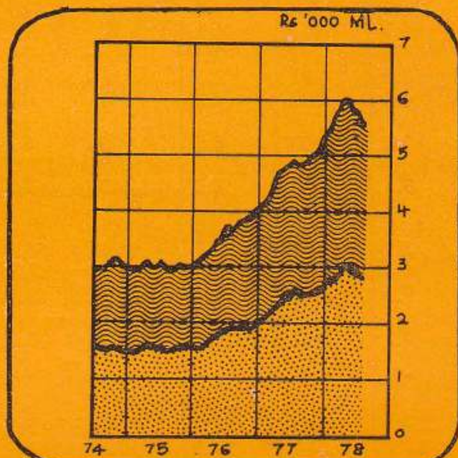
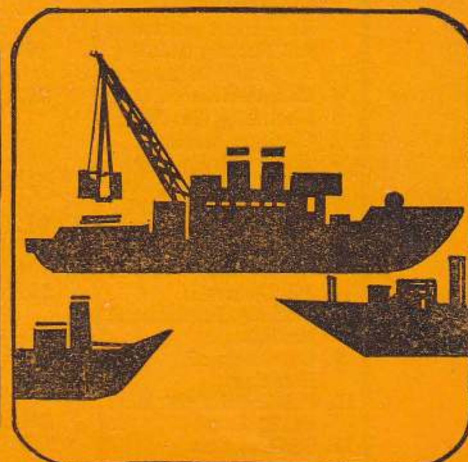
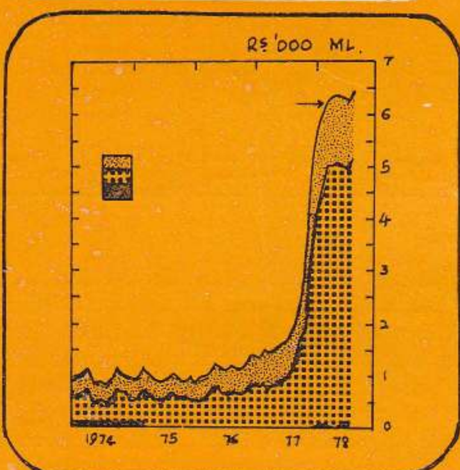
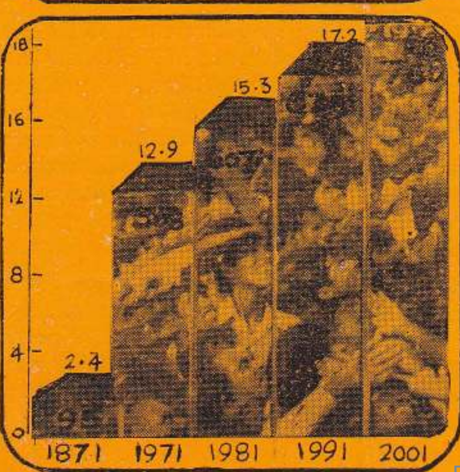
ECONOMIC REVIEW

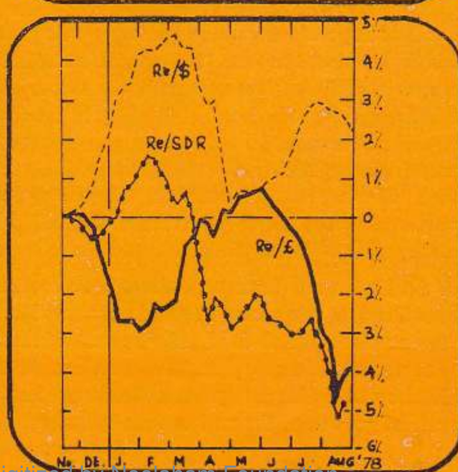
Jan/Feb 1979











THE ECONOMY IN 1978

A People's Bank Publication

Sectoral Composition of Gross National Product (1959) Factor Cost Prices

Sectors	1959 Amount Rs. Mn.	1959 Percentage	1975 Amount Rs. Mn.	1975 Percentage	1976 Amount Rs. Mn.	1976 Percentage	1977 Amount Rs. Mn.	1977 Percentage	1978 Amount Rs. Mn.	1978 Percentage	Percentage Increase 1978 over 1977
1. Agriculture, Forestry Hunting & Fishing	**2,302**	**39.1**	**3,956**	**32.2**	**3,568**	**31.0**	**3 ,828**	**31.9**	**3,991**	**30.7**	**4.2**
1.1 Agriculture	2,148	36.5	3,352	30.0	3,308	28.8	3,568	9.7	3,690	28.4	3.4
1.1.1 Tea	(642)	(10.9)	(733)	(6.6)	(674)	(5.9)	(715)	(6.0)	(682)	(5.2)	(4.6)
1.1.2 Rubber	(183)	(3.1)	(295)	(2.6)	(299)	(2.6)	(296)	(2.5)	(315)	(2.4)	(6.4)
1.1.3 Coconut	(404)	(6.9)	(419)	(3.7)	(365)	(3.2)	(332)	(2.7)	(385)	(3.0)	(16.0)
1.1.4 Paddy	(312)	(5.3)	(479)	(4.3)	(513)	(4.4)	(687)	(5.7)	(775)	(6.0)	(12.8)
1.1.5 Other	(453)	(7.7)	(1,426)	(12.8)	(1,457)	(12.7)	(1,538)	(12.8)	(4,533)	(11.8)	(0.3)
1.2 Forestry	93	1.6	114	1.0	120	1.0	112	0.9	133	1.0	18.8
1.3 Fishing	61	1.0	137	1.2	140	1.2	148	1.2	167	1.3	12.8
2. Mining & Quarrying	**31**	**0.5**	**248**	**2.2**	**354**	**3.1**	**311**	**2.6**	**414**	**3.2**	**32.2**
3. Manufacturing	**682**	**11.6**	**1,462**	**13.1**	**1,489**	**12.9**	**1,505**	**12.5**	**1,632**	**12.6**	**8.4**
3.1 Export processing	373	6.3	460	4.1	432	3.7	435	3.6	446	3.4	2.5
3.2 Factory Industry	263	4.5	832	7.4	871	7.6	881	7.3	987	7.6	12.0
3.3 Small Industry	46	7.8	171	1.5	185	1.6	189	1.6	200	1.5	5.8
4. Construction	**283**	**4.8**	**503**	**4.5**	**531**	**4.6**	**480**	**4.0**	**629**	**4.8**	**31.0**
5. Electricity, Gas, Water Sanitary Services	**9**	**0.1**	**91**	**0.8**	**99**	**0.9**	**109**	**0.8**	**123**	**0.9**	**20.6**
6. Transport, Storage and Communications	**541**	**9.2**	**1- 100**	**9.8**	**1,143**	**9.9**	**1,198**	**10.0**	**1,182**	**9.9**	**7.3**
7. Wholesale & Retail Trade	**801**	**13.6**	**501**	**13.4**	**1,545**	**13.4**	**1,623**	**13.5**	**1,780**	**13.6**	**9.7**
7.1 mports	139	2.3	125	1.1	146	1.3	147	1.2	261	2.0	77.5
7.2 Exports	104	1.8	171	1.5	126	1.1	243	2.0	277	2.1	14.0
7.3 Domestic	558	9.5	1,205	10.8	1,273	11.0	1,233	10.3	1,242	9.5	0.7
8. Banking, Insurance & Real Estate	**51**	**0.9**	**184**	**1.6**	**191**	**1.7**	**229**	**1.9**	**263**	**2.0**	**14.8**
9. Ownership of Dwellings	**201**	**3.4**	**350**	**3.1**	**353**	**3.1**	**360**	**3.0**	**377**	**2.9**	**3.9**
10. Public Administration an Defence	**301**	**5.1**	**646**	**5.8**	**676**	**5.9**	**703**	**5.8**	**760**	**5.8**	**8.1**
11. Services n.e.s	**728**	**12.3**	**1,513**	**13.5**	**1,593**	**13.8**	**1,704**	**14.2**	**1,797**	**13.8**	**5.5**
12. Gross Domestic product	**5,930**	**100.6**	**11,194**	**100.2**	**11,543**	**100.3**	**12,042**	**100.2**	**13,043**	**100.3**	**8.3**
13. Net factor Income from abroad	**37**	**0.6**	**27**	**0.2**	**37**	**0.3**	**25**	**0.2**	**41**	**0.3**	
14 Gross National Product	**5,893**	**100.0**	**1,167**	**100.0**	**11,506**	**100.0**	**12,016**	**100.0**	**13,001.9**	**100.0**	**8.2**

NATIONAL PRODUCT AND INCOME

The Gross National Product at current factor cost prices in 1978 has been provisionally estimated, by the Central Bank to be Rs. 36,139 million. This indicated an increase of 23.5 per cent over the previous year. Discounting price increases, the Gross National Product at constant (1959) prices has been estimated at Rs. 13,002 million in 1978. This recefits a growth rate of 8.2 per cent, compared with a 4.4 per cent growth in 1977. Sri Lanka's economic growth in 1978 was thus estimated at more than twice the average rate of growth during the last decade; and almost equal the highest growth achieved in recent times of 8.4 per cent in 1968. Though development consists of much more than an increase in GNP or per capita income (it consists rather of a satisfaction of the basic needs of a country's people and a steady all-round improvement in their living staadrnds) this is the only available official indicater of growth in various sectors of the economy.

The Central Bank maintains that unlike in previous years, when economic growth came mainly from a few sectors, while the rest of the economy either remained stagnant or declined, the year 1978 was characterized by a high level of activity in all sectors. There have been only marginal changes in the shares of the various sectors in the Gross National Product between 1977 and 1978, reflecting the fact that almost all sectors recorded gains in output in 1978. The drop in the share of agriculture sector from 32 to 31 percent and the growth of the construction sector from 4 to 5 per cent were noteworthy. The most notable growth sectors were mining and quarrying, construction, electricity, finance, manufacturing and trade. According to the Central Bank the growth of trade and industry was aided largely by the import liberalization. Growth in agriculture was helped by improved producer margins in rubber and coconut arising partly from the new exchange rate, and by the better prices for paddy. The expansion of construction, mining and quarrying was largely the result of the construction boom that followed the improved investment climate as well as the decontrol of the trade system.

The 1978 mid-year population of Sri Lanka has been provisionally estimated to be 14.2 million, reflecting an annual increase of 1.7 per cent. Thus the Gross National Product per capita in real terms was Rs. 917/- indicating an increase of 6.4 per cent, compared to an increase of 2.6 per cent in the previous year. Sri Lanka's terms of trade which improved by 35 per cent and 31 per cent in 1976 and 1977 respectively, primarily as a result of a sharp improvement in export prices, declined marginally in 1978. As a result, the real national income, which is obtained by adjusting real gross national product by the changes in terms of trade, grew by 7.8 per cent in 1978, marginally more than the rate of growth of the real national product.

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FEATURES

SPECIAL REPORT

COLUMNS

Readers Please Note

We have combined two issues (January and February 1979) in order to catch up on our backlog in printing which had arisen through circumstances beyond our control. We assure all our subscribers, however, that the validity of their annual subscriptions would extend over 12 separate issues.

Acknowledgement

The illustrations of certain sections of the Economy used in this issue have been kindly made available to us by the Research Department of the Central Bank.

NEXT ISSUE

- The Child and Development
- India's Development Strategy
- Banking as a Tool for Development
- Ready-made garments exports

COVER

A composite view of the Sri Lankaan Economy by Palitha Kannangara.

THE ECONOMIC REVIEW is intended to promote knowledge of and interest in the economy and economic development process by a many sided presentation of views & reportage,facts and debate.

THE ECONOMIC REVIEW is a community service project of the People's Bank. Its contents, however, are the result of editorial considerations only and do not necessarily reflect Bank policies or the official viewpoint. Signed feature articles also are the personal views of the authors and do not represent the institutions to which they are attached. Similar contributions as well as comments and viewpoints are welcome.

THE ECONOMIC REVIEW is published monthly and is available both on subscription and on direct sale.

Diary of Events

Jan.

1 The Consumer Protection Law No. 1 of 1979 came into effect on January 1, 1979. It provides for the regulation of internal trade, the promotion of association of consumers, and the establishment of fair trade practices.

Salaries of public servants were increased by 10 percent of the consolidated salary with a minimum of Rs. 50/- per mensem.

The Bank Debit Tax was abolished.

The International Monetary Fund allocated a sum of SDR 12.4 million (Rs. 241.5 million) for Sri Lanka under the first allocation of Special Drawing Rights (SDR) for the period 1979 to 1981. This represents 10.4 per cent of Sri Lanka's quota in the Fund.

The trade protocol between Sri Lanka and the People's Republic of China under the provisions of the Five Year Trade and Payments Agreement between the two countries came into force. A significant feature in the Protocol for 1979 is the exclusion of rice as a commodity to be imported from China. Since the inception of the trade relations with China in 1952 rice featured as the most significant commodity of trade.

6 India could face a major financial crisis, if the go-slow in the banks continued, reported the Bombay *Economic Times*. Industrial production, commercial activity, as well as commodity markets and stock exchanges were all affected by the go-slow.

6 Natural rubber producers were in a precarious position as their output was failing to keep up with rising worldwide demand, according to the *Asian Wall Street Journal*. It is predicted that by 1980 production of natural rubber will fall almost 2.5 million tons short of demand. Failure to meet the demand and the resulting higher prices could place synthetic rubber in a more competitive position relative to natural rubber.

8 The facility of permitting debits to non-resident blocked accounts with Commercial Banks, for local disbursements and credits to such accounts if related to receipts of pensions, income tax refunds, profits and dividends without the prior approval of the Controller of Exchange came into effect.

Air Lanka Limited, the new flag carrier of Sri Lanka, was incorporated. It is a public company with an authorised share capital of Rs. 500 million divided into 5,000,000 shares of Rs. 100 each. The Sri Lanka Government would hold 60 percent of the capital stock and the balance would be held by the Bank of Ceylon, the People's Bank and the Ceylon Shipping Corporation.

11 Shipping, Airline and Travel Agents were allowed to refund unutilised passage tickets, freight and miscellaneous vouchers without reference to Exchange Control for prior approval with effect from January 11.

13 Norway has pledged an outright grant of Rs. 550 million to Sri Lanka to be used mainly for the Hambantota Integrated Rural Development Programme, according to a press announcement.

17 The Government decided to adopt certain revenue measures to raise money for post-cyclone rehabilitation work including the imposition of 20 percent surcharge on both PAYE deductions from January to March as well as an Income Tax for 1978/79 Tax Year; an increase of Excise Duty on tobacco from Rs. 188.52 to Rs. 205.69, which resulted in the increase in cigarette price by 3 cts. per cigarette, increase of Excise Duty of liquor, resulting in the increase of the price of arrack by Rs. 2 per bottle and increased the duties of imported liquor.

28 The Kirama Oya project in the Mulkirigala-Tangalle area was inaugurated. This project, to be completed in 3 stages, would renovate the Kirama Oya channel complex and construct two dams at Liyanagedeniya, and Wauwa during Stage I. The cost of the project, estimated at Rs. 4.5 million, is borne by NORAD the development assistance organisation of Norway.

16 A Government gazette extraordinary specified a list of 84 consumer items, industrial raw materials, building materials and other manufactured products as "essential to the life of the community", and to which the consumer protection law would apply.

18 The Government has approved an initial sum of Rs. 10 million to set up a centre for Fundamental Research in Science in Sri Lanka, according to a press announcement. Research in this institute will include such disciplines as astronomy, space science, physics, chemistry, biology, the origin of life and the causes of epidemics.

The Prime Minister and Minister of Housing gave notice of presentation of the National Housing Development Authority Bill in Parliament.

20 Malaysia's merchant banks are being drawn into the mainstream of the country's financial system under legislation proposed by the Government, according to an *Asian Wall Street Journal* report. The banks will be licensed for the first time and will be subject to certain curbs on their activities in return for being allowed a wider lending base and closer ties with the Central Bank.

24 A Revenue Protection Order was published giving effect to the preferential rates of duty contained in the Bangkok Agreement.

Mr. Charan Singh and Mr. Rabi Ray were sworn in as Union Cabinet Ministers in India. Mr. Charan Singh has become deputy Prime Minister and was given the portfolio of Finance, while Mr. Ray was made the Minister of Health and Family Welfare. Also elevated Deputy Prime Minister was Mr. Jagjivan Ram.

25 A far-reaching liberalisation programme for accelerating the trend towards universal banking and the legislation of banking secrecy are key features of a new Austrian Banking Bill. Legislation provides for anonymous savings accounts and the proection of bank secrecy, states a report in the London *Financial Times*.

SRI LANKA'S ECONOMY— THE 1978 PERFORMANCE

In 1978 Sri Lanka achieved its highest rate of economic growth in the past decade. According to provisional estimates, the Gross National Product in real terms (at constant 1959 prices) was about Rs. 13 billion indicating a growth rate of about 8 percent over 1977. Measured at current (1978) prices, however, the GNP is estimated to have grown by about 24 percent and this reflects that inflationary pressures in the economy were fairly high. The mid-1978 population estimated at 14.2 million showed an increase of nearly 1.7 percent over the level a year earlier. Hence, the per capita national product (at constant 1959 prices) can be estimated at nearly Rs. 917 which represents an increase in the GNP per capita of 6.4 percent over 1977. At current prices, however, the per capita income is estimated at about Rs. 2,500 as against Rs. 2,084 in 1977, and here again, the higher increase reflects the inflationary situation in the economy. As seen in Table I, the rate of economic growth (in real terms) achieved in 1978 signifies a substantial improvement over the growth performance in the previous years of the 1970s.

The improved growth performance in 1978 was in the main a result of the continued rise in paddy production, the higher rubber output, the substantial recovery of the coconut crop from the slump of 1977, expansion in construction activity, an upsurge of activity in trade, commerce and transport following the import liberalisation, and the rise in factory output (particularly of state industry). The growth in these activities was, however, partially offset by the decline in the production of tea, and of most subsidiary food-crops, and in the output of some industries such as synthetic and handloom textiles and some other industries adversely affected by the increased inflow of competing imports. Moreover, the country's export growth also remained sluggish.

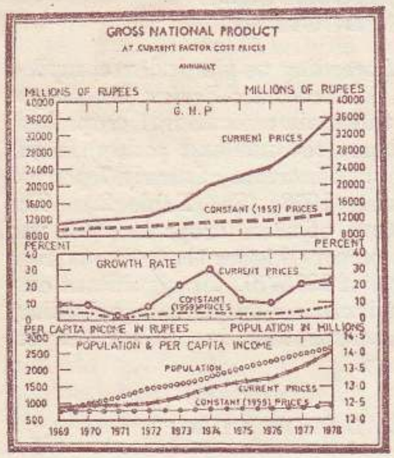
Gross domestic fixed capital formation estimated at about Rs. 6,800 million (at current prices) showed an increase of about 31 percent over 1977. The capital formation represented about 19 percent of the GNP in 1978 as against 16 percent in 1977. The higher investment expenditure in 1978 was in part a real increase and in part a reflection on the higher prices of investment goods during the year. The wholesale price index of investment goods was about 30 percent higher than in 1977. The greater part of the increase in investment expenditure during the year was presumably on imported machinery, equipment and other imported goods. There was a marked increase in national savings during the year. The gross national savings of the economy in 1978 estimated at Rs. 6,330 million represented an increase of nearly Rs. 2,300 million or 56 percent over 1977. The increased level of savings reflected the combined effects or higher interest rates and the higher

TABLE I SRI LANKA'S ECONOMIC GROWTH

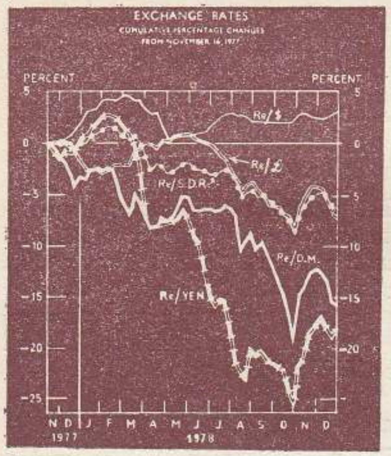
Year	*GNP at Constant (1959) prices (Rs. m.)*	*Growth Rate* ..	*Per capita GNP at constant prices (Rs.)*	*Growth Rate* ..
1970	9,686	4.1	774	2.0
1971	9,725	0.4	766	—1.0
1972	10,038	3.2	775	1.2
1973	10,419	3.8	796	2.7
1974	10,815	3.8	814	2.3
1975	11,114	2.8	822	0.9
1976	11,443	3.0	833	1.3
1977	12,016	4.4	860	2.6
1978*	13,002	8.2	917	6.4

**Provisional*

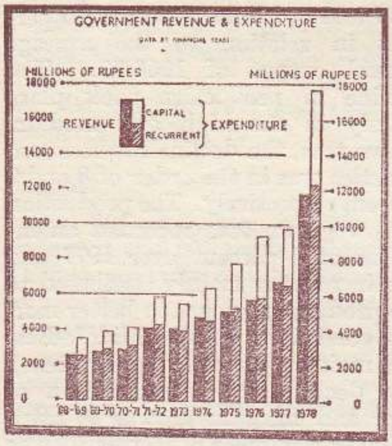
Gross National Product



Exchange Rates



Expenditure & Revenue



ECONOMIC INDICATORS

level of economic activity during the year. The gross savings represented 17 percent of the Gross National Expenditure as against 13 percent in 1977 and an average of nearly 9 percent during 1972-76.

Inflationary pressures continued to be an important feature of the economy during the year 1978. Highest price increases were recorded in imported goods as against locally produced goods, and in investment and intermediate goods as against consumer goods. While the consumer goods prices have risen by about 12 percent, the prices of intermediate and investment goods have gone up by about 30 percent. The overall rate of inflation in the economy was probably around 16 percent.

There was a substantial deceleration in the rate of monetary expansion as seen by the fact that the money supply (currency and demand deposits) rose by only 11 percent compared with the increases of 29 percent and 35 percent in 1977 and 1976 respectively. However, quasi-money supply (savings and fixed deposits) registered an increase of 48 percent, and the importance of these secondary liquid assets in the broad money supply rose during the year. Commercial bank activity was characterised by a sharp increase in credit expansion to the private sector.

Following the import liberalisation, the import bill (measured in SDR terms) rose by about 29 percent. This increase occurred against the background of an accumulated backlog in demand arising from the severe import restrictions of a number of years. The export earnings (measured in SDR terms) showed only a modest increase of about 6 percent. The result was the creation of a sizeable trade deficit of Rs. 2,143 million or SDR 133 million. The high inflow of foreign resources, in the form of official transfers, loans and aid, not only covered the trade and payments deficit of the year; it also helped to raise the stock of the country's external assets by SDR 75 million or 65 percent.

The rise in the external assets was, however, more than offset by the recorded increase in the country's external indebtedness. The external public debt rose by SDR 159 million or 29 percent during the year. Exchange rate movements during the year resulted in a considerable depreciation of the Rupee against the Japanese Yen and the German Mark. Though the parity rate with the US dollar fluctuated during the year, it was relatively more stable than the parity rates with other currencies.

Government finance in 1978 was characterised by an unprecedented increase in revenue (an increase of over 70 percent) and a considerable underexpenditure in the budgetary allocations for capital development. The net result of these developments was that the government operations during the year exerted a contractionary effect on the economy.

In the employment scene, there is evidence of increased labour absorption by the economy resulting from the increased level of activity in most sectors. Available evidence (necessarily incomplete) suggests that at the end of the year, the level of unemployment had fallen to nearly 900,000 persons from an officially estimated figure of 1.2 million in 1977. The income support scheme for the unemployed, implemented during the year, had covered about 373,000 unemployed persons at the end of 1978. Migration to Middle-Eastern countries accelerated during the year and the total number of Sri Lankans working in the Middle East has been estimated at around 25,000. The remittances from these migrants have been estimated at about Rs. 300 million during 1978. The vacancies created by such migration also increased employment opportunities for unemployed persons in the domestic economy.

The economy in the Eastern Province of Sri Lanka suffered heavy damage as a result of the cyclone that hit this area in late November 1978. The full impact of this damage, in the form of loss of productive capacity and the extra resources required for rehabilitation and repair work, would be felt on the economy only during 1979.

AGRICULTURAL PRODUCTION

According to the index compiled by the *Economic Review*, the output of the main agricultural crops (tea, rubber, coconut and paddy) registered an increase of nearly 7 percent during 1978. (See Table 2.) The output of these crops in 1978 was 17 percent higher than the average level of 1975-76. No significant output increases are seen in subsidiary foodcrops and in minor export crops.

TABLE 2 INDICES OF AGRICULTURAL PRODUCTION*

Crops	1975-76	1977	1978
1. Tea	100	101.8	97.0
2. Rubber	100	97.2	102.4
3. Coconut	100	74.1	89.8
4. Plantation Crops (1-3) ..	100	94.4	96.5
5. Paddy	100	140	157.2
6. Main Crops (1-3 and 5) ..	100	110	117.3

*Computed by the *Economic Review*

Plantation Output

Tea overall plantation output registered a marginal increase of less than 2 percent. The decline in tea production was the principal factor in the relatively poor performance of the overall plantation sector. (See Table 3, on page 5.)

Tea

The production in 1978 estimated at 199 million kgs. reflected a decline of 9.5 million kgs. or nearly 5 percent relative to the output of 1977 and a decline of about 10 percent in relation to the average annual output of 1966-70. The decline in production took place mainly in the high and medium grown teas, the decline in these two varieties was in the order of 8 and 9 percent respectively. The production of low grown teas recorded an increase of 5 percent over 1977 and this increase is mainly attributed to the producer-response to better market conditions in the Middle-East (the main outlet for low-grown teas). The decline in the production of high and medium growns is attributed to a number of factors such as the accumulated effect of years of neglect and inadequate investment expenditures, continuing managerial problems in the state-owned estates, and the general deterioration in producer margins due to lower export prices and the increased cost of production. In addition, the shortfall in the high-grown has been attributed to the inadequate distribution of rainfall in some months of the year. Tea prices in 1978 declined from the peak levels they reached in 1977 in the context of the international coffee crisis. The net average sale price of tea at the Colombo auctions declined from Rs. 13.60 per kilo in 1977 to Rs. 11.69 in 1978, a decline of about 14 percent. On the other hand, the estimated average cost of production of tea on a national basis (ie. both public and private sector) rose from about Rs. 9.36 at the end of 1977 to Rs. 10.60 in September 1978, an increase of 12 percent. In particular, the mid-country teas received very poor prices during 1978 resulting in a considerable erosion in producer margins.

Rubber

Rubber production estimated at 154 million kgs. represents an increase of nearly 8 million kgs. or about 6 percent over 1977 and an increase of about 2.5 percent over the average of 1975-76. This was the highest level of production during the last five years. The high production in 1978 is attributed to favourable weather conditions, better producer margins and increased fertiliser usage. There was a marked improvement of rubber prices during the year. The Colombo market price of RSS Grade 1 which averaged Rs. 4.53 per kilo in 1977 rose to an average of Rs. 6.93 in 1978 an increase of 53 percent. The average cost of production per kilo which was Rs. 3.75 in 1977 had risen to about Rs. 4.50 in 1978.

Coconut

Coconut production in 1978 was estimated at 2,207 million coconuts. Though production showed a marked recovery from the severely depressed level of the previous year, it continued to remain below the historically average annual production level (of around 2,500 million nuts). The estimated increase (recovery) from the 1977 level was about 386 million nuts or about 21 percent. Reflecting this recovery,

TABLE 3 PLANTATION PRODUCTION AND EXPORTS

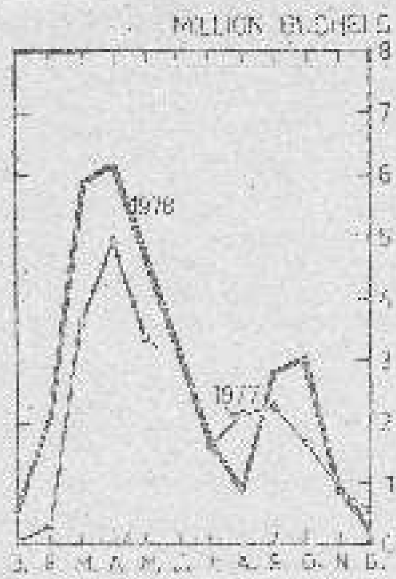
	1976	1977	1978	*Percentage change in 1978*
1. Tea				
(a) Production (million kgs.) ..	197	209	199	− 4.6
(b) Exports (million kgs.) ..	201	183	191	+ 4.9
(c) Colombo Auction: Gross average sale price per kg.	9.25	16.05	14.19	−11.6
(d) Fertilizer use ('000 tons) ..	95.3	80.1	115.5	+44.2
2. Rubber				
(a) Production (million kgs.) ..	152	146	154	+ 5.5
(b) Exports (million kgs.) ..	137	135	150	+11.1
(c) Local Price (RSS 1 per kg.)	4.34	4.54	6.93	+52.9
(d) Fertilizer use ('000 tons)	13.0	12.4	21.0	+69.4
3. Coconut				
(a) Production (million nuts) ..	2330	1821	2207	+21.2
(b) Exports (million nuts equivalent) ..	303	281	515	+83.3
(c) Local price of coconut oil (per metric ton) ..	2910	5640	5250	−6.9
(d) Fertilizer use ('000 tons) ..	30.7	29.1	42.5	+46.0

the production of coconut oil and desiccated coconut also improved by 63 percent and 37 percent respectively over the abnormally low levels they had fallen to in 1977. The recovery of the coconut crop was largely a result of the improvements in the weather conditions. Reflecting the improved supplies, the average local market prices of coconut products were somewhat below their 1977 levels but the price decline was modest. Reflecting the effect of various administrative measures and control mechanisms aimed at maintaining better producer margins, prices continued to remain at high levels throughout the year. Coconut was the only plantation crop seriously affected by the cyclonic damage of November 1978. About 30,000 acres of coconut lands in the Eastern province had been completely devastated and the adverse effects of this on coconut production would be felt in 1979.

In all three major plantation crops the progress of replanting had been quite slow and has continued to remain below the targeted levels. The acreage replanted in 1978 was 6,000 acres of tea lands, 9,000 acres of rubber lands and less than 2,000 acres of coconut lands. On the other hand, fertilizer usage in the plantation sector has shown a marked increase which augurs well for the production in this sector in the coming years. The total quantity of fertilizer issued to the plantation sector amounted to 176,000 tons and this represents an increase of 47 percent over 1977.

Paddy

For the second successive year paddy production recorded a sharp increase. The recorded harvest in 1978 at 90.6 million bushels showed an increase of 10 million bushels or nearly 13 percent over that of the previous year. This increased production reflects both an expansion in the harvested acreage (+9%) and a rise in the yield per acre (+4%). Favourable weather conditions, increased application of fertiliser, liberal supply of credit to farmers during the 1977/78 Maha season, and the higher Guaranteed Price contributed to the increased yield as well as to the expanded cultivation. Fertilizer issues to the paddy sector at 113,300 metric tons showed an increase of 39 percent over 1977. This was the highest amount of fertilizer used in a year after 1974. There was also a liberal extension of credit facilities to paddy farmers during the year. The total credit provided amounted to Rs. 451 million and this is the highest amount granted in any single year since the inception of the cultivation loan scheme. However, only about 20 percent of the total paddy loans granted had been recovered during the year and this was the lowest recovery rate in the history of this loan scheme. Official procurement by the Paddy Marketing Board amounted to 32 million bushels or about 35 percent of the total crop, representing an increase of 7 million bushels or about 30 percent over 1977. However, storage and milling constraints interfered with effective procurement throughout the year.



PADDY PURCHASES

Paddy Marketing Board paddy purchases in 1977 and 1978

The increased paddy output lead to a relative stability in the open market of rice with prices generally ranging from about Rs. 3 to Rs. 3.50 per measure in most provinces during the year. One favourable impact of the record paddy harvest was that it led to a drastic decline in rice imports. The total imports of rice at 100,000 tons represented a drop of 69 percent relative to the 1977 import level. This decline was, however, partially offset by an increase in wheat flour imports (an increase of 79,000 tons). Thus the total imports of the two staples—wheat flour and rice—declined by only 22 percent in relation to 1977. (See Table 4.)

Subsidiary Foodcrops

Under the impetus of import restrictions, subsidiary foodcrops registered a substantial growth in the 1970s. In 1978, however, higher levels of competing imports and the relatively depressed price levels appear to have caused a disincentive effect on the production of many of these crops. The low level of production of certain crops such as yams, sorghum and maize have been attributed to the increased availability of subsidised wheat flour and the increased rice supply in the open market. The Government, with a view to balancing producer and consumer interests, operated buffer stocks for certain subsidiary food items (e.g. chillies and onions) to bring about a measure of price stability. Even though guaranteed prices were maintained for some of these crops, the procurement machinery was ineffective and in the case of some crops such as maize and sorghum, procurement levels recorded were a substantial decline in 1978 relative to previous years. Overall output of the subsidiary food sector registered only a marginal increase during the year; though production of important crops such as chillies, onions and potatoes declined in 1978. Although data are not available, the production of most vegetables and fruits appears to have recorded a fair increase.

Minor Export Crops

Judging from the quantities reaching the Colombo Auctions and the export levels recorded in 1978, while the production of coffee, pepper, nutmeg, mace and cardamom has recorded increases, cinnamon, cloves, cocoa and citronella appear to have declined in production. The total export value of minor crops and products, according to customs data, reached Rs. 772.2 million (SDR 39.6 million) in 1978 as against Rs. 575.3 million (SDR 50.2 million) in 1977. As an incentive to improving the export production of minor crops, the export duties were reduced and the subsidies for replanting were substantially raised during the year.

OTHER PRIMARY ACTIVITIES

Fisheries

Fish production estimated as 154,121 tons in 1978 recorded an increase of nearly 13 percent over the previous year. Increases have taken place in all three sectors of the fishing industry, namely coastal, deep sea and inland fisheries. The contribution of deep sea fishing to the total production rose from an insignificant level of about 300 tons in 1977 to nearly 3,000 tons in 1978, the bulk of which has come from the large mechanised craft particularly the 30-footers being provided under an ADB-financed scheme. However, the attempt to use licensed foreign vessels for deep sea fishing had not shown much success as seen by the fact that less than 300 tons of fish came out of this scheme. Despite the production increases, the local market prices of most varieties of fish recorded substantial increases during 1977-78 and the average level of prices in 1978 was about 50-60 percent higher when compared with 1974-76 average prices. Moreover, the fishing industry had to contend with a number of problems such as shortages of fishing gear and engine spares, inadequate boats and engine repair facilities, and the rise in the prices of imported inputs into the industry.

Livestock

The livestock sector was characterised by stagnant if not declining production in certain areas. Although production of milk and milk products by the National Milk Board increased in 1978, still a general decline had been recorded in milk production, from about 59.5 million litres in 1975 to around 49.1 million litres in 1978. This general fall of production can be taken as a rough indicator of the decline in total milk production in the country during the year. This decline has been attributed to poor producer margins in the context of high animal feed prices. With a view to improving the incentives available to milk producers, the rate of payment for milk was raised by 34 percent and feed prices were stabilised with effect from November 1978.

TABLE 4 PADDY, RICE AND WHEAT FLOUR

	1976	1977	1978	Percentage change in 1978
1. Paddy production (m. bushels) ..	60.0	80.4	90.6	− 12.7
2. Net acreage harvested ('000 acres)	1379	1645	1737	+ 5.6
3. Average yield (Bushels per acre)	44.33	48.92	50.7	+ 3.6
4. Fertilizer issues ('000 tons) ..	72.2	81.5	113.3	+ 39.4
5. (a) Cultivation loans issued (Rs. m.)	74.3	99.2	451.4	−355.0
(b) Percentage recovered ..	55.2	34.6	19.7	− 43.0
6. Percentage of the crop purchased by the PMB	21.4	30.4	35.3	+ 16.1
7. Rice imports ('000 tons) ..	419	331	106	− 68.9
8. Wheat flour imports ('000 tons)	380	524	603	+ 15.0

Mining and Quarrying

The output of the mining and quarrying sector is estimated to have shown a substantial increase of about 18 percent in 1978. Gem exports at Rs. 531 million showed a decline in value (of about 5 percent) relative to the 1977 level when measured in SDR terms. On the other hand, the output of bricks, tiles, sand, rutile graphite and salt have recorded significant increases during the year. The increased production of bricks, tiles and sand reflected the expanded building and construction activity in the country during the year.

Manufacturing Output

The manufacturing sector which includes export processing, factory and cottage industries is estimated to have registered an output increase of about 11 percent in 1978. The greater part of this increase was due to expanded factory output. In the export processing sub-sector, while the value-added in rubber and coconut processing showed an increase, tea processing activity declined reflecting the drop in tea production in 1978. The higher level of factory output was largely a result of the higher production of most state industrial corporations. Substantial production increases have been recorded in cement (+62%), steel (rolled products) (+77%), tyres (+52%), ceramics (crockery) (+18%) caustic soda (+24%), chlorine (+78%), sugar and leather goods. On the other hand the production of plywood, mammoties and Valaichchenai paper and paper board and flour milling in 1978 has been lower than in 1977.

Indications are that most private sector manufacturing industries (with exceptions such as synthetic textiles) too have worked at higher capacity levels, largely as a result of the freer availability of raw materials, machinery and spares. Industrial exports recorded a marked increase in 1978. The value of exports of marine products, for instance, increased from Rs. 96 million for 1,875 tons in 1977 to Rs. 233 million in 1978 for 2,900 tons; a 143 percent increase in value and in SDR terms a 51 percent increase. Exports of other manufactures and miscellaneous products increased from Rs. 480 million in 1977 to Rs. 1,203 million in 1978, a 160 percent increase and in SDR terms a 44 percent increase. Among these one industry which showed a conspicuous expansion during the year was the export-oriented garments industry. The exports of garments in 1978 at Rs. 414 million represented an increase of over 60 percent when compared with 1977 in SDR units. Considering the recently installed capacities in this sector garment exports are expected to show a faster rate of growth in the coming years.

The overall textile production estimated at 116 million metres has recorded an increase of nearly 8 percent over 1977. This increase was, however, largely confined to the state-owned mills. Even here the capacity utilization continued to be a problem with only about half of the capacity being utilized during the year. At the Thulhiriya Mill (the largest textile mill in the country) the capacity utilization was only 36 percent. The handlooms sector (which provides employment for over one lakh workers) remained depressed with a capacity utilization of less than 30 percent. The rise in the cost of yarn and the competition from better quality imported textiles created marketability problems for handloom textiles and this became a serious problem in the textile industry during the year. The production in private synthetic mills declined by about 28 percent and here again the main factor appears to have been the increased competition from imports.

The impact on the handloom sector and the smaller private synthetic mills was that handloom production in 1978 was only 29.9 percent of a rated installed capacity of 81.05 million metres, though production fell from 24.63 million metres in 1977 to an estimated 24.30 million metres in 1978. But in the smaller private synthetic mills, which have a total installed capacity of 24.72 million metres, production fell from 18.06 million metres in 1977 to 14.03 million metres in 1978.

TABLE 5 — PRODUCTION OF PUBLIC SECTOR INDUSTRY SELECTED INDUSTRIES

	1976	1977	1978	*Percentage change in 1978*
1. Cement ('000 tons)	418.9	325.5	525.1	— 61.38
2. Steel (rolled products '000 tons) ..	28.5	24.6	43.6	— 77.2
3. Tyres ('000 standard tyres) ..	181.2	156.5	256.9	64.2
4. Petroleum (refinery products '000 tons)	1277	1406	1388	— 1.3
5. Ceramics (crockery tons)	2489	2996	3541	— 18.2
6. Hardware (mammoties '000) ..	199.5	378.3	361.4	— 4.5
7. Caustic soda (tons)	1571	1516	1877	+ 23.8
8. Plywood (3 ply, equivalent '000 sq. m.)		3594	3093	— 14.0

TABLE 6 TEXTILES AND GARMENTS INDUSTRY

	1976	1977	1978	*Percentage change in 1978*
1. Spinning (million kgs.)	6.41	6.97	7.87	12.9
Capacity utilization (%)	47.3	51.8	45.6	12.0
2. Weaving (million mtrs.)	108.15	107.72	115.89	+ 7.6
Capacity utilization (%)	45.6	43.4	46.7	+ 7.6
of which				
(a) Handloom production (million mtrs.)	25.63	24.70	24.39	— 1.3
Capacity utilization (%) ..	31.3	30.2	29.9	1.0
(b) Private synthetic mill production million mtrs.)	16.64	19.02	14.09	— 26.2
Capacity utilization (%) ..	56.1	64.2	58.8	— 21.5
3. No. of garment exporters ..		40	55	+ 37.5
4. Total export value of garments (SDR million)	7.2	13.0	21.2	— 63.1

Production declines also appear to have occurred in several other industries (such as matches, toys and various assembly industries which had to face direct competition from an increased flow of imports.

A rough indicator of the changes in the level of industrial activity (in particular of factory industry) is provided by the electricity and fuel consumption by industry. Sales of electricity for industrial uses rose by 15 percent during the twelve months of 1978 compared with the corresponding period in 1977. Overall electricity sales registered an increase of 11 percent during the same period. The sales of furnace oil (another important input of the factory industry) rose by nearly 18 percent during the year.

Both public and private sector industries appear to have recorded substantial growth in 1978, according to the Central Bank's annual survey of industries which covers a major part of the production in the domestic industrial sector. In current value terms this survey indicated that industrial output expanded by about 28 percent during 1978; while capacity utilization which was about 61 percent in 1977 rose to 70 percent during last year; and employment in industry had grown by about 15 percent. The usage of imported raw materials in industry is reported to have risen from 66 percent in 1977 to 79 percent in 1978. There appears to have been some significant changes in the pattern of growth of the various manufacturing sectors, as the following table 7 indicates.

The major growth sectors in 1978, in terms of current values, according to this survey were basic metal products; textiles, readymade garments and leather; non-metalic mineral products; paper and paper products; and chemicals. One of the major growth sectors in 1977, namely, Food and Beverages had shown a slowing down in growth possibly due to supply problems (e.g. meat, milk, jaggery etc.) and also import competition. Again, industries in the sector of Fabricated Metal Products, Machinery and Transport Equipment (e.g. cutlery and crockery, motor spares, engineering tools) appear to have suffered a setback primarily on account of import competition. The decline in output of the wood and wood products industries for the second year in succession is also of significance. In the textiles and readymade garments sector it appears that a rise in the output of the larger manufacturing units more than offset a drop in the production of the small-scale units.

As at the end of 1978, the Greater Colombo Economic Commission had approved 53 industrial projects for the free trade zone and the total fixed capital of these projects added upto nearly Rs. 1.3 billion. At capacity operation, the export sales generated by these projects have been estimated at Rs. 4.6 billion and the employment potential at 27,400. Of the approved number almost half are for the production of garments and related products. By the end of the year 32 of the approved firms had signed agreements with the GCEC and seven firms were in different stages of project implementation. A major portion of the infrastructure of the zone had also been completed during the year. While it is too early to review the operation of the Export Processing Zone, it may be noted that the progress made upto the end of 1978 (within less than one year of existence) compares very favourably with the initial progress of similar zones elsewhere.

A large number of proposals for industrial projects outside the free trade zone were also granted approval by the government during 1978. The Foreign Investment Advisory Committee of the Ministry of Finance and Planning had approved 22 projects with a total investment outlay of Rs. 123 million (of which nearly 60 percent is foreign capital) and with an employment potential of 2,430. The Ministry of Industries and Scientific Affairs had also approved 1,070 projects with a total capital outlay of Rs. 607 million and an employment potential of 23,000. Meanwhile the Ministry of Textile Industry had approved 1,287 textile and garments projects in 1978 with a total capital outlay of Rs. 564 million and an employment potential of nearly 19,000. Information is not available on how many of these project proposals were implemented during 1978. The bulk of the investments approved in the textiles and garments field are expected to materialise during 1979.

TABLE 7 VALUE OF INDUSTRIAL PRODUCTION 1976–1978

Industrial Sector	Value of Production (Rs. Million) 1976	1977	1978
1. Food, Beverages and Tobacco	1,715	2,294	2,609
2. Textiles, Wearing Apparel and Leather Products	680	698	1,008
3. Wood and Wood Products, including Furniture	129	127	124
4. Paper and Paper Products	203	270	376
5. Chemicals, Petroleum, Coal, Rubber and Plastic Products	2,336	2,469	3,279
6. Non-metalic Mineral Products (except Petroleum and Coal)	360	411	592
7. Basic Metal Products	138	132	219
8. Fabricated Metal Products, Machinery & Transport Equipment	474	571	590
9. Other Industrial Products (not elsewhere classified)	26	34	55
Total	6,061	7,004	8,851
Real Rate of Growth (%)	1.2	1.3	10.6

Source: *Central Bank's Annual Survey of Industries*, 1978

Construction

The construction sector was characterised by a higher level of activity and the value added in this sector is estimated to have risen by around 9 percent. The larger share of this increase came from the public sector construction in irrigation works, roads and other infrastructure. Cement sales in 1978 recorded a phenomenal increase of 65 per cent. Although the supply of building materials showed a expansion, periodical shortages initially of bricks and sand and later of steel, timber and PVC items slowed down construction work in many major projects. It is important to note that the shortage

TABLE 8 TRANSPORT : SELECTED INDICATORS

	1976	1977	1978	Percentage Change 1978
1. Vehicle Population	190,660	208,046	231,909	+11.52
of which :				
Private Cars	87,795	92,910	99,523	+ 7.12
Lorries	34,689	35,312	40,315	+13.53
Tractors	20,930	22,450	27,230	+21.29
2. C.T.B. Operations				
(a) C.T.B. Bus Fleet ..	6,778	7,636	7,620	.09
(b) Operated K.m. (millions) ..	398.6	402.6	454.8	+12.97
(c) Passenger Km.	14,643.0	15,367.4	17,567.4	+14.32
(d) Loss (Rs. million) ..	2.7	42.4	55.7	—31.4
3. Port Cargo Corporation :				
(Cargo handled 1000 metric tons)				
Import Cargo	1,377	1,951	2,062	+ 5.69
Export Cargo	1,087	1,072	1,129	+ 5.32

of a single building material could delay an entire construction programme. Scarcities of certain skills such as carpenters and masons was a further constraint on construction activity during the year. Construction activity in most public sector undertakings fell short of the target levels. The most notable shortfall was in the Urban Housing Programme of the Department of National Housing where only 35 percent of the sum allotted was spent during the year. There were, however, instances where these constraints to building did not affect progress of construction activity. The Government Owned Undertaking of Colombo Commercial Company (Engineers) Ltd. for instance, set as its target for 1978 work valued at Rs. 44 million but its ultimate performance for the year amounted to Rs. 60.0 million.

Trade, Transport and Services

The services sector in general — trade, transport, travel, banking and financial services in particular — registered significant gains in 1978. The value added in most of these services showed growth rates in the range 6-8 percent. Wholesale and Retail Trade experienced an upsurge of activity reflecting the increased availability of goods mostly through higher imports and partly also through higher domestic production. Compared with the previous ten years there was a marked increase in the number of new business firms registered during 1978. The increase over 1977 was as much as 85 percent and about 130 percent over that of 1976.

According to Central Bank estimates the transport sector is conservatively estimated to have grown by 7 percent in 1978; the value added in the banking and the financial sector had increased by 15 percent; and the output of other services, which included hotels, restaurants etc., rose by 6 percent.

TABLE 9

REGISTRATION OF COMPANIES

Year	No. of Companies Registered
1967	206
1968	213
1969	379
1970	240
1971	141
1972	261
1973	355
1974	429
1975	293
1976	265
1977	319
1978	592

There was a conspicuous expansion in the transport sector. The number of new vehicles registered during the year showed an unprecedented increase. New registrations of private cars amounted to 6,716 (an increase of 330%) and of lorries and vans amounted to 4,878 (an increase of 107%). Reflecting the increased vehicle population, petrol sales increased by 10 percent and auto-diesel sales by 13 percent. There has been a 16 percent increase of traffic carried by the CTB in 1978 and the scale of operations of the bus services too had increased by 13 percent to meet the increased demand.

Tourist arrivals in 1978 numbering 192,592 showed an increase of 25 percent over the previous year with the greater part of the increase originating in Western Europe. The gross earnings from tourism has been estimated at Rs. 750 million, representing an increase of over 31 percent when measured in SDR units.

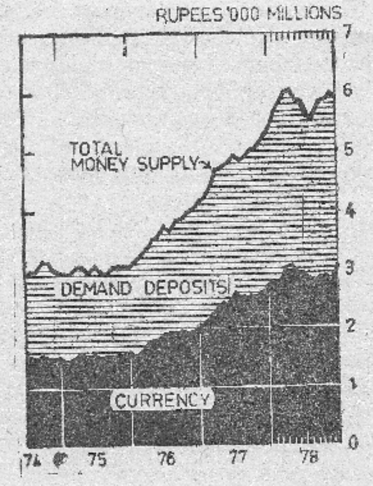
The marked increase in the number of Sri Lankans travelling abroad, following the liberalisation of foreign travel, partially offset the increased foreign exchange earnings from tourism. (See Table 10)

Money and Banking

The main feature of the monetary developments in 1978 was the substantial deceleration in the rate of monetary expansion. The money supply narrowly defined as currency and demand deposits (M1) rose by Rs. 670 million or 11 percent

TABLE 10 FOREIGN TRAVEL : SELECTED INDICATORS

	1976	1977	1978	Percentage Change 1978
1. Receipts from foreign travel ..				
Rs. Million	198	514	750	+146.7
SDR Million	20	29	38	+31.03
2. Payments for foreign travel				
Rs. Million	24	33	444	+1245.4
SDR Million	2	3	23	—666.7
3. Net earnings from foreign travel (1-2)				
Rs. Million	174	281	306	+ 8.9
SDR Million	18	26	15	—42.3
4. Tourist Arrivals (Numbers) ..	118,971	153,665	192,592	+25.33
5. Passport Issues (Numbers) ..	21,277	58,234	111,660	+91.74
6. Foreign Travel by Sri Lanka residents (Numbers)	53,305	66,900	117,075	+75.0



MONEY SUPPLY

during 1978 as against a substantially higher increase of Rs. 1,200 million of 29 percent in 1977. Quasi-money (time and savings deposits in commercial banks) at Rs. 4,956 million too registered a lower rate of growth compared with that of 1977 (48% as against 55% in 1977) but the rate of expansion nevertheless remained very high. The broad money supply (M2) consisting of currency, demand, time and savings deposits, rose by 25 percent as against 38 percent in 1977. A sharp increase has taken place in the relative size of quasi-money in the broad money supply — an increase from 38 percent in 1977 to 46 percent in 1978.

This phenomenon reflects the high rate of expansion, in particular, of fixed deposits in the banking system following the interest rate reform of September 1977. The existence of such a large reservoir of secondary liquidity (even though mostly held in fixed deposits) could be a factor with considerable inflationary potential.

The principal factor in the money supply (MI) expansion was the sharp increase in commercial bank lending, in particular to the private sector. Bank credit to the private sector expanded by as much as Rs. 1,890 million or 65 percent during the year. Most of this new credit took the form of advances for commercial and industrial purposes and was largely a reflection of the higher level of industrial and commercial activity in the private sector. The credit to public corporations expanded by 42 percent reflecting chigher expenditures following exhange rate adjustments and expansion in output. During the second half of the year ceilings were in operation on bank lending to public corporations. Credit to co-operatives expanded by 36 percent reflecting higher cultivation loans during the 1977/78 Maha season and a higher volume of paddy purchases at an increased guaranteed price.

The second important factor in the money supply expansion was the increase in the external assets of the banking system by as much as Rs. 1,523 million (net of revaluation of existing assets following exchange rate changes). This rise did not reflect an increase in export earnings but rather that credit facilities available from the IMF together with other long-term capital flows have been in excess of the current account (goods and services) deficit of the balance of payments. It may be noted that the financial operations of the government made no contribution to the expanded money supply. In fact, the government activities exerted a net contractionary influence on the money supply both by way of decreased borrowing from the banking system and an increased holding of cash balances.

The stringent monetary policies involving restraint on credit expansion to the private sector and high short-term interest rates were continued during 1978 and were reinforced by a ceiling on lending to public corporations.

The Central Bank comments "had it not been for the monetary and fiscal restraint that was enforced during 1978, restoration of economic stability in the country, which is essential for economic growth, would not have been realized. There were some complaints of the high cost of credit, but the monetary policy adopted should be viewed as a short-term anti-inflationary measure aimed at restoring monetary stability after two successive years of rapid expansion. It is essential for an expanding economy to pay a positive real rate of interest on savings. In other words, if adequate resources for development are to be generated, savers should be paid a return (which is the rate of interest) which is higher than the expected (or at least, the current) rate of inflation. With inflation running at around 15 percent, a return to the cheap money policies of yesteryear will be clearly counter-productive. The very high demand for credit in 1978 indicated that borrowers have not been baulked by the current level of interest rates."

External Trade and Payments

Following the import liberalisation effected in mid-November 1977, there was a considerable expansion of imports during 1978. According to Customs data, the total value of merchandise imports in 1978 amounted to Rs. 14,484 millions (SDR 743 million) and this represents an increase of nearly 29 percent over the 1977 import level of SDR 577 million. This import level in relation to the GNP amounted to as much as 40 percent in 1978 as against a corresponding figure of about 20 percent for 1977. This indicates that the import content in both

TABLE 11 MONETARY SITUATION (Rs. Millions)

	1976	1977	1978	*Percentage change in* 1978
1. Currency	2081	2792	3016	+ 8.0
2. Demand deposits	2085	2574	2921	+ 13.5
3. Narrow Money Supply (1+2)	4166	5366	5936	+ 10.6
4. Quasi Money*	2155	3351	4956	+ 47.9
5. Broad Money supply** (3+4)	6321	8717	10892	+ 24.9
6. Quasi-money as % of (5)	34.1	38.4	45.5	+ 18.5
7. External Banking Assets	109	4706	5590	+ 50.8
8. Commercial bank Credit expansion to—				
a. Private sector	2266	2884	4774	+ 65.5
b. Co-operatives	663	1231	1674	+ 36.0
c. Public corporations	1056	1670	2363	+ 41.5
d. Government (net)	3267	2989	1863	— 37.7

* *Time and savings deposits in commercial banks.*

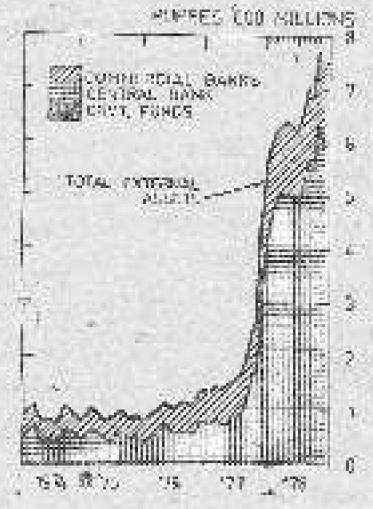
** *Currency, demand, time and savings deposits.*

domestic consumption and investment has recorded a fair increase in 1978. Of the total letters of credit for imports opened during the year (amounting to Rs. 19 billion), food imports (rice, flour and sugar) accounted for only 2 percent, as against a weight of about 34 percent in the 1977 import bill. The highest increases were seen in the imports of vehicles, transport equipment, machinery, mechanical apparatus and electrical equipment.

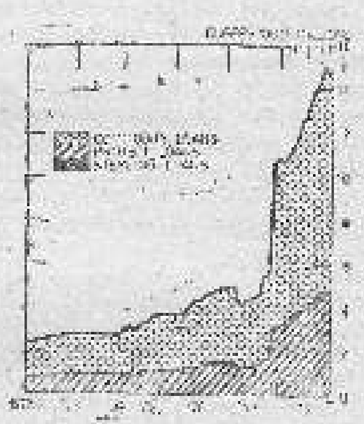
On the other hand, total export earnings according to Customs data amounted to Rs. 13,206 million (SDR 677 million) recording an increase of about 6 percent in 1978 over the 1977 level of SDR 636 million. While the export earnings from tea declined (measured in SDR terms) reflecting the lower average export prices, those from rubber and coconut showed an increase. Industrial export earnings rose, in particular those of garments and ceramics. The slow growth of export earnings in the context of the sharply rising import bill created a balance of trade deficit of sizeable magnitude. According to Customs data this deficit was Rs. 1,278 million (SDR 66 million) as against the favourable balance of SDR 61 million recorded in 1977. This deficit was financed partly out of the surplus in the services and transfers account and partly out of increased aid loans.

The high inflow of foreign resources (loans and aid) proved sufficient not only to finance the current account deficit, but also contributed to a substantial build-up of external assets. The total external assets at the end of 1978 stood at Rs. 7,477 million (SDR 370 million) compared with Rs. 5,574 million (SDR 296 million) at the end of 1977. This reflects an increase of 25 percent in SDR terms. This level of foreign assets was equivalent to about half the import bill of 1978.

It is important to note that this foreign assets build-up was not the outcome of any improvement in the balance of payments position of the economy. In fact, the balance of trade (reflecting a higher import bill and a sluggish export level) registered a sizeable deficit during year. The assets build-up, despite a sizeable trade deficit, was the outcome of an increased inflow of foreign resources largely in the form of loans and aid, and hence along with the rise in the level of foreign assets, external indebtedness also recorded a substantial increase. The external public debt outstanding as at the end of 1978 was Rs. 14,811 million (SDR 73 million) as against Rs. 10,827



EXTERNAL ASSETS

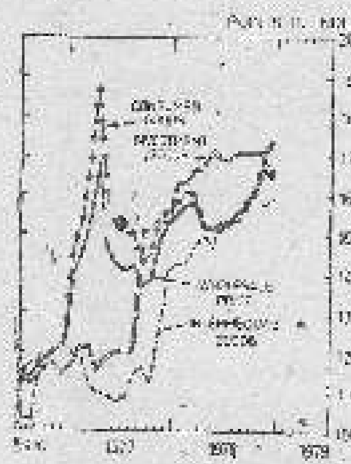


FOREIGN LOANS

million (SDR 573 million) at the end of 1977 and this shows an increase of SDR 159 million or 28 percent during the year. It is seen therefore that the recorded rise in external assets (by SDR 75 million) was more than offset by the increase in the external indebtedness of the country. The total project and non-project loans received by the government during the year amounted to Rs. 3,741 million of which 42 percent was in the form of project loans. Of the project loans the three largest were from the Asian Development Bank (Rs. 439 million), Netherlands (Rs. 348 million) and West Germany (Rs. 329 million). Of the non-project loans the largest were from the Trust Fund of the IMF (Rs. 789 million), PL 480 of USA (Rs. 386 million) and Japan (Rs. 462 million).

TABLE 12 EXTERNAL TRADE AND PAYMENTS

	1976	1977	1978	Percentage change in 1978
1. Total Imports				
Rs. Millions	4643	6007	14483	+ 141.1
SDR Millions	477	579	743	+ 28.0
2. Total Exports				
Rs. Millions	4815	6638	13206	+ 99.0
SDR Millions	493	637	677	+ 6.3
3. Balance of Trade				
Rs. Millions	151	640.7	—1278	
SDR Millions	17.9	60.5	65.5	
4. External Assets at the end of year	1492	5574	7477	+ 34.1
SDR Millions	135.7	296.9	369.6	25.3
5. External Public Debt at the end of year				
Rs. Millions	4988	10827	14811	+ 36.8
SDR Millions	484.4	572.9	732.1	+ 27.8
6. Exchange Rates at the end of year: value of Rs. 100 in				
(a) US Dollars	11.28	6.44	6.46	+ 0.3
(b) Pound Sterling	6.34	3.34	3.16	5.2
(c) German Mark	27.12	13.49	11.70	— 13.3
(d) Japanese Yen	33.33	15.45	12.45	— 19.4



EXCHANGE RATES

A comparison of the exchange rates of the Sri Lanka Rupee at the end of 1978 with those set on November 16, 1977 following the devaluation, reveals the following developments.

—The Sri Lanka rupee has depreciated by 10 percent and 17 percent against the Japanese Yen and the German Mark respectively.

Depreciation against the UK pound sterling and the French Mark amounted to 8.4 percent and 12.4 percent respectively.

—A slight appreciation of 3 percent was seen against the US dollar. In general, the changes in the Rupee Dollar parity rate during the year were quite minor, compared with the changes recorded in the parity rates of the Rupee with other currencies. Thus although the Rupee was not officially linked to any major world currency, a high degree of stability in the Rupee value vis-a-vis, the US Dollar has emerged out of the exchange rate developments during the period since November 1977.

Prices and Inflation

Available evidence suggests that the overall rate of inflation in the economy during 1978 was fairly high, probably around 16 percent. The wholesale price index (which includes the prices of consumer, intermediate and investment goods) in 1978 has recorded an increase of 15.8 percent over the 1977 level. Substantial variations are seen in the price increases recorded by different commodity groups. Highest price increases were seen in imported goods, intermediate and investment goods.

Other notable features were that:

* The wholesale price index of imported goods rose by as much as 49 percent and this is largely a reflection of the Rupee devaluation of November 1977. On the other hand, the wholesale prices of goods of domestic origin had risen by only 16 percent.

* The wholesale price indices of intermediate and investment goods had recorded an increase of about 30 percent over 1977. This increase partly reflects the higher costs of imports during the year, since imported goods account for a substantial part of the intermediate and investment goods category.

* All available indicators suggest that the average consumer price level was about 12 percent higher than in 1977. The wholesale price sub-index of consumer goods has registered an increase of 11.7 percent, while the cost of living index (Colombo City) has gone up by 12.1 percent.

* Commodity-wise classification of price increases reveals that the highest price increases were recorded by non-metallic products (+47.1 %), fuel and light (+41.4 %), textiles and footwear (+41 %), and paper, chemical products (+28 to 29 %). On the other hand, the food category has recorded a price increase of only about 10 percent and this was an important factor holding down the rise in the consumer price level.

Wages

The Central Bank's Wage Index showed that minimum wages of government employees which rose by 13 percent in 1977 rose once again by about 15 percent in 1978. The normal wage rate of clerical and technical employees rose by 12 percent, compared to an increase of 1 percent in 1977. Similarly, wages of minor employees rose by 16 percent and that of school teachers by 10 percent, as compared with increases of 2 percent each in the previous year. The major reason for this increase in money wage rate was the pay rise granted to government employees in December, 1977. Although money wages showed a substantial increase over the previous year, they remained constant throughout 1978. A more substantial wage increase was announced in November, 1978 but this would come into effect only in 1979. Allowing for the rate of inflation in the economy, real wages in this sector appear to have declined, except in the case of minor employees.

Drawing attention to the effects of declining real wages, the Central Bank states that "the available wage indices reflect minimum wages of representative grades and that they do not reflect additional emoluments such as overtime payments, increments, bonuses, and other incentive payments. There is some evidence that, faced with declining real wages, employees in public as well as private sectors have tended to supplement their nominal incomes by needless 'overtime' work beyond normal hours and by engaging in part-time private vocations, which is reflected by the high degree of absenteeism in normal work places. This is inevitable in situations where inflation is allowed to erode money incomes. Relating wages to productivity and judicious compensation for inflation are more appropriate remedies for this problem than attempts to eradicate such activity by fiat."

TABLE 14 — PRICES AND INFLATION

	1976	1977	1978	Percentage change in 1978
1. Cost of Living Index Colombo Town (1952 = 100)				
a. Annual index	200.7	203.2	227.8	+ 12.1
b. December index	201.5	204.6	239.3	+ 17.0
c. Sub index of items of domestic origin	195.5	200.6	228.3	+ 14.1
e. Sub-index of imported items ..	209.2	195.6	243.8	+ 24.6
2. Wholesale Price Index (1974 = 100)				
(a) All items — annual average ..	111.9	135.3	156.7	+ 15.8
(b) Domestic Group-sub-index ..	105.9	115.4	133.9	16.0
(c) Import Group — sub-index ..	95.4	93.0	138.8	— 49.3
(d) Consumer Goods	141.8	140.7	157.2	+ 11.7
(e) Intermediate Goods	111.6	117.8	152.4	30.3
(f) Investment Goods	114.5	130.6	169.7	— 29.5
(g) Textiles and Footwear ..	120.6	168.6	238.4	+ 41.4
(h) Paper products	114.2	117.6	152.8	+ 29.9
(i) Non-metallic products ..	138.0	172.7	254.1	+ 47.1
(j) Metal products	96.7	95.1	116.9	22.9
(k) Fuel and light	133.4	179.5	253.8	— 41.4
(l) Chemical and chemical products	85.5	62.7	80.5	+ 28.3
(m) Food — ..	110.8	140.8	155.5	+ 10.4

Government Finance

In the sphere of government finance, there was on the one hand an unprecedented increase in the government revenue. On the other hand, the expenditure side was characterised by a high level of underexpenditure (a short-fall of realised expenditure from the budgetary levels) particularly in the capital budget.

Some important changes are seen both in the level and the structure of the government revenue. The total revenue provisionally estimated at Rs. 11,567 million showed an increase of Rs. 4,881 million or 73 percent over the 1977 level. This was the highest revenue increase recorded in any single year in recent history. The government revenue/GNP ratio rose markedly from 20 percent in 1977 to about 30 percent in 1978. While revenue from all major taxes showed significant increases, the largest increase was from export duties. The higher export duties (principally on tea, rubber and coconut) introduced after the Rupee Devaluation of November 1977 (to siphon off a part of the higher income accruing to exporters) brought in a revenue of Rs. 4,247 million which was almost a 600 percent increase from the export duty revenues collected in 1977. In 1978 export duties became the largest single source of government revenue accounting for nearly 37 percent of the total revenue for the year. Export duty revenue as a proportion of the total export earnings of the country amounted to as much 32 percent in 1978 compared with only about 8 percent in 1977. Reflecting the higher import bill, the import duty revenue (Rs. 1,465 million) too has recorded an increase of about 183 percent over 1977. The increased turnover in the commercial and industrial sector led to a rise in the turnover tax revenue by nearly 60 percent and income tax collections rose by 20 percent during the year. An important structural change seen in the government revenue is the sharp rise in the relative share of taxes on foreign trade in the total revenue. Whereas during 1975-77, the taxation of foreign trade and payments (export and import duties and FEECS) contributed about 35 percent of the total government revenue, in 1978 this source yielded almost half of the government revenue.

It is customary in budgetary preparation to allow for about 25 percent under expenditure in the capital budget and about 2 percent in the recurrent outlays. According to the provisional data compiled by the Ministry of Plan Implementation, the actual under-expenditure in 1978 far exceeded these estimates and had reached "unprecedented levels". Almost quarter of the capital budget of 1978 had remained unspent by the end of the year. In most previous years the underexpenditures had been below 30 percent of the budgeted expenditure. Even in recurrent expenditure the extent of underexpenditure (which had been generally small in the past) has been tentatively estimated at around 25 percent. According to official sources the high level of under-expenditure is indicative of "various constraints and administrative impediments ranging from over-optimism at the budget preparation stage, unrealistic assumptions on the absorptive capacity of the economy, and perhaps most importantly, an inadequate implementation effort". The heavy underexpenditure was an important factor in the contractionary effect exerted by the government operations on the economy during the year under review.

The food subsidy expenditure in 1978 estimated at Rs. 2,184 million represented an increase of over 100 percent in relation to 1977. The rise in the food subsidy bill despite the withdrawal of the rice subsidy from about half of the population was the result of the higher rupee costs of rice and wheat flour imports following the Rupee devaluation, the higher world price of flour, the higher flour draw-off during the year and the higher local procurement price of paddy. The sharp increase in the flour subsidy from Rs. 127 million in 1977 to Rs. 1,010 million in 1978 was a principal factor in the higher food subsidy bill in this year.

The overall budgetary deficit during 1978 amounted to Rs. 5,051 million which represents an increase of 139 percent over the Rs. 2,117 million deficit in 1977. Foreign financing was the principal instrument in bridging the gap and amounted to 75 percent of the total deficit in 1978, as against 50 percent in 1977 and 33 percent in 1976.

TABLE 14 GOVERNMENT FINANCE (Rs. Millions)

	1976	1977	1978*	Percentage increase in 1978
1. Government Revenue ..	5750	6686	11566	+ 73.0
of which				
a. Export duties	421	620	4247	+ 585.0
b. Import duties	476	518	1465	+ 182.8
c. Turnover tax	711	663	1056	+ [illegible]
d. Income tax	926	1005	1213	+ 20.7
2. Taxes on foreign trade and payments as % of total Govt. revenue	34.3	34.8	49.4	+ 44.4
3. Government Expenditure ..	7848	7765	14726	+ 52.7
of which				
Current	5177	5672	9921	+ 75.0
Capital	2671	2093	4805	+ 129.5
4. Underexpenditure in the capital budget (%)		27	45-51**	
5. Net Food Subsidy	938	1043	2184	+ 109.3
of which				
a. Rice subsidy	680	893	1063	+ 27.6
b. Flour subsidy	53	127	1011	+ 696.0
6. Overall budgetary deficit ..	3044	2117	5051	+ 138.6
of which				
Foreign Financing ..	1035 (35%)	1070 (50%)	3788 (75%)	+ 25.0

* Provisional

** Estimated figure published by the Ministry of Plan Implementation

FOREIGN NEWS REVIEW

Production Increases in Asian Region

The developing countries in Asia recorded moderate overall economic progress and an increase in their per capita incomes although several of them faced setbacks in their balance of trade. An overall economic growth rate of 5 percent and a 3 percent increase in per capita income during 1978 were recorded in the developing countries who are members of the Asian Development Bank, the latest annual report of the A.D.B. has revealed.

The ADB's report for 1978 indicates that most of the twenty or more Asian and Pacific developing countries and regions, having business links with the Bank, have more or less increased their production in industry and agriculture and made substantial economic progress.

The overall national economic growth rate of these countries and regions in 1978 reached an average of 6 percent as against 4.7 percent in the previous year, with Thailand achieving 8.7 percent; Bangladesh 8.0 percent; Indonesia 7.5; Malaysia 7.1; Burma 6.7; the Philippines 5.8; Sri Lanka 5.7; and Pakistan also a relatively high growth rate. However, 1978 saw a decrease in India's growth rate from a level of 7.2 percent in the previous year to 3.5 percent. Fiji's growth rate also dropped to 3 percent from that of 4.3 percent in the previous year. (Sri Lanka's growth rate, according to latest official estimates, is estimated at 8.2 percent as against the 5.7 percent growth rate given to Sri Lanka by the A.D.B.)

Food production in these countries and regions reached 255 million tons in 1978, an increase of 11 million tons as compared with that of 1977, of which rice took up 194 million tons. During the year, the import of foodstuffs reached 10.3 million tons, equalling that of 1977 and 4.3 million tons less than 1976. Grain production in Bangladesh increased as high as 10 percent but there was a decrease in Malaysia and Vietnam.

The Bank said this indicates that "development efforts . . . are bearing fruit and that agricultural performance in the region is becoming relatively less vulnerable to the vagaries of weather."

It is significant that last year's net foodgrain imports by these countries remained at the 1977 level of 10.3 million metric tons, well below the previous year's imports of 14.6 million tons.

The most unfavourable development in 1978 was a "major reversal" in the balance of trade for developing countries that belong to the Bank, the ADB said.

After shrinking for two consecutive years, the report said the aggregate trade deficit of these countries doubled to an estimated $ 11.3 billion in 1978 from $ 5.5 billion the previous year.

Trade deficits widened and surpluses narrowed for almost all the developing member-countries last year, the report said. The main exception was Taiwan, which more than doubled its trade surplus to $ 1.68 billion from $ 826 million in 1977.

ASIAN TRADE BALANCES

Estimates of trade balances for selected developing member-countries (in millions of dollars)

		1977	1978
Bangladesh	..	715	780
Hong Kong	..	829	1,957
India	..	417	1,056
Indonesia	..	1,259	126
Malaysia	..	1,534	1,191
Pakistan	..	—1,276	1,433
Philippines	..	1,119	—1,782
Singapore	..	2,085	—2,900
South Korea	..	764	2,261
Sri Lanka	..	58	— 933
Taiwan	..	826	1,683
Thailand	..	1,126	—1,286

Imports of developing member-countries grew 23.3 percent last year as against 18.8 percent in 1977. Export growth declined to 16.7 percent from 19 percent.

The Bank had no figures on 1978 borrowings, but said they must have been "substantial" to meet this trade deficit. Without naming any countries, it said the debt-service burdens of a few "seem to have been pressing against prudent limits".

The Bank said imports jumped partly because some countries had eased trade and tariff barriers, mainly Taiwan, India and South Korea. India's trade deficit ballooned to $ 1.06 billion from $ 417 million, and South Korea's tripled to $ 2.26 billion from $ 764 million.

The report said continuing high economic growth rates in most member-countries also tended to increase their need for imports.

Control of inflation also was described by the bank as "satisfactory" for most countries in the region. Consumer prices rose an average 8.2 percent last year among all reporting countries except India, where they rose only 2.5 percent.

The report said these figures compared well with an average 8.2 percent rise in prices for countries in the Organization for Economic Co-operation and Development.

The report included these other trends:

—Overall dependence on imported energy was "significantly higher" last year among developing member countries than in 1977, as their growing economies demanded more oil.

—There was a sharp jump in the rate at which financial resources flowed into developing member-countries last year. The Bank had no figures to back up this conclusion, but said it must have happened because international reserves reported by a nearly complete list of these countries rose to $ 30.8 billion from $ 26.9 billion despite the growing trade deficit.

EDUCATION

Myths and Realities of Education in Sri Lanka

"Education reforms will pave the way to a long-term solution of the causes of most of our troubles".

—Ansa Ved, in an astrological forecast for 1979 titled "1979—a year of political change", published in a local weekly.

You cannot blame the astrologer when he draws such conclusions but when educationists, social planners and other 'experts' make such generalisations they are more than clouding the issues. One of the basic premises on which educationists and many 'experts' have based their conclusions in recent years has been on observations such as the following by Louis Emmerij, a prominent member of the ILO's World Employment Programme in 1971, that "education is definitely responsible for one of the problems of structural imbalance (in the economy); that of matching employment opportunities and expectations. This is one of the lessons to be drawn from Columbia and Ceylon . . ., in particular the latter". Emmerij has suggested here that the key to educated unemployment is to be found in what the educational system does to the career aspirations of students, and he hints that this source of structural imbalance could be removed by appropriate educational reform; a myth so firmly held and profoundly stated by many educational 'experts'.

Few have realised that social and educational realities are overlaid with myths in Sri Lanka, and that these obscure many of the country's actual problems and only confuse priorities. One of these myths exploded in the course of a recent presidential address at the annual sessions of the SLAAS was precisely this area, of the relationship between education and employment in Sri Lanka. Put across convincingly, in her address as President of the Section on Social Sciences, Swarna Jayaweera emphasised that the education system has been mistakenly held responsible for the rapid increase of unemployment and for its attendant social and economic ills.

Over the last ten years dissertations at foreign centres have dissected the educational system as a "classic" example of a structure that is 'dysfunctional' in the context of development needs. Local observers have echoed this view and we have been practically conditioned to accepting assumptions that the root cause of our present situation is the fact that, as the ILO report stated in 1971, the content of education is not related to the occupational needs of the economy, that the kind of education imparted and aspirations inculcated are at variance with job opportunities; and that Sri Lanka has overeducated its labour force and created a "mismatch" between expectations and employment opportunities.

The facts, however, prove that attitudes to employment are created by the employment structures rather than the school curriculum and Professor Jayaweera leads us quite logically to the conclusion that "it would be as naive to say that education is the cause of unemployment as to claim that increased enrolments in education ensure rapid economic development". Her argument runs as follows:

"In its historical evolution in the nineteenth century the education system was used to create a dualistic society in which the elitist products of western-oriented English schools, and the masses relegated to third class "vernacular" schools followed two different lifestyles and lived in separate educational, cultural and social worlds. The structure of this educational system and its content was determined by the needs of the colonial economy in which the limited demands of the plantation sector on local skills, the neglect of domestic agriculture, the absence of industrialisation, and the expansion of the administrative services and the professions placed a high premium on a literary curriculum geared to English examinations. Even the local elite which established itself through entrepreneurial activities in agriculture and business turned to the local educational system, and to Oxbridge to equip their sons for the professions and for politics. In the twentieth century the gradual Ceylonization of the higher levels of the administrative hierarchy enabled more Sri Lankans to join the elite through the education system, and achievement in education became firmly linked with employment in the service sector. Excluded from this new world by language and education the majority continued in "vernacular" schools which reflected the poverty of peasant agriculture, rural crafts and urban slums. The development of the educational system since the thirties was similarly determined by environmental demands. . . .

The colonial economy continued without structural changes with its heavy dependence on external market forces. Agricultural settlement policies were conceived largely as welfare measures and failed to inject any dynamism into the rural sector. The incentive structure was not affected by industrialization. Salary and wage differentials reinforced the demand for professional and clerical skills. Till the sixties educational development was thus determined by social and cultural imperatives rather than economic pressures. Given the psychological and social climate of those years expansion was inevitable. Replication of the system took place largely in the absence of radical economic changes. Imbalance between education and employment opportunities therefore reflected the dichotomy between social and economic development in national policy which education was powerless to bridge.

The so-called malfunctioning of the education system during these decades must be viewed also in the context of rapid population growth and economic stagnation. Falling prices for exports, adverse terms of trade, foreign exchange constraints and inflation in industrialized countries all acted to slow the rate of economic growth in a country in which the average annual population growth rate was between 2.8 percent and 2.7 per cent for nearly twenty years. The education system in fact contained the increasing population in the fifties which then erupted into a shrinking labour market in the sixties. In a situation in which the economy has not developed sufficiently to absorb this labour force, large-scale unemployment was inevitable whether education expanded or not. Education merely converted some of the unemployment into the "educated unemployed".

Market demand as distinct from development needs created conditions in which at least 70 percent of the 15-25 years age group failed to obtain employment during the last ten years. It is contended that negative attitudes and unrealistic aspirations inculcated in schools preclude large numbers of unemployed and particularly O.L. unemployed from using available employment opportunities. The majority (60%) of the unemployed and for that matter the employed are school "drop-outs" and have had only a primary or incomplete secondary education. Recent local surveys indicate that the aspirations of the majority of the unemployed are not unduly high or unrealistic.

Many O.L. qualified were prepared to accept any employment. Several survey findings in recent years have shown that both men and women are concerned more with income and security than with status concepts.

It is true that more of the O.L. and A.L. qualified seek professional/sub-professional and white collar employment. In a country in which education leads to high-level employment, government is the major employer, income generation continues to be minimal in agriculture and industries, and self-employment entails risk and poor returns without the basic infrastructural facilities, then job preferences of secondary school leavers would seem to be determined in fact by a realistic appraisal of incentives. Parents in particular have a clear perception of what they aspire for their children. The middle class looks at the international labour market and the poor naturally want their children to escape from their depressed circumstances. Attitudes to employment are created by the employment structure rather than by the school curriculum, and it would be as naive to say that education is the cause of unemployment as to claim that increased enrolments in education ensure rapid economic development.

Vocational Fallacy

She emphasised that those who speak of solving economic problems through the school curriculum have overlooked the fact that the history of education in this country records an endless series of unsuccessful attempts to adapt the content of education to meet occupational needs. The unsuccessful effort in the seventies to diversify the arts curriculum in the universities to meet development needs is one more example of the futility of restructuring education on the basis of theoretical manpower forecasts. The apparent oversupply of graduates in areas such as estate management and development studies as a result of the introduction of these job-oriented courses exacerbates unemployment, a situation in which these graduates are even ineligible for teaching posts.

A review of past trends throws up two definite facts. Firstly, that education can produce skills but that the demand for skills is created by the economic structure; and that the use of skills is determined by the economy. Aspirations cannot be changed and employment opportunities cannot be increased by education alone. Swarna Jayaweera quoting the experience of other developing countries in similar circumstances, of what one educationist terms the 'vocational fallacy' in educational development, shows that Ghana is an outstanding example of an African country where vocationalising school education produced poor results; while Burma is one outstanding example of an Asian country. Burma has invested heavily in technical education but has been overtaken by unemployment of skilled technical personnel.

The other fact is that the adaptation of education to the environment in societies with unequal living standards among different sections of the population, tends to reinforce inequalities. Education in the Bantustans in South Africa, the product of apartheid, is based on this principle of adaptation. Jayaweera argues "when colonial policy-makers urged the adaptation of education to the needs of the agricultural community and when planners in institutions in industrialized countries speak of education for rural development or of "appropriate curricula" what was and is envisaged in actual fact is a second class education for sections of the population who are already victims of discriminatory socio-economic policies. It is fanciful to think that a special curriculum can check rural exodus. Rural development is tied up with such issues as the prices of primary products in the world market, and the regeneration of rural society can only be achieved by multi-pronged policies in which education has an important but secondary role".

Her conclusion is that education in Sri Lanka has helped to promote income distribution and accelerated social development. But since the adequate provision of primary, secondary and University education, as well as employment-oriented education depends largely on the availability of resources and the absorptive capacity of the economy, education cannot transform society without the support of other policies and institutions. The problems in education are the result of distortions in the development process, and their ultimate solution must lie in national socio-economic policies and in a restructuring of international economic relations.

High Participation Rate Questioned

Among the other myths which Prof. Jayaweera, in her address, attempted to blast was the widely held belief that Sri Lanka has a very high rate of participation in education—one of the highest in the economically developing world, and particularly in Asia. In her opinion "we in Sri Lanka have subscribed to this view for almost two decades and have become smug, self satisfied and complacent and even superior in our attitude to the problems of literacy and enrolment in schools . . . There was a degree of justification for such satisfaction till the early 60s, but the euphoria generated has blinded us to the fact that education participation has tended to decline during the last ten years."

In quantitative terms the proportion of the 5 to 14 years age group in school increased (over seven years) from 57.6% in 1946 to 71.6% in 1953 and (over the next ten years) to 75.1% by 1963; with the proportion of the 15 to 19 years age group increasing from 11% to 36% in ten years. Even the University of Ceylon was compelled to change its elitist admission policies so that its student population increased from 2,030 in 1950 to 4,723 in 1960 and then to 14,432 in 1964. Inevitably the literacy rate also increased from 57.8% in 1946 to 71.6% in 1963.

The fifties and sixties witnessed a similar expansion of educational opportunities in many other ex-colonies, and UNESCO was sufficiently emboldened in 1960 to set a target of seven years of universal elementary education by 1980 for the ESCAP region. In 1965 this Plan was revised and Sri Lanka was one among only six countries expected to achieve universal enrolment before 1980. Sri Lanka with a primary school enrolment ratio of 85.8 percent in 1965 was among the first group of countries expected to have universal primary education before 1980. "Regrettably, however, Sri Lanka is the only country in this group whose participation rate actually declined in the next decade to 75.1% in 1975. Of the other countries, the Republic of Korea has achieved universal primary enrolment, the Philippines and Singapore were very near it and Malaysia and Thailand not far behind by 1975. One country in the next or intermediate group, Mongolia, has almost as high a participation rate as Sri Lanka, and Burma, Indonesia, Iran and India are catching up. Contrary to the image of Sri Lanka as one of the most educationally developed countries in the region it is apparent that educational opportunities have decreased even at the basic primary school level".

At the University student numbers declined from 11,237 in 1967, fluctuated around 12,000 till 1975 and again reached the level of the mid-sixties in 1977. Meanwhile, the proportion of the 20 to 24 year age group in the universities and other tertiary education institutions was reduced from the already low figure of 1.6% in the sixties to 1% in 1975—one of the lowest in Asia.

Professor Jayaweera points out that in Sri Lanka just as much as the increase in the literacy rate was the result of rapid educational expansion, declining enrolment has affected the literacy levels of the younger age groups. The overall literacy rate of 78.1 percent at the 1971 Census has blinded us to several disturbing features and trends.

(i) The literacy rate for males has not changed since 1963 (85.2%). The increase in the national rate is solely due to the rising level of female literacy in the rural sector. (The male literacy rate has remained at 85 percent for fifteen years though in most countries there has been a steady increase)

(ii) Urban literacy has declined for both males and females.

(iii) The literacy rates of the 10 to 14 age group—urban and rural male and female—have registered a decline in the inter-Census period.

(iv) Urban and male literacy rates have declined in the 15 to 19 age group.

It is likely too that the declining participation rates in schools in the seventies will have a corresponding effect on the present literacy rates of the younger age groups.

What she regards as other myths and fallacies are:

"A myth which seems to have penetrated even official documents—namely, that over half of the University student population consists of women students;"

"The illusion that there is statutory provision in Sri Lanka for compulsory education till the age of 14;"

"That education is synonymous with formal schooling and university education (this has resulted in high expectations from schools and the University)"

COMMODITIES

SPICES

Exports—no improvement

Export earnings from spices in 1978 reached Rs. 273 million, representing an increase of 75 per cent over 1977 figures, a principal contributory factor being increased world market prices. The average F.O.B. prices of all spices increased, with the percentage increase ranging from 39 percent in the case of pepper to over a 100 percent for cloves, nutmeg and cinnamon.

On the contrary, quantities of different spices offered at the Colombo Brokers Association weekly auctions have not been very encouraging. The total volume of spices offered for auction in 1978 was 11 per cent below that of the 1977 volume. Except for cardamoms and cinnamon which indicated an increase in volume during the year all other spices recorded a decline, particularly cloves, mace and pepper.

Table I shows the volumes offered for auction and volumes exported in 1977 and 1978.

Of the quantities exported in 1978, substantial increases were recorded by cardamoms, nutmeg, mace and pepper. However, these increases were offset by a decline in exports of cloves by 76 percent and cinnamon by 24 percent to register an overall marginal decrease of 0.10 percent in 1978, when compared with 1977.

An interesting feature of comparison in the above table is between the quantities entering the auctions and that exported, where it is seen that the former is only a fraction of the latter, clearly indicating the increasing tendency amongst sellers to bypass the Public Sales Room.

Inspite of a poor overall export volume favourable world market prices helped to boost Sri Lanka's spice export earnings considerably. Although the Public Auctions recorded increased prices only for cardamoms, cloves and cinnamon there was an increase in average F.O.B. prices recorded for all spices. The most significant increases were recorded by cloves, nutmeg and cinnamon where levels of over 100 percent were achieved in comparison to 1977 price levels.

Details of these prices are shown in Table II.

With total export earnings for 1978 reaching Rs. 273.84 million there was a 75 percent increase in value when compared with 1977. This increase is largely reflected in the earnings from cinnamon which went up over 100 percent in 1978 and contributed to over 60 percent of the total spice export earnings. Increases in earnings were also recorded by all other spices, except cloves where earnings declined by about 60 percent. It is of interest to note that while in 1977 cloves was the second major contributor towards spice export earnings, in 1978 it had

TABLE I
Volume of Spices Auctioned and Exported in 1977 and 1978
(Metric Tons)

Commodity	*Volume* 1977	*Auction* 1978	*% Over* 1977	*Volume* 1977	*Exports* 1978	*% Over* 1977	
Cardamoms	50.27	70.49	+40.20	71.48	115.36	103.00	0.61
Cloves ..	12.89	2.34	-82.00	978.21	229.83	-76.00	0.01
Nutmeg ..	4.54	4.43	— 2.60	144.88	370.56	155.80	0.01
Mace ..	0.03	0.01	-63.50	8.43	24.48	190.40	0.00
Pepper ..	126.99	73.08	-42.00	632.22	1205.48	90.70	0.06
Cin. Quills	37.22	54.78	47.20	5208.24	5182.12	— 24.00	0.01
Cin. Chips	—	—	—	533.12	404.88	— 0.50	—
Total ..	231.95	205.72	-11.00	7574.59	7566.12	0.10	—

Source: *Produce Brokers Reports and Sri Lanka Customs.*

TABLE II Average Prices—Colombo Auctions and F.O.B. 1977 and 1978 (Rs./Kgm.)

	Auction Price 1977	1978	*% Over* 1977	*F.O.B. Price* 1977	1978	*% Over* 1977
Cardamoms ..	199.27	228.22	14.50	137.63	271.37	97.20
Cloves	88.04	119.30	35.50	59.22	122.96	107.60
Nutmeg	39.29	27.85	−29.00	11.27	23.11	105.00
Mace	36.21	24.88	− 31.00	23.60	34.80	47.50
Pepper	28.31	25.77	− 9.99	21.00	29.15	38.80
Cinnamon .	14.95	15.58	4.20	13.84	30.52	110.40

Source: *Produce Brokers Reports and Sri Lanka Customs*

TABLE III Value of Exports — 1977 and 1978 (Rs. millions and SDR millions)

Commodity	*Val.* 1977 *Rs. Mill.*	*Val.* 1978 *Rs. Mill.*	*% over* 1977	*% of total*	*SDR Val.* 1977	*SDR Val.* 1978	*% over* 1977
Cardamom ..	9.84	32.28	310.2	14.8	0.98	2.06	110
Cloves ..	57.93	28.27	— 51.0	10.3	5.79	1.44	— 75
Nutmeg ..	1.63	8.56	424.3	3.1	0.15	0.44	175
Mace ..	0.20	0.85	328.1	0.3	0.02	0.04	100
Pepper ..	13.28	35.14	164.6	12.8	1.33	1.79	35
C. Quills ..	71.74	158.14	110.4	57.8	7.17	8.08	13
C. Chips ..	1.83	2.53	38.4	0.9	0.18	0.13	— 28
Total ..	156.54	273.84	74.90	100.0	15.65	13.99	— 11

Source: *Sri Lanka Customs*

fallen to fourth place Cardamoms and pepper contribted 15 per cent and 13 percent, respectively towards total earnings.

The situation should not be regarded as too optimistic particularly when performances are compared in terms of SDRs, as a decline of 11 percent has been recorded in 1978; the corresponding values being SDR 13.99 million in 1978 as against SDR 15.65 million in 1977. Amongst individual spices earnings from cloves in SDR terms declined by 75 percent while all other spices recorded substantial increases. (See Table III)

The market for cardamoms opened at Rs. 200.00 per kilo in January and moved up steadily in February and March. However in April and May the market was dull and inactive. Increased foreign inquirie strengthened the market in June with a slight decline in August/September and thereafter better demand and greater foreign inquiries resulted in a sharp increase in a total quantity of 10,000 kilos for sale in December alone. December also recorded the highest prices for cardamoms at Rs. 297.90 per kilo. In comparison to cardamoms the market for all other spices remained quiet.

Once again Sri Lanka has not been able to exploit the favourable world market for spices in 1978. Whilst 1977 recorded increased exports of 13 percent over 1976, in 1978 there has been a marginal decline of 0.1 percent over 1977 figures, indicating stagnation in production.

COCONUT

Recovery in 1978

Coconut production and exports appear to have made a recovery in 1978. This is the picture that emerges when the volume of production and value of exports for the two years are compared. But, when considered in the perspective of normal production years the recovery of 1978 is not as dramatic as the 1977/78 comparative figures reveal. Coconut production in 1977 had been the lowest recorded for nearly two decades and had resulted in a crisis for the Dessicated Coconut and Copra industries and posed a threat of uncertainity for the future of the entire coconut industry. Fortunately, this production slump did not continue in 1978, though the signs of improvement should not be regarded as too optimistic. The estimated production of 2,208 million nuts in 1978 compared to the 1977 figure of 1,831 million nuts may seem a satisfactory figure, but it remains far below the production figures of the pre-1976 period. Production over the 10 years from 1970 has been estimated as follows:

Year	**Total Production** *(Million nuts)*	**Exports** *(Million nuts)*
1970 ..	2,445	905
1971 ..	2,668	1,109
1972 ..	2,828	1,231
1973 ..	1,946	351
1974 ..	2,030	495
1975 ..	2,585	914
1976 ..	2,330	794
1977 ..	1,825	233
1978 ..	2,208	507
1979 ..	2,225 (provisional estimate)	596

Sorce: *Coconut Marketing Board and Census and Statistics Department*

Together with the lowest ever production of 1,831 million nuts in 1977, a far greater percentage of coconut is said to have been utilised for both industrial production and consumption when compared with the pre-1977 period. Observations have been made that coconuts produced before 1977 had been larger in size and had a higher utility value, particularly for D.C. Copra and Coconut Oil. Thus, earlier if the output obtained was approximately 135 kgm. for 1,000 nuts, in 1977 output had dropped to approximately 120 kgm. for 1,000 nuts. As a result more nuts have had to be used in the manufacture of both D.C. and Copra production. (Also the housewife, knowingly or unknowingly, is reported to have used more kernel for curries, sambols etc.) Due to the poor quality of nuts a comarpison with previous years of 'nut equivalents' in the production of D.C. Copra etc. or the computation of economic returns on this basis may tend to give a distorted picture.

Since coconut is an important food item in the daily diet of the people of this country the shortfall in production has resulted in consumer price levels going up to nearly Rs. 1/- per nut in urban areas as against 32 cts. per nut in 1975 and 45 cts. in 1976. The situation in 1977 was characterised by a drop in the quantities available as well as quality which also resulted in the actual value of nuts being reduced in rupee terms. In 1978, however, there was a favourable change in this trend. Though the qualitative and quantitative performance in 1978 did not improve to the pre-1977 level there was a definite improvement over that of the 1977 situation, resulting in a slight drop in prices. But as would normally have been expected with increased supplies, there was no impressionable drop in local prices. This was due to the regulatory "valve" of control manipulated in favour of exports. With the increase of exports of DC, Coconut Oil and Copra more nuts were utilised for industrial purposes, and the price level was thus determined by the export prices. The extent to which prices could have fallen from the high prices that prevailed in 1977 was therefore limited. Less nuts were also made available for export. In previous years local consumption of the coconuts produced was around 50 percent, with the balance 50 percent going into exports. In 1977 and 1978 local consumption in the form of food nuts absorbed nearly 75 percent of the total crop.

The export situation, however appeared somewhat brighter. Even in 1977, though nut production had reached its lowest levels the general export performance seemed satisfactory despite a smaller quantity available for exports. There was a slightly higher value in rupee terms in 1977 as compared with that of the 1976 returns on exports. But in 1978 the rupee value of export earnings reached unprecedented levels and was up by 140 percent when compared to the earnings in 1977. On kernel products alone earnings were up by 188 percent with coconut oil exports going up as much as 2,683 percent. Export of kernel products had been restricted to a large extent in 1977 due to a short supply of nuts but was liberalized in 1978 within certain limits.

When comparing the performance in foreign trade, however, the variations in values of currencies and exchange rates have also to be considered. With the indirect devaluation in late 1977 export earnings were naturally expected to go up by 100 percent. But even making allowance for this 100 percent, the increase in export earnings was at least 46 percent when compared with that of the previous year. In SDR terms also the increase in the value of coconut exports was about 40 percent when compared with the previous year.

In terms of nut equivalent the quantity exported in 1978 had more than doubled. This export performance had been regarded as very encouraging when compared with the performance of 1977. In the export of by-products, particularly that of fibre, there was a drop in the quantity exported, though values showed an increase over that of 1977. The quantities of both bristle fibre and twisted fibre exported in 1978 were much lower than those of the previous year. Coconut shell charcoal exports recorded an increase in terms of both quantity and value, but the quantities of coconut shell flour and coconut shells exported in 1978 were less than those of the previous year. The quantities of activated carbon exported continued to register an increasing trend, while prices were very much better for this item than in previous years. Another significant by-product exported was that of coconut ekels. On the whole, however, the year 1978 was generally successful for the export trade in coconut products and forecasts for 1979 are even more optimistic. A comparative picture of the export situation in 1977 and 1978 emerges in the table at left.

EXPORTS OF COCONUT PRODUCTS—JANUARY-DECEMBER 1977/78

	Volume (metric tons)			Value (Rs. '000)		
	1977	1978	% Variations	1977	1978	% Variations
1. Coconut Oil ..	2,153	28,267	1228.2	11,390	317,225	2682.9
2. D.C. ..	31,597	40,664	29.7	323,450	626,263	93.7
3. Copra ..	276	924	234.7	2,188	9,811	348.4
4. Fresh Nuts ..	—	—	—	—		
5. Sub-Total Kernal products ..	236.2 (Million Nut equivalents)	507.20	117.4	336,957	953,299	182.9
6. Mattress Fibre	51,997	54,253	4.3	52,576	96,724	37.8
7. Bristle Fibre ..	12,379	9,350	—24.5	45,914	64,774	41.0
8. Twisted Fibre	29,135	24,296	—13.6	47,249	68,258	44.5
9. Coir Yarn/Twine	2,081	2,077	.2	6,803	13,584	99.7
10. Sub-Total (Fibre Products) ..	94,592	89,976	4.8	1525.42	245.370	60.9
11. Coconut Shell Charcoal ..	28,212	31,058	10.0	21,189	52,211	146.4
12. Coconut Shell Flour ..	738	696	—5.7	525	973	85.3
13. Coconut Shells	1,838	1,010	—45.0	596	636	6.7
14. Coconut Shell Activated Carbon	401	696	73.6	2,174	8,186	276.5
15. Sub-Total (Shell Products) ..	598,316 (In '000 Shell eqt.)	668,533	11.7	24.484	62.006	153.2
16. Coconut Ekels	2,523	5,921	135.6	2,268	8,893	292.1
17. Other By Products ..	—	—	—	1,376	6,672	384.8
18. Sub Total (Non Kernal Products)	—	—	—	180,670	322,941	78.7
19. Total value of All products ..	—	—	—	517,607	1,276,240	146.5

Proportional Representation – An introduction

G. R. Tressie Leitan

The Party List System of Proportional Representation has been accepted by law for elections to the National State Assembly and the Local Government Authorities. With the Local Government elections in May this new system will come into effect for the first time in Sri Lanka. In this paper Dr. Tressie Leitan, a lecturer in political science and public Administration of the University's Colombo Campus, discusses the broad features of this system and in a subsequent paper will discuss the implications of the Sri Lanka system.

There is general agreement today that the expression of the wishes of the people through the ballot box, is a necessary and preliminary step to genuine democratic government. Yet the method and machinery by which elections are conducted vary from country to country; and the arguments of some writers are that the confusions and abuses which are apparent in the political scene today are to be attributed to outmoded electoral system.

The method of election adopted in Britain and the U.S.A. as well as in a number of Commonwealth countries (and which has prevailed in Sri Lanka upto the present) is the relative majority or the "first past the post" system. Most Western European countries on the other hand adhere to some form of Proportional Representation.

The Relative Majority System

According to the relative majority system, the candidate who secures the highest total of votes in each constituency (which returns only one member)[1] is declared elected even though he fails to obtain an absolute majority (more than half the votes cast). Thus in a particular constituency, the winning candidate although he has polled the highest number of votes, may in point of fact have obtained only a minority of votes in that constituency i.e. if more than two candidates contest the elections the combined votes of the rejected candidates may well outnumber the votes obtained by the victor.[2]

This often leads to a situation where a party wins a clear majority of seats in the national legislature when it has polled less than half the votes cast in the country as a whole. The system can be criticised therefore on the grounds that it frequently gives the governing power in the parliamentary cabinet form of government to a party which has not won the support of a majority of voters. This means in effect that the number of seats won by each party does not reflect correctly its electoral support judged on a nation-wide basis.

In Britain, for instance, between 1922 and 1966 only two governments (1931 and 1935 Coalitions) obtained more than half the total number of votes cast in a general election, and in fact in 1929, 1951 and 1974 (February) the government party polled less votes than the largest single party which was in the opposition.

It also follows therefore that the governing party can secure the passage of legislation which is fundamentally opposed by the other parties. In this connection, the nationalization programme of the British Labour Government can be quoted as a case in point. The Labour Party which had obtained a majority of 146 seats in the British House of Commons at the election of 1945 was also (despite opposition from the other parties) able to carry out its nationalization programme. Yet the Labour Party had gained only 47.8 of the votes cast.

Advocates of this system however argue that it is neither necessary nor desirable to have mathematical exactitude in the representation of groups within the electorate. It is sufficient, they aver, if the composition of the legislature reflects broadly, the main trends of political opinion.

However, the system often results in startling discrepancies between the votes obtained by each party and its strength in the legislature. Table 1, on the following pages relating to the British elections of 1970 and 1974, gives an idea of this discrepancy.

It can be seen, for instance, that in February 1974, the Labour Party won the elections with a total of 301 seats as against 296 obtained by the Conservatives yet its percentage of votes (37.2%) was in fact lower than that obtained by the Conservatives (38.1%). In October 1974 the Labour Party which obtained 50.2 percent of the seats, polled only 39.2 percent of the total votes; the Liberal Party on the other hand which polled 18.3 percent of the votes obtained only 13 (or 2.04%) of the seats.

This discrepancy between votes and seats obtained by each party is quite evident in the election results in Sri Lanka also. Tables 2 and 3, containing the election results of 1960-1977, illustrate quite clearly the differences between these two factors.

For instance, in the election of March 1960 although the United National Party won a total of 50 seats for one-third of the total

1. The multi-member constituency is also used sometimes, the voter being entitled to as many votes as there are seats to be filled.
2. Under the majority system of election, sometimes a second ballot is held between the two candidates who have obtained the highest totals, so that the winning candidate thereby obtains an absolute majority of votes.

TABLE 1

RESULTS OF ELECTIONS (1970 AND 1974) IN BRITAIN

	Parties	*Votes*	*Seats*	*Percentage of total votes*	*Percentage of total seats*
General Elections 1970	Conservative	13,145,123	330	46.4	52.4
	Labour	12,179,341	287	43.0	45.6
	Liberal	2,117,035	06	7.5	0.9
	Others	903,299	07	3.1	1.1
General Elections Feb. 1974 ..	Conservative	11,924,755	296	38.1	46.6
	Labour	11,654,726	301	37.2	47.4
	Liberal	6,053,470	14	19.3	2.2
	Others	1,690,275	24	5.4	3.8
General Elections Oct. 1974 ..	Conservative	10,428,970	276	35.8	43.5
	Labour	11,468,136	319	39.3	50.2
	Liberal	5,346,800	13	18.3	2.4
	Others	1,944,700	27	6.6	4.2

Source: *Parliamentary Elections in Britain.* (Central Office of Information London June 1976).

seats in the House of Representatives) it polled only 29.62 percent of the votes. In July 1960, its percentage of votes in fact increased to 37.57 per cent. Yet it gained only 30 seats (19.9%) while the Sri Lanka Freedom Party, while winning 75 seats (or 49.7%) polled only 33.59 percent of the votes.

Similarly in 1970 although the UNP polled 37.92 percent votes it won only 17 (or 11.3%) of seats whereas the SLFP obtained 90 (or 60%) of the seats while it polled a lower percentage than the votes obtained by the UNP.

Again at the last general election of 1977 the UNP was swept into power with a total of 140 (or 83.33%) of the seats in the legislature (the National State Assembly) while obtaining 50.92 percent of the votes cast; the SLFP although it won only 8 seats actually polled 29.72 percent of the votes.

Yet another effect of this system is that smaller parties tend to get underrepresented. The number of seats won by Britain's Liberal Party for instance (as is evident from the figures given earlier) has consistently been very much less than in proportion to the votes it has polled. For instance, in 1964 the Liberals received 11.2 percent of the votes cast, yet won only 9 seats although proportionately it would have been entitled to 70 seats; and in October 1974 while it only obtained 13 seats (see Table 1) it should have obtained 116 seats in proportion to the votes polled.

In Sri Lanka at the last General Election (1977) while the Lanka Sama Samaja Party and the Communist Party polled 3.61 per cent and 1.98 per cent respectively of the votes, neither party obtained a single seat.

In fact, the verdict of Enid Lakeman on the relative majority system of election is that:

"It cannot be relied upon either to give a parliament reflecting all the main trends of opinion, or to place in power a government backed by a majority of the electorate or even by the largest single body of voters . . . . it cannot be relied upon either to give one party power to govern unhindered according to its own ideas, or on the other

TABLE 2

GENERAL ELECTIONS IN SRI LANKA—PERCENTAGE OF SEATS WON IN RELATION TO VOTES. (1960 AND 1970)

General Election	*Party*	*Seats Won*	*Percentage of Seats*	*Percentage of Votes*
March 1960 ..	United National Party	50	33.1	29.62
	Sri Lanka Freedom Party	46	30.5	21.12
	Lanka Sama Samaja Party	10	6.6	10.50
	Communist Party	03	2.0	4.62
	Mahajana Eksath Peramuna	10	6.6	10.62
	Tamil Congress	01	0.7	1.25
	Federal Party	15	9.9	5.75
	Jathika Vimukthi Peramuna	02	1.3	0.36
	L.P.P.	04	2.6	4.08
	S.M.P.	01	0.7	4.79
	S.L.J.P.	01	0.7	0.36
	D.B.P.	01	0.7	0.32
	Independents	07	4.6	8.85
	Others	0	0.0	1.78
July 1960 ..	United National Party	30	19.9	37.57
	Sri Lanka Freedom Party	75	49.7	33.59
	Lanka Sama Samaja Party	12	7.9	7.36
	Communist Party	04	2.6	2.96
	Mahajana Eksath Peramuna	03	2.0	3.38
	Tamil Congress	01	0.7	1.54
	Federal Party	16	10.6	7.19
	J.V.P.	02	1.3	0.46
	L.P.P.	02	1.3	0.96
	Independents	06	4.0	4.62
	Others	00		0.37
1970	United National Party	17	11.3	37.92
	Sri Lanka Freedom Party	90	60.0	36.63
	Lanka Sama Samaja Party	19	12.7	8.75
	Communist Party	06	4.0	3.42
	Mahajana Eksath Peramuna	00	0.0	0.94
	Communist Party	00	0.0	0.07
	Tamil Congress	03	2.0	2.33
	Federal Party	13	8.7	4.96
	S.M.P.	00	0.0	0.41
	Independents	02	1.3	4.56

Source: *Economic Review, May 1977.*

TABLE 1

GENERAL ELECTIONS (SRI LANKA) 1977

Political Party	*Seats*	*% Seats*	*% Votes*
United National Party	140	83.33	50.97
Sri Lanka Freedom Party	08	4.76	29.72
Lanka Sama Samaja Party			3.61
Communist Party	—	—	1.98
Mahajana Eksath Peramuna	—	—	0.38
Tamil United Liberation Front	18	10.71	6.75
Ceylon Workers Congress ..	01	0.06	1.09
Independents	01	0.06	5.65

hand, to produce government by consent"[3]

Proportional Representation

These deficiencies of the relative majority method of election have cast doubts about the democratic nature of the system and have led critics to recommend the adoption of some form of proportional representation.

While a number of variations of the system of proportional representation exist, the most widely used seem to be the Party List System and the Single Transferable Vote.

The Party List System is accepted in one form or another in the Scandinavian countries, in Belgium, Holland, Italy and Switzerland; it was also adopted by France under the Fourth Republic. In accordance with the constitution of the Democratic Socialist Republic of Sri Lanka (1978) (Section 99) and the Local Authorities (Special Provisions) Law No. 24 of 1977, the party-list system of proportional representation has been accepted for elections to the National State Assembly and to Local Authorities, respectively.

According to the Party List System, in every constituency, (which has to be a multi-member constituency) each political party puts forward a list of its candidates for the constituency, the number of candidates nominated generally corresponding to the number of seats to be filled. The order in which the names appear on each list is decided by the political party, so that this system gives the party machine a larger degree of power and limits the freedom of choice of the individual voter.

Under what is called the "blocked list" system the voter is required to vote en *bloc* for the entire party list of his choice. This is the method which is to be adopted in Sri Lanka, but with variations.[4] He is not permitted to divide his vote between candidates of rival parties. Under variations of this system, cross-voting between party lists is allowed, so that a greater amount of discretion is allowed to the voter either to vote for the candidates of a single party or to split his vote among different parties.

As already pointed out, all constituencies are multi-member constituencies. Within each constituency therefore, following the voting, seats are allocated to the contesting parties on the basis of an electoral quota, which is determined by dividing the number of votes cast by the number of seats. For instance, in a constituency with 200,000 valid votes containing 5 seats, the quota would be 40,000. The votes obtained by each party list is then counted, a list obtaining 40,000 seats being entitled to one seat, another securing 80,000 to two seats and so on. A party which is entitled to two seats gets the candidates whose names appear first and second on its list elected.

In practice, since party lists rarely obtain exact multiples of the quota, the votes obtained by each party over and above the quota (or its multiples) can be weighted in different ways. The two most commonly used are the "largest remainder" and the "highest average" methods. Under the "largest remainder" system the party which has the highest number of votes left over after the seats are allocated on the basis of the quota gets an additional seat. For instance i.e. in a five-member constituency, where the quota is 40,000, the results are as follows:

Parties	*Total Votes*	*Seats allocated on basis of quota*	*Remainder of Votes*
A	93,000	2	13,000
B	58,000	1	18,000
C	49,000	1	9,000

According to the largest remainder method the 5th seat would go to party B. Under the "highest average" system, the total votes obtained by each party is divided by the number of seats it has obtained plus one. Thus in the foregoing example the resulting averages would be:

A — $\frac{93000}{3} = 31{,}000$

B — $\frac{58000}{2} = 29{,}000$

and

C — $\frac{49000}{2} = 24{,}500.$

A thus secures the fifth seat. The former system favours smaller parties at the expense of the larger, while the latter is advant-

3. Lakeman, Enid, *How Democracies Vote. A study of majority and proportional electoral systems.* (Faber and Faber 1970) p. 35.
4. The implications of the Sri Lanka System will be discussed in a later article.

agents to larger parties at the expense of the smaller.

The Single Transferable Vote (STV)

The Single - Transferable Vote System of proportional representation was first advocated by Thomas Hare[5] and was upheld by John Stuart Mill in his book "Representative Government" (1861).

This is a system of preferential voting based on multi-member constituencies generally containing 3 to 7 seats. It is adopted in the Republic of Ireland, in Northern Ireland since 1973, Malta since 1921, in elections to the Australian Senate since 1949 and in two states in Canada.

Each voter is entitled to only one ballot paper which contains the names of all the candidates for the constituency (generally arranged in alphabetical order). The voter therefore does not vote for an entire party list but is required to mark his preferences among the candidates. Thus he has to mark 1 against the name of the candidate he favours most, 2 against the next candidate in order of his preference, and so on. This system, it is obvious, gives more freedom of choice to the individual voter than under the Party List system. Here he is able to cross vote between parties; even within the same party, it is the voter who indicates his order of preference and not the party.

The first stage in the counting is the establishment of the quota necessary for winning a seat. This is done by dividing the number of votes cast (in the constituency) by the number of seats to be filled.

This is referred to as the "Hare Quota". The "Droop Quota"

$$\text{i.e. } \frac{\text{total votes} + 1}{\text{total seats} + 1} \text{ is also used}$$

At the first counting, only the voters first preferences are taken into consideration; thus only those ballot papers where 1 appears against A's name are counted as his votes, those on which 1 has been marked for B are assigned to him and so on.

The candidate/candidates who obtain the requisite quota at the first counting are automatically declared to be elected.

If however, the required number of seats fails to be filled at the first count, the method that is generally adopted is the following: the surplus votes of the candidates already elected on the basis of the quota are redistributed among the others in accordance with the voters second preference. These votes are added to the total obtained already by each candidate according to preferences. Thus if the quota is 4,000 and candidate X has received 3,940 as a result of the first count, the re-allocation of the surplus votes of the winning candidates according to second preferences may well give him the additional 60 votes he requires to reach the quota, and thereby qualify to obtain a seat.

If some seats still remain to be filled, the method that is adopted is the elimination of the candidates at the bottom of the poll one by one and the reallocation of their votes according to second preferences and adding them to the totals already obtained until the required number of seats got filled.

This system thus ensures that the candidates who are finally elected will infact be selected by the voters, if not as their first preference, then as second (or sometimes later) preferences. It also ensures that votes are not "wasted" but are capable of being transferred according to voters preference.[6]

Proportional Representation clearly is able to overcome most of the deficiencies of the relative majority system. It is, however, not without its disadvantages. The STV method, for instance, presupposes the existence of a literate electorate which is able to comprehend the preferential system of voting. The party list system reduces the freedom of the voter considerably in the exercise of his vote. It is also pointed out that in a multi-member constituency the individual Member of Parliament loses close contact with his constituents. Besides being confusing to the voter, it is not a guarantee of absolute proportionality, in that small groups, in any event, would find it difficult to obtain the necessary quota in a particular constituency. The fully proportional system is that recommended by Thomas Hare according to which the entire country is considered as a single constituency containing that number of seats which is prescribed for the national legislature.

While a fully proportional system may not be the outcome, nevertheless the experience of its use in countries like Ireland shows that results have been fairly close to proportionality. In Britain the revival of interest in electoral reform as a result of the disproportionate relation between seats and votes in the 1974 elections led to the appointment of the Blake Commission of 1976 under the auspices of the Hansard Society; and one of two alternative measures it has recommended is the Single Transferable Vote.[6]

However, the chief drawback of proportional representation, according to its critics is that it encourages minority thinking and therefore multi-party systems and coalition governments. The representation of different interests and the consultation of these interests in the formation of a government may be a sign of political maturity; but a strong and homogenous cabinet able to form a stable government, they argue, is an advantage which should not be lightly sacrificed so as to obtain mathematical accuracy in the representation of various groupings in a society.

5. *Machinery of Representation* 1857; *Election of Representatives* (1859).

6. See Roberts, Geoffrey K., *Point of Departure? The Blake Report on Electoral Reform in Government and Opposition* Vol. 12 No. 1 (Winter 1977).

COMMODITY AGREEMENTS

A de Vass Gunawardena

Commodity proposals have dominated much of the discusson of the UNCTAD agenda and without a doubt will be the predominant issue at its fifth session at Manila, in May this year. UNCTAD's Integrated Programme on Commodities now occupying the centre of the stage differs from the taditional fragmented commodity-by commodity approach and is widely accepted by the countries of the Third World. Commodity problems have been discussed and engaged the attention of international organisation for more than half a century. Here Vass Gunawardena, who as Assistant Director Planning of the Ministry of Plantation industries has several years of experience in this sphere attempts to summarise the devlopments in the field of commodities from its historical beginnings and poses the question whether commodiy agreements are the only way out.

The problem of commodity agreements was first examined on an international level in 1927 at the World Economic Conference held in Geneva under the auspices of the League of Nations. At this time the existing regulation schemes were almost exclusively in the form of private (non-government) agreements or in other words 'cartels'. By 1933, when the League of Nations sponsored Monetary and Economic Conference convened in London, inter-governmental control agreements had come to be regarded as a form definitely superior and preferable to producers' cartel arrangements. The Conference approved a report defining the principles which should be observed in establishing and operating intergovernmental control arrangements. They were, first, the commodity must be one of great importance for international trade; secondly, the agreement should include the greatest possible number of producers and secure the co-operation of the consuming interests in the importing countries, thirdly, it must be fair to all parties by maintaining prices at reasonable remunerative levels; and finally, it should be as flexible as possible to permit a balanced growth of the market.

League of Nations Review

In 1937 a special committee was set up by the League of Nations to review the then existing arrangements. A clear distinction was drawn between cartel agreements of a purely private character and government-controlled agreements. Whereas the earlier schemes were designed solely to raise prices by controlling supplies, the more recent schemes, it was noted, were arrived at for stabilisation of prices through control over stocks. The Committee recommended the constitution of "buffer stocks", operated under the joint control of producers and consumers.

In 1943, the United Nations Conference on Food and Agriculture, convened at Hot Springs, U.S.A., concluded that an appropriate international organisation should be created in order to establish a body of broad principles defining the pattern of future commodity arrangements.

The "Havana Charter"

The Economic and Social Council of the U.N. by a resolution dated February 18, 1946 resolved to call an International Conference on Trade and Employment. This Conference, in which 57 nations participated, met at Havana from December 1947 to March 1948 and drew up the "Havana Charter" for an International Trade Organisation to be submitted to the Goverments represented. The Charter of the International Trade Organisation is a code under which countries that become members of the Organisation will conduct their mutual commercial relations. The "Havana Charter" declared the purpose of International Commodity Agreements as instruments to achieve "a reasonable degree of stability, on the basis of such prices as are fair to consumers and provide a reasonable return to producers, having regard to the desirability of securing long-term equilibrium between the forces of supply and demand". The Charter also established general procedures for the negotiation of commodity arrangements, including preliminary study, wide representation in negotiation and administration and full publicity at all stages. Although the "Havana Charter" had not been ratified by any country, the principles enunciated therein relating to the conclusion and operation of commodity arrangements have been endorsed by the United Nations in 1950 when the Economic and Social Council requested the member-governments to adopt the principles laid down in the Charter as a general guide.

The "Old Model"

For half a century attempts have been made at commodity agreements but with little success. There are only five commodity agreements, on coffee, cocoa, sugar, wheat and tin and none of them is operational at present. The model that has been followed so far is that of one-commodity, fixed-money price range and primary form only, with the agreements taking three basic forms. They are: the multilateral contacts; quota arrangement; and buffer stock scheme.

The International Wheat Agreement is a multilateral purchase and sales contract, where purchases and sales are stipulated as import and export quotas. The actual price at which the quotas are traded is allowed to fluctuate between the maximum and the minimum and as long as the price remains between those limits, the agreement does not interfere with the market mechanism. It is a basic requirement of the mechanism that total import quotas must always be equal to total export quotas. This type of agreement sets no limit on production and does not prevent the emergence of new and/or cheaper producers.

Agreements based on quota arrnagements regulate the quantity which may be produced or exported by allocating fixed quotas to each country. The Sugar and Coffee Agreements are examples of this type of arrangement. Quota arrangements with their percentage sharing of the market tend to freeze the existing pattern of production and/or exports. Moreover, they are liable to breakdown unless the agreement covers virtually all producers or unless the consuming countries restrict their imports from outside.

The Sugar Agreement, for instance, covers about 40 per cent of the World Market and excludes trade in the Commonwealth and U.S.A.

A Buffer Stock agreement is an arrangement for maintaining price stability by buying and withdrawing supplies from the market when prices are deemed to be too low. The purpose of a buffer stock is not to interfere with the price trend unduly, but to moderate fluctuations by buying at low prices and selling at high prices. The International Tin Agreement and the Cocoa Agreement relies partly on buffer stock operations and partly on a system of export quota restrictions.

For four of the ten "core" commodities earmarked by UNCTAD for special attention under the Integrated Programme, there are agreements between exporting and importing countries, and as stated earlier none are functioning. The Tin Agreement which has been in existence for over 20 years, lost control of the market at the beginning of 1978 and prices rose above the "ceiling" level; this agreement ran out of tin because the size of its stock (20,000 tons) was too small to support constantly rising prices. The Coffee Agreement collapsed with unilateral action by producers. The heavy surplus supplies of sugar in the World, combined with the failure of the United States to ratify the agreement, and the refusal of the EEC to join has plagued the Sugar agreement which came into force in January 1978. The negotiations, have so far failed to make an impact on the market prices.

It is seen that the agreements based on the "old model" commodity-by-commodity approach has had a patchy record and has failed. However, these agreements have had limited aims such as reducing short-term instability in international prices and have not been intended as instruments of economic development. Also, there has been no provision to contribute to the transfer of income from the richer to poorer countries. The general aspiration of producer countries, to effect a real transfer of surpluses from industrialised to the developing countries remained outside the traditional agreements.

The Integrated Programme

UNCTAD's Integrated Programme on Commodities is a departure from this "old model" and is an attempt to evolve commodity agreements on a multi-commodity common fund. The main elements of this programme consist of building up a series of international stocks, a common fund for financing them, multilateral commitments in trade, compensatory financing and expansion of processing in developing countries. The main difference between the traditional approach and the UNCTAD concept is in the emphasis it puts on a comprehensive coverage of commodities, international buffer stocks, and the creation of a Common Fund to spread the stocking costs. The thrust of effort in this package of proposals is towards solutions to a wide range of commodity exports, covering arrangements for long-term development of commodity production, investment and markets and not solutions only for sudden disturbances in trade. Also, any commodity arrangements should be negotiated and conducted to meet a variety of economic circumstances taking a wider and longer perspective. It further subscribes to the view that developing countries should have the right to exercise command over their national resources.

The Ten "Core" Commodities

The Integrated Programme is considered to be the frame within which effective arrangements could be made for dealing with the problems of a range of commodities. Initially a list of 18 commodities was suggested, because on the one hand, they were storable and consisted of nearly 60 percent of primary product exports of developing countries. Out of this list of 18 commodities, ten "core" commodities have been identified for attention by the Common Fund. They are Coffee, Cocoa, Tea, Sugar, Cotton, Rubber, Jute, Hard Fibres, Copper and Tin. Along with the ten "core" commodities Bananas, Wheat, Rice, Meat, Wool, Iron Ore, and Bauxite making a total of 17 commodities are to be considered for integrated programme arrangements. Trade in these commodities embraces the majority of the developing countries, though it is by no means considered to be an exhaustive list. The commodity groupings are given in Table 1.

The Common Fund

The Common Fund is conceived as the source of finance for individual commodity organisations, who would trade in individual commodities, by buying and selling and owning and disposing of stocks. However, in non-organised markets, it would intervene, exceptionally, for a limited period, so as to provide price support.

Since the political consensus reached at UNCTAD IV in Nairobi, in 1976, lengthy negotiations have taken

TABLE 1

PRESENT STATUS OF COMMODITY NEGOTIATIONS

Agreements	*Main participants*	*Developing Countries*	*Mechanism*
Coffee ..	Brazil, Columbia, France, Germany (Fed. Rep).Ivory Coast, Uganda, U.S.A.	100	Export quotas
Cocoa ..	Brazil, France, Germany (Fed. Rep.), Ghana, Ivory Coast, Netherlands, Nigeria, U.K., U.S.S.R.	80	Export quota and buffer stock
Sugar ..	Australia, Brazil, Canada, Cuba, Japan, South Africa, U.S.S.R	70	Export quotas and buffer stock
Wheat ..	Australia, Argentina, Brazil, Canada, EEC, Egypt, India, Japan, U.S.A., U.S.S. .	4	None at present
Rubber	Indonesia, Malaysia, Singapore, Sri Lanka, Thailand	100	Nationalisation of production and buffer stock
Tin ..	Malaysia, Thailand, Indonesia, Netherlands France, U.K.	90	Buffer stock and quotas

TABLE II

COMMODITY GROUPINGS

Major Commodities in exports of Developing countries	*Major storable commodities*	*Common Fund "core" commodities*	*Selected commodities: integrated programme arrangements*
1. Coffee	1. Coffee	1. Coffee	1. Coffee
2. Cocoa	2. Cocoa	2. Cocoa	2. Cocoa
3. Tea	3. Tea	3. Tea	3. Tea
4. Sugar	4. Sugar	4. Sugar	4. Sugar
5. Bananas			5. Bananas
6. Wheat	5. Wheat		6. Wheat
7. Rice	6. Rice		7. Rice
8. Maize	7. Maize		
9. Vegetable oils			
10. Meat			8. Meat
11. Cotton	8. Cotton	5. Cotton	9. Cotton
12. Rubber	9. Rubber	6. Rubber	10. Rubber
13. Jute	11. Jute	7. Jute	11. Jute
14. Wool	11. Wool		12. Wool
15. Hard fibres	12. Hard fibres	8. Hard fibres	13. Hard fibres
16. Copper	13. Copper	9. Copper	14. Copper
17. Iron ore	14. Iron Ore		15. Iron ore
18. Tin	15. Tin	10. Tin	16. Tin
19. Bauxite	16. Bauxite		17. Bauxite
20. Zinc	17. Zinc		
21. Lead	18. Lead		

place on the formation of the Common Fund. Agreement (a compromise on the functions and finance of the commodity common fund) was finally reached in March 1979 to establish a $750 million buffer stock fund with each nation participating in the fund contributing a minimum of$1. million The rest will come from negotiating groups: 68 percent from Group B (Western market economy countries); 17 percent from the Group D (socialist countries): five per cent from China: and 10 per cent from the Group of 77.

The Third World has been given an advantage in the voting formula which could determine how the money is used: the Group of 77 has 47 per cent of the votes; group B 42 per cent; group D eight per cent and China three per cent. The Fund will contain a $400 million *first window* designed to finance commercial operations by reserve stock managers to buy commodities contained in the Fund's scope in times of falling world prices, and to sell them in time of high world prices to iron out excessive fluctuations. The Fund will also contain a *second window* of $350 million to pay for export promotion, and other similar programmes to boost commodity trade. However, what has not been resolved is the weightage to be given to rich and poor countries and to commodity producer and consumer nations in the Fund's decision-making process. Some of the issues that have stood in the way of an agreement were raised by a knowledgeable commentator, Iain Guest, in the latest issue of the UN's "Development Forum", soon after general agreement was reached in Geneva on March 20, 1979, when he stated:

The talking is not finished yet. An interim committee has been set up to tighten the agreement, and a full conference will meet again, hopefully, before the end of the year, to sign the articles of agreement.

UNCTAD estimates that a further seven weeks, at a cost of $1.36 million, will be needed.

On the most optimistic forecast, the Fund, will not be operating before 1981. London is already being mentioned as a possible host.

The final plenary session brought up several important reservations—group D objected to its share of votes and contributions; the Africans are deeply concerned that the second window will not have enough capital to make it viable; smaller Western countries—Ireland and New Zealand had also argued throughout that the proposed contribution of $1 million was unfair. A formula is now to be sought within OECD to help relieve them of further payments.

The United States, too, is dissatisfied. The Americans are determined not to pay more than 19 per cent of group B's share, and have stated firmly that the allocation of votes is unacceptable. Allan Wendt, head of the US delegation, said it indicated "a clear imbalance". One British delegate said that the principle of votes for groups "puts us on a slippery slope and could set a dangerous precedent."

The Western industrialized countries, for their part, have kept the Fund well below UNCTAD's original plan for initial capital of $2 billion. Their delegates point out that the Fund will not interfere in commodity markets to control price fluctuations. They also feel that individual commodity agreements will be left relatively independent. The manager of a buffer stock will be free to choose whether to join the Fund. Once he has decided, however, the Fund must be his only source of finance. He will estimate the maximum financial needs of his stock, and deposit a third in the Fund, as well as warrants for any stocks in storage. Using these, and its own capital, as collateral, the Fund will then raise as much money as the agreement needs. The most immediate question, however, is whether the Fund can salvage UNCTAD'S overall commodity programme, which even enthusiasts agree is limping badly.

New Patterns

In the quest for a new international economic order new patterns of production and trade are being sought. As commodities constitute the most critical area, the Integrated Programme on Commodities with its package of measures on each of the major exports of developing countries is expected to stabilise trade and sustain real incomes among other things. These agreements on key commodities would provide for indexation, maximum and minimum price ranges and their adjustments, buffer stocks and intervention procedures, and access to supplies. It also envisages the forward integration of Third World primary producers into marketing structures, market information generation and market management. This is expected to reduce the role of the present, often destabilising, terminal markets and brokerage firms.

Other Schemes

There are also other multi-commodity schemes such as the IMF facility for compensatory financing and the Stabex plan in the Lome Agreement. Another suggested scheme is that of indexation, linking primary product exports to manufactured goods imports. The financial compensatory approach is complementary to earnings stabilisation by commodity agreements and is included by UNCTAD as an element in the Integrated Programme. This facility includes compensating either commodity export shortfalls or total export shortfalls whichever is the larger and compensating on the basis of real export earnings. Improvements that have been suggested are increasing the grant payment and linking repayment to export recovery and relaxation of balance of payment test. The compensatory approach has found favour with the developed countries and the reasons are obvious. They do not interfere with market mechanisms and if the schemes are vested in the IMF, as they are at present, control is in the hands of the First World which supplies the money.

The Stabex scheme of the Lome Convention involving the nine countries of the EEC and 52 countries in Africa, the Carribean and the Pacific (ACP) is in effect a compensatory scheme. The scheme was first applied in 1977, and is a form of insurance against losses in the value of exports due to bad crops or low world demand. The less advanced countries are not called upon to repay the amounts they receive.

One of the advantages of indexation of price ranges to some agreed world trade-price index would be the lessening of the need for renegotiation of price ranges. The developing countries have made demands for a system which links the prices of primary products that they export, to their imports. The problem faced here is that of selecting the basket of commodities in a situation where there is so much variety in the trade structure of the developing world.

Limited Success

The developing countries have increasingly looked to commodity agreements as a means to achieve a transfer of resources and as an aid towards a new international economic order. Have these proposals a chance of success? The oil producers action and the success achieved has urged the agricultural exporters to achieve control of their resources and these proposals are conceived as a means to lift the purchasing power of their own exports. It has to be admitted that these agreements and schemes have had limited success and have only been capable of smoothing out short-term upheavals in the price curve, as evident in the case of the Tin Agreement, acknowledged as one of the fairly successful. However, with the recent agreement reached on the establishment of the Common Fund there appears to be some grounds for optimism.

Confrontation

In the context of the slow progress made and success in achieving the objectives of the new international economic order, it is of interest to consider the concept of confrontation, which the oil producers adopted successfully.

The success of OPEC, was due to the fact that the oil producers' controlled a commodity, with a high degree of importer-dependence and limited possibilities of substitution, combined with the ability to withhold supplies. Any reduction or interruption in the supplies had the consequence of damaging the economies of the consumer countries. Further, the huge financial surplus that some of the oil producers built up made them better equipped to face confrontation, in being able to pay their import bills out of the reserves.

The conditions, listed above that were prevalent in the case of oil may not be present in that magnitude in the case of other commodities. But concerted action by producers of several commodities will have additional strength. There have been suggestions by Third World producers of commodities like rubber, tin and palm oil that they should form cartels to boost the prices that they received for their commodities.

This approach appears to be necessarily simpler, cheaper and more effective, than the long protracted programme initiated by UNCTAD. This demand stems from the fact that the preparing of a commodity agreement is a painstaking, time-consuming process, combined with the lack of seriousness of purpose in the industrialised countries for negotiated changes. This is not to state that confrontation is a preferred option, specially in view of the interdependence of countries. However, concerted collective action needs to be taken by all the countries critical to a commodity, to achieve a credible negotiating position, backed by the alternative of confrontation.

A New Economic Order

Incessant pressure and mounting Third World negotiating will, since the unilateral actions of OPEC in 1973-74, has made the industrialised countries pay greater heed to the need for negotiated changes. But it has also shown that it is much easier to approve a declaration setting out a programme of action of mutual co-operation, than actually implementing it. Of course, there are abundant reasons for action, but is the will there on the part of the First World? Although the Third World has looked to the Integrated Programme on Commodities as an aid towards a new economic order.

The First and Second Development Decade strategies of United Nations drew upon the thinking that Third World countries must integrate their own economies closely with those of the First World in order to develop. In other words, the country had to belong to the system, otherwise it was condemned to permanent poverty. Within this system the country had to produce what the system would buy, at the price the system would pay. To grow, a country had to produce what the system wanted and not what its people wanted. This was the style of development by imitation. The new economic order requires a reformulation of the relationship between the Third World and the international system. The concept of self-reliance is based on the reality that development comes from within. This collective self-reliance discards the institutionalised mendi-

COMMON FUND

The UN Conference discussing a Common Fund under the Integrated Programme for Commodities reached agreement on the fundamental elements of the Fund, including the establishment of first and second windows of nearly equal size.

It also adopted a resoultion requesting the Secretary-General of UNCTAD to convene an Interim Committee "to consider elements requiring further elaboration, to draft the Articles of Agreement of the Common Fund, and to make recommendations regarding the preparatory work required to bring the Fund into operation".

The key elements on which the 101-nation Conference agreed included: a first window with resources of $ 400 million from direct governmental contributions to be used for financing of international buffer stocks. A part may be allocated to the second window which would finance measures other than buffer stocking such as research and development and productivity improvement. The target for the second window would be $ 350 million; Under the scale established, the Group 77 (developing countries) would contribute 11 per cent, Group B (industrialized countries 68 per cent, Group D (Socialist countries) 17 per cent and China 5 per cent.

One of the main issues in previous Conferences on the Common Fund was the percentage of maximum financial requirements, which International Commodities Agreements associated with the Fund would be required to deposit with the Fund. This has now been set at 33 one third per cent.

As to voting rights, the following distribution was agreed: Group of Seventy-seven 47 per cent, Group B 42 per cent, Group D 5 per cent, and China 3 per cent. The most important decisions, including those with significan financial implications for member states, would be taken by a majority of three quarters of total votes cast.

cancy that was endangering the earlier negotiations. The Victorian age when charity was deferentially accepted by the deserving poor was gone and UNCTAD IV in Nairobi demonstrated more firmly the resolve of the Third World for a new economic order. The Integrated Programme on Commodities, one of the building blocks of the new economic order, by itself is unlikely to provide an adequate transformation to provide for self-reliant development.

SMALL FARMERS OF NEPAL SHOW THE WAY

Kamla Bhasin and Baljit Malik

A successful Small Farmers Development Project is not easy to come by in most developing countries today. Nepal appears to have produced one in its Nuwakot district, where an experiment to organise very poor small and marginal farmers and landless labourers in strong and effective groups is showing results. The Nuwakot S.F.D.P. is providing food for thought and direction for action not only to people within Nepal but to several other Asians involved in rural development. With the present emphasis on an integrated development approach in some of the districts of the island this experience is worth studying and trying out. Kamala Bhasin, who was in charge of the FAO's Freedom from Hunger Campaign 'Change Agents' training programme visited this project early last year with 10 field workers from Bangladesh, India, Nepal and Sri Lanka and was quite impressed by this project. She and her journalist husband Baljit Malik recount here their experience and the value of this experiment.

Twice in the last six months we travelled on the hilly, windy road from Kathmandu to a small village called Tupche in Nuwakot District. Tupche is situated in Trishuli valley about 70 kms. west of Kathmandu surrounded by hills, some of which were snow-clad during our second visit in April (1978).

In a tiny 'semi-pucca' room (about 7 feet by 7 feet), which can accommodate 4-6 people if they sit on chairs, or about 10-15 if they sit on the ground, is the office of the Small Farmers Development Project (SFDP) of Nuwakot area in Nepal. On our second visit we saw a big red banner on one of the outside walls of the office saying "WELCOME". This banner, we were told later on, is now permanently on 'welcoming duty' for the benefit of the large number of visitors that the SFDP has begun to attract. On hearing this, frankly, we felt a little guilty.

What brings so many visitors to this small village and tiny office is the success of the experiment that has been going on here for barely two years; an experiment to organize the very poor, small and marginal farmers and landless labourers of two Panchayats into strong and effective groups. The idea being that organized into effective groups, the poor peasants/farmers would be in a better position to receive and make use of the benefits of rural development.

The reason why so many visitors come to Tupche is that some of those ideas on development which are normally only discussed at conferences, are actually being practised here. The seeds of some currently popular concepts of development have been carefully sown in this project. What is more, the small farmers and landless labourers of this area have accepted these seeds as their own. After first being cautious, even suspicious, they now believe that the FSDP, unlike other projects which started and finished without benefitting them, is good for them. In fact, they are the ones who are now very much involved in actually running the project. They have become the subjects of development and are not merely its passive objects. The peasants and farmers covered by the project have an air of self-confidence about them as they also experience the excitement of planning and implementing their own development.

How the project began?

This 'little project has long connections, connected as it is to a big organisation like the FAO. What is remarkab'e, however, is that inspite of these 'high' connections the project has maintained its smallness, simplicity and austerity. Normally, the very mention of such connections makes one think of smart offices, imported vehicles, machinery, and, in addition, foreign experts — the usual package of expensive "commodities". Happily the SFDP is mostly free of such unnecessary 'inputs' – except perhaps the overfrequent visitors from international organisations.

In 1973, FAO/UNDP initiated a regional project called "Asian Survey on Agrarian Reform and Rural Development" or ASARRD in short. The main objective of ASARRD was to examine the achievements and to identify the bottlenecks or problems in implementing agrarian reform and rural development with reference to the needs of the small farmers/fisherfolk and landless agricultural labourers and how they could be tackled. The political, social and economic conditions in which these people have to earn their livelihood were also studied. The results of the country workshops were then discussed in a regional follow-up seminar in Bangkok.

For the purpose of ASARRD the term 'small farmer' was defined to include share croppers, landless agricultural labourers, small owner-operators, small livestock farmers small fishermen and women — all of those whose common lot is subsistence farming and various shades of economic and social insecurity.

On the basis of the field workshops information was collected which led to the conclusion that the following were the main problems of small farmers and peasants in all the countries concerned:

—smallness (or absence) of holdings and insecurity of tenure;

—limited or non-availability of institutional credit, chemicals and protective inputs;

—indebtedness;

—limited or non-availability of irrigation;

—lack of alternative employment opportunities;

—unfavourable market mechanism and prices;

—incapability or disinclination of existing institutions for action in favour of low-income small farmers and labourers;

—little share in the control and operations of rural institutions;

—extension and training methods aimed only at the better endowed farmers who are usually hailed as being 'progressive';

—inappropriate research, and new crop technology that is largely not for small peasants and landless labourers.

It was also clear that the governments of most of the countries covered by ASARRD were on the whole more interested in increasing production than in ensuring better distribution and improved purchasing power for the poor people. Who produced more, how, at what cost, and who benefited from the increased production were not considered as relevant as maintaining a tempo of increased production. As a result, planners, experts and administrators overlooked the specific needs and special priorities of low-income agricultural producers and workers.

The other significant conclusions reached by ASARRD were:

—under pressure of new development, there has been a perceptible decline in status, and the means and conditions of living of the small farmer and peasant. The decline in status has been from owner-farmer to part-owner/part-tenant, share-cropper and eventually to labourer.

—There is an increasing segmentation taking place in the rural sector. On the one hand is the new, middle-level entrepreneur class, which combines capital supply agencies and which is less mindful of the interests and welfare of small farmers and peasants than was the paternalistic landlord. On the other hand are the low income and disadvantaged peasants, the so-called 'silent majority'.

—in most countries, land reform has not been able to remain in the mainstream of agricultural development.

What then is the way?

In order to include the "marginal majority" in the mainstream of rural development ASARRD felt that special attention needed to be given to the too neglected small farmer/peasant sector. This sector would continue to remain in the hazy hinterland of development unless a basic departure from current trends could be effected by implementing policies of positive discrimination towards it. Thus one of the main recommendations of ASARRD was that an active receiving/delivery system had to be built up among small farmers and peasants at the grassroots to enable them to take advantage of the facilities and services being made available by the 'local delivery system', or different government programmes. Only through group action would small farmers and peasants be able to receive the benefits of development. In ASARRD's view, small, multi-functional groups of small farmers would need to be organised, not as a confrontation movement to secure more rights, but as a step towards bolstering the socio-economic strength of small farmers and peasants by establishing a greater role for them in production.

The experiment in Nepal

Nepal was the first country covered by ASARRD to implement an experimental project on small farmer development in two different agro-ecological areas of the country – one in Janakpur District in the Terai and the other in Nuwakot District in the hills.

The Agricultural Development Bank (ADB), the agency responsible for the SFDP, is assisted by a National Coordinating Committee composed of representatives from the different ministries, departments and corporations directly involved in small farmer development. This committee functions as an overall policy making body. At the project level, there is a Sub-Project Implementation Committee whose members are the various district level officers from different line agencies. This committee, whose secretary is the GO/ARF, is responsible for the actual implementation of the project.

The project aims at assisting 6,000 families drawn from low-income small-farmers, tenants, share croppers and landless agricultural labourers in the Dhanusha and Nuwakot Districts to raise their income and overall level of living over a period of three years.

Four Group Organisers/Action Research Fellows (GO/ARF), two in each project area, are working on a full-time basis. Two of these are bank personnel and the other two have been deputed to the project from the Agriculture Department. The GO/ARFs are responsible for organising groups of small farmers and landless agricultural labourers. They are not expected to duplicate the functions of the other development departments but to act as links between the different departments and the farmers' groups. The GO/ARFs are also encouraged to conduct action/research which will hopefully throw light on the nature and practicability of grassroots institutions, the procedures and regulations regarding lending and repayment of loans to low-income small farmers and landless agricultural labourers, the problems of small farmers and suitable solutions required to overcome them and other associated matters.

On the basis of a US $ 20,000 grant from FAO/UNDP to serve as a guarantee-cum-risk fund, the ADB has undertaken to extend ten times the amount to the small farmers and landless agricultural labourers without requiring collateral. In both areas, cumulative loan disbursements have amounted to about Rs. 1,600,000 through 72 groups which have been organised in the last two years.

A closer look at the SFDP

The total population of the two Panchayats, Tupche and Karki Man Kamme, in which this project is operating is 9,000. There are 1,580 households in all. About 1,000 households own less than 0.4 hectares of land. About 90 percent of the people are in the category of small farmers. 24 households have no land at all. Only 26 percent of the land is irrigated.

The GO/ARF who is in charge of the Nuwakot SFDP is a tall, lanky man, 40 years old and his name is Chandra Kant Adhikari. He has been working here single-handed. More recently he was joined by an Assistant. Group Organiser. Chandra Kantji ((ji) is — South Asian honorific) has been in service for the past 20 years. He started work as an extension worker and gradually came to be an Agriculture Development Officer for a District, and is now on deputation from the Department of Agriculture to the SFDP.

Chandra Kantji's simplicity and ability to understand peasants and establish an excellent rapport with them is perhaps due to his own rural background. He is himself from a poor rural family which owns about 0.5 hectares of land. Because there was no school in his village he once walked for seven days to go to Kathmandu to join a school. The family could not afford to send him to a college, so he underwent a–year long training in agriculture extension and began his 'working life' as an extension agent. Having lived in poverty himself, Chandra Kantji can not only understand the peasants but also identify himself with their lot.

The first thing Chandra Kantji did was to conduct a household survey of the two Panchayats. Through this he got to know the people and their problems. He soon found out that the small farmers in Tupche faced similar problems as small farmers anywhere else. They had very little or not very fertile land. In the absence of irrigation facilities the peasants depended entirely on the rains. They had almost no access to inputs of any kind. Not only were inputs out of reach, but also the government personnel who could have provided them. The terms and conditions of getting loans from banks and the procedures involved were so cumbersome that they had never even come near to ever getting a loan from a bank. Consequently they had been entirely at the mercy of money lenders for both consumption and production loans. The rate of interest they had to pay was anything between 50 to 100 percent per annum.

What the small farmers produced on their land was enough only to feed them for 6 to 8 months. For the rest they had to look for some alternative employment to avoid going hungry. Wages for such employment was very low. This again forced them to borrow money. The vicious circle was complete and almost impossible to break through.

Many children of small farmers did not go to school as they were needed at home for work. The literacy rate was very low; medical facilities available only at the district headquarters, and in any case farmers were too poor to afford medicine.

Furthermore, on account of their low economic and social status, small farmers were not sufficiently represented in any local institution of importance for economic development.

There was no end to the problem. It also became clear to those who were implementing the project that a variety of solutions would be needed to make a multi-sided attack on the farmers' poverty. The people best suited to attack these problems were those whose problems these were, i.e. the small farmers themselves. The best vehicle for effecting changes were thought to be strong multi-functional groups of small farmers and landless peasants which would give them a common voice and strength of their own.

The first few steps were the toughest

The initial cautious attitude of the peasants towards the project was expressed thus by a group leader:

"When Adhikariji came to us for the first time we were a little sceptical. We were not quite sure how these groups would work. We were afraid to take loans from the Government thinking it would get us into unnecessary trouble. But we decided to give this idea a trial, anyway".

Once the first few groups got to be organised, the idea lost much of its original vagueness. Small groups of 7 to 20 persons, all small and marginal farmers, came to be formed around an economic activity. With the help of the GO/ARF the groups began to formulate production plans and to apply for loans from the local branch of the Agriculture Development Bank through the local co-operative society. Because of group guarantee the small farmers and landless peasants were not required to furnish any collateral to become entitled to receiving loans.

Some statistics about the groups

There are now 37 groups in Tupche with 658 members. This constitutes 39.5 percent of the small farmers in the project area. Among the members are 88 women who have been organised into 7 sub-groups. Among the member farmers organised into groups 70.7 percent under the category of 2-8 ropani and the rest are in the category of landless and 1-2 ropani. (There are 30 ropanies in one hectare). Loans amounting to Rs. 10.78 lakhs (1.78 million) have been disbursed for short, medium and long term income raising activities. Rupees 1.72 lakhs have already been repaid. The repayment of loans is almost 100 percent, thanks mainly to group responsibility and group pressure. With no default in repayment the small farmers have proved to be better loanees than rich farmers whose default rates are quite high.

It has been the experience that through discussions and consensus, the groups have been able to identify and plan viable projects which have been acceptable to the banks. The different activities for which loans have been taken are the following:

Activity	% of total loan
Crop Production	3.0
Buffaloes	60.0
Goats	16.0
Oxen	6.5
Pigs and Poultry	0.5
Fruit Farming	1.0
Handlooms	3.0
Sacca	4.0

Joint production activities

Encouraged by the achievements of group action with regard to getting loans, some groups have even ventured to initiate certain joint-production activities. For example all the 26 members of one group have taken a joint loan of Rs. 7,200.- to start a common poultry farm. To house the birds the group members have jointly constructed a shed on a piece of land bought by the group out of group savings. A young boy, the son of one of the group members, has been employed on a salary of Rs. 100 a month to take care of the poultry farm.

Two more enterprising members of the same group have started a rice mill with a loan of Rs. 15,000 from the bank. This is the first rice mill in the nearby area and perhaps the first one to be owned by such small farmers. And one of the two owners has already become a self-taught mechanic.

Another group, all the members of which belong to the Tamang tribe, has recently started a joint-goat rearing project. The families share the responsibility of looking after the goats. Making a common shed for the goats is the next item on the long list of future activities the group has planned for itself.

Members of another group told us that to become more cohesive they decided to start a community orchard. They bought some land next to a piece of barren land and gradually occupied the barren land also to extend their orchard to an area of 1.6 acres. The bigger farmers of the area wanted to discourage this "audacity". (They were obviously not happy to lose their 'monopoly' on audacious acts like illegal occupation of land etc.) "But due to our group strength they were not able to disturb us" was the proud boast of one of the members. A landless person has now been employed on a monthly salary of Rs. 100/- to manage the orchard. The group members had all the figures regarding the number and kinds of fruit trees in their orchard on their finger tips. This was something quite remarkable in terms of collective effort and joint responsibility.

We discovered that women had started joint-weaving activities in a number of groups, and they even sold the cloth jointly. In addition construction and running of fish ponds, small-scale irrigation systems and common afforestation are also being done by some other groups.

The plans for future joint ventures were more ambitious and at the same time not less realistic.

Production loans are fine, but how about immediate needs.

The poverty of small farmers and landless people has been so acute here that they have not been able to survive without taking loans for food, medicines childbirth, marriage death, etc. Whereas production loans take care of their future, the consumption loans are what ensure their survival on the one hand and their continued exploitation by the money lenders on the other.

Not exactly happy to see their small permanent clients, the poor peasants, getting stronger through group-action and getting access to institutionalised credit for their income raising activities, the money lenders tried to teach the small farmers a lesson by refusing to extend them loans for emergencies and immediate needs. As banks do not usually provide such loans in any case, the money lenders hoped to break the unity of the small farmers.

The way out of the dilemma proved to be 'group saving'. Each group decided to organise its own saving fund into which each member was expected to deposit a fixed amount every month. Out of this fund the group then started giving consumption loans, loans for medicines, deaths, marriages etc. As money earns money, the funds started growing. Now the groups even give loans for production purposes out of their own saving funds. In all, the 37 groups now have about 20,000 rupees as savings.

How much money is to be deposited every month; who is to receive how much loans for what purposes at what rate of interest — all this is decided by the group members.

Members feel that the saving funds have not only helped them to meet their immediate needs but have also helped to further more unity amongst them. "Moreover consumption loans for us are production loans. How can we produce if we do not eat?—was how one wise peasant put it.

Not by economics alone

Although the groups started as loan facilitators, they soon took on responsibility for other income-raising activities as well as for other activities to promote the education, health, hygiene and social status of their members.

The following activities have been undertaken by the various SFDP groups during the last two years in the Tupche area:—

Economic Activities

—information has been provided on compost making.

—2,000 fodder plants and 35 kgs. of grass seeds have been distributed.

—250 fertile eggs and 150 birds of improved quality have been distributed to encourage and improve poultry.

—altogether 3,189 summer and winter fruit plants have been distributed. Every member has been encouraged to plant at least five fruit trees near his/her hut.

—40 kgs. of improved seed of paddy has been distributed for seed multiplication. Farmers used the new variety with the result that now about 3,000 kgs. of paddy seed are with the farmers for the next year. The Agriculture Extension Office has purchased 600 kgs. of seed from these peasants.

—improved seeds of maize, wheat and potato have also been distributed.

—twice a month a market is arranged jointly by the local cooperative Panchayat and SFDP. Peasants themselves are the buyers and sellers here.

Educational Activities

—With the help of the Education Office two centres for adult education have been started to provide literacy skills to school drop-outs and adults. More such centres are on the way.

—With the help of the Agriculture Department Officer, seven group leaders have been given training as leaders in agriculture.

—4 group leaders from Tupche and Jhakhar have participated in an exchange programme between the two projects.

Health and Hygiene activities

—About 75 percent of the members have already constructed temporary toilet units:

—Education on and services for Family Planning have been provided and 12 members have got vasectomies done while others have taken to using contraceptives;

—Services of a medical doctor are provided twice a month; and

—A vaccination programme has been undertaken for the children.

Emergence of a small-farmer pressure group

Through the formation of small groups not only is the economic status of the small farmers improving but also their social and political status. The "receiving mechanisms" of the small farmers are being created and strengthened. On the basis of their group strength the peasants are gradually coming out of their so-called "culture of silence". They have a group voice now to demand various services from the different line agencies and local institutions. And they are becoming members of local cooperatives in ever-increasing numbers. Already as a result of group-action 45 small farmers have been elected to local Panchayat bodies. Slowly but surely all this is increasing the strength of the poorer peasants vis-a-vis the big land holders and money lenders.

In the frequent meetings which take place in this area now between people from different government departments, from FAO and the small farmers, there are certain distinct changes that have become noticeable. No longer do the small farmers and landless peasants just sit passively at the outskirts of meetings. They are very much in the centre of things now, participating in meetings actively and confidently. And no longer are they as afraid as they used to be, to air their views before government officers. They even reel out statistics about their groups without faltering and without the aid of written reports.

As they put it in their own words, "Because we are a group now and we stick to each other, we have suddenly become more powerful. The money lenders are afraid to exploit us now. The government officials speak to us, they even speak nicely. We are also no more afraid to enter the bank or the office of the cooperative society".

Another peasant said "we used to be like frightened mice. At the sight of a better-off person (a cat) we used to run away. After the formation of our group we feel like cats ourselves. We don't run away when we see another cat".

The SFDP has given these peasants hopes of a better future; a new basis for dreaming of a better life. Half jokingly and half in earnest a peasant said — "May be now some of our wishes can come true. I for one wish that my second son should one day eat rice from a plate in the middle storey of my house". "INSHA ALLAH" we wished him hoping that one day he and others like him ought indeed have a three-storey house to enable a middle storey to make his wish come true!

Group problems in Tupche

However, it would be wrong to get the impression that everything has been smooth sailing for all the groups. There have been problems. One of them has been reluctance on the part of some members to respect liability. They want to enjoy the benefits of group-action without maintaining group discipline. Sometimes discussion was enough to deal with such cases, in some other cases group pressure had to be applied on some members in order to avoid letting the group breaking up as a result of lack of discipline or default in loan repayment.

Another problem has been that the burden of group work has fallen too much on the group leaders in a few cases. This has led to a certain amount of tension in the groups. Problems such as these have been remedied through discussion and better division of responsibility within the groups.

There have also been instances of money lenders trying to disturb the groups indirectly. So the peasants have had to be constantly on their guard to fend off such threats and overcome problems as and when they have arisen.

Gradually these different groups are moving towards the formation of larger **association** of small farmers' groups. Such an association while further increasing the strength of the small farmers, could also take on more responsibilities and provide even more services to the groups.

Also on the cards is the setting up of a modest training centre at Tupche to facilitate and provide different kinds of training to group members and group leaders. The training would be in animal husbandry, poultry, handloom operation, first aid, simple accounting, leadership, social dynamics and other social skills related to group work and organisation.

Why is Group Formation Catching On

It may well be asked what is it that makes the SFDP click so well in terms of helping the poor — especially in view of so many past failures of programmes such as this one? The main reasons would appear to be the following:

1. The fact that 'the village' has not been seen in this project as a homogenous whole. It was decided to include only the *small* farmers in the project and inspite of pressures from the better-off sections to "gate crash", this decision has been strictly enforced. Thus there are no divergent class interests within the groups.

2. The fact that the groups have been deliberately kept small making intensive and open discussion possible between the members on a basis of equality.

3. The fact that programmes have not been imposed from above. The group members decide which activities they want to start first and they plan these out with help from the CO/ARF. Because of this planning from below the group plans have been need-based and realistic.

4. Also the fact that the group leaders are not nominated but elected by the members.

5. Also because unity and cohesion in the groups has been built up through specific functions like repaying loans, managing the saving fund and regular monthly meetings.

6. Continuous guidance and support from the GO/ARF and other government departments has also helped.

7. Another positive factor has been the support and continuous guidance given to the project by the Sub-Project Implementation Committee, the National Coordinating Committee and by FAO, Bangkok's Small Farmer Development Unit. Along with action at the field level, constant reflection and analysis has been carried out at these different levels jointly as well as separately.

Evaluation has been built into the project. In the two Annual Evaluation Workshops held in 1977 and 1978, **a participatory methodology of evaluation** was used. The small farmers were as active in these evaluation sessions as they have been in running their groups.

The evaluation workshops came up with suggestions not only for the field action projects but also for policy-makers and planners.

Similarly at a national workshop on "Two-way Process in Planning", (another ripple caused by the SFDP) in March 1978, attention was focussed on the planning process and how it could be improved through the participation of the farmers using the experience of the SFDP.

Besides agreeing on the need for planning from below there was unanimous agreement in the workshops on the need to expand the SFDP to other parts of the country.

Mutual Learning at Asian Level

The SFDP is providing food for thought and direction for action not only to people within Nepal but also to other Asians involved in rural development. The experiences gained through SFDP Nepal have been shared at regional meetings attended by people involved with SFDP work in Bangladesh and the Philippines.

Recently Chandra Kant Adhikari, the GO/ARF of Nuwakot participated in a seven week Regional Change Agents Training Programme organised by FAO's Freedom From Hunger Campaign/Action for Development. Ten field workers from government and non-government development projects in Bangladesh, India, Nepal and Sri Lanka spent two days at Nuwakot to understand and learn from its experiences in group action. Chandra Kantji visited the projects of the other ten participants. A useful cross-fertilization of ideas and experiences took place, during this training.

Not at the Expense of Quality

Expansion of the project in many more areas of Nepal is what everyone is talking about now. In fact the Agriculture Development Bank has already decided to extend it to fifteen more districts. Successful projects should indeed be multiplied, especially the SFDP as it is neither expensive nor a project which required too much additional personnel or structures.

While expanding, however, the same amount of flexibility and innovativeness would have to be ensured as there was in the pilot projects. Ample time would have to be allowed for the projects to take root in each area. What happened in Tupche can merely be a guide to action, not a set formula to be imposed on other people in other areas. Like a stream which takes the shape of the area and terrain it is in, the new projects will have to be flexible enough to respond to the special needs and character of the people and areas where they are to be implemented. It will be a pity if quantitative achievements were to be at the expense of quality, for what is impressive about the SFDP, Nuwakot, is its quality and effectiveness. And there are no better statistics to prove the point than the newfound enthusiasm and high spirits of the little peasants of Tupche in Nuwakot.

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