

AGRICULTURE

MARKETING INFORMATION – HOW FAR DOES IT HELP THE SMALL FARMER

Specialists from various institutions met recently to discuss marketing of farm produce, with special reference to the small farmer and providing him with the necessary information for more effective marketing. Among the different views at this discussion was the point that feeding the small farmer price and market information will not help his marketing very much since there are other factors that dominate his efforts. The researcher who stated this view further attributed a major part of the problems in marketing of agricultural produce by small farmers in Sri Lanka to the dominance of the marketing system by private traders or "middlemen"; and also the faulty gathering of information on prices and markets by officials. A People's Bank Research Department study has shown that sources of information for the small farmers are uncertain, because of the role of private readers in these agricultural areas.

A study conducted in the Mahaweli Settlement H1 area revealed that about 90 percent of the traders in 1978 and 64 percent of them in 1982 were obtaining their inputs and consumer items on a credit basis. Average credit sales per day were higher than the cash sales, particularly during the off-seasons. This credit transaction was used by the traders not only, as a means of intergrating into the settlement but also as a means of purchasing farmers' produce at a low price when they had to settle their debts. Therefore, credit sales play a dominant role in the operation of the price mechanism and trade structure in these areas. The records of day to day credit sales are often maintained by the traders and the settlers rely on these records not only due to their lack of education but also due to their obligations and dependent position as debtors. Secondly, the trader who sells small quantities of a farmer's daily requirements on credit charges higher prices. (for instance when a quarter bottle of Kerosene or Coconut oil is sold on credit, the price was 50 percent higher than for a cash purchase.) A settler who buys on credit however, has to settle those debts in kind at the time of harvest. When purchasing of farmers' produce weight under priced and selling commodities at higher prices on credit are taken into consideration, the real incomes of the settlers decrease to a great extent. The usual methods of collecting price information does not clearly bring out this hidden operation of the marketing system.

Crop Mortgage

Another important feature of the new form of credit relation of the trading system is the "crop mortgage". The majority of low income settlers who have got into a simple reproduction cycle within the process of cash crop cultivation have no alternative but to borrow for cultivation and suffer from lack of finance during the harvesting period. Therefore, settlers develop a habit of obtaining advances from traders with an agreement of selling their produce to the same trader at an agreed price in order to cover the expenses during the harvesting. According to the information collected a trader in block N.309 has lent out about Rs 200,000 to the settlers on the basis of crop mortgage. Over 75 percent of the total production in another block was purchased by big traders on an advance payment or crop mortgage basis. In the 1982 Maha season the total estimated advances to the settlers on such a basis was about Rs 300,000/-. The farmers sale prices agreed on under the crop mortgage system ranged from between Rs 38/- to Rs 40/- per bushel of paddy when the average market price was Rs 60/-. The settlers were supposed to settle their debts with their produce. However, the price of the paddy under crop mortgage system is generally not revealed by the settlers. The price information officially collected is always based on this small proportion of paddy sales in the open market. It was observed that the farmer could not earn an income sufficient for his subsistence when his produce was marketed under the crop mortgage system.

Food Crops for Consumer Goods

About 40 to 50 bushels of paddy are kept by most of the settler families mainly for consumption during the off-seasons. However, often this paddy is sold in small quantities when they are pressed to purchase their day to day consumer needs, such as bread, sugar, kerosene etc. As revealed in the study, when small quantities are exchanged for consumer goods the price of a measure of paddy was Rs 1/- in 1978 and Rs 1/25 in 1982. This means that the price of a bushel of paddy under this exchange transaction was Rs 28/- to Rs 44/- per bushel while the open market price was Rs 40/- to Rs 60/-.

Market Incorporation

The main focus of policy makers has been to establish an organised marketing system, through Government Departments, to eliminate middlemen and protect the farmers from the exploitation of the private traders monopoly. However, it has not been an easy task for these organisations to compete with private sector trade. The rapid expansion of public sector investment and transformation of traditional farming into modern commercial farming, particularly in the Mahaweli Settlement area, created commercial opportunities for the private sector businessmen while the policy of free open market also encouraged them to compete with the formal sector. As a result the private sector has slowly moved into control of rural marketing by offering effective competition to the government sponsored marketing organisations such as the Co-operatives, Paddy Marketing Board etc. These marketing organisations therefore adopt measures not to confront but to incorporate into the existing system.

For example, the paddy purchasing of the Paddy Marketing Board in the settlement area has decreased dramatically during the last few years. To overcome this problem paddy purchasing agents were appointed. Most of them are established private traders to whom the Paddy Marketing Board has offered a commission of Rs 6/87 per kgm of paddy. The transport costs of paddy to the Paddy Marketing Board stores are also paid at a rate of Rs 1/47 per 100 kgms of paddy. According to the regulations of the Paddy Marketing Board these agents were supposed to buy paddy at a rate of Rs 2/75 per kgm acting purely as Paddy Marketing Board agents. But it was revealed that they purchased paddy as private traders using their usual trade channels and techniques, so that they could purchase a kgm of paddy at a rate of Rs 2/55 to Rs 2/65 in addition to buying under weight, and other forms of exploitation. As stated by several agents they have a very close link with the Paddy Marketing Board store keepers and pay a sum of Rs 100/- per lorry load of paddy to some for the help and assistance given to them by the store keeper. Thus although this system was introduced to help them the settlers did not get the actual prices of paddy, although the records of the Paddy Marketing Board as well as the agents would indicate that farmers were getting a reasonable price.

Production Pressures

The most striking feature of the small family farm system in the Mahaweli Irrigation Settlement was the production

pressures on the settlement families, due to increasing costs of production and consumption. Although average paddy production increased, the "real" incomes of farmers has not increased beyond their levels of subsistence. All the land in the settlement area brought under the plough has required a degree of intensive farming in order to maintain economic levels of production. This has required a shift to the use of modern farm inputs such as High Yielding Varieties (HYV's) and also chemical fertilizer. This form of farming however is costly and necessitates increased capital investment on the land. But a small farmer with a large number of dependents and seasonal unemployment often does not have his own resources to finance this process. He therefore, has to rely heavily on borrowing either from credit institutions or from private sources.

Estimated Income and Cost of Production (Paddy) and Consumption per season (6 months) in the H Area of the Mahaweli Settlement

(Average family with 6 members and 21/2 acre allotments)

| Per 2½ acres | 1979/80 | 1980 | 1980/81 |
|--|-----------------|-----------------|-----------------|
| | Maha (a) Rs. | Yala (b) Rs. | Maha (c) Rs. |
| Seed | 225.00 | 300.00 | 300.00 |
| Land preparation | 900.00 | 995.00 | 1,000.00 |
| Transplanting | 500.00 | 245.00 | — |
| Fertilizer | 250.00 | 200.00 | 750.00 |
| Weedicides | 150.00 | 190.00 | 500.00 |
| Harvesting & Threshing | 1,150.00 | 1,245.00 | 1,700.00 |
| Labour charges | — | — | 1,000.00 |
| Sub Total | 3,175.00 | 3,175.00 | 5,250.00 |
| Cost of basic Consumer (food) items per season | 5,400.00 | 5,400.00 | 6,200.00 |
| Total Production & Consumption (d) | 8,575.00 | 8,575.00 | 11,450.00 |
| Average yield per 2½ acres (e) | 192.00 | 158.00 | 212.00 |
| Total Gross Income | 9,600.00 | 8,690.00 | 12,720.00 |
| Total Monthly Income | 1,025.00 | 115.00 | 1,270.00 |
| Total net monthly income | 170.00 | 19.27 | 211.67 |

Loans have to be paid back with interest and unless returns on the investment on such capital are sufficiently large the borrower has to end up in indebtedness. The increases in costs of inputs such as chemical fertilizer and other agro-chemicals and costs of labour have aggravated the situation. The end result is that the borrowing capacity of farmers has tended to decline, despite the increasing costs of consumption and production. When the borrowing capacity of farmers decreases they adopt to their poor financial position by reducing the volume of high cost modern inputs, used for cultivation,

which result in a reduction in yields of the HYV's. The financial needs for such inputs are also closely linked to their seasonal poverty conditions. Having invested all available funds for land preparation and seed they have barely sufficient means for subsistence and run up heavy debts with the village boutique keeper. Fertilizer and agro-chemicals are needed during this period but these are beyond their financial capacity. The following Table shows the estimated income, cost of production (paddy) and consumption and the real income.

This information indicates the pressures on low income farm families in attempting to continue in production. The peasants who were trapped into this reproduction cycle will not benefit from any price and market information because

they are not free to make use of such information; since they are more dependent on other forces, particularly those that help to maintain them. One conclusion of the study is that price and market information made available at the producer level alone does not solve the problem: and that the growth and expansion of the existing agrarian and marketing structure contributes to the marginalisation of the rural producer.

However, it should be noted that the continued growth of the middlemen in rural marketing network indicates that they in fact provide services which are not otherwise available to the small producer.

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