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## ***FOOD AID AND FOOD POLICY IN BANGLADESH\****

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### **ABSTRACT**

Bangladesh has now replaced India as the most publicized large scale recipient of food aid importing 1.67 million tons of food grains, four fifths of which were on concessional terms, in 1977/78 ( July to June ). Some analysts, extrapolating from the poor performance of the agricultural sector upto the mid 1970s, also project that Bangladesh will be one of the largest importers of foodgrains in a decade's time merely in order to maintain current pitifully inadequate levels of nutrition. Yet so far there has been no open debate or systematic attempt to analyse the impact of food aid on the Bangladesh economy compared with the controversy and intensive analysis of food aid to India. This article is intended to demonstrate the seriousness of this gap in the literature. It includes a review of provisional evidence on the role of food aid in the Bangladesh economy during the first quinquennium of planned development, 1972/3-1977/8.

### **I. INTRODUCTION**

The financial year 1977/8 is the sixth since Independence and the final year of the 1st Five Year Plan that was to have marked the achievement of 'self-sufficiency' in food. Even though foodgrain production reached a new high, 13.1 million tons according to official estimates, Bangladesh nevertheless imported 1.67 million tons of foodgrains, 82 percent on concessional terms, as loans or grants. The per capita availability from imports remains comparable to the level in 1969/70, the last year before production began to be disrupted by the independence struggle.<sup>1</sup> It is not entirely a case of 'plus ça change', because the supply of food through public ration system now on average exceeds the flow of imports, and in 1977/78 was absolutely 95 percent higher and when estimated in per capita terms, 57 percent higher than in 1969/70. The

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state had also begun to intervene regularly in the domestic rice market through decentralised purchases of grain, unprecedented both in scale and in the stated objective of providing price support. An effort is also underway to build up an emergency stockpile of foodgrains. Government controlled stocks which at the lowest point, in 1974, were inadequate to cover one month's mean level of offtake had been built up to over 700 thousand tons in June 1978.

These changes also imply a degree of unavoidable integration of food and agricultural policy which is novel for Bangladesh. The role of food aid too is more problematic than only four years ago. Then, concessional food imports, however distributed and retraded, could be seen as at least helping to close the food demand and supply gap, and as essential for relief operations. However, to locate realistically the discussion of the future of food aid to Bangladesh, it would be useful to spell out more fully the nature of the changing context.

## II THE GROWTH OF FOOD IMPORTS

Large scale importation of food into Bangladesh is not a recent development: imports have been steadily increasing since the 1950s. It was during the Pakistan era that the sizeable inflows of wheat on concessional term from the United States began. Most of the wheat was sold through the rapidly expanding public distribution system, and counterpart funds were allocated in part to the innovative, but controversial, Rural Public Works Programme. This food aid was intended for developmental purposes. Otherwise some imports, especially rice, were channelled through the private system.

Imports peaked in 1972/3 and accounted for 25 percent of total availability as domestic production was significantly below pre-Independence levels (Table 1). Imports fell away in the years 1975-77 with the recovery in domestic production, a drop in ration system demand and build up in stocks. There was also some reluctance on the part of donors to maintain commitments at the previously high levels because of the fear that this would undermine the efforts to expand domestic production. After unexpected delays in shipments, and failure to achieve sufficiently high levels of purchase from local sources had reduced stocks to what were considered to be dangerously low levels, a combination of commercial purchases and increased commitments by donors led to a further upswing in imports in 1977/8. Record levels of domestic purchases have added to the recovery in imports to leave very high end of year stocks. This is

at a time when domestic and international opinion favour the build up of a food security stockpile that combined with operating stocks would amount to a million tons of foodgrain.

#### The Pattern of Food Imports and Sources of Aid

The greater part of food imports continues to be wheat, 82 percent of total in 1977/78 (Table 2). As a result of massive concessional imports and competitive pricing against rice, wheat has become an important component of the diet, especially amongst low income groups both in urban and rural areas. However, import of rice which generally have to be purchased on the open market, unless concessional US supplies are available, have been one third lower during the mid 1970s than in the late 1960s.

Contrary to widespread popular belief, imports of food to Bangladesh are not completely dominated by US concessional supplies. Whereas before Independence the United States was the only donor of significance, the sources of food aid have been more varied since 1971. US supplies under PL 480 Title I providing government to government bulk transfer were temporarily halted with the defeat of Pakistan and only restored with the new PL 480 agreement in 1973/74. In the interim Canada, the EEC, the WFP, Australia and India all supplied food. The United States had recovered its position as major donor in 1975/76, accounting for 62 percent of food aid in value terms. However, with reductions in commitments in 1976/77, the US share fell to 30 percent in value terms. When Bangladesh again increased its level of food imports in 1977/78 concessional supplies continued to come from a wide group of donors. The potential availability of food aid on a variety of terms from half a dozen major sources during a period of expanding food surpluses is a fact of considerable importance for discussions of bilateral assistance to individual recipient nations.

### III. BANGLADESH'S PUBLIC FOOD DISTRIBUTION SYSTEM

Food policy in Bangladesh has been primarily concerned with the maintenance of the public ration system. The measure of its importance has already been indicated by the willingness of government to engage in hard currency purchases of food in 1977. This primacy of the ration system is however a recent phenomenon and reflects the radically changed political circumstances since Independence.

Prior to Independence, the public supply system provided foodgrains, almost entirely wheat, on concessional terms to urban and public service ration card holders. Rural areas were covered by the 'modified ration system' and the rural public works programme (relief offtake). 'Priority' groups, composed largely of public service, military and urban industrial employees, accounted for only one third of the system (Table 3). In supplying mostly wheat, 95 percent of 'offtake' during 1965-70 and considered an inferior foodgrain by most Bangladeshis, the system provided food subsidies, but was partially oriented to the poorer urban consumer.

Following Independence, more and more people became eligible for rations with rapid growth of the public service and extension of the coverage of priority group rationing. By 1972/73 the offtake under priority categories was already double the level of the immediate pre-Independence period. The ration system became the means by which subsistence wage goods were guaranteed to politically essential elements of society and government through a period of increasing instability of supply and rapid price inflation, with obvious parallels to the Indonesian ration system during the Sukarno period. But the system also remained the only mechanism for providing supplementary rations and relief supplies to the rural population in the immediate aftermath of war. With the economy in the grip of hyper inflation, and the gap widening between ration system and open market prices, there were opportunities to make enormous profits from misappropriation and hoarding, and even smuggling of foodgrains.

In the desperate circumstances of 1973-75 the government favoured the growing number of real and bogus priority ration card holders, and food for work and other relief activities received lowest priority (Table 1). The discreditable food politics of the 1974 famine are now relatively well publicised (for example, McHenry and Bird 1977). More important to note now is how the upward trend in supply to priority groups has been continued. Levels of offtake under statutory rationing in the six centres fell sharply in 1975/76 and 1976/77 from the peak level of 1973/74. Many racketeers were shaken out of the system in 1975 and large numbers of the urban poor were forcibly removed from the cities in 1974/75. Food prices fell simultaneously with the good harvests of 1975/76, also reducing the demand for inferior ration system grain. However, offtake for other priority groups, which included the expanding military establishment, continued to grow. Non-urban industrial establishments and tea estates were also brought within the system and entitlement increased in October 1976. During 1977/78, as open market food prices again began to firm, allocations and

sales to priority groups reached a new high of 1.18 million tons, three times the pre-Independence level (Table 1).

The mix of grains supplied through the ration system has also changed with the share of rice in total offtake increasing from an average level of 5 percent in 1965/70 to 35 percent in 1973/78. This change partly reflects the availability of rice under PL 480 and the increased importance of domestic purchases. There is also an element of government choice. Sixty six percent of rice imports but only 18 percent of total imports by volume during 1977/78 were commercial purchases by the Bangladesh government. The highest proportion of rice rations is received by 'other priority groups'.

The ration system has been used by successive regimes to bring influential groups in out of the cold—providing relatively assured supplies of essential foodstuffs at stable subsidised prices, cushioning them against the effects of hyperinflation and the seasonal and other fluctuations of the open market. With two thirds of supply now going to priority groups, it is inconceivable that the ration system will be quickly dismantled.

#### IV. PUBLIC INTERVENTION IN DOMESTIC GRAIN MARKETS

Public procurement or domestic purchase of food up to 1971 had been irregular and predatory. In periods of high prices and reduced production, procurement at prices below prevailing market prices combined with anti-hoarding regulations were part of the typical response to a food crisis. During the 1960s procurement became less common as the possibilities of stepping up the flow of concessional imports made such panic measures less necessary, and the attempt to build up support for the martial law regime in the countryside increased the political cost of such action.

The uncertainties of external supply in 1973/74 and the political decision to maintain the flow of food into the ration system at all costs drove government back into large scale compulsory procurement at prices considerably below open market levels. These operations were of limited success and brought in only 130 thousand tons of rice. The arbitrary methods of obtaining grain also probably exacerbated the deteriorating situation by disrupting the private trade and so driving prices up even further for those outside the ration system—the urban and rural poor.

The creation of Bangladesh has considerably enhanced the political significance of agricultural interests, especially the larger surplus farmers and landlords

who provide political leadership in the countryside. This was first apparent in the abandonment of proposals for a major land reform floated by the Planning Commission in 1972/73 and the watering down of proposals to increase fertiliser prices. The implications of the new political balance for agricultural and food policy has become more explicit since 1975. The upswing in production in 1975 and the unwinding of many speculative positions in food grains after August of that year resulted in a fall in rice prices to levels at which fully commercial rice cultivation was scarcely profitable in some important surplus areas. Government responded by initiating paddy and rice purchases at 'incentive prices' substantially above the prevailing harvest prices. These purchases began serious price support operations that have been continued in subsequent years. To date, however, purchases have been based on quantity targets at given prices and not directed specifically at establishing a floor price. The scale of purchases which exceeded half a million tons of rice equivalent in 1977/78 has made domestic production a major source of supply for the public distribution system and in doing so exposed the inconsistencies of agricultural and food policy.

#### V. IMPLICATIONS OF FOOD AID

##### Budgetary and Monetary Implications of Food and Other Aid

The fiscal and monetary implications of the generation of counterpart funds from food and other commodity aidflows were relatively unambiguous for the first four years after Independence. Imported goods were additional to the domestic supply so that any potential inflationary effects of counterpart funds were more than offset by the additional commodities. In fact government pricing policy for food, fertiliser, cement and public sector products resulted in massive black market re trading, such was the level of excess demand. Up to 1975/76, government also engaged in large scale deficit financing to bridge the gap between rapidly expanding public expenditure and revenue including the counterpart funds from commodity sales. It might be argued however that the availability of commodity aid allowed government to avoid politically difficult measures for resuscitating production and containing public expenditure. The net effects of food and other commodity aid since 1975/76 are more problematical.

The approximate size of the budgetary impact of food aid can be gauged from a few simple calculations: food sales have been equivalent to between 12 and 20 percent of the total budget. After allowing for costs of operating the food

system, shipping charges and commercial sales, the net contribution to the remainder of the budget excluding national food subsidies has been of the order of 8 to 10 percent. As the share of relief works including the Food for Work Programme (FFW) averaged less than 10 percent of off-take from the public system, most of the counterpart funds have been an important source of budgetary support. The fungibility of most food and other commodity aid which together have accounted for over seventy percent of total aid since Independence also gave government a greater freedom to pursue its own economic priorities, an issue to be taken up again in reviewing progress in the agricultural sector.

#### The Impact of Food Aid on Domestic Agricultural Production

Most of the dislocation of supply and distribution and irrigation capacity resulting from the Independence struggle had been more than made good by 1975, when dearth was suddenly transformed to relative superfluity, a change brought about by a combination of factors. Improved input supply, high food prices encouraging further substitution of rice for jute, and favourable weather all contributed to increased food production. Rice prices fell by the main Aman harvest to levels at which commercial rice production was scarcely profitable and did so again in 1976 in spite of a smaller harvest. Other factors besides increased production helped to produce the rapid swing from famine to disincentive prices. Many stock positions were unwound, some informal restrictive marketing arrangements collapsed and smuggling was reduced to a trickle with the accession to power of the military. Meanwhile food aid shipments already scheduled before the upturn in production continued to flow in. Government embarked on incentive procurement which bought in almost three times as much as the coercive operations a year earlier, helping to hold up prices but also increasing stocks, which reached a peak of over 1 million tons in 1976.

The limited effectiveness and operational problems of the first attempts to hold up prices in 1975 and 1976 are understandable considering the unprecedented nature and scale of these activities. Twenty years of growing import dependence had created a food distribution system poorly equipped to cope with large scale decentralised buying. These operations were anyway undermined by continuing ration system sales at prices below the minimum level at which profitable domestic production could take place<sup>2</sup>.

The most substantive evidence of the disincentive effects of low prices on production is the fall in number of pump-sets rented out by the government input

corporation, BADC, for winter irrigatin, from 36,382 in 1975/76 to 28,324 in 1976/77, when there were no longer supply problems for inputs that had hampered irrigated HYV rice cultivation during the early 1970s. In 1977/78 as rice prices began to firm, probably because of the fall in production in 1976/77 and more effective procurement operations, the number of pump-sets hired out, other indicators of irrigated acreage and sale of fertilisers all reached new high levels, and a black market in fertilisers also reappeared. With higher imports largely meeting the increased ration system off-take, Bangladesh again had stocks of food grains approaching 1 million tons before the main 1978/9 harvest. Fortunately for the food system managers, production of the main rice crop is likely to be down this year, for there would have been serious problems of maintaining the level of procurement operations.

Looking back over the short period since the economy effectively recovered from war time dislocation, a pattern of counter-cyclical food system and agricultural production management seems to be emerging in which the lags in the supply of food aid threaten to amplify swings in production, stocks, prices and profitability of food production. The system is particularly vulnerable to a sequence of two or more years of favourable weather without disruption of input supplies, because policy focuses on the risk of the no more probable sequence of two or more bad years. The problems of agricultural development and food security policy are exacerbated by the contradiction of food subsidy and incentive prices, whilst the budget remains partially dependent on ration system sales.

Concessional food imports may also have adversely affected agricultural development by reducing the pressure on government to accord a high priority to agriculture in the development programme and in the overall allocation of public expenditure. As the partial fungibility of most food and other commodity aid which together have accounted for over 70 percent of total aid since Independence gives the government a degree of autonomy in pursuing its own economic priorities. The actual distribution of public expenditure up to 1978 can be considered as evidence that agricultural growth or rural development more broadly defined has not received highest priority despite the rhetoric of planning documents. The trend in the agricultural sector share of current and development expenditure has been downwards (Table 3).

Within agricultural sector development expenditure only a small proportion is likely to have had direct impact on production. Two fifths of sector development expenditure has been absorbed by the Water Development Board to support its massive establishment and a portfolio of major projects dating from

before 1971 which still account for only 7 percent of total irrigated area in 1977/78. Within the Ministries of Agriculture, Forests, Livestock and Fisheries, which received approximately 50 percent of the sectoral development budget, almost half of this amount is accounted for by input, mostly fertiliser subsidies. However, in cash flow terms fertiliser received on concessional terms and distributed by BADC generates counterpart funds in a similar fashion to food sales. Subsidy calculations, mostly for phosphates, are based on the costs of relatively inefficient domestic plant rather than border prices, and could equally be seen as subsidies to the industrial sector.

The scale of foreign assistance to the Bangladesh economy creates problems of economic accounting so far little explored. In an almost Alice in Wonderland situation subsidies are metamorphosed into revenue-raising devices. There is scope for conceptual misunderstanding that alone can lead analysts to make recommendations and administrators to follow courses of action which have the opposite effect to that intended. For example, in the case of fertiliser, the maintenance of low 'subsidised' prices to help small farmers, especially share croppers, could, depending on the supply conditions, bring windfall gains to retraders and put pressure on the budget leading to cuts in the real level of agricultural expenditure. The sole contrary tendency to the declining share of resources allocated to agriculture has been the gradual increase in domestic supplies of food for the ration system. This increases directly the real, cash-flow, cost of ration distribution. Assuming ration system policy as given, then part of the additional cost is attributable to the objective of attempting to sustain agricultural prices and part to providing an alternative to total dependence of ration system on imports. However, insofar as food systems expenditure crowds out other expenditure, agricultural sector spending may be somewhat reduced.

To summarise, a close inspection of agricultural sector expenditure raises questions about the seriousness of the commitment to agricultural development. Food aid has been part of a total foreign assistance package that seems to have made it possible to put off difficult decisions on restructuring the allocation of resources between departments and agencies in the agricultural sector to have a greater impact on production.

#### Food Aid, Rural Works and Employment Creation

Rural public works to create employment and rural infrastructure have always been closely associated with food aid in Bangladesh and as public works

activity revived in the 1970s, food aid, almost entirely wheat, was used directly as wages in kind, and these activities became collectively known as the Food for Work Programme (FFW). By 1977/78 this programme involved offtake of 268 thousand tons of foodgrains, supplied largely by the WFP and under PL 480 Title II. During the early 1970s direct payment in kind with imported food minimised any possible inflationary effect of creating additional employment. Food for work is also popular with many donors, perhaps because of the conspicuous way it uses aid to provide supplementary employment for the rural poor.

There are, however, reasons to doubt whether it would be appropriate to expand the FFRW substantially beyond current levels of activity; or indeed whether this direct use is the most appropriate way to use food aid. First, there are many organisational and technical problems associated with rural public works and obvious risks of undermining an effective programme by overambitious rates of expansion<sup>5</sup>. Recent studies indicate that the programme has not so far had a serious disruptive effect on local grain markets, because only 20 percent of food is resold by labourers. Employment provided has been additional and therefore added to the incomes and net purchasing power of otherwise underemployed labour (Institute of Nutrition 1978). The alternative of a higher proportion of money wage payments would augment effective demand for domestic production. Because of the limited employment creation associated with agricultural growth, lack of effective demand in the countryside may constrain the growth of food output. This would imply that more attention than in the past should be given to increasing the domestic multiplier effects of rural works.

There is also an element of economic irrationality in expanding the costly distribution into the villages of imported foodgrains whilst government is attempting, with the encouragement of the Aid Consortium, to build up its system of decentralised grain purchases. Public works are not a panacea for the problem of rural underemployment and poverty. Even the seasonal pattern of agricultural activity is such that the worst period of underemployment occurs at the end of the monsoon when it is technically difficult to devise large scale programmes for supplementary employment (Clay 1978).

A serious reservation about the overall impact of FFW concerns the longer term developmental benefits of rural works. A. H. Khan, architect of the Comilla rural development project, and many others, have questioned the productive impact of rural works. There is also the problem of the acquisition by the rural elite of a disproportionate share of the benefits from infrastructural investment, particularly where earthworks directly increase productive potential of the land.

In the long term the essential role of labour intensive works in capital formation in a densely peopled, resource poor country is not in question. However, if the continued expansion of the present rural public works is to have a significant developmental impact, then aid donors need to consider ways of assisting Bangladesh to remove distortions created by the direct use of imported foodgrains. The distributional and productivity effects of public works raise both political and technical problems that Bangladeshis alone can solve.

## Notes

1. As there are no statistics on private stocks of foodgrains, it is conventional to present food supply in terms of 'availability' in the year of production, import or offtake from the public distribution system. This method of presentation is misleading since the time profile of harvesting implies substantial carry over from the Boro rice crop, with the largest proportion of marketed output (harvesting April to June) into the next financial year beginning in July. Calculations of per capita availability and 'food gaps' are also highly sensitive to small adjustments in the denominator, population.
2. Partial budgets indicated that at 1975 prices fully commercial farmers might *break even* at around Tk. 40-50 a maund for paddy, the harvest prices reported in some food surplus areas, if inputs were also obtained at official prices. This would imply minimum retail prices of at least Tk. 80 for milled rice without storage or distribution costs. Urban ration system prices for rice were only raised to Tk. 70 a maund in December 1975 and again to Tk. 90 in February 1976, remaining at that level until 1977/78.
3. The East Pakistan programme was corrupted and undermined by overextension and politicisation (Thomas 1971). The technical and organisational problems of public works are well covered in the recent report by Brundin (1978).

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TABLE 1 FOOD GRAIN PRODUCTION, IMPORTS, PER CAPITA AVAILABILITY AND OFFTAKE FROM RATION SYSTEM, 1969-1978

Year	Production M. tons	Imports Mil. tons	Procurement M. tons	Per capita availability of food-grains ( Kg/ye			Offtake from ration system ( thousand tons )			
				Imports	Ration supply	Total Availability	Priority group	Modified rationing	Relief	Total
1969/70	11.92	1.55	0.01	22	14	171	414	925	15	1,354
1972/3	10.02	2.83	0.01	39	36	159	819	1,592	207	2,618
1973/4	11.80	1.67	0.07	22	23	161	898	777	52	1,728
1974/5	11.23	2.29	0.13	30	23	153	1,025	578	161	1,764
1975/6	12.78	1.49	0.34	19	21	163	954	495	226	1,676
1976/7	11.83	0.78	0.31	10	18	145	986	288	199	1,473
1977/8(p)	13.10	1.67	0.54	20	22	155	1,184	310	352	1,850

- Notes : a. Per capita "availability" which excludes changes in private stocks is conventionally estimated at the ratio of annual levels of "net" production plus ration system offtake ( supply ) with mid year population ( January 1st ).
- b. Ration card holders in six urban centres plus police, armed forces, student hostels, mill and large scale industrial enterprises outside statutory areas.
- c. Distributed by local government ( Union Councils ) at half statutory levels.
- d. Domestic relief and food for work.

TABLE 2 BANGLADESH FOODGRAIN IMPORTS BY MAJOR SOURCES OF FINANCE 1977/78

Source of Finance	Wheat		Rice		Total	
	000 tons	%	000 tons	%	000 tons	%
1. Government of Bangladesh ( commercial purchase )	96.5	7.0	200.2	65.7	296.7	17.7
2. Multilateral ( WFP )	239.3	17.5	—	—	239.3	14.3
3. U. S. A.	463.7a	33.9	82.6	27.1	546.3	32.6
4. EECb	250.2	18.3	5.2	1.7	255.4	15.3
5. Canada	262.4	19.2	—	—	262.4	15.7
6. Other ( OECD )	57.0	4.2	16.8	5.5	73.8	4.4
7. Total	1,361.1	100.0	304.8	100.0	1,673.9	100.0

Notes : a. includes 7,500 tons sorghum.

b. includes bilateral aid by EEC members and EEC direct aid.

TABLE 3 THE AGRICULTURE SECTOR SHARE IN BANGLADESH GOVERNMENT EXPENDITURE 1972-1978

	1972/3 <sup>b</sup>	1973/4 <sup>b</sup>	1974/5 <sup>c</sup>	1975/6 <sup>c</sup>	1976/7 <sup>c</sup>	1977/8 <sup>c</sup>
Current Expenditure of which as percent of total :						
1. Agriculture Sector <sup>a</sup>	2.0	2.2	2.5	1.7	1.4	1.5
2. Food subsidies	26.9	21.8	16.2	14.7	9.3	10.9
Development Expenditure of which as percent of total :						
1. Agriculture	n. a. s.	12.4	12.2	12.1	15.2	13.3
( Fertilizer subsidy )		(4.6)	(6.5)	(6.5)	(7.0)	(na)
2. Rural Development	n. a. s.	6.6	5.4	5.1	4.2	4.4
3. Flood control and irrigation	n. a. s.	15.0	16.4	14.3	11.9	12.3
Agricultural Sector ( 1, 2, 3 )	33.9	34.0	34.0	31.5	31.3	29.9
Total Expenditure of which as percent of total :						
Agriculture Sector	20.4	18.5	17.4	19.0	17.9	16.9
Food Subsidies	11.4	10.6	8.4	6.2	4.2	5.0

Source : Ministry of Planning Annual Development Plan : Ministry of Agriculture, 1978.

Note : a. The Agriculture sector is conventionally classified as also including expenditure of the Ministry of Rural Development and Local Government and the Water Development Board ( flood control and surface flow irrigation ).

b. Actual.

c. Revised budget estimates ( actual expenditure estimates published by B. B. S. underestimate expenditure due to inclusion of provision and incomplete items ).