

# **Government Intervention in Paddy Marketing: Issues in Purchasing and Post-stock Management**

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## EXECUTIVE SUMMARY

Government intervention in agricultural markets has a long history in developing countries and the respective governments intervene in the markets mainly through parastatals. Agricultural parastatals are semi-government agencies assigned with carrying out public marketing activities. Most of literature in recent decades suggests that large-scale public food procurement and distribution systems in developing countries involve high financial and administrative cost of the programmes and high drains on government budgets. At the same time the degree of seasonal price stabilization and price support achieved through the activities remain quite low. Therefore, the parastatals operating in most of the countries tend to implement various alternative market based strategies to increase the efficiency of such intervention programmes for reducing the adverse impacts on the government.

Paddy/rice industry has now become an important issue and sometimes it can create political instability in Sri Lanka. During the harvesting season, farm gate prices decline drastically and during the off season high prices are recorded. Hence, in this situation both farmers and consumers are affected. This has become a major issue discussed by media and the general public in the relevant periods. In order to prevent these adverse fluctuations government intervenes in paddy marketing mainly through a government parastatal organization, the Paddy Marketing Board (PMB). The Paddy Marketing Board of Sri Lanka is the government intervention in paddy marketing due to scale of its operation and its role in food security. According to the government policy manifesto the PMB was re-established in 2005 and it commenced operations in 2008. This report examines the role and performance of the PMB in Sri Lankan paddy marketing using secondary data on procurement, sale and prices. Specifically, the study explores whether the PMB has achieved its major objectives and examines its operations as well as in providing policy options.

During the peak harvesting month more than 50 percent of the Divisional Secretariat (DS) divisions' farm gate price of paddy was below the guaranteed price in many of the districts especially in Ampara and Batticaloa. Farm gate prices of all DS divisions in Ampara district were well below the guaranteed price in 2010 and 2013. The situation was more or less the same in all major producing districts. Regular low price DS divisions could be identified in all major producing districts. The observed characteristics of the regular low price DS divisions were high surplus producing, low storages, low infrastructure and lack of private rice mills. It was observed that those areas were characterized by high level of poverty. Therefore the analysis of farm gate prices at divisional secretariat level in major producing districts showed that purchasing programme has not been quite successful in stabilizing the farm gate prices of paddy in peak harvesting periods. Price analysis revealed that the intra district price variation was also high in Ampara and Anuradhapura in most of the seasons. However, an increasing trend of prices was created due to the PMB procurement programme and it became an incentive for the farmers. The purchasing programme has contributed to motivate farmers to produce quality paddy through

ensuring the quality in purchasing. The main paddy/rice selling process was carried out through Cooperative Wholesale Establishment (CWE) during 2012 and 2013. PMB incurred a loss in this process while being unable to stabilize the consumer prices of rice. The unit costs of PMB operations were higher than those of private millers. In particular, PMB has failed to cover the costs of its revenues mainly due to the failure to sell the stocks of paddy in possession of the board at a price that enables the recovery of the minimum cost and specially the non-recovery of the due amounts from the millers for the paddy provided by the board. Quantity purchased gradually increased and in year 2013 it reached nearly 5% of the total paddy production. In most of the seasons PMB was able to maintain the minimum level of buffer stocks of paddy in order to ensure food security of the country. And also it was able to increase the storage capacity to nearly 90 percent during the period of 2008-2014.

Success lessons related to the paddy purchasing programmes in other countries such as India, Indonesia, Thailand, Bangladesh, Philippines, Nepal and Vietnam and their applicability to Sri Lanka are discussed in detail in Chapter 2.4. Respective governments in those countries had implemented various strategies in order to increase the efficiency of government intervention programmes. Literature does not provide a comprehensive picture of government paddy purchasing programme in Sri Lanka, incorporating the views of stakeholders such as farmers, collectors, millers and consumers. Most of the decisions have been made without proper evidence on the failure of such programmes. The above issues require reconsideration of the role of PMB in the Sri Lankan paddy/rice marketing system and would warrant a complete overhaul of PMB. Therefore, the study suggests the government to set up a high level committee comprising acclaimed agricultural economists, agriculturists, post-harvest technologists and marketers to restructure the PMB with a view to improve its operational efficiency and financial management similar to what India did in 2015.

Conducting a comprehensive research covering all stakeholders in all major producing areas in order to find out their responses towards the methods of intervention such as; warehouse receipt financing or domestic level credit programme for immediate storing after harvesting or private sector led pledging system, commodity exchanges or any other market based intervention is needed.

It is necessary to establish a research and planning unit in the head office of PMB and in every regional office. This unit should identify and collect the necessary information on the expected surplus of the respective planting seasons. The relevant information is expected as marketable surplus by Divisional Secretariat (DS) level, the capacities of private sector at each DS level, identification of isolated producing pockets with heavy surplus and identification of areas threatened with a sharp decline of farm gate prices. A plan should be prepared considering all the above mentioned information in advance to the harvesting period. This proposed unit is needed to be integrated with other relevant authorities such as the Department of Agriculture, Agrarian Services Department and banks operating in the

producing areas. An effective communication network connecting the head office, regional offices and stores is necessary to increase efficiency.

Application of Information Communication Technology (ICT) should be promoted to enhance the efficiency of the entire programme. Using ICT in all storage transactions will mitigate the leakages and diversion of funds.

The study also recommends the need of a detailed rice mill survey at Divisional Secretariat level including available machinery, milling capacity, rice type, storage ability and work force. Investments should be promoted to establish commercial rice mills in the high surplus producing rural areas especially in Ampara, Batticaloa and Anuradhapura districts. Implementing drying yard facilities in major rural producing areas and in procurement centres would help procure paddy just after the harvest. Duration of procurement period should be increased.