Bangladesh Country Strategy

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Introduction

Since the peak of real food prices in the 1970s, food prices have declined to an all-time low in the early 2000’s. However, from 2005 to May 2008, international prices of major food cereals increased and caused real prices to surge upward, and in some cases double, between 2007 and 2008. Because of the previously low food price trend, governments saw little incentive in investing in domestic agricultural production and considered food imports as an option for national food security.\(^1\) This was problematic during the recent food price crisis because poor households spend the majority of household budgets on food or depend on food production for income have limited resources to adjust to the quick changes in relative food prices.

There are many factors that could contribute to the food price crisis in 2008. Some include the depreciation of the US currency, low interest rates, and investment adjustments in favor of commodities.\(^2\) For the agricultural sector, the food price crisis could perhaps best be explained by rising prices of energy and increased demand for biofuels.

This paper will discuss some of the causes and magnitude of the global food prices crisis, with a focus on Bangladesh. Then there will be a review and critique on the policy and programmatic responses to the food price crisis by international players and by the government of Bangladesh, and finally, policy recommendations regarding food security in Bangladesh will be proposed.
Situation and analysis

Causes

In analyzing the food price crisis of 2008, it is important to note several characteristics that distinguish this recent upward surge in food prices. Prior to the spike in 2008, the real price of staple foods has generally decreased since 1974 and reached an all-time low in 2000 (Figure 1). Though the price levels in 2008 matched those in the late 1970’s or 1980’s, the rapid speed at which food prices hit those high levels in 2008 might have led to adjustment problems by both producers and consumers (Figure 1). In addition, the prices of many commodities increased as well. Since 1974, energy prices, metals and minerals have increased by 80-120% and the price of fertilizer prices quadrupled during both crises.ι

As mentioned, the prices of many commodities such as energy and fertilizer have been on the rise, and one of the main causes attributed to 2008 food price crises is the increase in energy costs. The increase of energy prices affected food prices because rising oil and natural gas prices increase the costs of producing foods and transporting foods to markets. The marginal costs of agricultural production are quite affected by the change in oil prices. Farmers that use energy-intensive farming methods such as diesel-powered machines, fertilizer, and pesticides were particularly impacted because of the rising energy costs. Another explanation for the rise in oil prices could be the recent economic and industrial growth in China, for China has developed a large demand for oil imports. This compounded with political instability in the Middle East may have caused the surge in oil prices in 2008. All in all, because of the increasing prices of gas, ethanol and other biofuels became more economically attractive.
The increased use of crops for biofuels is closely linked with the increase of oil prices and is cited as another major cause of the 2008 food price crisis. As opposed to the United States government’s claim that plant-derived fuels contributed less than 3% of the food-price rises, World Bank reports indicate that biofuels may have caused global food prices to rise by 75%. The shift towards incorporating and increasing production of biofuels into oil by the United States and across Europe was to reduce greenhouse gas emissions as well as decrease dependence on imported oil. The 2005 energy act in the United States mandated a minimum level of renewable fuels, predominantly corn-based ethanol, to replace gasoline. However, in looking at actual levels of production in 2008 and projected levels of production in 2015 to match mandated levels, the United States will need to use more than 40% of total corn production to match demand. Biofuel production contributed to the food price increases in 2008 in several ways. First, it has diverted the use of grains from food to fuel. When oil prices exceeded $60US a barrel, biofuel production became more competitive and grains were increasingly used for biofuel production. Second, farmers are encouraged to set aside land for the production of biofuels. In the United State, biofuels demand increased maize production by 23% in 2007, but at the same time decline soybean production by 16%. The reduced yield of soybeans contributed to the 75% increase in soybean prices between April 2007 and April 2008. And third, biofuels created financial speculation in grain, which also drove food prices higher, for “a commodity subject to speculative trade in commodity futures exchanges has been subject to extreme price volatility.”

Another factor that contributed to the food price increase is the decline in growth of agricultural output. This decline in growth can be attributed to the reduction of state agricultural interventions in developing countries, reduced public support and investment in agricultural
productivity, and a decline in research and development by governmental or international institutions. Decrease in production growth can also be explained by climate change and natural disasters such as droughts and floods.

**Magnitude**

The surge in food prices has had a serious affect on the poorer populations of the world perhaps because impoverished people spend significant portions of their household budgets on purchasing food. Though many of their livelihoods depend on food production, they also have very limited means of adjusting to sharp changes in relative prices of food due to their lower income statuses. The 2008 food price crisis increased the number of chronically hungry by 133 million people in seventy countries. Furthermore, IFPRI found that when regressing vulnerability measures across 13 developing countries, the most vulnerable households are urban or rural nonfarm, less educated, more dependent on female labor, with less developed infrastructure, and limited access to land or modern agricultural resources. In looking at vulnerability, it is also noteworthy to mention intrahousehold food allocation. According to anecdotal evidence listed by IFPRI, the greatest decrease in consumption was experienced by women and girls, for “women often act as shock absorbers of household food security by reducing their own consumption to leave more food for other household members, notably children.”

In response to the food price crisis, a FAO survey of policy responses in 77 countries showed that between 2007 and 2008, about half the countries surveyed decreased cereal import taxes and more than half the countries applied price controls or consumers subsidies in order to
maintain domestic food prices below world food prices. The survey also found that a quarter of
governments withdrew from national food grain stocks to increase domestic supply.¹

The Food Price Crisis in Bangladesh

Causes

The international prices of major food cereals increased and caused real prices to surge
upward in 2005-2008. For Bangladesh, this was especially observed in rice, due to several
compounding factors including natural disasters in 2007, the increased price of fertilizers, and
India’s basmati rice export ban. Rice is thinly traded, composes a large proportion of the diets of
many people, and is a rather inelastic good, making it have higher price volatility than other
staples.²

Most of the price rises in wheat and maize happened before 2008, but three-quarters of
the increase in rice prices occurred in the beginning of 2008 (Figure 2).² This could perhaps be
explained by policy changes to protect agricultural goods, such as the mentioned export ban.
India is the second largest rice exporter in the world and a large exporter of wheat, but a poor
harvest of wheat in 2006 through 2007, a shortage of government stocks, and uncharacteristically
large wheat imports in 2006 prompted the Indian government to impose the export ban on rice in
November 2007 despite the surplus of rice production that season.

Magnitude and Effects

Because Bangladesh suffered from widespread monsoon floods and cyclones, this caused
a loss of about 1.4 million tons of Aman rice in 2007. This compounded with rising food prices
has highly impacted the country’s national food security.³ For the rural population of
Bangladesh, 71% of daily diets consist of rice. The food price crisis caused wholesale and retail prices of the country’s major food staple, local course rice, to increase by 82% in June 2008 (Figure 3). Overall, the food insecure populations increased by 7.5 million people from 65.3 million, which can be primarily attributed to higher food prices.

The monsoons in 2007, the subsequent Cycle Sidr, and the rising pattern food prices left many people in need of food assistance. Numerous households lost shelter, household assets, and productive assets necessary for livelihood. Livelihoods that were most affected were fishing, farming, and agricultural labor. Furthermore, Bangladeshi households spend up to 60% of income on food expenditure, but based on household interviews and estimates in 2008 by FAO in selected urban areas, more than half of the households interviewed reported spending between 90 to 100 percent of total household expenditure on food.

Some commonly practiced coping strategies included the selling of assets such as small livestock, limiting portion size a mealtimes, reducing the number of meals per day, relying on less expensive or less preferred foods, borrowing food, and purchasing food on credit. Some more severe strategies that were practiced less frequently included gathering or hunting food, stop sending children to school, skipping all meals in a day, abnormal migration to work, and consuming seeds saved for next planting season.

Policy and programmatic response

Key international actors

According to United Nations (UN) estimates, about $24-40 billion was needed to meet food price crisis needs. Some proposed actions included doubling aid for key food staples in
Africa for the next five to ten years, improving infrastructure, rapid financing for food price related payment issues, creating sustainable food security and biofuels policies, and aiding in country-led proposals to address climate change. However, at the High Level Conference on Food Security in June 2008, about $12.3 billion was pledged, but only a little over $1 billion from donor nations was actually distributed by the end of 2008.⁠¹ According to a source at Oxfam, the donor funds received for the food price crisis is “in stark contrast to the response to the financial crisis, where huge financial resources have been mobilized by the international community in a matter of days.” This shows that there is still a lack of support in investing in agriculture and that there needs to be a shift towards focusing on development in the agriculture sector in order to mitigate or prevent future agriculture-related crises.

The proposed Doha Round is highly covered in the Intergovernmental Group of Twenty-Four (G24) discussion paper series on the 2008 food price crisis.⁠¹ The Doha Round is the trade negotiation round of the World Trade Organization with goals of lowering global trade barriers. Concluding the Doha Round will likely restrict government tools to reach food security, such as the ability of the government to allocate domestic output to the domestic market in food emergencies, by requiring prior approval. The proposed tariff reductions would increase access to food at a global level, but increasing imports of food in countries is not equivalent to increasing access or food security. Therefore a major critique of the Doha Round is that most developing countries will not benefit from agricultural liberalization and would cause more long term deficits by increasing volatility and food prices.

The World Food Programme (WFP) has a large presence in food assistance programs in Bangladesh. WFP provides staple foods with ration sizes that supplement calorie gaps. Other WFP programs target other calorie or micronutrient deficiencies such as wheat-soya-blend
rations provided to adolescent girls and mothers in nutrition awareness programs and the School Feeding program that provides high energy and micro-nutrient rich biscuits. In total, WFP reaches 4.7 million beneficiaries. Among those 4.7 million, 3.8 million are part of the Vulnerable Group Development (VGD) program, which covers the above mentioned programs. Therefore excluding those populations, WFP provides assistance by filling food and calorie gaps for about 900,000 individuals. However, it is important to consider inclusion based targeting errors because according to a World Bank study in 2006, 27% of VGD beneficiaries are not poor.\textsuperscript{v}

Furthermore, these WFP initiatives have been ongoing and do not necessarily address the immediacy of the food price crisis at hand. On the other hand, because WFP has such a presence in Bangladesh, they have an established network of programs that aim to reach long-term food security and nutrition enhancement measures through the above mentioned supplementary feeding, nutrition education, food for assets and training, school feeding, and capacity building activities. Their credibility in the region is pivotal for their efforts, and WFP has even been able to partner with the government of Bangladesh to improve safety net programming and to enhance the livelihoods of vulnerable populations.

Under the Global Food Crisis Response Program, the World Bank extended the Food Crisis Development Support Credit (FCDSC) of $130US million to the government of Bangladesh in October 2008.\textsuperscript{viii} It was designed to mitigate the effects of rising food prices and to increase food security by expanding upon food-related safety net programs, building food stocks, and maintaining sustainable public finances. Because the FCDSC is designed for emergency operations, it does not address structural issues that would otherwise affect food security in the long term. However, the Bank did provide input on ways to improve policy response to the crisis. To increase effectiveness of safety net programs, the bank carried out a
survey to poorer households to assess the impact of rising food prices. This aided in the multi-sectoral budget distribution operation and even program development such as the 100-day Employment Generation Program (EGP). The Bank also managed a 500,000 ton rice export from India to Bangladesh by facilitating and overcoming administrative problems between the two countries. Finally, the Bank aided the government in designing interventions to improve food security in Bangladesh by preparing a memo on Agriculture and Food Policy. In the future, the World Bank should consider allotting provisions in country assistance strategies for emergency response operations. This will be particularly valuable in developing countries like Bangladesh that suffers from frequent natural disasters.

**Response from the Government of Bangladesh (GOB)**

*National Food Policy Plan of Action*

Because of the food price crisis, increased donor commitments to invest in food security provided Bangladesh with an opportunity to make progress in boosting national food production as well as provide for a large part of the population that still lacks access to sufficient, safe, and nutritious foods\textsuperscript{vi}. Though there have been strides in higher yields, there is still a need to diversify agricultural production. Another problem is that the reach of safety net programs is still limited and should be expanded. Also because the general Bangladeshi diet is unbalanced, there is a need to promote diversified food consumption and to address nutrient deficiencies in vulnerable populations, such as women and children. Therefore the government of Bangladesh designed and approved the National Food Policy in 2006 and its associated policy Plan of Action for 2008-2015\textsuperscript{vii}. In tandem, the National Food Policy Plan of Action plans to identify relevant actors and stakeholders and suggest policy targets and indicators to monitor implementation.
There are three main objectives in the National Food Policy that the Plan of Action (PoA) provides strategic actions for. The first is to present an adequate and stable supply of safe and nutritious food. Under this goal, the PoA stresses the need for increased research and development in biotechnology and seed breeding. The PoA also emphasizes agriculture extension, crop diversification, increasing formal credit to agriculture, and improving infrastructure for storage and access to markets. Other sustainable strategies include developing early warning systems, improving irrigation systems and increasing the number of water treatment plants, and monitoring of arsenic contamination, a widespread problem in Bangladesh.

The second goal is to increase purchasing power and access to food. This goal addresses the issues of post-disaster management. The government of Bangladesh has been working to enhance national capacity for disaster management and mitigation, especially in agriculture disaster risk reduction and preparedness. Furthermore, the PoA aims to improve targeting, coverage, and effectiveness in emergency distribution by building adequate public stock of food grain in vulnerable areas in order to provide timelier relief. The government also hopes to reduce leakage in food based programs and to invest in employment generation-oriented programs such as cash for work or food for work. Also, there is a focus on increasing participation of women and disabled people in rural agriculture, which leads into the third goal of ensuring adequate nutrition for all individuals, especially women and children.

To ensure adequate nutrition for all individuals with a concentration on women and children, the National Food Policy is working on assessing standard food intakes, preparing food-based dietary guidelines, and developing Recommended Dietary Allowances. To address the issue of availability, the PoA is pushing for increased local production of low cost items and to target vulnerable women and children in food-based nutrition programs. In addition, the PoA
plans to address micronutrient deficiencies in poor women and children by increasing coverage for vitamin A, folate supplementation, and the use of iodized salt in households.

Overall, this policy PoA is a very comprehensive approach to improving the nation’s food security. With proper allocation of funding and resources, the development goals seem realistic and achievable for its timeframe. This PoA also addresses problems of targeting in safety net programs, which will also be helpful for international organizations like WFP. Most importantly, this PoA stresses investment and development of the agricultural sector. With goals of agriculture extension and improving early warning systems, Bangladesh will be able to develop a more sustainable approach to greater national food security.

**Policy Areas Supported by the World Bank’s Food Crisis Development Support Credit**

With funding from the World Bank, the government of Bangladesh responded to the food crisis in three different ways: by expanding food-related safety net programs, by creating fiscal space for implementing the safety net program, and to enhance food security.viii

The safety net expansion included several programs: budgetary allocations for existing food-and-cash-transfer programs were increased, the initiation of the Open Market Sales (OMS) program, and the implementation of the 100 days Employment Generation Program. Overall, this enhanced safety net will offer support to 68 million individuals in Bangladesh.v The OMS program allows urban consumers to purchase up to a certain weight of rice per person at a fixed price below the market price. A pro of this program is that it functions in urban areas, in which markets are more likely to be accessible. A con is that this program will not reach certain outlying rural areas, and there are significantly more OMS operations in the Dhaka division, where the capital is located, compared to other regions in Bangladesh. Out of the 210 OMS
outlets, 100 were located in Dhaka. Therefore, regions that may be more vulnerable were not necessarily targeted (Figure 4). The 100-day EGP provided employment of up to 2 million workers during lean seasons or during times of high food inflation. Those in the program are entitled to 100 days of work at a salary just below market wage. However, overall, it is estimated that 9.3 million of the food insecure population will still not be covered by the current safety net. And furthermore, those that are in safety net programs may still remain food insecure from limited resources or insufficient assistance.

In changing fiscal policies to make room for safety net program funding, the government aimed to enhance revenues and reduce budgetary transfers to loss by state owned enterprises. The government’s strategy was to support revenue mobilization by increasing compliance with the tax system that is already in place. To combat the losses of state owned enterprises, reduce the burden of Government subsidization, and to discourage smuggling to India, the administered prices of petroleum products, urea fertilizer, and compressed natural gas were increased.

And finally the government’s goal to enhance food security also had several components. First, the government wanted to support the Boro crop, which is planted in December/January and harvested in May/June under irrigated conditions by increasing its availability to farmers in a timely manner and at an affordable price. Furthermore, the government introduced a fertilizer subsidy to increase farmers’ access to urea fertilizers. And through domestic procurements and imports, the government plans on increasing the level of food stock so that there can be improved food security in a crisis and to be able to influence the open market price and sell foods to vulnerable low income populations at subsidized prices. In developing a larger food stock, this will decrease panic buying or hoarding of grain to prevent further rises in price and to control price volatility.
With the FCDSC, many aspects of the National Food Policy Plan of Action seem to be coming to life. The expansion of the safety net program with greater employment options is key because its future presence will ideally help absorb the shock of any future crises. Furthermore, changes to enhance revenue and supportive agricultural efforts all seem to be practical ways to utilize funding for sustainable development with focus in the agricultural sector.

**Policy effects on current indicator and trends**

According to the government of Bangladesh’s 2012 Monitoring Report of the National Food Policy PoA, there has been less volatility in rice production and food supply has been steadily growing. The Oversees Development Institute (ODI) found that Bangladesh achieved record rice harvests in the 2008-2009 season. With the national push of the irrigated Boro crop, there was a decline of rice prices by about 40% and national stocks were reestablished due to a successful harvest, thereby decreasing the need for import rice.\(^{ix}\) The Boro variety allows farmers to produce two or even three food harvests a year. The high yields are also attributed to better irrigation from steadier electricity supplies, an increased use of fertilizer, and the government’s floor price. According the USDA data, rice imports decreased from 1.5 million tons in 2006-2008 to 175 thousand tons in 2008-2009, and the slight increase in rice imports in 2010-2011 was in order to stabilize domestic supply. However, beyond rice, there is still need for crop diversification. Even so, dietary diversification seems to have increased, but energy supply from cereals is still above the recommended 60%.\(^{x}\)

Though the problem of targeting was addressed by the World Bank and the government of Bangladesh, the issue may still be prevalent. The 2009-2010 budget for public safety net programs in Bangladesh estimate to cover 6.9 million families, which accounts for 27% of the population.\(^{ix}\) ODI notes that the safety net tended to cover and prioritize urban areas, even
though the national poverty rate stands at 40%. This means that there are still a significant number of food-insecure households that lie outside the safety net, and this number is likely to be compounded by the aforementioned targeting issues.

However, as of January 2012, the United Nations World Food Programme is launching a new five-year Country Programme to support and enforce the Government of Bangladesh’s nutrition and social safety net efforts. This $340US million program will aid four million food-insecure Bangladeshis between the years of 2012-2016 with a focus on improving the nutrition status of women and children, improving access to pre-primary and primary education, increasing the capacity of vulnerable households to combat natural disasters, and enhancing national safety net programs.\textsuperscript{x}\textsuperscript{i} In addition, in order to focus targeting, the WFP will utilize data from the 2012 Household Income and Expenditure Survey as well as the 2011 Census to better map poverty and hunger in the country.

\textbf{Recommendations}

To address policy and programmatic responses and its effects on current indicator and trends, here are some recommendations to consider for improving food security in Bangladesh.

Though there are markedly increased investments in sustainable agricultural practices, there is still a lot of room left for improvement. The Boro crop has seen a lot of success by Bangladeshi farmers, but research and development should persist to develop more rice varieties suitable for the varied environments throughout the country. There should also be policies for seed quality inspection by the government to ensure successful crops, and farmers should be encouraged to use certified seeds to produce higher yields in small plots.
Farmers’ training declined in 2010-2011 after three years of growth. There needs to be continued investment in agricultural extension in order to achieve higher food security for the large agriculture-dependent population in Bangladesh. Also, there is a lack of organization amongst farmers. In order to effectively lobby for farmers’ needs, farmers should coordinate to avoid having to sell their goods at lower prices. In addition, another recommendation for farmers and the larger agricultural community would be to strengthen the relationships among research, extension, education, and research and development. By working together and sharing information, higher levels of food security may be achieved.

In terms of farming inputs, though there has been an increase use of fertilizers by some farmers, there should still be a stock hold created in order to increase overall accessibility. Furthermore, large areas of Bangladesh still have inadequate water and electricity supply, which hampers proper irrigation for crops. Perhaps increased employment in cash or food for work in public projects to develop infrastructure could benefit these less developed infrastructure areas and the poor or unemployed.

The government’s interest in investing in further development and implementation of safety net programs is important for future shocks. Having safety net programs available can aid in mitigating the impact of food price volatility or natural disasters in the poor and vulnerable populations of Bangladesh. Therefore continued undertakings in safety net programs by the government in conjunction with international organizations are recommended.

The government of Bangladesh needs to efficiently coordinate the data on dietary patterns and food balance. Though the data is available, according the Monitoring Report of 2012, it has yet to be processed. The processing of this data will allow for better monitoring of
the impacts of food insecurity and nutrition interventions in Bangladesh. Furthermore, it will help develop indicators and improved nutrition communication strategies and update national food balance sheets. More importantly, it will also help develop informed food security policies and nutrition interventions. Once that is accomplished, there needs to be a more developed process for utilization of monitoring tools for food information systems at the regional and national levels. This will increase awareness of international price changes, provide more timely assessments of food insecurity or impacts to food access in the country, and periodic updates that reflect changing circumstances in the global food and agriculture climate.

And finally, to address the larger issue of the overall 2008 food price crisis, there perhaps need to be a change in biofuels policies. Since the production of biofuels has such an astounding impact of food prices, there needs to be a regulatory way to control the diversion of crops to fuel from food. Perhaps the government of Bangladesh can cooperate with other countries severely affected by the food price crisis to address the regulation of biofuel production on an international platform.

With these recommendations, perhaps the national food system of Bangladesh can become more resilient to withstand current trends in food volatility in the future.
Figures

Figure 1. Trends in real international prices of key cereals, 1960 to mid-2008

![Graph showing trends in real international prices of key cereals, 1960 to mid-2008.](image)

Notes: Data are deflated using the U.S. Bureau of Economic Analysis gross domestic product deflator. The 2008 data are for July.

Figure 2. International Commodity Prices of Rice and Wheat from 2002-2012

![Graph showing international commodity prices of rice and wheat from 2002 to 2012.](image)

Source: FAO International Commodity Prices
Figure 3. Change of National Average Rice Prices in Bangladesh

Source: FAO Global Information and Early Warning System (GIEWS)

Figure 4. Poverty Map of Bangladesh on the Division Level

Source: World Bank
References


