

Tackling Corruption in Rice Price Intervention Program: Towards a Preventive Scheme

Nipon Poapongsakorn

Thailand Development Research Institute

The 14th International Anti-Corruption Conference

11 November 2010, Bangkok, Bangkok Thailand

Topics of discussion

- **Changes in the agricultural price intervention policy in Thailand**
- **The paddy pledging program: changes in its objectives, impacts and problems**
- **The new income guarantee program**
- **How to fix the remaining problems**
- **Conclusion: political uncertainty**

1.Changes in the Thai agricultural price intervention policy in the late 1980s

- **Like other countries, the Thai agricultural price intervention policy has changed from a regime that penalized the farmers to one that provides increasing farm subsidy in the late 1980s, except the sugar cane industry**
 - **Before 1986, the agricultural sector was heavily taxed by various measures, particularly the export taxes and export quotas, etc.**
 - **The policy resulted in large net resources transfer from the agricultural sector to finance the industrialization and to lower the cost of living of non-agricultural consumers**
 - **The depression of world rice price in the mid 1980 forced the government to eliminate the export taxes**
 - **Since then, the government has begun to increase farm subsidy in response to the farmer protests**

2. The paddy pledging program: changing objectives

- **The paddy pledging program was, first introduced in the 1980s but became the major paddy intervention program in 1991**
- **Its original objective was to provide short-term liquidity for the farmers to delay selling their paddy during the harvesting period**
 - **The farmers were able to obtain the subsidized loan at 90% of the value of their crops which were used as the collateral**
 - **Before 2002, less than 6% of paddy production were under the pledging program, except in 1992/93**
 - **The farmers were given 2 options: (a) to redeem their pledged paddy and repay their loan if the market price was higher than the pledging price, (b) to forfeit the collateral if the market price was lower than the pledging price**

- **In 2001/02, the Thaksin government, which won a landslide election based on the populist policy platform, increased the pledging price to 100% of the market price**
 - **Then in 2004/05 and 2005/06, the pledging price was increased to 30% of the market price**
 - **As a result, the volume of pledged paddy jumped to 37% of paddy production in 2004/05**
 - **The program was, in fact, changed to the “price support program”, yet its misleading name was retained**
- **One of the hidden objective to increase the pledging price of paddy in 2004/05 was to help a new rice exporter who successfully bid 1.67 million tons of government rice at the prices higher than the fob prices, according to the evidence presented in an Economic Commission of the Senate in 2005**

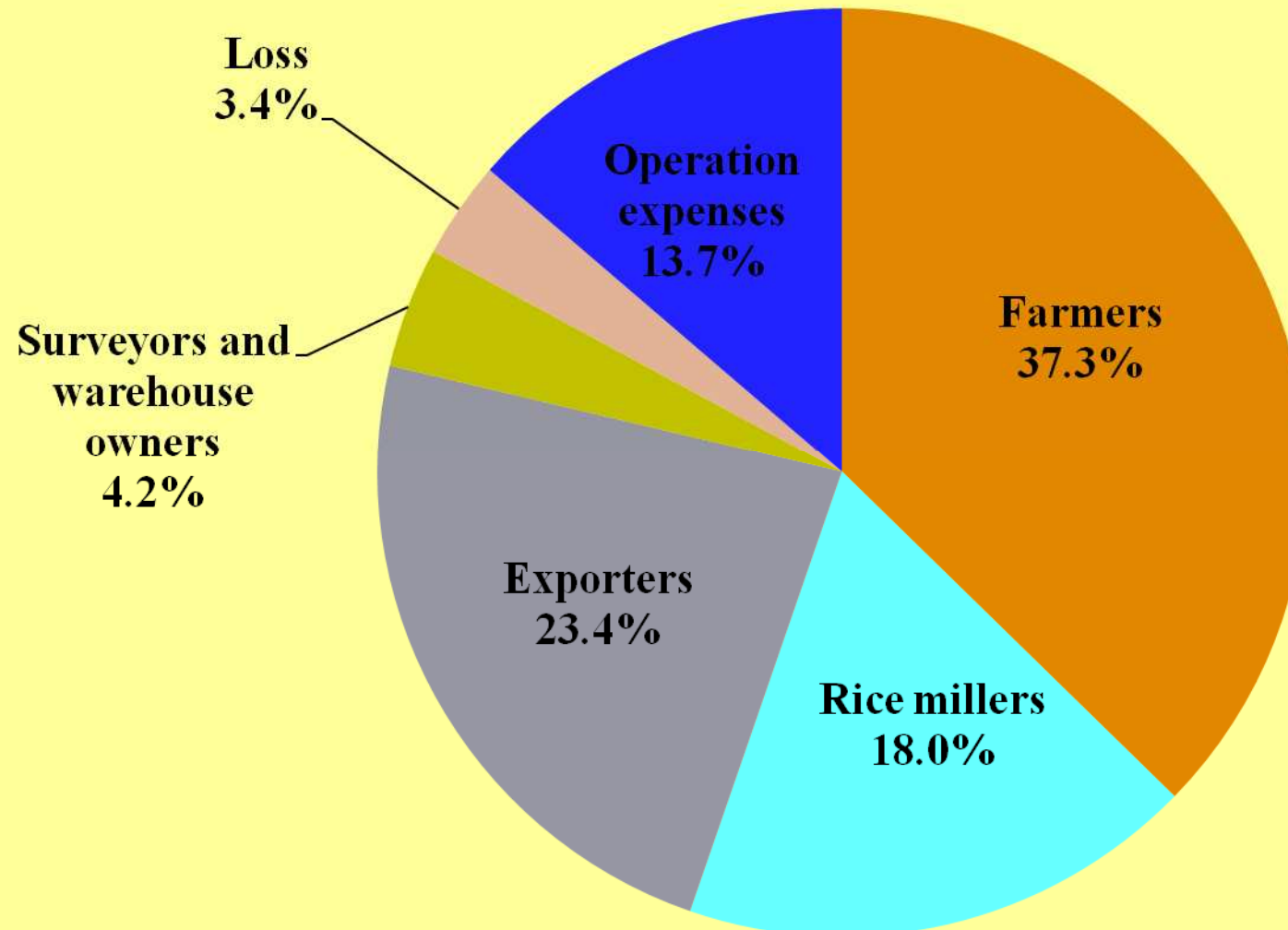
3. Impact and problems of the paddy pledging program in 2005/06

- **Cost and revenue of the program**

Bil. Baht

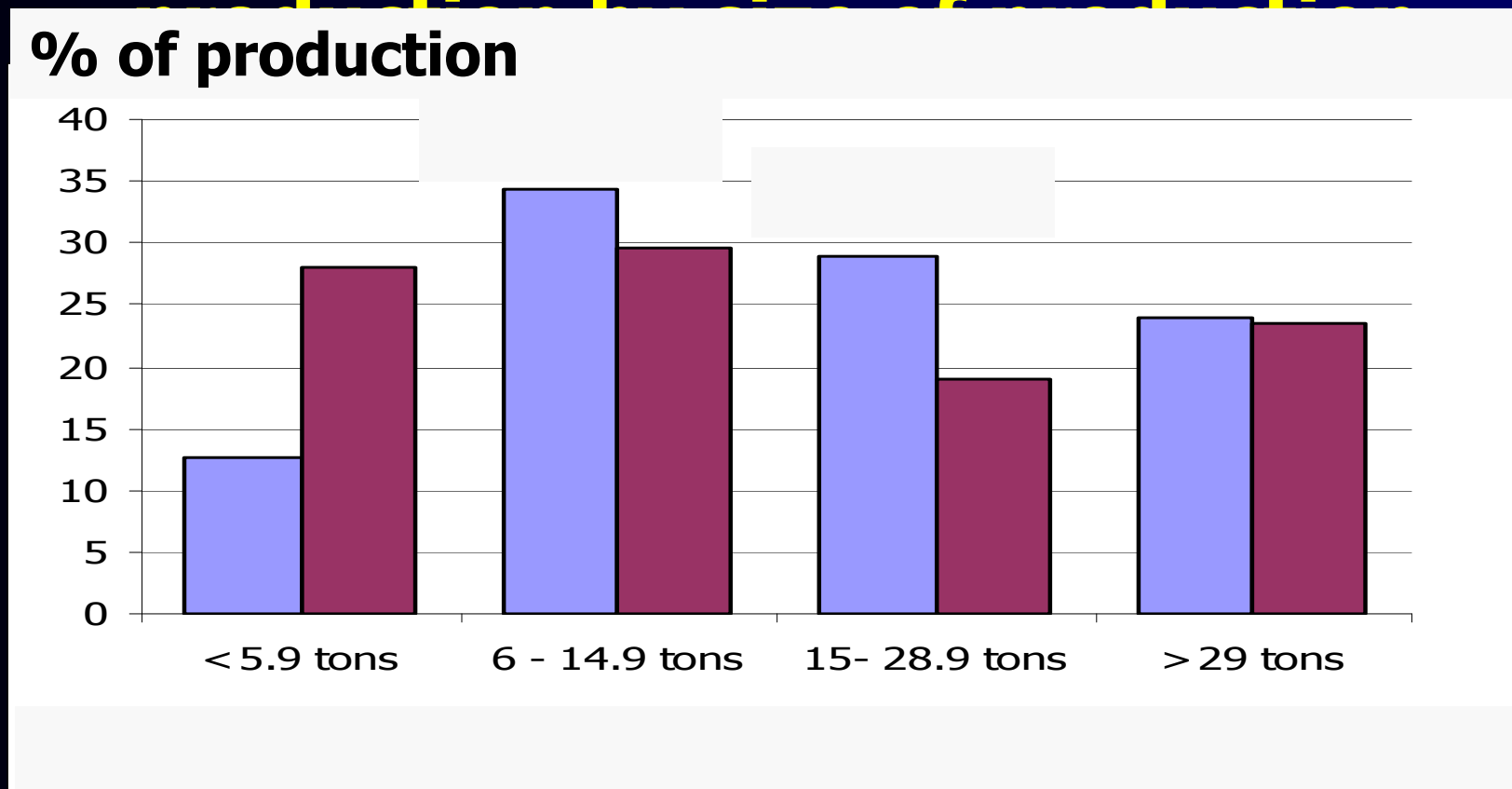


- **Economic rent and loss of the program:**
- **Contrary to the stated object of supporting the rice price for the farmers, most of the program benefits (45%) went to exporters and rice traders. Farmers' benefit was only 37% .**



- The largest beneficiaries of the program were a few exporters (2 of which might gain as much as 2,596 million baht), farmers in the irrigated areas of Central Plains and 600 rice millers (out of 2,000 millers)

Value of pledged paddy and paddy



**Farm
size**

- **Impact of the program: rent seeking activities**
 - **Farmers: expanding production, increasing cropping , etc**
 - **Rice millers: stealing government rice from their warehouses, bringing smuggled paddy from neighboring countries into the program, overexpansion of milling capacity (60 million tons vs annual production of 30 million tons), etc.**
 - **Exporters: bid collusion, paying bribe to politicians**
 - **Surveyors: charging extra service fee in exchange for a false report of the quantity and quality of government rice in the rented warehouses**

- **Other impact**

- **High social cost of rice production: excessive uses of water and increasing production from 5 crops in 2 years to 6-7 crops in 2 years**
- **Lower rice quality**
- **Rice trade was heavily intervened**
- **Loss of market share to Vietnam because of higher rice price**
- **Negative impact on paddy wholesalers and central or wholesale paddy markets, etc.**

4. The new policy of farmer income guarantee has been introduced by the Apisith government in 2009

- **The objectives**

- **Government will neither intervene in rice trading, nor in rice milling nor in rice storage, *thus avoiding the rent-seeking activities* of the millers and exporters as well as allowing the rice markets to work efficiently**
- **Most, if not all, subsidies should go to “every” farm household and none to the rice traders**

- **How does it work?**

- Each farm household can insure up to 20 tons. 94% of farm households have production less than 20 tons
- The guarantee price was 10,000 baht per ton of paddy
- If the price reference (calculated from the average market prices) during the harvesting period is lower than the guarantee price, the farmer will receive the difference as a compensation from the Bank for Agriculture and Agricultural Cooperatives (BAAC)
- The government no longer involves in the rice trade and rice milling. Farmers sell their paddy in the markets and receive the market price plus a difference between the guarantee price and the reference prices (or about 10,000 baht per ton)
- In fact, the scheme is a quasi put option, or *the price risk insurance scheme*, in which the government charges no insurance premium

- **How does it work? (cont)**

- **The Department of Extension is responsible for land registration**
- **The BAAC is responsible for the insurance contract**
- **In 2009, the program covered 3 crops, i.e., paddy, cassava and corn**
- **Unlike the pledging program, all farmers, including those with no marketable surplus, are eligible to enroll in the program. Thus it benefits all 3.7 million farm households, as opposed to only 0.6 million farmers under the pledging scheme.**

- **The program performance for the 2009/10 paddy season**
 - **Approved land registration: 3.4 million farm households**
 - **Approved insurance contracts: 3.06 million farm households**
 - **Total compensation for the farmers was 23,908 million baht (as of 18 February 2010)**
 - **62.5% of farmers were very satisfied with the program; 31% were satisfied; only 2.9% were not satisfied**

5. The remaining problems: towards an effective corruption preventive measures

- **It is very costly and time consuming to register and prepare insurance contracts with 4 million farmers**
 - **So there is a need for the IT data base management**
- **Reference price calculation**
 - **The sampling markets must be reliable**

- **Some farmers failed to obtain the full value of guarantee price because they did not claim their compensation in a week following their paddy sale**
 - **Informing the farmers of the correct information , the intent of the program and the consequence of not claiming the compensation in the following week**
- **But the biggest problem is that some farmers brought non-rice land into the program as evidenced in the registration of the farmers in the dry-season paddy production in the early 2010**
 - **A need for the satellite images and a random inspection of farm land**
 - **Those who provide false information have to be revoked of the entitlements to government subsidies**

- **Non-transparent sale of stock of government rice of 2-5 million tons to one single company**
 - **The Minister of Commerce must produce and release a report on the sale procedures and the detailed financial statements**
- **Two major challenges**
 - **In the future, farmers may put pressure on the government to increase the guarantee price and the maximum amount of insured crops**
 - **The government has to introduce an insurance scheme**
 - **Some rice millers and exporters have been lobbying hard against the income guarantee program**
 - **The public should be fully informed about the lobbying activities**
 - **The Civil Society organizations and the media should cooperate to report such activities and to campaign against the bad policies**

Thank you

