



Keynote Speech by **Dr. Atiur Rahman**, Governor, Bangladesh Bank in the Symposium on

Ensuring Food Security: the Role of SAARC Central Banks

1. It is my great pleasure and privilege this morning to welcome you all in this SAARCFINANCE symposium; to discuss ways in which we SAARC central bankers can contribute further to ensure food security for our population, and the ways we can cooperate regionally in this effort. We expect from our discussions to come up with some policy and cooperation suggestions for consideration in the next SAARC summit meeting.

We have chosen food security as the discussion subject because progress of South Asia in this front is markedly slower than the widely acknowledged trends of good progress in output growth, stability and resilience in coping with shocks like the recent global financial turmoil and economic slowdown. The October 2009 Global Hunger Index reports 'distressingly high' hunger index levels for South Asia, with 'alarming' vulnerability ranking for the three populous countries India, Pakistan and Bangladesh; and one notch better but still worrisome 'serious' vulnerability ranking for Sri Lanka and Nepal. Climate change, protracted internal conflicts, speculation-fuelled global commodity price spikes as seen in 2008 are risk factors further clouding the food security outlook for around a fifth of the South Asian population still in extreme poverty and chronic hunger. A renewed vow of concerted thrust for eradication of extreme poverty and chronic hunger is called for; and I am deeply grateful to our honorable Ministers for Finance and Food for the grace of their august presence in the opening session to inspire us in this vow.

2. The nexus between food security and the usual core concerns of central banks may not be immediately obvious at first glance; but with a closer look it is easy to see that many of the key prerequisites for food security are also the conditions in the economic environment that central banking per se seek to foster.

Firstly, central banks in developing regions like South Asia seek to foster, with supportive monetary policies, stable economic growth at sustained high rates. The growth thus generated strengthens food security, both in terms of availability (augmenting resources for locally producing or importing food supplies in needed volumes) and in terms of access or affordability (augmenting income of consumers to buy food with). Foreign exchange reserve accretion objective pursued by central banks likewise strengthens food security, increase in reserves augmenting wherewithal for food imports if needed; the inflation objectives pursued by central banks (containing inflation at moderate, stable levels) help protect affordability of food supplies for consumers, particularly those with lower incomes.

Secondly, central bank refinance supported credit programs for bridging market failures and gaps in financing agricultural production and SME/ self-employment initiatives directly contribute to food security; by helping increase domestic output of food crops, and by making food supplies more affordable with the increased income of borrowers participating in these programs. In Bangladesh, comprehensive annual credit programs with adequate central bank refinance lines support local production of diverse range of food crops; lending to sharecroppers owning little or no holding of farmland is a recently added new dimension in the agricultural credit program.

More generally, all central bank initiatives promoting fuller financial inclusion of the weaker, spatially or otherwise more isolated population segments improve food security by improving access/ affordability. Financial service providers reaching out to the hitherto excluded population groups help them increase their income from agriculture, SME or other income generating pursuits that they engage in. Even those unable to engage in income generating pursuits because of old age or disabilities benefit from financial inclusion by way of greater ease and lower costs in drawing social safety net payments from relevant government agencies. New delivery arrangements developed in creative partnership of banks/microfinance institutions (MFIs) with mobile phone/IT platforms are being encouraged, to enable swift low-cost remote delivery of financial services to the rural poor, boosting their financial inclusion and consequent access to food.

Small sized loans from MFIs for income generating self employment pursuits are improving access of rural poor to food, with financial inclusion enhancing their income. Being licensed and supervised by a Micro-credit Regulatory Authority (MRA) chaired by the central bank Governor gives a huge boost to confidence in these MFIs.

Alongside the more conventional engagements of central banks mentioned earlier, *financial inclusion may thus merit ranking high in the food security promotion agenda of central bank, unlocking for the newly included population groups the conveniences and opportunities from financial services that we take for ourselves as granted.*

3. Over the longer term, the ad-hoc special programs for bridging market failures and gaps in financial services need to be replaced by market-based arrangements that remove the disincentives deterring spontaneous engagement of lenders in financing the activities supported by the special programs. Well functioning institutional arrangements of *crop insurance* against output risks and price risks in agriculture, and *repayment guarantees* for part or whole of SME loans have been instrumental in many countries (including developed ones) in mitigating loan default risks faced by agricultural and SME lenders. Such arrangements usually require some extent of subsidy support from government, at least in the early stages. *Putting in place institutional arrangements for crop insurance and SME loan*

guarantees are likely areas for exchange of experience and cooperation among SAARC central banks.

Importation, warehousing and trade in food grains in Bangladesh are financed spontaneously by banks on normal commercial terms; but the periods for which food-crop warehousing are financed become loaded issues, particularly at times of price pressures. *The debate over whether promotion of futures markets in food grains will smoothen or exacerbate food price volatility remains unsettled; SAARC central banks may consider cooperating in a region-wide study on this question.*

Connections of central banks are remoter with other important aspects of food security like balanced nutritional content of usual dietary intakes; development of diverse new crop varieties capable of withstanding diverse climatic conditions such as drought, flooding, salinity; buffer stocks of major food crops; preparedness for urgent transportation and distribution of food supplies to people affected in natural disasters.

3. The factors impacting food security in different countries of South Asia are interesting in their diversity. Bangladesh is not far off from self-sufficiency in domestic production of the staple food grains, importing only about five percent of total requirement in normal years. The larger countries India, Pakistan, Bangladesh, Nepal are focusing more on bolstering domestic output of food crop, dairy and fishery products in view of uncertainties in sourcing imports. Maldives, a small country, has very limited room for expanding domestic food crop output and will of necessity rely more on affording imported supplies. Low altitude Maldives and Bangladesh are particularly in threat from rise of sea levels, other South Asian countries are less so. Some South Asian states have experienced localized worsening of food security in conflict driven population displacements; food security in Bangladesh has not been affected by such conflicts but instead by periodic spells of natural disasters. Reaching out to the remoter, more isolated population segments with reliable chain of regular food supply is relatively less of a challenge for Bangladesh than for larger South Asian neighbors with greater geographic sprawl.

This rich brew of diversity will bring up a correspondingly varied range of ideas and suggestions in the working session deliberations that I am keenly looking forward to. For now I would like to conclude here, with thanks to all for your patient attention, and gratitude once again to our honorable Ministers for Finance and Food for gracing this occasion with their presence.
