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Sri Lanka - Articulating trade-related support measures for agriculture

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1. Introduction

Three views in particular came out strongly from the series of expert and stakeholder consultations held as part of the background work that contributed to this paper: i) that agricultural trade is performing well below the potential; ii) many issues on agriculture and trade can be addressed simultaneously if value addition to primary agricultural products could be raised substantially; and iii) Sri Lanka has not been effective in articulating its priorities for trade support measures and in mobilizing resources from donors and domestic sources.

This paper assesses the policy process in Sri Lanka for defining trade-related support measures (TRSMs) and suggests improvements. For this, aside from discussing broader cross-cutting issues, constraints and potential interventions are analysed for two value chains in order to illustrate the issues that emerge. The value chains are fruits and vegetables, and coconut kernel products. Sri Lanka's Export Development Board (EDB) is considered to be the key institution for TRSMs and its five- yearly National Export Strategy (NES) is the main policy document. This paper will review the latest NES (2004-2008). Insights were also gained from interviews with government officials and outside stakeholders, notably those engaged in the two value chains.

The chapter is structured as follows. The next section covers several cross-cutting topics: a picture of Aid for Trade (AfT) from the OECD/CRS database; institutional

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framework governing TRSMs in agriculture and associated policy frameworks; and assessment of the current NES and potential improvements to the institutional structure for formulating TRSM priorities and projects. Section 3 discusses National Export Strategy. Section 4 analyses two value chains as the framework for identifying TRSMs, and Section 5 presents some concluding remarks.

As explained in the synthesis paper (Chapter 4), this case study uses the term TRSM instead of Aid for Trade (AfT) for two reasons. One is that AfT is limited to external funding while TRSM does not make that distinction and covers all support measures irrespective of the source of funding. The other reason is that TRSMs as used here are meant to cover all products and sub-sectors, including importables, whereas AfT is often seen as support to exports, although this is not very clear from the WTO Task Force report on AfT. Aside from these, there are no differences between the two terms. The six categories of the scope of the AfT are comprehensive in covering both trade-specific measures and productive sectors like agriculture and industry.

2. Policy and institutional frameworks for articulating trade-related support measures

The view from the OECD/CRS Aid for Trade data

Given that the scope of the AfT is so wide, covering almost everything in agriculture, industry and trade, the picture from the OECD/CRS database does not reveal much. Agriculture, forestry and fisheries sectors are shown to have received only 5.4 percent of the total disbursement for 2007, and only 1 percent (about USD 1.4 million) of the total for the core AfT – the trade policy and regulations category. On the other hand, an overwhelming share of the total AfT flow was concentrated on economic infrastructures, about 80 percent of the total disbursement. For an analysis focussed on trade and agriculture, this database is hardly revealing. The same database show that Sri Lanka received a relatively higher level of AfT per capita compared with some countries in the region – about USD 8 of disbursement for Sri Lanka for 2007 versus USD 3.2 for Nepal and USD 1 for Pakistan. The data also show that during 2000-2007, over 96 percent of the commitments on agriculture and trade were for analytical and training purposes (seminars, workshops etc) on topics like trade negotiations, SPS/TBT regulations, trade mainstreaming in PRSPs/development plans, trade promotion, strategy design and implementation, business support services, and institutions. Overall, it is not clear if the database correctly reflects the full range of donor support to Sri Lanka. The message is that for the purpose of operationalizing the AfT initiative, there is a need for a comprehensive compilation of all donor support using the AfT classifications but this must be done in Sri Lanka itself.

Institutional setup for managing TRSMs

A view that came up in stakeholder meetings was that perhaps because external support for TRSMs has been modest, there was no elaborate institutional arrangement in Sri Lanka for managing this resource. This was done mostly through ad-hoc committees formed within the Department of Commerce (DoC) of the Ministry of Trade (MoT). But recently, measures have been put in place to creating a standing national committee on AfT. An ad-hoc committee functions in the DoC with a focus mainly on two categories of AfT: *Trade Policy and Regulations* and, to a limited extent, *Building Productive Capacity.* This committee includes both public and private sector actors who deal directly with trade policy and trade promotion issues. The limitation in the mandate is due to the need for differentiation between AfT and general development assistance. The other two AfT areas, *Economic Infrastructure* and *Trade-Related Adjustment*, are handled by the Finance Ministry. The DoC is the key implementing and coordinating government agency for trade policy, including trade negotiations at bilateral, regional and multilateral levels. The DoC organizes meetings of experts and stakeholders as required for preparing for these negotiations.

While the DoC is the apex body for negotiations and trade policy process, the EDB, also under the MoT, is the key institution handling export promotion. However it has no direct mandate to deal with TRSMs. But then its five-year NES, formulated in cooperation with the private sector, provides an important framework upon which trade policy functions, and this is a key framework for identifying necessary TRSMs.

The National Council of Economic Development (NCED) is another important body for trade policy formulation. It was formed to institutionalize stakeholder consultations in policy formulation, bringing the public and private sectors together to contribute to a coherent national policy formulation process. The private sector in this case is considered to include the corporate sector, SME sector, development partners and civil society. The NCED is directed by the Council Members, and headed by the President of Sri Lanka along with the board of management headed by the Secretary General of the Council. In this framework, there are a total of 24 clusters under six major themes as follows:

1. Policy reform/special projects (MDGs, legal reform, public sector reform, private sector reform).
2. Financial Sector (taxation, financial sector reform, capital markets, investment promotion, trade and tariffs).
3. Development (tourism, apparel, SME, rural development, agriculture, livestock, exports, IT).
4. Public services/utilities (education, health, transport, petroleum and gas, water supply, telecom).

5. Infrastructure (highways, power, irrigation, airport and sea ports, housing).
6. International Cooperation (donor community, SAARC region, Far East, EU, North America, Middle East and Africa).

Each cluster committee has two co-chairs, one from the private and the other from the public sector (usually at a ministry's secretary level). Each cluster is meant to identify impediments to national development under its jurisdiction based on feed back from the private sector. It would then provide possible policy actions to the relevant implementing ministry, line agency or private sector actors based on further consultations and analysis. The cluster is also responsible for monitoring the implementation of these policies. The international cooperation clusters also provide a potential avenue for coordination and consultation to channel in external assistance to help alleviate identified impediments. Therefore in theory the NCED export cluster provides an institutional structure to formulate TRSM priorities in Sri Lanka. However, a weakness in the NCED has been the fact that the clusters tend to be burdened with micro level issues and this has eroded the resources available to focus on policy issues.

Note that trade/tariff issues fall under the Financial Sector cluster while exports and agriculture issues under the Development cluster. This could lead to some inconsistency in policies. For example, trade/tariff policies may be formulated with a focus on revenue and price stability, while undermining the role of tariffs for agricultural development. The potential inconsistencies from separating tariff/trade and exports into two clusters should be smaller than in the above case.

Considering the institutional structures dealing with trade policy formulation in Sri Lanka, there is no established dedicated institutional mechanism to identify, prioritize, formulate and implement strategies specifically for TRSMs as a whole (or externally financed AfT). But some institutional foundations do exist, and it is important to use them, e.g. the EDB's NES for identifying constraints to export enhancement and the NCED for stakeholder consultations and links to donor organizations. And lastly, the weaknesses in these structures, such as secretarial capacity of the NCED, could be consolidated by existing structures such as the DoC.

Policy framework for trade and TRSMs

The brief below makes a point that while there are several institutions, encompassing multiple stakeholders, involved in formulating trade policies and in identifying the TRSMs, the concern as it stands is that trade policies tend to be identified in isolation and there is no single over-arching policy document that could be cited as Sri Lanka's trade policy with a clear vision for trade development and strategies required. It is argued that having such a document is important for *inter alia* comprehensively mapping the impediments to trade development in each sector or sub-sector and identifying the overall needs for TRSMs on a prioritized basis. It is

also important that the ownership of such a document lies with a key government institution dealing with trade policy formulation and implementation.

The economic development framework of the current government is articulated through the *Ten-Year Horizon Development Framework 2006-2016* (THDF), the *Mahinda Chintana*. It is an elaboration of the election manifesto of the current President, Mahinda Rajapakse. While there is a reference to enhancement of trade, it was not meant to deal with implementation strategies in detail and is more of an exposition of the government's vision rather than a strategy with regard to trade. The broad objectives include improving market access, encouraging export diversification, promoting backward integration and value addition, and also improving the trade regulatory environment to ensure a level playing field for imports and local products.[2]

As said above, trade development strategy is not found in a single document but scattered across several papers, typically in sectoral papers of ministries and agencies. The most important of these is the NES of the EDB.[3] There are also sub-sectoral or product-specific strategies formulated by respective boards and associations, e.g. Joint Apparel Association Forum (JAAF) and Sri Lanka Tea Board, other export associations and chambers. Often, these bodies formulate development strategies in coordination with the government, but nevertheless they are separate documents.

On agricultural trade, the THDF lays emphasis on food security, raising farmers' incomes and moving towards commercial agriculture, high value crops and improving the value chains of agricultural products. The prime strategy for agriculture is to attain competitiveness in production and marketing through increased productivity, research and value addition. Also stressed is stable trade policy, with a liberal trade regime and adequate safeguard measures.

On investment on agriculture, the THDF envisages that the government sets aside for the non-plantation sector 33.4 percent of the total fund for fertilizer assistance, 21.9 percent for rural credit and financing, 15.6 percent for marketing facilitation, 12.5 percent for bio and soil research, and 2 percent for technology research. The total financing requirement for the agriculture sector for the 10-year period was estimated at Rs. 245.3 billion of which Rs. 120.3 billion was said to be available and the gap of Rs. 125.1 billion to be met from other sources (government, donors, private-public partnerships, private sector etc). Being an elaboration of an election manifesto, trade issues in the THDF are mainly limited to the vision and broader macro-level issues, and not micro details and prioritization that typically come from

[2] The THDF is discussed in more detail in the previous chapter on trade mainstreaming.

[3] EDB (2004), National Export Strategy 2004-2008. Sri Lanka Export Development Board, 2004.

detailed analysis of constraints from value chain studies. Thus, for operationalizing TRSM, one needs to go beyond the THDF.

Quantifying AfT flows and making these responsive to Sri Lanka's priorities

While the DoC is the focal point for AfT, the national focal point for all ODA is the External Resources Department (ERD) in the Ministry of Finance. But then in practice the ERD has largely a reporting and coordinating role, whereas the aid itself is channelled to trade-related activities through line ministries and also directly to chambers and NGOs. This has made it very hard to compile the TRSM data. There are a number of donors including NGOs that provide assistance in the TRSM areas. Many of them work directly with the private sector, chambers and civil society, and as a result accurate information on the extent of TRSM flows are not always conveyed to the DoC and the ERD (although some donors, despite channelling assistance directly to non governmental institutions, are known to have ensured that the ERD and relevant line ministries are appropriately engaged). The issue of data is compounded by the hazy distinction between reported ODA and TRSM components within these.

Based on the views expressed in expert meetings held for this paper, almost the entirety of the AfT assistance can be said to be donor driven. The fact that Sri Lanka does not have an apex body for identifying priorities for TRSM and for approaching donors with appropriate proposals has contributed to this situation. The control exercised by Sri Lanka over this process is through bilateral meetings that occur with certain donors on trade issues. At present this is limited to the Joint Commission Meetings (biannual) with the EU, China and the annual Trade and Investment Framework Agreement (TIFA) meetings with the United States. These meetings focus on trade issues and touch on externally financed TRSM as well. However, the TRSM that has occurred through such dialogue has largely been donor driven and reflecting donor priorities. Nonetheless, the implementation of some of these projects, an example being the EU-Sri Lanka Trade Development Project, saw a greater degree of donor-partner coordination and partnership, for instance through the Project Steering Committee which involved national stakeholders and donor representation.

In order to make the externally financed TRSM received by Sri Lanka more clearly reflective of the country's trade policy development priorities, it is essential that the country adopts a more pro-active approach to prioritising TRSM requirements and then approaches appropriate donors based on the priorities, as opposed to being reactive to the approaches of the donors.

3. Assessment of the National Export Strategy 2004-2008

The preparation of a NES is a statutory requirement of the EDB; the most recent NES was published in 2004 and covers the period 2004-2008 (EDB 2004[4]). Although the NES is not specifically designed as a needs assessment for TRSM, it is prepared through a multi-stakeholder dialogue and identifies constraints to exports and suggests potential policy responses in a medium term format.

The NES was produced by a core team which focused on macro level cross-cutting issues that affect the entirety of the export sector, and advisory committees that examined sector specific constraints and designed strategies to enhance exports in these sectors. The core team consisted of representatives of the public and private sectors and economic researchers, further supported by an advisory committee. The discussions and analysis of the core team were informed by a "template tool" developed by the ITC which provided the analytical framework for the NES. Each committee was set up to deal with one of the 27 product and service sectors. Sectors were analysed using value chain studies through technical assistance from the GTZ and ITC. This micro level analysis addressed sector specific constraints and suggested policy recommendations.

A broader stakeholder symposium discussed and enriched the reports produced by the core group and advisory committees to formulate the NES. It identified constraints to exporters, proposed measures to resolve those constraints, proposed implementation of export strategies and set out sectoral priorities and action plans, and also outlined resource mobilization requirements. Although several institutions and multiple stakeholders are involved, there is this concern that trade policies tend to be identified in isolation and there is no single over-arching policy document that could be cited as Sri Lanka's trade policy, with vision, clear strategies and plans, as well as impediments at the sub-sector levels and an overall TRSM requirement and priority.

Since the document is based on a system of consultations in combination with analytical methodologies such as the value chain approach, it provides a template for a needs assessment for TRSM. However the approach adopted by the EDB has some drawbacks, and these need to be highlighted and improved upon in order to achieve a more polished system for the articulation of TRSM requirements in Sri Lanka.

[4] National Export Strategy 2004-2008, Sri Lanka Export Development Board, 2004, Colombo.

Cross-cutting macro issues

The focus of the core team was on broader cross cutting policy issues and constraints. These included cost of finance, inflation, exchange rate management, conflict, labour market rigidities, land fragmentation and energy costs. Fairly specific recommendations were set out for many of these general constraints. For each cross cutting issue, there was an overview of existing bottlenecks, a recommended strategy and an action plan outlining each sub-issue, the recommended action, responsible agency, estimated cost and a timeline. However, not all strategy papers addressed each of these issues and some had more vague recommendations than others. For example, the issue of rigid labour law was dealt with in a vague manner ("amend existing labour laws"). Similar criticisms can be made on land laws and trade information. Furthermore, there is no prioritization of the different sectors and issues within sectors. There was also no breakdown of cost estimates (no detailed budget) and no proposals on appropriate funding sources in most cases.

The section on export packaging was a notable exception in this regard. Specific constraints were identified at different stages in the supply chain (manufacturing sector, user sector and distribution sector). An assessment of available resources was included in terms of physical, human, knowledge, capital and infrastructure resources. A sequential strategy was recommended accordingly, responsible institutions were identified and costs were estimated. Among the recommendations was the creation of a donor funded Packaging Development Centre to provide testing and certification services, package design, human resource development and contract packaging. The cost was estimated including provision for a detailed proposal. All in all, the macro assessments made by the core sector lacked precision and detail required to enable an effective TRSM strategy, policy and elements to be derived out of it.

Sectoral analysis – fruits and vegetables

The advisory committees formulated product-level strategies by undertaking a value chain analysis. The sectoral vision for the fruits and vegetable export sector was said to be enhancing productivity, establishing service and marketing centres in provinces, setting up rural production centres through model farm projects, and strengthening links between exporter, producer and collector. Several constraints were identified, which included inconsistencies in supply due to weak productivity of traditional farming systems, lack of extension services and information gaps, and so on. The products identified for this sub-sector were pineapple, passion fruit and mango, manioc, *kiri ala* (taro), capsicum and leeks, tomato, and assorted vegetables. Some the objectives stated are: encouraging consolidation of existing markets, targeting production for ethnic markets, and providing support services to identify cost effective packing, storage, transport and cultivation for competitive marketing.

As a commentary, while a much needed initiative, the exercise also revealed some fault lines. Thus, the overall objectives were very broad, general and top down in nature. For instance, the statement "encouraging consolidation of existing markets" was vague and lacked precision in terms of how such consolidation could be operationalized. The basis of selection of products was unclear (though the selections themselves were valid). The action plan went into greater detail in terms of identifying bottlenecks, but again these did not have analytical depth, and as a result the proposed solutions did not necessarily address the root cause of the problem. Table 1 illustrates these observations.

Sectoral analysis - coconut kernel products

The NES sectoral analyses also covered the value chain for coconut kernel export sector. The objectives in the export strategy were identified as: i) creating closer links between growers, producers and exporters; ii) maintaining annual nut production (three billion at the time); and iii) enhancing value chain benefits of the sector. Interventions identified were: i) encouraging inter-cropping; ii) new technologies; iii) new land for cultivation; iv) R&D; v) branding for Sri Lankan Desiccated Coconut; and vi) reduce duty on value added coconut products. As with vegetables, Table 2 summarizes some comments on the action plans for this product.

Commentaries in Tables 1 and 2 show that even in the disaggregated action plans, the depth of the analysis of the sector was limited and therefore the identification of bottlenecks was not precise enough (more on this below). The remedies suggested were general in nature and did not consider some of the deeper nuances, for example the suggestion for export market diversification for fruits and vegetables did not address the parallel need for investment in preservative technologies. The bottlenecks raised were largely macro oriented, and there did not appear to have been a thorough study of the real constraints faced by the sector.

It is believed that the above was the result of a "committee-style" approach to problem identification rather than an approach based on field survey or selected focus group discussions with people active in the sector. The former tends to result in top down approaches. This is evident in the coconut kernel value chain where the top three suggestions involved state led institutions and interventions and did not address fundamental constraints in the sector. A more research oriented approach, with a precise methodology and greater analytical rigour utilizing both existing literature and primary data surveys (through individual interviews and focus group discussions), is what is required for a more nuanced identification of the constraints in the sector.

TABLE 1:

Fruits and vegetables export strategy and action plans: Summary of the problem identified, action plans recommended and commentaries on the plans

Problem identified	Action Plan recommended	Commentary
a) Inadequate supply due to weak technology use	Raise awareness and training programmes on modern technology	Is the problem awareness or issues such as capital and insufficient land to make technologically intensive commercial production viable?
b) Low productivity	Strengthen R&D	Issues such as who should undertake R&D, what is the commercial viability of it not addressed? And is R&D the priority?
c) Lack of information on production methods	Release state land for commercial agriculture	But this is a mismatch of problem and solution. Another suggestion is to create a central data base on agriculture, but no indication is given as to how these will be communicated to farmers.
d) Packaging concerns due to limited range	Encourage packaging industry to improve product quality	It is unclear as to how this will be effective
e) Packaging concerns due to inconsistent supply of cans and bottles	Remove import duty for the food processing industry	The realism of such suggestions is questionable given the potential opposition from the domestic packaging sector. A phased reduction of tariffs would probably be more appropriate
f) Drawbacks in transport infrastructure	Encourage establishment of cold chain facilities	Will encouragement suffice?
g) High international transport cost	Examine alternative transport modes	However, examination alone will not suffice and how does the significance of international transport cost differ between markets?
h) Inadequacies in market promotion	Diversify export markets for assorted fresh produce	How feasible is this considering distances? Other considerations such as the need for improved preservative technology are not considered.
i) Need for reduction of market access restrictions	Engage in government to government negotiations on the removal of NTBs	The suggestions do not include which markets need to be addressed and what specific restrictions and on what products in terms of priority.

Source: Author for the commentary, the NES for the first two columns

TABLE 2:

Coconut kernel export strategy and action plans: Summary of the problem identified, action plans recommended and commentaries on the plans

Problem identified	Action plan recommended	Commentary
a) Poor fund allocation	Enhance funds for EDB, centralize and improve government resource allocation	No justification given for funding the EDB as opposed to the other coconut specific authorities; no clarity regarding what exactly such fund enhancements should achieve.
b) Need for an apex body	Formation of a coconut apex body	There is a lack of clarity as to how this would improve the current situation and whether it would address the said problems.
c) Lack of clarity and transparency in policy assisting marketing	Improve policy supporting marketing, assistance to encourage value addition, innovations, R&D, new products/ markets, link suppliers with established exporters	All solutions seem to be divorced from the core issue at hand.
d) Shortage of raw materials	Encourage intercropping, new technology such as drip irrigation and better yielding varieties, lower cost extraction methods	Whilst these suggestions were made in 2004, the same issues remain today, giving an indication that the implementation of the sectoral suggestions has not been effective.
e) Oil milling sector not organized	Formalize oil milling sector	The suggestion is to remove stigma attached to jobs in the sector, but there is no explanation as to what steps can be taken to achieve this.
f) Logistics	Remove charges such as for terminal handling, bill of landing charges and other unwarranted *ad hoc* levies	These are unrealistic since these are largely out of the control of implementing agencies; a more practical approach would be to outline the exact bottlenecks in the logistics sector and target a more implementable activity.
g) R&D	Permit universities flexibility to conduct third party financed commercial R&D.	How is this constrained currently? What exactly needs to be done?
h) Lack of product diversification	Analyze market potential for organic coconut products and virgin coconut oil.	Who orders, who does, resources, etc

Source: Author for the commentary, the NES for the first two columns

While the NES had a sound structure and system in place, the measures proposed in the reports have not always been followed. This is largely due to the reliance on the internal annual action plans prepared by the EDB, which are not necessarily in line with the NES. This could be due to a shift in political power between the design of the NES and implementation. This highlights the simple fact that export strategies need to be bi-partisan in nature so that continuity over election cycles is ensured. This is one key lesson for the design of a national strategy on TRSM.

4. Fresh analysis of constraints and priorities – vegetables and coconut kernel products

This sub-section provides fresh analysis of the constraints and priorities for the same two products. The above discussion was based on what was presented in the NES; this one digs further into the issues through a fresh and more structured analysis of the value chains and consultations with stakeholders. The sub-section ends with some cross-cutting observations on value chain as an analytical framework for identifying priorities for the purpose of mobilizing and channelling TRSMs.

Constraints identification – fruits and vegetables

The analysis showed that one crucial constraint limiting exports is the missing, or very weak, linkage in the value chain between exporters and the farming community. As these products are mostly grown in small farms and areas, "collectors" are required for primary purchase. This adds to cost, and a significant one. The President of the Sri Lanka Fruit and Vegetable Producers, Processors and Exporters Association has been quoted as saying that cost could be reduced by as much as 50 percent if the role of the collector is eliminated[5]. A second observation is that price competitiveness is also undermined due to lack of commercial cultivation. The sector has not been successful in combining joint investments in sufficiently large tracts of land to enable larger scale production and cluster farming methods. There are problems of financing as well as regulatory issues. Appropriate mode of irrigation and post-harvest practices are other crucial factors for competitiveness. It is said that poor post harvest transport facilities, particularly packaging, can result in as high as 40 percent post harvest losses. Likewise, "flood irrigation" is not suitable for these products; but need micro-irrigation techniques like drip irrigation.

Transport is yet another big cost because Sri Lanka uses air freight to Maldives while India uses sea freight and so is gaining market share. The main deterrent has been the initial investment cost in chartering a dedicated vessel. When it comes to European markets, in addition to distance issue, there are problems on preservation

[5] The Island, Financial Review, 20 August 2009.

technology, production standards and pesticide residues. This also illustrates weak or missing control over standards and quality due to disconnect between exporters and farmers. Other factors identified but not necessarily ranked as top priorities include high cost of certification in some cases, such as for organic products, investment in quality hybrid seeds, and training facilities for SPS certification.

Some of these constraints have been overcome to some extent by larger-scale elite exporters who have buy-back arrangements with farmers on contract basis and have greater say in production systems and transport measures. It is also interesting to note that in the fruits and vegetables export sector there are different priorities for different markets, each requiring different types of interventions. This provides an important implication for TRSM policy planning as well.

The Sri Lanka Fruits and Vegetables Exporters Association has already submitted a proposal to the EDB on the use of enclosed farming in conjunction with a system of direct logistical linkage between farmers and exporters. The idea is to engage larger farm areas (up to 50 acres) where the bulk is enclosed. The role of the collector is eliminated since the produce will be in one area, and over time the packaging work could be undertaken in that same area. Such a system enables exporters to have greater say in production and transport systems, and meet buyer demands and quality. The biggest challenges are to obtain requisite finance and land. Land regulations in agriculture are very rigid and are a major hurdle. TRSMs could play a critical role in supporting initial investments on a pilot basis and demonstrating innovative approaches.

Alternatively, less ambitious endeavours need to be considered, tackling fewer constraints at a time. One option would be for exporters to collectively set up collection points in rural regions. Successful examples are chilli cultivation in Chillaw and the Thabuttegama Integrated Agricultural Model Project Programme. This project saw 200 farmers with land plots of approximately ¼ acre to an acre produce exclusively for exports, with a small purchasing unit within the village and the exporter providing assistance for drip irrigation and extension services. This project enabled farmers to earn incomes 50 percent higher than other farmers not involved in the project. It also ensured a regular supply of products for exporters. However, issues with coordination and resources have prevented large scale replication of such endeavours.

Constraints identification - coconut kernel exports

This analysis illustrates several issues: i) trade policy complexity as multiple inputs and multiple outputs are involved, with value addition as a major issue; ii) limitations of the "narrow" TRSM interventions (e.g. investment on technology, productivity, capacity building) unless "broader" TRSM interventions are successful (e.g. trade policy, land-use policy, labour issues); and iii) difficulty in channelling TRSM resources

through the private sector when multiple private sector operators are involved, not only in the different parts of the chain but also in different products in the same chain, thus reflecting different interests which at times conflict.

The problems and issues facing the coconut kernel industry is discussed in the earlier chapter on trade policy. Briefly, the main problem is the high price of raw materials in the domestic market due to the government's trade policy on edible oils. Sri Lanka produces on average about 2 700-3 000 million nuts yearly whereas the requirement, including for the export industry, is over 4 000 million nuts. Imported palm oil makes up for the shortage. The government applies relatively high tariff on palm oil in order to maintain higher domestic price for coconut oil (for farmers). This has constrained the availability of the raw material at a reasonable price for processing into export products.

There are other problems too. Productivity is low also because of the absence of large scale commercial farming. Current restrictive land policy limits farm size and commercial farming to achieve scale economies. Furthermore, coconut cultivation is concentrated in densely populated areas of the country (Western and North Western Provinces) and so there is intense competition for land and labour, reducing relative returns to coconut cultivation. Quality or standard is also a problem. While the Coconut Development Authority tests samples, the process is quite basic and is done primarily for salmonella, and international standards such as HACCP and ISO are not met other than in a few mills. Reliable irrigation is another problem. The data show that fluctuations in coconut production strongly follow fluctuations in rainfall. More efficient irrigation mechanism, e.g. drip irrigation, is a priority. Likewise, lax management of estates is also an impediment to improving the quality and quantity of nuts produced. As with fruits and vegetables, lack of a voice of exporters on the production process and methods has also undermined quality. More access to export markets is needed. Exports to Pakistan almost doubled due to the Pakistan-Sri Lanka FTA, but exports to India under the Indo Sri Lanka FTA are limited because the kernel products come under the negative list.

The above analysis also indicates that some of the constraints do not fall within the ambit of TRSM, e.g. perennial issues like land, trade policy (on vegetable oils) and labour. On the other hand, some constraints can be addressed through the TRSM resource, e.g. drip irrigation, secondary cropping, enhancing management capacity etc. But unless the former constraints are overcome, solving the latter problems alone will not help much.

Sri Lanka has also not been able to take advantage of high value added coconut products – currently, exports are dominated by desiccated coconut but there is a potential for products such as coconut cream, virgin coconut oil and extracts. If the quantity of fresh nuts available for export is going to be perennially limited as now, the alternative to consider would be to shift to these higher value added products.

It is for this type of paradigm shift that the coconut sector needs a strong response from the TRSM initiative. Finally, private sector is fragmented into different interest groups based on the type of product produced or exported. Therefore, channelling TRSM assistance through the private sector will be a challenge. But a solution has to be found because this will also create a competitive environment in bidding for the TRSM projects. It could also help focus and target funding to a specific sub-sector, although the negative side is that the benefits would not accrue to the entire coconut export sector.

Summary of observations on the value chain process

One conclusion of the analysis, including that which came from stakeholder consultations, is that analyses and consultations for identifying TRSMs should take place at a disaggregated level, typically at the product level, and not at the broad level like "agricultural exports". The appropriate analytical framework for this is value chain studies which have the potentials for identifying both the constraints and potential interventions on the one hand and prioritization of interventions on the other. It is also important that these consultations include all players in the value chain, not just exporters but also farmers, collectors, transporters, and also importantly overseas buyers who provide opinions that can not be found in the country.

Prioritization is essential because resources are limited. This begins with the selection of the value chains themselves, based on considerations like current export value, potential export value (using tools like the ITC's trade map), and significance for employment, poverty and broader economic impact. Another consideration is selecting value chains that have much in common with other value chains so that the knowledge gained is also useful for other products. This analysis includes consultative process. The second key stage where prioritization will be important is in terms of the ranking of the significance of the constraints within each value chain and the prioritization of potential interventions. These may differ in that some constraints may be a priority but interventions may not be practical. To get around this, surveys of micro level stakeholders involved in each stage of the value chain is needed, asking them to rank identified constraints in that particular value chain along with potential solutions.

This value chain approach at the micro level needs to be complemented by a similar process at the more macro level, e.g. to identify trade policy priorities. For this, a process similar to that followed in the formulation of the NES (the core group approach) is needed. Once the constraints are ranked, suggested solutions need to be assessed through macro level stakeholder discussions involving policy makers familiar with trade policy, TRSM and ODA. The core group could also estimate the cost of the interventions, drawing on expertise from donors familiar with Sri Lanka and also based on earlier experiences with externally funded TRSMs.

Once the above analyses are undertaken, Sri Lanka's TRSM needs assessment could be presented in the form of a policy paper which clearly outlines the nature of the value chain in each sub-sector, an explanation of the contemporary export situation in the sub-sector, the top-rated constraints in that value chain, and the interventions that have been prioritized by the macro level core group, along with cost estimates. This policy paper could then be presented for wider, public inputs. The policy paper with prioritized requirements for TRSM in Sri Lanka would then be the basis for presenting proposals to the donors.

5. Conclusions

The analyses of constraints and interventions for the two value chains illustrated the importance of using the value chains framework for articulating TRSMs. Among other things, considering just two sectors showed several common issues and priorities for TRSM which, if focussed upon, has the advantage of creating significant impacts on many other sub-sectors and products also. The importance of enhancing production methods, particularly in terms of irrigation and pre-harvest/ post-harvest management were outlined in both value chains.

In other cases, solutions are product-specific and so the approach to TRSM articulation will need to differ from sector to sector based on specific requirements. In the coconut case for instance, drip irrigation is a priority given the current high correlation between rainfall and productivity, whereas in vegetables and fruits, stakeholders suggested that the priority is for pre and post harvest management, and investment on enclosed cultivation. It will be necessary to weigh the costs and benefits of such an approach against alternative approaches to the same problem (such as timings and methods of fertilizer application, alternative types of fertilizer which are not vulnerable to run off and so on).

The need to connect exporters with farmers was also a priority in both value chains. Whilst the fundamental problem here is scattered production due to fragmented land, this can be overcome by farming techniques such as cluster farming. Once again the specific nuances will vary according to the value chain.

Another commonality was the importance of reaching improved product standards in order to penetrate new markets. The investments required for this are significant and can not in general be afforded by the small scale export sector that dominates fruits and vegetables, and coconut kernel exports. This is again a potential intervention for TRSM. While Sri Lanka has already received TRSM in this area, particularly through the UNIDO-funded accreditation programmes for laboratories in the country, the relevant tests that have been covered do not necessarily address the needs of all sectors.

Another message from the analysis of the two value chains is that there are some common issues at the macro level that trade policy needs to address if individual TRSMs are to be effective. Such macro reforms also help other products and sub-sectors. It is also important that the micro-level engagement of TRSM should occur with close coordination of the private sector associations of relevant sectors, with the coordination of the DoC and EDB, and taking into account stakeholder perspectives as identified in earlier consultations.

Sri Lanka's experience with trade policy planning, particularly the NES, has been characterized by a top down approach with limited continuity and a weak record in implementation. A future policy on TRSM should not fall into these same traps. In this light it is important to re-emphasize the value of bottom-up planning through stakeholder discussions and avenues for stakeholder inputs into policy. The most effective method of identifying constraints is to engage and consult with the constrained. This could occur in the form of focus groups or individual interviews. It is also important to consult stakeholders at various stages of the value chain from exporters to farmers and collectors, thereby obtaining a more holistic outline of constraints and possible remedies. There is a need for creating bipartisan buy-in to policy to ensure that there is policy continuity in spite of electoral cycles. Prioritization is also an issue and needs to take into account feasibility from a resource and political economy perspective, to provide the best chance for implementation of well designed policy.

As a final point, this paper mostly discussed export products. But this does not mean that there are no issues on the importables, foodstuffs in particular, and that these do not deserve the TRSM attention. The previous chapter on mainstreaming showed that Sri Lanka's PRSPs and trade policies since 1977 mostly spoke of exports. It is only in the latest PRSP, since about 1995, that traditional agriculture and foodstuffs have received considerable attention. That there are so many trade and related issues on the importables was obvious from the analysis in the first paper in this series, on trade policy. It is unlikely that trade policies – increasingly reflected on the rather "unstable" border and domestic pricing measures as the government tries to address multiple goals – will solve the problems facing the food sub-sectors without working on the problems of productivity and competitiveness, and of infrastructures and marketing. All these deserve considerable TRSM or AfT resources. The TRSM is not limited to the export sector, as the scope of AfT also reveals. It is therefore essential that food issues are also brought within the ambit of discussions on TRSMs.