



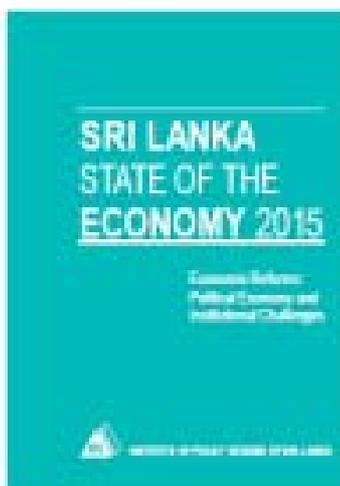
20 OCTOBER 2015

POLICYINSIGHTS

INSTITUTE OF POLICY STUDIES OF SRI LANKA

POLICY REFORMS FOR A PRODUCTIVE AGRICULTURE SECTOR

*From the IPS Flagship Publication
'Sri Lanka: State of the Economy 2015 Report'*



Sri Lanka's agricultural sector employs and sustains a majority of the population, and impinges on critical areas of poverty, food security and related social issues. It is a sector of production that clearly needs significant attention to achieve sustainable development outcomes. Agricultural development issues are time dependent and context dependent. The times and contexts, marked by different development paradigms, have determined the issues and influenced agricultural policy direction in Sri Lanka. The issues before liberalizing reforms in the late 1970s were reflective of the then political and economic environment based on self-sufficiency, centered on inward looking policies. The agriculture policy framework also suffered from the weakness of being sub-sector specific, concentrating on individual products or resources rather than on broader development needs or goals of the sector as a whole.

At the outset of agriculture policy formation, interest focused on the export-oriented plantation agriculture introduced during the colonial era. The major problem in the beginning was finding suitable lands to establish plantations; later on, it was to improve the profitability of plantations. The focus shifted towards food crops, mainly rice, partly as a result of world food shortages during regional/global conflicts of the time, and partly due to the emergence of nationalistic thinking on food self-sufficiency. This resulted in the development of a food crop production sector with heavy support from the state. Following this evolution, Sri Lanka's agriculture sector today is dualistic in nature, comprising an export-oriented plantation sector and a domestic food crop production sector. The issues faced by the sector overall have grown and become more diverse in nature, compared to those of the plantation dominated era. This is largely because matters pertaining to the plantation sector are more technical and trade-oriented, whereas those relating to the food crop sector are a more complex mix, with technical, social and political dimensions.

The agricultural issues are relatively more related to global economic phenomenon such as 'foodflation' and 'regoverned markets' as well as globally shared technical challenges such as climate change, among others. However, this does not imply that the long standing sub-sectoral development issues are no longer valid. Rather, they appear in modified

“Agriculture sector issues today are not sub-sector oriented, but are identified as integral parts of broader development objectives such as food security and poverty reduction.”

forms that are more consistent with current development paradigms. This transition is given due attention in identifying the issues and the policy reforms that should receive priority consideration in achieving the primary goal of enhanced productivity, and the broad objectives of food security and poverty reduction.

This Policy Insight highlights the SOE 2015 chapter “Policy Reforms for a Productive Agriculture Sector”, which attempts to identify the major agricultural development issues and challenges that affect the role of agriculture in providing income, generating employments, promoting food security, alleviating agrarian poverty and improving export earnings.



Agricultural Sector in Sri Lanka

Agriculture, which consists of domestic and export sub-sectors, remains a vital sector in the economy through the provision of income, employment, foreign exchange, food and raw materials. It also stimulates growth in the rest of the

economy through its forward and backward linkages with other economic sectors.

The agricultural sector’s contribution to Sri Lanka’s employment is still quite significant. Despite a decline in the employment share with the expansion of the industrial and services sectors in recent years, the agricultural sector absorbs nearly 28.5% of the total labour force in 2014. While utilizing 43% of the total land area of the country, the sector remains the mainstay of the rural economy in Sri Lanka.

Export earnings from agricultural products have been increasing in value terms, with the share of agricultural exports in total exports hovering around 25%.

Domestic agriculture still provides approximately 80% of Sri Lanka’s food requirement in value terms.

However, the problem at present is deciding on policy reforms to effectively contribute to sustained growth, while mitigating existing constraints and future challenges.

Agrarian Development Issues and Challenges

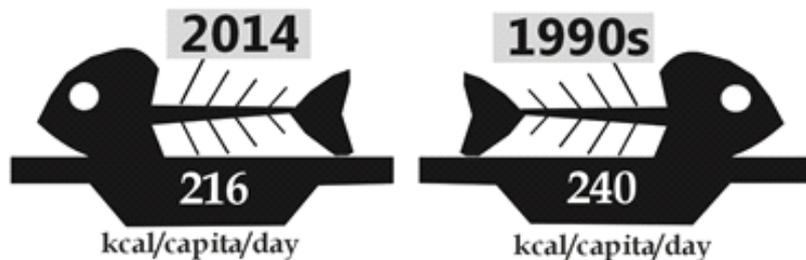
While the importance of the agricultural sector in providing food, employment and export income is quite clear, the problem presently at hand is how this sector can effectively contribute to sustained growth, while addressing existing constraints and imminent challenges through policy reforms. There are major agricultural development issues and challenges that affect income, employments, food security, agrarian poverty and export earnings. These can be identified as; stagnating productivity, lack of agricultural diversion, agrarian poverty, food insecurity, inefficiency in water management, climate change in agriculture and re-governing markets.

Policy Reforms for Raising Agricultural Growth

Sri Lanka, even after 67 years of independence, does not have a sustainable agricultural policy. The major factors, which need focus in any reform effort, have special reference to the achievement of three strategic thrusts relevant to the sector – i.e., eradication of poverty, food security and sound ecosystem management. Among policies that should be given attention are; the land policy, irrigation policy, policy on

“While the overall national level food availability seems less challenging due to larger shares of local production in most of the food crops, there are a few aspects to be considered such as the share of food imports trending upward over the last couple of years.”

DEPTH OF HUNGER FOR SRI LANKA



technology transformation, marketing policy and climate change policy.

Sri Lanka's current liberal economic environment, agriculture policy should be directed towards transforming traditional subsistence agriculture to one which maximizes productivity. The government should also give priority to improving processing, marketing and down streaming activities to increase value addition to agricultural products, providing more employment opportunities in rural areas, and thereby increasing food security and lowering agrarian poverty. High priority should be placed on achieving a broad based shift from traditional low value to modern high value agriculture, accompanied by sustained improvements in productivity and competitiveness through policy reforms, which will launch the agriculture sector into a significantly higher growth path.

The reforms in factors of production such as land and labour should be undertaken with a view to enhance agricultural productivity and efficiency. In addition, modernizing the systems of agricultural R&D, technology and extension – focusing on livelihood improvement, rural development, food security, improving agro-based industries, initiating

commercial agriculture and preparing the sector to face global challenges – should be done with the participation of the private sector. Resources from agricultural subsidies that are argued to be fiscally unsustainable, economically inefficient and environmentally unsustainable such as fertilizer subsidy should be gradually released for more productive agricultural investments. Participation of farmer organizations and the private sector as partners in agriculture development is recognized as essential for equity-based development. Enhanced youth involvement in agriculture should be sought through promoting agricultural entrepreneurship training, encouraging scientific farming and promoting agro-enterprises. Improved diversification, especially the restricted agriculture export base, is essential for transforming agriculture into a sustainable industry.

While there have been some isolated policy documents at various stages, even today, Sri Lanka does not have a sustainable agricultural policy. Sustainable agricultural policy does not necessarily mean one that does not evolve over time. It can drop obsolete policy strategies and add some modern policy actions, avoiding ad hoc policy changes from time to time.

“Dramatically increasing the food supply and export earnings is a daunting challenge on its own, and needs certain reforms in the current policy structure in order to bring about some innovative solutions.”



This Policy Insight is based on the comprehensive chapter on “Policy Reforms for a Productive Agriculture Sector” in the ‘Sri Lanka: State of the Economy 2015 Report’ (SOE 2015). The State of the Economy Report is the flagship publication of the Institute of Policy Studies of Sri Lanka. The complete report can be purchased from the publications section of the IPS, located at 100/20, Independence Avenue, Colombo 7. For more information, contact the Publications Unit on 0112143100.



INSTITUTE OF POLICY STUDIES OF SRI LANKA

100/20 Independence Avenue, Colombo 7, Sri Lanka
T: +94 11 2143100 / 2665068, F: +94 11 2665065
www.ips.lk