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Paddy/Rice Marketing : Perspectives and Prospects in 90's

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Since ancient times paddy cultivation has occupied a prominent place in agriculture because rice is the staple food of Sri Lankan. But, producers have always been critical of the system of marketing of paddy and the prevailing prices for it especially in the maha season. On the other side consumers have complained about the quality and the price of rice in the market.

In successive maha seasons farmers have complained about the special features of marketing of paddy arising from the special characteristics of agricultural production. The difference between agricultural marketing and industrial marketing can be explained in terms of the main characteristics of agricultural production. Agricultural products are mainly of perishable nature, they need bulk handling, and urgent decisions and in a free market in which they call for the day to day pricing. Agricultural marketing might be defined as the economic analysis of all operations performed in transferring food and raw materials from the farm to the final consumer including the transformation of products to meet the requirements of consumer demand. (Hill and Ingersent, 1977).

Farm products are not only perishable, but also vary in quality. Production is highly seasonal and geographically concentrated in areas that are often located some distance away from consumers. Farm commodities must be collected, sorted and swiftly moved to the market or stored for later use. Their production and commodity characteristics give rise to the need to organise appropriate marketing activities such as storage, transportation and processing. Almost all agricultural products have these characteristics. This paper discusses the problems of paddy/rice marketing in Sri lanka. This problem impinges on the political, economic and social sectors because of the socio-economic importance of paddy production and marketing. Analysts of the problems have different perceptions of the definitions of paddy/rice marketing.

At present the extent of paddy cultivation in Sri Lanka is about 7,73,000 Ha. The average production in the maha season is 80 mn bushels and that in the yala season is 40 mn bushels. About 60% of this production can be considered as the marketable surplus. The marketable surplus in the 1997/98 maha season was approximately 50 mn bushels. Hence, proper planing is needed for efficient marketing of paddy/rice.

Related Views

Considering first the views of the small farmers in Sri Lanka it is important to note that in their view the government must purchase their total marketable paddy production at a reasonable price. They complain that intermediaries, specially paddy collectors and millers exploit them practically during every season. The small farmers argue that the government can eliminate the intermediaries or middlemen. But, the services of the middlemen are needed to facilitate the marketing system. Besides, the intermediaries cannot be eliminated while open economic policies are pursued. Open economic policy package is predicated on the idealogy that government participation in trade and economic activities should be minimized to encourage private sector investment. Besides, small farmers have faced many problems when they tried to sell paddy to the "Paddy Marketing Board" (PMB) since 1972. In 1970s, the PMB had purchased about 20% of the total paddy production only. Thereafter its purchases had declined gradually. Since 1989 the purchase by PMB became insignificant as shown by the figures in the following table. (P7)

Paddy purchases by the PMB in 1980s, was about 5% of the total production. In 1990s purchases were about 1 percent. Though the market contribution is about 5 percent, the contribution in the main producing districts was above 65 percent. Hence the PMB served the small farmers in a big way to keep the paddy prices above the guaranteed price. Certainly, the main objective of the PMB was to stabilize paddy prices by preventing their fall below the guaranteed price. The service of the PMB in this activity was a great relief to the small farmers. However

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there are many factors which influence paddy price in the country. (see chart I) (PII)

Though the PMB helped the farmer by ensuring that the open market price of paddy was above the guaranteed price, the paddy purchasing activity and the disposal of rice were not efficient compared to those of the private sector. Paddy purchases of the PMB declined during the last decade compared to private sector. Therefore the contribution of the private sector to the overall paddy purchases and rice disposal should be recognised. The involvement of the PMB in paddy/rice marketing activities has not been adequate. The maintenance of PMB stores was not efficient and processed paddy in the form of rice was not moving quickly to the final consumer. The rice distribution system was not efficient and its quality was not good compared to that of private sector millers. Though the PMB had storage and milling facilities, the rice processed in the mills did not reach the consumer in time. Hence, consumers complained about the quality of rice. The main reason is that private sector millers disposed of their rice stocks soon after milling before the quality of rice deteriorated. The PMB rice was not of good quality ex-mill but it was worse when it reached the market. The main reason was the long time lag in its disposal. This service function in the marketing of rice was neglected and as a result the PMB rice was automatically rejected by the consumers. Hence the demand for open market rice increased gradually. Consequently, the private sector became actively involved in the paddy/rice marketing in Sri Lanka.

Another view of paddy marketing which needs to be considered is that the private sector should purchase the whole marketable surplus without government intervention and the government must provide the infrastructural support such as credit and storage facilities. However in practice, the situation is completely different because the private sector does not buy the whole marketable stock and as a result there is a sharp fall in the prices during this period. Hence the farmers and the public had cause for complaints. The private sector had different views on this matter. There are two types of private sector traders. One is involved in the buying, storage and selling of paddy. The other type are millers who purchase, store and mill paddy and sell rice to the private wholesalers. Both traders complained about the government policy. These traders do not like to bear the risk involved in paddy storage, because of the instability of the economy and, lack of conscious and firm government policies. The failure of paddy/rice marketing business has been due to changes in government policies from time to time. An example of this is that the government stated in 1997 that imports of rice had been stopped during the year, but in the latter part of the year, massive stock of rice was imported free of duty.

The private sector complained that these huge imports had caused major harm to their business. During this period buffer stocks were not maintained by the bondsmen, and retail prices of rice had not declined substantially due to lack of effective competitiveness in rice

imports. The quantity imported increased by 67%, 134% and 35% in November, December 1997 and January 1998 respectively compared to the corresponding period of 1996 and 1997. The quantity of imports increased due to duty reduction (zero duty) since mid November to end January. But this duty waiver was not reflected both in the wholesale and retail prices of imported rice. Hence, it is clear that the benefit of this duty waiver accrued to the rice importers and not to the 18 million consumers.

Perspectives and Prospectives of Rice Marketing

The CIF prices during the period March to July 1997 were very high because what was in the market was mainly basmathi rice. The wholesale and retail prices from March through

Paddy Production and Paddy Purchases by PMB

Year	Total Production (mt)	PMB Purchases (mt)	Purchases as 1% of production
1972	1,312	549	42.2
1975	1,154	241	20.9
1980	2,120	211	3.9
1985	2,661	101	3.8
1986	2,588	153	5.9
1987	2,128	64	3.0
1988	2,477	105	4.2
1989	2,063	5	0.2
1990	2,538	31	1.2
1991	2,389	44	1.8
1992	2,340	7	0.3
1993	2,570	46	1.8
1994	2,684	120	4.5
1995	2,810	282	10.0
1996	2,061	1	0.0

Source: Central Bank of Sri Lanka. Dept. of Census and Statistics Paddy Marketing Board

July related to the CIF price in January and February because the stocks available in the market were imported before February 1997.

According to this table the average wholesale prices of parboiled rice ranged between Rs.17.00-20.00/kg and those of raw white rice ranged between Rs.14.00-16.00/kg with 35% import duty. But with zero duty the wholesale prices were higher (Rs.24.57) though the CIF prices were at almost same range.

The CIF price of imported rice ranged between Rs.14.00-15.00/kg and the retail price ranged Rs. 22.00-29.00/kg. The local rice was available at prices between Rs.25.00-26.00/kg at the milling point and retail prices ranged Rs. 28.00-33.00/kg. According to the Pettah wholesalers, the commission usually paid for selling of local rice was between Rs 1 to Rs 2 per kg while that for imported rice was above Rs 5/kg. As a result, wholesalers preferred selling imported rice to local rice. Marketing of imported rice was profitable and this severely affectd the marketing of local rice. The rice producers of Sri Lanka thus faced various problems in their business. As a result, rice milling industry faced many problems and some of the millers abandoned their operations. Changes in government policy following political changes affected the paddy farmers. According to these changing situations the private sector was reluctant to purchase paddy in the 97/98 maha season. As a result, the producer prices of paddy had declined. Low prices were recorded mainly because of the lack of clear and rigid policy and failure to understand the relationship between macro and micro economic policies. It was in this background that the paddy purchasing programme was implemented in 1997/98 maha season.

Both the government and the public anticipated a better harvest during 1997/98 maha. In December 1997, the Ministry of Agriculture and Lands estimated the 97/98 maha harvest as 88 mn bushels or 1.8 mn mt. About 60% was estimated to be the marketable surplus which is 52 mn bushels or 1.1 mn mt. This estimate was changed in February 1998 due to crop damages caused by floods and attack by brown hopper. Taking note of the crop damages, the Ministry of Agriculture & Lands re-estimated the production as 84 mn bushels or 1.7 mn mt, and the marketable surplus as 51 mn bushels or 1.1 mn mt. The marketable surplus was estimated after reserving for seed, wastage, home consumption and other factors. On the basis of this marketable surplus, measures had to be devised to purchase paddy, process and dispose of rice. This meant that various problems would arise when the stock of paddy which was about 1 mn mt reached the market. Hector Kobbakaduwa Agrarian Research and Training Institute also did a study on paddy production in the main producing areas to make an estimate of the marketable paddy. According to this study about 1.6 mn mt of paddy production would come to the market from Ampara, Anuradhapura, Polonnaruwa, Moneragala, Badulla, Hambantota, Kurunegala, Puttlum, Matale and Kandy districts, Mahaweli G, H, C, and Walawe areas. Estimated harvest was about 2%, 29%, 49% and 20% of the cultivation in January through April respectively with the peak harvesting time being March.

Paddy Purchasing Activities of 97/98 Maha

The paddy purchasing activities of the government were organized two or three weeks after harvesting. The State acts

only when the media exposed the crop situation, problems of selling paddy, declining paddy prices, storage problems, problems faced by the farming community and so on. Paddy purchasing activities were organized during the last Maha season too. There was now clear policy on State venturing into paddy/rice marketing. But there were 3 main programs implemented in the field level.

1. CWE intervention in paddy/rice marketing.
2. The participation of Co-operatives in this business.
3. Purchase of paddy by farmer organizations.

Private sector paddy / rice marketing.

The CWE entered the paddy marketing activities during last Maha season for the first time (1997/98). Its paddy purchasing program, covered 40 purchasing centers in 9 districts. Under this program about 18 thousand mt were purchased up to April 1998. Though the quantity purchased was not substasntial, the purchase price of paddy which was Rs.9.00/kg helped a lot to maintain a minimum price. The market contribution of the CWE though not large at 2% of the total production, its impact on price stabilization should be reckoned.

The Multipurpose Cooperative Societies (MPCS) in the main paddy producing areas played a big role in paddy purchases in the 97/98 maha season.

Paddy purchase of the MPCS is not a new program. Initially the PMB purchased paddy through the MPCS also. During that period processing was also done by the mills owned by the MPCS. The Co-operatives purchased more paddy than the CWE and at prices higher than the prices paid by CWE, in last maha. The price paid for paddy farmers ranged from Rs.9- 12 per kg. As in the case of CWE purchases, the prices paid by MPCS too helped a lot to stabilize the open market paddy prices. Paddy purchases were high compared to the CWE because the cooperative purchasing centers were spread through out the main producing areas. However, the total paddy purchases by the MPCS were also minimal at around 2% of total paddy production.

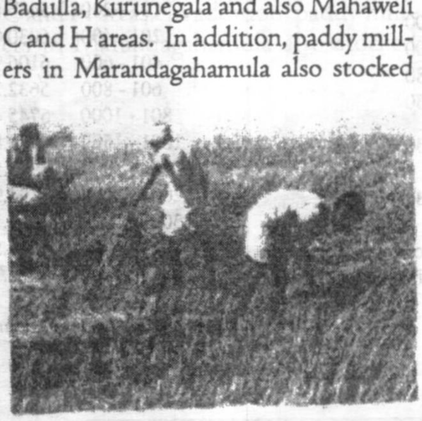
The level of intervention by MPCS is reflected by their number as shown in the table below.

These 119 cooperatives operated 1270 centers and purchased over 27,000 mt of paddy worth Rs.251.38 mn. up to April 1998.

The other program of paddy purchasing in 97/98 maha was purchase through Farmer Organizations (FOs). Their participation in paddy purchasing was negligible compared to others. Paddy purchasing through FOs was mainly done is Ampara.Polonnaruwa,Anuradhapura, Kurunegala, Hambantota and Badulla districts. However, the participation of FOs was limited due to lack of finance and management ability. Though loans from the state banks were available, the FOs were unable to provide the required guarantee. Most of these farmer organizations are not registered as companies. Hence they do not have legal status, and supervisory capacity. This program also helped to stabilize the price of paddy. The FOs sold the paddy purchased by them to the Cooperatives and the CWE with a profit margin. This helped to strengthen the financial capacity of the FOs. The FOs should pay higher prices for paddy purchased by them to provide incentives to farmers and prevent decline in price during the harvesting season. During the last (97/98) maha season the CWE paid Rs 9.40/kg for paddy purchased from FOs, while the CWE purchased paddy from others at Rs 9.00/kg. Though there were many deficiencies in this business for resolving the prevailing problems this attempt is acknowledged. Inspite of many weaknesses this programme which sought to mitigate the farmer's problems, its contribution to stabilise paddy prices merits recognition.

Paddy/rice marketing in Sri Lanka is handled mainly by the"private sector" traders, and their market contribution is about 90 - 95% of the total. Hence, the purchasing of paddy, processing, transport, storage and distribution to the consumers are organized properly. The paddy purchasing activities of the private sector bear some features. First is that, the traders tend to purchase paddy when the open market price is low. Hence they do not buy paddy when the prices tend to fluctuate. Though the private sector anticipated that paddy price during 97/98 maha would be low, it did not happen so due to the implementation of other paddy purchasing progtammes. During the maha harvest the lowest paddy price was between Rs 7.00 and 7.50/kg and the quality of the paddy stocks was not good. However the private sector had to purchase paddy above Rs 8.50/kg because the MPCS and CWE paid a minimum price of Rs 9.00/kg.

According to the statistics collected by the Ministry of Agriculture and Lands, the marketable surplus was 51 mn bushels or 1.1 mn mt. Of this, about 50 mn bushels or 1 mn mt. might have been purchased by the private sector. A large stock of this was stocked by the private trade sector, and millers in Ampara, Polonnaruwa, Anuradhapura, Badulla, Kurunegala and also Mahaweli C and H areas. In addition, paddy millers in Marandagahamula also stocked



the paddy purchased by them. Though the paddy/rice marketing in the private sector was well organized and efficient, lack of clearly defined policy on rice imports discouraged paddy/rice marketing in the private sector. Both the market structure and the marketing channels are complex in the private sector. To develop this agribusiness sector the government should develop the infrastructural facilities and credit mechanisms without discouraging private sector involvement. However, the paddy purchases of the private sector in 1997/98 maha which were satisfactory,were undertaken at great risk.

Compared to the last few years, the paddy purchasing programs in 1997/98 maha were successful. Paddy prices did not drop drastically as in previous years and decline in prices was recorded in very few areas. The price decline was mainly due to poor quality of paddy especially where it continued impurities (sand and small stones). Also, paddy prices declined in Anuradapura, Polonnaruwa, Mahaweli C & H areas because access to them was difficult for security reasons. Transport facilities in these areas were very poor due to unloading and loading difficulties at the security check points and high risk in travelling in these areas. Hence, the declining trend of paddy prices was reported. Later the CWE and MPCS personnel were able to visit those areas and paddy prices had increased in those areas.

Conclusion

On the whole, the paddy purchasing program of the Government has been successful. Though the quantity purchased by the CWE and the Cooperatives was not large the implementation of price policy was productive. The majority of the farmers benefitted from these activities

Table 01

Major Paddy Producing Districts

Districts	Maha 1993 97 Average (000 Mt)	% to the National Production	Yala 1993 - 97 Average (000 Mt)	% to the National Production
Kurunegala	182.40	12.81	90.60	10.04
Ampara	169.80	11.93	190.40	21.11
Polonnaruwa	166.80	11.72	148.00	16.41
Anuradhapura	116.80	8.20	30.60	3.39
Hambantota	120.60	8.47	97.80	10.84
Mahaweli H	89.00	6.25	15.60	1.73
Total	845.40	59.38	573.00	63.52
Sri Lanka	1423.60	100.00	902.00	100.00

Source : Department of Census

Table 02

Average Yield of Paddy in the Selected Countries (Kg/Ha)

Countries	1995	1996	1997
Sri Lanka	3159	3123	3954
India	2784	2822	2897
Pakistan	2752	2898	2793
Bangladesh	2537	2662	2832
Nepal	2391	2391	2456
Butan	1667	1667	1667
Philippines	2804	2856	2828
Thailand	2343	2414	2256
Vietnam	3690	3760	3760
Indonesia	4349	4509	4561
China	6022	6206	6331
Asia	**34498**	**35308**	**36335**

Source : FAO- Quarterly Bulletin Statistics Vol. 11(1/2) 1998

Table 03

Cost of Production of Paddy Per Acre for 97/98 Maha Season Under Major Irrigation

	Mandays	Rs.
Labour		
Land Preparation	8	1200
Sowing	6	900
Harvesting	8	1200
Stacking	5	750
Threshing/Winowing	8	1200
Sub Total	35	5250
Fertilizer		
Basal Mixture	50kg	800
Top Dressing 1	50kg	350
Top Dressing 2	50kg	500
Sub Total	150kg	1650
Agrochemical		
Application 1		700
Application 2		350
Application 3		250
Sub Total		1300
Tractor		
Land Preparation		1800
Threshing		300
Winnowing		180
Transport to home		150
Sub Total		2430
Grand Total		10630

Note: This does not include labour cost for application of fertilizer and agrochemicals and water managment, meals to hired labourers, and interest for working capital.Adding all these, cost would be around Rs.12,000/=per acre.

Table 04

Per Capita Rice Consumption by Sectors (grams)

Year	Urban	Rural	Estate
1978/79	5317.50	6607.50	6090.00
1981/82	7291.20	8719.10	8583.00
1986/87	6880.40	8966.80	9573.80

Source : Consumer Finance Surveys, Central Bamk of Sri Lanka

Table 05

Rice Consumption by Income Groups (grams) 1986/87

Income Groups	Urban	Rural	Estate	National
0 - 100	5650.00	6489.40	—	6302.90
101 - 200	5445.80	8064.50	—	7158.30
201 - 400	6030.00	8098.10	3866.10	7603.10
401 - 600	6106.90	7540.20	8481.00	7506.70
601 - 800	5632.20	7576.20	8231.90	7449.00
801 - 1000	5745.40	7957.60	8663.10	7848.80
1001 - 1500	6339.80	8518.80	9337.40	8415.30
1501 - 2000	6923.50	9182.20	9811.70	8954.60
2001 - 3000	7194.90	9594.90	9939.90	9204.80
3001 - 5000	7049.10	9612.20	10184.50	8905.00
5001 - 10000	7117.50	9550.20	14070.50	8571.30
Over 10000	6522.70	9334.10	10000.00	7858.70

Source : Consumer Finance Surveys, Central Bamk of Sri Lanka

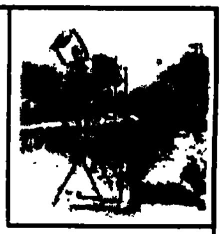


Table 06

Per Capita Rice Monthly Consumption by Varieties (Grams) 1986/87

Variety	Urban	Rural	Estate
Samba Parboiled	1519.40	302.90	194.60
Ordinary Parboiled	2713.90	5067.00	6560.00
Raw	2647.10	3596.90	2819.20
All	6880.40	8966.80	9573.80
% of Raw Rice	38%	40%	29%

Source : Consumer Finance Surveys, Central Bamk of Sri Lanka

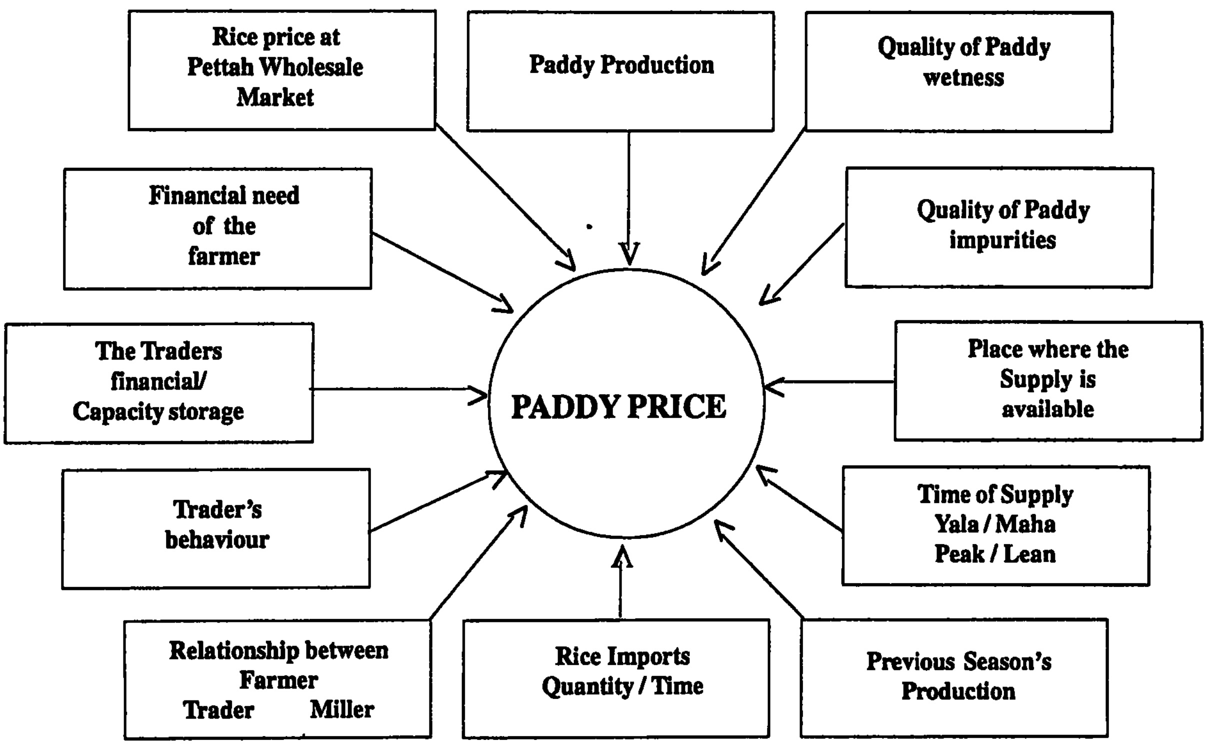
Table 07

Per Capita Rice Consumption in the Selected Countries

Country	Quantity Kg/Year	Year
Sri Lanka	101.28	1992/93
India		
Rural	86.00	1988/89
Urban	65.10	
Indonesia	116.10	1993
Philippines	101.52	1993
China	114.00	1992
Vietnam	143.30	1992/93

Source : Working paper series 1996 - 97 Market Prospects for upland crops - CGPRT canter UN/ESCAP.

Chart 1 THE FACTORS INFLUENCING PADDY PRICES



because the price of paddy did not decline much in main producing areas. This programme has demonstrated the merits of less state intervention in the open economy and also provides experience to organize this type of activity in the field level in the future, and useful lesson to implement paddy/rice marketing programme. The farmers are able to sell their produce at reasonable prices and the consumers are able to buy good quality produce at reasonable prices, because of competition. Rice stocks can reach the final consumers at low cost because the storage facilities are spread throughout the country. Hence the experience of this activity is useful both to the policy makers and the politicians for decision making.