



## Rising commodity prices

The price developments of key commodities provide a direct indication of the food security outlook for the different regions of Nepal. The ban on export of non-basmati rice put in place by India a few months ago, coupled with increasing fuel prices, fuel shortages and transportation strikes are already showing their impact on the food security situation of the Nepali population, particularly the poor.

The WFP Food Security Monitoring and Analysis System (FSMAS) collects and analyses price and market information in 38 districts across the country. This issue of the Market Watch presents an analysis of key price and market indicators collected during the monitoring cycle November 2007 – January 2008 as well as price information collected through the Agricultural Marketing Information System of the Agri-Business Promotion and Marketing Development Directorate of the Department of Agriculture.

The analysis reveals that the increased commodity prices have a negative impact on the overall household food security situation and that this is likely to deteriorate further as stocks of the recent paddy harvest are depleted. Already the FSMAS' survey results show that on average, household food stocks are approximately half of what they were during the same period last year. The situation is particularly worrisome for the extreme poor which make-up about 15% of the total population. The extremely poor have no cash reserves and therefore will find it increasingly difficult to cope with increased food prices.

Considering the importance of the issue, WFP Nepal is closely monitoring further market developments and is planning to conduct a more detailed study on prices and food availability in the near future.

### PRICE DEVELOPMENT OF COARSE RICE

Rice is the main cereal crop in Nepal. It contributes about 55% to national cereal production and is the main staple food for many households, particularly in the Terai and in the Hills. Coarse rice is the staple for a large part of the poorer segment of the population and therefore its price is a key indicator for monitoring the national food security status. Figure 1 shows the price development of coarse rice in Nepal for the last 12 years. Since 2005/06 the price of coarse rice has increased dramatically. Prices for this year have not yet been included in the data, however, projections are that the price increase will be higher than in prior years due to reasons mentioned above.

Figure 2 shows the price of coarse rice in different district markets in Nepal as collected by WFP's market surveillance monitoring. It suggests a continued trend of rising prices over the coming months.

Fig 1: Trend of price of coarse rice since 1994/95 (Rs./Kg)

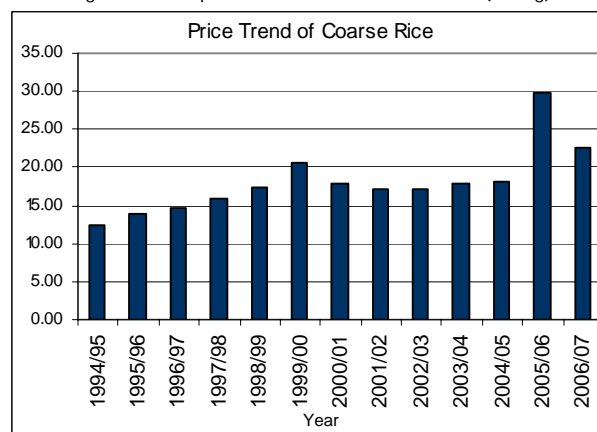
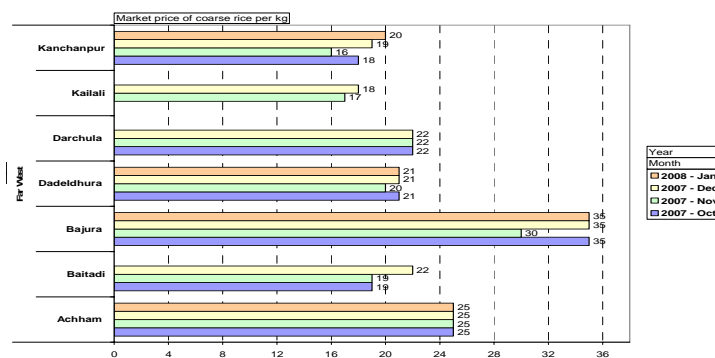
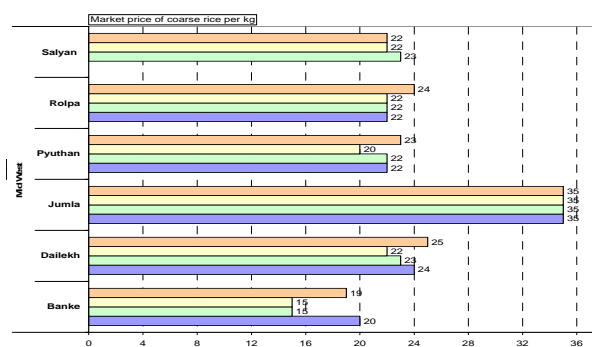


Fig 2: Coarse rice prices in different clusters in the period October 2007 to January 2008

#### a. Far-Western Development Region



#### b. Mid-Western Development Region



#### c. Central and Eastern Development Region

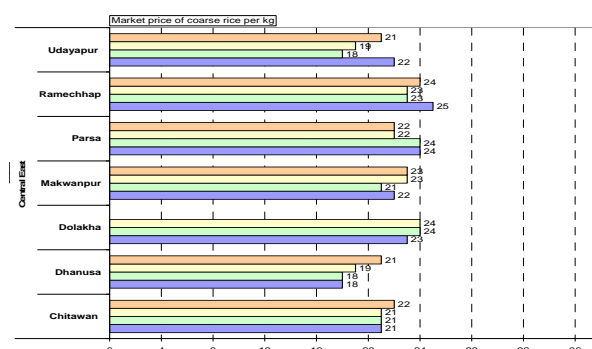




Figure 3 shows the trend of the coarse rice price in selected markets based on data from the Department of Agriculture.

Figure 4 compares the current prices of coarse rice and wheat with those of last year during the same period. It shows that prices have increased between 10 to 35% depending on the market and its accessibility.

These data clearly show that in spite of a 17% increase in this summer's paddy crop production, as reported by MoAC (see Crop Situation Update No. 7), the price of rice and other food items has increased sharply over the past few months. When rice prices are this high immediately following the harvest season, it signals that further price increases are likely.

**INDIAN RICE IMPORTS**

Annually, Nepal depends on imports to meet its total cereal demand. In 2006/07, the FAO/WFP CFSAM estimated a food grain deficit of almost 200,000 Mt. Most imports come from India either through formal or informal channels. Consequently, Indian market prices play a major role in determining food prices in Nepal. Figure 5 shows the imports of rice and wheat in Nepal as per official data. A WFP/FAO joint study on Food and Agricultural Markets in Nepal showed that trade through informal channels in the porous Nepal-India border is also very significant. This is not reflected in the official data. A quick check in a number of border markets in India indicates that the price differential between cereal prices in Indian and Terai markets has increased compared to the same period last year. This indicates that, despite informal imports, the rice ban imposed by India has resulted in additional upward pressure on domestic prices.

**PRICE DEVELOPMENT OF OTHER COMMODITIES**

The data collected by WFP's field surveillance team as well as data from the Department of Agriculture indicate rising prices for other food commodities such as wheat and cooking oil. Even though the price increases are not of the same magnitude as in the case of coarse rice, the price of wheat (both wheat grain and wheat flour) has risen in most markets in the Terai as well as in the Hills and Mountains. Figure 6 depicts the trend of prices for wheat grain in selected markets in the country.

Fig 6: Price of wheat grain in selected markets (Oct 07-Jan08)

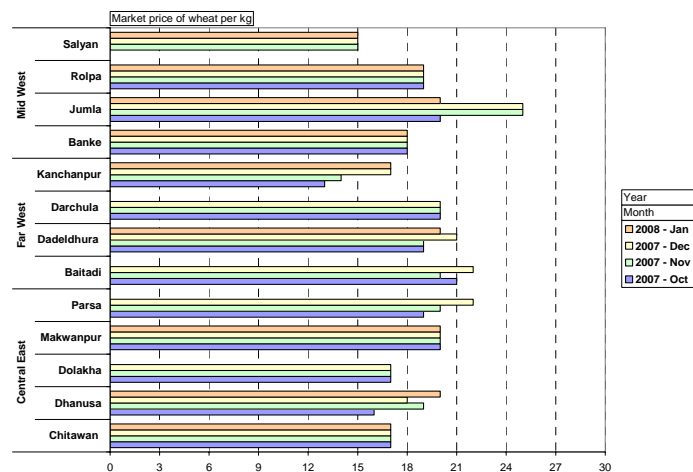
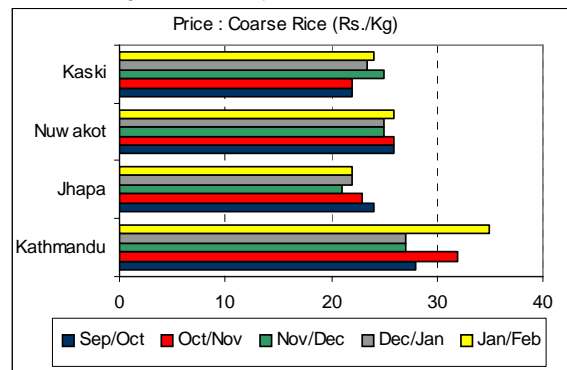
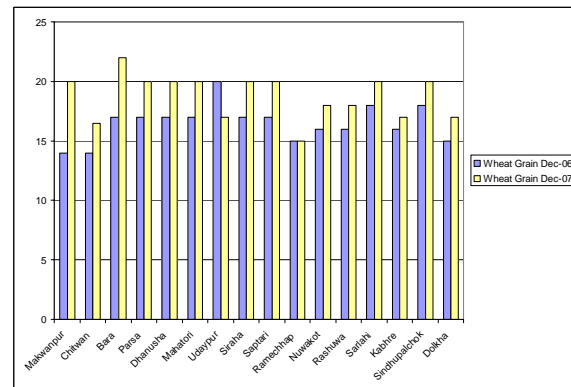


Fig 3: Coarse rice prices in selected markets



Source: Agri-Promotion Division

Fig 4: Comparison of prices in 2006 and 2007 (Coarse rice and wheat)  
a. Coarse Rice



b. Wheat

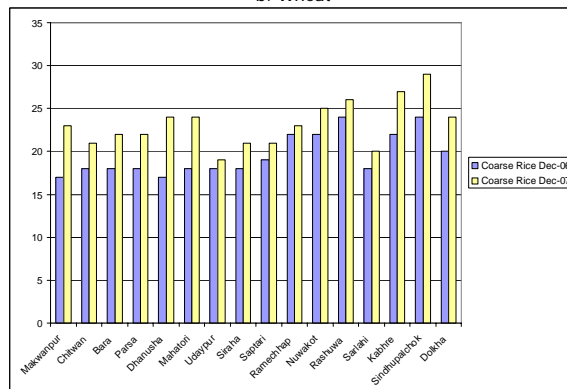
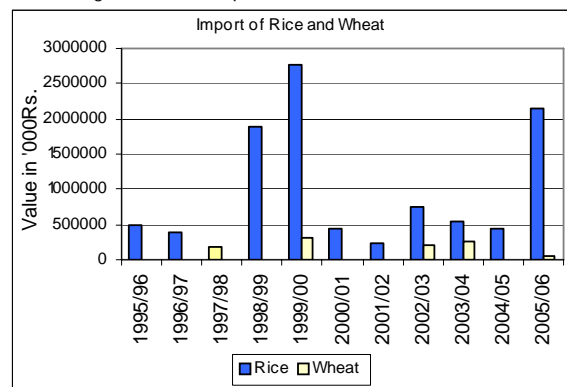


Fig 5: Trend on import of rice and wheat from India



**VARIATION BY GEOGRAPHIC REGIONS**

Nepal has a very poor market infrastructure, particularly in the remote Hill and Mountain districts. While the markets in the Terai are generally well integrated, those in the Hills and Mountains are poorly integrated. The WFP/FAO CFSAM mission (April 2007) reports that rice prices in the mountains are typically 177% over those in the Terai markets. These mountain areas lack road and market infrastructure and the nearest main market can be several days walk away. The recent increase in fuel prices (approx 10%) and fuel shortages combined with frequent bandhs have had an impact on transportation costs which may lead to further price instability across the country.

Due to a poorly integrated market structure, price rises in Hill and Mountain areas lag behind those in the Terai. Prices in the Terai markets are rising at similar rates, however price increases in the Hill and Mountain districts vary depending on accessibility and local crop conditions and available stocks. For example, the seemingly stable price observed in Jumla is due to the uniform transportation costs set by the transport syndicate and the availability of coarse rice from old stocks. Once the old stocks are depleted, prices are expected to increase substantially. Map 1 depicts the key markets and flow of food items in Nepal.

**IMPLICATIONS OF A FOOD PRICE RISE AT THE NATIONAL LEVEL**

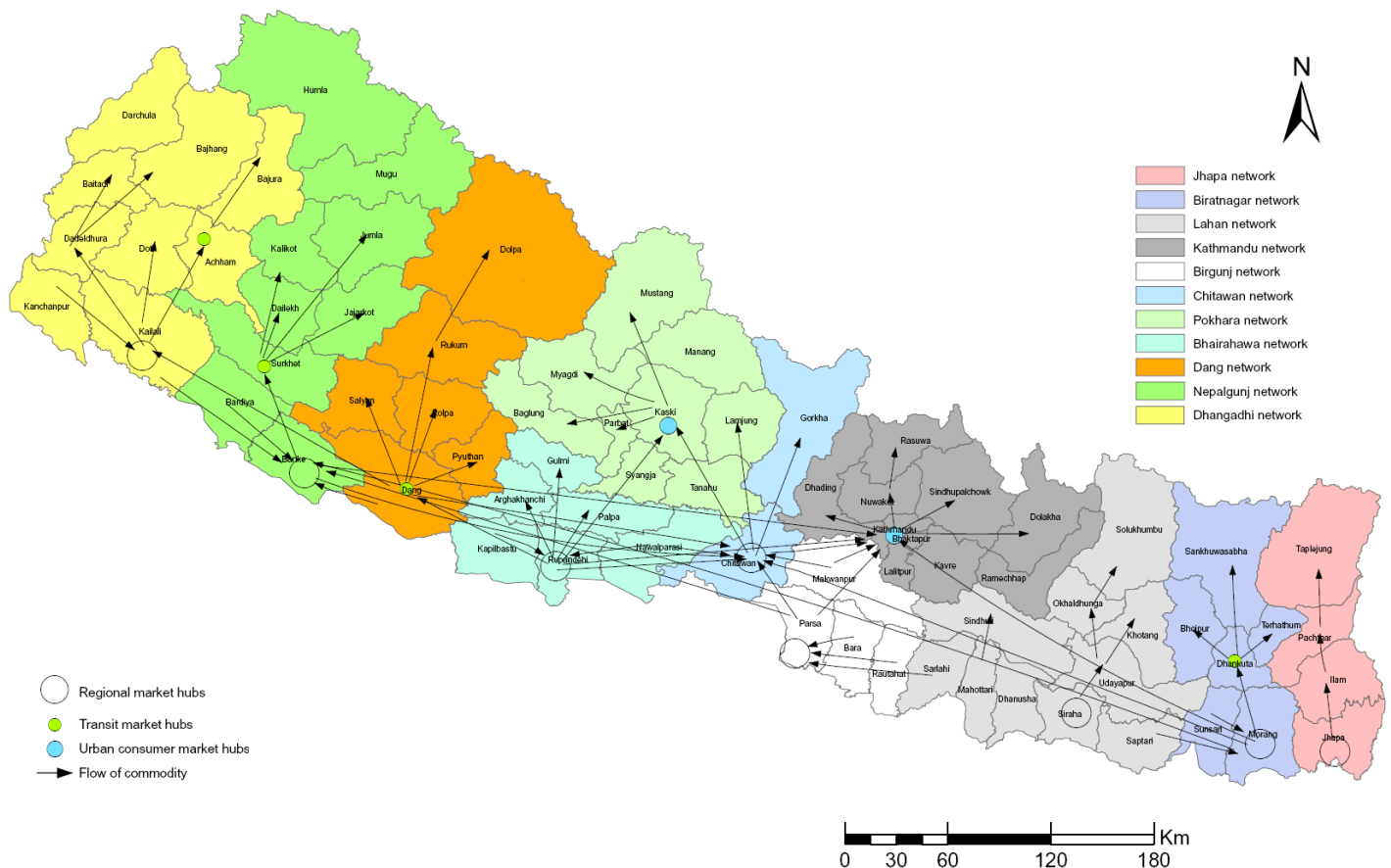
When comparing Nepal with its South Asian neighbours, it has the lowest wheat and rice yield. Agricultural output is barely keeping up with population growth and consequently imports have been on the rise. In addition, recent natural disasters (particularly the effects of drought during 2005-2007) have impacted the overall food production.

Higher commodity prices could potentially lead to higher crop production and increase the income for local farmers. However, since the majority of farmers are deficit producers and have to buy, on balance, most of their food, the outcome is likely to be negative. With limited investment in the agricultural sector, low use of fertilizer and pesticides, lack of farm mechanization and unavailability of further land to bring under cultivation, immediate increases in agricultural production are unlikely to take place.

Foreign exchange reserves are limited and the government is finding it increasingly difficult to manage resources for even the most pressing priorities at the moment. On top of this, there are huge costs involved in the ongoing peace process and the upcoming Constituent Assembly elections in April. The trade balance deficit, particularly with India is large and increasing. Additional resources required to cover rising food prices are not available and rising food prices will therefore have serious effects on the overall financial situation of the country.

**Nepal: Food Grain Markets and Flow of Commodities**

(showing catchment areas served by different market hubs)



**IMPLICATIONS AT THE HOUSEHOLD LEVEL**

Nepal has about 7.6 million poor people (approx 31% of the population) according to the latest available data. The poorest areas include the Hills and Mountains of the Mid- and Far-Western Development Regions, where generally more than 50% of the population lives in poverty. Food consumption in these areas is extremely low. The FAO/WFP CFSAM (April 2007) estimates that in these areas between 20 to 30% of the population consume less than 1600 Kcal/day. Not surprisingly, stunting levels are above the already very high national average of 49%. Similarly, in the Terai, although markets are functioning and integrated, the concentration of poverty is high with many landless households with limited purchasing power. As a consequence of this, diets are poor and acute malnutrition among children under 5 is extremely high with an average of 17%.

**POPULATION MOST VULNERABLE TO PRICE RISE**

Data from the last quarter of 2007 from WFP's FSMAS reveals that 83% of households in the FSMAS' monitoring area reported that their expenditure was more than normal. Figure 7(a) provides the percentage by wealth category and Figure 7(b) shows the reasons behind this increase in expenditure by wealth group. For the extreme poor, more than half reported increase in food prices as the main reason for their increased expenditure. It clearly demonstrates that the extreme poor and poor are and will be the hardest hit by increased commodity prices. Taking household survey data from the FSMAS, approximately 50% of the poor in Nepal can be classified as extreme poor (about 15% nationally). This leads to a total of approximately 3.8 million people who will be extremely vulnerable to increases in food prices in the coming period.

Results from WFP's FSMAS show that by the end of January almost 85% of the extremely poor households surveyed had only enough food to feed themselves for less than one month (Figure 8). Interestingly, despite reports of improved summer harvests, the amount of food stock in these households was only about half of what it was at the same time last year.

**CONCLUSION**

Nepal has seen a sharp increase in the price of food items, particularly coarse rice, over the last few months. In the main consumer centre, Kathmandu, the price of coarse rice is increasing at a rate that suggests a shortage of supply compared to demand, even though the paddy harvest was good this summer. The global phenomena of commodity price increases did not leave Nepal unaffected. Its affects are exacerbated by the recent ban on rice exports (non-basmati) by India, fuel shortages, transportation strikes and frequent bandhs.

It is expected that the trend of rising prices will continue and that poor households may find it increasingly more difficult to meet their basic food requirements.

WFP is planning a more comprehensive study on market prices and its potential impact on households, particularly poor households, in order to develop potential interventions necessary to save the lives of the poor and vulnerable population.

Fig 7: Prevalence of increased expenditure and sources by wealth categories

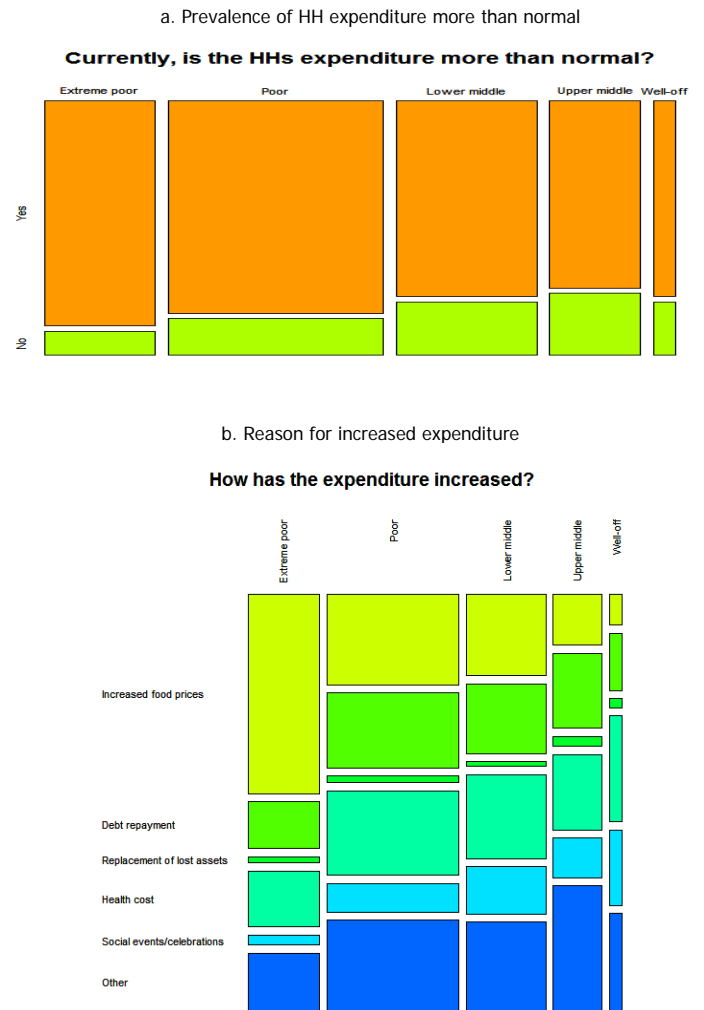
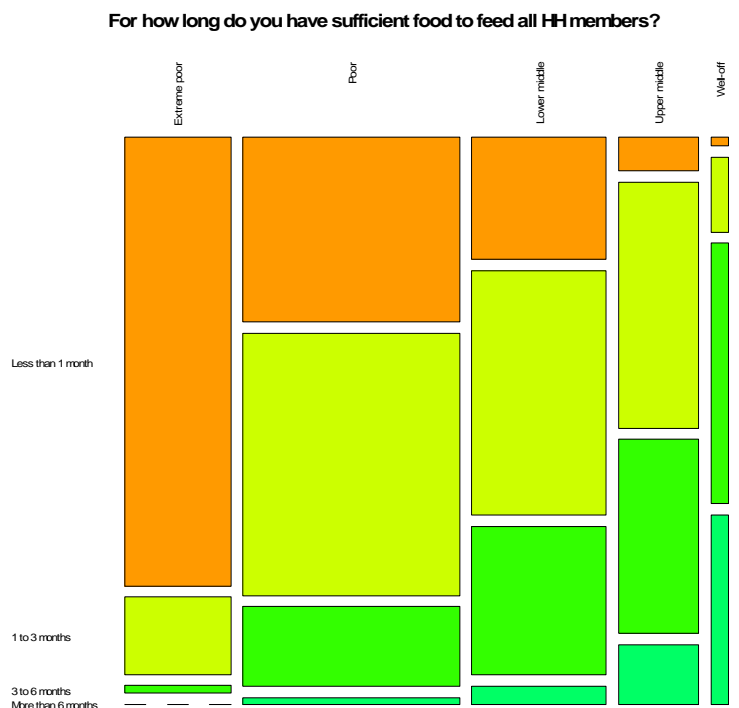


Fig 8: Food stock by different wealth categories



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The Market Watch is produced by WFP Nepal as part of the Food Security Monitoring and Analysis System (FSMAS).

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