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ADVANTAGE OF GROWING RICE IN SRI LANKA

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As a result of concerted efforts by the government, at present Sri Lanka is within reach of rice self-sufficiency. Having reached this situation, a question that is posed is, have we reached this stage at the expense of inefficiency. A related issue is the incentive structure for rice production. Hence, towards this problem, the efficiency issue was examined using Domestic Resource Cost (as indicators of comparative advantage) analysis and the incentive structure was examined by estimating (NPR) and Effective Protection Rates (EPR) for a representative sample of 6 paddy production locations for the 1989/90 Maha season.

An average Resource Cost Ratio (RCR) of 0.88 (under a rehabilitation cost scenario for irrigation costing and shadow wage rates for labour costs) for the six locations indicates that paddy production has a comparative advantage and provide reasonable ground to conclude that rice production is an efficient economic activity. However, a disaggregated analysis indicate RCR are less than one only under major irrigation systems, mainly due to high yields under these circumstances.

With respect to the incentive structure, this analysis indicates that paddy farmers in general have received positive protection. NPR based on official exchange rate range from 13% to 28%. EPR, however, is the more relevant indicator of protection because it takes into account the multitude of interventions. The EPR ranged from 11% to 47% when estimations are based on official exchange rates under the irrigation rehabilitation cost scenario.

Hence, the rice sector appears to be an efficient use of domestic resources in saving foreign exchange through this activity and the overall impact of policies affecting the rice sector appears to be quite supportive which was seen to possess a comparative advantage.