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**CURRENT FOOD POLICY ISSUES
IN BANGLADESH**

Advisory Notes to the Secretary of Food

March, 1998 to September, 1998

Food Management and Research Support Project (FMRSP)
Ministry of Food, Government of Bangladesh

International Food Policy Research Institute (IFPRI)

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Table of Contents

Introduction

Expected Short-Term Prices of Rice. 29 March, 1998.

Open Market Sales and Price Stabilization Following the Aman Shortfall. 29 March, 1998.

Explaining Rice Price Increases in Recent Weeks : Are Markets Behaving Competitively? 26 April, 1998.

Procurement of Maize : Lessons from Indonesia; 26 April, 1998

Outlook for Boro Procurement and Rice Stocks; 14 June, 1998.

Rice Price Movements After the Boro Harvest : Assessing the Current Situation in the Light of Past Experience; 23 June, 1998.

Food Aid Needs in the Light of the Recent Floods; 10 August, 1998.

Alternative Scenarios for Flood Relief: The Need for Increased Food Grain Supplies by November; 1 September, 1998.

Procurements Needs and Mechanisms in Response to the Flood Situation; 6 September, 1998.

OMS Sales and the Flood-Damaged Aman Harvest; 14 September, 1998.

India Foodgrain Policy and Current Situation; 14 September, 1998.

Some Points for Discussion for the Forthcoming Inter-Governmental Talks between Bangladesh and India on Issues Relating to Foodgrain Trade; 22 September, 1998.

Relief Needs in the Immediate Post-Flood Period; 23 September, 1998.

Enhanced VGF Distribution: The WFP Proposal and Other Options; 25 September, 1998.

INTRODUCTION

One major activity of the Food Management and Research Support Project (FMRSP) is to provide advisory services to the Government of Bangladesh. In carrying out these advisory services, the project produced fourteen memos from March through September, 1998, generally in response to specific requests by the Ministry of Food.

Government food policy in the first half of calendar year 1998 focused to a large extent on managing the effects of a poor 1997/98 aman crop, harvested in November and December, 1997. Following this poor harvest, domestic rice prices rose to import parity levels, providing incentives for private sector rice imports. Government policy in this period involved efforts to increase public rice stocks through tenders on domestic and international markets, and measures to encourage private sector imports, including removal of an import tax on rice.

In late March, rice prices remained high and there was growing concern that private traders were hoarding or manipulating the market. Two memos were submitted on 29 March, 1998 in response to requests from the Secretary of Food and the Food and Agriculture Adviser to the Honourable Prime Minister, channeled through the FPMU. "Expected Short-Term Prices of Rice" examined recent movements in rice prices and compared them with patterns in recent years, as well as with seasonal movements in West Bengal (India). The memo concluded that the increase in prices in February and March appeared to be largely due to normal seasonality, related to the costs of storage. Thus, there was no need for the government to change its policy: prices were expected to fall at the time of the major boro harvest, within six to eight weeks.

The second memo submitted on 29 March, 1998, "Open Market Sales and Price Stabilization Following the Aman Shortfall", summarized the actions by the government up to that point. The memo emphasized the large contribution of private sector imports to domestic supplies in early 1998 and the limited role of Open Market Sales (OMS). The memo recommended a transparent food policy that would provide clear signals to the private market and maintain incentives for private trade, so as not to destabilize markets.

The 20 April, 1998 memo, "Explaining Rice Price Increases in Recent Weeks: Are Markets Behaving Competitively?" was written to address concerns over an increase in the price of rice in March and April, 1998, in spite of large-scale private sector imports of rice. The memo summarized the policies adopted in early 1998 and argued that the number of traders involved and the correspondence between prices at the border and wholesale prices in major markets in Bangladesh indicates that private rice markets were

competitive. On the basis of an analysis of the quantity of imports, the observed price increases and alternative specifications of the elasticity of demand, the memo also argued that the aman shortfall was likely significantly larger than the official figures indicated.

“Procurement of Maize: Lessons from Indonesia”, written 26 April, 1998, provided background information for the Government’s policies related to maize procurement targets for 1997/98. Adoption of improved maize varieties and area expansion had greatly increased expected maize production, and there was substantial pressure on the Ministry of Food to procure maize to support prices and thus encourage production. The memo described the problems the Government of Indonesia experienced in procuring and storing maize, particularly aflatoxin contamination caused by fungal growth. In addition, the memo suggested that prior to procurement, explicit channels should be specified for distribution of maize so that stock does not deteriorate. Finally, the need for further information and analysis of recent developments in the maize sector in Bangladesh was highlighted.

Rice prices in Bangladesh fell sharply in early May, 1998 with the onset of the boro harvest. “Outlook for Boro Procurement and Rice Stocks, written 14 June, 1998, analyzed the implications for government stocks of various levels of boro procurement and government commercial rice imports. The memo reported that ample volumes of rice were already being procured in Rajshahi, and that if procurement target levels were attained, public commercial imports could be safely reduced. If stock build-up was desired however, raising the domestic procurement target (and thus supporting domestic producer prices) appeared to be a better option than increased imports. The memo cautioned, however, that the planned 250,000 MTs of OMS sales in 1998/99 would not be sufficient to have a significant effect on market prices in the event of a large production shortfall as in 1997/98.

“Rice Price Movements after the Boro Harvest: Assessing the Current Situation in the Light of Past Experience”, written 23 June, 1998, discussed the rise in wholesale prices of rice that had taken place in earlier in June. Given that the 1997/98 aman harvest had been poor and that prices had been high from January through April, 1998, the Food and Agriculture Adviser to the Honourable Prime Minister requested an analysis of why prices were rising in June, only several weeks after the boro harvest in April / May. The memo compared price movements in several markets in 1998 with those in recent years and concluded that the sharp price decline following the onset of the boro harvest indicated that the boro harvest had been good. Nonetheless, even though the recent short-term upward movements in market prices were not unusual by historical standards, “an upward trend lasting several weeks would likely indicate a shortage in aus or some other decrease in expected supply.” Continued monitoring of markets was advised.

During the latter part of July and the month of August, floods gradually covered a large part of Bangladesh, causing damage to the aus crop about to be harvested and damaging aman seedlings. "Food Aid Needs in the Light of the Recent Floods", written 10 August, 1998, was an early assessment of the need for increased food aid based on estimated production losses in early August, 1998. At that time, total rice production losses were projected to be 4.5 lakh MTs (3.0 lakh MTs from the aus crop and 1.5 lakh MTs from the forthcoming 1998/99 aman crop). (Within a month, these crop loss estimates were revised upward to 2.2 million MTs.) Based on the low loss estimates of early August, 1998, the memo nonetheless argued that there was a strong case for additional food aid to Bangladesh in 1998/99 of at least 2 lakh MTs of wheat. Such an amount would bring scheduled public imports (food aid and commercial) to 8 lakh MTs, only 70,000 MTs higher than the average public imports of the two previous years. This level of food aid would thus likely not depress wheat prices below import parity levels.

The 1 September memo, "Alternative Scenarios for Flood Relief: The Need for Increased Food Grain Supplies by November", discussed the feasibility of the Ministry of Relief's proposed six lakh metric ton relief program to aid flood victims and rebuild infrastructure. Two scenarios were analyzed: distribution of rice and wheat as proposed by the Ministry of Relief, and a less costly alternative: distribution of wheat alone. In neither scenario were distribution plans for flood relief feasible without substantial rice or wheat imports by early November. The memo suggested that donors be encouraged to expedite food aid shipments, that cash payments be considered as an alternative to distribution in kind, and that government maintain incentives for private sector imports of rice.

The 6 September, 1998 memo, "Procurement Needs and Mechanisms in Response to the Flood Situation," discussed options for government procurement of foodgrains for flood-related distribution. The memo suggested that the government diversify its sources and mechanisms for procurement in order to minimize the risks of failure to acquire adequate quantities of food grain. The performance of local tenders, which enjoyed only moderate success in early 1998, could be improved by reducing the quantity specified in the contracts (reducing the time needed for suppliers to bulk up the rice), and by increasing the bid bond (to increase the cost to traders of default). Once again, the memo urged that incentives for private sector imports be maintained, and that international rice markets, including those in India, be regularly monitored.

"OMS Sales and the Flood-Damaged Aman Harvest", written 14 September, 1998, discussed the impact of OMS (open market sales) on domestic rice markets and suggested a range for the OMS sales price. This memo argued that envisaged levels of OMS sales would not be adequate to offset the expected 1.9 million metric ton shortfall in aman production. Thus, "a prime consideration of all government food policy in the

coming months should be to maintain incentives for and help insure the flow of private sector rice imports". In order to avoid the adverse consequences of spurring excessive demand for OMS rice that cannot be met through planned government sales, the memo suggested an OMS price of 13.0 to 13.8 Tk/kg, implying about a 2 Taka/kg subsidy relative to expected import parity retail prices.

Two brief memos were written following a short research trip to India by Professor Siddiqur R. Osmani, Paul Dorosh and Hajikul Islam. The first, "India Food Grain Policy and Current Situation", written 14 September, 1998, pointed out that the Food Corporation of India (FCI) had a large quantity of deteriorating rice stocks and the Bangladesh government should be very cautious about purchases of rice originating from these stocks. The memo also noted that the kharif (aman) harvest was forecast to be very good overall, though West Bengal and Bihar were likely to have lower-than-normal harvests. A more thorough description of various aspects of the Indian rice market and Indian government policy was given in the 22 September, 1998 memo, "Some Points for Discussion for the Forthcoming Inter-Governmental Talks Between Bangladesh and India on Issues Relating to Foodgrain Trade", by Siddiqur R. Osmani. In addition to more detailed discussion of the issues described above, the memo discussed logistical arrangements of grain deliveries in a possible government-to-government rice shipment and difficulties encountered in transport of rice through West Bengal.

"Relief Needs in the Immediate Post-Flood Period", written 23 September, 1998 presented the case for cash transfers to supplement direct food distribution. The memo argued that (by late September), supply of food was not a constraint in most communities, or in Bangladesh as whole, as normal communication links had been rapidly re-established after the flood. Rather, lack of purchasing power was limiting purchases of foodgrain by poor households. With the amount of available stocks constraining public food distribution in the short run (the following two months), an increase in cash payments would increase food consumption of the vulnerable poor until stocks permitted a possible switch to food alone at a later point.

Finally, in late September, the World Food Programme proposed a doubling in the Vulnerable Group Feeding (VGF) program in order to immediately reach more food insecure households. The 25th September memo, "Enhanced VGF Distribution: The WFP Proposal and Other Options" presented an analysis of the feasibility of the proposal in terms of available government stocks. The memo argued that the WFP proposal would draw down wheat stocks to unacceptably low levels at the end of October, to 59,000 metric tons or less. These projections differed from that of WFP because of differing assumptions about 1) the availability of scheduled imports in October (81,000 MTs according to the Ministry of Food, compared with WFP figures of more than 250,000 MTs), 2) other distribution requirements and 3) availability of stock "in transit". The

memo suggested that using both rice and wheat, or substituting some cash for foodgrain, in an expanded VGF program would enable an immediate increase in the number of recipients. In any case, the memo urged that distribution to flood-affected people be increased very soon.

The fourteen memos described above were produced by a team of researchers and government officials, with a wide range of backgrounds in government service, practical business experience in grain markets, and academic research. None of the memos was entirely an individual effort; all benefited from insights and comments of other team members. Paul Dorosh, Economist and Chief of Party of the FMRSP, wrote the initial drafts of all memos except the 22 September 1998 memo on Indian foodgrain trade by Professor Siddiqur R. Osmani. Nasser Farid, Assistant Chief of the Food Planning and Monitoring Unit (FPMU) of the Ministry of Food, provided data and valuable insights into the constraints and operational issues involved in various food policy options for the memos written prior to his departure for over seas training at the end of June 1998. Mohammed Abdul Aziz, Project Director of the FMRSP, contributed much to the informal discussion and analysis that formed the basis of many of the memos. Ruhul Amin, Deputy Chief of the FPMU, played a major role in the memos relating to the flood and relief efforts, contributing to the discussion of policy options and co-ordinating data analysis from the FPMU. Mahfoozur Rahman provided perspectives from his years of experience in industry, export-import, and the private grain trade in Bangladesh, as well as assisting in the analysis. Carlo del Ninno also participated in the discussions and provided helpful comments on drafts of several memos. In addition, a number of others provided research support, including Mr. Hajikul Islam, Research Officer, FPMU, Mr. Abdullah Al Mamun, and Mr. Chowdhury Shameem Mahmoud and Mr. Anarul Kabir, research assistants with FMRSP-IFPRI. Credit is also due to Ms. Waheeda Ali Luna, Executive Secretary and Mr. Md. Samsuddin Sumon, Secretary with FMRSP-IFPRI who helped to edit, print and compile these documents.

Finally, it should be noted that these memos are not research reports. Rather, almost all were written in response to direct requests of the Ministry of Food, under very tight time constraints. The major purpose of these memos, thus, was not to provide a comprehensive analysis of these topics, but to provide timely, practical policy analysis needed for current policy decisions. Many of the issues discussed here are the subjects of ongoing research of the FMRSP; subsequent research reports are planned to provide further analysis.

Expected Short-term Prices of Rice

Recent rice price developments have caused much concern among policy makers and consumers in Bangladesh. Following a disappointing aman harvest in late 1997, the price of rice increased sharply in November and December, 1997. Thereafter, wholesale prices of coarse rice rose much more slowly, reaching 13.5 Taka/kg wholesale Dhaka in early March, before falling slightly. But in the last week, prices have risen again, and have reached 14.2 to 14.5 Taka/kg in Dhaka wholesale markets.

Current prices of rice in Bangladesh reflect the cost of rice imports from India. Following the aman shortfall, Bangladesh prices rose sharply until they reached the price at which imports from India became profitable. This import parity price (i.e. the price of rice in India plus transport and marketing costs for sale in Bangladesh) was about 12.5 Taka/kg for coarse rice in early January (Figure 1). Given the private market incentives to import rice from India, large amounts of rice have been imported from India: 68,000 tons in January, 89,000 tons in February, 163,000 tons in March, with 70,000 tons in the fourth week of March, alone.

A major reason for the rise in domestic prices since early January is the normal seasonal price rise in rice prices in Bangladesh and India. This seasonal rise reflects the cost of storing rice from harvest time to the present. These storage costs are in turn determined mainly by physical storage losses and by the interest costs implicit in tying up working capital in the form of rice stocks. As shown in Figure 2, rice prices in West Bengal are generally at their lowest in December, following the aman harvest and rise steadily to April and May. From 1993/94 to 1996/97, on average prices rose by about 2 percent per month between January and April and by a further 3 percent between April and May.

A second factor explaining the recent change in rice prices in the Dhaka market is the change in quality of rice coming from India. Availability of coarse rice imports has declined in recent weeks; currently, most imports are of slightly higher quality than coarse rice: lower medium quality Sorna or Parija Indian rice.

Third, as can be seen in Figure 1, in several recent years there have been short-term sharp price increases in rice markets. For example in both 1994/95 and 1995/96 there were short two-week price peaks of about 1 Taka/kg in late February or early March. These short price increases are not easily explained, but they are not unusual and did not last long.

Thus, it seems likely that prices in Dhaka will continue to rise by at least 3 percent per month until the boro harvest in early May. Recent trends show an increase in coarse rice prices of 2 percent per week, i.e. about 8 percent per month. Thus, over the next three weeks (between the end of March and mid-April) prices of coarse rice may increase by about 3 to 6 percent, i.e. to between 14.9 to 15.4 Tk/kg wholesale, or about 15.9 to 16.4 Tk/kg retail. This year, with Eid ul Ajah coming in the second week of April, there may be a slight additional short-term price increase in the market. Alternatively, if the recent price spike is in fact only temporary (as in 1994/95 and 1995/96), then prices of coarse rice may remain in the 13.5 to 13.9 Tk/kg wholesale range.

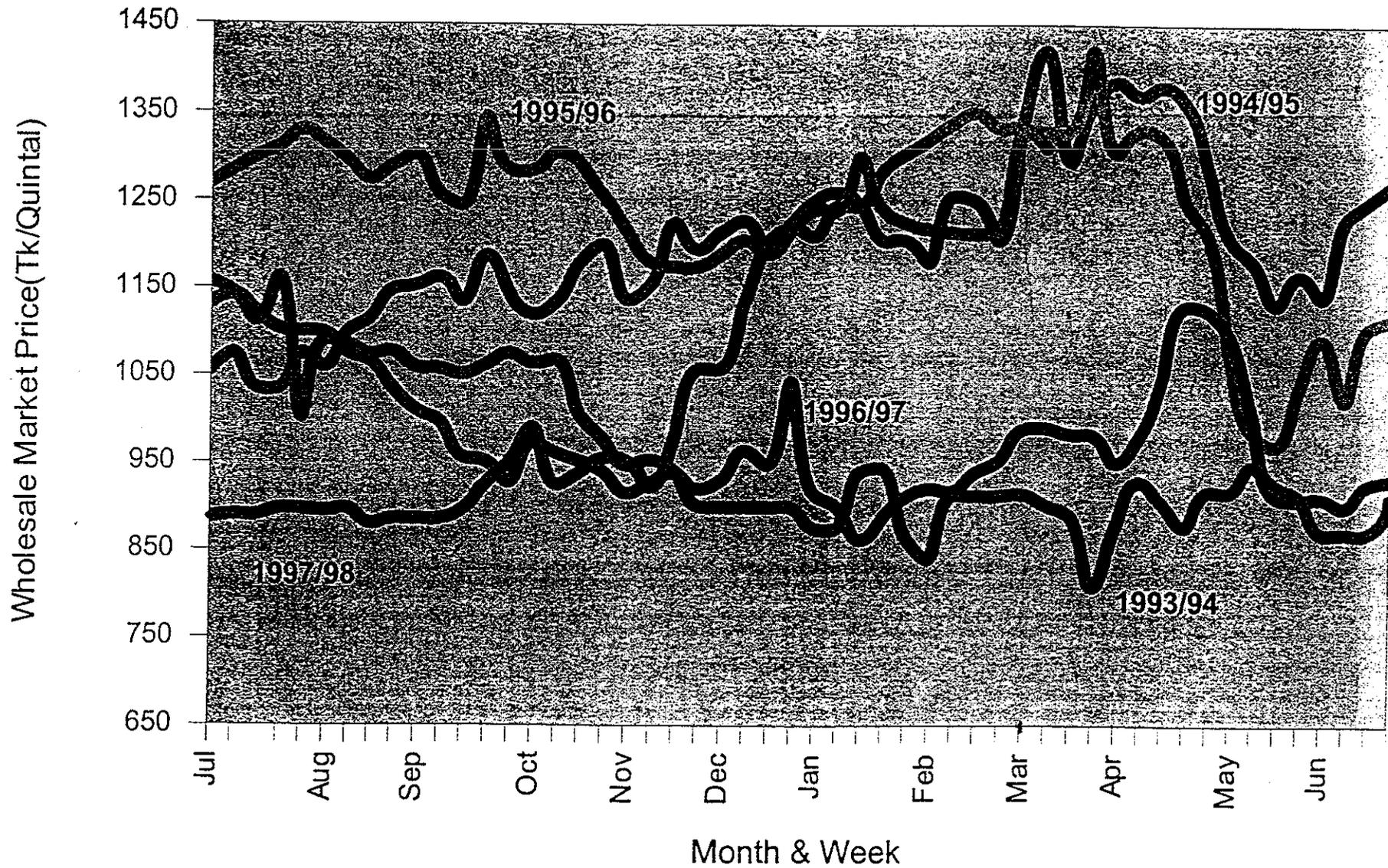
Thereafter, price movements will be determined by the market's expectations of the size of the forthcoming boro harvest. If the indications of the harvest are average or good, prices are likely to drop sharply, similar to the pattern in 1994/95 or 1995/96.

In summary, several factors indicate that there is no reason for the government to change its current rice policy. First, large quantities of imported rice from India are continuing to supply the domestic market. The government should avoid doing anything to discourage these flows. Second, recent price increases are not unusual by historical standards. Thus, the government should not be unduly concerned by short-term price movements, but should instead continue to monitor the situation and evaluate its policy as new information is available. Third, since the boro harvest is expected in only six to eight weeks, the government should avoid immediate large-scale imports of rice. Instead, the Ministry of Food should import only small amounts of rice at this time, as needed in order to meet distribution requirements over the next several months. A decision on large scale imports can be safely delayed for several weeks until the size of the boro crop becomes clear. In this way, the government can avoid accumulating excessively large stocks that would prohibit government efforts to conduct domestic procurement and support farmer prices during boro season.

FIGURE 1

HYV Coarse Rice Price: Dhaka

(July '93- March '98)



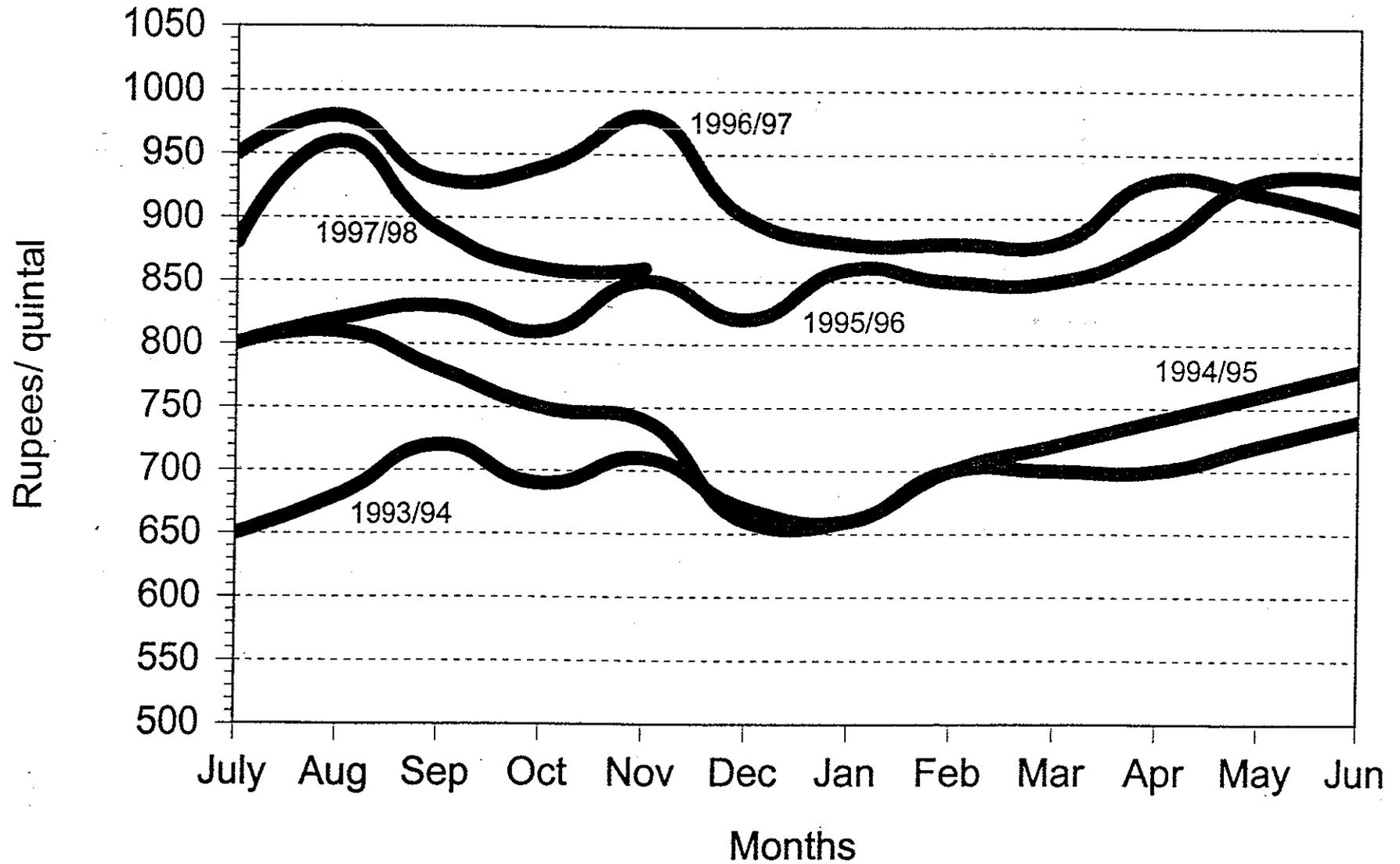
[N.B: Boro rice price: Apr-Aug]

Source : DAM

FIGURE 2

Monthly Average Wholesale Price of Rice in West Bengal

(July 93 - November 97)



N.B. : 93 to 95 - GR 111; 95 to Present Patnai (f)

Open Market Sales and Price Stabilization

Following the 1997/98 Aman Shortfall

In response to high domestic rice prices following the 1997/98 aman production shortfall, the Ministry has opted for a cautious strategy involving moderate increases in imports of rice and wheat and additional targeted distribution to poor households, while maintaining adequate foodgrain stock levels. As part of this strategy, the Ministry of Food has monitored foodgrain markets continuously, and as new information on the size of the aman harvest and market prices has become available, it has revised its import and distribution plans. Open market sales of rice were also begun in late January and have continued through the end of March.

This memo summarizes the policies of the Ministry of Food that have been undertaken to address the problems of the poor aman harvest and the ensuing rise in prices. We focus especially on the rationale for the level of OMS sales to date, arguing that the policy adopted best guaranteed adequate market grain supplies, helped ensure favorable prices for farmers in the forthcoming boro season, and resulted in a huge cost savings to the Government of Bangladesh.

Responses to the 1997/98 Aman Production Shortfall

The 1997/98 aman rice harvest in many regions of Bangladesh was lower than expected, mainly because of the high prevalence of empty husks (chita) in the harvested paddy. Official pre-harvest forecasts were for 9.74 million tons of milled rice; the current BBS estimate for 1997/98 aman production stands at 8.85 million tons – slightly lower than the late January BBS estimate of 9.0 million tons. Thus 1997/98 aman production was about 650 thousand tons (6.8 percent) below 1996/97 aman production of 9.55 million tons.

Paddy and rice prices rose as a result of the reduced harvest. Paddy prices in Dinajpur, a major rice-surplus region, rose 18.4 percent between October and the end of December, from 5.49 Tk/kg to 6.50 Tk/kg. Wholesale prices of coarse rice in Dhaka, likewise rose by 30.2 percent, from 9.45 Tk/kg to 12.30 Tk/kg in the same period. These price increases are in contrast to the expected fall in market prices following the aman harvest. End of December paddy prices in Dinajpur were 31.6 percent higher than in December, 1996; December rice prices in Dhaka were 29.7 percent higher than twelve months earlier. It should be kept in mind, however, that prices in December, 1996 were very low, and many farmer groups were complaining of inadequate price support from the government.

The Ministry of Food responded to the rapid price increase with a cautious policy involving increases in targeted distribution of wheat, measures to encourage private market imports of rice, moderate government imports of rice and wheat, limited OMS sales of rice. In deciding on this policy, several factors were taken into consideration:

First, there was no need to import rice on food security grounds. Wheat, a less costly alternative to rice, was used in public foodgrain distribution channels targeted to the poor. Food for Work and other distribution of wheat in rural areas were increased in the January to March period above initial budget plans, thus providing additional food security to the rural poor.

Second, the Ministry of Food strove to maintain incentives for private market imports of rice from India in order to help guarantee adequate and timely market supplies of rice. With Indian border rice prices in early January at 9.9 Tk/kg, (equivalent to 12.0 Tk/kg in Dhaka, adjusting for marketing costs), private market imports from India through official channels equaled 47 thousand tons in December and the first three weeks of January. By the end of March, over 300 thousand tons were imported through official channels; unofficial cross-border trade further contributed to supply. This additional supply to the market came at no cost to the budget of the Government of Bangladesh. Thus, instead of immediate large-scale imports, the Ministry of Food floated tenders for only moderate amounts of imports in January (50,000 tons of rice and 150,000 tons of wheat), with further imports in February.

The Ministry of Food thus avoided excessively large and ill-timed rice imports which could have proven extremely costly to the government. This is in contrast to the hasty decision to import 800,000 tons of rice from India in February, 1995 that resulted in excessive stock buildups and large storage losses (total wastage of a large percentage of the imported rice) when the subsequent boro harvest brought market prices down.

OMS Sales

The Ministry of Food delayed any OMS operations of rice until the last week of January, because until that time wholesale market prices had not yet reached the OMS trigger price of 12.5 Taka/kg in urban areas (15 percent over the procurement price of 10.9 Tk/kg). Given an average retail markup of about 1.5 Tk./kg, this implied that OMS operations would not start until retail prices reached about 14.0 Tk/kg. In early February, however, the Government of Bangladesh decided to lower the OMS sales price slightly, from 12.5 Tk/kg to 12.0 Tk/kg.

Once OMS operations began, a primary consideration of the Ministry of Food was to maintain incentives for private sector imports. Large-scale sales of OMS rice at prices below import parity would have destroyed incentives for private sector imports of rice, since the cost of imported rice by the end of January was estimated at about 13.0 Tk/kg, wholesale). Such a policy might have greatly reduced private sector imports which contributed at least 400,000 tons to domestic market supplies in the first three

months of 1998. In the absence of these private sector imports, the government would have had to intervene in the market with at least 400,000 tons of imported rice to maintain the same price level in this period. Given an import parity price of 13.7 Tk/kg (for rice imported through Chittagong), and the OMS sales price of 12.0 Tk/kg, had the Ministry of Food imported this rice and sold it through OMS channels, the subsidy would have been at least 680 million Taka (400,000 tons x 1.7 Tk/kg).

Another major consideration in deciding the level of OMS sales was the level of rice stocks available. When OMS was initiated, government stocks of rice were only 250,000 tons. Excessive levels of OMS would have drawn down stocks to dangerously low levels. Moreover, lowering the OMS price below 12 Taka/kg could have greatly augmented demand by the public for increased quantity of OMS sales. Since government imports of rice generally take about three months from initiation of tender to delivery at godowns, so imported rice would not have been available for distribution before the end of March. Thus, it was not feasible to rely on government imports to supply a greatly expanded OMS sales program in the January to March period.

Nonetheless, over 50,000 tons of OMS rice were sold from January through the last week of March, to the benefit of consumers who waited in line to buy their 3 kg/person/day allotment of subsidized rice. Moreover, limited OMS sales may have provided a signal to markets to continue imports, while at the same time making clear that the government was prepared to intervene if prices rose too high.

Conclusions

With limited government intervention and fiscal costs, the Ministry of Food has been able to maintain adequate foodgrain supplies in domestic markets through maintaining incentives for private trade. Rather than importing 400,000 tons of rice and incurring a 680 million Taka subsidy cost, the government provided incentives for the private sector to increase market supplies of rice. Ongoing monitoring of the market situation should continue, especially in the remaining weeks preceding the boro harvest, with special attention paid to letters of credit opened by private traders for rice imports, market prices, world prices and the foodgrain situation in India. Limited OMS sales can continue to play a role in providing a measure of assistance to urban households and signalling markets of the government's commitment to avoiding unusually high price increases.

Perhaps most important, the Government of Bangladesh should aim for a transparent food policy that will provide clear signals to the private market and maintain incentives for private trade, so as to not further destabilize foodgrain markets. Clear public statements of policy objectives and implementation would also encourage trade and perhaps soften criticism of current policy.

Explaining Rice Price Increases in Recent Weeks: Are Markets Behaving Competitively?

Since January, large-scale private sector imports from India have supplied the domestic market with about 900,000 tons of rice (633,000 tons through official trade and an estimated 270,000 tons of unofficial imports). Yet, in spite of these imports, the national average wholesale price of HYV coarse rice has increased by 8.0 percent, from 13.33 Taka/kg during the first week of March to 14.40 Taka/kg during the first week of April. And this price increase comes after the steep rise in rice prices in December, 1997 and January, 1998, following the disappointing aman harvest in November and December, 1997. Dhaka wholesale prices show (Figure 1).

High and rising rice prices, in spite of massive private imports have led some observers to question whether private traders are manipulating rice markets and whether it is appropriate for the government to intervene more forcefully in domestic rice markets. This memo discusses the current rice situation and examines several aspects of rice trade and price movements. First, we summarize the effects of the aman shortfall on domestic rice prices and imports using a simple partial equilibrium model of the rice markets in Bangladesh. Second, we estimate the amount of rice supplied to domestic markets by imports and domestic production since the aman harvest. Third, we show the correlation between import prices at the border at Hilli and prices in Dhaka as evidence that Dhaka prices are determined by the price of imports. Finally, to ascertain the degree of competition in private rice imports, we present data from letters of credit on the number of rice importers and their market share.

The Aman Shortfall and Private Imports

Following the aman shortfall, Bangladesh prices rose sharply until they reached the price at which imports from India became profitable. This import parity price (i.e. the price of rice in India plus transport and marketing costs for sale in Bangladesh), was about 12.5 Taka/kg wholesale for HYV coarse rice in early January and has risen gradually since then to 14.7 Taka/kg. Given the private market incentives to import rice, newly revised estimates indicate that 659,000 tons of rice have been imported from India through formal channels since the aman harvest in 1997: 1,000 tons in November, 25,000 tons in December, 85,000 tons in January, 110,000 tons in February, 254,000 tons in March, and 184,000 tons from April 1 through 17. In addition, an estimated 100,000 tons of rice have been imported through informal channels in February and March. It is expected that another 65,000 tons of imports will arrive in the remainder of April, so that

total imports of rice will reach 1,035,000 tons (735,000 tons through official channels and approximately 300,000 tons through informal channels).

This large volume of imports that have come from India has resulted from an excess of domestic demand over domestic supply at the import parity price (Figure 2). Projected domestic supply from the aman harvest is indicated by S0; the actual harvest was smaller, as indicated by S1. At the import parity price of Pm, domestic demand is D1, and the difference between D1 and S1 is the sum of private imports, change in private stocks and net market injections by the government.

Thus, the amount of rice imported by the private sector depends on four factors: the size of the aman harvest (S1), net market injections by the government, the change in private stocks, and the response of domestic consumers to the increase in rice prices, as reflected in the slope of the demand curve.

Net market injections by the government for the November to April period are 233,600 tons of rice. The increase in private stocks for the period is likely to have been smaller than normal – perhaps about 600,000 tons. Conservatively, however, we assume that the change in private stocks in 1997/98 was the same as in 1996/97, about 800,000 tons. (If a lower figure for stock change is assumed, the production shortfall estimated below would be even greater.) How much rice was consumed during this period depends on the elasticity of demand (i.e. the percentage change in quantity demanded given a one percent increase in price). The average real price of rice rose by 29.3 percent in the November, 1997 to April, 1998 period compared with rice prices in the same period in 1996-97. Thus, consumption of rice has likely fallen from between 3.8 to 6.2 percent per capita, (using elasticities of demand of -0.15 and -0.25 , respectively).

Given the government's market injections, the change in private stocks and changes in consumption, observed imports of approximately one million tons suggest that aman production in 1997/98 was considerably below the official estimate of 8.85 million tons. With an elasticity of demand of -0.25 , imports of 900,000 tons imply production of about 8.3 million tons. Even with a very inelastic demand of -0.15 , 9 lakh tons of imports imply production of only 8.5 million tons (the USAID rapid appraisal estimate of aman production). Note that if grain had been hoarded, even larger quantities of imports would have been required to meet market demand by consumers.

Three important points are illustrated by this analysis. First, the large volume of imports in recent months suggests that the aman production shortfall was even greater than given in official estimates, yet there is no evidence of hoarding. On the contrary, the analysis suggests that if there had been hoarding, imports would have been even larger. Second, imports do not completely replace lost production. With the rise in rice prices, consumers consume less: 3.8 to 6.2 percent less per capita than in 1996/97 under the two scenarios described above. Finally, government market interventions have contributed relatively little to market supply. Net government market injections are only about one-fourth the size of private imports (2.34 lakh tons compared to approximately 9 lakh tons).

Thus, the flow of private imports has been the dominant factor in stabilizing domestic market supply after the aman shortfall.

Imports as a Share of Market Supply

The large volume of imports in recent months suggests that they have accounted for an increasingly large percentage of market supply in recent months. Total monthly consumption can be estimated from actual movements in rice prices in recent months and the elasticity of demand for rice discussed above. Using estimates of total consumption from market purchases by various household groups from the Household Expenditure Survey, it is then possible to estimate the share of imports in total market purchases by month. These calculations suggest that the import share rose from about one quarter of market supply in February to about half of market supply in March and April. Recent observations of market arrivals in wholesale Dhaka markets are broadly consistent with these calculations.

Indian Border Prices and Dhaka Wholesale Prices

Further evidence of the competitiveness of markets is given by movements of prices of domestic rice and Indian rice exports in recent months. Figure 2 shows that the Dhaka wholesale HYV coarse rice price has followed a similar pattern to the average price of rice reported in letters of credit for imports. Both price series exhibited a small upward trend from early January to early April, rising by about 12 to 14 percent. Each series also showed steeper price increases in early to mid-March. Nonetheless, the price series do not exactly track one another. This is not surprising, however, given the differences in quality of rice in various shipments from India, as compared to a standard quality (HYV coarse rice) measured in the Dhaka wholesale price series.

Evidence of Competition in the Import Trade

Data from letters of credit for private imports show that a large number of traders are participating in the private import trade, thus providing further evidence of the competitiveness of the private markets. As shown in Table 1, 1022 letters of credit were opened for rice imports from India from January through March of this year, for a total of 346,805 tons of rice. These letters of credit were opened by 387 different traders; the average amount of imports per trader was 896 tons of rice. The largest ten traders (in terms of total imports) imported 69,567 tons, 20.0 percent of the total. Given this broad participation in the rice import trade, and the small share of the largest supplier, it appears that there has been little scope for individuals or a small group of traders to significantly affect market prices by restricting market supply.

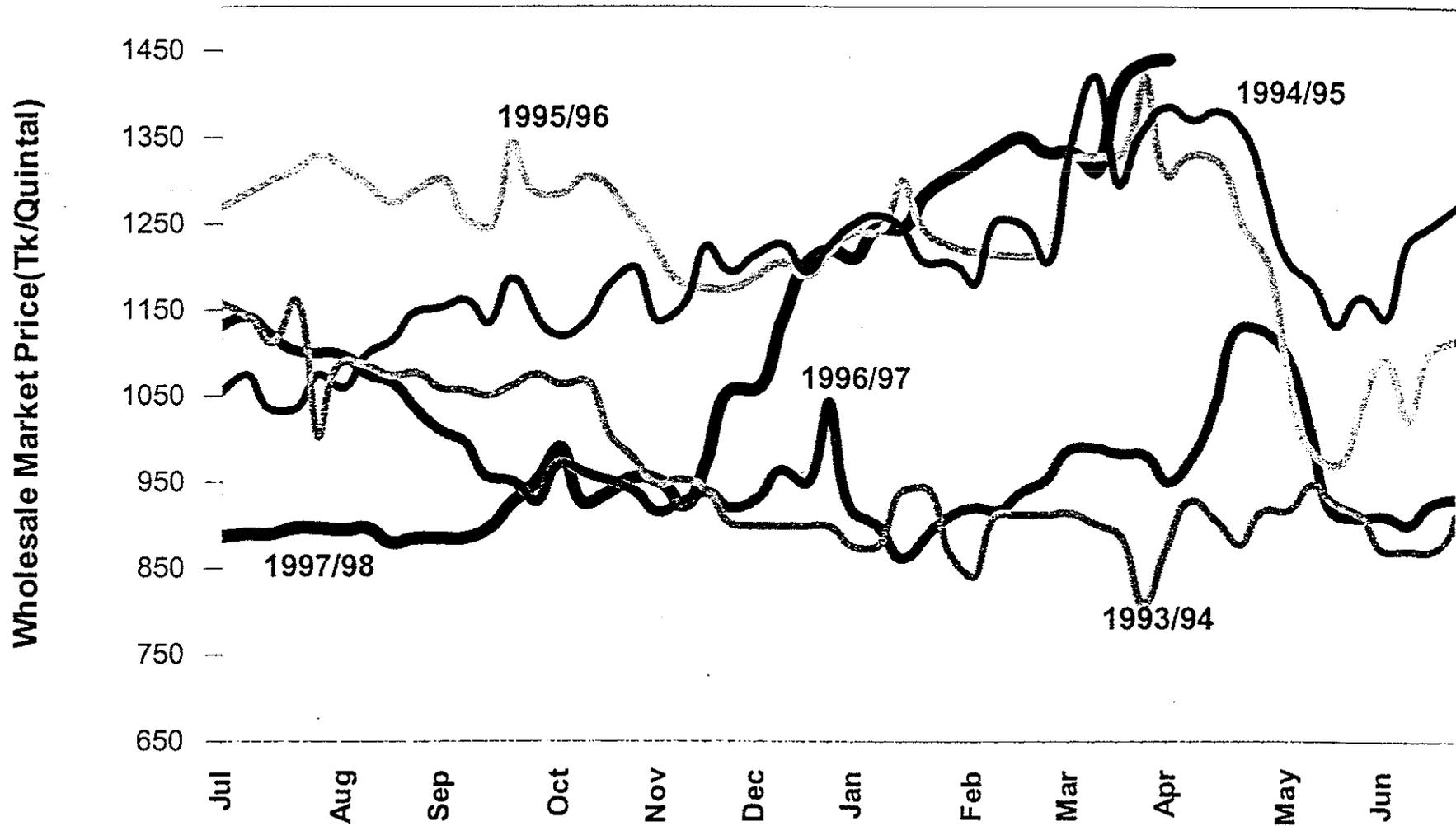
Conclusions

In summary, there is no evidence of hoarding or lack of competitiveness in rice markets in recent months. The large quantity of rice imports is not evidence of hoarding, but instead implies that aman production shortfall may have been understated. Had there

been hoarding, even greater quantities of imports would likely have had to be imported to meet consumer demand at the given market prices. Moreover, comparisons of Dhaka rice prices and L/C import prices suggest that domestic prices are largely determined by the price of imports. In addition, the L/C import data show that a large number of traders participated in the import trade, providing evidence for the competitiveness of the rice import trade and the absence of market manipulation by a small group of large traders. Thus, there is no justification for the government to interfere with the operation of the private rice trade. On the contrary, the experience of the past several months has illustrated the importance of maintaining incentives for private trade for ensuring adequate market supply in Bangladesh.

Fig-1: Weekly HYV Coarse Rice Price: Dhaka

[July 93- Apr98]



[Source: DAM]

[N.B: boro rice price: Apr-Aug]

Month & Week

FIGURE 2 : AMAN PRODUCTION SHORTFALL AND IMPORTS

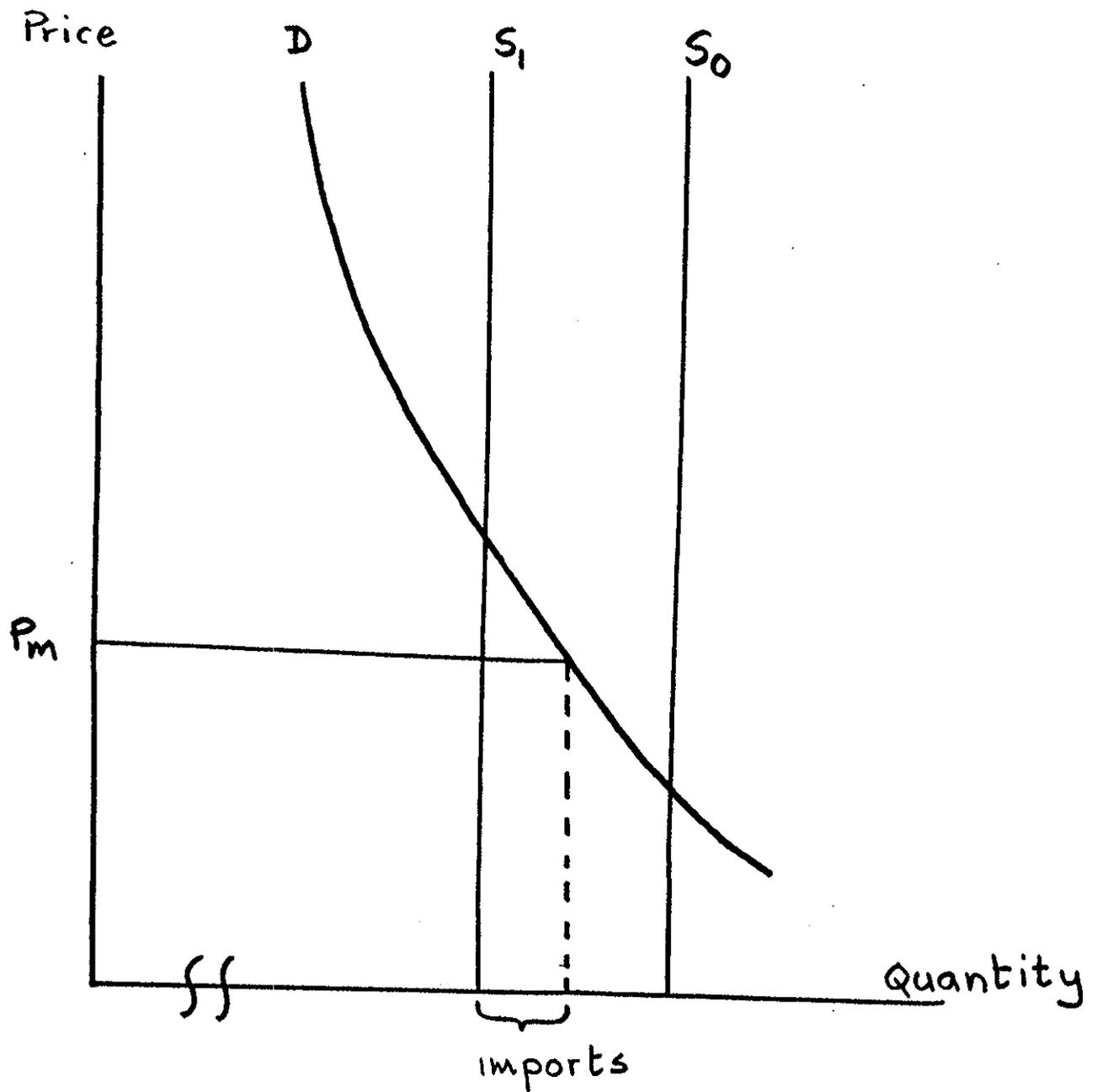
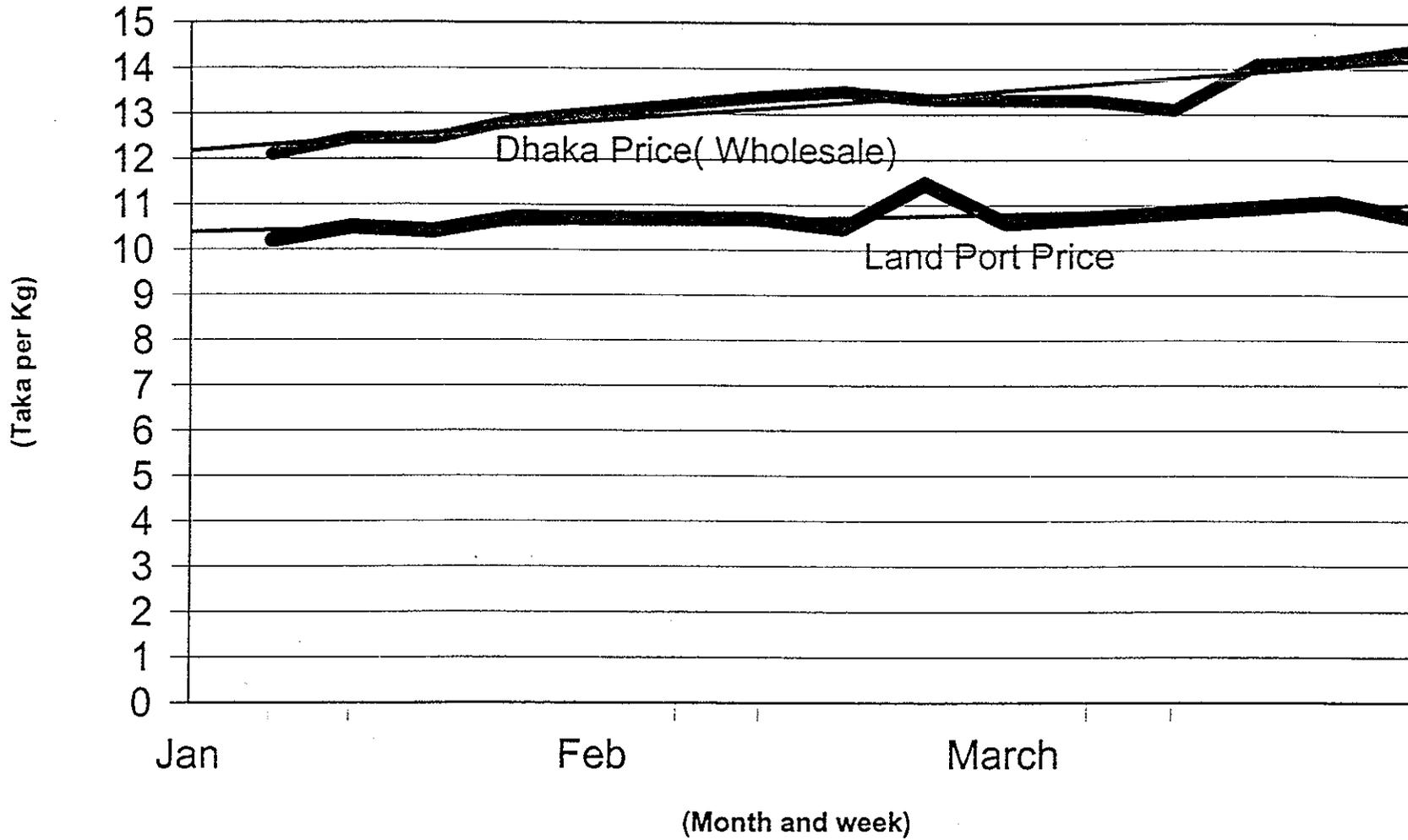


Fig-3 Land Border Price and Dhaka Wholesale Market Price



Source: DAM and FPMU

Table 1: Private Rice Imports, January through March, 1998

Date	Number of Contracts	Quantity in Metric Tons	Average Price (Tk/kg)
January			
1st week	81	12896	10.20
2nd week	116	16593	10.50
3rd week	98	27103	10.41
4th week	88	108883	10.71
February			
1st week	69	103166	10.69
2nd week	116	22853	10.48
3rd week	1	125	11.47
4th week	20	2937	10.60
March			
1st week	64	10563	10.94
2nd week	172	11979	11.06
3rd week	127	15541	10.70
4th week	70	14166	11.16
Total	1022	346805	10.67

Source: Letters of Credit for Rice Imports (sample available to DG Food as of 19 April, 1998).

26 April, 1998

Procurement of Maize: Lessons from Indonesia

Maize production in Bangladesh has increased dramatically in the last few years. Following a record maize harvest, there is pressure for the Government of Bangladesh to procure domestic maize in order to support producer prices. Indonesia's experience with maize procurement, storage and distribution in the mid-1980s may provide useful insights for maize policy in Bangladesh.

In the mid-1980s, maize accounted for about 10 percent of total calories consumed in Indonesia. (Rice accounted for about 50 percent of total calories consumed.) In an effort to support producers, BULOG, the national logistics agency, responsible for foodgrain supplies, set a floor price for maize and annually procured small amounts of maize in defense of the floor. This maize then was sold at subsidized prices to feed mills in an attempt stabilize prices of poultry and eggs.

BULOG experienced significant difficulties in storing maize. Because the main maize harvest in Indonesia is during the rain season (in December / January), drying the maize (to 14 percent or below moisture content) so as to prevent fungal growth and aflatoxin contamination was a major problem. Aflatoxin contamination has been linked to cancer in humans and causes serious decreases in poultry and egg productivity. In the 1970s, problems with high levels of aflatoxin put an end to Indonesia's exports of maize to Japan.

Such problems with maize storage must be considered in Bangladesh as well, if the DG Food is required to store the maize during the monsoon season. In order to avoid storing maize for long periods of time, it would be useful to have a clear idea of potential buyers (feed mills, individual consumers, etc) before procurement. Otherwise, the DG Food may find itself storing maize during the monsoon and eventually forced to simply discard aflatoxin - contaminated maize. Early sales would almost certainly require a subsidy, however: the DG Food would buy the maize at a price above market levels and would have to sell the maize at the market price (or below) shortly thereafter. The risk of government intervention, though, is that subsidized maize sales might hinder the development of private markets for maize by diminishing incentives for private storage and trade.

In the medium term, there may be a rationale for government intervention in maize markets. Such intervention should be designed to assist the development of the private sector maize market, rather than replace or hinder it. In any case, any decision on a large scale intervention in maize markets should be made only after careful analysis of production costs, marketing constraints, human consumption and livestock feed demand, and international trade flows (from India as well as from other countries).

FPMU – FMRSP memo
14 June, 1998

Outlook for Boro Procurement and Rice Stocks

Following the aman shortfall of 1997/98, market prices of rice quickly rose above the procurement price, so that domestic fixed-price procurement failed. As a result, government rice stocks at the start of January, 1998 were only 270,000 metric tons. Nonetheless, by reducing planned distribution through other channels, the Ministry of Food was still able to sell 143,400 metric tons of rice through OMS channels from January to April. Most important, the private sector imported more than 1 million tons of rice (900,000 through official channels) during these months.

Fortunately, it now appears that the 1997/98 boro harvest will be very good. National average wholesale market prices for coarse rice have fallen from 14.24 Tk/kg on April 18 to 11.85 Tk/kg at the end of May. Latest estimates put the boro harvest at 8.0 million tons, greater than the 1997 record harvest. Area planted to aus paddy will likely be down somewhat, yet production is still expected to be about 1.8 mn tons. Thus, the total boro plus aus harvest is expected to be about 9.8 million tons, above that in 1997.

Currently, government stocks are low: only 133,700 MT of rice at the start of June. Thus, a successful boro procurement is extremely important to build up stocks for expected OMS requirements through the end of October and possible needs in early 1999. The purpose of this memo is to assess the procurement situation, outline possible stock and import scenarios, and highlight the critical periods in the next nine months for decisions about imports and stocks.

Boro Procurement

The boro procurement price has been set at 12.0 Tk/kg for rice and 7.55 Tk/kg paddy. Initial procurement targets were for 120,000 metric tons of rice and 200,000 metric tons of paddy (equivalent to 130,000 metric tons of rice, using a conversion factor of 0.65). Subsequently, the procurement target for rice was enhanced by 1 lakh metric tons, so that currently the total boro procurement target is 350,000 metric tons of rice or rice equivalent.

Given the importance of boro procurement, particularly this year, there are concerns that procurement has begun more slowly than in recent years. The major reason for the delay is that the harvest itself has started later. Field reports from Dinajpur and other northern districts suggest that **rice procurement targets in these areas are likely to be met**, as market prices for rice are currently below the procurement price. It thus seems likely that it will be possible to procure 120,000 metric tons of rice (the initial target) within one month, and an additional 100,000 metric tons by the end of July.

Paddy procurement is less certain at this stage, however, even though the market price for paddy is only about 6 Tk/kg in Rajshahi division. Much of the paddy available in the market does not meet the 14 percent moisture requirement for purchasing by the Local Supply Depots (LSD's). Because of a concern that paddy procurement in small lots will not succeed, the maximum sale per farmer has been raised from one ton to five tons. The requirement for certificates verifying that a prospective seller is in fact a farmer, (not a trader), may be withdrawn soon. In spite of these problems, it is likely that by the end of July, the paddy procurement target will be substantially achieved.

Stock, Procurement and Distribution Scenarios

Given the current low level of stocks, the poor aman harvest of 1997/98 and the possibility that El Nino or other weather effects may damage the forthcoming 1998/99 aman harvest, this year's plans for foodgrain stocks, procurement and distribution are particularly important. At this point, **the size of the next aman harvest is the major uncertainty** in planning, though the actual size of the upcoming boro procurement is also somewhat in doubt.

We analyze here three scenarios for the boro procurement and three scenarios for aman. For boro, **Scenario 1 assumes that boro procurement fails** and that there is no boro procurement after June. In this case, the Ministry of Food might compensate for the failed procurement with additional imports. In this way, it could build up its stocks, so as to be prepared for a possible failure of aman procurement. **Scenario 1 assumes** import tenders are floated in early August and **250,000 metric tons of rice imports** arrive in November (100,000 metric tons) and December (150,000 metric tons).

Boro scenario 2 assumes a total of 100,000 metric tons of rice are procured in July and August, 1998. **Import tenders for an additional 150,000 metric tons are floated in September**, with arrivals of 100,000 metric tons of rice in December and 50,000 metric tons in January, 1999.

Boro scenario 3 is a successful procurement of 242,000 metric tons in July, August and September. In this case, **no import tenders are floated**.

In both the first and second scenarios, stock levels are at 272,000 metric tons at the end of November. The third scenario has significantly higher end-November stocks: 412,000 metric tons, a level which, in fact, appears to be somewhat excessive. Levels of stock beginning in December depend, of course, on assumptions made for the aman harvest.

For aman, we again consider three scenarios. In **Scenario A**, we assume that planned **aman procurement of 250,000 metric tons fails** (as did the aman fixed-price procurement for 1997/98). We assume that the Ministry of Food floats import tenders from December 1, so that imports begin to arrive 90 days later, i.e. about March 1. A total of **250,000 metric tons of rice is imported** to replace the failed aman procurement: 100,000 metric tons in both March and April, and 50,000 metric tons in May. Scenario A

also assumes that **OMS sales are high: a total of 250,000 metric tons** for the January-April period. In order to conserve rice stocks, 185,000 metric tons of wheat are swapped for rice in planned distribution through Food For Education (FFE) and Food For Work (FFW) channels.

Aman scenario B assumes **small aman procurement** (50,000 metric tons in both December, 1998 and January, 1999). **150,000 tons of imports** arriving in March and April replace the shortfall in planned aman procurement. **OMS sales are only 150,000 metric tons**, and 100,000 metric tons of rice are used in the FFE program.

Aman scenario C assumes a **successful aman procurement of 250,000 metric tons, no government imports, minimal OMS (50,000 metric tons)**, and 185,000 metric tons of rice used in FFE and FFW from January through April, 1999.

We present the results of three combined scenarios: 1a (failure of both boro and aman procurement), 2b (less than full target procurement in each season) and 3c (successful boro and aman procurement). As shown in the figure and accompanying table, **offsetting government imports and careful stock management** in scenarios 1a and 2b permit planned sales distribution and expanded OMS at **safe, but lower, stock levels** than with successful boro and aman procurement (Scenario 3c). End-of-month stocks vary from 182,000 to 222,000 metric tons in the crucial February through May, 1999 period in scenario 1a. Successful boro and aman procurement (scenario 3c) results in much higher stock levels, and so requires that rice is distributed through FFW and FFE in January through April, 1999 so that the stock does not deteriorate.

Maintaining higher stocks comes at a cost, of course. Assuming an annual interest rate of 7.5 percent and a price of rice of 14 Tk/kg, the higher stocks of scenario 3c entail an interest cost of 43 crore Taka. Carefully managed lower stock levels of scenarios 1a and 2b, result in costs of only 28 crore Taka and 34 crore Taka, respectively. These interest costs are only a fraction of the total costs of procuring and storing grain, however. Losses in transport and other management losses of procuring and selling the additional grain in scenario 3c could be substantial (approximately 21 crore Taka). Thus, the total increase in costs borne by the Ministry of Food in Scenario 3c as compared with Scenario 1a would be approximately 36 crore Taka. In addition, an estimated 150,000 metric tons of rice would remain in government stocks for more than six months and would have to be either sold at a discount or distributed through PFDS channels.

Summary

Boro procurement appears promising. Field reports from Rajshahi suggest ample volumes of rice are available in the market for procurement. Procurement is likely to be several weeks behind the schedule of the past few years, however, since the boro harvest was late this year.

Current procurement and distribution plans appear to involve excessively high stock levels. It appears that the Ministry of Food could safely reduce planned imports of

rice scheduled to arrive in August and September, 1998. Even if the Ministry of Food does not wish to reduce total procurement in this period, replacing 50,000 to 100,000 metric tons of imports with increased domestic procurement should be considered. Though imports currently have approximately the same cost to the government as domestic procurement, purchasing rice locally helps support domestic rice prices by withdrawing supplies from market.

Current planned procurement (domestic and international) appears to be more than sufficient for expected OMS and other requirements through the end of October and possible needs in early 1999. Nonetheless, there will be two critical periods for stock and import decisions in the next six months: early August and late November. In early August, it will be possible to assess the boro procurement and ascertain whether to float import tenders to build up stocks in case of a failure of aman procurement. The likely aman procurement, itself, can be assessed in mid- to late November, at which time further import tenders may be necessary.

Finally, in all these scenarios, it must be kept in mind that 250,000 metric tons of OMS sales will not necessarily be sufficient to have a significant impact on market prices of rice. In the event of a large production shortfall, like the aman 1997/98 crop shortfall, prices will likely once again rise to import parity levels, providing incentives for large-scale private sector imports of rice (an estimated 1.1 million tons were imported by the private sector in early 1998). If the government wished to keep market prices below import parity (which may be higher if India and other rice exporters have poor harvests), then the government would have to supply an amount of rice greater than would be imported by the private sector. OMS, thus, should not be seen as a means of influencing market price in the event of a large shortage, but rather as a means to target rice to particular regions of the country, and to some extent, to certain groups of the population.

Rice Price Movements after the Boro Harvest:

Assessing the Current Situation in the Light of Past Experience

The 1998 boro harvest appears to be the highest ever in Bangladesh: current estimates place the harvest at 8.0 million metric tons or more. As the size of the harvest became clear and boro rice reached markets, rice prices fell sharply, from 14.35 Tk/kg (wholesale coarse rice, Dhaka) in late April to only 11.25 Tk/kg in late May. This price decline was especially welcome, given the high market prices that prevailed after the 1997/98 aman production shortfall.

In the last few weeks, however, market prices have risen slightly in markets around Bangladesh. Wholesale prices of coarse rice in Dhaka rose from 11.25 Tk/kg in the last week of May to 11.50 Tk/kg in the first week of June. Similar price increases have been observed for both paddy and rice in the major procurement zones in Rajshahi division. This memo reports the recent data on price movements and compares them with data from recent years to assess the extent to which these price changes represent unusual fluctuations in the market. We also discuss possible reasons for the price increase. Finally, we present suggestions for continued monitoring of rice markets.

Recent Price Movements in Historical Context

Figure 1 shows wholesale prices of boro HYV rice in Dhaka in recent years. In years of good boro harvests, as in 1996 and 1997, prices fall sharply from the time of the boro harvest (which typically begins in late April / early May) until late May. In 1996, prices then began to rise until mid-July before falling later in the season. In 1997, prices rose slightly at the end of June, but then returned to their previous level of about 9.0 Taka/kg and remained there until mid-September.

The same basic seasonal pattern is observed in most years in major rice markets in Rajshahi division: Dinajpur (Figure 2), Rangpur (Figure 3) and Rajshahi (Figure 4). In Dinajpur, prices dropped sharply in May, 1997 and remained low until early July, after which they rose slowly by 0.7 Tk/kg until early August. In 1996, prices fluctuated more. Prices rose by 0.9 Tk/kg in the first week of June, remained steady for several weeks then rose by 1.0 Tk/kg in the third week of July before dropping steadily until the third week of August.

Thus, this year's price increases are not unusual by historical standards. It is generally not possible to explain small short term movements in local markets. The

important point is that these movements are not unusual in Bangladesh (or for that matter, in most countries).

Nonetheless, several factors clearly contribute to price movements. First, prices tend to rise after the harvest because of rising storage costs over time (due to losses, implicit interest costs and other costs of storage). Second, expectations and realizations of the aus harvest affect market supplies and expectations of future price movements. Third, announcements of increases in procurement targets or other changes in government policy can also have an impact on the market.

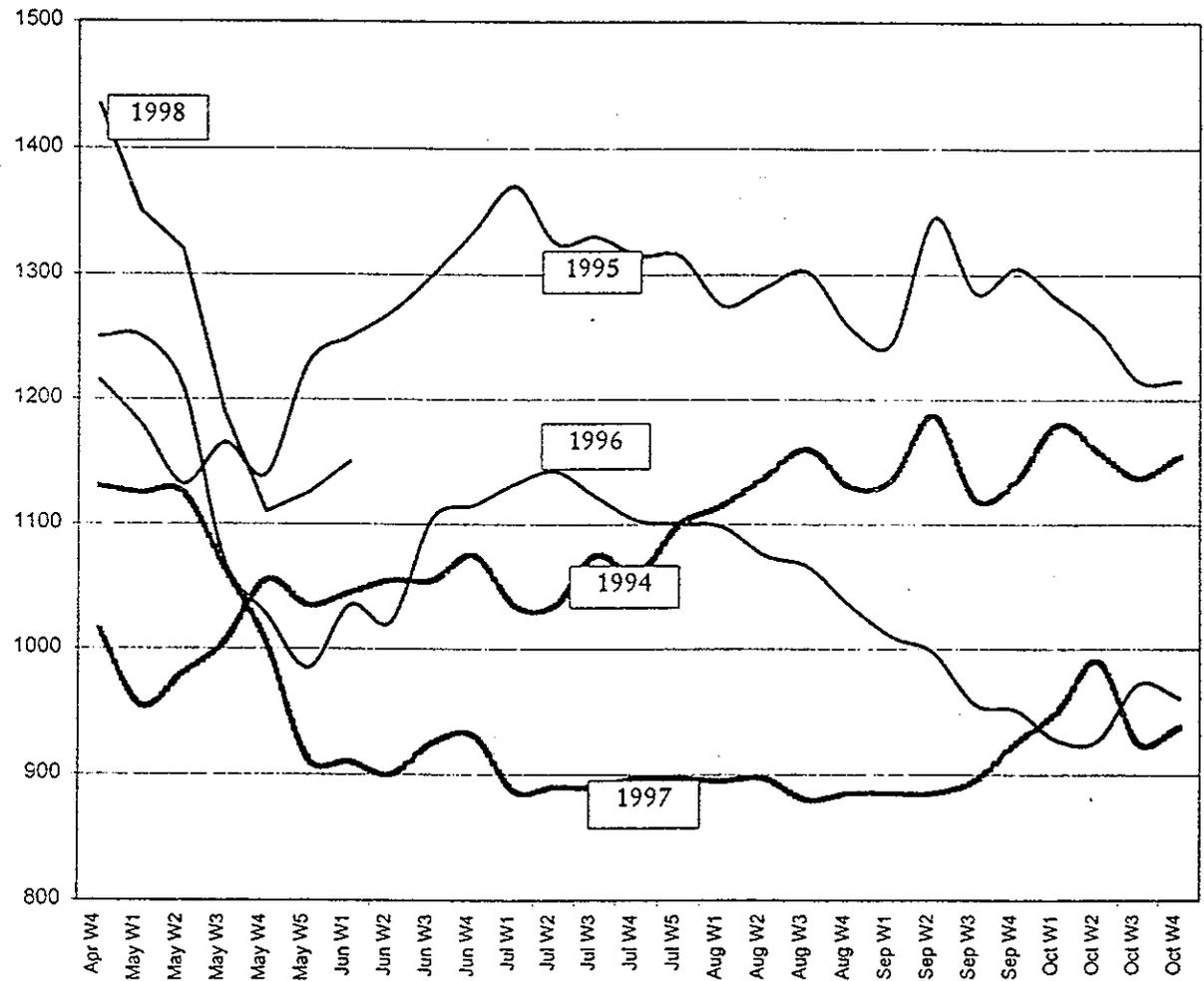
Conclusions

By all indications, this year's boro harvest was a very good one. Broad market trends reflect this: prices have fallen steep since late April. Short-term price fluctuations should not cause undue concern, though an upward trend lasting several weeks would likely indicate a shortage in aus or some other decrease in expected supply. Thus, it is important to continue to monitor markets on at least a weekly basis, and to investigate persistent market trends.

Dhaka Wholesale Market Boro Rice Price
(Taka / Quintal)

Dhaka	1994	1995	1996	1997	1998
Apr W4	1015	1215	1250	1130	1435
May W1	955	1180	1250	1125	1350
May W2	980	1132	1210	1125	1320
May W3	1005	1165	1070	1065	1190
May W4	1055	1140	1028	1005	1110
May W5	1035	1230	985	912	1125
Jun W1	1045	1250	1035	910	1150
Jun W2	1055	1270	1022	900	
Jun W3	1055	1300	1105	925	
Jun W4	1075	1335	1115	931	
Jul W1	1035	1370	1132	887	
Jul W2	1035	1325	1142	890	
Jul W3	1075	1330	1122	890	
Jul W4	1060	1315	1103	897	
Jul W5	1100	1315	1101	897	
Aug W1	1115	1275	1098	895	
Aug W2	1138	1290	1075	897	
Aug W3	1160	1302	1066	880	
Aug W4	1130	1257	1035	885	
Sep W1	1135	1245	1010	885	
Sep W2	1187	1345	997	885	
Sep W3	1120	1285	956	895	
Sep W4	1135	1305	951	925	
Oct W1	1180	1280	927	950	
Oct W2	1159	1255	927	990	
Oct W3	1137	1215	972	925	
Oct W4	1155	1215	961	938	

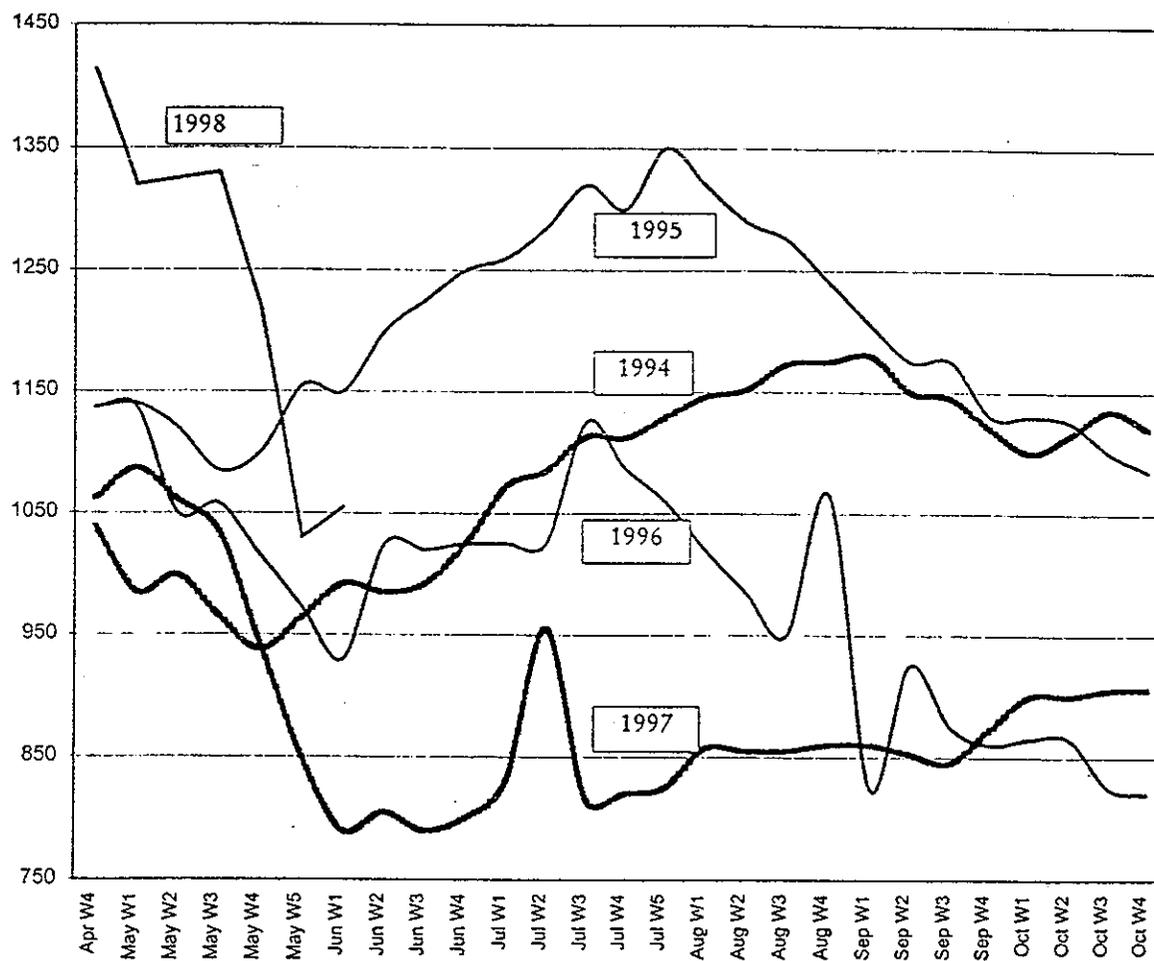
Figure 1 : Dhaka Market Wholesale Price of Boro-HYV Rice (Tk/Quintal)



Dinajpur Wholesale Market Boro Rice Price
(Taka / Quintal)

Dinajpur	1994	1995	1996	1997	1998
Apr W4	1038	1137	1137	1062	1414
May W1	985	1140	1137	1087	1320
May W2	999	1120	1050	1061	1325
May W3	965	1085	1058	1035	1330
May W4	938	1100	1015	943	1220
May W5	964	1155	973	850	1030
Jun W1	992	1150	930	790	1055
Jun W2	985	1200	1025	805	
Jun W3	992	1225	1020	790	
Jun W4	1025	1250	1025	800	
Jul W1	1072	1260	1025	830	
Jul W2	1085	1285	1025	955	
Jul W3	1113	1320	1125	815	
Jul W4	1112	1300	1087	820	
Jul W5	1129	1350	1060	825	
Aug W1	1146	1320	1020	857	
Aug W2	1152	1290	985	855	
Aug W3	1173	1275	950	855	
Aug W4	1175	1240	1065	860	
Sep W1	1180	1205	825	860	
Sep W2	1150	1175	925	853	
Sep W3	1145	1175	875	845	
Sep W4	1120	1130	860	873	
Oct W1	1100	1130	865	900	
Oct W2	1115	1125	865	900	
Oct W3	1135	1100	825	905	
Oct W4	1120	1085	820	906	

Figure 2 : Dinajpur Market Wholesale Price of Boro-HYV Rice (Tk/Quintal)

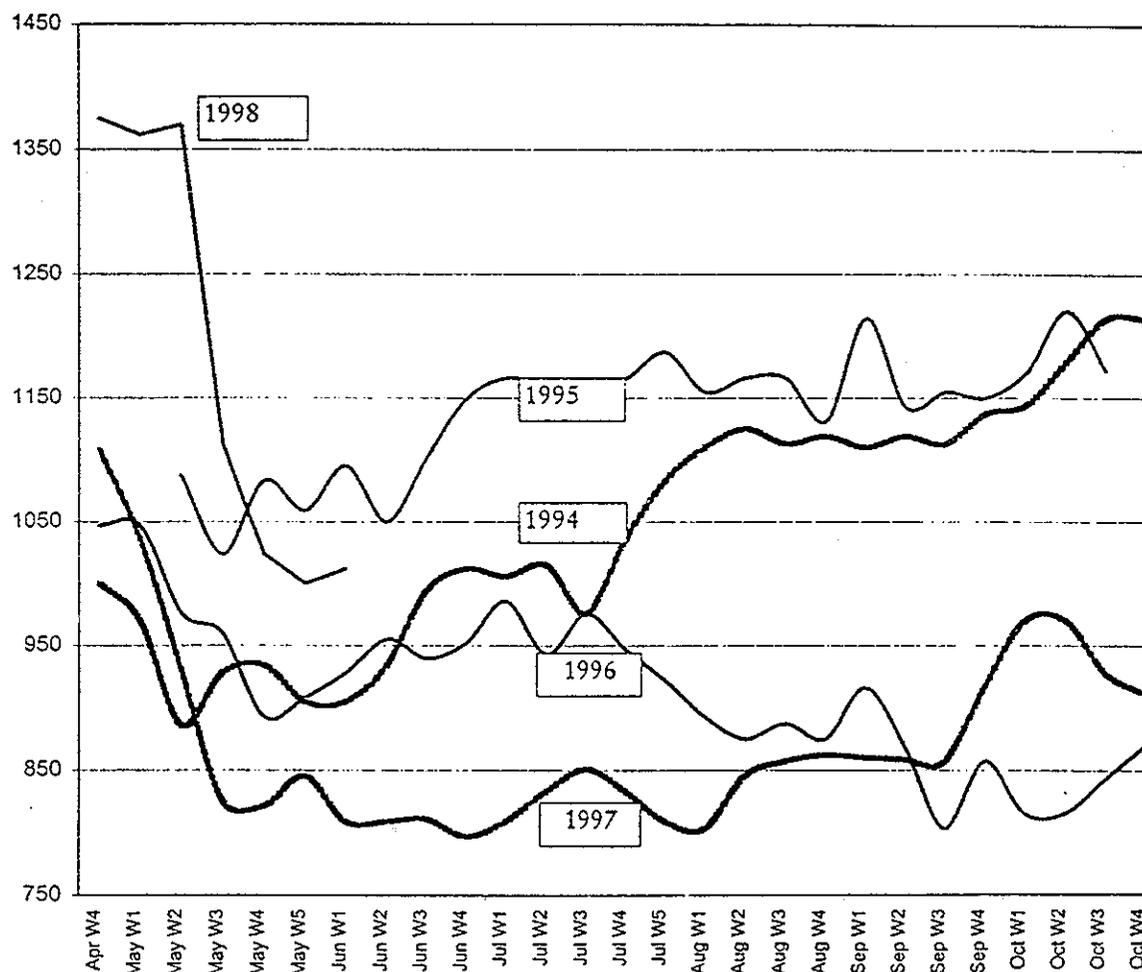


24

Rangpur Wholesale Market Boro Rice Price
(Taka / Quintal)

Rangpur	1994	1995	1996	1997	1998
Apr W4	1000		1047	1107	1375
May W1	970		1047	1036	1362
May W2	886	1087	976	931	1370
May W3	928	1024	960	825	1113
May W4	934	1083	893	821	1024
May W5	905	1059	908	845	1000
Jun W1	905	1095	928	809	1012
Jun W2	934	1050	955	809	
Jun W3	994	1101	940	811	
Jun W4	1012	1149	952	797	
Jul W1	1006	1166	986	809	
Jul W2	1015	1161	943	833	
Jul W3	976	1160	976	851	
Jul W4	1036	1166	947	833	
Jul W5	1083	1187	922	809	
Aug W1	1110	1155	893	803	
Aug W2	1125	1166	875	845	
Aug W3	1113	1166	887	857	
Aug W4	1119	1131	875	862	
Sep W1	1110	1214	916	860	
Sep W2	1119	1143	869	859	
Sep W3	1113	1155	803	857	
Sep W4	1137	1150	857	917	
Oct W1	1144	1170	815	970	
Oct W2	1179	1220	815	970	
Oct W3	1214	1172	842	928	
Oct W4	1214		869	911	

Figure 3 : Rangpur Market Wholesale Price of Boro-HYV Rice (Tk/Quintal)

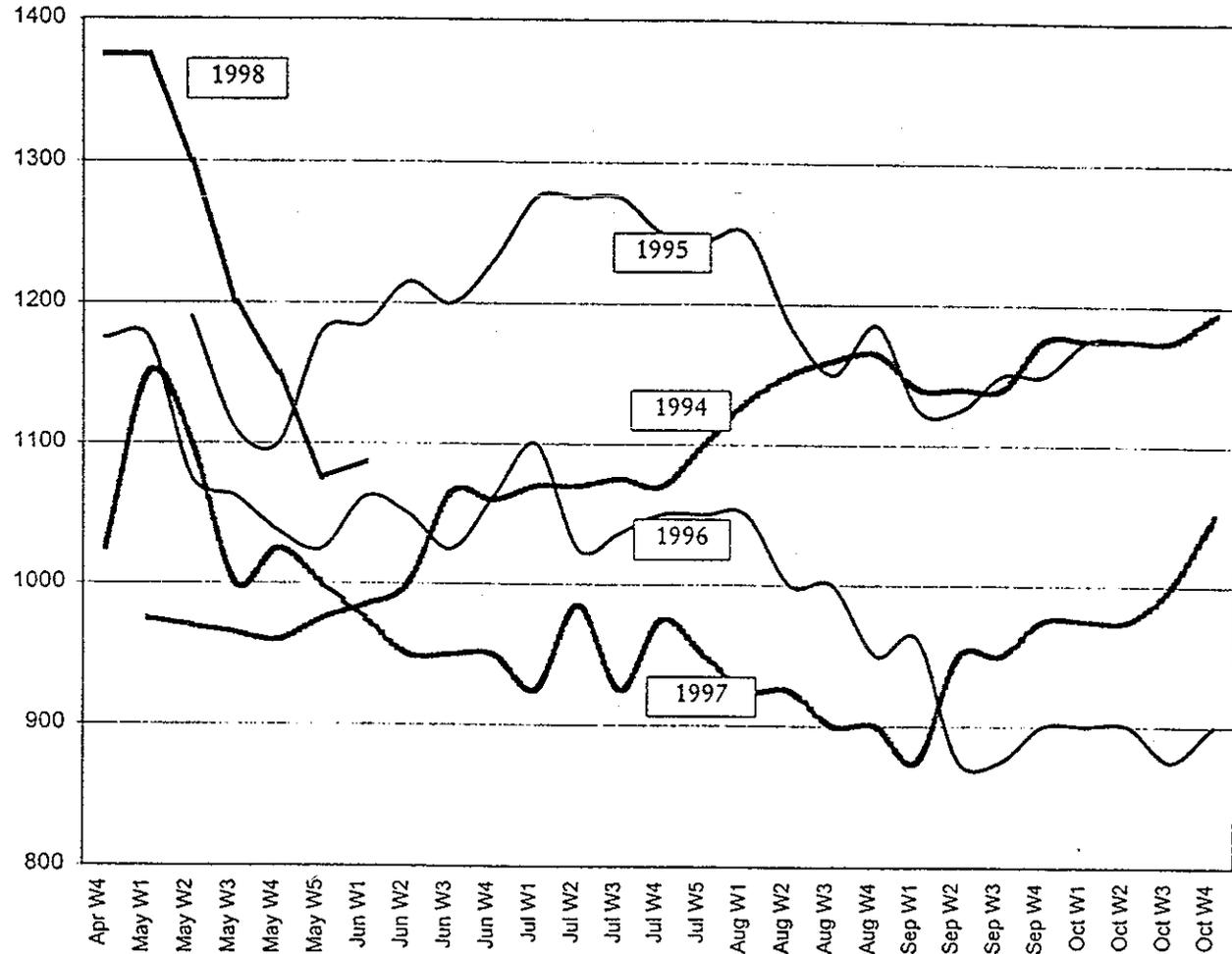


Rajshahi Wholesale Market Boro Rice Price

(Taka / Quintal)

Rajshahi	1994	1995	1996	1997	1998
Apr W4			1175	1025	1375
May W1	975		1175	1150	1375
May W2	970	1190	1075	1100	1300
May W3	965	1110	1062	1000	1200
May W4	960	1100	1037	1025	1150
May W5	975	1180	1025	1000	1075
Jun W1	985	1185	1062	975	1087
Jun W2	1000	1215	1050	950	
Jun W3	1065	1200	1025	950	
Jun W4	1060	1230	1062	950	
Jul W1	1070	1275	1100	925	
Jul W2	1070	1275	1025	985	
Jul W3	1075	1275	1037	925	
Jul W4	1070	1250	1050	975	
Jul W5	1100	1245	1050	950	
Aug W1	1130	1250	1050	925	
Aug W2	1150	1185	1000	925	
Aug W3	1160	1150	1000	900	
Aug W4	1165	1185	950	900	
Sep W1	1140	1125	962	875	
Sep W2	1140	1125	875	950	
Sep W3	1140	1150	875	950	
Sep W4	1175	1150	900	975	
Oct W1	1175	1175	900	975	
Oct W2	1175	1175	900	975	
Oct W3	1175		875	1000	
Oct W4	1195		900	1050	

Figure 4 : Rajshahi Market Wholesale Price of Boro-HYV Rice (Tk/Quintal)



Food Aid Needs in Light of the Recent Floods

The recent floods in Bangladesh, coupled with forecasts for continued weather and flood problems, suggest that foodgrain production this year may fall below the target levels. Prior to the floods, the production target of food grain for FY 1998/99 was set at 21 million tons compared to production in 1997/98 of 20.5 million tons. Given a target foodgrain consumption of 454 grams per person per day, the projected foodgrain deficit was 2.1 million tons. It now appears that this food gap may be even larger.

The current (1998/99) food budget, approved in June, 1998 assumed that public sector foodgrain imports (150,000 MTs of rice and 200,000 MTs of wheat) would supplement 600,000 MTs of food aid wheat imports. Public foodgrain supplies were also expected to be augmented by an additional 750,000 MTs of domestic procurement, (600,000 MTs of rice and 150,000 MTs of wheat). With planned distribution of 1.72 million tons of foodgrain distribution, the end of year stock was projected to be 590 thousand MTs.

Unfortunately, the floods in July have already reduced production of aus, the first crop of the year, by 300 thousand tons (from a target of 1.9 million tons to 1.6 million tons). The flood has now also damaged seedlings and delayed transplanting for the aman crop. Though there is considerable uncertainty regarding the effects of the flood at this point, initial estimates suggest that aman production may be only 9.35 million tons, 150 thousand tons short of the target. Thus, the total decline in production due to the floods would be about 450 thousand tons, increasing the food gap from 2.1 million tons to 2.5 million tons. Moreover, the shortfall in production is likely to increase the demand for food grain in the PFDS, especially through OMS and relief channels. Thus, additional food aid or government commercial imports are likely to be needed.

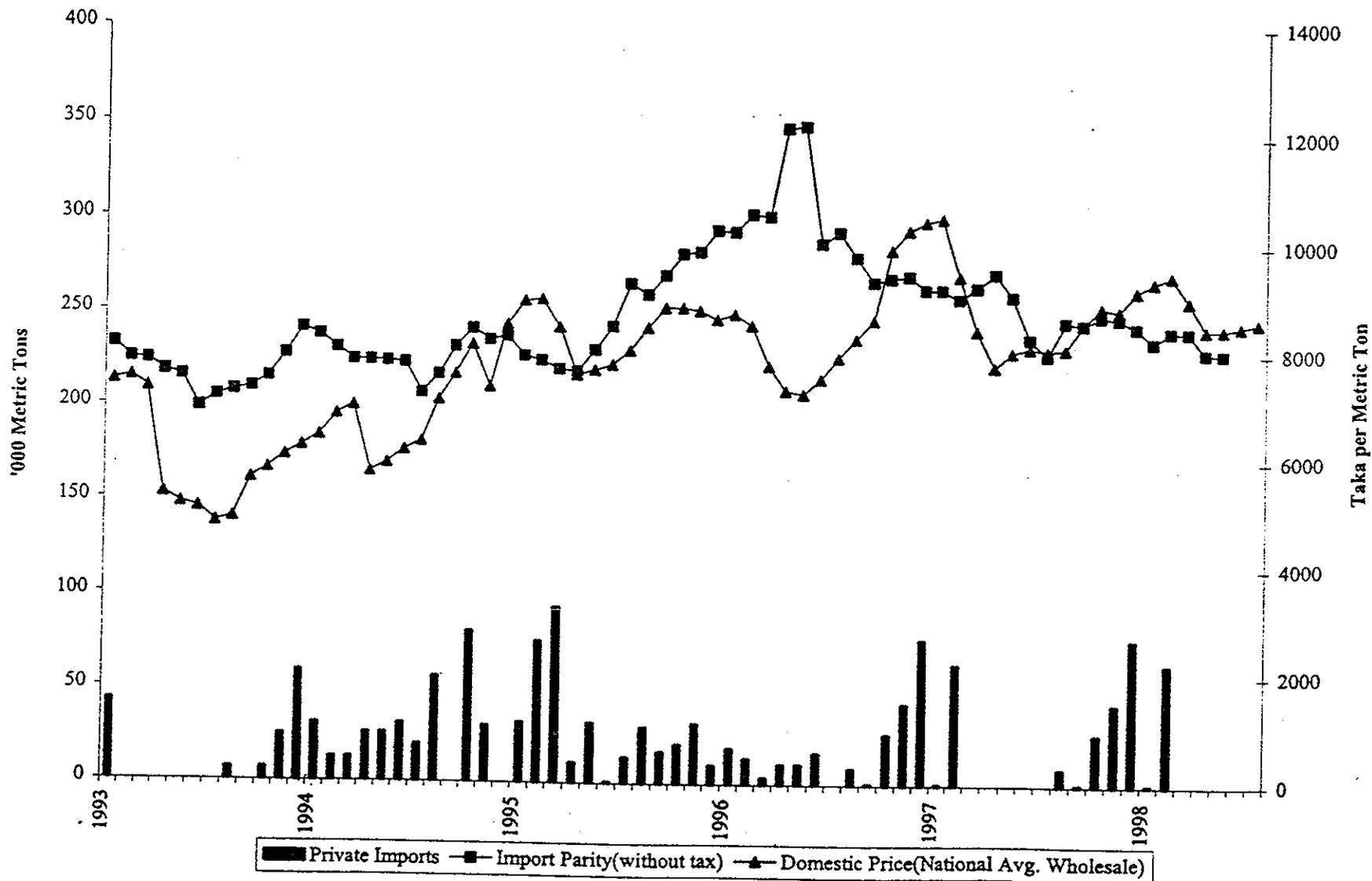
What effect might increased public imports have on market prices for wheat and farmer incentives for production? As shown in Figure 1, domestic wheat prices are currently slightly above world prices, measured as import parity without import taxes. Moreover, domestic prices have been near or above import parity since late 1996. During these two years, total imports (public and private) have averaged 929,000 MTs. With currently projected food aid of only 600,000 MTs for 1998/99 and government scheduled commercial imports of 200,000 MTs, total currently planned public imports are roughly 130,000 MTs below the average total (public plus private) wheat imports of the last two years. Given the expected increase in PFDS wheat distribution related to the flood, it appears that additional food aid or commercial imports on the order of 200,000 metric tons is unlikely to depress market prices below import parity. (This assumes that the wheat distribution is not overly concentrated in a short period of time or a limited number of markets.)

Of course, food aid imports at concessional prices provide greater benefits to the government and people of Bangladesh than do public commercial foodgrain imports. At the current CIF price of approximately \$170/MT, the value of an incremental 200,000 MTs of wheat is US\$ 34 million or Taka 1600 million. Financing these additional imports and distributing the wheat through relief channels, would require either an increase in public borrowing (which equalled 16,760 million in the first three quarters of 1997/98), a reduction in development expenditures, or a combination of the two.

Summary

There is a strong case for further food aid to Bangladesh in 1998/99. Flooding has reduced the aus crop by 300,000 MTs and further flood-related declines in aman rice production are possible. Additional demands for wheat distribution through the PFDS are likely to be needed for relief operations and other targeted programs. Moreover, scheduled public imports (food aid and commercial) are 130,000 MTs less than average total wheat imports in the last two years so that moderate increases in public wheat imports are not likely to depress market prices below world price levels. Given the likely increase in PFDS wheat distribution related to the flood, and the tight fiscal constraints of the Bangladesh government, an increase in food aid imports of at least 200,000 appears warranted.

Figure 1 : Wheat Prices and Imports, 1993 - 1998



Alternative Scenarios for Flood Relief: The Need for Increased Food Grain Supplies by November

Because of the recent floods, the Ministry of Relief has proposed a large program of immediate food grain distribution to affected households. During the next several months, distribution plans call for an additional 1.5 lakh MTs of rice through Vulnerable Groups Feeding (VGF), 0.75 lakh MTs of rice through Gratuitous Relief, and .15 lakh MTs through Test Relief. In addition, Food For Work is to be expanded, beginning in October by 2.25 lakh MTs of wheat.

This relief assistance in the form of grain, along with clean water, medicine, shelter and other food, are urgently needed by many flood victims. The purpose of this memo is to assess the implications of this distribution plan on government food grain stocks and import requirements.

We consider two scenarios: 1) distribution of both rice and wheat as proposed by the Ministry of Relief and 2) distribution of wheat only. The advantage of the second alternative is that it is less costly, particularly given low international wheat prices and prospects for additional food aid in the form of wheat. In the next few weeks, while the flood waters remain high, however, rice may be a more practical form of aid given difficulties of milling and preparing wheat for consumption in flooded areas.

In Scenario 1), the additional government rice distribution flood relief through VGF and GR is 168.75 thousand MTS between August and October (48.75 thousand MTs in August, 67.5 thousand MTs in September, and 42.5 thousand MTs of rice in October). Thus, total rice distribution in these three months is 321.7 thousand MTs, compared to 152.9 thousand MTs that were planned as of mid-August. This large increase in rice distribution implies that in the absence of additional increase in rice imports beyond the 110 thousand MTs already scheduled for September and October, available rice stocks (i.e. net of transit adjustments) would fall to only 115 thousand MTs by the end of October. Wheat stocks would also be low by the end of October if the Ministry of Relief distribution plan is executed, falling to only 215,000 MTs; (and this assumes a timely arrival of the 2.18 lakh MTs of commercial wheat imports recently contracted by the Ministry of Food. Thus, in the absence of additional procurement both rice and wheat stocks will fall dangerously low by the end of October.

Scenario 2), an alternative distribution plan in which wheat is substituted for rice, has similar problems with maintaining adequate stocks. Wheat stocks fall to only 82 thousand MTs (net of transit deduction), by the end of September. Even assuming the arrival of 2.18 lakh MTs of wheat in October through the commercial tender, wheat stocks are only 95 thousand MTs at the end of that month. Distribution of the scheduled 224 thousand MTs of wheat in November would simply not be possible without additional wheat imports by that month.

The message of these two scenarios is clear: current distribution plans for flood relief proposed by the Ministry of Relief are not feasible unless substantial amounts of food grain imports arrive by late October to early November. Under scenario 1, involving both rice and wheat distribution, at least 80 thousand MTs of additional rice imports (beyond what is currently programmed) are needed by November, as well as 1 lakh MTs of additional wheat imports. Similarly, scenario 2, (wheat distribution only), requires at least 1.5 lakh MTs of additional wheat imports by November.

Thus, donors should be strongly encouraged to make every effort to ensure that at least some food aid wheat arrives in October. Second, alternatives to direct distribution of food grain in October and November (by which time, hopefully the floodwaters have receded) should be considered, so as to conserve government food grain stocks. For example, reducing rice distribution by 45 thousand MTs and wheat distribution by 100 thousand metric tons in these two months would increase stocks by 1.45 lakh and reduce the risks posed by delays in imports.

Third, additional government procurement of rice may be required. It should be kept in mind, however, that it is important to maintain adequate incentives for private market rice imports. If the aman rice crop is indeed badly affected by the floods, substantial amounts of rice will be needed to supply domestic markets, amounts that would be both extremely costly and involve enormous logistical problems for the Ministry of Food. The private sector supplied the domestic rice markets with over 1 million MTs of rice from January to May, this year, following the 1997/98 aman shortfall, and has imported more than 1.7 lakh MTs of rice in August, 1998. Managing a large aman shortfall in 1998/99, should such a bad harvest occur, would be made many times more difficult if private imports slowed down.

Procurement Needs and Mechanisms in Response to the Flood Situation

The flooding in Bangladesh that began in July and that may continue through the end of September appears increasingly likely to cause major damage to the aman crop. According to USAID estimates, about 1.0 mn hectares (out of approximately 5.0 mn hectares) of aman land have been inundated with floodwater. If the floods do not recede by the end of the September, this land will likely produce no rice at all – a loss of 2.0 mn MTs of rice production. Even if the waters recede in the next few weeks on half of this land, yields will be greatly reduced, falling to about 1.0 MTs/hectare, about half their normal levels of 2.5 MTs/hectare. In this case, the aman shortfall would be 1.5 mn MTs.

Thus aman rice production is likely to fall by 1.5 to 2.0 mn MTs, following the approximately 3 lakh MT reduction in the aus harvest. **It is clear that such a large shortfall cannot be met by the public sector alone.** Thus, the Ministry of Food should work to ensure that incentives for the private sector to import food grain are not reduced through large-scale sales of food grain at sub-sidized prices, taxes on imports, restrictions on the private sector trade or imposition of anti-hoarding regulations. In 1997/98, following an aman shortfall officially estimated at 6.5 lakh MT, (but likely about 1.3 mn MTs), over 1 million MTs of rice were imported by the private sector from January to June, 1998. Without these private sector imports, prices in Bangladesh would likely have increased substantially more than they did. This year's situation appears more serious, and the consequences of hindering the private sector trade would be more severe.

PFDS requirements for flood relief operations are already very large. Under the current working scenario, 88.4 thousand MTs VGF rice, 10 thousand MTs GR, rice, and 1 lakh MTs TR wheat, will be distributed for flood relief from September through December. This is in addition to distribution through other channels, so that in all, 565 thousand MTs are scheduled for distribution in this period (Table 1). Stocks are currently adequate for distribution in September and October. However, without additional procurement in the next three months, stocks will fall to critically low levels, preventing execution of distribution plans in November and December. It is thus urgent that measures be taken to ensure the arrival of food grain already scheduled and to arrange for additional procurement.

Three major considerations are important in this essential procurement: timing, assurance of delivery and cost. Commercial imports through international tenders are the normal means for the DG Food to acquire food grain. In recent years, almost all of these tenders have been won by traders importing grain from India. Like all tenders, however, some of these tenders were not successful in bringing all the food grain anticipated. To avoid the risks of failure to acquire adequate food grain, the Ministry of Food should diversify both its sources of food grains and the mechanism used for procurement. Thus, in addition to the usual international tenders, other options should be considered

including, local tenders for rice, international tenders for rice from Thailand, purchases through the Bangladesh Trading Corporation and imports through the SARC food security stock (currently 241,000 MTs).

Local tenders offer several advantages: 1) delivery is made directly to specific godowns throughout the country; 2) by limiting the size of the contracts awarded to individual buyers, it should be possible to ensure that at least some of the grain is shipped across land borders with India, thus allowing for quicker deliveries and avoiding possible congestion and delays at Chittagong and Mongla ports. 3) the full cost of the food grain, including in-country shipment and handling costs to specific sites is included in the contracts.

Following the 1997/98 aman shortfall, three local tenders were floated in early 1998 (15 January, 24 February, and 16 March) for a total of 200,000 MTs. Of this amount, 168,000 MTs were ordered and 95,454 MTs were delivered (57 percent of the quantity ordered). In order to improve performance of local tenders, several steps could be taken. First, the maximum size of contract awarded to a single trader for delivery to a single site could be reduced, so as to reduce the loss of quantity procured due to a failure to deliver by a single trader. Second, the bid bond could be increased from 2 percent in the earlier tenders to 5 percent. Third, a series of small tenders of 20 to 30,000 MTs with short delivery schedules could be floated. In this way, it should be possible for traders to arrange deliveries by truck rather than by ship.

In the **international tenders**, in order to diversify the sources of the rice and speed up delivery of rice, the Ministry of Food should consider specifying a higher quality of rice, specified according to currently traded grades and standards. Much of the private cross-border trade in rice is about 10% broken par-boiled rice, and Thailand exports 5, 10 and 15 broken par-boiled rice. By specifying a non-standard grade of rice, (20 percent broken par-boiled), the tenders essentially preclude bids from Thailand's traders.

Government-to-Government imports are an option through the Bangladesh State Trading Corporation. This option, along with the option of accessing the SARC regional food security stock, may involve substantial administrative delays. The application process for importing grain should begin soon if these options are to be implemented.

Summary

The aman shortfall due to the floods is likely to be very large. Moreover, there are substantial immediate needs for food grain distribution for relief operations. In order to procure the necessary food grain for public distribution, the Ministry of Food should attempt to procure food grain through several channels, simultaneously, so as to reduce the risks of shortfall should a single channel fail. Though local tenders were not entirely successful in the first half of 1998, it appears feasible to improve their performance through small modifications in the specifications.

Finally, the size of the 1998/99 aman shortfall is likely to be 1.5 to 2.0 million MTs, far more than can be made up through government procurement. It is thus extremely important that incentives for private sector imports be maintained, and that the Ministry of Food monitor the flow of private imports as well as the policy environment in India and world market conditions so as to be able to respond to any changes in supply conditions.

EPMU

2/Sep/98

Operational Distribution Plan with Additional Imports

Monthly Projection of Govt. Stock, Procurement, Import, Offtake of Rice & Wheat during 1998/99

MONTH	OPENING STOCK			ADDITION									TOTAL ADDITION	OFF-TAKE																								Total	Stock net of transit deduct							
				Domestic Procurement			Import							RICE	WHEAT												Wheat TAKE																			
	Rice	Wheat	Total	Rice	Wheat	Total	Food Aid	Commercial	Total Import	Priced	Non-Priced	Rice	Priced				Non-Priced				Wheat				TAKE																					
										O/S	OP	EP	Total	FFW	VGD	FFE	TR	VGF	GR	Others	Total	Total	O/S	OP/PM	LEI	EP	Total	FFW	VGD	FFE	TR	VGF	GR	Other	Total	Total	Rice	Wheat	Total							
July '98	352	278	629	62	4	66	0	10	33	0	33	10	43	108	0.0	0.6	10.5	11.1	0.0	0.0	0.0	0.0	0.1	2.6	3.0	5.8	16.9	0.0	1.0	0.9	6.4	8.3	7.0	0.9	0.0	0.0	0.0	0.4	0.0	8.3	16.6	33.5	414	204	618	
August	429	274	703	9	0	9	2	0	23	0	25	0	25	34	0.0	0.5	10.5	11.0	0.0	0.0	0.0	0.0	26.9	43.4	3.0	73.3	84.3	0.0	1.5	1.5	7.6	10.6	2.0	29.1	0.0	0.0	0.0	0.0	0.3	1.8	33.2	43.8	128.1	363	160	523
Septem	378	230	608	0	0	0	5	23	35	0	40	23	62	62	30.0	0.5	10.5	41.0	0.0	0.0	0.0	0.0	22.6	10.0	3.0	35.6	76.6	0.0	1.5	1.2	7.0	9.7	2.0	15.0	0.0	0.0	0.0	0.0	1.5	18.5	28.2	104.8	326	153	478	
October	341	223	563	0	0	0	0	15	70	218	70	233	303	303	60.0	0.5	10.5	71.0	0.0	0.0	0.0	0.0	32.9	0.0	3.0	35.9	106.9	0.0	1.5	1.2	7.0	9.7	2.0	15.0	0.0	33.0	0.0	0.0	1.5	55.5	66.0	167.9	256	419	674	
Novem	303	394	697	0	0	0	0	62	70	100	70	162	232	232	30.0	0.5	10.5	41.0	0.0	0.0	25.0	0.0	32.9	0.0	3.0	60.9	101.9	0.0	2.0	1.3	7.2	10.5	6.0	15.0	0.0	33.0	0.0	0.0	1.5	55.5	66.0	167.9	256	419	674	
Decem	271	489	759	0	0	0	0	162	70	0	70	162	232	232	0.0	0.5	10.0	10.5	0.0	0.0	25.0	0.0	0.0	0.0	0.0	3.0	28.0	38.5	0.0	2.0	1.3	7.2	10.5	25.0	15.0	0.0	34.0	0.0	0.0	1.5	75.5	86.0	124.5	286	494	780
Jan '99	301	564	865	0	0	0	0	127	54	0	54	127	181	181	0.0	0.5	10.0	10.5	0.0	0.0	10.0	0.0	0.0	0.0	0.0	3.0	13.0	23.5	0.0	2.0	1.3	7.2	10.5	40.0	15.0	66.0	0.0	0.0	0.0	1.5	122.5	133.0	155.5	316	487	803
February	331	557	888	0	0	0	0	60	70	0	70	60	130	130	30.0	0.5	10.5	41.0	0.0	0.0	10.0	0.0	0.0	0.0	0.0	3.0	13.0	54.0	0.0	2.0	1.3	7.2	10.5	65.0	15.0	66.0	0.0	0.0	0.0	1.5	147.5	158.0	212.0	332	388	719
March	347	458	804	0	0	0	0	100	50	100	50	200	250	250	55.0	0.5	10.5	66.0	0.0	0.0	5.0	0.0	0.0	0.0	3.0	8.0	74.0	0.0	2.0	1.3	7.2	10.5	105.0	15.0	66.0	0.0	0.0	0.0	1.5	187.5	198.0	272.0	307	369	676	
April	322	459	781	0	60	60	0	100	0	66	0	166	166	226	70.0	0.5	10.5	81.0	0.0	0.0	0.0	0.0	0.0	2.0	3.0	5.0	86.0	0.0	1.5	1.3	7.0	9.8	120.0	15.0	33.0	0.0	0.0	0.0	1.5	169.5	179.3	265.3	220	435	655	
May	235	505	740	40	80	120	0	0	0	0	0	0	0	120	50.0	0.5	10.0	60.5	0.0	0.0	0.0	0.0	0.0	2.0	3.0	5.0	65.5	0.0	1.5	1.2	7.0	9.7	85.0	15.0	33.0	0.0	0.0	0.0	1.5	134.5	144.2	209.7	194	370	564	
June '99	209	440	649	95	50	155	0	0	0	0	0	0	0	155	0.0	0.5	10.0	10.5	0.0	0.0	0.0	0.0	0.0	1.0	2.0	3.0	13.5	0.0	1.5	1.2	7.0	9.7	86.0	15.0	34.0	0.0	0.0	0.0	1.5	116.5	126.2	139.7	275	303	577	
Total				206	204	410	7	659	475	484	482	1143	1624	2034	325	6.1	124.1	455.1	0.0	0.0	75.0	0.0	115.4	61.0	35.0	286.5	741.6	0.0	20.0	15.0	85.0	120.0	525.0	180.0	298.0	100.0	0.0	0.7	16.8	1120.5	1240.5	1982.1				
July '98 - December '98				71	4	75	7	272	301	318	308	590	897	972	120.0	3.1	62.6	185.6	0.0	0.0	50.0	0.0	115.4	56.0	18.0	239.5	425.1	0.0	9.5	7.4	42.4	59.3	44.0	90.0	0.0	100.0	0.0	0.7	7.8	242.5	301.8	726.9				
January '99 - June '99				135	200	335	0	387	174	166	174	553	727	1062	205.0	3.0	61.5	269.5	0.0	0.0	25.0	0.0	0.0	5.0	17.0	47.0	316.5	0.0	10.5	7.6	42.6	60.7	481.0	90.0	298.0	0.0	0.0	0.0	9.0	878.0	938.7	1255.2				

Operational Distribution Plan with Reduced Imports

FFW flood relief postponed to January through April (and not even included in the distribution plan) (wheat)

Test relief: 100 thousand MT in June 98 budget to be allocated as: Oct 33, Nov 33, Dec 34 wheat

VGF (rice): Increased by 100.4 over June 98 budget; distrib total: July 13.5; Aug 13.5; Sept 22.6; Oct 32.9; Nov 32.9; Dec 0

GR: 61 total Jly 20; Aug 26; Sept 10; 5 later; (rice)

O/S rice is 125 increase over June budget.

In order to raise stocks to the same level as the 1998/99 budget announced in June, (i.e. 2.75 lakh MTs rice; 3.03 lakh MTs wheat)

rice imports are increased by 1.2 lakh MTs and wheat imports are increased by 1.66 lakh MTs).

Raising end-stocks to higher levels would require corresponding increases in imports or local procurement.

35

OMS Sales and the Flood-Damaged Aman Harvest

Once again, in 1998-99, as in the previous year, the aman harvest is likely to be seriously damaged. Current estimates place this year's aman harvest at about 7.6 million MTs, 1.9 million MTs below the target of 9.5 million MTs. Millions of small farmers, landless laborers and urban poor households will be adversely affected by high rice prices. To alleviate this hardship, the Bangladesh government is planning to sell rice in small lots (3 kgs/person) through Open Market Sales (OMS). The purpose of this memo is to discuss the various factors that should be considered in setting the OMS price.

First, it is essential to realize that the **government imports and food aid, alone, will not be sufficient to make up the 1.9 million MT shortfall** in food grain supply before the wheat and boro harvests in April to June of 1999. Following the aman shortfall in 1997/98, government policy encouraged private sector imports of rice through removal of tariffs on imports, limitations on open market sales, ensuring free flow for official trade through land ports and abstaining from re-imposition of anti-hoarding laws. As a result, with ample incentives for trade, the private sector imported over 1 million MTs of rice from India in through official channels in the first six months of 1998. Such large private flows are again needed if the private sector is to import the rice needed to help offset the expected decline in aman production.

Thus, OMS sales should be designed to **maintain private sector incentives for rice imports**. Currently projected OMS sales are about 3 lakh MTs, compared with total private sector rice imports reaching perhaps 1.5 million MTs. At this level, rice prices are likely to remain at import parity level in most markets, as long as the lakh MTs of OMS sales are distributed fairly evenly across markets and over time.

The **OMS price** is important, however, for two main reasons. First, a low OMS price increases the financial cost of the subsidy. If 3 lakh MTs of rice are sold through OMS, a decrease of 1 Tk/kg in the OMS price raises the subsidy by **30 crore Taka**. Second, and **most important**, the OMS price helps determine the demand for OMS rice. Consumers who wait in line for OMS rice or make the effort to go to OMS distributors implicitly pay an additional cost in terms of their time and transport costs. If the OMS sales price of rice is very much lower than the market price of rice, there will be more consumers willing to wait in lines and travel to the OMS rice distributors. Setting an **excessively low OMS price risks drawing in many more buyers than can be satisfied** with the intended quantity for distribution, possible creating large numbers of unsatisfied consumers unhappy with the government.

Since the late 1980s, the average cost of domestically procured rice, adjusted for marketing costs, has served as one guide to the OMS price. The average of the procurement prices of the last boro crop (12.0 Tk/kg) and the 1997/98 aman crop (10.7

Tk/kg) is 11.35 Tk/kg. Using a markup of 15 percent for urban sales and 10 percent for rural sales gives OMS sales prices of **13.1 Tk/kg in urban areas** and 12.5 Tk/kg in rural areas.

A second consideration is the import parity price of rice, which is currently about 13.8 Tk/kg wholesale Dhaka (assuming a C&F Chittagong price of \$245/MT for coarse rice and 2.0 Tk/kg handling, transport and marketing costs). Retail prices are generally about 2.0 Tk/kg higher, (i.e. an import parity price of 15.8 Tk/kg retail level). In the coming months before the boro harvest, Bangladesh market prices for rice are likely to be largely determined by the import parity price of rice imports from India (assuming no major trade restrictions on either side of the border). Thus, in order to keep OMS prices reasonably close to expected market prices, the OMS price should be near import parity. In January, 1998, the OMS price for urban areas was initially set at **12.5 Tk/kg**, which corresponded to approximate import parity for coarse rice at Dhaka wholesale markets. Using this guideline, the OMS price pre-aman would be about **13.8 Tk/kg in urban areas**. (Note that the import parity price is likely to fall somewhat following the aman (kharif) harvest in India in October/November.)

Finally, a third consideration is that the OMS price should not be below the procurement price of rice (12.0 Tk/kg). Otherwise, it would be possible for traders to sell OMS rice back to the government for an assured profit!

Summary and Conclusions

Currently, the Bangladesh government plans substantial OMS sales to help subsidize rice for lower income households. Yet, it is clear that it will not be possible to make up the entire expected shortfall in rice production through government imports and food aid. Private sector rice imports were crucial in boosting rice supplies following the 1997/98 aman shortfall, and they are sorely needed this year to help supply markets and stabilize prices. Thus, **a prime consideration of all government food policy in the coming months should be to maintain incentives for and help insure the flow of private sector rice imports.**

OMS rice sales are unlikely to have a significant effect on market prices of rice, provided these sales are not concentrated in only a few markets over a short period of time. Nonetheless, the price of OMS sales is important in determining the size of the subsidy and the amount of demand for rice through OMS channels. In order to avoid the adverse consequences of spurring excessive demand for OMS rice that cannot be met through planned government sales, OMS prices should not be set too low. Using expected import parity prices as a guide, an OMS price in the range of **13.0 to 13.8 Tk/kg in urban areas** would provide about a 2 Tk/kg subsidy to consumers without creating excessive demand for OMS rice.

FMRSP/FPMU memo
14 September, 1998

India Food Grain Policy and Current Situation

- The Food Corporation of India has large amounts of **deteriorating rice stocks** and is looking for export markets for sale of this rice. (Rice stocks as of 1 April, 1998 were provisionally estimated to be **13.0 mn MTs**, 2.2 mn MTs in excess of the seasonal minimum norm for that date.) In this situation, it is likely that government to government sales from India to Bangladesh may involve some of this old FCI stock. Bangladesh should thus be **very cautious** about such sales and make adequate arrangements for pre-shipment inspections.
- Private sector rice trade in India is often handicapped by **state government movement restrictions** that block grain exports from the state. Such restrictions in Andhra Pradesh, one of the main sources for Bangladesh imports since April, 1998, significantly delayed shipments of rice this year.
- This year's Indian kharif (aman) harvest is forecast to be very good overall, though West Bengal and Bihar are likely to have lower-than-normal harvests because of flooding there.
- The **Indian Rice Exporters Association** is likely to be one of the best sources for current information about rice markets in India.

**Some Points for Discussion for the Forthcoming Intergovernmental Talks
between Bangladesh and India on Issues Relating to Foodgrain Trade;
22 September, 1998**

1. According to a recent agreement, Bangladesh is going to import a substantial amount of rice from the Food Corporation of India (FCI). The understanding seems to be that Bangladesh would have to take delivery of rice from FCI godowns and make its own arrangements to transport it across India to Bangladesh, on the grounds that FCI is not in the business of exporting rice. But this would be exceedingly cumbersome. There are other state agencies such as the STC and MMTC of India which are in the business of exporting rice; they can and do export FCI rice. Bangladesh should request India to offer a package deal whereby FCI rice will be delivered to Bangladesh by STC/MMTC.
2. STC/ MMTC can also conduct trade on their own account. In other words, they can purchase rice from private traders and millers for the purpose of exporting abroad. The government of Bangladesh should also explore that avenue, specially in view of the concern that currently exists regarding the quality of FCI rice. (According to recent newspaper reports, some of the rice stock is 2-3 years old and hardly fit for human consumption.)
3. All though the central government of India currently operates the policy of completely free export of rice, the state governments of some of the major rice eating states such as West Bengal and Orissa are currently restricting the export of rice from within their states. There have been court cases with West Bengal challenging the legality of these restrictions, and last year (1997-98) the West Bengal exporters obtained the stay order from the high court preventing the state government from practicing these restrictions. But this day stay order was withdrawn in March 1998, and since then restrictions have been re-imposed - export of rice from West Bengal is not being allowed at the moment (although clandestine trade does take place by misreporting the origin of rice.) Orissa has imposed a similar band. From time to time, Andhra Pradesh also imposes a band or atleast a quota. The legality of these bands/restrictions depends on whether the central government approves them, and according to the court rulings, the state government is required to obtain such approval from the central government before taking these actions.

But it would appear that state governments are imposing the bands/quotas without approval from the central government which still maintains that rice export is completely free. Admittedly, this is a tricky matter, but the Government of Bangladesh may wish to discuss it with the Government of India.

4. Since June 1997, there are officially no restrictions on inter-state movement of rice within India. But there are reports that trucks carrying rice for Bangladesh from the southern and northwestern states are sometimes obstructed at the border of or within West Bengal. Normally, the traders can obtain a transit permit by proving to the satisfaction of the West Bengal government that the rice they are exporting did not originate from West Bengal. But reports suggest that it has become much harder to obtain such permits in recent months. The Government of Bangladesh may seek cooperation in this regard.
5. Transportation of rice by land route through West Bengal has become more difficult than usual due to damages to roads caused by recent floods. This has led to increased pressure on the railway route, which is a lot cheaper than the land route, but the problem is that the Indian Railways attach a low priority to movement of foodgrains by private traders. They also impose a fixed quota on the number of trains that can be used for exporting foodgrains to Bangladesh in a month. The regional Railways in India also have their own quotas. All these pose a serious obstacle to ensuring speedy movement of rice into Bangladesh. This is one area where the Government of Bangladesh can seek co-operation from the Government of India, suggesting that the quotas be lifted or raised at least temporarily until the crisis period is over. It has to be remembered, however, that problem exists on this side of the border as well, such as inadequate handling facilities at Darshana border resulting in very long turnaround time for Indian wagons. Unless and until these problems are resolved, it is unlikely that the Indian Railway authorities will agree to raise the quota, and even if they do, it may not ease the situation.
6. The movement of rice through West Bengal sometimes creates adverse sentiment among the local population, specially during their own scarcities, and from time to time this results in obstructing and looting of trucks. Once this happens, the whole business comes to a near standstill, as has happened during the last fortnight. More importantly, this creates an environment of uncertainty which can have a lasting effect on both the quantity

and price of rice that comes in. Bangladesh government may seek assurance regarding stricter maintenance of law and order.

7. Poor road facilities around the border areas often creates huge traffic jams in West Bengal, with hundreds and sometimes thousands of trucks carrying rice for Bangladesh getting stranded for days together,. Last year, the government of West Bengal took some steps to ease the situation by giving priority to and creating special lanes for trucks destined for Bangladesh. While expressing gratitude for these gestures, the Government of Bangladesh should urge for further improvement in this area, for the problem still persists.

8. Finally, the Government of Bangladesh should stake a claim on the foodgrain reserve held in India under the SAARC food security buffer stock arrangement.

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Relief Needs in the Immediate Post-Flood Period

The 1998 flood in Bangladesh has resulted in enormous suffering for flood-affected people, particularly for the poor. In addition to over 1,000 deaths directly attributable to the flood since July, hunger and disease have spread along with the floodwaters. Though these floodwaters have receded in recent days, the effects of the flood will continue to be felt at the household, community and national levels for many months, perhaps even years.

Of immediate concern for many poor households is obtaining adequate food, water and medicine to cope the loss of incomes, food stocks, standing crops and other assets, as well as with the increased sanitation problems and health risks. The Government of Bangladesh, donors and NGO's have responded to this situation with numerous programs aimed at providing relief for flood-affected people. In particular, the Ministry of Relief is distributing rice, along with other food and supplies to needy households through Vulnerable Group Feeding (VGF), Gratuitous Relief (GR), and other programs.

Direct distribution of food and relief supplies have been, and will continue to be, vitally important **during the flood and the immediate post-flood period**, especially in areas where floodwaters remain high or major transport problems exist. Even as the floodwaters recede and transport links are re-established, however, many people face critical problems of insufficient food, lack of access to clean water, and unavailability of medicines. Meeting the food needs of these people in the coming months will be a monumental and urgent task.

Improving the food security of these households need not involve only direct distribution of food, however. Where poor households have access to markets, it is lack of purchasing power, rather than food availability, per se, that limits their food consumption. Moreover, the months of September and October are normally slack periods of labor demand in rural areas, and the flood may make it even more difficult for the landless poor to find employment. Programs providing paid employment or direct cash transfers can enable households to purchase their own food. There is thus **no reason** for the Government of Bangladesh, donors or NGO's to **limit their relief activities because of a lack of foodgrain stocks in hand at the local level.**

Increasing purchasing power at the local level is a feasible alternative to direct food distribution and increased food aid in the short run because in the post-flood, pre-harvest period (from mid-September to end-November), food supply is not a constraint at the national level. To a large extent, the national food supply has not yet been much affected. The 1998 boro harvest was over 8.0 million MTs, and flood damage to the aus

rice crop is estimated at only 3 lakh MTs, (so that aus production was 1.6 million instead of 1.9 million MTs). Thus, about 9.6 million MTs of rice have been harvested in Bangladesh in the last five months (since May). In addition, the private sector imported 0.5 million MTs from India from July to mid-September. Average national rice consumption is about 1.4 million MTs per month, so the 10.1 million MTS of total rice supply, (adjusted for losses), would cover consumption for at least 6 months, i.e. until December. Thus, in aggregate, rice supply appears to be adequate to meet demand until the next aman harvest, now expected to be about 7.6 million MTs of rice. Private sector imports are likely to continue as well, adding perhaps another 1.0 mn MTs to domestic rice supplies. (Note that after the aman shortfall of 1997/98, the private sector imported 1.0 mn MTs of rice through official channels; another 300,000 MTs may have been imported from India through informal channels, as well.) Moreover, some 6 lakh MTs of food aid wheat are scheduled to arrive by December.

Even though food supply is not a constraint on relief efforts, finance is. Current relief and rehabilitation plans involving 600,000 MTs of foodgrain (split between rice and wheat) involve additional government expenditures of about 36 million dollars for wheat imports (300,000 MTs at \$120/MT CIF) and 88 million dollars for rice (300,000 MTs at approximately 14 Tk/kg wholesale or CIF from India, equal to 4.2 billion Taka). Such expenditures will place a considerable drain on government finances unless they are financed through additional food aid.

Monetizing some of the food aid (almost all of which is in the form of wheat, not rice) through open market sales is one way to finance additional immediate cash distribution. Providing an agreement with a food aid donor is reached, the government of Bangladesh could **immediately increase cash relief through direct payments or even public works programs** (Cash For Work, instead of Food For Work). Subsequently, when the corresponding food aid arrived, the grain could be sold in the open market (which will augment market supply) and the proceeds used to re-imburse the government for the earlier cash relief programs. Alternatively, **donors may wish to provide additional cash relief directly**, for use in the period before sufficient food aid arrives for larger scale direct distribution. Another possible mechanism for funding this cash distribution is to reduce planned government commercial imports of wheat, allocating the money for cash distribution instead.

One argument often advanced against the use of cash payments is that leakages are likely to be larger than in the case of food. This need not be the case if transparency is maintained, at both the local and national levels. In fact, total resources transferred to targeted households may even be greater than with food since cash transfers avoid storage, handling and transport costs, along with leakages associated with distribution of food in kind. In order to minimize losses through cash programs, one option could be to give the NGO's a major role in seeing that the money allocated for relief in a particular locality actually reaches poor flood-affected households. It may also be possible to expand the number of people covered in direct food distribution programs such as Vulnerable Group Feeding (VGF) by increasing the number of cards, reducing the food ration per person, and replacing the value of the lost food transfer with cash.

Another possible objection to increasing cash distribution at this time is that private markets and the general public may perceive the shift in policy as a signal that government stocks are inadequate to meet relief needs, possibly destabilizing markets. Several points are relevant here. First, information on the size of public stocks is already readily available through government press releases and data given to donors. Second, as shown above, total supply already available in the country until the aman harvest and the arrival of substantial amounts of food aid is more than adequate. Third, by spurring domestic market demand, increased cash distribution will tend to increase private sector rice imports, further augmenting supply. Fourth, and **most important, avoiding cash distribution risks unnecessary suffering, malnutrition and deaths** in the crucial period before the aman harvest and planned arrival of large food aid shipments.

By December, it is likely that the flow of food aid wheat will have reached sufficient volume to permit a switch to direct distribution of food through programs such as Food For Work. These food aid shipments will of course provide much needed resources for the Government of Bangladesh to increase its flood relief and rehabilitation efforts. It is likely that much of the wheat distributed through these programs will be resold in local markets, particularly in programs where the ration size is large relative to a family's typical wheat consumption. Thus, the market price of wheat is likely to drop substantially beginning in December or January. The negative consequences of this price fall on domestic wheat production and farmer incomes are beyond the scope of this note, but they may be substantial. Nonetheless, given the shortage of government resources, the massive needs for relief and rehabilitation, and the general preference of donors to provide foodgrain (particularly wheat) rather than cash, **additional food aid wheat distribution appears to be the most practical means of reducing household food insecurity once this food aid is available.**

Conclusions

In order to address the massive food security problems facing poor households in the flood-affected parts of Bangladesh, a multi-faceted strategy is needed. Constraints facing households and communities vary widely: some communities remain essentially cut off from normal private market channels; an increasing number of areas that have re-established transport links already are connected to well-functioning private markets.

Supply of food is not the constraint in these latter communities, nor is it the constraint in Bangladesh as a whole. Lack of purchasing power, not lack of food in the market, is what limits consumption of food-insecure households that have access to functioning food markets. Increasing the purchasing power of these households is thus an alternative to direct food distribution in these cases.

This option is very important because the Bangladesh government also faces constraints as to the amount of rice and wheat available for direct distribution in the next two months. Substantial amounts of public commercial imports and food aid are

expected, but little of this will be available for immediate distribution in the next six to eight weeks.

Rather than let relief efforts be limited by available food stocks, an increase in cash payments would increase food consumption of the vulnerable poor during the coming two months. Such a shift in relief channels could be reversed once food aid and commercial imports added to available **public** food supplies. In the mean time, steps should be taken to immediately increase purchasing power of severely affected households. Simply put, **these households cannot afford to wait for additional food aid arrivals in November** to receive additional income or food transfers.