

How to Utilise Taka 100 Crore Agricultural Subsidy Fund?

Some Preliminary Suggestions

by Rushidan Islam Rahman and Quazi Shahabuddin

THE present government is committed to promote the development of agriculture sector, and also to protect the interests of the farming community. It has been a sensible commitment in view of the fact that over 60 per cent of the country's labour force are engaged in this sector, which still accounts for one-third of the GDP. One of the policies chosen to assist the development of this sector is to provide subsidy, though the nature and extent of this subsidy has not been clearly spelt out. Therefore, the expectation was that the current budget would provide clear guidelines on this.

The current budget seems to have dispensed the responsibility through the provision of 'Taka 100-crore agricultural subsidy fund'. The fund is expected to be utilised mainly for the following purposes, as outlined in the Annual Budget Statement (1996-97): (a) To subsidize 80 per cent of interest cost on the credit for the purchase of irrigation equipment and other agricultural machinery; (b) To rehabilitate farmers affected by natural calamities; (c) To provide support for stabilizing input and output prices; and (d) To provide grants for fuel and infrastructure to command area development to encourage efficient use of irrigation equipment.

Critics of the budget had pointed out how inadequate this fund is compared to the requirement of the sector. The amount is small, only 0.8 per cent of the development budget. Nevertheless, and appropriate utilization of this fund is important because its proper utilization, and a demonstration of positive impacts emanating from appropriate utilization of this fund can justify the allocation of larger funds in the future.

The statements made in the budget are too general in nature and lacks a definite programme to ensure a productive use of the subsidy fund. Therefore, it calls for specific suggestions for best possible allocation of the fund among competing demands for rapid development of the sector. The discussion is initiated here to stimulate further thinking along these lines for alternative and better suggestions.

We begin by expressing our considerable reservations relating to item (b) above, that is utilizing the fund to assist the farmers in times of disaster and natural calamities. Using the subsidy fund for this purpose is at best 'unfair'. One does not know how severely a disaster may hit the farmers and depending on the severity of the disaster, quite a large part of the subsidy fund may be required to rehabilitate them. It will be unwise to use a 'subsidy fund', earmarked for development, for relief and rehabilitation of disaster affected people.

This brings us to the question of what is the real objective of this fund and what is actually meant by protecting the interest of the farming community. A simple interpretation will be to ensure the development of agriculture in a way that would not be promoted by the free market. In doing so, the equity aspect should receive due considerations, which requires that the small and marginal farmers can duly participate in the process of agricultural development.

We do not intend to enter into a debate here whether subsidy to agriculture is justified or not. While a whole set of arguments can be made about the undesirability of subsidy and for making the economy efficient and competitive, the urge for providing agricultural subsidy as proposed by the present government has its roots some-

where else. During the last few years, agricultural production, especially rice production has stagnated while population has been increasing, requiring about additional two million mouths to feed every year. If the country can earn enough foreign exchange through export of commodities in which it has a competitive edge and import the required foodgrains the outcome would be desirable. But if this is not considered feasible or till such time this is achieved, the country may face serious problems (e.g. sharp rise in the world price of cereals, mismanagement in the handling of the food imports and internal distribution etc.). Therefore, the attempt towards achieving self-sufficiency in food production becomes a legitimate national goal.

How can the proposed subsidy fund contribute to achieving this objective? The two proximate reasons generally identified for recent stagnation in rice production are (a) the slow-down in the expansion of irrigated area which can be attributed to the decline in the number of DTWs in operation not fully compensated by the increased use of STW in response to the privatization of the market for irrigation equipment, and (b) inadequate use of fertilizers and their unbalanced use, with adverse impact on soil fertility.

The subsidy fund, therefore, correctly identifies the irrigation equipment owners as the recipients of subsidy. Interest on the bank credit for purchase of irrigation equipment will be subsidized. This measure, even if fully successful, can have little effect on the expansion of irrigation. Use of credit for the purchase of STW has been quite insignificant. Demand for credit is limited not only because of high rate of interest, but mainly because of procedural difficulties in the procurement of the loan. Moreover, purchase of STWs are within farmers' reach without any credit support while DTWs are not profitable even with a subsidy on interest. Very few DTW has been privately purchased after the withdrawal of subsidy on the price of DTW. Therefore, it is reasonable to assume that the proposed subsidy is meant for past loans. The owner farmer can invest the fund thus saved, in expanding the area irrigated. But most likely he will have a large number of alternative uses of the fund and irrigation may not be a priority. On the other hand, the provision of subsidy on the past loans have a distorting effect in the management of institutional credit as it raises expectation that the subsidy may be extended to other categories of loans and even to cover the principal as well.

However, the amount that can be utilized for this purpose is rather small, assuming that the support is confined to repayment of past loans. The amount depends on how much loan will be repaid during the current year. During the period 1988-89 to 1993-94, about 125 crore taka has been extended by various banks as loan for the purchase of minor irrigation equipment. Assuming an average rate of interest of 15 per cent per annum, repayment of interest that will be due on the entire amount of principal mentioned above, is Taka 18.75 crore. Now, the entire overdue installments are not paid. The rate of recovery of loans during the past five years on agricultural loan has been about 17 per cent. At this rate, only 3.20 crore taka will be paid as interest on the above loan. If the recovery rate is 50 per cent, then the required amount of interest repayment is calculated to be 9.38 crores.

Even if the entire interest payment is subsidized, only a small amount of the 100 crore subsidy fund will be needed. What may be considered a good use for the rest of the fund? A subsidy on agricultural inputs? An indirect reference to this and output subsidy by way of price support have been made in the budget statement. Let us examine what choices we have on this front.

Regarding the choice between price support for output and input subsidy, the arguments generally favour the latter, as either/or policy. Without going into those arguments, one may simply refer to the failure of the past foodgrain procurement programmes in this country to support the farmer during the harvest period. Moreover, price support can help only the surplus farmers at the expense of net buyers of rice, who constitute the largest segment of the farming community in rural Bangladesh. Input subsidy would not be recommended either if one intends to operate strictly on an efficiency criterion. But in the present context, the choices faced, as mentioned earlier, is not one of efficient allocation of resources among various sectors, but to distribute the already allocated 'subsidy fund' to ensure its optimum use in order to overcome the current stagnation in crop production and for achieving self-sufficiency in food production.

One has to consider here the subsidy on fertilizers and how it compares with subsidy on other inputs. Within the present choice set, subsidy on fertilizer can have a positive impact. Value of additional output that can be generated with a kilogram of fertilizer (the value of marginal product of fertilizer) far outweighs the price of that unit of fertilizer. Therefore, a ten per cent subsidy on fertilizers can have a net positive impact on incremental rice output in the economy. The problem of providing such a subsidy is that it will be difficult to administer.

A reduction in the mill-gate price of urea is almost entirely absorbed by the dealers. This has been amply demonstrated during the fertilizer crisis of 1994-95. It may be easier to implement a subsidy on the imported fertilizer (TSP and MP) which are also used in much smaller quantities. A wide publicity of the government subsidy will help the farmers to ensure that the traders offer the correct price. In fact, the importers enjoying the flexibility to increase the amount that can be imported, may find it profitable to lower the prices of imported fertilizer so that a larger amount may be sold which would raise their total profit.

There are additional justifications for providing subsidy to TSP and MP. Currently the proportion of urea used per hectare is more than the recommended ratio. A reduction in the price of TSP and MP will create a favourable price regime which would go a long way in correcting the current imbalance in fertilizer use in the country.

On the basis of current use of TSP (1.10 lakh tons) and MP (1.50 lakh tons) and their current prices, a ten per cent subsidy on TSP and MP would require a total fund ranging between Tk 31 and Tk 33 crore depending on the assumed values of price elasticity of fertilizer demand. The larger estimate (Tk 33 crores) has assumed a proportionate increase in the demand for these fertilizers in response to price change (unitary value of elasticity of fertilizer demand). The increase in demand may be less than proportionate; in that case, the amount of subsidy fund required is estimated to be Tk 31 crores, if price elasticity of demand is 0.5.

The most promising field where such programmes can be identified involves expansion of irrigation. Recent deceleration in the irrigation coverage has been largely due to the drastic slowdown in the fielding of new DTW and a large percentage of existing DTWs going out of operation. It is possible to revive the use of the existing DTWs which have gone out of operation due to mechanical problems (lack of spare parts, non-availability of repair facilities etc.) and/or due to lack of profitability caused by a host of factors. In areas where STWs have driven the DTWs out of operation, it will not be possible or even desirable to make the DTWs operational. In other cases, if these can be repaired at a reasonable cost and made operational, the already incurred heavy sunk cost will yield a return to the society.

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Therefore, an attempt should be made to link the extent of subsidy with the area covered by irrigation from a DTW and/or the number of farmers participating in irrigator's group. It can be ensured if the management of DTWs is vested on suitable institutions. NGOs operating in the local area offer one such choice. Working through NGOs will be worthwhile if additional expenses for the management of DTWs are minimal. Currently, PKSP (Palli Karma Sahayak Foundation) is disbursing funds to small local NGOs who retail the fund to landless households. This experience can be utilized for extending credit to NGOs for operating DTWs. Past experience of such NGO operated DTWs show that they often fail to yield a net profit after paying for the loan installment on the borrowed capital for absorbing the maintenance costs. Costs can be reduced by assigning the responsibility of management to actual users group rather than to groups/individuals who are not farmers.

The extreme case of support offered for operating a DTW would be to provide a fund for overhauling the machine as well as for maintenance which will be proportional to the area irrigated. A rough estimate of the expenses thus incurred are: (a) Taka ten thousand for repair and overhauling plus (b) Taka 500 for maintenance, per hectare of area irrigated. Assuming that the average command area of a DTW is 20 hectares, the total cost of support amounts to Tk twenty thousand per DTW, which if produces a net additional value of crops of around Taka three thousand per hectare (figures obtained through recent surveys), the expenditure is well justified. These are obviously very rough estimates, which can be refined using location-specific information on installed DTWs in different regions of Bangladesh. Even accounting for the subsidies on interest on past loans

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ONCE again the nation recalled and paid tribute to our national poet Kazi Nazrul Islam, on the occasion of his anniversary of death. Popular as 'rebel poet' he was a versatile genius featuring as the pioneer poet of Hindu-Muslim unity, of the revival of Islam and of the Indian independence movement from the British colonial rule. He appeared in the literary firmament of Bengal like a comet illuminating its horizons and by his masterful pen enriched all his branches. Though he was then inspired by the poet laureate Rabindranath Tagore he was not an imitator, rather he rejuvenated the language, adding Arabic and Persian words for fiery meaning.

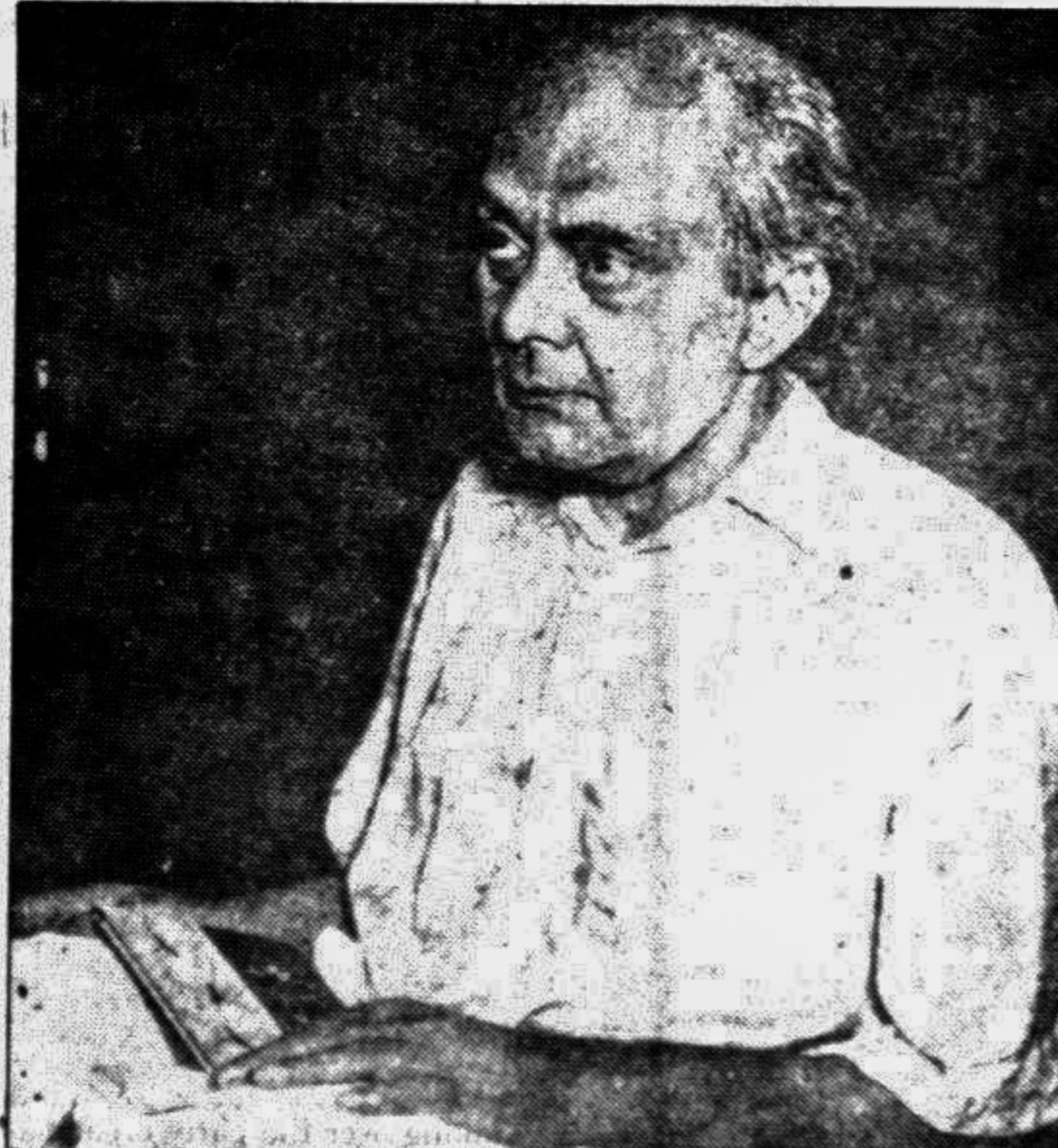
Born on 11th Jaistha, the 25th of May 1899 in Chumulia in the district of Burdwan, Nazrul had to pass his early life in distress. His father Kazi Faquir, Ahmed and mother Zaheda Khatun, called him Dukhu (meaning sorrow) Mia. At the age of eight Dukhu Mia lost his father and the hard struggle for survival began at that early stage of life. During his lower primary education he became inclined to religious study and in the process became well versed in Arabic. He learnt Persian from his uncle Bazle Karim.

Nazrul had to take a job in a bakery at Taka 5/- a month to earn his living. There, he joined a local theatrical troupe known as Letto and composed and sang songs for them. From there he was discovered by a police officer who took him to Mymensingh and admitted him to a school in Darinurpur. But he left that school, went to Raniganj and got admitted to a high school in Assam. There he found the famous writer Sallajanda as his classmate. But before his Entrance examination the World War I began and Nazrul joined the army. Within two years he was promoted to the post of Havildar. The sufferings of humanity during the war created great impact on the poet's mind and he began to write revolutionary poems.

From military camps Nazrul began to write poems for different periodicals. And for his poem 'Agamoni' he was jailed for one year. Even from inside the jail he wrote many more fiery poems inspiring the poor to rise against social injustice and oppression. He was dismissed from the army. Then he continued his writings unabatedly for long 20 years.

Tribute to Nazrul

by Prof Roushan Ara Hoque



His first prose was 'Baunduler Atmakahini' or the autobiography of a vagabond which was remarkable for its style. He composed innumerable poems and songs which were published in many volumes. In his poems love for the distressed humanity, ultimate triumph of truth over falsehood, and hatred for violence and injustice have been expressed. In 1921 his most famous poem, 'Bidroh' or 'The Rebel' was published in a weekly magazine, Bilal. It created thundering impact on the mind of the readers. Later on it was reprinted in Muslim Bharat and Dhumketo. Nazrul's own bi-weekly magazine, And for this fiery poem he came to be known as 'The Rebel Poet' as in it he had expressed himself as the most powerful force who was determined to destroy the entire universe if the torture and oppression on humanity was not stopped. His love for humanity has also been expressed in his famous poems like 'Nari, Manush, Kuli Majur, Dardinya and Sarbahara'. He was the first poet who wrote for the downtrodden inspiring them to

fight for their equal rights. However, poet Sukanto is also famous for his poems on the havens.

Nazrul was a pioneer poet of the revival of Muslims. He wrote many poems inspiring the demoralised Muslims to rise up and fight to regain their earlier high esteem that helped them conquer almost the entire Asia and part of Africa and Europe. He also wrote many poems encouraging Hindu-Muslim unity. Nazrul dreamt of an universe where there will be no class discrimination and the entire humanity will sing the song of universal brotherhood. By that time his health had been deteriorated and in his last recited address in 1941, in a very pathetic voice, he told, 'If I cannot write or talk to you any more, then please forgive me, and remember that one restless boy came in your midst with a high vision for its fulfilment. But he had to leave this world with his dream unfulfilled and his distressed heart left you crying in silence.'

Nazrul was most famous for composing innumerable songs

The Daily Star Entertainment Guide

Table with columns for TV channels (BT, PTV, STAR MOVIES, ZEE TV, STAR PLUS, STAR Sports) and their respective program schedules for Thursday 29th August.

Garfield comic strip by Jim Davis. Includes the title 'Garfield', the author 'by Jim Davis', and a panel with dialogue: 'BOOT!', 'PUSH HER CLEAR AND TOSS THAT KNIFE AWAY! WE'LL SHOOT IT OUT!', 'YOU SIMPLE Minded SICKER YOU THINK I'D THROW AWAY AN ACE-IN-THE-HOLE FOR THE LUCK OF THE DRAW?', 'START SHOOTING ANYTIME YOU WANT