

POLICY AND REGULATORY INTERVENTIONS FOR AGRICULTURE AND FOOD SECURITY

EXECUTIVE SUMMARY

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Agriculture is a crucial sector in Sri Lanka's socio-economy, contributing to economic growth, exports, and livelihoods of a significant portion of the population. In 2022, the agriculture sector accounted for 7.5% of the GDP, 21.8 percent of national export earnings, and employed 26.5% of the labor force. Agriculture plays a crucial role in alleviating poverty and food security in rural areas, where it employs over half the workforce. The sector produces over three-fourths of the country's annual food requirement, with fresh food imports accounting for less than a quarter. This paper focuses on the transformation of the food crop sub-sector in Sri Lanka, out of the two distinct subsectors (food crop sector and plantation sector) with different characteristics and issues. Sri Lanka's agricultural sector is experiencing a fast-shrinking share of the economy and a slow decline in the labor force. The sector's performance has been disappointing due to long-standing structural issues, such as small land holdings, low mechanization, poor technology adoption, high production costs, information and coordination failures, and incomplete property rights. The crises caused by these issues in the food crop production sector for decades are further exacerbated by climate change impacts.

The agriculture sector in Sri Lanka has been severely impacted by four shocks: the COVID-19 pandemic; the government's misguided action of banning fertilizer imports in response to the Balance of Payment and external reserves crisis; the Russia-Ukraine conflict; and the economic crisis precipitated by the mismanagement of debt ended with sovereign default. The pandemic has ended, and the import ban has been corrected. The effects of Russia-Ukraine conflict have also eased. However, the economic foundation of the agricultural sector and farmer livelihoods remain significantly impacted. Sri Lanka's food security crisis has been worsened by the lack of foreign exchange to import key inputs like fertilizer, agrochemicals, and energy for food production, particularly rice. The economic crisis has caused a sharp currency depreciation, sharply increasing the prices of inputs. While some relief was provided to farmers through emergency assistance, this has ended, with farmers now having to procure inputs including mechanization services, labour, seed, fertilizer, and transportation at higher market prices. The decline in domestic rice production and the inability to import food products have led to a sharp increase in food prices.

This paper suggests a two-pronged approach for Sri Lankan agriculture: a near-term strategy to recover from multiple shocks and a long-term strategy to transform and position the sector on a sustainable growth trajectory. It advocates for an economic rationale that prioritizes market fundamentals and fosters structural transformation to create a conducive environment for market operations. The paper also highlights the failure of past government interventions, such as subsidies for fertilizer and seed and government procurement at above-market prices, worsening the economic crisis without strengthening sector fundamentals. The end or limitation of such practices should be seen as a blessing and not repeated. In the near term, the focus should be on supporting farmers as they recover from the economic downturn and increase food production, particularly in rice, poultry, and animal feed. Due to budgetary constraints, it is crucial to repurpose committed expenditures and revise current budget allocations. These could involve eliminating input subsidy budgets, improving input use efficiency by promoting precision application techniques, and directing R&D budgets to address failures in the information markets. Addressing the lack of a reliable crop forecasting and production advisory system can prevent wasteful gluts and deficits, reduce post-harvest losses, and strengthen climate resilience. Investing in such a system will yield high dividends.

The short-term recovery policies should not sacrifice long-term competitiveness and sustainability in agriculture. In this regard, improving labor and management productivity is crucial. The Green Revolution technology, which increased labor and land productivity, has ended. To increase returns to labor and management further, farmers need larger farms and adopt mechanization and modern technology. Larger farms are more productive, especially in terms of labor productivity, which is closely linked to farm family income. Land consolidation is an effective instrument in rural development, enabling farmers to have larger, better-shaped farms and expand their investments. Technological parks in Sri Lanka are a strategic approach to agriculture modernization, allowing farmers to gain hands-on experience in various technological aspects. Encouraging robust investment and innovation in agribusinesses is crucial for value addition and farmer integration into high-value chains. A supportive policy and regulatory environment that considers economic fundamentals and evidence-based decision-making should reinforce this modernization drive.

The state's role in the agriculture and food industry has evolved, with services provided by private-sector agribusinesses and producer organizations becoming more efficient. The state needs to explore public-private partnerships for R&D and marketing, while ensuring transparency and competitiveness. Agricultural extension and advisory services have become specialized, with customized messages tailored to clients' needs. State institutions must adapt agricultural education and training to meet these needs. The politicization of Sri Lanka's agriculture policies hinders attracting investments due to operational risk and government involvement in input and output markets. Policy

choices should consider cross-product effects and the entire value chain, acknowledge sub-national institutions, and streamline public-sector organizations to offer public goods and services. Current national and subnational institutions often function at odds, making coordination difficult. Results-oriented management should assess state organizations' performance to remove barriers to technology adoption, diffusion, and coordination. The state should play the role of regulator and facilitator which has proven successful in advanced economies.

Middlemen are providing an important economic function of aggregation necessary under small farm conditions. However, their involvement also comes with challenges, particularly regarding the equitable sharing of profits. Efforts to balance these roles and mitigate negative impacts through cooperative models and improved market access for farmers can enhance the overall effectiveness of the agricultural marketing system. Direct marketing can shorten long value chains by removing excessive handling by middlemen. Direct marketing involving established supermarket chains, benefits farmers by providing a stable market and reducing price risk.

The ongoing economic crisis in Sri Lanka has significantly burdened smallholder farmers who are facing significant financial burdens. Increasing access to finance would help develop agricultural enterprises and support new entrepreneurs. These credit assistantships could attract new agro entrepreneurs and motivate existing ones. Additionally, policies should be designed to implement affordable crop insurance schemes to protect farmers from losses due to natural disasters or market fluctuations. These policies can strengthen smallholder farmers' livelihoods, contribute to agricultural productivity, and improve food security in Sri Lanka. The state must facilitate national food and nutrition security policies considering domestic economic conditions and trade's role. Stronger policy focus should include promoting products that increase farmer incomes through diversification of agricultural production systems, changing food habits through nutrition education, and improving food safety and post-harvest handling to encourage domestic production growth and competition from imported substitutes.

The sustainability of agricultural production systems is crucial due to the depleting quality of natural resources and the impact of climate change. To protect the integrity of the resource base, Sri Lanka needs to implement adaptation and mitigation measures, such as promoting renewable energy, protecting forest cover, and advancing climate-resilient agricultural methods. Sustainable agroforestry, which integrates trees with crops and cattle, preserves soil health and biodiversity. A comprehensive strategy involving policy implementation, infrastructure development, community engagement, and technological breakthroughs is needed to build resilience to climate disasters. Inclusive policies, social safety nets, and economic diversification are also essential for supporting vulnerable populations.

Sri Lanka is aiming to revolutionize agricultural development by utilizing data and digital technology. Precision farming, remote sensing, satellite imagery, and agricultural data analytics can optimize input use schedules and crop yields. Mobile agriculture services provide weather forecasts and market pricing, while blockchain ensures supply chain transparency. E-commerce sites boost revenue and supply, while intelligent irrigation systems and automated gear increase farm productivity. Knowledge-sharing platforms and farm management software could simplify farm operations and maximize outputs. By addressing the structural challenges and leveraging technological advancements, these interventions can create a resilient agricultural sector capable of withstanding both immediate crises and long-term challenges.

