

**F-02 : ISSUES ON TAXES AND SUBSIDIES RELEVANT TO
IRRIGATED AGRICULTURE**

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Irrigated agriculture in Sri Lanka is mainly comprised of rice and a few subsidiary food crops. This sector has been subjected to various fiscal policies to meet goals such as increased local production, alleviation of balance of payment problems and protection of local industries. This paper focuses on the performance and the impact of these policies to identify major policy issues.

During the 1970-77 period, there was a near total ban of imports of subsidiary food crops. With post 1977 liberalization the growth rates of the extent cultivated were curtailed, but has recovered to a fair degree at present. Taxes imposed on inputs (Tractors, sprayers, processing mills, irrigation levies) have been changing, to achieve objectives such as protection of local industries and to raise revenue. Subsidies to the agriculture sector was mainly for inputs such as tractors, fertilizer, irrigation, seeds and credit. These were mainly to popularize the use of new technologies to increase production. However most of these subsidies have been removed, affecting certain sections of the farming community directly.

This paper highlights the following issues: (1) Protecting the local producers of subsidiary food crops, (2) Incentive structure needed to meet the farm power deficits, (3) The justifiability of removing the fertilizer subsidy for all the farmers (4) The adequacy of loans with concessionary interest rates to relieve farmers from chronic indebtedness (5) The issue of collection of operation and maintenance levies in irrigation settlements.