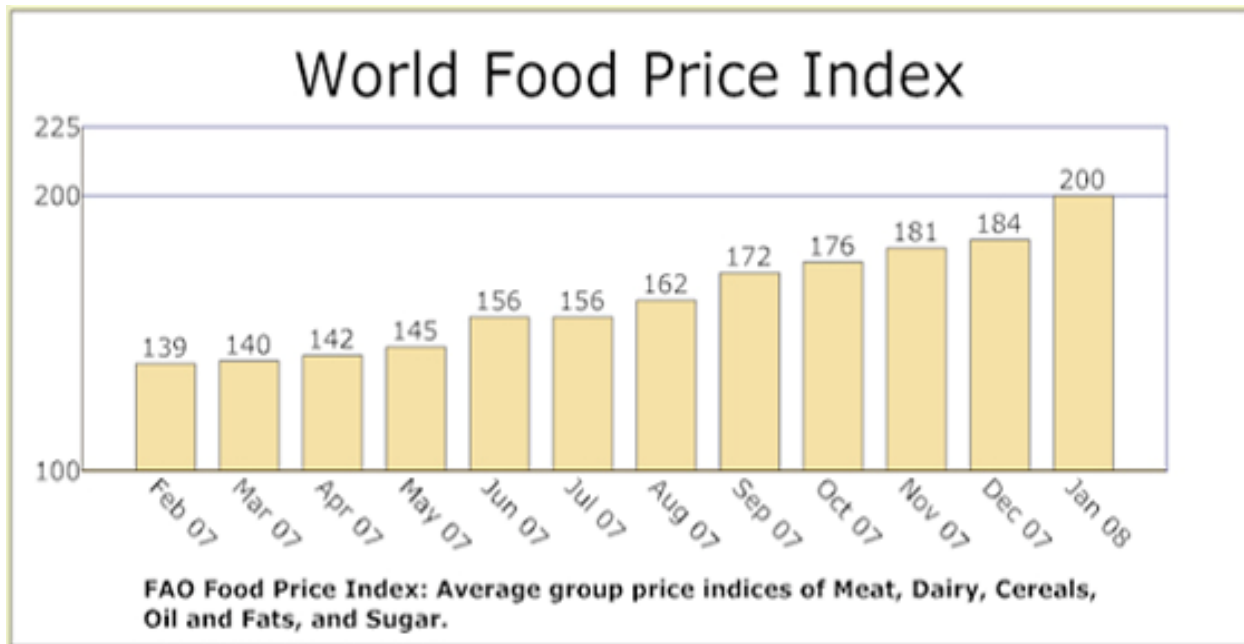


World Food Prices: South Asia's Poor at Risk



April 2, 2008 - Expanding existing social assistance programs that directly targets poor households is necessary to protect South Asia's poor in the face of a dramatic increase in global food prices, a World Bank South Asia expert said today.

Shanta Devarajan, World Bank Chief Economist for South Asia, said many countries in the region have cash-transfer programs and schemes that provide grains at lower costs directly to the poor. He advised the governments *"to enlarge the safety nets by increasing the amount of cash-transfers and the number of people receiving low cost grains while still passing on the price increase to other domestic consumers who can better afford it."*

World food prices have been increasing rapidly since 2006, and the rate of increase during 2007 had been much

higher than average. According to the Food and Agriculture Organization (FAO), overall food prices have increased by 75 percent in dollar terms since 2000. *"Most countries in South Asia are net importers of food and have suffered severe terms of trade shocks of 1 percent of GDP,"* said **Devarajan**. The foreign exchange earnings and international purchasing power for these countries have also decreased.

Devarajan believes that food prices are likely to continue to increase in the near future. He attributed this phenomenon to raising standards of living in countries like China and India, increased use of food crops for bio-fuels and animal feeds, and increased oil and fertilizer prices.

In South Asia, which has the largest concentration of poor people in the world, the increase in food prices is

particularly damaging since food accounts for a substantial share of poor people's income.

South Asian countries, however, have very few options available to deal with the challenge. **Devarajan** suggested that governments have to be careful that such measures do not end up hurting those they want to help.

Price Controls:

In the past, South Asian governments have resorted to imposing price controls which actually created food shortages that ultimately hurt the poor. "*Imposing price controls benefits the middle-class families and the non-poor,*" said **Devarajan**. If food prices are controlled, it makes farmers less likely to produce crops to meet the increasing demand. This will have an even more adverse impact on food prices.

Subsidies:

Devarajan also advised against untargeted subsidies, which are mostly counter-productive as they put bigger stress on the budget because governments have to pay for the support. Borrowing from the central bank is one way of financing the subsidies, but this lead to higher inflation.

Devarajan said targeted subsidies are a better option. They have been used in South Asia to provide relief for poor families in the past, and, by definition, they are not universal and exclude the better-off who can afford to pay market price. As an example, he cited Bangladesh where mostly poor people consume low-cost coarse grain. The

government was able to provide relief following the recent floods and cyclones by targeting poor people with this type of grain.

By using targeted subsidies, governments will be able to protect poor families without distorting the relative prices of food products, while reducing the overall cost to the budget.

Long-term Solution:

Even with targeted subsidies, many of the programs will be seen as permanent if food prices continue to rise. Targeted or untargeted, eventually these programs will be a drain on the treasury. Therefore, such schemes have to be time bound, and governments have to develop a long-term strategy to address food price increases.

One of the best ways to reduce food prices is to increase agricultural productivity. The World Development Report 2008, entitled "**Agriculture for Development,**" has called for a revival of agriculture in South Asia. ([Read the fact sheet](#))

Bangladesh: Most affected by price increase:

Bangladesh, which imports a substantial portion of major grains consumed by its people, has been particularly badly affected by the continued increase in world food prices. Natural disasters in the past year – two major floods in July and August 2007 and a cyclone in November 2007 - destroyed about 2 million metric tons of rice crops.

Bangladesh is currently importing rice from its immediate neighbors, India and

Myanmar, to meet the shortage. **Devarajan** pointed out that this has already created a problem because, several times in past few months, India has imposed ban on rice exports or has increased the minimum export price, and each time, the price of rice in Dhaka spiked. (Read [Beggar thy neighbor?](#))

However, **Devarajan** is confident that Bangladesh *“has the potential to cushion the blow on its poor. The country has very well run social assistance programs that have worked well during the floods and cyclone of 2007. At the same time, Bangladesh should try to avoid measures such as price controls or untargeted subsidies even if they are politically popular,”* cautioned **Devarajan**.

Pakistan: New Government:

Unlike Bangladesh, Pakistan does not have a widespread social assistance program that targets the poorest of the poor. In addition, most Pakistani families consume the same kind of wheat, making it difficult to target poor people. Any subsidy on wheat will thus be an untargeted subsidy. Since a newly elected government has just come into power, it is imperative that it withstands pressure to act in ways that may not be efficient in addressing the needs of poor.

During a recent visit to Pakistan, **Praful Patel, World Bank Vice President for South Asia**, said that high international prices for petroleum and food commodities are creating challenges for the Pakistan's economy.

Patel discussed with Pakistani leaders ways to protect the poor as domestic

prices are adjusted. Patel offered World Bank technical assistance to build upon international best practice in responding to the current situation.

“Any adjustment will be painful,” said **Patel**. *“But there must be an appropriate safety net for the poor. The incoming government has requested our support, and we will help ensure there are smart subsidies to the poorest. These must be well targeted and efficient programs, including cash transfers, where leakage is minimized. We know this can be done because we saw the excellent response from the government after the earthquake where affected families were provided relief and cash transfers quickly and effectively.”* ([Read More](#))

India: Phase out Minimum Support Price (MSP):

The Indian government buys wheat from farmers at a Minimum Support Price (MSP), which is highly distortionary and contributes to high costs for its budget. **Devarajan** suggests that the government should use this opportunity to do away with this policy, since the world food prices are about the same as MSP. *“The subsidy has a high leakage to higher-income groups,”* he said.

Sri Lanka: High Inflation:

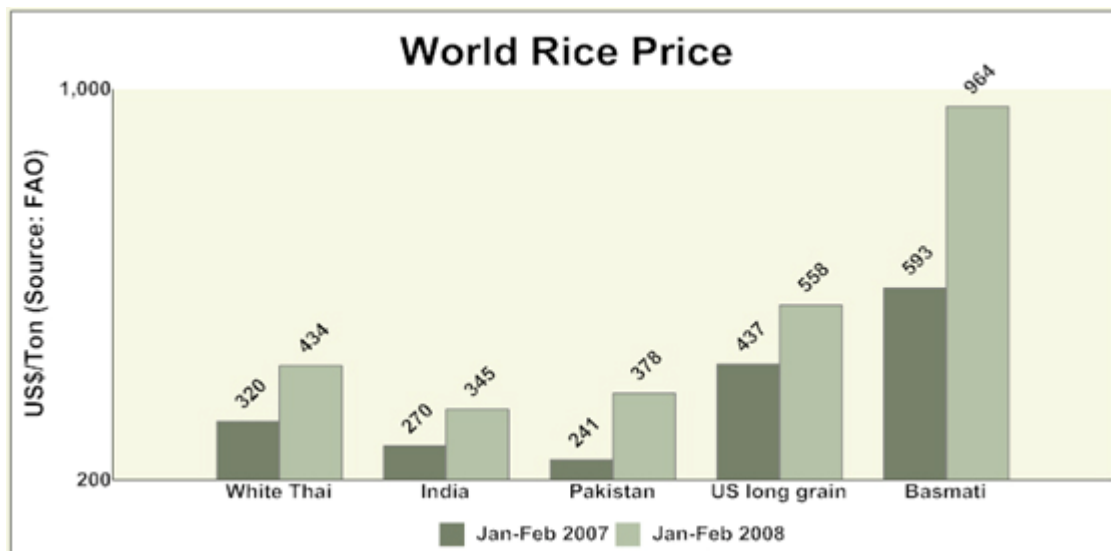
Devarajan said Sri Lanka is also a net importer of food products, and food price inflation is estimated at 34 percent. However, the country is already facing high inflation with an average of 20 percent, independent of food prices. The high inflation is partly due to government borrowing a large amount of money from the central bank.

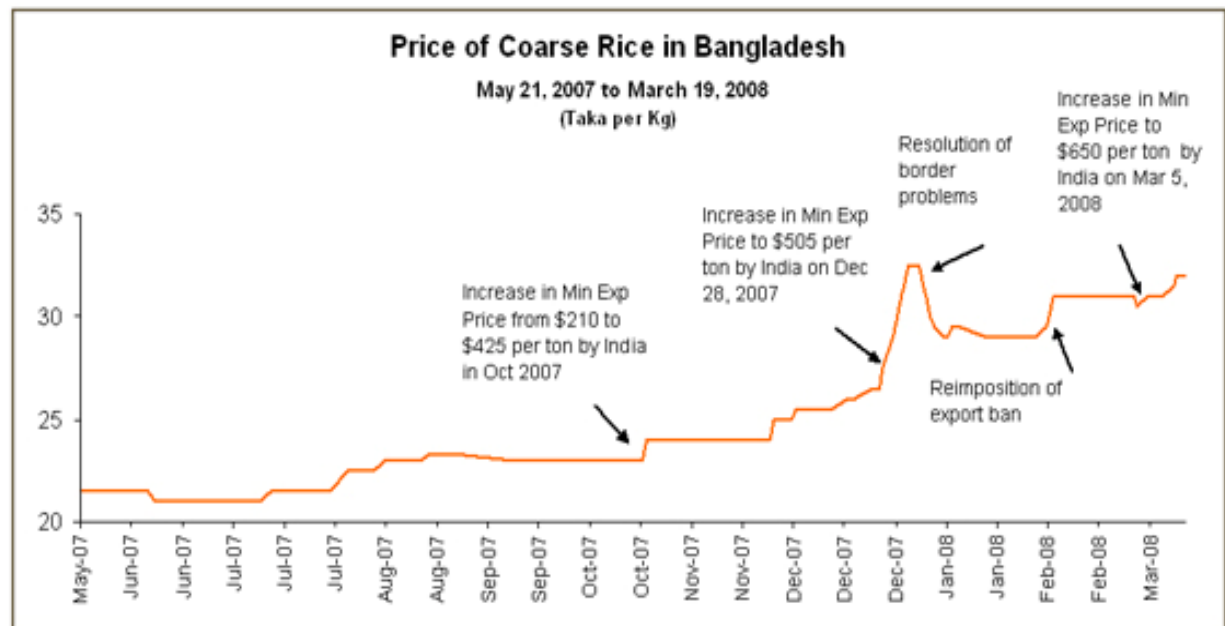
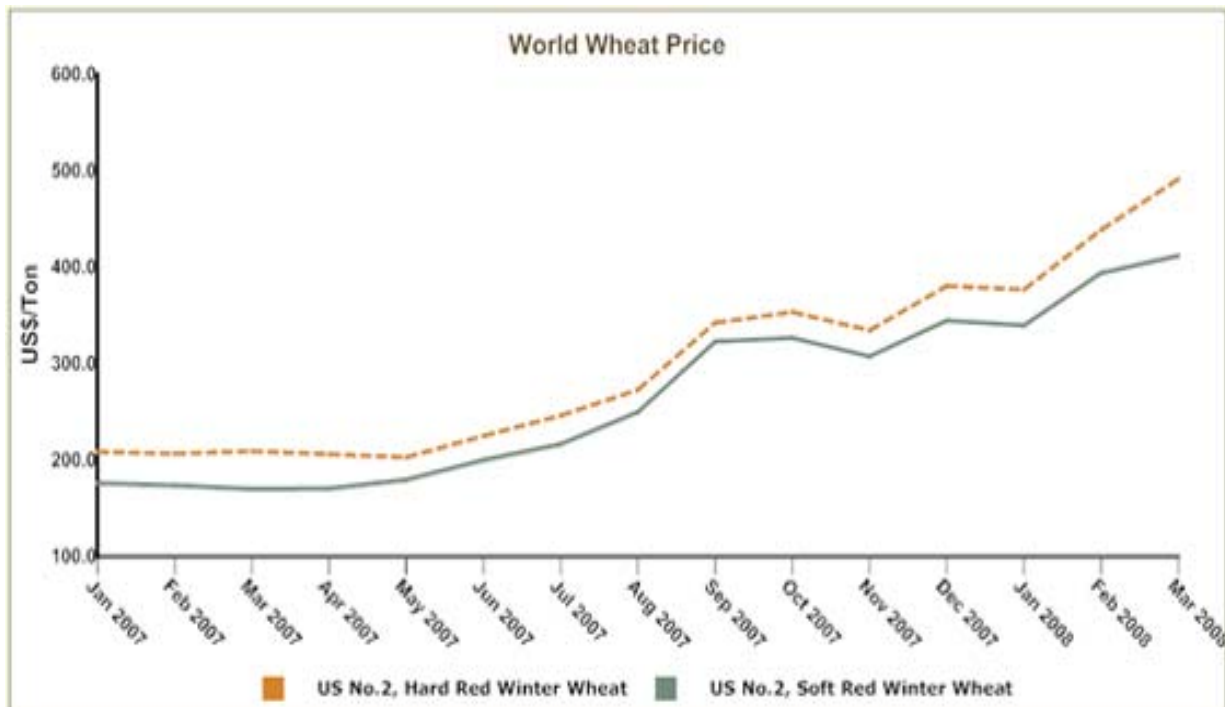
Nepal: Scale up:

Nepal also depends on food imports from India and other countries to manage its needs. **Devarajan** said “*Nepal needs to expand already existing social assistance programs in rural areas.*” However, he pointed out that Nepal has a limited social assistance program to protect the urban poor.

Urban and Rural Poor

While almost all urban poor people are net food consumers, the situation with the rural poor is different. Farmers who are net producers are benefiting from higher food prices. However, farmers with small arable lands and landless laborers are net consumers of food, as they may not produce sufficient amounts for their families' requirements.





Resources

U.S. Subprime Crisis: South Asia will continue to grow

The current subprime mortgage crisis in the United States will not seriously impact South Asian countries. The impact will be mild because of the structure of the region's trade and financial flows, and partly because of compensating effects. ([Read More »](#))

Blog - End Poverty in South Asia

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Bangladesh: Cyclone Sidr

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2007 South Asia Floods

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