent to 3.87 percent. Again, within 1995-2000 this sector grew upwardly after facing a recession during 1990-95.

About 67 percent of the industrial employment is provided by this sub-sector. In the last three decades the average growth trend of employment in this sub-sector was 2.53 percent. But the growth rate of employment in the cottage enterprises contracted from 3.13 percent in 1970-80 to 2.38 percent in 1995-2000. The situation will be further awful if the handloom sector is set aside out of consideration.

On the other hand, the contribution of this sub-sector to GDP has increased from 1.1 percent to 4.2 percent during the same period (1995-2000). But in the same period the growth rate in large and medium scale industrial sub-sector increased from 1.7 to 11.20 percent. The average rate of growth of small and cottage industrial sub-sector in terms of its contribution to GDP during the last 15 years was only 2.6 percent as against about 5.6 percent in large and medium scale industries.

⁴⁷BIDS (1981), *op. cit.*, pp. 139-143.

In this way, the present growth trend of cottage industry sub-sector is mixed as in some cases it has decreasing growth rate while in other cases its growth rate is increasing. From the abundance of unpaid, under employed, untrained and family workers, it seems that these industries are not operating commercially in most of the cases.

CHAPTER-3

REVIEW OF GOVERNMENT POLICIES

In Bangladesh, agricultural sector has been dominating over the economy for long. This is a pioneer sector in terms of income and employment generation. During the period of colonial ruling this region, only supplied agricultural products as the industrial inputs for those industries located in the other regions of this subcontinent and in Britain. So the British colonial government did nothing for the industrial development of this region. In fact they destroyed the thin flourished cottage industrial sector in order to create the market for their products resulting from the industrial revolution of their own country.

After the partition, the government of Pakistan had taken some steps and programs for the industrial development of the then East Pakistan. The government implemented its industrial policy through two institutions named East Pakistan Industrial Development Corporation (EPIDC) and East Pakistan Small and Cottage Industries' Corporation (EPSIC). They wanted to generate income and employment through the trickle-down policy and setup some large-scale industries under EPIDE in public sector during the world economic boom of 1960s with a target to privatize those gradually. These industries of very large scale had devoid of economic viability and no small and cottage industries having backward linkage industries were set up. As a result, large-scale industries could not survive and the 'trickle-down' effect of development did not function.

Since the independence of Bangladesh, various policies and programs were taken and implemented for the quick development of this sector. The government of Bangladesh has practiced four different industrial policies and implemented five Five-Year Plans and a Two Year Plan for the purpose of industrial development by considering small and cottage industries as the thrust sector for income and employment generation.

In this chapter industrial policies of the government and the programs implemented under the Five-Year Plans and a Two-Year Plan have been discussed critically with the special reference to cottage industries.

3.1 Review of Industrial Policies

Bangladesh has been persevering in industrial development since its independence. To achieve desired industrial growth, different governments had different industrial policies in accordance to their respective political ideology. As a result, in Bangladesh there were substantial changes in numerous aspects of industrial policies.

3.1.2 First Industrial Policy

At the beginning of independent Bangladesh, the then government had under taken the first industrial policy in 1972, which was aimed at establishing socialist economic structure by giving emphasis on public sector. The basic aim of that industrial policy was to introduce state capitalism¹. To promote the local technology based labor-intensive industries and balanced regional development through a better distribution of income and employment; small scale and cottage industries were given priority. Government reactivated Bangladesh small and cottage Industries Corporation (BSCIC) and Cottage Industry Corporation with a view to provide all types of assistance to the small scale and cottage industries. During this time major importance was assigned to the large-scale enterprises and there were no well-organized effective plan for the development of small and cottage industries.

3.1.3 Second Industrial Policy

After the political turnover of 1975, the military government took over power and introduced fresh capitalism in the place of state capitalism.

¹R. Sobhan, "Nationalization of Industries in Bangladesh", *The Economic Development of Bangladesh in Socialist Framework*, ed. by Robinson and K. Griffin (London: Macmillan Co. Ltd. 1974), p. 181

Denationalization and expansion of private sector were the basic features the Second Industrial Policy, which was declared in December 1975 and revised in May 1977. In this industrial policy the small and cottage enterprises were selected as the source of low cost employment generation and the BSCIC, Bangladesh *Shilpa Rrin Snagstha* (BSRS) and Bangladesh *Shilpa Bank* (BSB) were set for financing the cottage enterprises.²

3.1.4 Third Industrial Policy

Third Industrial policy was announced by military ruler, which was well known as 'New Industrial Policy (NIP)' and that was revised in 1986 and 1988. This industrial policy was under taken to quicken the privatization process initiated by the previous government. The NIP was aimed at acceleration the rate of industrialization through the expansion of the private sector.

In this industrial policy for the first time some special measures were taken for the development of small and cottage enterprises. These measures are to assist the establishment of the small and cottage industries, which have forward linkage with the large industries. These are also aimed at creating employment in rural areas by enhancing rural and cottage industrial activities. A preferential treatment for small and cottage industries was given and that included cheap credit, refinance facilities and capital grant in backward areas, separate investment and allocation schedule for small and cottage industries, sufficient credit facilities both in local and foreign currency, co-operatives for small and cottage enterprises providing raw materials at a competitive prices and establishment of sale centers and preferential system is store purchases by the government departments, autonomous organization and local bodies. More over, the expansion of small scale and cottage industries was one of the main

² A.M Kamrrul Alam, "Strategies of Industrialization", *Policy Issues in Bangladesh*, ed. by Habib and et.al (Dhaka: UPL, 1995), p.139

objectives of this industrial policy. It was planned to set up industrial estates on different areas of the country under BSCIC. There would be a provision to finance 80 percent of total investment by the banks or other financial institutions. But some dishonest people utilized most of these financial facilities for other purposes.³

3.1.5 Fourth Industrial Policy

In 1991 the new government declared its industrial policy. The main feature of this policy was to fasten the industrialization through the direct foreign investment. To attain the above objectives government brought the required adjustment in its fiscal and monetary policy, credit policy, investment policy, and foreign trade policy. Special interest was given to the foreign investment and 100 percent foreign investment was allowed in any industries except 5 reserved for the public sector. The nationalized commercial banks were instructed to grant credit up to Tk.300 million which was only Tk.1 million previously. Some facilities like cent percent tax exemption for export earnings, and for 3 years there would be no income tax on the income of the foreigners employed in the registered industries in Bangladesh, etc. were given.

Some special measures were taken for the expansion of the small scale and cottage enterprises. These measures included extensive program for increasing the marginal efficiency of SCIs and formation of a review committee to monitor and review the loan operation of various lending agencies concerned with small and cottage industries along with the other measures mentioned in the previous industrial policy.

Besides the above measures there were no other real initiatives to develop an effective institutional framework for the SCIs. This industrial policy could take no step to bring about any change in the top down

³World bank, *Bangladesh: Recent economic Development and Medium Term Prospects*, Report No. 6049. (Washington: March 17, 1986), p. 11.

program formulation and implementation process of BSCIS, BSB and Bangladesh Handloom Board (BHB).⁴ But for an effective implementation of the programs bottom up process should be followed. SCIs are scattered all over the country and its owners don't have adequate access to the lending institutions. To address the financial needs of the owners specialized and decentralized financial institutions are needed. But no such guideline was mentioned in the industrial policy.

3.1.6 Evaluation of Industrial Policy

A number of industrial policies were undertaken in different periods by different governments for the development of industrial sector but those had failed to bring about desired changes in this sector. As a result of it, since independence, the country's industrial growth rate on an average was less than 10 percent. The employment in this sector is still around 12 percent of total civilian labor force. All the industrial policies had a common objective of generating more employment and income in the industrial sector. But to achieve this end, the policy makers did not pay proper attention to the development of small and cottage industries, which have maximum potentialities in this regard. In fact, our industrialization policies were biased in favor of capital-intensive large-scale industries. This biased industrial policy failed to develop local technology in industrial sector and increased the dependence on imported raw materials and other inputs for industrial development. It was highly favored by the tax structure of the country also.

Incentives were given in each of the industrial policies of Bangladesh to set up large-scaled export oriented industries. But the share of manufacturing sector in export is still very low. Moreover, some dishonest so called industrialists utilized these incentives and they spent money and

⁴ Syed Masud Hossain and Md. Humayun Kabir, "Industrial Policy Bangladesh: Some Thoughts and Comments", *Journal of Business Studies*, Vol.XVI, No.2, (Dhaka : 1995), p.17.

bank loans for trading instead of establishing industries, and as a result, loan defaulting cases have become a critical problem in the industrial financing.

Denationalization program was good one for the industrial development in private sector by reducing pressure on the public sector. But this program was intentionally over practiced to serve the purpose of vested interest group. As a result, many profit making industries were transferred to the private sector at low prices, instead of those, which were incurring losses. The government offered a package of incentives to the foreign investors but failed to keep a congenial environment for foreign investment and it resulted in a very poor achievement.

For industrialization a dynamic, competent and honest administration is a must. But to attain these objectives no proper reform program was implemented. The bureaucratic control over industrial sector is undesirably very strong in Bangladesh. At the same time there is no initiative to amend 100 years' old back dated colonial industrial and company laws.

Bangladesh is now a member of WTO and as a result, the government is now obliged to open the domestic market to the world by withdrawing subsidies and protective tariff measures. Thus, the impact of WTO on our industrial sector may not be very suitable in the short run. To face the foreign competition domestic industries will have to upgrade the quality of their products and to reduce the prices of the products by achieving proper production efficiency. Unfortunately, previous industrial policies paid a little attention in this regard.

Small and cottage industry sub-sector was highly neglected in the industrial policies. The industrial policies so far implemented in Bangladesh just provided leap services to the small and cottage industries sector. Government had no farsighted program or policy measures for this sub-sector. Half of the total contribution of industrial sector comes from this

sub-sector. But this sub-sector never gets more than 20 percent of the total investment made by the government. No initiative were taken to attract foreign investment in this sector. To modernize this sub-sector government under took no effective measures. As a result, this sub-sector is now in the verge of ruin. But if the decision makers were cautious, this sector would play vital role in income and employment generation.

Finally, the neo-classical type industrial policies so far adopted by the government were ambitious one but devoid of realities. The policy measures were aimed at industrializing the economy through the development of large-scale industries. But in the context of Bangladesh it was a wrong thinking. The necessity of income and employment generation was admitted in all the policies, but no proper initiative was taken to develop those industries, which had potentiality to generate income and employment.

Huge financial facilities were provided for the large-scale industries, but some fake industrialists had exploited most of those. As a result, the number of loan defaulters increased very sharply during the recent years. The industrial sector as a whole is more or less stagnant since the independence of the country. In fact, the industrial policies so far pursued in the country, had failed to create a dynamic and energetic entrepreneur class, but helped the development of a group of dishonest traders who are being considered as the permanent threat towards our industrialization process.

3.2 Review of the Five-Year Plans (FYP)

Because of a couple of centuries long colonial exploitation and more than two decades long economic deprivation of West Pakistan, Bangladesh inherited a poor and un diversified economy characterized by an under developed infrastructure, stagnant agriculture, backward industrial sector, insufficient non farm economic activities, inefficient labor force and a

rapidly growing population. More over, the liberation war of the country had caused serious and unbearable damages to physical infrastructure, dislocation in managerial and organizational apparatus and disruption in established external trading relationships. Recovering from the ravages and disruptions of war, raising the volume of output in the major sectors of the economy to the benchmark level of 1969-70 and socialist transformation of the economy along with poverty alleviation were major objectives of the First Five year plan.

3.2.1 First Five-Year Plan (FFYP)

If we go through the objectives of the FFYP, it is understood that the then policy makers of the government wanted to reduce poverty by realizing the requirement of the expansion of employment opportunities for the unemployed and under employed labor force. In this connection, the target was set to create 4.1 million full-time job to absorb the projected excess labor force and in achieving this objective the GDP growth rate was targeted to 5.5 percent per annum.⁵ The government dreamt of a self-reliant economy through the mobilization of domestic resources instead of increasing the dependence on the foreign aid over time. To achieve this end the export diversification and import substitution strategies were mentioned in the FFYP.

3.2.2 Strategies Followed in the FFYP

The basic strategy in the FFYP was to increase output in those sectors of the economy, which were labor intensive. With in this general strategy export promotion and import substitution were emphasized to reduce the dependence on foreign aid and to improve the balance of payment. In this connection the then policymakers assigned their priority to the agricultural sector, which was during that time the main and largest economic sector. As

⁵ GOB, *The First Five Year Plan*, p. 10

one of the income and employment generating strategies in the FFYP, the emphasis was also assigned to the labor intensive small scale and cottage industries, specially to handloom, small leather goods, metal products and miscellaneous manufacturing industries.⁶ In the FFYP, the retarget was to create employment opportunities of 2.6 million man-years in agriculture and 0.65 million man-years in industry and energy sector.⁷

3.2.3 Cottage Industry Sub-sector in FFYP

Just after independence, about 50,000 cottage industrial units were estimated.⁸ In the liberation war, all types of industries were highly damaged. But the physical damage was more in large and medium scale industries than that of cottage industries in terms of capital. More over, the large and medium scale industries that were several times more capital intensive than the cottage enterprises suffered much from the problems of absentee ownership. The then government nationalized large and medium-scale enterprises as a part of their economic policy, but the small and cottage enterprises remained in the private sector.

3.2.4 Objectives for Industrial Sector in FFYP

Rehabilitation of war-ravaged industrial sector, to increase the supply of essential consumer goods, to manufacture and supply the agricultural equipments as per requirement, development of capital goods industry, to encourage the labor intensive industrial activities like cottage industries with a view to create more income and employment in the small and cottage enterprises and balanced regional development through a better distribution of income and employment were the major objectives of the first five year plan regarding the industrial sector.⁹ Among these objectives, income and employment generation, balanced regional development and labor intensive

⁶ *Ibid.*, p. 18

⁷ *Ibid.*, p. 15

⁸ *Ibid.*, p. 195

⁹ *Ibid.*, p.210

industrial activities were set exclusively for the development of small and cottage industry sub-sector.

3.2.5 Strategy for Industrial Development Under FFYP

As a result of massive nationalization, the public sector became the largest sector of the economy. Almost all the industries of large and medium scale came under state ownership. Therefore, the government had to undertake an all out effort for the better performance of the nationalized sector by solving its problems.

On the other hand, the private sector of Bangladesh became limited by the imposition of the government restriction. The policies of the government limited the role of private sector in small and cottage industrial units, which had fixed assets not exceeding Tk.2.5 million. This strategy was also aimed at preventing the emergence of a new class of big capitalists operating in the areas of large-scale industries and they were left outside the orbit of the nationalized sector.

The authority in preparing the FFYP considered the agricultural sector as the basis for solving the major socioeconomic problems. Thus in the industrial development strategy, priority was assigned to the agro-based and agricultural input producing industries.

At the same time in the FFYP, utilization of domestic resources both natural and man-made was a strategy of industrialization. In this connection the priority was given to jute, sugar, tobacco, tea and leather industries, which were based on the domestic resources mainly. In fact, government had a definite strategy to set up natural gas based fertilizer industries, which were related to the development of agricultural sector also.

From the objectives and strategies for the development of industrial sector, one thing is clear that the then government was kin to the improvement of nationalized sector which owned 92% of the total industrial

fixed assets.¹⁰ This nationalized sector was consisted of large-scale modern industries, which were highly capital intensive. Therefore, though the government expressed its commitment to undertake labor intensive technology for the industrial development, in practice it dealt with the capital intensive large-scale industries, which were entirely under the nationalized sector. Moreover, government paid much attention to the nationalized sector and planned to spend huge amount of money for the development of this sector as the justification of pursuing the socialist political ideology, which was closely related to the good performance of the nationalized sectors.

On the other hand, in the FFYP minimum attention was given to the industries, which were in private sector mainly in the small scale and cottage industry and sector. For the development of these industries public sector allocation was very negligible as compared to that of the large and medium scale industries.

3.2.6 The Investment Program

The total allocation for the industrial development was biased towards large-scale industries, which were under the public sector. The investment outlay for the industrial sector in this plan was Tk. 8946.90 million to achieve the objectives outlined in the sector plans. In this regard private sector received only 16 percent and the rest remained for the public sector enterprises. The allocation was as follows.

Table-3.1: Allocation of Fund.

Sl. No	Purpose	Amount (million Tk.)	Percentage of Total
1.	On going Project	521.40	17.00
2.	New Project	6231.70	69.65
3.	Rehabilitation	1048.00	11.72
4.	Industrial Research	145.80	01.63

Source: GOB, The First Five Year Plan, p. 211

¹⁰ *Ibid.*, p. 10

Table-3.1 Shows that nearly 70 percent allocation was fixed for new projects but less than two percent of the same was kept for industrial research. While for the rehabilitation of war-ravaged industries, which was the priority objective, got only 11 percent of the total allocation.

3.2.7 Sub-sector Allocation

The then government sanctioned more than 80% of total investment for the development of large and medium scale industries and only 17% for small scale cottage industries. In fact, the total private sector investment of Tk. 1640.0 million was allocated for the development of small scale and cottage industries. But out of this, only Tk. 269. 0 million was invested in cottage industry sub-sector received the lowest and very negligible amount of total investment. The following is exhibiting the matter more precisely. It shows that small scale and cottages industries' share in total allocation was 17 percent only.

Table- 3.2 : Sub-sector Allocation (in million Tk).

Sub-sector	Allocation in Local Currency	% of total Allocation	Allocation in Foreign Exchange	% of total Allocation
Large and Medium Scale	7279.92	82%	3805.28	83%
SCI	1640.00	17%	746.48	16%
Others	27.00	01%	13.70	01%

Source: GOB, The First Five Year Plan, p. 212.

3.2.8 Employment Creation

Employment creation was one of the objectives of industrial investment in FFYP. It was estimated that about 0.11 million new job opportunities would be created in the large and medium scale industries of the public sector and it would be resulted mainly from the new investment. On the other hand, the estimated employment creation in the private sector, which included mainly small and cottage industries was about 0.5 million. Thus, the total estimated employment creation during the FFYP period was about 6,12,300 and the share of small and cottage industry was 82 percent (maximum in this regard), and in the cottage enterprises it was specifically

51 percent.¹¹ For a comparison in creation of new employment among the various industrial sub-sector, it is better to look at the following Table-3.3.

Table-3.3: Sectoral Employment Over the Plan Period.

Sub-sector	Public Sector (in million man years)	% of Total Allocation	Private Sector (in million man-years)	% of Total Allocation
Large and Medium Scale	0.11	18%	00	00
Small Scale	00	00	0.19	31%
Cottage Industries	00	00	0.31	51%
Total	0.11	18%	0.5	82%

Source: GOB, The First Five Year Plan, p. 225.

One thing is remarkable that only 18% new employment generation was estimated during the plan period from the state owned large and medium scale industries for which more than 80 percent of total industrial investment was allocated. But in FFYP, it was mentioned that one of the primary objectives of industrial investment was employment creation. Thus, the objectives of investment and the sectoral allocation of funds were somehow contradictory to each other in the FFYP.

3.2.9 Value Added

It was estimated that at the end of the FFYP period, the net value added by the industrial sector as a whole would be Tk.2392.49 million.¹² The estimated contributions of large-scale industries were 54 percent, small-scale were 20 percent and cottage enterprises were 26 percent. It was also estimated that the major increment in value-added would take place in the state owned large and medium scale industries which would receive 82 percent of the total investment during the period of FFYP. On the other hand, small and cottage industries would contribute 46 percent for which investment would be only 17 percent. Thus, in the FFYP, more additional income per unit of investment was being expected from the small and cottage industry sub-sector than that of large and medium scale industries.

¹¹ *Ibid.*, p. 223.

¹² *Ibid.*, p. 227

3.2.10 Special Development Programs for Cottage Industry Sub-sector

For the development of cottage industry, following special measures were taken in the FFYP.

(i) Handicrafts

For the development of handicraft product, design center was proposed to set up and initiative was taken to expand and strengthen its role. Importance of design research, marketing survey, and training of artisans to improve their skills were considered by giving those proper weights in the FFYP. For the improvement of handicrafts the government envisaged an outlay of Tk.20.00 million in the public sector though that was not sufficient at all. In addition to these, the other measures including collection of orders from the buyers; supply of credit in kind or cash for the purchase of raw materials; establishment of sub centers in big cities and district head quarters; proper supply of scarce raw materials and improved tools; counseling and technical services; publicity, and financial as well as institutional support through the cottage industry corporation were taken.

(ii) Rural Industry

In the FFYP stress had been laid on promoting intensive and extensive development of village or rural industries with the objective of widening employment opportunities, diversification of rural occupations and development of agro-industries to support agricultural production. For the promotion of this sector, the extension services, investment counseling, training courses both for existing artisans and also for the new entrants, establishment of training centers in the regions of Chittagong, Rajshahi and Khulna, expansion and reactivation of workshop at Narsingdi of Rural Industries Services for promotional work and technical assistance, and to make institutional credit and marketing services available to the rural industries were proposed.

The promotional program called for an outlay of Tk.1.5 million in the public sector and the programs were decided to implement by the Rural Industries Service Center under the Cottage Industries Corporation.¹³

(iii) Handloom

Handloom is the largest cottage industrial sub-sector in terms of employment and income generation and its importance was projected in the FFYP. To promote this sector in FFYP period the government decided to provide those with institutional credit, essential raw materials, required designs and prototypes, services of common facilities, marketing assistances. In addition to these, government decided to establish a high powered Handloom Board chaired by the Minister for Industries with a view to provide services like distribution; pricing; supply of yarn, dyes and chemicals; marketing of handloom products; and to develop weavers co-operative societies.

More over, the government anticipated that 100,000 improved looms and 1000 synthetic/art silk power looms would be set up all over the country during this plan period. As a result of this expansion, it was expected that production of handloom cloth would be increased from 400.00 million yards to 560.00 million yards by the end of the plan. For the promotion of handloom enterprises an outlay of Tk.300.00 million in the public sector was sanctioned.¹⁴

(iv) Institutional Program

To train the artisans and to produce modern, diversified and quality products of attractive designs, the government had decided to set up a Handicraft Institute for cane and bamboo at an expenditure of Tk.10.00 million as a nucleus under the Cottage Industries Corporation. At the same time, the government decided to expand the activities of design centers

¹³ *Ibid.*, p. 276

¹⁴ *Ibid.*, p.281

inclusion of additional functions of design, research, market survey and consumer tastes study. It was proposed that the present design center would be modernized considerably over the period of FFYP.

The FFYP recognized the role of small and cottage industries but the implementation was not proper because of the lack of implementation machinery, government's interest, inefficient administrative personnel and post war economic disorder in the country. More over, this plan was biased towards the development of large-scale industries, which were taken into the public sector. As a result, only half of the planned target was realized. The principle of socialism followed by the then government in the industrial sector was doomed to failure due to inefficient and corrupt bureaucracy along with the dependence on foreign aid, according to which was not available in proper amount and according to ambitious plan target. The target realized by the cottage industries was not more than 50% during the period of FFYP. Thus, desired improvement in this sector was not market during the period of FFYP.

3.3 Review of the Two-Year Plan (TYP)

The First Five-Year Plan of Bangladesh was expired on June 30, 1978. At best half of the targets set for the FFYP was realized during the plan period. In addition to this bad performance, the state ideology was changed. The new military government switched from socialism to democracy and gave the priority to flourish the private sector. Because of these reasons, a Two-Year Plan was formulated instead of a regular five year plan with a view to achieve the unrealized targets of FFYP under a new economic and political situation. Duration of Two-Year Plan (TYP) was from 1978 to 1980.

3.3.1 General Objectives

The achievement of a higher rate of growth, development of rural economy by increasing productivity and employment opportunities,

reduction of dependence on foreign aid, expansion of employment opportunities, movement towards self-sufficiency in food grains, etc. were the major objectives of the TYP.¹⁵ Moreover, the plan took specific cognizance of the socioeconomic objectives of the then President's 'Nineteen Point Program'.

3.3.2 Objectives Set for the Industrial Sector

In manufacturing sector, achieving the highest growth rate, increasing the production of essential goods, improving the managerial efficiency of public sector, ensuring the social equity in income distribution through the promotion of small, cottage and rural industries and the promotion of export oriented and import substitution industries were the main objectives the TYP.¹⁶

3.3.3 Strategies and Priorities of the TYP for the Industrial Sector

With a view to realize the objectives, the TYP followed a number of strategies. Those were fuller utilization of existing capacity, improvement of sick and inefficient industries, quality and product diversification, assigned high priority on going projects, re-organization and decentralization of the management of the public sector with a view to improve its efficiency, Employment generation, to adopt the labor-intensive technology through small, cottage and rural industries, to ensure the coexistence of public and private sector for pursuing the mixed economic ideology, import substitution and export promotion and to activate the tariff commission.¹⁷

3.3.4 Investment Program of the TYP

The plan provided an allocation of Tk.8160.00 million including Tk.4302.9 million in foreign exchange for investment in industrial sector. Out of Tk. 8160.00 million, Tk. 5700.00 million was sanctioned for public

¹⁵ GOB, *The Two Year Plan*, p. 154

¹⁶ *Ibid.*,

¹⁷ *Ibid*, p. 160.

sector while the remaining Tk. 2460.00 million to the private sector.¹⁸ The overwhelming portion of allocation was for ongoing projects and that was about Tk.5070.00 million. About 44 percent, the major share of total investment was allocated for fertilizer and chemicals industries. While cotton textile including handloom and Jute textile, mining, and steel and engineering industries received 15.8, 4 and 16 percent of the total allocation respectively.¹⁹

3.3.5 Objective and Strategies for SCIs and Rural Industries Under the TYP

In the TYP, it was admitted that small and cottage industries had crucial importance for employment generation, diversification of the industrial base of the economy, producing commodities both for domestic and export markets, securing optimum utilization of indigenous materials and skills, and widening the participation of the people in the process of economic growth. The objective and strategy under the TYP included creation of job opportunities for unemployed and under employed rural people in general and unemployed educated youth in particular; ensuring the development of the less-developed areas including tribal region by promoting non metropolitan and rural industries; promote people's participation in the-industrial development; create physical infrastructure for the employment in SCIs and to train up unskilled male and female workers in industrial trades and crafts.²⁰

3.3.6 Programs for the Development of SCIs Under TYP

In addition to the then ongoing promotional programs, some new programs were undertaken in the TYP. It was stated that the industrial-estates development program would be completed and promotional services to Handloom and Hosiery sector would be further geared up. Sericulture and Mugaculture would be expanded to raise silk production and bringing

¹⁸ *Ibid*, p. 170

¹⁹ *Ibid*.

²⁰ *Ibid*, p. 173

12,000 acres of land under it would increase the salt production. At the same time the government planned to provide all types of services like training, extension of marketing facilities, and supply of designs, etc. The Government is the TYP also decided to conduct surveys and studies to promote small, cottage and rural industries.

3.3.7 Investment Allocation

For these programs allocation of fund was of the following pattern:

Table-3.4: The Public Sector Allocation of Fund for SCIs and Rural Industries (in million Tk.).

Departments	On going Projects	% of Total	New Projects	% of Total	Total	% of Total
BSCIC	76.3	52.22	31.3	42.88	107.60	49.11
Handloom Board	1.2	0.82	5.0	06.84	6.20	02.83
Sericulture Board	16.1	11.02	4.8	06.58	20.90	9.54
Home Ministry	20.0	13.70	00	00	20.00	9.13
Social Welfare	32.5	22.24	31.9	43.70	64.4	29.39
Total	146.10	100%	73.0	100%	219.1	100%

Source: GOB, The Two Year Plan, p. 173.

As shown in the above table total allocation in the pubic sector was about Tk. 219.1 million and it was about 3.8% of total investment allocation of pubic sector in TYP, which was much lower than that of FFYP, therefore, the most of the allocation went to the on going projects and in this way about 68% of total allocation under TYP was spent for the purpose of on going projects. No remarkable new initiative was under taken in the TYP to boost up the production of this sub-sector. In addition to the above, some allocations were also provided through the agencies, which were outside the purview of the industries sector such as Divisional Development Boards, IRDP, Social Welfare, etc. Arrangement had also been made for extending commercial bank credit facilities to cottage and rural industries.

3.3.8 Some Special Programs for SCIs and Rural industries Under TYP

In this plan some special measures were taken to develop this sub-sector. Out of these measures the following were the main ones.

(i) Sericulture

For the development of sericulture, and silk industries, the government had created 'Sericulture Board' under the Ministry of Textiles. In TYP, the Sericulture Board had been provided with an allocation of Tk.20.9 million and out of this allocation an amount of Tk.16.1 million had been provided for the three on going projects transferred from BSCIC.²¹ In addition to the above an amount of Tk.4.70 million was provided for "Bangladesh-Swiss Bilateral Project on Sericulture" which aimed at increasing cocoon production by 6,50,000 lbs in 6 places of Rajshahi and Bogra.²²

(ii) Handloom

In the Two-Year Plan an allocation of Tk.6.2 million had been sanctioned for two major projects of the Handloom Board. Out of which Tk.1.20 million for the Textile Facility Centers, a project transferred from BSCIC and Tk.5.0 million for loom less weaver's co-operative societies.²³

(iii) Special Welfare Project

Towards the later part of the TYP, a special program was undertaken for the minority communities, especially in the tribal areas to provide employment in small and cottage industries and to create some infrastructure facilities. For this purpose, a special welfare cell had been created in the Ministry of Home Affairs to look after the welfare of the minorities. In TYP, about Tk.20.0 million was allocated for the special welfare project.²⁴

(iv) Block Provision for Small, Cottage and Rural Industries

To meet financing of unforeseen projects during TYP period particularly in small, cottage and rural industry sub-sector, a block

²¹ *Ibid*, p.175-180

²² *Ibid*.

²³ *Ibid*.

²⁴ *Ibid*.

provision of Tk.64.36 million had been in reserve. Out of this total amount, Tk.32.5 million was allocated for the then on going project of FYP namely the "Thana level Training of Women in Cottage Industries".²⁵

The Two-Year Plan was designed mainly to achieve the unrealized targets of the FFYP. Therefore, in TYP maximum allocation was sanctioned for the completion of the projects already underway. Some initiatives were however, taken for the development of agriculture, Handloom and the cottage industries situated in the tribal areas. A block provision was introduced in TYP to finance the unforeseen projects concerned with the development of Small, Cottage and Rural Industries during the plan period. But there was no separate and new program for the rural industries. One thing was remarkable that in TYP, the government deployed other non-industrial public agencies like Divisional Development Board, IRDP, Social Welfare Department, etc. for the development of cottage industries and allocations were also provided for this purpose.

Despite of these programs, the performance of cottage and small-scale industries was not satisfactory at all even it was worsened. In the FFYP the average growth rate of this sector was 1.02 percent and declined to 0.9 percent during the period of TYP.²⁶ In terms of utilization of allocated funds in public sector during TYP was more or less satisfactory. In the case of small and cottage industries the utilization of fund was about 96%. Expansion of silk mills and 'Silk Research and Training Institute' under Sericulture Board, and 5 industrial estates of BSCIC were completed during 1978-80.

²⁵ *Ibid.*

²⁶ GOB, *Economic Survey-1997*, p.96.

3.4 Review of the Second Five-Year Plan

The major thrust of Second Five-Year Plan (SFYP) was to reduce poverty. Thus the objectives were formulated in the context of overwhelming problems of poverty, unemployment, illiteracy and malnutrition of the mass that are living mainly in the rural areas of the country.

3.4.1 The Major Objectives of SFYP

In this plan, slow growth in industrial sector and pressure of unemployment were properly considered. Under this context the medium term industrial strategy was to provide the necessary support to rural industry sub-sector. Special importance was given to develop consumer goods industries in rural areas. In fact in the industrial strategy, the sole priority was given to develop the labor-intensive industries in rural areas to create employment opportunity for the poverty-ridden people. At the same time activity of private sector was proposed to expand with the help of government's initiative along with the creation of wider scope for foreign investment especially in the field of metal and engineering industries. Alike in FFYP and TYP, initiatives were taken in SFYP to set up agro-based and agro-support industries. Under these considerations in the SFYP the major objectives were to meet the basic needs of the people; improvement in the quality of life in the rural areas; to expand opportunities for gainful employment and human resource development; to eliminate illiteracy; to attain higher degree of self reliance; and to accelerate the pace of economic development.²⁷

To increase industrial production through utilization of existing capacity and reducing unit cost of production; to create more employment in small and cottage industries by upgrading their state of technology; spatially dispersed of industries for balanced regional growth; improvement of indigenous technology, ensuring marketing facilities, export promotion

²⁷ GOB, *The Second Five Year Plan*, p. XIII-40- 43.

and import substitution, and formulation of adequate fiscal and monetary incentives for healthy industrial system were the principal of strategies of the SFYP for industrial development.²⁸

3.4.2 Small and Cottage Industry Sub-sector

The importance of this sector was viewed in SFYP in terms of producing farm inputs and processing of agricultural products, satisfying the increased demand for consumer goods in rural areas, creation of non-farm employment opportunities, mobilization and utilization of domestic resources, and ensuring balanced economic growth as well as development.

3.4.3 Objectives

In the SFYP the problems of cottage industries were analyzed in details. In the light of those and other socioeconomic issues, the objectives were generation of gainful employment for the unemployed and under employed women, youth and other people; utilization of available indigenous raw materials; harnessing of available indigenous raw materials; and promotion of people's participation in industrial development.

3.4.4 Strategies

To realize the above mentioned objectives, the proposed strategies were to design a plan that would be prepared separately for each district on the basis of availability of raw materials and skills and growth potential; preference for maximum utilization of existing capacity; emphasis on the promotion of agro-based industries, and agro- support industries; to coordinate the activities of various agencies operating in the field of development of small and cottage industries; and to review performance and achievements of those agencies.²⁹

²⁸ *Ibid.*

²⁹ *Ibid.*

3.4.5 Investment Outlay in SFYP for SCIs

In the public sector for the development of SCIs total allocation was Tk.750.00 million of which 100.00 million was in foreign currency, which was proposed to spend through BSCIC. Other concerned agencies got Tk.1500.00 million in local currency and Tk.500 million in the foreign exchange. On the other hand, in the private sector total allocation was Tk.5000.00 million for the development of small scale and cottage industries. Private sector programs included the training facilities, market information and extension services, counseling services, infrastructural services etc.

The total proposed investment outlay for the development of small scale and cottage industry has been shown in the following table 3.5. The table shows that private sector was given larger role to play for the development of small scale and cottage industries.

Table 3.5: Proposed Investment Outlay (in million Tk.).

Sector	Total	Foreign Exchange
Public sector		
(i) Small and Cottage Industries Corporation and Boards.	750.00	100.00
(ii) Other concerned corporation and agencies.	1500.00	500.00
Private Sector:		
(i) Handloom and Sericulture	5000.00	2000.00
Total	7250.00	2600.00

Source: GOB. Second Five-Year Plan, p. XIII-121

3.4.6 Handloom

Besides these, for the development of handloom and sericulture government envisaged separate programs for each of them. It is the largest cottage industry in Bangladesh both in terms of the production of clothes and employment. About 75% percent of total domestic demand for cloth is satisfied by these industries and in those 60,000 people is employed.³⁰ Due to its significant role, in the SFYP the development of cottage industries was

³⁰ *Ibid*, p. XIII-49

given proper priority. For this purpose the programs of public sector were aimed at achievement goals of reactivating the idle looms and conversion of pit looms into semi-automatic looms; organizational development of weavers; research, training and extension works for increasing productivity and equipment development; industrial credits for weavers; new varieties of quality fabrics for export; proper distribution system for yarn and dyes; and to make the large textile industries complementary to handlooms rather than competitive.³¹

3.4.7 Public Sector

For the development of the small and cottage industries the role of public sector was confined to assist those by providing various services including training, supplying quality inputs at a competitive price, marketing facilities, setting up of model units, meet the financial requirements.

(a) Institutional Support

In SFYP the authority decided to implement the programs of public sector through the various organizations. For this purpose, it was proposed to include the Local Government, Bangladesh Small and Cottage Industries Corporation (BSCIC), Bangladesh Handloom Board (BHB), Bangladesh Sericulture Board (BSB), Integrated Rural Development Program (IRDP), Swanirvar Programs, Divisional Board of Development, Chittagong Hill tracts Development Board, Offshore Islands Development Board etc. On the other hand, a number of non-government organizations were also involved in developing the non-farm and cottage industry sub-sector.

The government also proposed to include Sonali, Janata, and other commercial banks along with the Bangladesh Shilpa Bank and Krishi Bank to finance this sub-sector deliberately. Finally a high level National Coordination Council was proposed to coordinate the development of this

³¹ *Ibid.*

sector. In the light of following strategies some targets were set for this sub-sector. It was expected that 3 to 4 lakes employment opportunities would be created. For the development of cottage industries government decided to extend the production cum-training services at the thana level.

(b) Handloom

For the development of handloom the investment outlay in public sector was estimated at Tk.250.1 million. At the same time, public sector promotional program was proposed to be accompanied by adequate provision of institutional credits for this sector and it was decided to provide handlooms with Tk.1140.00 million in terms of credit from the institutional sources including commercial banks. On the other hand, private sector investment for the same purpose was about Tk.79.5 million.

(c) Sericulture

For the development of sericulture in SFYP, some promotional programs were proposed. These programs included training and research, supply of mulberry saplings and healthy layings of improved quality, setting up of pilot reeling units, strengthening marketing facilities, utilization of silk waste etc. Public sector allocation was Tk.119.20 million and in private sector the allocation was Tk. 272.50 million.

3.5 Review of Third Five-Year Plan (TFYP)

The primary objective of the Third Five Year Plan was poverty alleviation. In TFYP it was identified that poverty, unemployment, population growth, malnutrition and illiteracy were closely related with each other. Thus, the authority found it necessary to combat other related problems with a view to eradicate poverty.

For a long-term perspective development in Bangladesh, the objectives of TFYP were to reduce the population growth rate; expansion of productive employment; primary education to all and human resources development;

development of technological base for long term structural change; food autarky to meet the minimum basic needs of the people; to invigorate the economic growth; and to accelerate self-reliance.³²

3.5.1 Strategies for Employment Generation

Productive employment generation was viewed as the general effort to eradicate poverty in the TFYP. To generate more employment, emphasis was given to cottage and rural industries. It was admitted that modern capital intensive industries could create employment opportunity for a few people and in this regard priority had been assigned to improve and expand the cottage industry sector with a view to establish a dynamic rural industry sector. In this way rural and cottage industry sector was considered as the basis of employment oriented development program.³³

Again, in employment policy of the TFYP the much emphasis was given to the non-farm economic activities like cottage and rural industries to create income and employment opportunity for the growing labor force. For this purpose the diversification and technological development of this sector was considered on the priority basis. It was realized that to achieve desired growth in this sector transport and communication, rural electrification, manpower training, credit and marketing system were proposed to be improved.³⁴

3.5.2 Objectives for the Development of Industrial Sector

After an evaluation of the performance of industrial sector in the Second Five Year Plan, some of the basic economic problems that obstructing its smooth growth were identified. In the TFYP with a view to ensure the growth of this sector, the following objectives were selected:

- (1) To set up a self-reliant industrial structure in order to accelerate economic growth through human resource development;

³² GOB, *Third Five Year Plan* pp.29-40

³³ *Ibid*, p. 115

³⁴ *Ibid*.

- (2) To support the agricultural development by increasing the production and supply of agricultural know-how;
- (3) At the same time proper initiatives would be provided for agro-based industries;
- (4) In order to meet the basic needs of the people and to ensure the proper supply of consumer goods, adequate initiatives would be undertaken to make the local industries more active;
- (5) To generate more fresh employment by spreading the small-scale industries over the greater areas of the country and by assisting the manifestation of rural and cottage industries;
- (6) To ensure a better balance of foreign trade through the development of import substituting and export oriented industries; and
- (7) To improve the local technology through research and linking approaches.³⁵

3.5.3 Strategies and Policies for the Development of Cottage Industry in TFYP

In TFYP it was asserted that despite of 50 percent value added by small and cottage industries, those had remained largely unattended. In TFYP a high degree of priority was assigned to the small and cottage industries in order to generate income and employment and their significance in this regard were projected also from the viewpoint of poverty eradication. While designing the policies for the development of these industries, the authority admitted that they had to face some problems arising from inadequate data on this field and they found that there was no institutional arrangement for this purpose. The implementation of the following major policies were proposed for the development of this sector:

³⁵*Ibid.*

- (1) To reduce serious gap between agriculture and industrial sector through the promotion of small scale and rural industries in an organized way;
- (2) Development of products, skill and technology of cottage industries to fuse a bifocal industrial structure into one;
- (3) Separate investment schedule;
- (4) Development of agricultural sector to provide stimulation to small and cottage industries producing consumer goods;
- (5) Rural infrastructure development program to support the development of this sub-sector;
- (6) The expansion of rural industries would be given priority as those could employ the illiterate, unskilled, poor and capital less people of the target group;
- (7) To set up employment and resource centers at the Upazila level for the promotion of non-farm economic activities;
- (8) To reactivate the 'Institute of Appropriate Technology' at BUET; and
- (9) To set up a coordination council for the development of small and cottage industries.

In addition to the above measures, the government also provided incentive packages for the quick development of this sub-sector. These package initiatives covered a financial incentive system with a preferential treatment to small and cottage industries such as credit, at a concessional rate; preferential treatment for medium, small and cottage industries in store purchase by the government departments, autonomous organizations; sufficient credit supply both in local and foreign currency; and to form co-operatives for the multi-dimensional promotion of this type industries.³⁶

³⁶*Ibid.*, p. V-32

3.5.4 Handloom

The plan envisaged to raise the per capita availability of new cloth from around 9.0 meters to 11.00 meter in 1989/90 and 62 percent of the increased out-put was targeted to weave in the handloom sector, where expected increase in output was 503 million meters in 1984-85 to 750 million meters in 1989-90.³⁷ This is the sector that provides the maximum non-farm employment in the countryside of Bangladesh. But the employment in this sector is gradually declining. Employment had reduced to 700 thousand in 1981-82, which was 847 thousand just two years before. High cost of raw materials, low productivity, low return, ancient and stagnant technology, adequate supply of required yarn of right quality etc. were identified as the responsible factors, for the bad performance of handloom sector in the TFYP.

By considering these issues, in TFYP the policy measures like establishment of the modern spinning mills, preferably on the line of counts specialization; ensuring proper supply of yarn specific to needs of the handloom; improvement of the technology; development of effective marketing and distribution system; Organizing and revitalizing handloom weaver's co-operatives under the auspices of the Bangladesh Handloom Board; training facilities for the weavers; and to establish the common service centers on the selected areas were suggested for the development of this sub-sector.³⁸

3.5.5 Money Outlay

In the Third Five Year Plan, total money outlay for the development program of industrial sector was Tk.58000.00 million. Money allocation for the private sector was Tk.32000 million and for public sector it was

³⁷ *Ibid*, pp. V-33-40.

³⁸ *Ibid*, p. V-33

Tk.26000.00 million.³⁹ Private sector investment was 55 percent of total industrial investment. The on going industrial projects received about 55.50 percent of total public sector investment. Total money out lay for small and cottage industry was Tk.3360.00 million (excluding handloom industries). Of this amount Tk.350.00 million was allocated for the public sector investment, while Tk.2010.00 million for private sector investment. The sub-sectoral allocation has been projected in the Table-3.6.

Table-3.6: Sub-sectoral Allocation of Investment Outlay (in million Tk).

Sub-Sector	Public Sector		Private Sector		Total Allocation
	Amount	% total Allocation	Amount	% total Allocation	
Wood, Bamboo and Cane products	100.00	2.30	1000.00	23.00	1100.00 (25.30%)
Rural Industries	650.00	14.94	2000.00	46.00	2650.00 (60.94%)
Small and Cottage Industries	600.00	13.76	00.00	00.00	600.00 (13.76%)
Total	1350.00	31.00	3000.00	69.00	4350.00 (100%)

Source: GOB, The Third Five-Year Plan, P. 272

In TFYP, 13.76 percent of total sectoral investment outlay was allocated for small and cottage industry. Maximum allocation both in public and private sector was for rural industries that had covered 60 percent of total investment in this sub-sector. Government decided to invest more in rural industries as those assisted agricultural development and enabled to create employment opportunity in rural areas, which were the two major objectives of TFYP. In public sector investment in small and cottage industry, money was planned to allocate among the various public organizations.

³⁹ Ibid.

Again, the public sector investment performance in small scale and cottage industry was very poor. On the other hand, a few projects undertaken during the TFYP were completed by the plan period. The following Table-3.7 is exhibiting this.

Table-3.7: Agency-wise Financial Target and Achievement during the TFYP (in million Tk.).

Name of Sub-Sectors	Number of Projects			Investment (at 1984/85 price level)		
	Taken	Complete	Achieved	Investment	Actual Expenditures	Achieved %
Sericulture Board	1	1	100	290.00	320.00	113
Handloom Board	5	2	40	520.00	167.4	32
BSCIC	17	8	47	1200.00	1024.60	53
Total	23	11	---	2012.00	1512.00	---

Source: GOB, Fourth Five-Year Plan, p. VI-11.

Thus, out of 23 new projects only 11 were completed (only 48 percent) during the TFYP and 75 percent of the total allocation was spent. Only Bangladesh Sericulture Board showed a better performance in utilizing money allocation and achieved the desired target. The worse performance was in handloom sector despite of its crucial importance in generating income and employment and in producing cloth for domestic consumption. Forty percent of new projects were completed and the Handloom Board utilized only 32 percent of total investment allocation during TFYP period. On the other hand, BSCIC had poor success story. In fact, public sector investment performance for the development of SCI through the relevant three corporations was not satisfactory at all.

Again, some policy measures undertaken in the NIP had direct adverse impact on the cottage industry sub-sector. Specially, exchange rate policy, tariff policy, investment and credit policy of NIP were key factors that worked against the development of SCI.

The new employment generation target was 5.1 million man-years but the achievement in this regard was 3.1 million, that is to say, 64 percent of

plan target was attained by the end of the plan period.⁴⁰ But in manufacturing sector only 0.62 million man-years of employment was generated. Thus, the plan objective of creating non-farm productive employment was not achieved to a considerable extent. During the plan period the growth rate of small and cottage industry sub sector was about 1.7 percent and as compared to the previous growth rate it was not a good sign.⁴¹

3.6 Review of Fourth Five-Year Plan (FYP)

The Fourth Five-Year Plan (FYP) was formulated as a part of twenty-year perspective plan (1990-2021). Growth in National Income, poverty alleviation employment generation through human resource development and to increase self-reliance are the major targets of the perspective plan.

Human resource development, decentralized participatory planning, integration of group based approach with sector based approach for development planning and Integration of the decentralized participatory planning with macro economic planning were the basic strategies of the perspective plan to achieve the main objectives.

3.6.1 Objectives of the Fourth Five Year Plan

Fourth Five Year Plan (1990-95) began as a part of twenty years perspective plan. Accelerating economic growth; poverty alleviation and employment generation through human resource development; to set the stage for overcoming the existing constraints to economic growth and to increase self-reliance were the objectives of the FYP.

⁴⁰GOB, *The Fourth Five Year Plan*, p. 119

⁴¹*Ibid.*, p.99.

3.6.2 Strategies Declared for the Fourth Five Year Plan

With a view to achieve the objectives in the FYP following strategies were set:

- (1) Integration of sector based planning with socioeconomic group based planning;
- (2) Achieving inter sectoral balance in sectoral planning;
- (3) Creation of efficiency culture in the economy;
- (4) Integration of structural adjustment with real sector growth;
- (5) Bringing women in the main stream of development planning;
- (6) Restructuring of fiscal, monetary and commercial policies;
- (7) Under taking of administrative reforms;
- (8) Public and private sector investment;
- (9) Community participation through NGOs, and
- (10) Local level planning and resource mobilization.⁴²

3.6.3 The Objectives for the Industrial Sector

In the FYP the industrial sector got more attention and initiatives were taken to raise its contribution to the GDP. Under these circumstances in the FYP the objectives set for this sector were maximization of the contribution of industrial sector to the growth of GDP; to achieve the industrial growth rate of 9.1 percent; maximum employment generation; improvement in the balance of payment situation; and the development of a proper technology.

3.6.4 The Strategies for the Development of Industrial Sector

Development of export oriented industries; improvement in productivity and capacity utilization; privatization; promotion of small and cottage industries; development of industrial zones or estates; human resource development; and the development of indigenous technology were the strategies of industrial development in the FYP.⁴³

⁴²*Ibid.*, p. 122

⁴³ *Ibid.*, p.VI-26

3.6.5 Initiatives for the Development of SCIs

To realize employment and poverty alleviation through income generation, the promotion of small, cottage and rural industries was one of the main strategies of Fourth Five-Year Plan.

Promotional measures, such as development of infrastructure facilities, training extension and research, market promotion, availability of institutional credit support were decided to arrange during the plan period were proposed.⁴⁴ Besides these, some special programs were designed for the development of sericulture, handloom, and various other types of rural industries.⁴⁵

Rural industries are dependent on the growth of agriculture for the demand of their products. By considering this reality in the Fourth Five Year Plan, it was proposed to take measure to disperse these industries over the rural areas of the country after careful evaluation of the local condition of market. In Fourth Plan it was decided to setup government organ at the then upazila level to assist the development of small and cottage industries.⁴⁶ These centers would provide financial marketing and technical assistance. At the same time, government went for strengthening BSCIC so that it could reduce the practice of spreading limited financial and managerial resources over too many projects.

The objectives for the development of SCIs were elimination of unemployment specially for rural people including women and landless, development of entrepreneurships and manpower, promotion of subcontracting linkage between small and large industries, production of import substitution and export oriented goods, utilization of indigenous resources and promotion of people's participation in the industrial development.

⁴⁴ *Ibid.*

⁴⁵ *Ibid*, p.VI-27

⁴⁶ *Ibid*, p.VI-32

Moreover, small and cottage industries would be assisted through rendering pre and post investment promotion and extension services including infrastructure such as industrial estates, common facilities' centers, energy supply, transport and communication facilities, market emporium facilities in important commercial areas and growth centers, and other financial services. To render above services government took initiatives to coordinate the activities of BSCIC, BHB and BSB with 'Upazila Service Center'. Proper measures were taken to provide SCI with 'tariff and fiscal protection.

The Proposed investment outlay for small and cottage industries under the Fourth Five Year Plan has been shown in the following Table-3.8:

Table-3.8: Investment Outlay for Small and Cottage Industries (in million Tk.).

Name of the Sector	Investment Outlay	%
Private Sector	5256.10	32.33
Public Sector	11000.00	67.67
Total	16256.10	100

Source: GOB, The Fourth Five Year Plan, pp.VI-29 and 32.

This sub-sector as a whole received the one fourth of the total private sector industrial investment and about 13 percent in the case of public investment. Among the public sector investment maximum was decided to spend on spilled over projects from TFYP. Agency wise allocation for the development of SCI was as under (Table- 3.9):

Table-3.9: Allocation for the Public Sector Investment (at 1989/90 prices & in million Tk.).

Corporations	Spill Over Projects		New Projects		Total Amount	%Total Allocation of Industrial for the SCI
	Amount	% Total Allocation	Amount	% Total Allocation		
Handloom Board	54.10	11	1320	89	1474.10	3.93
Sericulture Board	45.10	04	1200	96	1245.10	2.98
BSCIC	1536.90	60	1000	40	2536.90	6.07
Grand Total	1736.10	--	3520.00	--	5256.10	12.98

Source: GOB, The Fourth Five Year Plan, p. VI-30.

From the table it is clear that about 12.98% of total public sector investment was allocated for the development of SCI. Among this amount 67 percent was spent for new project while the rest was for ongoing projects. In fact BSCIC had to spend about 60 percent of its total allocation to complete the on going projects because of its poor achievement during TFYP.

On the other hand, 25 percent of total allocation of the private sector was received by small and cottage industries. This allocation was limited only for promotional and supportive activities and it was a subject to the adjustment on the basis of private sector responses in future. In this Fourth Five Year Plan, it was targeted that during the plan period the share of SCI to GDP would reach to 7.7 percent with 0.6 million new employment generation.⁴⁷ But none of these targets was achieved. A number of new projects were completed during the plan period.

3.7 Review of the Fifth Five-Year Plan (FiFYP)

In the Fifth-Five Year Plan, for industrial development main emphasis was given on optimum utilization of indigenous factor endowments, promotion of employment and catalyzing the growth of production and export.⁴⁸

3.7.1 The Objectives Set for the Fifth Five Year Plan

In the FiFYP the development of the industrial sector got maximum priority. The development of this sector was considered as the base of overall economic development. Thus, the objectives for the development of this sector were related with the overall development of country and in formulating objectives the new economic world order introduced by WTO was sincerely considered.

⁴⁷ GOB, *Fifth Five Year Plan*, p. XIV-7

⁴⁸ *Ibid.*

The key objectives set for the FiFYP were: to raise the volume of industrial output with a view to contribute to the growth of the total value added as well as to the growth of overall economy indirectly through forward and backward linkages; the improvement of the balance of payment situation through import substitution and export orientation; to strengthen the technological base through indigenous and modern technology; skill development of self employed people; the development of the enterprises which can exploit the country's comparative advantage in the international market; employment creation through the labor-intensive medium, small and cottage industries; and all laws concerned with industry, trade investment would be reformed in order to make those more practical and simple.⁴⁹

3.7.2 Strategies Pursued in the Fifth Five Year Plan

To attain the set objectives in the FiFYP a number of strategies were proposed to follow for the development of the industrial sector. Among those promotion of the private sector as the main agent for industrial development; to encourage public-private sector joint ventures to expedient the industrial growth; development of efficiency culture both in private and public sector; to ensure proper market operation and to uphold consumers interest; development of export oriented, export linkage, and efficient import substitution industries; to provide adequate market information and marketing technology; all types of assistance to the exporters; to develop those industries in which Bangladesh has comparative cost advantage with a view to utilize the opportunities opened up by the WTO; to generate employment through entrepreneurship development in the rural areas, industries producing consumer goods and export items would receive proper support; and to promote sub-contracting linkages among the various types

⁴⁹ *Ibid*, p. XIV-8

of large, medium and small-scale industries and to boost up the contribution of SCI to GDP were the main strategies.⁵⁰

In addition to above mentioned strategies some special measures like pre and post investment promotion and extension services; development and improvement of women entrepreneurs through management training programs in SCIs sub-sector; modernization, rehabilitation and expansion of existing industrial units; tariff rationalization; to encourage of the growth of linkage industries; and establishment of new industrial estates.

From the above objectives and strategies it is noticeable that the authority considered SCIs mainly as the non farm source of income and employment generation and subcontracting linkage industries. In the Fifth Plan it has been targeted to raise the total contribution of SCI to GDP from 5 percent to 7.5 and employment creation to 0.48 million people.⁵¹

3.7.3 Programs for the Development of SCIs

A comprehensive program was proposed in the Fifth Plan for the development of the small and cottage industrial sub-sector. In the Fifth Five Year Plan alike other previous plans, for the development of SCI both public and private sector different programs were undertaken.

(a) Programs in Public Sector

In the public sector program a good number of projects were proposed to be implemented during the plan period and for this purpose total money outlay was of Tk.1, 089.89 million. From this amount 12 spills over projects would be implemented along with the new projects. Mainly through the public sector investment infrastructural facilities, credit facilities, training of the entrepreneurs, extension services and research, market promotion, and self-employment facilities would be provided for the people.

⁵⁰ *Ibid.*,

⁵¹ *Ibid*, pp. XIV-940.

(b) Programs in Private Sector

The objectives of the private sector program were to encourage establishment of small and cottage industries in various important areas of the country. The private sector program mainly emphasizes the development of handloom, sericulture, agro based and agro supporting industries, sport goods and toys production, semi-intensive shrimp culture, fish, poultry and cattle feed machine tools etc. Through this program priority would be given to the development of rural, cottage, and handicrafts industries. For this purpose the cottage industry sub-sector was allocated Tk.8, 490.00 million.⁵²

3.7.4 Special Programs for Handloom and Sericulture in the FiFYP

Its importance has been viewed from the point of employment generation and production of import substitute and export oriented consumer goods. The following actions were proposed in this plan for the development of this sub-sector.

(a) Handloom

Bangladesh Handloom board has identified some problems of this sector. To address the identified problems the following strategies will be undertaken during the fifth Plan period:

- (1) Strengthening of Bangladesh Handloom Board to perform promotional activities for boosting up production at competitive prices;
- (2) Revitalization of idle looms;
- (3) Improvement of loom technology through research and adaptation;
- (4) Proper financial support through credit facilities to the handloom weavers;

⁵² *Ibid.*, pp.XIV-28.

- (5) Ensuring the available supply of inputs required by the handloom sectors;
- (6) Encouraging the production of non traditional handloom products of high quality for foreign market;
- (7) Setting up of handloom emporiums and sales' centers in major cities and towns, and marketing corners in rural areas;
- (8) Reorganizing of the weavers co-operative societies and improvement of their skills; and
- (9) Promotion of export of 'Grameen Check' and 'Dhaka Check' in over seas markets.

By implementing above strategies it was targeted in Fifth Plan that at the end of the plan period the production of cloth in this sub-sector would increase from 595.00 million meters to 690.00 million meters.⁵³

The expected employment generation in this sub-sector was 1,66.00. For the development of handlooms total allocation in public sector will Tk.534.85 million and that of Tk.2413.71 million in private sector.⁵⁴

(b) Sericulture

Another textile industry under small and cottage industry sub-sector is Sericulture. Following strategies were proposed to pursue during the Fifth Five Year Plan period for the development of Skill industries:

- (1) Strengthening of Bangladesh Sericulture Board to perform promotional activities for supplying disease free laying and extension of mulberry cultivation and boost up the high quality silk production at comparative prices;
- (2) Encouragement of NGOs for greater participation in different stages of production and marketing activities;

⁵³ *Ibid.*, p. XIV-23-24.

⁵⁴ *Ibid.*

- (3) Ensuring access of small sericulture farmers to the various inputs and activities conducive to production of quality cocoon through organizing them by NGOs into groups;
- (4) Extension of mulberry plantation and cocoon production;
- (5) Local marketing of silk products of small and large farmers by BSB;
- (6) Development of export linkage to market sericulture products abroad and to lead export oriented RMG industry, and
- (7) Improvement of technology in silk sector and design of silk products.

It was assumed that if the above strategies were followed properly, the growth rate in sericulture would be 15 percent by the end of the plan and about 8 million of silk cloth would be product. The expected employment generation in this case was estimated at about 0.67 million.⁵⁵ For the development of sericulture, BSB had allocated Tk.85.11 million and the allocation has been granted to the private sector for the same purposes⁵⁶.

3.7.5 Investment Outlay for Development of SCIs

The Table-3.10 shows allocation among the agencies concerned with the development of small and cottage industries.

Table-3.10: Investment Outlay for Fifth Five Year (at 1996/97 prices and in million Tk.).

Corporation	Spill-Over Projects	New Project	% of Outlay Spend for New Project	Total
BSCIS	1000	89.00	7.58	1089
Bangladesh Handloom Board.	500	34.85	6.37	534.85
Bangladesh Sericulture Board	27	58.11	68.27	85.11
Total	1527	184.96	--	1708.96

Source: GOB, Fifth Five-Year Plan, p. XIV-43

From the above table it is clear that major portion of investment outlay would be spent for the spillover projects of Fourth Five Year Plan except in the case of sericulture.

⁵⁵ *Ibid.*, p.XIV-36

⁵⁶ *Ibid.*, pp.XIV 38-43

Alike the fourth plan, in FiFYP the role of public sector was confined to promote and support the private sector. Total allocation for SCI sub-sector was Tk.1708.96 million public sector and Tk.122657.38 million in private. That is to say, about 40 percent of total investment outlay has been allocated for the development of small and cottage industry sub-sector and of course, this figure is much higher than that of previous plans. But one thing is remarkable that in the Fifth Plan almost all the investment outlay of public sector for the development of SCI has been allocated to complete the spill over plans of fourth plan and major emphasis has been assigned to the textile industries. In the fifth plan some initiatives have been proposed to develop some new industries like small engineering and electronic industries in small scale and cottage industry sub-sector. In this way for the first time the authority has shown a progressive attitude towards the development of this sub-sector.

3.8 Conclusion: Overall Performance of SCIs During Different Plans

In all the plans and industrial policies the cottage industry sub-sector was considered as the agro-supportive, agro-product processing and domestic consumer goods producing industries. These goods were produced by utilizing domestically grown agricultural raw materials as well as by employing surplus labor of the agricultural sector. But there is no initiative for linking these enterprises with the large-scale industries. But these enterprises have enough scope to support both the agriculture and industrial sub-sector simultaneously. The wide range of dependence of this sub-sector on the agricultural sector has made its growth rather slow. At the same time the small scale and cottage industries have failed to establish linkages between agriculture and mechanized sector due to the wrong policy measures of the government. As a result, our large-scale industries do not

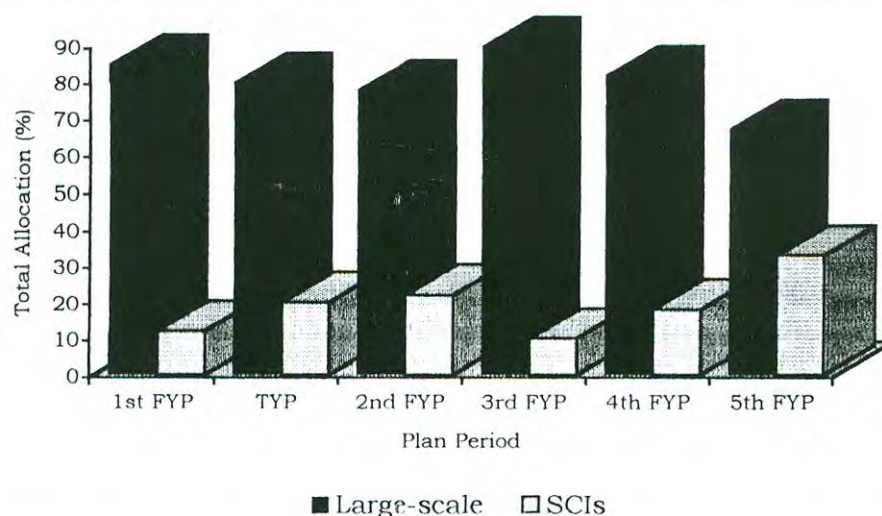
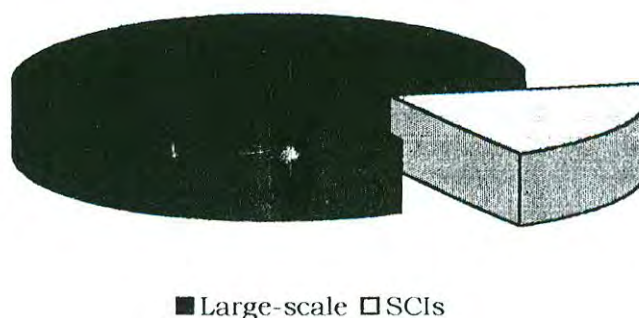
have any sub-contracting industries and hence those have to depend on imported raw materials, which are less cost effective.

In most of the plans, the government emphasized the cottage industries for creating employment opportunities at a lower cost. But in practice, the authority ate its own wards. In the case of allocation for investment on an average this sub-sector got 15 to 20 percent of total industrial investment during the various plan periods. But this sector's shares were about 50 percent of total industrial contribution to GDP and about 80 percent of the total industrial employment.

It is clear that our five-year plans were highly biased to the agricultural and large-scale industrial sector. The issue of employment generation in non-farm sector was emphasized several times but no integrated all out efforts were undertaken for the development of this sub-sector. The government deployed a number of departments for the development of SCIs. But there is no coordination among the activities of those. Therefore, they worked haphazardly which yielded unsatisfactory result. On the other hand, the activities of BSCIC and BASIC are highly centralized and those are covering small-scale enterprises only.

Finally, in the light of available data, it may be concluded that the five-year plans so far implemented had failed to improve the cottage industry sub-sector. In fact, this sub-sector is marching onward slowly without any considerable assistance of the government.

The allocation of money outlay between the mechanized industries and the small-scale and cottage industries is projected in Figure-3.1 and Figure- 3.2. The figures are showing comparison of total allocation during all the various plans between large and medium scale industries, and SCIs.

Figure-3.1: Comparison of Investment Allocation in the Various Plans.**Fig: 3.2 Comparison of Total Investment Allocation in the Various Five-Year Plans.**

One thing is clear that the investment in SCIs both in public sector and private sector increased gradually except in the Third Five Year Plan. It is because of disinvestment program. Here it is worth mentioning that in no plan, physical targets were achieved and in some cases the money outlay remained unutilized. Indeed, these are the common pictures found in our plan implementation.

From the above diagram it is clear that only 15% to 20% investment outlay was available for the development of small and cottage industries, except in Fifth Five Year Plan. But this sector shares about 50% of total

industries contribution to GDP and about 80% of the total industrial employment.

As a result of wrong and discriminating policy measures, the contribution and growth of SCI is declining day by day. The growth trend and contribution of this sector to GDP during various plans periods have been projected in the following figures 3.3 and 3.4.

Figure-3.3: Growth Trend of SCI in the Various Five-Year Plan period.

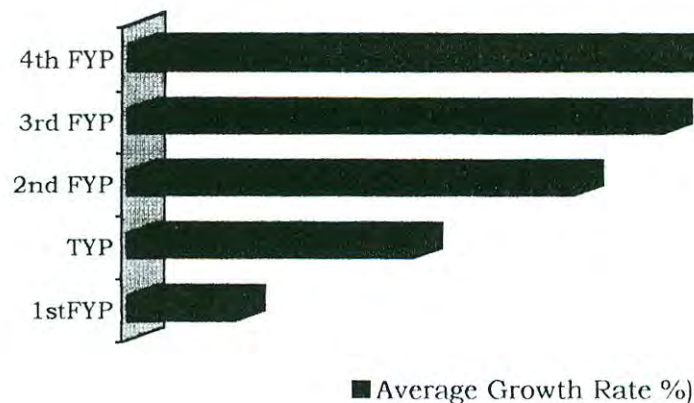
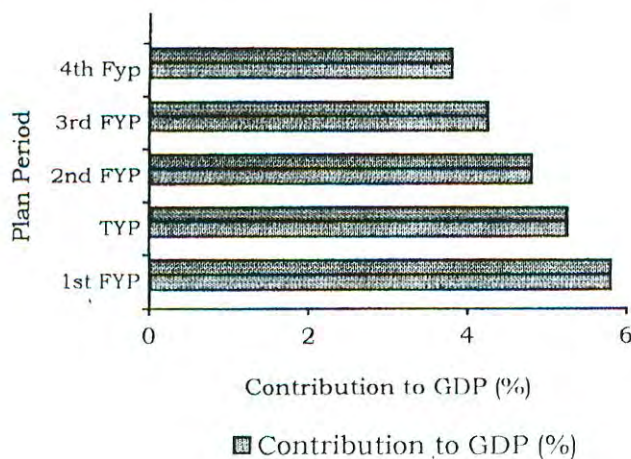


Figure-3.4: Contribution of SCI to GDP During Different Plan Periods.



Figures are showing that the SCI sector is growing but its contribution to the GDP is declining gradually during the plans. Thus, it is clear that our Five-Year Plans were mainly biased to the agricultural and

large-scale industrial sector. The issue of employment creation in non-farm sector was expressed several times but no integrated and all out efforts were the Government has engaged a number of departments for the development of SCI sub-sector. But there was no coordination between the activities of these departments. Therefore, they worded haphazardly which yielded no good result. The conditions for granting credit are not easy as per requirements. The activities of BASIC are highly centralized and could no cover the rural areas. The same problem also exists in the case of BSCIC. Tariff policy, import and export policy, investment policy, fiscal policy and other public policies favored mainly large scale industrial sector the policy makers paid a little attention to SCI sub-sector. A number of spectacular programs were for the marketing promotion of cottage industries but a few were implemented.

Finally, in the light of available data it may be concluded that the five-year plans so far implemented had failed to improve the cottage industry sub-sector. In fact this sector is growing very slowly without considerable assistance of the government.

CHAPTER-4

FINANCING OF THE COTTAGE INDUSTRIES

Whatever the size or scale of an industry, finance is its vital ingredient. Both to start and to run any production process, financial requirement is a very basic issue. In fact this is the issue that determines income and employment generation to a large extent. In a capital scarce country like Bangladesh, financing is a problem faced by all types of industries. But this problem is not more acute in the case of large-scale industries as those have a better access to the institutional sources of finance than the small scale and cottage industries.¹ In this chapter by depending upon the available data both primary and secondary various aspects of the financing issue of the cottage enterprises has been discussed to identify the problems and prospects of the cottage enterprises in income and employment generation.

4.1 Types of Capital Involved in the Cottage Industry

There are two types of capital involved in the cottage industries: fixed capital and working capital. Fixed capital means the assets of a permanent nature, which include land, building, plants and equipments; on the other hand, working capital meets the expenses arising from the use of raw materials, labor and inventories. The volume of fixed capital is insignificant in cottage industries because of its mode and nature of production. Most of the cottage industries are situated in the homestead and have no separate buildings. Moreover, those industries do not use any power-driven modern machineries but local made simple manual or animal driven machineries of very low price. Thus, fixed assets of these industries are ignorable. On the other hand, cottage industrial activities are the family tradition based on family ownership that is why only small amount is spent for the purpose of initial capital accumulation. But, the handloom industries are more capital intensive than the other cottage enterprises. Working capital in these industries is playing vital a role and constitutes major part of the total capital

¹ M.U. Ahmed, *Financing of Small-scale Industries: A Study of Bangladesh and Japan* (Dhaka: University of Dhaka, Sept.1987), pp.30-31.

of this industrial sub-sector. Lion's share of working capital is used to pay the wages of the workers and purchase of raw materials. The book-keeping system in this industrial sub-sector is completely different and the proprietors usually pay their credit installments and meet marketing charges from the working capital. The relevant data in this regard collected through the field study have been presented in Tables-4.1, 4.2 and 4.3.

Table-4.1: Fixed Capital of Cottage Industries.

Fixed Capital (000 TK.)	No. of Industries	Percentage
Below 10	25	27.8
10-50	38	42.2
50-100	11	12.2
100-150	8	08.9
150-200	6	06.7
200 and above	2	02.2
Total	90	100

Source: Field Survey.

Table-4.1 exhibits that out of 90 industrial units, 74 units (82%) have fixed asset below TK. 1 lakh and only 16 have that of above TK. 1 lakh. Of course, less capital intensity is one of the basic features of cottage industries. But the 16 industrial units, majority of which are handloom industries are showing higher capital intensity than the others. Each of these industries has more than 5 looms. In fact, among the cottage industry sub-sector, handloom industries are more capital intensive.

Table-4.2: Working Capital of Cottage Industries (weekly).

Fixed Capital	No. of Industries	Percentage
Below 1000	14	15.6
1000-2000	25	27.8
2000-3000	28	31.1
3000-4000	09	10.0
4000-5000	03	03.3
5000 and above	11	12.2
Total	90	100

Source: Field Survey.

According to Table-4.2, 67 industries weekly working capital requirement is not more than TK. 3000 and these industries are of those 74

industries having fixed asset of less than TK. 1 lakh. These industries are mainly depending on family labor.

Table-4.3: Distribution of Working Capital.

Items	Percentage (%)
Raw Materials	69
Wage and Others	31
Total	100

Source: Field Survey.

Table-4.3 is representing the share of wages and purchase of raw materials in working capital. As shown in the Table-4.3, maximum of the working capital is spent for the purchasing of raw materials. It happens, because of the presence of unpaid and poor paid female and family workers. Very negligible managerial cost allows the proprietors to spend the lion's share of the working capital for the purpose of raw material procurement.

4.2 The Ways of Capital Accumulation

Generally, the initial capital is accumulated from the personal savings as well as borrowing from the various institutional and non-institutional sources. Initial capital is needed for financing new machineries, buildings, sheds, small warehouse and so on. In fact, 80 per cent of the total fixed asset in this sub-sector is accumulated from the initial capital and remaining 20 percent is accumulated from the re-investment of profit, which is very insignificant in this sub-sector because of poor profit and the use of those for other purposes.

On the other hand, for working capital the cottage industries depend partly on their own sales revenue and partly borrowing from various institutional and non-institutional sources. But the dependence on the non-institutional sources is observed more than the institutional source in our study areas. The proprietors are borrowing money from big shopkeepers, wholesalers, moneylenders, landlords and relatives to finance their respective working capital. Several times they received raw materials as advance from the wholesaler to whom they have to sell their products at the prices fixed before the advances are made, and these prices are lower than the existing market prices. In addition to this, they also purchase raw materials in credit

and payment is made from the sales revenue. Tables-4.4 and 4.5 are representing the relative shares of various sources of funds for financing fixed and working capital of cottage industries.

Table-4.4: Various Sources for Financing Initial Capital.

Sources Funds	Contribution (%)
a) Personal savings	70.00
b) Cash from dowry and inheritance	04.60
c) Sales of land and other assets	09.20
d) Institutional sources	10.20
Total	100.00

Source: Field Survey.

Table -4.5: Various Sources for Financing Working Capital.

Sources	Contribution (%)
a) Sales from the products	39.00
b) Personal savings	08.00
c) Shopkeepers and businessmen	10.00
d) Wholesalers	18.00
e) Landlords and moneylenders	05.00
f) Relatives	02.00
g) Institutional sources	18.00
Total	100.00

Source: Field Survey.

From the above Tables-4.4 and 4.5, it is clear that the contribution of institutional sources in financing both fixed and working capital is below 20 per cent. Financially, the whole system is managed mainly from the personal savings of the proprietors and revenue from the sales of the products. In this way, the cottage industry sub-sector is to depend on its own funds for capital accumulation to a considerable extent. It is not because of their financial solvency, but because of inadequate supply of credit and other problems related to credit disbursement.

4.3 Role of Credit in Financing the Cottage Industries

The role of credit in financing of the cottage industries is very significant. Though the most of the cottage industries are financed from the personal savings of the proprietors, but it does not necessarily mean that this sub-sector is sufficient to satisfy its own financial requirement. A study carried by the Bureau of Business Research of Dhaka University has shown that the prime reason for the closure of 26 SCIs is the lack of finance.² In our study area it has been found that about 89 per cent cottage industries cannot work up to the expectation of their proprietors, because of financial and marketing problems, while the lack of finance is alone responsible in the case of 58 per cent of cottage industries (Table -4.6).

Table-4.6: Problems Faced by the Cottage Industries.

Types of Problems	No. of Cottage Industries (%)
1. Financial	58.00
2. Marketing	31.00
3. Others	11.00
Total	100.00

Source: Field Survey.

The remaining industries are seeking technical and other supports, which include duty free import of raw materials, up to date designs, export support and import protection, and so on (Table-4.7). In fact, marketing problem may be solved to a substantially extent through financial assistance. Thus to overcome most of the problems faced by this sub-sector, financial assistance as well as institutional credit is essential.³

Table-4.7: Requirement of Assistance.

Types of Assistance	No. of Cottage Industries (%)
1. Financial and Marketing	81.00
2. Technical	11.00
3. Others	8.00
Total	100.00

Source: Field Survey.

² Mohammad Rowshon kamal, *Problems of Small-scale and Cottage Industries in Bangladesh*, (Japan: University of Nagwa Press, 1985), P. 84

³*Ibid.*

4.3.1 Role of Short- term Credit

Theoretically, short-term credits are those, which are repaid within a short time. These credits are required to finance working capital such as purchasing raw materials, marketing the products, paying wages and other expenses arising from the operation of industrial activities.⁴ Generally, about 23 per cent of the proprietors of the cottage industries sell their product in credit as observed in our study areas and hence they have to depend on credit for short time period to Purchase raw materials or to pay their workers. Of course, they can also purchase raw materials in credit but they have to pay wages in cash and meet the subsistence demand of their own family. Again, when the raw materials are produced outside of the neighboring areas, the purchase of raw materials in credit is hardly possible.⁵

Only 35 percent of rural enterprises are able to purchase raw materials directly from the market by paying cash and 65 percent have to collect raw materials in credit from the various non-institutional sources for which they have to pay either high rate of interest or to sell the finished goods at a price lower than the prevailing market price to the lenders who are also businessmen.⁶ In the study areas of this research, the same practice has also been observed. It is also observed that the cottage industries which are very small like handloom industries having one or two looms, mat, bamboo and cane, coir rope, pottery, carpentry¹ and wood processing industries, etc. are suffering from the problems of their inability of purchasing inputs caused by their financial incapability.

The industrial units, which are comparatively large in size and generate reinvestable surplus, can tackle the financial problem to a considerable extent. Similarly, the proprietors who have other sources of income can also manage this problem. But the small and poor proprietors are in a double-edged problem. On the one hand, they do not have sufficient reinvestable surplus because of their small scale of operation, credit selling, and absence of other sources of income and on the other hand, the market intermediaries

⁴ M. U. Ahmed (1987), *op. cit.* p. 32.

⁵ M.U. Ahamed, "Financing Rural Industries in Bangladesh," *The Bangladesh Development Studies*, (Dhaka :BIDS, Nos. 18&2 March – June 1984), pp.70-77.

⁶ *Ibid.*

or the suppliers of raw materials are a little bit interested to provide them with raw materials in credit or loan as those proprietor's asset conditions can not ensure the lenders that they would be able to pay back and at the same time the businessmen find it less profitable to sell such a small quantity of raw materials in credit. In fact, direct procurement of raw materials is less expensive but more suitable to carry on production. During the post natural disaster period the requirement of short-term as well as long-term credit is a must for all the affected industries.

Thus, financing of working capital is necessary to ensure the smooth and proper operation of cottage industries, and to generate more profit by reducing the exploitation of the middlemen, market intermediaries and moneylenders. The short-term credit plays a significant role in reducing their sufferings.

4.3.2 Role of Long-term Credit

Most of the cottage industries are established by investing the capital accumulated from proprietors' personal savings. But the loans for longer period are required to finance the expansion of the unit, renovation of the plant, modernization of machinery etc.⁷ Theoretically medium and long-term credit are required for an enterprise having a success story in incurring profit. But in practice, to utilize the economies of scale a minimum suitable size of enterprise is essential so that it can generate profit. The enterprises which are not presently incurring profit because of the size constraint, may be profit oriented through long-term investment. In this way, for the profit orientation of the cottage industries medium and long-term credit may contribute to it significantly.

Again, some enterprises producing traditional commodities are now suffering from a downward trend of demand because of the popularity of substitute goods introduced by the medium and large-scale industries at a price comparatively cheaper than the products of cottage industries. In such a case, the product diversification is a must for those cottage industrial units to avoid uneven competition with the more cost effective large and medium scale industries and to create more demand for their output. To realize this

⁷ M. U. Ahmed (1987) *op.cit.*, pp. 33-34.

target long-term investment is required and without medium and long-term credit facilities, it is not possible for the existing industries to finance such types of investment. For an example, earthen utensils are now outdated and pottery industries are in the verge of ruin. Now to save those enterprises it is essential to produce some fashionable decorative commodities that have demand among the people and for this purpose the supply of long-term credit along with some technical support is a must.⁸

Hence, the long and medium term credit is required to expand fixed capital of the enterprises with a view to generate more income and profit as well as employment.

4.3.3 Demand for Short-term and Long-term Credit

Short-term credit is required for regular operation of enterprises while the long-term credit is required to expand the plant size and the volume of production, modernization of production technique, product diversification etc. The proprietors have expressed their demand both for long-term and short-term credit. Generally, the proprietors of small enterprises having low income are more interested to get short-term credit.⁹ They should try for long-term credit to expand their plant size so that they can utilize the economies of scale and to solve the marketing problem through product diversification. But they are not doing so because of their subsistent type of operation and lacking of proper information.

In favor of the above statement the conditions of small handloom industries of Kumarkhali of Kushtia district can be cited. These handlooms industries are weaving *lungi* and *gamsa* and each of these enterprises has less than two looms on an average. These enterprises have an uneven competition with the textile mills or power-looms, which are producing and supplying same items at lower prices. Again, these handlooms are not weaving more fine and diversified clothes to get rid of such a competition. The proprietors of these handloom industries are asking for short-term loans to meet their daily production cost, but it can never be a permanent solution for their existing problem. Table-4.8 is presenting the position of short, medium

⁸ Field Survey.

⁹ *Ibid.*

and long-term demand for credit. Here the enterprises are grouped as per their net income.

Table -4.8: Credit Demand of Enterprises.

Monthly Net Income (in Tk.)	Demand for Credit			No. of Industries
	Short- term Credit	Long/Medium term Credit	Both	
Up to 2500	14	3	1	18
2500-4500	19	4	7	30
4500-6500	10	6	3	19
6500-8500	3	8	2	13
8500 and more	—	10	—	10
Total	46	31	13	90

Source: Field Survey.

From the above table it is clear that the poor proprietors in terms of monthly income are more interested to get short-term credit instead of long-term credit. Most of the cottage industries required small credit for a short time period to meet the current production costs.¹⁰

The amount of credit requirement is however determined by the cost of production. For an example, the handloom industries weaving silk clothes have a larger amount of credit requirement as compared to the mat industries, which use local and low priced agricultural output as raw materials. Again, the industries operating comparatively at a large scale required more credit, while the industries which are of good concerned in terms of income, employment and profit generation demand long-term credit of large amount to finance the investment on the fixed asset.

Similarly, marketing system or process also determines the amount of short-term credit demand. The industries, which sell their products in the local market or at the gate of the enterprise, do not want credit for the marketing purpose. On the other hand, for the same purpose those industries demand credit which use to sell their products outside their respective native areas i. e. to the big towns and these industries are large in size and generally their proprietors are also engaged in business of the same products.¹¹

¹⁰ Muhammad Rowshon kamal (1985) , *op. cit.*

¹¹ Findings of the field survey.

Thus, the amount of credit requirement is dependent on the quality of output and cost of production, marketing process, size of enterprises, mode of production and economic ambition of the proprietors.

According to a study conducted by BIDS about two decades ago showed that about 90 percent of the enterprises' average credit requirement was not more than TK. 500.¹² In our study we find a different picture and this difference is due to the sample size, inclusion of handlooms in the and the rise in price level. In this study it is observed that 35 percent out of 46 enterprises require short-term credit, which is less than TK. 5000.00 for a period of two months to meet current production expenses. Tables-4.9 and 4.10 are representing the findings in this regard.

Table-4.9: Short-term Credit Requirement.

Size of Loans	No. of Industries (%) (N=46)
Up to TK. 5000	35
5000-6000	27
6000-7000	14
7000-8000	12
8000-9000	07
9000 and above	05
Total	100

Source: Field Survey.

Table-4.10: Medium and Long-term Credit Requirement.

Size of Loans	No. of Industries (%) (N=56)
Up to TK. 20000	13
20000-40000	20
40000-60000	22
60000-80000	32
80000-100000	07
100000 and above	06
Total	100

Source: Field Survey.

As revealed in the Table-4.10, out of the 56 cottage enterprises, 13 percent required both types of credits. The minimum long-term credit requirement is Tk.20, 000 at least for two years of time. But majority of the

¹²The Bangladesh Institute of Development Studies, *Rural Industries Study Project (RISP)- Final Report*, (Dhaka:BIDS, 1981), pp. 90-91.

enterprises (32%) want to get long and medium-term credit from Tk.60, 000 to Tk.80, 000.

4.4 The Amount of Credit and the Desired Rate of Interest

Generally, small size of credit is required by the cottage industries. But there is an inverse relationship between the rate of interest and the amount of credit disbursed. That is to say, the rate of interest declines with increase in the size of loan. The average profit earned by the cottage industries is on an average not more than 15 percent. The micro credit of this type causes more administrative cost than that of big amount.¹³ More over Bangladesh Bank has withdrawn interest subsidy in the case of financing small and cottage industries through the scheduled commercial banks and in this context the bank authority has admitted that the traders had unduly utilized these credit facilities. It is of course, true but it would be much better to find out the reasons with a view to solve the problem rather than leaving the program.

Thus, the credit for this sector is now becoming costlier which is totally against the expectation of the proprietors and their access to the institutional sources of credit will be narrower further. The following Tables-1.11 and 4.12 show the average rate of interest for the various loanable amounts given by non-institutional sources and the expected rate of interest of the proprietors respectively.

Table-4.11: Rate of Interest and the Amount of Loans.

Size of loans (TK.)	Rate of interest
Up to 100	55.00
100-500	45.50
500-1000	35.20
1000-5000	30.00
5000 and above	25.00
Average	38.14

Source: Field Survey.

¹³ Md. Abu Bakar, "Experiences of Some special Credit Programme in Bangladesh- Targeting Women", *Journal of the Institute of Bangladesh Studies*, Vol. XXI, (Rajshahi :IBS, 1998), pp. 113-115.

Table-4.12: Expected Rate of Interest.

Rate of interest (%)	No. of industrial units
1-3	9
3-5	52
5-7	16
7-9	12
9-11	4
11-13	2
Total	90

Source: Field Survey.

From Tables 4.11 and 4.12 the average minimum rate of interest charged by the non-formal sources is 25 percent while the modal expected rate is 3 to 5 percent. Thus, there is a big gap between the reality and expectation. In fact, most of the enterprise cannot make net profit of that amount which may be at least equal to the minimum rate of interest. Presently, some enterprises are borrowing both from institutional and non-institutional sources. In this study we have observed that 46 percent enterprises are dependent on short-term credit for financing working capital and out of the 46 percent only 18 percent are borrowing from the institutional sources. On the other hand, 10 percent enterprises have received institutional credit for financing their fixed capital. Whatever the sources of credit, the enterprises are paying several times higher rate of interest than their expected interest rate. From the NGOs cottage industries are getting loans more easily specially when the women are involved, but for this micro credit the NGOs are charging very high rate of interest by arguing that to administer such loans they have to bear more cost than that of the ordinary credit management.

From the above discussion it is clear that most of the cottage industries want to get credit at a rate of interest, which is much lower than the existing rate of interest. But the financial institutions want to charge higher rate of interest for such micro type credit as the management cost of those credit is higher and there involves risk of default. On the other hand, the interest subsidy withdrawal of the Bangladesh Bank has made the

situation worse. This contradiction between the supply and demand sides of the credit on the desired interest rate is one of the basic reasons for insufficient flow of credit in this sub-sector.

4.5.1 Obstacles and Problems of Getting Credit

The cottage industries are suffering from inadequate supply of credit and it is restricting the growth and expansion of this sub-sector. In fact, the cottage industries are exclusively using internal funds for financing capital requirements and these funds are provided by the profit of the enterprises. But this reinvestment from the profit is very insignificant as 85 percent of the profit is consumed on an average.¹⁴ Thus financing from the internal fund is inadequate to meet the requirement.

Like other LDCs credit facility is very narrow in Bangladesh for all types of industries, but the problem is more acute in the case of cottage industries as these enterprises face some additional problems. Here we like to concentrate our discussion on finding out the problems of getting credit from the institutional sources.

The small borrowers of the cottage industries are poor in all regards and they have no sufficient assets from which income may be generated except their own enterprises. Therefore, they cannot meet the collateral demands by the financial institutions against the loan applied for.

In addition to the lack of collateral requirement, cumbersome official formalities are involved in the case of credit disbursement. Generally, ten different types of paper requirement have to be met by the applicants to obtain loans and they have to strive much for this purpose at the cost of their valuable working days. As the proprietor is also the manager of a cottage industry, therefore, the operation of the enterprise is badly hampered when its proprietor engages himself in other activities like loan sanctioning. The following table (Table-4.13) is representing the average number of working days lost by the borrowers in getting credit which, of course, increases the real cost of credit.

¹⁴ BIDS (1981) *Op.Cit.*, pp.268-271.

Table-4.13: Losses of Working Days for the Institutional Credit.

Source of Loan	Loss of Average No. of Working Days
Commercial banks	10.5
Co-operatives	2.7
BSCIC	10.0
Other Government Agencies	19.3
All sources	11.5

Source: Source: M.U. Ahmed,(1984) p.77.

Thus, to complete the official formalities an applicant of the loan has to spend about 11.5 working days on an average. At the same time, the proprietors are not educated enough to understand the official formalities and only 6 to 7 percent keep records of their operations.¹⁵ It becomes a great trouble and hazard for them to meet the official formalities. This sub-sector requires both short-term and long-term credit. But after completing all of the official formalities it takes on an average about three months to receive a loan finally. This is another vital adversity in obtaining institutional credit. This situation is projected in Table-4.14.

Table-4.14: Average Number of Days Required in Getting Loan.

Source of Loan	Number of days
Commercial banks	72.4
Co-operatives	31.8
BSCIC	20.0
Other Government Agencies	157.4
All Sources	85.6

Source: M.U. Ahmed (1984), *op.cit.*, p.73.

Social status of the borrowers determines their access to the institutional sources of credit. Generally, the rural elites or wealthy persons face fewer problems in obtaining credits from the institutional sources as compared to that of the poor ordinary borrowers.¹⁶ It happens partly because of the asset position of the rich borrowers ensures the financial institutions about the repayment of the borrowed amount within due time and partly because of their warm relationship with the bank officials. Thus, among the enterprises, which are larger and the proprietors of which are influential have better access to the credit program of the financial institutions. But most of the proprietors are poor and they are getting discriminating treatment from the bank officials.

¹⁵ Field Survey.

The people who have the capability of paying bribes can easily get credit as compared to those who cannot. In fact, without bribe it is very difficult to get a credit whatever its amount. As a result, the cost of credit becomes higher and this incidence of bribing is very common in the rural branches of nationalized commercial banks.¹⁷

The banking network in the rural areas of Bangladesh is yet to develop. Only a few nationalized commercial banks have only branch at *Upazila* headquarters. These branches are mainly dealing in the regular banking activities instead of development activities. While a few specialized financial institutions are active in the rural areas and those cannot cope with the financial assistance required by the rural people.

In addition to inadequate bank branches in rural areas, most of the banks are lacking of adequate staff with proper training, initiative and motivation to handle small loans for the cottage industries.¹⁸ The banks have a general tendency to discourage this type of small loans as they think it a burden. Thus, the financial institutions have no effective programs, initiatives, interest and publicity of credit facilities to inform the entrepreneurs.¹⁹

Another problem is arising from the ignorance of the entrepreneurs about the credit programs. In our study areas it has been found that only 25 percent of the respondents know about some of the credit programs of the government and rest are in dark. Inadequate publicity is responsible for this. Again, in some cases the small borrowers are apprised of credit programs just by name but do not know the nature of the program as well as the process and formalities involved there.

Cost of borrowing from the institutional sources is another factor that determines the credit demand of the applicants as it includes both official fees and bribes.²⁰ The bribes generally depend on the social status of the borrowers and higher the social status lower is the illegal official cost. Again,

¹⁶ BIDS (1981), *op. cit.*, pp. 275-277

¹⁷ L.R Sarker, "Need for a Change in the Organizational Change in the Structure of the Commercial Banks", *Finance and Development*. Vol.1 (Dhaka:1979), pp76-85.

¹⁸ M.U.Ahmed (1984), *op.cit.*,p.74

¹⁹ Muhammad Rowshon Kamal (1985), *op.cit.*, pp.83-85

²⁰ L.R.Sarker, *op.cit.*

taking the advantage of illiteracy and ignorance of the borrowers, sometimes much higher charge is imposed than the actual official charge and in this case some bank staffs play as brokers and thus, the cost becomes higher for the illiterate borrowers.²¹ If we consider the loss of working days needed to complete the official formalities then the cost of loan will increase further. The average cost of loan is about 3.5 percent of the disbursed amount. That is to say a small borrower get TK. 96.5 though he has been allocated TK.100 as loan and on this amount interest is to pay.²² In the following table cost of loan for the various sources has been revealed (Table-4.15).

Table-4.15: Cost of Institutional Loans.

Source of Loan	Cost (as the percentage of total loans)
Commercial banks	2.39
Co-operatives	4.17
BSCIC	2.08
Other Government Agencies	5.81
All Sources	3.45

Source: BIDS. ²³

Thus, high collateral requirement, rate of interest, official cost, cumbersome official formalities, ignorance of the loan seekers, inadequate bank branches along with the poor service etc. are restricting the enterprises borrowing from the institutional sources of credit.

4.5.2 Problems Faced by the Financial Institutions

From the side of financial institutions it is always argued that the administrative cost for small or micro credit is very high and thus without higher rate of interest it is not profitable for the banks to lend small amount. Again, most of the small borrowers are poor and unable to meet the proper security demanded against the proposed loan. As most of the proprietors of the cottage enterprises do not keep the record of their business; therefore, problem arises in scrutinizing the loan applications and at the same time the lenders find no yardstick on the basis of which the viability of a project can be measured.²⁴ Under these circumstances, the bank officials generally reach a safe conclusion by declaring the projects unviable. In the tradition bound

²¹ BIDS (1981), *op. cit.* pp. 286-288.

²² *Ibid.*

²³ *Ibid.* p.271

²⁴ M. U. Ahamed (1984), *op. cit.*, p 75

rural society a major portion of the poor people use to spend loans for social entertainment purposes and as a result of it there always exists a high risk of default.²⁵ To eliminate this tendency it is essential to supervise and monitor the use of credit. But there is no department to perform such duties. Some of the banks have Small Industries Department (SIDs), but those are not properly equipped with adequate trained personnel. Thus, the bankers find it more risky but less profitable to finance cottage industries.

The financial institutions specially nationalized commercial banks that have branches in the rural areas, do not have adequate and trained manpower to deal with the thousands of small borrowers.²⁶

The officials also believe that credit alone would do nothing without technical, marketing and other concerned extension services and without that package of programs by taking credit the proprietors would be looser and the bank would face a poor credit recovery.²⁷

In this study about 18 officials of banks located at the study areas have been interviewed with the structured questionnaires, which covered some issues related with the financing of cottage industries. The officials identified the following problems in the case of issuing credit for those enterprises.

Table -4.16: Views of the Respondents.

Types of Problem	No. of Respondents (%)
Deficiency in Collateral	80
Projects are not Commercially Viable	98
Lack of Manpower	81
Less Profitable for Banks	58
Borrowers are not Interested	63
Financial Problem is not the Crucial one	93

Source: Field Survey.

From the above findings it is clear that the officials of the financial institutions do not consider the financial problem of the cottage industries as an important problem and they blame the inadequacies of institutional credit

²⁵ Muhammad Rowshon Kamal (1985) ,*op .cit.* pp : 98-99

²⁶ *Ibid.*

²⁷ *Ibis.*

is due to the various lacking of the borrowers. In fact, the bankers are doubtful about the repayment capability of the proprietors. But it is not the total truth as the NGOs are lending the enterprises with the high rate of recovery which, is on an average more than 90 percent and both of the lenders and borrowers have no serious complain in this regard. Actually, the demand for high collateral by the banks make the difference when the NGOs are lending without any collateral but provide some extension services and maintain strong monitoring. In practice, the NGOs with their micro credit programs are now trying to cover the gap that exists between the demand for the institutional credit and its availability.

4.6 Review of the Credit Programs of Some Financial Institutions

In this section we have discussed the credit programs of some institutional sources both government and NGOs, engaged in financing industrial sector of Bangladesh with the special reference to cottage industries in the study areas.

4.6.1 Bangladesh Shilpa Bank (BSB)

The former IDBP and the EPF were merged to establish the BSB on 31st December 1972 under the Shilpa Bank Order, 1972. The primary objective of the BSB is to accelerate industrial activities through extending financial and advisory services for setting up new industries as well as modernizing and replacing the existing industries in both public and private sector. In fact, through this financial institution, government tries to implement its industrial policies.²⁸

For industrial development, the BSB mainly provides long and medium term credit in both local and foreign currencies to the industrial units and at the same time it acts as a guarantor of the repayment of loans raised by the investors from other sources. This bank also provides short-term credit to the industrial units, which have already received loan from the bank. But the bank usually finances those projects having a minimum fixed assets of TK. 2.5 million and in this way the BSB has no provision to finance the cottage industries of rural areas as defined in this study.

²⁸BIDS(1981), *op. cit.*, p.18

4.6.2 Bangladesh Krishi Bank (BKB)

The Bangladesh Krishi Bank (BKB) came into operation in 1973 and took place of the former Agriculture Development Bank of Pakistan (ADBP). Later another bank concerned with the agricultural development was established for Rajshahi Division, which is now known as Rajshahi Krishi Unnayan Bank (RAKUB). These banks are aimed at financing agricultural activities and agro-based industrial activities. In fact, these have vital role in the field of rural financing and both the BKB and the RAKUB have widespread network of branches throughout the country. But the bank is mainly biased in financing agricultural activities and it has a tendency to avoid the cottage industries.

4.6.3 Nationalized Commercial Banks (NCBs)

The only four NCBs of the country - Sonali, Janata, Agrani and Rupali, are mainly profit oriented financial institutions. Thus, profit is the primary motto of these banks and consequently they have a little interest to finance the cottage industries. Under the directive of the Bangladesh Bank, NCBs have to undertake some schemes like "Small Loans Schemes", "Special Credit Program" etc. to finance the SCIs. But they have no spontaneous participation in these programs. Again, the government occasionally introduces these special credit programs by depending upon the financial contribution of international donor agencies. For financing SCIs, and to carry on credit program as a part of their normal banking function, the main problem is inadequate trained and motivated manpower in administering credit specially in the rural branches.²⁹ Thus, it is next to impossible for the government or concerned agencies to implement various small loan schemes without bringing about necessary changes in the mode and characters of operation of the NCBs required for carrying on such type of development oriented banking.

However, the participation of bank in financing the small-scale enterprise is gradually increasing. But in the case of cottage industries its

²⁹ Muhammad Rowshon Kamal(1985), *op . cit*,p.91

role is not up to the mark. Of course, the owners of cottage industries are considerably incapable of satisfying bank's conditions for writing down credit.

4.6.4 Bangladesh Rural Development Board (BRDB)

It is the largest government organization concerned with the rural development. BRDB has among a number of development programs that help the cottage industries by providing those with loans.

(a) Rural Poor Program

This program of BRDB is co-financed by CIDA and IDA. Under the program rural poor women has been highly favored and a considerable part of the loans has been spent for cottage industrial activities. Especially these loans in cottage industries are being used to meet the demand for working capital.

(b) BRDB Women's Program

Through this program financial assistance is provided for self-employment creation for the rural poor women who have land less than 0.5 acre. Another aim of this program is to bring the poor women under the family planning program. In our study areas about 6 percent of cottage industries like coir-rope, bamboo and cane, and mat making enterprises are provided with credit under this program.

4.6.5 Bangladesh Small and Cottage Industries Corporation (BSCIC)

BSCIC is the only institution engaged in the promotion and development of small scale and cottage industries in Bangladesh. This institution provides all types of assistance to the small scale and cottage industries. This corporation has the programs of the following nature:

- i) Lending program based on its own resources;
- ii) Lending program in association with BSB; and
- iii) Credit operation in association with the consortium of commercial banks.³⁰

In this section the lending program of BSCIC has been discussed critically with the help of available secondary data and the experience of field study.

³⁰ *Ibid.*, p .87

(a) Lending Program from Own Resources

BSCIC has been going with this credit operation since 1957-58. The main objective of this credit program is to enable the corporation to meet specific requirements and special needs of small investors through revolving the funds. This type of credit facility is provided for construction of factory buildings, buying local machinery and purchase of raw materials. Under the special circumstances, only 25 percent of the loan is allowed to be used as working capital, though practically those are not sanctioned for that purpose. The loans are distributed for maximum 5 years at the interest rate of 7 percent.

During the last 18 years, 923 loans were sanctioned that is to say about 51 per year.³¹ Without any question this 923 loans during the last two decades is too little to meet the demand of the thousands of industrial units and it was due to very limited allocation of fund by the government to the corporation. Moreover, one third of these loans were considered as bad debts while recovery rate was only 38 percent.³² These two things showing inefficiency of BSCIC's credit management that made the government disinterested to sanction more for this purpose. More over 7 percent interest charged by the corporation was much higher in the war torn economy of Bangladesh.

(b) BSCIC- BSB Lending Program

This credit program was introduced in 1961. Initially the then Government of Pakistan provided an amount of TK. 5 million to form the fund. This program was introduced with a view to serve the same purpose as like as BSCIC's own fund credit program and in addition to this, BSCIC-BSB credit program also financed the import of machinery in foreign currency. But this program failed to become popular because of lengthy formalities, administrative and supervisory difficulties along with the misunderstanding between the two organizations.³³ As a result, the scheme was abandoned in the mid 1970s.

³¹A.H.M Rahman and et al., *Entrepreneurship and Small Enterprise Development in Bangladesh*, (Dhaka: University of Dhaka, 1979), p. 91.

³²BIDS (1981), *op. cit.*, p.18

³³ M.U.Ahmed (1987), *op. cit.*, p.65.

(c) BSCIC-Commercial Bank Loan Program

This credit scheme was initiated in 1967 with a view to widen the credit facilities for small and cottage industries. The loans were sanctioned for ten years at the interest rate of 11.5 percent, which was later reduced to 11 percent. Between the 1st decade TK. 94.40 million was sanctioned and annual disbursement was TK.9.44 million.³⁴ In comparison of other credit schemes, this one was more effective because of its longer repayment period and expanded countrywide network of the commercial banks. But this program mainly favored the small-scale industries instead of cottage industries because of the natural inhibition of the commercial banks to disburse loans of very small amount as those cause higher administrative cost and thus is not very attractive from the viewpoint of profit. On the other hand, 30 percent equity participation is hardly possible for the cottage industries operating mostly non-commercial basis with a small amount of capital.

(d) Women Entrepreneurship Development Program (WEDP)

It was initiated during the second five-year plan period (1980-85). This credit program was executed by BSCIC with the financial assistance from USAID and credit was disbursed through the BKB. Under this credit program potential women entrepreneurs were provided with credit in order to finance both working and fixed capital in selected areas of the country. BSCIC workers arranged some extension services like training, technical advice, product design, marketing, etc. for them. The BSCIC's staffs selected the industries or entrepreneurs eligible for the credit.

(e) Women Employment Generation Project

It is another initiative taken jointly by BSCIC and the BKB. The aim of this project is to create employment for the rural poor women. Through this project maximum Tk. 5000 is granted for each person as loan for income generating purposes.

³⁴ Muhammad Rowshon Kamal, *op. cit.*, p.89

4.6.6 Non-Government Organizations (NGOs)

The non-government organizations have been working for the development of the country along with the government for the last two decades. The NGOs are contributing to the field of poverty eradication and self-employment creation through micro credit. The introduction of credit by the NGOs for the rural poor, landless and distressed people without any collateral has brought them in the main stream of economic activities and most of these are non-farm economic activities including cottage industrial activities as the rural people of the target group who usually get credit from the NGOs have neither arable land nor agricultural know-how to work in farm. The NGOs have specially helped the employment of rural women. An attempt has been made in this section to review the role of some NGOs in financing cottage industries.

(a) **Grameen Bank (GB)**

As an experimental project, Grameen Bank was established in 1976 and formally it began its credit operation in the selected areas of Bangladesh with the financial assistance of the Bangladesh Bank, IFAD, UNICEF and Ford Foundation. The experimental stage of GB came to an end in 1982 and thereafter GBP was transformed into a scheduled bank called Grameen Bank in September, 1983. The objectives of the bank are:

- (i) To develop an organizational framework in order to provide banking facilities to the door-steps of the poor people instead of bringing them to the banks for loans;
- (ii) To extend credit support to the disadvantaged target group without any collateral;
- (iii) To eliminate exploitation of the financial intermediaries; and
- (iv) To create income and employment opportunities for the underprivileged groups with a view to ensure the utilization of manpower.³⁵

The clients of the bank are very poor. The bank workers go to the villagers to transact bank operation and they work not as the typical bank workers but as the social workers. The bank employees organize the

³⁵ M.U.Ahmed (1984), *op. cit.*, p 48

interested poor people in groups and distribute loans among the groups. The credit distributed among the people is very small in amount i. e. not more than TK.2000 and repayments are collected in weekly installments. This type of disbursement and repayment system of credit is due to the very poor economic background of the clients as the risks of the misuse of loans are very high, if they are provided with a large amount for a long period. In addition to this, the bank takes the responsibility to train its clients so that they can ensure the proper utilization of credit.

The GB grants credit for both agricultural and non-agricultural purposes. But the major portion of Bank credit is distributed for the non-farm economic activities and it is about 98 percent.³⁶ The economic trend of Bangladesh in recent years is in favor of trading rather than industrial activities, as we want to make more profit very quickly at a minimum time. The poor people want loans for trading. Thus, more than one-third of the total credit goes to finance trading and shop-keeping. The share of distributed credit for processing and manufacturing is below 30 percent of total credit disbursement.³⁷ This type of credit is mostly used for the cottage industrial activities in the rural areas, as it is very unlikely to assume that the poor people of the countryside are the owners of small-scale industries. Again, in the recent years, GB's 'Grameen' Check' project is contributing much to reactivate handloom sector of some selected areas of the country.

(b) Bangladesh Rural Advancement Committee (BRAC)

BRAC a Bangladeshi non-government organization born in 1972, as a response to the humanitarian needs. It works with the people especially women and children whose lives are dominated by extreme poverty, illiteracy, disease and malnutrition, and their socio-economic empowerment are the primary focus of all BRAC activities.³⁸ Thus poverty alleviation and empowerment of the poor are the twin objectives of BRAC.

For the economic empowerment, BRAC has micro credit program. For the credit operation, the village organization (VO) is formed and the number

³⁶ Mahnub Hossain, *Credit for the Rural Poor-the Grameen Bank in Bangladesh* (Dhaka: BIDS, 1994), pp25-30

³⁷ *Ibid*

³⁸ BRAC, *RDP-Phase 11 Report 1991-92* (Dhaka:BRAC Printers 1993), p.15 .

of its members is generally more than 20 but less than 50. Within a month of formation, VO members are allowed to apply for loans from BRAC and the eligible applicants are provided with the 'individual credit' instead of 'group credit'. Three types of credit are disbursed for (a) traditional activities which includes rural trading, transport and rice processing; (b) non-traditional activities for women such as grocery shop, rural restaurant, poultry, sericulture, mechanized irrigation and other technology based productive activities which includes cottage industries also; and (c) housing loans.³⁹ The interest rate on a housing loan is 10 percent and 15 percent on other types of loans. Among the cottage industrial works, sericulture gets maximum credit support from BRAC and some other cottage industries like coir, cane and jute handicrafts are succeeded to draw the notice of BRAC's credit program but not very sufficiently. These industries are also helped by BRAC in marketing their products through its chain shop named *Arong*. In fact, these cottage industrial units are financially and technically backed by BRAC to collect quality products for *Arong* as it is hardly possible for any cottage industries to borrow from BRAC at an interest rate of 15 percent when their average profit margin is below 15 percent.⁴⁰ Alike the GB, major portion of credit disbursed by BRAC is used to finance trading. Its clients are also interested to receive credit for trading purposes as it is more profitable but less risky. On the other hand, BRAC's workers also find it suitable as the repayment of credit allocated for trade and commerce is more certain and easy to administer; livestock and poultry are in the second position in terms of getting credit facilities. BRAC has "Rural Enterprise Project" and through this project, the potential cottage industries are being helped both financially and technically. Cottage industries are slow in progress in this regard and get about 5 percent of total credit disbursed.

(c) Proshika

This NGO is working among the landless people and poor peasants since 1976 with a view to increase self-reliance. Under the supervision of Proshika its members are organized in groups and it encourages them to

³⁹ Ibid. p.12.

⁴⁰ Findings of Field Study.

undertake employment and income generation projects by providing financial and technical assistance. Rate of interest for the short-term credit is 7 percent for women and 10 percent for men, while in the long-term credit for 4 to 5 years it is 16 percent. Of its total borrowers, 78 percent are women.

4.7 Conclusion

Financing is one of the major problems of cottage industries in Bangladesh and 58 percent of the enterprises consider it as the basic problem. This Problem is also an obstacle for generating low income and employment in this sector. The modal credit requirement for the working capital is less than Tk.5000 for the short-time period and less than Tk. 80000 for long-term to meet the fixed capital requirement as found in our study. Generally the poor proprietors demand the short-term credit, while the rich proprietors who are determined to expand their enterprises mostly demand the long-term credit. Lack of the availability of credit from the institutional sources is the crux of the problem. The institutional credit and hardly cover maximum 18 percent of the total credit requirements. It does not necessarily mean that financial institutions are suffering from the inadequate loanable funds but it is due to the lacking of their proper attention and planning to meet the small borrowers' demand. From the borrowers' side, the financial institutions demand very high collateral, cost of credit is high; rate of interest is not suitable, official formalities are very clumsy and the process of credit distribution is very lengthy. The available data collected from both field study and secondary sources support most of the above mentioned complains of the borrowers against the institutional sources of finance. On the other side, this problem is due to the incapability of small borrowers in satisfying the requirements of the banks and other institutional sources. In this regard it is also argued that almost all the enterprises of such category do not keep the record of their business and thus, it is not possible to measure the viability of these industries, which is an obstacle to provide them with credit. Institutional sources have also admitted that they do not have adequate manpower to deal with the thousands of small borrowers. But the most important thing is that the financial institutions never think that the

financing is a crucial problem of the enterprises of small scale and they consider it as a perceived problem rather than real.⁴¹ Thus they tend to point out that other problems like marketing, inadequate demand, change in the taste of the consumers, and less profit and income generation etc. are the responsible factors for the backwardness of this sub-sector.

In fact, nationalized commercial banks are not interested to perform this credit operation, as they are not accustomed in considering it as a part of banking operation. Again, the private banks are not yet to reach the grass root level and they have no intention to deal with the cottage industries. As we have already discussed that some specialized banks are involved in financing small-scale industries have limited their activities in a few areas and mainly grant credit to the small-scale enterprises. Even the BASIC bank is not trying to meet the requirements of the small borrowers of this sub-sector.

On the other hand, the micro credit programs of the NGOs are helpful for the poor and small borrowers who have a very restricted access to the traditional institutional credit. Moreover, the NGOs in some cases also provide some extension services to the industrial activities. But the NGOs are rather interested to finance livestock, poultry, fisheries and small businesses than to finance cottage enterprises.

In this way, the proprietors of the cottage industries have limited access to the institutional credit, though the NGOs' micro credit program is suitable for them but not sufficient to meet the total credit demand. As a result, these enterprises have to depend on the non-institutional sources of credit and face all types of economic exploitation as about 35 percent of the owners manage credit from the various non-formal sources, which charge exorbitant rates of interest.

In order to get rid of this problem dynamic and development oriented banking system is required. The NCBs should be furnished with adequate and trained manpower who can deal with the problems. Not only this, to

⁴¹M.U. Ahmed (1984) *op.cit.*, pp74-75

address these borrowers, the bank will have to leave its traditional credit issuing process

At the same time the proprietors will have to try to attain self sufficiency by organizing cooperatives with a view to increase the flow of finance from the internal sources. These cooperatives may increase their bargaining power and help them in marketing of the products directly. But to organize the cooperatives and for its future success small entrepreneurs will have to be credible to each other.

CHAPTER-5

MARKETING PROBLEMS OF THE COTTAGE INDUSTRIES

Marketing generally means both the sale and distribution of goods and services. The modern concept of marketing includes the different aspects of consumer behaviorism, including their level of satisfaction. The term marketing consists of various factors, such as the type, quality and prices of the output produced, mode of production, channels of marketing, ways of raw material procurement and its prices, methods of production, advertisement and so on. Whatever is its definition, the success of an enterprise is determined to a considerable extent by its proper marketing function. Marketing determines the availability of input and cost of production and successful selling of products and in this way it controls whole of the production process as well as the decision making process of an enterprise.

5.1 Marketing of Cottage Industries

The marketing of industrial goods is different from that of agricultural commodities from the various points of view. As these two sectors are dissimilar in terms of their production mode, quality and type of products, nature of input consumption etc.

More over, the marketing of cottage industries is not similar to that of large and medium scale industries. Unlike the large and medium scale industries, the cottage industries most of which are situated at the distant and remote areas face some special problems in the case of marketing arising from the poor rural infrastructures, small scale of production, inadequate market information, non-commercial type of production etc.

In addition to the small size of the cottage enterprises, poor financial situation, improper bargaining power, imperfect market for raw material procurement, insignificant share in the market, poor management quality and inadequate publicity of the products through advertisement have given

special marketing features of this industrial sub-sector as compared to large and medium scale industries.

By considering these factors, it is being identified by the economists that the marketing is one of the basic problems of cottage industry sub-sector.

Industrial marketing includes both of the procurement of raw materials and the sale of products. In this section these two aspects have been discussed in two different sub-sections with the help of the empirical study.

5.2 Procurement of Raw Materials

Procurement of raw materials is an important factor to determine the volume of employment as well as income. The proprietors generally hire labor by depending on the raw materials at their disposal and the employment of full time hired labor is thus dependent on the adequate stock of raw materials through out the year. Financial position of the almost all the cottage industries are not strong enough to maintain necessary stock of raw materials with a view to run the production process at full swing over the year.

Most of the cottage industries used domestically produced raw materials of which a significant portion is agricultural output. While the handloom and some other cottage industries like plastic and chemical industries, repairing workshop, rubber metal, petroleum products, *dalda* etc. industries are using imported raw materials along with the indigenous ones. But the share of imported raw materials is less than 3 percent.¹ Cottage industries in Bangladesh mainly live from hand to mouth as the procurement of raw materials is made basically from the sale of the output

¹ Asian Employment Program, "Employment Expansion Through Rural Industries In Bangladesh: Potentials, Problems and Policy Issues", *A report Prepare for the Bangladesh Planning Commission*, (Bangkok: May 1985), p.52

produced. In some cases hire purchase takes place that causes higher prices. More over higher is the price of raw materials lower will be the income of the proprietors and also lower will be the number of employment.

Again, some proprietors are producing their own raw materials, especially agricultural products used as the raw materials. But in this case the residual after the family consumption is used as raw materials. This is very common in the case of agro-based cottage industries, which are processing rice, wheat, edible oil etc.

Generally, the procurement takes place at the nearest local markets or hats and proprietors purchase raw materials both directly and indirectly. The supply of agricultural raw materials is mainly seasonal while the non-agricultural raw materials are available round the year. Features of raw material procurement in the case of cottage industry sub-sector have been discussed below elaborately in light of field study and other available secondary data.

5.2.1 Types of Raw Material Used

In a capital scarce country like Bangladesh imports of raw materials for the industrial sector have mixed impact on the economy. Moreover, the scarcity of foreign exchange is also a constrain to the available supply of raw materials. The cottage industries are based on indigenous raw materials and a production technique is one of the important arguments in favor of cottage industries. There is almost no imported capital equipment is being used in this sub-sector. But some raw materials are being imported for this sub-sector.

Though the share of imported raw materials is not very significant, one thing is remarkable that some of the traditional cottage industries like pottery, carpentry, bamboo and cane works etc. are now using imported raw materials like dye and other paid materials to bring diversity in their products. In RISP (Rural Industries Study Project) the cottage industries in

Bangladesh have been classified into three categories by depending upon the consumption of imported raw materials. Those industries are in group-1 which use imported raw materials and value of which is not more than 10 percent of the total raw material cost, in the case of the industries in group-2 it is 10 to 75 percent; while in the case of industries in group -3, it is more than 75 percent.² In the study it has been shown that 38 percent of enterprises are in first group and, 20 percent in second group, 42 percent in third group. This is shown in Table-5.1.

Table-5.1: Imported Raw Materials Consumed by the Cottage Enterprises.

Imported Raw Materials as the Percentage of the Total Cost of Raw Materials Used.	Group	No. of Enterprises (%)
00-10%	Group-1	38
10%-75%	Group-2	20
75% and above	Group-3	42

Source: BIDS, RISP (1981), pp.300-303;

From the Table-5.1 it is clear that dependence of cottage industries on the imported raw materials is minimum. About 58 percent cottage industries use a considerable quantity of local inputs.

Mainly metal works, leather and rubber products and repairing workshops are heavily dependent on the imported raw materials. These types of industries are mainly located at urban or semi-urban areas and are of the nature of small-scale industries. The food and agricultural products', wood, cane and bamboo products', printing and paper products' enterprises mainly use indigenous raw material. These industries are situated at the rural areas and are the model of typical cottage industries in all respects. In the context of our country the industries of the first category are not more than that of the second category in terms of number. But the industries heavily dependent on the imported raw materials are increasing gradually

² Bangladesh Institute of Development Studies, *Rural Industries Study Project: Final Report*, (BIDS: Dhaka 1981) p.102.

and they have better financial position than that of the others, as the product quality of those industries is high enough to compete with the product of their large and medium scale counter part. More over, these industries are operated commercially and their products have an extended market. On the other hand, most of the cottage industries are using indigenous raw materials producing the output of poor quality and they have limited market demand for their products. These enterprises cannot compete with their large and medium scale counterpart and thus are at the verge of ruin. A large number of these industries are operating non-commercially which is also a reason for their financial weakness.

In the study area, we observe that out of 90, industries 40 use either no imported or very negligible quantity of imported raw materials. Coir product, mat, bamboo and cane enterprises are in this group. Only imported dye is used in the case of bamboo and cane industries.

Handloom industries are weaving ordinary cotton and using both domestic and imported yarns and dyes. Most of the foreign yarns and dyes collected from the local market are Indian, which enter into the domestic market through illegal boarder trade.

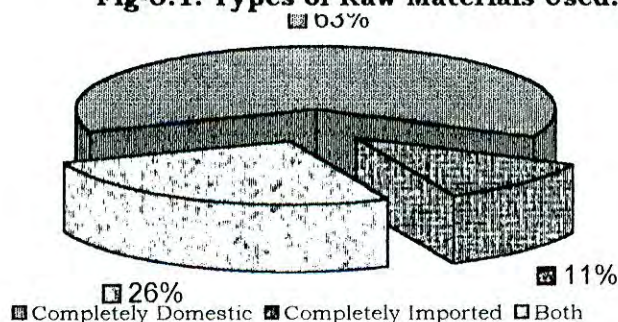
While the sheet iron product enterprises are dependent on the secondary raw materials like plane sheet or other metallic items, which are manufactured inside the country, but their ingredients are imported.

Some handlooms of Bajitpur, Tangail weaving silk and other fine clothes use imported fabrics. In this area silk yarns of China and India are popularly used. These handlooms also use imported dye. But these foreign raw materials come heavily through illegal trade instead of import through proper channel. Small engineering industries use imported machineries and raw materials. In fact, these industries more similar to the small-scale industries in terms of their nature of production. The findings mentioned above have been summarized in the Table-5.2.

Table-5.2: Types of Raw Materials Used (no. of Industries in %) .

Type of the Industry	Types of Raw Materials Used			
	Completely Domestic	Completely Imported	Both	Location
Handloom	30	15	55	Semi Urban
Bamboo and cane	90	00	10	Rural
Coir products	88	00	12	Rural
Engineering works	05	65	30	Semi Urban / Urban
Fish Products	100	00	00	Semi Urban
Mat	95	00	05	Rural
Sheet Iron Products	30	00	70	Rural / Semi Urban
Average	62.6	11.4	26	

Source: Field Survey.

Fig-5.1: Types of Raw Materials Used.

As found in the study about 63 percent of the enterprises process the indigenous raw materials while only 11 percent are completely imported raw material dependent and the rest 26 percent use the both (Fig-5.1).

Product types, availability and prices of domestic raw materials mainly determine the use of imported or foreign raw materials. Some of the cottage industries like sheet iron products, engineering works and handlooms have to use imported raw materials because of the absence of domestically produced raw materials of proper quality.

Both of the cotton and silk yarns are produced inside the country. But their supply is not sufficient enough to cover the demand on the one hand, and on the other hand, prices and in some cases the quality of those are not up to the standard. As a result, the foreign yarns are being used by the handloom sector to a considerable extent.

Again, the location of the industrial units also influences this factor. Generally, the industrial units near to the urban areas or market places having better communication with the eastern part of the country or near to the Indo-Bangla border have a tendency to choose foreign raw materials instead of local ones. Because of communication, for example the handloom industries of Tangail use foreign yarn as they are very well communicated with Dhaka. Indian yarn is exclusively used at the handlooms of Kushtia, as it is very adjacent to the Indian boarder. But the picture is different if we consider the handloom of the tribal areas.

Again, some of the cottage industries are obliged to use foreign raw materials as such raw materials are not produced domestically and some of the industries are using foreign raw materials, as the local raw materials are not available at the desired prices. For the quality products, some industrial units have to use the imported raw materials. The products of the industries that are using indigenous raw materials are very simple, less worthy, and those are sold in the local market for the consumption of the people of lower income group.

The per-capita domestic production of raw materials is declining with the increase in the population although the total production is gradually increasing. More over, to meet the food demand of the growing population the cultivation of food crops is increasing instead of cash crops, and it is another factor for reducing the total supply of raw materials. This problem is very common in the case of those cottage industries, which mainly process the agricultural raw materials. For an example, in the last two decades increasing reallocation of land for wheat cultivation has reduced the production of mustard seeds and the traditional *ghani* industries are suffering from the inadequate supply of raw materials.³ This is also true in the case bamboo, cane and timber processing enterprises. In addition to

³ The Asian Employment Program, *op.cit.*, p.53

these, as more and more fellow and waste lands are being brought under the cultivation of crops, the supply of non-crop raw materials for the cottage industries is reducing.

5.2.2 Sources of Raw Material

The various government agencies, NGOs, individual dealers, moneylenders and mahajans supply the raw materials. Institutional sources and the whole sellers generally provide the cottage enterprises with the raw materials at the cheaper prices. The higher prices of raw materials are charged when those are collected from the market intermediaries. Again, the involvement of market intermediaries is determined by a number of factors, such as the location of industries, distance between source and place of use of raw materials, bargaining power and financial situation of the buyers, type of raw materials, availability of raw materials etc.

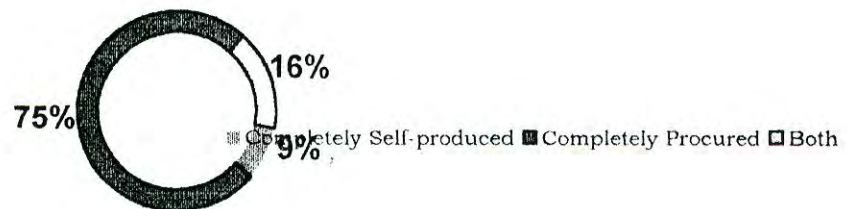
The proprietors of the industrial units themselves some times produce the raw materials for their respective industrial units. These industrial units are mainly agro-based and their products are also low priced consumer goods. Sugarcane *gur* and *lac* making industries consume self produced raw materials.⁴ In our study area we find that the mat industries produce their own raw materials named *male*. Bamboo and cane products are also dependent on the self-produced raw materials to a considerable extent. These industries have to procure raw materials sometimes, when their own production cannot meet their demand and it happens either because of the decline in raw material production or because of increased in demand for their products. However, as compared to the total member of cottage industries, the industrial units producing their own raw materials are very insignificant in number. The data collected through the field survey in this regard has been revealed in the Table-5.3.

⁴Bangladesh Institute of Development Studies, *op.cit.*, p.96

Table-5.3: Sources of Raw Materials (no. of Cottage Industries in %).

Name of the Industry	Completely Self-Produced	Completely Procured	Both
Handloom	00	100	00
Bamboo and Cane	15	50	35
Coir Products	05	85	10
Engineering Works	00	100	00
Fish Products	25	35	40
Mat	15	55	30
Sheet Iron Products	00	100	00
Average	8.6	75	16.4

Source: Field Survey.

Fig-5.2: Sources of Raw Materials.

From the above table and figure it is very clear that only 9 percent of the enterprises process their own produced raw materials. The value is maximum in the case of fish products as the fishermen use to dry their own fish, which is more profitable than to buy fish for this purpose.

5.2.3 The Channel of Raw Material Procurement

The ways of raw material collection through market are very diversified. Producers of raw materials, middlemen, whole sellers, co-operatives, NGOs, government organizations and *mahajans* are the most important channels through which raw materials are procured from the market.⁵

The activities of a procurement channel are dependent on a number of factors, such as the types of raw materials, location of the producers and

⁵ *Ibid* pp.98-103

purchasers of raw- materials, distance from the market places, transport facilities and mode of transport, financial capability of the industrial units, type and nature of the products etc. The prices of raw materials also depend on the channels through which those are procured. For an example raw materials may be purchased directly from the producers at a lower price than the price charged by the other market intermediaries.

The higher incidence of procurement from the producers take place in the case of those raw materials which are primary agricultural products and produced in or adjacent to the areas where the cottage industrial units are located. Coir product, mustard oil, rice milling, *shitalpate*, bamboo and cane products, sugar cane *gur*, pottery etc. procure a lion's share of the raw materials directly from the producers.⁶

In our study areas we find that bamboo and cane, fish and mat products' enterprises are exclusively purchasing raw materials directly from their producers. The majority of the cottage industries are procuring required raw materials indirectly from the market through the various market channels. In fact, a number of market intermediaries are involved in the case of indirect procurement.

Generally, the enterprises that process secondary commodities, imported raw materials or primary commodities; but located in the distant areas of the country, are heavily dependent on the market intermediaries for their raw materials. Location, size and financial condition of the enterprises are also responsible for the dependence on market intermediaries. It is observed that the enterprises close to the producers of raw materials purchase raw materials directly. On the other hand, comparatively large industries can procure directly.

⁶Asian Employment Program, *op.cit.*, p.40

However, the role of middlemen is limited in cottage enterprises in the case of raw material procurement. They are more active in handloom sector where these middlemen in some cases are also rich weavers, who supply yarn to the small weavers having one or two handlooms. Some of the producers of raw materials spontaneously allow the middlemen to sell the commodities. It may happen when each of the large producers are producing large quantity of raw materials and they have no enough managerial or financial capability to sell directly to their customers who are scattered and live in the distant areas. In some cases the producers want to avoid the problem of sale in credit by employing middlemen in the marketing of their products, as the credit sale is very risky. Thus, some times the producers are interested to sell their products through the middlemen and the relatively rich proprietors of the cottage industries often play the role of middlemen. In our study area we find that the middlemen are active in the procurement of raw materials for handloom, coir rope, and mat industries.

Whole sellers and retailers are more reasonable in the marketing of raw materials. On an average, they are responsible for the supply of 10 percent of the total raw materials required by this industrial sub-sector. In fact metal works, wool products, black smithy etc. are procuring cent percent of their raw materials from whole sellers or retailers. Some of the rich proprietors are also engaged in the business of raw materials. The local small craftsmen some times collect raw materials from their relatively rich neighbor proprietors who supply those either in cash in or in credit, of course the cost of procurement in credit is more than that in cash.

The enterprises near to the rural market places are procuring raw materials directly from the whole sellers. While the retailers generally supply raw materials to those located in the remote areas of the villages. In some cases to avoid the carrying cost and problem, some enterprises use to

procure raw materials from the retailers and in general it usually happens in the case of enterprises of small sizes.⁷

These cases are observed in the metal-works of Pauthia, Rajshahi. Of course, retailers charge higher prices than whole sellers but by making an allowance for transport cost, it is relatively cheaper to purchase from the retailers at a higher price. Though the whole sellers some times provide the home service that is to say, give the delivery of the raw materials at the door of the purchasers. But, this facility is only enjoyed by enterprises operating at the large scale.

Mahajans are also supplying raw materials to the cottage enterprises. From the *mahajans* the proprietors generally can purchase raw materials in credit. The price that charged for this type of credit sale is 10 to 25 percent higher than the prevailing market price. In fact proprietors are obliged to purchase from the *mahajans* only when they are running short of working capital. Such procurement of raw materials from the *mahajans* is very often happening in the case of small handloom enterprises. We find that the *mahajans* are active in coir-rope industries of Sutiakathy, Jhalkathy district, handloom of Kushtia, Tangail and Sherajganj districts. The *mahajans* are however active, in most of the areas of Bangladesh. Some time the proprietors are obliged to sell their products to the *mahajans* at a lower price as the condition of getting input in credit. In this type of procurement process the poor proprietors are mainly exploited. Now-a-days, as the proprietors are getting raw materials from the wholesalers or retailers, the activities of *mahajans* are gradually becoming less imperative but still they are of very important marketing channel. Well to do proprietors are now increasingly playing the role of *mahajans*, which is a very common scenario in handloom, coir product and mat making enterprises. The Table-5.4 is presenting the channels of marketing commonly used by the proprietors.

⁷ Bangladesh Institute of Development Studies, *op.cit*, pp.97-98

Table -5.4: Raw Material Procurement Channels.

Channels of marketing	No. of Industries	%
Direct	15	17
Mahajans	29	32
Whole Sellers	25	28
Retailer	31	33
Total	90	100

Source: Field Survey.

As depicted in the above table, in the case of raw material procurement the contribution of *Mahajans* are still remarkably high. Only 17 percent of the proprietors are procuring raw materials directly from the producers. But, of these 17 percent, most of the proprietors are the producers of their own raw materials.

The contribution of cooperatives, government agencies and NGOs in supplying raw materials is however very insignificant. In our study area, actually we find no active cooperative societies and there is no initiative of the proprietors either to set up new cooperatives or to reactivate old ones. Cooperatives are somewhat active in the handloom sector and their activities are limited mainly within the credit programs. In fact, our artisans are interested to carry on their activities alone as they have the bitter experiences of exploitation in the name of cooperatives by some of the elites of their respective societies.

Among the government agencies, BSCIC and Bangladesh Handloom Board (BHB) are directly involved in this sub-sector. BSCIC provides the cottage industries with training and technical services of advisory types. But, in our study area we find no industrial unit receiving raw materials from BSCIC design centers. None of the government agencies are involved in any type of marketing activities either directly or indirectly in a meaningful way.

The situation is a little bit different in the handloom enterprises. These industrial units have the opportunities of getting raw materials especially from the institutional sources like BHB, BSB and NGOs. In fact

BHB is a channel through which the weavers can procure yarns, on the other hand, BSB also provides the weavers in particular with silk yarn. Among the NGOs, BRAC and Grameen Bank have some programs in this regard. Those provide the handloom sector with yarns of special quality and purchase clothes weaved by those. BRAC is working at Tangail and Grameen Bank at Sherajgang. However, there is no effective marketing intervention of the NGOs in the other study areas.

Thus, the institutional support in the case of raw material procurement is not sufficient at all. As a result, the artisans procure raw materials from various sources through various channels. But the GOs and NGOs have the scope to act as the channels through which the artisans can get raw materials at competitive prices and to attain this end the present setup is just enough. Moreover, the artisans are not organized while the traders of raw materials are to some extent organized and they have active cooperation through which they can easily determine the market price as per their own desires. Thus, it is very essential to organize the artisans in order to increase their bargaining power so that they can protect themselves from the mal marketing practices.

5.2.4 Size of Industries and Channel of Raw Material Procurement

There is a relationship between the raw material procurement and the size of the enterprises. Generally, the cottage enterprises that are operating at a large scale are able to procure raw materials directly as compared to that of the small ones as the former have cost advantages. In this regard the findings of this study is presented in the following Table-5.5.

From the above table it is understandable that the small size enterprises are procuring the required raw materials from the *mahajans* at a higher cost. On the other hand there is a positive correlation between the size of enterprise and the procurement of raw materials from the whole

sellers. Medium scale enterprises are using retailers more than that of the others procuring raw materials.

Table -5.5: Size of Industries and Channel of Raw Material Procurement.

Size	No. of Industries	Channel of Marketing				Total
		Direct	Mahajan	Whole seller	Retailer	
Large	25	04 (04%)	03 (03%)	16 (17%)	02 (02%)	25 (26%)
Medium	43	09 (10%)	10 (11%)	07 (08%)	17 (18%)	43 (47%)
Small	22	02 (02%)	16 (17%)	02 (02%)	02 (02%)	22 (23%)
Total	90	15 (17%)	29(30%)	25(28%)	31(35%)	90 (100%)

Source: Field Survey.

5.3 Marketing of Output

It generally means a process of supplying output to the consumers that may be directly or indirectly. In the case of direct marketing the consumers can purchase their required products from the producers. On the other hand, in the case of indirect marketing the output goes to the consumers through the various market intermediaries.

Direct marketing is always favorable both for the consumers and producers. Generally, minimum is the number of marketing intermediaries, the minimum is the prices charged and maximum is the profit shared by the producers. In this sub-sector the direct marketing of output produced is not a very popular practice. There are many problems on the way of direct marketing. These are arising from the poor rural infrastructure, very small size of enterprises, diminutive amount of marketable output produced, financial incapability, lack of storage facilities, acute paucity of institutional marketing support and so on. These problems are forcing most of the proprietors to market their output through the market intermediaries, which is on the one hand, reducing the rate of return to labor and capital,

and on the other hand it is giving market intermediaries the way to deceive the producers. Obviously, this has a negative impact on employment and income generation of this sub-sector. In this section of the chapter, various aspects of the marketing of cottage industrial products have been discussed on the basis of both primary and secondary data.

5.3.1 Channels of Marketing

The output of cottage industries is being sold either directly or indirectly. In this study it is found that about one third of the total enterprises sold their output directly to the consumers, while the rest two third of the enterprises are marketing their output indirectly to the consumers. The indirect marketing through the various marketing channels generally, include moneylenders, whole-sellers, retailers, *mahajans*, and other middlemen.

Table-5.6 summarizes the above findings. As shown in the following table, 18 percent of the enterprises in the study areas are directly selling their products to the consumers, 28 percent are marketing through the whole sellers, 22 percent through the retailers while remaining 32 percent of the enterprises market their products through the *mahajans*.

Table -5.6: Various Channels of Marketing.

Channels of marketing	No. of industries	%
Direct	16	18
Mahajans	29	32
Wholesalers	25	28
Retailer	20	22
Total	90	100

Source: Field Survey.

It is worth mentioning that the same enterprises sell their products both directly and indirectly. More over, in the case of indirect sales, the enterprises are found to depend on the various marketing channels at a time. To avoid the problems, this study has considered only a particular marketing channel or type of marketing for an enterprise through which the

majority of its output is sold. The same thing has been considered in the case of raw material procurement also.

5.3.2 Types of Products and the Channels of Marketing

Less worthy Bamboo and cane products, mats, handloom products of those enterprises that have a low volume of production are directly sold to the consumers at the nearest weekly markets. A few of the valuable handloom products are also sold directly in the market; and in those cases the proprietors have shops in the urban areas, and they themselves also play the role of whole sellers.

Most of the metal products, coir rope, mat, cane furniture and fine handloom products and fish products are sold to the whole sellers. The enterprises that are producing large quantity of quality products, generally depend on the whole sellers to market their output. It is not cost effective for an individual to go to the urban markets to sell his huge quantity of output to the retailers or to the consumers directly as those have very little demand in the local areas.

The retailers are the buyers of some fashionable designed clothes, bamboo, cane and coir made showpieces and decorated *shitalpati*. In fact, the retailers are supplied with the products as per their order and in many cases they also provide the proprietors with the required raw materials and other inputs. In such cases, the proprietors collect or get orders and supply to those from whom orders are given.

Thus, in the case of direct marketing, the quality of product and its demand play a vital role. Generally, the directly marketed products are very poor in quality and mainly used by the local people. Small sized handlooms, bamboo and cane product and mat making enterprises are involved in direct marketing. But in this regard, engineering works are the most successful as those can provide the services directly to their customers in most of the

cases. Direct marketing is almost absent in the cases of fish and sheet iron products.

5.3.3 Size of Industries and Channel of Marketing

This study has categorized cottage enterprises as large, medium and small by depending on the number of employment and volume of production. The modes of marketing of the enterprises as per their sizes are shown in the Table-5.7.

Table -5.7: Size of Industries and Channel of Marketing of Output.

Size	No. of Industries (100%)	Channel of Marketing			
		Direct	Mahajan	Wholesaler	Retailer
Large	25 (100%)	02(08%)	00(00%)	14(56%)	09(36%)
Medium	43(100%)	05 (13%)	17(40%)	10 (23%)	11 (24%)
Small	22(100%)	09 (41%)	12 (57%)	01 (02%)	00 (00%)
Total	90	16 (18%)	29(32%)	25(28%)	20(22%)

Source: Field Survey.

Table-5.7 reveals that the indirect sale is directly related with the size of the enterprises. As found in the field study, 92 percent of large cottage enterprises sell their products indirectly, while it is 87 percent for medium and 59 percent for small-scale cottage enterprises. That is to say, larger is the size of enterprise higher will be its indirect sale. It happens as the proprietors producing larger quantity of marketable surplus find it less cost effective to market directly. On the other hand, the proprietors with the small marketable surplus like to sell their products directly at a minimum marketing cost, which is of course less than the reduction of revenue caused by the indirect sale.

5.3.4 Location of Industries and Channel of Marketing

Under the present rural economic and infrastructural condition, the direct selling of the products of cottage enterprises is determined by the quantity and quality of products, their demand, employment of hired labor, geographical location of the enterprises, and the available mode of

transportation, etc. If the above determinants are not favorable, the proprietors sell their products indirectly. Though, the revenue from the wholesales is less than that from direct marketing, yet considering the cost of marketing, it is more cost effective than direct marketing. In the case of marketing through the *mahajans*, the proprietors do not have any option because of preset agreement with the *mahajans* who supply raw materials on credit.

Marketing is however, influenced by the location of the enterprises. As shown in Table-5.8, direct selling in of those enterprises is higher, which are near to market places and it is mainly due to the low cost of transportation, easy mode of communication and proper market information.

On the contrary direct selling is nil in the case of the enterprises of remote areas. These enterprises sell major portion of their output to the *mahajans* as they provide those with raw materials. It is also remarkable that the enterprises sell maximum of their output to the whole sellers where the whole sellers go door to door to purchase the products. Generally, in these areas only heavy items, which are inconvenient and costly to carry, are sold to the whole sellers.

Table -5.8: Location of Industries and Channels of Marketing.

Location	No. of Industries (100%)	Channels of Marketing			
		Direct	Mahajans	Whole sellers	Retailers
Near to the Urban Areas	27(100%)	10 (37%)	02 (7%)	11 (41%)	04 (15%)
Adjacent to Hats/ Bazars	24(100%)	04 (17%)	04 (17%)	04 (17%)	12 (50%)
Beside the high ways	14(100%)	02 (14%)	03 (22%)	08 (57%)	01 (50%)
Remote Areas	25(100%)	00 (00%)	20 (80%)	02 (08%)	03 (12%)
Total	90 (100%)	16(18%)	29(32%)	25(28%)	20 (22%)

Source: Field Survey.

5.3.5 Marketing Influenced by Size, Weight and Quality of the Products

Nature of marketing is also determined by size or weight of the products. In our study area we find that heavy and bulky products are sold

indirectly through the various market channels as those cause higher transport cost while the light products are easy to carry and sold directly at a minimum transport cost (Table –5.9).

Table-5.9: Types of Product and Marketing (N=90).

Types of Product	Direct Marketing	Indirect marketing
Easily Transportable	43%	57%
Transportable	11%	89%
Heavy	00%	100%
Average	18%	82%

Source: Field Survey.

To some extent, sale is also determined by the demand and quality of output produced. The products having the local level demand are sold either directly to the consumers or to the retailers. Here the role of *mahajans* and whole sellers as the channel of indirect marketing is very negligible. In fact, higher is the quality and distance between the place of consumption and the place of production, greater is the involvement of the market intermediaries (Table –5.10):

Table-5.10: The Quality and Demand of the Products and the Channels of Marketing.

Consumption of Product	Quality of Product	Total	Channel of Marketing (%)			
			Direct	Mahajan	Whole Seller	Retailer
Local level	Very poor	100	52	20	10	18
Adjacent	Poor	100	15	48	17	20
Area	High	100	05	40	22	33
Urban Area	Very High	100	00	20	65	15
Big Cities						
Average		100%	18%	32%	28%	22%

Source: Field Survey.

5.3.6 Demand of the Commodities as the Determinant of Marketing

Without discussing the demand factor, marketing analysis cannot be completed. The poor demand for the products of cottage industries is being treated as a constraint to the expansion of this industrial sub-sector. Cottage industrial products are produced both for the urban and the rural people. But the rural people are the main consumers of those. Thus, the

taste and distribution of income of the rural people are the crucial factors for determining the expansion of this industrial sub-sector.

In fact, the major portion of rural demand for industrial products is met by the cottage industries. Income of the rural people is very low and a lion's share of their income is spent for food. After meeting the basic needs, they have very little income for the purchasing of non-food commodities. It is well known that the necessary goods like food is less income elastic while the industrial goods are more income elastic. As a result, when the income decreases the rural people adjust their expenditures by reducing the purchase of industrial goods including those of cottage industries.

Similarly, when income rises opposite thing is happened. Though it is argued that as income increases consumers substitute low quality cottage industrial products by the competing products of formal industrial sector. In the study areas it is observed that the above happened significantly in the cases of bamboo products, ordinary handloom clothes and mat items. While, the demand of fine handloom, sheet iron, cane, coir and fish products increases with the increase in the level of rural income. Thus, an increase in the income of the rural people increases the demand for cottage industrial products provided that the tastes of the consumers are remaining unchanged and stable.

The RISIP report estimates the income elasticity of demand for the product of this sub-sector and finds that most of the products have fairly elastic demand. The rural economy is dominated by the agricultural sector and thus the increase in the rural income is considerably dependent on the agricultural production. Therefore, expansion of cottage industry sector from demand consideration is dependent on the growth of agricultural sector.⁸

⁸ *Ibid.*

The coir products, fine handloom products, fine quality mat (*shitalpati*), cane furniture, machine tools, coir, sheet iron and fish products have urban market. Most of these products are also income elastic and their demand depends on the economic activities of the urban people. Except engineering works, handloom and sheet iron products and all other products are mainly used as the decoration pieces or fashion items.

On the other hand, demand for the sheet iron products depends on the construction works and the sale of machine tools depend on the expansion of and operation of small-scale industries enterprises. As the demand for cottage industry product is however income elastic both in urban and rural areas; therefore, market of these products expands with the growth of the income and the living standard of the rural people who consume the major portion of these output.

5.3.7 Procurement of Raw-materials and the Ways of Marketing

In our study areas we find a considerable number of handloom, coir product and mat making enterprises, which are selling their products to the mahajans or middlemen. There is a close inter relationship between the raw material procurement specially in credit from the *mahajans* and the marketing of the output through the same market intermediaries. Most of these enterprises either borrow money or raw materials from the *mahajans* under such terms and conditions, which obliged them to sell their products to the concerned *mahajans*. It is also found that some of the reach proprietors of mat making and handloom enterprises who are performing the role of *mahajans*. The small and poor enterprises are mainly depending on the *mahajans* for marketing their products.

5.4 Marketing Abroad

Most of the cottage industrial products are domestically used. The rural people are the main consumers of these products. Among a number of

ordinary products a few are of high quality. In our study areas we find some handloom, coir, and cane products, which are of high quality and those go to the international markets.

In fact, the producers sold their products to the exporters at the prices little higher than the prevailing market price. But the profit is almost same to that earned from the ordinary products. These high quality and well-designed products require huge production cost. Some of the exporters provide the crafts men with raw materials and design. In those cases they are rewarded with the price of their labor only.

The fact is that the proprietors of the enterprises are not actually benefited from the export, as they do not have any direct involvement in export. The people who are concerned with the export are not the producers of goods but they play the role of whole sellers or middlemen in marketing of cottage industrial products and they slice off the benefit of the export. The finding of the study has been depicted in the following Table-5.11.

Table -5.11: Export Orientation.

Export	No. of Industries	(%)
Directly	00	00
Indirectly	9	10
No export	81	90
Total	90	100

Source: Field Survey.

It is remarkable that none of these ninety enterprises are cent percent export oriented or directly involved with export. The 10 percent enterprises involved in export just supply the orders of the exporters, which never accede the 20 percent of their total output.

A number of factors are responsible for the backwardness of this sector in foreign trade. Lack of market information, institutional support, proper guidance to improve the product quality and design, inadequate advertisement in the international media, insufficient financing etc. are the

main obstacles to exports. The replies of the respondents are shown in the Table-5.12.

Table -5.12: Problems of Export.

Problems Identified	No. of Proprietors (N=90)	%
Lack of Demand in Abroad	43	48
Poor Quality	40	44
Lack of Govt. Initiatives	67	74
Lack of Finance	69	76
Inadequate Market Information	56	62
Lack of Publicity	86	96

Source: Field Survey.

5.5 Channels of Marketing and the Revenue Earning

Direct marketing is always lucrative from the viewpoint of revenue earning. The industries having moderately small volume of production and easily transportable products can utilize the opportunity of direct selling. The small sized enterprises mainly employ family labor and thus are able to supply their products directly to the consumers at a minimum transport cost under the direct supervision of the family labor with out affecting the productivity of the enterprises. Though these enterprises mainly sell there output at the nearest local market but some times also supply the urban consumers through door-to-door marketing.

The direct sale is always profitable for the producers as they have higher share in the final prices charged. This study finds that about 76 percent of the enterprises are facing loss of 20 to 50 percent of revenue from indirect marketing (Table-5.13). Generally, in indirect marketing, prices increase with number of transactions through the various marketing channels. The loss of revenue is maximum in the case of sale to the mahajans or brokers while minimum in the case of retailers. That is to say, higher is the loss of revenue, as higher is the involvement of mahajans and whole sellers. In our study areas, it is observed that the coir products, mat and handlooms are suffering much from the indirect sales.

Table -5.13: Loss of Revenue from Indirect Sales.

Loss of Revenue from Indirect Marketing (%)	No. of Industries	%
0-10	5	05.6
10-20	16	17.7
20-30	33	36.6
30-40	21	23.3
40-50	15	16.8
Total	90	100

Source: Field Survey.

5.6 Problems of Direct Marketing

Though the direct marketing is always attractive from the view point of the manufacturers as it ensures better return from the sale of the products but the scope of direct marketing is limited by a number of factors which include lack of demand and quality of products, storage and transport facilities, inadequate market information and lack of marketing finance, and so on. Most of the respondents of this study mentioned that inadequate marketing finance, lack of market information and lack of storage facilities are the main problems of direct marketing (Table-5.14).

Table -5.14: Problems of Direct Marketing.

Types of Problems	No. of Industries Facing Problems (N=90)	%
Lack of local Consumer	59	65
Inadequate Storage Facilities	81	90
Transport Cost	72	80
Lack of Market Information	88	98
Lack of Marketing Finance	86	96
Agreement with Mahajans	28	32
Credit Sale	61	67

Source: Field Survey.

In fact, the above-mentioned problems are related with each other. For an example the local rural consumers on the one hand, do not consume the coir products and mats, and on the other hand the proprietors do not have enough space to store those for selling their products at a better price. Here the storage facility can improve the bargaining power of the producers.

Likewise a significant number of producers purchase the raw materials on credit, therefore, they are forced to sell their products at the rural markets at a lower price either to repay the loans or to continue the production activities. In some cases, the proprietors have to sell their products to the *mahajans* because of credit purchase of raw materials. Because of under developed and costly transports, the poor and small proprietors have to sell their output at the local markets to the mahajans or to the whole sellers. As a result, the difference between the prices of first and the final sales varies by 30 to 40 percent. This comparison becomes easy when compared with the rich proprietors of the same study area are selling their products to the retailers of the urban areas.

Credit sale is another strange reality in the case of marketing of cottage industrial products. About 67 percent of the proprietors indicate it as an over all problem of marketing. This problem is acute when the producers sell to the retailers of the urban areas and a number of undesirable situation arise when the producers go to collect the money. As a result, they have to sell their goods to the mahajans or whole sellers at the nearest market place.

Monopoly type market power is not very active in the case of the products of the cottage industries. This sub-sector faces two types of competitions: one is internal and another is external. Internal competition arises from the fellow industrial units while external competition arises by large and medium scale industries, import and smuggling of substitute commodities. As shown in Table-5.15 maximum of the proprietors (78%) have identified their fellow producers as their major competitor. Competition from the fellow producers is very strong in the case of sheet iron products, mat making, and bamboo and cane products. These products have also competition with the medium and large-scale industries but it is not very strong, and imports are not the vital barrier for these products.

Table-5.15: Marketing Competition.

Types of Competition	No. of Industries (N=90)	%
Competition with fellow Industries	70	78
Medium and large Scale Industries	60	67
Import and Smuggling	40	45

Source: Field Survey.

Coir-rope and mats are facing competition both from large and medium industries and from the imported goods. Synthetic fiber rope and ceramic tiles, jute mat and carpet, plastic floor mats are now exclusively used as the substitute of coir products.

The handloom products are also facing both types of competition. More over, this textile sub-sector not only faces competition in output market but also in input market. Handloom industries have to purchase cotton yarn and to hire weavers in competition with the nearby textile mills. This study has found at Kumarkhali of Kushtia district that a number of weavers and handloom workers are leaving handloom sector to get job at the textile mills, which offer better wages and job environment. Under these circumstances the handloom sector has to offer better wage that push the cost of production up as well as the prices of the products. But rise in prices of the products reduces the demand when the textile mills sell their products at lower prices, which enjoy the economy of scale. This situation is handled by keeping unchanged prices by reducing the rate of profit.

Under these circumstances, necessary steps should be taken to bridge up the gap between the costs of production and the prices of the products. In fact, the domestic market for fine quality handloom products are being squishing because of the Indian textile products that come to the domestic market both through legal and illegal trades.

Bamboo and cane products face competition both from fellow producers and from the medium scale industries producing substitute

products, which are popular because of cheaper in prices. In the recent years, bamboo and cane products have succeeded to get popularity among the people of high-income group.

The case of engineering works, which manufacture small machine tools, face competition from the fellow enterprises. The competition is stronger between the enterprises and importers, as the local enterprises can supply machine tools at the prices lower than that of imported machine tools.

Fish and sheet iron products have competition only with their fellow industrial units. The mat making enterprises are now competing with the plastic mats but the magnitude of this competition is however insignificant.

Internal and external competitions compel the cottage industries to fix prices of their products in line with the cost of production. Again, in most of the cases the collective control over the market of this sub-sector is not strong enough so that they can determine the prices as per the cost of production. As a result, the industries have to accept lower prices or profit margin instead of raising prices, which is a real constraint for the expansion of this sub sector.⁹

5.7 Conclusion

For the expansion of cottage industries it is crucially important to solve the marketing problems. As the proprietors of cottage industries are poor and unorganized, they require institutional assistance for this purpose. The respondents of the study areas have mentioned that marketing credit, transport facilities, marketing information, public sector procurement, storage and advertisement facilities may help the enterprises in improving their conditions (Table-5.16).

⁹Asian Employment Program, *op.cit* , p.46

Table-5.16: Required Assistance for Proper and Direct Marketing.

Types of Assistance Required	No. of Industries	%
Marketing Credit	76	84
Storage Facilities	79	88
Transport Facilities	71	79
Govt. Showroom at District Level	64	71
Govt. Procurement	28	31
Marketing Information	83	92
Advertisement Facilities	86	96

Source: Field Survey.

The proprietors think that marketing credit; storage and transport facilities help them either to procure raw materials or to sell the output directly which will increase the profit margin by reducing the share of various market intermediaries in the final price. They want to see direct government intervention in marketing of the output produced.

In abroad, the cottage industrial products have existing market; and to create new market, exclusive trade festivals may be arranged. In this regard to upgrade the quality of the products proper technological and financial support can be provided to the potential enterprises.

Similarly to make the enterprises cost effective, the direct procurement of raw materials as well as the sale of output produced must be ensured either by organizing the enterprises in co-operative societies or by providing them with institutional support. This end may be easily achieved through the present setup of the GOs and NGOs working at the grass root level.

CHAPTER-6

PROBLEMS AND PROSPECTS OF EMPLOYMENT GENERATION IN THE COTTAGE INDUSTRIES

Like other developing countries, agriculture is still the single largest sector of the economy of Bangladesh. Especially, from the viewpoint of employment generation it is still absorbing about 58 percent of total labor force of the country. On the other hand, scope of employment is very limited in the modern sector like large-scale industries, which are flourishing very slowly. As a result, the quick expansion of employment for the growing labor force is possible neither in agriculture nor in modern industrial sector. Under these circumstances, the main thrust of employment opportunity creation for the growing labor force has fallen on the non-farm economic sector, which comprises of small scale and cottage industries, trade, transport, construction and other service sectors. Among these off farm economic activities, the role of cottage industries is very significant as it can provide employment for the rural unemployed, disguised unemployed, poor, land less, and helpless people of either sexes. In fact, this sub sector can create the employment opportunities without changing the existing economic conditions and social attitudes. The nature and size of employment, economic background of the persons involved here, female employment, cost of employment generation, economic viability and possibility of new employment generation and other related issues have been discussed in this chapter, with a view to find out the prospects and problems of employment generation in this sector. The discussion of the present chapter is based on the data collected through the field study.

6.1 Capital Intensity of the Cottage Enterprises

Capital intensity is significantly low in the cottage industries. This is the reason behind the high potentiality of this sub-sector for employment generation.

As projected in Table-6.1, the average fixed capital per worker is less than Tk. 1000 for the enterprises like coir, mat, bamboo and cane, and fish products. These industrial units, instead of having no separate structures to house the equipment and tools just use a small portion of residence of the proprietors for the working period, not even for all the time. Thus, the value of building, an important component of fixed capital is almost negligible, as those have no actual opportunity cost. At the same time the instruments used in this sub-sector are very cheap in price and manufactured domestically. The tools and equipments used in handlooms and engineering works are little bit costlier than those used in the other enterprises. Among the selected enterprises handlooms, engineering works, fish and sheet iron products are relatively capital intensive as compared to other enterprises. The value of workshop building of these enterprises as found in the field study, is about 45 percent of the total fixed assets while it is about 20 percent in the case of other enterprises. Interesting exception is found in the fish product enterprises where the share of housing structure to the total value of fixed capital is comparatively high as the more space is required either to process or to dry the fish, though these enterprises have less worthy and simple know how. The table drawn on the basis of field study is showing the situation of fixed and working capital per enterprise as well as per worker.

The amount of fixed capital is the highest in engineering works among the studied enterprises, which have building structures of higher values and valuable semi-power driven machinery. However, the average amount of fixed capital per worker is estimated at Tk.3801.30 and per enterprise it is Tk.21,788.60. Maximum fixed capital per worker is Tk.11,627.90 in engineering works and minimum is Tk.465.11 in mat making enterprises.

Table-6.1: Fixed and Working Capital Per-Enterprise and Per-Worker(in TK).

Name of Enterprises (N=90)	Fixed Capital per Enterprise	Fixed Capital per Worker	Working Capital per Enterprise (weekly)	Working Capital per Worker (weekly)
Handloom	35,500	5916.66	4,800.00	800.00
Bamboo and Cane	2,850	863.66	1,200.00	363.63
Coir Products	1,700	414.63	971.00	237.00
Engineering Works	80,000	11627.90	16,000.00	2325.00
Fish Products	10,400	2971.43	2,500.00	1285.71
Mat	2,000	465.11	750.00	174.72
Sheet Iron Products	20,000	4347.83	3,000.00	625.00
Average	21778.57	3801.03	4174.43	830.15

Source: Field Survey.

Here, variable cost includes raw materials, labor and marketing costs. In these, labor intensive enterprises about 30 percent of the total workers are paid, and in addition to these domestic raw material consumption, ignorable administrative or managerial cost, minimum marketing cost etc. keep the total variable cost sufficiently low.

The average working capital per enterprise as observed in this study is about Tk.4174 and per worker is about Tk.830. Handlooms, engineering works and sheet iron product manufacturing enterprises require more working capital than the others. The engineering works need maximum working capital worth of Tk.16,000, while the mat making enterprises have minimum requirement, which is only Tk.750 only (Table-6.1). The value of raw materials, employment of hired workers and the period of operation determine this variation.

6.2 Primary Source of Employment

In the study area, it is found that mat making enterprises are the primary sources of employment for 43 percent of the proprietors, the rest 57 percent of the proprietors of this sector have alternative primary employment sources. In bamboo and cane products, and fish products, it is

observed that these enterprises cannot provide primary employment opportunities for one third of their proprietors.

The products of cottage enterprises are less capital intensive and technique of production is so simplified that requirement of skill and training of the workers is minimum. The unpaid family workers, especially the female workers mainly carry on the operation of these enterprises. On the other hand, the hired unskilled workers are mainly agricultural wage laborers who work in the cottage enterprises during the slack period of agriculture. Yet again, those who have other alternative primary sources of employment treat these industrial units as the additional sources of employment and income generation.

The Table-6.2 summarizes that the enterprises, which are producing more worthy and sophisticated products, provide the primary sources of employment. As shown in the Table-6.2 these enterprises are handloom, engineering works, coir products and sheet iron products. Among these industrial units, in handloom and engineering works more people are primarily involved. Business is the secondary source of employment for people involved in farming. A few have business as the primary source of employment but those businesses are concerned with the marketing of the products that they produce. Generally, solvent and experienced proprietors under take the task of marketing and gradually that becomes their primary profession.

In our study areas, 72 percent of the proprietors' involvement with cottage enterprises is primary. Out of the rest 28 percent, 13 percent has taken farming as the main occupation. It is also observed that the industrial units, which are mainly operated by unpaid female family workers and where volume of investment is comparatively low, the proprietors, have alternative sources of employment. At the same time, the rate of employment in agriculture of these proprietors is higher. On the other hand,

of the proprietors in the cases of the enterprises operating commercially and having larger volume of capital investment and paid workers, the primary source of their employment is their own enterprise. But a few of them have alternative primary employment and it is business concerned with their own cottage industrial activities.

Table-6.2: The Primary Source of Employment of the Proprietors (%).

Name of Industry (N=90)	Total	Primary Source of Employment			
		Industry	Agricultur e	Service	Business and Others
Handloom	100	85	2	2	11
Bamboo and Cane	100	69	20	6	5
Coir Products	100	72	13	7	8
Engineering Works	100	92	0	2	6
Fish Products	100	68	7	10	15
Mat	100	43	45	4	8
Sheet Iron Products	100	77	06	3	14
Average	100	72.29	13.29	4.86	9.57

Source: Field Survey.

Thus, this sector is not still being considered as the primary source of employment for all the persons employed here as 28 percent of the owners do not take these enterprises as their primary source of employment. Low rate of return, in adequate demand, seasonal supply of raw materials, increasing cost of production and marketing, absence of commercial and market oriented attitudes caused by heavy involvement of unpaid family workers etc. are treated as the basic reasons for not taking this sub-sector as the primary source of employment. On the one hand, it is possible to run a cottage enterprise by utilizing unemployed family workers; and on the other hand, seasonal operation and low rate of return have made these enterprises as the additional source of employment rather than primary.

6.3 Land Ownership and the Employment

There is an inverse relationship between the land ownership and the participation of people in cottage industrial works both as worker and owner. In the study area of this research, it is found that 80 percent of the

people working in the cottage enterprises have less than 2 acre of land and of them 39 percent have no cultivable land as shown in the Table-6.3. Many of these landless or near landless people are agricultural worker and day laborers are involved as workers in other non-farm rural sector including cottage industries. Many of these workers have neither any training nor experience while on the other hand, most of them are non-traditional crafts men. Table-6.3 is presenting the land ownership pattern of the people involved in cottage industrial works.

Table-6.3: Land Ownership Pattern of the People Involved in Cottage Industries.

Land Ownership (in acre)	Involvement in Cottage Industries (%)
00-0.5	39
0.5-2.0	47
2.0-4.0	09
4.0 and above	05
Total	100

Source: Field Survey.

In the perspective of Bangladesh, only 14 percent of the people concerned with this sub-sector have sufficient arable land and their average per head landholding is above two acre. These people are the most solvent proprietors of cottage enterprises and they are not traditional farmers. But they own higher area of land because of their savings from the cottage industries. These people are not directly involved in farming. They either employ excess family laborers or sharecroppers to carry on the task of cultivation. In fact, income from agricultural sector is considered here as an addition to their regular income from cottage industries.

On the other hand, some of the cottage industries like mat and bamboo and cane products are consuming domestically produced agricultural products as the input. Proprietors of such enterprises have some arable land to cultivate their own raw materials. But it is found that most of those proprietors have very low per head landownership. It is not only because of their financial incapability, but also owing to their lacking of taste in cultivation, which is not ritual for their families. Thus, in the study

area we have observed some proprietors having sufficient land to cultivate their required raw materials but they are more interested to purchase those instead of cultivating and claim that former is more cost effective, though there is no strong statistical evidences in favor of such claim. Similarly, it is not possible to find out the financial status of the proprietors by depending on their land holding as in many cases it is not the main indicator of possession of wealth. Many of the unskilled workers are not traditional craftsmen and they work in cottage industries having no suitable alternative job and most of them are landless.

6.4 Employment of the Workers by Sex

In the cottage enterprises both male, female and child workers are employed. As observed in the selected enterprises of our study area the average employment per enterprise is 4.7 persons. The enterprises, which are comparatively capital intensive and commercially operated, employ more workers. These enterprises are handlooms, engineering works and sheet iron products that employ about six workers per enterprise. While the enterprises of old fashion, less capital intensive and operating at the subsistent level are employing few workers. Bamboo and cane, coir and fish products are in this category and their average employment is below 4 persons per enterprises.

Involvement of female workers in this sub-sector is much higher as compared to the other economic sectors. In this study it is observed that female and child workers are about 50 percent of total employment. But this finding is rather a little bit biased because of inclusion of some enterprises like handlooms, engineering works and sheet iron product in where the average female employment per enterprise is only 0.3 person. The female employment is more than that of male in fish, mat and coir products. Generally female workers are found more in those enterprises where out-put

are produced in the simplest mode of production and formal training, skill, education etc. are not necessary preconditions for employment.

On the other hand, male are engaged in heavy, sophisticated and main tasks of production. In almost all the enterprises marketing and bookkeeping are the tasks performed by the male workers especially by the owners. While the child and female workers are employed both in production and production concerned assisting services. Female workers are used to work in insignificant task of production and they are not generally involved in marketing and accounting task. But in recent days, in some enterprises female workers are performing almost all the tasks including marketing and book keeping. The child workers are employed in most of the cases as the apprentices. The Table-6.4 gives picture of this situation.

Table-6.4: Average Number of Workers in Selected Enterprises by Sex.

Name of enterprises	Average no. of workers			Total
	Male	Female	Child	
Handloom	4.06	1.63	0.30	5.99
Bamboo and Cane	1.80	1.40	0.10	3.30
Coir product	1.00	2.80	0.30	4.10
Engineering Works	6.00	00	0.80	6.80
Fish Product	0.60	2.00	0.90	3.50
Mat	0.70	3.40	0.20	4.3
Sheet Iron Products	3.60	00	1.00	4.6
Average	2.54	1.6	0.51	4.65

Source: Field Survey.

As shown in Table-6.4 from the viewpoint of employment creation, engineering works, sheet iron products and handlooms are crucially important. But in these enterprises the situation of female employment is insignificant. As mentioned earlier, the employment conditions of these enterprises are not congenial for the female workers. On the other hand, in the female dominated enterprises the average number of employment per unit is low. These enterprises are generally non-commercially operated and mainly provide additional income for the financial solvency of the family. Nevertheless, the average employment per enterprise is 2.5 for male, 1.6 for

female and it is 0.51 in the case of child workers. The overall employment per enterprise is about 4.65 persons.

6.5. Paid and Unpaid Workers

In the rural enterprises as it is found in our study that a significant number of workers are unpaid. This is very common often in the enterprises where family workers dominate. The situation of female family workers is the worse in comparison to their male counterparts as only the two percent of them are paid, whereas 16 percent of male workers receive wages from their own families. A number of socio-economic factors are responsible for this. In an unemployment and poverty-ridden economy like Bangladesh, the opportunity cost of the female family workers is almost nil. Thus, there is a narrow scope of the less skilled artisan's family members to avail scarce employment opportunity, as a result, they are bound to work in their family enterprises to ensure their livelihood. On the other hand, in the countryside the joint families are common, but it is more common among the crafts men. So, the family members work for the common interest of their own family. The head of the family supervises the managerial and financial tasks of such enterprises; in general who is either father or the eldest son. The family ownership pattern is a vital determining factor in this regard. The adult male family members who wish to live independently from their joint family find their desire at a stake as the resources that would belong to their personal ownership is so small that it would loss economic viability in all respects. Thus, the small cottage enterprises have higher family workers and none of the family members want to split those. It is true that most of the family workers get no financial receipts but they are paid in kinds as the family bears all of the expenses of its members. Even the savings that improve the wealth position of family are also treated as the economic improvement of the individual members. Therefore, almost all the family workers but the female

have no complain against being unpaid. The Table-6.5 shows the extent of paid and unpaid workers.

Table-6.5: Paid and Unpaid Workers (in percentage).

Types of workers	Paid	Unpaid
Family Workers:	09	91
(a) Male:	16	84
(b) Female:	02	98
Hired Workers:	100	00
(a) Male:	100	00
(b) Female:	100	00
Average	54.5	45.5

Source: Field Survey.

From the Table-6.5, it is clear that a considerable number of workers in this sub-sector are remaining unpaid. The situation is worse in the case of family workers of whom 91 percent are unpaid. But they are about 70 percent of total workers engaged in this sub-sector. Those male family workers are found paid in the study areas that are living separately but working jointly. Again, some of the well to do enterprises paid their family workers but those members neither share the profit nor loss incurred by the respective enterprise. On the other hand, a few of the female family workers who are married to the neighbors are paid for their services to their parents' enterprises and in general these female workers are poor as compared to their pre-marital life. Most of the paid family members are found employed mainly in engineering works, steel and iron works, and handlooms.

6.6 Workers and Average Working Days

On an average 4.65 workers are employed in each of the cottage industries. The range of employment varies significantly from minimum 3 to maximum 15 persons per industry.

This study finds that engineering works and handlooms require maximum workers per enterprise. The bamboo and cane products, and fish products employ the minimum numbers workers. In addition to this, the problem of under employment or disguised employment however, is acute in

most of the enterprises of this sub-sector. In terms of creating yearly employment, engineering works are in pioneer position. These enterprises create on an average employment of 300 working days in a year.

In terms of yearly working days, this study finds engineering works and sheet iron products' enterprises provide fulltime employment to the workers (full time employment is estimated as minimum 250 working days in a year and 42 hours in a week). In fact, almost all the enterprises are operated below their full capacity even during the normal working days. The remaining enterprises run for less than 250 days per year and the minimum yearly working days is 150 in the mat enterprises. The Table-6.6 gives the details.

Table-6.6: Average Working Days in the Selected Cottage Industries.

Industry (N= 90)	Workers per Industry	Working Days (Yearly)	Working Hours (Weekly)	Percentage of Yearly Working Days In		
				Industry	Agriculture	Business and Others
Handloom	6.0	240	64	66	15	19
Bamboo and Cane	3.3	240	35	66	25	09
Coir Product	4.1	210	37	58	22	20
Fish Product	3.5	180	32	49	10	41
Engineering Works	6.8	300	48	82	03	15
Mat	4.3	150	35	41	33	26
Sheet Iron Products	4.6	270	42	74	10	16
Average	4.65	227.14	38.14	62.28	16.86	20.86

Source: Field Survey.

The enterprises which are not operating with their full capacity due to inadequate supply of raw materials, lack of workers, inadequate demand, marketing problems, etc can not make sufficient profits for reinvestments or even for their survival.

Again, if we consider 42 working hours in a week as full-time employment then only engineering works, handloom and sheet iron products can provide it. These enterprises have similarity with small-scale enterprises and those are situated near to the urban or semi urban areas and close to the market places with better communication. With the year round operations these enterprises are also managed efficiently and

commercially. Weekly working hour is minimum for mat, bamboo and cane, and fish products. The workers of this sub-sector spend about 38 percent of their working days in agriculture, business and other services. It is remarkable that in the agro- based rural areas these people spend few of their working days for agricultural activities. This means that the cottage industrial workers are less dependent on agriculture. This is of course very much congenial for the flourishing of desired economic activities in tradition ridden rural society.

6.7 Nature of Employment

In rural enterprises both fulltime and part-time workers are employed. Involvement of part time workers is much higher in this sector as compared to the other economic sectors. In this study full time employment is considered as minimum 250 working days in a year with 42 working hours per week. Considering these criteria and involvement of the workers in no other jobs, this study observes that 67.5 percent are full time workers while remaining 32.5 percent are part time workers.

The incidence of part time employment is higher in those enterprises that are operated mainly by the female family workers. That is to say in family based enterprises part time workers are higher in number. Among the family members most of the male workers work at their family enterprises during the leisure time of their main professions, which may be cultivation, business, service or others; and the female workers engage themselves during leisure time after their regular household works. It is also due to the involvement of the women in the regular household works, limited scope of work outside the homestead, lack of skill, nature of production, seasonal supply of raw materials and so on. Empirical field study shows that part time workers are higher in mat products, fish products, bamboo and cane enterprises and coir products. In our study

area it is also found that in coir product, mat and fish product the participation of female workers is maximum and all of these enterprises are seasonal.

The situation is mixed in the case of handlooms. The works like reeling, dying etc. are done by employing part time workers. But the full time workers perform the main tasks of weaving and designing. Family members of small handloom enterprises having one or two looms mainly carryout the whole task of operation by themselves. These enterprises are not operated in full swing through out the year and most of these looms are operated seasonally and weave less worthy coarse clothes like *gamsa* and *lungi*. This study finds that such handlooms are situated at Kumarkhali of Kushtia district. On the other hand, more commercial enterprises like sheet iron products and engineering works have fewer family and part time workers.

Thus, the subsistence enterprises have more family workers and a few of them are employed for the full time. On the contrary, the commercialized and comparatively sophisticated enterprises such as, sheet iron products, handloom, and the engineering works employ more hired labor than the others. In the next section we have discussed it elaborately.

Table 6.7: Nature of Employment (%).

Types of workers	Full time workers	Part time workers
1. Family workers:	58	42
(a) Male	65	35
(b) Female	51	49
2. Hired workers:	77	23
(a) Male	80	20
(b) Female	74	26
3. All workers:	67.5	32.5

Source: Field Survey.

As shown in Table -6.7, 42 percent of the family workers are employed for part time basis and this rate is only 23 percent for the hired workers. From Table -6.7 it is also clear that part time employment is more among the female family workers. In the case of all workers, 67.5 percent

are employed for full time, while remaining are part timers. That is to say, about one third are part time workers in cottage enterprises.

In fact, the profitability and the scale of production mainly determine the employment of the hired and full time workers. Thus, the profitability, scale of production, market orientation, commercialization, availability of raw materials and the mode of production basically determine the nature of employment.

6.8 Composition of Workers

Whatever the types of production, family workers constitute the major portion of total employment in this sub-sector. But it varies from product to product. More specialized and commercialized enterprises have more hired but fewer female workers than the others. This happens, as those enterprises require skilled workers. Formal job environment, higher responsibility of work, longer working time, hardship in work, social as well as religious prejudice of the rural areas etc. deter the women family members from participating in those enterprises.

On the other hand, other less formal enterprises have considerable number of family workers. The participation of women in these enterprises is remarkable as those are being operated in homely congenial environment, requirement of training or skill is minimum, nature of employment is simple and wider is the scope for part-time employment. Here the family members work during the leisure time after their regular job or household works. These enterprises are not operated year round but seasonally, which allow the people to work on part time basis. In the agricultural slack period when the male family members have very limited scope of work especially in agriculture or other agriculture related works, they could work in these cottage enterprises. But during the rest of the year, the female family

members who consider such involvement as a part of their regular household work operate these enterprises in slow swing.

The bamboo and cane, coir, fish and mat product enterprises are family and female workers dominated. More than 80 percent of the workers in these enterprises are family members. Among these enterprises, except in the case of bamboo and cane products, the female workers are greater in number than the male. Thus, the nature and the period of operation, job environment, and skill of the workers determine the number of family, female and hired workers in the cottage enterprises. All of these have been summarized in Table-6.8.

Table-6.8: Distribution of Workers in Different Enterprises (in%).

Enterprises	Family workers			Hired workers			Total Family Workers (%)	Total Hired Workers (%)
	Male	Female	Child	Male	Female	Child		
Handloom	46	18	05	22	9	0	69	31
Bamboo and Cane	42	36	03	12	7	0	81	19
Coir Product	22	55	05	02	13	03	82	18
Fish Product	13	52	22	04	05	04	87	13
Engineering Works	21	-	-	68	-	11	21	79
Mat	14	73	05	02	06	-	92	08
Sheet Iron Products	49	-	07	30	-	14	55	44
All enterprises	29.6	33.4	6.7	20	5.7	4.6	69.5	30.5

Source: Field Survey.

It is worth mentioning that the employment of hired workers is determined exclusively by the profitability of the respective enterprises. For a hired worker employer has to pay a minimum subsistence wage when there exists alternative employment opportunity. The wage rate must be at least equal to the best alternative rate. In the rural economy this rate is equal to the wage rate of agricultural laborer. Under this circumstance, the question of marginal productivity of labor arises. If marginal productivity is lower than the wage rate, proprietors will not like to employ more labor. In cottage enterprises, it is the fact. As a result, the proprietors run their enterprises with their family members who have almost no alternative employment opportunities and they also not like to work for others because

of social reasons, which more likely happens on the case of female family members.

6.9 Employment of Women

In cottage industries participation of female workers is remarkable. The female workers dominate some enterprises like coir-rope, mat making and fish products. Most of the rural industries are located at homestead and operated or managed by the family members. As a result, the social and religious taboo against the participation of women in the economic activities is not an obstacle here. More over, the household works of the women are not hampered by their participations in cottage industries, as it is possible for them to perform the same task side by side when their activities are in the same homesteads. Most of the female workers of cottage industries are employed on the part time basis because of their involvement with other household works. Among the total hired workers only one sixth are female.

The hired female workers are from very poor economic background. Female workers are hired on a casual basis. In fact, they can do the works at their own residences. The location, nature of operation and management, employment condition and job environment of cottage enterprises are very congenial for the participation of female workers in such activities without challenging the existing social and religious values.

Female workers are majority in those enterprises where the tasks are light not very heavy, intensity of capital is minimum and out-put produced is less worthy. In the female dominated enterprises like mat, fish product and coir product the various productions concerned managerial tasks are performed by the male family workers. These tasks include personnel management, supervision of the quality of the products, designing the output as per buyer's demand, etc.

In these female dominated cottage enterprises the main task of marketing, procurement and processing of raw materials, market promotional activities, financial management including book keeping and other responsibilities are also done by the male family workers. More over, in the context of rural Bangladesh, the bargaining power of the female are weaker than their male counter part and because of massive illiteracy among the female, they are not very efficient bookkeepers. Because of these reasons, the numbers of female proprietors are very limited.

Generally, the heavy, sophisticated and customer related tasks are carried out by the male workers. This study observes that cent percent male dominated enterprises are sheet iron products and engineering works. The tasks of these industries are heavy and hardship persists here. Again, where both of the tasks are involved, the male workers performed most of the sophisticated works.

For an example, in handlooms the male workers weave where as reeling, mostly the female workers carry out the task of dying and other easy works. These female workers are not the actual substitute of male in the above-mentioned works. But they may be the substitute of their male counterpart for those cases where the tasks are easy, less sophisticated, concerned with the preparation of raw materials and other production assisting activities. Anyway, it is hardly possible to identify this gender basis division of labor very definitely. With the socio-economic change and through empowerment of female, it is easily possible to mitigate such division of labor to a considerable extent.

The involvement of child labor workers in cottage industries forms about 10 percent (Table-6.9). This is of course undesirable but not unavoidable in the context of Bangladesh. The children from the very poor families are the child laborers and most of them are engaged in production related or management concerned light activities. In some of the cases the

children also help their parents or senior family members to carry out the operation of the enterprises. Generally, in the female workers dominated enterprises the child workers are maximum in number.

However, The male workers have higher productivity in general than the female workers. On the other hand, child workers are substituting the adult workers for some light and easy works and in most of the enterprises, they work as the apprentices. The following Table-6.9 is presenting the women employment situation in this sub-sector as compared to that of the male and child workers.

Table – 6.9: Distribution of Workers by Sex (in %).

Enterprises	Total	Male	Female	Child
Handloom	100	68	27	05
Bamboo and Cane	100	54	43	03
Coir Product	100	24	68	08
Engineering Works	100	89	00	11
Fish Products	100	17	57	26
Mat	100	16	79	09
Sheet Iron Products	100	79	00	21
Average (%)	100	49.6	39.1	11.3

Source: Field Survey.

6.10 Conclusion

A number of problems were found on the way of employment generation in the cottage industries. Most of the cottage enterprises are financed from the internal sources as the proprietors have very limited access to the institutional credits. At the same time, they have little interest to avail credit from the non-institutional sources that charge very high rate of interest as compared to that of the institutional sources. On the other hand, for the generation of new employment, investment is a must. To finance investment, long-term institutional credit is required, as these enterprises are unable to undertake it from their internal fund originated by the surplus profit.

Many of the enterprises are dependent on agricultural raw materials that are produced seasonally. Due to inadequate financial support and

storage facilities it becomes impossible to maintain a good stock of raw materials so that the enterprises could be in operation during off-season of agricultural raw materials. In fact, this is one of the vital issues responsible for part time employment in this sector. It is possible to a considerable extent to provide full time employment opportunities to the existing part time workers even without new capital investment but by providing credit and storage facilities. At the same time, this can easily increase the yearly working days of the enterprises. More over, to raise the weekly working hours from the present 38 to 42 hours, it is necessary to ensure year round supply of raw materials.

Inadequate demand of the products of cottage enterprises are another obstacle to create more employment. The cottage industrial products are facing strong competition from the products of more mechanized small and large-scale industries, which are producing the same products with greater diversities and lower prices by enjoying the advantages of the scale of production. This sub-sector has also failed to improve the quality and the design of the products to cope with the changed taste of the consumers. In the case of mat, coir products, ordinary bamboo and cane products and less worthy ordinary cloth weaving hand looms face the problem of inadequate demand which is a vital factor that works not only against the generation of new employment but also restricts the expansion of this sub-sector.

With the existing level of technology of this sub-sector it is not possible to reduce the cost of production without which demand as well as production will not increase and new employment generation will be hampered. Incompetence in using capital equipments as well as the raw materials is also narrowing down the scope of employment. Lack of skilled workers is also affecting the expansion of employment. Especially, engineering works and some specified handlooms weaving valuable and fine

clothes, require skilled workers who under take the main tasks of production and designing. These enterprises are suffering from the lack of adequate skilled labor and as a result of it, the expansions of these highly potential enterprises are being obstructed. More over, employment of skilled worker determines the employment of unskilled workers positively. For an example, a new loom requires a skilled weaver and each new loom can employ on an average three workers. On the other hand, an expert machine man is a must to install a new machine and a new machine can create employment for the two less skilled persons.

Some of the proprietors have identified high wage rate that deters them to increase the level of employment. This is the problem often observed in handlooms that are weaving diversified fine clothes of new designs and it reduces total sales as well as profits by pushing down the demand of the products due to price hike. The income elasticity of demand is also considerably affecting the demand of this sector in the reverse way.

Most of the cottage enterprises' products are of inferior types and as a result, people reduce the consumption of these products as their income rises. This is not the fact for those enterprises producing fashionable, sophisticated and fine products, which are able to satisfy the quick changing taste of the modern consumers. Table-6.10 is exhibiting the obstacles to generate employment as identified by the proprietors of our study areas.

Table-6.10: Problems in Employment Generation.

Name of the Problems	Proprietors (%) (N=90)
1. Lack of Finance	89
2. Higher Cost of Production	67
3. Inadequate Supply of Raw Materials	63
4. Inadequate Demand	51
5. Lack of Skilled Labor	29
6. High Rate of Wage	18

Source: Field Survey.

Like other developing countries, the scope of employment in the modern sector is also very limited in Bangladesh. In fact, the modern sector well known as the large industrial sector of Bangladesh is yet to flourish and the pioneer agricultural sector is groaning under the massive pressure of over employment.

Under such a critical situation, the priority is being assigned to the non-farm economic sector in order to generate employment for the growing labor force. In Bangladesh, non-farm economic sectors generally include cottage enterprises, trade and commerce, transport, construction and services. Among these non-farm economic activities, the cottage industries are relatively important in terms of employment generation at a comparatively low cost. More over, this sub-sector can generate employment with out changing the existing economic, social and cultural structure of the country. Present size of this sub-sector has raised its potentiality regarding employment generation.

CHAPTER-7

PROBLEMS AND PROSPECTS OF INCOME GENERATION IN THE COTTAGE INDUSTRIES

Cottage enterprises are both the primary as well as the non-primary sources of the family income of the proprietors. Majority of the proprietors depend on this sub-sector for their main livelihoods. Again, a considerable number of workers do not depend on this sub-sector for their main sources of income.

7.1 Cottage Enterprises as the Primary Source of Income

Majority of proprietors depend on this sub-sector as their main sources of income. But some of the proprietors do not consider this sub-sector as their main sources of their family income. Seasonal operation of the enterprises, very poor amount of income and profit generation, absolutely small size of the enterprises are the responsible factors for not generating the major portion of their income. The cottage enterprises of non-primary source of income suffer from a number of problems. The people, who do not consider these enterprises as their primary source of income, never have positive commercial attitude to its development. These people do not want to invest in this sub-sector or to take adequate initiatives to solve the existing problems. Product diversification, proper marketing of input and output, adequate financing, employment of hired and skilled workers, commercially viable operation of the enterprises, year round production, full time involvement of the owners as well as the workers, more weekly working days or more daily working hours, larger amount of total profit through the increase in the total sales by reducing the cost of production, expansion of the size of enterprises to utilize the scale of production etc. are not possible in the cases where the proprietors are not primarily involved in their respective enterprises.

Some of the people who are not traditionally craftsmen may become interested to involve themselves in this sub-sector as it does not require their

full time engagement but serve as the additional source of income by employing the unemployed family members specially the female members. Such steps actually push up the growth of the cottage enterprises considerably.

In our study area, it is observed that of the total proprietors, about 59 percent are primarily dependent on their respective cottage enterprises for their income. The enterprises having more labor and capital, year round operation, higher scale of production, minimum employment of female workers, use non-agricultural raw materials as inputs, earn better profits and proprietorships belong to the traditional crafts-men are the primary sources of family income. On an average, handlooms, engineering works and sheet iron products are the primary sources of income for more than the 80 percent of the proprietors of these enterprises. The proprietors of these enterprises have ignorable cultivable land in their own possessions and thus their alternative source of income is the business of their own products. For an example, the weavers are mainly found to deal in either yarn or clothes or other weaving materials. The data presented in the following table 7.1 displays the above facts more clearly.

Table -7.1: Primary Source of Family Income (in percentage).

Name of Enterprises (N= 90)	Total	Primary	Secondary	Tertiary
Handlooms	100	80	20	00
Bamboo and Cane	100	46	44	10
Coir Products	100	45	44	11
Engineering Works	100	90	10	00
Fish Product	100	54	20	26
Mat	100	21	32	47
Sheet Iron Products	100	75	22	03
Average		58.71	27.43	13.86

Source: Field Survey.

A considerable number of the proprietors are ready to leave their enterprises, as those cannot provide even subsistence income. Merely 21 percent of the proprietors of mat making enterprises depend on their respective enterprises for the primary source of income. Bamboo and cane,

coir, and fish product's enterprises are providing the main sources of income for the minority of the proprietors.

These enterprises are seasonal in their operation; consume agricultural products as the raw materials; operated by the family workers, overwhelmed by the female workers. These have very small scales of operations with low labor and capital intensity and they generate very low income and profit. In this regard exception is found in the case of fish product's enterprises, which earn very high rate of profit. Fish products are not the primary source of income of the proprietors as it is operated for hardly six month in a year though those offer lucrative rates of profits. However, 54 percent of the proprietors of these enterprises took them as the primary professions.

One thing is remarkable here that about 72 percent of the proprietors primary source of employment is the cottage enterprises while the same can provide them with 59 percent of their primary income. Thus, the 13 percent proprietors primary source of employment and income are not the same, which is a serious problem of this sub-sector and an obstacle to generate both employment and income side by side. From the viewpoint of the workers only the full time skilled workers are dependent on this sub-sector for income. These types of workers are in fact artisans having no workshop under their ownership and they are not sufficiently experienced or habituated to the works in the other economic activities. These workers are not rich enough to have income earning assets in their own possessions. Thus, they are mainly dependent on the cottage enterprises. This situation is very common among the loom-less weavers of handlooms who work for the loom-owners as the paid workers.

7.2 Family Income of the Proprietors

The income of the family is estimated here by reducing wage bill of the workers, cost of raw materials, capital depreciation cost and the rent from the

total revenue earned. Here, the data are collected from records of the weekly operations of the enterprises as was provided by the proprietors of those. The yearly depreciation of capital is assumed to be 10 percent of the total value of capital. It is worth mentioning to calculate weekly or yearly income only the working days and weeks have considered instead of calendar days or weeks.

The family income of the cottage enterprises is determined by the amount of value-added. Generally, higher the amount of value-added, higher is the total family income. However, like the value-added, higher family income is estimated in those enterprises, which run comparatively in large scale with hired labor, use more labor and capital, year round operations, have commercial attitude and produce quality products.

But in very large cottage enterprises, it is not true. In such a case, the production capacity remains unutilized because of managerial inefficiency that arises from the unmanageable size of the enterprises; the cost from capital depreciation and rent is much higher in those enterprises, which reduce family income. Many of these enterprises are less commercially operated as the proprietors of such enterprises rent their capital goods to the interested craftsmen on output sharing basis which generate of course less income by misusing of raw materials, increasing the capital depreciation cost, reducing the labor and capital productivity. Thus, neither very tiny nor very large cottage enterprises ensure higher family income and it is the medium sized enterprises that are more suitable in this connection. Though it is shown that there is a direct relationship between the family incomes or the value-added and the volume of fixed capital but this relationship is persistent up to a certain limit.

The data of the present study as tabulated in the following Table-7.2 exhibits that weekly maximum family income is found in engineering works (Tk.2000), which is followed by handlooms, fish product, and sheet iron product enterprises respectively. The minimum family income of Tk.340 is

generated in bamboo and cane products enterprises and it is respectively followed by coir and mat product enterprises. On the other hand, the year round cottage enterprises generates more family income than the others do. That is why though weekly income of the fish product enterprises is equal to that of the sheet iron product, but the annual income of the later is much higher than that of the former. The findings of the study have been presented in the following table-7.2.

Table – 7.2: The Family Income of the Proprietors (in Tk.).

Name of Enterprises (N=90)	No. of Working Days	Family Income (weekly)	Family Income (yearly)
Handlooms	240	1100	37714.29
Bamboo and Cane	240	340	11657.14
Coir Products	210	500	15000.00
Engineering works	300	2000	85714.29
Fish Product	180	1000	25714.29
Mat	150	600	12857.14
Sheet Iron Products	270	1000	38571.43
Average	227.14	934.29	32416.23

Source: Field Survey.

The family income seems to be greater in those enterprises, which are operating under sufficiently low cost by employing more family labor or women workers who have low productivity as well as low rate of wage; and which are using no rented workshops and very limited capital. Such enterprises are operating at the subsistence level and generate inadequate income for their families. The enterprises like mat, coir product, and bamboo product have higher family income and neither the enterprises, which have rented workshops, nor sufficient stock of capital are generating very low family income. Thus the medium size cottage enterprises generate more family income than that of the others.

Of course, very poor income generation is the basic problem of this sub-sector, which has made these enterprises as the secondary income

sources. Many of the proprietors use to treat it as the major bottleneck to flourish this sub-sector. The participation of new energetic and trained entrepreneurs as well as the expansion and modernization of the existing enterprises may improve the situation. At the same time very poor family income is forcing the proprietors of very small cottage enterprises to leave this sub-sector. Though the female family members are mainly operating the enterprises and these are the only source of their meaningful employment in economic sense. Due to the adverse socio-economic reasons, a few of them have neither the ownership of the enterprises nor the command over the income earned. As a result, they could not make any decision of investment for the expansion of this sub-sector.

The female dominated enterprises generate low income but of course ensure some additions to the family income. As the female have still no actual alternative job opportunity out side their homestead, it is very much significant to create and maintain this employment as well as the flow of income. With the women empowerment, the rural women are getting financial strength gradually from this sub-sector. At the same time the rural economy, specially the agricultural sector is gradually modernizing and it touches all other rural sectors to a considerable extent, which is increasing the awareness of the people of this sub-sector to operate their enterprises more commercially by leaving the subsistence ways of operations. Thus, there is a tendency of the proprietors to make their cottage enterprises well run through profit orientation and it is very helpful to boost up the family income generation.

7.3 The Wage of the Workers

In the cottage enterprises only hired workers receive wages though they are less in number than the unpaid family workers. Wage is the income that generated by the workers in the cottage enterprises, but it varies widely from

one enterprise to another. Generally, the theory of wage implies that the workers will be paid as per the value of their respective marginal product, which is not applicable in this very informal sector. Here the wages of the workers are mainly compared with the agricultural wage rates. Though the workers are paid as per their volume of works, which is always less than the marginal productivity of labor¹. But marginal productivity some how determines the wage level as the wage of the workers and that depends on their respective skill of works. More over, the gender also determinates the wage rate in almost all the enterprises.

7.3.1 Wage of the Skilled Workers

Skill of the workers of this sub-sector is not very well defined. The workers actually have no formal training or technical education. 'Learning by doing' is the only way of being skilled. In this sector, skill is merely the synonymous of experiences. The young workers start their work as the trainees or unskilled workers and as the time passes over, they become experienced and skilled. Though the female workers have overshadowed this sub-sector, yet a few skilled female workers are found in the study areas. The hired skilled female workers are fewer in number as most of them are the family members of the proprietors who are unpaid. More over, in a considerable number of cases the female workers receive fewer wages than that of their male counterparts, while the both are equal in terms of their skill. Almost all the skilled workers are hired even when the proprietor himself is also the skilled worker. Generally, the proprietors replace the hired skill workers when they have the same skill in their respective works. For an example, in handlooms there are no skilled paid workers in those cases where only one or two looms are under operations.

¹ Bangladesh Institute of Development Studies, *Rural Industries Study Project(RISP)-Final Report*, (Dhaka: BIDS, 1981) pp.134-136.

The wage in the cottage enterprises is insignificant in the case of both skilled and unskilled workers. The cottage enterprises generally pay their male skilled workers, which is marginally more than the wage rates of the agricultural workers. But the female skilled workers receive sufficiently lower wages than that of the agricultural wage laborers. The enterprises, that are the main sources of income of majority of their proprietors offer higher rate of wages than that received by the agricultural workers; while in other cases it is relatively lower. In this study, it is found that the engineering works, which is followed by handlooms and sheet iron products respectively, gives the maximum wage of Tk.100 per day per skilled workers. In these three enterprises no female hired skilled worker is found. Minimum wage of the skilled workers of Tk. 40 is given by mat making enterprises, which is followed by bamboo and cane, fish and coir product, enterprises. Only in mat, coir, and fish products' enterprises the female skilled workers are working and their wage rate varies between Tk. 40 and Tk.50 only. The average rate of wage in the cottage enterprises for the male skilled workers is Tk.70, which is a little bit higher than the agricultural wage rate, which is estimated at Tk.65 in the study areas.

As uncovered by the Table-7.3, the average wage rate in engineering works, handlooms and sheet iron products is higher than that of agricultural wage rate. The average wage rate of the skilled female workers is estimated at Tk. 45 that is lower than the wage receipt of the female agricultural workers. It is worth mentioning that in most of the enterprises there is no skilled female worker. The average wage rate of the male skilled workers is about 36 percent higher than that of female workers.

Table -7.3: Daily Wage of Skilled Workers (in TK.).

Name of Enterprises (N=90)	Male (1)	Female (2)	Difference (%) (1&2)
Handlooms	90	--	--
Bamboo and Cane	60	--	--
Coir Products	70	50	29
Engineering Works	100	--	--
Fish Products	60	45	42
Mat	40	40	00
Sheet Iron Products	75	--	--
Average	70.71	45.00	35.50

Source: Field Survey.

7.3.2 The Wage of Unskilled Workers

The unskilled workers are those who have no or very little experience in the respective areas. This type of worker is employed on part time basis and they have other sources of income. It is true in the cases of unskilled male workers as most of them are agricultural wageworkers. The female unskilled workers have no alternative source of income and part time employment is rather giving them scope to work in their own households. During the season of cultivation and harvesting the unskilled workers go to work in farming as it offer them better wages and at that time the task of cottage enterprises are mostly carried on by the female workers. As a result the women workers' main source of income is the cottage enterprises where they can engage themselves round the year.

Though the quality of labor is almost the same whatever the sex, the female unskilled workers receive fewer wages than that of male workers. The children from the poor families work in the cottage enterprises mainly as apprentices and there is no uniform wage rate for them even in the same category of the enterprises.

The wage of the unskilled workers like that of skilled workers significantly varies from one enterprise to another. This variation is acute in

the case of unskilled workers. As found in the study areas, the maximum wage of Tk.50 is offered by the handloom enterprises for the unskilled male workers; while the same enterprises offer the maximum wage of Tk.40 to the female workers. On the average the male workers get 19 percent more than the female workers in the study areas, as shown in Table-7.4.

Table -7.4: Wage of the Unskilled Workers (in TK.).

Name of Enterprises (N=90)	Male (1)	Female (2)	Child (3)	Difference (%) (1& 2)
Handlooms	50	40	10	20.00
Bamboo and Cane	30	25	10	16.67
Coir Products	30	25	10	16.67
Engineering Works	40	--	15	--
Fish Product	30	25	10	16.67
Mat	20	15	10	25.00
Sheet Iron Products	40	--	10	--
Average	34.29	26.00	10.71	19.00

Source: Field Survey.

From the table-7.4 the minimum wage rate for the female Tk.15 is found in the mat enterprises. The child workers get in the engineering works Tk.15 per day per head and Tk.10 in rest of the enterprises. In The case of unskilled workers the average wage rate is Tk.34.29 for the male, Tk.26 for the female and approximately Tk.11 for the child workers.

It is worth mentioning that no female worker is found in engineering works and sheet iron works. Here, the wage of the unskilled workers is lower than that of the agricultural workers. The laborers are working in this sub-sector disregarding the low rate of wage, as there is very limited scope of alternative employment in rural areas for the male during the agricultural slack period and for the women workers it is true through out the year.

This sub-sector can generate sufficient income for the skilled workers and the wage rate for them is also satisfactory. Though there is no provision to determine the wage rate as per the productivity of the workers. Generally,

by using very low cost labor, the cottage enterprises are making profits. Presently, from the viewpoint of income generation, it is considered prosperous for the skilled workers of particular cottage enterprises, but the numbers of such workers are very limited. Again, in rest of the cases, it is generating inadequate income. The wage of unskilled workers is very low in all regards. The wage discrimination between the male and female is remarkable. On an average the female workers get 19 percent lower wage than that of their male counterparts. Very low opportunity cost of the female workers coupled with the other social and religious factors are responsible for such discriminations. Therefore, though the cottage enterprises create employment opportunity for the female workers, but those cannot provide equal treatment to them in regards to the wage payment. Another problem is that there are the fewer number of employments of hired laborer. As a result of this, the income generation opportunity of the cottage enterprises is being availed by the limited rural people and this sub-sector is not playing its expected role in respect to the over all income generation.

The enterprises operating comparatively with large scale, offer better rate of wage. Thus, there is a possibility of raising the wages of the workers through the expansion of the scale of production. In this way the problem of low wage rate may be solved considerably by expanding the size and scale of cottage enterprises. Similarly, the year round operation will also increase the volume of total income of the workers. But, the expansion of the scale of production and the year round operation are dependent on the various market factors that are exogenously determined. Eradicating the financing and the marketing problems and the commercialization of the existing cottage enterprises may solve this problem.

7.4 Value-added by the Enterprises

To measure the value-added per enterprise, the total sale's revenue has been reduced by the total cost of raw materials. Here, the wage paid and depreciation cost of the capital asset is not deducted from the total revenue. The cottage enterprises, in most of the cases operated very informally, those do not keep their accounting records regularly. More over, the cottage enterprises in general participate in weekly marketing as in the rural areas, the markets, well known as the hats take place once a week. To avoid the problem arising from inadequate data we have considered the weekly average transactions.

The value-added by the cottage enterprises depends on the price and quality of raw materials used as well as price and quality of out put. As discussed in chapter-5, the cottage enterprises use both agricultural and industrial intermediate goods as the inputs. Of the agricultural raw materials, most of them are produced domestically and their prices are comparatively low. But the prices of such raw materials are not stable due to the nature of agricultural marketing. More precisely, the good harvest keeps the price level down while the bad harvest causes the opposite result. Similarly, in season the raw materials are comparatively cheap while out of season those become precious.

The cottage industrial commodities are fairly demand and income elastic. As a result, the price increase of those with the rise in the cost of raw materials reduces the demand as well as the total sales. As consequence, the output has to be sold at the previous lower prices and that reduces the amount of value-added. On the other hand, some of the cottage enterprises process the intermediate industrial goods. The prices of these raw materials are more stable than the agricultural raw materials and their supply is also consistent through out the year. Thus, the value-added by these enterprises is not considerably affected by the fluctuations of the prices of raw materials.

Any way, the value-added by the cottage enterprises is not very high. The amount of value-added varies from one product to another and also from one enterprise to another, depending on the price and quality of output produced, mode of production and the size of the enterprises in terms of labor and capital intensity.

In this study, it is estimated that the weekly average amount of value-added per enterprise is Tk.2071. The maximum value-added is Tk.4500 produced by the engineering works, while the minimum is Tk.600 in the case of bamboo and cane enterprises (Table-7.5).

Table -7.5: Value-added per Enterprises (in Tk.).

Name of Enterprises (N= 90)	Value Added (weekly in Tk.)	No. of Working Days
Handlooms	2700	240
Bamboo and Cane	600	240
Coir Products	900	210
Engineering works	4500	300
Fish Product	2000	180
Mat	800	150
Sheet iron Products	3000	270
Average	2071.43	227.14

Source: Field Survey.

The Table-7.5 shows that the cottage enterprises that are operating in very small scale mainly by the unpaid female workers, having fewer numbers of working days, generate very low level of value-added than that of the other enterprises. In this study, it is observed that there is a relationship between the amount of value-added and the size or the scale of the production. For example, the very small handloom enterprises, with one or two looms carry out the task of weaving by the family members of whom majority are female and no skilled hired laborer is working there, produce very low level of value-added. These enterprises weave very low quality clothes for the ordinary use of the local people and the proprietors have no intention either to improve the quality or to diversify their products.

In fact, on the one hand their capital intensity and the quality of labor are not congenial for this purpose, while on the other hand, these proprietors do not regard their handlooms as the primary but only as the additional sources of income by engaging the unemployed female workers. Thus, the enterprises of very small scales cannot utilize the economies of scale of production and distribution and such enterprises are being operated at the subsistence level, but not commercially. In contrast, the cottage enterprises operating comparatively at the large scales are free from the above stated problems and enjoy almost all the economies of the scales of production, through which the higher amount of value-added is ensured.

7.5 Cost of Production

On an average, the production cost in the cottage enterprises is reasonably low. The cost of production includes wage of hired workers, cost of raw materials, rent and capital depreciation costs. As the cottage enterprises have minimum number of hired workers and the rate of wage is relatively low in this labor surplus country, the wage bill as a component of total cost is not very high. The enterprises, which employ more hired labors, have to pay more as wages. Again, the enterprises run by the female hired workers or unskilled hired workers have lower cost of wage payment. As estimated in our study areas, the maximum weekly wage cost is found in handlooms while the minimum is estimated in the mat product's enterprises.

Most of the enterprises are situated in the shed at the homestead, which are also used for other household purposes. Thus, the cost arising from the rent payment is also negligible. The cottage enterprises do not use sophisticated modern capital equipments and minimum is the use of indigenous capital equipments in this sub-sector. Therefore, the costs for rent and depreciation are not very remarkable. Here, the depreciation cost of the capital assets has been estimated by assuming the life of *semi-pakka* and

that of *katcha* buildings as 20 and 10 years respectively and for machines it is considered as 5 years. In this way, yearly depreciation cost for the buildings of semi-*pakka*, *katcha* and machinery are respectively 5, 10, and 5 percent of the total value of the capital. But the lifetime of the capital equipments varies significantly. For an example, the 20 years' lifetime considered for knife or hammer is high enough but for a handloom it is not very high at all.

Whatever the way of measurement, the cost incurred here for this purpose is very negligible. Only the enterprises of very large scale of operation that are using costlier capital equipments like handlooms, sheet iron products and engineering works, have higher rent payment and depreciation cost. The maximum expenditure for this purpose is ensured in engineering works while the minimum are estimated at mat product enterprises.

Maximum cost in the cottage enterprises is incurred by the raw materials. We have already discussed in Chapter-5 that the cost of raw materials is determined by a number of factors including the quality, sources of supply, quantity used, channel of marketing and so on. Generally, the agricultural raw materials using enterprises have lower cost of raw materials. While the enterprises processing the industrial intermediate commodities are paying higher cost. It is shown in the table-7.5 that the average cost of the cottage enterprises is estimated at Tk5342, of which 79 percent is the cost of raw materials, 18 percent is the cost of wage and the rest 2.43 percent is paid as rent and depreciation cost. Here the weekly average estimate has been placed against the enterprises of each category. The table-7.6 is presenting the cost structure of the cottage enterprises.

Table -7.6: Production Cost Structure (in Tk.).

Name of Enterprises (N=90)	Wage	Cost of Raw Materials	Rent and Depreciation Cost	Total
Handlooms	1500	4850	150	6400
Bamboo and Cane	160	1300	05	1465
Coir Product	500	1000	05	1505
Engineering Works	3000	16000	800	19800
Fish Product	110	3000	10	3120
Mat	100	900	05	1005
Sheet Iron Products	1000	3000	100	4100
Average	910	4293	139	5342

Source: Field Survey.

Thus, the maximum of the cost of production is incurred by raw materials. But it never means that the enterprises having lower cost of raw materials generate higher income. In fact the opposite is true. The enterprises like engineering works and handlooms have higher total cost, also generate higher income. Of course, by ensuring the economic use of raw materials and labor one enterprise can optimize its cost, which may increase the family income. But to do that the attainment of reasonable size of the enterprise is a must.

7.6 Profits in the Cottage Enterprises

In order to estimate the total profit of the cottage enterprises the family income is reduced by total wage of the employed family workers. The rate of profit is the ratio of total profit to the total cost expressed in percentage. Here the total cost includes wage bill, cost of raw materials, rent and depreciation cost.

The rate of profit in the cottage enterprises is moderately low. The enterprises operating comparatively at the larger scale with more capital and labor usually generate more profit than that of the others. It is also found that the enterprises dominated by the female and unpaid workers are backward in profit generation. Again the enterprises in which, heavy capital and labor are involved, the rate of profit is not very satisfactory. Products' quality is another determinant of profit. Generally the enterprises producing

more quality products with required varieties for the consumers of higher income group have more profits than the enterprises producing ordinary and less diversified products for the poor rural consumers.

It is estimated that the second maximum rate of profit (25 percent) is generated in the engineering works. These enterprises are located at the urban areas or adjacent to the urban areas and their goods and services have inelastic demand, as those of are essential types. Most of these enterprises are being operated commercially with relatively modern machinery and the use of power is notable. The rate of profit in handlooms, sheet iron and fish product's enterprises are moderately high. The handlooms weaving valuable and fine quality clothes, especially *sari* of the latest design as per the tastes of the consumers of privileged income group living in the towns, have higher rates of profits. On the other hand, the handlooms weaving average quality coarse clothes, like *lungi*, *gamsa* and *sari* for the local market are less profitable, and of those, which are operating at the very low scale, are virtually incurring losses.

The fish products' enterprises are the exceptions, as those have poor capital-labor intensity and subjugated by the female workers but earn the higher rates of profits. It is due to the nature of the output produced as the fish products are very much costlier and have wide local and international markets. Thus, these products earn better revenues as well as profits. But, the annual total profit is not very satisfactory as those are very seasonal in terms of production operations. The sheet iron products are mainly used in various constructions and repairing works and that is why those products have inelastic demand but their income elasticity is positive. These enterprises are commercially operated with the hired male workers and also have higher capital-labor concentration. The Table-7.7 is presenting profitability of the enterprises.

Table -7.7: Profitability of the Enterprises.

Name of Enterprises (N=90)	Rate of Profit (%)
Handlooms	20
Bamboo and Cane	-0.25
Coir Products	07
Engineering Works	25
Fish Product	45
Mat	04
Sheet Iron Products	18
Average	16.94

Source: Field Survey.

Among the enterprises, the bamboo and cane enterprises are found as the loosing concern. It is observed that such enterprises are producing out put only for the local ordinary use and as the goods are of the inferior types, the income effect is also negative. As income increases the demand for those goods declined. These enterprises are still operating as those add some things to the family income by employing the family members particularly the women. Other two types of enterprises, mat and coir products have the similar features of bamboo and cane products' enterprises but those incur profit and their rates of profits are respectively 4 and 7 percents respectively. In the case of mat making enterprises, cost of production is relatively low and the products have wide domestic market including both rural and urban. On the other hand, in the case of coir products the lion's share of output is produced for urban people and a few of the items are used as the luxurious decoration pieces. Thus, from the viewpoint of demand and price these products have better scopes.

7.6.1 The Size of the Enterprises and the Rate of Profit

The number of employment, volume of output produced, amount of capital investment, scale of production etc. determine the size of an enterprise. In this study, the size of the enterprises is measured in terms of capital investment and labor employment. In fact, these two factors are the main of all other factors in determining the size of an enterprise.

The average rate of profit in the cottage enterprises is about 17 percent, which seems to be higher and may mislead one. Like all other arithmetic means the average rate of profit is also biased by the extreme values.

In the cases of 33 percent of the enterprises the rate of profit is below 10 percent, which is much lower than the grand average. From the Table-7.8 the whole picture will be clearer.

Table -7.8: Rate of Profit and the Size of Enterprises in terms of Labor and Capital Intensity.

Name of Enterprises (N=90)	Rate of Profit %	No. of Employment	Fixed Capital (TK.)	Pattern of Employment by Sex (%)		
				Male	Female	Child
Handlooms	20	5.99	35500	68	27	05
Bamboo and Cane	-0.25	3.30	2850	54	43	03
Coir Products	04	4.10	1700	24	68	08
Engineering Works	25	6.80	80000	89	00	11
Fish Product	45	3.50	10400	17	57	26
Mat	07	4.30	2000	16	79	05
Sheet Iron Products	18	4.60	20000	79	00	21
Average	16.94	4.65	21778.57	49.6	39.1	11.3

Source: Field Survey.

Except the fish product, there is a clear positive correlation between the level of employment and the rate of profit. The value of the correlation coefficient is 0.43. That is to say, the labor employment and the rate of profit goes side by side. The rate of profit is not dependent on the amount of the fixed capital. Again the male dominated cottage enterprises are more profitable than that of the others as the correlation coefficient for those is 0.36. This also supports the above statement. Thus, the profit may be increased either by employing more labor or capital. But in the context of capital scarce and labor surplus economy of Bangladesh it will be cheaper to employ more labor for this purpose. On the other hand, there is a negative relationship between the rate of profit and the female labor employment. It is due to the lack of skill, proper attention, part time operation and non-commercial management of the female dominated enterprises. The correlation coefficient for those is -0.50.

From the above table, it is found very significant that the cottage enterprises operating in the traditional mode and producing goods mainly for the demand of the rural people are suffering from lower profit generation. These enterprises are also consuming locally grown agricultural output and hence, are affected by the seasonality to a considerable extent.

On the other hand, the enterprises producing goods both for people of the rural and the urban areas mainly consume the secondary industrial output as the input and produce both the luxurious and the essential goods. Those products have equally strong markets both of the areas. The high profit earning goods are also very worthy in prices and in quality with the wide range of diversity. Even some of these products like the handloom clothes, dried fishes and coir products have accessibility even in the international market.

Increasing cost of production resulting from the rise in the prices of the raw materials as well as the wage rate, the throat cut competition from close substitute producing mechanized sectors, indirect marketing through the various non institutional market intermediaries which are slicing off more than 10 percent of the net profit etc. are the responsible factors that are affecting the rate of profit of the cottage enterprises.

Direct marketing and the purchase of required raw materials through the cooperatives may increase the rate of profit by reducing the cost of production. A planned way of cultivation of agricultural raw materials by applying appropriate technology may boost up the total production of those. At the same time, the storage facilities should be provided. These may be very helpful by ensuring the competitive prices and the year round supply of the raw materials. For this purpose, local level government procurement, agricultural extension services and financing organizations can play the key role. With in the existing institutional support, it is possible to provide the required services to this sub-sector.

Product diversification through the direct supervision of BSCIC's design center is easily possible. The existing craftsmen are too efficient to work with the new design. The grass root level training facilities for skill development may be offered either by BSCIC or other government organizations or by the NGOs that are dealing with the micro credit programs.

7.6.2 Utilization of Profit

Out of total profit, 70 percent is used for the consumption purposes, while the remaining 30 percent is saved. But a lion's share of the savings is used for other purposes rather than reinvestment in the cottage enterprises. This is a factor that is jeopardizing the growth of this sub-sector.

The rate of profit is not the sole determinant factor of the rate of investment. As observed in our study areas, the bamboo and cane enterprises are incurring losses though in these enterprises investment is positive. On the other hand, in fish product enterprises, the rate of investment is only 5 percent out of 45 percent rate of profit. The maximum rate of investment from profit takes place in the engineering works enterprises, which is about 35 percent of the total profit. Table-7.9 is displaying these in details.

From the profit-investment ratio, out of Tk.12.00 profit, only Tk.1.00 is spent for the purpose of investment (on an average). From the table it is clear that the investment from profit widely depends on the initial amount of fixed capital. But, it is not the sole determinant as the average amount of fixed capital is higher in the handloom enterprises than that of sheet iron product's enterprises, but in the case of investment the situation is reverse. The same thing happens in the rest of the enterprises. Participation of unpaid family labors and the year round operation of enterprises have negative impact on profit utilization for the investment purposes. In general, the cottage enterprises being operated by the unpaid family workers, especially

by the female members. A number of the proprietors of these enterprises have different main source of income that makes them less interested in investment from profit, which is their subsidiary sources of income. Seasonal enterprises are also suffering from this sort of problem. In this case uncertain and irregular income are the basic hindrances.

Table -7.9: Profit Utilization Pattern (as the percentage of total profit).

Name Enterprises (N=90)	Rate of Profit (%)	Consumption (%)	Savings (%)	Re- Investment (%)	Savings Used in other than Investment (%)	Investment (%)	Profit- Invest- ment Ratio
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(2÷7)
Handlooms	20	59	41	20	21	4.00	05
Coir Products	07	85	15	05	10	0.35	20
Engineering Works	25	50	50	35	15	8.75	2.86
Fish Product	45	85	15	05	10	2.25	20
Mat	04	90	10	05	05	0.20	20
Sheet Iron	18	55	45	25	20	4.50	4
Bamboo and Cane	-0.25	--	--	--	--	--	--
Average	16.94	70.66	29.33	15.72	13.61	3.84	11.98

Source: Field Survey.

Thus, the pattern of profit utilization is better in those enterprises which have greater amount of fixed capital, operated year round on commercial basis by the hired labor than that of the other enterprises. In some cases, lack of product diversification restricts the new investment. Fish product, mat, and bamboo and cane enterprises are of this type. The proprietors of these enterprises are either ignorant of product diversification or it requires heavy investment to carry on, and as a result, they choose consumption of profit instead of investment. Social arrangement is not in favor of the craftsmen, as in the rural areas land ownership is the basic determinants of social status. That is why the proprietors have a general semi feudal tendency to purchase land with profit generated by the cottage enterprises. In addition to these, they have uncertainty about the future of their businesses, which also go against the desired level of profit utilization in investment.

7.7 Issues Concerned with Income Generation

A number of factors are responsible for the low productivity of labor as well as low-income generation. This study focuses on those factors depending on the findings of the field survey.

7.7.1 Input and Output Prices

In this study labor productivity is measured in terms of the value-added per workers. That is why prices paid and received by the proprietors are much responsible to determine the labor productivity. Since the independence of Bangladesh the prices of both input and output are gradually increasing. But the price hike in input is considerably higher than that of output in the cottage industry sub-sector.² In our study area it is reported that during the last five years the average input prices increased by 25.85 percent while the average prices of output have increased by 22.57 percent. The Table-7.10 is revealing the whole truth in brief.

Table-7.10: The Comparison of Price Changes between Input and Output (1997-2002).

Name of the Enterprises (N=90)	Average Rise of Inputs' Prices	Average Rise of Output Prices
Handloom	23	22
Bamboo and Cane	22	12
Coir Products	26	23
Engineering works	25	26
Fish products	35	37
Mat	28	20
Sheet Iron products	22	18
Average	25.85	22.57

Source: Field Survey.

7.7.2 Decreasing Supply of Raw-materials

Cottage enterprises are basically consumers of indigenous raw material. The prices and availability of those considerably determine net family income, employment and labor productivity of this sub-sector.

² BIDS, *op.cit.*

There is an absolute decline in the production of most of the raw materials of the cottage enterprises since the independence of the country.³ With the technological improvement in the production of competing crops, the cultivation of raw materials has become less profitable and thus unpopular. In this way, the arable land for the raw materials is squishing day after day. Similarly, a major portion of the raw materials, such as bamboo, cane, leaves for mat weaving, coir etc. in Bangladesh is grown either on the homestead or on the fallow wasteland. With the quick population growth this type of land is being used either for the habitation or for the cultivation. This down ward trend in the supply of raw materials causes the price push and a decline in the productivity of labor through reducing the volume of value-added.

7.7.3 Marketing of Input and Output

As discussed in the previous chapters, the marketing problems of the cottage enterprises are concerned with the purchase of the raw materials and sales of the output produced. In the absence of proper and direct marketing the middlemen are slicing off a lion's share of the actual value-added. As a result, the prices of raw materials become higher and the payments received from the sale of final output become lower. The consequence is the lower amount of value-added as well as the lower productivity of labor. The direct marketing can ensure more profit than those enterprises earn through the existing indirect marketing by involving the middlemen.

7.7.4 Low Capital Intensity

Most of the cottage enterprises have very low capital intensity and modern machinery is not used in many enterprises. But, it is generally observed that there is a positive relationship between the labor productivity and capital intensity. Thus, the poor capital intensity results in poor labor

³ The Asian Employment Program, *Employment Expansion through Rural Industrialization in Bangladesh: Potentials, Problems and Policy Issues*, (Bangkok: May 1985), p.36.

productivity. Quality of labor is another factor affecting the productivity. Generally, the skilled workers are more productive than that of unskilled workers. Through the introduction of proper training it is possible to improve the labor productivity. But it is possible only when the capital investment is increased. For this purpose there is no capital investment or other type of initiative either in private or in public sector.

7.7.5 Demand of the Output Produced

The cottage enterprises produce those goods and services, which have positive income elasticity.⁴ In rural areas, with the rising income the demand for the cottage industrial products increase. In the recent days, despite the rapid increase in the per capita income the overall living standard of the rural people did not increase due to the uneven distribution of income is still uneven. As a result, the sales of the products are not increasing as per the expectation. Though the demand for the goods of this sub sector is considered as the luxurious ones, yet it is gradually expanding in the urban areas. But it is also inadequate in all regards.

7.7.6 Competition with the Large and Medium Scale Industries

In the rural areas the people with the increasing income have a propensity to replace the cottage industrial products by the close substitutes manufactured in large or medium scale industries. This inclination is much acute among the rural elites and educated people. In addition to these, the substitutes of cottage industrial products manufactured by the large medium and small-scale enterprises are cheaper in price having the uniformity in the quality. It happens as the latter enjoy the advantage of scale of production. It leads to lower prices, profits and value-added, as well as lower productivity of labor.

⁴ Bangladesh development Studies (1981), *op.cit*.pp.141-142.

7.8 Productivity of Capital:

Productivity of capital is measured at the value added per Taka of capital investment in the cottage industries. It is moderately satisfactory. In this study, only the fixed assets have been considered as capital with the assumption of five years' longevity for machinery and twenty years' for other capital goods including workshop and other sheds.

As most of the cottage enterprises are located in the homestead of the proprietors, there arise a number of peculiarities in marking the valuation of fixed assets, especially in the cases of sheds and rooms, which are used both for housing and commercial purposes. In the cases of cottage enterprises it is a very common feature indeed. Under these circumstances to estimate the value of the fixed assets in actual term we have just considered the half of the total value of those.

This study observes that there exists a wide range of variations in the cases of capital productivity of the cottage enterprises. Maximum productivity Tk.15.88 per Taka of investment is found in the coir product enterprises and minimum Tk.2.41 per Taka of investment in the engineering works. But the average capital productivity as a whole is estimated at Tk.6.8 per Taka of investment. There is no strong relationship is yet observed in this study between the amount of capital investment and the productivity of capital. Some of the cottage enterprises like bamboo and cane, coir products, b and mat weaving enterprises have higher capital productivity than that of the others.⁵ That is to say, the less capital-intensive enterprises of small in size are more efficient in utilizing capital, which is costlier in Bangladesh. On the other hand, in the perspective of the present study, engineering works is more capital intensive though the productivity of capital is minimum here.

⁵ Finding of the Field Survey.

The cottage enterprises with the fixed capital of around Tk.2500 have higher capital productivity than that of others. So, it may be concluded that up to a certain level of capital intensity the productivity of capital is much higher. The following Table-7.11 is revealing it more precisely.

Table-7.11: Value-added per Tk. of Capital Investment.

Name of Enterprises (N=90)	Fixed Capital	Value- Added (weekly)	No. of Working Days	Value-Added (yearly)	Value-Added per TK. of Investment
(1)	(2)	(3)	(4)	(5)	6=(5 / 2)
Handlooms	35500	2700	240	92571	02.61
Bamboo and Cane	2850	600	240	20571	07.22
Coir Products	1700	900	210	27000	15.88
Engineering Works	80000	4500	300	192857	02.41
Fish Product	10400	2000	180	51428	04.95
Mat	2000	800	150	17142	08.57
Sheet Iron Products	20000	3000	270	115714	05.79
Average	21778.57	2071.43	227.14	88591.57	06.78

Source: Field Survey.

It is traditionally argued that labor intensive activities use not only more labor but also more scarce capital, and hence, there may be a conflict between the objectives of the maximization of output and employment.⁶ The correlation coefficient between the labor intensity and capital productivity is estimated at -0.59, which means that higher is the labor intensity lower will be the value-added – fixed capital ratio. Poor labor productivity of specially the female along with the inefficient management is responsible for this. Thus to improve the amount of value-added as well as employment, labor efficiency and managerial efficiency should be improved.

7.9 Conclusion

The cottage enterprises are the main sources of income for most of their proprietors. This is a positive determinant for its development as it gets proper attention from their owners. But, when these enterprises serve as the

⁶ The Bangladesh Development Studies (1981), *Op.Cit.*, p.146

source of income other than primary, the owners in some way carry on the task of operation instead of making their enterprises commercially viable. As observed in the present study, most of the mat, coir, and bamboo and cane products' enterprises are operating non-commercially and serving as the non-primary source of income. The unpaid family workers, especially the female overwhelms these enterprises. The wages of skilled workers are more or less reasonable but the payment to the unskilled workers is inadequate as compared to the agricultural wage laborers. As a result, mainly the female workers are found to work as the unskilled workers having no alternative scope of employment.

There is also wage discrimination against the female workers, which is about 35.50 percent in the case of skilled workers and 19 percent for the unskilled workers. It is largely the consequence of weak bargaining power as well as the limited employment opportunity of the women. The average amount of value-added in this sub-sector is not good enough. Some of the enterprises like bamboo and cane, coir and mat products are in very poor situation. Seasonal operation, higher price of input but lower price of output, indirect marketing through intermediaries, deficiency in product diversification and inadequate investment are the major bottlenecks here. In fact, these factors are also responsible for low labor productivity.

On the other hand, capital, the scarce factor of production in Bangladesh has the better productivity in this sub-sector. The enterprises earning better profit, are operating more commercially by hired and skilled labor, improved mode of production, year round operation, curbing down the cost of production through direct procurement of raw-materials and enhancing the revenue by direct marketing. The better profit making enterprises are comparatively large in size with the higher employment and greater capital investment. The reinvestment from profit is minimum. Only 16 percent of the total profit is reinvested, though the savings is about 30

percent of the total profit. A half of the savings is spent for the other purposes like the purchasing of arable land, poultry and cattle, and in some cases the profit is also used for business purposes. Thus, the low labor productivity, less attractive profit margin, inadequate wage for the unskilled workers, wage discrimination on the basis of gender and subsistence level of operation are the basic problems of income generation in this sub-sector.

On the other hand, proper return to the capital, wider scope of demand for the output produced through product diversification, participation of female workers in income generation activities, utilization of unemployed family workers in economic activities and solving of the problems through the institutional approach are the best possible solution of income generation in this sub-sector.

CHAPTER-8

SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

8.1 Preambles and Methodology

About 50 percent of the total population of Bangladesh are living below poverty line and among them 50 percent are in a critical situation. Unemployment is a major responsible factor for this massive poverty. So, the government, politicians, economists, intellectuals, non-government organizations, and various development agencies are now emphasizing much on generating more income through productive employment.

If the socio-economic facts, mentioned earlier, are considered, non-farm economic sector like cottage industry sub-sector normally reveals its brightest potentialities as a source for creating income and employment at a minimum cost. As a non-farm source for generating additional income and seasonal employment, cottage industry is very popular among the rural people. This sector offers full-time employment for the traditional craftsman and landless rural poor, specially, for the distressed women. The participation of the rural female in the cottage industrial activities is very significant in all respects.

In the light of resource endowment and other socio-economic realities of Bangladesh, small-scale and cottage industries should have formed the base of her industrial development. Unfortunately, industrialization strategies pursued in the country have historically assigned a peripheral role to those industries and no serious effort has been expended to provide them with adequate promotional assistance. Because of these reasons, the contribution of this sector in generating income and employment is not up to the expectation despite of its potentialities in this regard. Its inadequate performance against desired level, made us interested to know problems and prospects of this sub-sector in income and employment generation.

Again, the cottage industry sub-sector is considered as a solution for the unemployment problem of rural areas. But, the prospects of income and

employment generation in this sub-sector, is yet to analyze from the pure economic point of view, because of its essentiality in designing proper and meaningful plan for development. This study has made an attempt of investigating in to and identifying the problems as well as prospects of income and employment generation in the cottage industry sub-sector of the economy of Bangladesh. Some relevant solutions to the identified problems has been recommended through this study with a view to assist policy makers to design a proper economic policy to deal with this sub-sector. This research has discussed the present state of employment in the cottage industry sector and examined its potentiality to create long-run income and employment at a minimum cost.

This research has used both primary and secondary data and combined both primary and secondary data to a suitable extent so that the objectives of the study could be realized. To study handloom industries, Sherajgang, Kushtia and Tangail-districts were selected, as most of the looms are located in these areas. Then one *upazila* from each of these three districts; and one village from each of these three upazilas; while 10 handloom industries from each of these 3 villages were selected on the basis of stratified sampling. Considering the volume of employment, investment and income generation, the stratification was made here. In this way, this proposed research studied 30 handloom units intensively.

On the other hand, to study cottage industries other than handloom, six districts- one from each of the six divisions were selected by using purposive sampling techniques. This selection was made on the basis of the concentration of cottage industries in selected areas. Factor endowment and regional significance were also considered in this selection. These 6 districts are: Cox's Bazar, Dhaka, Rajshahi, Jhalkathi, Satkhira, and Sylhet. One *upazila* from each of these six districts was selected for the study depending on the concentration of cottage industrial units. In this way 60 industries

were studied to collect data. Finally, this research surveyed in total 90 industrial units intensively in order to identify their problems and prospects in income and employment generation.

The respondents were interviewed through a "Structured Questionnaire". But the data placed against the particular enterprise represent the average of each individual sample unit. Moreover, some concerned officials, bankers, policy makers and economists were interviewed for attaining their opinions on various related issues. In the case of secondary data, various reliable and authentic published materials were used.

8.2 The Growth Trend of the Cottage Industries

The growth trend of cottage industries is discussed here by using the secondary data. Through data analysis it is found that during the last 30 years the number of cottage industrial units increased at the average rate of 2.25 percent per year. But in the period 1990-1995, the rate of increase declined to 1.7 percent, which recovered in 1995-2000 and reached at the level of 3.5 percent. On the other hand, In the case of handloom during period (1985-90) the number of operational looms increased from 1.32 percent to 3.87 percent. Again in 1995-2000 this sector grew upwardly after facing a recession in 1990-95.

About 67 percent of the industrial employment is provided by this sub-sector. In the last three decades the average growth trend of employment in this sub-sector was 2.53 percent. But the growth rate of employment in the cottage industries contracted from 3.13 percent in 1970-80 to 2.38 percent in 1995-2000. The situation will be worsening if the handloom sector is set aside out of consideration. On the other hand, the contribution of this sub-sector to GDP has increased from 1.1 percent to 4.2

percent during the same period. But in the same period the growth rate in large and medium scale industrial sub-sector increased from 1.7 to 11.20 percent.

In this way, the present growth trend of cottage industry sub-sector is mixed as in some cases it has decreasing growth rate while in other cases its growth rate is increasing.

8.3 Review of Government Policies

All the five-year plans had some common objectives and strategies. Among those common objectives, poverty alleviation, employment and income generation, development of labor intensive industrial activities in rural areas to absorb excess labor force, achieving high rate of over all economic growth, and accelerating the industrial development were the main.

In the First and Second Five-Year Plan agriculture was assigned the maximum priority to generate income and employment for the growing unemployed labor force. To attain this end, government had designed development programs including and reform, introduction of HYV technology, expansion of irrigation network and so on. But, all these programs had boosted up agricultural production merely without increasing the scope of employment. Since the Third Five Year Plan non-firm economic activities have been getting much priority to provide employment to the unemployed people in the rural areas. As a result, for the development of cottage industries the participation of government and non-government agencies increased very quickly during this period. In fact, development of cottage or rural industries has become an integral part of rural development now.

In the First Five Year Plan government was mainly busy to manage

and operate large and medium scale industries most of which were in nationalized sector. The success of the nationalized sector was treated as the political success of the government. Therefore, lion's share of the public sector investment for industrial development went to the large and medium scale public sector industries. Though government emphasized the development of small and cottage industries but this sector neither got adequate allocation nor proper programs were designed for those. Government wanted to improve and rehabilitate cottage industries through private sector investment and in such a case the role of public sector was just promotional, though it was very much essential to rehabilitate this sub-sector as the war destroyed cottage industries located in the countryside. Infrastructural development, restoring the economic order and proper subsidy for the development of small and cottage industries were urgent tasks to be performed by the government. Unfortunately, to meet this end in First Five-Year Plan no clear-cut program was declared. Among the various the various rural economic sectors, only the agricultural sector succeeded to attract the attention of the planners. But this sector was less affected by the war. Moreover, the commercial and specialized Banks, which were under public sector, had no special credit program to provide small and cottage industries with proper credit. At the same time to protect the handloom sector from the unequal foreign competition protective tariff measures tariff measures were under taken.

The two-year plan was designed just to realize the unattained targets of first-year plan. This plan admitted the failure of large-scale industries to generate employment and income during the FFYP period. Therefore, in the TYP, government extended its programs for the development of small and cottage industry sub-sector and for this purpose in addition to BSCIC, Handloom Board, Sericulture Board, Ministry of Home Affairs and Women Affairs were engaged. Thus in TYP, for the first time cottage industry

development issue was considered as a part of rural development. But among these government agencies, there was a lack of co-ordination. As a result, planned and quick development of the cottage industries was not achieved. But commercial banks were instructed to provide credit facilities to the rural industry sector and it was something very desirable in the context of reality.

In the second Five Year Plan local level planning for the development of SCI was proposed and for this purpose BSCIC offices were decentralized to the district level and activities of other government agencies concerned with the SCIs including BSB and BHB were also decentralized to the grass root level. A good number of new government and non-government organizations began to work for this purpose. To co-ordinate the activities of these organizations, the government decided to set up a high level National Co-ordination Council. At the same time, Sonali, Janata, Krishi and Shilpa Bank were instructed to finance this sub-sector deliberately. During this plan period silk industries showed better performance and for their development a good number of program were implemented. On the other hand, the hill tracts of the country enjoyed the tremendous development of cottage industries under the special program for those areas.

In the Third Five Year Plan a priority list for the development of cottage industry was chalked out and the development of cottage industries was considered as the major strategy to root out poverty from the rural areas of the country through creating productive employment. In TFYP, the authority viewed this sector as the most potential one to generate non-farm employment. For the development of SCIs, programs were designed and implemented at upazila level. For the development, improvement and adaptation of local indigenous technology, in TFYP some special measures were proposed. Under NIP some concessional facilities were offered to the owners of small and cottage industries.

In the Fourth Plan employment generation and poverty alleviation were the major objectives, and the agricultural sector had lost its importance to the planners for the first time as a source of employment generation and non-farm economic activities received absolute priority in this connection. For the development of this sector the activities of BSCIC was rearranged along with BSB and BHB. Some initiatives were taken to diversity the production of cottage industries through the supply of new and updated designs. Service center, were set up at the upazila level for providing required assistance to the small and cottage industry sub-sector.

In the Fifth Plan some measures have been proposed to develop these industries, and these measures are almost promotional rather than rehabilitation of the cottage industries. In this plan, priority has been assigned to the development of handloom and sericulture by considering those as the backwardly linked industrial units of export oriented garment industries. It has been expected that the government through its mission in abroad would be able to find out the international market for the product of cottage industries especially for the handloom products.

In all the plans, the cottage industry sub-sector has been considered as the agro-supportive, agro-product processing and domestic consumer goods producing industries for the rural market only. In the plan, its potentiality to produce raw materials for the large and medium scale industries has been realized. But there was no initiative in linking these industries with the large-scale industries. These may play the supporting role both in agriculture and large industrial sectors. The dependence of cottage industry sector on agricultural sector has made its growth slow. At the same time, small and cottage industries have failed to establish linkages between agriculture and large industry sector due to wrong policy measures. In fact, in almost all the developed and developing countries, agricultural sector is related to the large manufacturing sector through

small and cottage industry sector. But in Bangladesh, such linkages are absent and to establish that no program was undertaken even in the Fifth Plan. As a result, our large-scale industries have no subcontracting industries and hence have to depend on imported raw materials, which have made this sector less cost effective. The Government should provide technical and financial assistance to the large-scale industrial sector to set up sub contracting industries, but in any of the five-year plans; the government did not have that objective. This negligence is now treating as the major obstacle to the balanced and sustainable industrial development.

The Government has yet taken any policy to set up cottage industrial estates in the rural areas. The industrial estates of BSCIC are situated in district level or in semi urban areas and these cannot attract the owners of cottage industries who live mainly in the rural areas and considerably depend on agriculture. In addition to this, the cottage industries are not provided with credit facilities and raw materials. The financial institutions cannot cover the credit requirement and loan-sanctioning process of those banks credit. The BASIC Bank has been set up to finance the SCI. But its operation is very limited on the other hand. The existing commercial bank both in private and public sector, are not interested to allocate credit for the cottage industries though in that case the loan recovery rate is very satisfactory. While reviewing the plan, no clear-cut policy or program was found to finance this sub-sector.

Again, there is lack of co-ordination among the various government and non-government organizations working for the promotion of this sub-sector. Government only showed its interest to help the weaver's co-operatives but neglected that of the other craft men. Co-operative movements in this field may help the sustainable development of cottage industries. Though the NGOs are organizing people into groups, but their efforts are like a single to the ocean and those groups have failed to sustain

development.

All the industrial policies had a common objective of generating more employment and income in the industrial sector. But to achieve this end, the policy makers did not pay proper attention to the development of small and cottage industries, which have maximum potentialities in this regard. In fact, our industrialization policies were biased in favor of capital-intensive large-scale industries. This biased industrial policy failed to develop local technology in industrial sector and increased the dependence on imported raw materials and other inputs for industrial development. It was highly favored by the tax structure of the country also.

Small and cottage industry sub-sector was highly neglected in the industrial policies. The industrial policies so far implemented in Bangladesh just provided leap services to the small and cottage industries sector. Government had no farsighted program or policy measures for this sub-sector. Half of the total contribution of industrial sector comes from this sub-sector. But this sub-sector never gets more than 20 percent of the total investment made by the government. No initiative was taken to attract foreign investment in this sector. To modernize this sub-sector government under took no effective measures. As a result, this sub-sector is now in the verge of ruin. But if the decision makers were cautious, this sector would play vital role in income and employment generation.

Finally, the neo-classical type industrial policies so far adopted by the government were ambitious one but devoid of realities. The policy measures were aimed at industrializing the economy through the development of large-scale industries. But in the context of Bangladesh it was a wrong thinking. The necessity of income and employment generation was admitted in all the policies, but no proper initiative was taken to develop those industries, which had potentiality to generate income and employment.

8.4 Financing of the Cottage Industries

It is found in our study that out of 90 industrial units only 16 have fixed assets above Tk.100 thousands. These industries include the handlooms having five or more looms and some of the engineering works, which are using valuable machinery. Overall fixed capital involved in this sub-sector is very low. Because of the low rate of wage, prevalence of unpaid workers and about 70 percent of the working capital spent to procure raw materials. More than 80 percent of the initial capital is accumulated from the personal sources of the owners, while the rest is provided by the various institutional and non-institutional sources. In the case of working capital 47 percent is financed from the own earning of the industries. Out of the rest, 35 percent of the requirement is met by the non-institutional sources. In any of the cases, the institutional sources never provide more than 18 percent of the total capital requirement. However, it is a good sign that the owners are meeting a lion's share of their total capital requirement.

Credit is one of the basic requirements for the smooth and year round operation of the cottage industries. For the procurement of raw materials, marketing of the output produced, and payment of wages, short-term credit is required. On the other hand, long-term credit is needed for expanding the industrial plant, renovation of existing plant and modernization of the mode of production. In fact, the short-term credit is basically required to maintain the present level of income and employment by reducing the exploitations of the middlemen and moneylenders. While the long-term credit is a must to expand fixed capital of the industries, which will generate more income and employment. Generally, the proprietors of small industries having low income and operating at the subsistence level are more interested to get short-term credit. On the contrary, well to do owners seek for the long-term credit for their industries. In our study, it is found that the amount of credit requirements varies from the enterprise to enterprise. On an average the

modal capital requirement is Tk.80000 as the long and medium term credit, while the amount of the short-term credit requirement is about Tk.5000.

The profit requirement is the crucial determinant of employment generation. This study has observed that the desired rate of interest of the owners is very low. But the actual rate varies from 55 to 25 percent. More over the withdrawal of interest subsidy policy of the government has further worsen the total situation. In addition to these, high collateral demanded by the financial institutions, cumbersome official formalities, lack of information, inadequate bank branches in the rural areas etc. are restricting the industries to borrow from the institutional sources.

From the side of the financial institutions it is argued that the cost of administering small credit is higher and recovery is very low. So, it will not be economically viable for them to lower down the present rate of interest, and they are not provided with the interest rate subsidy. Again, the industries are incapable of submitting the required collateral, which raises the risk of default, and as most of the cottage industries do not keep records of their financial transactions, it becomes difficult to scrutinize the loan applications as argued by the authority of the financial institutions. Though some of the financial institutions have small industry financing department, but those are not properly equipped with the trained manpower.

Anyway, inadequate finance is one of the basic problems of income and employment generation. But, as the credit requirement in this sub-sector is not very high, it is very possible to meet the credit demand of the industries through the existing organizational setup of the GOs and the NGOs just by providing these bodies with proper guideline and instructions of operation.

8.5 Marketing Problems of the Cottage Industries

There are two aspects of marketing in the in this sub-sector. One is the procurement of raw materials and another is the selling of output produced. In both of the cases direct marketing is always profitable from the producers' point of view.

It is found in our study that about 63 percent of the industries are dependent on the domestically grown agricultural output as the raw materials, and only 11 percent depend on imported raw materials. Thus, through the internal market mechanism, it is possible to ensure the proper prices of the raw materials. In our study it is found that 45 percent of the industries are procuring raw materials either directly form the producers or from the whole sellers at a comparatively lower prices. For the procurement of raw materials the rest 55 percent are dependent on retailers or *mahajans* who use to exploit the owners by charging very high prices. This is on the one hand reducing net income by raising higher cost of production as well as the prices of the output produced that push down the demand, on the other hand, it is discouraging the employment generation. Especially, 32 percent of the industries that are procuring raw materials through the *mahajans* on credit face double-edged deprivation. On the one side, they have to pay higher prices for the raw materials, on the other side, they are receiving lower prices for their output produced because of the unfavorable agreement with the *mahajans*.

More over, the production of agricultural raw materials is gradually declining because of increasing cultivation of food crops instead of cash crop. This is also pushing up the prices of the raw materials. In adequate financial assistance, insolvency of the owners, small-scale operation, location of the industries and shortfall in the production of the raw materials are basic reasons behind the indirect procurement. In our study it

is observed that the cottage enterprise with the small quantity of production is more dependent on the indirect procurement of the raw materials.

In the case of output marketing, it is observed that only 18 percent of the industries directly sell their product to the consumers and the rest have to depend on the various channels of marketing. Still now about 32 percent of the proprietors are dependent on the *mahajans* to sell their products. The quality, quantity and demand of the product, location, mode of transportation and economic position of the proprietors play vital role in the case of direct marketing. Generally, the directly marketed products are very poor in quality and mainly used by the local people. Small sized handlooms, bamboo and cane and mat making industries are involved in direct marketing. But in this regard, engineering works are the most successful as those can provide the services directly to their customers in most of the cases. Direct marketing is almost absent in the cases of fish and sheet iron products.

As found in the field study, 92 percent of large cottage industries sell their products indirectly, while it is 87 percent for medium and 59 percent for small-scale cottage industries. That is to say, larger is the size of enterprise higher will be its indirect sale. It happens as the proprietors producing larger quantity of marketable surplus, find it less cost effective to market directly. On the other hand, the proprietors with the small marketable surplus can sell their products directly at a minimum marketing cost, which is of course less than the reduction of revenue caused by the indirect sale. In this study it is estimated that indirect selling on average causes 25 percent the loss of revenue.

8.6 Problems and Prospects of Employment Generation in the Cottage Industries

This study observes that among the employed 72 percent are primarily involved in this sector. If the employment in this sector is viewed from the viewpoint of male-female ratio than it is found that about half of the total employed workers are female. The nature of job in this sub-sector highly encouraged the women to work. Generally, the cottage industries are labor intensive. The average working and fixed capital per worker is Tk. 830.15 and Tk.3801.03 respectively. On an average each of the enterprise has 4.65 number of workers. The more capital-intensive industries operating commercially employ more workers than that of the others. In this study maximum employment is found in the engineering works and minimum at mat product industries. Most of the cottage industries are operated seasonally. As a result, the average yearly working day is found 227 and average working hour is only 38. But the 67 percent of the workers are employed in this sub-sector for the full time and they have no other alternative job. Generally, women are mostly part time workers and they are large in number in those industries that are less capital intensive and producing less worthy output. The family workers dominate this sub-sector and they are about 65 percent of the total workers.

A number of problems hampered employment generation. Most of the cottage industries are financed from the internal sources as the proprietors have very limited access to the institutional credit sources. At the same time they have little interest to avail credit from the non-institutional sources that charge very high rate of interest. On the other hand, for the generation of new employment, permanent investment is a must. To finance permanent investment, long-term institutional credit is required.

Many of the industries are dependent on agricultural raw materials that are produced seasonally. Due to inadequate financial support and

storage facilities, it becomes impossible to maintain a good stock of raw materials so that the industries could be in operation during off-season of agricultural raw materials. In fact, this is one of the vital issues which is responsible for part time employment in this sector as it is possible to a considerable extent to provide full time employment opportunities to the existing part time workers without new capital investment but by providing credit and storage facilities.

Inadequate demand of the products of cottage industries are another obstacle to create more employment. The cottage industrial products are facing competition from the more mechanized small and large-scale industries, which are producing the same products with greater diversities and lower prices by enjoying the advantage of the scale of production. This sub-sector has also failed to improve the quality and the design of the products to meet the changed tastes of consumers. In the case of mat, coir products, ordinary bamboo and cane products and less worthy ordinary cloth weaving hand looms face the problem of inadequate demand which is a vital factor that works not only against the generation of new employment but also restricts the expansion of this sub-sector.

At the existing level of technology of this sub-sector, it is not possible to reduce the cost of production without which demand will never go side by side with increased supply caused by the new employment generation. Inefficiencies in using capital equipment as well as the raw materials, prices of which are increasing more than the in the price of the output are also narrowing down the scope of employment. A downward trend in the supply of raw materials, which are mostly agricultural products occurs due to the increasing interest of the farmers to cultivate the food crops; is mainly responsible for rising prices of those. Lack of skilled workers is affecting the expansion of employment. Especially, engineering- works and some classified handlooms, weaving valuable and fine clothes require skilled

workers who under take the main task of production and designing. These industries are suffering from the lack of adequate skilled labor and as a result of it, the expansions of these highly potential industries are being obstructed. More over, employment of skilled worker positively determines the employment of unskilled workers. For an example, a new loom requires a skilled weaver and three unskilled workers.

Some of the proprietors have identified high wage rate that deters them to increase the level of employment. This is the problem often observed in handlooms that are weaving diversified fine clothes of new designs and it reduces total sales as well as profit by pushing down the demand of the products trough price hike. Another thing though not mentioned by the proprietors of the study area, is income elasticity of demand, which is considerably affecting the demand of this sector in the reverse way. Most of the cottage industries' products are of inferior types and as a result, people reduce consumption of these products as their income rises. This is not the fact for those industries producing fashionable, sophisticated and fine products, which are able to satisfy the quick changing tastes of the modern consumers.

If the above-mentioned problems are mitigated to a considerable extent, this sub-sector may become the largest source of non-farm employment generation. In fact those problems may be solved very easily with in the existing capability of the government and non-government organizations. For example, the formation of effective cooperatives can curb down the problems half in number. Government has strong organizational network in the rural areas and because of it the industries are easily reachable for providing them with proper supports and services.

8.7 Problems and Prospects of Income Generation in the Cottage Industries

The cottage industries are the main sources of income for 59 percent of the employed people, though 72 percent are primarily employed in this sub-sector. As observed in the present study, most of the mat, coir, and bamboo and cane products are operating non-commercially and serving as the non-primary source of income. The unpaid family workers, especially by the female over whelm these industries. The wages of skilled workers are more or less reasonable and on an average it is about Tk.70. But the payment to the unskilled workers is inadequate as compared to the agricultural wage laborers. As a result, mainly the female workers are found to work as the unskilled workers having no alternative scope of employment. There is also wage discrimination based on sex against the female workers, which is about 36 percent in the case of skilled workers and 19 percent for the unskilled workers. It is largely the consequence of weak bargaining power as well as the limited employment opportunity for the women.

The average amount of value-added in this sub-sector is not good enough. Some of the industries like bamboo and cane, coir and mat products are in the exorbitant situation. Seasonal operation, higher price of input but lower price of output, indirect marketing through intermediaries, deficiency in product diversification and inadequate investment are major bottlenecks in this regard. In fact these factors are also responsible for low labor productivity.

The average rate of profit in the cottage industries is about 17 percent. Except the fish product, there is a clear positive correlation between the level of employment and the rate of profit. The value of the correlation coefficient is 0.43. That is to say, the labor employment and the rate of profit goes side by side. The rate of profit is not dependent on the amount of the fixed capital. Again, the male dominated cottage industries

are more profitable than that of the others as the correlation coefficient for those is 0.36. This also supports the above statement. Thus, the profit may be increased either by employing more labor or capital. But in the context of capital scarce and labor surplus economy of Bangladesh, it will be cheaper to employ more labor for this purpose. On the other hand, there is a negative relationship between the rate of profit and the female labor employment. It is due to the lack of skill, proper attention, part time operation and non-commercial management of the female dominated industries. The correlation coefficient for those is -0.50. Only 16 percent of the total profit is reinvested, though the saving is about 30 percent of the total profit. A half of the saving is spent for the other purposes, like the purchasing of arable land, poultry and cattle, and in some cases the profit is also used for business purposes. The profit-investment ratio shows that out of Tk.12.00 of profit, only Tk.1.00 is spent for the purpose of investment (on an average).

Thus, the low labor productivity, less attractive profit margin, inadequate wage for the unskilled workers, wage discrimination on the basis of gender and subsistence level of operation are the basic problems of income generation in this sub-sector.

On the other hand, proper return to the capital, wider scope of demand for the output produced through product diversification, participation of female workers in income generation activities, utilization of unemployed family workers in economic activities and the easy ways of solving problems through the institutional approaches may open the prospect of income generation in this sub-sector.

8.8 Recommendations

- (1) The government should frame a comprehensive industrial policy including this sub- sector. These industries should be categorized as sick and potential industries, and each of the categories should be provided with proper supports through the different agencies.
- (2) In the five-year plans, public sector investment allocation for the cottage industries should be increased.
- (3) The government may take initiatives to setup industrial zones exclusively for the cottage industries. These zones will be provided with financial, marketing, training and other technical as well as infrastructural facilities.
- (4) To give the products of the cottage industries more market exposer, the government should take initiatives to arrange trade fairs at the national and international levels. In addition to this, the authority should give priority to purchase the products of cottage industries in the case of public sector procurement.
- (5) To modernize this sub-sector, the government should design long-term plans. There should be a special 20 years long term perspective plan for this purpose.
- (6) By defining the cottage industries precisely, a separate board of investment as well as a corporation should be setup. This is necessary, because the nature, amount and requirements for

investment in this sub-sector is different from that of large-scale industrial sub-sector and the present Bangladesh Board of Investment is not of that nature to deal with the investment in this sub-sector. The proposed board of investment will provide the cottage industries with the required long and short term credit in collaboration with the financial institutions and monitor the process of investment by giving technical supports. Similarly this proposed board would be responsible for credit recovery also.

- (7) Modes of operation in the cottage industries are purely different from that of small-scale industries. As a result, a completely different organization is required for this sub-sector. At present BSCIC's activities are limited with in the urban areas and failed to bring about the desired changes in this sub-sector. This organization is more interested in dealing with semi mechanized small-scale industries. Similar is the performances of the BHB and BASIC. Under these circumstances, the government should reorganize and decentralize these organizations at the grass root levels.
- (8) The GOs and NGOs working at the grass root level for the promotion of cottage industries should be taken under an umbrella. For this purpose there may be an authority or corporation to co-ordinate all the activities of these GOs and NGOs for the development of this sub-sector.

- (9) The government should arrange for duty free import of raw materials, give price subsidy in the case of indigenous raw materials, low cost transport, storage and publicity facilities, interest rate subsidy to ensure credit facilities.
- (10) The production of agricultural raw materials or this sub-sector is gradually declining. To grow more raw materials agricultural research and extension services may be helpful. For this purpose credit, input, fertilizers, technical assistances and other required facilities should be provided through the department of agriculture under the guidance of the proposed authority of the cottage industries. At the same time it is essential to ensure the proper prices of the cultivated raw materials. It will not be very difficult to procure the raw materials and to sell those to the owners of the respective industries by the proposed authority.
- (11) Under the new economic world order, every sector is facing multi dimensional competition. Cottage industries are not exception and with the help of protective measures, their survivals cannot be made certain. To have better hold on the market, the product diversification, improvement of quality and innovation of new cost effective production technique and economically viable scale of production are necessary. To achieve these, the owners have to take initiatives to collect new designs and quality inputs.
- (12) A considerable number of cottage industries are being operated at the subsistence levels as the commercial attitude of the proprietors in those industries is absent. Even some of the large

cottage industries are semi-commercially operated. This attitude should be changed in order to ensure proper sustainable development of this sub-sector. In this world of economic competition there is no scope for non-commercial mode of production.

- (13) A lion's share of profit and in some cases total profit is used to finance the day-to-day expenditure of the owners and that creates acute crisis of capital in this sub-sector. To get rid of this problem production should be pushed up to the economically viable level. For this, the cottage industries may go for the joint ventures. At the same, time through the cooperatives, savings may be increased. In addition to these, to raise the present level of profit, exploitation of the middlemen should be as minimized as possible. The GOs and NGOs may play the role of market -intermediaries.
- (14) For more employment and income generation, year round operation as well as to increase the number of working days in a year are the basic preconditions. But to do it, supply of raw materials, capital support, storage and marketing facilities should be increased.
- (15) In the rural areas, female entrepreneurship should be built up. As the rural women have very limited scope to engage themselves in other economic activities, they could be engaged in the cottage industries for the full time. To make it possible, the women should be empowered with proper training and credit facilities.

- (16) It is observed that less solvent cottage industries are producing very small quantity of marketable commodities, which is not cost effective and economically viable. These industries cannot contribute to income and employment generation. In some cases, the owners are closing down their industries. Under this unfavorable situation, the owner of the cottage industries can take steps to operate their industries jointly. Their joint efforts will bring fruitful result by utilizing economics of scale in all the stages of production and distribution.
- (17) Cottage industries should be linked with the mechanized industrial industries. For this purpose, the owners of both the sub-sectors will have to setup a commercial relationship. In this case government will have to play the role of moderator. At the same time, in the EPZ and other industrial areas, cottage industries may be setup to support the mechanized sector. This will help the balanced industrial development.
- (18) Micro credit may be most effective measure to finance the cottage industries. Presently, small trade, services and agricultural activities are the major beneficiaries of micro credit program. Self-employment creation is the target of the program with a view to eradicate poverty. But, if it is redesigned specially for the cottage industries, employment generation will be several times higher. Thus, the micro credit program can support this sub-sector very effectively. In fact, the requirement for the working capital of this sub-sector may be met through the micro credit to a considerable extent.

- (19) Marginal productivity in this sub-sector is low and it is a discouraging factor for income generation. The wage is also low because of it. To raise productivity of workers as well as owners, proper training essential which can ensure the efficient utilization of raw materials and capital.

8.9 Conclusions

The cottage industrial sub-sector is the largest non-farm source of employment and income generation. During the last three decades the growth trend of this sub-sector was positive though not very satisfactory. The number of employment went up but the growth in the value-added of this sub-sector was not up to the mark. Abundance of unpaid, underpaid, inefficient and part time workers along with the subsistence level operation of the industries are responsible for this situation.

Lower capital intensity, proper return to the capital, wider scope of demand for the output produced through product diversification, employment of female and unskilled workers in income generation activities, new employment generation at a lower cost, utilization of unemployed family workers in economic activities, the use of domestically produced raw materials may solve the problems to some extent. The institutional approaches may open the further prospects of employment and income generation in this sub-sector.

To generate more employment and income in this sub-sector, trained workers along with the commercial operation, direct marketing, diversification of the output produced, proper capital investment, employment of trained workers and institutional support are the basic prerequisites.

It is anticipated that if the above-mentioned recommendations are followed with due care and attention it is possible to generate more employment and income in this sub-sector. In fact the implementation of above recommendations not only help this sub-sector, but will ensure the strong base for the overall industrial development of the country. Of course, there are a number of problems in this sub-sector regarding employment and income generation but almost all of the problems can be solved if GOs and NGOs give their proper attention to this sub-sector. To achieve this end, we need not to bring about revolutionary and massive changes in either in this sub-sector or the institutions working here.

Cottage industries are not a back dated concept. This sub-sector is always helpful for the mechanized large-scale industries with which those have potential linkages. In Bangladesh the employment and income generation is possible in this sub-sector, if it is nursed properly.

8.10 Scope for Further Research

The cottage industry sub-sector is very large. It comprises of many industries scattered over the distant places of the country. Nature of operation varies from one type to another type of industries. That is why it is next to impossible for a single research to cover all the industries or all the issues of this sub-sector in a meaningful way. More over, this study mainly focuses on the income and employment issues of the cottage industries by keeping other things out of its preview.

In the light of the experiences of present study, some ideas for further researches are given below:

- (1) A full-fledged study on the labor and capital productivity in the cottage industry sub-sector can be under taken.

- (2) The potentiality of the products of cottage industries in the domestic and international market may be studied through an intensive research.
- (3) The possibility of this sub-sector to serve as the forward linkage industries of mechanized sub-sector may be studied.
- (4) The pattern of consumption of cottage industrial goods can be an issue of research.
- (5) A research can be carried out on the technology transfer issue in this sub-sector.
- (6) The prospect and hindrances of female entrepreneurship in this sub-sector may be separately studied.

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APPENDICES

Appendix-1 to Chapter-1 Questionnaire-1

For the Owners and Workers of the Cottage Industries

(All information will be used for the research purpose only and these will be kept in secret)

1. Identity of Researcher

- 1.1 Name of the Researcher :
1.2 Name of the Supervisor :
1.3 Name of the Institute :
1.4 Purpose of the Study :
1.5 Serial No. :
1.6 Date :

2. Location

- 2.1 Division :
2.2 District :
2.3 Thana :
2.4 Union :
2.5 Village :

3. Information on the Selected Village :

- 3.1 No. of Population : (a) Male (b) Female
(c) Children (d) Total
- 3.2 Major Economic Activities : (a)
(b)
(c)
- 3.3 No. of Hats / Bazars :
- 3.4 Electricity (a) YES (b) NO

3.5 No. of Educational Institutions: (a) Primary Schools
 (b) High Schools
 (c) Collages

3.6 Rate of Literacy (%) :

3.7 Religion of the People : (a) Muslim
 (b) Hindu
 (c) Others

4. Information on the Cottage Industries of the Selected Village

4.1 No. of Cottage Industries : (a) Seasonal
 (b) Year Round
 (c) Total

4.2 No. of Employment in Cottage Industries : (a) Male
 (b) Female
 (c) Child
 (d) Total

4.3 Information on 10 Selected Industries

Name of Industries	Name of Proprietor	No. of Workers	Name of Product	Year of Establishment
1)				
2)				
3)				
4)				
5)				
6)				
7)				
8)				
9)				
10)				

5. Information on the Physical Structure of the Selected Industries :

5.1 Name of the Industry :

5.2 Name of the Proprietor :

5.3 Type of Ownership : (a) Family

(b) Individual

(c) Partnership

(d) Co-operative

- 5.4 Location fo Industry : (a)
- (b)
- (c)
- (d)
- (e)

- 5.5 Work-shop Description:
-
-
-
-

- 5.6 Type of Industry :
-

- 5.7 Period of Operation : No. of Months
- Name of Months

from	to

5.8 Machinery

:No. of Powered

No. of Non Powered

No. of Animal Powered

Manual

Total

5.9 Name of the Product/s :

5.10 Type of the Product :

Consumer goods

Final used domestically

Final but export

Final but non commercially used

Intermediate product used by the domestic

Industries

Intermediate but Export

5.11 Name of the Major Raw Materials Used:

5.12 Sources of Raw materials: Local agricultural

Domestic agricultural

Non agricultural but domestic

Imported

6. Information on Proprietor / Worker

6.1 Identity : (a) Name of the proprietor/worker

b) Age

c) Sex

d) Religion

e) Education

f) Training

g) Family Member :

Male

Female

Child

h) Working member :

Male

Female

Child

i) Member/s are Employed in :

j) Members Going to :

6.2 Information on Income GeneRation :

a) Gross Annual Income :

b) Sources Income :

c) Annual Savings :

d) Does the Proprietors Work as

e) Is the Enterprise his Family Tradition :

6.3 Land ownership : a) Total
 b) Inherited
 c) Arable
 d) Non-arable
 e) Others

6.4 Description of Residence: a) Area :
 b)
 c) d)
 e) f) g)

h) i) j) No. of Poultry birds **7. Information on Employment**

7.1 No. of Employment :

Male	
Female	
Child	
Total	

7.2 No. of Full -time Workers :

Male	
Female	
Child	
Total	

7.3 No. of Part-time Workers :

Male	
Female	
Child	
Total	

7.4 No. of Working Hours Per-day :

7.5 No. of Working Days in an Week :

7.6 No. of Full-time Hired Workers :

Male	
Female	
Child	
Total	

7.7 No. of Part-time Hired Workers :

Male	
Female	
Child	
Total	

7.8 Unpaid Workers :

a) No. of Full-time Unpaid Workers :

Male	
Female	
Child	
Total	

b) No. of Part-time Unpaid Workers : Male

 Female

 Child

 Total

7.9 Skilled Workers

a) No. of Hired Skilled Workers : Male

 Female

 Child

 Total

b) No. of Unpaid Skilled Workers : Male

 Female

 Child

 Total

7.10 UnSkilled Workers

a) No. of UnSkilled paid Workers : Male

 Female

 Child

 Total

b) No. of UnSkilled Unpaid Workers : Male

 Female

 Child

 Total

7.11 Literacy of Workers

a) No. of Paid LiteRate Workers : Male

 Female

 Child

 Total

b) No. of Unpaid LiteRate Workers : Male

 Female

 Child

 Total

7.12 Apprentices Workers

a) No. of Paid Apprentices Workers :Male

 Female

 Child

 Total

b) No. of Unpaid Apprentices Workers :Male

 Female

 Child

 Total

7.13 Requirement of Workers

a) No. of Skilled Workers requirement :Male

 Female

 Child

 Total

b) No. of Un-Skilled Workers requirement :Male

 Female

 Child

 Total

c) No. of Apprentices Workers Requirement : Male

 Female

 Child

 Total

8. Wage Rate

8.1 a) Wage Rate of Skilled Hired Workers : Male

 Female

 Child

b) Wage Rate of unSkilled hired Workers : Male

 Female

 Child

8.2 a) Wage Rate for Skilled Family Workers : Male

 Female

 Child

b) Wage Rate of Unskilled Family Workers : Male
 Female
 Child

8.3 a) Wage Rate of Hired Apprentices : Male
 Female
 Child

b) Wage Rate of Family Apprentices : Male
 Female
 Child

c) Is Wage Rate Sufficient/ High / Low : Yes No

d) Why or why not :

e) Do you Want to Leave this Job : Yes No

f) Why / Why not :

9. Information on employment Generation

9.1 Employment Creation : a) Possible Yes No.

b) How/Why not :

c) What Types of Workers are Demanded Most :

d) Why :

9.2 Problems of Employment Generation:

- : Lack of skill labour
- : In efficient supply
- : High wage Rate
- : Price of the product is low
- : Demand of the product is low
- : Financial incapability.

10. Investment :

10.1 Capital :

- a) Total capital
- b) Fixed capital
- c) Working capital
- d) Capital per worker

10.2 Sources of Capital Accumulation :

- a) Personal savings
- b) Bank loans
- c) Borrowing from the relatives
- d) Loans from NGO's
- e) Loans from money Lenders

10.3 New Investment:

- a) Are you interested to Invest more

☐ Yes☐ No.

- b) If Yes Why and How much :

- c) If No Why :

- d) Is it possible to increase employment through Investment :

☐ Yes☐ No

- e) If 'yes' how much capital is required for each new Employment :

- f) How many new employment creation is Possible :

- g) How can you increase your involvement :

- h) Do you want to create more employment :

☐ Yes☐ No

- i) If 'yes' then why :

- j) If 'no' then why not :

11. Cost : a) Total cost

b) Fixed cost

c) Variable cost

d) Cost per unit of out put

e) How much is paid as wage

f) Do you want to use more power driven machine instead non-powered machine

Yes

No

g) Production

Sl. No.	Items of Production	Unit	Last month		Last year		Capacity
			Quantity	Cost	Quantity	Cost	

11.1 Revenue from the Sales of the Products:

Sl. No.	Items	Unit	Last month		Last year		Channels of marketing
			Quantity	Value	Quantity	value	

12. **Information on Profit :**

a) What is the Profit per Unit of Product :

b) What is the Profit Investment Ratio :

c) Is this Ratio Satisfactory :

Yes

No

d) If 'no' how this Ratio can be increased :

e) What is the Desired Ratio :

f) What are the Problems of Generating More Profit :

13. Information on marketing

13.1 Is there any marketing problems :

☐ Yes

☐ No

13.2 If 'Yes' then are the problems :

Inadequate Demand
Import of goods
Competition with large and medium scale
Cost of production
Exploited by middlemen
Cheated by shopkeepers
Transporting cost
Credit sale
Others

13.3 Do you directly sell to the buyers :

☐ Yes

☐ No

13.4 If No then why not: Is direct sale helpful for more revenue :

☐ Yes

☐ No

13.5 Is there any financial difference between direct sale to the buyers and to the middlemen :

☐ Yes

☐ No

13.6 If yes then what is the loss per unit of product :

13.7 If No Why :

13.8 Do You have any Marketing Co-operative Association :

☐ Yes

☐ No

13.9 If No Why are You not Organising Such Association :

14. Assistance Needed :

Loan/Credit
Supply of Raw Materials
Marketing of Products
Training
Technical Service
Others Specify

15. Any Other Comments:

Appendix-2 to Chapter-1

Questionnaire-2

For the Officials and Bankers Dealing with the Cottage Industries

(All information will be used for the research purpose only and these will be kept in secret)

Identity of Researcher

1.7 Name of the Researcher :

1.8 Name of the Supervisor :

1.9 Name of the Institute :

1.10 Purpose of the Study :

1.11 Serial No. :

1.12 Date :

Location of the Office

1. Division :

2. District :

3. Thana :

4. Union :

5. Village :

Information from the Respondents

1. Name:

2. Designation:

3. Name of office:

4. Date of joining in the present place of posting:

5. Do you have any professional training: ☐ Yes ☐ No
6. If 'Yes', then is the training sufficient to deal with the cottage industries: ☐ Yes ☐ No
7. Do you have any experience to work with the cottage industries: ☐ Yes ☐ No
8. Do your family members, relatives or any of the nearest persons have cottage industries: ☐ Yes ☐ No
9. Does your office implement any program for the development of the cottage industries: ☐ Yes ☐ No
- a. If 'No', then Why:
- b. If 'Yes', then what types of program you are implementing:
- i. What types of assistances are provided:
- ii. In the case of credit:
- a. Maximum amount
- b. Duration
- c. Rate of interest
- d. Collateral and conditions
- e. How many days are required to process the application for credit.
- iii. What is number of beneficiaries:
- iv. Do you monitor the progress: ☐ Yes ☐ No
- v. Are the people interested to get assistance from your office: ☐ Yes ☐ No
- vi. If 'No', then please mention the reasons:

10. Do you think that the assistances provided are sufficient:

Yes

No

i. If 'No' please mention the reasons:

ii. How can you increasingly assist this Sub-sector:

11. Please identify the major problems of the cottage industries:

12. Please mention its prospect in employment and income generation:

13. What are the problems that you face to assist cottage industries:

14. How can your office contribute more for the development of cottage industries:

15. Any other comments: ..

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