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PRICE OF DAILY ESSENTIALS: A DIAGNOSTIC STUDY OF RECENT TRENDS

A report prepared for the
Ministry of Commerce, Government of Bangladesh

Overview and Summary

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CONTENTS

List of Figure, Flow Charts and Tables

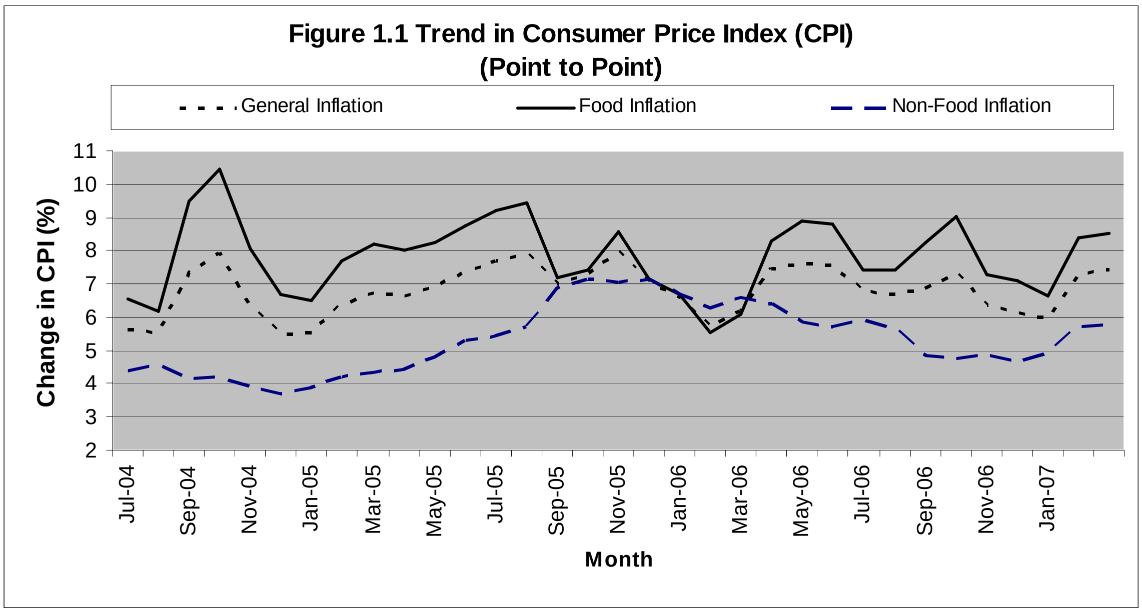
Figure

Flow Charts

Table

I. INTRODUCTION

Price hike of essential commodities has been one of the major challenges facing the incumbent Caretaker Government (CTG) of Bangladesh. Figure 1.1 evince that the economy has been experiencing a creeping inflation over the recent past. Two most distinctive features of this inflationary trend had been the following: (i) increase in food prices had been more than that of non-food prices, and (ii) consumer price index was higher in the rural areas than in the urban counterparts. These trends had adverse implications particularly for the poorest segments of the society, given that there has not been any tangible increase in their real income.[1]



Recent data indicates that the upward trend in consumer prices index (CPI) in general and prices of daily essentials in particular have remained unabated. National CPI (point-to-point) and national CPI (12 months average) had been 7.43 per cent and 6.94 per cent respectively for the month of March 2007. Food prices in the rural areas continued to grow at a higher pace. While the market structures of essential goods – both domestically produced and imported ones – follow a complex structure, these are often characterised by oligopolistic trends. Presence of restrictive business practices (e.g. syndication and hoarding) and other disruptive actions (e.g. deliberate supply shortages) have also been

[1] CPD (2007). State of the Bangladesh Economy in FY07: An "Election Plus" Agenda for the Second Caretaker Government.

matter of concerns. It also needs to be pointed out that a large part of the domestic price rise is underwritten by high global prices of foodgrains and inflationary trends in neighbouring countries.

In recent months, the present CTG has taken a number of market-based and non-market measures to stabilise the rising prices. These measures ranged from fiscal measures (e.g. reduction of import tariff on certain commodities) to direct market interventions (e.g. opening sales outlets of daily essentials). It is being apprehended that these proactive steps might get partly neutralised by the recent upward adjustment of fuel prices, and also market dislocation arising from removal of traders from unauthorised market places. Whatsoever, the markets of daily essentials have continued to rise revealing a significant gap between the farmgate price and the consumer price for similar products.

Taking note of the complex nature of the markets of essential food products, the Ministry of Commerce (MOC), Government of Bangladesh (GOB) requested the Centre for Policy Dialogue (CPD) to undertake a diagnostic study as regards the price situation. The present report summarises major results of the study. The study, inter alia, seeks to trace the supply chains of a group of essential commodities and, in view of their future supply (domestic production and import) prospect, attempts to articulate a set of public policies and institutional measures towards stabilising the price of selected essential commodities. It may be mentioned here that the CPD had carried out the study with its internal resources.

II.METHODOLOGY AND SCOPE OF THE STUDY

Through a process of consultation with various stakeholder, a list of commodities were identified for detailed investigation for the purpose of this study. The selected commodities are: *rice, edible oil, wheat flour, pulses, onion, full cream milk powder, vegetables (potato, green chilli* and *brinjal),* and *egg.*

Implementation of the present study followed four sequential phases.

(i) *Mobilisation and Pilot Survey* (10-20 March 2007). Following conceptualisation of the analytical framework of the study, a pilot survey was conducted over a selected set of shops and markets (including BDR sales centres) within the Dhaka Metropolitan Area to test out the analytical framework.

(ii) *Questionnaire/Checklist Preparation, Sample Area Identification and Field Survey* (21 March – 10 April 2007). Fifteen members of five survey teams from CPD visited 44 spots in 12 districts. A total number of 227 randomly selected active market agents were interviewed – including 60 farmers/producers, 30 *beparis*, 23 *farias*, 22 *arotdars*, 6 importers, 2 *paikers*, 2 cold storage staff, 44 retailers and 22 consumers.

(iii) *Secondary Information Collection and Information Validation* (15 March – 30 April 2007). The study team members visited following government agencies for information and insights: Ministry of Commerce including the Trading Corporation of Bangladesh (TCB), Bangladesh Bureau of Statistics (BBS), National Board of Revenue (NBR), Ministry of Food and Disaster Management, Bangladesh Rifles (BDR), and Bangladesh Agricultural University (BAU) in Mymensingh. Officials of the Bangladesh Bank and a number of schedule commercial banks (both government-owned and private) were consulted. To all of them, the study team is grateful.

(iv) *Data Analysis and Report Preparation* (11 April – 3 May 2007). Along with data generated through field survey, related information on global and regional supply and price situation was also collected and analysed. Finally, this report containing the study design, major findings and recommendations was prepared.

The survey methodology involved identification of the detailed value chain for each of the products, information need assessment at each nodal point and elicitation of required information deploying upstream tracking of price formation behaviour. CPD researchers made use of a checklist as the survey instrument, which was field-tested prior to the initiation of the main survey. Focus Group Discussions (FGD) and individual Case Studies were also conducted to generate the required data and corroborate the information. A number of statistical indicators, averaged over sample observations, were used to analyse the data.

Notwithstanding the efforts of the researchers to be empirical and rigorous in their investigations, the study suffers from a number of limitations due to factors beyond their control. For example, the data on prices was influenced by seasonal patterns of agricultural commodities, because of varieties prices of particular items were hard to follow over time, and information from big corporate houses could not be collected due to non-responsiveness of market agents. Incidences of concealment of information to motivated supply of misinformation was not uncommon. The major analytical challenge was to establish the inter-agent value flows and their margins and magnitudes.

The study outcome has been organised under five heads. The first two introductory sections (Section I and Section II) recall the background of the study and elaborate the study design. Section III investigates product–specific market structure and assesses relative role of the market agents in specific markets. Section IV analyses the current supply situation of the essential commodities along with their domestic and global production prospects and price implications. The final section (Section V) highlights the major findings of the study and articulates a policy response to address the emergent situation. Eight appendices in the report provide details on each of the commodities value chain.

III. AN ANALYSIS OF THE SUPPLY CHAIN OF SELECTED ESSENTIAL ITEMS AND DISTRIBUTION OF THE MARGINS

This section deals with distribution of the retail value among the various participants in the supply chain of selected essential items. Product-specific value chains have been identified by developing flow charts for each of these items that include all the active market agents who are involved at various stages of the supply chain beginning from the importer/producer level to the consumer level. An important component in this value chain analysis is the production cost. Added to this is the producer's margin which determine the farm gate price. The difference between the farm gate price and the retail price goes to various intermediaries. Some of the intermediaries are involved with production related activities (milling in case of rice and wheat, packaging in case of soybean), others are related with storage (cold storage owners in case of potato) and distribution (trusts, arotdars, farias, wholesalers, retailers). An attempt has been made to locate how consumers' buying price was actually shared by, and distributed among, the various market agents in terms of gross margins accrued to each of these agents.[2] Return on working capital was also estimated for some of the agents in order to get an idea about the rate of returns on working capital and to see if such returns were unnaturally high.

3.1 Rice

In the course of the field survey existence of at least eight different marketing chains were identified in case of production and marketing of rice. The longest identified chain included seven nodal points where a separate and distinct agent operated. The flow chart clearly brings out the shares of the various agents in the supply chain. As can be seen from the chart, in case of domestic production, the difference between farm gate price (which included a 20% margin for farmer) and consumer's price at retail level was about 40% of the retail value. Considering that millers processing cost was only about 2.3% of the retail value, the margin accrued to the miller (23% of the retail value) appears to be rather high. As is revealed from the flow chart, it was the miller whose margin was the

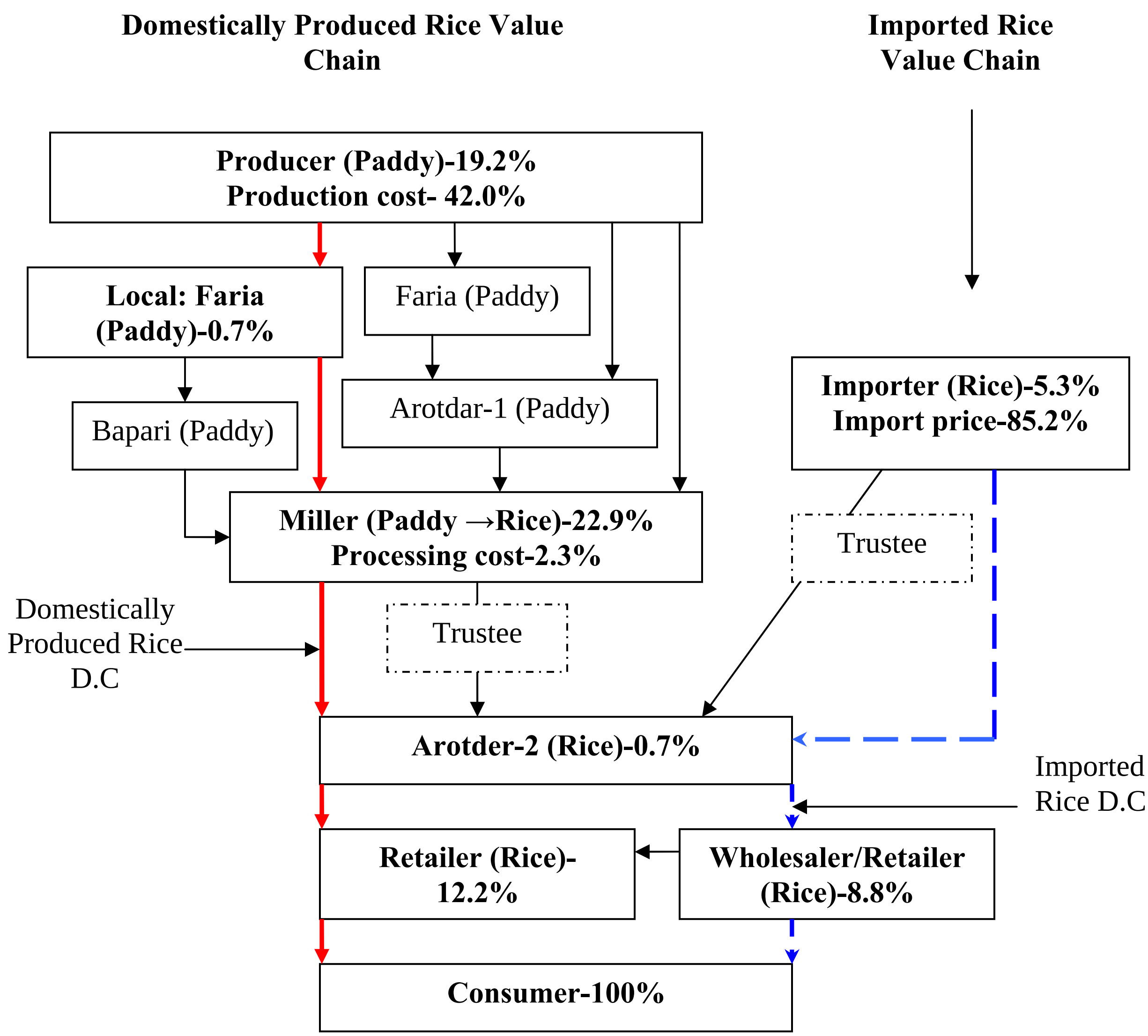
[2] A value chain is a string of agents or collaborating players who work together to satisfy market demands for specific products or services. Detailed analyses of these value chains are presented in the full report.

highest in case of domestic production. Wholesaler/retailer margin varied between 8-12%.

CPD survey team found that the millers are the most powerful players in the entire supply chain wielding a significant control over the market price. However, millers claimed that they determine the buying and selling price based on the market demand and supply situation (through their own market intelligence) taking cognisance of the import, import price and domestic production costs. It was found in the course of the survey that millers tended to store rice procured from suppliers of various types of rice, during the harvesting season. Millers process the paddy according to the market demand; the rest is stored from where the rice is milled gradually as per market signal. Interestingly existence of another invisible but influential agent between the millers and Arotdar 2 (i.e. as in the flow chart, Arotdar in urban area) known as *trustee* was confirmed by various agents. It appeared that this trustee (some time called party), in collaboration with millers/importers, was largely responsible for retail price determination. The trustee makes profit capitalising on his networking ability, market information, local influence and market reputation. Market investigation, however, showed that this function can not be readily substituted, in the current context although its elimination could probably make the market more competitive.

The difference between import price and retail price was found to be about 15% with the margin going to the importers, trustee, wholesalers and retailers. Estimates of rate of return over working capital appear to show that rice market is rather competitive, although millers often tend to take advantage of the market supply-demand situation. However, they have to take cognisance of the price of imported rice. A careful monitoring of the demand-supply situation and ensuring speedy imports in view of this appears to be the required strategy here. Encouraging more competition at the milling stage (by providing incentives for setting up rise mills) could be another strategy.

Flow chart 1: Value chain for **Rice** with distribution of consumer's expenditure among the agents (in %)

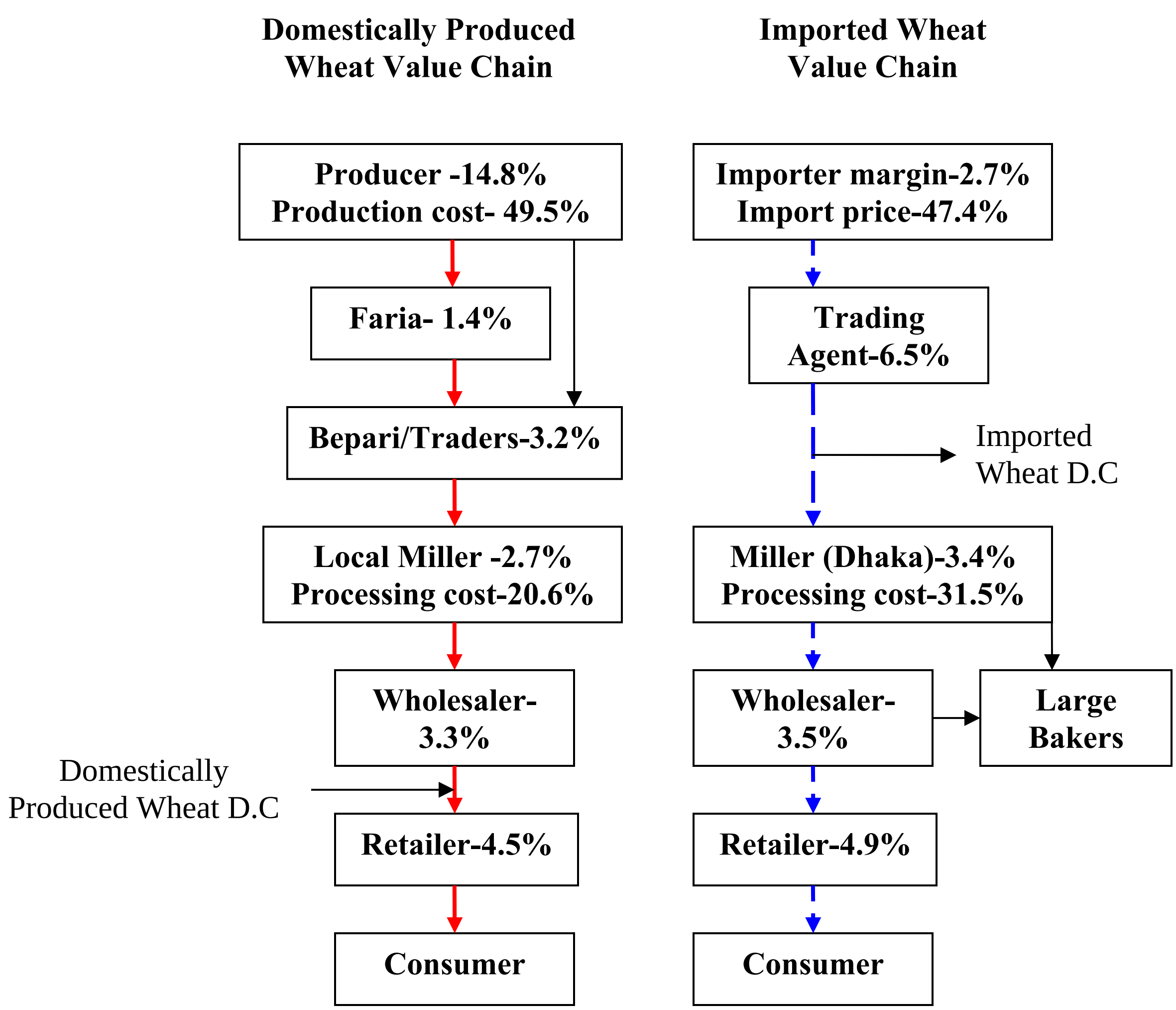


Note: D.C stands for Dominant Chain and L.C stands for Longest Chain.

3.2 Wheat Flour

Four different marketing chains and eight nodal points in these chains could be identified for domestically produced and imported wheat. The longest chain consists of five nodal points. As is evidenced by the flow chart, the difference between farm gate price (that includes 35% production cost and a 15% margin for farmers) and the retail level price was equivalent to about 40% of the retail value. As distinct from rice, processing cost of miller in this case was relatively high – about 21% of retail value. In case of imports, margins of importers and other agents were not to be found significantly high. The rate of return on working capital also appeared not to be abnormally high. Here also, as in case of rice, demand-supply management through careful monitoring of imports appear to be the best short term strategy. Policy initiatives to reduce processing cost at the milling stage were also likely to have positive impact on prices.

Flow chart 2: Value chain for **Wheat** with distribution of consumer's expenditure among the agents (in %)

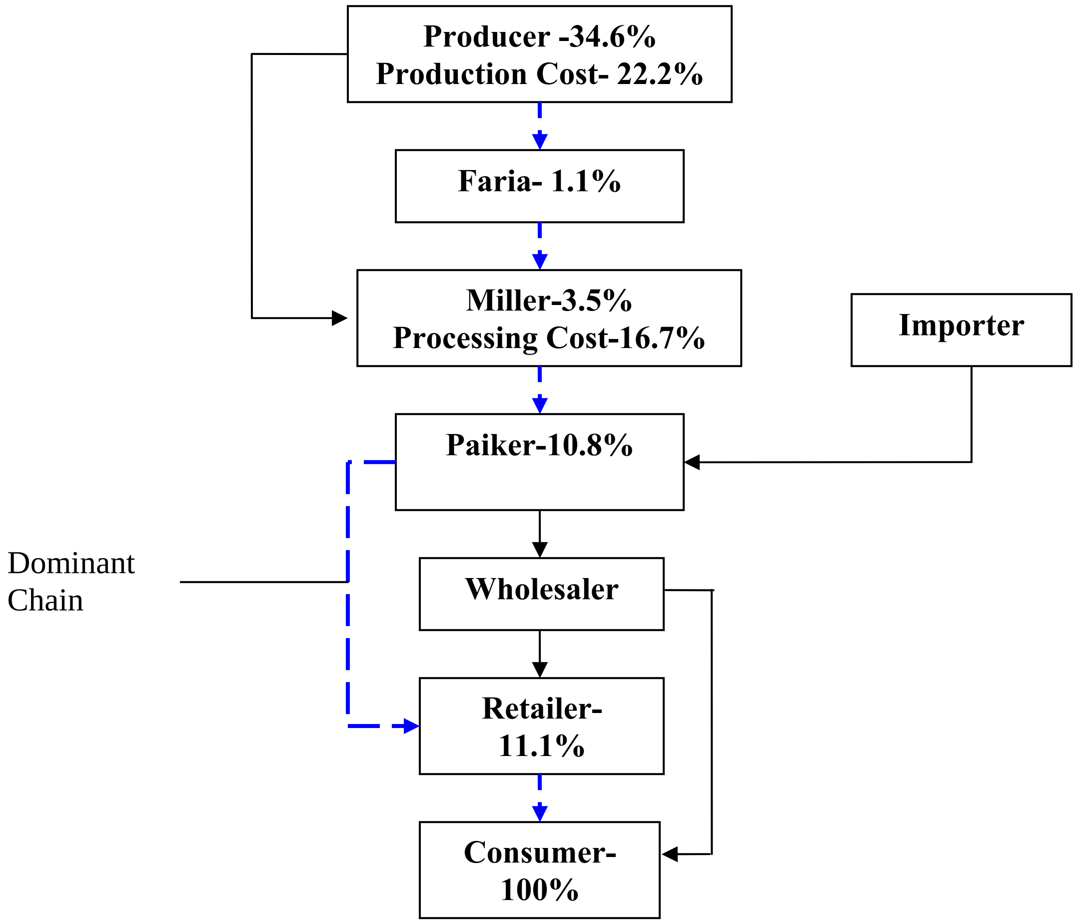


Note: D.C stands Dominant Chain

3.3 Lentil

During the survey four different marketing chains involving 6 nodal points were identified for both domestically produced and imported lentil. Production/import cost was equivalent to about 22% of the retail value. Producer's margin was found to be 35% of retail value. Thus the difference between the farm gate price and retail price level was found to be 43%. The margin taken by retailers and paikers was estimated to be about 22% of the retail price. It was revealed out in the course of the CPD survey that Millers and Paikers, particularly the Paikars in Dhaka (Rahmatganj, Moulivibazar) were the most influential players in fixing the market price of lentil. It appeared that these two groups had a good understanding between them. Influencing import based on market forecasts appeared to be a good way of keeping pressure on prices of lentils. The other way was to reduce the role of the intermediaries between farmers and retailers by setting up farmer's cooperatives and by setting up BDR types outlets.

Flow chart 3: Value chain for Lentil with distribution of consumer's expenditure among the agents (in %)

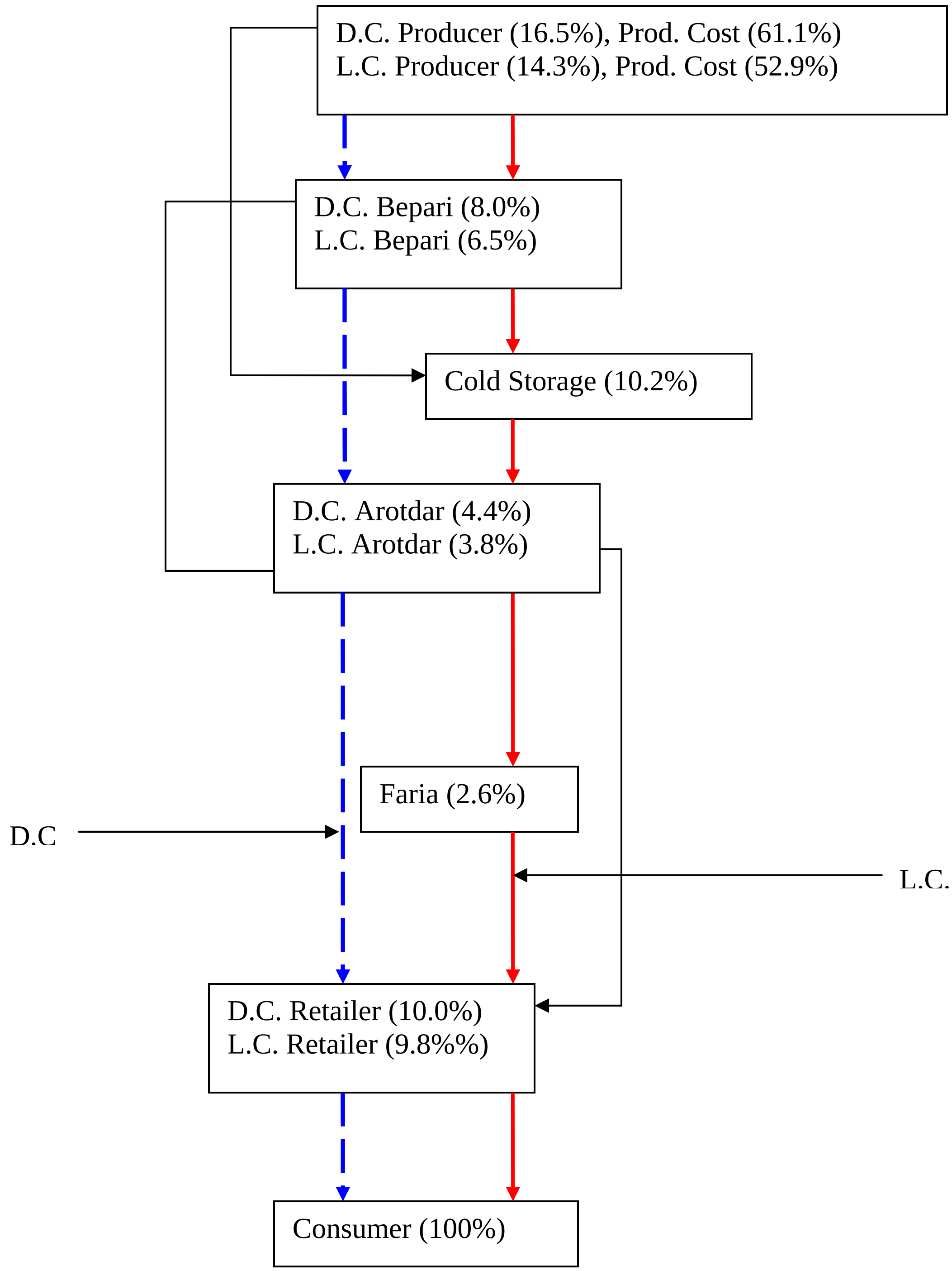


Note: Only doted chain has been tracked by survey team

3.4 Potato

The survey team identified six major marketing chains and six market intermediaries that were involved in the supply chain for potato. The longest chain involved six nodal points whereas the dominant chain involved five agents. In case of both the dominant and longest chains, production cost constituted the major component of the consumer expenditure (between 53% - 62% of the retail value). The rest 40-50% accrue to the various intermediaries including *Paikers* and *Retailers* whose rate of return on working capital was found to vary between 12-14%. Cold storage owners appear to be an important player here. About a tenth of the retail value is accrued to them. Reducing cost of operating cold storage (electricity charges) and eliminating some of the intermediaries appear to be the way to reduce the price.

Flow chart 4: Value chain for **Potato** with distribution of consumer's expenditure among the agents (in %)



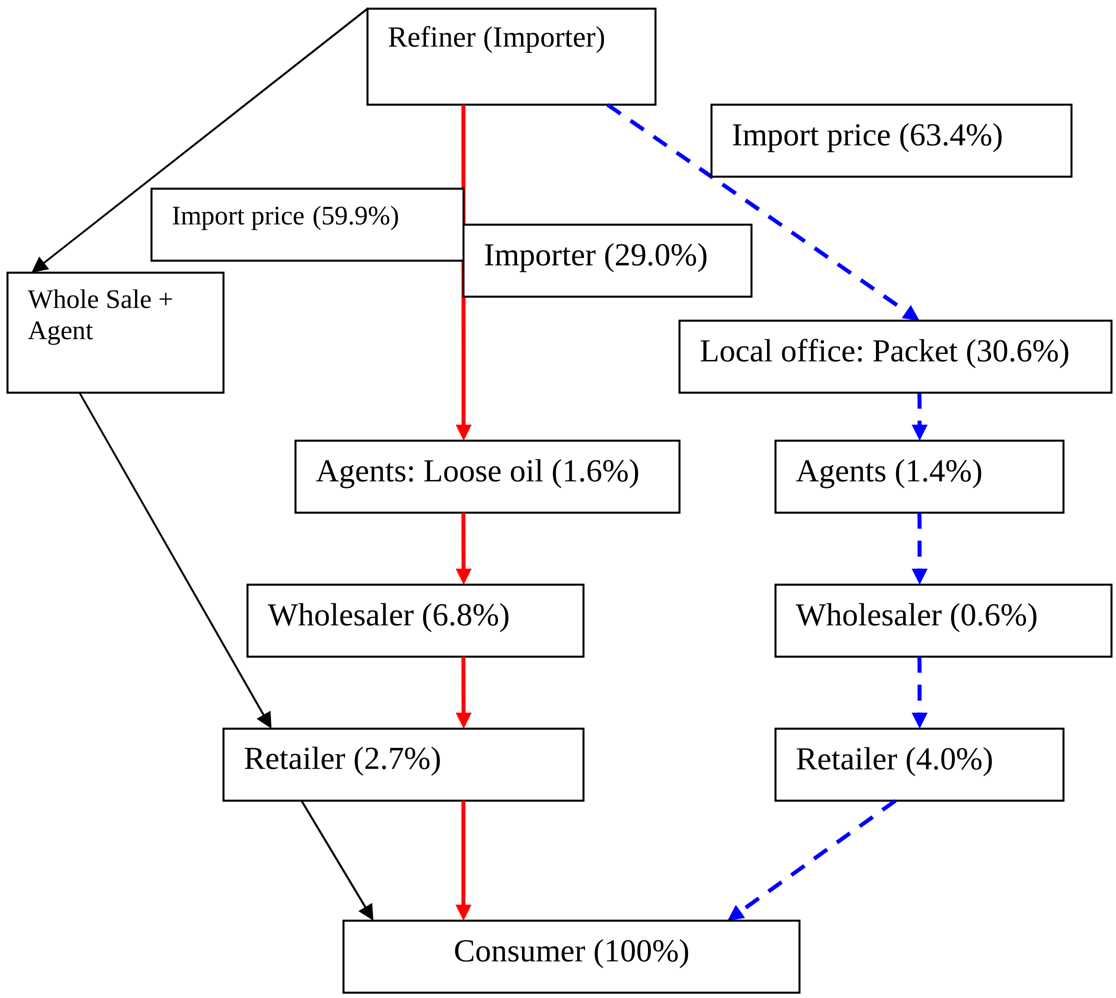
Note: D.C. stands for Dominant Chain & L.C. stands for Longest Chain

3.5 Edible Oil

Supply of edible oil (both soy bean and palm oil) in Bangladesh is entirely dependent on imports. The survey identified three major marketing chains consisting roughly of five nodal points which were involved in case of both packed and loose soybean oil.

If import price (about 59-63% of the retail value) is excluded, the rest (about 37-40%) is accrued to importers, wholesalers and retailers. Anecdotal information suggests collusive behaviour and syndication by the limited number of importers but this could not be reliably established. However, creation of artificial scarcity and thereby influencing the price were widely reported during the survey, particularly in view of the number of players active in the import market. An analysis of the NBR data clearly points out the controlling sway over the import market by a few importers. Another issue that emerged from the CPD findings was the mandatory requirement of radioactivity tests by only one agency. This was a rather lengthy process which added to the costs incurred by the oil importers which is ultimately reflected in the retail price. In view of some restrictions on the time of storage this needs to be looked at with a view to curtailing the time and reducing the operational costs.

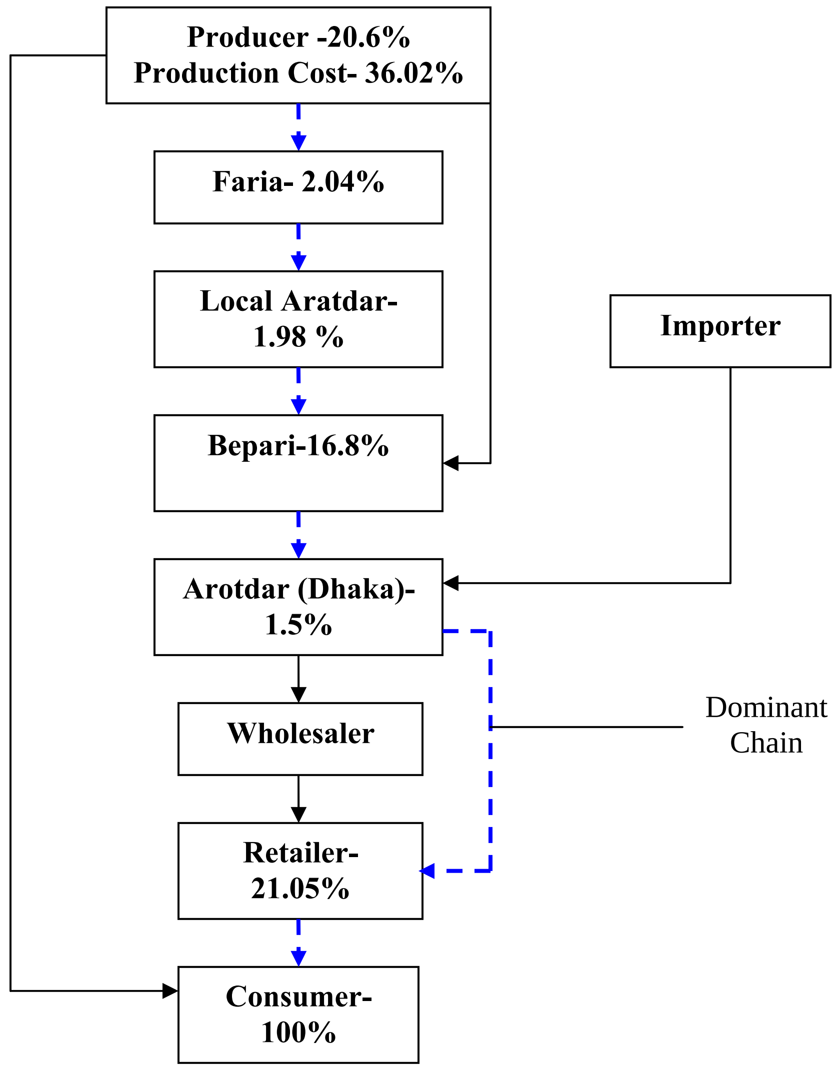
Flow chart 5: Value chain for **Edible Oil (Soybean)** with distribution of consumers' expenditure among the agents (in %)



3.6 Onion

The survey team identified four major marketing channels and seven marketing intermediaries in the supply chain of onion. Like most other commodities, major component of the retail price was attributable to the production cost (36%) and producers receive a margin of 20% on average. About 45% of the retail value went to intermediaries of various sorts. However, the shares of beparis (17%) and retailers (22%) were found to be very high in this market. The return on working capital was found to be high at retail level (18%). During the interviews, several retailers claimed that they have to add a risk premium due to the perishable nature of onion. However, onion was found to be a readily saleable items and the average storage time appeared to be rather short. More retail outlets (of the BDR type) selling at lower price was likely to have favourable impact on the prices.

Flow chart 6: Value chain for **Onion** with distribution of consumers' expenditure among the agents (in %)



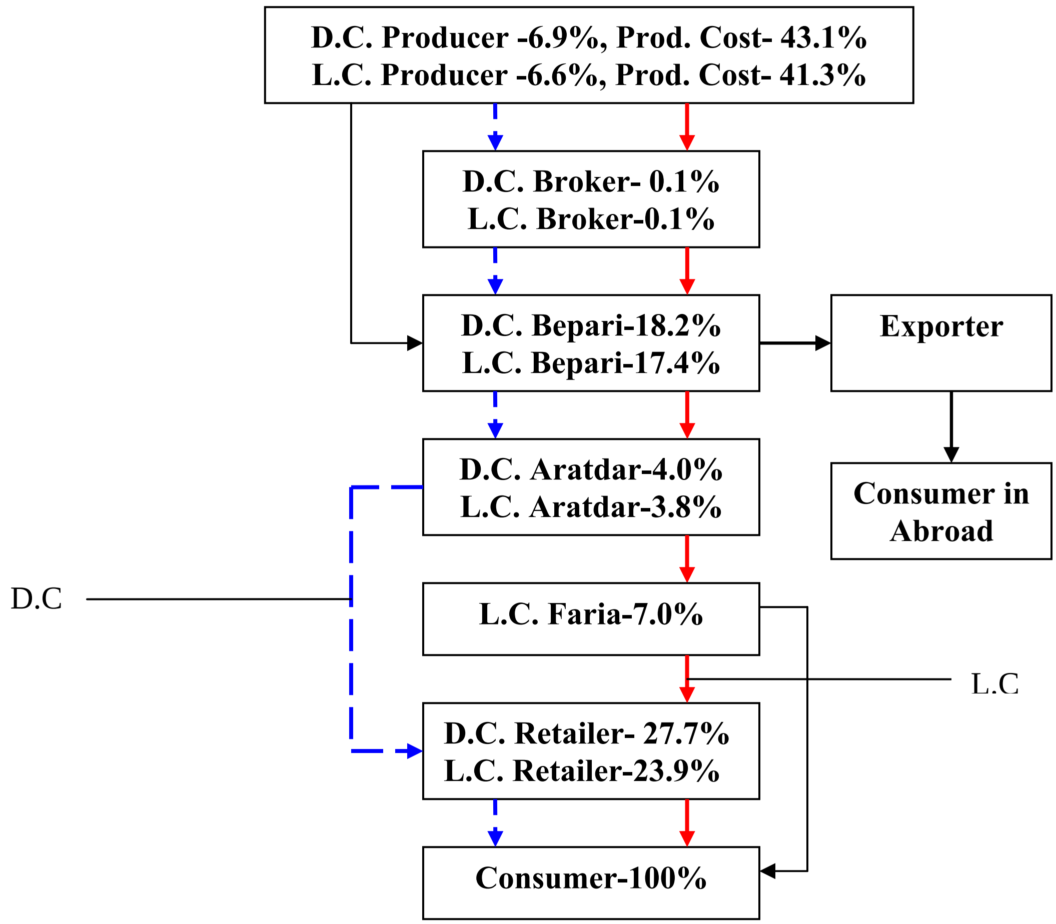
3.7 Full Cream Milk Powder

Full Cream Milk Powder is an item which is predominantly dependent on imports. The survey team identified 3 different value chains for this product. However, no comprehensive analysis could be undertaken since major powder milk companies (major importers of powder milk such as Nestle, New Zealand Dairy, Fresh) did not cooperate with the survey team although the purpose and importance of the study was explained to some of these major players.

3.8 Vegetables

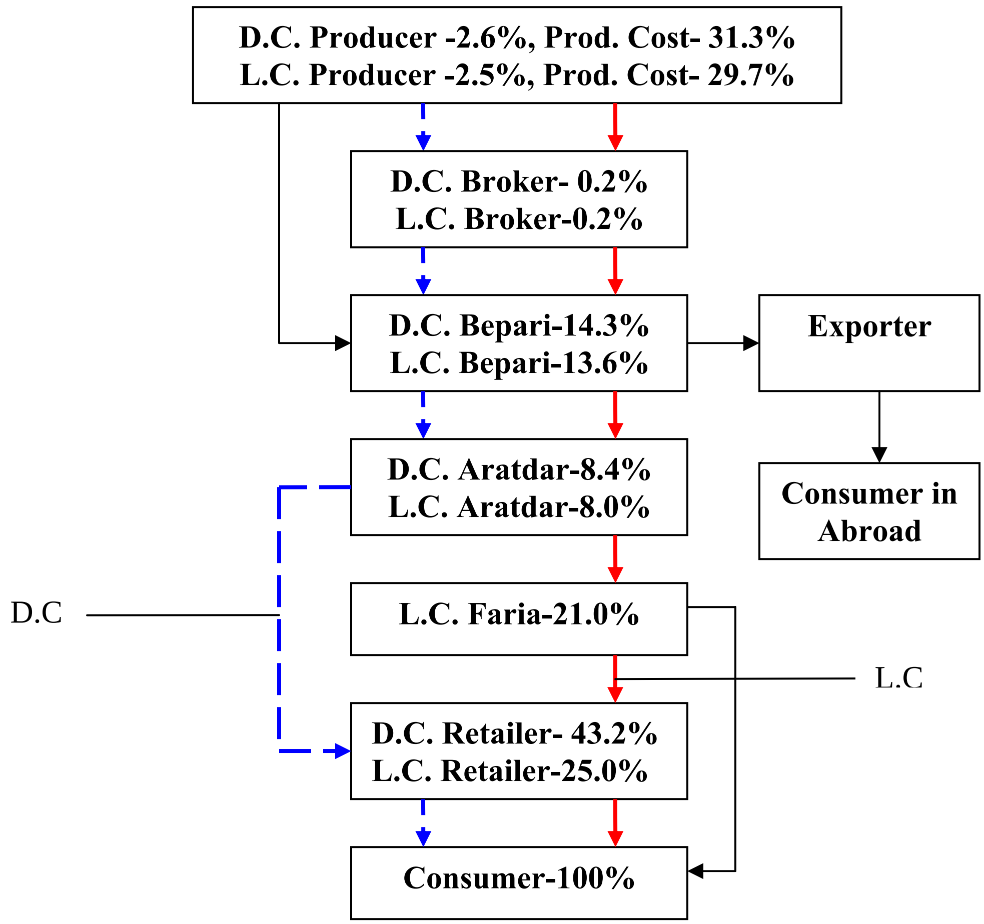
Brinjal and green chilli have been put together under the heading ‘vegetables’ because of the similarity of the product types and that of the supply chains. The survey team identified 6 different marketing chains for both brinjal and green chilli. Major components of consumer expenditure for these vegetables are attributable to the production costs which ranged between 41-43% of the retail value. Market intermediaries at various stages take about 60% equivalent value of the retail price. Of these, retailers appeared to receive the highest share (24-28% of the retail price). However, two important aspects need to be considered before drawing any conclusion about retailers’ margin. Firstly, vegetables are highly perishable items and retailers add a premium to the price to offset the attendant risks. Secondly, consumers tend to pick and choose better quality vegetables first, resulting in low quality residual items which need to be sold at lower prices; some part of the vegetables could also remain unsold at the end of the day. Retailers tend to add a premium to compensate for these losses. The return on working capital of the retailers was found to be about 20-22%. It was the arotdar and beparis who were found to be critical players in the markets for vegetables. Their margin was between 17-18% of the retail value and their return on working capital was found to be about 20-22%. The Arotdar’s margin was about 4% of the retail value but the return on working capital was exceptionally high (220% for brinjal and 340% for green chilli). The flow chart also amply substantiates the commonly held perception that producers receive only an insignificant amount of the total margin. As the flow chart shows, producer’s margin was equivalent to only 6-7% of the retail value. The BDR type of outlets, that reduce the number of agents appear to be the best short term remedy. From the medium term, farmer’s cooperatives appear to be the answer to reducing the gap between farm gate price (about 50% of the retail value) and the retail price resulting in accruals of about 50% of the retail value to the various intermediaries.

Flow chart 7: Value chain for **Green Chilli** with distribution of consumers' expenditure among the agents (in %)



Note: D.C stands for Dominant Chain and L.C stands for Longest Chain

Flow chart 8: Value chain for **Brinjal** with distribution of consumers' expenditure among the agents (in %)

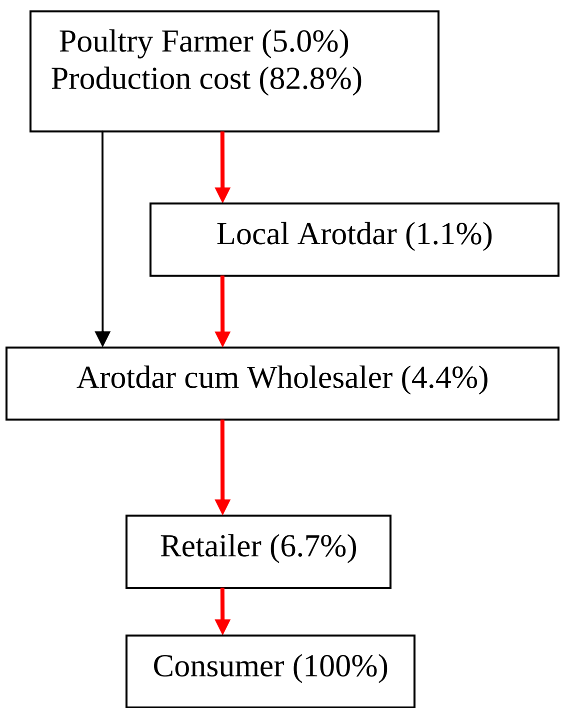


Note: D.C stands for Dominant Chain and L.C stands for Longest Chain

3.9 EGG

Egg was given special importance in this study in appreciation of the recent outbreak of Avian Influenza (bird flu). Four different marketing chains and four nodal points in these chains were identified in the course of the survey. The dominant chain involved four nodal points. Production cost accounted for about 82% of the retail value of egg with about 5% of the margin going to the poultry farmers. The margin for the accrued to the intermediaries was not high in this market ranging between 1-6% of the retail value. It appeared to the survey team that the recent bird flu had a devastating impact on the poultry-farmers who have seen some reduction in the retail price and drastic reduction in the farm level prices. Retailers, arotdars and local arotdars still seem to continue to receive some margin, however, the entire adverse impact of the recent fall in egg prices appear to have been borne by the poultry farmers. As a matter of fact, these other agents continue getting their share at the cost of the farmers. The coincidental increase in poultry feed price has made the situation even worse for the poultry farm owners. It was found in the course of the survey that the arotdars of Tejgaon bazaar (and not the farmers), determined the price of egg. The survey team attempted to explore the mechanism of price setting in this market but it was not possible to identify the basis of such price setting by the arotdars. It appears that production cost and demand-supply situation have influence on this. If the adverse consequences persist, soon there will be large demand-supply gap leading to rise in prices of egg. In view of this, price support for poultry-feed and flexible loans and incentives to producers along with effective measures to control and prevent bird flu.

Flow chart 9: Value chain for **Egg (before bird flu)** with distribution of consumer's expenditure among the agents (in %)



Egg – before bird flu

IV. CURRENT SUPPLY SITUATION OF SELECTED ESSENTIAL ITEMS AND PROJECTIONS

4.1 Estimated National Demand for Essential Commodities for 2007

An attempt was made by the CPD to estimate the total national demand for essential products based on Household Income and Expenditure Survey (HIES), 2005. However, HEIS provides only the household data whereas total national demand for food includes both household demands and non-household demand. Accordingly, the CPD estimate includes approximate demand arising from non-household sector along with the demand at the level of households. The CPD estimate considers non-household demand to be in the range of 10-15% of the household demand. Hence, the estimates considered two alternative scenarios of total national demand for food, considering the lower range to be 10% and the higher range to be 15%. The estimates came up with projections of total national demand for food grains in 2007 to the tune of 263.0- 275.0 lac MT. The estimated demand for potato, vegetables and pulses is expected to be in the range of 38.1-39.8 lac MT, 89.5 -93.6 lac MT and 8.2-8.5 lac MT respectively. The projected demand for egg ranges between 4431 – 4632 lac dozens. The figures corresponding to the lower limits of these estimates represent the non-household demand to be 10% of the household demand whereas the upper limits consider the non-household demand to be 15% of the household demand.

TABLE 4.1: CPD ESTIMATES ON DEMAND OF ESSENTIAL COMMODITIES

(in Lac MT)

Commodities	Estimated Household Demand for 2007 based on HEIS (2005)	Total Demand (Household + Non-Household)	
		Considering Non-Household Demand as 10% of Household Demand	Considering Non-Household Demand as 15% of Household Demand
Food grain	239.1	263.0	275.0
Potato	34.6	38.1	39.8
Vegetables	81.4	89.5	93.6
Pulses	7.4	8.2	8.5
Egg (Lac)	4028	4431	4632

Source: CPD estimate

Note: For the purpose of this estimation, per capita consumption in 2007 has been taken to be the same as in 2005. Population for 2007 was taken to be 142 million. Non-household demand was estimated to be about 12% of household demand.

4.2 Import Scenarios in 2007

L/C opening figures reveals an upward trend in import value during the FY 2005-06 for most of the commodities, except for palm oil (crude) and onion. This trend has continued till March 2007 (latest figures). L/C opening figures has demonstrated highest rise in case of crude soybean oil (189.25% rise) followed by sugar (183.18). On the other hand, import values has come down most sharply for palm oil (fall of 106.09) followed by onion (5.15). Though the overall L/C opening figures have increased, it cannot be concluded that the quantity of imported commodities has increased since Bangladesh Bank data provide only value of L/C openings (and not the volume).

4.3 Product-wise Global Production and price scenarios

- **Rice**

According to the March 2007 forecast made by the FAO, world paddy production declined from a record 633 million tonnes in 2005 to 629 million tonnes in 2006. This production fall was the result of an erratic monsoon in Asia and consequence of El Nino (in the later part of 2006). In 2006, paddy production was forecasted to drop by 1.1 million tonnes in India from the targeted amount of 139 million tonnes. This was caused partly because of shifting of land from rice to wheat cultivation. In Pakistan also the production was estimated to fall by 8.1 million tonnes in 2006, the reason being substantial crop losses in the lower Sindh caused by excessive rainfall. It is also interesting to note that, China ended up with virtually no growth in rice production in 2006.

According to the various international climate organizations, after the 2006/07 El Nino, global weather condition was expected to shift to a more “normal” one with an average rainfall pattern, which is a pre-requisite of good harvest of paddy. Based on FAO estimates, global production of paddy is projected to reach to 633 million tonnes in 2007 which would be 4 million tonnes more than that of 2006 though this recovery is expected mostly to be concentrated in developing countries. In 2007, only in Asia, the production is estimated to increase by 5.1 million tonnes or 0.9% which was above the current 2006 estimates. However, as far as Bangladesh was concerned the prospects for production in the coming season are rather uncertain as farmers had not planted the first Aus 2007 paddy crop until April, 2007. But based on the average growing conditions, FAO's first production forecast for paddy stands at 40.50 million tonnes, 1.3 million tonnes more than what is currently estimated for 2006. It is interesting to note that in China, production is set to register a 1 % increase over the 2007 season. It has also been assumed that in India and Pakistan production may recover to reach 137 million tonnes and 8.4 million tonnes respectively in 2007.

- **Wheat flour**

FAO has informed that the global wheat production had decreased sharply in 2006 when total production was roughly 592 million tonnes. This was approximately 33 million tones or 5.3 percent less than the production of 2005 and also below the average for the past five years. However, it is expected to increase significantly (about 626 million tonnes) in 2007 with FAO's forecast indicating a growth of 4.8%. Hence, the global price of wheat is expected to remain at a moderate level after a long period (most of 2005-06 marketing season) of upward trend. The supply and price of wheat may have some moderating effect on price of rice

- **Edible oil**

According to the FAO forecast, production of soybean oil is expected to be 224.3 million metric tonnes (MT) during 2006-07 which is higher than the previous year; production of palm kernels is expected to be 9.6 million MT.

- **Full cream milk powder**

Milk production in Australia is expected to decline by 4 % in 2007 despite a strong beginning in the first quarter (July-September). Milk production in New Zealand is forecasted to increase by 1 % to reach a record quantity of 15.4 million tonnes in 2007. The international price of full cream milk powder has shown an upward trend during 2007.

- **Lentil**

FAO forecasted the global lentil production to be 3,460 thousand tonnes in 2006-2007. Lentil production is expected to decrease sharply in 2006-07 due to adverse weather conditions in the major lentil exporting countries (e.g. drought in Canada) and export bans imposed by major lentil exporting countries (e.g. India has banned import till March 2007). FAO also predicted that the prices of lentil would show an upward trend in response to the rising demand and inadequate supplies during 2006-07 period.

- **Onion**

India, world's second largest onion producer, exported an all-time record of 1.13 million tonnes in the year to March 2007, cashing in on output shortfall in neighbouring countries. However, the Government of India (GoI) increased the Minimum Exporting Price (MEP) as an export restricting measure to combat the soaring domestic price of onion. As India is one of the major exporters of onion in the world, the global supply decreased significantly due to export control by GoI and hence the global price for onion is showing an upward trend. MEP for Bangladesh has been set at US $220 for the month of May 2007.

4.4 Comparison between Indian and Bangladeshi retail prices

Being the major import source for essential commodities of Bangladesh, prices in Indian market has significant implications for Bangladesh. Though in many cases the price fluctuations tend to occur in the same direction, no specific trend can be discerned from the available data set. This study has considered the period between 01 January and 16 April, 2007. Retail prices of rice increased both in Bangladesh and India during this period, however, the increase was larger in value in Bangladesh compared to India, when the coarse rice of Bangladesh was compared to the permal rice of India. The retail price of onion decreased in both Bangladesh and India though the decrease in Indian retail price was higher than that of Bangladesh. The retail price of Atta increased in Bangladesh and decreased in India during that period.

4.5 Recent Initiatives of the Government

A. OMS initiatives at the GoB level

The current CTG has already taken several initiatives to bring arrest the rising trend in prices of essentials. Among these, BDR's Operation Dal-Bhat and Open Market Sale (OMS) initiatives by Trade Corporation of Bangladesh and Food Directorate are the most notable, with some positive impact on market prices. The intention of the OMS operation was to supply food items at a lower price in Dhaka city. In line with this OMS initiative, BDR started 'Operation Dal Bhat' programme on 15 March in 17 spots of Dhaka City. Subsequently the number of spots was increased to 21. Trading Corporation of Bangladesh (TCB) is also selling Sugar and Lentil under the OMS initiative of the Government at 30 spots in Dhaka city and also has floated a tender for importing 3,000 tonnes of refined soybean oil recently. Government is also going to start Food for Work Programme for which 1 lakh MT of wheat has been allocated.

B. OMS initiatives at the private level

Some private entrepreneurs have also started OMS programme and has come forward to sell their products at factory price to consumers directly. They include Partex Group, Abul Khair Group, Meghna Group, PHP, Imam Group, Masud and Brothers, Alam and Brothers, S Alam, Mostafa Group and Mabco.

C. Withdrawal of Tariff

Government has also withdrawn existing 5% import duty on rice and wheat in an attempt to arrest the price rise. The government was also contemplating to reduce import duty on a number of essential items.

D. Draft Anti-hoarding Act:

The government has also prepared a draft Anti-hoarding Act articulating the period for which businesses will be allowed to stock their goods (at three levels: import, wholesale and retail levels). This draft was circulated among major stakeholders and business and opinion was sought before March 14, 2007. Subsequent information on this is not available.

V. CONCLUSIONS AND RECOMMENDATIONS

This section makes an attempt to pull together the major findings of the study and articulate policy implications emanating from them. The policy recommendations are presented in two broad groups. The *first* group of recommendations are of overarching nature and puts forward a number of legislative, regulatory, institutional and macroeconomic policies to improve the government's capacity to manage the market for essential commodities. The *second* group of recommendations relate to specific products which were covered by the study. However, the recommendations need to be approached in the context of overall outlook for inflation in 2007.

5.1 Outlook for 2007

According to the IMF, the global food prices rose by 10% in 2006 and are expected to increase further during 2007 due to the price spirals of biofuels and adverse climatic conditions in the major producing zones (e.g. drought in Australia).

The Reserve Bank of India (RBI) also forecasted that the food inflation in India would be 8.5% in FY2006-07 which is higher than the rate of the previous year. The inflation rate for rice is expected to be 5% which is more than double the rate for FY2005-06. Similar trend is also expected for wheat and pulses. Increased price inflation in India was likely to significantly affect the retail prices of these commodities in Bangladesh as India continues to remain dominant import source for many of Bangladesh's essential commodities.

Total production of Aus and Aman rice in FY07 has been estimated to be 12.41 million metric tons against 12.55 million metric tons in FY06. DAE has stated that area under Boro paddy has increased to 4.429 million ha in FY07 against actual area under Boo of 4.067 million ha in FY06. According to the DAE, 1.2 per cent of the Boro rice area in FY07 has been affected by *chita* problem. In other words, Boro cultivation area, as per information of DAE has increased by 8.9 per cent. This, however, would need to be confirmed by SPARSO and BBS. We need reliable estimates on Boro production to decide on Boro rice procurement targets and commercial rice import by public sector.

Increased energy prices is also likely to contribute to the spiral of food inflation in Bangladesh in the coming months. The government has recently increased the energy prices in response to the soaring global prices. Prices of diesel and kerosene have been increased by 21 per cent from the April of this year only 10 months following previous adjustments. Higher fuel prices, especially the price of diesel which is commonly used in irrigation pumps, have caused the production cost to rise significantly.

Strict law enforcements by the joint forces and the eviction of many roadside markets are also likely to adversely affect the food inflation situation in Bangladesh. Demolition of local *hat* and bazars have not helped either.

It can be assumed, based on current market trends, that the prospects of retail prices of essential commodities in Bangladesh coming down are very slim. In the above context, food inflation is expected to be hovering around 9 per cent during the first half of FY2007-08.

The Bangladesh Bank had set the inflation target for the second half of FY07 at 6.85 - 6.95 per cent. Current inflation rate for the month of March (7.43 per cent) has already exceeded this. The BB is hoping to keep the inflation rate within 7 per cent in FY08. It should be considered satisfactory if the BB is able to keep the inflation rate below 7 per cent, if not below 6 per cent, in the coming months.

In view of the global production and price scenarios, regional inflationary trend and national macroeconomic correlates, it is reckoned that there is little prospect for the consumer price index (CPI) to come down perceptibly in the coming months (till end 2007). As the rate of inflation is the outcome of a complex interplay of economic factors, hardly any unique solution exists to deal with the situation. However, the government may be well advised to focus in the *short term* on a set of price stabilization policies targeting a basket of essential products. In the *medium term*, the government may focus on increasing domestic production of daily essentials, mitigating their enhanced production costs and improving their productivity.

These policies are to be underpinned by strengthened macroeconomic correlates expressed in improved revenue generation, prudent monetary growth and quality public expenditure. Improved domestic resources will be necessary to underwrite incremental budgetary allocations targeted to mitigate the pressure of rising prices on low and fixed income groups including producers and/or consumers. While managing monetary growth one needs to see that investment and production in the private sector does not get affected due to credit constraint. The quality of public expenditure will acquire enhanced importance as the efficacy of the flanking measures will greatly depend on the capacity of the government to appropriately target and deliver subsidy and other transfer programmes.

5.2 Overarching Issues

(i) *Define "Essential Commodities" and Enact "Supply and Regulation of Essential Commodities Ordinance"*

It was observed that the government does not have in its arsenal either any legislative instrument, or any implementation mechanism to intervene in the market to stabilise prices. In view of the liberal market-oriented policies pursued and continued by this government, it also becomes conceptually difficult to single out products for interventions. However, it is widely recognised (and also expected) that the government has a duty to provide its citizens with strategic goods, particularly basic food stuff, at affordable price. "Essential Commodities Control Order (1981)" provides some guidelines for trading in items mentioned in the schedule of the order. However, on review, it appears that this order is not only inadequate to deal with the present situation, but also lacks an enforcement mechanism. It may be pointed out in this connection that the Department of Prices and Market Intelligence (DPMI) under the Ministry of

Commerce (MOC), which was entrusted with the task of enforcement of the regulatory order, has long since been abolished (in 1989).

Recommendations

- The government may officially identify certain food products as "Essential Commodities" and declare its intention to maintain stability of prices of such commodities through policy and institutional interventions in greater public interest.
- the government needs to reexamine the effectiveness of the "Essential Commodities Control Order (1981) and explore the need to enact a law styled as "Supply and Regulation of Essential Commodities Ordinance (2007)" to provide a statutory basis to the government's targeted emergency measures for keeping prices of certain "essential commodities" within the means of common citizens.

(ii) *Strengthen Market Intelligence*

There is a serious dearth of information regarding demand, supply and prices of essential commodities (both domestically produced and imported). Relevant data and information are not collected, analysed and made available to the market agents in an accessible manner. The government has recently taken some initiatives to strengthen its market monitoring activities by way of establishing a temporary Price Monitoring Cell (PMC) under the MOC. The PMC monitors the value of L/Cs opened for imports of a set of essential commodities as well as compiles information on retail prices of essential commodities as observed in selected markets in Dhaka city. The current capacity of the PMC is totally inadequate to serve the purpose of the formulating informed policy decisions. On the other hand, the Department of Agricultural Marketing (DAM) under the MOA has a much more comprehensive market intelligence service which covers up to district level data on agricultural products, but the information collected and analysed by DAM does not have wide dissemination including among the policymakers.

Recommendations

- Government may create a new agency styled as the Department of Market Surveillance (DMS) under the existing legal framework of the now extinct Department of Prices and Marketing Intelligence (DPMI) for prudential supervision of the daily essential commodities markets. The proposed DMS will work in close collaboration with the DAM, Department of Agricultural Extension (DAE), Directorate of Food (DAF) including Food Planning and Monitoring unit (FPMU), and TCB. The price monitoring Unit of the TCB may be merged with proposed DMS. The DMS will particularly be responsible to collect data on global production and price situations as well as the projection of different essential commodities. The DMS will provide suggestions to the TCB regarding import and export policies based on its assessment of the local and global market.
- The DAM should be provided with adequate manpower and financial resources to convert it to a more effective organisation. The DAM should be given the responsibility to estimate the region-wise demand and supply capacity with the help of other agencies and this information may be disseminated through the proposed DMS.

(iii) *Rationalise Import Duties of Essential Commodities*

Bangladesh is a net food importing country. Essential commodities that are imported include rice, wheat, onion, edible oil, whole cream milk powder and lentil. Apart from the rising price of essential commodities in international market, there are a number of some other reasons (e.g. high *ad valorem* tarrif, high L/C margin and high interest rates on trade finance, volatile exchange rate and high godown charge) which also contribute to increasing per unit import cost passed on to the consumers. It is to be mentioned that the revenue generated from the import of essential commodities is a major source of income for the government. For example, according to the Operative Tariff Schedule FY2007, total tax incidence for Milk and Cream in Powder Forms (>1.5 per cent Fat) has been set at 72.31 per cent, for Onions (Fresh or Chilled) and Dried Lentils 5.00 per cent and for Crude Soybean Oil and Palm Oil 20.75 per cent. The government earned a total of Taka 2030.08 crore as revenue in FY06 from eight selected food items (i.e. rice, wheat, onion, crude palm oil, crude soy bean oil, lentil and raw and refined sugar). A CPD exercise, based on operative tariff schedule and NBR data set, estimates that if the current tariff rates (all types including VAT) are replaced by Taka 1000/ton for rice, wheat and onion, the government will generate an additional revenue amounting to Taka 11.93 crore than the revenue generated by *ad-valorem* tariff rate which was Taka 351.42 million. On the other hand, with this same rate of specific tariff (i.e. Taka 1000/ton) in place of current tariff rates for crude palm oil, crude soybean oil, lentil and sugar (both raw and refined), the government will lose revenue worth Taka 17348.34 million compared to revenue generated by the ad-valorem tariff rate which was Taka 19949.36 million.

Recommendations

- If possible, government should introduce zero tariffs for selected essential commodities (currently zero import tariff has been provided for rice and wheat) particularly for the ones for which import price is high (e.g. Lentil).
- The ad-valorem tariff depends on the import prices. For specific tariffs to be in place the government will need to replace the existing ad-valorem tariff structure by specific tariffs for essential commodities. The CPD analysis of National Board of Revenue (NBR) data reveals that NBR should analyse the import data for essential commodities for the last few years and recommend a product-specific flat rate per tonnage replacing the existing tariff structure. It will give the importers protection against the highly fluctuating international price of essential commodities on the one hand, and eliminate incentives for misinvoicing on the part of the importers as regards import tax evasion thereby ensuring revenue generation interest of the government.
- Rationalisation of high Supplementary Duty is essential for certain products (taking in cognisance local production prospect), particularly for whole cream milk powder. However, the government should negotiate with packaging and distributors of WCMP (e.g. Nestle, Sanwara group) before implementing this removal/reduction so that the benefit originating from such move is accrued to the consumers in the form of reduction in the existing market price.

TABLE 5.1: IMPORT CONCENTRATION OF ESSENTIAL PRODUCTS FOR 2005-06

Sl No.		Onion	Lentil	Rice	Wheat	Crude soybean oil	Crude palm oil	Sugar (refined)	Sugar (raw)
1	**Total No of Importers**	72	33	176	15	16	22	89	38
2	**Total No of Consignments**	292	82	1760	80	360	1077	468	342
3	**Total value of Import (Mln US$)**	3.55	4.99	59.08	26.31	224.17	656.65	73.60	117.18
4	**Share of Top 5 Importers (% Based on CIF Value)**	31.33	41.78	38.66	51.69	58.17	61.65	57.76	64.17
5	**Share of Top 5 Importers (% Based on Assessed Value)**	28.04	38.54	37.87	48.35	57.84	64.35	55.83	56.58
6	**Assessed Value of Import (Mln US$)**	3.96	5.41	60.31	28.13	225.41	629.08	76.15	132.90
7	**Total revenue earned**	0.26	0.27	3.61	1.41	49.39	134.47	43.77	71.59
8	**Memo Item for which Importer's Name not available (Mln US$)***	0.11		0.06					
9	**Total Import**	3.66	4.99	59.14	26.31	224.17	656.65	73.60	117.18

Note: * 14 Importer's name not available for Onion and 1 for rice.
Import Currency not available for 1 importer. All these entries are excluded from the analysis.
Source: CPD Analysis on National Board of Revenue (NBR) database

TABLE 5.2: IMPORT CONCENTRATION OF ESSENTIAL PRODUCTS FOR 2006-07 (up to March)

Sl No.	2006-07	Onion	Lentil	Rice	Wheat	Crude soybean oil	Crude palm oil	Sugar (refined)	Sugar (raw)
1	**Total No of Importers**	156	123	98	45	12	22	107	13
2	**Total No of Consignments**	1671	410	1085	563	177	675	397	126
3	**Total value of CIF Import (Mln US$)**	18.67	44.99	36.12	266.32	139.67	487.78	80.02	156.12
4	**Share of Top 5 Importers (Based on CIF Import Value)**	31.33	30.55	37.26	48.75	67.26	60.12	46.47	95.96
5	**Assessed value of Import (Mln US$)**	20.28	48.03	38.39	281.61	145.48	508.50	84.18	164.23
6	**Share of Top 5 Importers (Based on Assessed Value)**	28.85	28.612	34.99	46.10	64.57	57.61	44.17	91.23
7	**Total revenue earned (Mln US$)**	0.25	2.40	1.92	14.08	7.27	105.51	14.07	15.20
8	**Memo Item for which Importer's Name not available* (Mln US$)**	1.08	0.06	0.47					
9	**Total Import**	19.75	45.05	36.59	266.32	139.67	487.78	80.02	156.12

Note: * 78 Importer's name not available for Onion, 1 for Lentil and 4 for rice.
Import Currency unit not available for 2 importers in Crude soybean oil and 1 for Refined Sugar. All these entries are excluded from the analysis
Source: CPD Analysis on National Board of Revenue (NBR) database.

- The importers have urged the government to provide a declaration in the budget speech regarding the possibility of revision of the duty structure of essential commodities subject to overall national demand and supply situation of the country and in view of any fluctuations in international prices. This kind of declaration will give the importers a higher degree of business predictability.

(iv) *Increase Market Agents at Import Level*

Investigation revealed that an overwhelming share of the total imports of essential commodities is attributable to a handful of big importers. These big players have the ability to control the retail prices of these particular products. It is suspected that these importers form cartels and set the prices at higher than reasonable and rational level. As essential commodities have relatively inelastic demand, such cartels may get away with restrictive business practice and make supernormal profit. CPD has carried out a detailed analysis of the NBR data to identify and measure the extent of the power of particular importers play in the import markets for selected commodities. The analysis has revealed some interesting results. The exercise reveals that top five importers have significant control over the market and accounted for a very high share of trade in essential commodities (in FY07). The shares for some selected items were: Raw Sugar 96%, Sugar Refined 46%, Crude Soybean Oil 67% and Crude Palm Oil 60%, Wheat 49%, Rice 37%, Lentil 31% and Onion 31%. These figures suggest that there exists a higher degree of concentration in importing essential commodities which give rise to the possibility of syndication at importers level. Tables 5.1 and 5.2 (pages 30a and 30b) on import concentration of essential products provide this information in some details.

<u>Recommendations</u>

- The government should encourage the commercial banks to facilitate formation of groups of small scale importers (in terms of capital) to import essential commodities so that they may take the benefit of economies of scale (bulk import). This will help new players to enter the market and with the growing number of importers/traders, the popular perception and speculation about syndication may be removed. However, existence of such groups will give rise to some technical queries such as – What would be the legal identity of such groups?

Will they place purchase orders using one of the member's business name/trade licenses or will they need to register themselves as different entities and use the information pertaining to that entity for banking and tax purposes? Will they be equally liable for the bank loans or will they be liable only for their proportion of the loan? Government has to think through these issues and amend the rules and regulations, if necessary.

- The government should monitor international prices of imported essential products on a regular basis through its institutional mechanisms and disseminate the information among concerned authorities and in the market to prevent price fixing and supply manipulation through syndication.

(v) Reduce the Production Cost of Agricultural Commodities

One of the major reasons for the recent price hike of essential commodities relates to increasing cost of agricultural inputs such as seed, irrigation, fertiliser, and pesticides. The irrigation system of Bangladesh is highly dependent on diesel. The study found that the production cost of the essential commodities was to increase further in next season due to the recent (on 2 April 2007) price increase of diesel and kerosene. The prices of diesel and kerosene have been increased by 21 per cent to reach Tk 40 per litre from the earlier price of Tk 33. The use of electricity in the irrigation is very low (17 per cent only) and regrettably a declining trend has been observed in the usage of power in irrigation. In FY07 (July-February), 39.66 MKWh has been used in agricultural pumping which was 78.80 MKWh in FY04. Electricity available for irrigation for FY07 (July-February) was only 50 per cent of the total electricity used for irrigation in FY04.

<u>Recommendations</u>

- Power distribution to the agricultural sector should be increased with a view to reduce the use of diesel for irrigation through load management. In this regard government must increase the local electricity generation capacity and may consider a wider application of solar power to generate electricity in rural areas with the help of NGOs. The government should also explore the opportunity to import from the neighbouring countries and to establish a SAARC regional gridline in the medium term.

- Government should consider providing more subsidies on the rate of power usage in agricultural sector which is currently Tk 1.89 per KWh. Importantly; electricity supply for irrigation purposes has to be increased on a priority basis.

- The government needs to provide subsidy directly to the farmers' on petroleum usage for irrigation. Modalities for this subsidy should be developed with strict monitoring mechanism (so that only genuine farmers may be benefited) and tight border security to prevent smuggling. To this end, either issuance of Entitlement Card or use of the proposed voter/National ID card may be considered.

- As the government and private entrepreneurs are currently meeting only 12.50 per cent of the total demand for seeds, initiatives should be taken to increase supply of quality seed by private sector and NGOs. Towards this, special support for production of breeders' seed and supplying those seed at subsidized rate to NGOs and private sector companies for production of truthful level seed is necessary. This will reduce their production cost and increase seed supply and thereby production.

(vi) Reduce Financial Charges and Exchange Rate for Trade in Essential Commodities

The current relatively high financial charges (i.e. interest rates and LC margins) and fluctuations in exchange rate for export and import prices has also contributed to the rise in import cost of essential commodities.

<u>Recommendations</u>

- In case of letter of credit (L/C), banks usually determine the margin on the basis of bank-client relationship – a higher margin could raise the price of foodgrains and emergency necessary items. In case of emergency daily necessary items, L/C margins should be fixed as low as possible.

- Bangladesh Bank may take initiative to encourage all commercial banks to lower the interest rate against loan for importing/ domestically procuring essential commodities (e.g. LTR, LIM, CC Pledge, CC hypo). This may be fixed for a certain period of time and then may be reviewed again.
- In Bangladesh, the USD-BDT exchange rate buy-sell difference for importers and exporters is currently 2.23 per cent, which is 1.30 per cent in India, 0.61 per cent in Pakistan and 1.47 per cent in Sri Lanka. This difference should be close to 1.00 per cent.

(vii) Reduce Transportation Cost

The agents in the value chain informed the CPD survey teams that due to recent price hike of the petroleum products and strict compliance with law (e.g. tonnage restriction in Jamuna Bridge), the transportation cost has gone up by a considerable amount. To be specific, currently only 10-12 MT per truck may be transported which was 20 MT per truck earlier. However, they confirmed that the cost of extortion (previously known as "road cost") no longer exists or at least has declined to an insignificant level due to improvement in law and order situation, resulting in decrease in the transportation cost. Although the net impact of all these factors on transportation could not be estimated, the ultimate effect of that on per unit transportation cost turns out to be insignificant. The agents also complained regarding the existence of the unavoidable middlemen/brokers in transport sector, particularly at the loading points of Benapole, Chittagong, Hili, etc.).

<u>Recommendations</u>

- Transport sector should be under strict vigilance; tonnage restrictions should be reviewed, and middlemen/brokers from the loading point, as mentioned earlier, should be eliminated. Distance wise transportation cost could be decided through a tripartite meeting between traders, transport owners and government. The river and railway networks should also be explored to examine the viability of transporting essential items to various parts of the country.

(viii) Rejuvenate the Moribund TCB

Trading Corporation of Bangladesh (TCB) is an autonomous state trading organisation under the Ministry of Commerce established in 1972. TCB's main functions include the task of acting as a watchdog to monitor the supply and price situation of the essential goods and engaging in trading and related activities as directed by the government. However, TCB is not being able to perform its functions at a satisfactory level at present. In the FY1972-73 import by TCB accounted for 25 per cent of the total import. In contrast, TCB's imports decreased significantly after the introduction of open market regime and currently (as of 2007) TCB accounts for merely 0.3 per cent of the total import of the country. As a consequence of sequential downsizing of TCB, no new recruitment has been made since 1993-94; rather, the workforce has been downsized considerably. With no distributor of their own, TCB has to depend on the registered dealers under the Food Directorate, creating serious problem in terms of coordination.

Recommendation

- The GoB should take necessary measures to rejuvenate the moribund TCB and turn it into a modern corporation in line with the public procurement regulations. Experts and professionals from related disciplines must be recruited with mandate of taking decisions on importing essential commodities as recommended by DMS and acting as a watchdog to monitor the overall market situation. The relationship between TCB's operational procedures and the public procurement regulations needs to be examined carefully. TCB has already taken an initiative to import edible oil and whole milk powder which is a welcome decision to stabilise the price of these commodities in the coming days particularly in view of the sharp rise of global price of these items.

(ix) Restore Business Confidence in the Market

The traders (especially in Khatunganj, Chittagong) expressed their deep concern to the CPD survey team to the effect that a *panic syndrome* was prevailing among the business community due to the government's current anti-corruption drive. As a result, a number of importers have cancelled their L/C and import orders in early 2007 fearing enquiries about their assets and income from concerned agencies. There was also a number of incidents of godowns being sealed because of alleged hoarding and storing poor quality goods. All these have contributed negatively to a reduction in the supply of goods in the market which consequently led to a rise in the price of essentials. On the other hand, reported moves by the government to monitor banking transactions beyond certain amount have also created fear among the businessmen and entrepreneurs. However, the situation has improved in recent times thanks to the repeated declaration from the government that honest businessmen will not be harassed and they had nothing to fear. The government has also decided to reopen some of the sealed godowns. However, during the survey, the CPD team clearly observed an environment of anxiety and uncertainty and an attitude of wait and see. This had tangible impact on market expectation and behaviour of both suppliers and customers, starting from importers down to the retail market.

Recommendations

- The government may repeatedly transmit the message that the honest business persons and entrepreneurs have nothing to fear and be apprehensive about. The distinction between people who have breached public trust by abusing state power to amass personal wealth and those who indulge in corrupt practices while conducting their business will need to be made. In case of the latter, the thrust will have to be on playing henceforth by the newly instituted rules of the game. The members of the law enforcement will need to play an important role in restoring business confidence in the country.

(x) Broad-base and Streamline OMS Initiatives

The government has taken initiatives to control the recent unstrained price rise by organising sale of daily essentials through the BDR, TCB, Food Directorate (FD), Ansar and VDP. Among these initiatives, the BDR's *Operation Dal Bhat* and establishment of Open Markets (Toll-Free Markets) are the two most successful initiatives that have received attention and appreciation of the general masses.

The CPD study found that the BDR was buying the products directly from the producers and selling those directly to the consumers by eliminating most of the middle-agents. This had a positive impact on the retail price. However, the market impact of the BDR *Dal Bhat Operation* was not very clear as the CPD survey teams received diverse opinions from retailers and consumers: one retailer group stated that following the launch of the programme price has been stabilised in retail markets, while another group firmly maintained that this initiative has failed to create any impact on the overall state of the markets. There were other retailers who pointed out that though BDR operation has not impacted on the price situation, their daily turnover has fallen significantly. It was observed during the field visits that most of the customers in these markets came from the low income or lower-middle income groups; buyers belonging to top level income groups was almost absent in these markets. It may be pointed out here that BDR markets were able to meet around 25 per cent of the demands of daily essentials of the Dhaka city through its 21 outlets. Long queues to purchase products from these sale centres speak of both lower prices at these outlets and also a supply-demand gap.

The government has also initiated Open Market Sale (OMS) of sugar and lentil through the TCB and that of rice through the Food Directorate to stabilise prices of these commodities. Interestingly, some private sector entities have also come forward to sell their products to the consumer directly at factory level price (e.g. the PARTEX Group, City Group, TK Group). However, because of their very small scale operation, these initiatives, however welcome, did not create any significant market impact.

Recommendations

- The government should continue its OMS of essential commodities through TCB, Food Directorate, BDR and Ansar and VDP till the food price inflation is checked. Efforts may be made to extend OMS up to the district level. However, the government needs to have an estimate of the direct/indirect subsidy provided through these operations.

- The government may also encourage the corporate actors to come forward with direct and scaled-up sale to consumers to help generate a sobering impact on the market. These efforts may particularly be encouraged in the month of Ramadan.

(xi) Make Mandatory Display of Maximum Retail Price (MRP) on Product

The CPD survey came across highly volatile price behaviour at the retail level. In most of the cases for packaged products (e.g. wheat flour, edible oil, rice, whole full cream, powder, salt), the retailers take the advantage of the absence of specification of Maximum Retail Price (MRP) on the packet. These products are usually distributed by listed dealers who enjoy specific commission per packet and sell them directly to the retailers. Hence, the price at which retailers purchase these products should be the same for all agents, at least for the retailers of a particular region. In many cases, it was observed that there is no valid explanation for price variations for these products at the retail level. Yet, it has been observed that there is significant price variation for some product in even markets in the same geographical areas; what was also of interest to note was that even same distributor charged different prices to different retailers. Moreover, even in rare cases when the MRP was mentioned on the packet, it was not properly adhered to at the retail level.

Recommendations

- In this context, the CPD would like to strongly recommend that producers/importers/processors area asked to display the MRP on a mandatory basis along with the manufacturing and expiry dates on the packet/container. A massive campaign should be conducted among the retailers and consumers not to sell and buy these products above the specified MRP. However, the MRP may be modified to match the production/import cost which must be subject to public notification. The government may introduce an executive order towards strict implementation of its directive in this regard which will ensure effective use of MRP at the retail level.

(xii) Promote 'Producers' Marketing Association

The CPD survey found that farmers often sell their produces to the *farias* or *beparis* at low prices being entirely unaware of the price that the *farias/beparis* receive from the next agent. It has also been noted that the number of market intermediaries in the supply chains was more than what was required for smooth functioning of the market. This was mainly due to information gap often leading to collusive market behaviour. These middlemen or the so-called facilitators earned abnormal profit margins by creating a large difference between the firm gate price and the retail price. While syndicates may exist in different phases of a value chain, one particular phase that connects producers to the wholesale markets of Dhaka city (or other big markets for that matter) was found to be vulnerable to syndication, particularly in case of domestically produced products (more prevalent in case of seasonal vegetables). Though *Beparis'* usually make business individually, often the capital of all *Beparis* in a local hat/bazaar was pooled together to form a monopsony fund, leaving the farmers with no choice other than accepting the price offered by this 'single' monopsonic buyer in the market. While this was found to exist at one end, local respondents believed that this was also happening when the Beparis were dealing with the retailer at the other end, compelling the retailers to buy from them at a higher price than would have been the case had there been a competitive behaviour in the market. However, *aratdars, beparis'* did not agree to the allegations about syndication and maintained that they formed syndicates only when they were unable to make a reasonable profit due to lower sales price offered at the whole sale levels.

<u>Recommendations</u>

- For domestically produced products, the best option is to remove the existing market imperfections and inefficiencies in the value chain. By establishing producers' cooperative and marketing organisation and by creating a more direct link between producer and consumer it would be possible to have a positive impact at the retail price of essential commodities. This would also be a mechanism to provide reasonable (fair price) to producers. The government may encourage the existing NGO networks/private sectors to take a more proactive interest in this segment of the supply chain i.e. in the area of marketing of agricultural commodities.

- The government must urgently identify some suitable locations within and around Dhaka and other big cities to establish new *arots* so that more options will be available for both producers and retailers. This is expected to reduce the monopoly power of the vested interest groups in existing *arots* by infusing more competition at this level of the market structure.

(xiii) A National Storage Policy

A national storage policy is required for two principal reasons. Firstly, non-existence of such policy allows the private entrepreneurs to set the usage fees at their discretion. As no specific guidance or regulation exists, they have the freedom to charge whatever prices they want. A national storage policy would provide specific and appropriate guidelines and also could be used as a regulatory framework to monitor the storage sector. Secondly, storage owners need not and hence, do not consider health related issues associated with their storage facilities. The proposed national storage policy would specifically mention the standards that the store owners were expected to maintain, and will enforce compliance with such standards. License for doing business will be cancelled in case of failure.

<u>Recommendations</u>

- Government needs to formulate a comprehensive National Storage Policy for both public and private sectors. One important consideration in this regard should be public health concerns. Food items and non-food items such as chemical products should be stored separately. Besides, government should allow the private entrepreneurs to use public storage facility and should provide adequate subsidy for storing daily essential commodities. Government of India is providing a subsidy of 25 per cent for such services that was applicable for all agricultural commodities. This will reduce the storage cost and thereby reduce retail prices of these commodities. In the proposed national policy, storage time should also be fixed for essential commodities considering both health and supply issues in line with the recently proposed Anti-hoarding Act of GOB.

(xiv) Establishment of an Advanced Agri-Portal

In National Agricultural Policy (NAP) 1999, an arrangement to develop reliable database for the crop sector at the district level has been proposed. As of now, Bangladesh does not have any national agricultural database, nor are there any reliable estimates of regional demand and supply of agro-commodities. On the other hand, lack of interdepartmental coordination among the different organisations involved (e.g. DAE, BBS, DAM, TCB, Food Directorates), and also due to application of different methodologies by different organisations, the figures provided do not match and create confusion among policymakers and researchers.

Recommendations

- In this context, CPD recommends that initiatives be taken to establish an integrated national Agri-Portal titled "Bangladesh Agricultural Information Network Centre (BDAGINC)" under the Department of Agriculture Information Service (AIS), Ministry of Agriculture. All relevant agencies will provide information to AIS to create and update this portal. The information will be publicly available. This portal will provide, at the preliminary stage, region wise national demand, supply and price information for major essential commodities. The global production and price information collected by the proposed DMS will also be integrated in this database. The BDAGINC can follow the initiatives taken by the Indian Agricultural Portal-AGMARKNET which covers market, price, infrastructure and promotion related information for efficient marketing. Information can also include grades, labeling, sanitary and phyto-sanitary requirement, physical infrastructure of storage and warehousing, marketing laws, fees payable, etc. At later stage, this portal will consider other agro-commodities.

(xv) Prepare Markets for Upcoming Ramadan

The upward trend in prices of essential goods and some other commodities which are in high demand (e.g. Brinjal, lentil, onion, chik peas, chick pea flour, oil, sugar, potato, meat, green chilly, parched rice (*chira*), dates and puffed rice (*muri*) during the month of Ramadan is a well known phenomenon in Bangladesh. For example; in 2006 in the month of Ramadan, the price of green chilly, brinjal, onion and garlic increased by 211 per cent, 186 per cent, 25 per cent and 75 per cent respectively. Taking note of the previous trends and the emerging market situation, there is a strong possibility of a price hike of essentials during the upcoming month of Ramadan (September-October 2007). The CTG need to take steps in recognition of this possibility.

<u>Recommendation</u>

- The government needs to assess the demand, domestic supply and import as well as price situation of essentials for which there is a substantial increment in demand during the month of Ramadan. This is necessary to avoid any possible supply shortage and the resultant abrupt jump in prices. Preparation should be there to launch OMS at an expanded scale during this particular period. Outlets run by the BDR and Ansar/VDP need to be kept operational during that period.

(xvi) Strengthen Flanking Measures

The present inflation scenario tends to suggest that inflation, particularly food inflation, was not going to come down in the near future. This can seriously affect the poorer section of the population, especially those in the rural areas. The people with fixed income are also adversely affected. Government employees, for example, faced a 15.8 per cent reduction in their real income since the last salary readjustment in 2005.

<u>Recommendations</u>

- Social safety net programmes such as "Food for Work" should be expanded to support the worst affected sections of the populace due to the ongoing price hike. It is to be noted that in the budget of FY2006-07, a total of 1057 thousand MT foodgrains (including 849 thousand MT rice and 208 thousand MT wheat) was proposed to be distributed under the non-monetized food distribution programs

(Food for Work, VGD, TR, GR etc). The allocation for foodgrains under these safety net programmes should be increased significantly in the upcoming budget for FY08.

- Government may also consider providing dearness allowance to government employees and employees of statuary bodies. The allowances could be fashioned in three tiers with 15 per cent for the lower, 10 per cent for the middle and 5 per cent for the higher scale employees (the three tiers could be worked out taking cognisance of relative justice, proportion of income going for food and the fiscal burden of the proposed measure).

5.3 Product-specific Issues

(i) *Rice*

The survey team found at least eight different marketing chains for rice with the longest identified chain consisting of seven nodal points. Major portions of the consumer expenditure for rice are attributed to either production (42.05 per cent) or import (85.20 per cent) costs. Apart from producers or importers, millers, wholesalers and retailers were found to be receiving significant part of consumer expenditure. Millers and trustees were identified as the most powerful players in the entire supply chain for rice. High and increasing price of rice in Bangladesh in FY07 was mainly due to production of Aus and Aman rice (combined), lower import of rice, and the high price prevailing in the international market. Total production of Aus and Aman rice in FY2007 has been estimated at 12.41 million metric tons against 12.55 million metric tons in FY2006. Boro rice is currently being harvested by farmers and no estimates by the concerned agencies was available as regards the likely level of production of Boro rice. Production of Boro rice in FY06 was 1.39 million metric tons. Total import of rice (public and private) during July-February of FY07 was 256 thousand metric tons compared to 375 thousand metric tons in comparable months of FY06 and 941 thousand metric tons in FY05 (comparable months). Main reason for lower level of rice import in FY07 has been the high price of rice in the international market. FAO has forecasted that the global production would be less in 2006/2007 period (420.9 million tones) than the 2005-06 period; FAO projections are that global prices were likely to increase. Considering high price of rice in international market private sector may not be interested to import more rice unless the price.

Recommendations

- Concerned government agencies (BBS, DAE and SPARSO) should jointly come up with an approximately correct estimate about Boro production in FY07.
- Based on the estimated production level, government has to decide how much to procure through the on-going rice procurement program, and whether the government should make any commercial import and, if so, to what extent.
- If the estimates show that Boro production in FY07 was higher than last year then the government has to procure more rice so that there was no sudden dip in the price and farmers are not negatively affected. On the other hand, if Boro production was less then last year and there was no significant reduction in the rice price at the farm level then government should put emphasis on public commercial import.
- To make sure that lower income people are less affected by high price of rice, the government need to continue Open Market Sales (OMS) by BDR, Directorate of Food, and the TCB. Government should also make sure that targeted distribution of food grains under VGD, VGF, food for works programme are implemented properly.

(ii) *Wheat flour*

CPD field survey revealed at least four different marketing chains for wheat flour, and eight nodal points in these chains. Major portions of the consumer expenditure are attributed to production (48.67 per cent) or import (47.41 per cent) costs. Wholesalers (10.8 per cent), Traders (6.52 per cent) and retailers (4.45 per cent) are receiving large shares of the consumer expenditure for both domestically produced and imported wheat flour. Wheat production has gradually been declining since 2000/01. Wheat production in FY06 was 0.74 million metric tons. DAE has set a target of 0.834 million metric tonnes for FY07 which was 12.7 per cent higher than actual production in FY06. Considering the production trends it is unlikely that the target will be achieved. Total import of wheat (public and private) during July-February of FY07 was 1.307 million metric tons against 1.374 million metric tons in comparable months of FY06. FAO has forecasted that the global production was likely to increase in FY2006-07 and hence, global prices might come down.

Recommendations

- Considering the production possibilities and import situation, the government may go for commercial import of wheat and also explore the possibility of increased food aid (wheat) by the donor countries. If the government is able to get more food aid (wheat) it will have more ability to ensure food security of marginalized people through food for works programme, VGD, VGF and other safety net programmes.
- Government must need to encourage importers to import more wheat by reducing the tariff rate (which has already been done) and reduction of L/C margin for wheat import. Considering high reserve of foreign currency lowering of L/C margin may not have any negative impact on foreign exchange availability.

(iii) *Lentil*

The survey team identified four major marketing chains and seven market intermediaries in these chains for domestically produced and imported lentil. Major portions of the consumer expenditure are attributed to production (22.20 per cent) costs and producers' margin (34.58 per cent). Retailers (11.13 per cent) and paikers (10.79 per cent) are also getting large shares of the consumer expenditure for lentil. FAO predicted that the prices of lentil will increase in response to rising demand and downsized supplies during 2006/07 period. It was found that the share of top 5 importers was 30.55 per cent of the total import of lentil in 2006-07.

Recommendations

- Due to global production loss and increase in international price, an acute supply shortage of lentil has been predicted in the first quarter of FY2007-08. Government should consider providing zero tariff facilities for import of lentil.

TCB should also import lentil and initiate OMS to stabilize the market during the predicted supply shortage. BDR should continue selling of lentil through its Fair Price Shops.

- From medium-term perspective, the government should promote pulse production in the country (chick pea in the Barind region, lentils through out the country) by delivering high quality seed at a subsidized rate.

(iv) *Potato*

The survey team identified six major marketing chains and six market intermediaries in these chains. Production cost accounted for major portion of the consumer expenditure for both the dominant and longest chain. Producer, retailer and bepari are the other top three agents for the dominant chain in terms of shares in total consumer expenditure. However for the longest chain, the top three positions went to producers, cold storage owners and retailers.

<u>Recommendations</u>

- The government may take initiatives to increase potato production by encouraging the availability and use of potato seeds which will reduce the demand for potato as seed (which is substantial).
- The governments need to encourage establishment of more clod storages in the major production zones (e.g. Bikrampur, Munsiganj, Bogra, Comilla), both by the public and private sector, by providing incentives such as tax-holiday, tax exemption for investments in large scale cold storage facilities that are suitable for potato and vegetable storage.

(v) *Edible Oil*

There are at least 3 major marketing chains and 5 main types of market intermediaries. Major part of the consumer expenditure is attributed to production/import (59.93 per cent-63.36 per cent) costs. Wholesalers (6.77 per cent) and retailers (4.0 per cent) are receiving significant shares of the consumer expenditure for edible oil. The global production of soybean oil is expected to increase in FY2006-07. The share of top 5 importers of crude soybean oil was 67.3 per cent of the total imports in FY2006-07 which was 58.2 in FY2005-06. The corresponding figures for Crude palm oil were 60.1 per cent in 2006-07 and 61.7 per cent in 2005-06. Given this market structure, collusive behaviour and some type of syndication could not be ruled out (although it was not possible to evince reliable information on this, and whether intelligence was gathered was only anecdotal.

Recommendations

- The government needs to encourage production of oilseeds and reduce import duty (tariffs and para-tariffs) for oilseeds and crude oil.

(vi) *Onion*

There are at least four marketing chains and eight types of market intermediaries for onion. Major part of the consumer expenditure is attributed to production (36.02 per cent) costs. Producers receive 20.63 per cent of the consumer expenditure (20.63 per cent) at retail level, however, the shares of bepari (16.78 per cent) and retailers (21.05 per cent) were found to be quite high. Government of India (GoI) has restricted export of onion by increasing the Minimum Exporting Price (MEP) to stabilize the soaring domestic price of onion in India. As India is one of the major exporters of onion in the world, the global supply has decreased significantly due to the aforesaid export control by GOI. As a result, global price for onion was showing an upward trend.

Recommendations

- The harvesting season of domestically produced onion is already on; price of onion was expected to come down with increase in the supply of local onion. Appropriate measures should be taken to preserve the excess supply for future, particularly for the month of Ramadan, after ensuring sufficient supply to meet the current demand.
- Import of onion need to be encouraged.

(vii) *Full cream milk powder*

Full Cream Milk Powder is a predominantly imported item. The survey team identified 3 different value chains for this product. Milk production in Australia is expected to decline 4 per cent in 2007 whereas milk production in New Zealand is forecasted to increase 1 per cent. An upward trend in the international price of the full cream milk powder was observed during the first quarter of 2007. However, no comprehensive analysis could be produced as the major powder milk companies (major importers of powder milk such as Nestle, New Zealand Dairy, Fresh) did not cooperate with the study team the purpose and importance of the study was explained to them.

Recommendations

- In the absence of concrete information, "no action" would possibly be the best action. It is because availability may not be a serious problem here; domestic producers of milk may be protected through continuation of current import policy which was likely to have positive impact in the coming years. However, this may not be considered as an essential item in Bangladesh.

(viii) *Vegetables*

As brinjal and green chilli are both perishable items and have similar supply chains, they have been put together under the heading 'vegetables'. The survey team identified 6 different marketing chains for both brinjal and green chilli; the team also identified 6 different marketing chains for both brinjal and green chilli. Major part of consumer expenditure for these vegetables are attributed to the production costs. Retailers are getting the highest share of consumer expenditure. Arotdars and beparies are also getting large shares of consumer expenditure.

Recommendations

- Open Markets managed by BDR has reduced retail price of vegetables in these markets without any negative impact on farmers, BDR should continue operating these open markets.

- Both public and private sector entrepreneurs need to increase processing and storage facilities, especially during the harvesting season.
- More *arats* or distribution centres, may be established in the urban areas, both through public and private initiatives. For example, for the Dhaka city, new arats for vegetables could be established in Tongi or Mirpur areas to reduce the current dependence on existing arats. Participation of more new players at this stage will also enhance competition among agents which was likely to positively impact on prices.
- Following the Indian example, terminal markets for perishable products e.g. vegetables and fruits should be established. This will operate on a 'hub-and-spoke' format with a view to maintain a link with the primary collection centres (the spokes) conveniently located at the production zone with the terminal markets (the hub).
- The GoB should review cash incentive program for vegetable export which is currently 20 per cent of the CIF value. Due to the supply shortage of vegetables in domestic market, this cash incentive programme should be reviewed and current rate of 20 per cent should not be increased.
- The government needs to encourage vegetable production by providing subsidy for breeder's seed production and reducing import duty for vegetable seed.

(ix) *Egg*

There are at least four different marketing chains for egg, and four nodal points in these chains. Major part of the consumer expenditure is attributed to production cost. However, the recent outbreak of Avian Influenza (bird flu) has adversely affected the shares in consumer expenditure for all the agents. They used to get reasonable share of the consumer expenditure before the outbreak of bird flu. Though retailers, arotdars and local arotdars are still getting a minimal portion of consumer expenditure, farmers are incurring huge losses at present. The coincidental increase of poultry feed price has made the situation even worse for the farmers. Another interesting aspect of the poultry market is that the arotdars at Tejgaon bazaar, instead of the farmers, determine the prices of egg.

No one could explain the criteria based on which the prices are set while the field survey team tried to explore the mechanism behind price setting.

Recommendations

- Encourage poultry feed production by supporting better use of shrimp heads, increase of maize production.
- The government needs to provide better technical assistance to prevent contamination of bird flu. Though the GoB has already taken several measures, the problem, unfortunately continues to persist. Therefore, the GoB needs to further strengthen these measures. The concerned agencies could also consult foreign experts in this regard which they have started to do.