



Bumper boro crop: But what next?

Sunday, Apr 27, 2008

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BANGLADESH is at the threshold of a massive bumper boro crop. Reports from all across the country point to a potential boro output well above the ambitious government target of 17.5 million tons. This is certainly the best news for the country and the government besieged by the surge in rice price all across the globe and the danger of food shortage.

The excellent outlook for boro also comes on the heels of bumper wheat and potato crops. This outlook also poses important policy opportunities and challenges for the government to

reestablish our agriculture policy on a sustainable footing, consistent with the objectives of making Bangladesh self-sufficient in food, alleviating social and political tensions arising from the high food prices, and at the same time eliminating emerging fiscal imbalances.

This forthcoming record rice output is the result of farmers' whole-hearted response to the terms-of-trade (TOT) shock in favour of rice producers and the strengthened support provided by various government agencies. The favorable TOT shift is the most that the farmers have experienced anytime in recent history.

The price increase of Tk 12-15 per kg of rice observed in local markets should create additional income of Tk 21,000-26,250 crores (\$3-3.75 billion) for the farmers based on the official target for boro. Since both acres brought under boro production and the yield per acre are projected to be higher than their targets, the actual amount of the increase in income from boro should be significantly higher. If we add to this boro crop an average level of production of aman and aus, Bangladesh should expect to achieve self-sufficiency in food grain. With total output exceeding 30 million tons, the amount of potential total additional income for the farmers would range between Tk. 36,000-45,000 crores (\$5.1-6.4 billion) or 8-10 percent of GDP in a full year.

High food prices and the resulting supply response from the farmers, while helping Bangladesh achieve food self-sufficiency, have complicated the task of economic management and created social tensions. The TOT gain for the farmers corresponds to an equivalent TOT loss for the people engaged in the non-farm sector. The massive amount of transfers to the farm sector, as noted above, is causing hardships for the poor and middle-income families engaged in the non-farm sector. Supportive government policies through large subsidies, amounting to Tk 15,000 crores on account of fuel price and fertilisers, have also led to large fiscal imbalances.

This mixed background, characterised by farmers' optimism but severe economic stress for the non-farm households, need to be managed effectively and speedily so that all segments of the economy reach their sustainable equilibrium positions on a sustainable basis. The macroeconomic tensions created by the loss of real income through the rice price shock need to be alleviated with government interventions in order to avoid social instability in the urban areas. The strategy should also be framed within the constraints set by high world prices for

major food grains and the outlook for these prices to remain firm over the medium term.

The government's first significant policy intervention at the inception of the boro harvest was to fix the procurement price for rice at Tk 28 per kg and procure 1.2 million tons of rice. This decision and the expression of willingness to procure even larger amounts at this price should establish a floor on rice price and help stabilise the market volatility in the event of flood or other natural calamities. Certainly these prices are consistent with the global constraints and provide right signals for the farmers to ensure food security for Bangladesh in the coming aus and aman seasons.

The procurement price would certainly enhance rice market stability, but the high floor price also means that price of coarse rice will not come below Tk 30 per kg in urban areas. The poor and low-income urban residents would continue to pay high prices for rice. While open market sales of rice at reduced prices are temporary solutions, ultimately real income of the affected groups need to go back to the pre-shock level to avoid social unrest. Not surprisingly, some signs of industrial unrest are already visible.

Against this background, government strategy would need to be formulated to achieve a number of objectives: capitalise on the farmers' response to high prices to ensure food self-sufficiency on a sustainable basis; restore non-farm real income close to its previous level; reduce the ballooning fiscal subsidy to a manageable level; and improve input delivery for the farmers.

During the last 30 years, prices of basic food have been declining steadily in real terms to the detriment of the farmers. Real price per unit for food declined by almost two-thirds over the last thirty years globally, and governments generally liked this trend since urban masses are politically more vocal. The eventual outcome was slower growth in global farm production, leading to the recent massive shock in food prices, shattering the prevailing cozy arrangement. The erosion of farmers' income has reversed in a very short time, and the consequent balance sheet realignment through a sizable loss of income for the non-farm families is inevitably causing social tensions.

-The high level of procurement price announced by the government is a right step to ensure national food security and market stability. However, the government needs to take further

steps to realise the other objectives stated above:

-Launch initiatives to increase the income level for the non-farm families engaged in the public and private sectors. In this regard, public sector wages should be increased in the next budget.

-Introduce policies aimed at increasing private non-farm real wage. In an environment of booming knitwear and garment sector exports in recent months and increased competitiveness of the Bangladesh, such an increase would not be detrimental to future expansion of these sectors. The rapid increase in wages in China, India, and Vietnam together with a rapid appreciation of their currencies should have created significant competitive edge for Bangladeshi entrepreneurs to compensate their workers for the higher inflation. The government should also help in improving industrial productivity (better power supply, port facilities, improved port and customs clearance, etc.)

-Broaden the social safety net for the poor families engaged in non-farm activities. Open market sales of rice, food, and money for work, and vulnerable group feeding programs needs to be expanded expeditiously so that nobody is left hungry and Bangladesh does not miss its Millennium Development Goals.

-Reduce the huge agricultural subsidies and use the resources for the interventions noted above. Certainly the government can reduce fertiliser and fuel subsidies. Even if agricultural subsidies are completely eliminated, because of high rice prices farmers would be getting more than twice the amount of subsidies they were receiving.

-Intensify education campaigns to help alleviate the burden on household budget. Certainly, Bangladeshi families can enhance their nutritional requirements, create healthy and more balanced diets, and realize savings in their family budget by increasing the proportions of vegetables and potatoes in their diet. There is absolutely no reason to have a “silent famine” while potatoes and vegetables are rotting in the field. We should make every effort to change our food habit before facing prospects of calorie shortage.

-A rationalisation of fertiliser prices will also contribute to better and more balanced use of fertilisers and prevent situations like the recent outbreak of dried-leaf disease due to overuse

of urea and underuse of potash- and phosphate-based fertilisers. Proper pricing would also prevent smuggling and allow market-based distribution of agriculture inputs.

Bangladesh is certainly moving toward self-sufficiency in food grain and even towards becoming an exporter. If our farm productivity increases from the current low level and we adopt a more balanced diet, we can soon become a major rice exporter. The focus should be on maintaining the incentive structure and strengthening the quality of agricultural extension services. We already produce more than Vietnam and Thailand, and if the process is managed well, we should soon be in their league as a major rice exporter.