THE ROLE OF AGRICULTURAL INVESTMENT IN ECONOMIC GROWTH AND RECOVERY IN SRI LANKA

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Public investment is crucial in driving the economic growth momentum as it creates a conducive environment to attract much needed private capital to the country. Not only the quantity but also the quality of investment is vital in ensuring sustainable growth and development. Approximately 60% of the total investment in Sri Lanka is allocated to commercial infrastructure development while the agriculture sector receives only around 5% of the total investment. Investigating the relationship between public investment in agriculture and economic growth is necessary to propose implementable policies and improve agriculture investment efficiency and food security in the long run. This study used secondary data and the Granger causality test and co-integration analysis of vector error correction model (VECM) techniques to examine the relationship between agricultural public investment and economic growth for the period 1989-2021. The results revealed a positive but insignificant unidirectional causality running from agricultural public investment to economic growth. The agricultural public investment is therefore has not made a significant contribution to the economic growth of Sri Lanka for the period under review. Natural disasters like Tsunami and the civil war that ended in 2009 are some of the causes for reduced agricultural investment. Furthermore, the magnitudes of the incremental capital output ratio (ICOR) revealed an inefficient allocation of public investment over the period. Therefore, it is proposed to implement effective and sound policies to encourage investment in the agricultural sector to achieve sustainable economic development in the long run.

Keywords: Agricultural public investment, Economic growth, Incremental capital output ratio, Vector error correction model