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**THE NEW SYSTEM OF FOOD
MARKETING IN PAKISTAN**

by
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Preface

Sartaj Aziz was Minister of State for Food and Agriculture of the government of Pakistan from April 1984 through May 1988, and Minister for Agriculture and Rural Development during the remainder of the latter year. While serving in these capacities, he had ultimate responsibility for instituting a major reform in the prevailing system of wheat provisioning, which for almost 40 years had been premised upon the entitlement of all urban inhabitants to a fixed ration of subsidized grain per month. By the 1980s, this system had been vitiated by a series of corrupt and inefficient practices which not only prevented many urban families from taking advantage of the opportunity to buy subsidized grain of acceptable quality from ration shops, but also failed to regulate effectively the open market price of wheat.

In the following paper, prepared for the UNRISD Seminar on Food Pricing and Marketing Reform (held in Geneva in November of 1989), Aziz discusses the transition from rationing to a broader structure of regulation of the national wheat market. Reforms enacted in 1987 abolished the ration system: thus consumer subsidies were no longer administered through the modality of providing particular flour mills with fixed quantities of artificially low-priced grain, destined for a specified number of beneficiaries associated with particular ration shops. In place of the old system, the government developed a broader and less rigid programme through which it undertook to ensure that during any given season sufficient grain would be made available from official stocks or from imports, at fixed rates, to regulate consumer prices for wheat and to eliminate sharp seasonal fluctuation in the price of grain throughout the country.

This is an important example of how better use can be made of subsidies. The author is careful to point out, however, that subsidies continue to form a politically necessary part of the provisioning structure for wheat in Pakistan. In all societies, both the support price offered to farmers and the level of consumer prices are ultimately determined by the play of political forces; and in Pakistan, as in most other countries, it has not proved politically feasible to pass the entire cost of the farmgate support price for this staple grain, plus transport and handling, on to the consuming public at large, despite the clear intention on the part of the government to reduce the level of subvention within the food system.

The politics of food subsidies deserve more attention than they currently receive from those who are engaged in research on food issues. This is an area now being explored within the UNRISD programme on adjustment-related food policy, co-ordinated by Cynthia Hewitt de Alcántara.

May 1990

Dharam Ghai
Director

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In 1987, Pakistan replaced a 44-year-old system of food rationing, with a new system of food pricing and food distribution. This paper examines the defects and shortcomings of the old system and the main features of the new system. It also documents some of the practical problems and policy issues that arose in implementing the new system and the manner in which these were tackled.

The Old System

The government of Pakistan, when it came into existence in August 1947, inherited a rationing system introduced in 1943 during the Second World War. Under this system, every family living in an urban centre was entitled to draw wheat flour at the rate of 7.5 kg per month per adult and half that quantity for minors, at a fixed and subsidized price. This covered roughly two thirds of average consumption of the family. Since most rural areas were excluded from the Scheme, it was not a universal rationing system but a partial provisioning system.

The distribution of wheat through ration shops was organized on the basis of ration cards. Each family was supposed to have a ration card which indicated the number of members of the family and the quantity of flour the family could draw in a month. These cards were then registered with a particular ration depot or shop. The ration shops were again linked to particular flour mills. On the basis of the demand registered with the flour mills through the ration shops, wheat from government stocks was released to the flour mills at subsidized rates to that extent. The wheat released to the flour mills was converted into flour and made available to the ration shops at the price fixed by government in order to enable them to sell the flour to their customers at the ration price.

Occasionally, when the open market prices went up, provincial governments also released wheat in the open market at a fixed intervention price which was equal to the procurement price plus the incidental expenditure incurred by the provincial government in procuring and storing wheat. However, the releases in the open market were only about 20 per cent of the quantity sold to the designated flour mills at subsidized rates for supply of flour to the ration shops.

On the basis of ration cards issued, the system covered a population of 50 million mainly in the urban areas. The census population of the "rationed" areas was however estimated in 1986 by the Ministry of Food

and Agriculture at only 30 million. It was evident that there were a large number of bogus ration cards which provided the basis for drawing large quantities of wheat at subsidized rates which were diverted to the free market at a considerable profit.

A study carried out by the Federal Bureau of Statistics indicated that only about 28 per cent of the population in urban areas actually drew flour from ration depots. The percentage for a few rural areas, which were included in the system in later stages, was much smaller. Most people did not take the trouble to obtain ration cards to buy ration flour because its quality had deteriorated over the years. Thus, even though wheat was released on a subsidized basis to cover a population of 50 millions, hardly 8 million persons availed of this subsidy. In other words, most of the subsidy, amounting to about Rs.2,000 million in 1986 (\$130 million),* was shared by corrupt officials, mill owners and ration-shop holders.

* The average exchange rate in 1986 was Rs.16=US\$1. The exchange rate in November 1989 is Rs.21=US\$1.

Even more serious, the release of such a large quantity of ration flour at a heavily subsidized price did not have any substantial effect on the open market prices. As shown in annex 1, the average open market prices of wheat between 1976 and 1985 in various urban areas were substantially higher than the procurement prices. Moreover, as the government's intervention in the free market was limited and erratic, the free market price of wheat often exceeded the procurement price plus handling charges by a wide margin.

Different studies have shown that if government were to freely release wheat at procurement price plus incidentals without any subsidy, the retail prices of flour in the free market would be lower than those that actually prevailed in the years 1984/1985 and 1985/1986. Thus, while a part of the subsidy provided by government benefited only the small minority which purchased flour from the ration shops, the majority paid much higher prices particularly in the second half of the crop year.

It was thus evident that this scheme had outlived its utility. It involved heavy subsidies, a major portion of which did not reach the consumers. There was also no logical basis for perpetuating a two-market system forcing the consumers to purchase two thirds of their requirement in a subsidized market and one third in the open market. While such an arrangement may have had some advantage in times of war and famine, it was clearly inappropriate in a situation when the full requirements of wheat of all the people were being met. Nor was there much justification for calculating the ration of each family meticulously and regulating the flow of subsidized wheat through the flour mills on the basis of ration cards, when the administrative machinery was too corrupt and inefficient to run such a system. It was also wrong in principle to provide cheaper flour to some of the population in the urban areas while leaving the rural poor to fend for themselves in a distorted "free market".

On the other hand, it was clearly impracticable to eliminate all interventions in the marketing of wheat and flour. Wheat was the basic food of the people and its price could not be allowed to fluctuate violently. Moreover, even after self-sufficiency has been achieved in the domestic production of wheat, government would have to watch the situation from time to time so as to arrange imports to cover the consumption demand. It would also be necessary to support the price of wheat at the time of harvest so as to provide adequate incentive to growers to produce more wheat. The government thus recognized that it would have to support producer prices and maintain reserve stocks of wheat in the country in order to support growth in production and ensure price stability for the consumer. However, price stability and adequate availability of wheat could be achieved without resorting to any elaborate rationing/provisioning arrangement or a complex two-market system. Price stability could be ensured by maintaining adequate reserve stocks in the country at all times and issuing them on demand to millers and businessmen in unlimited quantities at a fixed price from government godowns throughout the country. With a large surplus milling capacity in the country, free competition should ensure better quality and relatively stable prices if adequate supply was ensured.

The New System

The new system, which can be called a "National Food Reserve Policy", was introduced from 15 April 1987. The main features of this system can be summarized as follows:

- (a) The practice of issuing rations to individual families at subsidized prices through the system of ration cards, was discontinued and replaced by a system under which wheat was issued from government reserves at a publicly announced price in unlimited quantities on demand to flour mills or businessmen.
- (b) Wheat procurement operations were to continue as a part of the government's price-support policy which announced a fixed minimum price at which farmers were free to offer wheat to government on a voluntary basis. All restrictions on wheat movement or prices were also removed.
- (c) Government would implement an active food reserve policy under which it would maintain adequate stocks at all times to meet the demand for wheat in full and still leave a closing stock of at least 1 million tons at the end of each wheat year, i.e., the end of April when the new crop starts entering the market. This would be equal to 8 per cent or one month's consumption of wheat.

Issues and Problems

Decisions about the new system and its implementation involved some difficult problems and policy options. The first major issue was the fixation of the intervention price at which wheat would be released to flour mills under the new system. The procurement price for purchasing wheat from farmers in 1987 was Rs.2.0 per kg. In addition, the handling charges to procure, bag, transport, store and release the wheat amounted to Rs.0.60 per kg. To eliminate all subsidies, the intervention price would have been Rs.2.60 per kg. But this would have been Rs.0.80 higher than the previous issue price of Rs.1.80 per kg through ration shops. Government was not ready to face the implications of a 45 per cent increase for an estimated 8 million consumers who were receiving wheat flour from the rationing system. In fact, the federal cabinet, when it first considered the subject in May 1986, postponed a final decision, and directed that a study should be carried out within three to four months to determine what percentage of urban population benefited from the rationing system and in what way this section of the population could be compensated if the rationing system was abolished. This study, which was carried out with the help of IFPRI, confirmed that the number of actual users was estimated at 9.0 million people, declining to 6.2 million in the post-harvest season (i.e., a seasonally adjusted average of 7.8 per cent of the entire population of about 100 million).

Keeping in view the importance of minimizing the impact of the new system on this segment, the government decided to fix the new intervention price of Rs.2.0 per kg which was equal to the price at which the government procured wheat from the farmers and therefore involved a subsidy of Rs.0.60 per kg or 23 per cent. In addition, several other measures were approved to compensate the affected people. These included a compensation of Rs.20 per month to all low-paid government employees and special arrangements to issue wheat and wheat flour to low-income urban consumers living in temporary settlements through government stores and fair price shops.

As a result of these measures, there was no agitation or adverse public reaction to the new system, but the new price left very little incentive for the private sector to buy wheat from the farmers at the time

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