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FOOD AID IN BANGLADESH: ITS IMPLICATIONS

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ABSTRACT

Bangladesh has been continuing as a major recipient of food aid since her independence. This article reviews and analyses the implications of large food aid imports on Bangladesh economy. Available evi dente justifies that food aid has had some adverse effects by keeping the country dependent on food imports and probably by reducing pressure on government to accord high priority for agricultural research and development. The serious adverse effect of food aid came as a pressure from the donors for policy changes and also as political lever. However, there were certain beneficial effects of food aid on balance of payments, government revenues and wheat output growth through developing its taste among the consumers.

I. INTRODUCTION

The controversy over the effects of food aid on the recipient country's economy has not been resolved after more than three decades since the US government first offered food aid under PL480 in 1954. There are several studies on the issues both for and against food aid (see, for example, Isenman and Singer 1977; Maxwell and Singer 1979; Tarrant 1980; Dawson 1985). Empirical research on these issues concluded differently for different recipients, reflecting different magnitudes of food aid flows, different development strategies and the use of different assumptions in analysis. For example, in the case of India, the once recipient of large food aid, there is opinion that the criticism about inflationary effect of food aid appears plausible while the other important criticism regarding depressing effect on agricultural production rests on weak premise (see Balasubramanyam 1984, PP. 179-180).

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The arguments in favour of food aid mainly centers on its possible contribution to (i) growth by providing real resources; (ii) income distribution and employment. On the other hand, the arguments against food aid concentrate mainly on the issues like (i) the disincentive effects on local production; (ii) policy effects; (iii) political and dependency effects. These issues are, of course, interrelated involving many other issues.

Bangladesh has been continuing as a major recipient of food aid since her foundation in 1971. While food import dependence ratio, measured as a ratio of cereal imports to total cereals available for consumption, ranged from 7 to 22 percent, food aid reliance ratio, a ratio of food aid to total cereal imports, averaged over 70 percent in the 1973-84 period (Bari 1986, P. 112). This article will review and analyse the arguments both for and against food aid in Bangladesh. The following section deals with food aid as a source of real resources. Section III is concerned with income distribution and employment effects of food aid. Disincentive effects on production and prices, and policy and dependency effects are analysed in Sections IV and V respectively. Finally Section VI concludes the article.

II. PROVISION OF REAL RESOURCES

The FAO report of 1955 and in much of subsequent literature, food aid has been considered mainly as the source of real resources to overcome the constraints on growth without inflation by dampening the multiplier effect (Beringer 1964; Dandekar 1965; Srivastava at al. 1975; Isenman and Singer 1977). But some observers argued that food aid can substitute for domestic savings or be used to increase consumption, including consumption in the form of defence expenditure instead of guaranteeing the use of available food aid to foster growth (Dubey 1964; Raj 1965).

Regardless of these arguments, the empirical studies on impact of food aid on growth yielded different conclusions in different situations. One such study, assuming that PL480 resources were fully additional found that in Israel PL480 have contributed 2 per cent of GNP over the period 1955-60 (Ginor 1963, quoted in Maxwell and Singer 1979, P. 227). In the case of India, Rath and Patvardhan (1967, P. 15) conceded the contribution of food aid to investment but implicitly questioned the general validity of Ginor's assumption since 'in the absence of PL480 the government would possibly have taken stronger measures for raising additional internal resources.'.

In the Bangladesh situation the same argument applies. Since the formation of the country, foeign aid, a substantial proportion of which was food aid, bridged the trade gap as well as the investment gap¹. During most of the years of this period foreign aid to Bangladesh accounted for about 60 per cent or more of the total import expenditures of which food aid was at least 11 per cent except in 1981 and 1982 (Table 1). In a situation of substantially reduced food aid, commercial importation of foodgrains

would have cut the foreign exchange available for imports of other intermediate and capital goods to about 10 percent for most of the period. This argument is justified by the fact that food aid has historically been broadly considered additional to other forms of aid. The importance of aid and thus food aid in Bangladesh economy can also be judged by the comparison of the same with export earnings (Table 1). In 1975, total current export earnings would not have even paid for food aid imports.

Although it is not accounted for in the revenue budget, government account has generated substantial extra-budgetary finance, known as counterpart funds, through domestic sale of food aid and other commodity aid items, For example, in 1984 about 1.3 million tons of foodgrain imports were financed on concessional terms, the financial cost to Bangladesh being only about 9 per cent of cif value (World Bank 1985, Table IV-5.9). Subsequent ration and open market sales resulted in a net financial contribution from food aid equivalent to 16 per cent of total revenue, or 14 per cent of the total development expenditures, in the same year². The implicit budgetary dependence on food aid was also at the same range in most other years since the early 1970s (Clay 1979, P. 131; Nelson 1983, P. 50).

The analysis above on food aid in Bangladesh as a source of real resource provides evidence that food aid has eased foreign exchange shortages and made it possible to generate a substantial amount of revenue as counterpart funds. The question of at what extent those funds have been utilized effectively and the allegation of inflationary implication of counterpart funds need further research. However, according to Clay (1979) the potential inflationary effects of counterpart funds upto 1976 were more than offset by additional commodities as the imported goods were additional to the domestic supply. The issue of inflation is again dealt briefly with respect to 'Food For Works' (FFW) programme below.

III. INCOME DISTRIBUTION AND EMPLOYMENT

Like the question of overall impact on growth, the income distribution and employment aspect of food aid is also in dispute. The proponents of food aid argue that it is an instrument of income transfer (Dowsan 1985, p. 29); has positive effects on distribution, enabling governments to avoid squeezing agriculture (Islam 1972); makes easier to adopt labour intensive and basic needs strategies which often create large new demand for food (Merrill 1977); and makes it possible to undertake specific poverty focussed FFW and feeding programmes (FAO 1955 and 1961). On the other hand, criticism of unfavourable effect on distribution bases mainly on urban biasedness (Shenoy 1974, p. 252).

In order to assess the distributional aspect of food aid imports it is necessary to discuss, albeit briefly, the food policy in Bangladesh, which has been concerned with the maintenance of public foodgrain distribution system, essentially the ration system. Gov-

vernment rationing of food has a history going back to the Bengal famine in early 1940s. Until the early 1960s, the main source of this food was domestic procurement. But since then the domestic procurement was replaced by food aid, mainly from the US PL480 Schemes. In Bangladesh today the situation is very much the same, although the source of the food aid is more diverse (Ministry of Finance 1984), and since the mid-1970s a substantial proportion of the rice component of the system is maintained through internal procurement (Nelson 1983, pp. 48-49).

The prime objective of the public foodgrain distribution remained the same over time - to satisfy the basic food demands of politically active urban dwellers, under statutory retioning system³ and priority groups⁴ at a subsidised prices, however small minority of the population they may be. Since the early 1970s,46 to 67 per cent of the total off-take was for these two groups (Clay 1979, Table 7; Rahman and Reza, 1985 Table 2.31). During the same period, the distribution of foodgrains to the rural areas, where vast majority of the population lives, through so-called 'modified rationing system's stood at about 10 to 20 per cent of the total. As majority of the 'priority' groups belong to the urban areas, the public foodgrain distribution was clearly 'urban biased', taking grains distributed as relief and under FFW programmes as rural.

Income distribution effect of this biased food distribution appears to be adverse to the rural sector. For the purpose, government was mainly dependent on imported foodgrains, about 70 per cent of which was food aid. Thus the contribution of food aid on improved income distribution is quite doubtful. However, employment created from the investment of counterpart funds in development projects might have some positive effect on income distribution.

About 9 to 24 per cent of total food distributed during the 1976-83 period was for the FFW programmes (Table 2). In terms of food aid this proportion ranged between 13 to 44 per cent. The original programme, known as Rural Works Programme (RWP), was financed by PL480 counterpart funds. Since the mid-1970s the programme took the present form and food aid, almost entirely wheat, started to be used directly as wages in kind. The criticisms of RWP/FFW in Bangladesh are that the rural elites and large landowners acquired disproportionate share of the benefits (Thomas et al. 1976); subjected to corruptions (Sobhan 1968); had limited productive impact (Khan 1971); subjected to drawbacks of food as a wage good, particularly wheat-an inferior item (Clay 1979).

A recent evaluation study of FFW programme, however, shows positive effect on income, employment and consumption of the participant households (Rahman and Reza 1985, p. 15). But Ahmed (1983 pp. 185-188) commented that though FFW programme created positive effect on employment, in a situation of high seasonal unemployment the impact is very small, and added that where the distribution of productive resources is highly skewed and overall income distribution is worsening, the impact of FFW on

income distribution does not appear to be positive. The creation of employment through FFW needs more qualification, because the main programme takes place during the winter season which is, in fact, not the only lean period for agricultural labourers. Thus Clay (1978) raised the point that the seasonal pattern of agricultural activity makes it technically difficult to devise large programmes for supplementary employment during the worst period of unemployment, at the end of the monsoon.

However, the payment of food as wage had some counter inflationary effects in the rural economy. More importantly, in a resource scarce situation, food aid made it possible to improve the rural infra-structure which might have helped in production and marketing of agricultural produce.

IV. DISINCENTIVE EFFECTS ON PRODUCTION AND PRICES

The opinion and empirical results are diverse on the possible disincentive effect of food aid on recipient country agriculture. Isenman and Singer (1977); Maxwell and Singer (1979) and Tarrant (1980) have extensively reviewed several studies on this single most widely debated issue on food aid. There are large number of empirical studies which dealt with the production and price effects of food aid in India and other major recipients reaching different conclusions.

In Bangladesh there is also an extensive literature on food aid and food policy issues. But very few have dealt with the production and price effects intensively. Out of them, Clay (1979) and Nelson (1983) are the most important studies. Clay provided certain evidence of disincentive effects on domestic agricultural production and prices (pp. 20-24). But Nelson's study, whichi is undated and more carefully documented, con cluded that the direct price effects of food-aid imports to Bangladesh. do not appear to have caused disincentives to farmers; rather, domestic rice prices for most of the periods were higher than world prices (pp. 52). Following the same method and assumptions as Nelson's, the 1984 ratio of domestic to world price of rice was estimated as more than one, thus fell in line with Nelson's conclusion.

The argument of OECD (1971) which put production increase in food aid recipient countries as an evidence against food aid's negative effect on production also applies in the case of Bangladesh. The growth rate of cereal production accelerated since the early 1970s despite larger food aid imports (Bari 1986, ch. IV). More importantly, in a situation where wheat constitute almost all of food aid, wheat production had record growth since the mid-1970s. In this respect it can be said that the inappropriate commodity argument does not sustain in the Bangladesh situation. Rather, while it is true that wheat has been, and still is, considered inferior compared to rice, the development of taste for wheat through exposure to food aid over the past 3 decades has spurred a domestic market and thereby facilited a rapid expansion of wheat production.

But the increase in wheat output probably has been achieved at the expense, atleast party, of the reduced output of other important crops like pulses and oilseeds. There is evidence that the acreages under these crops have declined, which might have gone under wheat cultivation. Thus the overall effect on total food production has remained in question

However, the question what would have happened in price situation of foodgrains and thus the resulting effect on production in case of substantially reduced food aid can be answered only by guestimatoin.

V. POLICY AND DEPENDENCY EFFECTS

Allegation that food aid makes a recipient increasingly dependent on the donors and thus the former has to formulate and or divert policies according to the latter's prescription appears to be true in the case of Bangladesh. The following evidence will justify this statement.

The heavy dependence on foreign economic assistance often makes a recipient highly susceptible to donor influence in the form of rather restrictive conditionalities like major policy and administrative changes. One recent study (Rahman and Reza 1985) evaluated such conditionalities of aid pushed by the World Bank/IDA and supported by other influential agencies as the USAID and ADB in the case of Bangladesh. In the late 1970s these agencies pushed for privatization of import, distribution and other support services of agricultural inputs namely, fertilizer and irrigation equipment and gradual phasing out of subsidies on these inputs, and gradual phasing down of the food rationing system. The study referred to above concluded,

..the policy changes suggested by the donors and pursued so vigorously over time were hardly based on (prior) sound economic considerations. Arguments in favour of subsidy reduction and privatization were initially based on some purely a priori theorizing with regard to cost, efficiency and equity considerations. There has been, however, little evidence in support of the donor diagnosis of the real cause of agricultural backwardness in the country... detailed investigations.., particularly on fertilizer and irrigation, have.. demonstrated some serious adverse repercussions of the donor induced policy changes on the future prospect of agricultural development in the country (p. 190).

For example, withdrawal of fertilizer subsidies and privatization of its distribution has caused the escalation of fertilizer prices, which is found to be the single most important reason for the declaration of its consumption growth rate between 1979-84. Similarly, privatization of irrigation equipment has generated inequity in the farm sector, and inefficiency in terms of smaller coverage of lands irrigated.

One recent study on foreign aid summarised that international donor agéncies increasingly use their influence to press for major reforms in development policies in Third World countries. Reform recommendations are often conceptualized with little regard for the political and bureaucratic contexts in which they are to be adopted and pursued (Cohen et al. 1985, p. 1211).

Although the donor prescriptions, mentioned above, are meant for improved productivity, efficiency and equity, policies on fertilizer and irrigation are resulting in undesirable effects probably because of the inexorable force with which the policy changes are imposed without any previous careful examinations of the logic and their likely consequences on the domestic economy. Policy prescriptions should be preceded, as suggested by Cohen et al. (1985), by careful research on policy space and administrative systems to suite a particular political and bureaucratic environment. Such research was particularly absent in the case of Bangladesh.

These conclusions are referred to as the consequences of overall aid dependence but food aid as a substantial share of the total aid also bear responsibilities. The vulnerability of food shortage country on the donors is even more. The event of the late 1974 presents an extreme example of political leverage exerted by the US government on Bangladesh (see McHenry and Bird 1977 and Sobhan 1979; see also Gustafsson 1976 for details of the issue). Bangladesh had to cancel jute export agreements with Cuba due to threatened cut off of food aid shipments by the US during the difficult time of the country after a severe flood. This happening reminds how vulnerable the poor recipient country can be to politically powerful donors.

Finally, there is an argument that concessional food imports have affected adversely agricultural development by reducing pressure on government to accord high priority to agriculture. The sectoral allocation of agriculture in the annual development plans does not show any declining trend during the 1973-84 period (Rahman and Reza 1985, Table 2.36). Thus the evidence says at least agricultural sector are getting the same importance in development programmes. However, in reality the above argument applies from a different point of view. Fiscal dependence, the dependence of the government on counterpart funds, resulted in a serious conflict between aid and the objective of self-sufficiency in foodgrains, which is manifested in the opposite perspective of the finance and agriculture ministries. Even the data reflect the different incentive structures: the Ministry of Agriculture's estimates of food production (or prices) have been uniformly higher (lower) than corresponding estimates made by the food and finance ministries (Nelson 1983). The budgetary support realized from food aid revenues provides strong government pressure in some quarters for continuation of food aid and discouragement of domestic production (Tarrant 1982).

VI. CONCLUSIONS

The analysis above on impact of food aid on Bangladesh economy since the early 1970s shows that food aid contributed to ease the trade gap and the government generated substantial revenue by selling the food aid items. The counterpart funds thus generated has increased resources. However, evidence on the distribution and employment effects are diverse. The government foodgrain distribution system which depend mainly on food aid remained clearly urban biased. One important positive effect of wheat food aid is the development of taste for wheat which might have contributed to the fast growth of wheat output. The FFW programme may have had some positive effect on the infrastructural development, employment and income in the rural areas despite the criticisms about distribution of the benefits, corruption and payment of food as wage. However, the evidence justifies that food aid has had some adverse effects by keeping the country dependent on food imports and probably by reducing pressure on government to accord high priority for agricultural research and development. But the most serious adverse effect of food aid in the case of Bangladesh came as a pressure from the donors for policy changes and also as political lever. The other adverse effect is the resulting conflict between food self-sufficiency objective and the probable loss of the capacity of generating counterpart funds, if food aid decreased substantially due to the progress towards the objective of self-sufficiency.

Despite certain beneficial effects, it appears undesirable to rely on large food aid imports in the longer run. The objective of achieving self-reliance is seriously undermined by the policy and political dependency effects of large food aid.

Notes ·

- Until 1976 domestic savings remained negative, and thereafter it grew at a rate slower than that of investment (Rahman and Reza 1985, P. 11).
- Computed from revised revenue budget and annual development plan of 1984 (Ministry of Finance 1984) and net revenue from ration and open market sale of food aid (net revenue = total revenuehandling and overhead costs) (World Bank 1985, Table IV-5.9).
- 3. Rationing areas of six urban centres of Dhaka, Narayanganj, Chittagong, Khulna, Rajshahi and Rangamati.
- They are police, armed forces, students, government employees and large scale industrial enterprise
 employees outside statutory rationing areas.
- Ration quota under modified rationing was half of the statutory rationing. Moreover, distribution under this system was subject to total availability, i.e., foodgrain was made available for modified rationing only after meeting the demand of the statutory system and priority groups.

TABLE 1. FOREIGN AID COMPARED WITH EXPORT EARNINGS AND IMPORT EXPENDITURES 1973-84

Year	Ratio of Total Aid to		Ratio of Food Aid to	
	Export Earnings	Import Expenditures	Export Earnings	Import Expenditures
1973	1.56	0.71	0.52	0.23
1974	1.25	0.50	0.62	0.25
1975	2.62	0.64	1.11	0.27
1976	2.17	0.63	0.84	0.25
1977	1.32	0.61	0.30	0.14
1978	1.69	0.61	0.36	0.13
1979	1.69	0.66	0.29	0.12
1980	1.69	0.52	0.52	0.16
1981	1.61	0.45	0.27	0.08
1982	1.97	0.48	0.37	0.09
1983	1.96	0.58	0.37	0.11
1984	1.54	0.54	0.34	0.12

Sources: Computed using data from Bari 1986, Table 2.1 and 2.2.

TABLE 2. SHARE OF FFW GRAINS IN PUBLIC DISTRIBUTION AND FOOD IMPORTS, 1976-83.

Year	FFW Grains	%Share of FFW Grains in		
	Utilized ('000 Tons)	Total Public Distribution	Total Food Imports	Food Aid
1976	209	12.5	14.5	15.5
1977	223	15.1	27.5	34.3
1978	276	14.9	16.5	20.9
1979	301	16.8	25.9	27.9
1 9 80	230	9.3	8.3	12.6
1981	358	23.5	33.2	43.7
1982	288	14.1	23.4	25.5
1983	377	19.5	18.9	32.5

Sources: Figures on FFW grains utilized are taken from Asaduzzaman 1983,
Table 1; the 3rd column is computed using data from Clay 1979, Table 7
and Rahman and Reza 1985, Table 2.31; the 4th and 5th columns are
from Bari 1986, Table 4.8.

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