

Improving land utilization and rural employment

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Abstract

This essay proposes a way to use two of the most underutilized resources in rural Bangladesh, land and manpower. Land is underutilized because the majority of land is owned by absentee landlords who do not have the manpower to manage more productive forms of agriculture. Manpower is underutilized because the lack of cash-based employment in rural Bangladesh has created a situation which offers only partial employment in rural areas. This has also resulted in migration, both seasonal and permanent, to urban areas which are resulting in population pressures in urban centers as well as social pressures on both urban and rural areas. Better utilization of land resources and employment generation will alleviate some of these issues.

About the Author

Saifuddin Ahmed graduated in Economics from Oberlin College in 1994. He worked as an Information systems consultant in Chicago and New York until 2003. He returned to Bangladesh and worked at Kazi Farms Group as a general manager setting up and managing the largest poultry feed mill in South Asia. In this position he has spent a considerable amount of time sourcing commodities from rural Bangladesh and focused his efforts on increasing the productivity of farmers.

Saifuddin has left Kazi Farms in May of 2007 and is currently operating his own business of setting up small scale farms while developing the concepts outlined in this essay.

Executive Summary

- 50.6% of land in Bangladesh is owned by 10% of the absentee landowners¹
- A survey in 4 districts showed that of plots over 1 acre in size 82% are owned by absentee landowners
- The average income absentee landowners derive from their rural holdings is Taka 8000 (US\$120) per acre per year.
- Typically 2 acres of land employs one person and supports 1 family.
- The urban population growth rate is twice that of rural population due to migration.²

The above statistics were compiled from various surveys and from our own survey we conducted in March 2007. One thing they demonstrate is that there is a serious underutilization of resources in rural Bangladesh. We have embarked on a study to identify the reasons for the lack of utilization, as well as find a solution to it. Our preliminary findings have identified several factors preventing more efficient use of land resources.

- The biggest concern of land owners is the security of their land from illegal occupation.
- There is a lack of management skills and skilled manpower for more complex farming systems.
- Land owners are reluctant to make capital investments in the land because they fear losses from poor management and administration.
- Many land owners hold land as savings instruments and not an income generating investment and are reluctant to invest in it.

¹ "Need for land and Agrarian reform in Bangladesh" June 2002 – Md Kamal Uddin

² Source: Banglapedia

There is an obvious need to utilize the resources of the absentee landowners more effectively.

There is also a need to provide stable employment in rural areas to prevent the mass migration that transformed the rural poor into the urban poor. An agro based property management service for absentee landlords can address both of these problems. A company offering such a service can ensure a higher income for the landowners while increasing employment and incomes for the landless poor.

The concept of a property management service is not new to urban areas in developed countries. However in Bangladesh, the concept has not yet developed. While rural land have tenancy, lease and sharecropping arrangements, this proposal for a management company takes the further step of partnering with the landowner and investing in the land for the purpose of providing more employment and generating more income.

Land use and ownership patterns in Bangladesh are also different from developed countries.

Most of the agricultural land is owned by non-farmers and non-residents i.e. absentee land owners. Thus there is a disconnect between the farm owners and the farmers. If landowners can be given the right incentives to invest in their land, they can get better returns and generate more employment. However as most absentee landowners hold on to their lands as savings instruments, they lack the manpower resources needed to run a more complex operation.

The business will have a number of goals

- Provide employment for landless poor and rural women
- Provide essential skills training for workers
- Utilize land more efficiently
- Bring investment to rural communities
- Provide higher incomes for landowners

Absentee landholdings vary widely in the size of holdings, the quality of the property as well as the availability of capital for further investment. Thus each project will have to be evaluated as an independent operation. A typical step by step outline for implementing a project is as follows.

- Evaluate the potential of the land for alternative use.
- Evaluate the level of infrastructure investment the landowner is willing to undertake
- Evaluate the risk profile of the land owner.
- Prepare a business proposal for the land owner.
- If the landowner agrees to make the investments to upgrade his property the management company will execute the plan and manage the property on agreed upon terms.
- The management company will initially staff the farm with a trained who will work towards training local staff.

Each of these farms will be a semi-independent unit operating as a standalone profit center. However all independent units will be managed by the umbrella organization who will be responsible for setting up the unit, training new staff, insuring staff wages during negative business cycles. In addition the parent organization will coordinate the activities of multiple farms and exploit economies of scale in marketing, procurement and other areas. While the focus of the independent farming units will be on production the parent organization will also manage other value added services such as further processing and storage.

A few social goals will also have to be emphasized. Firstly the object is to provide local employment, thus the emphasis on training local staff. A second goal is to provide employment for women. Women in villages are used to farm work, though it is usually in their own farms and not as cash-based employees. A third goal is to focus on the landless farmer. Another social goal is to provide training for alternative crops and methods to farmers with small holdings.

The need for such an enterprise

The main goal of this enterprise will be to extract more utilization from already available resources. The primary resource that is underutilized in rural Bangladesh is land and manpower. The most obvious beneficiaries are the landowner, who will see increased productivity and profits from his land and the rural poor and landless, who will be able to avail cash-based employment. Large agro processors will also benefit from the scheme by being able to outsource some of their production to smaller farmers and maintain a relationship with one company that will manage the smaller relationships. In addition the local communities will benefit from the trained alumnus that will emerge from this enterprise.

Employment

Employment in the rural areas has been traditionally tied to land ownership. Most of the employment was being generated by land owners either farming their own land or employing others to do so. Sharecropping is still a major form of employment in rural Bangladesh. Cash based employment includes traders and craftsmen as well as a small number of unskilled labor. The opportunities for cash based employment are severely limited.

Fragmentation due to inheritance is also reducing the size of landholdings of farm owners. The average landholding in rural Bangladesh has dropped to below 1 hectare. Only owners of land who have purchased land for investment purposes and who have other sources of income have increased their land holdings.

Many small farm owners try to supplement their income from their own holdings by sharecropping or working for larger landowners on a cash basis. However, very often the amount of available land is not sufficient for a farmer to rise above the subsistence level. Thus for most farmers saving and investing for the future is unthinkable.

The current types of employment available in rural areas are subject to risks from weather or disease outbreaks. A single outbreak can push workers into unemployment and debt with a very long recovery period.

Utilization of resources

Most rural agricultural land is owned by absentee landlords. A survey showed that 50.6% of land is owned by absentee landlords. I conducted a survey of 4 districts in 2006 which showed that of plots over an acre in area almost 82% are owned by absentee landowners. Absentee landlordism has also limited the kind of farming that can be conducted on their lands. As they have no management manpower, they usually lease their land for cash or share of the output. And since the sharecropping/tenant farmer is making the investments in the land he normally chooses the least capital intensive, low cost, low return model. Any crop cycle that is longer than 3-6 months or at most a year are also automatically eliminated, reducing the options for livestock or fisheries. Any system with infrastructure costs is also not considered.

Most land owned by smaller farmers has been fragmented into even smaller holdings over several generations. In many cases these holdings are insufficient for even subsistence farming. Because of the fragmentation of land into small holdings and the lack of capital and education, a very labor intensive and inefficient style of agriculture has developed.

A scheme to manage the larger holdings of absentee landlords will generate more revenue per acre of land than is possible under current methods. Active management will allow better utilization of resources and generate more employment and income for both the landowner and the workers. We have found that most landowners hold land in their native villages and are thus predisposed to ideas that can generate employment in those areas. However it is the lack of

manpower and expertise that have been the primary reason they have not invested to further that social goal.

Economies of scale

The management company will control a large number of farms giving it certain economies of scale it can exploit to its advantage. More effective training can be conducted at a lower cost than a single standalone farm. In many cases a small landowner/farmer is unable to avail any training at all, increasing his risk when he attempts any promising new venture. In addition there are marketing advantages as well that can be availed when dealing with a large volume of product. Because there are multiple farms with different outputs, byproducts for one facility can also be used as an input for other products. For example, organic fertilizer from poultry and cattle can be used for plant crops or to promote plankton growth in fish farms. Moreover, excess litter can be consolidated, packaged and sold in the market.

A larger and more organized company will also have better access to markets and be able to bypass middlemen and retain more profits for itself which will allow it to provide better paying jobs. Small farmers have almost no direct access to markets.

Further processing and post harvest technologies can increase the value addition of agricultural products. However for a small farmer such technologies are cost prohibitive. Thus agricultural products are usually sold with very little value addition to further processors and middlemen.

Risk reduction

Because of geographically diverse farms, as well as a diverse product mix, the risk for the overall enterprise and its employees can be minimized. Thus a disease outbreak, flooding, or bad crop and other negative externalities in one region will have no effect on the employees. The company

can cushion the losses in one region and retain employees and make investments to improve the situation. While each individual farm may face uncertainties, the jobs created will be secure.

Migration

Because of the seasonal nature and the risk profile of agricultural employment we see a significant amount of migration of the rural population. On the one hand there has been mass migration to urban areas on a permanent basis. On the other hand there is seasonal and employment based temporary migration within rural areas. Migration to cities have put tremendous pressure on urban centers. Moreover, it has been demonstrated in other studies that such migration have not improved the lives of the migrants. Migration of labor within rural areas also has had an adverse social effect as the families are often split up for long periods of local seasonal unemployment.

An enterprise that can provide year round employment in a local area can therefore reduce migration and negate its impact on families and on the urban poor.

Women's employment

Women, especially married ones, are generally more reluctant to migrate to urban areas seeking employment. However because of the lack of available cash-based employment locally women are forced to either remain underemployed or migrate to the cities. Providing local employment will create opportunities for women and allow for dual income families who are able to better provide for their dependents.

Training

Training is an important component of farming. New methods and skills are being developed regularly. However it is impossible for a small farmer to keep abreast of these new

developments. Access to information and access to training are a limiting factor that prevents the rural farmer from introducing new methods, products or technologies.

Our scheme aims to provide continuous training to its employees, many of whom will have small farms of their own. This vocational training will enable the employees to improve the outputs of their own farms as well.

Industry restructuring

Most agro processors in Bangladesh, do not operate at the production level. In fact most of the raw material production is outsourced to small farms and middlemen are used to procure them. Agro processors are operating in the input stage (breeding, seeds, fertilizer, feed) and in the consumer space (packaged branded products). The middle belt is produced by small farmers and their products make their way to the processors through middlemen. A new player in this field will benefit the industry by being able to sell directly from the farms to the agro processors. In addition because of its presence in the local community it can also play the part of the middleman for other farmers.

Structure of the enterprise

A company will be formed to manage the resources and coordinate the interests of the stakeholders. This company will initially operate fully owned facilities which will be used as training centers and manpower development. The management company will train and place trained employees at each farm.

The company will enter into agreements with individual landowners regarding the use and infrastructure development of the land. The landowner will be expected to provide the land and infrastructure and permanent establishment investments. The working capital investments will be

negotiated on a case by case basis as will the profit sharing structure. Manpower will be employed and trained by the management company.

Management structure

The management of the company will include regional operations managers who will manage the farms in each region of the country. Each farm will be managed by a farm manager and the requisite number staff.

A marketing team will market the products of the company at a national level. In addition this unit will market further processed products.

Other facilities for further value addition such as processing and storage will be operated as independent profit centers for the company.

Beneficiaries

Employees

Employment will be generated in the local area by the company. Company employees will receive training and a competitive remuneration package. In addition the company will provide year round employment for all employees and employees will be shielded from seasonal and accidental downturns by being associated with a large diversified company.

Investor benefits

The landowner and investors will be selected based on existing land use and investment opportunity. Only landowners whose land is currently underutilized will be selected as clients. The company will ensure that the clients receive more value for their property that they are currently doing. One of the biggest limitations of landowners is the lack of management skills

and manpower to extract optimal value from their property. Outsourcing this skill to the management company will benefit them.

Industry benefits

The increase in the number of farms, across the country will have a large impact on the agro industry as a whole. However this should not be seen as a threat to the large industrial players. In fact most large industrial agro-companies do not operate at the farm level at all. Most of them operate upstream in the breeding and input market, or downstream in the consumer markets. The production is managed by thousands of small farmers most of whom are subject to pricing pressures from middlemen. Having a management company with a significant production capability benefits the industrial agro-processors as it brings a new and reliable supplier to the table.

Implementation plan

This program is in fact in the initial stages of implementation. There are several steps that need to be implemented before we can launch our main program of utilizing the lands of absentee land owners.

Firstly, we need to set up fully owned and operated farms. A model/demonstration farm is essential for making a business case for a prospective client. In addition these farms can be used for trials and research.

More research is needed to fine tune business proposals that will be offered to clients. Research and surveys also need to be conducted to identify potential clients. Trials need to be conducted on new promising technologies that can be implemented across farms.

An umbrella company needs to be set up that will manage the contracts with the land owners, employees and customers.

Future Plans

One of the problems of this scheme is that a large number of landowners who own land as a savings instrument are unwilling to invest further in the land. In many cases they don't have the capital for further investment. As a future project we envision a capital marketplace for agro projects where other investors can buy "shares" of a project for cash. The management company will remain a purely service entity.

Another area where the company can develop is by providing essential services to existing farmer. Once a critical mass of a particular product is attained, we must look into value addition. Significant value addition can be made through further processing, storage, branding and packaging. These units can also be set up as additional profit centers and employment generators for the company. In addition the company can take on marketing tasks as well marketing directly to large consumers while reducing the number of middlemen from farm to consumer.

The company can also server as an information clearinghouse for pricing information, new technologies and training. All these services can generate a revenue for the company while maintaining its focus on improving farm productivity and incomes.

Q&A: Questions and answers from a small focus group.

Why should landowners agree to such a scheme? Why couldn't they just set up the farms themselves.

The company will focus initially on unutilized and underutilized land. This will ensure we can provide the landowner a greater income from his property. Having the land utilized will also keep it protected from landgrabbers and encroachers which is a common problem in Bangladesh.

In addition if the landowner is making investments to his land it will be beneficial for him to have the expertise and the manpower to supervise those investments.

Most absentee landowners also have a social agenda of providing for their relatives. Income generation schemes in their areas are usually welcomed by the landowners.

Industrial farming employs fewer people per unit of production, how do you claim to increase employment?

Much of the absentee landholdings in Bangladesh are underutilized and a good amount of it is totally unutilized. In addition we also intend to focus on fish, poultry and other high income and high employment generating farming methods. In traditional sharecropping these kinds of farms are not considered because of the investments needed. However protein farming does create more employment per acre.

There will also externalities that will generate employment in the local area. The farms will encourage others to enter the same line of business. The training provided at our facilities will enable employees to move on and build their own businesses.

What is the minimum and maximum sizes of these farms?

There is no maximum size. However there are some limitations that will dictate a lower size. The minimum size of the farm is one that would make it self sustainable.

What kinds of farming will be utilized?

That depends on a number of factors including the amount of land, amount of available capital and the kind of land. However the focus will be on systems that are capital intensive and generate more income and employment.

Landowners in Bangladesh have a concern that their land might be occupied or encroached upon. What assurances will this company give them?

Land is usually occupied or encroached upon by local politicians or thugs. Having a corporate entity subject to rules of law should be more comforting to a landowner. Moreover in most cases the landowner themselves have more influence in a local area than any outside corporate entity. And finally the management company will neither take lease, nor purchase the land. Ownership remains with the original owner. The management company simply enters into a long term management contract.

Conclusion

I have started preliminary work on this project including research as well as putting in my own money in investing in this scheme. In my preliminary research I have identified 65 completely unused property in three districts of Bangladesh which are suitable for our project. I have had talks with the owners of the properties and there is great interest in such a service. The focus of the landowners is to protect their property while providing employment for the locals most of whom are related to them. Further study is underway and I hope to undertake a few pilot projects in the very near future.