



Pathfinder Economic Flash

Fallow Land is Worth Nothing: Let us Incentivise Realizing its Value

Land is an emotional issue in all countries. It is particularly so in a relatively small country like Sri Lanka.

Land is also a crucial factor of production. When the share of agriculture in GDP declines, as an economy modernizes and becomes more complex, issues related to the availability and value of urban land becomes more urgent. In addition, issues related to food security, competitiveness and the impact on domestic prices place an increasing premium on the productivity of agricultural land. Land related issues are not only complex in nature but are also entrenched in a web of primordial emotions which are difficult to manage. It is now timely to take a holistic view of the challenges related to land and conduct an open and constructive debate on the subject. The pressures on both rural and urban land are likely to be amplified as the country seeks accelerated development in the post-conflict era.

The State owns 80% of the land in the country. It must, therefore, be a key actor in creating an environment that generates maximum value from land as a factor of production and source of shelter, while attaching high priority to sustainability.

Rural Land

The issues related to rural land are not uniform across the country. The land/person ratios are much higher in the **wet zone** exerting a great deal of pressure on the land in these areas. In the hill country, village expansion has resulted in encroachment into plantation lands. More generally in the wet zone, land fragmentation has led to a size distribution of holdings, which serves to reduce agricultural productivity. This has now spread even to the Mahaweli areas where second generation families are beginning to experience the effects of this problem. Overall productivity in Sri Lanka is half that in Thailand. It is, therefore, a matter of serious concern that agricultural productivity is 1/3 the national average. This is reflected in the fact that agriculture employs a little over 30% of the labour force, yet accounts for only 11% of GDP. The size distribution of land holdings, as a result of fragmentation, is a major causal factor for this.

There are large tracts of unutilized land in the **dry zone**. This reflects, in large part, the focus on paddy production which is very water intensive. Historically, land in the dry zone has been brought under cultivation through expensive irrigation/settlement schemes. This preoccupation with paddy cultivation is a significant explanatory factor for large swathes of unutilized land in the dry zone where water is relatively scarce.

It is now timely to take a fresh look at issues such as land use patterns and crop mixes (particularly the cultivation of high value products) in all rural areas of the country. In doing this, one would need to balance multiple objectives, such as equity considerations related to asset ownership; food security; and the urgent need

for export expansion. Export growth, including agricultural products, is arguably the most critical issue confronting the country today.

Urban Land

Urbanization will be inevitable as the country moves towards upper-middle-income-country status. Significant progress in this direction will not be possible without shifting from low productivity agriculture, low-end manufacturing and traditional services (retail/wholesale trade and public administration) to high value agriculture; higher technology manufacturing; and modern services (e.g. ICT/BPO, shipping, aviation as well as financial and accounting services). This transformation will have an impact on the land market, particularly in urban areas.

The challenge in urban areas is to balance the competing claims of shelter and essential services for a growing population as well as expanding economic activity in an environmentally sustainable way. The present government has sought to respond to this through its Metro Regions urban development program. Independent analysts expect urban land values to increase over time. If this rise is very steep, it would have serious implications related to affordability of shelter and the competitiveness of Sri Lanka as a destination for investment, domestic and foreign. It is now argued that land related issues are the most significant deterrent to investment in this country.

The pressure on land in urban areas can be relaxed by releasing state-owned lands. Government Departments, such as the Railways and Post Office, own considerable extents of land in urban areas across the country that are currently underutilized. Considerable economic value can be realized by releasing some of the surplus land. Such land sales/leases would also serve to raise funds for the highly constrained budget and assist in containing public debt which is assuming concerning levels.

High priority should be attached to creating a land bank. In addition, information on land which can be used for development should be available on-line in one site.

Attracting Investors: Land is Key

At present, the unpredictability and opaqueness of land policies is a major drag on the development prospects of the country. At a time when the Government is attaching the highest priority to attracting FDI, it is counter-productive to introduce land policies that act as a severe deterrent. The returns on the massive investment that is being made in infrastructure development (ports, airports, roads etc) would be reduced significantly if FDI is discouraged through inappropriate land policies. Many of the potential foreign investors are small and medium size enterprises for whom land prices would be an important determinant of investment decisions. One should ensure that FDI is not discouraged through pandering to primordial sentiments, thereby resulting in lost opportunities for both local investors (through Joint Ventures and access to supply chains) and workers. It is important to recognize that land cannot be taken out of the country. It does not make any sense, therefore, not to release the value of large extents of unutilized land through policies that discourage foreign investment. In doing so, it should be remembered that the real value is not in the land in itself but in the economic activity that it facilitates. While priority should be attached to obtain fair value for state land, the market should not be distorted to the point where high land values dampen economic activity.

Conflict Affected Areas

There are complex and sensitive land-related issues in conflict-affected areas. They do not have easy solutions. However, it is important that a concerted effort is made to resolve them as expeditiously as possible. The problem has now been analyzed by a number of independent parties. The solutions should be based on best practice.

Conclusion

Land issues are likely to become increasingly pressing over time. That the lack of a coherent set of land policies/legislation, which supports the transformation of the economy to a higher growth and development path is already a major constraint on development of the country. The problems are likely to become amplified going forward with adverse economic, social and political ramifications. The land issue has different dimensions in the wet zone/dry zone; and urban/rural sectors. The time is now ripe for a healthy debate on this complex and multifaceted problem, followed by the formulation of a land strategy that maximizes the return on land while containing inequality and protecting the environment. The task is not easy. However, the status-quo is clearly a major drag on development, with land issues being the most problematic aspect of the investment climate of the country. Uncertainty related to recent policy pronouncements has compounded the problem. Introducing land policies that deter foreign investment, at a time the Government is attaching high priority to it, is both inconsistent and counter-productive.

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