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Agriculture Subsidies: Govt. Pledges vs. IFIs' Aversion

Introduction

With a bounty of pledges to revive the country's neglected agriculture sector that still renders livelihood opportunities to over 75 per cent of the total population, the Awami League led grand alliance came into power early this year. Soon after assuming the office, the government on the 15th January announced a couple of measures, a marginal cut in diesel price and a massive cut in non-urea fertiliser prices. The price of urea, the most usable fertilisers which constitutes about 65 per cent of the total fertiliser requirements for cultivation every year, remained unchanged. The prices of non-urea fertilisers were reduced to 55 per cent in order to make the farmers' production cost effective ahead of the country's biggest crop season, Boro. The farmers are expected to be benefited though 'indirectly' as a total subsidy of Tk 1,236.51 crore will, accordingly, be doled out to private sector fertiliser traders.

The prices of non-urea fertilisers were more than $1,000 a tone last season whereas their most recent prices, on an average, have become less than half. From now on, the farmers will be able to buy 1kg of TSP (triple super phosphate) at TK 40, MoP (muriate of potash) at TK 35 and DAP (di-ammonium phosphate) at TK 45 from dealers and their agents at the union parishad level. Previously, TSP cost TK 75-80 a kg, Mop TK 65-75 and DAP TK 80-85 and the farmers, however, will have to buy urea at the previous price of TK 12 a kg. Besides, the price of diesel cut down by Tk 2 per litre to Tk44 on sharp fall of crude oil in the international market, in which the bulk of the benefit goes to the state exchequer as the government is making profit from diesel.

The move is meant to bring down the prices of essentials by cutting farmers production cost. It was one of the commitments pledged by the government in its election manifesto to ensure easy supply of fertiliser to the farmers.

Snapshot: Pledges in for Agriculture in the Election Manifesto

- *self-reliance in food production by 2012 and 2021, 85% of people have standard nutritional food.*
- *ensure "food for all" to make Bangladesh self-sufficient in food by 2013.*
- *subsidy for agricultural inputs will be enhanced and availability of inputs will be made easier.*
- *The amount of agricultural loan and Loan for sharecroppers will be increased and available*

How these measures would be beneficent to the small and marginal farmers pose one question as both of the initiatives are indirect in effect. There has already been a cause for concerns as it is believed that the marginal cut in diesel price will hardly have any impact on marginal and poor farmers. Similarly the traders would like to grab the much of the benefits of the subsidy given to fertilisers as the market is yet imperfect. These apprehensions, however, could be minimized had there been an efficient administrative mechanism in the distribution system as well as strong political will of the government.

However, the current issue of the IFI Watch does not deal with how effectively the farmers would be benefited from the initiatives. It rather addresses on the long standing issues of how the government would combat with the IFIs, especially the World Bank, IMF which predominantly opposed the government's subsidy policy towards agriculture sector in the past. Meanwhile, on the 15th November 2008, the World Bank authority recommended elimination of subsidy on agricultural inputs and refocusing public spending on areas that would increase farm productivity like irrigation and rural roads and electricity at a regional seminar in Dhaka while the finance adviser turned down the suggestion (1).

And During the time to introduce a new chapter to the on going debates on rice crisis, the Food and Agriculture Organization (FAO) chief, recently, blamed the world bank and IMF policies for taking apart systems to protect the farmers (2).

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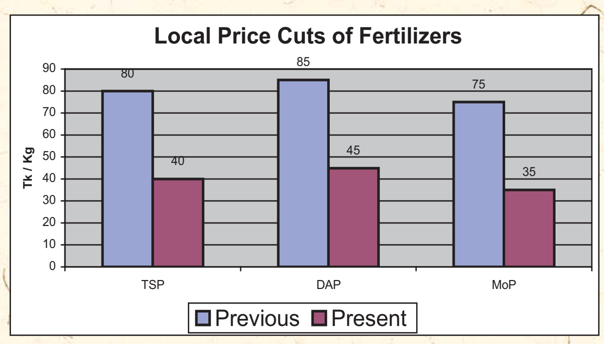
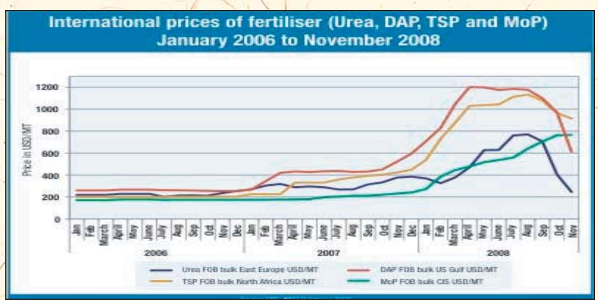
Prior to the elections, the pledges were merely the manifesto of a political party. Now after assuming the office, in order to implement those pledges, the ruling party needs to formulate a national policy, in which IFIs more often than not impose conditionality. Now the question arises how effectively the government would be dealing with the IFIs' conditionality in order to implement their pledges? Secondly, since agriculture development is a long run issue, any shortcut policy initiative would hardly be effective. Therefore, the government needs to design a long run policy to revive the agriculture sector. Therefore, the question is how long the government would survive to implement their policy in the five-year tenure setting aside IFIs' interventions? It is also a matter of assessment whether the IFIs will regard the government decisions.



Source:CPD Data / Star Business



Source:CPD, IRBD Database, 2008

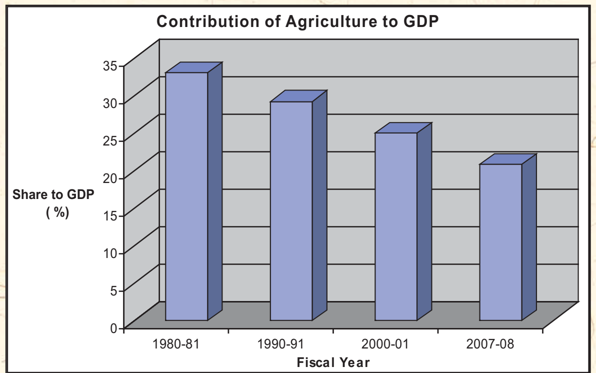
The global food crisis had been a result of the reason not only for bio-fuel production but also for the policies promoted by the IFIs including World Bank, IMF, and WTO that systematically discouraged food self-sufficiency in developing and under developed countries and encouraged food import by destroying the local production capacity of agriculture sector of the developing countries. Moreover, the rise in energy prices, shortage of arable land, depletion of water level, rise in temperature, shrinking of investment in the agriculture sector in developing countries since 80s are mainly responsible for the recent food crisis and food price inflation. On the other hand, farmers in the developing countries do not get benefit from price hike. Moreover, most of the farmers face poor linkage with the market and they have little access to the international food chain. The poor people spend about 60-70 per cent of their income on food consumption, statistics says.

Agriculture Subsidy and Govt. Initiatives

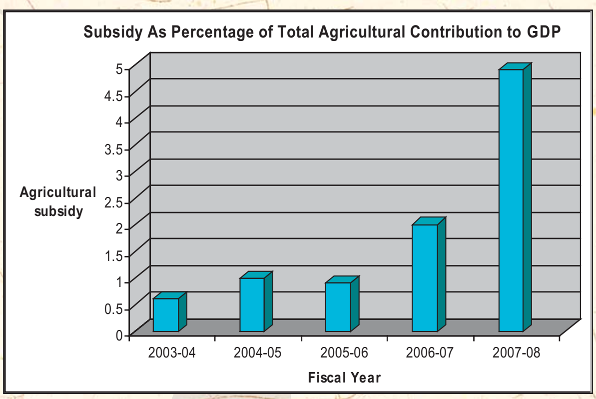
As per the direction of World Bank and IMF, Bangladesh had to comply with the Structural Adjustment Programme (SAP), which forced the government to reduce the support it had provided to the poor farmers. Bangladesh opened up her agricultural market since 1980s. As the first step, the input market was liberalised and later under the Agreement on Agriculture (AoA), the output market was opened up by liberalising the import of food items in mid 1990s. In terms of domestic support, as per the WTO AoA, a developing country can provide 10 per cent as amber box (4) support. But Bangladesh provides much less aggregate measure of support to agriculture than the permissible level under the WTO rules.

Instead of reducing agricultural subsidy, the developed countries are continuing to provide significant amount of subsidy to their agricultural sector. The European Union (EU) and United States (US) provide support to their agricultural sector, which is higher than that of their reduction commitment. Small and marginal farmers in Bangladesh constitute a significant portion of total holdings. They are mostly tenants (e.g. sharecroppers) and small owner operators. The small farmers have less access to the agriculture inputs. They are largely dependent on subsidies provided by the government.

A reduction in the volume of subsidy affects the productivity of the small and marginal farmers. From 1.54 in the fiscal year 1995-96, domestic support to agriculture came down to 0.6 per cent of agricultural GDP in 2003-04 and the rate remained low. During the Fiscal year 2006-07, there was a slight increase in the agricultural subsidy, which is 2 per cent. Flow of agricultural subsidy was higher in the year 2007-08 due to the cyclone Sidr. The low rate of subsidy to the agricultural sector has been



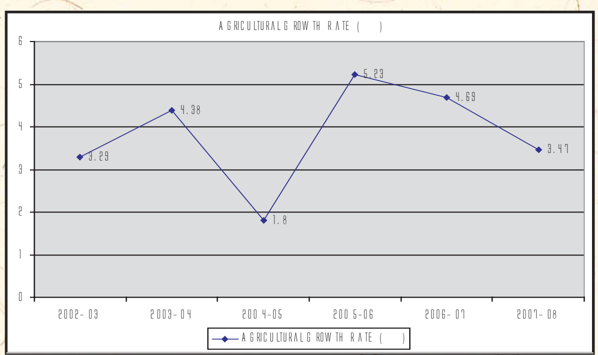
Source: Bangladesh Economic Review, 2008



Source: (5) Complied from National Budget (2003-2008) due to the conditional loans from the International Financial Institutions (IFIs), namely World Bank and International Monetary Fund (IMF). The two institutions have long been prescribing the previous governments to reduce the volume of subsidy to the agricultural sector. The fiscal constraints of Bangladesh are so severe that it had been impossible for the governments to bargain with the IFIs and continue supporting the major contributing sector of the country. As a result of which the contribution of the sector has gradually come down. Contribution of agriculture to GDP from the year 1980-81 to 2007-08 has largely declined. Whereas in 1980-81, agricultural contribution to GDP was 33.07 per cent, it declined to 20.87 per cent in 2007-08.

According to the rules of WTO, Bangladesh can increase input subsidies in the agriculture sector, if it wants. The rules regarding subsidies and agricultural supports actually allow countries like Bangladesh to provide much more assistance to the poorer farmers, both in the fields of production and marketing. The growth rate of the agricultural sector has been very low, which is a matter of concern for the policy makers.

There has become a growing realization among the policymakers about increasing the amount of subsidy to agriculture particularly after the fertiliser crisis during the mid 1990s.



Source: (6) Igbal Ahmed, "GDP Experience, structure changes" New Age, 16th June 2004, Complied & rearranged by Prof. M. Z Abedin, University of Rajshahi.

The newly elected government in its manifesto had declared to enhance the amount of agricultural subsidy and make the availability of inputs easier.

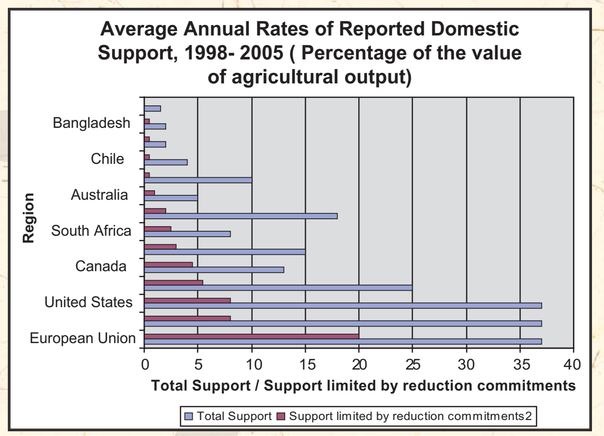
Agriculture Subsidy and the Role of IFIs

Bangladesh has limited opportunities for horizontal expansion of food production with the existing technologies. Cultivable land declined from 8.75 million hectares in 1995 to 8.44 million hectares in 2003. On the other hand, population increased from 120 million in 1995 to 140.6 million in 2006 and there are 55 million food insecure and about 43 million undernourished people in Bangladesh. In the identical period, food import bill is increasing and reached about US $2 billion. The country spent about 18.15 per cent of the export earnings in 2005-06 for purchasing food from external sources. It implies that the country needs support for improving its productivity thereby decreasing the dependency on grants or aid from abroad for importing foods and food production inputs.

The involvement of IFIs in agriculture sectors in Bangladesh has started from late 1980s. In late 1960s when green revolution was introduced, a magic thing happened; farmers of the country got the wonder seeds like IRRI-8 and IRRI 20 and fields yielding as much as three times in a year. The wonder rice known as High Yielding Variety (HYV) needs a large number of inputs like water, fertiliser and pesticides. To follow, throughout the 70s an open uprising has been made in the country's agriculture sector. On the whole, the country's water management system was set up, pumps were dug in and channels were made and the government forked out subsidies for the inputs.

At that time, Bangladesh Agriculture Development Corporation (BADC) was the monopoly to import agricultural inputs and market them with high subsidies, more than 50 per cent of the cost. The intervention from IFIs has started during this period. Because of expansion of the use of fertiliser and power pumps, agriculture subsidies became heavy burden on the government budget. Donor agencies led by World Bank and USAID (a major player in determining the country's food scenario) suggested cuts in subsidy and privatization of the input distribution system. USAID specially made a policy by International Food Policy Research Institute (IFPRI) and suggested reduction in subsidy and the liberalization of input market.

As a consequence, during 1990s subsidies came down significantly and BADC fertiliser distribution infrastructure was taken apart. "From that time, the private sector was allowed to import agriculture equipment and import duties were substantially curtailed. Small and marginal farmers have been affected adversely and the issue of water resources came under the control of large and big landowners" observed Mahbub Hossain, a prominent agriculturist in the country, shared with Daily Star in May, 2008.



Source: (7) Source: Congressional Budget Office based on subsidy data reported to the WTO by the countries in question as of July 31,2006 and dollar-denominated value of production data from Producer and Consumer Support Estimates, OECD Database 1986-2003, on the website of the OECD and exchange rate data from IMF, International Financial Statistics

After reducing the subsidy from agricultural sectors, it was expected that the saved money would be reinvested in the agriculture sector, but it did not happen. The fund was shifted to other sectors. As a result, agriculture share to the development budget came down drastically. Primarily, farmers were quite happy for availability of inputs, although the cost went up. Until then it seemed to everyone that liberalized system was working fine until the fertiliser crisis that led to the killings of farmers in police firing in 1994. It was the time for the policy makers to rethink about the issue of liberalization and reintroducing the fertiliser distribution system and back to the policies to subsidy more into fertiliser. But it did not happen because a turned down approach is not a frequent panorama.

An IFPRI study funded by USAID suggested that government no longer needs to remain involved heavily in food marketing because a new and a major role for the private sector in food marketing in early 1990s. The report also argued that if the government takes the initiatives the country would stand 'beyond the shadow of famine' and the risk of food insecurity will not be a matter of concern. As these policy changes took place in agriculture and food, the government, unconsciously, lost its capability to face any food emergency such as floods in 1998 which damaged 2.5 lakhs tones of Aman production, During that time the private sector showed their role in food imports to keep supplies in place.

Although the agriculture constitutes only 8 per cent of the global trade, it is, of course a sensitive sector for Bangladesh due to employment generation, food security and livelihood security as well. Food aid contributes only 3.1 per cent of the total consumption of the net food importing countries. Few such countries depend more on food aid. If these countries excluded, the dependence on food aid for domestic consumption would be 1.8 per cent and it would be 1.3 per cent in Bangladesh. The Uruguay Round was succeeded to have limited commitment on domestic supports, market access and export subsidies. It is surprisingly true that the protection level from WTO context in the agriculture sector is high in the developed countries. The support and protection of the agricultural sector stimulated the farmers of the developed countries for over production; it is dumped, on the other hand, in developing and least developing countries. And it is clear that the farmers of the developing countries have not been able to compete with those cheap subsidized products, thus they are forced to leave the sector or remain insolvent.

Conclusion:

Agricultural sector of the developing countries have long been neglected by the international development agencies. The IFIs have been prescribing for mobilizing resources for the development of the industrial and service sector of these countries, thereby giving less importance to the agricultural sector, even though the sector had always been the major contributor to the national output of the least developed countries. But the fact remains that without developing the agricultural sector of the least developed countries, it is not possible to eradicate poverty in these countries. For achieving the Millennium Development Goals of halving poverty to 26.5 per cent by 2015, Bangladesh has to develop its agricultural sector and achieve a growth rate of 4 per cent in this sector. The new government in its manifesto has committed to achieve the MDGs by 2015 and reduce the poverty level and proportion of ultra poor to 25 per cent and 15 per cent respectively by 2013. If the government wants to achieve its goal, it will have to give due emphasis on the agricultural sector of the country. For developing these sectors it is necessary to give support to the small and marginal farmers, who are the largest contributor to the sector. The prescriptions of the IFIs are not new for Bangladesh. Therefore, it will be a great challenge for the government to overlook the IFIs directions and continue its support to the agricultural sector. To fulfil their promises, the government should realise that it will not be wise for the country to depend on the international market for food security as it may snap down its door any time if there is a serious global crisis.

End Notes

(1) Daily New Age, 16th November 2008
(2) Daily Star, May 4, 2008
(3) Data from daily Star of 15th January 2009
(4) Amber box: supports considered to distort trade and therefore subject to reduction commitments.
(5) Top: Economic Review 2008 and Bottom: Compiled and Rearranged from National Budget
(6) Source: Igbal Ahmed, "GDP Experience, structure changes" New Age, 16th June 2004, Compiled & rearranged by Prof. M. Z Abedin, University of Rajshahi
(7) Source: Congressional Budget Office based on subsidy data reported to the WTO by the countries in question as of July 31,2006 and dollar-denominated value of production data from Producer and Consumer Support Estimates, OECD Database 1986-2003, on the website of the OECD and exchange rate data from IMF, International Financial Statistics

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নিজেরা করি
Nijera kori

The Nijera Kori is a continuous and diverse movement focusing on social mobilisation and ensuring accountable democratic structures, targeting the most marginalised groups through the development of autonomous landless organisations with an emphasis on gender equity.

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