



Overview of Agricultural Policy

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Abstract

The purpose of this chapter is to introduce the terminology used in the book, examine the need for well-informed agricultural policy-making, and provide an introduction on how a policy analysis is conducted. It describes and classifies various agricultural interventions by objective and instrument, identifies key elements in the policy process, describes the policy processes adopted by various government agencies, and justifies the need to perform agricultural policy analysis. In elaborating, it uses examples from the agriculture sectors of developing countries in general and Sri Lanka in particular.

Keywords

Public policy · Policy formulation · Agriculture · Sri Lanka

1.1 Why Do Governments Intervene in Agricultural Markets?

Policy-makers in both developing and developed countries treat agricultural markets as strategic sectors requiring close government attention to achieve their broader development objectives. Accordingly, government interventions in agricultural markets have been predominant in many countries.

Sadoulet and De Janvry (1995) highlight two implicit objectives behind such interventions: efficiency-oriented and non-efficiency-oriented objectives. Efficiency objectives aim to restore resource use efficiency in agricultural markets and thereby

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achieve economic growth objectives. Measures within this category include the provision of public goods; internalising externalities in production and consumption; addressing economies of scale enjoyed by certain groups of producers; restoring efficiency of the markets by regulating monopolists and monopsonists; minimising transaction costs; and, addressing asymmetric information. The non-efficiency objectives focus on various social and environmental issues: alleviating poverty and other vulnerabilities; addressing sustainability and inter-generational issues; contributing towards greater equality and equity; building participatory governance and social stability; sustainability in resource use; and food and other security aspects.

1.2 How Do Governments Intervene in Agricultural Markets?

Governments adopt various measures to intervene in agricultural markets. They include output and input price policies (farm subsidies through price support programmes, price ceilings and floors, price stabilisation measures, etc.); trade policies (import and export taxes, licensing requirements, bans, etc.); food policies (food stocks and variable levies, consumer food subsidies through cheap food policies, fair price shops, and food stamps); direct production subsidies to credit and fertilisers; monopolistic control of markets through parastatal agencies; regulation of competition in agricultural markets; direct income (decoupling) transfers; asset transfers (e.g. land reform); public investment in agriculture, such as infrastructure and irrigation; research; and extension. Interventions can occur outside of the sector as well, including broad macroeconomic policies; monetary and exchange rate policies; interventions in microfinance; and, policies aimed at poverty reduction, economic growth, and development. The Trade Policy Review (TPR) reports of the World Trade Organisation (WTO) provide a good overview of policy instruments adopted by governments to regulate economic activities. The most recent TPR for Sri Lanka issued in 2016 lists the following policy instruments: special commodity levy, export cess, subsidies (notably the fertiliser subsidy), and tariffs (World Trade Organisation 2016). State enterprises or marketing boards (such as the Paddy Marketing Board) that operate in the sector mainly for distribution and marketing are also cited in the TPR (World Trade Organisation 2016).

In addition, the legal framework for operations and regulation of production and marketing activities in agriculture is shaped by various acts and ordinances. Some examples from the Sri Lankan context include the Soil Conservation Act of No. 25 of 1951, Plant Protection Ordinance No. 10 of 1924, Seed Act No. 22 of 2003, Control of Pesticides (Amendment) Act No. 6 of 1994, and Regulation of Fertiliser Act No. 68 of 1988.

The Sri Lankan government is known in the global policy arena for frequent changes made to the type and/or level of policy instruments. Such changes are well documented by the Central Bank of Sri Lanka in its Annual Reports. Table 1.1 provides an account of policy instruments adopted by the government (Central Bank of Sri Lanka 2018).

Table 1.1 Some recent changes made to economic policy instruments adopted by the government of Sri Lanka

Date announced	Policy instrument
1 January 2018	An ad valorem cess rate of 2.5 per cent of the Colombo Tea Auction average price was introduced on the importation of tea, flavoured or unflavoured, as an alternative levy to the specific cess of LKR 10 per kg and cess levied on whichever is higher Special Commodity Levy (SCL) of LKR 0.25 per kg on the importation of husked brown rice, semi-milled, or wholly milled raw rice (Kekulu), Naadu rice (red or white), Samba rice (red or white), and broken rice was extended up to 31 March 2018
19 January 2018	SCL on the importation of Maldive fish, black gram, chillies, seeds of coriander, turmeric, black gram flour, and canned fish was extended for a period of 6 months. SCL of LKR 200 per kg was imposed on the importation of grated or powdered cheese of all kinds for a period of 6 months
8 May 2018	SCL on the importation of fresh, frozen, or chilled fish, excluding fish fillets and other fish meat (other than mackerel, sailfish, marlin, and thora fish), green gram (moong), mangosteen (fresh and dried), oranges (dried), pears, cherries, plums and sloes, kiwifruit, sprats, and dried fish was extended for a period of 6 months
12 October 2018	The maximum retail prices on white sugar were imposed as follows: white sugar (unpacked), LKR 100 per kg; white sugar (packed), LKR 105 per kg
19 September 2018	Customs duty waiver on milk powder was decreased to LKR 175 per kg from LKR 223 per kg. Hence, the applicable duty rate was LKR 50 per kg
2 November 2018	Customs duty waiver on the importation of wheat grain was increased to LKR 9 per kg from LKR 6 per kg. Hence, the applicable duty rate is LKR 3 per kg
6 March 2019	Cess on dried fruits, fresh, or dried nuts and used or reconditioned refrigerators and freezers was reduced

Source: Central Bank of Sri Lanka (2018)

1.3 How Are Policy Decisions Conveyed to the Public?

Various official documentation provides information related to the state's policy objectives, policy directions, policy instruments, and policy levels to different degrees. The following section provides brief descriptions of such documents with some examples from the Sri Lankan context.

Vision of the government: This is generally stated in the economic policy documents of the country. For example, in Sri Lanka, the previous national policy document, *Vision 2025*, stated: "Our vision is to make Sri Lanka a rich country by 2025. We will do so by transforming Sri Lanka into the hub of the Indian Ocean, with a knowledge-based, highly competitive, social-market economy. The current national policy document, titled National Policy Framework: Vistas of Prosperity and Splendour (NPF), presents a national vision of 'a productive citizen, a happy family, a disciplined society and a prosperous nation'" (Ministry of Finance 2020).

Sectoral policies: These are formulated by the Ministry with purview of the sector in collaboration with all stakeholders. Once approved by the cabinet, they become the guiding documents with respect to interventions in the relevant sector. In Sri Lanka, a number of national policies govern interventions in the agriculture sector. They include the National Agriculture Policy (2007), National Policy for Primary Industries (2018), National Livestock Policy, and National Fisheries Policy. The objective of the National Policy for Primary Industries (NPPI) says, “The NPPI is intended to promote the export of primary products relating to agriculture and fisheries through value addition and the application of innovative business models” (Ministry of Primary Industries and Food and Agriculture Organisation, 2018).

Strategic and action plans: Ministries develop medium-term strategic plans covering approximately a five-year period and annual action plans. The latter may identify financial allocations for different programmes and actions and the agencies responsible for implementing activities.

Acts and ordinances: Acts and ordinances provide the needed legal framework to implement a policy. They are approved by the parliament and a government agency is made responsible to implement an act or ordinance. For example, the Export Development Board (EDB) has been established to implement the Sri Lanka Export Development Act of No. 40 in 1972. The EDB has issued cesses under the same act in http://www.srilankabusiness.com/pdf/cesses_new.pdf.

Gazette notifications: Amendments to acts and ordinances are issued as gazette notifications. They are approved by the parliament. For example, the export cess on tea was changed to LKR 10 per kg by a gazette issued on July 24, 2018, with the following preamble:

By virtue of the powers vested in me by Sect. 14(1) of the Sri Lanka Export Development Act, No. 40 of 1979, I, Malik Samarawickrama, Minister of Development Strategies and International Trade with the concurrence of the Minister of Finance and Mass Media, do by this Order amend the rate of Cess specified in the corresponding entry in Column IV in the Schedule to the Extraordinary Gazette No. 1941/32 dated 20.11.2015, in respect of the article specified under the H. S. Heading 09.02 as specified in the Schedule hereto, with effect from 25.07.2018.

MALIK SAMARAWICKRAMA, Minister of Development Strategies and International Trade (Ministry of Finance 2019),

Cabinet papers: National policies are amended through cabinet papers approved by the cabinet.

Budget: The Minister of Finance reads the budget in parliament, and once approved, it becomes a guiding document for the treasury to disburse allocations.

Circulars: Circulars are issued by the Secretaries to Ministries.

Programmes: Programmes are designed by ministries and implemented by various national and provincial departments in Sri Lanka. For example, the Ministry of Agriculture implements a Food Production National Programme, and one of its activities is increasing the production and productivity of supplementary food crops including paddy. The objective is stated thus:

This programme is implemented with the objectives of make the country self-sufficient in traditional local food and to ensure the availability of high-quality food items through adopting environmental friendly food production methods and to increase productivity and to increase the production and productivity of additional food crops and to ensure the food security by proper management of the available food stocks. Under this, programmes for improving crop production productivity of paddy, maize, chili, big onion, soya and green gram is implemented.

(Ministry of Agriculture 2018–2019)

One of the strategies of this programme is to “Generate new varieties that produce high yield through research and development to increase production and productivity of paddy and other crops, provide high-quality seeds and encourage new technological cultivation methods and achieve self-sufficient through this process” (Ministry of Agriculture 2018–2019).

Projects: Projects have a lifespan and funded generally by an external donor agency. The Agriculture Sector Modernisation Project (ASMP) is a good example (Ministry of Agriculture 2018–2019). A description is given below.

To support the Government of Sri Lanka in the modernisation of the agriculture sector, the World Bank through a Credit from the International Development Association (IDA) is supporting the ASMP. The development objective of the ASMP is to increase agriculture productivity, improve market access, and enhance value addition of smallholder farmers and agribusiness in the project areas. The project focuses on the demonstration of agriculture diversification and technology improvement for production and post-harvest value addition, value-chain development for higher value-added production and better market linkages, and income generation from agriculture. The project also seeks to ensure that the agriculture modernisation and diversification agenda is inclusive and poor farmers, including women, are enabled to benefit from investments into value addition, new skills and technology improvements, sustainable crop management, and new financing and marketing arrangements.

(Ministry of Agriculture 2018–2019)

1.4 What Process Is Followed in Policy Formulation and Policy Decision-Making?

The policy process is normally conceptualised as sequential parts or stages: (1) problem identification, (2) policy analysis, (3) strategy and policy development, (3) policy enactment, and (5) policy implementation.

Problem identification: Determine the root cause of a policy problem.

Policy analysis: Identifying possible policy options and picking the most appropriate option.

Strategy and policy development: Planning how to develop, draft, and enact the policy.

Policy enactment: Following official procedures to get the policy authorised.

Policy implementation: Planning for successful policy implementation and achieving the desired outcomes.

The policy process is highly context-specific and can differ across countries, institutions, and sub-sectors, as well as over time.

Given the importance of understanding a national policy process, Resnick et al. (2015) introduced an applied framework, named the kaleidoscope model, to analyse drivers of policy change in the food security arena. This model identifies slightly different stages in the policy cycle – agenda setting, design, adoption, implementation, and evaluation and reform – and key variables that define the necessary and sufficient conditions for policy change to occur. The authors highlight the importance of conducting policy research to facilitate policy analysis. They explain how policy research has evolved over time and state the need for developing capacity in developing countries to do policy research and analysis to facilitate the policy process.

1.5 Scientific Evidence-Based Policy-Making

1.5.1 Policy Research and Policy Analysis

The “policy analysis” stage mentioned in the above section involves conducting of a scientific investigation to produce scientific evidence required for strategy and policy development. This activity is sometimes termed as *policy research* as well. Though these terms are often used interchangeably in academia, some view them as two distinct terms. Policy research is an analysis intended to bring clarity to the impacts of public policies, while policy analysis is an evaluation of policy options in order to make policy recommendations and inform impending decisions. Policy research seeks to understand and inform the policy-making process by carrying out primary research into specific policy issues and is usually the interest of groups of policy researchers or academics. Policy analysis, in contrast, is a more politically motivated exercise and seeks to have direct influence on actual policy outcomes by designing policies for government agencies. It is usually conducted by policy analysts attached to ministries, policy centres, and think-tanks. Policy research is issue-centric, while policy analysis is mostly client-centric. The results of policy research are mostly disseminated through journal articles and research reports in technical language, while policy briefs written in non-technical language communicate the results of policy analysis. There is a growing interest both in academia and among policy-makers to merge the two streams.

1.5.2 Ex Ante and Ex Post Methods

Ex ante analysis is “what if” analysis, while ex post analysis is “what happened” analysis. Ex ante analysis is a useful tool in policy design to evaluate options; ex post analysis may be conducted once a policy is implemented. Each method has its own advantages and disadvantages. Ex post analyses enjoy a richness in data but may be handicapped in terms of proposing solutions to present-day problems. The focus is

on explaining what has already happened. Ex ante analyses can analyse proposed or newly designed policies.

Policy researchers and analysts must choose the appropriate method given the nature of the policy question to be answered. For example, an ex post analysis is the appropriate method to evaluate the effects of the paddy procurement scheme adopted by the Sri Lankan government between 1972 and 2019. This ex post analysis may be conducted mainly using historical data on paddy procurement by the Paddy Marketing Board (PMB). Ex ante analysis would be required if the policy question involved evaluating the economic effects of a proposed increase in the guaranteed price of paddy used by the PMB in procuring paddy. The researcher could conduct a series of interviews with paddy farmers and PMB officials to infer their potential behavioural changes due to an increase in the guaranteed price to obtain the requisite data for analysis or perform a forecasting exercise using an econometric model. Alternatively, a mix of ex post and ex ante methods may be adopted to reap the advantages of both methods. This requires reframing the policy question, perhaps thus: what would have been the situation in the paddy sector if a higher guaranteed price was adopted by the PMB during 2000–2019? This will allow the researcher to develop a model using historical data that then can be used to assess the effects of a hypothetical policy shock.

1.5.3 Generic Steps Involved in Conducting Policy Analysis

Getting cause-and-effect right is extremely important in designing or redesigning a development policy and has become a central focus of research in development. The scientific method of policy analysis runs through the following stages:

- Identification of an appropriate model, taking into account that all models are constructed subjected to a set of assumptions
- Construction of the model, e.g. $Y = Y(X, Z)$, where Y is a vector of policy objectives, X is a vector of uncontrollable exogenous variables, and Z is a set of policy instruments
- Running of the base model
- Validation with existing levels for X and Z
- Simulations using Z and sensitivity analysis

In the above example of assessing the paddy procurement scheme, Y would be purchases of PMB, Z is guaranteed price, and X can be a vector of characteristics of paddy farmers.

The policy effect denoted by Y can include measures to denote various dimensions of development, including economic growth, poverty, malnutrition, income distribution, food safety standards, and environmental pollution.

1.5.4 Qualitative and Quantitative Approaches

The *Y*, *X*, and *Z* cited above could be either qualitative or quantitative. The nature of a policy question determines whether a qualitative or quantitative approach is chosen. A quantitative approach is ideal for answering questions of *how much*, while a qualitative approach is more tailored to answer questions of *why*, *what*, and *how*.

1.5.5 Interdisciplinary and Multidisciplinary Approaches

Policy recommendations based on scientific investigations should ideally aim to change the underlying causes, rather than the symptoms, of problems by utilising new opportunities provided by modern science and technology, including molecular biology and digital technology, as well as new knowledge in the social sciences, and opportunities offered by globalisation. Accordingly, inputs from multi- and interdisciplinary teams are required for better policy analysis and responses. While agricultural economists have a predominant role, the contributions of other social scientists and natural scientists are indispensable.

1.5.6 Why Is Agricultural Policy Research and Analysis Mostly Carried out by Agricultural Economists?

Economic theory has much to offer in providing guidelines to help conceptualise and design policy reforms. In policy reform, the question that must be answered is: when does a policy work and when does it not and why? Economic theory is rich and flexible enough to justify many different policies, depending on the constraints and opportunities defined by the context.

With the growing interest in addressing varying types of development problems, economists further broaden and deepen the scope of analysis into the areas of institutions, governance, and politics. They increasingly acknowledge the importance of institutions – the rules of the game in a society – and the nature of politics and power struggles that lie behind them and apply their empirical and conceptual tools to analyse those deeper determinants.

Agricultural economics is a field that covers the economics of every aspect in a food system ranging from food consumption and nutrition to various delicate issues in land use and its implications on environment. It provides tool kits to address issues at household level, sectoral level, national level, and global level. Therefore, agricultural economists possess the theory and context-specific knowledge required to perform agricultural policy analysis in comparison with other professionals.

1.6 Assignments

1. List down the key policy documents issued by three selected government agencies over the past 2 years. Identify the title of the policy document and the committee/person who issued the document.
2. Classify the policies by the objective of the policy and policy instrument.
3. Document the policy process adopted by the two agencies in arriving at one of the policy decisions listed in (1) above. State the number and nature of the meetings conducted, highlighting the composition and chairing.
4. State what additional information would have helped in reaching the above policy decision.

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