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Changes in profitability and resource use in paddy farming in Sri Lanka in the recent past and their implications

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Paddy sector occupies a predominant position in Sri Lanka's economy. In the more recent years, paddy cultivation has been affected by many forces of change including economic, social, institutional, trade. This study is primarily designed to undertake a closer look at the changes emerging in the paddy cultivation system with a special focus on its input use, cost structure and profits. The study is based on secondary data relating to Maha cultivation seasons during the 1995-2003 period. The analysis covers both dry zone and wet zone districts: Anuradhapura, Hambantota, Polonnaruwa, and Kalutara.

Overall, the analysis show that the input-mix used in paddy cultivation has not undergone large changes overtime. However, the total labor input has declined from an average of 104 workdays/ha in 1995 to 88 workdays/ha in 2003. The study shows that the paddy cultivation is currently facing a major labour shortage, due mainly to its less attractiveness as a source of employment. This trend is more visible in paddy grown under major irrigation schemes, where mechanization is increasingly being adopted as a means of substituting hired labour. During 1995- 2003 period, wages have increased in 8.3% per year. The fertilizer application, which accounts for about 25% of the total cost, has remained at high levels (around 420 Kg/ha) in all areas. The high levels of fertilizer use are a direct result of the operation of the subsidy programme. The production system is also showing a continuous escalation of costs, averaging to 8.4% per annum in all districts - ranging from 12.5% in Kalutara to 4.2% in Anuradhapura. Labour input, which account for nearly half the total production cost, has contributed to the largest share of increased production costs. The analysis shows that the cash needs for paddy cultivation is increasingly becoming bigger, 28,000 Rs. /ha or 80% of the total. This implies a growing need for providing more cash inputs into paddy farming.

The average gross returns from paddy farming in the major paddy growing districts averages to 18, 000 Rs. /ha with net returns of about 11,000 Rs./ha (31% of the total production cost). The study identifies the fluctuating market prices during harvesting times as the most critical problem affecting the producer. Although the cost of production is increasing over time the net returns are not showing commensurate increases.