

ANACW-963

# **CURRENT FOOD POLICY ISSUES IN BANGLADESH**

**Advisory Notes to the Secretary of Food  
October, 1998 to March, 1999**

20 April, 1999

**FMRSP** Bangladesh  
Food Management & Research Support Project  
Ministry of Food, Government of the People's Republic of Bangladesh

**International Food Policy Research Institute**

*This work was funded by the United States Agency for International Development (USAID)  
Contract Number: 388-C-00-97-00028-00*

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The views expressed in this report are those of the author and do not necessarily reflect the official position of the Government of Bangladesh or USAID.

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## 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 eleven memos from October 1998 through March 1999, generally in response to specific requests by the Ministry of Food. This current compilation of memos is the third volume of memos. Volume I contains the seven memos written from November 1997 to February 1998; Volume II contains fourteen memos written from March 1998 through September 1998.

Government food policy in the latter half of 1998 and early 1999 focused on managing the effects of a massive flood from July through September 1998. As a result of the flood, both the aus and aman rice crops were severely damaged. Donors pledged large amounts of food aid for flood relief and rehabilitation and the Government of Bangladesh expanded foodgrain distribution to flood-affected households. Stock levels, the timing of imports and movements in market prices thus dominated much of the food policy analysis in this period.

The first memo, "Foodgrain Stocks and Short-term Import Needs", written 19 October, 1998, examined the government's stock positions for rice and wheat. Expected arrivals of food aid and government commercial imports of wheat in late October and early November suggested that government wheat stocks would likely begin to rise substantially in November in December. However, the rice stock position appeared to be more precarious, especially given delays in delivery of recent tenders for commercial rice imports and problems encountered with planned government-to-government rice imports from India. The memo suggested that the government consider importing some rice from Thailand in the next few months to hedge against the possible non-delivery of rice from other sources, and that steps be taken to define the technical specifications for these imports. Finally, the memo pointed out, however, that keeping market prices below import parity through government imports of rice was not feasible and that was crucial to "ensure that private sector imports can supplement domestic supplies without interruption".

The 21 October 1998 memo, "Current Foodgrain Stocks, Procurement and Distribution: Implications for Flood Relief", discussed the implications of delays in the offloading of six ships of commercial wheat in late October. Though in early October it had been estimated that 1.0 lakh metric tons of wheat would be unloaded and available for distribution by the end of the month, it now appeared that the figure might only be 30 thousand MTs. Thus, end-October available wheat stocks might only be 89 thousand

MTs, with a planned distribution of 1.84 lakh MTs and planned arrivals of 2.2 lakh MTs for November. Thus, the timing of November distribution was critical and some distribution would need to be deferred to the end of the month. The memo warned that a significant fall in wheat prices was likely in after December 1998, however, because of the massive offtake planned in the next six months. Finally, the memo suggested that planned rice imports from the Government of India were likely to be unnecessary and might result in very late arrivals and subsequent stock problems.

“Comments on WFP's Proposal for Distribution of 6 Million VGF Cards”, written on 3 November 1998, outlined the implications of a proposed increase in VGF wheat distribution. WFP had proposed an expansion in the number of VGF cards from 4 million to 6 million and an increase from 16 to 32 kgs/card in the most severely flood-affected regions. This expansion in the VGF program would entail distribution of 162,992 MTs of wheat in November and December. However, Ministry of Food projections of wheat import arrivals actually available for distribution in these two months were only 301,000 MTs, 361,000 MTs less than the projections of WFP. Though the planned distribution was feasible according to WFP projections, the more conservative Ministry of Food projects of import arrivals implied that there would not be sufficient wheat available in December for the proposed expansion.

“India Food Grain Markets Update (through September 1998)”, written 27 October, 1998, summarized information obtained from the October monthly report of the Center for the Monitoring of the Indian Economy. Based on this information, the memo concluded that the large Food Corporation of India rice stock and the relatively good projected kharif production suggest that India's market prices will be fairly stable. The memo cautioned, however, that given a September price rise in Delhi, markets should be watched closely in October.

“The Current Market Situation and Short-term Prospects for Rice Prices and Imports”, written 25 November, 1998, was written at the request of the State Minister for Food and Agriculture. In spite of the onset of the aman rice harvest, rice prices had declined by only 2.7 percent compared with their peak in mid-September, just after the flood. The memo presented data showing that rice prices for most of 1998 had been determined mainly by the cost of importing rice from India (the import parity price). Given the expected poor aman harvest, domestic prices would likely continue to be determined mainly by the import parity price until May 1999. The memo also stressed that private sector rice imports had prevented a large increase in the price of rice to date and it was thus essential that incentives for private sector trade to be maintained. Finally, the memo argued that government rice stocks were sufficient for planned distribution through March even if no additional rice was procured, but that should other tenders fail, imported rice from Thailand remained a viable, though more expensive, option.

“Options For Rice Procurement”, written 14 December, 1998, discussed the disappointing performance of international and domestic tenders for rice in recent months. Market prices were now above the winning bid prices of these tenders and it was unlikely that substantial amounts of rice would be procured, though for the most recent tender in early December, the bid price was above current market prices. The memo suggested that changes in the tender procedures: larger bid bonds, smaller sizes of contracts and faster processing of the tenders would improve the performance of future tenders.

“India Food Grain Markets Update”, written 15 December, 1998, summarized information obtained from the November monthly report of the Center for the Monitoring of the Indian Economy and also from recent newspaper accounts. Kharif rice production estimates continued to predict a good crop of 70 million MTs, (about 3 percent below the 1997 harvest). FCI stocks remained high and prices in the Delhi market were stable.

“The Current Rice Situation and Government Rice Policy”, written 15 December, 1998 at the request of the State Minister for Food and Agriculture, summarized price movements, imports and stocks. This brief memo stressed the importance of maintaining incentives for private sector rice import trade and ensuring unhindered passage of grain, and warned against any re-imposition of the anti-hoarding law.

“Rice Markets Price Trends and Imports”, written 23 December, 1998 at the request of the State Minister for Food and Agriculture, discussed the impacts of recent increases in transport costs between India and Bangladesh. New regulations in both countries on the size of loads carried by trucks increased transport costs of rice moved from Delhi to Dhaka by an estimated 1.1 Tk/kg in October and November. Thus, in spite of a decline in Delhi prices of 0.9 Tk/kg in November, the import parity price in Bangladesh rose by 0.2 Tk/kg (and the wholesale price of coarse rice in Dhaka rose by 0.14 Tk/kg). The memo suggested that further investigation on the factors influencing Indian rice markets and import parity prices in Bangladesh was needed, particularly with regard to conditions in West Bengal.

By the first quarter of 1999, foodgrain markets had stabilized and much of government policy in response to the flood of 1998 was in place. Thus, the first memo written in 1999 (on maize procurement) was not related to the 1998 flood, and the second memo simply provided a summary of events and policies in place. The 1 March, 1999 memo, “Implications of Removing the Tariff on Maize Imports,” co-authored by Paul Dorosh and Dr. M.A. Quasem drew heavily upon the information in Dr. Quasem’s draft paper, “Production and Marketing of Maize in Bangladesh: An Indicative Exercise”. The memo discussed the costs and benefits of a proposal to remove the 2.5 percent on maize

imports. The memo first pointed out that area planted to maize is only 3 percent of wheat area and 0.2-percent that of rice. Second, even if maize imports are as high as 400,000 MTs per year, (they may be only half that much), at a price of about \$120/MT, the total value of the 2.5 percent surcharge is only 1.2 million dollars or 5.76 crore Taka. Third, given that direct human consumption of maize in Bangladesh is extremely small and that maize is only one component of poultry feed. Thus, whether the tariff is kept or not will not have major effects on the agriculture, poultry, consumer prices or the government budget. The major beneficiaries of removal of the tariff on maize imports would be traders and poultry feed producers; the major costs accrue to the government in the form of lost tax revenues. The memo concluded by pointing out that in general it is advisable to design import tariff and overall tax policy in a consistent framework, so as to avoid inadvertently discriminating in favor of one sector of the economy at the cost of other sectors.

“Ministry of Food Policy in Response to the 1998 Flood”, written 17 March 1999, summarized the policies enacted from August 1998 through March 1999. In particular, the memo focused on two major aspects of policy: Government of Bangladesh relief efforts, including the impact of delayed food aid arrivals, and rice policy. Several policy lessons were highlighted. First, large-scale private sector imports, made possible by the trade liberalization of the early 1990s, had significantly added to food supply and enhanced national food security. Second, the Ministry of Food’s cautious estimates of food aid arrivals had proven accurate. Finally, because limited availability of foodgrain stocks had constrained distribution in September and October 1998, the government might consider increasing somewhat its security stock in the early part of the fiscal year. The memo also suggested however, that in a situation when total foodgrain supply in markets was adequate (as in 1998 because of private sector imports), that a policy of greater cash payments together with foodgrain rations would increase the government’s ability to provide even more relief to flood victims.

The eleven 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 the memos. 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. Dr. M.A. Quasem co-authored the memo on the implications of removing the maize tariff. Mr. A.K.M Nurul Afsar, Additional Director General, Directorate General of Food, provided useful insights for

the 19 October memo on foodgrain stocks and short-term import needs. Mahfoozur Rahman contributed to many of the memos, providing 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.

## **Foodgrain Stocks and Short-term Import Needs**

The devastating floods in the past several months have caused an estimated 3 lakh MT shortfall in aus production and an anticipated 19 lakh MT shortfall in the forthcoming aman harvest. Donors have responded with a large increase in food aid commitments, though only small amounts are expected until late October. Only 15 thousand MTs of food aid wheat arrived in September and 38 thousand MTs of food aid wheat are expected in October. Nonetheless, with the scheduled arrival of approximately one lakh MTs of government commercial imports of wheat in October and a further 1.87 lakh MTs expected in November, the wheat stock position now appears to be adequate for planned distribution in the next several months. Of greater concern, now, are rice stocks, given the expected shortfall in aman.

### **Expected Wheat Arrivals**

Two shipments of wheat, supplied by the World Food Programme were scheduled to arrive in Chittagong in early October. The first shipment, with 21,000 MTs arrived on 3 October, 1998 and has already been unloaded. The second shipment, for 15,000, is now scheduled to arrive on 18 October. A third food aid shipment, for 10,000 MTs is expected to arrive by the end of October. Wheat from this third shipment will not be available for distribution, however, until November.

More important for the wheat stock situation, six shipments of wheat from the government's international tenders are arriving. Three ships with 1.10 lakh MTs of wheat arrived in mid-October, and three other ships with 1.15 lakh MTs of wheat are due to arrive by the end of October. Because of delays in unloading and shipment to godowns in Bangladesh, however, only about 30,000 MTs will be available for distribution by the end of the month. Thus, available wheat stocks at the end of October are projected to be only 89,000 MTs (net of transit deduction), given 32,000 MTs scheduled VGF distribution. Available wheat stocks are projected to rise rapidly in November and December with the arrival of both commercial imports and food aid.

### **Rice Imports**

Current government plans call for rice imports of 6.0 lakh MTs, 3.5 lakh MTs through Trading Corporation of Bangladesh (TCB) and 2.5 lakh MTs through normal international tenders. The Ministry of Food has already floated three international tenders for a total of 2.15 lakh MTs of rice. Moreover, in view of the uncertainty of delivery of the TCB rice, the government has also decided to float an additional international tender for 1 lakh MTs, as well as domestic tenders for 1.5 lakh MTs of rice.

Contracts for the first tender of 70,000 MTs, which was floated 1 June, 1998, were signed 13 July, 1998, with shipments scheduled for 11 August, 1998. To date, however, only 12,658 MTs of rice have arrived. The date of delivery for the remaining 57,000 MTs of rice has already been extended twice, and this rice is now scheduled to be shipped by 5 November, 1998. Contracts for the second tender of 70,000 MTs of rice, floated 29 July, 1998, were signed on 17 September, 1998. Shipments of rice are due on 16 October, 1998, but at this point no specific shipment schedules have been received. Thus, it is likely that these shipments also will be delayed. The third tender, for 75,000 MTs was floated on 25 August, 1998. Contracts for these rice imports were signed only on 18 October, 1998. The fourth tender, for 1 lakh MTs, is scheduled to be opened on 1 November, 1998 (Table 1).

There have been major problems with the 3.5 lakh MTs scheduled to be imported by TCB. It appears likely that these imports will be delayed, or even cancelled because of contractual problems involving price of grain and arrangements for shipping. Thus, the rice stock situation is more precarious than that of wheat. If no TCB rice is delivered, but all scheduled non-TCB rice imports and domestic procurement takes place over the next several months, rice stocks would fall to 304,000 MTs at the end of November, but rise again to 540,000 MTs by the end of February.

However, if only 232,000 MTs (78 percent) of the expected 297,000 MTs of rice actually arrive from November to February, and the domestic tender for 150,000 MTs of rice falls short by 25 percent (37,000 MTs), then rice stocks would be 1.02 lakh MTs less. In this scenario, rice stocks would fall to 256,000 MTs at the end of April and 223,000 MTs at the end of May. Moreover, the first 50,000 MTs of the domestic tender, (for which bids were opened 7 October, 1998), may face difficulties because of the 15 October, 1998 1.4 Tk/\$ (3.0 percent) devaluation to 48.5 Tk/\$. Traders may find that the price they bid does not provide adequate profits, and may delay delivery or default on their contracts.

Thus, although the rice stock now is at reasonably comfortable levels (projected at 303,000 MTs at the end of October), stock levels could fall to low levels if scheduled imports do not arrive. In this situation, the government should consider importing some rice from Thailand to hedge against the possibility of partial non-delivery of the Indian rice. This rice would be more expensive than Indian rice, but would serve as an additional hedge against non-delivery of some or all of the planned rice domestic and international purchases. As a first step, a technical committee should meet to discuss the specifications for rice tenders, making sure that special attention is given to differences in definitions of broken rice. Decisions on whether or not to actually float a tender for Thai rice could be postponed until at least early November, at which time, the Ministry of Food would have a clearer picture of the likelihood of delivery of its planned commercial imports and the TCB rice imports.

## Summary and Policy Recommendations

In response to expected increases in rice distribution in the coming months, the Ministry of Food's current strategy involves a moderate build-up of rice stocks through purchases of rice from diverse sources. Hedging against the possibility of failure of some suppliers to deliver expected quantities of rice makes sense given past experience with international and domestic tenders and the importance of maintaining adequate stocks in the months following the expected poor aman harvest in November / December 1998. Moderate levels of imports from Thailand (initially on the order of 1 lakh MTs) may further reduce the risks of shortages from the other procurement sources (TCB, commercial imports from India and domestic tenders). A decision to import from Thailand need not be taken immediately; (rice stocks are adequate, in the short run). But, concrete steps can be taken now, in particular **defining the technical specifications for rice imports from Thailand**, that will shorten the time for rice delivery should the government decide to float a tender for Thai rice.

However, it must be kept in mind that it will not be possible to lower domestic prices below import parity levels in the coming months without importing enough rice to cover the aman production shortfall of nearly 2 million MTs. Such large volumes of government imports are not feasible from a financial point of view. Thus, keeping market prices below import parity is not a realistic option. Moreover, in order to keep prices from rising above import parity (likely to be about 14-17 Tk/kg wholesale during the January to May, period), it will be necessary to **ensure that private sector imports can supplement domestic supplies without interruption.**

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## Current Foodgrain Stocks, Procurement and Distribution: Implications for Flood Relief

### Summary:

Delays in offloading six ships of commercial wheat have greatly reduced planned available wheat stocks. With only 30,000 MTs of commercial wheat imports now projected to be available at the end of October, **available month-end stocks will be only 89 thousand MTs of wheat.** Scheduled wheat distribution in November is 184 thousand MTs. If distribution of FFE wheat is delayed to the end of November, and most of TR and VGF distribution occurs after mid-November, commercial imports are sufficient to cover November distribution, and end-month stocks will rise to 124 thousand MTs.

The rice stock situation appears to be satisfactory, providing that 2.0 lakh MTs of scheduled imports through tenders arrive in November through January. In fact, if these commercial imports arrive as scheduled, the government should strongly consider calling off the TCB purchases from India.

- End-September stocks (net of transit) were 356 MTs of rice and 141 MTs of wheat.
- **Major delays have occurred in offloading wheat** in Chittagong. In early October, it was estimated that 1.0 lakh MTs would be available for distribution by the end of the month. This figure has since been revised downward twice and now stands at **only 30,000 MTs.**
- The total addition to available end-month wheat stocks in October is only 89,000 MTs. Scheduled outflow is 119 thousand MTs, so **end month wheat stocks available for distribution are projected to be only 89 thousand MTs.**
- Given the delays in offloading in October, it seems likely that foodgrain from ships arriving after mid-November will not be available for distribution before December. Thus, **additions to end-November stock** are estimated at 2.2 lakh MTs (1.95 lakh MTs offloaded from the commercial wheat imported in October, and 25,000 MTs of Australian food aid, currently being loaded in Australia).
- Currently, 1.84 lakh MTs of wheat are scheduled to be distributed in November (including 64 thousand MTs through VGF, 50 thousand MTs through TR and 33 thousand MTs through FFE). Projected end-November stocks are adequate: 1.24 lakh MTs. **However, with only 89 thousand MTs of wheat stock available on 1 November, the timing of distribution in November is critical.**

- Possible options for easing the distribution problems include delay of FFE wheat distribution until the end of November, and ensuring that only half of the allotted TR distribution occurs before mid-November. VGF distribution could be delayed to mid-November, or the ration changed to 10 kgs wheat with 6 kgs rice, thus saving 24,000 MTs of wheat stock in November.
- Wheat stocks are projected to rise to 144 thousand MTs at the end of December, assuming a one month delay in originally projected food aid arrivals. The delay in food aid imports and distribution of wheat through FFW, FFE and other channels, is likely to result in a **significant fall in wheat prices** as planned offtake is 2.1 to 2.55 lakh MTs every month from December to May.
- **In October, no commercial rice imports** through international tenders for rice are expected. Between now and February, 1999, total commercial rice imports are expected to be 2.87 lakh MTs (including 47 thousand MTs in November and 80 thousand MTs in December).
- **Rice distribution in October is only 38 thousand MTs:** 11 thousand MTs through sales channels, 32 thousand MTs through VGF and 6 thousand MTs through other ration channels.
- Thus, **end-month rice stock for October is projected to be 3.28 lakh MTs** (net of transit deduction). Assuming that most of the 2.87 lakh MTs of rice imports contracted through the three international tenders arrive, and that 1.5 lakh MTs of rice are procured through local tender in December through February, **rice stocks appear to be adequate.** Stocks are projected to rise to 4.55 lakh at the end of December, and remain above 3.15 lakh MTs for the rest of the fiscal year.
- The planned 3.5 lakh MTs of rice imports from the Government of India through the State Trading Corporation are likely to be unnecessary and may result in very late arrivals and subsequent stock problems. **If the planned commercial imports arrive as scheduled, the government should strongly consider calling off the TCB purchases from India.**

## India Food Grain Markets Update (through September, 1998)

India's kharif rice crop is now projected to be **70.8 million MTs, down by 2 percent** from 72.5 mn MTs harvested in 1997.

**Rice production in West Bengal** is, however, reported to be **down by about 3.0 million MTs due to drought**, about 30 percent of its kharif output.

Area planted to rice is higher than normal in Uttar Pradesh, Andra Pradesh, Karnataka, Punjab and Maharashtra.

Food Corporation of India **stocks of rice remain high, 10.9 million MTs** at the end of July, 1998. This stock level is 2.3 mn MTs higher than that of end-July, 1997.

**Market prices of rice rose by 1.0 percent in September** to 9.76 Rupees/kg in the Delhi wholesale market, **equivalent to 10.74 Tk/kg** at the September exchange rate of 1.10 Tk/Rupee.

Rice prices typically fall in September, with the onset of the kharif rice harvest in Punjab. Given the small price rise in the Delhi market in September, the price is now **20.8 percent higher than one year ago**. In contrast, the August 1998 price was only 12.2 percent higher than the August 1997 price.

The central government raised the **rice levy price** from 7.84 to 8.38 Rps per kilogram on 28 September, 1998, an **increase of 6.9 percent**.

**India's projected exports** of rice in 1998/99 are 2.5 million MTs, (450 thousand MTs of basmati and 2.1 million MTs of non-basmati rice).

Conclusion on rice market: The **large FCI rice stock and relatively good projected kharif production** suggest that India's market prices will be fairly stable. The **very large estimated shortfall in West Bengal and the September price rise in the Delhi market**, (compared to last year's 6.1 percent fall at this time), however, may indicate that market prices in the absence of FCI intervention may rise somewhat. The October rice price should be watched closely.

Wheat prices rose sharply in July in Hapur, India and in September were 40.7 percent higher than in September, 1997. **FCI wheat stocks are very large**, however (16.4 million MTs at the end of July, almost double those of one year ago).

## Comments on WFP's Proposal for Distribution of 6 million VGF Cards

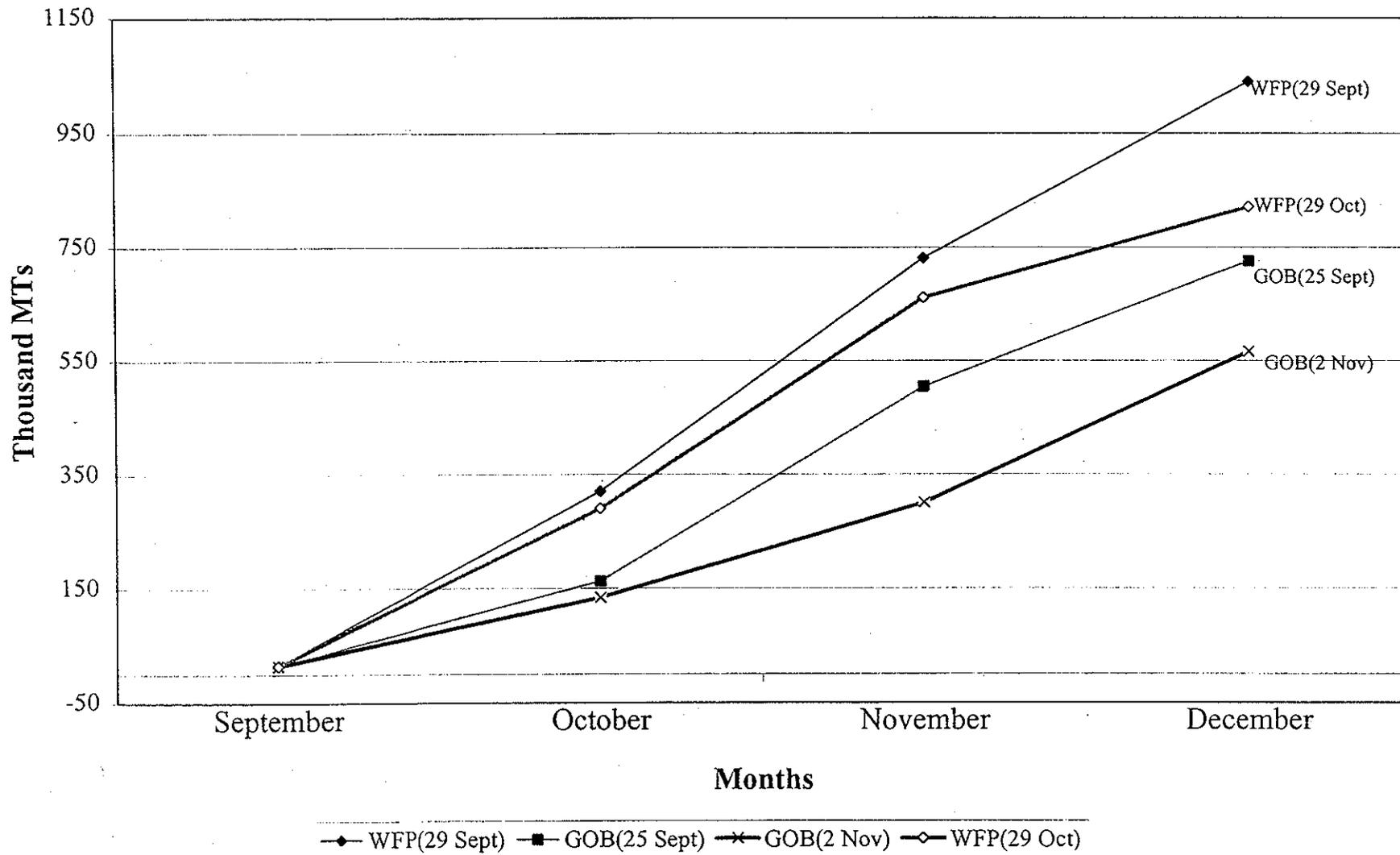
1. Distribution of 4 Million VGF cards and distribution of foodgrains at the rate of 16kg/card as decided by GOB for October 98 has already been completed.
2. GOB's October'98 month (net) end stocks are 324,000 MT of rice and 187,000 MT of wheat, for a total of 511,000 MT of foodgrain.
3. WFP has recently proposed an increase of VGF cards to 6 million, an increase in the number of cards in the worst flood affected areas by 2 million cards. It has also proposed an increase in the per head ration to 32 kg in the worst hit flood affected areas in December, 1998. According to WFP's estimates, total requirement of foodgrain for VGF from October to December 1998 would be 390,000 MT.
4. The proposal must be judged against the arrival of wheat imports and their availability at the distribution points during November- December'98.
5. There are discrepancies between WFP's projection of arrival of food aid and commercial imports and those of the Ministry of Food (fig-1). WFP's current estimates of import arrivals by the end of November exceed the Ministry of Food's projected amount of imported wheat unloaded and available for distribution by 361,000 MTs, (662,000 for WFP and 301,000 for the Ministry of Food).
6. Distribution of additional 2 Million VGF cards by WFP may be accepted by GOB if the ration size kept at 16 kg per cards. In this case, if all VGF distribution for the two months is in the form of wheat, end November wheat stocks would be 1.28 lakh m. tons. End-December wheat stocks would fall to 1.11 lakh MTs.
7. Distribution of 162,992 m tons of wheat in both November and December as proposed by WFP is not feasible considering the present wheat stocks. If this amount of wheat was distributed through VGF, the end November wheat stock would be only 63,000 metric tons and the projected end December stock would be negative (-23,000 metric tons)!

Scheduled wheat import arrivals (available for distribution at godowns):

**November: 167,000 MTs**  
Food Aid: 25,000 MTs  
GOB Commercial: 142,000 MTs

**December: 265,000 MTs**  
Food Aid: 165,000 MTs  
GOB Commercial: 100,000 MTs

Figure 1: Projected and Actual Food Aid Arrivals



## The Current Market Situation and Short-term Prospects for Rice Prices and Imports

### Introduction

According to official estimates, this year's prolonged flood from July to September in Bangladesh caused a projected 2.2 million MT rice production shortfall (3 lakh MTs of aus and 19 lakh MTs of aman). Since July, however, private sector rice imports have added 9.8 lakh MTs of rice, stabilizing domestic prices at levels approximately equal to import parity with India (i.e. the price of rice in India plus the costs of transport and marketing, about 2 Tk/kg). Now, as the aman crop harvest begins in Bangladesh, many expect rice prices to fall. Yet, as of the third week of November, the national average wholesale price was still 14.32 Tk/kg, only 2.7 percent below its recent peak of 14.72 Tk/kg on 14 September 1998, and prices in some markets have risen slightly in recent days.

This memo assesses the current market situation and likely future price movements under various scenarios. First, we describe price movements since the flood and compare them with movements from past years. Second, we examine prices in India and argue that Bangladesh prices throughout most of calendar year 1998 have been determined by the cost of imported rice from India. We then discuss estimates of total supply of rice in Bangladesh in order to estimate the likely size of private sector imports in coming months. After a discussion of the characteristics of the rice trade from India and Bangladesh, we present data on the current market situation in India. On the basis of this analysis, we then offer some observations on likely price scenarios. Finally, the memo concludes with policy recommendations.

### Market Prices Since the Flood

In recent days, prices in Dhaka and other cities have increased slightly, prompting concerns that the market situation may be becoming very unstable. According to the Daily Janakantha, 22 November, 1998, prices in Borisal reportedly rose by 0.5 to 1.0 Taka per kilogram. Price increases in other parts of the country have generally been smaller, however. For much of October and November, both retail and wholesale prices of coarse rice have been quite stable, though wholesale coarse rice prices rose by 0.45 Tk/kg from 16 to 23 November 1998 (Figure 1). DG Food data on average wholesale prices of rice at the division level also indicate only small increases in three divisions in the last two weeks (0.4 Tk/kg in Rajshahi and Dhaka, and 0.3 Tk/kg in Khulna) and slight declines in Barisal and Chittagong (Table 1). And at the national level,

average wholesale prices of coarse rice remained approximately constant between October and November (Figure 2).

Nonetheless, the small price increase is surprising to many, since prices often fall at the time of the aman harvest. As shown in Figure 3, the wholesale price of coarse rice in Dhaka fell in mid-October in both 1995 and 1996, two years with moderate to good aman harvests. Last year, the absence of a price decline in October and early November signalled a poor harvest, the extent of which was not immediately apparent. From mid-November to the end of December, wholesale prices in Dhaka rose rapidly, from 9.2 Tk/kg to 12.2 Tk/kg, a level at which it became profitable for private traders to import substantial amounts of rice from India.

However, the absence of a major price decline in October and November this year **does not indicate that prices will rise steeply in coming months.** The reason is that because of shortfalls in domestic production in 1997/98, (especially in the aman and aus harvests), rice prices in Bangladesh were already high (at import parity levels) before the 1998/99 aman harvest. And, with a poor harvest of aman expected in November/December 1998, it is likely that prices will remain at import parity levels after the harvest.

### **Border Prices of Rice**

As shown in Figure 4, since January 1998, wholesale Dhaka prices have followed ex: India import parity prices (the price of rice exported from India adjusted for 3 Tk/kg transport and marketing margin between the Delhi wholesale market and wholesale Dhaka).<sup>1</sup> Prior to the poor aman harvest in 1997/98, rice prices in Bangladesh had been significantly below the cost of rice imported from India. As a result, there were essentially no private sector imports of rice from June 1996 to December 1997. Because of the aman shortfall in late 1997, however, domestic demand exceeded supply so that prices rose up to the level at which imports of rice from India became profitable. Given ample price incentives, private traders imported 8.94 lakh MTs of rice through official channels between January and May, 1998, an average of 1.79 lakh MTs per month. Imports slowed to only 0.59 lakh MTs in June, just after the Bangladesh boro harvest. From July to October, however, another 8.38 lakh MTs have been imported (an average of 2.10 lakh MTs per month), along with 1.31 lakh MTs in the first 21 days of November.<sup>2</sup>

Thus, to a large extent, rice prices in Bangladesh in the last eleven months have been determined by the cost of imported rice from India. With the expected poor, flood-damaged aman production just now being harvested, domestic demand is likely to

<sup>1</sup> In Figure 4, a marketing margin of 2 Tk/kg is used to calculate the West Bengal import parity prices shown for July, 1993 to September, 1997.

<sup>2</sup> Note that Figure 4 shows that domestic prices were 0.5 to 2.0 Taka below ex: Delhi import parity prices from May through August 1998, yet private sector imports continued. The main explanation is that rice exports during this period originated mainly from West Bengal's rabi (boro) crop, where prices are generally 1.5 to 2.0 Taka/kg less than Delhi prices during this season (as evidenced in the data from 1996 and 1997).

continue to exceed domestic supply at import parity prices until the boro harvest of 1998/99. If unhindered private sector trade is allowed to continue over this period, it is likely that domestic prices will be approximately equal to import parity prices ex: India until April or May, 1999.

### **Rice Imports and Total Rice Supply**

How much rice will be imported by the private sector in the coming months depends on the level of private sector excess demand (private sector demand less the sum of domestic production and net government market injections). Data on prices and total availability of rice in recent years give us some indication of the likely magnitudes.

Since the aman harvest of 1997/98, i.e. from December 1997 to November 1998, total production of rice is officially reported at 20.35 million MTs (8.85 aman, 8.1 boro and 1.6 aus). Adding total private imports of 1.96 million MTs of rice along with net government injections (distribution less domestic procurement) of 0.176 million MTs, total supply for these twelve months was 18.83 million MTs, or 150.7 kgs/capita. Assuming that private sector stocks just prior to the aman harvests in 1997 and 1998 was the same, total apparent consumption was also 150.7 kgs/capita.

Similar calculations for the December 1996 to November 1997 period indicate that total availability of rice in that period was 17.29 million MTs, or 140.5 kgs/capita. However, prices for this period, adjusted for overall inflation were only 9.68 Tk/kg in 1998 terms, compared with December 1997 to November 1998 prices of 12.63 Tk/kg. Thus the official data seem to indicate that apparent consumption was 7.3 percent higher in 1997/98 despite a 30.5 percent increase in price.

Such an increase in consumption is not consistent with a large price rise (and little change in per capita incomes, other prices or household characteristics). Assuming that consumption declines by 0.2 percent for every 1 percent increase in price, (i.e. that the own-price elasticity of demand for rice is  $-0.2$ ), the 30.5 percent increase in real prices would have resulted in a decrease in per capita consumption of 6.1 percent. Even assuming that per capita consumption was unchanged in spite of the 30.5 percent price increase, total production (in the absence of any change in private stocks) would have had to be about 17.2 mn MTs. Alternative assumptions about the elasticity of demand and changes in private stocks produce slightly different results. Nonetheless, these calculations strongly suggest that official estimates for domestic production from November 1997 to December 1998 are overstated by 1.4 to 2.0 million MTs or more relative to November 1996 to December 1997.<sup>3</sup>

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<sup>3</sup> The above calculations provide estimates of the over-estimation of production in 1997/98 based on a comparison with 1996/97 data, which are assumed to be accurate. If the 1996/97 production data are over- (under-) estimated by some amount, then this amount should be subtracted (added) to the estimate for 1997/98.

Similar calculations can be used to estimate the likely quantity of private sector imports in the absence of restrictions on trade either in India or Bangladesh. Several assumptions are critical in these calculations: 1) the import parity price, 2) the size of the 1998/99 shortfall, 3) the change in private stocks between the immediate pre-aman harvest period (November) and the immediate pre-boro harvest period (May), and 4) the elasticity of demand. Private-sector rice imports for December 1998 through May 1999 are likely to range from 1.3 to 1.7 million MTs. If restrictions on trade limit the flow of imports, however, prices are likely to rise substantially above import parity levels. For example, if only 7.5 lakh MTs are imported, prices could rise to an average of 20 Tk/kg wholesale or higher from December 1998 to May 1999.

### **The Rice Import Market**

A large number of traders are involved in the rice import trade in Bangladesh. Letters of Credit data indicate that hundreds of traders have participated in the rice import trade in 1998, an indication that the private trade is highly competitive. Much of the rice is imported by rail and truck through official customs posts on the Bangladesh-India border. Rice imports involve substantial price risks, however, since for a shipment greater than about one thousand MTs requiring a letter of credit, there is typically about a three week lag between the time an import purchase price and quantity is agreed and the date of arrival in Dhaka. For a contract with a letters of credit opened with a 10 percent deposit, a 5 percent mis-calculation in the expected sales price could result in a 50 percent loss on the importer's investment. Possibilities of delays in delivery because of restrictions placed the state government of West Bengal or other Indian states also add to the risk. Nonetheless, the disappointing rice harvests in 1997/98 provided substantial incentive for private sector imports.

### **Market Situation in India and World Markets**

Fortunately for Bangladesh, market supplies of rice in India in the coming months are likely to be plentiful. Production of the kharif rice crop, (which accounts for about 85 percent of India's rice production), is forecast to be about 70 million MTs, only about three percent below last season's bumper crop. Moreover, Food Corporation of India rice stocks are quite high (8.7 mn MTs), nearly three million MTs above the 1 October buffer stock norm of 6 million MTs. (Wheat stocks are even higher: 15.8 million MTs on 1 September.) Moreover, rice prices in the Delhi wholesale market fell substantially from mid-October to the end of the month, from 10.3 to 9.5 Rupees/kg. The major potential obstacle related to rice supplies from India is the possibility of movement restrictions on rice by state governments. In recent weeks, West Bengal reportedly has banned the export of West Bengal rice, though trans-shipment of rice from other states to Bangladesh is permitted. Similarly, Andhra Pradesh reportedly has again placed movement restrictions on its rice.

World market prices, however, have fallen substantially in recent months, from \$317 /MT FOB Bangkok for 5 percent broken par-boiled rice in September to only \$275 / MT in November. Rice imported from Thailand entails higher shipping costs than that

from India, especially in comparison to grain delivered over land by rail or truck from India to Bangladesh. Moreover, private sector imports from Thailand are generally feasible only for large traders, since rice must be imported in larger quantities (20,000 to 30,000 MTs) to minimize per unit shipping costs.

### Price Scenarios

As argued above, since the forthcoming flood-damaged aman harvest in Bangladesh expected to be poor, it is likely that prices will essentially be determined by import parity (the cost of rice imports from India) between now and the boro harvest in April/ May 1999. The average seasonal increase in rice prices in West Bengal between November and April is 11.6 percent.<sup>4</sup> Adding inflation at the current rate of 8 percent per year (measured using India's wholesale price index), the price of rice in India may be expected to rise by about 16 percent in the next five months. If the Taka/Rupee exchange rate remains unchanged over this period, wholesale prices in Bangladesh are likely to rise by a similar amount, from their low point after the aman harvest to April / May.

It is too soon to know, however, if the current price of 14.5 Tk/kg wholesale Dhaka represents the post-harvest seasonal low price. Given the approximately three week lag between import contracts and import arrivals, the Dhaka wholesale price is likely to fall slightly in the next few weeks, before rising along with the border price beginning in December.

All this assumes that nothing hinders the trade with India, from either side of the border. If market supplies to Bangladesh are restricted, prices are likely to increase beyond import parity levels. As noted above, if private sector imports are only about half of the expected free-trade level of 1.3 to 1.7 million MTs, prices could rise to an average of 20 Tk/kg or more in the December-May period.

Within the next several weeks, however, there is likely to be greater volatility in the Bangladesh markets because of the high degree of uncertainty for importers in predicting market prices. This uncertainty increases the risks of importing rice and contributes to a temporary slowdown in market supplies. Once markets in both India and Bangladesh gain a better sense of the size of the harvests and market conditions on both sides of the border, it is likely that import volumes will again increase to as much as 2.2 to 2.8 lakh MTs per month until March or April.

Price movements after April depend heavily on the size of the next boro harvest. Should the boro harvest be a good one, prices are likely to fall sharply in May and June, 1999, possibly to below import parity. If the boro harvest is not good, however, Bangladesh prices will likely continue to be based on import parity through November, 1999.

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<sup>4</sup> Dorosh, Paul, (1998), "The Determination of Rice Prices in Bangladesh: Supply Shocks, Trade Liberalization and Cross-Border Trade".

## Summary and Policy Recommendations

In recent weeks, rice prices have risen slightly in some markets in Bangladesh prompting concerns about manipulation of the market by traders or the possibility of sharper price rises in the future. However, overall, data on wholesale and retail prices indicate that prices are by and large stable. Dhaka wholesale prices rose by only 3 percent between 16 and 23 November 1998, after remaining nearly constant for almost two months.

Rice prices for most of 1998 have been determined mainly by the cost of importing rice from India (the import parity price). In the next several weeks until the size of the rice harvests in India and Bangladesh are apparent, the price of rice in Bangladesh may be slightly less stable than in the past few months as uncertainty for traders results in a temporary reduction in imports. For the December to May period overall, however, it is likely that Bangladesh rice prices will continue to be determined mainly by the import parity price.

Private rice imports have supplied Bangladesh market with nearly 2 million MTs of rice in calendar year 1998. In the absence of this trade, which accounted for about 10 percent of total availability, prices could have risen another 40 to 50 percent, to perhaps 20 Tk/kg wholesale for coarse rice. With the aman shortfall forecast at about 1.9 mn MTs, it is **imperative that incentives for private sector trade be maintained** and that efforts be made to reduce any bottlenecks or unnecessary costs of importing rice.

Government rice stocks at the end of October were about 325 thousand MTs. Even in the event of no additional domestic or international procurement of rice before March 1999, stocks are sufficient for planned VGF distribution of 32 thousand MTs in November, 41 thousand MTs of planned sales through priority channels, and 60 thousand MTs of OMS (if deemed necessary), still leaving more than 190 thousand MTs of rice as end-February stocks. Nonetheless, given recent difficulties with scheduled government commercial imports from India, it seems advisable to supplement rice stocks through import tenders for Thai rice (of perhaps 100,000 MTs), since contracts for imports of Thai rice are much more reliable than those from India. Moreover, prices in Bangkok have fallen \$42/MT in the last two months. A large increase in rice stocks is not advisable at this point, however. Importing rice (and reselling it at a subsidized price in the domestic market) involves substantial fiscal costs. Moreover, if the 1998/99 boro harvest is good and appropriate distribution channels are not available within six months of import, substantial storage losses may result.

Finally, it is important to continue to monitor developments in the rice markets in both India and Bangladesh so as to help ensure that the free flow of rice through the private sector can continue unimpeded.

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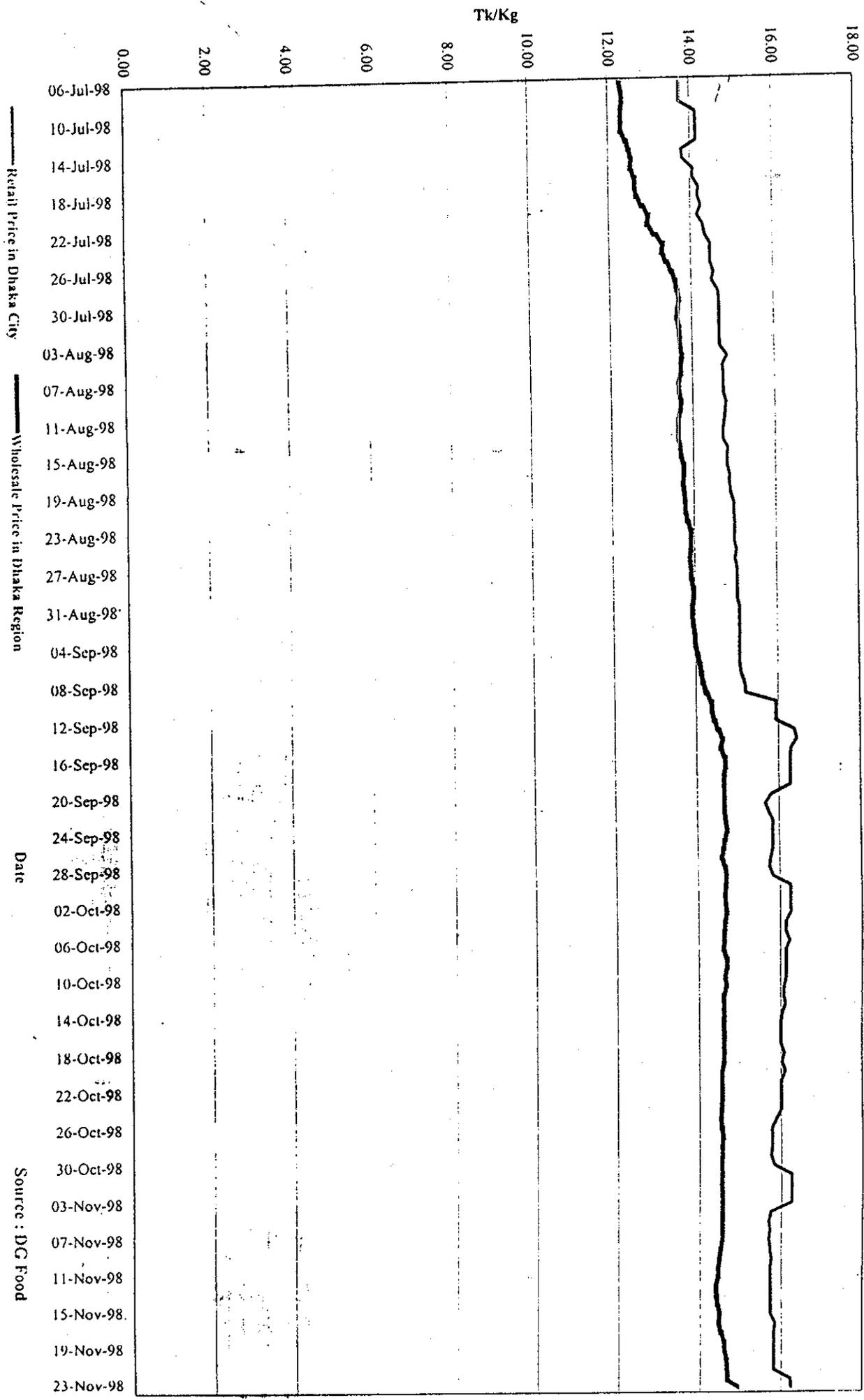
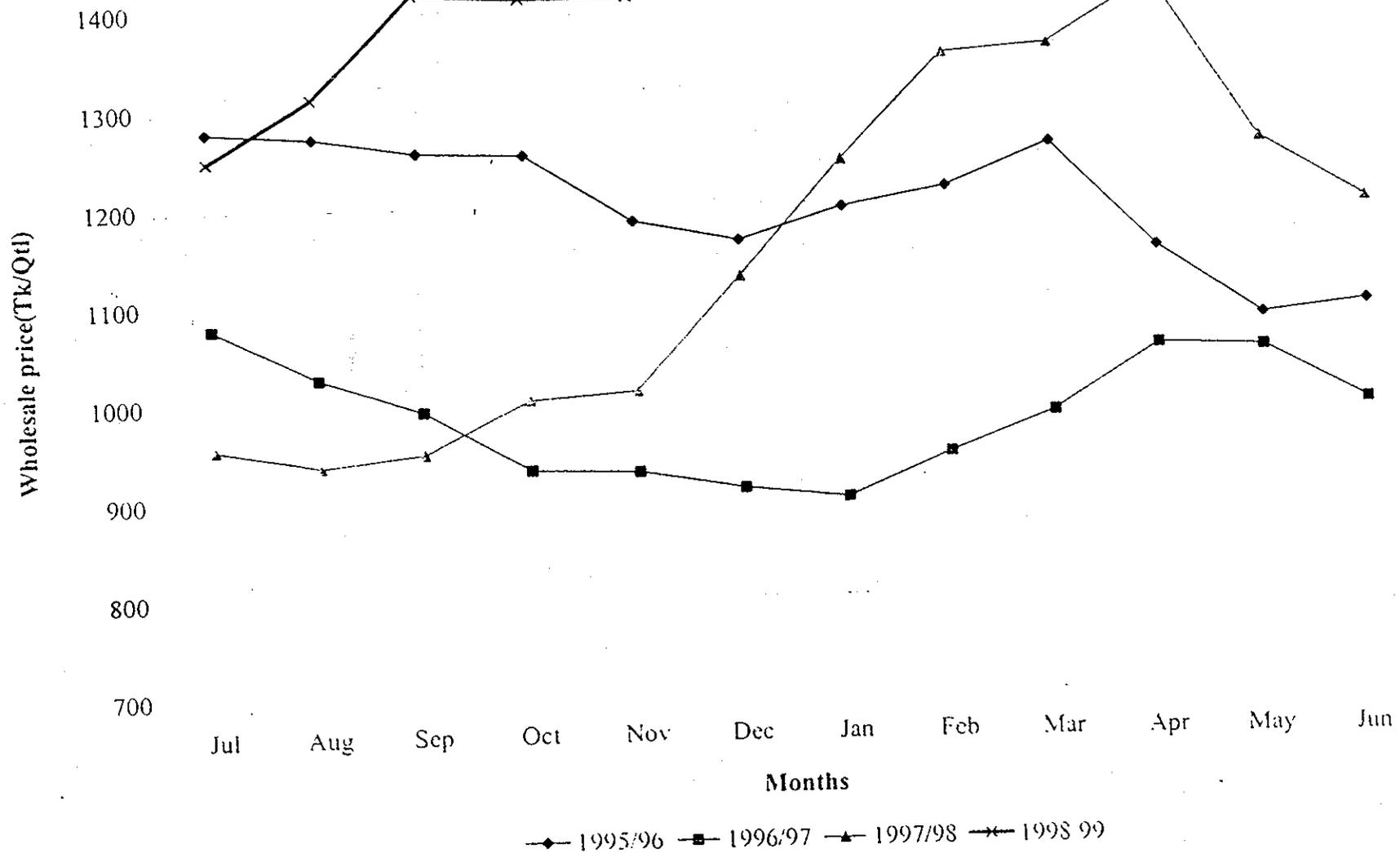


Figure 1 : Retail and Wholesale Price of Coarse Rice in Dhaka (July -November 1998)

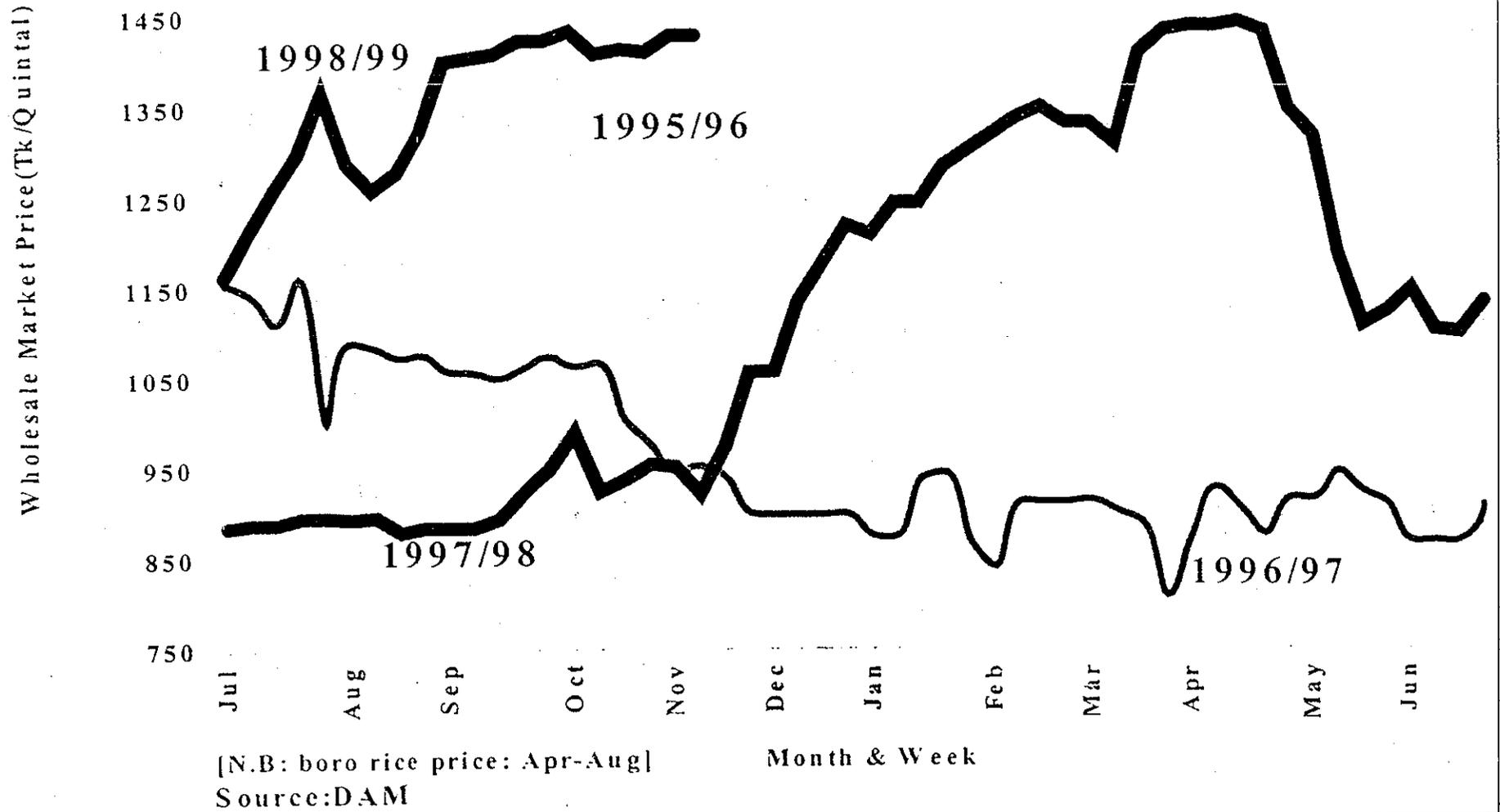
Source : DG Food

Figure 2: National Monthly Average Wholesale Price of Coarse Rice, 1995-98



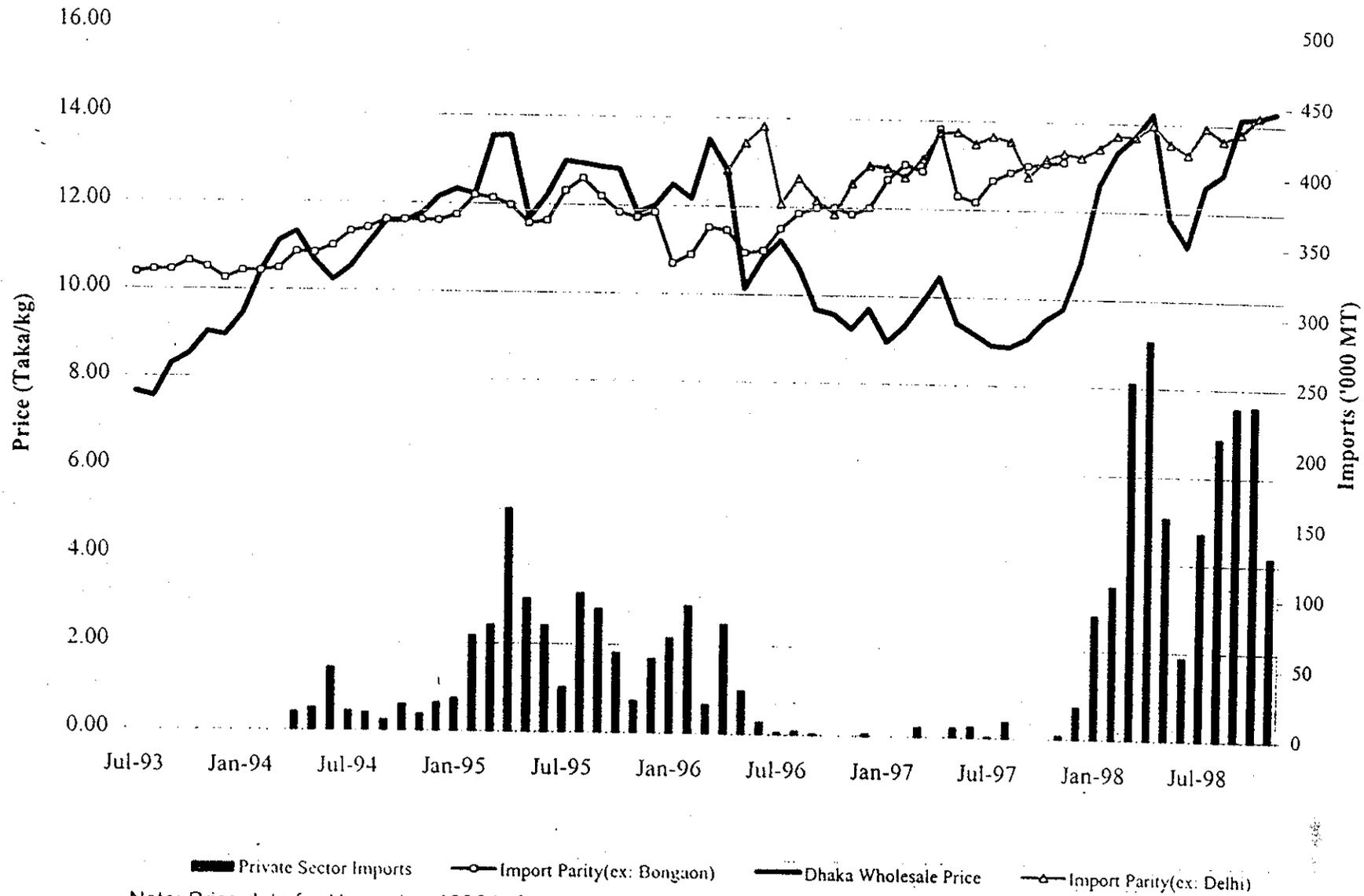
16

**Figure 3 : HYV Coarse Rice Price : Dhaka**  
(July '95 - Nov '98)



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Figure 4: Rice Prices and Quantity of Private Rice Imports in Bangladesh, 1993-98



Note: Price data for November 1998 is for the first week only; private sector imports are as of 21 November, 1998.  
 Source: Dorosh (1998), calculated using data from FPMU, CMIE (1998) and Bauleh, Das et. al, (1998).

Table 1 : Division-wise Average Wholesale Market Price of Rice (July - November 1998)

Source : DG Food

(Tk/Quintal)

| Date      | Rajshahi | Khulna | Barisal | Dhaka | Chittagong | National |
|-----------|----------|--------|---------|-------|------------|----------|
| 1/Jul/98  | 1144     | 1209   | 1236    | 1197  | 1221       | 1201     |
| 15/Jul/98 | 1187     | 1235   | 1282    | 1254  | 1220       | 1236     |
| 1/Aug/98  | 1271     | 1288   | 1338    | 1369  | 1340       | 1321     |
| 15/Aug/98 | 1279     | 1308   | 1349    | 1369  | 1380       | 1337     |
| 1/Sep/98  | 1294     | 1325   | 1368    | 1393  | 1408       | 1357     |
| 15/Sep/98 | 1407     | 1469   | 1471    | 1458  | 1534       | 1468     |
| 1/Oct/98  | 1374     | 1395   | 1461    | 1465  | 1494       | 1438     |
| 15/Oct/98 | 1367     | 1380   | 1453    | 1460  | 1472       | 1426     |
| 1/Nov/98  | 1366     | 1360   | 1446    | 1454  | 1462       | 1418     |
| 2/Nov/98  | 1361     | 1360   | 1446    | 1456  | 1459       | 1417     |
| 3/Nov/98  | 1358     | 1360   | 1446    | 1456  | 1462       | 1416     |
| 4/Nov/98  | 1356     | 1355   | 1444    | 1456  | 1462       | 1415     |
| 5/Nov/98  | 1362     | 1355   | 1444    | 1456  | 1462       | 1416     |
| 6/Nov/98  | 1363     | 1355   | 1443    | 1456  | 1463       | 1416     |
| 7/Nov/98  | 1363     | 1355   | 1443    | 1456  | 1463       | 1416     |
| 8/Nov/98  | 1358     | 1348   | 1441    | 1451  | 1456       | 1411     |
| 9/Nov/98  | 1358     | 1348   | 1441    | 1448  | 1462       | 1411     |
| 10/Nov/98 | 1366     | 1353   | 1441    | 1445  | 1459       | 1413     |
| 11/Nov/98 | 1367     | 1353   | 1441    | 1445  | 1459       | 1413     |
| 12/Nov/98 | 1365     | 1354   | 1439    | 1439  | 1458       | 1411     |
| 13/Nov/98 | 1365     | 1354   | 1439    | 1440  | 1458       | 1411     |
| 14/Nov/98 | 1367     | 1356   | 1438    | 1443  | 1459       | 1412     |
| 15/Nov/98 | 1376     | 1352   | 1431    | 1448  | 1455       | 1412     |
| 16/Nov/98 | 1377     | 1355   | 1424    | 1445  | 1458       | 1412     |
| 17/Nov/98 | 1378     | 1355   | 1424    | 1451  | 1458       | 1413     |
| 18/Nov/98 | 1384     | 1355   | 1426    | 1459  | 1461       | 1417     |
| 19/Nov/98 | 1384     | 1355   | 1424    | 1459  | 1458       | 1416     |
| 20/Nov/98 | 1384     | 1355   | 1424    | 1465  | 1458       | 1417     |
| 21/Nov/98 | 1382     | 1348   | 1426    | 1466  | 1459       | 1416     |
| 22/Nov/98 | 1394     | 1370   | 1426    | 1468  | 1459       | 1424     |
| 23/Nov/98 | 1401     | 1375   | 1438    | 1490  | 1456       | 1432     |

Table 2: Bangladesh Foodgrain Availability and Prices in Recent Years

|  | 1987/88 | 1988/89 | 1996/97 | 1997/98 |
|--|---------|---------|---------|---------|
|  | Dec-Nov | Dec-Nov | Dec-Nov | Dec-Nov |
| Production (mn MTs)                        | 16.324  | 16.196  | 20.34   | 20.353  |
| Rice                                       | 15.276  | 15.175  | 18.886  | 18.550  |
| Aman                                       | 7.689   | 6.857   | 9.552   | 8.850   |
| Boro                                       | 4.731   | 5.831   | 7.460   | 8.100   |
| Aus  | 2.856   | 2.487   | 1.874   | 1.600   |
| Wheat                                      | 1.048   | 1.021   | 1.454   | 1.803   |
| Private Food Grain Imports (mn MTs)        | 0.000   | 0.000   | 0.239   | 2.394   |
| Rice                                       | 0.000   | 0.000   | 0.025   | 1.963   |
| Wheat                                      | 0.000   | 0.000   | 0.214   | 0.431   |
| Net PFDS Market Injections (mn MTs)        | 1.569   | 1.872   | 0.678   | 1.040   |
| Rice                                       | 0.027   | 0.218   | 0.263   | 0.176   |
| Wheat                                      | 1.542   | 1.654   | 0.415   | 0.864   |
| Total Availability (kgs/person)            |         |         |         |         |
| Rice                                       | 131.6   | 129.9   | 140.5   | 150.7   |
| Wheat                                      | 23.7    | 24.1    | 15.8    | 23.3    |
| Rice (Dec-May)                             | 67.2    | 60.8    | 71.9    | 72.9    |
| Wheat (Dec-Mar)                            | 7.3     | 9.2     | 3.4     | 4.2     |
| Average Real Wholesale Prices (1997 Tk/kg) |         |         |         |         |
| Rice (Dec-Nov)                             | 15.51   | 14.39   | 9.68    | 12.63   |
| Rice (Dec-May)                             | 16.12   | 15.51   | 9.87    | 12.50   |
| Rice (June-Nov)                            | 14.90   | 13.27   | 9.49    | 12.76   |
| Wheat (Dec-Nov)                            | 9.61    | 8.95    | 8.78    | 8.74    |
| Wheat (Dec-May)                            | 9.52    | 9.26    | 9.26    | 8.70    |
| Wheat (June-Nov)                           | 9.70    | 8.64    | 8.29    | 8.78    |
| Rice/Wheat Ratio (Dec-Nov)                 | 1.61    | 1.61    | 1.10    | 1.45    |
| Rice/Wheat Ratio (Dec-May)                 | 1.69    | 1.67    | 1.07    | 1.44    |
| Rice/Wheat Ratio (June-Nov)                | 1.54    | 1.54    | 1.14    | 1.45    |

Note: Real prices are calculated using the Dhaka middle-income consumer price index.  
Source: FPMU data and author's calculations.

## Options for Rice Procurement

In recent months, neither domestic nor international tenders for rice have enjoyed much success. Of the six international tenders for rice totalling 350,000 MTs, only 24,941 MTs have been successfully procured to date. The two domestic tenders have experienced similar difficulties: the four tenders totalling 250,000 MTs have resulted in only 134 MTs of procurement. Given that market prices for rice are high and that there will be pressure for Open Market Sales of rice, it is important for the Ministry of Food to increase its rice stocks. This memo outlines several options available, focusing particularly on fixed price domestic procurement and local tenders.

### Implications of Raising the Fixed Procurement Price

One option is to raise the fixed procurement price, currently set at 12.0 Tk/kg for rice. Currently the average wholesale price in Rajshahi division is 14.16 Tk/kg. In order to procure at a government godown, however, the procurement price would have to be approximately 10 percent higher than the wholesale price (given the delays in payment, informal charges and other costs to the seller). Thus, with wholesale prices at 14.16 Tk/kg, procurement prices would have to be approximately 15.6 Tk/kg to procure significant amounts of rice.

Such a large procurement price is infeasible because it would raise expectations for procurement prices for subsequent harvests, increasing costs to the government. Moreover, if procurement prices in the future are substantially above market prices, purchases by the government will necessarily be below offered sales, increasing the potential for malpractices in government procurement.

Raising the fixed procurement price is not the only option, however. Despite the recent failure of international and domestic tenders, with a few adjustments in contract size, timing and penalties for non-delivery, it is likely that sufficient quantities of rice could be procured through these means.

### Recent Experience with Tenders

Table 1 summarizes the results of the six international rice tenders floated since June, 1998. Contracts for the first four tenders have been awarded; contracts for the fifth tender (50,000 MTs floated on 12 November, 1998) and the sixth tender (50,000 MTs floated on 22 November, 1998) have not yet been awarded. In all, 13 contracts have been awarded for the first four tenders, ranging in size from 10,000 to 50,000 MTs. Only four of these contracts have thus far resulted in any delivery of rice, for a total of 24,941 MTs, only 7.9 percent of the total amount for these four tenders (315,000 MTs). The average price of rice for these four tenders is only 11.99, 12.13, 12.35 and 12.30 Tk/kg,

respectively, considerably below current wholesale prices in Chittagong region, 14.57 on 12 December, 1998.

There have been four local tenders for a total 250,000 MTs. Contracts have been awarded for 175,000 for the first three tenders (out of 200,000 MTs tendered). To date only 134 MTs have been received. It is likely that no more rice will be received from these three tenders since the average price for these tenders (13.67, 13.59 and 13.11 Tk/kg, respectively) is considerably below market prices. The last tender, opened on 9 December, 1998, however, is likely to be much more successful, since the average price of 15.06 Tk/kg is above the wholesale price in Rajshahi division of 14.16 Tk/kg as of 12 December, 1998.

Thus, only the fifth and sixth international tenders, (for 100,000 MTs of rice, total) and the fourth local tender (for 50,000 MTs of rice) are likely to succeed at this point. The major reason for the failure of these tenders, as outlined above, is that market prices are considerably higher than the contract prices. Traders have a large incentive to delay delivery or even forfeit their bid bonds.

Three major steps could be taken to improve the performance of both local and international tenders. First, the size of the contracts could be reduced so as to shorten the amount of time required for the supplier to obtain the necessary quantity of rice. Second, administrative delays could be reduced so that the time between the opening of the tender and delivery date can be shortened. Third, the bid bond could be increased to reduce the incentive for non-delivery. For the international tenders, assuming a 0.5 Tk/kg handling and transport cost between C+F Chittagong and wholesale Chittagong, it would have required a bid bond equivalent to 1.87 Tk/kg ( $14.57 \text{ Tk/kg} - 0.5 \text{ Tk/kg}$  handling and transport less 12.2 average contract price), i.e. 15.3 percent, to eliminate incentives to delay delivery. For the local tenders, a 15.9 percent bid bond (equivalent to  $15.19 - 13.11 = 2.08 \text{ Tk/kg}$ ) would have been required to eliminate incentives to delay shipment to Dhaka for the third local tender.

Finally, tenders for moderate quantities of Thai rice, floated in Bangkok, should be considered. Though imports from Thailand are likely to be somewhat more expensive, they are also significantly more certain.

## Conclusions

Given rice requirements for likely open market sales in the coming months, it is necessary for the Ministry of Food to increase its rice stocks. The option of raising the fixed procurement price does not appear to be viable, however, because a very large increase to over 15 Tk/kg would be needed to procure significant amounts of rice. Such an increase, however, would set an unacceptably expensive precedent for the rice procurement price in subsequent seasons.

International and domestic tenders remain the best options. Despite the recent lack of success of international and domestic tenders for rice, it appears likely that the

most recent tenders will succeed in procuring significant quantities of grain since the contract prices are close to current market prices. Moreover, changes in the specifications of the tenders in terms of contract size and bid bond required, along with faster processing of the tenders themselves will likely improve the performance of future tenders.

Table : International Rice Tenders, 1998-99

|            | Date<br>Floated | Date of<br>Contract | Quantity<br>Contracted | Price<br>US \$/MT | Quantity<br>Delivered |
|------------|-----------------|---------------------|------------------------|-------------------|-----------------------|
| Tender # 1 | 1/6/98          | 13/07/98            | 25000                  | 247.97            | 9420                  |
|            |                 | 13/07/98            | 10000                  | 249.93            | 0                     |
|            |                 | 13/07/98            | 17500                  | 251.24            | 7951                  |
|            |                 | 13/07/98            | 17500                  | 251.24            | 4707                  |
|            | <b>Total</b>    |                     | <b>70000</b>           |                   | <b>22077</b>          |
| Tender # 2 | 29/07/98        | 17/09/98            | 25000                  | 252.74            | 0                     |
|            |                 | 17/09/98            | 10000                  | 252.74            | 0                     |
|            |                 | 17/09/98            | 35000                  | 252.74            | 0                     |
|            | <b>Total</b>    |                     | <b>70000</b>           |                   | <b>0</b>              |
| Tender # 3 | 25/08/98        |                     | 25000                  | 252.95            | 0                     |
|            |                 | 18/10/98            | 30000                  | 258.98            | 0                     |
|            |                 | 15/10/98            | 20000                  | 259.9<br>260.9    | 2864                  |
|            | <b>Total</b>    |                     | <b>75000</b>           |                   | <b>2864</b>           |
| Tender # 4 | 12/4/98         | 16/11/98            | 20000                  | 255.35            | 0                     |
|            |                 | 25/11/98            | 50000                  | 256.47            | 0                     |
|            |                 | 23/11/98            | 30000                  | 256.82            | 0                     |
|            | <b>Total</b>    |                     | <b>100000</b>          |                   | <b>0</b>              |

## India Food Grain Markets Update

India's kharif rice crop is projected to be 70 million MTs, down by about 3 percent from 72.5 mn MTs harvested in 1997.

Rice production in West Bengal is, however, reported to be down by about 2.0 million MTs due to drought and floods, about 20 percent of its kharif output.

Food Corporation of India stocks of rice remain high, 8.7 million MTs on 1 October, 1998. This stock level is 1.7 mn MTs higher than that of 1 October, 1997 and 2.7 mn MTs higher than the buffer stock norm for this date of 7.0 mn MTs.

The price of rice in the Delhi wholesale market in November, 1998 averaged 8.98 Rps/kg, equivalent to 10.25 Tk/kg at the end-October exchange rate of 1.14 Tk/Rupee. Adding 3.0 Tk/kg transport and handling costs from Delhi to Dhaka gives an import parity price of approximately 13.3 Tk/kg.

Traders in Dhaka have reported that one truck carrying rice for export was seized and the driver arrested by West Bengal state police last week. This action has discouraged members of the truckers union in West Bengal from carrying rice for export.

Wheat prices rose sharply in July in Hapur, India and in November were 28.3 percent higher than in November 1997. FCI wheat stocks are very large, however (15.8 million MTs on 1 September 1998, almost double those of September 1997).

## The Current Rice Situation and Government Rice Policy

- Domestic rice prices in Bangladesh for most of 1998 have been determined mainly by the cost of importing rice from India (the import parity price).
- From now until the May boro harvest, it is likely that Bangladesh rice prices will continue to be determined mainly by the **import parity price**.
- **Private rice imports have supplied Bangladesh market with nearly 2 million MTs of rice in calendar year 1998.** In the absence of this trade, which accounted for about 10 percent of total availability, prices could have risen another 40 to 50 percent, to perhaps 20 Tk/kg wholesale for coarse rice.
- With the aman shortfall forecast at about 1.9 mn MTs, it is **imperative that incentives for private sector trade be maintained** and that efforts be made to reduce any bottlenecks or unnecessary costs of importing rice, and to ensure **unhindered passage of trucks from the border to wholesale markets**.
- One possible measure would be to **increase the weight allowance to 15 MTs for trucks carrying rice on ferries and the Jamuna bridge**.
- The government should also **avoid discouraging private sector trade** through large-scale injections of public sector rice into the market.
- Most important, the government should **avoid harassing traders through re-imposition of the anti-hoarding law**.
- Government rice stocks at the end of November were 307 thousand MTs. Even if only 168,000 MTs of rice are procured before March 1999, **stocks are sufficient for planned distribution in December, January and February, still leaving 265 thousand MTs of rice on 1 March, 1999.**
- Nonetheless, given recent difficulties with scheduled government commercial imports from India, it seems advisable to **supplement rice stocks through import tenders for Thai rice** (of perhaps 100,000 MTs), since contracts for imports of Thai rice are much more reliable than those from India.
- Finally, it is important to continue to **monitor developments in the rice markets in both India and Bangladesh** so as to help ensure that the free flow of rice through the private sector can continue unimpeded.
- The rice market situation is serious, but there is **absolutely no reason for panic**. Rather, the situation calls for **maintaining private sector incentives for import, careful planning of government procurement, and close monitoring of the situation**.

## Rice Market Price Trends and Imports: 23 December, 1998 Update

### Introduction

Though much of the flood-damaged aman crop has been harvested in recent weeks, rice prices in Bangladesh have risen slightly. The national average wholesale price through the first two weeks of December averaged 14.4 Tk/kg for both aman coarse and HYV rice, up from an average of 14.2 for aman HYV in November. This price rise has occurred despite continued large-scale private market imports equalling 214 thousand MTs in November and 151 thousand metric tons in the first 21 days of December.

This memo describes the current market situation and discusses factors that have influenced price movements. First, we present data on recent price movements in Bangladesh and in India. Second, we discuss factors contributing to increased marketing margins between India and Bangladesh, particularly the role of recent new regulations on the size of trucks. Finally, we suggest additional information needs and policy implications.

### Recent Market Prices

Despite the onset of the rice harvest in Bangladesh and India, rice prices in Bangladesh have remained high and actually increased slightly in November and early December. The price rise is not large in percentage terms, however. Dhaka wholesale prices rose 4.5 percent between 1 November and 20 December (Figure 1). As shown in Figure 2, Bangladesh wholesale rice prices have not fallen with the 1998/99 aman harvest as they did in years of good aman harvests, e.g. 1996/97. Nonetheless, they have not risen sharply as in 1997/98 because for most of 1998 Bangladesh prices have been at import parity with India. More specifically, domestic prices have risen to the level at which it is profitable for the private sector to import rice from India, and as a result, prices have stabilized at approximately India's domestic market price plus costs of transport and marketing from India to Bangladesh (Figure 3).

Given the poor aman harvest, (the projected aman shortfall in Bangladesh is projected to be 1.9 million MTs), it appears that market arrivals from the harvest are down substantially from even last year's poor aman harvest. Thus, market sales of local production aman rice have not been large enough to depress prices below import parity.

However, India's kharif harvest has been good, estimated at only 3 percent below the record harvest of 1997/98. As a result, prices in the Delhi wholesale market fell sharply in November, 1998, from about 9.77 Rps/kg (11.2 Tk/kg) to 8.98 Rps/kg (10.3 Tk/kg). Why was this fall in Indian prices not translated into a fall in Bangladesh prices?

The major reason is that transport costs rose because of new government regulations on both sides of the border.

### **Recent Increases in Transport Costs in Bangladesh and India**

In both India and Bangladesh, regulations limiting the load carried by trucks have changed recently. In Bangladesh, the maximum gross weight of trucks crossing the Jamuna bridge or allowed on ferries has been reduced, so that trucks formerly carrying 130 bags of rice (10.79 MTs) are now carrying only 77 bags (6.39 MTs). Given an approximate cost of 7,000 Taka/truck, the cost of transporting a kilogram of rice from the border to Dhaka has risen from 0.65 to 1.10 Tk/kg, an increase of 0.45 Tk/kg.

Similarly, in India, recent restrictions have reduced the maximum net weight of trucks from about 18 to 10 MTs. Based on an estimated 13,000 Rps/truck, the cost of transporting a kilogram of rice from Delhi to the Bangladesh border has risen from 0.72 to 1.30 Rps/kg (0.82 to 1.48 Tk/kg), an increase of 0.66 Tk/kg.

The total effect of these two changes in regulations is thus to increase the marketing margin between the Delhi wholesale market and Dhaka by about 1.1 Tk/kg (0.45 + 0.66 Tk/kg). Thus, though the average price of rice in the Delhi wholesale market fell by 0.79 Rps/kg (0.9 Tk/kg) in November, the 1.1 Tk/kg increase in real transport costs led to an increase in the import parity price in Dhaka by 0.2 Tk/kg.<sup>1</sup> Wholesale prices in Dhaka actually rose by 0.14 Tk/kg.

### **Conclusions and Further Information Needs**

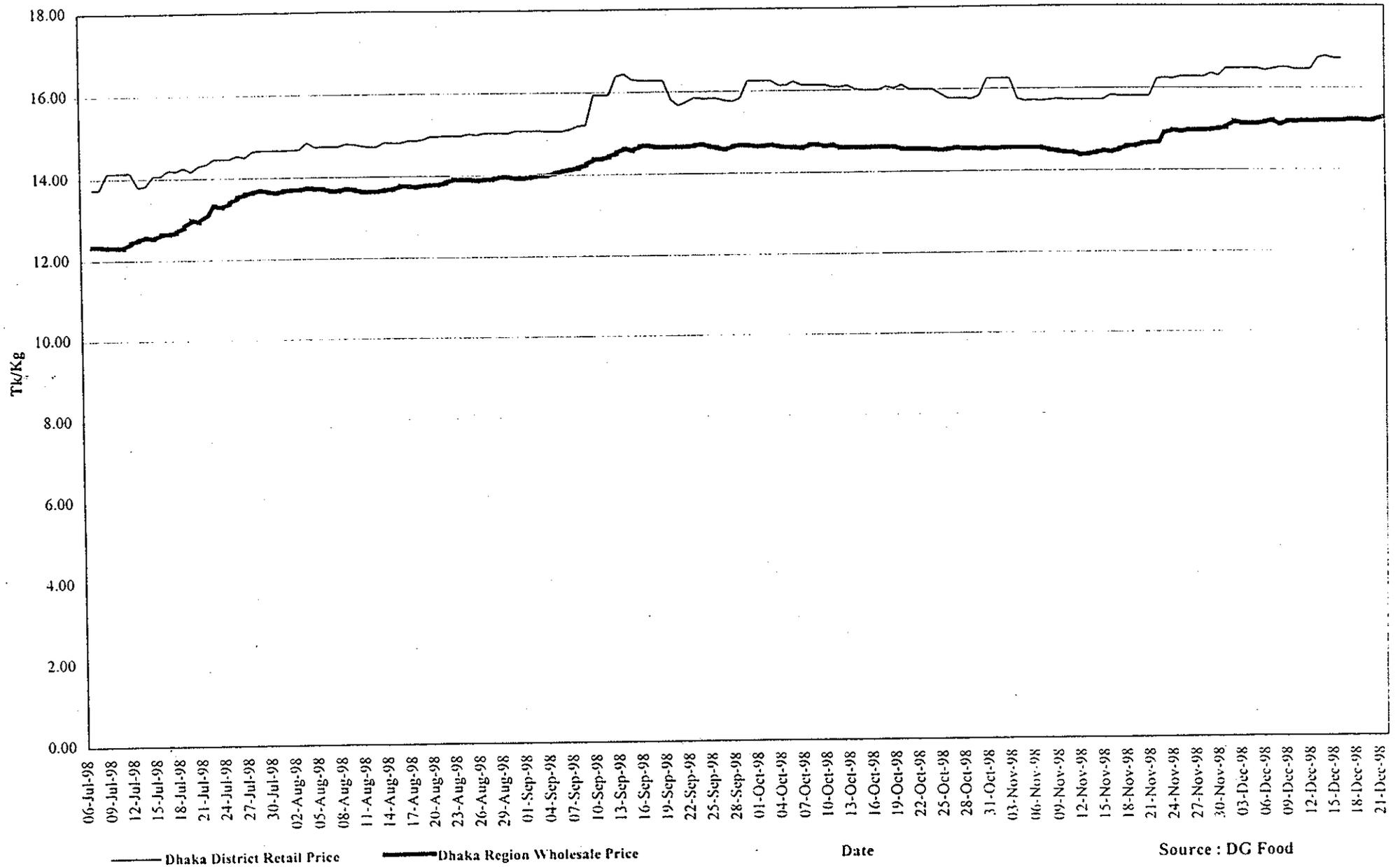
As shown above, the recent increase in the cost of transporting rice in both Bangladesh and India accounts for the increase in marketing margin between Delhi and Dhaka observed in November. Dhaka prices have remained at about import parity and the absence of a price decline in Dhaka (in spite of a price decline in India) was due to real increases in costs of transport. Thus, the private market appears to be functioning efficiently. The Government of Bangladesh may wish to reconsider its weight restrictions on trucks carrying rice, though the benefits of this change (reducing the wholesale price of rice by about 0.45 Tk/kg) must be weighed against the costs in terms of possible damage to roads and bridges.

Other factors influencing Indian rice markets and therefore import parity in Bangladesh should be investigated. Price differentials and possible short-term milling constraints for parboiled rice may explain some of the recent price movements in India. Moreover, a more detailed knowledge of the constraints and regulations currently affecting traders in West Bengal would enable a better assessment of the likelihood of supply disruptions.

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<sup>1</sup> Note that this change in transport costs has been included in the calculation of import parity price in Figure 3, in which 4.1 Tk/kg is added to the Delhi wholesale price in November, instead of only 3.0 Tk/kg as in the previous months.

Figure 1 : Daily Retail and Wholesale Price of Coarse Rice in Dhaka (July -December 1998)



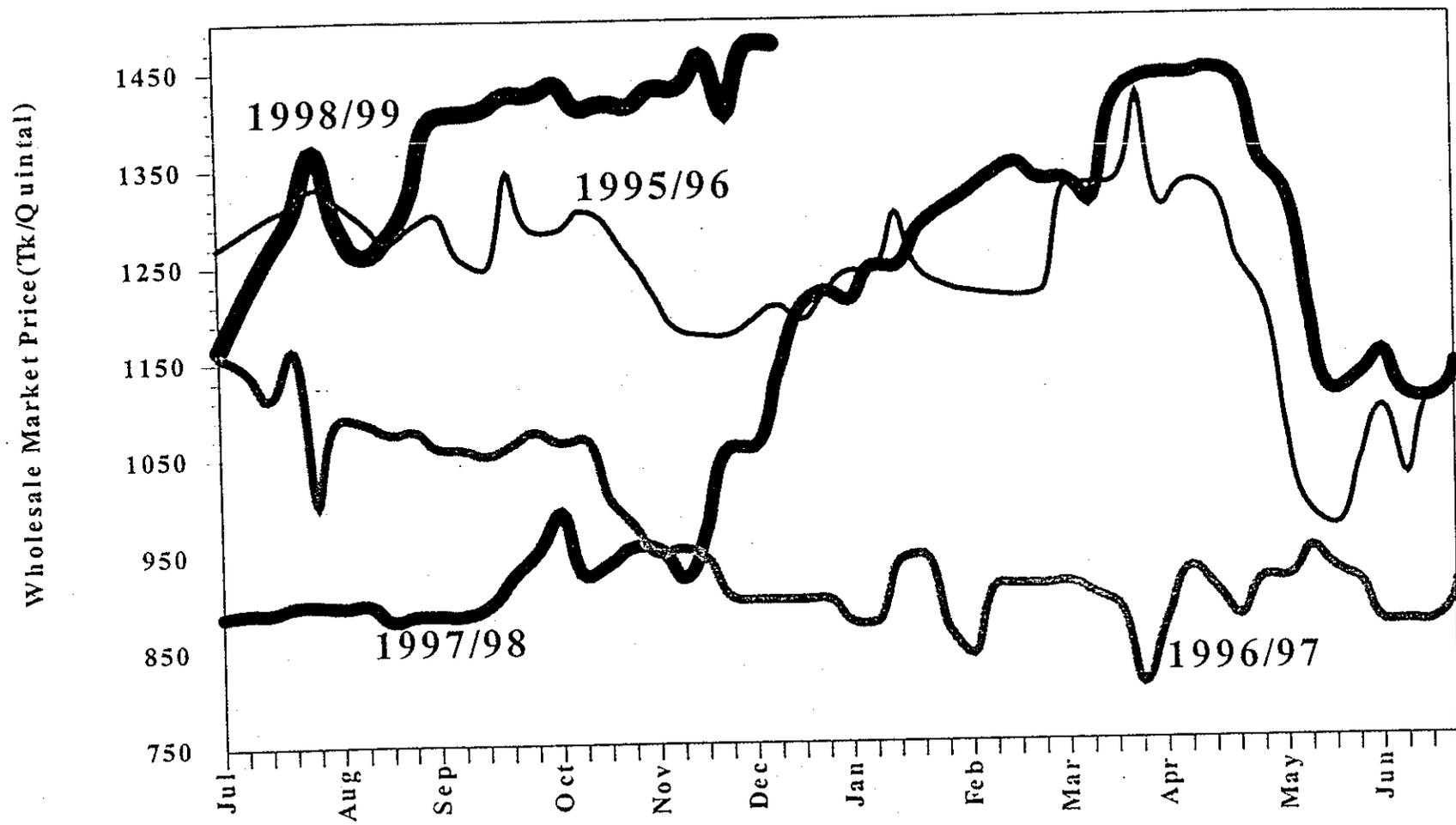
— Dhaka District Retail Price      — Dhaka Region Wholesale Price

Date

Source : DG Food

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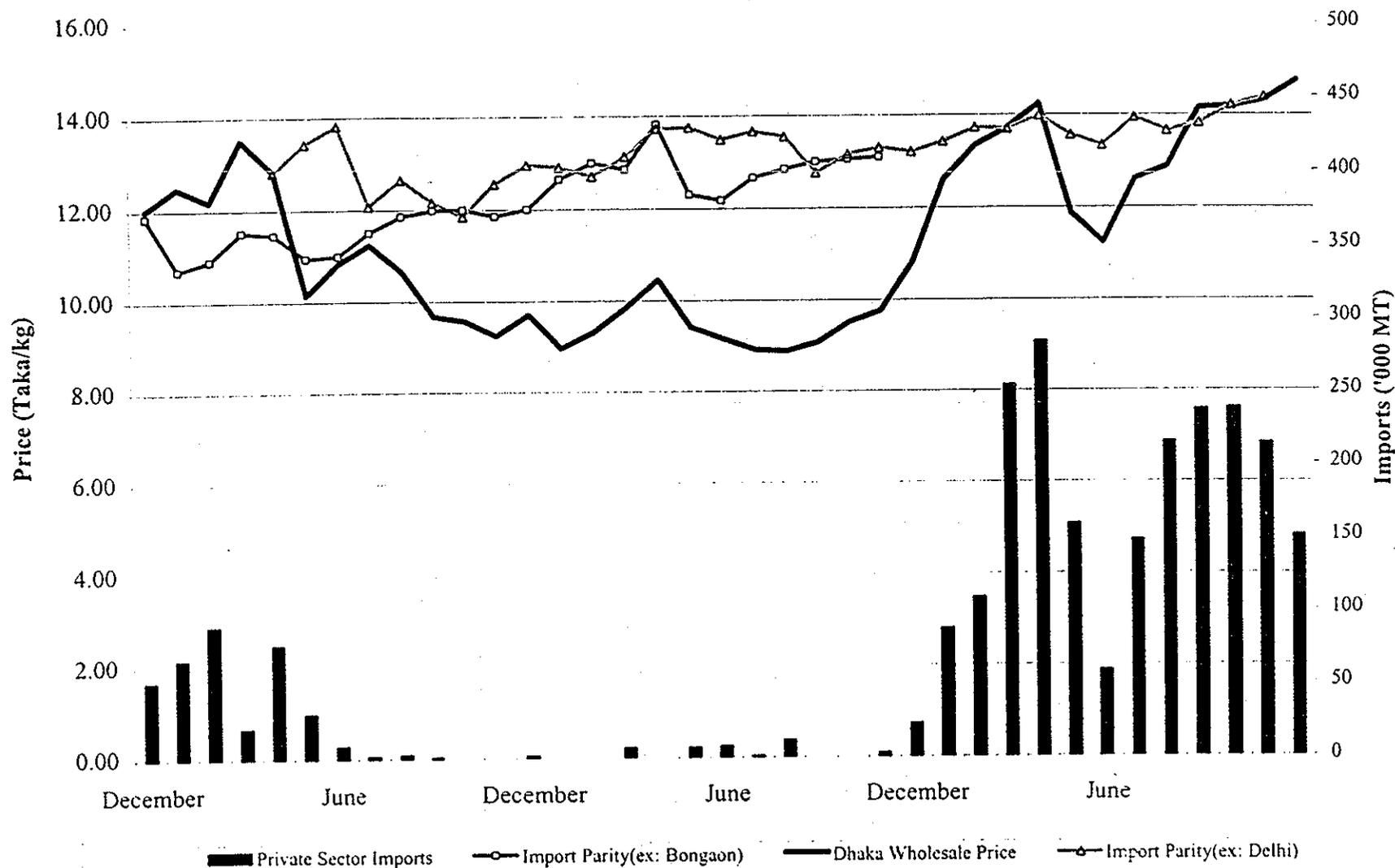
**Figure 2 : HYV Coarse Rice Price : Dhaka**  
(July '95 - Dec '98)



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

Month & Week

Figure 3: Rice Prices and Quantity of Private Rice Imports in Bangladesh, 1993-98



Note: Price data for December 1998 is upto the second week only; private sector imports are as of 21 December, 1998. From november the carrying cost has increased by 1.1 tk/kg to 4.1 tk/kg.

Source : Dorosh (1998), calculated using data from FPMU, CMIE (1998) and Baulch, Das et. al, (1998);

## Implications of Removing the Tariff on Maize Imports<sup>1</sup>

Maize production and utilization have increased rapidly in Bangladesh in the last seven years. From a very small base of only 3000 MTs produced on 3600 hectares of land in 1991/92, production reached 65,000 MTs in 1997-98 (Figure 1). Utilization of maize, mainly as livestock (poultry) feed has grown even more dramatically. Data on feed use are somewhat uncertain, but total utilization is estimated to be on the order of four lakh MTs, with 99 percent used as animal feed. Imports thus account for about 85 percent of total supply (Table 1).

Currently, there is a surcharge of 2.5 percent on maize imports. This surcharge was levied on rice and wheat until January 1998 when it was removed to promote private sector foodgrain imports following the aman shortfall of 1997/98. Now, the issue of removing the surcharge on maize imports is being debated. This memo discusses the costs and benefits of this proposed policy change in terms of impacts on production, utilization and government revenues.

First, however, it is important to put the issue of maize imports into perspective relative to the rest of the foodgrain economy and government budget. Area planted to maize, mainly in the dry season (either boro or early aus) is only 15,000 hectares, concentrated in the Rajshahi division, but also including areas near Jessore and Savar, as well as small scattered areas around the country. As such, maize area is only 3 percent of wheat area and 0.2 percent that of rice.

Maize imports have grown dramatically and may now be 400,000 MTs per year, according to informed wholesale traders. Unfortunately, data on maize imports is not separately collected or published by BBS. It may be then that this import figure is overstated perhaps by a factor of two. Even accepting the higher figure of 400,000 MTs and using a C+F import price of \$120/MT, the total value of maize imports is only 48 million dollars and the total possible revenue collected with the 2.5 percent surcharge is 1.2 million dollars or 57.6 million Taka (5.76 crore Taka).

Thus, whether the tariff is kept or not will not have major effects on the agricultural sector or the government budget. The question remains, however, as to the impacts on the maize, feed and poultry sectors.

Removing a 2.5 percent tariff on maize imports will tend to lower maize producer prices by as much as 2.5 percent, reducing farmer incomes slightly and reducing incentives for maize production as compared to alternative crops grown in the dry season,

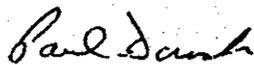
<sup>1</sup> This memo draws heavily upon the information in the paper by Dr. M. A. Quasem, "Production and Marketing of Maize in Bangladesh: An Indicative Exercise", draft, February 1999.

in particular, wheat, boro rice, pulses and oilseeds. Lower maize prices would also encourage the use of maize in animal feed, where it is a substitute for wheat as a source of carbohydrates (energy). Typical feed rations for poultry currently have a maize to wheat ratio of 2:1 (averaged over the year). More maize and less wheat might then be used as feed. Since maize is only one component of livestock feed and other costs, including large marketing costs, enter into the consumer cost of poultry products (eggs and meat), the ultimate effect of removing the tariff on consumer prices would be almost zero.

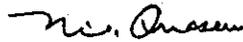
It is useful to note that the major impact of the removal of the 2.5 percent surcharge on rice and wheat imports in early 1998 was to signal to traders that the government did not oppose and would not hinder private sector foodgrain imports. No such signal appears necessary for maize imports at the present time.

The major beneficiaries, thus of removal of a tariff on maize imports would be traders and poultry feed producers. The major costs accrue to the government, which would lose as much as 5 crore Taka in tax revenues.

Finally, in general, there is a strong argument to design import tariff and overall tax policy in a consistent framework, taking care to avoid inadvertently discriminating in favor of one sector of the economy at the cost of other sectors. Thus, there is a need to examine overall trade and agricultural policy in order to maintain consistent and appropriate incentives for production, consumption and trade.



Paul Dorosh



M. A. Quasem

Table No. 1

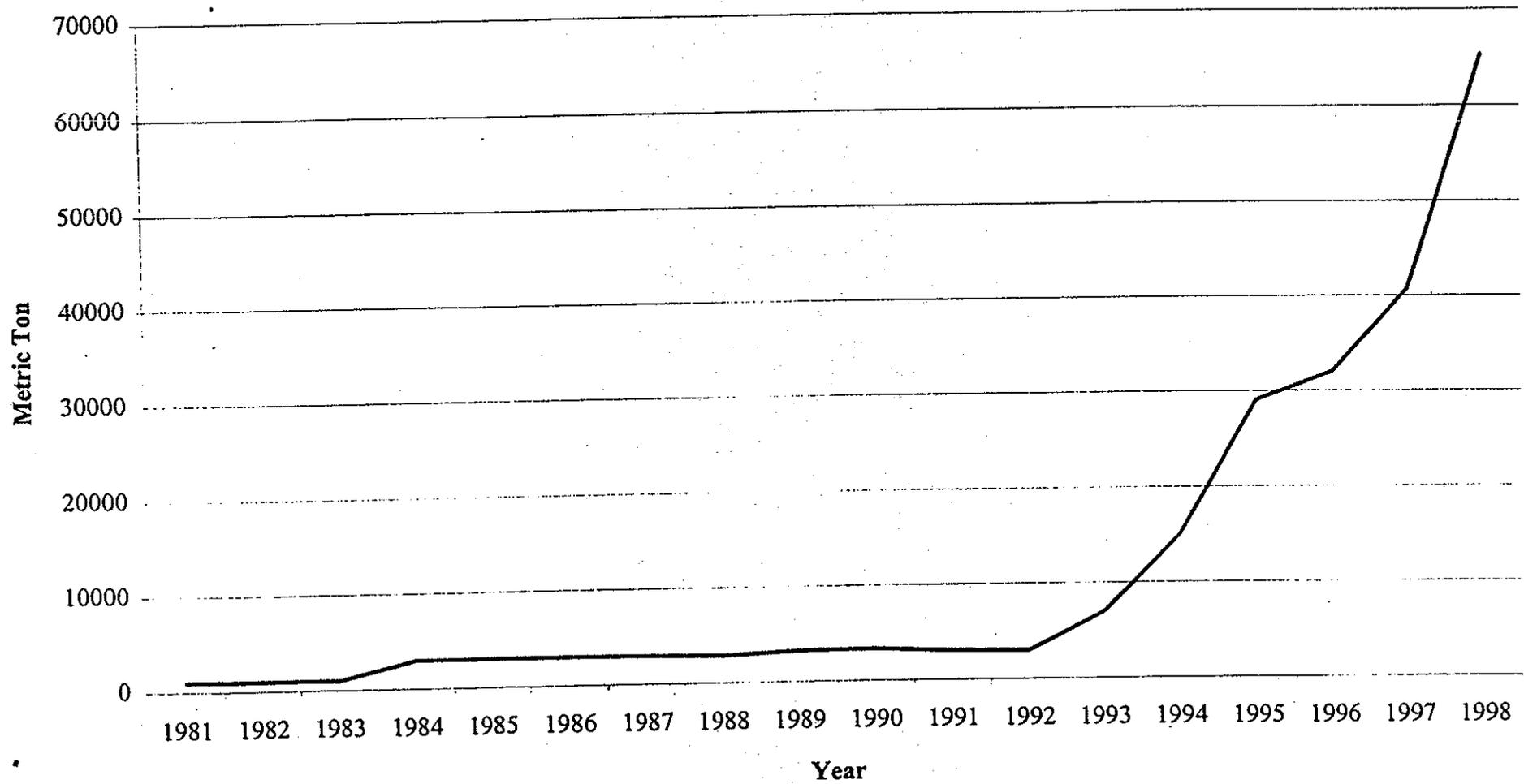
*Uses of Maize and Its Sources of Supplies, 1998*

| <i>Sources<br/>of<br/>Supply</i> | <i>Amount<br/>of Maize<br/>Available<br/>(Metric Tons)</i> | <i>Uses of Maize ( Metric Tons ) *</i>       |  |                          | <i>Total<br/>%</i> |
|----------------------------------|--|--|--|--------------------------|--------------------|
|                                  |  | <i>Household<br/>Consumption<br/>as Food</i> | <i>Household<br/>Consumption<br/>as Livestock Feed</i> | <i>Poultry<br/>Feeds</i> |                    |
| Local                            | 65,000   | 1000   | 800  | 63,200                   | 100.0              |
| ( % )                            | ( 14 )   | ( 1.6 )                                      | ( 1.3 )  | ( 97.2 )                 |                    |
| Imported                         | 395700 +   | -  | -  | 395,700                  | 100.0              |
| ( % )                            | ( 86 )   |  |  | ( 100.0 )                |                    |
| Total                            | 460,700  | 1000   | 800  | 458900                   | 100.0              |
| ( % )                            | ( 100.0 )  | ( 0.22 )                                     | ( 0.17 )   | ( 99.16 )                |                    |

Note : \* Estimates for use of Maize is Based on Household Survey, 1998

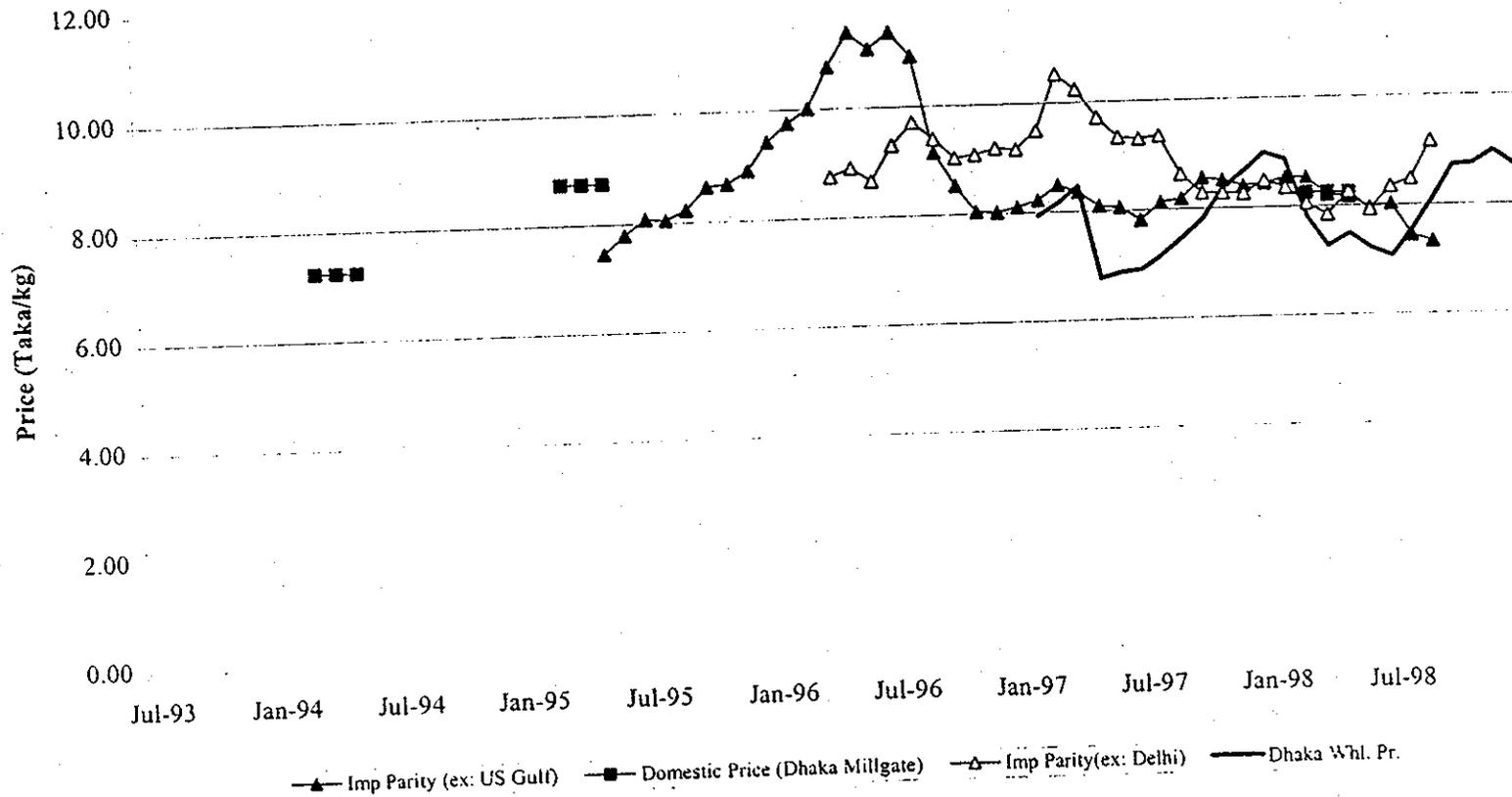
+ Estimates by the Author

Figure 1: Trend in Maize Production, Bangladesh 1980/81-1997/98



Source : IMPP (Integrated Maize Promotion Project)

Figure 2 : Import Parity and Domestic Prices of Maize 1993-99



Notes: Dhaka mill wholesale price equals farmgate price plus 2.25 Tk/kg.  
 Import Parity ex-US Gulf equals FOB price plus \$43/MT shipping plus 1.2 Tk/kg internal marketing costs.  
 Import Parity ex-Delhi includes 3.5 Tk/kg (4.1 Tk/kg from Nov '98) marketing costs.

Source : FPMU data; CMIE, Field Survey and author's calculations.

## Ministry of Food Policy in Response to the 1998 Flood

The floods that began in July and continued through September caused extensive damage to the aus and aman rice harvests in Bangladesh in 1998/99 and threatened the food security of the entire nation. As flood waters spread over more and more of the country, the Government of Bangladesh launched an international appeal for aid for flood relief and rehabilitation on 26 August, 1998. As shown in the chronology of events in Table 1, the Ministry of Food played a key role in the government's response to the crisis through supplying food for immediate relief efforts during the flood and helping to coordinate food aid commitments and deliveries. In addition, the Ministry of Food increased post-flood distribution, managed food stocks and imported foodgrain through commercial channels. At the same time, as part of its price stabilization strategy, the government encouraged private sector imports, a policy that helped avoid a food supply shortage following the flood.

### Relief Efforts during the Flood

Major flood relief efforts began in August 1998 through provision of 20,400 MTs of rice through Gratuitous Relief (GR) in flood-affected thanas and an additional 30,800 MTs of rice in September. In addition, the Vulnerable Group Feeding (VGF) program began on a large scale in August with an initial distribution of 13 lakh cards entitling the holder to 8 kgs of rice per month. During August and September, a total of 27,500 MTs of rice were distributed through this program. At 8 kgs/card, an estimated 1.35 and 2.13 mn households received VGF rations in August and September, respectively. Almost no wheat was distributed through relief channels in the initial months of the flood.

In response to the appeals for aid by the Government of Bangladesh in late August 1998, over the following two months donors pledged 1.083 million MTs of foodgrain as food aid, in addition to the 5.96 lakh MTs of regular food aid (Table 2). The large majority of the food aid, 1.618 million MTs out of 1.677 million MTs, is wheat; only 59 thousand MTs is rice. Some of the food aid, including 3 lakh MTs of United States PL-416B wheat shown in Table 3 as scheduled to arrive in May and June 1999, is likely to arrive early in the July 1999 to June 2000 fiscal year.

In late September, the World Food Programme (WFP) strongly urged the Government of Bangladesh to expand the VGF program to 4 million cards (households) with an allotment of 32 kgs of wheat per card. The WFP urged that this expansion take effect for both September and October, but the 141,680 MTs of wheat needed for two months distribution would have had to come almost exclusively from government stocks as little food aid had arrived. Recognizing the urgent need for more relief to poor, flood-affected households, the Government of Bangladesh agreed to the expansion in the number of VGF cards to 4 million cards. However, given that delays in food aid arrivals

were likely, the allotment was reduced to 8 kgs of rice and 8 kgs of wheat per card for October only, postponing a decision on November distribution until more definite information on food aid arrivals was available.

As shown in Figure 1, the Ministry of Food's more cautious estimates of foodgrain arrivals proved to be accurate, as delays in shipments and in unloading greatly slowed delivery of food aid. By the end of October, only 52 thousand MTs of food aid had actually arrived, 71 thousand MTs less than assumed by the WFP in its late-September analysis. During November only an additional 25 thousand MTs of food aid wheat arrived and were available for distribution, so that by the end of November, cumulative food aid arrivals were only 77 thousand MTs, compared with the WFP-projected 431 thousand MTs. Fortunately, the Government of Bangladesh' own commercial imports of 224 thousand MTs of wheat arrived on six ships and were unloaded from mid-October to early November, 1998 permitting a continuation of the expanded VGF program in November, as well. The VGF program was again expanded in December 1998 to cover a total of 4.2 million households with an increase in the ration size to 20 kgs per card (5 kgs of rice and 15 kgs of wheat) for the month of Ramazan. No distribution of foodgrain through the VGF program took place in January, but the program restarted in February with a ration size for February through April of 15 kgs of wheat and 5 kgs of rice per card.

Altogether, from July 1998 through February 1999 Ministry of Food offtake of foodgrain reached 10.28 lakh MTs, 1.72 lakh MTs more than the 8.56 lakh MTs it initially planned to distribute during these months (as reflected in the 1998/99 government budget documents, see Table 3). Through December, however, limited government wheat stocks, uncertainties about rice supplies after the aman harvest, and financial constraints limited total distribution to 630 thousand MTs, only 26 thousand MTs more than in the pre-flood government distribution for this period (Figures 2 and 3). To a large extent, additional foodgrain distributed through VGF and other relief channels was offset by reductions in previously budgeted OMS rice sales and a postponement of planned Food For Education (FFE) disbursements.

The VGF program accounted for 29.4 percent of total distribution of foodgrain from July 1998 through February 1999: 126,000 MTs of rice and 176,000 MTs of wheat. Gratuitous relief accounted for 64,000 MTs of rice and 5,000 MTs of wheat, 6.7 percent of total distribution. Food for Work, which began on a large scale only in January 1999 when soil conditions permitted heavy earthwork, accounted for 18.2 percent of distribution; Test Relief accounted for another 4.9 percent. In all, these four relief channels accounted for 59.2 percent of distribution. Continued high levels of offtake are planned for the rest of fiscal year 1999, with Food for Work wheat offtake projected at 681,000 MTs, 29.4 percent of total planned offtake of foodgrain (2.315 million MTs) for the year (Figures 4 and 5). Overall, increases in Food For Work (1.56 lakh MTs) and Vulnerable Group Feeding (4.42 lakh MTs) are the major components of the currently planned 5.97 lakh MT increase in 1998/99 food distribution compared with the original budget (Table 3).

## Rice Policy

Government rice policy was based on the realization that government imports and food aid, alone, would not be sufficient to make up the projected 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. Following this policy again after the flood encouraged the private sector to import more than 2 lakh MTs of rice per month from August 1998 to January 1999, with private rice imports reaching 288 thousand MTs in January and 241 thousand MTs in February, 1999.

At the same time, the Ministry of Food also made efforts to procure rice to build up government stocks for planned distribution in early 1999. Negotiations were held with the Government of India regarding purchases of 300,000 MTs of rice, but no agreement could be reached on price and the logistics of transporting the grain to Bangladesh. Six government commercial tenders for a total of 4.1 lakh MTs of rice imports were also floated from June through November 1998 (a seventh tender was floated in early 1999). These tenders have resulted in only 94,670 MTs of procurement out of 3.1 lakh MTs in contracts as of 8 March 1999, (31 percent of contracted amount). One possible explanation of the poor performance is that some exporters in India used the contracts for rice exports with the Bangladesh government to obtain highly subsidized trade credit from the Indian government. Re-lending this credit on the Indian market was likely more profitable than actually exporting rice to Bangladesh. Similar problems beset five local tenders floated from September through January 1999 for 2.95 lakh MTs of rice, which through 15 March 1999 resulted in only 17 thousand MTs of procurement from 1.74 lakh MTs contracted (10 percent of the contracted amount). Local tenders have performed poorly in part because traders who had offered to supply rice at relatively low prices had apparently misjudged the market and were not willing to honor their contracts with the Government of Bangladesh when market prices in Bangladesh remained above their contract price.

Nonetheless, in spite of the problems with procurement, the Ministry of Food, through cautious management, including a delay in beginning OMS and ration shop sales of rice until January 1999, was able to maintain rice stocks at 3.15 lakh MTs at the beginning of February 1999. With a good boro harvest expected in May, further procurement planned to build of government stocks, and private sector rice imports continuing, market supplies and prices are likely to be fairly stable.

## Summary

In spite of severe and long-lasting floods that severely damaged the 1998/99 aman rice crop, there has been no shortage of food in Bangladesh because private sector

imports have largely offset the domestic production shortfall. Enabled by government policy that encouraged private sector trade, private imports exceeded 2 lakh MTs of rice per month each month from August 1998 to February 1999. Total imports from July 1998 to February 1999 equaled 1.83 million MTs of rice and 0.57 million MTs of wheat (through January 1999). Public distribution of rice during this period equaled 3.21 lakh MTs of rice and 7.07 lakh MTs of wheat, 1.72 lakh MTs of foodgrain more than the 8.56 lakh MTs in the original 1998/99 distribution plan for this period. Thus, the private sector rice imports were 1.8 times greater than public distribution of foodgrain in the first eight months of the 1998/99 fiscal year. Another 1.1 million MTs of public foodgrain distribution are planned from March to the end of May, i.e. up to the boro harvest. In addition, private sector rice imports in these three months are expected to be between 3 and 5 lakh MTs.

At the household level, Bangladesh government programs mitigated the negative effects of the flood on food security through a combination of rapid disbursement of emergency food relief from its existing stocks and additional distribution of foodgrain through VGF and other channels. Through the end of November, most of the foodgrain distributed came from government stocks, not from flood-relief food aid. In fact, government commercial imports of 261,000 MTs of wheat arriving in October and November were crucial in supplying this expanded distribution before the arrival of large shipments of food aid beginning in December. Nonetheless, food aid imports are especially important for post-flood rehabilitation and providing additional incomes through Food For Work and VGF to the rural poor during the January to April slack labor period.

The experience of the 1998 flood provides several important lessons for food policy and enhancing food security in Bangladesh. First, the large-scale private sector imports of rice following the flood illustrates the valuable contribution that the trade liberalization of the early 1990s has made to enhanced food security in Bangladesh. In the absence of these imports, prices would have risen substantially and the crisis would have been much worse. Second, in spite of the best efforts of donors and the Government of Bangladesh, food aid arrivals were significantly delayed, with total aid arrivals equal to only 61 thousand MTs at the end of October 1998, two months after the appeal for aid. The Ministry of Food's conservative estimates of the timing of food arrivals proved accurate, illustrating the continued need for appropriate caution in planning of arrivals and distribution. Finally, the limited availability of foodgrain stocks from August through November constrained distribution of foodgrain to flood-affected households. One alternative is for the government to hold more stocks during the early part of the fiscal year so as to be ready for future floods. But in a situation like that in 1998 when private sector imports maintained total foodgrain supply in Bangladesh at normal levels, food insecure households were constrained by purchasing power not by market availability of food. Government relief efforts did include some cash payments in conjunction with food distribution. A policy of greater cash payments together with foodgrain rations would increase the government's ability to provide even more relief to flood victims in the future.

**Table 1: The 1998 Flood: Chronology of Events**

| Date                           | Event  |
|--------------------------------|--|
| 1 <sup>st</sup> week July 1998 | The Flood Forecasting and Warning Centre ((FFWC) of the Bangladesh Water Development Board reports rising water levels in the major rivers   |
| 16 July 1998                   | First meeting of the Inter-Ministerial Disaster Management Co-ordination Committee (IMDMCC). Emergency relief operations begin.  |
| 24 July 1998                   | First National Disaster Council (NDC) meeting chaired by the Honourable Prime Minister.  |
| 13 August 1998                 | Second meeting of the Inter-Ministerial Disaster Management Co-ordination Committee (IMDMCC). Government plans to cope with the flood situation with internal resources.   |
| 26 August 1998                 | The Government of Bangladesh appeals for international help to assist flood victims.   |
| August 1998                    | 32,000 MTs of rice and 1,100 MTs of wheat distributed through relief channels: Gratuitous Relief (GR), Test Relief (TR) and Vulnerable Group Feeding (VGF).  |
| September 1998                 | 16,575 MTs of food aid arrive through World Food Programme. 52,000 MTs of rice and 1800 MTs of wheat distributed through relief channels.  |
| 1 October 1998                 | Expansion of Vulnerable Group Feeding (VGF) program to four million cards with 50 percent of the ration in wheat.  |
| October 1998                   | 143,000 MTs of government commercial wheat imports arrive. 42,500 MTs of rice and 32,500 of wheat distributed through relief channels.   |
| October 1998                   | 44,344 MTs of food aid arrives bringing total since August 1998 to 61,883 MTs.   |
| November 1998                  | 138,902 MTs of food aid arrives bringing total since August 1998 to 200,785 MTs. VGF program continues. Wheat distribution through relief channels (56,700 MTs) now greater than rice distribution through relief channels (37,800 MTs). |

**Table 1: The 1998 Flood: Chronology of Events (cont.)**

| <b>Date</b>   | <b>Event</b>   |
|---------------|--|
| December 1998 | Expansion of VGF program to 4.2 million cards and increase in the ration size from 16 kgs to 20 kgs/card (5 ksg rice and 15 kgs of wheat). |
| December 1998 | 360,887 MTs of food aid arrives bringing total since August 1998 to 561,672 MTs.   |
| January 1999  | Fair price card sales begin.   |
| February 1999 | VGF distribution extended to February through April, 1999.   |

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TABLE 2: PROJECTED SHIPMENT AND ARRIVAL OF FOODGRAIN DURING 1998/99  
(Food Aid only)

(in Metric Tons)

| Donor                          | ACTUAL |        |           |         |          |          |         | PROJECTION |         |        |         |         |           |
|--------------------------------|--------|--------|-----------|---------|----------|----------|---------|------------|---------|--------|---------|---------|-----------|
|                                | July   | August | September | October | November | December | January | February   | March   | April  | May     | June    | Total     |
| Wheat                          |        |        |           |         | 54,000   |          | -       | -          | -       | -      | -       | -       | 54,000    |
| Australia                      | -      | -      | -         | -       | -        | 46,341   | 43,744  |            |         |        |         |         | 90,085    |
| Canada                         | -      | -      | -         | -       | -        | -        | -       |            | 75,000  |        |         | 65,000  | 140,000   |
| EC                             | -      | -      | -         | -       | -        | 25,000   | -       | -          | -       | -      | -       | -       | 25,000    |
| France                         | -      | -      | -         | -       | 22,800   | 30,963   | -       | -          | -       | -      | -       | -       | 53,763    |
| Japan                          | -      | -      | -         | -       | -        | 50,000   | -       | -          | -       | -      | -       | -       | 50,000    |
| PL-480 (Title-1)               | -      | -      | -         | -       | -        | 133,030  | -       | -          | -       | -      | -       | -       | 133,030   |
| PL-480 (Title-2)               | -      | -      | -         | -       | -        | -        | 77,000  | 223,000    |         |        | 150,000 | 150,000 | 600,000   |
| US SEC-416/B                   | -      | -      | -         | -       | -        | -        | -       |            | 1,700   |        |         |         | 1,700     |
| Italy                          | -      | -      | -         | -       | -        | 9,838    | 93,000  | 27,603     | 53,920  | 50,000 | 50,000  |         | 284,361   |
| WFP ( EMOP )                   | -      | -      | -         | -       | -        | 62,075   |         |            | 14,127  |        |         |         | 188,049   |
| WFP ( Normal )                 | 10,000 | -      | 15,000    | 36,847  | 50,000   | 357,247  | 213,744 | 250,603    | 144,747 | 50,000 | 200,000 | 215,000 | 1,619,988 |
| Total Wheat                    | 10,000 | -      | 15,000    | 36,847  | 126,800  | 357,247  | 213,744 | 250,603    | 144,747 | 50,000 | 200,000 | 215,000 | -         |
| Rice                           | -      | -      | -         | -       | -        | -        | -       | -          | -       | -      | -       | -       | 1,693     |
| Italy                          | -      | 964    | -         | 729     | -        | -        | -       | -          | -       | -      | -       | -       | 20,000    |
| India                          | -      | -      | -         | 5,760   | 10,600   | 3,640    | -       | -          | -       | -      | -       | -       | 1,000     |
| Pakistan                       | -      | -      | -         | 1,000   | -        | -        | -       | 32,224     | -       | -      | -       | -       | 32,224    |
| WFP ( EMOP )                   | -      | -      | 1,575     | -       | 1,502    | -        | 1,092   | -          | -       | -      | -       | -       | 4,169     |
| WFP ( Normal )                 | -      | -      | -         | -       | -        | -        | -       | -          | -       | -      | -       | -       | 59,086    |
| Total Rice                     | -      | 964    | 1,575     | 7,489   | 12,102   | 3,640    | 1,092   | 32,224     | -       | -      | -       | -       | -         |
| Total Food aid<br>(Wheat+Rice) | 10,000 | 964    | 16,575    | 44,336  | 138,902  | 360,887  | 214,836 | 282,827    | 144,747 | 50,000 | 200,000 | 215,000 | 1,679,074 |

**Table 3: Foodgrain Distribution by Channels, Budget and Actual 1998/99 (thousand MTs)**

|                                   | Budget 1998/99 |            |             | Total Planned 1998/99* |             |             |
|-----------------------------------|----------------|------------|-------------|------------------------|-------------|-------------|
|                                   | Rice           | Wheat      | Total       | Rice                   | Wheat       | Total       |
| <i>Priced Channels</i>            |                |            |             |                        |             |             |
| Essential Priorities(EP)          | 124            | 85         | 209         | 125                    | 85          | 210         |
| Open Market sales(OMS)            | 200            | 0          | 200         | 49                     | 48          | 97          |
| Other Priority(OP)                | 6              | 6          | 12          | 10                     | 19          | 29          |
| Large Employee Industries(LEI)    | 0              | 15         | 15          | 0                      | 14          | 14          |
| <i>Non-Priced Channels</i>        |                |            |             |                        |             |             |
| Food for work(FFW)                | 125            | 400        | 525         | 0                      | 681         | 681         |
| Vulnerable Group Development(VGD) | 60             | 120        | 180         | 9                      | 182         | 191         |
| Food for Education(FFE)           | 150            | 200        | 350         | 0                      | 396         | 396         |
| Test Relief (TR)                  | 40             | 16         | 56          | 0                      | 100         | 100         |
| Vulnerable Group Feeding(VGF)     | 20             | 10         | 30          | 168                    | 304         | 472         |
| Gratuitous Relief (GR)            | 66             | 24         | 90          | 70                     | 5           | 75          |
| Others                            | 22             | 29         | 51          | 36                     | 14          | 50          |
| <b>Total</b>                      | <b>813</b>     | <b>905</b> | <b>1718</b> | <b>467</b>             | <b>1848</b> | <b>2315</b> |

Note : \* Actual distribution includes January 1999 estimates of projected distribution for February to June 1999.

Source : FPMU, MOF.

Figure 1: Projected and Actual Food Aid Arrivals

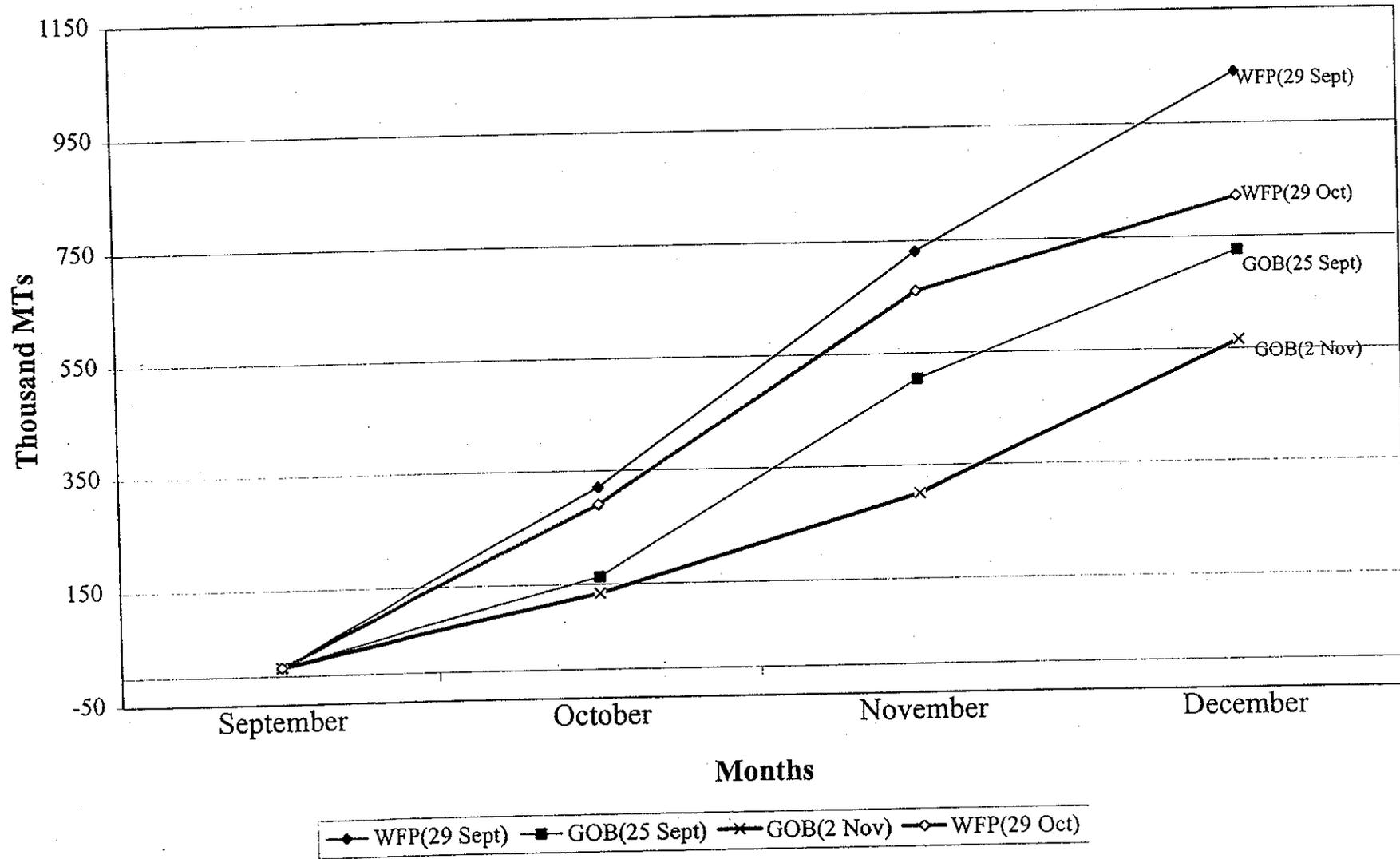
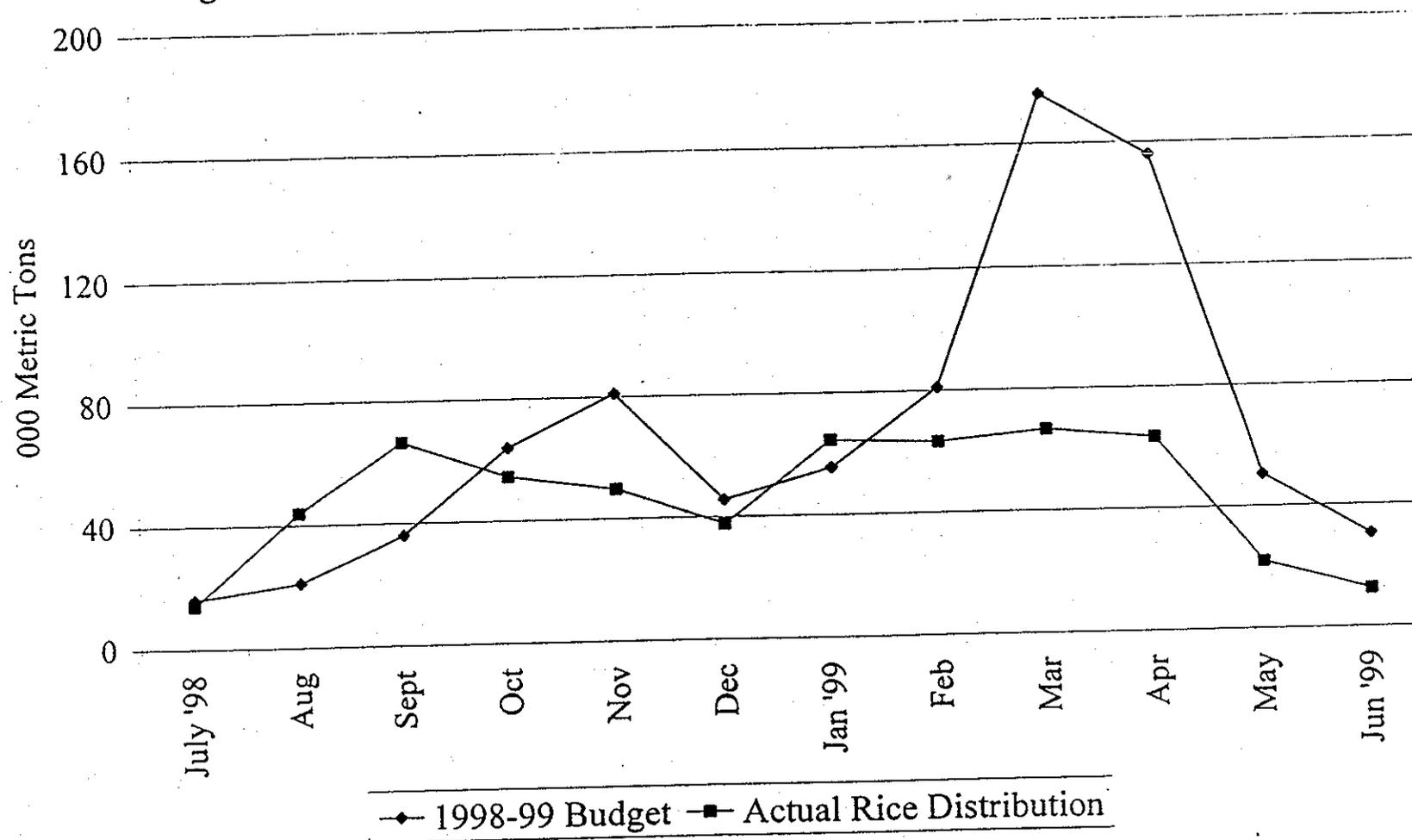
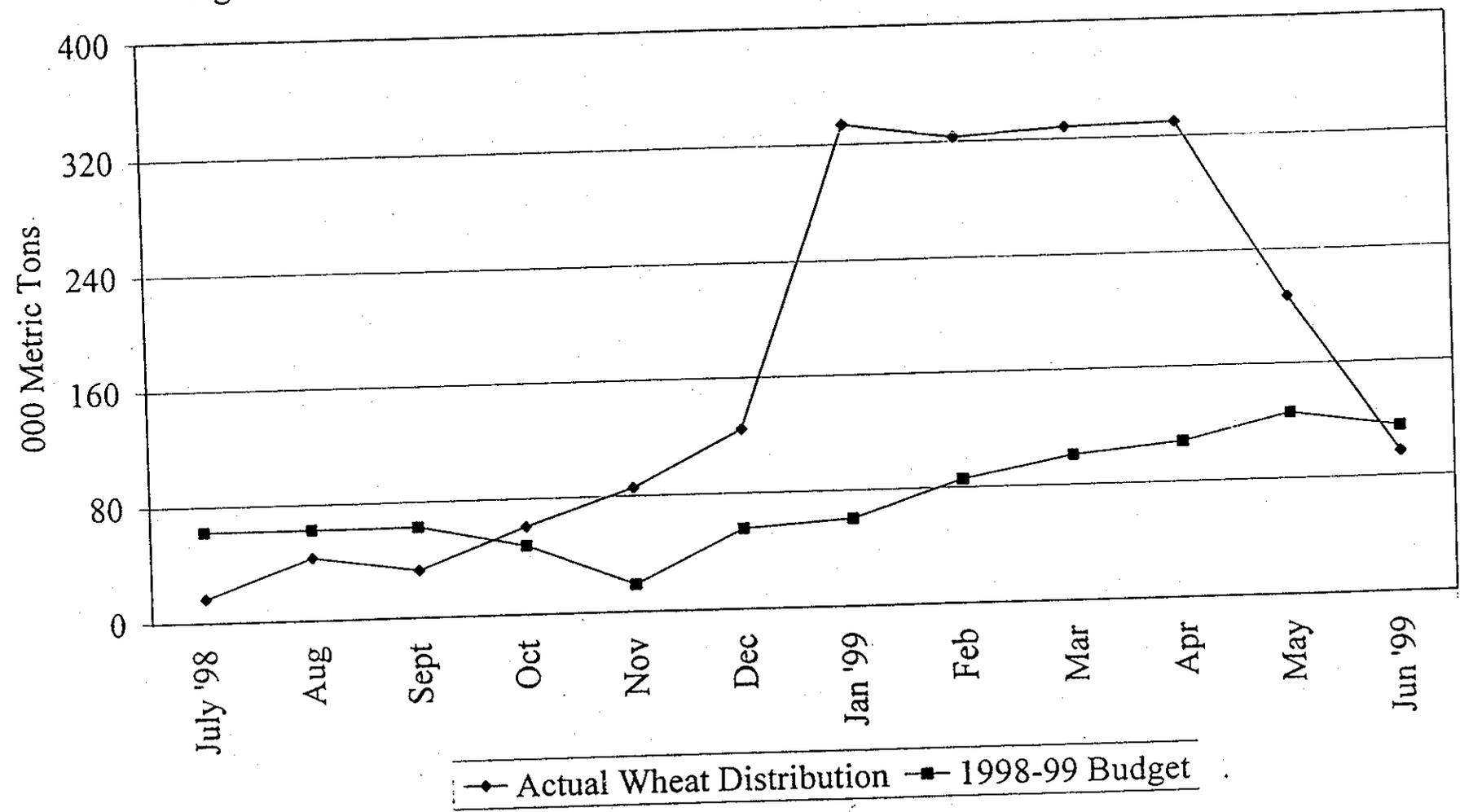


Figure 2 : Government Budgeted and Actual Distribution of Rice, 1998-99.



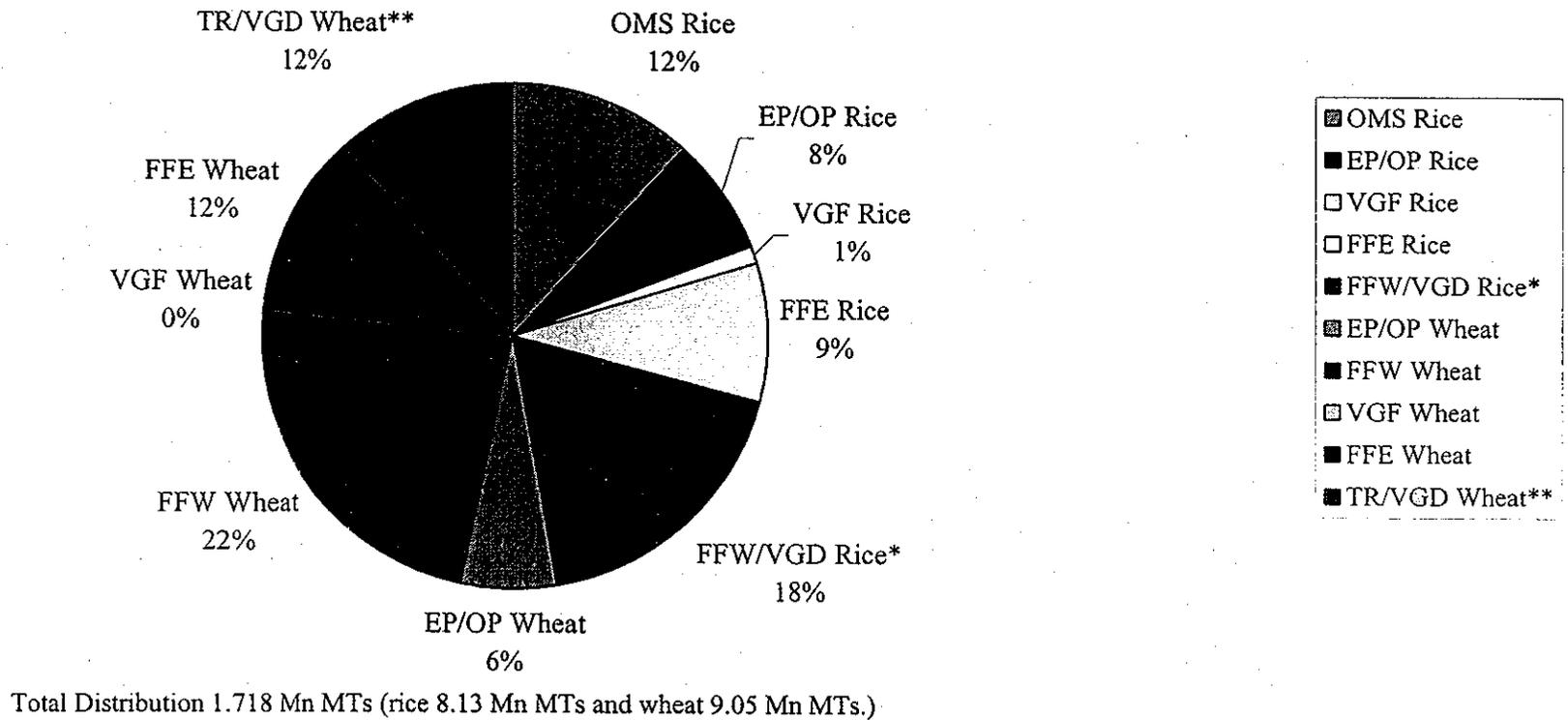
Note : Actual distribution includes January 1999 estimates of projected distribution for February to June 1999.

Figure 3: Government Budgeted and Actual Distribution of Wheat, 1998-99



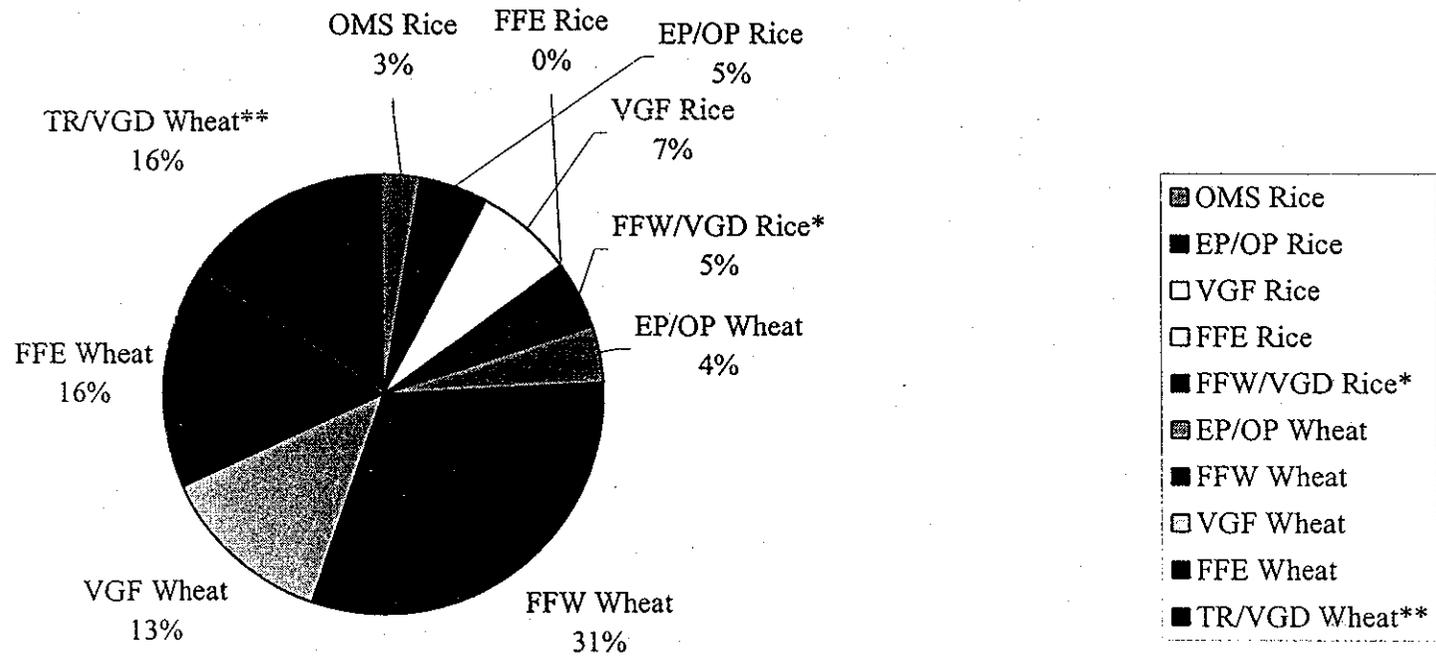
Note : Actual distribution includes January 1999 estimates of projected distribution for February to June 1999.

Figure 4: Public Foodgrain Distribution:  
Budget 1998-99



Note: \* Includes TR, GR and others. \*\* Includes OMS,GR and others.  
Source: FPMU, MOF.

Figure 5: Public Foodgrain Distribution:  
Actual 1998-99<sup>a</sup>



Total Distribution 2.315 Mn MTs (rice 4.67 Mn MTs and wheat 1.848 Mn MTs.)

<sup>a</sup> Actual distribution includes January 1999 estimates of projected distribution for February to June 1999.

Note: \* Includes TR, GR and others. \*\* Includes OMS, GR and Others.  
Source: FPMU, MOF.

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