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Agriculture needs the private sector

Middle ground policies essential for food security

By Samantha Whybrow


Dr. Saman Kelegama

Will we have enough to eat and at what price? The global food crisis is forcing consumers around the world to rethink their daily meals. But what role should government be playing? Should it be pushing for self-sufficiency? Should it introduce subsidies? Should it invest more?

This week The Nation Economist asks Dr. Saman Kelegama, a respected economist from the Institute of Policy Studies, for his views on the matter.

Following are the excerpts:

Q: There are various sides to the self-sufficiency debate, with some economists indicating 100% self-sufficiency is undesirable. What sort of self-sufficiency goals should Sri Lanka be working towards (e.g., 70%, 80%, 100%) and in what crops?

A: The self-sufficiency debate has little relevance in a globalised world. If a country needs to become self-sufficient in agriculture products by increasing the levels of protection, then it could do so but it will come at a significant cost. And this cost will have to be borne by the consumers. Sri Lanka experienced this type of an approach in the early 1970s, which caused severe hardship to consumers.

What is important in the current global situation is food security, and not food self-sufficiency. Food security can be defined by the three “a” s; availability, accessibility, and affordability.

In other words, a country produces crops with a policy where it adheres to a middle ground between consumer interests and producer interests. This means that excessive levels of protection which incur costs on the consumer will be avoided. At the same time, excessive liberal trade that will erode the production base in the country will also be avoided.

Let me highlight this with an example. Sri Lanka is about 90 % self-sufficient in rice. Now, should we go for 100% self-sufficiency? My answer to this is no, it is cheaper to import the residual 10% than to produce that amount locally through additional protection or new investments in irrigation.

However, if we can achieve 100% self-sufficiency by improving the productivity of the existing production without additional protection and additional investment on irrigation, then we should go for full self-sufficiency.

So, to answer your question, yes, 100% self-sufficiency is not desirable if it is coming at a huge cost to the government and the consumer.

However, in agriculture we cannot look at issues only from the production perspective. We must not set rigid self-sufficiency targets and work backwards, inter alia, due to high fluctuations of agriculture prices.

But what we could do is select a particular tariff level that balances the consumer and producer interests (say a 10% tariff level) and provide the protection to the producer (ensure a rate of return) to increase production.

The government should remove all existing barriers to the private sector in order to improve productivity in the existing cultivation of that particular product. When production gradually increases we will know our limitations, such as whether we could still compete at the existing tariff levels, whether we are a high cost producer of that product, etc. At that point we will know the level of self-sufficiency that we are capable of.

Take for instance sugar. I think we are about 10% self-sufficient now and, assuming that Hingurana and Kantale will be coming back into full operation, we may be able to achieve 25-30% self-sufficiency. That may be the level that we are capable of achieving. Any further increase, unless it comes from further private sector investment, should not be forced on the economy. The increase will come at a huge cost as explained earlier.

Q: According to some, there are good agricultural subsidies and there are bad agricultural subsidies. Can you explain this in the context of Sri Lankan agriculture?

A: Subsidies distort the prices. The European Union (EU) is able to sell their agricultural products at competitive prices because of their huge subsidies and these subsidies in the

EU do not allow developing countries to develop their agriculture sector according to comparative advantage.

There is a hot debate in the World Trade Organisation (WTO) under the Agreement on Agriculture. The EU has now taken steps to phase out export subsidies by 2013. In short, the global agriculture trading environment is full of distortions and a developing country has to make use of this system to its advantage until a cleaner trading regime for agriculture comes into being in the future.

Coming to Sri Lanka, when the cost of production goes up, subsidies can assist in the agriculture sector. Subsidies—whether given for fertiliser or seeds or tractors or whatever—can make farmers produce items at a reduced price when other input costs are escalating. However, to what extent the subsidy makes the farmer competitive depends on the size of the subsidy and to which input item the subsidy is targeted.

Take for example a fertiliser subsidy. Fertiliser may not be the major cost item in the production process where labour, tractors, seed, etc., are involved. If that is the case the fertiliser subsidy will not have that much of an impact on improving the competitiveness of the product.

So, sometimes a targeted subsidy, if it does not improve the competitiveness of the product significantly, is called a ‘bad’ subsidy. On the other hand, if the subsidy is targeted at improving the extension services, irrigation, rural roads, etc., the impact on the product may be more and can be considered as a ‘good’ subsidy.

In the global context, since many countries are using agriculture subsidies, Sri Lanka may also use the same as long as it is affordable and could be used to improve the competitiveness of the agriculture products.

Now, a politician’s value judgment may not necessarily tally with a technocrats’ judgment on ‘bad’ and ‘good’ subsidies.

Politicians require immediate and visible gains, which something like a fertiliser subsidy can show, whereas a rural road will take time and will not give the same type of ownership to a farmer as a fertiliser subsidy. This is the case all over the world and this is what we call the political economy of agriculture subsidies.

Q: The World Bank has released a study that says higher commodities prices are pushing most farmers further into poverty in developing countries since most poor farmers are net consumers rather than net producers. What is your take on this in the Sri Lankan context?

A: I do not agree with this. Farmers respond to higher prices and if the paddy price goes up the Sri Lankan farmer will increase the production and become a beneficiary both as a consumer and producer. I thought that Robert Zoellick, the President of the World Bank, said at the recent FAO conference that the recent food price escalation should be turned into an opportunity for farmers in developing countries to increase production.

Q: What should Sri Lanka be doing to protect itself from the likelihood that food prices are going to stay high over the next 10 years?

A: We have to increase agriculture production and productivity. Sri Lanka is a net food importing country so we will have to import food from the cheapest source, like from India, to meet the residual food requirements after meeting whatever possible from domestic production.

As a short term measure, the government has made it possible for some essential food imports to come in with zero duty or a marginal duty to meet the crisis.

The long term strategy should be to develop areas relevant to agriculture development: post-harvest technology, storage facilities, refrigerator facilities, removing land market rigidities, and minimising bureaucratic red tape, etc. Here the government has a role to play.

Q: Many organisations have released reports recently calling for more and better investment in agriculture around the world. To what extent has the Sri Lankan Government been investing in agriculture in the past decade?

A: Sri Lanka invested heavily in the agriculture sector at the peak of the accelerated Mahaweli River Development Programme. This programme had a vital irrigation component, thus, part of the Mahweli Programme investment was to develop the agriculture sector.

Since then, however, investment in the agriculture sector has declined. And this trend of less state investment in the agriculture sector was seen through out the developing world during the 1990s and 2000 onwards.

I do not think large additional state investment in the agriculture sector is required. What is necessary is to remove the existing impediments to the private sector in getting involved in the agriculture sector. Look at how some private companies like CIC have gone into the agriculture sector and shown very impressive results. Big companies are able to overcome hurdles and move ahead, but most medium scale operators face a plethora of problems in land acquisition, etc.

Q: Could there be more and better agricultural investment in the country, and if so, what would this look like?

A: At the moment, the bulk of the capital expenditure goes for various infrastructure projects and some of them are related to agriculture development. I think what is needed is not more investment in the agriculture sector but to strengthen and streamline all agriculture-related institutions, starting from the Department of Agriculture and through to the TRI, RRI, CRI, Rice Research Institute, Council for Agriculture Research and Policy (CARP), HARTI, etc., and see how they could be made more demand driven and private sector driven. The cess that is imposed on various agriculture exports/imports can be used to strengthen these institutions.

Q: The OECD made the following statement last week:
"Agricultural trade policies also require further reform. Trade restricting policies have undesirable and often unintended impacts, especially in the medium and long term. Subsidies to agricultural exports have contributed to damage the agricultural capacity and rural social stability of many developing countries. A swift and ambitious conclusion of the Doha Round of WTO negotiations could detonate the potential of markets to balance supply and demand at the global level."
What do you see as the best outcome for developing countries in terms of trade policies in agriculture?

A: This OECD statement is a typical neoclassical view on agriculture trade policy. It does not have much relevance to the current day global reality. Trade policy led agriculture development has not worked in any developing country. Most small developing countries do not have the supply capacity in certain products to make use of the market access that we most often talk about in the WTO.

Thus, developing countries should first develop and improve their supply capacity under some degree of protection and support services before exploiting outside markets. Take for instance, the spice industry in Sri Lanka. Sometimes we cannot meet the demand in India for a particular spice.

That some degree of protection is required for agriculture was recognised by the government and that is why the entire agriculture sector was put under the negative list in the Indo-Lanka Bilateral Free Trade Agreement. Without making the agriculture sector more competitive, if we substantially reduce tariffs it will only lead to eroding the production base and import trading taking over.

Thus once again I emphasise that any agriculture policy should be a balanced one taking into account the consumer interest and the producer interests (mainly represented by politicians from a particular electorate).

The political economy of agriculture is such that implementing subsidy free and protection free agriculture policies is very difficult not only in developing countries, but also in the developed countries.

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