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# The political economy of food price policy

## The case of Bangladesh

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### Abstract

Global food price hikes during 2007 and 2008 resulted in a sharp rise in staple food prices in Bangladesh. The poor and marginalized households were particularly vulnerable to such an adverse situation as their real purchasing power eroded. Several studies indicated that the adverse effects of the food price hike in Bangladesh were primarily manifested by the significant rise in the number of households falling below the poverty line income. At the political front, Bangladesh was run by an unelected and undemocratic ‘civil’ caretaker government backed by the military. The civil caretaker government came to power in January 2007 in the wake of intense political conflicts between the outgoing government led by the Bangladesh Nationalist Party and the opposition, led by the Awami League. The civil .../

Keywords: global food price hike, Bangladesh, political economy

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caretaker government remained in power until the end of 2008 and undertook several steps to contain price hikes. These measures included cuts in tariffs and taxes, increase in the allocation for subsidies, widening the scope and coverage of the social safety net programmes, public procurement, and distribution programmes, etc. Some of these policies and programmes were effective and some were not. Also, different stakeholders were affected differently depending on their interaction and integration with the markets.

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## **1 Introduction**

This study presents an analysis of the political economy of the food price policy in Bangladesh. The study presents a brief overview of the economic and political trajectory of Bangladesh which includes an overview of the structure of the agricultural sector, the analysis on the characteristics of the markets of the major food products and households' integration with the domestic markets, a brief discussion on developmental strategies and policy priorities in Bangladesh, an analysis on food price trends and shocks in the domestic market, policy responses to the food price shocks, and a political economic analysis of different instructions in the policy-making process. The study has used data from published and unpublished documents and has undertaken several discussions with stakeholders and policy makers.

## **2 Country context**

### **2.1 Broader socio-economic context and development**

Bangladesh has continued to improve its rate of growth steadily over the past 40 years after independence in 1971. The growth rate expanded significantly over the last two decades, shooting up to over 5 per cent per annum on a 10-year average, but importantly exceeding the 6 per cent mark for a number of years during 2001 and 2010. Bangladesh's economy underwent significant structural changes over the last 40 years. The share of the agricultural sector gradually declined while that of the manufacturing and services sector increased. The growth dynamism in Bangladesh is largely provided by modern manufacturing and services sectors. It should be mentioned that economic growth in Bangladesh has largely been fuelled by the expansion of investment and the contribution of total factor productivity (TFP) was very limited (GED 2011).

A significant outward orientation of the economy took place over the last four decades. The liberalization of trade regime resulted in the rising share of total imports in GDP, which rose from 11.7 per cent in 1973 to 26.6 per cent in 2009. With the considerable rise in export earnings at a rapid pace, the ratio of exports to GDP also rose significantly from around 6.5 per cent to 19.4 per cent during the same period. This led Bangladesh's economy to evolve from an aid-dependent economy to a trade-dependent economy over the last two decades. Since 2000, Bangladesh has found itself with a strong export sector and an appreciably large flow of official remittances which has significantly reduced the demand for foreign aid to finance the trade deficit and balance of payments. Bangladesh experienced a high rate of inflation during the early 1970s because of several domestic and international factors. Excessive money supply in a war-torn economy together with fuel and food price shocks resulted in an average inflation rate of 48 per cent during 1972–74 (Hossain 2002). During the 1980s, the inflation rate gradually declined, and during 1990s, except for a few years, the average inflation rate was on the declining trend. However, since the early 2000s the inflation rate has begun to rise. The impact of the food price hike in 2007 and 2008 is clearly visible in the high rates of inflation in those years.

Bangladesh has been successful in achieving a significant reduction in poverty over the last three decades. Considerable decline in poverty occurred from 1983–84 to 2010. A

national poverty headcount declined from 62.6 per cent in 1983–84 to 31.5 per cent in 2010. The reduction in urban poverty has been more prominent than that of the rural poverty. Despite the fall in poverty, there is a considerable concern in Bangladesh about the growing income inequality. Income inequality as measured by the Gini coefficient for the distribution of income has risen substantially during the 1980s and the 1990s. More recent data show a further increase in the income Gini coefficient from 0.451 in 2000 to 0.458 in 2010 due to an increase in rural income inequality.

With economic growth and structural transformation of the economy, the per cent of the total population living in the rural area declined and that in the urban area increased. In 1973, the share of the urban population was less than 10 per cent of the total population and increased to around 28 per cent by 2010.

## **2.2 Political context and trajectory**

Bangladesh got independence from Pakistan in 1971. During 1971 and 1975, under the AL government, the country followed a strategy of ‘public-sector dominated economy’ by nationalizing all industries. The government initiated a Five-Year Plan in 1973 with a view to achieving a ‘socialistic economy’. The government was overthrown by a bloody military coup d’état in August 1975. During 1976 and 1981, under the regime of the military dictator General Zia Ur Rahman, a fundamental shift occurred in the political philosophy and development strategy as the Zia regime abandoned the strategy of the state-led economic development and emphasized a greater role for the private enterprises. During 1983–90, under the military dictator General Ershad, in the face of growing macro-economic instability and slow economic growth, the government adopted economic reforms under the structural adjustment programmes (SAPs) of the IMF and the World Bank. In 1991, the country witnessed the beginning of the democratic transition. The government during 1991 and 1996 was run by the BNP. The government accelerated the progress of deregulation and liberalization and continued with the SAPs. During 1996 and 2001 the government was run by the AL and economic policies of private sector-led growth were continued. The BNP won the national election in 2001 and ruled until 2006. The government abandoned the Five Year Plan and adopted the Poverty Reduction Strategy Paper (PRSP) in line with the directions of World Bank and IMF. The country witnessed a serious political unrest towards the end of 2006 against the backdrop of a demand for ‘free and neutral’ general election under a caretaker government which eventually led to the formation of a ‘civil’ caretaker government, backed by the military in January 2007. This military backed caretaker government ruled until the end of 2008 before the AL came to power by winning the general election in December 2008.

## **2.3 Structure of the agricultural sector**

Rice is the most important crop for the farmers and the most important staple food for consumers. About 40 per cent of the total national employment and 48 per cent of rural employment is generated from the rice sector. The growth performance of the crop sub-sector is largely dictated by the production performance of rice, with an acreage and production share of about 75 per cent and 70 per cent, respectively. Rice production has increased quite steadily over the last two decades despite fluctuations in the area under coverage indicating the rise in productivity.

Food security in Bangladesh is strongly linked to the production, import, and price stability of rice. Bangladesh is the fourth largest rice producing and consuming country in the world. Bangladesh is a net rice-importing country. Rice imports in Bangladesh have traditionally been very erratic depending on the domestic production which is often affected by natural calamities. Self-sufficiency in rice production has long been considered to be a national objective. Given the expansion in the cultivation of high-yielding paddy varieties, the once critical dependence on imports has subsided. Exports of rice, on the other hand, have been very minimal, which are mainly aromatic varieties to the Middle East and Europe. In 2007–08 the share of import rose because of the flood. In 2008–09 the import share fell down which is largely explained by the high international price.

Wheat is also an important crop in the agricultural sector in Bangladesh. Traditionally, food aid contained large volumes of wheat but the share of aid in the total availability of wheat has declined substantially. In recent years, the share of domestic production has declined while that of import has increased quite significantly and import is now the dominant component as far as the availability of wheat in the country is concerned.

#### **2.4 Households’ integration with domestic market of rice and wheat**

The impacts of food price shocks on different categories of households would depend on the extent by which the households are integrated to the market. In the case of rice and wheat it appears that while the rural large farmers source around 80 per cent of their consumption needs from own production and the rest 20 per cent from the market, the rural marginal farmers procure more than 80 per cent of their consumption need from the market and rest 20 per cent from own production (Table 1). The rural small farmers can source around 56 per cent of their consumption need from own production and the rest 44 per cent from the market. This suggests that large farmers may gain from rice price increases while small and marginal farmers would lose. Non-producing households such as rural landless households, rural non-farm low-income households and urban low-income households are extremely vulnerable to price shocks.

Table 1: Estimated percentage of rice and wheat consumption obtained from own production

Households	Rice	Wheat
Marginal farmers	17.01	30.87
Small farmers	55.68	47.62
Large farmers	79.61	63.22

Source: Calculated from HIES (2005).

#### **2.5 Characteristics of the market infrastructure for rice and wheat**

The rice supply chain comprises several actors: producers, faria/beparies<sup>1</sup>, arotdars<sup>2</sup>, millers, wholesalers, and retailers. Beginning with the farmers the product can be channelled to three other actors, which are faria/bepari, miller, and arotdar. The

<sup>1</sup> Faria/beparies are small traders or middlemen.

<sup>2</sup> Here arotdars are wholesalers of paddy.

faria/bepari can supply the products either to miller or to arotdar. The next step is the transfer of products to wholesalers from miller and arotdar. Finally, the wholesalers supply this to retailers. There are a large number of rice producers in the country. Therefore, at the producer and bepari levels there may not be any competition issue because of the large number of actors involved. However, since the number of millers is limited there are allegations of anti-competitive practices at the milling level (Raihan, Khondker, and Uddin 2010). Also, some studies have found high margins at the retail level in the rice market (Raihan, Khondker, and Uddin 2010).

The supply chain of wheat involves farmers, importers, arotdars<sup>3</sup>, millers, wholesalers and retailers. The arotdars receive wheat from farmers and importers. The products are then transferred to millers who make wheat flour and then transfer the wheat flour to wholesalers. The final stage is the transfer from the wholesalers to retailers. Because of high import dependence, the domestic price of wheat is heavily influenced by the variation in the international prices. As in the case of rice, there are certain competition issues at the miller level. Also, at the retail level the margin seems to be high because of the similar reasons mentioned above for rice.

## **2.6 Development strategy and policy priorities**

The government moved beyond the public sector-led development strategy to a private sector and market-oriented development strategy through the implementation of different SAPs during the 1980s and 1990s. In response to donor suggestions the government adopted the PRSP in 2005. It emphasized a greater role of private sector investment and providing appropriate fiscal and other incentives to achieve that. The strategy highlighted the importance of agricultural and rural development and focused on the intensification of major crops (i.e. cereals), the diversification to high-value non-cereal crops (i.e. vegetables and fruits), the development of non-crop agriculture (i.e. fishery, poultry, livestock), and the promotion of rural non-farm activities (i.e. rural construction, transport and services). The strategy also put emphasis on the expansion of micro-credit and importance of the safety net programmes. A national food policy was formulated in 2006, which called for several agricultural development and extension services. The second PRSP was formulated in 2009, which emphasized on enabling macro-economic environment for pro-poor economic growth. The AL government in 2010 abandoned the PRSP and reintroduced the Sixth Five-Year Plan for the period 2011–15 which identified a number of core targets in line with the vision and objectives of the perspective plan as well as the Millennium Development Goals. These targets are related to a considerable rise in economic growth, significant reduction in poverty, significant improvement in human resource development, water and sanitation, energy and infrastructure, gender equality and empowerment, environment sustainability, the widespread use of information, and communications technology.

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<sup>3</sup> Here arotdars are wholesalers of wheat.

### **3 Food price trends and shocks**

#### **3.1 Previous crisis episodes and policy responses**

Over the last 40 years after the independence in 1971, Bangladesh faced a number of man-made and natural calamities which threatened food security of the poor and marginalized population. These calamities include a famine in 1974, floods in 1987 and 1988, a cyclone in 1991, and a flood in 1998.

During the 1974 famine the food price rose sharply when rising inflationary expectations raised the demand for food while the supply of food decreased as farmers and traders released less food in the market. According to Drèze and Sen (1989) the famine was due to entitlement failure, rather than the per capita availability of food. The government tried to ensure subsidized food to all the urban people on a priority basis through the rationing system. The government's famine relief efforts were limited and unorganized and the government was inadequately prepared to face the challenge.

In 1987 and 1988 the country experienced disastrous floods. The government undertook various disaster management programmes. Food aid and increased imports of rice and wheat were the major steps. All the international development partners supported a project entitled Flood Action Plan from 1990 to 1996 to formulate a national flood and water management strategy.

The 1991 Bangladesh cyclone was among the deadliest tropical cyclones on record. The government and the international community launched a major response to the cyclone disaster which included food aid and large scale reconstruction.

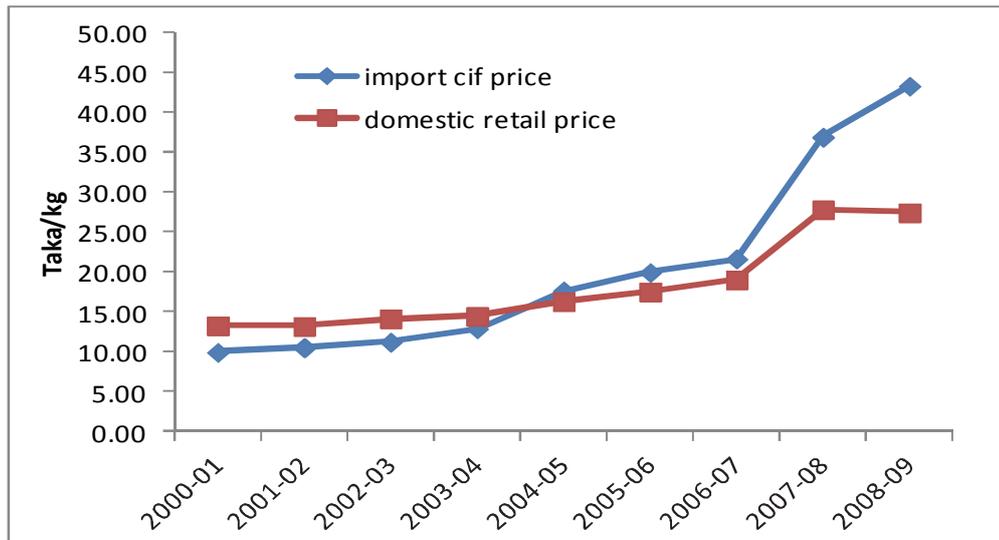
In 1998, over 75 per cent of the total area of the country was flooded. It was similar to the catastrophic flood of 1988 in terms of the extent of the flooding. The government responded to the crisis by supplying food for immediate relief efforts during the floods and by helping to coordinate food aid commitments and deliveries. At the same time, as part of its price stabilization strategy, the government encouraged private sector imports, a policy that helped avoid a food supply shortage following the floods (del Ninno et al. 2001).

#### **3.2 Price trends for key food crops and price transmission**

As shown in Figure 1, the domestic retail price of rice had been higher than the import cif price of rice until 2003–04. Though, since 2004–05, both the domestic retail price and import cif price of rice began to rise considerably, the domestic retail price had been much lower than the import cif price until 2008–09. This is a reflection of the fact that in recent years, Bangladesh has become less dependent on import of rice and therefore, the world price had little effect in determining the domestic price.

The domestic retail price increased from 13–14 taka/kg during 2001–04 to 27.5 taka/kg in 2008–09. During 2007–08, the retail price of rice increased by around 46 per cent, which was, however, much lower than the percentage rise in import cif price (70 per cent) during that year. Also, though the import cif price continued to rise in 2008–09, the domestic retail price declined.

Figure 1: World price and domestic retail price of rice during 2001–09



Source: Department of Agricultural Marketing ([www.dam.gov.bd/jsp/index.jsp](http://www.dam.gov.bd/jsp/index.jsp)) and Indexmundi ([www.indexmundi.com](http://www.indexmundi.com)).

Bangladesh is heavily dependent on the import of wheat and therefore, the domestic retail price of wheat had always been higher than the import cif price. The gap between these two prices widened during 2003–04 and 2007–08, suggesting that the domestic retail price of wheat increased more than the rise in world price of wheat. In 2008–09, the gap between these two prices narrowed. Retail price of wheat flour was around 12 taka/kg during 2001–03 (Figure 3). By 2007–08 it reached a level of 36.6 taka/kg falling to 22.3 taka/kg in 2008–09.

Figure 2: Wholesale and retail prices of wheat flour during 2001–09



Source: Department of Agricultural Marketing ([www.dam.gov.bd/jsp/index.jsp](http://www.dam.gov.bd/jsp/index.jsp)) and Indexmundi ([www.indexmundi.com](http://www.indexmundi.com)).

### 3.3 Causes of the price hike

There are several explanations for the food price hike during 2007–08. Some of them were domestic and some were related to the effects generated at the global level. Raihan and Fatema (2007) identified eight reasons.

1. Bangladesh had been one of the high-growth performing economies over the last ten years. The high growth rate of per capita GDP contributed to a demand-pull inflation.
2. Bangladesh had been a net food importing country. As a result, any rise in food prices in the world market pushed the domestic prices of those commodities to increase.
3. The Bangladesh government increased fuel prices in April 2007 in order to make domestic prices of fuel closer to the international market prices. Though fuel constituted a very small share in the basket of commodities used for the calculation of the consumer price indexes, the rise in fuel prices had some indirect impacts on the prices of commodities by rising cost through two major channels: the high prices of fuels led to high costs for irrigation, which raised the costs of agricultural production, and high fuel prices increased the cost of transportation, which also raised the prices of essential items transported from remote villages to urban areas.
4. Since 2002 the Bangladeshi taka had depreciated much against the US\$ while the Indian rupee has been appreciating. This resulted in a major depreciation of the Bangladeshi taka against Indian rupee. India had been one of the major sources of Bangladesh's imports, as imports from India constituted more than 20 per cent of Bangladesh's total imports comprised of many essential food items.
5. Though there were no concrete evidences of established syndicates in the markets of essential commodities, taking advantage of the weak consumer protection laws, there were some short-term alliances among the suppliers of these goods to influence over supply and prices. This might have some impact on the rising prices of essential items.
6. Due to the anti-corruption drive by the military backed caretaker government many businessmen contracted their usual business activities with the fear of legal actions. Furthermore, many informal marketplaces, both in rural and urban areas, were wiped out by law forcing agencies on legal grounds. Such actions resulted in a disruption in the 'established' supply chains, which exacerbated the inflationary trend.
7. There was a declining trend of growth in agriculture over time, especially of the crop sector in Bangladesh. This resulted in less domestic production relative to the domestic demand. Slower growth in agriculture, and especially of the crop sector, was due to failures in the timely supply of fertilizer, seed, and pesticide to the farmers, increased cost of irrigation because of a rise in diesel price, and the decline in the availability of cultivable land because of population growth and rehabilitation. Severe floods during July–August 2007 also exacerbated the situation.
8. Bangladesh was experiencing a steady rise in remittance inflow until the mid-2000s. In 2006–07, the growth of remittances was 24.49 per cent. Such inflow also contributed to some demand-pull inflation in Bangladesh.

### **3.4 Broad impact on stakeholders as a result of price shifts associated with the crisis period**

Several studies assessed the impact of food price increase on the level of poverty in Bangladesh. According to the World Bank (2008), a reduction in poverty by 5 per cent, between 2005 and 2008, was expected in Bangladesh resulting from the strong GDP growth during that period. However, the study instead projected around a 3 per cent increase in the incidence of poverty from the baseline rate of 40 per cent in 2005 as a result of the increase in food prices. Therefore, the net impact on poverty, from the combined effects of economic growth and the inflation of food prices, was to result in a decline of about 2 per cent; from 40 per cent in 2005 to 38 per cent in 2008. Rahman et al. (2008) showed that in the 15-month period from January 2007 to March 2008 the gross income of poor people plummeted by 36.7 per cent. The income erosion of up to 30.5 per cent alone resulted from paying for the high food bill, the predominant item in the rather bare purchase list of the poor. In consequence, 8.5 per cent people comprising 2.5 million households fell below the poverty line.

Raihan (2009) explored the impact of the rise in food prices on the food consumption and education of children in the poor and vulnerable households in Bangladesh. The study showed that during early 2008 the prices of rice, pulses, and edible oil increased exceedingly which threatened the status of food security of these poor and vulnerable households in Bangladesh. As a result of the price hike, a significant percentage of households were forced to cut their consumption of rice, pulses, and edible oil.<sup>4</sup> The households, who could maintain the level of consumption of rice unaffected, could do so at the cost of reduced consumption of other non-rice food items or/and by reducing the non-food expenditure, i.e., expenses on their children's education.<sup>5</sup>

Sulaiman et al. (2009) found that as poorer areas already had much higher levels of reliance on rice in their food basket, measured in terms of direct consumption, this made it difficult for them to further increase rice consumption to substitute and adjust their food basket in face of rising food prices. The study showed that adjustments in the labour market, especially through a nominal increase in agricultural wage played an important role in channelling the net effects of rising food price on consumption.<sup>6</sup> The study concluded that rising food prices forced a food basket recomposition response that

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<sup>4</sup> Raihan (2009) reported that more than 25 per cent of sample households in the rural areas were forced to reduce their consumption of rice while the corresponding figure was about 19 per cent in the urban areas. However, the extent of fall in the consumption of rice was relatively higher in the urban areas compared to that in the rural areas, since for the urban households, who experienced a fall in consumption of rice, on average, decreased by around 22.8 per cent, while the corresponding figure was 21.6 per cent for the households in the rural areas.

<sup>5</sup> Raihan (2009) also reported that high dropout rates among the children of these vulnerable households were observed because of the price hike of food items as most of the households could not continue to bear the expenses of their children's education. On average, 58 per cent and 56 per cent of households in the rural and urban areas, respectively, experienced a dropout of their children from school. A significant proportion of these dropped out children were engaged in different jobs for contributing to their household income.

<sup>6</sup> The study found that during the one-year period (the time between the survey and the year prior), agricultural wages and non-agricultural wages in all surveyed districts, on average, increased by 41 percent and 38 percent, respectively. However, rice equivalent of agricultural wage decreased from 3.76 kg in 2006 to 3.35 kg in 2008. On the other hand, rice equivalent of non-agricultural wage decreased from 5.32 kg in 2006 to 4.65 kg in 2008.

contributed to a worsening of nutritional status in Bangladesh. Children, especially those who were relatively older (24–59 months) suffered the most.<sup>7</sup>

## **4 Policy responses**

### **4.1 Increased agricultural production through input subsidies, investment, and enhanced extension**

The government took a number of initiatives for the development of the agriculture sector in the light of the PRSP, National Agriculture Policy, and MDGs. Discussions with the policy makers suggest that many of these initiatives were reinforced in the context of rising food prices in the global market. These included subsidy on fertilizer, a rehabilitation programme for flood and cyclone, endowment funds for agricultural research and development, diesel subsidy to the small and marginal farmers, cash incentives for exporting agricultural products, rebate on electricity bills to the entrepreneurs of agro-based industries, reduction of the rate of interest for disbursement of loan for the production of pulse, oil-seed and spices, and pursuing distribution programmes of agriculture and rural credit through state-owned commercial banks. The allocation for these programmes increased during 2007 and 2008 (Economic Review 2008).

The Bangladesh Bank (BB) undertook several initiatives to streamline higher and balanced flow of agricultural credit as well as the distribution of subsidies on agricultural inputs. It was made compulsory for all local and foreign banks to disburse agricultural credits to facilitate agricultural production. The BB introduced a 'revolving crop credit limit system' for a three-year period to ensure access of farm loan to farmers continuously engaged in agricultural production.

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<sup>7</sup> In order to better understand the child malnutrition findings, the study carried out qualitative studies. When asked about malnutrition and rising food price, the mothers provided an insightful story. Before the food price rise, most mothers stated that they prepared separate food for their children, especially for those who were older, consisting of milk, rice, banana and khichuri (a food mix of rice and pulses). With the rising food prices, they could no longer afford to do that, and children ate from the family meal which has deteriorated in terms of quantity and quality. The mothers were very aware of the longer term detrimental impact of this, arguing that this adjustment is particularly harmful for children in their growing age.

Table 2: Tariff schedule of essential imported commodities: 2001–02, 2006–07, and 2007–08

Products	2001–02	2006–07	2007–08					Total operative tariff rate
	Total operative tariff rate (%)	Total operative tariff rate (%)	Customs duty	Supplementary duty	VAT	Advanced income tax	Advanced trade VAT	
Rice	13.5	5.0	0.0	0.0	0.0	0.0	0.0	0.0
Wheat	7.5	5.0	0.0	0.0	0.0	0.0	0.0	0.0
Edible oil (refined)	52.5	20.8	10.0	0.0	15.0	0.0	1.5	8.3
Edible oil (crude)	36.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Onion	30.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0
Pulses	15.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: For 2001–02: Deb (2005); for 2006–07 and 2007–08: the MFN tariff schedule by the NBR (available at: [www.nbr-bd.org](http://www.nbr-bd.org)).

## 4.2 Domestic price and trade policies

Table 2 shows the changes in tariff rates on essential imported commodities during 2001–02 and 2007–08. Until 2007, total operative tariffs on rice and wheat were 5 per cent, which were brought down to zero in 2007–08. Also, operative tariff rates on other food items were reduced drastically during 2007–08. There was the withdrawal of the provision of an annual renewal fee of value added tax (VAT) registration by commercial importers.

The government also directed the BB to encourage the banks to provide credit facilities on softer terms to new importers, to ease the letter of credit (L/C) margin for food items, and to extend the time for customer facility. In order to curb inflation, the BB stated that it would continue following an accommodative monetary policy.

## 4.3 Social safety nets

In the face of escalated food prices in the domestic market, the national Budget of 2007–08, expanded the existing food grains distribution through various social safety net programmes. There was also increased coverage and amount of individual grants under those programmes. Some additional programmes, such as Bangladesh Rifles's (BDR) 'Dal-Bhat' (Pulses-Rice) programme, were undertaken. The national Budget of 2008–09 continued these measures and expanded the open market sale (OMS) of food grains at subsidized price.

## 4.4 Procurement and stocking policies

In 2007–08, though the government decided to intensify internal procurement of food grains, in reality, total procurement in 2007–08 was 31 per cent lower than the targeted procurement, and 24 per cent lower than that of the previous year's procurement. No wheat could be procured and, therefore, all of the procured food grain was rice. The low level of domestic procurement was due to loss in production caused by natural disasters

and higher prices prevailing in the market compared to the procurement prices set by the government. In such a situation, it was expected that the government would meet the shortfall in domestic procurement through higher imports from the international market. However, such expectation was not realized due to two major reasons: (1) though India had been the major source of import of rice for Bangladesh, in October 2007 India imposed a ban on the rice export; and (2) the international market price of rice was much higher than the domestic price during 2007 and 2008, which discouraged private importers to import.

One important observation made by Dorosh (2009) was that though the government in Bangladesh mostly relied on private sector imports to supplement any shortfalls in domestic production, it also traditionally held public stocks of cereals. Table 3, however, suggests that the public stock of rice started to decline since 2003–04. Also, the public stock of wheat in 2006–07 became almost one third of its level in 2001–02. The total public stock of cereals declined from its level of 944,000 metric tons (mt) in 2001–02 to 607,000 mt in 2006–07. However, the public stock of rice began to rise since 2007–08. Dorosh (2009) suggested that the export bans that many traditional grain exporting countries imposed in reaction to the 2007-08 food crisis created concerns among Bangladesh’s senior policy makers that international trade might be disrupted at times when the country needed to import. As a result, the government set a high public stock target of rice and wheat. As reflected from Table 3, rise in the public stock of rice since 2007–08 was a response to such concern of the policy makers in Bangladesh. The increased stock was attributed to lesser off-take and increased domestic procurement and import (FPMU 2008).

Table 3: Bangladesh public stocks of cereals, 2001–02 to 2008–09 ('000 mt)

Year	Rice	Wheat	Total
2001–02	500	444	944
2002–03	525	151	676
2003–04	723	116	839
2004–05	606	143	749
2005–06	568	167	735
2006–07	446	161	607
2007–08	790	110	900
2008–09	910	190	1100

Note: Figures shown are end-June stocks for the periods shown.

Source: Bangladesh FPMU data (<http://www.nfpcsp.org/agridrupal/fortnightly-foodgrain-outlook>).

#### 4.5 Other policies and interventions

The national Budget of 2007–08 announced the establishment of a task force at the national and district levels to review prices of essential commodities regularly. It has already been mentioned that the country at that time was run by a ‘civil’ caretaker government backed by the military. The activities of the political parties were very limited. The demand for establishing task forces to review prices didn’t come from the political parties; rather the civil society organizations, NGOs, and consumer groups were the pioneers in raising that demand. However, discussions with the stakeholders indicate that very little achievements were made in terms of establishments of task forces, and their operations were limited and were mostly ineffective. The inter-

ministerial monitoring committee was formed to analyse the price situation of essential commodities. A legal framework was proposed to protect consumer rights which later in 2009 took the shape of a Consumer Protection Act. The civil society organizations, including the Consumers' Association of Bangladesh, were very active in pursuing for the Consumer Protection Act. Also, in the Ministry of Commerce (MoC), there was a support for this act, especially due to the fact that the MoC was usually criticized for its 'failure' in monitoring and curbing prices and there was a general perception among the high officials in the MoC that the enactment of the Consumer Protection Act would provide them with the necessary instruments to take measures against any anti-competitive practices which were prevailed in the markets of essential commodities. The national budget of 2008–09 announced medium-term measures such as an increase of production and distribution of food grains through creation of wholesale markets in various places including Dhaka and taking initiatives for introducing a Consumers' Rights Protection Ordinance. The measures related to boosting agricultural production had some positive effects as reflected in an increased production of agricultural commodities in the subsequent years. However, the enactment of the Consumer Protection Act had little effect in containing the prices of essential food items since the government lacked required machineries, personnel, and capacity to effectively implement this act.

#### **4.6 A timeline of the events and responses**

Table 4 provides a brief summary of the timeline of the major events and responses during 2007 and 2008. The timeline suggests that the government's major success was raising the boro rice production and on targeted safety net programmes. A significant rise in rice production during April/June 2008 helped the government to increase the public stock of rice.

### **5 Political economy context**

#### **5.1 The role of ministries**

The MoC and the Ministry of Food and Disaster Management (MoFDM) were at the centre of discussion related to government's actions against the food price hike during 2007–08.

On 18 March 2007 the MoC formed a Price Monitoring Cell (PMC) headed by a deputy secretary to rein in the spiralling prices, which would report to the ministry if it found anything overpriced in the market. As part of its action to keep the prices of essential commodities within the purchasing power of the common people, the MoC announced to set up this PMC in line with the proposed Consumer Protection Act to monitor the prices of essentials on a day-to-day basis. This PMC was successful in collecting data on prices of essential food items on a daily basis. However, because of the lack of required machineries, personnel, and capacity, PMC also failed to exert any influence over the market prices. The MoC urged the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) to set up a monitoring cell and display price lists at the wholesale and retail outlets. FBCCI's monitoring cell was ineffective, and the

MoC's instruction to display price lists at the wholesale and retail outlets was largely disobeyed by the traders because of lack of monitoring capacity of the MoC.

The MoC was instrumental in pursuing the Ministry of Finance (MoF) to cut down the tariffs on food imports. According to a report published in the newspaper on 19 March 2007,<sup>8</sup> businessmen welcomed the government initiative of exempting taxes on wheat and rice imports. They also suggested going for the same step regarding import of other food items like soyabean oil, milk, lentil etc. The same report mentioned that some high officials of the Commerce Ministry and the National Board of Revenue (NBR) held the view that the reduction of L/C margin would not play any role to reduce the prices of commodities and only businessmen would be benefited from such provision.

Price hikes of essential food items during the month of Ramadan had been a regular phenomenon in Bangladesh. In the months of Ramadan during 2007 and 2008, the MoC had been consistently maintaining that the stocks of essentials were sufficient and thus there was no cause for a price hike. Also, in 2009, when the food prices in the international market were declining, the MoC had been calling the businessmen to reduce food prices in the domestic market. However, the businessmen were arguing that because of the rise in international commodity prices local prices were getting pushed up. A report published in the leading English daily newspaper, mentioned that the 'business insiders contended that since the present stocks had been procured when the prices abroad were lower, there was no valid reason why their current local prices would soar. While the traders are reluctant to lower their prices following a decrease in international prices, they never tire of cashing in on any increase in world commodity prices to jack up local prices, often disproportionately.'<sup>9</sup> The same report also mentioned that 'though the commerce minister continuously exhorted the business community not to resort to profiteering but to content with making legitimate profits over larger volumes of sales in the Ramadan, there were concerns related to hoarding and stockpiling of goods thus creating artificial scarcities and manipulating prices by some businessmen.'<sup>10</sup>

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<sup>8</sup> *The Daily Star*, 19 March 2007.

<sup>9</sup> *The Daily Star*, 9 August 2009.

<sup>10</sup> *The Daily Star*, 9 August 2009.

Table 4: A Timeline of the events and responses

Year	2007				2008			
Quarter	Jan/March	April/June	July/Sep	Oct/Dec	Jan/March	April/June	July/Sep	Oct/Dec
Events			Two rounds of severe floods	Super cyclone Sidr (mid-Nov 07).  Spike in global fuel prices	India bans rice exports	Uncertainties about rice import from India and other major exporting countries	Boro rice harvest 17% up on previous year	
Responses	- Import duty on rice and wheat withdrawn - OMS initiated	Bank credit for private food import eased	- First round of major safety net operations - Agricultural rehabilitation	- Second round of major safety net operations - Intensifications of OMS operation	- Massive support for boro rice harvest - Continuation of OMS operation - Announcement of highest ever farm price support - India agrees special dispensation for exports of 0.5 million tonnes of rice	Procurement drive for stock build-up	Targeted continuation of safety nets	OMS operation scaled down

Source: Wiggins et al. (2010).

There were also some debates within the MoC with regard to involving the Trading Corporation of Bangladesh (TCB), an organisation under the MoC, as a market player during the times of price hike. TCB is a public organization and it used to have some roles in the past when after the independence the government could intervene in the market through imports of essential commodities using the TCB. However, with the growing dominance of the free market philosophy, the importance of the TCB gradually declined and currently it has become an organization with insufficient funds and manpower. There are some interesting political economic issues related to the debate whether to make TCB effective or not. There was a 'public' demand for making TCB effective in the sense that TCB with some sizeable volume of imports of essential food items could put some downward pressure on the prices of essential food items in the domestic market. However, there was a resistance from the business community and their lobbies in the government not to extend the operation of TCB. During the episodes of price hike in 2007, 2008, and 2009, there were regular features in the national dailies related to this debate.<sup>11</sup>

During 2007 and 2008, the MoFDM set high targets of public food distribution and building up of the government's food reserve. However, there were concerns in the media with regard to the failure of the MoFDM in achieving those targets. Quoting a food ministry official, the *The Daily Star*, reported that the distribution of food grains through government programmes had not been satisfactory. Also, the government food stock was low as a result of scarcity and high prices. Programmes for public food distribution included vulnerable group feeding, vulnerable group development, OMS, and fair price outlets. That newspaper also mentioned about a food ministry report which alarmed the government that it might not be possible to build up an adequate food bank and run the public distribution programme smoothly, if it had failed to import 0.5 million mt of rice from India. About the government's rice procurement target, the report mentioned that farmers did sell rice to the government as prices on the market were higher than the government procurement prices. Also, the import of rice was not satisfactory due to high prices and the scarcity of it on the international market. The government invited tenders for importing 0.9 million MT of rice and wheat, but failed to elicit adequate responses from traders due to the scarcity and price hikes on the international market. The newspaper also mentioned that the government invited tenders for importing rice 36 times during 2007 and 2008 but the response to the tenders was not good as the import cost of rice became higher than what had been quoted in the tender bids.<sup>12</sup>

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<sup>11</sup> *The Financial Express*, 3 October 2012 writes: 'there is no solid proof about operations ever of a perfectly competitive market in Bangladesh. Monopolies, duopolies, oligopolies etc., are recognized everywhere, as in Bangladesh. But what can be added, about the Bangladesh situation is that there are frequent manipulations of prices, as reported in its media. A sizable amount of our total food requirements is imported from the international market. But the difference between the prices in the domestic and international markets is too high. That is why there is no alternative to government other than reactivating TCB. In the early years, TCB had a bold role establishing the competitive price in market. In 1972-73, it imported 63 commodities. That year TCB's share of total import was 24.84 per cent. During the period between 1972 and 77, TCB used to import as many as 70 commodities. Now the organization does hardly manage three products to import from the international market. The items are: sugar, oil and lentil. And its share in total import is even below one per cent. The first strike on the organization came after the policy moves were taken in favour of privatization and liberalization of the economy following the prescription by the World Bank and the International Monetary Fund (IMF). In 1996, the government offered golden handshake to the employees of the TCB reducing their number from 1390 to 714. Again in 2002 another golden handshake was given which further reduced the number of its total workforce to 225. TCB suffers now from a shortage of efficient manpower; several other problems have become offshoots of that development. Today TCB is facing problems in different areas like legislative in flexibility, resource mismanagement, difficulties in decision-making process and lack of leadership.'

<sup>12</sup> *The Daily Star*, 6 April 2008.

It should, however, be mentioned that though the MoC and MoFDM were at the centre of discussion related to government's actions, they didn't have any direct power to influence over the prices in the domestic market. For example, the MoC didn't have any direct authority to lower the duties on import of food items. They had to request the MoF to undertake such a decision. Also, to expand the operation of the TCB in terms of increased manpower and increased fund for a larger volume of imports of food items could only be possible through the endorsement of the MoF, which was not straightforward. A number of studies (such as Raihan, Khondker, and Uddin 2010) identified some important non-economic reasons for a food price hike in the domestic market, such as extortion and unofficial payments in the transportation, distribution, and marketing conduits of food. This required actions from the Ministry of Home. The caretaker government, through the Ministry of Home, took a number of measures to combat the non-economic factors and also drove actions against 'illegal' or 'informal' supply chains. Though some of the measures against extortions were effective, many of those actions against 'illegal' or 'informal' supply chains were counter-productive. CPD (2008) mentioned that strict law enforcements by the joint forces and the eviction of many roadside markets adversely affected the food inflation situation in Bangladesh. Demolition of local hat and bazars did not help either.

## **5.2 Role of business associations**

The Metropolitan Chamber of Commerce and Industry, Dhaka (MCCI) urged the central bank to consult the leaders of private sector businesses and industries and collectively evolve a strategy for controlling inflation and achieving and maintaining the highest attainable output growth in the immediate and medium terms. In a statement, published in a newspaper,<sup>13</sup> on the fourth mid-year Monetary Policy Statement (MPS) of the BB announced on 12 July 2007, the leading chamber body of the country said the MPS which hinted at a tighter monetary policy in the near and the medium term should not aim at increasing interest rates and effecting a hike of statutory liquidity ratio and cash reserve requirement (CRR) of banks. The MCCI also urged the BB to ensure that the administrative prices of fuels, utilities, and fertilizers not to be increased and ensure that the borrowings of the government to be reduced by 11 percentage points to 21 per cent as mentioned in the MPS. The MCCI alerted the government that higher prices would aggravate the inflationary situation and the inflation rate was higher in the rural areas than in the urban areas because of a price hike. The chamber mentioned that increased interest rates would cause higher inflation instead of helping reduction of the same. The MCCI held the view that a reduction in the government's borrowings for non-productive expenditures could have significant lasting beneficial impact on the overall inflationary pressures. The MCCI termed the rise in the inflation rate as induced by cost-push factors manifested through higher global prices of major imports (fuel, food, and fertilizer, for example) and frequent increases in the government-administered prices of the utilities. MCCI opposed BB's tight monetary policy as it might raise the cost of borrowing for the entrepreneurs, curb the enthusiasm of genuine businessmen to invest in the formal economy, and subdue economic growth, while the major source of inflation would remain beyond reach. However, such call from the business community didn't have any impact on the BB to reverse its stance on monetary policy.

The MCCI also urged the government to strengthen the price-monitoring cell and bring the market manipulators to book for exemplary punishment. Since, the MCCI was the country's

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<sup>13</sup> The Financial Express, 19 July 2007.

prestigious and elite trade body, they wanted to uphold the clear image of the business people through such actions. The chamber leaders also suggested the government to improve the monitoring capacity of the cell and maintain a close relation with the TCB in order to ensure a sound demand-supply situation. They also suggested that the hoarders or syndicates should be given exemplary punishment. They MCCI also asked for a clear definition of ‘hoarding’ and ‘artificial crisis’ so businessmen can distinguish between what is allowable and what is not. The MCCI also suggested the government to turn the TCB into a public limited company and give it enough autonomy to function independently.<sup>14</sup> Such call from the MCCI could appear to be in contradiction to its self-interest, since TCB would presumably compete with the private traders. However, as mentioned before, TCB had always been neglected by the government, and it was a common perception among the business people that TCB would never be operationalized effectively. And in fact, despite such a call from the MCCI, TCB was not made functional.

The FBCCI in May 2008 commissioned a task force comprising top traders, ministry officials concerned and members of the joint forces to monitor the price situation.<sup>15</sup> The task force was supposed to collect, preserve and update information on retail and wholesale prices of essentials, commodity-wise details of supply, demand, production and stock, and market trends. Besides, the task force was supposed to come up with a set of recommendations for the government on how to keep the prices of essentials at a tolerable level. The task force would meet once in every 15 days and three major chambers—Chittagong, Khulna, and Jessore—would provide daily information for its cell. A website on the task force was also supposed to be launched. The FBCCI also demanded that the government should formulate a food and hoarding policy and bring changes to the present food procurement policy. They asked for immediate measures to create a better business climate as, they said, businesses are bound to fare badly in a hostile environment. They also complained against the government’s anti-hoarding drive that often ended up meaning harassment for the businessmen. The FBCCI president mentioned that the businessmen were often misunderstood and labelled profiteers; but if they stopped operating the country’s economy would grind to a halt. He hoped that the FBCCI price monitoring task force would bridge the gap between business community and the people.

A newspaper report in July 2008, however, mentioned that the FBCCI price monitoring task force was yet to gather pace two months after its launching in May.<sup>16</sup> Though the task force was supposed to sit twice a month, during May and June 2008, a single meeting was held where 14 of its 27 members were present. Also, there was no progress in setting up the proposed website for the task force. It thus appeared that, though few top leaders of FBCCI were eager in setting up the price monitoring task force, they didn’t receive any support from the larger business community.

In September 2008, the FBCCI president urged business people for keeping prices of basic commodities within people’s reach by not making unreasonable profits during the month of Ramadan.<sup>17</sup> The FBCCI President claimed that prices of several basic commodities declined to some extent since the onset of Ramadan due to strict monitoring of the prices by the apex

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<sup>14</sup> *The Daily Star*, 6 January 2010.

<sup>15</sup> *The Daily Star*, 8 May 2008.

<sup>16</sup> *The Daily Star*, 7 July 2008.

<sup>17</sup> *The Daily Star*, 11 September 2008.

trade body and other government agencies. He mentioned that FBCCI must do something about the price hike of essential commodities, as almost all businessmen were the members of the association. He also mentioned that he would continue his visits to the city markets during Ramadan to check on the prices of essentials. He urged the wholesalers to give vouchers to the retailers for transparency in pricing of the commodities. However, in reality, there was no authority to monitor whether this was practiced by the traders.

FBCCI formed a 10-member committee to investigate the sugar scam in October 2009 and recommend possible ways to control the prices of sugar and other essentials.<sup>18</sup> The committee was asked to identify the reasons behind the abnormal price hike of sugar against an administered price. It was asked to suggest possible measures to reduce the sugar price and keep the prices of other essentials at tolerable level. Meanwhile, backtracking from its earlier stand to arrest the unscrupulous sugar traders, who manipulated the sugar price during the month of Ramadan, the government in September decided to form two separate committees to conduct an 'extensive investigation' into the sugar price spiral.<sup>19</sup> The committees, one led by the government and another by the FBCCI, were asked to submit their reports within the next 15 days. The committees submitted the reports, though the reports were never made public and there were no effective actions against those unscrupulous sugar traders. The decision for more investigation came following a meeting with the Commerce Minister and business delegation led by FBCCI at the Commerce Ministry. The FBCCI asked that the investigation process should be neutral and transparent so that none could face harassment during the investigation. The FBCCI president re-iterated the government's firm position to unearth the real reason for the sugar price hike and bring the culprits to the book. He mentioned that there was no real reason for a sugar price hike with sufficient stock of it in the market.

In August 2010, the FBCCI urged the government to make a commodity price control policy to tackle irrational price spirals in the market.<sup>20</sup> The policy should deal with the issues that affect prices and should define clear strategies and guidelines on the pricing of commodities at various levels of commodity supply chains. FBCCI called for continued action from the government in its drive to check food adulteration, deploring the misdeeds of an

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<sup>18</sup> *The Daily Star*, 1 October 2009.

<sup>19</sup> *The Daily Star* on 30 September, 2009 reported that 'The committees were formed at a time when eight sugar traders have been hiding following a government declaration that they would be arrested. Commerce Minister Faruk Khan briefed the media about the committees after his meeting with a delegation of traders led by the FBCCI president Annisul Huq at the ministry. Recent seizure of a good amount of stocked sugar in Jessore and Jhalakathi has meanwhile created a sense of fear among sugar traders. Many traders of Moulavibazar in the city have not yet opened their shops since Eid-ul-Fitr. "Legal actions must be taken against those responsible for destabilizing the sugar market", Faruk Khan told reporters after the meeting. Moulavibazar Traders Association President Enayet Ullah told *The Daily Star* that at the meeting they tried to explain the reasons behind the sugar price hike. "Traders in Moulavibazar bought only around 2,400 tonnes of sugar at the government-fixed rate of Tk 39 during Ramadan. But the millers claimed that they supplied 135,000 tonnes. The millers have to specify who they supplied it", he said. Enayet said they also told the commerce minister that there had been delay in delivery of sugar from mill gates, which created a shortage in the supply. Meanwhile, the Consumers' Association of Bangladesh (CAB) yesterday said dishonest businessmen are trying to put pressure on the government by creating a fresh crisis of sugar in the market while some business leaders are trying to save syndicate members. A press release signed by CAB Information and Research Officer Emdad Hossain said the commerce minister's declaration to arrest these syndicate members has not yet been implemented. The CAB thinks traders will not dare to manipulate the market by creating syndicates if the government can really take actions against such business syndicates'.

<sup>20</sup> *The Daily Star*, 23 August 2010.

unscrupulous section of the business people, who tarnish the image of the whole business community. The FBCCI president mentioned that they would sit with all the business leaders and relevant stakeholders, including wholesalers, and retailers, to formulate and recommend a commodity price control policy, which would be sent to the government for consideration. He also highlighted that the prevailing lack of mutual trust, understanding and transparency among the importers, wholesalers and retailers of commodities was giving rise to abrupt price hikes, affecting the general customers. He also suggested that the inconsistencies in supply chain could be removed by adopting appropriate measures, including guidelines for tackling the issues affecting commodity pricing, not only during Ramadan but all the year round. He also underlined the need for the combined efforts of all stakeholders, as well as the government, in formulating necessary legal instruments to address the price hike issues. The FBCCI chief also called for the abandonment of the demand order (DO) system for sugar and edible oils and replacing it with appointment of dealers, claiming that the latter would better address the price spirals evident in the market. To better project the actual supply and demand of various commodities, the FBCCI would ask businessmen to provide with their annual production targets at the beginning of the year, so that we can predict possible shortages of commodities well ahead and ask the TCB to do the needful. Underpinning the need for using the latest information technology systems to track commodity prices, the FBCCI president mentioned that the prices of all commodities at all levels of the supply chain should be put on the website, so that anyone could keep track. He also mentioned that FBCCI would recommend the wholesalers to write out sales slips or receipts for each transaction they would make and ask retailers to display the price lists of the commodities to ensure transparency. The FBCCI, however, noted that a section of the business community and traders were still trying to manipulate prices through their attempts to create an artificial crisis of commodities. However, most of the suggestions of the FBCCI president were not materialized. Only, the DO system for sugar and edible oil trade was replaced by the dealership system in October 2010.

### **5.3 Other institutions**

By 19 March 2007, the BDR<sup>21</sup> set up ‘free markets’ at 17 places in the capital, as a part of the government’s efforts to stabilise the soaring prices of essentials.<sup>22</sup> These ‘free markets’ sold essential commodities at fair prices to help the lower and middle income groups facing hardships due to price spiralling. By 23 March, there were another eight ‘free markets’.<sup>23</sup> The products sold at the BDR ‘free markets’ were cheaper than those at the regular markets since BDR could charge very low retail margins. However, such operations were limited in terms of scale and thus had little effect in curbing the market prices.

The government also continued with the open market sale (OMS). This was part of the government’s subsidized food distribution programmes. One person was entitled to buy a maximum of 5 kg rice at the rate of Tk 15.25 per kg in that rationing system. According to the newspaper report ‘... first day of OMS in Chittagong saw huge demand. Only three spots, out of the 82 spots fixed for OMS at the port city, sold rice with huge crowds thronging the

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<sup>21</sup> A para-military border security force.

<sup>22</sup> *The Daily Star*, 19 March 2007.

<sup>23</sup> *The Daily Star*, 23 March 2007.

places from the morning. Due to huge demand, all the three stalls ran out of stock within one and a half hours after starting the sale. Many consumers returned empty-handed as a result.’<sup>24</sup>

As mentioned before, during 2007–09, the BB expanded the agricultural credit and facilitated the distribution of subsidies on agricultural inputs. The BB also provided soft loans for new importers of food items. The BB also intervened in the foreign exchange markets, directly and indirectly to keep a stable exchange rate against the US\$. The BB continued following a moderate contractionary monetary policy. During early 2010, in a seminar, the governor of the BB announced that the government would soon launch the value added agricultural project in collaboration with the Asian Development Bank (ADB) to ensure better prices for growers.<sup>25</sup> In May 2010, the central bank raised the cash reserve requirement<sup>26</sup> for banks in a bid to contain inflation. However, economists and businessmen thought that would make the businessmen’s access to bank finance difficult, and would also sag the investment.<sup>27</sup> In July 2010, in monetary policy announced the BB continued its dual objectives of maintaining inflationary pressure and supporting the economic growth. The BB took a slightly tight monetary policy to cut loan flow into the unproductive sector. The World Bank welcomed this monetary policy stating that as a cautious policy stance.<sup>28</sup> In December 2010, the BB took new steps to control the credit flow in an effort to contain inflation. The central bank issued two separate circulars. One of them directed the banks to take back the loans given to rice-mill owners and traders every 30 days, which was 45 days earlier. In another circular, BB asked the banks to set the loan equity ratio at 50:50 for consumer loans. Earlier, there was no guideline for the loan equity ratio for consumer finance. According to the BB, it was done to curb the credit flow to unproductive sectors.<sup>29</sup>

The International Monetary Fund (IMF) in July 2008 suggested the Bangladesh government to execute tight monetary policy and termed the existing policy too expansionary to deal with the soaring inflation. The IMF suggested that the monetary policy should be less expansionary to contain the already high inflationary pressures.<sup>30</sup> It seemed that BB listened to such advice during 2008 and in later years, though this policy suggestion was not welcomed by the business community.

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<sup>24</sup> *The Daily Star*, 23 March 2007.

<sup>25</sup> *The Daily Star*, 22 March 2010. The ADB also confirmed that it would extend financial assistance to Bangladesh to grow high-value crops including vegetables, spices, and fruits that would boost incomes for poor farmers and support the nation’s food security. A loan of US\$40 million equivalent from ADB’s concessional Asian Development Fund was being provided for the Second Crop Diversification Project. It would be used to support the development of high-value crops in 27 districts in the South West and North West of Bangladesh—including some of the poorest, least developed, and most climate-vulnerable areas in the country (Source: <http://www.adb.org/news/adb-40-million-loan-boost-food-security-farm-incomes-bangladesh>)

<sup>26</sup> The reserve requirement is a central bank regulation that sets the minimum reserves each bank must hold against customer deposits. The reserve ratio is sometimes used as a tool in the monetary policy, influencing the country’s economy, borrowing, and interest rates. Any rise in CRR means mopping up excess liquidity from the money market by using the instrument as part of demand management to curb inflation.

<sup>27</sup> *The Daily Star*, 5 May 2010.

<sup>28</sup> *The Daily Star*, 20 July 2010.

<sup>29</sup> *The Daily Star*, 16 July 2008.

<sup>30</sup> *The Daily Star*, 30 December 2010.

## 5.4 Civil society

The Centre for Policy Dialogue (CPD), a leading private sector think tank in Bangladesh, praised the government's step to fix the procurement price for paddy and rice as Tk 18/kg and Tk 28/kg respectively. CPD called for increasing the capacity of rice milling and storage capacity. CPD also called for widening the scopes for social safety net programmes such as vulnerable group feeding, vulnerable group development, food for work and allowances for the destitute, and ensuring a guaranteed employment scheme to increase the purchasing power of the poor.<sup>31</sup>

As inflation continued to rise in 2009 mainly because of soaring food prices, civil society organizations and experts blamed volatility in the international commodity markets for the rise in the inflation rate. An economist from the Bangladesh Institute of Development Studies, a leading public sector research institution, mentioned that although the domestic supply side was not in a bad shape, volatile commodity prices in the international markets added to the inflationary pressure. The suggestion was that the government should monitor the global market on a regular basis so that the government could make a buffer stock by importing essentials when the prices were low in the international market. An economist from CPD held the view that the government should take measures to minimize production costs and fertilizer prices cut could be a way to reduce production costs.<sup>32</sup> The government reduced the fertilizer prices in the subsequent months.<sup>33</sup>

Dr Akbar Ali Khan, the former finance adviser to the caretaker government, mentioned that the subsidy and reduction of import duty on essentials would help the government get a grip on the price inflation. He suggested that the government would have to buy the essentials on the open market at higher prices and sell those at lower prices to check the price increase of essentials, and if necessary, the government would have to allocate funds from other sectors of the budget. He also held the view that various initiatives of the government in tackling the price hike including the sealing off of numerous warehouses to prevent illegal hoarding and harassment of business leaders were not appropriate. He advised the government to increase the supply of commodities in the market and at the same time, enhance its own stockpile. Describing the sufferings of people of limited and fixed income groups, he also suggested that the government should import more essentials and undertake a massive essential goods distribution programme for the poor. He suggests that above all, the government would have to put emphasis on the food management for overcoming the enduring problem.<sup>34</sup> The caretaker government eventually backtracked from its position to conduct drive against

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<sup>31</sup> Rahman et al. (2008).

<sup>32</sup> *The Daily Star*, 15 September 2009.

<sup>33</sup> The government for the third time in its tenure has decided to cut down the prices of non-urea fertilizers—muriate of potash (MoP) and diammonium phosphate (DAP)—by 40 and 3 percent, respectively, as an incentive to farmers to grow more winter crops. At the farmers' level, MoP will be sold at Tk 15/kg, which now sells at Tk 25, while DAP will be sold at Tk 27/kg, which now costs Tk 30, said a press release of the Ministry of Agriculture. At a dealers' level the new price of MoP will be Tk 13/kg and DAP Tk 25/kg. The government will issue a circular soon in this regard to make the new prices effective. "We want the farmers feel encouraged to produce more winter crops, especially potato and reduce their dependency on urea only. It is important to ensure balanced use of fertilizer, which would also help sustain soil fertility", the release said. Prices of all non-urea fertilizers were almost halved on 14 January 2009 and later on 3 November 2011 the government again slashed the prices. The government will subsidize Tk 22,000,000,000 for these fertilizers this fiscal year, said an official at the agriculture ministry'. (*The Daily Star*, 23 October 2010).

<sup>34</sup> BBC Sanglap (Discussion), published in *The Daily Star*, 16 September 2009.

‘corruption’ of businessmen, which was alleged to be responsible for disrupting the ‘normal’ supply chain of essential commodities.

## 5.5 Newspapers

The newspapers played some vital roles in publishing key news, information, and analysis during the period under consideration. Newspapers were the major means for disseminating the government’s decisions, policy actions and the reactions of the stakeholder. A news report on 8 March 2007, for example, revealed that the interim government, in a meeting with high officials of the BB and the armed forces, decided to cut import duties on commodities, ensure increased supply commodities in the market, and asked the joint forces to coordinate their drives targeting the corrupt and dishonest businesses only.<sup>35</sup> The report also mentioned that the BB officials in the meeting drew attention on various negative impacts of the ongoing anti-corruption drives by the joint forces. They observed that the drives panicked genuine traders. The meeting decided to ask the law enforcers to coordinate their drives against hoarding and corrupt businesses and take assistance for the drives from government departments concerned—NBR, Anti-Corruption Commission, and BB. The meeting also decided to intensify import of essentials through the state-run trading agency, TCB, to reduce the prices of essentials.<sup>36</sup>

Another report on 19 March 2007 indicated that the commerce ministry did virtually nothing to control the market during the tenure of the immediate-past government (the government during 2001-05). There were two changes of commerce ministers, reportedly for their failure to exercise enough influence in the market to halt the rise in prices. The report added that the recent unbridled rise in prices was attributed to some factors, which included shortages of essentials in the market, caused by jitters owing to the crackdown, by businessmen who refused to import the essentials, leaving the entire supply chain disrupted. The report hailed the CTG as it made a major move to reduce prices of foodstuff by lifting import duties on rice and wheat and allowing banks to open LCs on liberal terms. The CTG also decided to start an open-market sale of some essentials, and also ordered the opening of the sealed food storages across the country as a way of keeping the supply available in the market. The report suggested the CTG to take utmost care so that the benefit of duty concessions could really reach the consumers. The report also called for an effective activation of the TCB. The TCB, established in 1972, was tasked with intervening in the market when the prices of essentials rose. But the immediate past government closed down the TCB in March 2002 with a view to leaving business to the private sector, mostly to its coterie. The report held the view that the TCB, in the past, had played a very vital role in foiling the machinations of the price syndicates and cartels by going into competition with the private sector importers of essentials. The reactivation of TCB was thus urgently required for a let-up in the price spiral. The report added that the government’s steps in the recent past, to vend some widely used commodities through the TCB and BDR personnel, brought positive results in containing the price spiral. Such vending should be restarted soon. The report opined that the erratic market behaviour clearly evinced that the syndicates and cartels were still very much active, and were trying to blackmail the CTG. The report mentioned that there was no policy for regulating the storage of foodstuff and other commodities, which led to hoarding. The report

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<sup>35</sup> The anti-corruption drive against the dishonest businessmen by the caretaker government created fear among the business community as a whole which disrupted the ‘normal’ business practices.

<sup>36</sup> *The Daily Star*, 8 March 2007.

suggested the CTG to possess effective tools for market intervention, and create a monitoring system that would deter syndicates and cartels from market manipulation.<sup>37</sup>

## **6 The policy-making process and policy impact**

The constitution of Bangladesh is at the centre of all public policy-making processes. It provides the required fundamental guidelines for the formulation of public policies, which includes setting the goals, objectives, and strategies of national development. All these categorically emphasize the issue of meeting the basic needs of the people.

In Bangladesh, since independence, there have been several forms of the government. In the early years after independence there was a parliamentary form of government, where the prime minister with his cabinet was responsible for taking major policy decisions. The country was run by military dictators for one and a half decades until 1990 when the policy decisions were taken by the military dictators with their chosen set of people from both military and civil bureaucracies. The parliamentary form of government was reinstated in 1991 and until now this system has been continuing with the exception in 2007 and 2008 when the country was run by an interim government backed by the militaries.

Under the parliamentary democratic system the cabinet is a small body of senior ministers responsible for directing the policy administration of the state. As per clause 4 (ii) of the rules of business 1996, no important policy decision shall be taken except with the approval of the cabinet. In other words, the cabinet is the ultimate authority of approving a policy. In particular, the policy-related issues which must be cleared by the cabinet include: (a) all cases related to legislation including promulgation of ordinances; (b) cases involving vital political, economic and administrative policies; (c) proposals relating to the change of any existing policy or cabinet decisions. It should, however, be mentioned that during 2007 and 2008, since there was no parliament, the interim government did not have any ministers and a formal cabinet. Instead of a prime minister, the government was run by chief advisor of the CTG and there were several advisors in place of the ministers. These advisors looked after the operations of different ministries. It is understood from discussions with different stakeholders that though there was no formal cabinet, the chief advisor of the CTG used to take advice from some senior advisors and in particular from the chief of army.

As per the constitution of Bangladesh, a ministry is a self-contained administrative unit responsible conducting of business of the government in a distinct and specified manner. The minister is in charge of formulating policies and their implementation. The minister is also responsible for conducting the business as well as is accountable for the actions of the ministry in the national parliament. Since, there was no parliament during the rule of CTG, the advisors, in charge of different ministries, were not accountable to their actions in any people's forum.

The secretary, a senior bureaucrat is the official head of a ministry and is responsible for administration and related businesses. The secretary also plays an important role in the policy-making process. During the rule of the CTG, the secretaries in the MoC, MoF, and MOFDM were very active in formulating and executing policies targeted at curbing inflation.

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<sup>37</sup> *The Daily Star*, 19 March 2007.

According to the constitution of Bangladesh, the MoF and the Ministry of Law, Justice, and Parliamentary Affairs play very important roles in both the formulation and approval process of public policy. Clause 13(4) of the Rules of Business clearly sets out that the Finance Ministry should be consulted on all economic and financial questions arising out of any case, particularly in matters of the (a) preparation of export and import policy; (b) negotiation of trade and barter agreement; (c) determination of tariff policy; (d) determination of pricing policy; (e) determination of investment policy; and (f) determination of labour policy. Similarly the consultation with the Ministry of Law, Justice and Parliamentary Affairs is obligatory in matters of (a) all proposals for legislation, (b) all legal questions arising out of any case, (c) preparation of any contracts, international agreements, international conventions and modifying international law, (d) the interpretation of any law, and (e) before authorizing or the issue of a rule, regulation, or bylaw. Therefore, when the MoC wanted to cut down the duties of the imported food items and to expand the operation of TCB, it had to get the endorsement from the MoF.

National Economic Council (NEC) is the highest political authority for consideration of development activities reflective of long-term national policies and objectives in Bangladesh. It serves as the economic mini-cabinet, consisting of the main economic ministers of the cabinet and headed by the prime minister. The ministries are responsible to adopt their policies, plans and programmes according to the objectives and priorities set by the NEC. Members of the planning commission and the secretaries in charge of all ministries/divisions are expected to attend its meetings. In addition, other important officials who are required to attend the NEC's meetings include the cabinet secretary and the governor of BB. The Planning Commission is assigned to provide secretarial service to NEC. During the rule of the CTG, the functions of the NEC were limited.

The Planning Commission is the central planning body of the country. It is entrusted to prepare national plans and approve development programmes of the national budget. During the CTG, the planning commission was not involved in preparation of any national plans.

Article 76 of the Constitution provides for the constitution of a number of standing committees composed of the members of the National Parliament. In addition, the parliament also can appoint other standing committees, and a committee so appointed is to examine legislative proposals, or review the enforcement of a law, or investigate or inquire into the activities/administration of a ministry, or any matter of public importance. As mentioned before, in the absence of any parliament during the CTG these standing committees were dysfunctional. However, during the elected government after 2009, many of these standing committees became active in the policy-making process.

It is also important to note the providers of foreign aid play a significant role both in the development and formulation of plans/projects and the management in Bangladesh. Bilateral donors such as the USA, the UK, and India have important stakes in Bangladesh's national policy making. Multilateral donors such as the World Bank, the IMF, ADB, and the European Union also have significant influence over the policy making process. On an average about 55 to 60 per cent of development expenditure in the national budget is supported by foreign donors and agencies. The donors also play an important role in injecting policy ideas and recommendation of different policy interventions.

## 7 Conclusion

This paper has explored the political economy of food price policy in Bangladesh. The analysis suggests that the food price hike during 2007 and 2009 had a profound impact on the welfare of the households in Bangladesh. The then government undertook several measures to contain the overall inflation rate generating mainly from the food inflation. Since the country was then run by an undemocratic interim and military backed government, there was little accountability of their actions. Even under a democratically elected government there was a lack of co-ordination among different ministries and government institutions. It is also learnt that though the major focus of containing food prices is the MoC, they have very little power and tools in hand in influencing the market prices. The power and tools are in the hand of other ministries, such as the Ministry of Finance, though they are not the major focus of such discussion.

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