

## SCOPE FOR GOVERNMENT INTERVENTION IN RICE MARKETING IN SRI LANKA

### Feasibility of a Buffer Stock Scheme

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Rice is the traditional staple food of the Sri Lankan people, though it remained neglected during the colonial era. During the three decades following political independence, the rice sub-sector assumed the position of a "dynamic sector" in the economy of Sri Lanka. The Government's direct intervention caused a breakthrough in rice production by substantial expansion in the area under cultivation. The widespread dissemination of new bio-chemical technology enunciated since the second half of the 1960's, and the advent of farm mechanisation practices, the emergence of credit and marketing agencies, establishment of land-settlement schemes in the dry zone and tenancy improvements by various legislation all contributed to the increase in yield per acre and thereby an increase in the output.

The local production of rice recorded 612,000 metric tons in 1967 and the estimated self-sufficiency level was then 53 percent. The direct Government intervention in paddy production by way of the above mentioned measures, led to the production of 2,483,000 metric tons in 1984, leading to a position whereby Sri Lanka had reached a level of self-sufficiency in rice of about 93 percent.

The socio-political importance of the availability and market prices of rice in Sri Lanka is indicated by its magnitude in the composition of the per capita expenditure in the family budget of the Sri Lankan people. The Consumer Finance Survey 1981/82 conducted by the Central Bank of Ceylon, revealed that it "accounts for over 28 percent of total food expenditure" (p. 245).

The per capita consumption of rice per month was estimated to be 8.35 kgs. in 1978/79, while per capita consumption in 1973 was 7.97 kgs. The monthly per capita consumption has increased further to 8.40 kgs. by 1981/82. During this time the urban, rural and estate sectors per capita monthly consumption was 7.3, 8.7 and 8.6 kgs. respectively.

The Consumer Finance Survey 1981/82 indicates the "substitution effect" of the price increases in wheat flour and bread, resulting in the increased consumption of rice (p. 247). The variation of quantity of consumption in the family budget has a greater impact due to price changes than the income change. Therefore the stability in market price of rice became an important feature of the national food and nutrition policy formulations in Sri Lanka.

On the other hand, a country where small-scale farmers predominate in the rice sub-sector, the marketable price for paddy (unprocessed rice) has also assumed equal importance. The maintenance of a guaranteed price for rice above the cost of paddy production is a crucial factor in sustenance of the impetus for surplus marketable production of these small-scale farmers. Edirisinghe and Poleman have established a "rough approximation" of effects of the rice ration scheme on the marketing situation in Sri Lanka during the 1960's (p. 96 - 98). This study further reveals that even those with the smallest size of land holding tend to produce principally for sale due to the rice ration scheme. The existence of rationed rice at a subsidised price has necessitated a guaranteed price for the

rice producer in order that as much paddy may be procured for distribution of rice among householders.

Private traders could manipulate the farm-gate price to their advantage by various means and would thereby cause disincentive effects on the marketable surplus of paddy within the existing socio-economic set up. It is found that throughout the existence of the Guaranteed Price Scheme (GPS) in Sri Lanka, the procurement price of paddy in the open market has been above the cost of production of paddy. Moreover, a feature of note is that the Paddy Marketing Board (PMB) played the role of a "floor price operator" subsequent to the period of the scrapping of the rationed rice subsidy scheme.

A World Bank (IBRD) study has projected the demand for rice in Sri Lanka from 1964 upto the year 1990. It is observed from this projection that if the present demand and supply trends are continued, there would be a rice surplus in the market. Therefore, the problems of marketing would also have to be anticipated and the importance of rice marketing will overshadow the production emphasis given hitherto.

The increasing strains on the budgetary resources and the prospects of achievement of self-sufficiency in locally produced rice necessitated to the scrapping of the four decades-long public food distribution scheme with effect from 1st September 1979. The need for a vigorous policy of purchasing locally produced rice for distribution under the rice ration scheme became redundant thereafter. Accordingly the percentage of GPS purchases out of total production dropped from 35.7 percent in 1978 to 13.0 percent in 1983. During the period 1980 - 82 the percentage purchases were very meagre and much smaller than the 1983 purchases.

The declining trend in the PMB procurement is a manifestation of the structural changes that took place in the paddy and rice markets subsequent to the introduction of the package of economic reforms in 1977. These reforms were intended to provide

scope for the expansion of private sector participation in the economic growth and development of Sri Lanka and the private trade began to play a pre-dominant role in the wholesale and retail distribution of rice. It offered attractive prices for paddy in the open market, which were often much higher than the guaranteed price of the PMB. Therefore, the GPS price of the PMB "has come to assure the role of a floor price" asserted the Central Bank of Ceylon's review of the Economy (1981).

The establishment of the PMB was designed exclusively to the procurement of larger quantities of paddy in order to gradually replace the import of rice by the Food Commissioner (FC). The PMB purchased, transported, distributed, stored and milled (processed) paddy within the country. Its monopoly rights enabled the PMB to corner the private trader in rice marketing in 1970's.

The liberalisation of trade and payments provided opportunities for the private miller to update his milling technology and enhance its efficiency. The greater availability of construction materials in the open market enlarged the scope of expansion of private sector storage capacity. De-control of imports also helped to remove transport bottle-necks for private sector transport activities.

The veering away from the rice market structure in the 1960's and first half of the 1970's, was slowed down during 1980 - 82. This was partly due to uncertainty which emanated from the public sector pricing policy. The prevalence of an unco-ordinated Food Commissioner's imports programme with the PMB procurement contributed to the fears of the private trader regarding the dangers of excessive accumulation of stocks in its hands in a possible downward settlement of prices in the consumer market. Another factor that contributed to the reduction of private sector purchases was the liquidity problem encountered by them when carrying heavy stocks. In this respect the PMB is in an advantageous position to obtain credit at subsidised interest rates from the People's Bank, under the Central Bank Re-finance Scheme.

The periodical upward revision of the guaranteed price, in the light of increasing cost of paddy production during 1978 - 83, enabled the small scale farmers to dispose their output in the private market at attractive prices or to the PMB through multi-purpose Co-operative outlets.

The experience during the period under consideration shows that the PMB has played a novel role as a floor price operator in the emergent rice marketing system by arresting the downward movement of paddy prices in the market. But in the emergent marketing system the role of the PMB has apparently become a redundant one and its organisational structure is too unwieldy to perform the functions assigned to it under the Paddy Marketing Board Act No. 14 of 1971 in the present context.

Fresh thinking is therefore needed to re-constitute the PMB as a full fledged statutory body. The responsibility of integration and co-ordination of domestic and off-shore procurements could be assigned to the reconstituted institution. This institution would have to maintain close liaison with other Government sponsored institutions related to domestic rice production. Furthermore, the enlargement of its functions would need to extend to marketing research in order to understand the consumer's needs and his preferences. The collection and compilation of vital statistics with regard to rice marketing, including crop forecasting and demand estimation, would be under the purview of this refashioned institution.

When observing the price movements in both the producer prices and consumer prices, it appears that wide price fluctuations prevail between harvesting and off seasons. The table below shows an 18.0 percent variation of producer prices between January 1982 to April 1982, and 22.1 percent between December 1982 and February 1983.

Similarly, wide variations of consumer prices are discernible between the harvesting season and off-season in the year. For example in the year 1982 between January and May, the all-island average price fluctuated 16.9 percent and again between 1979 December and 1980 April-May it fluctuated 28.0 percent. The table on the next page depicts the price variations in the retail consumer market during 1980 - 1983.

The market forces in developing economies are notoriously deficient in determination of prices. Governments have to intervene in the market more or less directly to regulate the price behaviour as a supplement to the existing market mechanism for efficient allocation of scarce resources. In this context, a buffer stock scheme is necessary to moderate wider price fluctuations of food grain prices.

The aim of a buffer stock scheme is to absorb surplus food grains to make it available at a time of short supply, thereby moderating price fluctuations between the harvesting season and the off-season. There is no doubt that the private sector has to play a more important marketing function in the emerging rice

#### FLUCTUATION OF ALL-ISLAND AVERAGE RETAIL PRICE OF RICE (1980 - 1983)

Period	(Rupees per kg.)			
			Difference	%
1979 December	5.67	)		
1980 April - May	4.08	)	(-)	1.59
				28.0
1980 December	7.41	)		
1981 April	5.69	)	(-)	1.72
				23.2
1982 January	7.38	)		
1982 May	6.13	)	(-)	1.25
				16.9
1982 December	7.56	)		
1983 March	6.30	)	(-)	1.26
				16.6

Source: Table II Price and Wages Statistics (1983) Central Bank of Ceylon

marketing system in Sri Lanka than in the past. But the Government also has to fulfill a role of price moderator through the PMB by actively engaging in a buffer stock scheme. Rice price stabilisation in this way would be of considerable benefit both to the peasant community and to the consumer in the non-agrarian and urban industrial sectors in the economy.

The formulation and implementation of a buffer stock scheme to suit our specific national condition could ensure that paddy prices are not depressed below the GPS prices during harvesting seasons by actively engaging in the purchases. In the same way it could also release rice stocks to the market during the off-seasons to avoid price escalations in the consumer market. In this context the idea of a "Rice Bank" or a "Buffer Stock Scheme" is worthy of serious consideration.

The size of the stabilisation is determined by the costs incurred in maintaining and holding stocks; and the demand pattern and market conditions prevailing in Sri Lanka. It is not envisaged here to work out the details of such a scheme, but it is essential to co-ordinate its operations with rice import policy, as mentioned earlier in this paper, to feel its effectiveness towards attainment of its primary objectives. It is also pertinent to mention that a distinction could be made between the stocks intended to meet the seasonal fluctuations (buffer stocks) and stocks held in reserve to meet critical shortages due to adverse weather or any other calamities.

#### FLUCTUATION OF ALL ISLAND AVERAGE PRODUCER PRICES OF PADDY

Period			(Rupees per bushel)		
			Difference		%
1982 January	79.62	)			
1982 April	65.21	)	(-)	14.4	18.0
1982 December	84.95	)			
1983 February	66.14	)	(-)	18.8	22.1

Source: Table VII Price and Wage Statistics (1983) Central Bank of Ceylon