8 Food Aid in Bangladesh: From Relief to Development

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This chapter examines food-aid trends and motivations and their impact in Bangladesh. As the world's second largest food-aid recipient (after Egypt) between 1975 and 1992, Bangladesh has operated a number of innovative and well-documented food-aid programs. Historically, donors have provided more than half of all the government's food supplies, often stipulating the distribution prices and offtake channels for their donations. Consequently, they have been key actors influencing the size, shape, and evolution of Bangladesh's public food distribution system (see Table 8.1).

Government and donor motivations, goals, and actions have often overlapped, but they have not been identical. Government concerns emanate from long experience with erratic food production in the fertile but unpredictable, flood-prone river delta that makes up most of the country. Interventions in the food sector originated in the famine codes of the nineteenth century, the ration channels set up after the Great Bengal Famine of 1943, and more recently in the lessons learned from the 1974 famine (see Chapter 6). Government motivations and actions have also been conditioned by public perceptions, fiscal and foreign exchange constraints, and the need to maintain the support of the middle class and the military in a fragile political environment.

Donor motivations have evolved over time. Between 1955 and 1971 (before independence), the original surplus disposal and trade promotion goals of U.S. Public Law (P.L.) 480 provided much of the rationale for food aid (Epstein 1985; ITDEF n.d.). Amendments to that law in the 1960s encouraged developmental and humanitarian uses of U.S. food aid and served as the basis for more developmental uses of food aid in Bangladesh. During the 1970s development and humanitarian motivations became increasingly important for all food-aid donors in Bangladesh. Criteria for evaluating food aid include shortfalls in food production below national consumption requirements as well as balance of payments and budget deficits. From the days of East Pakistan until the early 1990s, Bangladesh has met all of these criteria.

TABLE 8.1 Average concessional and commercial import of foodgrain by source (thousand metric tons)

Source	1975–79	1980–84	1985–89	1989–94	1975–94
Concessional imports					
United States	510	478	439	355	446
World Food Programme	142	149	268	262	205
Canada	154	217	254	187	203
European Community	148	125	169	107	137
Australia	77	81	55	47	65
Japan	33	112	74	48	67
Others	114	58	133	52	89
Total concessional	1,178	1,120	1,392	1,058	1,212
Total commercial	292	581	731	304	477
Total imports	1,470	1,801	2,123	1,362	1,689

SOURCE: DGF.

Although clearly partners, food-aid donors and the government have an asymmetrical relationship: donors have budget power, while the government has in-country commodity control. The donors can decide, in any given year, whether or not to provide food aid and the conditions (political, management, sales, accountability, reporting, or policy) the government must accept to continue receiving aid. Often these conditions go well beyond the disposition of donors' food, concerning overall government food management and policy. Nonetheless, donors rarely postpone or eliminate shipments for nonfulfillment of conditions. Moreover, the Bangladeshi government has some leeway in controlling the disposition of stocks, despite specific donor conditions, because all food-aid shipments come under its control and are mingled with other stocks in the government system.

The history of food aid and Bangladesh's overall public food distribution system (PFDS) are inextricably intertwined. Since the 1950s, food-aid donors have become significant stakeholders, lobbying to reshape the PFDS according to their own visions. Because of the enormous scale of food aid, donors have had a major influence in the evolution of the public food system in Bangladesh (see Table 8.1). To begin with, donor food permitted the expansion of the original East Pakistan government rationing system. Then in the 1970s donors began shifting food resources away from the ration system and into targeted programs for the poor. Eventually, in 1992 and 1993 donor conditions on government sales and distribution reduced government food sales (see Chapter 6). Food-aid sales have generated a significant budgetary resource for the Government of Bangladesh in the form of local currency proceeds, which have served since the early 1960s to support both overall government budget needs as well as specific projects, especially in infrastructure and agriculture.

Food Aid in East Pakistan, 1955–1971

During Bangladesh's years as East Pakistan, the United States was the world's principal supplier of food aid. Under P.L. 480, with its twin mandates of surplus disposal and market development, the United States shipped its first food aid to Pakistan in 1955.

In an era when stringent legislative controls forbade private import and even large-scale stockholding or movement of foodgrains, the market development mandate of food aid had to be fulfilled by sales through the only existing important marketing channel available, the government ration system. By subsidizing imported wheat, selling it at 25 to 50 percent below market price for at least two decades (see Chapter 6), the food-aid sales via ration channels swelled wheat imports and consumption appreciably, ultimately changing tastes and enlarging the acceptability of wheat in the overwhelmingly rice-based Bengali culture. After 40 years of food-aid wheat imports, trends in consumption, production, and import reveal the success of this market development effort (see Chapters 2 and 5).

Amendments to P.L. 480 in 1959 and again during the 1960s affected U.S. food aid to Pakistan in two major ways. First, humanitarian and developmental goals became increasingly important in food-aid programming. Second, recipient countries' local currency payments to the United States for P.L. 480 commodities became a specific concern, in part because of growing local currency accounts in countries such as Pakistan, whose payments were made in rupees. The law encouraged the use of these local currencies within the recipient country for humanitarian and developmental purposes. This broadening of objectives permitted the initiation of the East Pakistan Rural Works Program (RWP) in 1961, a turning point in food-aid programming funded from P.L. 480's local currencies (Sobhan 1968).

Conceived by the Harvard Advisory Group attached to the Pakistan Planning Commission, RWP attempted to redress the imbalance of resources that existed between East and West Pakistan by putting underused human resources to work on nation-building projects. The program used P.L. 480 counterpart funds generated from a four-year Title I agreement with Pakistan to build infrastructure in partnership with local community councils (Sobhan 1968). Because past efforts to mobilize volunteer labor for public works had failed, the new program used cash to pay laborers for their work.

In 1962 the government asked the Academy for Rural Development in Comilla (now known as the Bangladesh Academy for Rural Development, BARD) to undertake pilot projects to assist in the design of the Rural Works Program.[1] While this experiment with design was progressing, the program

1. In the words of the academy's director Akhter Hameed Khan, "The Academy's research helped in designing a Rural Works Program to build essential infrastructure. It laid the foundation for rural progress. It brought gainful employment to large numbers of landless laborers during the

was implemented throughout East Pakistan and continued until 1968. During that period rural infrastructure projects (rural roads, bridges, culverts, canals, and embankments) valued at nearly 872 million rupees (US $182 million) were constructed.[2] Between 1961 and 1968 RWP generated 208 million person-days of employment. Until 1969 the program was funded entirely from P.L. 480 monies. Despite attempts to continue the program after independence, the government's own resources were inadequate, and it slowly ended at the same time that FFW programs were growing, fueled by donated food aid (Brundin and Hjalmar 1978).

Independence and the 1974 Famine, 1971–1974

Humanitarian concerns became the overwhelming motivator of food-aid shipments to Bangladesh in the two years after independence in 1971. In the first few months India was the chief food-aid supplier (Sobhan 1982). Soon, however, a number of countries responded with shipments, and the new government began significant commercial imports. Despite war-related disruptions in food production, infrastructure, and marketing, the new nation was able to avoid famine in the early postwar years, in part because of large food-aid contributions and government commercial imports.

Nevertheless, serious food problems developed in late 1973 and into 1974. During several critical months in 1974, food imports fell to a trickle. The government's ability to import foodgrains commercially was exhausted due to the near depletion of foreign exchange reserves and the rising price of foodgrains on world markets. At the same time donor food aid fell precipitously, and U.S. food aid abruptly halted.[3] This reduction in food imports and aid was followed by flood and famine, events that would affect donor food aid and government food policy for the next 20 years. Those who remember this period

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dry winter months, the slack season for farming. It resolved the tragic paradox of thousands of sturdy men sitting idle. There was on the one hand in our overcrowded villages an army of unemployed and on the other a crying need for earthwork. Here was a program to put them together as a key is put in a lock. It grappled simultaneously with two great problems" (Khan 1983:12).

2. All further references to dollars indicate U.S. dollars.

3. Three factors accounted for reduced food-aid levels. First, the United States–Soviet grain deal and broader international market developments (through effects on prices and availability) reduced worldwide food availabilities. Second, donor fatigue with what was increasingly perceived as a compromised post-independence relief effort involving unacceptable levels of graft and corruption (McHenry and Bird 1977; Gerin-Lajoie 1975) accounted for some of the reduction. Third, U.S. food aid stopped abruptly just as Bangladeshi needs were increasing. This halt was a result of a U.S. policy dispute with the government regarding export of jute sacks to Cuba—a cold war decision at a time when certain U.S. observers and policymakers saw food aid (and the threat of withholding it) as a worthy instrument of foreign policy (Rothschild 1976). Further details on how delayed food aid affected the famine are provided in Crow (n.d., 1990), Sobhan (1979, 1982), McHenry and Bird (1977), Parkinson (1981), and Sen (1981)

recall the difficulties Bangladesh faced in obtaining donor food aid when it was needed most.

The consequences of the 1974 famine are well documented. Prices tripled while rural wages fell, making it impossible for the very poor to purchase adequate amounts of food. Estimates of famine-related deaths range between 26,000 and 1.5 million (Sen 1981; Quddus and Becker 1988). Both the price rise and the fall in wages were triggered by severe flooding of the monsoon rice crop. The price hike is widely attributed to traders' overreaction to news of the upcoming bad crop, inadequate government stocks, and the failure of public stock distribution to effectively moderate prices (Sen 1981; Ravallion 1990; Quddus and Becker 1988; Crow n.d., 1990).

In this critical period government food ration channels continued to serve primarily the politically important urban middle class rather than the populations in greatest need—the low-income urban and rural dwellers. In the supply crunch resulting from reduced food aid and domestic production, the priority ration channels for politically important groups maintained normal distribution levels at the expense of those channels directed at the poor (Clay 1978; Eureka Ltd. 1986; Ravallion 1990; Sobhan 1982).

Donors, government, and outside observers drew a number of lessons from the famine, three of which affected future food-aid programs. First, it became clear that the famine occurred when poor people were faced with high food prices. Second, inadequate public stock levels (and the role of inadequate donor food aid in contributing to those levels) were viewed as critical elements contributing to the famine. Third, government ration channels were seen as being at best ineffective and at worst as contributing factors to mortality.

As a result of the 1974 famine, donors veered for the next two decades on the side of higher rather than lower food-aid levels when faced with uncertain food needs in Bangladesh. They pushed for improvements in targeting food aid and in policies affecting the PFDS, food pricing, and markets. Rarely, however, did they push so hard as to slow down or jeopardize continuing food-aid shipments necessary to keep PFDS stocks at adequate levels. Avoiding a repeat of the famine remained uppermost in the minds of donor programmers and government policymakers for the next 20 years.

The aftermath of the 1974 famine influenced donor and government thinking in other ways too. The monsoon harvest in 1975 was a good one. In addition, monetary changes and substantial food-aid imports that had arrived too late for the 1974 famine led the price of rice to decline substantially. Government-maintained PFDS offtake in the ration channels kept prices at low levels (Stepanek 1979; Clay 1978, 1981). The reduction and stagnation of grain prices led to growing donor concern that increasing foodgrain production would be difficult in a climate of low prices. Donor and government concerns about security stocks and ration channels as well as getting food to the poor were thus complemented by a growing concern that government food supply

decisions needed to be implemented in ways that did not undermine production incentives.[4]

A dialogue on these issues began through USAID, later including the World Bank and ultimately most of the food-aid donors. Throughout this exchange, each side has operated within its own institutional, political, and resource constraints. The government has been constrained by the political requirement of meeting the food needs of the uniformed services and the urban middle class and, until the mid-1980s, of not increasing rice producer prices so much as to undercut incentives for jute production. Donors have been constrained by the availability of suitable commodities and the difficulties of getting food aid to arrive in time to respond to a crisis. Both sets of actors, however, have tried to change the system to prevent a recurrence of the 1974 famine while creating a favorable environment for greater foodgrain production. Changes to promote a more conducive agricultural environment, whether through rural infrastructure or better pricing policies, have been slow, however, because of concerns dating from 1974 about stocks and supply.

As a result of the famine, donors embarked on three long-term food-aid activities. First, new relief programs targeting poor rural people were initiated and expanded. Second, some donors used food-aid commodities and conditions to initiate policy discussions with the government regarding food prices and marketing. Third, donors and the government agreed to use local currency from food-aid sales for a variety of activities intended to increase food production. This agenda marked a turning point in the evolution of Bangladesh's public food system, leading to the gradual downsizing of the government ration system and the growth of private markets and in-kind targeted food distribution programs.

The Rise of Donor-Funded Targeted Food Programs, 1975–1992

Historically, Food-for-Work (FFW), the Rural Maintenance Program (RMP), and Vulnerable Group Development (VGD) have been the largest of the donor-funded targeted food-aid programs. Although initially instituted as primarily relief efforts, these targeted programs have evolved steadily toward a focus on development objectives. While Chapter 11 examines the rationale and effectiveness of these programs as targeted transfer programs for the poor, discussion in this chapter focuses on their developmental aims and impact.

Food-for-Work

In 1974 the government launched the national Food-for-Work (FFW) program with 32,000 metric tons of wheat from its own resources. The program pro-

4. Indeed, the U.S. statute requiring the U.S. Agency for International Development (USAID) to certify annually that its food aid is not creating disincentives to local production (known as the Bellmon Determination) was added to P.L. 480 after Congressman Henry L. Bellmon visited Bangladesh at this time, when food aid exceeded the ability of the government to distribute it without creating such local disincentives.

vided a food wage to workers engaged in construction and rehabilitation of rural infrastructure. Using labor-intensive technologies, FFW aimed to provide direct food relief and employment to rural landless and near landless people while constructing rural earthwork projects such as irrigation canals, flood control and land reclamation embankments, roads, and water reservoirs that could ultimately lead to increased economic opportunity.[5]

At first FFW principally served a relief function and was targeted at certain categories of people whose need for relief was urgent. The program operates primarily during the dry season from mid-December to mid-March in what until the mid- to late 1980s was the slack agricultural work season after the aman harvest, before aus cultivation had begun, when rural unemployment was most acute. Through at least the mid-1980s, the primary goal of FFW remained relief by providing direct employment, and the potential development impact of the constructed works remained secondary.

Since the earliest days of the program, a series of studies has documented FFW's effectiveness in relieving the dry-season unemployment and income problems of the poor and the landless.[6] Despite strong documentation of good targeting to low-income laborers, FFW nevertheless posed several problems. Substantial leakage rates, due in part to mismanagement and graft, were documented (BIDS/IFPRI 1986). Most important and most often, donors questioned the FFW roads' development impact and became increasingly concerned about environmental damage caused by the roads (Abt Associates 1989).

Ultimately, the Bangladesh FFW experience offers a challenge to the growing viewpoint that rural public infrastructure employment is an effective way to reduce poverty while creating sustainable development. Explicitly or implicitly, this viewpoint assumes that rural public employment programs that effectively target the poor can simultaneously be well managed in the siting and construction of infrastructure. Bangladesh's history of technical, programming, and administrative difficulties in successfully siting and building FFW infrastructure for sustainable development impact counsels caution in making this assumption.

Vulnerable Group Feeding and Development

In 1975 WFP initiated the Vulnerable Group Feeding program under which a monthly wheat ration (of 31.25 kilograms) was provided to destitute, landless, or otherwise vulnerable women. With growing support from Australia, the European Economic Community, Canada, Germany, France, and others, the program grew to provide food assistance to nearly a half million destitute women and their households each year.

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5. In many respects the FFW program has followed the RWP model of the East Pakistan era.
6. See Alwang (1991) and Osmani and Chowdhury (1983).

As with the FFW program, the objective of Vulnerable Group Feeding was redefined in the early 1980s. The program was renamed Vulnerable Group Development (VGD)—Self-Reliance for Poor Women—to reflect the change in orientation from relief to development. The development focus came in the form of training in skills needed for poor women to become self-reliant, encouragement of monthly cash saving, and integrating VGD food distributions and training with support and management from nongovernmental organizations.

The April/May 1992 review and appraisal mission pointed out that the program has been successful in supplying food to those who do not have enough to eat but not in providing participants with the full package of development services. Since that time, the availability of the full development package has expanded to cover more than two-thirds of all participants.

Rural Maintenance Program

The Rural Maintenance Program (RMP), like VGD, targeted destitute rural women. The Canadian International Development Agency (CIDA) initiated RMP in 1983 through CARE in response to two major problems: (1) the lack of routine maintenance systems for earthen farm-to-market roads and (2) the inability to reach a significant number of destitute women who are outside the existing relief and employment programs (CIDA 1990). Today the program employs more than 60,000 destitute women in the year-round maintenance of approximately 60,000 miles of farm-to-market earthen roads in about 80 percent of the country's 4,451 unions. The program is similar to the East Pakistan RWP in the sense that women are paid in cash largely from local currencies generated from the sale of Canadian food aid rather than in kind. A 1992 CIDA-commissioned evaluation concluded that RMP has, in general operational and administrative terms, been effectively and efficiently managed by CARE over the years. The deficiencies in program management appear related largely to the absence of experimentation, innovation, and long-term strategic vision related to program sustainability and increasing its development impact.

Increasing the Development Impact of Targeted Relief Programs

In 1985 and 1986 World Food Programme (WFP) evaluations found significant progress in the development of rural infrastructure and a change in the government's attitude that Food-for-Work (FFW) and Vulnerable Group Development (VGD) were dole programs. The WFP evaluations identified the main constraint to further improvement as the absence of government complementary resources commensurate with the input of donor food aid (WFP 1988, 1991). While many of the donors with important food contributions to targeted programs also provided program food aid sold through monetized channels to support the government's investment budget, these resources were not available to expand the developmental objectives of the targeted programs. In January 1988 a joint WFP and Bangladeshi government seminar "Food for

Human and Infrastructure Development in Bangladesh" was convened to explore ways of overcoming the deficiencies in planning, administrating, and implementing food assistance programs (Bangladesh and WFP 1988). The practical outcome of the seminar was the commissioning of the joint Bangladesh government/donor task force known as Strengthening the Institutions for Food Assisted Development (SIFAD). A number of donors, including the United States, WFP, Canada, the European Community, Australia, and Britain, provided financial support (WFP 1988, 1991).

With a goal of incorporating food resources more closely into the mainstream of national development planning, SIFAD completed its recommendations to the Bangladeshi government in July 1989 (WFP 1991). The most important recommendation envisioned an expanded role for the Planning Commission in planning and programming projects funded by food aid.[7] The intent was to ensure that food-aid–funded programs were institutionalized as part of the formal development process and that complementary resources were provided to improve implementation and impacts. The task force also recommended that FFW, VGD, and RMP be implemented by the appropriate Bangladeshi government technical ministries rather than by the Ministry of Relief and Rehabilitation to maximize the programs' developmental impact.

By the mid-1990s, after 20 years of slow evolution, both the WFP and CARE FFW programs, as well as VGD and RMP, seemed poised to institutionalize their developmental objectives. The WFP and CARE activities have developmental goals, plan to concentrate resources on properly designed and implemented activities, and, as recommended by SIFAD, are implemented by developmentally mandated ministries. Nevertheless, neither the WFP nor the CARE program has been incorporated into government development planning to create a formal process of marrying food with the cash resources needed to make the programs productive and efficient. With the exception of FFW water projects and a new European Union food-aid and development program, the cash resources to pay the developmental costs of FFW and VGD (that is, to pay for bridges and culverts in FFW and for the costs of complementary nongovernmental organization training of VGD participants) come from sales of modest amounts of donor FFW and VGD food that would otherwise go directly

7. Both the government and some donors have had second thoughts about the SIFAD recommendations. Initial government resistance focused on shifting these programs out of the Ministry of Relief and Rehabilitation, but most of that change has by now been accomplished. Donor concern has focused on the time and programming constraints implied by putting food aid under the authority of the Planning Commission. Some donors and government policymakers have quietly moved most of the programs out of relief to a more developmental orientation before the programs are covered by the commission. For example, WFP has moved its FFW programs so that they are now implemented by the Line Ministries (the Bangladesh Water Development Board, the Ministry of Local Government, and others). CARE has requested and received permission to negotiate its new five-year agreement for its Integrated Food for Development program with the Ministry for Local Government's Engineering Department.

as food transfers to program beneficiaries. With declining food-aid levels and increased sales to pay these developmental costs, the result is a decline in the number of direct beneficiaries.

While the targeted programs make do with modest monetization of program commodities to pay the costs of expanding their developmental impact, larger-scale program food aid has provided local currency resources to the government for many years, primarily in support of government investment budget projects. During the 1970s and 1980s the local currencies generated resources in support of government investment, primarily in agriculture, rural development, irrigation, and road construction. This contribution to support development programs, however, has substantially declined in recent years.

Food Aid to Support Food Policy Reforms, 1978–1990

The first serious donor attempt to analyze Bangladesh food policy issues was a USAID assessment made in 1975 and 1976 (Crow 1990). This analysis focused on the integration of domestic procurement, imports, and open market sales—three crucial ingredients for stabilizing the domestic food market (World Bank 1985). It was followed by a food policy review carried out by the World Bank in 1977 and by a January 1978 Aid Group food policy meeting.

Beginning in 1978 and 1979, USAID and the World Bank programs included explicit food policy conditions based on the analyses and policy dialogue in 1976–78. USAID/Bangladesh initiated food policy conditions through its 1978 multiyear Title III food-aid program. The food policy agenda was further reviewed by the World Bank in 1979, which included food policy conditions in that year's import program credit (IPC). This was followed by a joint World Bank/Planning Commission review in 1980 and an Aid Group meeting in the same year. Canada included food policy reforms in its 1983 food-aid agreement. Other donor agreements have either referred to the food policy issues pursued by USAID, Canada, and the World Bank or have provided informal support in occasional donor-government policy review meetings without including specific food policy conditions in their programs. Other donor support for general food policy reforms has been manifested through the growing shift of food aid from the ration channels to the targeted programs.

The donor-government policy agenda pursued since the late 1970s includes (1) reduction and redirection of food subsidies away from the middle class and reduction of ration channels, (2) liberalization of the foodgrain trade, (3) containment of abnormal price increases through an open market sales program, (4) incentive prices to farmers, and (5) liberalization of imports. In addition, food-aid policy dialogue has paid continued attention to maintaining adequate public foodstock levels while eliminating policy constraints on private sector grain storage.

Reduction and Redirection of Food Subsidies

The Bangladesh government and donors have agreed for two decades on the need to provide subsidized food to poor people with inadequate incomes. Differences have arisen, however, over the relative role of ration channels versus other programs in effectively targeting subsidized food. The goal of donors, and of many in the government as well, was to rationalize subsidies by redirecting them from the ration channels (which benefited privileged groups) to channels benefiting the neediest recipients, who mostly live in rural areas.

USAID's first Title III agreement in 1978 supported this general approach by excluding sales through the ration channels targeted toward the middle class; Title III food would be sold only through the open market sales (OMS) channel or to modified rationing (MR) Category A beneficiaries (rural poor who pay no tax). In the 1981 USAID Title III sales agreement, the Bangladesh government agreed to implement a series of steps to reduce the ration subsidy system as outlined in the government's 1980 Food Security Plan.

Subsequent USAID Title III sales agreements and amendments vigorously pursued the elimination of subsidies from the key urban ration channels serving the middle class. Subsidy was defined as the difference between ration channel prices and the prevailing OMS price. A specific timetable was stipulated in the 1987 USAID Title III sales agreement for removal of the remaining subsidy from these two channels in phases. Canada's 1983 food-aid agreement also included conditions related to government reductions in foodgrain subsidies in the ration channels (Ehrhardt and Spearman 1983). Beginning in 1987, donor policy discussions and conditions—through the vehicle of food-aid agreements—regarding reduction and elimination of subsidies were supported by the International Monetary Fund's Structural Adjustment and Extended Structural Adjustment Facilities for Bangladesh, in which capping revenue expenditures by reducing subsidies, including food subsidies, figured prominently.

By the early 1990s the elimination of these subsidies made rationing channels unattractive to the beneficiaries (see Chapters 6 and 9). This drove a large proportion of these beneficiaries to the market to meet their foodgrain requirements, thereby strengthening market forces, private sector distribution, and production incentives.

Liberalizing Foodgrain Marketing

Since the 1943 famine, all administrations—British, Pakistani, and Bangladeshi—have looked on foodgrain traders with suspicion, tending to believe that their speculation and hoarding lies at the root of famines. Accordingly, since 1943, various laws have been promulgated to control foodgrain traders, specifically by restricting trader stocks, the interdistrict movement of foodgrains, and foodgrain trading credit (see Chapter 7).

These laws increased the costs of foodgrain trade, encouraged illicit activity, subjected traders to harassment or blackmail, and, more generally, increased costs and risks while decreasing the incentives for private storage and trading of foodgrains. The negative impact of these laws was first pointed out by the World Bank (1979). Subsequently, reduction in foodgrain trade restrictions became a condition in World Bank IPCs. USAID also initiated dialogues with the Bangladesh government in the early 1980s on the need to relax and eventually abolish these inhibiting laws. These conversations, however, did not find a place in the USAID Title III food-aid sales agreements until 1987. Broader donor-government discussion of this sensitive topic was difficult, although the Asian Development Bank has included it among policy conditions for a credit to strengthen food policy.

Containment of Abnormal Price Increases

As an alternative to ration channel subsidies, the World Bank (1977) has recommended a generalized price intervention tool known as open market sales (OMS).[8] The government launched OMS shortly thereafter with wheat supplied under USAID's 1978 multiyear Title III food-aid program. The purpose was to supplant ration sales by OMS to contain rising market prices more effectively. The first sale occurred in September 1978. Initially, sales were limited to only licensed dealers and flour millers. World Bank calculations have suggested that 100,000 metric tons in the open market has the same impact on market prices as 167,000 metric tons in the ration distribution.

OMS was put to a real test for the first time in the fall of 1981 and the spring of 1982, but it did not fully succeed in holding the prices to a desired level because the government failed to inject sufficient foodgrain through the channel. Finally, OMS succeeded in moving a sizable quantity of grain to the rural markets between July and October 1982. Although the quantity disbursed was much lower than the estimated deficit (approximately 50 percent lower), the program was able to hold back a potentially disastrous price increase (Montgomery et al. 1983).

OMS gradually became a regular tool for containing foodgrain price increases in the lean seasons and any other period of short supply. In the 1984/85 fiscal year OMS was initiated early in July in response to price increases caused by poor aus and boro production. Its success in containing prices, however, was limited because sufficient grain was not initially made available through the program (Beacon Associates 1986). The government better appreciated the role OMS can potentially play in moderating price increases during the periods of short supply in 1986/87, 1987/88, and 1988/89 following the devastating floods of 1987 and 1988. Substantial quantities of

8. The earlier open market operations (OMO) program, while similar in name, was quite different in concept and operation. OMO consisted of sales to preselected dealers. OMS was more open with much fewer restrictions on buyers and therefore significantly more market-oriented

grain were channeled to the rural and urban markets, which helped contain abnormal price increases and thereby prevent famines.

Because of the late 1980s breakthrough in foodgrain production (and with a second crop moderating dry-season price rises), there was rarely a need in the early 1990s to initiate large quantities of OMS sales to stabilize foodgrain prices. But that situation changed quickly during the middle of the decade.

Incentive Prices to Farmers

Until 1974/75 government procurement of foodgrains, often compulsory, took place at price levels well below the free market. Domestic procurement had been considered a means of feeding the rationing system rather than a way of increasing foodgrain production. The USAID and World Bank food policy agenda was aimed at reorienting the procurement program toward increasing productivity. USAID's 1978 Title III agreement and the World Bank's 1979 IPC both included conditions related to improving the performance of the procurement program as a means of increasing production incentives.

Procurement-related food-aid policy conditions did not always succeed in maintaining floor prices during good harvests. Nonetheless, they improved the government's overall procurement capability, encouraged it to increase the level of procurement (boro, in particular), and changed its outlook about the procurement program. The government began regarding the procurement drive largely as a tool to support postharvest prices, and these improvements did help halt steep falls in such prices.

But setting a relatively high target procurement price had unintended consequences. First, in years of good harvest and low market price, it caused a stock management problem because the government was unable to sell sufficient rice without violating food-aid agreement conditions and avoiding a loss. Second, significant differences between official procurement and market price promoted rent seeking among government officials. Third, by 1990 it had raised the deficit on the food account to a staggering taka 8.2 billion, equivalent to about $200 million (World Bank 1992). This last development led the government in the early 1990s to limit the costs of food management and policy, even at a time when donor conditions were ending.

Liberalizing Foodgrain Imports

Although donors have generally pursued the issue of prudent import planning and private sector import of foodgrains through informal dialogues with the government, the World Bank's 1992 food policy report formally recommended opening up foodgrain imports to the private sector (World Bank 1992). The bank, however, has never included private foodgrain import as a policy condition in any of its programs. Only in the 1987 Title III agreement did USAID include private wheat import for the flour millers as a policy condition. The IMF's Structural Adjustment and Extended Structural Adjustment Facilities

and the Asian Development Bank's food crop sector loans also included such conditions during the late 1980s.

Despite the keen interest of both the government and the donors, delays in negotiations, donors' predicaments, and handling constraints at the ports have made prudent import planning difficult. Restrictions on private sector wheat imports were eventually withdrawn in 1992. Within a few months, private imports had reached nearly 350,000 metric tons of wheat and have continued on a significant scale since. Initially, no import duty was imposed on wheat imports.

Shrinking and Rethinking Food Aid, 1992–Present

Since 1992, food aid and food policy have entered uncharted waters characterized by complexity, confusion, and declining food-aid levels. Initiative in food policy management and reform has clearly shifted from donors to the government. As a result of the food account's massive deficits during the late 1980s and 1990, fiscal discipline has become the government's key consideration in food policy and management decisions. Even though donor food policy conditions have been phased out or ended, the government has imposed strict limits on the fiscal costs that food policy management can incur.

Three separate developments have combined to build uncertainty, undermine the standard operating procedures for managing monetized food aid through the PFDS, and create the need for both donors and government to forge a new food-aid strategy for the 1990s and beyond: macroeconomic stabilization, increased domestic foodgrain production in Bangladesh, and a growing need for emergency food worldwide. These developments have worked together in various ways to reduce food-aid levels to Bangladesh. Recent growth rates in foodgrain production exceed the population growth rate, and it is clear that Bangladesh now has the capacity to produce additional foodgrain if effective demand (primarily dependent on incomes of the poor) were to grow. At the same time, the success of the government's macroeconomic stabilization program has led to an unprecedented increase in public revenue and foreign exchange reserves. While success in promoting investment and economic growth would reduce or eliminate these surpluses, and possibly take up the existing foodgrain productive capacity as well, the three basic rationales for food aid have been seriously eroded in Bangladesh: budget support, foreign exchange support, and filling the food gap. Bangladesh's success in stabilization and agriculture has also come during a time of growing emergency food need and declining food-aid budgets worldwide.

Given these changes in the international and domestic environments, donors and government face serious choices regarding food aid in the years ahead. Despite both the reduced availability of food aid worldwide and the continued capacity of Bangladeshi agriculture to produce enough rice for all

who can buy it, tens of millions of people below the poverty line remain hungry in Bangladesh. Additionally, the patterns of food production and poverty have changed considerably, with dry-season wage employment, food availability, and wheat harvesting posing challenges to the traditional FFW pattern established when the dry season was a slack time of major food stress.

Donors must also shift the pattern of food-aid distribution to match recent changes in available public food outlets. Major monetized food aid will have to sell commodities through OMS or be discontinued and possibly replaced with targeted programs. At the same time, a focus on better targeting, reduced leakage, and better management as well as increasing the development impact of such programs will need to be strengthened.

The ultimate food-aid question is not for donors but for government: in a poor society in which long-term development and short-term targeted food relief are both required to help poor people, what is the appropriate resource mix? Is the government willing to use some of its own resources to continue targeted food programs if donor food-aid levels continue to decline? Are these resources better spent in the long-term development activities that will help the poor in a sustainable way? Or can targeted food-aid programs such as FFW, VGD, and the most recent Food-for-Education (FFE) program be effective long-term development programs while also serving the immediate needs of the poor?

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