

33 6-12-85

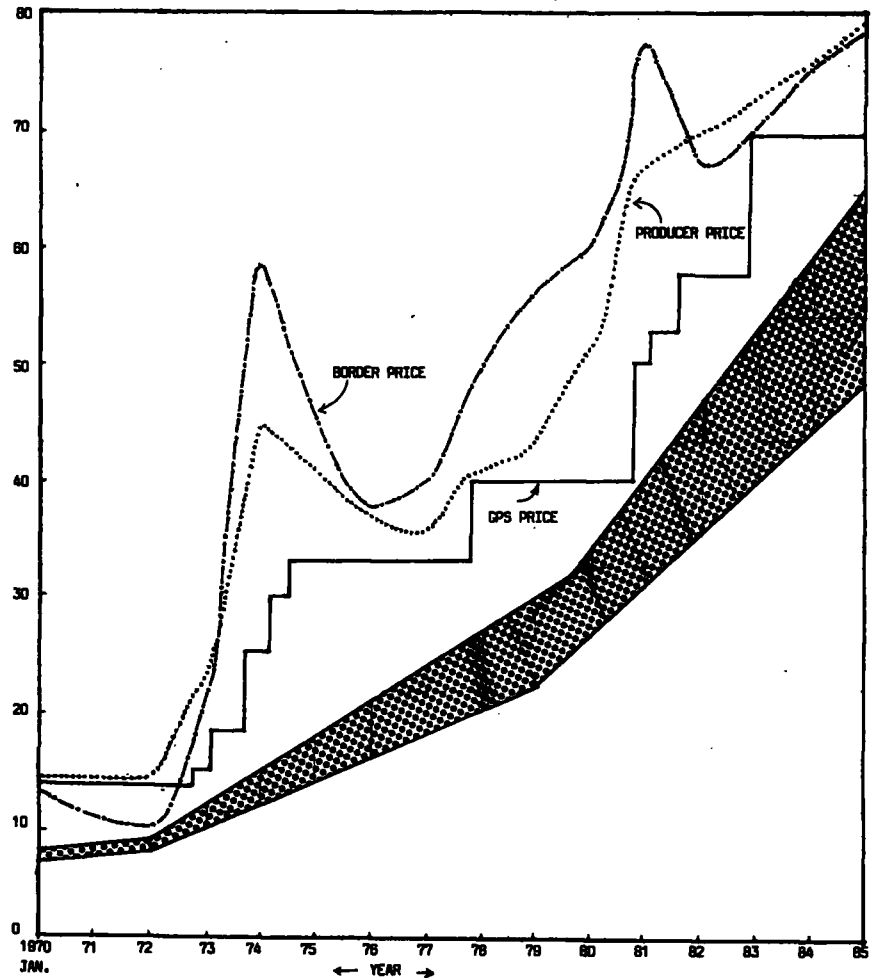
THE BUDGET '86 AND THE AGRICULTURAL SECTOR

A.M. Abeyasinghe
 Planning Division
 Mahaweli Authority

THE GUARANTEED PRICE OF PADDY

The 1986 Budget increased the Floor Price under the GPS (Guaranteed Price Scheme) for Paddy to Rs. 70/- per bushel. When the World War II ended, the levy on paddy farmers to supply rice for the ration scheme was abandoned and a voluntary Guaranteed Price Scheme was created. Under the Scheme a minimum buying price was announced and this was held constant throughout the year. Under this Scheme if the open market price is not sufficiently attractive to farmers then they are free to offer such commodities to the Paddy Marketing Board at the officially announced buying price. Originally, the Scheme was operated by the Department of Agrarian Services through a network of stores and mills. Considerable inefficiencies arose in the implementation of the GPS, and it was felt that a semi-autonomous institution could operate more effectively. This was one objective in the creation of the Paddy Marketing Board (PMB) in 1971. The procurement operations by the PMB

TRENDS IN PRODUCER PRICE, GPS PRICE, BORDER PRICE AND COST OF PRODUCTION OF PADDY



are undertaken by over 3000 branches of the MPCS. The paddy is then moved to PMB Stores of which there are presently 380 with a capacity of

21 million bushels. Though the PMB has its own milling network, most milling is undertaken by private mills on a quota basis.

From	To	GPS/Rs.. Bushels	Year	Total Production. (Mn./ Bushels)	PMB Purchases as a % of Total production
August 1948	July 51	8	1972	62.4	42%
Sept. 1951	Aug. 52	9	1973	62.9	36%
Nov. 1952	Oct. 67	12	1974	76.7	26%
Nov. 1967	Oct. 72	14	1975	55.4	21%
Nov. 1972	Feb. 73	15			
Feb. 1973	Sept. 73	18	1976	60.1	21%
Oct. 1973	Mar. 74	25	1977	80.4	31%
March 1974	July 74	30	1978	90.6	36%
July 1974	Nov. 77	33	1979	91.9	28%
Nov. 1977	Nov. 80	40	1980	102.2	10%
Nov. 1980	Jan. 81	50	1981	106.8	6%
Jan. 1981	Sept. 81	52	1982	103.3	4%
Sept. 1981	Mar. 83	57.50	1982	118.7	13%
March 1983	Nov. 85	62.50	1984	115.9	6.97%
Dec. 1985		70.00	1985	-	-

The rates for purchases of paddy under the GPS over the years are shown in the table below.

After the liberalization of paddy purchase together with a GPS the role of the PMB has declined now purchasing around 5-7 % of total paddy production from a peak of 42% in 1951 with controls. Thus the PMB has become only a residual buyer and its overheads now remain high up. Its role as a Grain Authority handling all grain- imports, stock-piling, distribution may be worth considering.

The role of PMB has been that of an useful seasonal price stabilizing

agency. However, a study of the trends on the margins between the average price of paddy and the cost of production is worth considering vis-a-vis the new GPS Price for paddy.

Under irrigation in the Wet Zone the ratio of Gross Returns to total costs in 1978/79 averaged (all island) 2.5 to 1.9 (79/80) to 2.2 (1982/83) and for rainfed it varied from 2.2 in 1978/79 to 1.8 in 1982/83. The cost of production of paddy has escalated over the years and the producer margin has been reduced. The increase in prices has been due to-

- The high cost of labour
- The high cost of farm power, farmer implements
- The high cost of credit/interest
- The high cost of agro-chemicals
- The relative increase of fertilizer

Paddy cultivation is becoming marginally profitable and it is now necessary to intensify and modernize agriculture of better returns are to be given to producers. Moreover, the rice/paddy sector will have to be developed as a specific rice industry and not as it is done today. Policy

makers will have to offer a package to the rice sector and encourage integration from production to consumption by developing rice based agro-industries. Unless, this is done, the paddy sector could suffer with an artificial GPS which will not make paddy worthwhile as a crop. It is important to offer incentives to import substitution production on par or even over and above export oriented industry, because it not only saves exchange but creates employment and makes best use of resources. A comparative study of incentives offered to other sectors with the food sector reveals a situation which inhibits faster growth in production for the domestic market, compared to the export

	Increase
Cowpea- Rs.5.00 to Rs.8.50/Kgm	+ 3.50/Kgm
Greengram-Rs.7.50 to Rs.10.00/Kgm	+ 2.50/Kgm
Blackgram-Rs.4.50 to Rs. 10.00/Kgm	+ 5.50/Kgm
Maize - Rs.3.00 to Rs.4.00/Kgm	+ 1.00/Kgm
Soya	+ 1.00/Kgm
Soya- Rs.6.00 to Rs.7.00/Kgm	+ 1.00/Kgm
Gingelly- Rs.6.00 to Rs.7.00/Kgm	+ 1.00/Kgm

After all tea, rubber, and coconut, may earn foreign exchange but paddy also assists in saving exchange. A novel management approach to the

paddy sector may now become inevitable and system of rationalization may be worth considering.

GPS and other Field Crops

The 1986 Budget announced that "the Government had decided to increase the support prices for subsidiary food crops as follows:

In good faith the Ministry of Finance proposed " to set up a Fund with a capital of Rs.50 Million for this price support scheme for minor food crops." (Budget Speech p.109)

Increase

The Review of the Economy 1984 published by the Central Bank of Ceylon (page 31) says:

"The PMB continued to purchase certain minor food crops under the Floor Price Scheme, in 1984 as well but poor performance in production explains reduced purchases under EPS (Floor Price Scheme)"

Floor Prices for Minor Food items has a negative effect on production and marketing functions. No amount of floor prices would be helpful as long as economics of minor food crops are known by farmers. A good example of the negative effect is the reduction of Soya Bean, and Maize, sesame acreage compared to the increase in chillie production. When floor prices were Rs.28/-, farmers in System H of the Mahaweli got higher returns. Traditionally chillie production, maize, sesame and mustard are chena crops. The curtailment of new cultivation reduced the extent of these

PADDY-MAHA AND YALA SEASONS (REAL NET RETURNS/ACRE)

Year:	MAHA					YALA				
	78/79	79/80	80/81	81/82	82/83	78/79	80/81	81/82	82/83	
Irrigated										
Wet Zone-Low	908	-	1455	1347	1400	-	-	1850	1279	-
Mid	-	-	117	1532	1366	-	1939	1668	1201	-
High	1888	-	1386	1345	929	-	1268	1608	1545	-
Intermediate										
Zone	1790	-	1537	1420	1635	-	1082	1469	1413	-
Dry Zone	1750	1153	1103	1272	1099	-	1220	1593	1499	-
Rainfed										
Wet Zone-Low	836	556	935	952	861	-	1146	767	768	-
Mid	1201	-	699	934	663	-	1059	1261	517	-
High	-	1699	2077	2046	1787	-	1776	751	745	-
Intermediate										
Zone	1077	-	1442	1082	1133	-	1158	1736	1129	-
Dry Zone	-	-	806	483	445	-	-	-	-	-
All Island-										
Irrigated	1701	1115	1286	1410	1206	-	1285	1593	1489	-
Rainfed	957	937	1120	782	745	-	1225	1009	818	-

Source - Cost of cultivation of Paddy-Dept of Agriculture Div. of Agr.Economics.

crops. However, the lack of seed, especially in sesame, disrupted crop production. Those responsible have yet to come up with a package of processing and marketing incentives to create the atmosphere for commercial production economically. There is a need to strengthen extension and marketing service to farmers. There is also non-availability of high yielding seed varieties in sufficient quantities. This has perpetuated improper cultivation practices leading to lower yields. Unless these problems are sorted out no floor price schemes would have their effect. It is worth considering the 'privatisation' of extension services and seed production in order to obtain better results rather than announce price support schemes. Furthermore, the liberalisation of the minor food crop sector and the permitting of market forces to decide what is best and economical needs to be considered. Also, unless institutional agricultural credit is re-structured to meet the needs of the producer through a separate Agricultural Development Financial Institution rather than depend only on Commercial Banks the problems of agricultural development cannot be effectively solved. Also credit schemes will have to be realistic to meet the actual cost of production; and agro-industries based on specific minor food crops will have to be encouraged in the production areas. Together with this, tariff adjustments will have to be effected within the existing liberalized imports scheme to make minor food crops attractive as an investment.

For instance the potential exists for certain crops like groundnut, black and green gram, mustard and sesame to be developed as commercial crops on a medium to large scale in Mahaweli areas, but what is required is that they should be encouraged with a proper incentive package. For instance, the production of soya is dependent on agro-industrial demand. There are 6 major users of Soya (Care for Thripasha programme Moosajees Ltd., feed production; Rajarata Food Grain Processing for Raja Soya, dried Soya milk powder; Glaxo (Cey.) Ltd., for Bilindu Poshe, Bairaha Farm for Poultry Feed; and Oil and

Fats for Soya oil production and wheat for feed production). Overall the projected demand of these 6 major uses is as follows:

Year	Requirements Metric Tons	Extent Required to meet demand (acres)
1985	19640	42929
1986	22885	50022
1987	24490	53532
1988	25000	54646
1989	25570	55891

In order to meet this level of demand it is necessary to encourage private commercial scale production. So too with the cultivation of other minor food crops whose hybrid seeds and good agro-management techniques could help to achieve optimum output and meet growing demand for these crops. But demand will need to be projected over a period and not only Guaranteed Price but all other incentives in the cultivation and marketing package will have to be offered.

An analysis of the subsidiary food crops in relation to return on investment (See study by Ministry of Finance on Other Field Crops in November 1984) revealed the following:

Range of Returns on Investments

Maize	45-49%
Groundnuts	11-128%
Soya Beans	90%
Kurakkan	9-15%
Chillies	46-932%
Green Gram	18-190%
Cowpea	26-111%

How accurate this assessment could be needs to be studied in the present context of escalating costs of production and inputs, marketing margins, import substitution and final users at current floor prices.

CONCLUSION

The Budget 1986 has focussed attention on several issues that should concern agricultural policy makers and implementors. The analysis of the crops that have been offered subsidies reveals that fresh thinking is needed to treat the rice and minor food crop sector as an industry and develop it in an integral manner. For instance, the exercise of planning that is done through the annual Agricultural Implementation Programme should be refined and restructured to meet the present development demands. This calls for a Programme which includes:

- Analysis of the domestic and export demand, including segment demands.
- Cost analysis crop by crop district-wise and holding size-wise.
- Production Plan based on a realistic assessment of demand and availability of inputs.
- Processing Plan.
- Marketing Plan, including price indicators.

Floor Prices need to be realistic and not be based on sample cost of production data. Unless pricing policies are flexible and linked with agro-industries the exercise becomes a mere academic exercise.

Finally, it is vital for the authorities to consider a pragmatic and a differential incentive package for agro-industries especially to attract investments in all major irrigation schemes, particularly the Mahaweli Economic Zone. If tourism, housing, industry and fisheries could be given better incentives why neglect peasant agriculture which is providing gainful employment to a major share of people, producing all the food required and saving a great deal of foreign exchange for the country.