20th June 2003 Daily News

How could the agriculture sector achieve a quick ten per cent growth rate?

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Agriculture - a vital sector

The necessity of achieving substantially higher economic growth to overcome the current economic crisis has repeatedly been highlighted. For this purpose, a medium-term economic programme called "The Future: Regaining Sri Lanka" and accompanying action plans have already been developed by the Government for key economic areas aiming at an overall 10 per cent growth rate within a relatively short period of time.

As one can expect, agriculture is one of the key areas of focus. Complementary to the action plan in "Regaining Sri Lanka", this article focuses on some important aspects relating to this challenging journey.

Agriculture is still one of the largest sectors in our economy. However, the importance of the sector measured in terms of its contribution to the GDP has declined considerably over the past two decades. By 2001, the contribution of the agriculture sector to total GDP declined to about 19 per cent from about 30 per cent in the early 1980s. The sectoral growth over the last 10 years has been poor, about 2 per cent per annum, or half the national average. The industrial and services sectors overtook agriculture as the engine of growth during this period.

The implications of this transformation are now visible in many forms. While the labour productivity of the agriculture sector has increased during the last decade, the agriculture sector's share in employment has declined. Despite the fact that some 65 per cent of the population live in rural areas and are largely dependent on agriculture for their livelihood, the share of rural household income derived from agricultural activities has declined over the time. Today, the income from agriculture, including livestock farming, accounts, on average, for only about 23 per cent of total rural household income. Recent studies show that the rural poverty rate is much higher in the agriculture sector than the other sectors.

Agriculture growth is now being driven mainly by 'other' commodities. The percentage share of the 'other' category in agricultural GDP has risen from 44 in 1982-85 to 62 in 1996-2000 accounting for the largest share. It seems that this trend will continue in future too.

In these circumstances, substantially increasing the growth rate of the sector to contribute to GDP growth rate of 10 per cent, from its current level of 2 per cent is certainly a challenge. The ongoing structural transformation in the economy as well as within the agriculture sector clearly indicates the necessity for adopting new strategies to address the emerging needs of the sector.

As a result of globalisation, our agriculture sector is increasingly becoming exposed to market forces. The premium on agricultural labour and increasing costs of inputs and services are placing emphasis on the need to operate even traditional small farm agriculture as an enterprise. Our attitudes towards agriculture should change in relation to the current constraints facing the sector. In Sri Lanka there is a tendency to treat agriculture as normal life, as a regulator or common type of activity. However, in highly developed countries, where only a small fraction of the people are employed in agriculture, there is a tendency to treat agriculture in a special way. This may be the correct time to do likewise.

Commercialisation of agriculture has now become an attractive topic at most discussions. However, the destination is still far ahead. The Government should consider agricultural production as another industry offering equivalent incentives to the investors who could invest in commercial agriculture. Because of the higher level of risk and uncertainty associated with agriculture, as compared with the other sectors, the incentives should be even better than what is given to those sectors.

Regional specialisation of crops according to the comparative advantages of particular areas would help to overcome some of these constraints. This kind of approach will enable us to focus more on geographic area specific issues rather than crop specific issues. Production of high potential horticultural crops for export in fresh or processed form and industrial export crops could be promoted. This should be facilitated by conducting adaptive field trials to achieve maximum crop yields, and introducing effective water delivery system. Our smallholder subsistence farmers largely cultivate horticultural crops. Horticulture has the potential to stimulate growth, as yield can be improved tremendously within short period of time using modern technology.

One of the other potential areas we can think about is floriculture. Sri Lanka is still not ready to realise the full potential of our floriculture industry despite the high demand for tropical floricultural products from the European, Japanese and Middle-East markets. As an export industry, floriculture has shown an impressive growth rate in foreign exchange earnings during last two decades. However, there has not been any concerted effort to develop floriculture on a large-scale. The growth of this sector was mainly attributed to small private nurseries.

Today the potential for commercial floriculture expansion in Sri Lanka is greater than ever before. Development of this industry is hampered at present due to high freight rates, high interest rates for credits and lack of research and development. A dialogue should be initiated with airlines for a reduction in freight rates for floricultural products. This may result in immediate losses to airlines, but would benefit the country in terms of increased export earning in the long-run.

Although a programme called 'Granary Area Programme' has already been identified in this regard, much more work has to be done in order to implement this programme at the ground level. One has to sit and translate these concepts into an action plan which is practicable and acceptable to all stakeholders. Otherwise, without a high level of coordination and commitments from different agencies, implementation of this programme is doubtful.

Availability of water for irrigation is one of the key aspects to be considered in relation to regionally specialised agricultural production systems. Being dependent largely on our traditional type of irrigation facilities for irrigation, our agricultural production systems are yet to realise their full potential. New affordable irrigation technologies like low-cost drip irrigation systems are very effective under water scarce situations and many countries around the world are now adopting this new technology. However, the contribution of these new irrigation technologies to our irrigation development is still insignificant. This new technology should be popularised among smallholder subsistence farmers, perhaps through the introduction of a credit and incentive scheme. At present more than 80 per cent of the total water withdrawals in the country is used for irrigated without taking into account the rapidly increasing demand from other competitive sectors. However, it is very unlikely that the same amount of water will be available for irrigated agriculture in future also. The present practice of water allocation had not addressed the issues of competing demand and lack of coordination. Since most water resources are inter-sectoral in nature, a need for national perspective in decision-making is very essential, and this highlights the importance of a national policy on water. Although the National Water Policy and associated amendments to the Water Act are scheduled to be presented in the Parliament in 2003, realizing the target within the given time frame is still doubtful.

Raising productivity and competitiveness are critical with regard to achieving faster growth in the Sri Lankan agriculture sector. It is important to understand, at this point, that agriculture is highly vulnerable to economic and political risks and uncertainties. Small changes in market demand or supply tend to provoke (aggravate) large swings in the prices of most basic agricultural products because of their "inelasticities". Small and delayed responses in consumption or production commonly result in big changes in the relative prices of many basic agricultural commodities. Improving the productivity and competitiveness of the sector in the face of cheaper imports and rising costs of production, particularly in an environment where a number of bilateral and multilateral free trade agreements are in operation, are real changes facing the Sri Lankan agriculture sector today.

Lack of consistency in Government import/trade policy towards agriculture has been one of the constraints on agricultural development for a longtime. While Government's policy thrust has been for free imports and reduced tariffs, banning the importation of certain agricultural products or imposition of high tariffs on those commodities, particularly when domestic production comes to market, has been a common practice during last two decades. The Government sporadically lowers the tariff and permits imports of these commodities when they are in short supply. These unpredictable changes create considerable uncertainty for all producers, consumers and traders.

Therefore, a long-term trade policy on agricultural commodities, which will lead the country to our production targets is essential. Here the argument is two fold. Our experience suggests that protected agriculture often results in higher consumer prices and scarcity of food items although international food prices are generally cheaper than domestic prices. On the other hand, some degree of protection would be needed for some important crops such as paddy to ensure their profitability and sustainability. Being the staple food in Sri Lanka, a large fraction of agricultural labour force is still engaged in paddy farming.

Leaving market forces to decide the future of the Sri Lankan paddy cultivation will have a direct and a negative impact on the agricultural labour force. Therefore giving some degree of protection to paddy is justified. This may applicable to few other important crops too. However, protecting crops which do not show long run viability and comparative advantages cannot be justified. Therefore the trade policy on agricultural commodities should be well-balanced between these two considerations. The objective of the policy for agriculture should be to ensure remunerative, reasonably stable prices, rather than violently fluctuating producer prices.

Developing and adopting a stable pricing policy will ensure predictability to the growers in medium and long run. This discussion clearly indicates the necessity of reviewing our import policies early, particularly the import policies for agricultural commodities, so as to establish clear principles for providing protection.

Undoubtedly, the economic growth of a country is greatly influenced by the rate of technology transfer. This is common to the Sri Lankan agriculture sector too. The past performance of the sector invites us to review the existing mechanism for technology transfer. At present there is no system to prioritise agricultural research objectives. Also research often lacks commercial objectives. The Government allocation for agricultural research and development is far lower than that of the rapidly developed countries in the region, whose economic indicators were comparable to ours in the 1960s. The absence of protection of intellectual property rights, and uncertainties with regard to import policies of various agriculture commodities discourage private investment in research and development. Also there is no effective mechanism to transfer the new knowledge from the research station to the rural farmer.

The agriculture extension system of the country should be re-oriented to handle the challenges faced by the agriculture sector. Extension officers should be competent to introduce the latest technology to farmers who could invest in commercial agriculture. Our research organisations should be allowed to undertake commercial research based on market requirements. The concept of "fee-for-service" should be introduced for advisory services including extension. A minimum number of compulsory field visits to farmers by extension officers per month should be fixed and Government should bear the cost of these visits. Farmers should pay for additional visits. The service providers could also undertake contract services such as field development, uprooting, replanting, and tapping. Existing extension activities should be re-oriented to provide a specialised service for a specific geographic area rather than specialised crop specific service. Re-orientation of the agricultural extension service will help considerably to reduce the magnitude of the problem of the rural unemployment as some unemployed people could join the service.

The proposed Land Titling Programme will enable a more effective tenure system, encouraging free ownership of land. However, this also needs to be expedited in order to encourage private investment in large-scale agriculture.

Another area we should look into is the fertiliser subsidy. The Government re-instated the fertiliser subsidy in 1994 with the objective of achieving higher crop yields. However only a marginal yield increase has been reported in the paddy sector while consumption of fertiliser. Urea in particular has increased tremendously. This shows us that much more work is needed to achieve desired yield levels. It is clear from the discussion that achieving 10% growth rate in the agriculture sector within a short period of time is not an easy task. All the aspects discussed earlier will contribute to the final result. Therefore, adequate attention has to be given to all these aspects in order to realise our targets.