

**Workshop on
Food and Energy Price Increases and Policy Options**

The Case of Bangladesh

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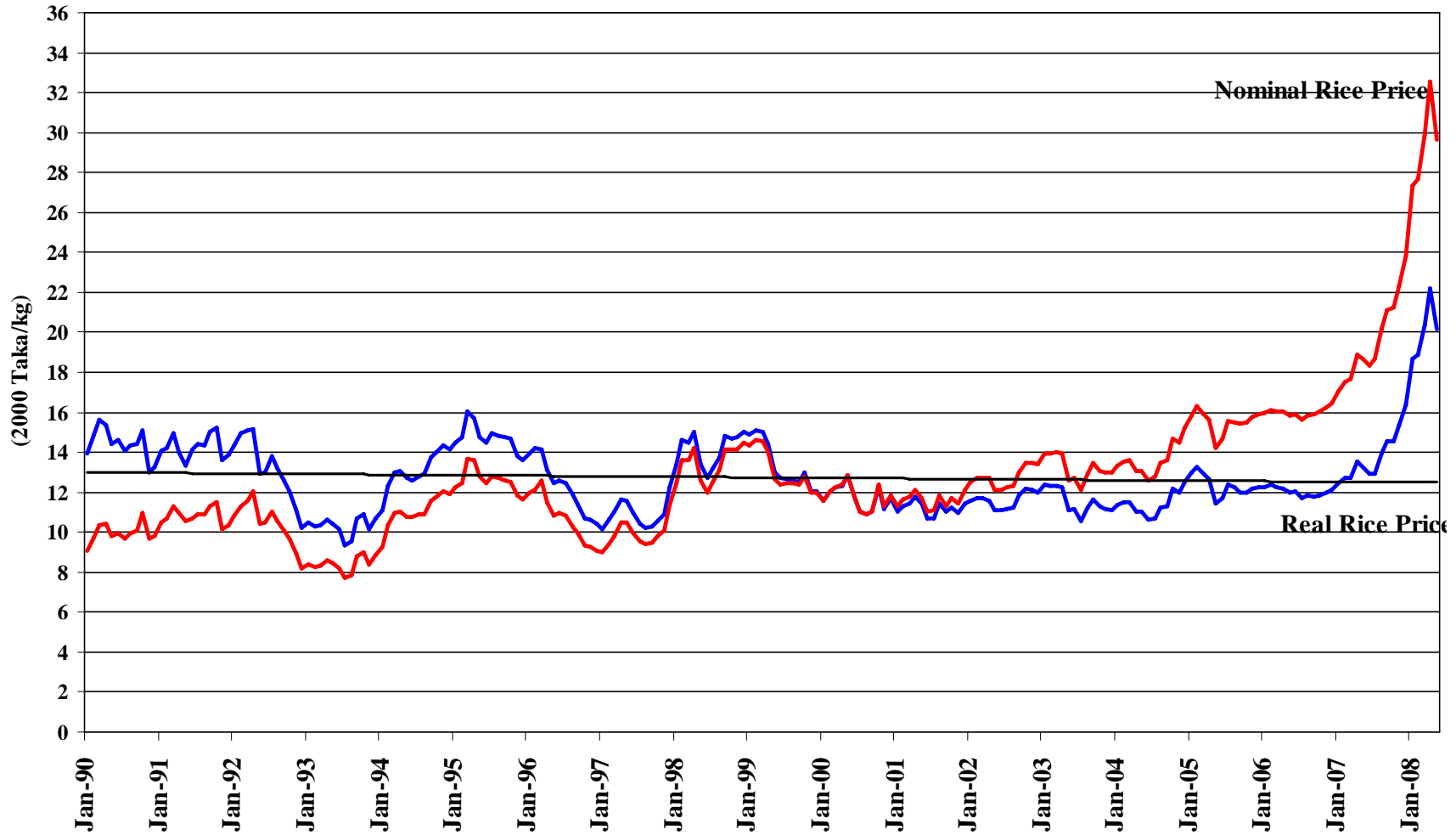
World Bank (HDNSP)

July 9 – 10

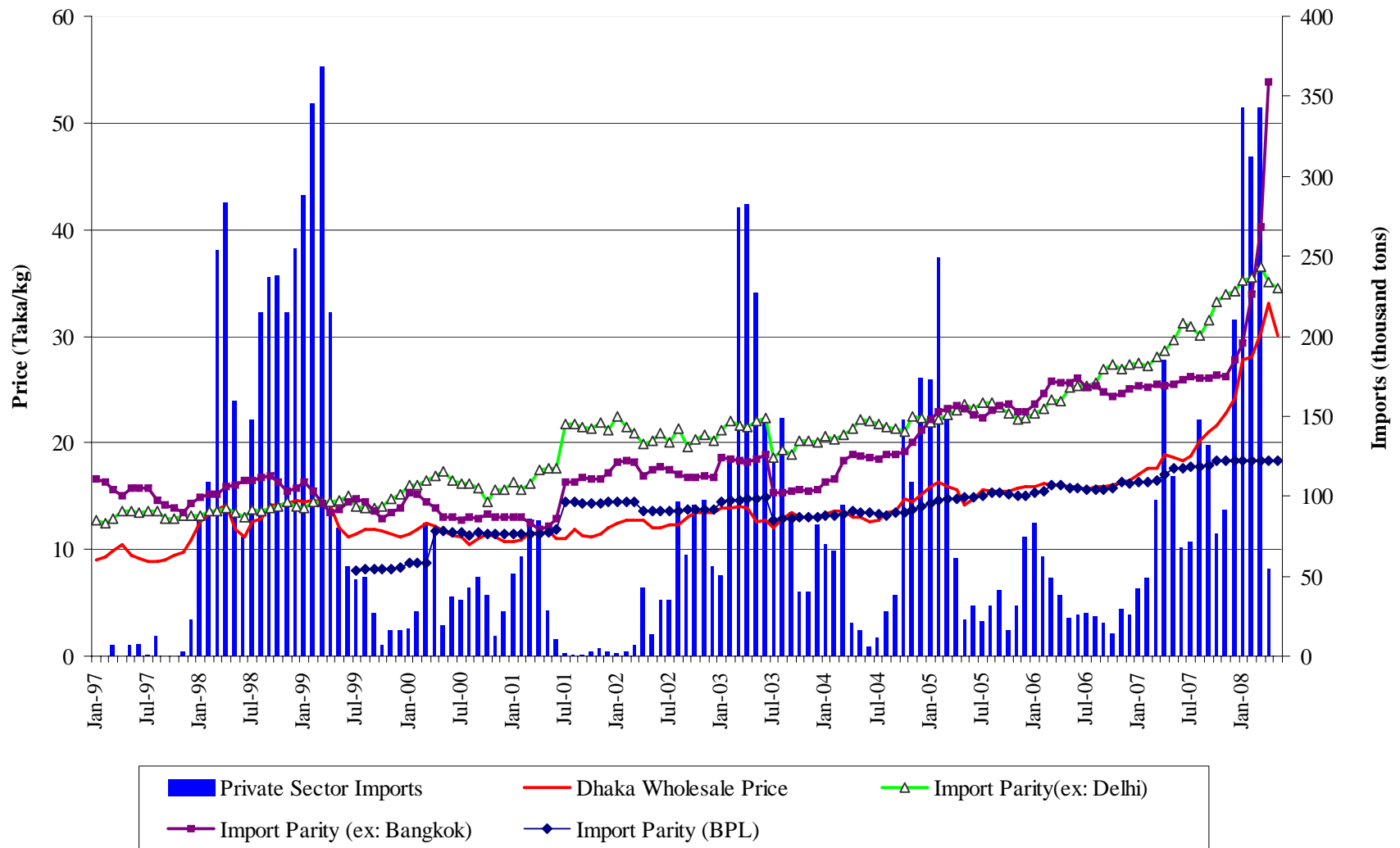
Outline

- What are the commodities affected?
 - Trends in prices of various commodities.
- Impact on poor
- Government policy response
 - Expansion of Safety Nets – New 100 days guaranteed employment program
 - Cash Subsidy for small and marginal farmers
- World Bank Response

Nominal and Real Rice Prices, 1990-2008



Rice Imports, Domestic Prices and Import Parity, 1997-2008



Local prices and international markets

- Bangladesh is nearly self-sufficient in rice, importing an average of about 850 thousand tons per year from 1998-99 to 2007-08, equal to less than 5 percent of total net availability of rice.
- Imports surged in 2002-03 and 2003-04 as India exported some of its excess stocks, releasing grain to exporters at the BPL price.
- Prices in Dhaka continued to track import parity (based on BPL prices) through early 2007, suggesting that rice exporters in India were able to obtain rice at the BPL price for export in much of this period.

The current price increase

- The genesis of 2007-2008 price increase can be traced back to floods of July-August last year, followed by the Cyclone *Sidr* in November, causing a shortfall of 1.3 million ton loss of rice
- In the Fall of 2007 domestic prices moved substantially above (BPL) import parity levels, suggesting restrictions of India's export supply at BPL prices. Later India imposed more restrictions.
- Private sector imports were substantial, totaling about 1.8 million tons in the period between the onset of the floods in July 2007 and the boro harvest the following April (2008), 1.3 million tons more than the corresponding period in 2006-07.

Rice supply and demand

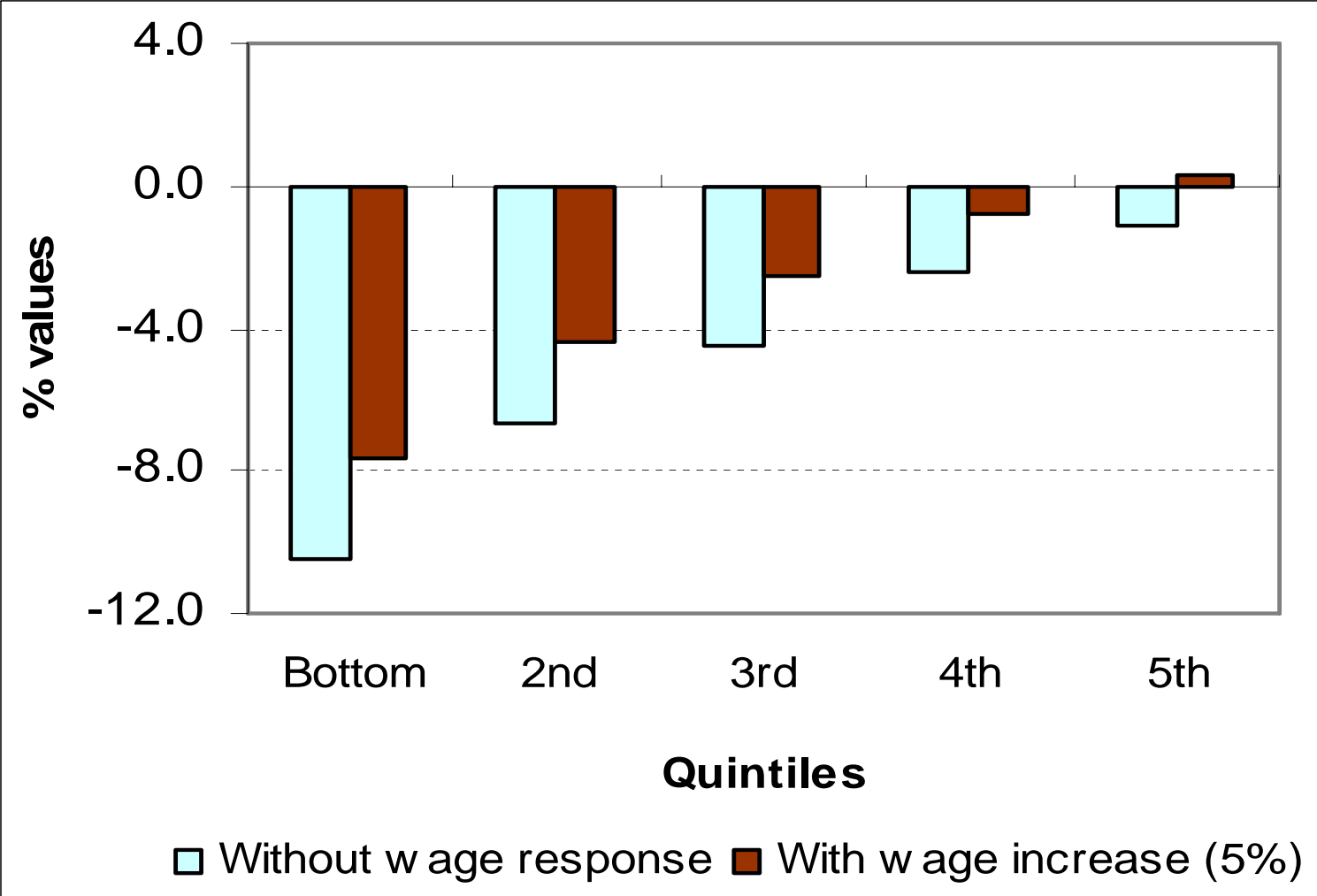
Table 1: Rice in Bangladesh: Supply and Demand (in million ton)		
	2006-07	2007-08
Rice		
Consumption	29.76	30.20
Net production ¹	24.59	25.49
Import ²	0.72	1.96
Private	0.70	1.68
Public	0.02	0.28
Public Sector Stock ³	0.40	0.90
<p><i>Notes:</i> ¹ After deduction for seed, feed, and wastage -- 10% in 2006-07 & 12% in 2007-08 (due to successive natural disasters); ² Import figures for 2007-08 are as of May 11, 2008; ³Public Sector Stock figures are as of July 5, 2008, and includes physical stock and food grain in transit.</p> <p><i>Source:</i> Consumption-USDA, Foreign Agricultural Service, Production-Bangladesh Bureau of Statistics, Import & Public Sector Stock- FPMU.</p>		

Average food consumption

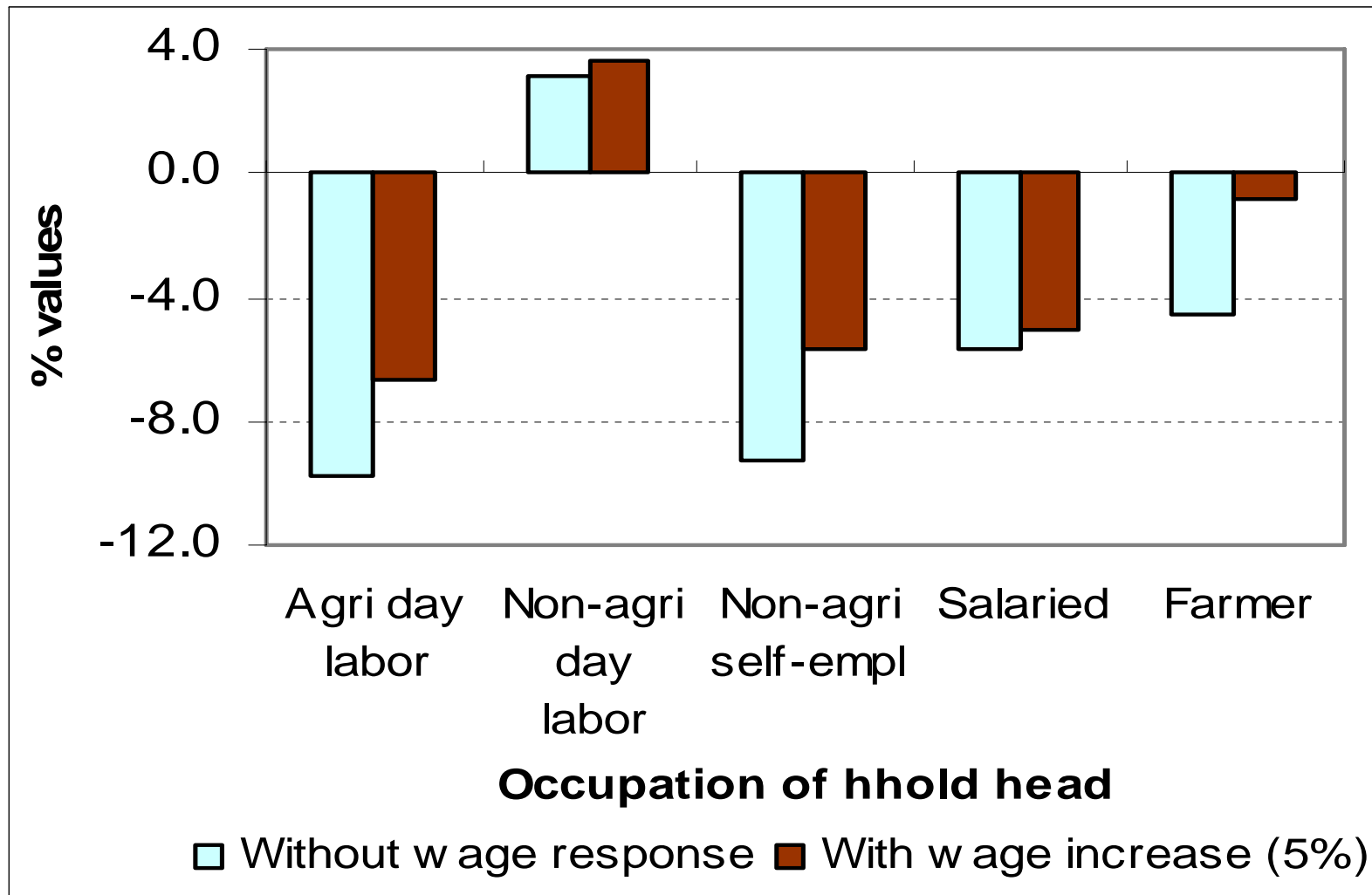
Per Capita Calorie Consumption

Cereals (%)	82.2
Starchy Roots (%)	1.9
Other Vegetable Products (%)	12.9
Animal Products (%)	3.0
Total Kcal person/day	2,193
Food Budget share	56.1
- Cereal budget share	28.1
Population (mns)	146.7

Impact on poverty of 38.8 percent rural and 36.8 percent urban increase in rice prices



Impact on poverty of 38.8 percent rural and 36.8 percent urban increase in rice prices



Average impact on poverty

- Impact on headcount poverty more difficult to estimate.
- At 6% growth rate poverty should have declined by 5% between 2005 and 2008.
- The current price increase might negate that increase – depending on the size of the wage response resulting in a decline of 2 percentage points from 2005 to 2008—a reduction from 40 percent in 2005 to 38 percent in 2008

Government response

Food Security Programs in Bangladesh (in billion taka)

	2007-08	2008-09	<i>% increase</i>
Subsidy for Open Market Sales (OMS)	18.49	26.75	44.7
Vulnerable Group Development (VGD)	7.21	8.37	16.0
Vulnerable Group Feeding (VGF)	8.55	7.08	-17.2
Test Relief (TR)- Food	4.11	6.31	53.6
Gratuitous Relief (GR) for Food	1.74	2.01	15.8
Food Assistance in CTG-Hill Tracts Area	2.04	2.38	16.6
Food For Work (FFW)	5.03	15.78	213.6
Total	47.17	68.68	45.6
As % of Total Budget	5.5%	6.9%	
As % of GDP	0.9%	1.1%	

Source: Ministry of Finance

People lined up for OMS



Government relief measures

- Plan to expand the Public Food Distribution System (PFDS) or rice from 1.17 MMT to 1.94 MMT and for total grains, including rice and wheat, from 1.51 to 2.40 MMT.
- In terms of cash the increase would be from \$.69 billion (.9% of GDP) to \$1.3 billion (1.5% of GDP). Note that the increase includes also the additional \$291 million for the new 100 days employment guarantee scheme.
- This implies a substantial increase in the size of the buffer stock and the procurement
 - It plans to import 800,000 tons of food grains (450 thousand tons of rice and 350 thousand tons of wheat) in addition to 500 thousands tons of rice from India to be delivered, and a domestic procurement of 1.5 million tons.

Government relief measures

- Procurement might be a problem because of
 - Possible negative impact on private trade
 - Fiscal costs of storage losses or stock rotation
 - Physical constraint in the storage capacity
- Therefore, if the GOB feels the need to expand the safety nets programs this should be done in cash. The proposed 100 days guarantee would provide the needed instrument in cash to provide support to those marginally employed and those seasonally unemployed

100 Days Employment Guarantee Scheme

- The GOB wants to provide work for cash to at least 2 million hard core poor during the lean months of October-November and March--April.
- According to the preliminary design, each poor person will be given Tk 100 (approximately US\$ 1.5) for a maximum of hundred days.
- The districts where the number of hard core poor is the highest will be given priority.

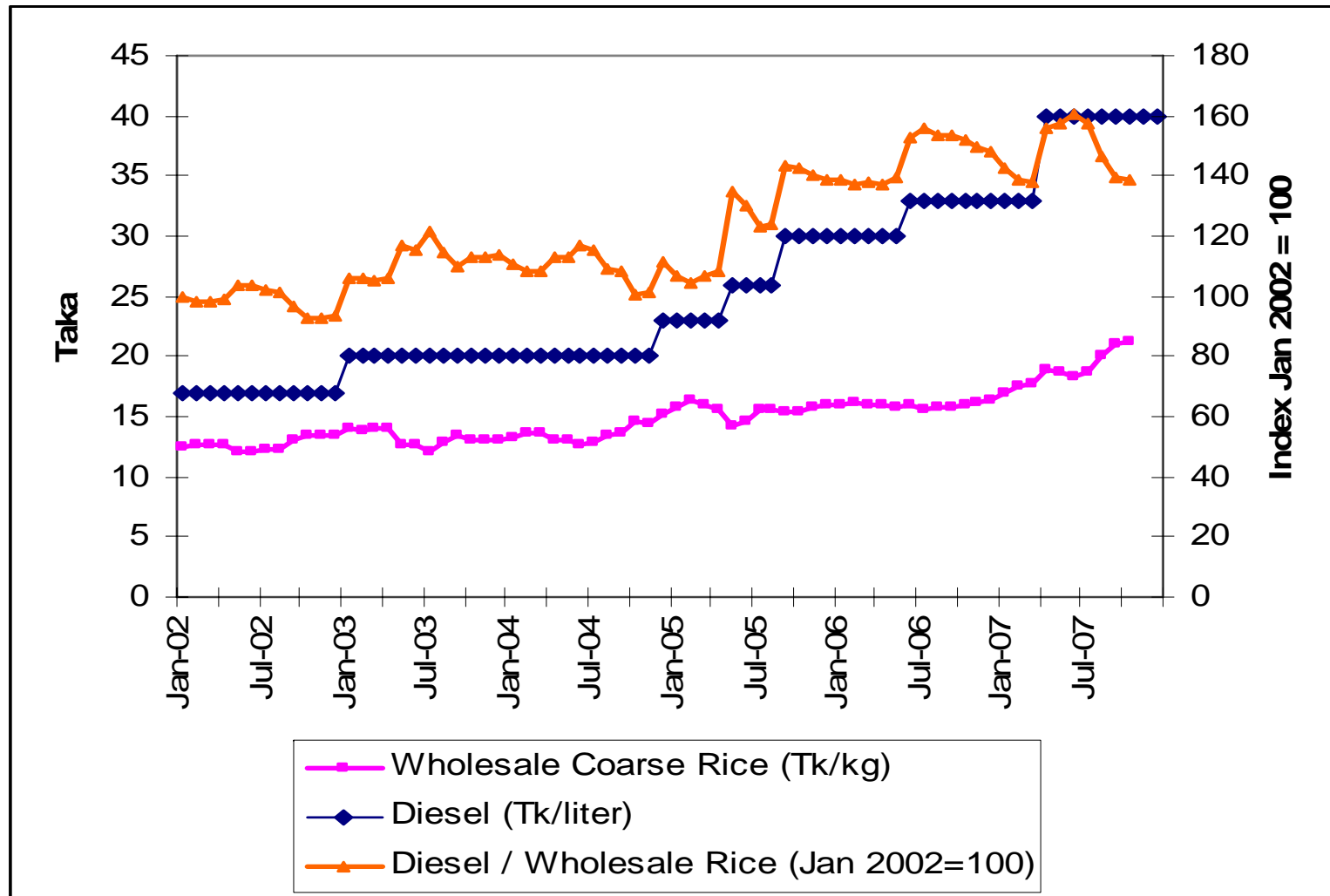
The irrigation with STW



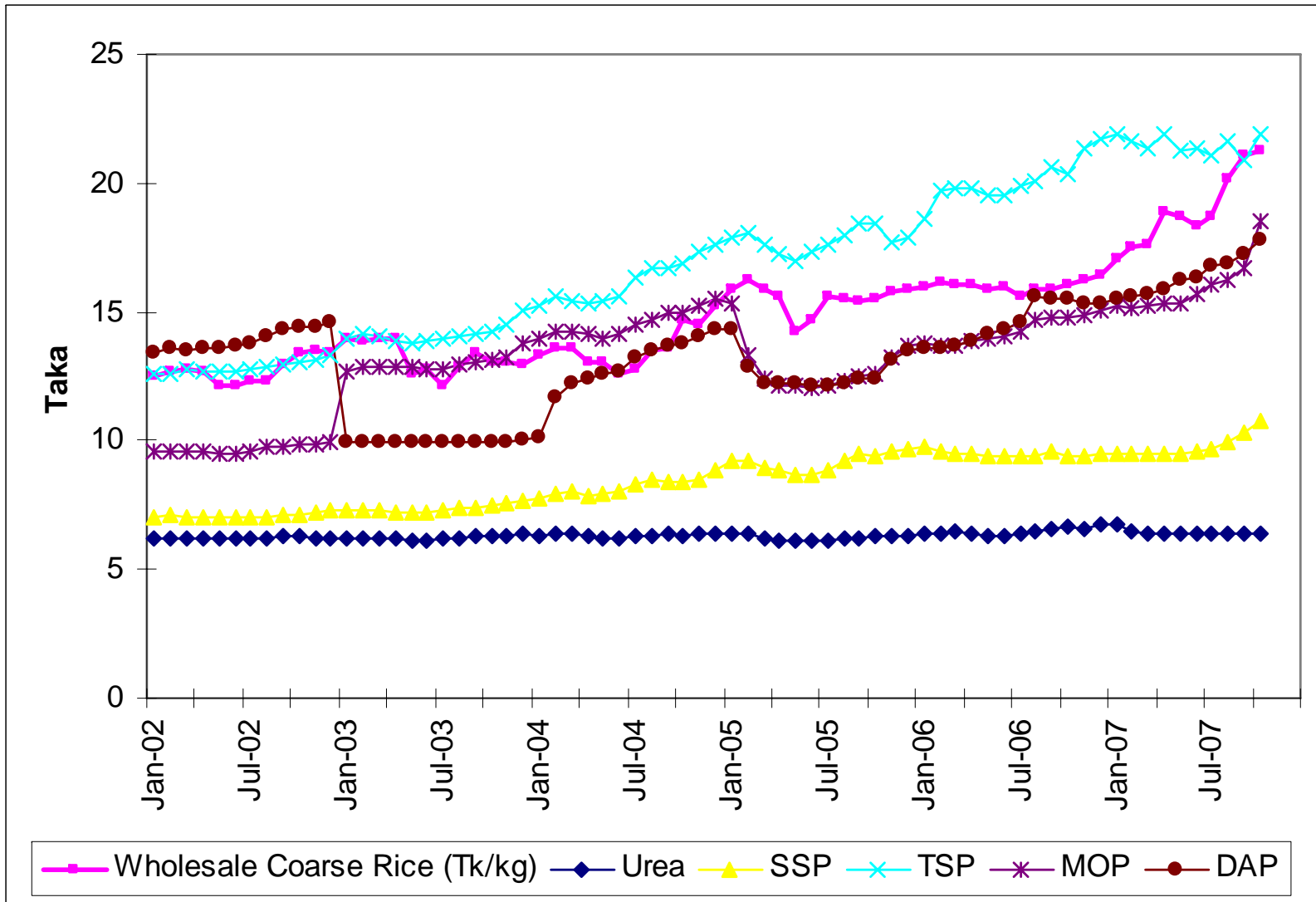
Fuel and fertilizer prices

- Prices of fertilizer and fuel have been subsidized for very long time at high budget cost of \$1.6 billion as of January 2008
- Price of diesel has been increased in April 2007
- Price of fertilizer has been going up as well

Nominal Diesel and Rice Prices, 2002-2007



Fertilizer and Rice Prices, 2002-2007 (Nominal)



The fertilizer dealership



Government concern and response

- Fuel is crucial for the winter crop to run the irrigation pumps (20% of cost of production)
- GOB wanted to
 - provide an incentive to increase the production – following shortfall and high prices; and
 - Compensate the farmers with a subsidy for the past (and may be future) increase in price of diesel

How to do it?

- If we can identify the farming household that are most affected, then it is possible to provide them with a transfers to compensate them and improve the efficiency of the program
- In Bangladesh land size has been used to differentiate between poorer and richer farmers
- In this case
 - Farm size alone might not be a sufficient criteria for selecting poor farming households
 - It is useful to exclude some of the better off. Less than 13% of large farmers are in the bottom 40 percentile of the distribution (HES 2005-6)

Is there a difference with respect to the size of agricultural holding?

Land farmed and cost of irrigation by size of operated land

	N	M Land	Total land	M T cost	M cost/d
Small	4,333	82	355,922	3,658	48
Large	481	445	214,013	16,155	39
Total	4,814	118	569,935	4,907	47
% Small	90.0		62.4		

Large farmers: Those that operated more than 250 d of land

- Larger farmers are only 10 percent of total farming households.
- They farm almost 40 percent of the land
- They farm 445 d of land vs 82 of the small farmers
- They average cost of water is 39tk/d vs 48tk/d

Is there a difference with respect to the size of agricultural holding?

Land farmed and cost of irrigation by size of operated land

irrigation type		Small	Large	All
stw diesel		54.6	47.0	53.1
	n	7,751	1,837	9,588
llp diesel		23.6	28.5	25.2
	n	1,663	834	2,497
dtw electrical		36.9	31.3	36.4
	n	1,400	151	1,551
stw electrical		38.1	41.3	38.5
	n	2,319	344	2,663
Total		45.5	39.9	44.4
	n	13,494	3,382	16,876

- The difference is large 55tk/d vs 46tk/d for the diesel STW.
- Also true for the electrical DTW
- A transfer to those households would compensate them

According to source of water?

	Own Source			Bought		
	Small	Large	All	Small	Large	All
stw diesel	56.9	52.3	54.6	61.3	58.8	60.8
N	2,310	2,207	4,517	11,881	2,606	14,487
% Own STW	93.7	97.2	95.4	8.3	36.4	13.4
llp diesel	39.3	29.4	32.3	23.7	28.4	24.8
N	204	487	691	3,508	1,129	4,637
% Own STW	10.8	12.7	12.2	0.4	6.8	1.9
DTW electrical	32.9	18	23.6	32.2	25.5	30.9
N	30	49	79	3,056	759	3,815
% Own STW	13.3	16.3	15.2	8.5	32.3	13.2
STW electrical	30.2	25.3	27.6	36.7	35.7	36.5
N	341	381	722	4,405	773	5,178
% Own STW	12	32.8	23.1	3.9	20.8	6.4
Total	52.2	44.9	48.4	46.9	44.1	46.4
N	2,885	3,124	6,009	22,850	5,267	28,117
% Own STW	77.4	74.8	76	6.3	27.2	10.2

Fuel subsidy

- The government initially allocated 7.5 billion taka for the cash transfer
- They disbursed 2.5 million by giving 100Tk per acre to all farmers with less than 2.5 acres of land
- The list of farmers was prepared by the agriculture extension agents and they received the money between April and May 2008
- In July the GOB raised the price of diesel again from tk 40 to tk 55.

World Bank support

- The Government has requested the Bank to provide budget-support resources under its (GFCRP) in support of the government's measures to maintain macroeconomic stability and ensure food security.
- The Bank's Board was briefed about the government's request for emergency budget support during the Board discussion of the two budget support operations of \$320 million in June.
- The Bank's Bangladesh Country Team is putting together a budget-support operation in the form of a Supplementary Finance to the recently approved Transitional Support Credit.
- This would complement the Asian Development Bank's \$170 million quick disbursing project that will help meet the GoB's financing requirement for food security
- The Bank is preparing a US\$ 90 million Social Protection Project which includes a CCT program for 1 million urban extreme poor, and an early childhood development component including nutrition of about 60,000 urban slum children.

The final result



Nepal

- Food prices have risen by 12% and near petroleum prices have nearly doubled. Food-price inflation is driven by high prices of grains/cereals, and oil/ghee; which together make up nearly 40% of the food basket
- Nepal is particularly sensitive to food price increases because: (i) low average per-capita income (\$400); (ii) high poverty rate (31%); (iii) lack of a safety net program to effectively safeguard the impact of the crisis on poor and vulnerable populations; (iv) at least 23 districts chronically food insecure with poor road access; and (v) very fragile political situation where the pressure to provide relief from high food prices and chronic fuel shortages is high.
- Food makes up about 53% percent of the household budget.
- Rice constitutes about 67% of total grains and cereal consumption
 - Wheat and maize constitute 12 – 15% each, and millet and barley make up 3 – 5%.

Nepal

- World Bank response: Support the Government's national strategy to maintain and enhance food security. It includes support to
 - The implementation of social safety net measures to maintain access to food among the most vulnerable households by: (a) **expanding a WFP led food/cash-for-work program**; (b) **piloting innovations to the cash transfer** administration into a more efficient and transparent system; and (c) supporting the **design of a medium term social protection system**.
 - Expedite a supply response of agricultural production through the implementation of measures to raise the yields and consequently the production of staples by: (a) providing essential inputs (seeds/fertilizer), (b) increasing small scale irrigation for areas currently not served by any irrigation projects and (c) piloting program for community managed stocks of food.