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Sri Lanka's fertilizer subsidy programme in paddy: Its operational and economic consequences

P Y A S C Kumarasinghe[1*], T Abeysekere[2] and M Wijeratne[1]
[1]*Department of Agric. Economics, Faculty of Agriculture, University of Ruhuna, Mapalana, Kamburupitiya.*
[2]*World Bank,73/5,DFCC Building, Colombo Office, Galle Road, Colombo 03.*

Fertilizer has become an indispensable input in paddy production. Nearly 55 percent of total fertilizer need in Sri Lanka is used for paddy cultivation. Current fertilizer application level (353,000 Mt) is the highest in 30 years in paddy sector. Sri Lankan government has spent Rs.6 billions in year 2005 and Rs.12 billions in year 2006 for fertilizer subsidy programme for paddy. This programme is the major policy instrument of the government to reduce farmer input cost and also to promote fertilizer use according to the recommendation. In year 2005,subsidy as 80 percent for urea, 78 percent for Muriate of Potash and, 77 percent for Triple Super Phosphate , which is the highest level of subsidy for fertilizer in the history.

The study investigated the past trends of fertilizer use in Sri Lanka and currently operating fertilizer subsidy programme facing on problems and issues. Further, study specifically aimed at analyzing the economic efficiency and feasibility of fertilizer subsidy programme at macro level.

Cost of cultivation is the major problem of domestic paddy cultivation and fertilizer amounted to around 17 percent of the total cost. Fertilizer subsidy has reduced 13.6 percent from total cost, which consoles the paddy farmer. Market price analysis of paddy and urea showed a change of price ratio from 1:1.2 (1995) to 1:0.7 (2005) which is favorable for the farmer.

Though urea consumption in paddy sector has increased from 157,600Mt in 1995 up to 266,200Mt in 2005 (69 percent increase), our national paddy production had increased from 2,810,000Mt in 1995 up to 3,246,000Mt in 2005 (only 16 percent increase).

The experimental data analyzed on paddy nitrogen response for *Batalagoda* area indicate that 117 kg/ha is the amount of nitrogen that can be added to produce maximum yield for the area; over that level will be uneconomical (current level was 105 kg/ha). Most probably in *Polonnaruwa, Ampara* and *Anuradapura* districts, paddy farmers may already be in the uneconomic zone due to over application of fertilizer. The national level data reveal that high nitrogen application has caused imbalance of fertilizer use at farm level. From 1980's N: P: K ratio for paddy was 4:1:1 and after introducing fertilizer subsidy program in year 1997, this has increased up to 6:1:1.

Unplanned and ad-hoc nature of the fertilizer subsidy programme has made a limitation to the success as expected. Fertilizer-importing companies had obtained nearly 28 percent of the subsidy as their overheads and administration costs unnoticeably, which made the government to bare unintended costs.

Overall, study ascertains that targeting the subsidy programme should be done precisely to make sure only deserving farmers would receive the subsidy. Fertilizer recommendations should be formulated based on economic analysis but not only on physical analysis.

*pyasckumarasinghe@yahoo.com Tel: 033-2260801