

# Another failure in internal procurement of aman rice



M. ABDUL LATIF MONDAL

LIKE the previous year (2004-2005), this year's (2005-2006) drive for internal procurement of aman ended in failure. This year's aman procurement drive began on November 25 and ended on February 28. According to a food and disaster management ministry source, against the procurement target of 42,000 tons of paddy and 175,000 tons of rice, only around 44,000 tons of rice could be procured. Internal procurement of aman last year was also a complete failure. Less than 5 tons of rice could be procured against the target for 2 lakh tons. This speaks of total failure in internal aman procurement for two successive years.

The failure in internal procurement of aman may be attributed to the following factors:

First, according to Bangladesh Bureau of Statistics (BBS), in 2000-2001, 2001-2002, and 2002-2003 aman production stood at 112.49 lakh tons, 107.26 lakh tons, and 111.15 lakh tons, respectively. But preliminary estimate shows that aman production in 2005-2006 will not exceed 110 lakh tons against the target for 129.40 lakh tons.

Thus, even after four years, aman production in 2005-2006 will not reach the 2000-2001 production level. Aman production in 2004-2005 stood at 98 lakh tons only against the target for 127 lakh tons. Thus, the shortfall in aman production in the country was an important cause for the total failure

## BARE FACTS

Food is a basic necessity of life. Since domestic production is the primary source of our food security, the government must take all necessary steps for increasing the domestic production of food grains and other varieties of food. At the same time, the government should maintain sufficient security stocks of food grains for the public food distribution systems (PFDS) and for other emergencies.

Fiscal Year	Domestic Production (Gross)			Net Production (million)	Population
	Rice	Wheat	Total		
2000/01	25085	1673	26758	24083	130
2001/02	24299	1606	25905	23315	132
2002/03	25188	1507	26694	24025	133
2003/04	26189	1253	27442	24698	135
2004/05	25157		976	26133	23520

in the government drive for procuring aman in 2004-2005 and 2005-2006.

Second, two main objectives play a dominant role in the government drive for procurement of aman and boro: (i) building up buffer stocks to meet future emergencies or shortages; and (ii) protecting the growers by offering fair prices, in particular during the harvesting period when the price of rice generally shows a downward trend in the market, so that they feel encouraged to produce more and contribute to national economy.

But the price situation during the aman harvesting period was just the reverse last year and this year. The price of aman (paddy and rice) during the harvesting period of last year and this year was higher in the market than the government administered price.

While per quintal price of coarse rice in the wholesale market in January 2000-2001 and 2001-2002 was Tk 1,130 and 1,252 respectively, the minimum price of coarse rice in January 2004-2005 in the wholesale market was Tk 1,611 per quintal. According to the food ministry source, the per quintal price of coarse rice in the wholesale market in January this year was not below Tk 1,600 per quintal. The retail price of rice from market to market was understandably higher.

The price for internal procurement of aman this year was originally fixed at Tk 9.25 per kg for paddy and Tk 14 for rice. Even

though the price of rice was subsequently raised to Tk 15 per kg, yet the government administered price remained below the market price. As a result, only around 44,000 tons of rice could be procured this year.

Last but not the least, while the shortfall in production and higher price in the market in comparison with the price offered by the government were primarily responsible for the failure of internal procurement of aman, absence of adequate publicity about the drive is considered by many as an important cause for the failure.

In many cases, information about the drive, such as number of collection centres, prices fixed, duration of the procurement and target set were not properly announced in the print and electronic media by the concerned agencies. But this was the easiest task on the part of authorities to make public every step taken to procure food grains for the benefit of the sellers.

Now, let us see what led to the rise in the price of food grains (rice and wheat) in the country in recent years.

### Negative growth

A visit to the food ministry website shows the domestic production of food grains between 2000-2001 and 2004-2005 as well as growth in population during the same period (see table).

It appears from the above that in 2000-2001 gross domestic food grain production reached 267.58 lakh tons, the highest production since independence in 1971, and net quantity available for human consumption stood at 240.83 lakh tons (after deducting 10 percent for seed, feed, and wastage) for a population of 130 million.

Gross domestic food grain production in the next two years failed to reach the 2000-2001 production level. In 2003-2004, gross domestic food grain production exceeded the 2000-2001 level by only 6.84 lakh tons against a population growth of 5 million. In 2004-2005, the gross domestic food production declined to 261.33 lakh tons against a population growth of 7 million between 2000-2001 and 2004-2005.

### Rise in production cost

High costs of fertilizers and occasional increases in the price of diesel required for operating irrigation pumps have increased the production costs of aman and boro and thereby become constraints to increased income of poor farming community. A column in The Daily Star on June 15, 2004 showed that "a farmer in Bangladesh procures fertilizer at \$176 per ton compared to \$107 in Indian Punjab, \$126 in Andhra Pradesh, \$165 in Thailand, and \$170 in Vietnam. Likewise, the prices of irrigation are as follows: \$51 per hectare in Bangladesh, \$32 in Punjab, \$18 in Thailand, and \$26 in Vietnam." In addition to higher prices of fertilizer, there is often scarcity of fertilizer and diesel during the cultivation of boro. The present crisis of fertilizer and diesel is a case in point.

### Inadequate subsidy

It is a fact that the government has in recent years adopted the policy to increase subsidy and assistance to agriculture sector. But the amount of subsidy and assistance is insufficient for the growth of this vital sector in general and for bringing down the cost of production of food grains in particular. Available information suggests that the farmers in Switzerland are now given 69 cents subsidy to produce crops worth one US dollar, in the US the amount is 45 cents, and in EU countries 35 cents.

### Rise in transportation costs

The occasional increases in the domestic prices of fuel due to the rise in the prices of fuel in international market has led to the substantial increase in the inter-district and intra-district transportation cost of food grains.

### Rise in prices

In recent years, there has been a sharp rise in the price of rice in the international markets. Available information reveals that in December 2004, the import price



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of Indian rice was (FOB) increased by 25 percent in comparison with the price of December 2003. The import price (FOB) of Thai rice in December 2004 also increased by about 30 percent over the price of December 2003. The increase in the import price of rice in the international markets, particularly in the Indian market, has affected rice import in the private sector. Available information reveals that the import price of Indian rice at the moment comes to a minimum of Tk 1,600 per quintal (kg Tk 16).

One of the three components of food security is availability of food, the other two being access to food and utilization of food. The sources of food availability are: (a) domestic production, (b) commercial imports, (c) food aid, and (d) building up security stocks by the

government. In the eighties and early nineties, it was considered "critical" if government food security stocks at any time went below 9 lakh tons. In the late nineties, the government decided to maintain security stocks of food grain at a minimum of 10 lakh tons at all times. Though this decision reportedly remains in force till date, the security stocks of food grain in recent years mostly remained below the minimum level of 10 lakh tons. The present security stocks of food grain reportedly stands at 6.5 lakh tons, which is much below the minimum required level.

To conclude, food is a basic necessity of life. The 1996 World Food Summit in its Rome Declaration on World Food Security "reaffirmed the right of

everyone to have access to safe and nutritious food, consistent with the right to adequate food and the fundamental right of everyone to be free from hunger."

Since domestic production is the primary source of our food security, the government must take all necessary steps for increasing the domestic production of food grains and other varieties of food. At the same time, the government should maintain sufficient security stocks of food grains for the public food distribution systems (PFDS) and for other emergencies.

M. Abdul Latif Mondal is a former Secretary to the government.

# Lowering electricity demand

Some of the energy saving ideas discussed in this article are already in use in different countries. Bangladesh cannot adopt all of the above-mentioned changes. But, if Dhaka city can adopt just one of these suggestions, it would set the tone of energy consumption for the rest of the country. And, if one change positively affected our energy conditions, it would not be long before many other conservation methods are implemented.

### DR. NOUSHI RAHMAN

THE gap between demand and supply of electricity nationwide has grown to unmanageable proportions. Every article that I have read on this topic has criticized the inadequate supplies of electricity in Dhaka, as well as the rest of the country. No published article discusses the demand-side factors (i.e., ways to conserve energy). Modifying some of our decades-old habits (albeit somewhat difficult to let go), we can curb our demands to breakeven with the current supplies. Better yet, if we start practicing these conservation tactics now, in the coming summer months the projected gap between demands and supplies would be much less. As the capital city, Dhaka consumes a disproportionately high amount of electricity. Dhaka must lead the rest of the nation by being the leader in energy conservation, rather than being the leader in energy consumption!

### Short-term policy changes

The following policy changes are meant to be periodic in nature. That is, during some part of the year, the policies will be in effect, and in other times these policies will be relaxed.

**Dress codes:** The Japan Government has recently asked its officials to avoid wearing suits and ties in the office. To lead other ministers and officials in this unconventional energy saving approach, Prime Minister Koizumi himself will not wear a suit and tie to the office this summer. The Japanese government identified that tight collars and suits prompted officials to keep air-conditioners running at the highest capacity throughout their working hours. Considering the strong fascination for suits among Japanese executives, this is a landmark approach to reduce air-conditioner usage (and thereby reduce electricity consumption).

**Time adjustments:** Developed (and some developing) countries of the world switch back their clocks by one hour sometime late in October and again switch their clocks ahead by one hour sometime in April. This practice, known as "daylight saving

time," was conceived by the US in response to the record-breaking energy crisis of 1973. The US government's research has revealed that "daylight saving time" saves 1 percent electricity usage nationwide. This is because evening electricity usage is delayed, as sunset is artificially postponed by an hour. Following the US lead, other countries (e.g., Egypt, Israel, Australia, Canada, Mexico, and many European countries) have adopted this practice to reduce energy consumption.

**Fewer days at work:** Facing a severe energy crisis in 2001, the Brazil government mandated a four-day work-week for a temporary period. Consequently, there was a 20 percent reduction in government usage of electricity. As summer approaches in Bangladesh, and our energy crisis becomes more severe than ever, the government may consider following Brazil's lead during the extended summer.

### Long-term policy changes

The following policy changes have long-term impact. The policies are also meant to be in effect for long periods of time.

**Eco-clubs and energy fairs:** Utilizing funds from the USAID, India has established eco-clubs at the school level in Ahmedabad. These voluntary clubs meet weekly after school and discuss ways to make residential and general energy consumption more efficient. Periodically, an energy fair is organized where members of various eco-clubs gather to demonstrate their energy saving approaches. Student members of these clubs not only get the training to grow up as more aware citizens, but also tend to apply energy efficient practices in their own homes. The eco-clubs and energy fairs have successfully curbed residential electricity usage in Ahmedabad.

**Efficient energy fund:** The State of California in the US faced an acute energy crisis in 2001. By making firm policy changes and cutting back on many normal luxuries of life, California has successfully overcome its energy crisis. California introduced a public goods charge in the amount of 1 percent of consum-

ers' electric bills. The capital generated from this tax was used to fund energy conservation programs of utility companies. These conservation programs include special discounts on energy-efficient appliances and sophisticated energy-metering technologies. Recently, China has considered assessing a similar tax to fund the efforts of revitalizing its inefficient power plants and other systems.

### Personal habit changes

The following personal habits are common comforts of the most elite groups in our society. They pay fair price for their electricity; when blackouts happen, they use generators run on fuel for which they have paid fair price. The problem with this kind of inconsiderate use of electricity and/or fuel (for generators) is that many others are simply priced out against these elite groups and cannot avail themselves of much needed electricity and/or fuel. Farmers are the classic sufferer of this type. Electricity shortage propels several thousand homes to run their machineries on fuel-run generators. As a result, this very fuel cannot reach farmers who are then unable to irrigate their fields at the appropriate time, resulting in massive destruction of crops nationwide. With summer approaching fast, few voluntary sacrifices could have such a positive overall energy conservation effect as to persuade these groups to limit their use of private generators even on a limited basis.

**Limit use of air conditioners:** Let us assume that we have 10,000 residences that have 2 air-conditioners or air-coolers on average. Let us also assume that each machine consumes on average 1.5 kilowatts per hour. If these machines are running even 8 hours a day in these residences, the total electricity consumption becomes 240 megawatts. Running the air-conditioners for an hour in the morning and another hour before sleeping would mean some level of discomfort for the elite groups, but it would noticeably alleviate the electricity needs in the capital city.

**Limit ironing:** Ironing is standard practice in almost all middle-class

homes. Most irons use at least 1 kilowatt per hour. For the sake of calculations, if 100,000 homes in Dhaka have irons and the average daily usage is for 30 minutes, then daily electricity consumption from ironing is roughly 50 kilowatts.

Given our current energy crisis, ironing is a luxury that we cannot afford right now (except on special occasions). Most clothes will be almost wrinkle-free if they are hung to dry without wringing them. For clothes that must be ironed, a 10-minute ironing will straighten them out.

**Avoid geysers:** The dictionary definition of geyser (secondary meaning) is "a gas-operated hot-water heater." The irony with geysers in Bangladesh is that the ones that are used in luxury homes are all electricity-run machines. Assuming that some 10,000 geysers run for at least one hour per day, the total electricity consumption would be about 30 megawatts (since geysers consume about 3 kilowatts per hour). Unfortunately, the cost of electricity generated heat is four times higher than oil generated heat. Thus, for all our water heating needs, we are far better off when we boil water on the stove in the old-fashioned way.

Some of the energy saving ideas discussed in this article are already in use in different countries. Bangladesh cannot adopt all of the above-mentioned changes. But, if Dhaka city can adopt just one of these suggestions, it would set the tone of energy consumption for the rest of the country. And, if one change positively affected our energy conditions, it would not be long before many other conservation methods are implemented.

Noushi Rahman, Ph.D., is Assistant Professor of Management, Lubin School of Business, Pace University, New York.

# Adamjee re-born

The shutting down of an enterprise does not symbolize the death of assets, but rather their re-birth. This is what we are now observing in Adamjee as the land is being used to set up new, more viable enterprises and where even some of the old factory buildings have been renovated and are now home to the new units. One can hope that the turn around we are witnessing at Adamjee will forever change our attitude to the closure of non-viable enterprises.

### SYED AKHTAR MAHMOOD

ADAMJEE has opened its doors again. With the opening of the country's seventh export processing zone on the grounds of the once-hallowed Adamjee Jute Mills, the place will once again reverberate with the humming of machines, the footsteps of workers, and the growls of trucks carrying raw materials and finished goods.

There is one important difference though. The old Adamjee was for long a symbol of the hemorrhage that had plagued Bangladesh's industry -- the crores spent each year to keep afloat state-owned enterprises which had long lost their rationale. The new Adamjee represents the industrial landscape of the future. The enterprises that will be inhabiting the new Adamjee Export Processing Zone will not require subsidies to stay alive. They will compete in the global markets and many will open new niches for Bangladesh products. It is perhaps fitting that one of the first tenants of the EPZ will be a manufacturer of home textiles, a new product line for Bangladesh.

Three and a half years ago, when Adamjee was shut down I wrote an op-ed in this very page, titled "Goodbye to Adamjee: the significance of its closure." That was a time when many mourned the closure, calling it a sign of failure, a symbol of national shame. These reactions were not surprising. As I wrote then, it is "deeply engrained in the Bangladeshi psyche that the closure of a business or the shutting down of an enterprise is a great loss of face, a national disaster almost."

In reality, the closure of the Adamjee Jute Mills was a landmark in the history of economic management, and indeed, of industrial development in Bangladesh. If this statement is not vindicated yet it will soon be as the Adamjee EPZ gets filled up with competitive enterprises which add, not subtract value, which contribute to, not take away from the national exchequer, where the jobs created are real and where future prospects count, not the legacy of the past.

According to newspaper reports,

the Bangladesh Export Processing Zones Authority (BEPZA), which has developed the zone and will operate it, expects 50 industrial units to be set up in the zone in the next 18 months with an investment of \$400 million. The zone will have 200 plots of which 103 have been developed so far and 37 already handed over to four companies. According to BEPZA, 28 foreign and local investors have submitted proposals to establish units in the EPZ. When the units are fully operational, BEPZA expects annual exports of \$750 million from the zone. These are not pipe dreams, if the record of the existing EPZs in Dhaka and Chittagong is any guide.

The most important thing to note is the amount of jobs that will be created. A major concern about closure of state-owned enterprises is the job losses that go with them. It is thus instructive that while about 25,000 jobs were lost when Adamjee Jute Mills were closed, the four companies expected to go into operation soon in the EPZ will alone employ 13,730 people. BEPZA expects a fully-operational EPZ to create one lakh jobs. Even if we discount this by 50 percent, the jobs created in the EPZ will be double those lost by the closure of the jute mill. And, as I mentioned above, these are real jobs which will not require state subsidies to be sustained.

The conversion of the Adamjee Jute Mills to an export processing zone is remarkable for one simple reason, it is a great example of the reallocation of resources which lies at the heart of a dynamic economy. Orderly liquidation of non-viable enterprise is common in developed countries. Many years ago, the great German economist, Joseph Schumpeter, talked about this when he coined the phrase "creative destruction." Schumpeter wrote extensively about how creativity is critical to development; how the innovation of new products and new ways of doing things is key to generating growth. But he was quick to point out that building new things is only half the story. Equally important for development is the less popular task of eliminating and disbanding obsolete industries; creative

destruction, as he put it.

As mentioned above, one of the first plants to become operational at the Adamjee EPZ will be manufacturing home textiles, a relatively new product for Bangladesh. It is reported that one of the criterion BEPZA is applying in allocating land at the EPZ is the innovative feature of the company such as the introduction of a new product.

This is important. Bangladesh needs a critical mass of high-performing firms that are, in some sense, trailblazers. These are firms that would make breakthroughs in export markets and help establish "Made in Bangladesh" as a brand in the global sense. They would show that Bangladesh can be the source of high quality products, with firms that can operate in a world where rapid response and quality are key. They would also be a conduit, through which good practices and management, marketing and production techniques can be disseminated to other firms. For this critical mass of dynamic firms to emerge, foreign investment will have to come in a big way, including through joint ventures.

This is where industrial and economic zones become important. While across the board improvements in infrastructure and the regulatory regime are important, these take time to develop. High performing firms, especially foreign investors who have other options, don't want to wait that long. EPZs, SEZs and industrial parks that provide an assured supply of infrastructure and a hassle-free regulatory environment are potentially useful as a means of developing this critical mass of firms in a shorter timeframe, than waiting for the overall economy to improve its performance in regulatory and infrastructure terms.

But it is important to do these economic zones well. A new model of zones is emerging worldwide with emphasis on private sector participation in the development of the zone and in the provision of a wider range of facilities that has been in practice conventionally. There's also an increased emphasis on forging links with firms within the zones and with those outside, so

that good practices, technology and other things can be disseminated. And of course, one can also experiment with an enclosed regulatory regime.

This was very successfully done in China, where the five SEZs that were set up in the late 1970s were the basis for experimenting with regulation that China later mainstreamed into the entire economy over 15 or 20 years. The success this has brought is well known. Shenzhen, which used to be a village surrounded by empty land and a very, very long fence, is now something that looks like downtown Manhattan, and has changed the face of the Pearl River delta. So they can be very powerful tools, if well-managed and well-designed. Bangladesh needs to move towards a new regime of economic zones, consistent with global good practices and where there is greater application of commercial principles and a significant role for the private sector in the development and management of the zones.

The shutting down of an enterprise does not symbolize the death of assets, but rather their re-birth. This is what we are now observing in Adamjee as the land is being used to set up new, more viable enterprises and where even some of the old factory buildings have been renovated and are now home to the new units. One can hope that the turn around we are witnessing at Adamjee will forever change our attitude to the closure of non-viable enterprises. By changing our mind-set and helping to create conditions that allow more flexible movement of resources from low-productivity to high-productivity uses, the conversion of Adamjee may indeed be viewed as a landmark in Bangladesh's industrialization. Let us celebrate the re-birth of Adamjee.

Syed Akhtar Mahmood is freelance contributor of The Daily Star.