



## Food grain market

This week WFP and FAO will release a joint study on food and agricultural markets in Nepal, titled Food and Agricultural Markets in Nepal. It describes how food grain markets work in Nepal, examines the price formation process, the internal transport and distribution system and identifies the main market players. A copy of the report is available from WFP.

Taken from the report is Map 1 which shows the main trade flows of food grains through the main commodity market and their service areas. The map distinguishes eleven market networks serviced by a regional market hub interconnected with transit and rural deficit markets. The regional markets hubs in the Terai are well integrated and governed by well established market mechanisms. Prices

in this region are significantly influenced by trade flows from and to Indian commodity markets. Transit markets are connected by all weather roads to the regional market hubs. Prices in transit markets therefore tend to follow the price trends in the Terai markets. On the other hand, in rural markets particularly in the Hill and Mountain areas, prices are governed less by market forces of supply and demand but more by transportation cost, subsidized grains provided by the Nepal Food Corporation, and disruption in transportation.

### PRICE DEVELOPMENT OF COARSE RICE

Data obtained from the Department of Agriculture, Agri-Business Promotion and Marketing Development Directorate and WFP's Food Security Monitoring and Analysis System indicate that the price

trend of coarse rice has been normal in most of the district headquarters (DHO) despite a 12.5% reduction in the national rice output. Annually Nepal's official rice imports are about 60,000 Mt on average. Estimates of informal imports range between 30-70 percent of official imports. According to the Ministry of Supply rice imports tripled to approximately 150,000 Mt during 2006 as paddy production was seriously affected in the Eastern Terai Region. All private food grain imports are from India. This increase in private imports had a stabilizing affect in the market price of rice.

Nepal: Food Grain Markets and Flow of Commodities

(showing catchment areas served by different market hubs)

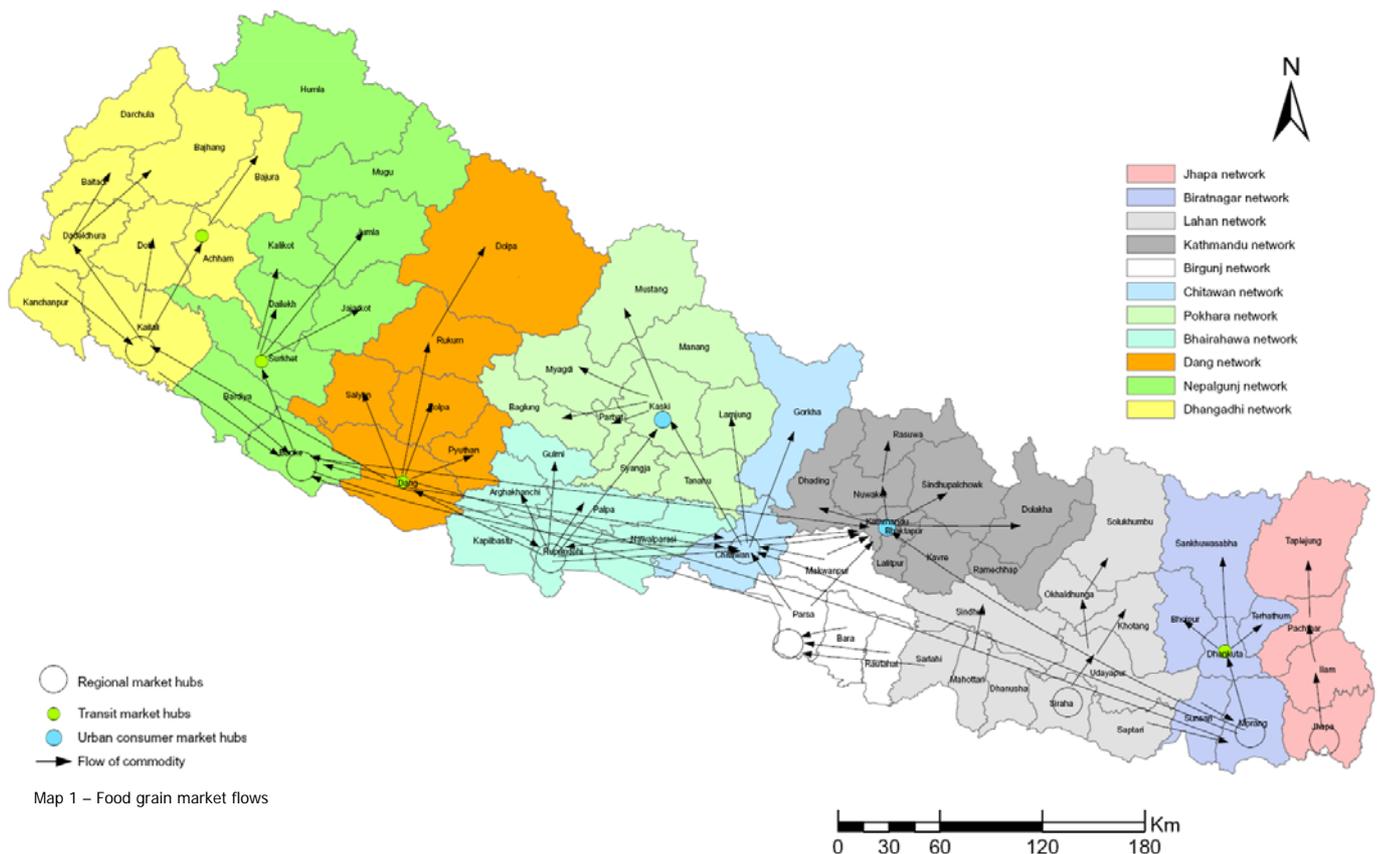


Figure 1 shows the progression of the retail price of coarse rice since November/December 2006 for key markets in each of the Development Regions.

The price of coarse rice in the main urban consumption centre, Kathmandu has stabilized since October/November 2006 when it was above Rs 30/kg. In most markets in the Terai and Hills, the price remains stable at around Rs 20/kg.

The opening of the Karnali Highway, connecting Jumla Bazar with source markets in the Terai has caused the price of coarse rice in Jumla to drop sharply by 33% from Rs 60 to 40 per kg.

Airlifting of food grains from Surkhet used to be the only means of supplying the market in Jumla. Cost of airlifting is on average Rs 38/kg. In contrast, a trucking company charges on average Rs 20/kg. It is anticipated that the prices of locally produced products from Jumla such as beans and apples will increase as demand for these products increase due to lower transportation cost in major consumption markets in the Terai.

Unfortunately, these stable prices recorded at the district headquarters do not depict the whole story. In the Hills and Mountains there is much price variation from area to area, often as a result of a number of factors, such as local crop losses and transportation issues. For example, the price of a kilogram of rice in the markets of Ragda and Bhagawati VDCs in Jajarkot is Rs 60, twice as high as what you pay in the district headquarters. This is a result of local crop failures due to hailstorms and the high cost of transportation to move goods from the district headquarters. The next Market Watch will investigate local price variation in more detail.

**FOOD GRAIN SHORTAGE IN INDIA**

The food grain shortage in Nepal for 2006/07 has been estimated at some 190,000 Mt. Part of this shortage was expected to be covered by an increase in private imports from India. Based on customs data on formal imports from India this appeared to have happened.

However, food prices in India are rising much faster than overall inflation which may in the long run put pressure on prices in Nepal. The Indian government has procured 10 million Mt of food grain this year against a target of 15 million Mt. Last year it imported 6.5 million Mt of wheat to meet the domestic shortfall. A least 3 million Mt will be needed this year. Pakistan, which is expecting a bumper harvest, is the main supplier of wheat. Indian farmers are reluctant to sell against the government's offered price as they can sell more expensively after the harvest ends in May.

**CONCLUSION**

Following the initial price increase at the end of last year as a consequence of decreased paddy production, the price of rice in the main consumer centre, Kathmandu, has stabilized. Similarly, in other regional and main markets in the district headquarters, prices are stable. As a result of the opening of the Karnali Highway, food prices have sharply decreased in Jumla Bazar. Stable prices in these key markets do not translate to stable food prices throughout the district, particularly in the Hills and Mountains where essential infrastructure is missing for markets

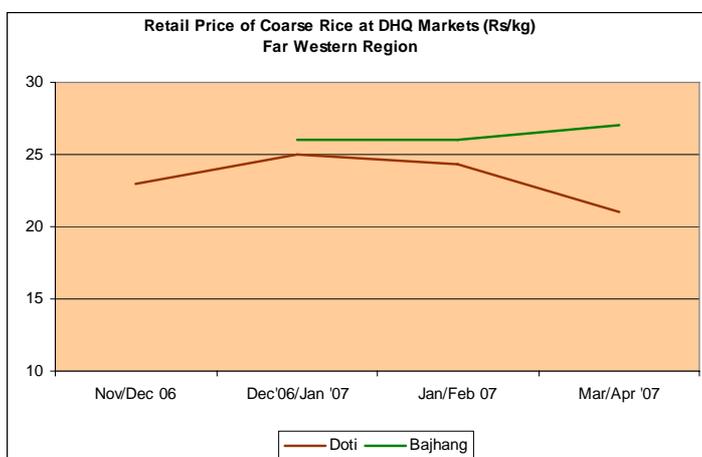
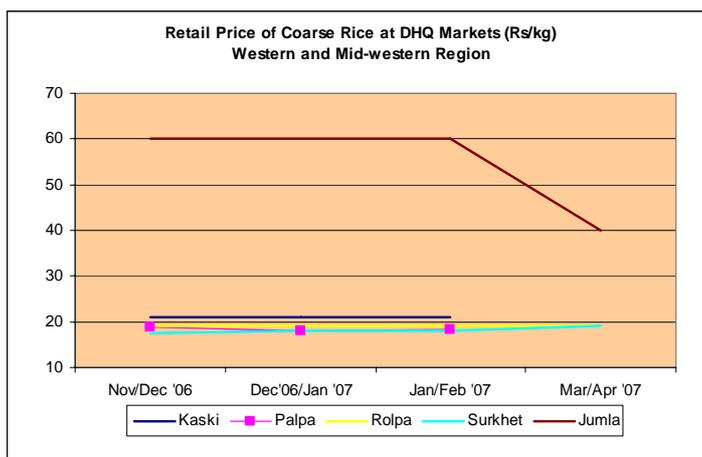
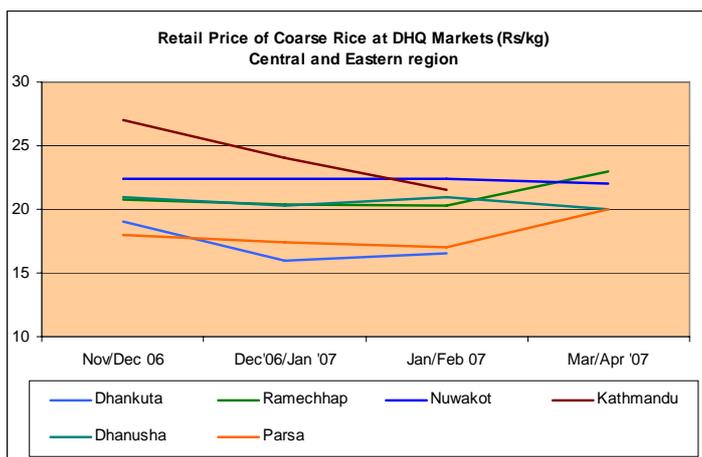


Figure 1 – Retail price of coarse rice

to effectively operate. The next market watch will investigate this in more detail.

Market Updates are produced by WFP Nepal as part of the Food Security Monitoring and Analysis System (FSMAS). The FSMAS is currently funded by OFDA.

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