

Nepal's Food Policy: Some Basic Issues

Tilak Rawal*

Introduction

Paddy, maize and wheat constitute the major part of foodgrain production in Nepal. From 1967-68 to 1981-82, these three crops contributed about 90 per cent of total edible foodgrain production (DFAMS). Because rice is the most important crop in terms of area, consumption, and export earning (Rawal, 1983) this paper will concentrate mainly on rice. Because of the important role that rice plays in the Nepalese economy, there has sometimes been public sector intervention in rice procurement and distribution, and the government's overall food policy revolves around rice procurement and distribution.

The need to feed the armed forces and provide rice at a reasonable price, to Kathmandu consumers resulted in public sector involvement in rice trading even during the Rana regime (**Primary Market, 1982**) but there was no systematic regulation of the rice trade. Decisions were made on an adhoc basis with no attention to farmers' welfare.

Several institution created in the past to control food distribution and prices, such as the creation of the Pradesik Khadya Niyantaran Karyalaya (Regional Food Control Office) in 1951 and the Food Management Corporation (FMC) in 1965 did not succeed in providing remunerative prices to growers.

In 1972, the FMC and the Agriculture Supply Corporation (ASC), established

*Senior Economist at the Agricultural Projects Services Centre (APROSC), Kathmandu.

in 1966 to handle procurement and distribution of inputs, were combined to form the Agriculture Marketing Corporation (AMC). Inputs and output management functions were combined to increase coordination between these two agencies. Though AMC performed quite satisfactorily, the magnitude of the food problem in the hills and the need for accelerated distribution of modern technology paved the way for the creation of two separate agencies, and in late 1974, the Nepal Food Corporation (NFC) and the Agricultural Inputs Corporation (AIC) were created, with food distribution and procurement assigned to NFC.

Following the creation of NFC, HMG also established seven rice export companies (RECs) in 1974 (one more was added later), to provide a remunerative price to producers, regulate export trade, increase government revenue, and help balance domestic and export needs. The Food Policy Coordination Committee (FPGC) was created to coordinate the activities of the RECs pertaining to export quantity and procurement and export prices.

As monopoly rice exporters, the RECs earned substantial profits in the first two years of operation, but this did not continue. Improvement in the food situation in India, heavy losses incurred by some companies, and the lifting of the ban on rice exports by private traders in July 1979 jeopardized the existence of the RECs, leading to their dissolution in July 1980. Dissolving the RECs and the recent placing of NFC under the jurisdiction of the Ministry of Commerce and Supplies (MOCS) has created confusion in the food sector. In the absence of an effective institution to carry out government food procurement policy, there is skepticism about the intention and ability of HMG to protect the interests of both consumers and producers.

The Food Balance Situation and Exports of Grains

Nepal is known as a food surplus country, traditionally exporting foodgrains (mainly rice) to other countries, especially India. Most of the surplus, both for internal consumption and exports, originates in the Tarai, which accounts for 62 per cent of the area under cultivation. In contrast, food balances in the hills and the mountains are not at all favourable (Table 1).

Food balance is calculated on the basis of per capita food consumption of 159 kg. in Tarai, 137 kg. in the hills and 112 kg. in the mountains.

Table 1
Regional Food Balances (MT)

Region	1976-77	1977-78	1978-79	1978-80	1980-81
Upper Hills	- 31053	- 18354	- 19985	- 37951	- 26223
Hills	-110455	-139356	-134367	-293003	-164887
Tarai	493198	469136	466062	296949	563998

Source: Department of Food and Agriculture Marketing Services.

Except in bad years such as 1979-80, available data suggest that Nepal has remained a food surplus country. However, per capita food consumption statistics indicate that these surpluses are artificial, being maintained at the expense of domestic consumption. The average daily per capita calorie intake of 1563 calories is far below the minimum requirement of 2403 calories estimated by the Central Food Laboratory.

Exports

Despite the need to increase foodgrain consumption, Nepal has been exporting foodgrains (mostly rice) to other countries. Except for the brief period when RECs were monopoly exporters of rice, private traders have dominated rice procurement and exports. Southern India has been a traditional market for Nepalese rice, and other foodgrains grown in the Tarai are sold in neighbouring Indian towns. The highest quantity of foodgrains exported was 221,000 MT in 1975-76, but only 65,000 MT were exported in 1978-79, and a ban on foodgrain exports was imposed in 1979-80 because of crop failure. In 1980-81, rice was exported to India and Bangladesh, but data on quantities exported are not available.

The RECs, which operated from 1974-75 to 1979-80, were given an export target by the FPCC at the beginning of each year. From 1974-75 to 1977-78, combined rice export by RECs constituted 87 per cent of the FPCC targets. In 1975-76, rice exports exceeded the target by 71 per cent, but this encouraging performance did not last long. Exports by RECs declined sharply in 1977-78 to only 38 per cent of the target. During their period of operation, RECs exported 472,409 MT of rice to countries such as India, Bangladesh, Singapore and Ma-

uritus. RECs in the eastern Tarai made major contribution to total exports, while other RECs, constrained by relatively under-developed physical infrastructure and a lack of proper access to Indian port facilities, contributed little. RECs started deteriorating gradually after 1975-76, when relaxation of the ban on inter-stage movement of grains in India, a substantial increase in the marketable surplus, and the resulting lower rice price there, left little room for low quality Nepalese rice in Indian markets. Consequently, the RECs began suffering heavy loss which prompted HMG dissolve them.

Food Distribution Policy

Systematic public sector food distribution began in 1965 when the FMC was created to balance and stabilize rice distribution. Before 1965, public sector involvement in food distribution was confined to supplying rice to the consumers in Kathmandu Valley, the army and the police.

Although established to achieve balanced rice distribution, the FMC did very little to solve the food problem in the hills. The FMC's procurement and distribution activities were so narrowly confined that the only beneficiaries were Tarai rice millers and traders, from whom rice was bought, and consumers in Kathmandu, who were assured of a regular supply of rice at a subsidized price. On average, the FMC handled 11,000 MTs of grains annually.

The food crisis of 1971 and the lack of organized food distribution program in the hills led to the establishment of AMC in 1972. Concentrating in Kathmandu Valley, the AMC distributed an average of 16,000 MTs of foodgrains each year during its operation of little more than two years. Responsible for both input and outputs, AMC gave inadequate attention to food deficits which were assuming alarming proportions in the hills. Consequently, the NFC was created in late 1974 to distribute food in a systematic way.

NFC, which was initially placed under the Ministry of Agriculture and since 1981 has been under the Ministry of Commerce and Supply (MOCS), acts as the government's agent to ensure effective execution of its food policy. With its head office in Kathmandu, the NFC has 5 zonal offices, 4 main branches, 11 branches, 45 sub-branches, and 4 depots to carry out the purchase of major foodgrains in the Tarai and meet deficits in hilly regions (**Primary Market, 1982**).

Until 1976-77, NFC did not need to purchase grains on the open market as the RECs provided to NFC 20 to 39 per cent of rice exports at predetermined levy price. These prices were substantially lower than both prevailing market prices and export prices. The export price to India from 1974-75 to 1978-79 averaged Rs. 330 per quintal while levy prices were 42 per cent less (**Primary Market, 1982**). During their six years of operation, the combined levy sales of RECs to NFC were 115,453 MTs of rice, 7137 MTs of maize, and 2,397 MTs of wheat. However, with the sharp decline in rice exports, levy procurements declined proportionately, compelling NFC to rely on open market purchases either by tendering or through local food pricing committees.

With increasing food deficit problems in the hills, the NFC has been expanding its food distribution activities. Demand and sales in the previous year, suggestions and balance sheets from the Department of Food and Agriculture, Marketing Services (DFAMS) and requests from NFC Managers, Chief District Officers, District Panchayats greatly influence NFC decisions to allocate foodgrain distribution quotas for deficit areas. However, final quota allocations are made on the basis of DFAMS information. On the basis of food balance situation in each district, the NFC originally divided the country into three regions for distribution purposes: Region A covering heavily deficit districts; Region B consisting of the remaining hill and Tarai districts; and Region C covering Kathmandu Valley.

These regions have recently been further sub-divided, and grading now runs from A to F with the severe deficit regions in A and the surplus Tarai regions in F. From 1976-77 to 1980-81, 53 per cent of the total grain distributed went to Region C, Kathmandu Valley (Table 2). Factors such as lack of cultivable land to feed the growing population, political influence, and concentration of bureaucrats and elites in the valley influences the amount of NFC attention that Region C has received.

Subsidized foodgrain distribution by NFC has increased from 27,000 MTs in 1975-76 to 51,000 MTs in 1980-81 (**Price Policy, 1982**). To move grains from procurement areas in the Tarai to distribution centres in the hills, NFC now has storage facilities for 40,050 MTs, has under construction facilities for 13,800 MTs, plans to construct facilities for an additional 40,000 MTs in the Tarai with IDA/World

Table 2
Foodgrain Distribution by the Nepal Food Corporation (MT)
(1976-77 to 1980-81)

Regions	1976-77		1977-78		1978-79		1979-80		1980-81	
	NFC Sales	%	NFC Sales	%	NFC Sales	%	NFC Sales	%	NFC Sales	%
Region A	982	3.0	1345	3.9	1256	4.3	2741	5.9	2631	5.3
Region B	19715	60.5	14956	43.2	9615	32.8	19082	40.8	20689	41.7
Region C	11865	36.5	18292	52.9	18461	62.9	24985	63.3	26284	53.0
Total	32562	100.0	34583	100.0	29332	100.0	46808	100.0	49604	100.0

Source: NFC

Bank assistance These NFC storage facilities— 1,000 MTs units at foodgrain centre in the Tarai, 250—500 MTs units at relay centres in the hills— greatly facilitate HMG's foodgrain distribution programme. Because most of the distribution points in the hills are inaccessible by roads, foodgrains are moved during the dry reason using aircraft, pack animals and porters. The cost of transporting grains to some remote areas is much higher than the cost of the grain itself. In 1981, the highest transportation cost in Region A was 2.6 times the open market procurement price of Rs 3,900 per MT for parboiled rice distributed in these regions (Mudhary, 1981).

The food distribution is carried out by the NFC offices through Sajhas, private dealers and in some cases through its local offices, under the supervision of district level management committee with district panchayat president and local NFC office head acting as its chairman and member secretary respectively. In actual distribution the Chief District Officer (CDO), who is also a member of the committee, plays an active role.

Foodgrain distribution prices were formerly fixed by the MOA, but since November 1981 this authority is with the NFC Board of Directors. Prices of distributed foodgrain, of which rice constituted 87 per cent, remained unchanged from 1975

to 1981, but with the reclassification of deficit areas in November 1981, the price of raw rice was increased (Annexes A and B). Recently, NFC has again reclassified deficit areas and revised upward its selling prices of foodgrains in different regions (Annex C).

Transportation costs often determine the level of support given to various deficit areas through the government subsidized foodgrain distribution program. Purchasing power being less, the remote areas have received higher subsidies. Currently the transport subsidy costs HMG about Rs. 40 million annually (Demand and Production of Foodgrain, 1981). However, HMG subsidies cover only 50 per cent of the loss born by NFG on government-mandated distribution programmes. Profits from NFC' non-foodgrain operations are expected to meet the remaining cost. Prices in remote areas, although higher than elsewhere, have received higher subsidy (Table 3).

Table 3
Extent of Subsidy in the Distribution of Foodgrains (1979-80)

(Rs/MT)

	Region A			Region B			Region C		
	Rice	Wheat	Maize	Rice	Wheat	Maije	Rice	Wheat	Maije
Purchase Price	2700.0	1750.0	1870.0	2700.0	1750.0	1870.0	2700.0	1750.0	1870.0
Other Expenses	4837.0	4814.0	4802.0	1855.3	1700.7	1709.7	902.6	832.9	839.5
Total Cost	7557.1	6564.6	6672.0	4555.3	3450.7	3579.7	3602.6	2582.9	2709.5
Selling Price	3020.0	2480.8	1850.0	2250.0	1850.0	2270.0	2250.0	1850.0	1690.0
Loss incurred by the NFC (in the form of subsidy)	4537.1	4084.6	4822.8	2205.3	1600.7	1309.7	1352.6	732.9	6019.5

Source: Agriculture Marketing and Price Policy Study

Higher selling prices of foodgrains in Region A are indicative of higher costs involved in moving grains there.

Although the subsidy received by remote districts has been high, because a large proportion of foodgrains are distributed in Kathmandu Valley and nearby hills (Table 2), considerable government funds have subsidized consumption of foodgrains in these areas. In 1979-80, eighty seven per cent of the subsidy was for rice, wheat and maize accounting for 6 and 7 per cent, respectively. Kathmandu requires and receives only subsidized rice. HMG's food distribution policy, as stated in the Sixth Plan, is now directed toward eliminating this discrepancy.

Food Distribution Policy in the Sixth Plan

Considering Nepal's geo-physical position, population density and purchasing power, the Sixth Plan aims at smoothly carrying out food distribution and storage programmes, buying grains from surplus regions for distribution in deficit areas. In addition, to avoid unexpected food crisis and large fluctuations in prices, the plan envisages maintaining and operating an emergency reserve stock (ERS) of 5,000 MTs and a minimum operating stock (MOS) of 10,000 MTs.

While remote areas will continue to get subsidized grains, distribution quotas in relatively accessible areas will be gradually reduced and be diverted to Region A. Accordingly, in areas such as Kathmandu Valley, distribution of subsidized foodgrains will be gradually phased out, encouraging private sector participation in foodgrain distribution and sales. However, not much has actually been done in this direction.

Procurement of Foodgrains

There was public sector involvement in rice procurement as early as 1934 during the Rana regime. However, a systematic approach was taken only with the creation of FMC which provided interest-free money (75 per cent of the price) six months in advance to the millers and traders. Because the FMC procured rice from traders at a price 6 per cent lower than the prevailing market price in the post-harvest season, the growers were given a proportionately lower price by the traders. The actual producers and consumers in deficit areas did not benefit from FMC's activities.

The AMC, created to stabilize prices, promote foodgrain exports to other countries, and increase agricultural production through provision of fertilizers and seeds, purchased rice through the Fertilizer Food Exchange Programme, the rice millers and the open market. In the Fertilizer Food Exchange Programme, a triple settlement procedure was established where the Agricultural Development Bank (ADB/N) provided input loans in the form of an "Input Coupon," and the AMC would provide fertilizer to the farmers who would pay in paddy after the harvest, then AMC would clear the whole account with ADB.

AMC failed to achieve its objectives with respect to farmers and the consumers, with the possible exception of the few farmers who benefitted from the Fertilizer-Food Exchange Programme and consumers in Kathmandu. AMC also had problems in giving equal attention to both the inputs and foodgrain sector, paving the way for its split into NFC and AIC.

The NFC initially received foodgrains from exporters who obtained export licenses from HMG and supplied a certain proportion of their exports as levy to carry out HMG-mandated food distribution programmes. Although HMG changed the proportion of levy to exports from time to time, the levy price per quintal of parboiled rice remained unchanged at Rs.139 from 1972 to 1981 (**Price Policy, 1982**).

The levy procurement system continued with RECs. The NFC total levy procurement from RECs during their six years of operation was: 115,453 MTs of rice, 7,137 MTs of maize and 2,397 MTs of wheat. However, with a decline in REC's export business and the elimination of their export monopoly, the RECs became a less reliable source of levy procurement by NFC. In 1980, the private sector began supplying an increasing proportion of levy grains until HMG announced RECs dissolution in 1980. After this, HMG imposed no levy on exports to India and only 10 per cent on those going elsewhere. Consequently, over the time it became necessary for the NFC to buy grains from the open market at the prevailing market price (**Annex C**). For open market procurement, NFC relies on three methods:

- a) inviting tenders from traders, and awarding contracts to the lowest (price) bidder;
- b) reaching an agreement through negotiation with millers in areas with few large mills; and
- c) procuring paddy direct from major markets.

Procurement by NFC field offices is done on the basis of procurement quotas fixed by the head office. Local procurement committees fix procurement prices on local market prices, prices in India and the HMG support price. Direct procurement from producers is negligible. Tendering and negotiating methods are relied on to carry out government-mandated foodgrain distribution programmes.

Procurement by RECs

Foodgrain marketing in Tarai has been controlled by private traders who advance money to paddy growers to buy their produce at a price much lower than the post-harvest prevailing market price. Most of the benefits of the foodgrain (especially rice) business has gone to private traders because there has been no system to implement price support measures and regulate exports.

To provide incentive prices to producers and increase government revenues, the RECs, established in 1974 jointly between HMG and the private sector, procured paddy and rice, exported that rice and sold a proportion of it to NFC in the form of levy. RECs procured paddy and rice from farmers, sub-committee which took into consideration government support prices, Indian border prices, open market prices, and export prospects. (Initially there were seven RECs, each one in Mechi, Koshi, Sagarmatha, Janakpur, Narayani, Lumbini, and the Far-West. In 1974-75, the Far-West REC was divided to create separate RECs for Seti and Mahakali Zone).

Each REC had permanent and temporary depots and 300-400 Sajha employees working as buying agents to carry out procurement operations. The procurement of paddy constituted only about 15 per cent of the RECs total procurement over six years, but the proportion of paddy procured varied substantially among individual RECs. A shortage of storage, transport and milling facilities in the western Tarai led to substantial procurement of paddy by RECs in these areas, while well developed milling and transport facilities combined with close proximity to the Calcutta port led to substantial rice procurement by RECs in the eastern region (*Primary Market, 1982*). From 1974-75 to 1977-78, rice was between three fifths and three quarters of the procurement by the Seti-Mahakali and Far-West RECs, while rice constituted 90 per cent of the combined procurement by RECs in eastern Tarai.

During the initial years of REC's operation, the private sector showed no

interest in operating in the internal market because there was a ban on rice exports by individual traders. As a result of the withdrawal of private traders from the market and the lack of an REC procurement network, farmers in the eastern Tarai, where competition among traders increases rice prices, complained of depressed prices. However, in the relatively less developed far-western Tarai, with few traders, the impact of REC's procurement was positive. The average price of coarse paddy in Nepalgunj, a major grain trading centre in the mid-western Tarai, one year before the RECs came into being was Rs.1.08/kg. and it jumped to Rs. 1.60/kg. in the first year of their operation. With proper support and experience gained over time, RECs could have performed to the advantage of producers even in eastern Tarai, while providing atleast the support price, if not more, to farmers in western Tarai.

Support Price Policy

His Majesty's Government (HMG) has announced support prices for coarse paddy and wheat for the last few years. Since no substantial quantity of wheat is procured by the public sector, the support price of paddy is discussed here.

The minimum price of paddy announced for 1976-77 to 1978-79 averaged Rs.112.50 per quintal, while it was Rs.142.50 in 1980-81. For 1981-82, a minimum price of Rs.142.50 per quintal was announced. For the relatively less developed Tarai district of Banke, Bardiya, Kailali and Kanchanpur. For 1982-83, HMG fixed the minimum price of coarse and fine paddy at 178 and 185 rupees per quintal respectively (Rawal, 1983). In the absence of a public sector procurement agency to procure paddy at the producer level, the government's role is merely to announce the minimum support price. The minimum price fixed by HMG has been lower than the prevailing market price of paddy in eastern Tarai, requiring no public sector intervention, while market prices in the western Tarai have been lower than the announced minimum price, showing the ineffectiveness of public sector procurement arrangements. Due to the ineffectiveness of public sector procurement, foodgrain prices in Nepalese border towns are largely determined by Indian border market prices.

Prices in the Nepalese and Indian Border Towns

India is relatively large market, and Nepalese grain prices are often influenced

by prices of grains in Indian border markets. Regression coefficients obtained using Birgunj (Nepal) market prices of foodgrains as the dependent variable and Raxaul (India) prices as the independent variable show that Nepalese border prices of rice and paddy are sensitive to change in Indian border market prices. Similarly, the correlation coefficients for prices of similar grade paddy between Raxaul and Birgunj are high.

Lower grain prices in the Nepalese market and the long open border with India facilitate both legal and illegal movement of foodgrains into India, sometimes seriously jeopardizing the food security position of the country. In addition to the price incentive, limited and uncertain local demand and the passive role played by public sector agencies such as NFC might encourage grain movement into India even when there is somewhat unfavourable price. These issues in food sector warrant careful analysis and consideration.

Topics for Future Policy Research

There is confusion and skepticism in the food sector, especially after the dissolution of RECs and the failure of NFC to protect the interests of producers and consumers in recent years. Important issues that need detailed analysis and investigation are discussed below under two headings: distribution and procurement.

Distribution

a) NFC as a Distribution Agency

NFC is the only public sector agency executing HMG's subsidized foodgrain distribution programme in deficit areas. This subsidy costs HMG about Rs.40 million annually, and is likely to rise in the future as the food deficit in the hills increases. With limited resources to finance development projects, the opportunity cost of this welfare subsidy should be evaluated.

Despite this substantial subsidy, the NFC claims to have incurred heavy losses executing government-mandated distribution programme. Decreasing available cash supplies and increasing indebtedness manifest NFC's precarious financial position (**Primary Market, 1982**). It is claimed that HMG subsidies cover only 50 per cent of the losses borne by NFC on subsidized programme. While profits from NFC's non-foodgrain activities cover a part of this loss, the remaining portion is funded out of equity capital and through loans. While decreasing HMG support

for NFC activities may partly explain the deteriorating financial position of the Corporation, inefficient planning, heavy bureaucratization and over-staffing are responsible for most of it (**Primary Market 1982**). NFC has not been efficient in obtaining the maximum output from its resources. Waste and high costs should be eliminated and competition could ensure this, so encouraging private sector participation in foodgrain distribution should be considered. However, any decision about involving the private sector, claimed to be both technically and economically efficient, should be based on a thorough analysis of the impact of private sector idistribution on government subsidy and consumer welfare.

b) Subsidized Distribution of Grains

Subsidized distribution of grains has recently been a matter of great debate. The programme's failure to benefit the targeted group (people in deficit areas) and its dampening effect on local foodgrain prices and incentives to produce are claimed to be its major drawbacks. Poor people do not have access to subsidized grains and government officials receive most of the benefits from subsidized grain distribution in remote areas. The possible exception may be the Kathmandu Valley's low-income people, relying heavily on NFC distributed grains. However, these observations can be easily challenged because there has been no empirical study done in this area, and therefore, a study should be done to assess the benefits accruing to different groups of people. If the benefits are going mostly to privileged people, an alternative grain distribution programme could be worked out which is more oriented towards the welfare of low-income consumers.

There are two schools of thought about the impact of subsidized grain distribution on local production and market prices. One assumes that subsidies on grains are responsible for depressed prices of foodgrains and the resulting low investments to increase food production in the hills; the other believes that it is the low purchasing power and the subsistence nature of hill agriculture rather than NFC's grain distribution, which is now about five per cent of the deficit in the hills. To resolve this debate, a study should be initiated to measure the decrease in prices and production incentives. Arrangements could then be made to ensure that market prices are not distorted and production incentives not reduced.

c) Food Aid and Food for Work Programme

Nepal has sometimes sought international food assistance to combat food defi-

ciency resulting from drought and famines. As a result of severe drought in the hills in 1970-71, HMG sought bilateral and multilateral external assistance for the first time in 1971-72, and donor countries and the World Food Programme subsequently provided 38,400 mts of grains. In 1974, HMG received 7,000 mts of grains from the United Kingdom. In 1979-80, HMG again requested friendly countries and donor agencies to provide food aid required to solve the food problem resulting from production short-fall that year. Out of a total commitment of 62,250 mts, the total grain received in 1979-80 and 1980-81 amounted to 45,000 mts and the remaining quantities were received in batches in 1981-82.

Although both friendly countries and donor agencies have generously assisted Nepal with food aid in times of need, external food assistance has been a matter of much debate. Many people say that external food aid has not benefitted the needy poor people who lack purchasing power. Use of foodgrain aid to satisfy short run political aims is often cited as an example. Another argument against food aid is its possible adverse impact on incentives to produce sufficient food locally. When a nation is assured of external assistance in times of acute need, it may not make especial efforts to produce more food. However, no authentic information is available to back these arguments, and a study on food aid, analysing its impact on local production and its major beneficiaries is needed.

The Food for Work Programme, under which local people are employed in infrastructure development and are paid in foodgrains from the World Food programme, should be studied. Although it is often said that low income people in remote areas have benefitted from this programme, there is no authentic documentation of this. A study should be done to assess the impact of this programme on income and employment generation for low income people.

d) Regional Food Security

South Asian countries have been endeavouring to promote cooperation among themselves under the framework of regional cooperation. Regional food security is an important area where member countries have shown willingness to cooperate. However, member countries have not yet decided about the type of arrangements to be made at the regional level. Should it be like the ASEAN Rice Reserve, or a regional fund for food security? This is unresolved, in addition to the question of contributions by member countries. It is important for Nepal to have

clear views about its contribution and the type of arrangements, and a study about this would enable authorities to make more rational decisions.

Procurement

a) Public Vis-a-Vis Private

Private traders have occupied a dominant position in the trading of food-grains, making profits at farmers' expense. The RECs were created to provide remunerative prices to producers and to increase government revenue by reducing illegal movement of grains to India. However, after the dissolution of RECs and the failure of NFC protect the interest of farmers through open market operations, there has been no public sector agency to execute HMG's food procurement and pricing policy, and confusion has prevailed in the food sector.

Farmers in the western Tarai have again fallen victim to exploitative traders. Farmers do not know to whom they should look, to NFC, or to the Sajhas or the Ministry of Agriculture which should be responsible for providing remunerative prices. Who should be entrusted with HMG's procurement activities? Is it advisable to leave it entirely in the private sector, or should there be a public agency to act as the buyer of last resort? Any decision on procurement mechanism should be based on a detailed analysis on the efficiency and effectiveness of private as well as public sector agencies to promote producers' well-being, in addition to their ability to earn reasonable profit for their own expansion and development.

If NFC does primary procurement, should it be under MOCS, or should it be under the jurisdiction of MOA? A decision based on sound analysis would help resolve this issue.

Involvement of Sajhas (Cooperatives) in foodgrain procurement should be studied. Sajhas can help achieve the objectives of public foodgrain procurement. Successful procurement by Sajhas as the buying agent of RECs is evidence of this. However, the Sajhas with very little capital for procurement, are now on the verge of collapse. Because of the high transportation costs involved in moving grains to the hills and the mountains, it is often thought that HMG should initiate procurement activities even in these areas. The produce brought for sale during the

harvest glut could be procured and stored locally to be released during lean period. The Sajhas with this wide-spread network could carry out this work. However, any decision on initiating procurement and getting Sajhas involved should be based on a study.

Fixation and Execution of Support Prices

HMG's responsibilities pertaining to support prices now end with the announcement of minimum floor prices. The operational viability of support prices (paddy and wheat) is questionable, because market prices in eastern Tarai have always been higher than support prices, and in western Tarai unexecuted minimum prices have been above market prices. HMG's support price policy should aim at encouraging the optimum use of farm inputs through provision of remunerative procurement prices in the eastern Terai, and proper execution of minimum prices is required in the western Tarai to prevent distress selling by farmers. Moreover, since support prices are announced after the harvest, they do not have a significant impact on resource allocation and the cropping pattern.

It is important to initiate a study on the impact of support prices on price stabilization, improvement of agricultural terms of trade, and allocation of factor inputs. Suggestions are needed to make the support price policy operational both for eastern and western Tarai.

Factors taken into account while fixing foodgrain support prices are: cost of production of the farmer; general production situation in country; price in the Indian border markets; market price in the major producing areas; transportation and other marketing costs; and minimum price fixed by India. However, the lack of an empirical cost of production study, the difficulty predicting future harvests, and a lack of a system to monitor Indian border prices have seriously jeopardized the operations of the support price policy.

A system should be developed to collect production statistics, market price, cost of production information and Indian border market prices.

Market Integration with India

Due to the integration of Nepalese border markets with Indian markets, support prices in Nepal have remained ineffective. When Nepalese foodgrain support

prices are higher than Indian market prices, grains move into Nepal, creating problems for the government, because its procurement ability is limited. when Indian market prices are higher than Nepalese support prices grains move into India, creating artificial food deficit problems at home. To avoid undesired movement of grains both into and out of Nepal, a flexible price system to be administered by district level procurement agencies could provide a solution. Decision about prices should be based on thorough study, taking the Indian policy pertaining to foodgrain prices into consideration. This is important for HMG's Sixth plan strategy of fixing minimum support prices for major cereals and cash crops.

**Retail Price of Foodgrains Distribution by NFC in
Different Regions, 1975 -- 1981**

Retail Price : Rs. / per. Kg.

Commodity	Up to Mid-November 1975	Mid-November to Last Week of December	Last Week of Decem- ber to May 1967	May 1976 to Third Week of April 1978	Third Week of April 1978 to Last Week of September 1978	Last Week of Septem- ber 1978 to Mid- October 1981
<i>Region A</i>						
Parboiled coarse Rice	3.33	3.02	3.02	3.02	3.02	3.03
Parboiled Fine Rice	3.28	3.10	3.10	3.10	3.10	3.10
Raw Coarse Rice	3.35	3.14	3.92	3.14	3.14	3.74
Raw Fine Rice	3.41	3.19	3.19	3.19	3.19	3.79
Wheat	---	---	---	---	2.27	2.48
Maize	---	---	---	---	2.27	2.27
Wheat Flour	---	---	---	---	2.82	2.82
<i>Region B</i>						
Parboiled Coarse Rice	2.47	2.25	2.25	2.25	2.25	2.25
Parboiled Fine Rice	2.53	2.33	2.33	2.33	2.33	2.33
Raw Coarse Rice	2.59	2.38	2.21	2.38	2.38	2.98
Wheat	---	---	---	---	1.69	1.85

Cont. ...

Cont. form page 61

Maize	---	---	---	---	1.69	1.69
Maize Flour	---	---	---	---	2.10	2.10
<i>Region C</i>						
Parboiled Coarse Rice	2.50	2.25	2.25	2.25	2.25	2.25
Parboiled Fine Rice	3.00	2.75	2.75	2.75	2.75	2.75
Raw Coarse Rice	2.72	2.47	2.30	2.30	2.30	2.90
Raw Fine Rice	3.52	3.27	3.00	3.00	3.50	3.50

Source: Foodgrain Marketing and Price Policy Study.

1. The above retail price are applicable to general consumers, NFC sells rice to the military and other agencies at a higher price. In October 1981, the selling prices to these agencies of parboiled rice of coarse and fine varieties were Rs. 3.50 and Rs. 3.60 per kg., respectively.
2. Region A- Taplejung, Panchthar, Solukhumbu, Manang, Mustang, Dolpa, Jumla, Mugu, Kalikot, Humla, Achham and Bajhang; Region B — the remaining hills districts and Tarai; and Region C — Kathmandu Valley.

Annex B

**Retail Price of Rice Distributed by NFC in
Different Regions, Since November 23, 1981**

Price: Rs./ per kg.

Types of Grains	R E G I O N					
	A	B	C	D	E	F
Parboiled Coarse	4.40	4.30	3.80	3.66	3.40	3.33
Parboiled Fine	4.50	4.40	3.90	3.70	3.50	3.33
Raw Coarse	4.50	4.40	3.90	3.70	3.65	3.40
Raw Fine	5.00	4.90	4.40	4.20	4.15	3.90

Source : Foodgrain Marketing and Price Policy Study.

Region A — Mugu, Humla, Jumla, Dolpa, Kalikot, Bajura, Taplejung, Solukhumbu, Manang, Mustang, Achham, Bajhang, Doti

Region B — Rukum, Jajarkot, Sankhuwasabha, Dailekh, Rolpa, Panchthar.

Region C — Terhathum, Bhajpur, Okhaldhunga, Khotang, Gulmi, Arghakhanchi, Myagdi, Baglung, Salyan, Pyuthan, Rasuwa, Parbat, Lamjung, Ramechhap, Baitadi.

Region D — Gorkha, Dhading, Dolakha, Dhankuta, Nuwakot, Sindhupalchok, Kavre Palanchok, Surkhet, Darchula, Dandeldhura, Dang.

Region E — Kathmandu, Bhaktapur, Lalitpur.

Region F — Damauli (Tanahun), Illam, Udaypur, Sindhuli, Kaski, Syangja, Palpa, Makwanpur.

Annex C

Levy Procurement and Direct Purchase of Foodgrains by
the Nepal Food Corporation, 1974-75 to 1980-81

Quantities in mts.

Crops	1974-75		1975-76		1976-77		1977-78		1978-79		1979-80		1980-81	
	Levy Purchase	Direct Purchase	Levy Purchase	Direct Purchase	Levy Purchase	Direct Purchase	Levy Purchase	Direct Purchase	Levy Purchase	Direct Purchase	Levy Purchase	Direct Purchase	Levy Purchase	Direct Purchase
Rice	20758	39282	24232	14832	12065	—	20355	—	43766	—	—	—	—	—
Wheat	—	584	1511	548	1904	—	2326	—	464	—	—	—	—	—
Maize	—	—	—	8200	—	—	4706	—	983	—	—	—	—	—
Total	20758	39866	25743	23580	13269	360	27987	Nil	45123	N.A.	40533	—	—	—

Source: Foodgrain Marketing and Price Policy Study.

1. There was no direct purchase of foodgrains from the open market during 1974-75 to 1976-77. All procurement were levy purchase.

Annex D

Retail Price of Rice Distribution by NFC in Different Regions

April 10, 1983 Onward

Price : Rs. /Per Quintal

Type of Grains	REGION				
	A	B	C	D	E
Parboiled Coarse Rice	550.00	500.00	465.00	445.00	425.00
Parboiled Fine Rice	610.00	550.00	510.00	485.00	450.00
Japanese Rice	550.00	550.00	550.00	550.00	550.00
Arua Raw Rice	560.00	510.00	475.00	455.00	435.00
Raw Fine Rice (Munsuli Variety)	690.00	630.00	590.00	570.00	525.00

District Classification :

Region A -- Humla, Jumla, Mugu, Dolpa, Kalikot, Manang, Mustang, Solukhumbu.

Region B -- Bajang, Bajura, Taplejung, Doti, Achham, Dailekh, Jajarkot, Rukum Sankhuwasabha, Panchthar, Rasuwa.

Region C -- Darchula, Baitadi, Salyan, Pyuthan, Rolpa, Parbat, Baglung, Lamjung, Sindhupalchok, Dolakha, Ramechhap, Okhaldhunga, Khotang Bhejpur, Terhathum, Gulmi, Arghakhanchi, Dandeldhura, Myagdi

Region D -- Surkhet, Dang, Palpa, Gorkha, Tanahu, Dhading, Kathmandu Valley, Kavre Palanchok, Sindhuli, Udayapur, Dhankuta, Illam, Nuwakot, Syangja, Kaski.

Region E -- Chitwan, Makwanpur and other districts in Terai

Selected References

1. **Agricultural Projects Services Centre (1981)** : *Agricultural Marketing and Price Policy Study* (Kathmandu)
2. ----- (1982) : *Nepal's System of Price Support and Procurement of Selected Agricultural Commodities* (Kathmandu)
3. ----- (1982) : *Primary Market Procurement Study*.
4. ----- (1982) : *Study on the Primary Market Procurement of Food Grains by the Public Sector* (Kathmandu, July)
5. **Asian Productivity Organization (1979)** : "Food Grain Distribution in Selected Asian Countries," in *Report of a Multi Country Study Mission*, 26 September—7 October, 1978, (Tokyo).
6. **Gautama, J. C. (1931)** : *Production Trends of and Demand for Food Grains in the Hills of Nepal* (Kathmandu, March).
7. **Gurung, Harkha (1931)** : *Food Systems and Society in Nepal : And Over View* (New Era: Kathmandu)
8. **Khadka, B. B. and Gautam, G. C. (1981)** : *Demand and Production of Food Grains in the Hills*; Proceeding of the Seminar on Nepalese Experience in Hill Agricultural Development (Ministry of Food and Agriculture/HMG and the Agricultural Development Council: Kathmandu).
9. **Lee, Chong Yeong (1973)** : *Problems of Food Distribution Policy in Nepal* (Kathmandu, June).
10. **Mudbhary, P. K. (1981)** : *Food Policy and Distribution System in Nepal* (APROSC : Kathmandu, October)
11. **Quiogue, Elena S. (1975)** : *Report to the Government of Nepal on the Food Consumption Survey Project* (FAO : Rome)
12. **Saran, Ram (1977)** : *Report to the Government of Nepal on the Development of an Early Warning System on Basic Food Supplies with particular reference to Crop Forecasting* (FAO : Rome, January).