

Spotlight: Econ Op-eds in Summary

Week ended 26th January '22

In Summary

The underneath contains summaries of the articles given above, including key extracts from these articles.

1. Foreign assistance to cope with severe shortages of essentials and foreign reserves

By Nimal Sanderatne

- While the immediate critical needs of essential food, pharmaceuticals and fuel may be met by the credit lines from China and India, the country's foreign debt is increasing and the repayment of more than US\$ 6bn this year is a serious concern amidst dwindling reserves.
- Thus, it is important that Sri Lanka take immediate steps to resolve our severe crisis in foreign reserves by restructuring our debt and obtaining foreign assistance. A realistic or market-determined exchange rate would also increase foreign remittances.
- Additionally, the country should take care to utilize foreign resources prudently to increase the production of the country. The way forward for the country is by increasing the domestic production of goods and services that is of crucial importance to resolving the balance of payments problem in the long run.

Foreign assistance

Currency swaps, lines of credit, and the Chinese gift of one million metric tons of rice are expected to resolve the severe crisis facing the country. However, the country's foreign debt is increasing and the repayment of more than US\$ 6bn this year is a serious concern.

Proud record

Meanwhile, the Governor of the Central Bank of Sri Lanka is proud that it has paid the International Sovereign Bond (ISB) of US\$ 500mn on schedule on Tuesday (January 18) and maintained the country's record of not defaulting on debt repayment.

Imprudent

However, the use of our inadequate reserves to repay this debt rather than restructure it was not a prudent measure. As business leaders and eminent economists pointed out to no avail, this was not a prudent measure. Instead, we should have restructured the repayment of the debt so as to not weaken the external reserves that were inadequate to meet our essential import needs.

Foreign reserves

Consequently, the country's foreign reserves are declining. Scarcities of essential import items and soaring prices of food are making livelihoods onerous and unbearable. There are severe shortages of gas and kerosene for cooking. Electricity cuts are expected to be longer. Petrol and diesel shortages are likely.

Foreign help

These dire conditions may be alleviated by foreign assistance from India and China. There are also expectations of assistance from Japan and efforts to obtain concessional loans and debt restructuring from friendly countries and multilateral organizations.

Currency swaps and credit lines

The silver lining in this gloomy scenario is the currency swaps and lines of credit from China and India. China has agreed to a currency swap of Yuan equivalent to US\$ 1500mn and a credit line of US\$ 500mn for the import of goods from China.

Gift of rice

Furthermore, China has gifted 1mn metric tons of rice to celebrate the 70th anniversary of the Sino-Ceylon Rice-Rubber Trade Pact. This consignment of rice that is expected in March is a significant contribution to overcoming the impending fall in rice production due to the fertilizer fiasco.

Indian assistance

There is a similar arrangement with India. This too includes a currency swap and two lines of credit each of US\$ 500mn. One line of credit is to import food and pharmaceuticals and the other to import fuel from India.

Vital importance

These two credit lines are of vital importance in the precarious situation of the currency reserves that are inadequate to meet the country's immediate needs of food, pharmaceuticals and fuel. The Indian credit lines could be used to meet the immediate needs of these essentials. The Chinese credit is useful for the import of raw materials for industry from China.

Credit lines

These credit facilities are vitally important to tide over the current shortages of foreign reserves to meet the essential needs of the country. However, they increase the country's debt and repayment liabilities. The country has to find foreign exchange resources to repay these credit lines, sooner or later.

The currency swaps are somewhat different. They boost the reserves, but when unutilized they could be repaid. It is a sort of window dressing of the country's external assets.

Requests

The President has asked the Chinese for a postponement of our debt repayment. A fresh line of Japanese credit on concessional terms has also been requested. These would give the country the needed breathing space to meet the country's essential import needs and reduce the strain on the balance of payments.

Increase production

It is vitally important to use these credit lines to develop the country's production of goods and services that either earn foreign currency or save import expenditure. It should not be used in high-cost infrastructure that does not produce tradable goods or services.

In fact, it is well recognized that one of the reasons for the current debt trap was the large bilateral borrowing that was used for either projects with a long gestation period or no returns at all that increased foreign debt as the investments did not increase the production of tradable goods or services.

Summary

The immediate critical needs of essential food, pharmaceuticals and fuel may be met by the credit lines from China and India. The rice from China will meet the shortfall in rice production this year owing to the unscientific agricultural policies of the government. Hopefully, these would be adequate to resolve the severe scarcities faced by people.

Concessional finance from Japan and the rescheduling of Chinese debt repayments would be useful relief with the country having to repay about US\$ 6.5bn during the course of this year.

However, these are only immediate relief measures. They do not reduce the country's foreign debt obligations. In fact, the foreign debt is increasing. What are required are economic measures that would improve the balance of payments.

Conclusion

We have to resolve our severe crisis in foreign reserves by restructuring our debt and obtaining foreign assistance. A realistic or market-determined exchange rate would increase foreign remittances.

The way forward is by increasing the domestic production of goods and services that is of crucial importance to resolving the balance of payments problem in the long run.

[For full article - Refer The Sunday Times](#)

2. Organic farming blunder: The case for reparation

By Sanja de Silva Jayatilleka

- Sri Lanka's attempt to go fully organic overnight has left the farming communities in rural Sri Lanka in visible distress and despair only months after its imposition, while a threat of food shortages, loom in front of the country.
- The main blunder that had resulted in this situation seems to be the decision made to accelerate the organic farming drive, from the previous plan of establishing sustainable agriculture using new knowledge and modern scientific methods, in three years.
- The good news is that if properly transitioned, there is a possibility of attaining yields comparable to normal chemical-based agriculture. However, this process requires a considerable transitioning period within which the government should take steps to ensure the livelihood of the farmers and the food security of the country.

Sri Lanka's attempt to go fully organic overnight has left the farming communities in rural Sri Lanka in visible distress and despair only months after its imposition, while the rest of us previously clueless consumers, suddenly well-versed in Yala and Maha

seasons, dread the results of the coming harvest.

Transitional process

Just a basic search on the internet on the transition to organic farming shows that there is a transitional period of at least two years, to prepare the soil to make it suitable for organic farming, in order to obtain a comparable yield. This process is also necessary to obtain any form of acceptable certification as organic produce.

The transitional process includes testing the soil for nutrients that are short, so they can be reintroduced by growing cover crops and adding minerals to attain soil health. Soil mineralisation programs, crop rotation, disease and pest control are a few in the list of transitional procedures.

Until that is achieved, and in the early part of the transitional process, any type of organic farming on previously non-organic fields will unquestionably be depressed, according to experts.

Food and Agriculture Organization (FAO)

The FAO says: "One strategy to survive the difficult transition period involves converting farms to organic production in partial instalments so that the entire operation is not at risk". Shouldn't the Government have considered this advice?

US experience

For a professional transitional process, one could check with the country familiar to the ruling elite, the USA.

The US Dept. of Agriculture has a National Organic Programme (NOP) which develops the rules and regulations for all aspects of organic products through a National Organic Standard Board. The regulatory framework includes an Organic Food Production Act which its website says "established the NOP and its authority to enforce agricultural products sold, labelled and represented as 'organic' within the US."

A US organic farming consultancy website makes no bones about the transition period: "Land that is currently being farmed with chemical fertilisers and pesticides will likely have to undergo a full three years transition." (mosaorganic.org)

The Organic Farming page of the Department of Agriculture says that based on the policy of Maithree Palanayak, Sthavara Ratak, a concrete program was developed to establish sustainable agriculture using new knowledge and modern scientific methods, in three years.

Indian organic farming

Tamil Nadu Agricultural University's (TNAU) organic farming page offers clarity: "Organic farming systems are knowledge based. Plan your transition carefully."

The Minister in charge as well as the President has said on several occasions that the Government failed to properly educate the farmers. The TNAU states what now seems obvious: "It's preferable to use conventional methods early in the transitional process to avoid dramatic yield reduction which could jeopardise the financial well-being of the operation."

All experts seem uniformly consistent about a well thought out transitional period: "Soil is the heart of the organic farming system...Avoid the common mistakes...[Understand]

the need for good transitional and marketing plans.” (TNAU)

In an article in DownToEarth.org.in, titled “Sri Lanka’s inorganic transition to organic farming” dated 21 Oct. 2021, the author Vincent Kumar quotes the ex-officio special chief secretary, Natural Farming, Andhra Pradesh, T. Vijay Kumar, “who has helped 128,000 farmers shift to natural farming from chemical-based farming since 2016”, as saying that “it can take a farmer 3-5 years to shift to organic farming completely, and entire village might take 5-8 years.”

It also quotes S. Anbalagan, CEO, Organic Mission, Sikkim, which one notes is “the first state in the world to become completely organic” according to the author Vincent Kumar. Anbalagan says, “We started with small initiatives around organic farming in 2003 and became 100 percent organic farming state in 2016.” He adds that the “transition from chemical farming to organic takes time as one has to overcome several challenges”.

In an encouraging note for organic enthusiasts, the author writes that N. Raisankar, Principal Investigator on Organic Farming of the Indian Council of Agriculture research said, “Long term evaluation of cropping systems under organic farming in different agroclimatic conditions of India indicated that the organic farming yield is on par or marginally higher in about 18 crops, especially after the conversion period of 2-3 years.”

Sri Lankan experience

This being the case, how does one understand the Government’s persistence with the unchanged policy framework and objectives for organic agriculture?

It seems clear, also from the Sri Lankan lived experience after the organic farming policy was implemented, that transitioning to organic agriculture has to go through several intermediary steps which are crucial for its success. Also, that it takes a substantial transitional period of time. It also logically entails a reduction in crop yields initially.

This then would warrant legitimate compensation for farmers on whom this decision was imposed, without adequate warning either about the short- and medium-term consequences or about how to set about the task effectively and knowledgeably.

The good news is that if properly transitioned, the farmers are well-educated on the transition process as well as farming methods, and the soil is properly prepared, there is a possibility of attaining comparable yields.

Since organic farming had clearly been on the agenda of the previous administration as well, something as fundamental to the living conditions of the citizens of this country should have had more thought given to it, and standards, rules and regulations established, training and public awareness ensured, and discussion and a consensus attempted in Parliament. In its absence, Opposition parties promise to reverse the ban on chemical fertiliser which inevitably means that no self-respecting certifying organisation of international standing will agree to discussions on the subject.

Food security

It is a government’s responsibility to ensure food security, not only through its commitments to the Sustainable Development Goals (SDGs) but also by being elected to govern the country.

The SDG on food security, which includes “Food availability” and “Food stability”, clarifies that “To be food secure, a population, a household or individual must have access to adequate food at all times. They should not risk losing access to food as a consequence of sudden shocks (e.g., an economic or climatic crisis).”

Since the current food crisis is not an act of God but a largely man-made one, there's even less excuse for not taking a step back and doing it right, a second time round.

[For the full article – Refer Daily FT](#)

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