

Agriculture - first approach to economic growth and human development

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Two articles published in the *Daily News* inspired me to write this paper. One was on the subject of "Strategies for Increasing Agricultural Productivity" by Professor H. P. M. Gunasena which appeared on 07-04-03. The other was under the title "Agro industries and reducing unemployment", written by Professor C. S. Weeraratne published on 11-04-03.

These two academics have been conducting a crusade for the development of the agriculture sector by writing numerous well researched papers. In this article I wish to elaborate particularly on two statements made by Prof. Gunasena - "agriculture is a business venture" and "an aspect, that needs the immediate attention of policy makers is land consolidation". I will however, first discuss the urgent need to raise the productivity of this sector in Sri Lanka. I do not wish to deal with the various constraints faced by farmers and some of the solutions thereto, as Prof. Gunasena has discussed them comprehensively in his paper.

Why agriculture?

Agriculture contributes about 19% to GDP. However it has been growing at the 'snail's' pace of less than 2% p.a. during the last few years. The reason for this is the fact, that policy makers have been enamoured with more glamorous goals like industrialisation or converting Sri Lanka into a services/financial hub in the Asian region, ignoring the fact, that the majority of the population still live in rural and estate areas and 40% of the people are poor and lead a precarious livelihood on less than Rs. 1000/- (per month per person) mostly in such areas - (95/96 data).

However, "poverty must be seen as the deprivation of basic capabilities rather than merely as lowness of incomes, which is the standard criterion of identification of poverty", according to economist and Nobel laureate Amartya Sen. Industrialisation has not touched the lives of most of these people. Only the districts of Colombo, Gampaha and Kalutara have seen considerable industrialisation. It is therefore time, policy makers paid greater attention to agriculture to alleviate poverty in rural areas. In fact most of the high performing economies of Asia such as those of Japan, Taiwan and South Korea, started their march towards prosperity through manufactured exports via land reform, (land consolidation and not distribution as under land reform in Sri Lanka), improved productivity in agriculture, high incomes in rural areas and hence greater demand for goods and services from this sector. The latter is apparently one of the factors, which catalyzed investment in industrialisation in these countries.

Land consolidation

More than 80% of the land in this country is owned by the State. Government has been parceling out land to peasant farmers under the Land Development Ordinance (LDO) and providing irrigation to Dry Zone areas in the hope of raising the level of agricultural production. The average extent of such parcels has been 3 acres, which is too small for obtaining economies of scale. The farmers do not own the land under this system. The farmers are therefore not inclined to invest in farming as a business. Even if

they wish to do so, they will not be able to borrow any capital, as banks usually do not accept the LDO permits as collateral for loans.

In the case of privately held land, the situation is no better as in most instances, there is acute fragmentation of holdings, the titles are not clear and the occupants of the land spend their earnings and energies on interminable litigation. This leaves the State as the only source of capital for the development of arable land. However, the State is in no position to spare funds for such purposes.

What then is the way out? The obvious solution is the grant of freehold possession of State land to the farmers and the clarification of the titles of the privately held farming land. This may result in the amalgamation ('consolidation' as described by Prof. Gunasena) of small parcels of land into more viable farming units by the sale of small units of land by those, who want to exit from agriculture to those, who want to invest in agriculture for profit. Exit they must, since agricultural productivity is low on account of the fact, too many people - 36% of the labour force, are occupying the land.

In other countries, where agricultural productivity is high, as in the USA, less than 4% of the labour force till the land and produce enough food not only to feed the entire population but also for export. What is important here is the scale of production to reduce unit costs and being able to afford the acquisition of the necessary technical/managerial/marketing expertise and technologies including machinery and equipment, to improve yields and to add value to products. Consolidation of fragmented holdings is essential for this purpose. In fact the authorities concerned appear to be thinking of doing so. But the necessity for this has to be explained to the people, as some seem to have misunderstood the proposal and say the government intends to chase away these people on the advice of the World Bank!

Those who sell their fragments of land have to be provided with other job avenues such as in agro industries and services as suggested by Prof. Weeraratne. This process has to be carefully stage managed, as it would not happen automatically. Those who leave the land, may migrate to already beleaguered urban areas and the entry of outsiders into rural areas may interfere with the delicate social fabric, that still exists in the villages. The consolidation itself has to be planned to obtain the desired outcomes, as in South Korea. This will include spatial planning, physical and social infrastructure development including R&D, mechanisation of farming operations, provision of extension and training services, of credit and insurance, sorting, storage, processing, packaging and transport facilities as well as supply of technical/managerial expertise.

State or private sector?

The State alone cannot bring about this transformation. Perhaps it could provide the planning, appropriate policies/incentives and provision of basic physical infrastructure to facilitate the process. The rest should be the responsibility of the private sector as plenty of opportunities to make profits exist, if (peasant) agriculture were to be commercialised.

There are several models, that

could be used to get the private sector involved. The first can be described as the 'Company Led Model' (CLM) where parent companies could provide the inputs, extension services and marketing. The Ceylon Tobacco Company type of this model may be suitable for products, where the only buyer is a parent company. However, there could be variations of the model, where the parent company may or may not have a nucleus farm and the others are out-growers adopted by the former. With the development of information and communication technology, electronically net worked versions of the model are making their appearance. For example, the agro business division of ICT, one of the largest companies in India, is connected with some 600,000 farmers through 970 internet-enabled kiosks.

It is reported, the farmers of some 5000 villages in India, supply the company with farm produce such as soya bean, coffee, shrimp and wheat. The ICT, through this programme "Helps increase farmers' productivity by facilitating the supply of quality inputs..... The kiosks also serve as an e-procurement system, helping farmers earn higher prices by minimizing transaction costs involved in marketing farm produce" ("Serving the World's Poor Profitably", Harvard Business Review, September, 2002). Joint Stock Companies (JSC) of farmers themselves is another model. If adopted in Sri Lanka in, say, an irrigation system (usually in extent of about 4000 acres), the small farmers could join the JSC as shareholders.

The existing structures on the land such as roads, irrigation channels and warehouses could be vested with the company for them to be viable. This will be the contribution of the state to the shareholding of the companies. Being limited liability companies with substantial shareholdings, they will be able to attract both equity (if converted to public companies) and loan capital as well as to recruit qualified technical/managerial personnel and other professionals. In the CLM, high level management, technical expertise, inputs and marketing are provided by the parent company. They are procured by the farmers themselves in the JSC model, perhaps with some guidance by relevant government agencies at the outset. Besides these models, there will be of course proprietorship and partnerships of owners of medium to large holdings.

Farming units set up in this manner could attract the required private sector capital not only for investment in irrigation, improvement of agronomic practices as well as management, but also for storage, processing and other post harvest technologies, R&D, transport and marketing, all of which will stimulate production, productivity and value addition. In other words, if such models could be adopted in this country, a trend of carrying out farming as a business, as stated by Prof. Gunasena, could emerge.

Economies of scale

The main feature of these business oriented models is that they are large operations enabling the realisation of economies of scale; the costs of production, especially the fixed costs are spread over a large amount of outputs, thus enabling the reduction of unit costs of production. Large scale operations also help to increase yields and quality



Success in agriculture depend on a number of principles besides large-scale production.

on account of the fact, that such entities can afford to procure the best inputs including the necessary technical, managerial and marketing expertise, unlike in the case of small fragmented farms.

The larger farms, especially the JSC, would also be capable of undertaking research, secondary and tertiary processing to develop/adapt the products to suit requirements of various segments of consumers, in order to secure premium prices, thus releasing farmers from the bondage of being helpless price takers. (The latter is the demerit of the CLM). It will be seen therefore, that large-scale operations could improve competitiveness of agricultural products. This truism applies equally to other business entities in Sri Lanka, except where the artistic products are concerned, as each and every such item will be different from the other.

If large-scale operations are so important, we should develop a process, which will enable Sri Lanka to reap the best possible returns from agriculture by adopting this concept. The following could be considered as sequential steps of such a process:

1. Grant of freehold possession of land to farmers working on state land and clarification of (private) land titles.
2. Consolidation of land holdings and providing infrastructure.
3. Preparation of crop budgets. Sri Lanka need not attempt to grow anything and everything, subject of course for the need to maintain food security. We should try to select crops on the basis of market needs and our supply capability, including climatic and soil conditions.
4. Out of this assortment, we should grow, on a large scale, the crops, that would give the maximum returns. This will enable certain areas of the country to specialise in selected crops, giving rise to very large scale production. Even certain varieties of rice grown on a large-scale could prove to be profitable. The best crops would no doubt be those, that have secondary and tertiary processing possibilities as well.
5. Adoption of suitable business models described above.
6. Each such large-scale cropping area could accommodate a well-located urban 'cluster'. Clusters according to Michael E. Porter of Harvard "are geographic concentrations of inter-connected companies and institutions in a particular field" such as the California wine cluster, and the Italian leather and textile clusters. Such clusters promote competitiveness. Agri-clusters would have all the allied physical infrastructure, such as roads, even

irrigation services, housing, health and educational facilities (to motivate professionals to move into rural areas), services and supporting industries like R&D, extension, machinery hiring, banking, transport, communication, storage, processing, packaging, marketing and other relevant activities, attracted by large scale demand for such services and facilities. This should be planned initially by the state. Cultivation on a very large scale would set off a process of attracting the facilities mentioned above after the initial push is given (by the State). Development of peripheral regions could be accelerated, if many such clusters are judiciously scattered in such areas in relation to the main markets and transport facilities.

7. The crop budgets, which give maximum returns should continuously be revised as demand conditions will change from time to time and there will be a need to identify new high value crops to replace the ones, that are not in demand any more.

A closer examination of the process would reveal, that the success in agriculture would depend on a number of principles besides large scale production such as, freehold possession of land and other assets by the farmers themselves, the marketability of agricultural products, subject to supply possibilities, value addition or differentiation supported by R&D, technical, social and commercial feasibility, technical and managerial capability, clustering of supporting services and processing activities located in urban areas in such a manner, that they are easily accessible to both by suppliers and buyers and last but not least an initial push and continuing support by the state through planning, suitable policies, infrastructure development particularly of irrigation, roads/rail, education/training and health facilities as well as prudently selected direct assistance programmes. The penultimate principle, namely clustering would heighten the competitiveness obtained by large scale cultivation. A process incorporating such principles will help in overcoming most of the constraints, to development of agriculture, listed by Prof. Gunasena. Such a process, if properly planned and co-ordinated could yield enormous benefits. Farmer incomes would rise. With rising incomes, food clothing, shelter and other necessities of life would become available to most people in rural areas relieving them of poverty. The rise in purchasing power will create markets for industrial goods produce in the urban areas of the country or those of

SMIs set up in the rural areas themselves, while the increase in the supply of intermediate goods of agricultural origin would push up the production of industrial products and services. Thus there could be an all round increase in production, productivity and employment. Such a process supplemented with improved macro and micro economic management (especially to promote stability of the general level of prices and international competitiveness respectively) as well as provision of infrastructure, while ensuring good governance will no doubt push up economic growth rates and reduce poverty faster than any other strategy, that one can think of. Social tensions will abate. Food availability and nutrition also could improve leading to higher productivity. Conservation of the environment would improve, as over-exploitation of the land, particularly of the forest cover for food and other essentials of life would decline resulting in greater catchment of rains thus preventing floods and droughts. The migration of the rural unemployed to the already beleaguered urban areas would decrease.

Emphasis on industrialisation/services could also ultimately yield the same results by absorbing the excess labour from agriculture. How long would such a trickle down process take? As stated earlier, several decades of industrialisation in Sri Lanka has resulted in the development of only three districts close to the metropolis, compared to the prosperity achieved during two or three decades taken by countries mentioned above, which started with land reform and consolidation. This however, does not mean industrialisation cannot complement the above mentioned process. In fact in these countries, agriculture was subsequently coupled with processing of agricultural produce to add value in order to secure higher incomes. Manufacturing for export was a later stage, that commenced with the investment of wealth mostly created by raising of crops and secondary/tertiary processing thereof. Agriculture therefore can be considered as the first approach to economic growth and human development. Thus grant of freehold possession of land, consolidation of fragmented units and running farming as a large-scale business operation, planned and supported by the State could release forces, that would result in a faster rate of economic growth in the country leading to alleviation of poverty. It could also lead to a happier nation as agriculture is 'in the blood' of the majority of people and a more clean/beautiful Sri Lanka.