

Executive Summary

This study examines the impact of high food prices and inflation rates in Pakistan from around 2007 onwards. It outlines the main trends and patterns in the general inflation rates, food prices, monthly trends and regional patterns. The impact on food security is analysed through a review of existing data and through a qualitative survey in urban and rural sites. The main policy framework and government response to the price rises are reviewed, and their efficacy is examined in the light of the findings of the qualitative survey.

Pakistan experienced high and volatile rates of price inflation from around May 2007 following a period of relative price stability. A macroeconomic stabilisation programme initiated in October 2008 did lead to a declining annualised inflation rate through most 2009. Although inflation rose again at the end of 2009 as a result of the withdrawal of energy subsidies, the most dramatic episodes of price rises and uncertainty appeared to have taken place in calendar years 2007-2008. This period saw dramatic rises in the prices of consumer commodities, particularly food items that are regarded essential.

The inflationary spike may have been exacerbated due to domestic speculative bubbles. Regulatory measures and market interventions led to some easing of wheat prices from January 2008 onwards.

Wheat price was influenced by government procurement price announcements. The procurement price which is usually announced in October in order to influence wheat sowing (which takes place from November onwards), had remained unchanged for several seasons at Rs 425 per 40 kg. At the end of March government decided to raise the procurement price during the harvesting season to Rs 625 per 40 kg. This was below the world price, but did reduce the incentives for hoarding and illegal trade. In October 2008, anticipating further rises in the world price for wheat, the government announced a new procurement price for the 2009 harvest at set it at Rs 950 per 40 kg, leading to yet another inflationary spike in that month.

There are geographical pattern in price levels. Southern Punjab had the lowest average prices and prices appear to increase radially as distance from this region increases. There also appears to be a provincial effect, with districts in Khyber Pakhtunkhwa (KP) have experienced significantly higher prices compared to neighbouring districts across the province boundary with Punjab.

There are three sets of market influences that appear to be at play in this geographic distribution of prices. First, major wheat surplus regions such as southern Punjab, central Sindh, and central Punjab have lower prices than other regions. Second, there is clearly friction due to inter-provincial trade restrictions. Third, some stations are in cities where international trade is known to be major influence on price, either due to the proximity to the border (Turbat, Quetta, and Peshawar), or because the city markets often rely on imports during times of domestic shortfall (Karachi).

Contrary to expectation, HIES 2008 data, which are regarded as the authentic sample survey data in Pakistan, did not reveal declining food consumption or rising poverty

during 2007-2008. The data need to be examined more carefully, and we need a more refined understanding of the linkages between food price rises and poverty.

The government attempts to influence food prices and through it food security for the population in a number of distinct ways. These can be broadly classified into four categories: supply side measures, market intervention, consumer subsidies, and income support.

The wheat procurement system is based on the government announcing a support price for the wheat harvest and then procuring around a tenth of the crop through a number of organisations. The main wheat surplus regions of the country – primarily Punjab, but also rural Sindh – are the sources. The wheat thus acquired is then released at the control price to licensed private sector flour-mills, which are in turn supposed to supply flour at a subsidized price in the market.

Taken separately from the miller subsidy, the procurement system has other important potential linkages with food security. The procurement price acts as a guide for market prices. It is known to effect wheat output through influencing the decision to sow wheat in place of other possible crops in the winter season. In general for the price to have a positive impact on output it would need to close to the expected world price, and will have to be announced before the commencement of sowing.

Agricultural productivity is seen as a key factor in food security in a number of policy documents. It is important to note that while the aggregate availability of wheat stocks in the country (through higher output and/or increased productivity) may improve food security, the precise mode through which productivity improvements take place will affect particular segments of the poor.

Two types of market interventions are conspicuous in Pakistan. Local governments have enjoyed discretionary powers in the past to regulate the movement of wheat across district boundaries. At the national level the government attempts to respond to anticipation of shortage by placing import orders or facilitating private sector imports. There are also attempts at controlling cross-border trade through physical restraints, or indeed, through stopping inter-district movements of wheat to the border districts.

The range of market interventions is not only confusing but also of uncertain effectiveness. Some of the measures that are commonly used are directed at restricting the working of markets. Yet others might be interpreted as strategic interventions which could be used to prevent speculative bubbles in an essential commodity.

Consumer subsidies have been seen as an effective instrument for ensuring food security in Pakistan. The main form of subsidy is through the wheat procurement system with the supply of subsidized grain to licensed millers. The millers, in turn, are supposed to supply flour at controlled prices to the market. This subsidy has been found to be ineffective and poorly targeted

A somewhat better focused variant of the consumer subsidy is the ‘Sasti Roti’ or cheap bread programme of the Punjab provincial government. Subsidized flour is

supplied to licensed tandoors (clay-oven bakeries) for the supply of subsidized bread. Targeting is based on geographic location, but by its very nature beneficiaries are almost exclusively urban consumers.

The most significant recent development with respect to food security policies is the major reform and expansion of cash transfer programmes. The federal government's Benazir Income Support Programme (BISP) and similar cash transfer programmes by several provincial governments represent between them more than a three-fold increase in cash transfer allocations. Unlike previous cash transfers such as Zakaat and Baitul Maal, the BISP and other similar programmes are quickly moving towards the concept of targeting poor households from a well-defined universe. By 2010-2011 the BISP was promised Rs 50 billion (\$590 million) in the federal budget and was set to increase its coverage to 4 million women – perhaps a tenth of the population.

The major increase in fiscal allocations towards social safety nets, and the shift towards targeted cash transfer programmes, was a policy response of the government to the unprecedented economic and inflationary crises of 2007 onwards. The older institutional focus on market interventions and consumer subsidies has remained in evidence, at least in terms of fiscal allocations. The rise of targeted cash transfers implies, however, that there are now clearer policy alternatives to the threat of food insecurity and price shocks. The cash transfers systems are still at an early stage of institutional and organisational development. There are no impact assessments available as yet.

Poor and marginalised individuals, families and communities, define food security in terms of the adequate availability of cereals. Other food items, even relatively simple ones such as vegetables and spices are considered useful additions to the basic staple, but not always as essential.

Rural communities and even many urban ones are divided along class lines, and often this division is enforced by kinship group. There are differential patterns of solidarity and assistance within and across kinship groups, and different levels of interest and knowledge of hardships being faced by families as a result of shock.

Food security is central to the annual labour cycle of the poor and marginalised across diverse communities, particularly in rural areas. Families make great efforts to build up their stocks of grain at the time of harvest. The landless poor have limited access to self-employment in agriculture as tenant farmers. Harvest labour, however, is a very important source of the stock of grains. Other marginal activities such as gleaned leftover grain from harvested fields is also a common and significant source of grain for some of the poor, particularly those without able-bodied household members who could do harvest labour.

Vulnerability to shock is understood in different ways across and within communities. Price shocks appear to be conspicuous in urban areas, and in group discussions. In individual interactions informants rarely mention price shocks but focus on idiosyncratic shocks. In both unirrigated and irrigated rural communities the availability of water – through rainfall or in the irrigation system – is an important source of uncertainty. The death of a male breadwinner is the most conspicuous

adverse shock that families suffer. Price shocks are important, but in interaction with other sources of vulnerability and deprivation, and not in isolation. The poor in Pakistan are those who already suffer from or are vulnerable to multiple sources of risk and uncertainty which dominate price volatility in terms determining family food security.

Qualitative fieldwork confirmed through recall the trends observed in the prices of main staples, particularly wheat and flour. Shortages from the market and price spirals were experienced in all of the fieldwork sites around the time when secondary price data indicate peak prices. In some sites the effects were short-lived and did not have much impact on the food economy of poor households. In others they lingered for a longer period of time. In all cases government response in the form of the dispatch of subsidized wheat led to the easing of market pressures and the return to price stability.

Coping strategies include cutting out non-staple items, reducing food intake of some household members, migration, borrowing, begging, and women entering the workforce. In general, poor communities annual life cycle already seem to be organized around the mitigation of risk and uncertainty with respect to food security.

Support takes a variety forms including government programmes, private charities, shrines, and neighbourly help. The large-scale increase in social protection programmes is already being felt in the communities where fieldwork was conducted, with open discussion of the identity of beneficiaries and expectations on the part of non-beneficiaries. There is preliminary evidence that the social safety net interventions are beginning to have wider outreach than ever before. Existing methods of targeting beneficiaries seem to include the poor and the marginalised but ration benefits among them along lines of political factional or elite allegiance. The outreach of the programme might create a sense of entitlement which may add to the will for reforming targeting methods to international standards.

Inflation and particularly inflation in the price of food items emerged as a serious concern in Pakistan in 2007. Not only were rates of inflation high, prices were very volatile on a month-to-month basis, and with variations across location. The price of the basic staple, wheat, varied violently from month to month, and the range of variation between different regions of the country stood at over 40 per cent.

There are disagreements over the results of secondary data which show a decline in poverty in the period from 2005-2006 to 2007-2008. Other assessments show – though without the backing of representative data – that the proportion of those who are ‘calorie-deficit’ has increased.

The approach to food security continues to retain dual definitions including aggregated or local food availability as well as a more individual-focused understanding of entitlements. There is also confusion about the use of various indices such as food availability within districts, poverty measures, and the designation of ‘essential’ items which must be tracked.

The policy framework for addressing includes a number of complementary as well as potentially contradictory levers and instruments. The relationship between

agricultural prices, productivity, food output, prices and actual consumption needs to be understood far better than it has been. In terms of fiscal outlays the two main instruments for dealing with the food price crises were untargeted subsidies and social safety nets.

Untargetted subsidies exceeded the allocation for social safety nets until fiscal year 2009-2010. These were emergency responses to the failures of market intervention and regulation in preceding periods. While these emergency responses helped to ease market conditions, they also added a great burden on the public purse without any long term guarantee of price stability or food security.

The annual life cycle of some of the poorest people in the country revolves around grain acquisition through diverse and complex strategies including harvest labour, and marginal activities. Price shocks and inflationary pressures impact on individuals and families within their existing contexts, where other sources of shock appear to dominate.

For the poorest, the linkage between higher grain production and food security works through their labour and grain acquisition opportunities at harvest time. It makes a difference to them, therefore, if the increase agricultural output is brought about through the expansion of acreage (in response to procurement price signals) or labour-displacing technological change. The loss of agricultural self-employment (through tenancy) has already led to the proliferation of diversified yet marginal activities for grain acquisition.

Consumer subsidies for food can have mixed impacts on the poorest depending on their incidence and methods of targeting. Subsidies to flour mills almost certainly bypass the poorest in the rural areas whose survival strategies are built around the acquisition of grain. If such subsidies are partly financed through depressed procurement prices the effect could be regressive. Target consumer subsidies such as 'sasti roti' are more likely to reach the poor, but those in urban centres.

Cash transfer programmes appear to have made their presence felt in the communities. Although their original rationale was to provide food security, it is likely that their impact on food consumption will be marginal to begin with. This is because recipients of cash transfers are unlikely to radically alter their existing food acquisition strategies in response to a new programme whose durability is an unknown quantity for them. On the margin additional cash might lead to some improvements in the diversity of the diet.

Social safety nets based on targeted cash transfers to the poor – and in the case of the BISP, in favour of poor women – provide a sound platform on which to build a pre-emptive food security system. This programme and others like it offer the opportunity of bringing the entire population into an institutional framework where different forms of targeted as well as untargeted but monitored interventions might become possible. The administrative culture associated with the disbursement of consumer subsidies – having lost its historical moorings in the ration system – offers a crude and often counter-productive intervention. Breaking price cartels or local shortages by dispatching truckloads of free or subsidized flour is an extremely

expensive and ultimately unsustainable way of achieving a modicum of food security. The untargeted 'Sasti Roti' intervention is only marginally better.

In fact, what is required in Pakistan is a range of interventions which might reduce chronic deprivation and uncertainty, and deal with price instability within this overall context of vulnerability to natural, economic and institutional shocks. Targetted programmes that work on the basis of a comprehensive universe can help create such linkages, while untargeted consumer subsidies cannot.

While it is premature to speculate about the final economic and social impact of the current floods affecting Pakistan it is possible to make some preliminary observations. In all seriously affected areas floods are likely to have destroyed the private grain stocks of the rural population, leaving the poor particularly vulnerable to food insecurity. Moreover, there is unlikely to be sufficient agricultural labour available in the coming season due to the destruction of the kharif crop in these regions. Beyond rescue and relief the government will need to step in to protect the food entitlements of the affected population, and to provide employment opportunities in labour-intensive reconstruction projects.