



Relationship among Cost of Production, Producer Price, and the Guaranteed Price of Paddy in Sri Lanka



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Abstract

The Paddy Marketing Board has been purchasing paddy at a guaranteed price to enhance the livelihood of the farmers. Scholars, farmers, and the media argued that the lower guaranteed price (GP) did not get fair prices for the farmers. Therefore, farmer organizations forced the Government to increase GP. As different players in the value chain have different views, the real association between cost of production (COP), producer price (PP), and guaranteed price (GP) is questionable and has not been adequately explored yet. Therefore, this study was conducted to identify the relationship among COP, PP, and GP of paddy marketed in the Sri Lankan context through correlation analysis of secondary data using SPSS software. Results revealed that the COP in 2022 stated by the Farmer organization was higher than the average COP determined by the Department of Agriculture due to variations in other expenditures. Hence, the profit for the farmer is

not up to the level assumed by the government, which harms the producers. Based on the results of the analysis, the study proved that the GP and the PP are higher than the COP and showed a strong positive correlation among COP, PP, and GP, proving that farmers can sell their paddy at a higher price than COP. Accordingly, as requested by the Farmer organization, the increase of GP will increase the PP, enabling farmers to earn more profit. In contrast, the increase in GP might have increased the price of rice, which would have harmed consumers. The results will be important for policymakers and scholars to make effective policies. Further research is needed to identify the variation of COP, PP, and GP to make a firm decision, especially in deficit markets or deficit productions

Keywords: Correlation Analysis, Cost of Production, Guaranteed Price, Producer Price, Surplus Production

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