



# ECONOMIC REVIEW

Jan/Mar:2003

## RURAL ECONOMY IN FOCUS

A People's Bank Publication  
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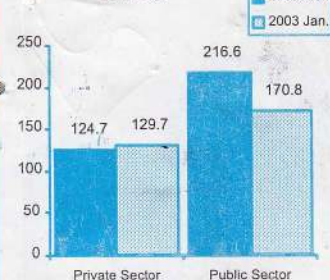
# SELECTED ECONOMIC INDICATORS OF SRI LANKA

**Crude Oil Price**

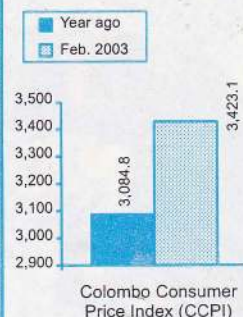
2002 Jan. to 2003 Jan.



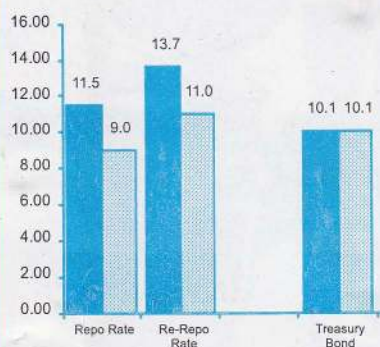
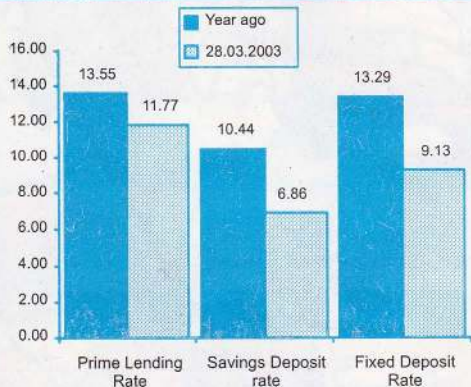
**Industrial Production Index**



**Price Indices**



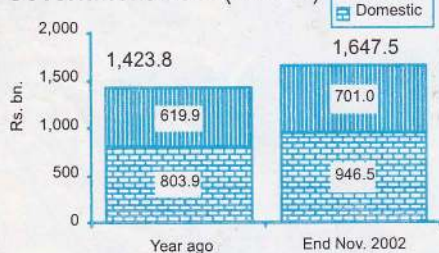
**Interest Rates (%)**



**Treasury Bill Yield**



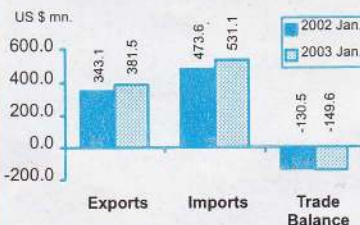
**Government Debt (Rs. bn.)**



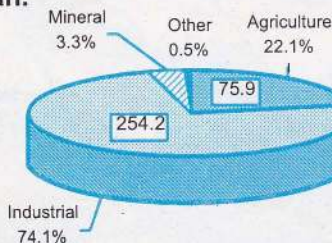
**Share Market**



**External Trade US\$ mn.**

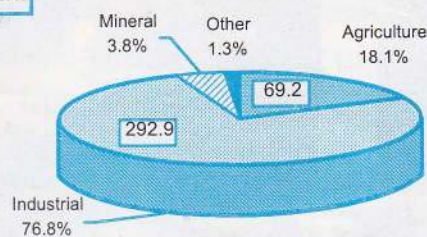


**2002 Jan.**

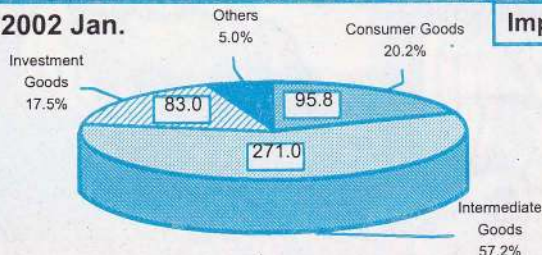


**Exports US\$ mn.**

**2003 Jan.**

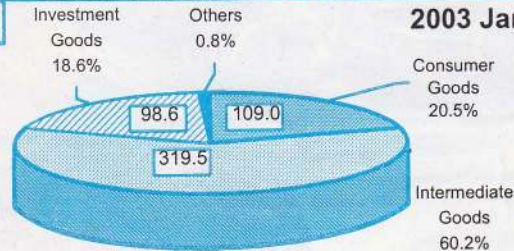


**2002 Jan.**



**Imports US\$ mn.**

**2003 Jan.**





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# Diary of Events

## January

28 The Sri Lanka Ports Authority (SLPA) will begin the construction work on the proposed regional port at Colpet with financial assistance from the Danish Government in March this year. The first stage of the construction work is estimated to cost 28 million US dollars.

29 The UAE Government assured a Rs 538 million (US\$ 5.3 million) contribution for the Rambukkana Oya Irrigation Project. The UAE also fund almost half the cost of Rs 1.3 Million Rambukkana Oya Project which aims at providing irrigation and infrastructure facilities for over 5,000 acres of land in the South Eastern dry zone for cultivation. The rest of the cost is to be borne by the Japanese Government and the Irrigation Department of Sri Lanka.

A presentation on the potential for Thai-Sri Lanka joint ventures with a special reference to the India-Lanka FTA was held in Bangkok, Thailand recently. It was organized by the Federation of Thai Industries and Sri Lanka Embassy in Thailand. The Sri Lankan officials outlined the benefits of the FTA and unprecedented market access for a range of goods at concessional duty if they are manufactured in Sri Lanka.

30 World Bank International Development Association (IDA) will provide Rs 1,440 million for the Economic Reform Technical Assistance Project. These funds will be utilized to enhance government's capacity in infrastructure and financial sector reforms, strategic communication and economic regulation.

## February

6 The Talks between the Sri Lankan Government and the LTTE are to be held in Hokkaido some 70 kilometers west of Tokyo. The Government and the LTTE entered into a ceasefire in February 2002 and have held four rounds of talks. The fifth round of talks are due to be held in Berlin, Germany on February 7 and 8.

7 The Maegoda Wholesale and Export Trading Complex the largest special Economic Centre in Sri Lanka constructed at a cost of Rs 70 million was declared open. Over 300 wholesale traders and suppliers comprising Agricultural Societies, Co-operative Societies of Agricultural Products and Trading Organizations participate in trade here.

The Asian Development Bank will fund sixty million US dollars to the Government of Sri Lanka for six major development projects. Among the projects are Road Sector Development Project for which the ADB will grant a loan of US dollars 56.5 million.

10 The Department of Immigration and Emigration has formulated a set of new guidelines for issue of Residence Visas to foreign spouses of Sri Lankans. According to these guidelines Residence Visas are issued to the foreign spouses for a period of two years initially.

A top official from Japanese motor giant Suzuki will be Colombo on February 21 to negotiate with the Government on establishing a manufacturing plant in Sri Lanka. The proposal revolves round the setting up a manufacturing plant for spare parts and a repair facility in Sri Lanka which will be aimed at serving the Indian sub continent.

11 Minister Milinda Moragoda has appointed G Hewagamage as the Chairman of the Public Enterprise Reform Commission (PERC) with immediate effect. Hewagamage who also functions as the Secretary of the Ministry of Economic Reform.

Sri Lanka and China will sign a Technical Co-operation Agreement to the value of Rs 564 million at the France Ministry. The funding will be on a concessionary interest free basis for twenty years and the repayment of the loan will begin after the first ten years.

16 Sri Lanka and China have agreed to initiate talks to strengthen the ties between the two countries. The objective of these talks are to provide potential market opportunities to each other. Currently the value of exports to China from Sri Lanka is estimated at 500 million rupees and imports from China is valued at 20 billion rupees.

25 The Netherlands has written off one billion rupees (9.9 million Euros) from Sri Lanka's debt to that country. The Netherlands has granted this debt relief by waiving Sri Lanka's debt service for 2003 and by refunding the debt service that was already paid by the Sri Lankan Government in 2002.

27 The Japanese Government has pledged a financial grant of Rs 160 million to the Sri Lankan Government to implement phase one of the Special Project for Food Security (SPFS) in Sri Lanka. The project's activities will be implemented in seven provinces. The Ministry of Agriculture and Livestock will coordinate the project at national level while the Provincial Councils will implement project activities at Provincial level.

Agricultural and Agrarian Insurance Board (AAIB) has implemented a new insurance scheme to provide a guarantee for the storage of the paddy harvest of farmers. According to this, if the paddy stock is damaged in a sudden disaster, such as an attack, fire, floods, cyclone and wild elephant attacks Rs 12 compensation will be granted per kilo of paddy.

The Sri Lanka - Poland Business Council set up under the aegis of the Ceylon Chamber of Commerce plans to strengthen trade ties between the two countries and wants export companies to join the Council to benefit from the numerous activities being planned for this year. The Sri Lanka - Poland Business Council hopes to concentrate more on non-traditional products such as paper, glassware and tourism in the ensuing year.

## March

5 Sri Lanka will sign deals to nearly US\$ 10 million at the second International Garment Machinery Fabrics and Accessories (IGMA) show. Nearly 100 exhibitors from 15 countries including India, Japan, China, Taiwan, Singapore, Korea and Europe to attend the IGMA Exhibition this year. IGMA Lanka 2003 is organized jointly by Hi-Tech International Trade Fair India Limited, Tripur, India and Sri Lanka Exhibition and Convention Centre.

10 The first stage of the construction of Southern Expressway Project commenced with the laying of the foundation stone at Kurunduganahachampna. The Expressway at 15.1 kilometers is the largest yet planned in Sri Lanka. The Asian Development Bank will grant Rs 1.5 billion for the construction work from Kurunduganahachampna to Galle and up to the Galle Port.

13 The Asian Development Bank will grant one billion rupees to initiate a job orientation programme for students qualified in the GCE Advanced Level Examination. The programme will be conducted by the Ministry of Employment and Labour.

Sri Lankan Airlines and Emirates have increased airfares indicating a possible increase of airfares by other airlines in the next couple of weeks. The airfare to India will be increased by US\$ 10.

21 The Japan Bank for International Co-operation (JBIC) will grant a loan of Rs 21,355 million to implement five major development projects in various sectors in the country.

24 Iraq's oil exports and the regions tourism have been the first economic casualties of the start of the US war on Iraq, although stock markets staged a strong showing and world oil prices kept falling. Iraq produces about 2.8 million barrels per day (bpd) of which about two million bpd were exported under UN supply prior to world markets, with other exports going directly to Jordan by road and to Sifia via a pipeline.



# Significance of Rural Economy

In the process of the globalization, the traditional rural sector like agriculture and small scale manufacturing have not given a proper attention and have been neglected or forgotten while more attention is diverted to other sectors of the economy such as tourism, services and micro-enterprise. Under the globalization process business has become increasingly complicated with the expansion of markets and the mobility of capital across political boundaries. Technology has led to increase in productivity for all industries, with the resulting downside being a reduction in demand for labour. Such opportunities have arisen between sectors and occupations creating winners and losers. Local employers have demanded higher and different sets of skills than before.

Obviously, the impacts of globalization and restructuring remain controversial. Some are good, some are bad. But regardless, they are rapidly changing the economic environment in which we live, making it harder to deal pro-actively with change for community betterment. Keeping abreast of these changing currents is a formidable task. But ignoring them might just be fatal to the long-term sustainability of some of our rural communities.

From an economic development perspective, the prospects of change raise several questions, notably: What factors characterize the rural economy? What are the economic engines and to what extent do they drive the rural economy? How do business enterprises operate within this environment? How well is the workforce adapting to changes in the labour market? How healthy is the rural economy in comparison to other regions? Answering these questions offers some enlightenment into the intricacies and interrelationships involved in adjusting rural economy to national economy.

These questions remain very much relevant to our rural economy as well. They need answers under the above perspectives for a proper development of the rural economy. Like any other third world country Sri Lankan Rural Economy is suffering from lack of better jobs, youth opportunities, good food, drinking water, shelter, income to live and sustainability. Although various measures were implemented for decades they have failed in successfully addressing the problems of the rural economy or to be able to influence to change for community betterment of rural economy to intervene and alter economic process for a stronger economy. These aspirations are more than a statement of community

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Senior Research Officer

values, they represent defined objectives that are considered attainable if right interventions are made at the right place and at the right time.

For those who are involved in community economic development in the rural economy, finding the right approach has become more and more of a challenge. Understanding the nature of the local economy, what drives it, its respective strengths and weaknesses, and where the future is poised are critical pieces of information for policy makers and other activists.

As with most rural economies of the World, Sri Lankan rural economy remains substantially intact from globalization while other major sectors of the economy are being restructured to face this challenge. The rural economy still remains intact without any major change. Therefore, the necessity for rural restructuring which re-sets any broken limbs of paramount importance today.

We can now identify some of the factors that are embodied in the process of Rural Development, going by the most accepted definitions cited above, or what is supported by eminent scholars, i.e.

- i Promotion or enhancement of levels of income, employment, nutrition, housing and other social services.
- ii Action to bring down the incidence of malnutrition caused by poverty
- iii Minimizing of disproportionateness of income distribution among the rural folk and narrowing of the disparities between urban and rural dwellers in the matter of employment opportunities and,
- iv Regularisation of population growth etc.

Countries which are in the process of development within the meaning of the globalization theory and

the open market economic system, do face a new challenge in total development. At this instance, a meticulous study regarding the direction in which the development of the rural economy should be diverted, is a timely requirement. It is an established fact that, in considering the national development of a country, especially the developing countries in the Third World, more than 80% of the population live in the rural areas. About 80% to 85% of this rural population, exists under dire economic straits. Although the situation in Sri Lanka is slightly better, the gravity of the issue is very significant. It would be impossible to achieve rural or national economic targets, without strengthening the economic conditions of the rural population. Hence, it is not so easy to expect a national development sans rural development.

## Contribution of Rural Economy

It is now well accepted that the rural economy can make a major contribution to the economic development of the Less Developed Countries. Agriculture generally remains the backbone of any rural economy. The growth of the non-rural economy is crucially dependent on the rural economy. Specially the rural economy significantly contributes to the food supply of the entire country. The cheap price of food supplied from the rural farms helps to control inflation and keeps wage costs down in the urban sector. It is also well accepted that the rural population provides labour for the non-agricultural sector in the country. Especially, the rural sector is the main source of supply of unskilled labour that mutually benefits both urban and rural sectors. In other words, the labour needs of the urban sector are fulfilled by the labour transferred from the rural sector, and conversely the urban sector in turn helps the rural sector by absorbing the excess rural



labour thereby reducing the labour pressure in the rural areas.

Another favourable factor is the contribution made by the rural savings to the national savings. This helps capital accumulation and augments funds in financial institutions thus enabling them to carry out lending in order to create capital in the non-agricultural sector. However, there is an allegation that rural savings are not invested in the rural economy as most major financial institutions do not lend much to rural sector, compared to the deposits mobilised from rural economy.

The rural economy also helps to save foreign exchange tremendously and helps to reduce the balance of payment deficit by producing agricultural import substitutes. The export of agricultural output of the rural economy also helps to earn valuable foreign exchange which is needed for importation of capital goods, intermediate goods or raw materials for the other sectors of the country. The earnings from minor export crops could be taken as an example.

Export of other Agricultural Products in Sri Lanka	
Year	Rs. Mn.
1998	11,027
1999	11,597
2000	11,784
2001	12,174
2002	11,784

Items exported include vegetables, fruit, arecanut, coffee, pepper, cinnamon, cloves, nutmeg, mace, cardamom, sesame seeds, other oil seeds, betel leaves, cocoa products, tobacco, essential oils, cashew nuts and other minor agricultural products produced in the rural economy. Therefore the development of the rural economy can make a major contribution to sustain healthy economic conditions and promote economic growth.

#### Major factors that cause backwardness in rural economy

The backwardness of rural economies of developing countries is a common feature and accordingly it is necessary to identify the major factors that cause backwardness. A good understanding of such factors or issues, is very essential for the mobilisation of resources with a view to bringing in prosperity to the rural sector. Some of these features are discussed below -

##### 1. Small Family Farms

One main feature of rural sector is the small size of the family farm. The major inputs of production are land and family-labour and production is

sometimes limited only for the family subsistence. This happens due to the land fragmentation with the expansion of family due to nonavailability of new land for the new generation. However, cash crops production is largely geared to the needs of the market. For example Chilli, Bombay Onion, a variety of vegetables and rice grown on large extents in irrigated land areas, are directly marketed to earn cash. But in many instances, the relationship between the farm size and the family size is inversely proportioned because of the fragmentation of farm land. This also has accounts for a substantial degree of inequality in the distribution of rural income and wealth.

##### 2. Average Crop Yield

The low average crop yield per hectare of land, and the resultant low income is another reason for rural poverty. Low yields underlie the problem of generally the low productivity of resources utilised. This is due to a number of reasons such as, poor land quality, lack of fertilizer, inadequate capital, and poor technology. Some of these unfavourable conditions account for the poor quality of products and low productivity even in the non-farm sector of the rural economy.

##### 3. Use of Technology

Although the world is rapidly going through a very advanced technological development, one hardly sees the use of modern technology in our rural economy. In agriculture, traditional methods still dominate. Moreover, due to the land fragmentation, farmers who do not own large tracts of land for cultivation find it difficult to use technology. When individuals own small plots they cannot be cultivated under mechanised systems. Hardly any effort has been made by responsible authorities to convert those fragmented farmlands to integrated large tracts where mechanised farming and other modern farming practices could be deployed.

##### 4. People's participation in Rural Development

Various governments and non-governmental organisations have made innumerable attempts to build up an equitable, planned and sustainable rural development structure and special programmes to address the specific issues that were introduced from time to time. However, the experiences and evaluation of many programmes have revealed that sectoral programmes taken up in isolation do not bring any lasting solution to the rural agrarian, economic and social problems. Experience also indicates that the rich have embezzled the major benefits of these programs leaving the poor worse off. There was no transparency in the allocation and utilisation of resources. People who participated in these events, at the grass roots level, were igno-

rant and therefore there was virtually no active participation. Subsequently to avoid this situation a new strategy called the 'integrated rural development' programme was introduced, with a view to consolidating and optimising the utilisation of the limited resources and greater people's participation. Overall the new approach of integrated rural development, failed to produce the desired results, but some component of the program bore fruit. However, lack of proper people's participation in the matters of decision-making and implementation, was one of the major causes for the poor performance of rural development programmes.

##### 5. Non-farm activities in the Rural Sector

Non-farm activities in the Rural Sector, occupy an equally important position as the activities connected with agriculture. The non-farm activities in a rural economy where agriculture is the principal source of income, is a major source of alternative income. Non-farm activities produce income as well as generate employment opportunities in the Rural Sectors of most developing countries, and is therefore, a very important economic factor. This is the activity which provides employment to the landless peasants, low-income smallholders and other general farm workers, during lull periods in the farms.

The non-agro-rural economy also plays an important role in providing employment to the excess population resulting from the inability of the farms to increase activity to keep pace with the increasing rural population. Construction work, masonry, carpentry, trade in home needs and sundries, transport, fishery, handicrafts, handlooms, textiles and processing could be identified as non-farm activities in the rural economy. Hence, it is necessary that top priority must be given to these opportunities, in the Rural Development Plan.

Despite the potential role-played in employment and income generation by non-farm activities in rural economies, there is an inadequate recognition of the importance of these activities. Although some work had been done in this field in the past, very little attention has been given to the importance of the non-farm sector in employment generation. According to some survey findings, this sector provides nearly 50% of the job opportunities in the rural sector (Shand 1981).

The importance of non-farm activities can be based on three main criteria. (Rizwanul Islam)

- The quantitative importance of non-farm employment in rural areas;
- The productivity of and returns to the non-farm activities in which members of rural households engage themselves and



- ii. The feasibility of an egalitarian rural developmental system through the expansion of non-farm activities.

The organizational structure of non-farm activities in the rural economy is very weak. It is not only unorganised, but is not sufficiently developed to provide a sustainable livelihood to those who engage in these activities.

Therefore, it is very important to see the possibility of developing these activities to a high standard, where,

- i. They are productive enough to ensure the rural poor a decent income and standard of living and
- ii. The rural folk are provided with the prospects of equal opportunity.

In Sri Lanka, seasonal variation in the intensity of agricultural work gives rise to a demand for seasonal employment in non-farm activities. However, there are people in the rural economy who cannot find alternative employment opportunities in the crop production agriculture. Therefore, it is necessary to find alternative opportunities to employ them in non-farm activities that offer alternative opportunities. Therefore, the emergence of an appropriate institution to create employment opportunities for this group throughout the year through non-farm job opportunities, is very important. As resources differ from area to area, this institution should identify the potential areas to create job opportunities depending on the resource availability in different localities. Development of a small and medium term industrial sector comprising artisans, cottage industries and home gardening has good potential.

Peasants, tenants and landless farmers constitute the majority of the rural poor. To extend the benefits of development directly to this group, rural development policies have been increasingly focused on a pattern of agricultural development where the growth of output is shared by the mass of peasant (small) farmers, as well as large-scale farmers. Such policies are significant from the viewpoint of the development of rural non-farm small scale activities in addition to the development of agricultural activities. A major consideration is that, the rural poor form the main markets for the products and services of these activities. The growth of output in small farms and the resultant increase in the incomes of the rural poor stimulates an increasing demand for goods.

#### Low Productivity in paddy Sector

Paddy cultivation is considered to be the most important economic activity in rural economy. Paddy sector and rural economy are integrated. The rural labour absorption in the paddy sector is around 32%. However, number of studies have

revealed the paddy farming hardly provide a sufficient income to the people who engage in it. Therefore, the improvement of the income of paddy farmer is very important. However, with the experience so far gained one could argue that with the current structure of paddy farming, it is impossible to take rural family out of poverty. Therefore, necessary measures to be introduced to improve the productivity of paddy sector as a major requirement to develop the rural economy.

#### The Macro-Economic Context

The strength of the stimulus, however, is dependent on appropriate and effective macro-economic policies, a good infrastructural and wage improvements in rural areas and towns could increasingly expose local small-scale enterprises to competition from the urban based modern, large-scale manufacturing and commercial sectors. Although that is good for development, competition makes a wider range of goods and services available to the agricultural sector and to the rural population. Usually, rural enterprises are not provided with adequate incentives to change techniques and know how to make these more adaptable to meet the challenges. Unless rural industries or rural small scale producers improve their quality they would have problems in marketing their produce. It is true that the improved infrastructure and low labour costs give an incentive in the modern sector to decentralise, thus providing added employment and earning opportunities for the rural population. However, in certain macro-economic contexts, there are negative factors that affects rural enterprises and calls for a safety net.

Faulty macro-economic policies caused by distortions in the pricing system are a common phenomenon in developing countries. This has been extensively discussed in the literature on development policy, and have been mentioned in the Country and Economic Sector reports of the World Bank. Apart from policies to make prices reflect real opportunity costs, a number of alternative policies are possible though they are sometimes unacceptable or costly in economic and administrative terms. They include:

- \* Production licences limiting the operations of modern large-scale activities.
- \* Government procurement and distribution of supplies to the small-scale sector.
- \* Tax and other concessions for registered small-scale enterprises in rural areas and towns; and
- \* Use of extension services to ensure that some of the concessions to industry and commerce also reach small firms.

From the viewpoint of the design and preparation of projects to provide development assistance directly to small-scale rural non-farm activities, the issue is somewhat narrower, though nevertheless important. Whether such projects are economically feasible

and what form they should take, cannot be determined without an examination of the macro-economic context in which they must function. In situations where it is seen to depress the growth of rural small-scale activities, it follows that the demand for various supporting services provided by various projects – in the form of credit, training, trading, research, and even infrastructural services – is correspondingly limited, with the result that the projects are difficult to justify on economic or social grounds. The converse is true when the macro-economic context is more conducive to stimulating employment and a balanced development of large-scale and small-scale enterprises. The issues that arise, therefore, from the inter-dependence of macro-economic and sector-specific policies, are particularly important, and will constantly recur in the development of assistance for rural non-farm activities.

#### Rural Economy of Sri Lanka

Large-scale investments have been undertaken in developmental programmes that satisfy the fundamental necessities of the people, by almost every Government that came into power after independence. Presently, while the state expenditure on such necessities is 58% of the current expenditure, (G. India Thudawa, 2001), about 8.5% of it is invested on projects oriented towards the alleviation of poverty. However, a sizeable portion of the Sri Lankan population, viz, between 2/3 and 1/5 are still living under indigent circumstances.

The fact that, about 60% of the total population are still living in the rural areas, shows that the rural economy is the most important component of the economy of Sri Lanka. Taken as a whole, there are a number of problems frequently encountered by those in this sector, i.e.

- Low income
- Low productivity
- Unemployment
- Maldistribution
- Paucity of houses

This situation has been the main cause of poverty in the rural sector of Sri Lanka. On a further analysis, the importance of the rural economic system in the economy of Sri Lanka could be expounded by the following facts:

- \* Contribution of 15% of the total National Product by the farm community
- \* 72% of the farmers live within the rural economy
- \* 30% of the total hectareage of 8.5 m. are rural agricultural lands
- \* Contribution of 18.4% by agriculture to the Gross Domestic Production
- \* Engagement of 51% of the total population



labour force, in rural agriculture.

After segregating 24% of the total cultivated land for plantation agriculture, the rest—76% is devoted to the rural agro-economy, and

100% of the domestic agricultural economy is identified with the rural economy.

In Sri Lanka a number of programs have been launched and implemented during the last 50 years, with a view to alleviating poverty through rural development. While a Ministry and a Department have been established for rural development with a host of Rural Development Officers, many a programme, such as multi-purpose rural development programmes, welfare programmes, and relief programmes have been implemented. Meanwhile, a number of NGOs are spending billions of rupees by way of foreign aid on various Rural Development Projects. In this scenario, the results achieved by these institutions and activities do not appear to be satisfactory, when compared with the financial provisions or outlays incurred, with the aim of eliminating rural poverty and economically fortifying the rural folk.

The State Sector has contributed tremendously towards this effort, even though the NGOs have extended some degree of co-operation within this framework. The conclusion is inescapable that Rural Development and elimination of poverty are essentially the functions of Governmental and Non-Governmental institutions. A conspicuous example is that the farmers take it for granted that the credit facilities granted to them through the commercial banks with the state sponsorship, are enough to let. Because of this it has now become necessary to direct the rural folk towards a new way of thinking or changing their attitudes in the matters of rural development. Accordingly, it is imperative to introduce new initiatives, in such a way that qualities such as development, creativity, leadership, knowledge, skills and efficiency of the citizens concerned, are more meaningful and personally harnessed, in order that the development objectives could be achieved. In the absence of such a course of action, it is not possible for any Government, state institution or any other institution to simply achieve the objectives of rural development.

Attempts have been made to get rid of rural backwardness by means of direct or indirect intervention to improve rural agriculture, but in all these years, the living conditions of the rural folk have improved marginally. Despite programmes proposed by the Government and implemented by the Government itself, for the purposes of bettering the living conditions of the poor peasants and alleviating poverty have been incorporated in the state welfare programmes. However, these schemes have been ineffective in reducing the wide gaps in income levels and living standards

within the country. Programmes in the area of Integrated Rural Community Development have made a major contribution. The developmental projects launched in the rural areas under this programme, have in fact helped to promote growth and improvement in living standards even though it has not been possible to produce optimum results.

There are two factors which have to be considered in the event of applying a new concept for rural development.



Peasants working in a field, a scene depicting growth and progress in rural development. (The image is a black and white photograph, showing a group of people, possibly farmers, standing in a field or near some structures, engaged in an activity. The image is somewhat grainy and has a historical feel.)

1. It has to be comprehended that, the rural community is in a state in which there are, (a) the early Community Development Concepts which do not fulfill developmental requirements, and (b) the economic developmental requirements, as a result of the diffusion of the globalisation activity on account of a clearer unification of the global economy.

2. There is a need to focus attention on the expansion of the information as a means of obtaining and disseminating knowledge throughout the whole world, brought about by the astonishing advancement in the field of information and technology.

The present Government has given priority to the second factor, and has proposed to extend computer technology and internet facilities to the rural areas and schools, through the Budget Proposal for Rural Development, for the year 2005. This will give opportunities to innovative developmental measures in the rural economy by being open to the global economy.

Introduction of information technology to the rural economy, would tend to discourage migration to the city. A developed rural sector is an indispensable pre-requisite for the steady development of the economy, the reason being that almost all the es-

sential food items required by the country, are produced within the rural economy. Urban rural migration has had an unfavourable impact on economic development, because this will reduce the labour required for the rural sector production. If the rural folk migrate to the cities in the event of a collapse of the rural economy. Moreover, in the urban areas there will be population congestion, and an increase of the population in densely areas. For instance, if rice production collapses, the country will be confronted with a situation, where rice and the other food commodities earlier produced locally, will have to be imported.

In the circumstances, it should be the principal function of the planning authority to transform the rural producer who now exists in a highly dependant economic state, to a commercially viable entity by introducing very attractive economic activities into the rural economy. The fact that there are a number of proposals in the 2003 Government Budget, into specifically develop the rural sector is a healthy sign (see Box).

## SOCIAL SECURITY FOR RURAL COMMUNITY

Social security of the people who live in rural economy is very important.

It is regrettable that there is no common social security system for the communities who are engaged in farming, fishing or self-employment in the rural economy, although there are several different social security systems covering some segments. Especially social security in old age has become a big problem in Sri Lanka. The existing Sri Lanka Social Security Board under the Ministry of Social Services, covered about 75000 persons who need social security. But this is less than 4% of the net coverage of the envisaged target population.

Most of the rural community who engage in hard physical work as farm workers or self-employed persons continue to work beyond the age of 60 years. But once they become older or unemployable or disabled there is no one to look after them. As a result they become help less, and therefore a burden to the state.

The prevailing pension scheme to disburse a small dose to the needy people under the Social Service Ministry, has not reached all such people. A farmer's and fisherman's pension and a social security benefit scheme also established by an Act of Parliament in 1987 and 1990 with the objective of providing minimum level of social security pension system for the people who are engaged in those activities is in operation now. However, the number of those who are not benefited under those schemes are more than those who are benefited.



Hence, a comprehensive Social Security System especially for the excluded poor segments of the rural economy is vital in rural development.

### Rural Projects

Another important factor in the rural development is the implementation of "Development Plans formulated on Government Policy". It is a frequently observed fact that a large number of rural Developmental Projects implemented in the past, have been associated with corruption, in the form of misuse of funds and inefficient and incompetent bureaucratic machinery. It is very rare for projects to be advanced and accomplished in time, and undertaken in the best possible manner. It has been indicated many a time, that, a bureaucratic bungling and personal aspirations

have prevailed rather than the national interest and about 40% of production wastage and funds misappropriation has been associated with our Developmental Projects. Examples can be given from the construction sector. Most of the present day construction work in the field is associated with sub-standard work, and construction which involves heavy maintenance expenditure. While earthen tanks, canals and dams, still function even after about 2000 years, most of the present day construction hardly lasts a few years. Since examples are rampant in the Electronic and Print Media, it's not necessary to cite them here. However, gigantic the disaster may be, those responsible should be called upon to explain.

By Rural Projects is meant, an organised array of activities oriented towards the realisation of financial investments, or in a broader sense, the result-

ing social and economic changes. According to Randolph (1963) and Gillinger (1962), a Project could be defined as some kind of an investment task. By this is meant, the creation of Capital Assets in a manner that would generate returns for a long time, through the process of expansion of financial resources. A Project could be defined as an investment installed for achieving certain targeted results during a set period. However, this notion is not evident in many a rural project in Sri Lanka. Hence, when a project is drawn up, the intention of realising the prime object must be unduly publicised. Those who are involved in the implementation of these projects, there should have a genuine sense of national pride and commitment. In most instances, the projects entrusted to private contractors who have only profits in their mind, are a failure because of the absence of such qualities.

## Budget 2003 and Rural Development

Following is a brief discussion on some proposals put forward through the 2003 Annual Budget, which would promote or have an impact on the rural economy.

### 1. Welfare Benefits Act

Action has been taken to table this Act, due to the disclosure of some blatant and ugly facts of mismanagement of programmes due to which, the anticipated results have not been achieved, and the poor peasants do not receive the economic relief or assistance as envisaged. These Programmes have been drawn up with a view to eliminating poverty, that has been the basic cause of perpetual suffering in the Rural Sector. This conclusion was the outcome of a number of ad-hoc investigations and surveys.

It is an open secret that relief has not reached those who deserve it but has reached those who do not need the benefits. On the other hand, those who do not need the relief, have encouraged people to depend on such relief permanently. The main function of relief must be to give people benefits when there is an economic upheaval or the sudden fall in any relief scheme makes a person or his family totally dependent on it, then all expectations of such a scheme gets hopelessly shattered.

It has been observed that political or other relationships have become the deciding factor in selecting the relief deserving recipients. Various corrupt and acts of indiscipline take place, including the reluctance on account of the weaknesses and inefficiency of the management. It has also brought to light that, some relief beneficiaries do not think of permanent employment merely because of the availability of relief, while some others abandon employment to receive relief. Such a state of affairs was observed in the "Janasaviya" Income Supplementary Programme. It appears that the purpose of the above mentioned "Welfare Benefits Act" is to eliminate such shortcomings and implement the Policy Programs with a new approach.

A Selective Board will be established to make guidelines for the correct identification of the prospective beneficiaries, and to review the poorly operative relief programs. On examining the system of granting relief in the form of cash, it has been noticed that the beneficiaries have

never shown signs of trying to improve themselves.

In the circumstances, it would be more prudent and meaningful to direct the relief beneficiaries towards self-employment, and make them earn their living by such employment ultimately, rather than handing over the cash does laid down in the Act. This should be done through well-planned programmes. It would be possible now, to launch the Budget Proposal to uplift the standard of education to a level endowed with an ability to absorb technology and a professional inclination. In doing so it would be feasible to give a new face lift to the rural economy by improving the overall levels of productivity and income of the Rural Sector who are about 60% of the total national population live. At this stage, the importance of the "Non-farm activities" need and center have to be taken into consideration.

### 2. Creation of Three Funds for Rural Development

Special new funds are to be established under the Budget proposals. Among these, three of them are related to the Rural Economy and they are:

- (i) Human Resources Benefits Fund
- (ii) Rural Economic Revival Fund, and
- (iii) Agricultural Emancipates Fund

#### (i) Human Resources Benefits Fund

This fund will be allocated one billion rupees in 2003, and will be administered by a joint body comprising representatives from both the Government and the Private Sector. This Fund will be utilised to provide all type education and vocational training to school children and other young men and women who meet with the required pre-requisites, and to promote skills such as Information Technology. It is through this Fund that even the Voucher System stipulated in the Government's Election Manifesto for qualified school children to pursue for any education is operated. Credit balances in the existing Skills Development Fund will be transferred to this

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Fund. In addition to this, 1000 million rupees will be released to this Fund for the purpose of purchase of equipment under a long-term repayment facility. Discussions are under way regarding the contribution, the industrial concerns which presently enjoy Tax Holidays, are expected to make towards this Fund. The Company Tax in respect of those companies with a taxable income that is subject to an annual tax of Rs. 5 million, will be reduced to 30% with effect from 01.04.2003. By this measure, the Government will sustain a loss of Rs. 2 billion. Nevertheless, the Government will direct each of such companies to deposit 50% of the total amount of money they stand to save thereby, in a Human Resources Benefits Fund.

Ever since the Open Economy Policy was introduced in 1978, a large number of Tax Reliefs and Tax Holidays have been granted to date. But how far have these reliefs fulfilled expectations? As such, getting them to divert a part of these tax reliefs into a such a special Fund would be another investment, because it will assist in the task of generating skills in through investment on education.

#### (ii) Rural Economic Revival Fund

The function of this Fund for which a sum of 600 million rupees have been allocated by the budget is to furnish relief and assistance to projects in the Small and Medium Scale Industries category and the Fisheries Development Industry. The expenditure expected to be incurred on such projects during the year through this fund, is rupees 200 million.

#### The outline according to the Budget is as follows:

About 15% of the GDP is provided by the farmer community. The Government has already commenced action on a number of development projects for uplifting the economy of the Rural Sector. A sum of 600 million rupees has been allocated for the furtherance of these projects, and for the introduction of new projects.

A Rural Economic Revival Fund has been established to extend assistance to the Small and Medium Scale Industries and to on-going fisheries industry, and it is proposed to allocate Rs. 200 million for this Fund next year.

#### (iii) Agricultural Enterprises Fund

The principal objective in establishing this Fund is, to provide assistance to the small and medium scale farmers, in cultivating promising agricultural habits, introducing new crops and technology, and maintaining the tanks in their areas. To begin with, the Fund will have Rs. 100 million to its credit, but it's hoped to increase it with contributions from prospective subscribers with whom discussions are being held for this purpose. Agricultural Enterprises Developmental Fund shall be established with the co-operation of an acknowledged institution at the apex level. Relief at the beginning, the Government will contribute 100 million rupees. Discussions are afoot with prospective contributors, with a view to strengthening the Fund. The Budget stated Rs. 3000 million will be released immediately to enable the farmers to install Drip Irrigation Systems and to purchase essential agricultural equipment.

Moreover, assistance will be provided to raise improved varieties of potatoes, bananas and pineapples by means of Tissue culture, after establishing a Hybrid Seed Industry. It will ensure that paddy farmers will be given enough incentives to increase production and improve the harvest, since rice is our staple food.

The Government will continue to maintain the system of paying a guaranteed price of Rs. 13 per kg. of paddy at the threshing-floor. Supply of

healthy marketing facilities has already begun in respect of fruit and vegetable farming.

Five more Economic Centers will be opened during the course of 2003 in addition to those at Meegoda and Embilipitiya, with the sole intention of obtaining a high price for and promoting the marketing of rural products.

#### Vocational Education of Youth Force

The most important thing to be borne in mind in the task motivating the youth towards agriculture, is that it should be made very attractive. Accordingly, it has been proposed in the Budget to create a system of education that could give access to a high technological standard and a vocational bias, in order to dispel the elements of low productivity and low income.

The proposal to form a labour force that could meet the demands of the labour market, from within the Youth Force to be created in parallel under the proposed system of education, would help to achieve the above goals. The main cause for high rural unemployment has been the lack on a vocational bias in school education. The vocational training proposed to be given through 160 Youth Force Centres which will be established in eight Divisions with the intention of providing a solution to the issue, will be of great help. The first step will be to establish one Centre in each administrative Division, and to provide opportunities for 40,000 youth.

#### Farmer Organisation

In addition it was indicated that Farmer Organisations would be established with the intention of revamping agriculture by supplying agri-equipment on a hire basis, to those farmers who are unable to purchase them. The farmers could also purchase their requirements, from the Farmer Organisations, when they receive their relief. Furthermore, the Farmer Organisations could obtain state funds to maintain the rural tanks.

#### Low Interest Housing Loans

Among the many proposals put forward for rural development through the Budget were a low-interest Housing Loan Scheme for the Rs. 3,000 - 15,000 income group. The amount of the loan is subject to a maximum of Rs. 500,000 and could be repaid over a period of 15 years and a part of the interest will be borne by the Government. It is hoped that 10,000 dwelling units would be built through this scheme, and would thereby help to mitigate the rural housing problem, especially for the rural low-middle class.

Furthermore, the proposals aim at giving a fillip to sports activities in the rural schools that will result in mental and personality development of the rural youth. The provision allocated to Members of Parliament for developmental activities in their areas, has been increased from Rs. 3,000,000 to Rs. 5,000,000. Since most of the MPs represent the rural sector, if they expend that money genuinely for the development of their areas, the physical infrastructural facilities in the villages would be greatly enhanced up. In this connection, care must be taken to see that the financing of the developmental programmes are caused out by ad-hoc rural organisations without offering it to the contractors haphazardly.

Finally, it has to be stated that, if the proposals put forward by the 2003 Budget are executed or implemented in a direct manner, exactly as formulated, without subjecting them to political trickery, a strong foundation could be laid for the prosperity of the rural sector.

Moreover, if any difficulties have been imposed on the farmers due to reduction of fertilizer subsidy or poor relief, the genuine implementation of the above proposals will compensate for those hardships.



# State Policy for Rural Development

Interview with Hon. Bandula Gunawardena,  
Minister of Rural Economy and Deputy Minister of Finance

Every Government that came into power after Independence, has invested massively on Developmental programmes oriented towards the fulfilment of the basic needs of all people. About 38% of the current expenditure in the Budget has been expended, and about 8.5% of this amount has been invested on the task of alleviating poverty. But 3/5 of the rural population still live under dire indigent circumstances. What is your opinion about this situation?

This situation is factual. About 80-90% of the Gross National Product of Sri Lanka is generated in the Western Province. There is a rural sector even in the Western Province. But the share of contribution to the GNP, by all the other rural areas lies at a very low level. From this it becomes very clear that the Rural Economy of Sri Lanka does not contribute sufficiently to the GNP on account of a considerable downturn in the Rural Economy of Sri Lanka. This situation has a historical background. It was created after Sri Lanka became a colony of Great Britain. Because, with the commencement of a Planter Agriculture, the self-sufficient agricultural system was shattered, and large scale plantations and related facilities such as Banks, Insurance Companies, and Transport came to being, creating a developed Planter Agricultural Sector and an undeveloped Rural Subsistence Agricultural Sector, in tow. Consequently, the Sri Lankan economy was destined to be a dual loaded economy. In other words it was a double economy. In addition to this, Colombo was transformed into a commercial city, by virtue of the fact that all the productions of the whole country were concentrated into the Colombo City, thereby creating an economy of its own, not observed superficially. Because of this a separate black economy developed within the Colombo City. In fact, what I think is that the economy of Sri Lanka is three-faceted, or there is a triple economy in Sri Lanka. Namely:

1. Economy with the principal city of Co-

lombo as the centre.

2. Economy based on the Planter Agriculture
3. Economy based on traditional Rural Subsistence Agriculture

The black economy mentioned earlier, is operative within the Colombo Economy listed at (1) above. Accordingly, on examining the aspects of distribution of resources within the three economies, spreading burden of the population, and the nature of the problems that have cropped up, it is observed that the sector which should be given priority in our economic development, is the Rural Economy Sector. The main reason is the unemployment issue, and the fact that a highly distressed population undergoing immense hardships such as malnutrition, hunger, lack of houses, lack of infrastructural facilities, land problems and the like, live within the Rural Economy.

What are the functions of the Ministry of Rural Economy of which you are the Minister?

There was no systematic National Economic Plan for the upliftment of the Rural Economy so far. For the first time in the history of Sri Lanka, after Independence, a Cabinet Ministry has been created for Rural Economy after the present Government came into power, and I am functioning as the Minister. The main objective and responsibility of this Ministry is the establishment of a co-ordination between the Ministries involved in the Rural Economy, planning and implementation of projects within the Rural Economy, and administration of same. These are statutory responsibilities too. Well planned developmental strategies have been incorporated in the "Bagai Sri Lanka" programme which is envisaged to be a middle-term and long-term Plan. Hence, if anyone says that there is no plan at all for the upliftment of the Rural Economy he would be sadly mistaken.

In considering the Developmental Plans, it is noticed that certain plans have been forwarded, through every Budget tabled in the

past. Although there wasn't a separate Ministry for rural matters, there was in fact, the Rural Development Department and a number of Rural Development Officers attached to it. But, not a single plan in the rural sector has been implemented as envisaged. Isn't it?

That is why we see Rural Development as an urgent issue. Life of the rural folk is based on agriculture. But not only they don't receive any assistance or support for their productions, they also find it difficult to enter the market. I can see two actors in this. That is, as much as the producer does not receive a fair price for his products, the consumer too has to incur a heavy expenditure for his sustenance. It is because of the official and unofficial actions found in the process up to the consumer's receiving the goods. That there is such a price increase. This is a matter of practical experience. The clearest example is the red onion production in Jaffna. The production is about 30,000 metric tons, and they are unable to sell, even at the rate of Rs. 12/- per kg, while the price in Colombo is Rs. 25/- per kg, which is about twice the price in Jaffna. We intend to solve this problem by establishing an Economic Centre in Jaffna too, like in Meegoda. That is the real problem. The wholesale price of all the food items is decreasing by about 40% after we opened the Economic Centre. There are three main factors in the production procedure. One is the producer, another is the wholesale dealer, and the other is the retailer. The wholesale business within the market system in our country has not been operated efficiently. It has been operated as a monopoly or oligopoly. Every time this issue was taken up, it was a failure. The fear that the people had to threaten those traders who enjoyed monopoly, the insult humiliations and allegations they underwent while trying to threaten them, threw the people backward, from the colonial times, and the consumers have compensated for it for a long time. Today, the prices have tumbled con-



side by side having stolen the wholesale business away from Colombo Meegoda. A variety of vegetables had to be bought for prices less than Rs. 20/- had been sold at very high prices in the Colombo Market. What we are trying to do is to establish Marketing Centres in the vicinity of production centres. For instance, one Economic Centre is to be opened in Jaffna. Because of this, it will be possible for the Jaffna producers themselves to bring their produce to this centre and get the prevailing price, without the intervention of the middlemen. We are planning to open twelve Economic Centres in places such as Weligama, Samarathurai, Thambulgama, Bakamuna, Embilipitiya, Tissamaharamaya, Nuwara-Eliya and thereby to obtain a fair price. The farmers and producers of the Hambantota and Polonnaruwa District had to pay a fair tax all along. How do this happen? The marketing plots of some produce, were auctioned by the Pradeshiya Sabha. In this manner, each marketing plot fetched about 10 to 15 lakhs of rupees for the Pradeshiya Sabha. There was only one successful bidder, and this meant he made at least 40 lakhs of rupees during that particular year. Hence, a tax was levied from the producing farmer. If the commodity was bananas, the tax for each sack had been going up from Rs. 6/- to Rs. 13/- gradually. For the first time in the history of Sri Lanka, we set an example to the whole country, by opening an Economic Centre at Embilipitiya where any commodity could be sold without any tax. Trading activities are being started here presently. Then, the producers bringing their bananas or other produce straight to the Economic Centre and sell them without a tax, and without having to keep their produce here and there on the way-side. There are 140 small-scale stalls in this centre. These days the price of a kilo of bananas is something between Rs. 12/- to Rs. 14/-, but in Colombo it is Rs. 60/-, yes, Rs. 45/-, Rs. 50/-, Rs. 60/-. In small stalls away from Colombo, also it is Rs. 60/-. Let the price be Rs. 24/- instead of Rs. 14/-, or let us say it goes up to Rs. 28/-. If the producer comes from Rs. 14/- to Rs. 28/- the profit is 100%. That is why we want to change this system. Now, all the banana productions around Embilipitiya are brought to the special Economic Centre in Embilipitiya. There, the retailers, intermediaries, tourists, hotels, wholesale dealers have the opportunity of buying their requirements as they wish.

Hon. Minister, when we buy a kilo for Rs. 12/-, doesn't it mean a low price for the producer? Sometimes, the producer may not get even the production cost. Hence,

does the producer also get a fair price in the same manner as the consumer gets his requirement for a low price?

It does not happen midway, because, the producer sells at a desired price. One important feature that should be available in a competitive market is a price communication system. That means, the price particulars of one market should be communicated throughout the country. At the moment it is a business secret. Indeed, I did not know that it was not possible to sell a kind of bananas for Rs. 12/60 in Jaffna. I am a person who takes some interest in these matters. I am a member of the Living Index Committee. Vegetable like tomatoes and brinjals are sold for Rs. 8/- to Rs. 10/- respectively in Thambulgama. But the consumer is not aware of these particulars. If he knows it, he won't pay a higher price. The other thing I see is, that political influence does a great deal of harm to both the producer and the consumer. The prices are going up every time, but only the middle trader gets the relief. If the true status of the price is not revealed, the middle trader will take advantage of the situation. We have nothing to do, since the prices are going up because of the Government and the VAT. But he is the one who has jacked up the prices. So, this should not be exaggerated if we want to get rid of this evil, the consumer as well as the farmer must be aware of the prices. For this purpose we have to make use of the Information Technology. We must link the network of these Economic Centres through the Internet. After that, wide publicity must be given about the true situation through the Central Bank, Commercial Banks, and mass media. Every market must exist. The Pallela market must exist. Dambulla market must exist. Meegoda market must exist. There must be some small differences in the prices of these markets. For example, the cost is less when a commodity is transported to Meegoda from Embilipitiya, Nuwara-Eliya and Anuradhapura than when transported to Colombo. The various legal and non-legal obstacles on the way to Meegoda are less than to Colombo. Prices in Meegoda are necessarily less than those in Colombo. Then, prices in Dambulla must be less than in Meegoda, because transport charges are negligible. But the price differences must be small.

A large percentage of the rural produce goes waste due to low quality transport methods, on account of getting pressed and damaged, in transit. Isn't it that some remedial measures have to be taken to minimize this loss?

Yes. That's correct. It affects even the price for the customer. For example when bananas are transported in spike form, a large quantity gets damaged. So, we have to discuss this matter with the

plastic goods manufacturers, and find a way of transporting them carefully in the form of combs like in Thailand. We should do away with the present mode of transporting banana in the form of spikes. This is going to be advantageous to the consumer, because if only because of production would be reduced and thereby the price has to be reduced. A comb will be used to this item, by transporting it in the form of combs packed in sacks and crates instead of transporting them in spike form, which method causes a lot of damage.

Then Hon. Minister, the problem of preserving it crops up, isn't it? It ripens quicker, isn't it? When combs are cut off without leaving them as spikes, then also there is waste, isn't it?

No. We have to refer to new methods of preserving them. For example, take the Hoo apple variety of papaya. You can keep it for about 10 days after picking without getting over-ripe. No damage is caused in transport. The seeds of this variety are expensive. The present price of a seed is about ten rupees, and a plant is about Rs. 20/- or Rs. 25/-. So this situation has to be changed. Seeds must be made available at low prices. Research must be carried out. Must do things that increase productivity. Last week, a group of representatives from Thailand went to inspect the Economic Centre at Meegoda. They invited me to Thailand to have a sensible and realistic understanding about their packing systems, transport systems etc. and to exchange some technical know-how. They have at least for a short time, have a good understanding of their systems, and make possible substitutions in the domestic market. Likewise, I will be enthusiastic about getting the local farmers used to the Forward Exchange Entry System with the collaboration of the Central Bank and other Commercial Banks. At present, the farmer does not know how much the cost of production is according to the productivity of his production. Therefore, supposing the cost of production for 31 kg. of some crop, after using fertilizer and other chemicals, and if the farmer's profit is 50%, then the value of a kilo is Rs. 9/-. But an Exchange Agreement, according to the Sale Marketing System must be signed with the prospective buyers so that the price will not vary with the quantity of harvest. Such an Agreement is operational at the Central Bank. The Central Bank of Sri Lanka has sent the President of the Trade Association of Dambulla, to invite for a seminar. Have a conference with the officials of the Central Bank, a few days ago to discuss matters related to the Forward Exchange Agreement.



We have to introduce a lot of new things like this into the Rural Economy, and thereby we must bring about a number of wide changes in the Rural Economy. We are going to start cultivation under the technology inside greenhouses. We are presently planning to invest a sum more than ten million rupees, through the Ministry of Rural Economy, under this project, which is implemented with the co-operation of JICA. We are now taking about 300 people for a purpose. In like manner, methods to improve productivity, methods to improve packing and next, marketing facilities for marketing of produce, or will be taken up. Similarly, the special production in the Rural Economy for export, are not only agricultural produce. My Ministry in collaboration with the Export Development Board is working on a specific Export Home Villages Scheme, and small mode-scale products industries. Accordingly, there is a mushroom propagating project in Angurukolepessa. A factory is being constructed for the purpose of exporting canned mushrooms. An Export Village is being built up at the Goddoland, for coffee related products. These days construction work is going on in Galgamuwa in the Kurumegala District for a company which will dehydrate vegetables and fruits and export these products after processing them.

According to the Exchange Marketing System, you spoke of, the farmer will get the opportunity of obtaining a loan from the trader, for cultivation purposes, and to sell his produce to the very same trader.

No, it's not the way. If so, it will be the same old system. If the farmer obtains a loan from the trader who sells the supply goods, and if he buys the fertilizer, chemicals and seeds, he will have to sell his paddy production to the same trader without a valuable price, or without a steadiness in price. That's not the difference in this system. The producer and the buyer comes to an agreement regarding a fixed price. Such an agreement could be got discounted through a Bank. Working capital requirements could be got fulfilled through an Exchange Agreement, in an emergency. The Central Bank has published various publications about the Forward Agreement System. I hope that some sort of an awareness would be given through the People's Bank publications. The most of fulfilling, still make the farmers understand the procedure. This Agreement is well put into practice in Countries like Thailand. Since we are not that organised, it's not quite easy for us to implement it here. We are presently working on a Market Organisation System. The organisation of the Market System

and the establishment of Export Villages would do a great help for Exchange Agreements.

Hon. Minister, there are some more problems in the Rural Sector, in addition to the marketing problem, such as the youth unemployment problem and the land problem. The land problem is the fragmentation problem. When the families become larger, the rural folk breakup the land they own and gift them to their children, mostly due to the non-availability of land in the rural areas. Due to this fragmentation, it won't be possible to get a satisfactory harvest from the paddy fields. Have you got any opinion about this issue?

My view about this matter is quite different from yours. What I feel is that the problem about productivity is more serious than the problem of fragmentation. When we consider the other countries in the world, I must say that, we are used to thinking in terms of intensive systems. By Intensive System is meant increase of output by means of division, the increasing the output of land. In countries like Japan, they get a high output by using less inputs. I think that, it is more important to disseminate technology for the purpose of obtaining a bigger harvest, and therefore a bigger income from smaller plots of land. The land fragmentation problem will be quite different in about 22 years. You would see a problem in Sri Lanka, which is not found anywhere in Asia. By 2025, a majority of the people in Sri Lanka, will be in the old age group, because of the policy followed for a long time. With the population falling into an old age situation, the present demand for large-scale land will not continue to be so. Fragmentation will not take place so easily. There's already an experience in the Sri Lankan Society. At the moment, the Primary Schools are getting closed. This happens because of the paucity of children for those schools. Some things in society are such as problems, because the superficial economic problems are considered in terms of simple slogans, or not considering them analytically. There is a temporary unemployment problem. In fact, we will have to import labour by 2025. That's not a thing that anyone could stop. That is the real situation. Because of this, the problem of identity must be taken up very seriously by the Sri Lankan planners as well as the intelligentsia. Likewise, relevant knowledge must be disseminated in the political field especially among those politicians who lack such knowledge. Slogans find their birth in the political councils or the Central Steering Committees of the Political Parties. These bodies comprise only a handful of politicians. It's very important, in the context of building up a country sans politics, to impart knowledge to the handful of politicians in every relevant discipline. We have to face the

problem of identity in 2025 whether we like it or not. It is not a thing that could be stalled by means of a poster. At this point, we will have to start labour. There will be less term in the participation. Caring the old will become a national issue. The State Budgetary Funds won't be sufficient to meet the Pension bill. Expenditure on health will increase tremendously. These are things that we have to subject to serious consideration. The difference in Singapore is that they plan for 2025 now itself. I am telling you, that we have not yet thought of these things as a nation. Therefore, it is necessary that the Economic Experts, Sociologists, University Professors and various other intellectual persons, should disseminate connected knowledge in the whole country. Some stupid people in the country who study the basic principles of some political parties, are in utter despair. They must communicate the nature of this disaster to the people.

Hon. Minister, there is a large rural section, other than the farmers, and the landed proprietors. These people are mentioned in economics, as those engaged in non-farm activities. Generally, these people have eventually become labourers in the farming aspect. Sometimes, they are engaged in other non-farm activities of the rural economy. Actually, this group contributes sufficiently to the rural economy. Is there any plan for the upliftment of the living standard of these people?

There is a known unemployment aspect as well as a hidden unemployment aspect within the rural economy. We must create an agriculture-based industry within the rural economy, for each category of workers. Enterprises must come up. For example, industries and enterprises for vegetables and fruits must be established. Export villages must be organised. Just imagine the volume of canned 'ambattur' exported by agriculture-based Malaysia! We can convert another concept born that region, and incorporate it into our issue. That is, in Thailand there are people well versed in food collection methods, who contribute immensely to the development of productions of their villages. There are a lot of such villages in Sri Lanka. We have launched a programme through our Ministry to develop 100 such villages specially selected as Special Products Villages.

There is a high percentage of unemployment within the youth population. These people don't like to engage themselves in agriculture, because of the lethargic nature of our agricultural system. Do you



acknowledge the fact that some step has to be taken in this regard ?

That can be changed, especially if agriculture is based on Greenhouse system or drip irrigation technology. The difference will be that the farmer will be able to wear a pair of Denim pants, and visit the farm on a motorbike, instead of getting into the muddy field clad in a loincloth and with a mammy rested on his shoulder. Cultivation of ornamental flower plants, are an example. They don't call themselves farmers, and they don't identify their flowerbeds and nurseries as a farm. They say with pride that they have a farm. Such an attitudinal change is necessary. Ornamental flower plant cultivation is one example. That is quite different from the paddy cultivation concept. While such an attitudinal change is taking place within the youth, that change must necessarily take place. Why? This problematic situation will be dissolved, after leading the youth to a social stratum where they could be proud of their entrepreneurship and where they could enjoy a larger income than the white-collar worker in the city. There was no such thing as Beauty Salons about two decades ago. If at all there were, it was limited to the Colombo city. But now this has spread all over the country. Dressing of brides is another avenue. In the good old days people laughed at fashions. But today those who are engaged in such activities are living well. They don't look for Government jobs. That means an attitudinal change has taken place. That is how the income of the youth within the rural economy could be increased and the standard of living enhanced.

At the same time, what is the plan you have for the Small Industries in respect of rural development ?

Yes, It is good to establish Small and Middle Scale Industries. There are loan schemes too for this purpose. Although there are loan schemes, there is a problem related to capital in most instances. Both capital and weak capital give rise to marketing problems and a whole lot of such problems. The basic problem is the capital problem. They cannot enter the competitive market within this economy where the expendi-

Ministry of Rural Economy – Summary of Capital Expenditure	
Development Activity	Rupees Hundred Thousand
1. Rural Economy Resuscitation Fund	100
2. Rural Export Promotion & Development of Agricultural Ventures	
Godakawela Export Processing Village	16
Rajanganaya Export Processing Village	20
Angunakolapelessa Export Processing Village	11
3. Rural Industrial Development	
Printing Industry Based Industrial Park, Panaluwa	169
4. Rural Productivity Development	
Agro-Technology and Community Services Centre - Weligama	11
5. Rural Handicrafts Promotion	
Sigiriya Handicrafts Park	195
Centre for Handicraft Products, Sales and Exhibition	
Folk Arts Centre, Battaramulla	25
6. Rural Market Promotion	
Meegoda Economic Centre	670
Embilipitiya Economic Centre	520
7. Rural Self-employment promotion "Thuru Sevana"	
Sales Promotion Centres Programme	275
8. Technology for Village	
* Watareka Computer Training Centre	35
* Kirigampamuwa Computer and Vocational Training Centre	25
9. Rural Sales Promotion	
Rural Products Sales Fairs Programme	24
10. Rural Education Development	
* Computer Unit for Primary Sections of Government Schools	35
11. Rural Community Services	
* Bus Halts and passenger Shelters	13
12. Rural Products Capacity Promotion	
Provision of Capital Products Free of Interest (1000 Four Wheel Tractors)	6000
<b>Total :</b>	<b>8164</b>
* The grant allocated to Ministry of Rural Economy Approximate Estimate	

ture is too high. Because of this, my firm belief is that the Interest Rate must come down to a one digit figure. Secondly, we must prepare the market for him. Thirdly, we must provide him the opportunity of improving his technical knowledge. I also see in this respect a major weakness in the Commercial Banks and Developmental Banks. This has happened in respect of small and middle scale loans so

far. This is how it happens here too. But the question remains whether the craftsman and the actual industrial worker in the village gets this money. Hence, we all have to discuss and open a dialogue on this matter and find ways and means of introducing this Loan Scheme fruitfully to the village. Such a course of action is of paramount importance.



# Marketing of Produce in Rural Economy and Related Problems

Agricultural product marketing is very vital in the country because this sector contributes about 20 percent of the Gross Domestic Product (GDP). In early 1990s about 40 percent of the workers engaged in agriculture.

Agricultural commodity production is controlled by smallholders and most of the production units are less than one hectare. Therefore almost all the agricultural and pricing policies have been focused on this sector to achieve, the self-sufficiency, food security, enhancement of rural income, generation employment opportunities and protection of consumer welfare. Policy actions of pricing policies included subsidies for production and consumption, the operation of government procurement activities to ensure better prices to farmers, the introduction of tariff policies to limit imports at lower prices.

The governments have introduced many pricing policies to enhance the rural income during the past. But the development of the agriculture sector or the enhancement of rural economy was not seen. On the other hand both the rural and urban consumers were not benefited.

Considering the price behaviour of agricultural commodities, almost all the prices were highly correlated indicating the high integration between markets. The correlation coefficients of vegetable prices with Pattach to other retail markets are positive but less significant due to transport charges and wastage loss.

We have experienced a rapid growth in our urban population, expansion and changes in the structure of agricultural production, and changes in the modes of processing and transport of agricultural products. This has often required considerable modifications of the food distribution system. Earlier these systems had been oriented towards subsistence or local markets. Governments have gradually taken a stronger interest in food marketing to provide at least a minimum of food to low-income urban population and also to increase the rural income.

In the past, government involvement in agricultural marketing was largely focused on export crops. During the last 50 years, a number of

governments have realized that the development of sufficient production of basic foods and their distribution for local consumption is of major importance in generating genuine economic development. Their policies have gradually begun to focus on efforts towards food self-sufficiency and the integration of basic food production into the market economy.

Rural farmers always complained about lower prices than are paid for their farm products. On the other hand consumers, especially in the Urban Sector, complained about the higher prices and the quality of the products. Hence to study

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the situation in this sector is very important to minimize the conflict between two sectors.

## Objectives

The main objectives of this article are to analyse the price spread in agricultural,

Marketing sector, policy implications and to identify the production, and

Marketing problems of the farmers.

## Price Spread

Producer's share of rice during the season varied about 50-53 percent of the consumer rupee. During the off season it was ranged from 61 to 64 percent. The absolute margin between retail price

and wholesale price was ranged from 10 to 17 percent for samba and from 7 to 20 percent for indica rice. The higher margins were recorded in the months of May, June and July. The higher margins between producer price and wholesale price was observed in March, April, May and December when the higher demand occurs due to festive seasons. Cost of production of paddy is about 50 percent of the retail price. When we consider the cost of production of paddy equivalent of a kilo of rice, the cost is about 48 percent.

The gross margin between retail price and the producer price of cred chilies varied by 23 to 33% during the year by indicating that 70% of the consumer rupee goes to the producer. However the margin between wholesale and producer price varied around 10% and the higher margin (20%) prevailed between wholesale and retail price, where the cost exceeds the transport, handling and incidents charges. Cost of production is about 52% of the retail price and also farmer gets nearly 70% of the retail price, by showing the efficiency at farm level. The margin between the Producer and Wholesale price is much lower than that between the wholesale and retail level.

Considering the gross margin of potatoes, it ranged from 22 to 49% during 2000. The margin was less in October and November, because the government imposed surcharge on potato imports. As a result producer prices have increased. However, during these two months market was distorted. The retailer's margin is about 23% of consumer rupee, when the producer gets 60% of that during these months. Considering the whole potato producer gets about 50-60 percent from consumer rupee.

Big onion farmer gets 60% of the consumer rupee during the season. If the farmer keeps the stocks about 2-3 months he will get above 66%. The margin between wholesale and retail was higher than that of producer and wholesale price. This is not so inefficient like potato. According to the available data behaviour of the red onion market was more or less same as big onion. Cost of production is about 27%, of the retail price and producer gets about 56%



Work in paddy field could be the last stroke of the unemployed young generation's life.



of the retail price. However margin between producer and retail price is about 40% of the consumer rupee

Producer's share of consumer rupee of upcountry vegetables (beans and carrot) was ranged between 40% and 60%, and (leeks and tomato) ranged between 30% and 45%, (cabbage) 30%. Producer's share of low country vegetables was 20-30%. There was a huge margin between wholesale and retail prices. Though there were many retailers in the market the margin indicates abnormal situation, where consumers were unable to get the benefit from competitive market structure. Cost of production is about 20% and farmer gets about 30% of the retail price. The margin between retail and wholesale is about 40-60% of the consumer rupee.

Considering the fruits market only Kolikuttu (banana) and pineapple producers get about 60% from the consumer rupee. Ambul (banana) and papaw producers get less than 40%. The gross margins were more or less equal for ambul (banana) compared to kolikuttu (banana). During the latter part of the year, margin between producer and wholesale price for papaw and banana was higher than that of the wholesale and retail price; when the Ramazan fasting period and Christmas season occur.

Producer's share of salaya varied widely compared to hurulla and balaya. December through April, producers of salaya get lower shares than that of other months. The highest share obtained in August. The absolute margin between wholesale price and retail price of salaya and balaya was above 40 percent of the consumer rupee, while that of hurulla was less than 40 percent. Though there were lesser wastage for salaya and hurulla compared to balaya, retailer's margin does not show it clearly. The higher margin of small fish and balaya at retail level is body affected to the poor consumers.

Producer prices of eggs are not available in HARTI. Hence we used the data collected for the poultry survey in 1999 (Messers Rupasena and Ratnayake). According to that survey data producer gets about 60% January through April and more than 70% during the rest of the months except July. Wholesaler's margin was about 13-19% during the year. The retailer's margin was ranged from 3-35% during year and the highest was in March and July, while the lowest was in May and June. Retailer's margin based on 2000 data base showed that it was less than 10% during the whole year except the months of May, October and November. The margin at retailer's level is higher than that of wholesaler's level.

### **The Wholesale Margin is Higher due to following Reasons**

Non existence of fair weather roads connecting the village to the market and sometimes the village market to the nearby primary market hinders the efficient flow of agricultural products. In addition it is also responsible for inefficient and time consuming modes of transportation. When the vehicle is hired by the farmer, the cost of shifting the produce from village to the town is great. Moreover, the physical loss of produce incurred during the transportation, loading and unloading was an additional cost.

The unique features of production and consumption pattern of this country are also responsible for the high cost of marketing.

On account of lack of proper storage facilities there is considerable waste due to damages of food grains, seasonal losses due to damage to the produce stored in private storages are estimated to be about 1.5 to 2 percent of the quantity stored, while in the case of public warehouses they are estimated to be around 2 to 3 percent. The cost an account of these losses are passed on to the consumers in the form of high prices. (PMB evaluation report & HARTI Surveys)

Cost of transport and storage, as a rule are to relatively high for products that are bulky in relation to their market value such as grains and potatoes, vegetables and fruits. Distance from the market is also an important element in transportation costs, so important indeed that this charge often limits the market areas within which products can be sold profitably.

When the larger quantities of products handled, greater facilities such as warehousing, cold storage, equipment, loading and unloading, machinaries etc, are available at a cheaper cost to the wholesaler. In the case of retail sales, margins tend to be high since the units handled are small.

When all kinds of ungraded products containing dirt, and/or impurities, transport from village to market, higher transport costs are unnecessarily incurred. When the produce reaches to the merchant, he cleans and grades it in accordance with the preferences of his customers. The higher price thus goes to the middlemen and not to the farmer. In fact, farmers should clean and grade their produce, so that they could obtain the higher price.

The cost of marketing perishable products is always higher than that of non perishable ones. In the case of easily perishable products like fruits, vegetables, fish and meat, special provision will have to be made for their proper preservation and keeping. Hence the marketing cost is always high. Often cold storage equipment is necessary

and this involves additional expenditure. Breakage in transit, shrinkage, damage and wastage from deterioration not only in transit but also at wholesale and retail stores are more common and losses on this account, therefore tend to be heavy. When the sales of such perishables are not quickened they become unsalable, due to poor quality. Thus the product is more perishable the marketing cost is greater.

The traders of fruits and vegetables try to raise prices by keeping higher profit margins for their sales from the morning till noon. They gradually go on reducing their margin till late evening as they are aware that they are not able to get anything for the rest of the stock in the next morning because fresh stocks reach the market in the morning.

Seasonal agricultural products like fruits and vegetables are valuable during the off season. Middlemen have to keep their cost lower by handling a sufficient variety to maintain a confirm volume throughout the year. The handling of seasonal products results in higher cost of marketing. Consumers desire to have a fresh flavour at any time has to be considered.

Losses and waste due to unfair trade practices increase spread between the farm gate price and retail price of the commodities.

Production for the market involves substantial risk that adds to marketing costs. Risks of price fluctuations, quality deterioration, physical losses, government policies etc are important items which raise marketing costs.

The services rendered to consumers by the marketing system, specially the retailers, reason for high marketing costs. Retail shops remain open at night as a convenience to consumers is yet another service. However, the rendering of consumer services which results in high costs and great satisfaction does not indicate inefficiency in the marketing system. By the same token, low marketing costs bought about by absence of service do not indicate existence of a high degree of efficiency.

By increased efficiency in the performance we have the greatest opportunity of reducing the marketing cost. Increasing the volume or the size of the business is one of the most effective ways of increasing the efficiency of the business firm's operations. Increased efficiency in physical handling includes self-service, retail food stores, prepackaging of perishable products, use of trucks in transportation, refrigeration equipment for perishable products - increasing use of mechanical aids, telephones, adding machines, modern counters, and display cases, would raise efficiency of the business concerns.



The product moves from the farm to the consumer is called vertical integration. Supermarkets and cooperative stores purchase agricultural commodities by eliminating two or more steps in the marketing chain from producers by entering into an agreement with them. Hence these farmers grace their products and earn more than the other farmers. The supermarket and cooperative stores can do mass distribution, which is benefited to the consumers.

Many marketing services can be offered to farmers and/or consumers. Grading the products at farm level and self service at consumer level helped to reduce the margin.

#### Government Policy Implications

Sometimes government policy seeks to reduce rural poverty but the same policy reduces urban consumption within the existing economic and social framework. Imposing the excessive "taxing" of agricultural food imports to support inefficient local agricultural production sector was badly affected to the urban poor. Most of the crop production in Sri Lanka are less cost efficient compared to other countries. Hence it is very difficult to compete with the imports.

The evolution of government in this sector has varied time to time, but certain themes, approaches and weaknesses have occurred in many of them. These weaknesses have been both structural and attitudinal. The structural weaknesses reflect the influences of the organizations that have been created in the past, and the attitudes and orientations implicit within them.

First, government involvement in the sector has often been inhibited for other objectives, which have not been particularly related to the efficiency of the distribution system itself, such as the securing of an urban food supply, reducing imports, stimulating production, raising tax revenue, or sustaining low consumer prices. Most of them may originate from a variety of sources or from the short term objectives of different political groups. These groups can sometimes provide an important stimulus but at other times can cause derail on to more long term policies. Often, such policies need to be regularly reviewed and integrated to ensure effective policy making.

The main important objective of the country is still increasing the internal food supply. This is done not only to reduce food imports to help balance of payment problems, but also to generate a more effective use of the country's own resources. In addition, efforts to stabilize the prices and flow of food supplies have often

played an important role in securing adequate food distribution to all sections of a community.

Some of the policies have often favoured urban consumers more than the rural community, because of the stronger political influence in urban areas. Marketing policy, in particular, often goes its own way in opposition to the needs of the urban population.

One characteristic of many government policies has been the tendency to treat all private intermediaries as "cheaters". The exploitative practices of "middlemen" have been a regular part of political discourse, despite efforts to make people more critical of who the middlemen are, and what they do. Such attitudes have been shown an ignorance of the functions performed by the intermediaries, of functions in supply, and of particular trading difficulties. These types of attitudes develop because many of the people involved in policy making and its implementation in governmental departments and corporations have had little or no regular contacts with different intermediaries or knowledge of the functions they are performing.

On the other hand, there are some intermediaries practice faulty transactions, and some are definitely exploitative. Such exploitative practices lead only to poor policies that impede the working of the system without any identifiable alternative. This



From where farmers get the low of the same government in the rural marketing which decreases the effort on the activities.

attitude has often led many governments to a "control" orientation, where an alternative of stimulation of the private sector might have resulted in a better use of private sector resources. Many policies have been directed to controlling market prices, or to controlling the activities of traders by licensing, curbing locations or restricted movement.

Some policies have reflected an ignorance of the dynamics of changing marketing systems and of the needs and perspectives of different sub-sectors of society. An awareness of the likely future needs of a food marketing system can enable a government to intervene more effectively. It is often applicable to storage or processing needs.

Many of the policies affecting food marketing have been introduced without full consideration of their

economic and social consequences such as impact on employment. Knowledge of employment structures, occupational mobility and the possibilities of employment generation within the food marketing system are negligible. Similarly the impact of different policies upon migration or income distribution is almost never considered. The coordination of marketing policies with regional planning and development in agro-industries, food processing and transport system has also often been poor. Road construction has helped the marketing system in some cases, but in other an improved telephone system, or improved provision of appropriate rural vehicles, would have helped more.

The full impact of alternative marketing policies on food production is rarely analysed. Where the producers are market conscious, poor marketing policies or the lack of them can have a considerable impact on the producers' activities. Improving production without simultaneously improving the distribution system for the incremental production can lead to wasted produce, discouraged producers and a decline in subsequent production.

The structure of government departments initiating and implementing policy has frequently been a significant handicap to development of integrated and effective marketing policies. There is a range of government departments ranging from finance or planning to commerce, transport and agriculture Ministries at national level as well as different local government administrations, all of which will initiate and implement policies affecting marketing. The peripheral importance often attributed to food marketing policies has meant that responsibility has been delayed to small sub-departments of these bodies, which have only marginal influence and limited resources, and limited opportunity for interdepartmental contact and coordination.

One particular area of difficulty is the use of food marketing system as a source of government revenue. Some forms of taxation tend either to tax evasion or avoidance by private intermediaries, or to unproductive antagonism between such intermediaries and the government which inhibits possibilities for further cooperation.

Decisions makers may also be handicapped by a dearth of relevant, reasonably objective analysis of the trading system, and by poor links with academic or research departments that might supply such analyses.

The methods used by governments intervening in the market system in the recent past



have varied between efforts to control, direct, improve or provide facilities for private trade, and direct participation in the distribution system by nationalization or the creation of statal or parastatal organizations to perform specific trading functions.

In Sri Lanka, mainly rice, big onion, potato and chilli farmers face problems compared to other crops. On the other hand consumers complained the high prices of these commodities so that governments take ad hoc policy decisions in favour of farmers as well as consumers. However, both the farmers and consumers were not benefited in many occasions. When the duty wavers are given for rice imports, the government loses the income. When the rice stocks reach the country millers purchase paddy at a lower rate, so that the farmers lose their income, when the imported rice prices keep at the prevailing rice prices, anticipating to keep the retail prices at a higher rate consumers unable to buy imported rice at lower prices.

To protect the local farmer extra duty was imposed. In general big onion is a yala crop and the crop is marketed during September to December. Big onion farmers know that most of the produce can not be stored for a longer period because of the immature harvesting. Most of the farmers try to sell the crop immediately after harvesting due to weight loss and high risk. Big onion farmers are also consumers during the rest of the year. Large stocks of imports come to the market during the off season and all the consumers are unable to buy the produce at lower price during the off season also due to high tax.

Duty on potato imports is also affected badly to the vegetable cultivation. After imposing an extra tax (Rs.20/kg) for imported potatoes, the margin between the CIF price and wholesale price was above 100%. The retail prices have increased up to Rs.80/kg. As a result, consumption of both local and imported potatoes declined sharply according to the traders. As a result quantity imported also declined sharply. On the other hand there was not a bumper crop recorded. Since potato is used as a curry, prices of other vegetables have also increased and as a result vegetable demand also declined. Due to above reasons demand for pumpkin, ash plantain and local yams has increased as substitutes.

Farmers complained about the quality and high cost of seed, fertilizer, agrochemicals and labour. Though there are improved technologies farmers are not able to get those techniques. Farmers buy seeds from the private traders and the quality of the seed can be seen only the later stages, especially after harvesting. Some of the rural farmers face many problems to bring the produce to the market, due to nonexistence

of fair weather roads. Moreover, the physical loss of produce incurred during the transportation, loading and unloading is an additional cost. Lack of proper storage facilities there is a considerable waste due to damages.

Many times farmers are not able to get the assistance from the relevant officials for the crop decreases. Hence they have to depend on the chemical traders.

Producers think that whatever they produce should buy the consumers. Consumers always try to buy what they need. So that it is necessary to sort the produce and grade before selling to the traders. If it is so one marketing service can be shifted to the farmers to obtain better price.

### Conclusion

It is revealed that the low country vegetable farmers get the 20% of consumer rupee while up country farmers get 30% to 60%. Potato, chillies, big onion, red onion and paddy farmers get more than 50% of the retail price. Market structure revealed that prices are competitive in nature and transmit signals over space and time. Producer's share in consumer rupee of agricultural commodities varied widely. The highest share recorded was 80% for potato. The lowest share recorded for low country vegetables and it was 20%.

The cost of production as a percentage of consumer rupee was also calculated. This analysis showed that the cost of production of paddy equivalent to a kilo of rice is 49 percent. Cost of production as a percentage of consumer rupee for red onion and vegetables varied 27% and 20% while producer's margin was around 10%.

Considering the price fluctuations of agricultural commodities, during the off season prices increased between 10-20 percent on an average. However in the month of June it was above 25-40%. It is advisable to cultivate as much as possible to reach the market during these periods.

The innovations of recent years have usually been of a concrete, tangible nature such as the construction of feeder roads, market places, storage facilities and supermarkets. Always government officials prefer build supermarkets to develop infrastructure facilities. Building of markets has not been affected to enhance rural farm income and this should be further studied.

It is important to consider all the sectors before taking policy decisions, because any distortion in one sector directly or indirectly affected to the other sectors also.

The government has adopted a "laissez-faire" attitude towards the private sector, intervention has been predominantly through indirect controls on the market. A major tool in this form of control has

been price policy. Governments have tried to control prices by direct legislation, by releasing of government food stocks at strategic times, or by restricting the possibilities of private trader to create or exploit irregularities of supply.

Some other areas of tangible support which could be of considerable assistance to the marketing system have been neglected. Some examples are aid in the purchase and maintenance of vehicle, aid for establishing or renovating private storage facilities for producers or traders, or the improvement of telephone systems to help the speed of communication, so important for some types of marketing.

Intangible assistance, such as the dissemination of market information to producers and traders, training in more complex marketing skills, the organization of trading cooperatives or provision of credit to disadvantaged smaller traders have also been neglected. Programmes for disseminating market information to producers have been ineffective because the back-up services have been poor.

The availability of government credit for rural farmers, traders and other intermediaries has often been restricted for some of the reasons given above. Instead, credit has been made available to producers and farmer organizations

Apart from economic research, other academic disciplines have been slow to enter the field, although their contribution could be considerable. It is easier to confine to interviewing in a village or an urban market than trying to interview itinerant traders, transporters or other intermediaries.

Marketing improvement underlines the need to improve the orientation of applied marketing research and to aim at realistic targets. Unless this is done, much time and resource consuming research may be wasted and/or only particularly applicable, and many problems will still remain.

According to the discussion conducted to impose a surcharge of Rs.20.00/kg for imported potatoes, the local market prices increased gradually since September 2000. This price increase is adversely affected to the local consumers because as a result of this prices of substitute food crops such as pumpkin and ash plantain have increased. Apart from that prices of local potato have also increased considerably. This is directly linked to the prices of upcountry vegetables. Many farmers used their farm lands for potato cultivation instead of other vegetable cultivation. In the short term vegetable farmers sold their vegetables at higher rates. As a whole due to this pricing policy cost of living index increased.



# Social Marginalisation and Poverty in Rural Sri Lanka

This paper examines certain socio-economic parameters of rural poverty in Sri Lanka. By 'non-economic aspects of rural poverty' I mean those aspects of rural poverty that cannot be fully explained by standard or conventional economic analysis increasingly guided by neo-liberal orthodoxy highlighting the central and positive role of market forces in economic development and social progress, inclusive of poverty reduction. While by no means dismissive of the role of the market, this paper focuses on certain social processes that contribute to perpetuation of poverty in some specific population groups and community settings. It is argued here that understanding the relevant social processes cannot only help us better understand the causes of rural poverty but also identify more effective ways of reducing rural poverty.

It is generally known that poverty in Sri Lanka is primarily a rural problem (GOSL 2002, World Bank 1998, 2000). According to the Household Income and Expenditure Survey of 1995/96, the incidence of poverty is highest in the rural sector (27%), followed by the estate sector (26%) and urban sector (15%). More than 90% of all poor in Sri Lanka are concentrated in rural or estate areas. As stated in the Poverty Reduction Strategy of the Government of Sri Lanka, the benefits of recent economic growth in the country have been largely confined to the more developed Western Province (GOSL 2002). In explaining widespread rural poverty most research has focused on the sluggishness of the rural economy (Gundeleke et al 1993, World Bank 1993, Silva et al 1995). While not denying the importance of economic processes, it is also important to examine related social processes occurring in rural society in order to fully understand the nature and extent of rural poverty in Sri Lanka.

Against this background the questions addressed in this essay include the following:

1. To what extent and why is there a higher concentration of poverty in certain types of rural communities?
2. To what extent and in what ways does the lifestyle of the poor play a role in perpetuation of their condition?
3. How far and due to what reasons do the rural poor depend excessively on subsidies handed out by the state and other actors, including non-governmental organisations?
4. Why is it that there is a despair

unemployment and underemployment and at the same time considerable about knowledge in certain sectors of the rural economy?

- a. What are some possible remedies for addressing the social aspects of rural poverty discussed in this essay?

Social marginalisation is a process whereby certain groups in society are fully or partially excluded from mainstream society because of factors such as identity, status, lifestyle and affiliation. This paper uses this concept in a rather loose manner to describe social processes that contribute to escalation of rural poverty. The current paper emphasises the findings of several qualitative and quantitative sociological investigations of rural poverty in Sri Lanka, including the author's own

Here we concentrate on certain relevant rural social formations.

Village Expansion Colonies have been established under the Land Development Ordinance of 1935 in order to settle landless poor from villages especially in the wet zone. Moore and Perera (1978) who were the first to highlight the marginalised nature of these rural communities estimated that nearly 25% of all households in Sri Lanka lived in these rural enclaves. They reported:

Overlords that tend to come from a category at the bottom of the economic classes. They often share a social characteristcs which tend to mark them off from the bulk of the villagers. Many are of low caste... Grants Sovaka use the opportunity to remove troublesome villagers, i.e. drunkards or thieves, from their doorsteps by allocating them land. The land which is distributed is almost always poor and often very hilly... The colonies thus tend to be located in interior areas with poor roads and limited access to such services as shops, schools, buses and electricity (1978: 48).

These settlements often brought together into one concentration the rural poor households dispersed in nearby communities. The study by Moore and Perera also found that the relationship between colonists and the neighboring villages is often characterised by conflict, with the latter treating the former as consisting mainly of criminal and anti-social elements and 'rejects'. In view of the explosive combination of material hardship and social marginalisation the authors found these communities a potential breeding ground of insurgency.

On the other marginal rural communities, squatter settlements in marginal farming systems are found mainly in remote dry zone areas in Monaragala, Hambantota and Kurunegala Districts (Wick 1988). They as well as frontier irrigation settlements are characterised by environmental hazards, physical isolation, poor access to services and absence of strong community organizations (De Soyza 1995). They are compounded by lack of clear title to land, fragmentation of land holdings, second and third generation problems and alcoholism and related problems like domestic violence. In some communities illegal operations such as brewing of illicit liquor, growing of cannabis and illicit selling of timber also present serious problems.

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research as a consultant to several agencies, including the Ministry of Plan Implementation and the Centre for Poverty Analysis. The views expressed here, however, do not necessarily represent any official viewpoints of the relevant agencies.

## Socio-cultural Marginalisation and Community Dimensions of Poverty

Research in Sri Lanka points to several types of communities which are marginalised and held in distance by mainstream society on the basis of their socio-cultural identity, neighborhood characteristics and life style (Silva and Athukorala 1991, Silva 1992, Silva 1999, Parker and Silva 2000, Silva, Weerasingha & Jayarathna 2002). They include urban low-income communities of slum and shanty types referred to as 'wattas', village expansion colonies disparagingly referred to as 'colony' or 'kanyasas', squatter settlements in marginal farming systems, fishing communities in the coastal belt, irrigation settlements especially in frontier areas of the dry zone, welfare centres and relocated communities in conflict-affected areas, plantation enclaves and so-called 'depressed communities' characterised by hereditary low social status. All these communities are, to some extent, socially and sometimes spatially put off from surrounding populations and in many of them poverty and social marginalisation go hand in hand. Often they encounter difficulties in joining mainstream society.

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The marginal communities are characterised by seasonal unemployment, identification with an occupation that commands less respect from the society at large, violence and other behavior patterns that not only create problems within these communities but also bring them in conflict with the larger society, including law enforcement agencies. The migratory character of certain groups of fishermen and some aspects of their ethno-religious background also add to their social marginality (Silva et al 2002).

Estimates of the total number of internally displaced people affected by nearly 20 years of war in Sri Lanka ranged from 600,000 to 1.5 million as of 2001 (GOSL 2002). They encounter special difficulties due to a combination of factors, including ethnic identity, restrictions on mobility imposed by the security forces or the LTTE, loss of life or injury due to the war, lack of identity documents, repeated displacements, loss of assets and livelihoods, disruption of family life and in some instances outright hostility from surrounding communities (Silva 2003).

Estates can be seen as ethnic enclaves essentially restricted to employment opportunities available in the estates, poor housing and sanitation, and poor quality of health and education facilities (CARE 1998). The key problems faced by estate youth in accessing outside employment includes lack of marketable skills, language difficulties, lack of contact with those outside the estate, absence of identity cards and birth certificates and other such constraints.

Caste systems in Sri Lanka (Sinhalese, Indian Tamil and Jaffna Tamil) have been described as relatively mild compared to the caste systems in India. The absence of a rigid notion of untouchability and corresponding forms of social outcasting can be seen as a progressive element in Sri Lankan society. However, "depressed caste communities" do exist in parts of Sri Lanka. Besides their inherited disadvantage, lower prestige, and minority status vis-a-vis more dominant caste groups with whom they interact, often they have limited property ownership in part as a cumulative effect of being share tenants and bonded servants of high caste land-owning families (Silva 1992). Even though younger generations in these communities are more educated than the older generations, their ability to take advantage of educational and public sector employment opportunities have been restricted due to their marginal position in society, discrimination in schools and lack of political power. Youth from these communities have been attracted to radical underground political movements partly due to their own experiences of injustice, discrimination and lack of social dignity (Jiggins 1979).

The nature and extent of poverty in these communities cannot be understood in purely economic terms. Groups such as fishermen, plantation workers and middle-east returnees may not be always disadvantaged in terms of income or earning capacity (Silva 1998). The programmes that merely target rural households and try to pull them out of poverty through income support often fail to address the community dimensions of poverty in many rural settings. Their poor



economic situation is often accompanied by social marginalisation, geographical isolation, powerlessness and inability to access resources controlled by various agencies including the state, NGOs and the private sector. These communities have chronic and multiple disadvantages in housing and infrastructure, health, education and services, making it difficult for individual households to escape poverty on their own. Tied relations with non-institutional money lenders and traders, inability to access institutional credit and inability to utilize market mechanisms giving better terms of trade can be also seen as further aspects of social marginalisation affecting these communities (Silva et al 1999).

The efforts to mainstream some of these communities on the part of the state have typically taken the form of programmes for raising their income levels typically accompanied by social mobilisation (Gunatillaka 1997 Silva, de Silva and Kottegoda 2002). Similarly, the rural housing programme under the Gam Udaya Movement paid special attention to some depressed low caste communities as well as village expansion colonies. The available research evidence regarding the impact of these projects is scanty but it does appear that such projects where successfully implemented did have the effect of empowering the socially marginal in some of these communities (Wignaraja & Siriwardana 1998). More research is necessary

in order to fully understand the mainstreaming impact of such politically-motivated projects.

Several of the new employment opportunities opened up under liberalisation policies probably had a significant impact on some of these marginal communities. Of these employment opportunities under the 200 Garment Factory Program and employment opportunities in the middle-east and other overseas countries appear to have played a significant role in many of these communities. The available data indicate that women from urban low-income communities, depressed low-caste communities, colonies and estates have joined migration to the middle-east in large numbers (Marga Institute 1996). While both positive and negative impact of middle-east migration must be carefully assessed, this is an important finding that indicates that marginalised groups are perhaps increasingly being affected by economic liberalisation and globalisation processes. How far these processes help them overcome their marginalised position or subject them to new forms of marginalisation must be examined through carefully designed future research.

### Rural Poverty: a Result of Inadequate Income or Inappropriate Consumption Patterns?

We know that the poor are often victims of circumstances but this image is not so helpful when it comes to the issue of understanding how their own behavior may at least partially contribute to perpetuation of their poverty. This in turn makes it necessary to take a closer look at the life style of the poor. While it would be wrong to "blame the victims" or "morally condemn" particular lifestyles, it is important to realize that improving income is not sufficient to bring down poverty levels in some instances. In the analysis pursued here lifestyle issues that have a potential bearing on poverty are raised with a focus on the impact of substance (alcohol, drugs and tobacco) abuse practices on living standards of selected population groups.

We review here some of the available data relating to consumption of alcohol and other addictive substances in order to determine its potential impact on poverty.

In assessing its impact on poverty alcohol and substance abuse must be approached from several angles. They include diversion of scarce funds away from basic needs of women, children and other family members, health consequences of addictive behaviors, impact on labour productivity, impact on domestic violence and crime, impact on social



marginalisation and the general. On the other hand, economic significance of alcohol and tobacco industries in generating employment cannot be disregarded.

Macro-level data relating to consumption of licensed alcohol reveal that per capita alcohol consumption in Sri Lanka steadily increased from 1988 to 2001 (Jaya Silva and Bulankulame 2003). This in turn may be seen as an outcome of multiple factors, including aggressive promotion of alcohol by multi-national companies, increased availability through recent expansion of licensed outlets, which in turn may be partly attributable to issuing of liquor licences through the party machine machines, increased purchasing power of the populace at large and increased emotional and social stress also reflected in a variety of other ways. It must be noted here that the published data on alcohol consumption excludes illicit alcohol widely consumed by the poor in rural, estate and urban areas. According to one estimate, nearly 80% of liquor consumption in certain dry zone districts still is brewed (SOBER 1997: 20). In conformity with trends of alcohol consumption, alcohol-related morbidity and mortality in Sri Lanka also reveal a corresponding increase since 1980s (Jaya Silva and Bulankulame 2003). Another notable feature is that alcohol and drug related convictions have rapidly increased in recent years so much so that nearly 60% of annual admissions to prisons in Sri Lanka are due to alcohol and drug related violence under the Excise Ordinance. Many of these prisoners, who keep returning to the prisons having being reconvicted, typically come from marginalised and impoverished social backgrounds (Personal communication, Mr. P.V.M. Samarasinghe, Community Correction Programme of the Ministry of Justice).

also % of total per capita expenditure was 8.8% for the population in general. It varied from 2.4% in the urban sector to 4.1% in the rural sector and a high of 8.5% in the estate sector. Comparison of expenditure on alcohol and tobacco among various income deciles indicates that the percentage of income spent on substance abuse tends to be higher in lower income deciles, with the lowest income decile reporting 12.25% of income devoting to substance use as compared to 1.8 for the highest income decile (see Figure 1). On the whole these data suggest that the constraints to household budgets arising from alcohol, tobacco and drug dependencies may be much greater in low-income households. A substantial share of imputed incomes of such households appears to be diverted to maintaining addictive behaviours of one or more adult male household members (usually male head of the household).



Poverty-related impacts of alcoholism and other addictive behaviours may be more varied and at the same time more devastating in selected population groups in rural society, such as the marginalised groups discussed in the previous section.

Various micro studies indicate that the prevalence of substance abuse in low-income households in selected population groups may be substantially high. A survey conducted in Hambantota by

SOBER, an anti-alcohol NGO, found that 80% of families supported by the Janasakshi programme had at least one member addicted to smoking or alcohol, illicit liquor (*Kasappa*) being widely consumed in the north (Gunasekera & Perera 1997). A study covering E districts found that male prevalence rate was considerably higher in the dry zone districts of Monaragala (66%), Hambantota (55%) and Pelonnarua (55%) (ADDIC 1995b). In a representative sample of 2445 households in Mahaweli System II contacted in a study conducted by the NDOCB, some 37% had at least one regular consumer of alcohol (quoted in De Soysa 1995). In an intensive ethnographic study of one settlement on the Mahaweli System H, De Soysa reported

The rough climatic conditions and physical terrain, economic strife, depression and sheer boredom have meant that with closure of the frontier police stations there are no more temporary escape from misfortune by turning to drink (1995:34-5).

Hettige (1997) found a similar pattern among new settlers in irrigation schemes.

In many rural communities illicit brewing of alcohol is done by powerful anti-social elements often having strong connections to politicians and the police. Alcohol is also closely associated with domestic violence, incest, homicide, suicide and gang rivalries (Jaya Silva and Bulankulame 2003). Alcohol abuse and related problems often constitute an important factor that contributes to the negative stereotypes that characterise the attitudes of those who interact with these communities from outside.

In the estate sector, where alcohol has become a serious problem among the workers, prevalence of alcohol use was found to be 65% among adult males and 42% among adult females (ADDIC 1995a). Focus group discussion conducted by a team of researchers in six estates covering upcountry, mid-country and low country revealed that the expenditure on alcohol in the estates may be much higher than those reported in the 1990-91 HIES. According to this study the number of regular (daily or at least weekly) consumers of alcohol ranged from 50 to 75% for working men and 10 to 20 percent for working women (DARE 1996). Daily income spent on alcohol was estimated to be 25 to 50 percent of the income of average working men, alcohol consumption being part of the daily routine of many male estate labourers. The number of alcohol shops in close proximity to the estates had increased substantially since 1980s. In some estates alcohol was a primary motivation for adult males

Table 1

Expenditure on Alcohol and Tobacco as a % of Total per Capita Expenditure by Sector

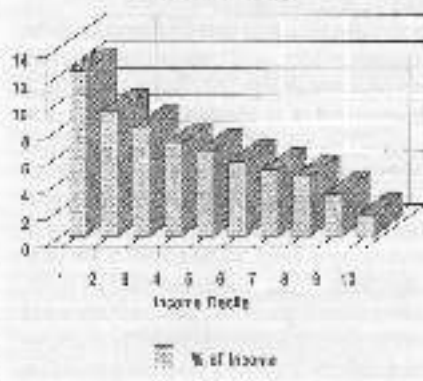
Sector	% of Total per Capita Expenditure
Urban	2.4
Rural	4.1
Estate	8.5
All Island	3.8

Source: HIES 1990/91

According to the Household Income and Expenditure Survey (HIES) of 1990/91 conducted by the Department of Census and Statistics, expenditure on alcohol and tobacco

Figure 1

Fig 1: Alcohol & Tobacco % of Income by Income Decile  
Source: HIES 1990/91





to earn an extra income from estate or off-estate work. As a result, living conditions remained unchanged in spite of improved income attributed to incentive payments and opening up of off-estate employment opportunities. Alcohol was perceived by estate workers as a coping strategy and a means to season their bodies and mind to the physically demanding work schedule more strictly enforced by the new management companies in the estates. In the FGDs the estate residents also mentioned that alcohol help them forget their daily share of worries and deplorable living conditions associated with the labour lines. The cold and damp conditions in upcountry estates were also mentioned as a factor conducive to regular alcohol use. The women were routinely given a dose of alcohol after child delivery, extending the notion of alcohol as a remedy for all kind of body pains, including 'labour pains'.

Among the negative effects of alcohol were drain on household income, diversion of funds from basic needs, absenteeism of workers, worker indiscipline, indebtedness, domestic violence, adverse health effects such as ulcers in the bowels and cerrohsis and problems with police and supervisory staff. While there was a generally positive view about alcohol within the estate communities, it added to the social marginalisation of estate communities on the part of management, law enforcement agencies and the like.

While widespread substance abuse in marginalised population groups may be seen as a symptom of deeper issues and merely a manifestation of their disadvantaged position in society as also evident in marginalised groups around the world such as African American communities in the US and aboriginal populations in Australia, it also indicates that efforts to increase the income of such groups without changing the current consumption behavior may be ineffective or even counter productive.

### Dependency Syndrome

The dependency syndrome signifies both an excessive reliance on external support for day-to-day survival and a welfare mentality in which too much is expected from the state and/or other agencies without bearing or sharing in the costs involved. To the extent people are both materially and mentally dependent on external agents for their survival it stifles private drive and initiative and hampers their capacity to take advantage of opportunities within a competitive market framework. The resulting subjective orientation is typically associated with a widespread perception of the state as an essentially benevolent agency which should not impose any burdens on the citizens in

general and the poor in particular. Ralph Pieris who was one of the earliest to examine the dependency problem as a developmental problem in Sri Lanka referred to an "an over-generous government distributing welfare services to the masses from whom nothing is expected in return.... Policies to redress this imbalance, to harden a soft state, are resisted by a pampered electorate" (1977: 24-25). Thus the dependency syndrome among the poor can be seen as an outcome of decades of paternalistic welfare policies driven by patronage politics where short-term political gains of placating the electorate have taken precedence over achieving long-term developmental objectives.

To the extent the dependency syndrome may be seen as a negative outcome of decades of welfare-oriented patronage politics, one could expect it to be less pronounced among the politically marginal segments of the population and more pronounced among those in mainstream society. Those who have access to state patronage are more likely to rely on the state to the maximum possible extent and less inclined to turn to a path of self-reliance. On the other hand, those who are excluded from state patronage may turn to other agencies such as private sector or NGOs and develop a dependency relationship *vis-a-vis* such agencies unless necessary precautions are taken to prevent such tendencies on the part of the relevant agencies. The primary focus of the current essay is on rural people's dependency on the state as it has a direct bearing on effectiveness of poverty alleviation programmes conducted by the state.

The relationship between poverty and dependency is a complex one. The way dependency syndrome impacts on perpetuation of poverty in Sri Lanka have been approached from a number of perspectives. First, the extent to which the poor and non-poor are dependent on subsidies of one kind or another and its impact on their incentives for work (Dunham and Edwards 1997). If there is any evidence that subsidies serve as a disincentive for work, it may result in perpetuation of poverty. Second, the extent to which various interventions by the state and NGOs have created a dependency situation where activities initiated by external agencies gradually wears away once external assistance comes to a halt or external support gets extended more or less indefinitely beyond the stipulated date of termination of the programmes because of continued pressures from various parties (Moore 1995, Woost 1990). Third, development of an effective institutional credit programme addressing the needs of small producers and micro-entrepreneurs have been hampered by politically-motivated interferences in the credit market and the related problems of developing a credit culture among the poor (Jayamaha 1990, Gunatilaka 1997). Fourth, politicization of grassroots level institutions and their tendency to become dependency structures manipulated by a handful of self-seeking individuals

rather than institutions representing the interests of the poor in general (Gunatilaka 1996, Silva *et al* 1996).

### Voluntary Unemployment and Labour Shortages in Agriculture

The labour market in Sri Lanka presents several paradoxes that have a bearing on the search for a growth-oriented approach to poverty alleviation. The simultaneous presence of voluntary unemployment and labour shortages in selected economic activities has been identified as a key constraint. Labour shortages for rubber tapping, coconut plucking and tea plucking have been reported in certain plantations particularly in the low country as well as in the small holder sector (Plantation Reform Project 1996, CARE 1998). On the other hand, reported stagnation in the non-plantation agriculture has been partially attributed to labour constraints including youth unwillingness to take up agriculture (Jayasena 1998, Silva *et al* 1999) and the lack of diversification from paddy to high value crops, which in turn has been attributed to the lower and less regimented demand for labour in paddy cultivation making it possible to combine it with off-farm employment (World Bank 1996, Dunham and Edwards 1997). The coexistence of high poverty levels and high wage levels in the rural sector has also been identified as something that needs to be explained (World Bank 1996, Dunham and Edwards 1997). More detailed qualitative and quantitative research is needed in order to answer these questions satisfactorily.

Here certain tentative suggestions are made on the basis of literature review and some preliminary field visits.

1. The low social status accorded to these occupations is a key factor in the prevailing youth attitudes towards such employment (Jayasena 1998). In addition to poor working conditions typically associated with these employment, type of technology used, non-participatory management style adopted in the plantation sector, occupational hazards (e.g falling of coconut trees) and irregularity of employment (e.g. both in rubber tapping and coconut plucking work is stopped on rainy days). The coconut pluckers who are available wish to work in areas other than their home areas in order to make sure that their families and children in particular are not affected by the demeaning status assigned to this occupation. On the other hand, the educated rural youth helped by their parents prefer to remain unemployed instead of working the land due to status considerations, preoccupation with salaried employment, low income earning potential in farming and concern about physical attractiveness and marriageability especially in the case of girls.



2. There are also certain constraints regarding free mobility of labour between rural and estate sectors and between regions due to physical isolation, social marginalization and prevailing security situation in the country. For instance, estate youth in particular find it difficult to access employment outside the estates in the current security environment aggravated by the non-availability of national identity cards for many of them (ICARE 1998).

3. The disincentive effect of transfer programs are subdued as may be an additional factor in the rural sector (Sahn and Alderman 1993). As the reservation wages in the rural sector may be high due to the impact of transfers and remittances (Dunham and Edwards 1997).

4. The skills needed in these occupations cannot be quickly acquired. On the other hand, there are no vocational training programs to retrain these skills.

5. With expansion of educational opportunities, the type of people who were prepared to take up relevant employment may be decreasing in number in the labour force. On the other hand, continued social marginalisation of people engaged in these occupations discourages youth from taking them up, even if they bring in relatively high incomes.

### Conclusion

The social marginalisation of selected rural communities reviewed in this essay can be seen as a cumulative and combined outcome of impositions from the society at large and responses and containment adaptations on the part of people in the relevant communities. Lack of basic infrastructure facilities in communities such as village extension colonies and squatter settlements and inability of such communities to access resources channelled from outside can be partly attributed to discriminatory practices of those outside these communities. The way the members of these communities are often penalised under the Excise Ordinance designed to regulate alcohol and drug-related abuses can be seen as a clear instance where this instrument has been transformed from 'a tool in the struggle against poverty' to 'a weapon in the war against the poor' (Bordieu 1999: 70). 'War-related internal displacement' also underlines the manner in which processes occurring at the society at large contribute to social marginalisation processes.

It is, however, wrong to see the affected populations as mere victims of circumstances who have no agency or complicity at all in the relevant social processes. Widespread substance abuse in such communities,

manifestations of a dependency syndrome as well as patterns of voluntary unemployment in certain circumstances highlight the fact that certain practices deeply entrenched in the relevant communities often serve to perpetuate their condition and make it difficult for them and the younger generations in these communities to escape the vicious cycle of poverty and social exclusion. While we should be cautious not to fall into the trap of blaming the victim in poverty research, at the same time we should not fail to recognize the agency of the poor where it does exist.

In terms of social policy options two parallel approaches may be necessary in order to deal with social marginalisation processes. At the level of the society at large policies of universal coverage, strengthening of human rights and appropriate legal relations in general are necessary in order to minimize the disadvantages of the poor and the marginalised. It is important to point out here that income transfer at the household level, the primary strategy pursued by many national wide programmes such as the Sarva Shiksha Programme may not be the most effective strategy to deal with problems of social marginalisation and social exclusion examined in this essay. On the other hand, participatory approaches can best serve to raise the awareness of the marginalised communities about the manner in which they can potentially overcome the disadvantages and better participation in mainstream society. Social mobilisation efforts must aim at not only highlighting the role of various intermediaries in depriving them of full benefits of their production activities, but also exposing and eventually overcoming their own complicity in the marginalisation and impoverishment processes (Silva, de Silva and Kollegoda 2002). Many case studies increasingly evident from development practices throughout the world that the poor can contain forces to improve their own condition through their private and collective efforts and gradually overcome the larger structures that all too often constrain and marginalise them.

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# Strategies and Programmes for Reducing Rural Poverty in Sri Lanka

## General Overview

Sri Lanka is a country of 19.0 million people, 74 percent of whom find their livelihoods in the rural districts. Sri Lanka is primarily an agricultural country, where the total utilized land area of 2.0 million ha., nearly 40% is occupied by the plantation crops, letting the smallholder sector to dominate in agricultural land use. The predominance of the smallholder sector in agriculture is reflected from the fact that of 1.8 million agriculture holdings about 1.76 million holdings or 99.4% are smallholdings. The average size of agricultural holding is about 0.8ha. and about 64% the small farms are below 0.8 ha. in size. In Sri Lanka approximately 72% (about 12.6 million persons in around 2.5 million households) live on the land and rely on agriculture and allied occupations for their daily survival. Full-time and part-time work in agriculture and related occupations provides the mainstay of livelihood for at least three fourths of the rural populace.

Despite the attention it has received from policy makers and development researchers since independence, the 'problem of poverty is still a considerable one in Sri Lanka. There have been significant achievements in economic and social progress, but poverty continues to characterize the landscape. This situation will not change without wider participation by the poorer sections of the population in socio economic activities that raise their productivity. How this can be done is the critical challenge that must be met.

## Objectives

An attempt is made in this paper to review the strategies and programmes implemented for reducing poverty in Sri Lanka. More specifically, the objectives are as follows:

- (1). To study the poverty situations in the country giving emphasis on poverty targeting regimes, i.e. scope, extent, characteristic, dimension, patterns, and trends of rural poverty;
- (2) Assessment of effects and impact of rural poverty on the overall national development; and

(3) Investigation in to the overall/general policy measures adopted policy and revisions, issues, special problem areas, difficulties encountered in rural poverty alleviation.

## Rural Poverty Situation in Sri Lanka

### Poverty Trends in Sri Lanka

Poverty is not a new phenomenon and unique to the modern economic system in Sri Lanka. Poverty has not suddenly appeared with the search for modernity and technical progress. Authoritative reports from 18<sup>th</sup> and 19<sup>th</sup> century writers indicate that Ceylonese rural life, especially in the most remote districts, was characterized by endemic poverty: i.e., rural people suffered from chronic lack of food, generally poor sanitary facilities, soil and water born diseases and regular disruptions from both man-made and natural di-

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sasters. (Wickramasinghe 1924; Woolf 1926). The primary causes of poverty in Sri Lanka in the period prior to 1950 are controversial. Woolf (1926) and Das Gupta (1949) have revealed that rural poverty existed in Ceylon because the majority of rural people were exploited by land owners, rural officials and merchants. (Woolf 1926; Das Gupta 1949, - cited in Fernando 1988).

Sri Lanka's continuing dependence on food aid receipts is reflective of the relative vulnerability of the poor. This situation has become all the more serious because Sri Lanka has failed to maintain past levels of per capita food production. From a base of 100 in 1979-81, the index declined to only 87 a decade later. Hence, food security is an increasingly important issue in Sri Lanka, and will continue to be so if agricultural productivity is not improved significantly or the economy successfully diversified in ways that will enable consumers to purchase increasing amounts of imported staple cereals and basic food-stuffs. Trends in some indicators of poverty and social progress shown in some particular human development indicators in Sri Lanka during the past three development decades, 1970s, 1980s and 1990s.

## The Poverty Alleviation Programmes and Strategies in Sri Lanka

### Institutional Framework

The Government institutions and departments play major role in economic policy design economic incentives and social welfare. In the manner of policy direction, it seems concentration of power at the Central Government controlled institutions and departments, but implementation has been decentralized at the "Provincial Councils", through their own institutions and departments. The maintenance of fundamental components of the activities and services, i.e., education, health, transport, food security, irrigation, agriculture, housing etc. are the main responsibilities of the Central Government, which could greatly affect the lives of the poor. The impact of welfare policy and rural development that attempted by the governments over a half century in Sri Lanka has been encouraging that, in terms of the basic socio-economic indicators Sri Lanka, shows some what progress among Asian nations. The newly added two institutions in Sri Lanka for poverty alleviation are (i) "Janasaviya (1989-1994) Movement, and (ii) "Samurdhi (1995-2000) Movement, both are operated in a national coverage, and a centralized administrative bureaucracy. The both programmes are blamed to be highly politicized by nature and burdened welfare and consumption costs compared to less attention paid for re-investment and employment generation.

### Janasaviya - The National Poverty Alleviation Project

The Janasaviya - National Poverty Alleviation Project (NPAP) was initiated in 1989 under the Janasaviya Act No. 4 of 1989, and become the first target oriented poverty alleviation movement in Sri Lanka. The programme involved in two-way strategy, the firstly on target oriented welfare programme, and secondly on the target oriented income generation programme. The beneficiaries of the programme were poor, those who identified according to the income criteria. The families earning less



then Rs.700 per month (the poverty line) were qualified to be included in the beneficiary group of harvest baskets (another unit of the implementation). The income criteria adopted had to register about 1.5 million families or approximately 50% of the population in Sri Lanka who were below the accepted official poverty line. The programme reduced the poverty gap and goals as:

- Alleviation of poverty through people-based development;
- Reduction of unemployment among population in poverty;
- Reduction of rural and urban malnutrition and assurance of a healthy population; and,
- Facilitation of social stability, restoration of economic freedom, and security.

The implementation procedures were as follows: to ensure all the recipients are covered in a scheduled time span. At the initial step of the programme—the human development component—Janasaviya Entitlement Certificate (JEC) was issued to the beneficiary families in deposit of contribution to their benefits through loan stamps. The programmes were coordinated by District Secretaries at the Divisional level. The beneficiaries were ranked, on which basis there were four categories entitled for the benefits, determined the provision of benefits:

- Very poor families (those who received an income below Rs.700 per month);
- Less poor families (those who received an income between Rs.700 – Rs.1500 per month);
- Poor youth – First group (youth from very poor families);
- Poor youth – Second group (youth of less poor families);
- Old and disabled families with no earning capacity at all.

The beneficiary groups categorized under “very poor” were entitled to receive full benefits of the programme. The others were entitled to receive wealth creation benefits such as credit, skill development and initiation of self employment for income generation. The “Janasaviya” (1993-1994), meaning of People’s strength, has had several kinds of concepts and strategies focussed on poverty:

- Strategies, methodologies and instruments that have focused on strengthening the

institutions of civil society and empower the poor.

- Wealth creation strategy, with efforts for training, skill development, financial strength, credit, financial intermediations, etc.
- Assistance for basic needs and consumption relief programmes.
- Rural infrastructure development and environmental conservation.

In terms of the strategies, “Janasaviya” operated based on a rural (regard to village) – a smallest micro spatial entity, which used as a implementation forum. The poor were identified through a “community identification process”. The Divisional Administrative Division (a part of a District) was the important operational unit. The programmes were totally poor centered, involved with institutional strategies, and conceived on a bottom-up approach. This is a programme which cause the whole macro-micro spectrum. At macro level, it is a national strategy of poverty alleviation or un-

to be most challenging that involves in self-sustaining of market forces.

In the implementation process, it has had three kinds of instrumentalities, empower, encourage and support. There were two stream of support, that were conceived to be enough to motivate, to make strengths, and empower beneficiaries for self-help.

1. Human Development Component – Which was operational for 24-month period of direct financial support. But process continued beyond this limit of support. This programme made available Rs. 1458 worth of goods per month per family and continued for 24 months. The goods included food and other basic need. On the consent of the beneficiary family, Rs. 458 can be saved by them in their saving accounts.

2. Support Component – The second stream was support for access to credit. The credit is provided by the banking system during the 24 months support period if the poor family is ready with a viable project or an income generation activity. At the end of the programme 400,000 poor families were reported to be “Janasaviya” recipients in 1994. It is said that the saving programme and the credit programme was not so successful due mainly to the nature that existed to perpetuate the gap between the micro-entrepreneurs and the macro economic orientation.

#### The “Samurdhi” – Poverty Alleviation Programme

##### A Renewed Poverty Alleviation Strategy

In spite of the various poverty focused development programmes implemented during nearly five decades, the problem of poverty was not reduced. With the political change in 1994, a new poverty alleviation programme, named “Samurdhi” (meaning prosperity) was introduced in 1995.

##### Objectives of the “Samurdhi” Programme

The objectives of the Samurdhi programme were stated in the “Samurdhi Act of 1995” as follows:

- To integrate youth, women and disadvantaged groups in to economic and social development activities; and
- To promote social stability and alleviate poverty.



cited by the government.—all space in between from the macro to the micro. At the micro level, at the level of the hamlet, at the level of the poor community, it is all the poor centered actions which enable and facilitate the poor to stand upon their own feet and overcome their problems and poverty” (Siriwardena, 1992).

“Janasaviya” was emerged in a condition which rooted deeply to a national crisis—the worst internal crisis of youth insurgencies, that brought the country’s economy and civil defence almost collapsed in 1988-1990. This programme can be considered as direct political response to the crisis. On the other hand it was a strong safety net to the adverse impacts that brought about the low-income segments in both urban and rural communities. This led the programmes to be biased in first round implementation to “income relief” rather than income generation, the later strategy seemed



The official statement of the Samurdhi – poverty alleviation programme clearly indicates that the weakness of the previous programmes demonstrated in the employment and income generation are identified and included in the present strategies.

### Strategies and Implementation Procedures

The strategies and implementation procedures of the present Samurdhi programme indicate their origination from the grounds of past experience. The programme is being implemented under the lines of three strategic procedures:

- i. A welfare component - maintaining a household consumption relief programme to support poor people to fulfil their consumption practices, and to protect nutritional level;
- ii. Saving and credit programme – focused at creation of resources to provide credit, allocation of assets to the beneficiaries to make them viable and confident to contribute in the economic process; and
- iii. Self-help work programme – initiation of community based work programmes to develop rural infrastructure facilities and to develop community cooperation and self-reliance among the beneficiaries. In addition to the benefits of this programme – the poor – the programme beneficiaries have access to other welfare services of the government, such as free medical facility, free education, disabled payments, subsidized public transport, access to land grants for the landless families, low interest housing loans, etc. In the pace of present level macroeconomic adjustments, the government has realized the responsibility of protecting the low income groups, specially the poorer segments of the population.

The Samurdhi is current poverty alleviation project being implemented since 1995. The programme has given higher emphasis on employment and income generation. Its experience over almost six years is encouraging (Ramani Gunathilake, et al, 1997).

### Poverty Focused Programmes Implemented in 1995-1998

1. Cash grants provided for 147,497 beneficiary families for consumption relief and income generation (cost Rs. Million 10,024),
2. Interest payment for 412,257 'Janasaviya' families for their saving deposits,
3. For provision of dry rations (food items) to 182,000 families in the North and Eastern provinces,
4. Completion of 11,640 small scale rural infrastructure development projects,
5. Established 20,884 micro-enterprises in 43

Divisional Secretariat Divisions with the financial assistance from the National Development Trust Fund,

6. Provided employment for about 25,000 educated youths as Samurdhi Managers, and Samurdhi Niyamakas,
7. Initiated about 478 middle level self-employment and credit based income generation programmes in 14 Districts of the country, and
8. Granted 10,000 sewing machines among the female members of the low-income families to generate additional incomes (Jayasena, 1998).

### Self-Employment Programmes for the Youth: 1995-1998

The Samurdhi Project used a different strategy to include young unemployed members of the poor beneficiary families for specific poverty focused programmes. It has provided different level assistance to young people from the poor families for business and self employment, under the provisions of Samurdhi sub-programmes and collaboration with the commercial banks. The programmes include:

1. Samurdhi Naya Niyamaka Scheme provided 26,450 loans to youth initiate self employment, with a ceiling of Rs. 5000 per person,
2. About 43,000 loans disbursed among entrepreneurial youth of the poor families to initiate small business, under the Sanwardhana Naya programme, with ceiling of Rs. 10,000 per person,
3. Around 12,000 loans were provided to youth entrepreneurs, under the Samurdhi Surathura Credit Scheme, with a ceiling of Rs. 50,000 per person,
4. The Samurdhi Compulsory and Voluntary Saving Scheme saved about Rs. million 1,998, which would use for self employment programmes,
5. Samurdhi Bank Societies were established in 130 Divisional Secretariat Divisions, to encourage savings among the rural poor,
6. A special Insurance Scheme was initiated under the Samurdhi programme to help beneficiaries in the case of emergencies and distress,
7. Established a lottery programme to generate additional funds to reallocate among the Samurdhi development schemes and programmes (Samurdhi Secretariat, 1998).

### A Review of the Samurdhi Project Implementation 1995-1998

The achievements and failures of the Samurdhi Poverty Alleviation project cannot be properly assessed unless a well-planned benefit monitoring and evaluation effort is employed. However, a recent evaluation work has been undertaken in

some administrative districts, i.e., Badulla, Moneragala and Anuradhapura in the most remote agriculturally predominant provinces in Sri Lanka. The major weakness and the constraints of the implementation of Samurdhi Poverty Alleviation Project are identified as follows:

1. Heavy costs involved with subsistence assistance programme: approximately 60% of the households in the country are entitled to receive benefits which costs about Rs. 8.0 billion annually;
2. Political bias in selection of beneficiaries, that has ceased the selection of genuine poor households;
3. Weakness in local level project identification and inadequate technical supervision;
4. Creation of a vast bureaucracy in the management of the project, unclear line of commands and higher level politicization of activities at local level; and
5. Less attention paid to critical causes of poverty in many rural areas in Sri Lanka such as lack of water for cultivation, irrigation, cultivation techniques suitable to cope with the most physical constraints, environmental degradation, poor rural access roads, public transport in the rural areas, poor educational facilities, and lack of facilities for technical education in the remotest rural areas (Ramani Gunathilake, et al, 1998, and Jayasena, 1998).

### Review of "Samurdhi" and "Janasaviya" Projects

Following observations, in general, can be made from the efforts taken for poverty focused development in Sri Lanka:

- (1) The impact of macro economic interventions on poverty alleviation in Sri Lanka has not made positive effects on income of the poor. The economic growth does not seem to be effective in mitigating the constraints faced by poor in their effort to enroll in the economic process.
- (2) The main poverty alleviation programmes: (i) Janasaviya (1989) and (ii) Samurdhi (1995) have focussed on provision of food relief benefits – food stamps, as a safety net to mitigate the adverse effect of the SAP on the poor,
- (3) The major anti-poverty programmes mentioned above made investment components for technical training and skill building. The programmes remain largely unsuccessful in participation on such programmes and in terms of micro-enterprise development. The micro-enterprises are faced with constraints of quality improvements and marketing as they are not properly linked with the major industries or eco-



non-ferrous sectors, which were operated in a limited scope. The availability of cheap imported goods has seriously constrained the establishment and expansion of micro-enterprises.

(4) The large-scale industries were confined to the apparel industries, garment industries, and primary processing and manufacturing industries, and they usually depend on the imported raw materials and inputs, which gained only local cheap labour. The other areas, i.e. services and trade was restricted to areas with developed infrastructure and they could provide work opportunities for the rural poor. The economy in rural areas has not enough diversified to absorb educated youth in rural areas; thus, unemployment in rural areas is on the increase.

(5) The smallholder sector agriculture is becoming less remunerative and the profitability had before three decades ago has been severely eroded. The implementation of SAP programs has resulted in increase of prices of imported inputs (chemicals and machinery) has made cost burdens on small farmers. This was exaggerated with removal of input subsidies. The liberalization of trade, and free import of food commodities (such as dry chillies, big onions, potatoes and pulses) have negatively affected to lower the prices of local food products. On the other hand, due mainly to heavy transport and overhead costs, the low-level farming prices do not make any effect to reduce the usual prices of the consumer. This situation has badly affected living conditions of both agricultural producers and the consumers.

(6) There are many other factors of the farming community which constrain the penetration of benefits of the policy initiatives. One of the major issues is disorganized nature of farming communities. This has been resulted in lack of people's participation in local development activities. The peasant community is characterized by multiple social divisions, physical dispersal, diverse interests, and the low state of social differentiation, which appear as constraints to development. Effective local institutions are needed to strengthen the organizational capacities of farmer communities, and thereby to enhance their concentration in self-interest and self-reliance on combating their state of poverty. On these circumstances integration of the poverty-focused development approach with the macro-economic policy formula is emerging as a challenge, which remains to be accepted in the new millennium.

(7) Therefore, the adequacy of the policy framework for mass poverty alleviation is to be reconsidered. The fundamental issue is that macro-economic policy has to be readjusted and development initiatives have to be undertaken in the context of a levitation of general poverty, and government has to ensure democ-

ration freedom for all which in turn would affect the assurance of economic freedom. The general approach to development is controlled by market forces, unless government exercises its control and investment and resource allocation. The specific poverty alleviation projects are centered on the only poverty groups. There appears to be a need that mixed inter-dependence between the two approaches. Therefore, following measures are to be applied in future eradication of poverty long-term.

- i. It is the poor decides on everything for the poor. It is need to reverse this approach letting poor to decide on the status of the own development, and
- ii. The poverty long-term usually concerns more on the effects, less on the causes of poverty. The programs should have to focus on overcoming the causes of poverty.

(8) As it has been evident in the overall poor or is development policy, strategies for state-generated economic growth, and a policy framework of poverty focused projects (i.e. Janasaviya and Samurdhi) were included in a system of the approach of left strategy or the one hand assumption of consumption related benefits, and on the other hand strategies for wealth creation, which can only be acceptable in a severe socialist crisis. However, as experience revealed, in the absence of an organic link with the industrial policies, such an idea is not viable in terms of poverty alleviation" (ibid. 1997).

(9) Suggestions for improving policy framework appear to be another challenge. In the wealth of experience gained over half a century of poverty focused development, the fundamental requisites is appreciated by the top-level policy makers. The complexity of the task of poverty targeting in general, genuine interest on the poor. Poverty is not merely a rural phenomenon in Sri Lanka. The proportions of the urban poor are too on the increase. Therefore, two-way strategies may require to be formulated. For the rural poor, the development programmes will have to be formulated in such a way that in terms of encouraging value addition to what would they produce, and increase their productivity. The income generation activities (IGIs) of the poor should be opened to the economy, and the access by them to conglomerate with the other sectors of the economy should be encouraged by new policy orientations.

## Emerging Issues, Challenges and Future Directions in Poverty Alleviation

### Macro-Economic Policy & Impacts on Poverty

It is evident that since 1977, with economic liberalization policies, Government adopted a series of structural adjustment policies and macro-economic reforms as remedies to overcome barriers to free trade. This reform has adversely affected on the income distribution, income inequality, increase in cost of living, specially on the middle class wage earners and the lower income groups, as universal food subsidies were removed, and investment for welfare facilities were considerably reduced. Meanwhile, the Government included the national programmes for poverty alleviation, as a priority objective of the development agenda. The



Jobs of Government leaders to absorb the unemployed rural female labour force

initial stages of these programmes focused on relief for alleviation of household food deficit, and as a remedy for increasing malnutrition. At the initial year programme seriously suffered from burdened cost of food subsidies. The landmark of the macroeconomic policy change of 1977 was the shift from inward-looking economy in which international trade was controlled, and the government directly involved in production and trade, to a outward-looking economy which lets the price mechanism to allocate resources in terms of comparative advantages. The policy primarily envisaged re-orientation of the economy towards strengthening the export sector. This export-led growth



strategy led the economy more opened to international trade and it has had the positive impacts on economy. Re-allocation of resources from welfare and consumption for re-investment in productive sector, increase production and employment was one of the strategies followed for recovering the economy. "These new economic policies aimed at gradually moving the country away from a heavily state dependent universal welfare system to a reduced and more targeted – redistribution of welfare which is oriented to production and employment for the purpose of accelerated growth of the economy" (Wickramasinghe (1977).

Meanwhile the government implemented SAP strategy, a package of income relief programmes too were introduced as a safety net to provide selected food items on a "food stamp scheme" (1978-1989) to poor families. In 1989 government introduced a "National poverty Alleviation" movement called "Janasaviya" (meaning, people's strength) which was implemented until 1994 political change. This programme too ensured the provision of selected food items for poor families (to contribute to their consumption needs) through food stamps to purchase essential food items at the local co-operative stores. The Janasaviya movement allocated some funds to be distributed monthly among beneficiaries-which funds deposited in their saving accounts, and encouraged them to organize their own investment funds to initiate

Income generation activities that suit to their skill and locally available resources. In 1995, Government introduced "Samurdhi Programme" (meaning, Prosperity) as a "National Poverty Alleviation Movement" in Sri Lanka. This programme also accepted redistribution of resources, resource creation, skill building, encouraging savings, re-investment in income generation activities (IGPs), and ensuring the beneficiaries to meet considerable proportion of their food needs from "food relief stamp". These two "National Poverty Alleviation Movements" bear similar significance in concepts and strategies. The most common significance was that the both movements attempted to seek strategies of integrating the disadvantaged and marginalized (population in poverty) category of the population into the formal

economic order. The most striking feature was that, whilst the government attempted to re-distribute funds, savings and low interest credit for beneficiaries to create their own funds to initiate IGPs, more funds have spent for maintaining relief to consumption needs. The experience gained from approximately ten years of implementation of directly focused poverty targeting strategies and programmes suggest that the efforts geared for welfare-cum-food relief have bypassed the em-

opening of the market. The SAP has the long-term goals of improving the efficiency and the growth rate of the economy. It envisaged a rapid change in increasing the economic flexibility and adaptability through trade liberalization and regulating domestic pricing policies, combined with thorough institutional reforms through the structural adjustment and sectional adjustment loans. Amidst all these efforts, government introduced poverty alleviation special

programmes, included with hunger and nutrition as priority targets, with the concept of sustainable growth. The programmes included for employment and income generation were not effective in action, as the macroeconomic policy failed to ensure the sustainability of micro-enterprises and inter-link them with the macro-entrepreneurs.

The agriculture policy was not enough revised to cope with the poverty centered development. Policy was reflected, from the priority for self-sufficiency of rice, that farmers were encouraged to produce as much as possible and use new technology and inputs, but deteriorating nature of both productivity and profits of the small farmer with increasing cost imbalances were not taken in to consideration.

### Concluding Remarks of Poverty Targeting

#### Dimensions of the Problem

In spite of the economic achievements of many developing countries, the number of poor in the

world increases and the levels of degradation of their lives tend to deepen with every passing year. There are two facets: on the one hand, the benefits of economic growth have not been equitably distributed and, on the other, the poor have been unable to adequately participate in the economic progress that the statistics of development indicate has taken place. Poverty in Sri Lanka is on the upward trend with the progress of economic growth.

The implication is that the solution to national poverty trends must involve wider participation of poor households in the foundations of economic growth in the country. The poor can only participate in economic growth if they have access to the means and ways of raising their 'economic' productivity, thereby improving their



More and more rural young girls prefer factory work with modest wages to the rather low paid strenuous agricultural work.

ployment and income generation components, thus in terms of eradication of poverty those strategies have not been effective as envisaged.

#### Issues and Challenges

The macroeconomic and structural adjustments, which have been taken place since 1977, directly or indirectly have made adverse effects on the poverty focused development programmes. The macroeconomic policies aimed at market stabilization in the short and medium terms. The policies involved with budget accounts and the local and foreign indebtedness. The aim was rapid restoration of macroeconomic balance with policies to reduce level and composition of aggregate demand. In contrast, the structural adjustments focused on long term adjustment towards to the



incomes and the demand they have over those things that determine their standards of consumption and conditions of living. The issue now is to improve the productivity of poor households is the most urgent concern for policy planners responsible for poverty alleviation in countries like Sri Lanka. Increasing productivity both of small farming and rural industries deserve priority concern of policy planners if poverty alleviation to be realized.

### Approach to Poverty Alleviation

In the context of Sri Lanka, rural poverty is indicative of the failure by policy makers to find the unique balance between redistribution and wealth creation that is required for sustained poverty alleviation. The efforts made on economic development in Sri Lanka has not had the impact on poverty that one could expect if the institutional reforms needed for wealth creation with greater equity are properly designed and implemented.

A higher emphasis was given to welfare based approaches to poverty alleviation, but even these have been implemented in ways that have been more beneficial for non-poor than the poor. Programme structures seem to be excessively politicized and people's aspirations by-passed by political interests. The structure of the Poverty Pyramid described for the study locations leads me to conclude that the poor need institutional backing to enable them to stand by themselves. The institutional support that they most need cannot be determined outside a framework of a participatory approach to self-help. Poverty alleviation needs considerable provision of a subsistence relief assistance to be included in the income generation and saving enhancement programmes.

An effort was made to test the practicality of poverty pyramid approach both in poverty targeting and monitoring purposes in Sri Lanka (see Fernando, 1995). The poverty pyramid approach to poverty analysis examined in this presentation has confirmed the critical importance of raising the productivity of the survival activities of the poor. More specifically, poverty focused development programmes are necessarily aimed at: (i) creating access to productivity enhancing assets by the poor (in Sri Lanka this often translated into access to irrigation facilities); (ii) increasing the value of household production through more effective use of the skills and assets in poor households; and (iii) increasing the employment opportunities that poor households can take up. However, the processes by which these goals can be achieved are not simple. There are inbred and last measures, shortcuts, for the design of

sustainable poverty alleviation projects. Themselves can only base success on an adequate understanding of the constraints that are preventing more successful realization of the wants and the needs of the poor.

### The use of Poverty Pyramid Framework

The Poverty Pyramids identified for the same sites studied are an adaptation of that first presented in Fernery, 1991 (see Fernando, 1995). In the test of this hypothesis, study identified five strata below the poverty line, beginning with the vulnerable poor at the bottom, followed by the labouring poor. Contrary to my expectation smallholder farmers come above the labouring poor. As many smallholder farmers are subsistence households, it is expected them to be second to the vulnerable poor, trapped in their poverty and unable to escape even to the world of the threat and opportunistic households of the labouring poor. In fact the smallholder poor come from households that are economically more robust than those in strata below them because of the asset base that their land provides, although in poor cropping seasons their poverty can be more intense than it is for members of labouring poor or other landless households.

The Self-employed Poor are the fourth sub-group of the Poverty Pyramid. This group of households comprises those who produce non-farm wage goods for the market using family labour. Many of the self-employed are part-timers, who share many of the same features as members of the smallholder and labouring poor, especially during their slack seasons of activity. During these times they compete for work in the market place, but the total value of the income they earn from their self-employment remains the primary and most important source of their overall household income. These households are typically well placed to progress up through the poverty pyramid and above the poverty line, if only the constraints that they face in expanding the income they can earn from their self-employment can be relieved. Often these constraints have little or nothing to do with rural development strategies intended to improve agricultural productivity in their district.

The Entrepreneurial Poor are the employers in the poverty pyramid. Some small plantation owned operators find a place in this strata of households poverty, but typically in commercial households are those self-employed who use non-agricultural (manufacturing and businesses, commercial or services) income generation activities are successful enough to require at least one hired wage employee. As well as self-employed poor immediately below them in the income hierarchy, the constraints that keep these households below the

poverty line are those that affect the success of rural diversification beyond agriculture and the growth of non-farm employment opportunities.

A case study of the strata making up the poverty pyramid presents the user with a guide to the questions that one must ask if one is to identify measures needed to increase household productivity in each layer of the poverty pyramid. Some of the critical questions are: (a) What policy measures need to be adopted to improve the productivity of the Vulnerable Poor?; (b) What sort of wealth creation strategies would be most appropriate to increase the productivity of Labouring Poor households?; (c) Which infrastructure investments should be given priority in order to improve the productivity of the Smallholder Poor stratum?; (d) What can be done to improve the productivity of the Self-employed Poor?; (e) What can be done to improve the productivity of the Self-employed Poor?; (f) What are the most important policy changes needed to nurture the business expansion opportunities available to the Entrepreneurial Poor? It is beyond the scope of this thesis to answer these questions in any comprehensive way, but I have attempted to offer some suggestions based on the outcome of the survey responses. The suggestions made are consistent with the conclusion that poverty targeting requires the tailoring of poverty alleviation measures to each class of household in poverty, in addition to the macroeconomic measures that contribute to the creation of a propitious environment in which the self-help efforts of the poor are more likely to succeed.

The Poverty Pyramid approach to poverty analysis not only aid in poverty targeting. It also provides signs of success, including structural changes, which should be observable in relation to internal movements of households across the layers of the Poverty Pyramid. If poverty targeting is appropriately designed and if the macroeconomic environment is favourable, a considerable proportion of poor households in the top three layers of the Poverty Pyramid (i.e., Smallholder Poor, Self-employed Poor and Entrepreneurial Poor) will be seen to be the early beneficiaries as they either traverse over the poverty line or move upward in the income rankings to a better position in the Poverty Pyramid. Investments that expand labour intensive manufacturing or small industries will benefit the labouring poor, enabling a greater number to raise their incomes through more regular work or access to permanent wage employment. Similarly, the benefits of increased economic activity in the poverty pyramid should spread to households at all levels of

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# Financing Rural Economic Activities: Some Related Issues

Successive governments in Sri Lanka, since independence, have endeavoured to develop the rural economy of the country recognising its economic, social as well as political importance. Seventy two percent of the population live in rural areas and they are engaged mainly in agricultural activities: growing paddy and other traditional subsidiary food crops. The traditional agricultural sector provides employment to about 38 percent of the employed labour force in the country. The government invested substantially in farmer resettlement and irrigation systems to increase agricultural production with the ultimate objective of achieving self-sufficiency in food. In addition, a large number of low-income people in rural areas is engaged in cottage industry and in other small scale enterprises to eke out a living. Financing of these diverse rural sector activities has a wide impact on the majority of the population in reducing poverty and improving living standards.

The non-availability of credit from the formal sector financial institutions was considered a major hindrance in efforts to develop the rural economy. Therefore, the government intervened directly to provide credit for agriculture and other rural economic activities. The necessary funds were either provided by the government or received from donors. The government took steps to create the institutional network by establishing state owned commercial banks, specialised banks and other specialised financial institutions. The government also designed credit programmes under which loans were provided for the purposes determined by the government. However, this scenario has undergone some change with the recent deregulation of the financial sector. The purpose of this paper is to throw some light on the issues relating to the financing of rural economic activities.

## The Issues in Rural Financing during the early periods

The major issues relating to financing rural economic activities during the early periods were as follows:

- (a) Increasing the outreach of formal sector financial institutions to rural areas;
- (b) Designing of rural credit schemes to be

implemented by these institutions; and  
(c) Minimising risks to financial institutions involved in rural financing.

### (a) Increasing the outreach to rural areas

At the time of independence in 1948, the rural sector remained neglected by the formal sector financial institutions. The banking system that prevailed at the time was concentrated to cater to the needs of the organised sector i.e., export import trade, the larger industries, plantation companies and the urban services sector. The government took some initiative, even in early 20<sup>th</sup> century, to tackle this problem by promoting the co-operative credit societies to provide credit facilities for farmers and arti-

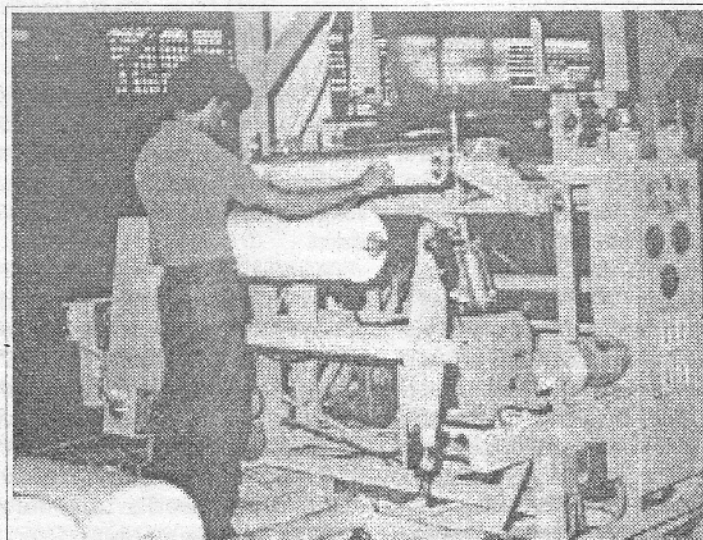
sans. However, the co-operative sector was unable to supply credit at the village level adequately. The farmers could not get working capital requirements from these co-operative societies mainly due to the low resource base of these societies. Therefore, in the late 1940s and the 1950s, the government started financing through government departments the cultivation of rice and a few other crops. The government departments were not geared to providing credit and recovering loans and the scheme failed. As an alternative the government established Co-operative Rural Banks (CRBs) and the People's Bank in early 1960s with a view to increasing the outreach into rural areas. The Bank of Ceylon was nationalised during the same period and the government expected it to play an active role in taking banking facilities to hitherto un-banked areas. In the 1980s, the government's drive to fund the outreach was further accelerated with the establishment of Regional Rural Development Banks (Regional Development Banks). These efforts were successful within a relatively short period in developing a large network of bank branches spread in rural areas providing financial services even in remote villages. These banks were also able to mobilize large volumes of savings. The banking habit expanded rapidly with increased banking density in rural areas. The issue, however, was the sustainability of this outreach as many of the rural branches were unable to run as profit centres that would ensure the long-term sustainability of the institution.

### (b) Designing rural credit schemes to suit the rural population.

The banks have been reluctant to extend credit to rural people mainly for the following reasons.

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Handloom and powerloom industry which provided income for livelihood for rural youth in the past hardly have an existence at present.



They were unable to provide the type of collateral insisted upon by the banks. The enterprises, for which credit was sought, were very small and of high risk. Therefore, it was considered that these people as well as the activities were "unbankable". It was also believed that they could not afford the market rates of interest because they were poor. In the early schemes, subsidised rates of interest and less stringent collateral requirements or loans without collateral became the main features. As the cost of funds to the banks did not permit the banks to charge interest less than the market rates, the government provided refinance facilities against the loans granted under these programmes while allowing the banks to retain an attractive margin over the refinance rate of interest. Credit facilities were provided on crop basis and the farmers were provided with pre-determined scales of credit under the Cultivation Loans Schemes. The banks had little opportunity to exercise their discretion in the selection of borrowers or determining the credit volumes. The Central Bank prepared guidelines giving the type of collateral, scale of finance for each activity and other terms and conditions. Banks were given targets for lending.

#### (c) Minimising the risks of financial institutions in rural financing

A major factor that made banks reluctant to involve themselves in rural credit was high risk. Granting credit to the low-income persons was considered a high-risk operation due to their inability to provide good collateral as required by banks. Agriculture is subject to the vagaries of weather and markets for such commodities are highly volatile. As a solution to this problem, the government introduced credit guarantees against the loans by banks in the implementation of these credit schemes. In addition, the government created the Agricultural Insurance Board, which provided insurance cover for crop losses of the farmers who obtained loans under the cultivation loan schemes of the government. Practically, this provided additional protection for the banks in the event of crop failure.

The above approaches appeared to be working satisfactorily in the environment of strict regulation of the financial sector that prevailed until the late 1970s. With the gradual liberalisation of financial markets, sustainability of these programmes as well as of the state banks was brought to question. Refinancing facilities were terminated and credit guarantees by the government withdrawn. The new environment that emerged with financial deregulation gave new dimensions to old challenges and gave rise to new issues. These developments made it neces-

sary to have a fresh critical look at the experience of credit programmes implemented hitherto.

#### Problems with supply driven subsidised credit

The supply driven subsidised credit programmes introduced by the government suffered from many ailments as well as operational weaknesses. When credit was made available below market rates, there was no seeking by borrowers. Though the government policy was to provide credit to all potential beneficiaries, determined by counting to eligibility criteria, the high costs involved in making small loans made the banks to focus on a few relatively large scale borrowers at the expense of low income rural families. Further, when state-owned banks granted loans in the insistence of the government, such loans were considered an entitlement by the borrowers. These loans were considered as an attractive means to muster political support among the rural people. The result was large-scale willful default of such loans.

The transaction costs of these loans were generally high because the lending institutions adopted time consuming and cumbersome procedures, the less influential borrower was made to make several trips to the lending institution to obtain his loan. Such loan procedures are open to corruption and inefficiencies leading to transaction costs. Another problem associated with the credit subsidised credit programmes was that the size of loans was pre-determined, and sometimes did not meet the actual requirements of the borrower. If the loan amount was too small it was not sufficient to meet the cost of acquiring the income earning asset and the project did not generate the expected cash inflow. This situation led the borrowers to borrow from informal sources at much higher interest rates to supplement the bank credit or to buy an asset of lower quality. Or, because of a tight credit, he ended to use the funds for some other non-productive purpose because the amount of credit made available by the bank was not sufficient for the intended purpose.

Subsidised credit programmes also hindered the development of market based rural financial institutions because these institutions found it difficult to mobilise savings at a rate of interest high enough to outpace as credit at a competitive rate. As a whole, subsidised credit programmes and the institutions implementing such programmes suffered from political interference (if the institution was state-owned), poor management, supplying of inappropriate products, low recovery rates, high transaction costs and high net losses.

#### New developments in financing rural economic activities

With the liberalisation of financial markets some

innovative approaches were developed in many parts of the world for the provision of financial services in rural areas. With these innovations, new and revolutionary ideas were subjected to testing and the results threw new light on rural financing. First, under the earlier schemes, supply of credit was considered an essential input in rural development programmes. In the light of new knowledge, it became clear that the rural people, like other customers of a financial institution, needed a range of financial services rather than credit only. These services are termed as 'micro-finance'. Micro-finance is defined by Asian Development Bank as "the provision of a broad range of financial services such as deposit facilities, loans, payment services, money transfers, and insurance to the poor and low income households and their micro-enterprises". Secondly, it was proved that the poor also could save and these savings could be substantial if proper savings products with the requisite flexibility were made available to the poor and low-income families. Thirdly, the poor and low-income people were also good credit risks that they maintained very high levels of repayments while using credit effectively for economic empowerment. Fourthly, credit for the poor did not need subsidised because they could market rates of interest. Fifthly, micro-finance could be an effective tool in alleviating poverty of millions of people. Sixthly, micro-finance could be a commercially operated financial service, undertaken even by large financial institutions in penetrating into rural financial markets.

The above experience gave rise to new issues relating to financing the rural economy. Some of these issues as given below and discussed in the ensuing sections.

- Whether the outreach has been sufficient and if not, what can be done to increase the outreach?
- Sustainability of rural financial institutions and credit programmes
- Is the mobilisation of rural savings an essential item in micro-finance programmes? and
- How to cater to the financial needs of rural economy in a market based system?

#### (a) Issues relating to outreach

The availability of micro-finance in rural areas depends on the extent of outreach. According to the Consumer Finance and Socio Economic Survey of the Central Bank, 1995/1997, the percentage of rural loans provided by the formal sector institutions such as the commercial banks, rural banks and the co-operatives was about 41 per cent, indicating that almost 60 per cent of the rural borrowers depended on the informal sector



for credit. However, the percentage of the amount of loans obtained by these borrowers from the informal sector accounted to only 31 per cent, indicating that it was mostly the relatively small borrowers that had less access to credit from the formal institutions. In other words, the depth of outreach by the formal institutions, i.e. the reach to poorer groups, is still an important issue. However, it should be noted that poverty alone has to be made the criteria in the outreach. In the development of the rural economy, it is the economically active poor who should be provided with credit for their economic empowerment. The economically non-active poor need to be reached through other welfare programmes.

Why are formal sector institutions are not effective in outreach? One of the important factors that affect the outreach is the high cost associated with the process. Therefore, financial institutions need to evolve innovative approaches and mechanisms to improve outreach in a cost effective manner. Working through other village level organisations such as non-governmental organisations or approaching the rural clientele in groups rather than individual savers and borrowers are some of the approaches adopted by formal sector institutions in improving the outreach.

#### (b) Sustainability of the institutions and the credit programmes

Sustainability of rural financing schemes became an issue once the cheap sources of funds dried out with financial deregulation. Sustainability of rural financing programmes depend on the ability of institutions to recover the costs of providing micro-finance services in rural areas and make a profit out of this business. Under government-sponsored programmes, the banks enjoyed healthy interest margins and they had the protection against possible losses in these operations by way of credit guarantee. When cheap funds and the guarantee are not available, sustainability of the schemes depended on the ability to maintain high repayment rates and charging interest rates sufficient to cover the cost of funds and administrative costs. The experiences of many innovative micro-finance programmes such as the Grameen Bank, ASA in Bangladesh where the clients are poorest of the poor that the Unit Desa System of the Bank Rakyat Indonesia show that these persons can afford market rates of interest that can cover the costs.

Therefore, innovative approaches have to be developed to suit the specific country conditions if the formal sector institutions are to provide micro-finance in the rural sector on a sustainable manner. In other words, the solution to the prob-

lem of sustainability lies with the ability to provide micro-finance on a commercial basis.

The other issue relating to the institutional sustainability is the role of the state owned banks in financing the rural economy in a deregulated financial system. Some argue that state owned commercial banks should concentrate on commercial banking and new institutions should be created to provide the financial services needs of the rural sector, because the public sector banks are not geared to supply these services effectively. Others point out that there are certain success stories such as the Unit Desa System of Bank Rakyat, Indonesia (BRI) where even the public sector banks have initiated innovative approaches and supplied micro-finance products to cater to the needs at the grassroots level in a cost effective manner. The lessons learned from the experience of these developments should throw light in developing suitable approaches for public banks engaged in micro-finance in a sustainable manner. Sustainability of these institutions, one may argue, is basically related to the governance and management of the institution rather than mere ownership.

#### (c) Why the mobilisation of rural savings is vital in rural financing?

Mobilisation of savings did not figure prominently in the early rural finance initiatives. Micro-finance interventions in the early periods focussed on the supply of credit. During that time, the belief was that the poor spend almost their entire income on consumption and therefore are unable to set aside a part of his income as savings. The experience of micro-finance programmes implemented in many countries since late 1970s have proved that the poor also save and that they can also increase such savings. Further, these savings may not always be in cash form but they can be transformed to cash savings if the necessary facilities are made available. The poor expects their savings to be safe, that he can save in small quantities and can be conveniently withdrawn without much paper work.

In rural financing, savings provide a security against irregular cash inflows to the household and build confidence of the poor in undertaking risky but high return investments. In the absence of other forms of insurance, savings provide a safety net against unforeseen economic difficulties. For the lender, the savings provide a better security against credit risks.

An important issue relating to micro-savings is whether such savings are mobilised as compulsory savings. If savings are generated by withholding a part of a loan amount or as regular compulsory savings the institutions may not be sustainable when such schemes are terminated or when

the poor is economically empowered and does not want to abide by such regularities. The deduction of a part of the loan amount may either lead to the borrower applying for a bigger loan that he could set aside a part of it as savings and he may be left with the amount required by him. Otherwise, he may be getting an amount less than his requirement. Therefore, though compulsory savings may be useful for mobilising savings at the initial stages of a programme, in the long-run, the sustainability of a scheme or a micro-finance institution depends on the amount of voluntary savings that can be mobilised. It is also the practice of some institutions that these mandatory savings are not earn any interest and the institution considers them as free money. This situation discourages the saver and institution's real liability exposure is not revealed. Another issue relating to mobilisation of micro-savings is that when an institution depends on savings by the beneficiaries alone, the resource base of the institution becomes weak and the growth of the institution is adversely affected. Therefore it is important that these institutions mobilise savings from the non-poor, as well, who demand the availability of savings products suitable to their requirements.

#### (d) How to cater to the financial needs of rural economy in a market based system?

With the introduction of the financial deregulation, doubts arose whether the banks would be able to continue with rural financing under a market based system. In other words, can micro-finance be commercially viable? The foundations of this doubt were that rural finance was a welfare-oriented activity that could only be carried out with government or donor assistance. The experience of the BRI in the Unit Desa Scheme and micro-finance systems implemented in many other countries showed that micro-finance could be done in a commercially viable manner with a significant profit. Profitability requires the covering of costs and risks without government subsidy and providing cover against credit risks while making provisions against the loan losses.

A brief examination of the experience of the BRI's micro-banking activities, the largest micro-finance institution in the world, may prove beyond doubt that micro-finance is a commercially profitable industry.

In the 1970s, the Indonesian Government established special units attached to the BRI for channelling credit under subsidised rural lending programmes. The deposit rates were fixed at 15 per cent and the loans were granted under the subsidised programmes at 12 per cent per an-



num. The system resulted in heavy loan losses due to areas of over-indebtedness. By early 1980's, the micro-finance units of the BRI were either to be closed down due to heavy losses or to be converted to commercially viable units. In 1983, the bank was permitted to determine the interest rates on its own discretion. Loan interest rates were raised to 1.5 per cent per month (effective rate is 32 per cent per annum) and savings were mobilised from all potential savers irrespective of whether they were the members of the unit by introducing attractive savings products. A strong political decision was taken that the government will not interfere with the operations of the micro-finance units and the staff was provided with incentives for their achievements within one year. The micro-finance units became commercially profitable and since then have continued to increase the profit levels. What is learnt from this experience is that in increasing the profitability of micro-finance, the introduction of savings, loans and insurance products that suit the demand of the low income groups is vital. Similarly, the dedication of the staff and setting incentive right are also important. Further, use of information

technology to improve the services also plays an important role in increasing efficiency of providing micro-finance services.

#### Conclusion

Developing the rural economy has favourable social and economic impacts and financing rural economic activities can play a major role in the process. Financing should not be construed as providing only credit; it should rather cover all micro-finance services including mobilising savings, credit and social safety nets that improves the capacity of the household to face unforeseen disasters. Micro-finance, therefore, is an effective tool for developing the rural economy and empowering the poor and low income households, economically. In the early periods, the issues concerned were basically the outreach, designing credit schemes to suit the needs, ending and the assisting the institutions in minimising credit risks. However, at present, the issue of outreach has taken a new dimension; the government does not insist on institutions to expand the outreach to rural areas. Geographical outreach as well as the depth of the outreach, i.e. the outreach to poorer groups are equally important. The outreach,

in the absence of government interference, has to be considered on a commercial basis. Among the other issues that have to be considered is the sustainability of rural financing institutions and rural credit programmes. Sustainability of the schemes on the one hand depends on the approach used in expending savings, loans and other financial services to rural areas and the marketability of the demand driven nature of the micro-finance products, on the other hand. The rate of interest charged by the micro-finance institutions is a major factor in ensuring the long-term sustainability of these institutions. The financial institutions have to implement innovative schemes to make such facilities to rural areas in a cost-effective manner to make micro-finance profitable. There are success stories that micro-financing can help alleviate poverty while being economically profitable from the institutional point of view. The authorities can ensure the sustainability of micro-finance programmes by refraining from undue interference in the operations of the systems but providing necessary regulation and supervision to ensure proper governance in these institutions.

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the income scale below the poverty line. In time the structure of the poverty pyramid will change as more and more households migrate up and then above the poverty line. In time the poverty pyramid will appear to have been inverted. In upward trends the slope of the top steeper can be enlarged, while in downward trends bottom steeper can be enlarged more than the usual shape.

It is worthwhile to investigate in to the dimensions and interrelationships of the Poverty Pyramid in the context of poverty monitoring. There are two categories of interrelationships between communities of poor people that make up the Poverty Pyramid: (i) geographic or spatial dimensions of poverty; and (ii) internal or vertical dimensions of poverty. Spatial dimensions of poverty are related to regional or spatial characteristics of poverty that can also be seen as horizontal dimensions of poverty relations in the Poverty Pyramid. Typically, these dimensions of poverty are based in an anthropological and geographic analysis of various arrangements in developing economies. The internal or vertical dimensions of poverty are based on the mechanisms, which identify migrations into, or up through and out of the poverty pyramid (Baker and Groot 1994; Poterjoy 1995).

The task of 'operationalising' a poverty audit based on the Poverty Pyramid framework is deceptively simple. Femeny (1994), has reduced the issues to which one must attend to a

series of six Guideline that he summarised as follows:

Guideline 1: poverty alleviation projects must directly involve the in the target population in the design, implementation and monitoring phases of the poverty targeted projects.

Guideline 2: poverty alleviation projects should have an immediate and discernible positive impact on the productivity of the poor households as a result of any one or more of five basic processes:

- i. increased cash flow into poor households;
- ii. increased total value of output from the microenterprises or survival activities of the poor;
- iii. decrease in resource under employment in poor households;
- iv. an increase in the real income of poor households as a result of a fall in the cost of wages goods; or
- v. an increase in the asset base of poor households.

Guidelines 3 to 6 refer to the importance of deliberate and systematic planning for the distribution of access to resource endowments, investment in technical education and human resource endowment, the creation of procedures for the protection of justice and equity issues, (especially those relating to gender), raised in the course of project implementation, and provisions of basic needs (ibid., 1994, pp. 285-292).

In the interest of poverty focused and employment

and income centred development, following issues need to be studied, i.e. (i) adequacy of policy framework for poverty alleviation, and (ii) Improving policy framework adequately to provide facilities for rural beneficiaries with equity. The programmes need to be centred on employment and income generation, solving the constraints that faced by poor by the lack of investment capacity. Therefore, assistance to poor should have to be involved in creation of well running economic process, which would help to improve the value added attributable to economic survival of the poor. The process would reduce poverty and enhance the well being of the poor as follows:

1. Average output per person can be increased in a decline in unemployment and under employment, which in turn would increase labour productivity.
2. Use of new technology and implements will increase production efficiency, productivity and output per person.
3. Introduction of new products can increase productivity and allows economic resources to be shifted to profitable and advantage products.
4. Expansion into new markets can secure prices and profit margins increasing productivity, and
5. Linking micro-entrepreneurs with the macro economic performance and expansion of technical education and vocational training can increase management skills of the poor and their productivity.



# Below Replacement Fertility in Sri Lanka\*

## Causes and Consequences

### Introduction

Historically, populations have replaced themselves. Each couple has had at least two children so that one generation could replace the next generation. If couples on average have more than two children, each generation becomes larger than the previous generation and population grows over time. In fact during much of the second half of the last century, this is exactly what happened. For many countries and for the world as a whole, couples had many more than two children and population growth rates increased rapidly. National and international attention was focussed on the "Population problem" and the consequences of rapid population growth on economic well-being and social progress received much public attention.

However, during the past decade, a relatively new population issue has been evolving in some countries. First in Europe and other developed countries and lately extending to developing countries particularly in Eastern and South-eastern Asia. Couples in these countries are having on an average, fewer births than are necessary for generations to replace themselves. More and more countries are exhibiting levels of fertility below which demographers call "replacement level fertility". If such low childbearing patterns continue in these countries, their populations will decline if the short fall in births is not matched by migration.

According to United Nations estimates, in the year 2000, there were 67 countries at or below replacement fertility comprising 44 per cent of the World Population. The United Nations Projections indicate that by 2015 there will be 88 such countries representing two thirds of the World Population (United Nations, 2001).

During the past decade, both political and scientific pronouncements about low fertility have been plagued with mis-understanding and confusion. The issue has long been closely tied to political ideologies and cultural values.

In this regard I wish to quote an eminent demographer Teitelbaum (2000) has noted that "in reality, fears of low fertility are always framed in terms of regional, national or sub-national populations defined culturally. To put it crudely, since the onset of mortality decline two centuries ago, there have been no shortage of humans, only perceived or relative shortages of particular kinds of humans. The most critical categorisation is that of national population groups. Within these, there have been concerns about sub-national groupings along socially defined dimensions such as race, religion and language. It is for this reason that eminent French politicians could decry the prospective

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decline of the population of France and at the same time urge the repatriation and restriction of immigrants".

It is in this background that one needs to examine the present the causes and consequences of below replacement fertility in Sri Lanka.

Fertility trends in Sri Lanka show a continuous decline in fertility since 1962 and reaching below replacement level (1.9 children per woman) during 1995-2000. Although the more recent data are confined only to districts outside the north and east, it is very likely that even if data from the north and east are included, the fertility level would remain at replacement level (2.1) or lower. Because according to the 2001 Census, only 13 per cent of the total population live in the north and east.

### What are the causes of fertility decline in Sri Lanka?

The rise in age at marriage of females and increased use of contraception have undoubtedly contributed to fertility decline.

The rise in educational attainment females no doubt has influenced both the age at marriage of females and contraceptive use. The increase in contra-

ceptive use from 32 percent in 1975 to 70 percent in 2000 would not have been possible if not for the Government sponsored family planning programme which provided easy accessibility and availability of services to all segments of the adult population.

The need for population planning in Sri Lanka was stressed by economic planners as far back in the 1950s. The Government policy on population and family planning was stated in the Ten Year Plan as follows: "Family planning has been frequently interpreted as offering a substitute for positive planned action aimed at promoting economic development based on industrialisation. Such a misuse of the idea of family planning, however, should not prevent it from being utilised properly, not as a substitute, but as an integral element of a broad policy designed to raise the standard of living of the people" (National Planning Council, 1959).

Later in 1971, The Five Year Plan of the Government stated in a more positive manner the need to reduce the rate of population growth as follows: "A word must be said about the implications of population growth both for short-term or long-term economic development. The continued growth of population at present high rates will pose problems, which would defy every attempt at solution. In the short-term any further increase of the number of births from the present level of around 370,000 per year will place inordinate strains on the school system, on hospitals and the supply of other goods and services and in such a situation it is only by a shift of investment from productive activities that it would be possible to maintain these services even as present levels. In the long run, the expansion of population at present rates would result in a population of about 27 million in the year 2000. Even a rapid decline in fertility rates the population would grow to 20 million by the year 2000. The strain on resources imposed by the present rate of population growth would be almost intolerable. The Plan thus gives very high priority to the diffusion of family planning facilities amongst the mass of adult population." (Ministry of Planning and Employment, 1971).

\* Based on the author's Presidential Address at the Annual Sessions of the Population Association of Sri Lanka, July 2002.



### What are the future trends in Fertility?

According to projections (Abeykoon, 1998) the total fertility rate will depress to a level of 1.7 and again gradually rise to replacement level by the year 2045 by which time our total population is expected to stabilise around 23 million. In recent years there has been considerable discussion and debate with regard to the reliability of the total fertility rate as a measure indicating the extent to which the current generation would replace itself. Bongaarts and Feeney (1998) two well-known demographers have argued that the total fertility rate is distorted by changes in timing of childbearing. They have noted that total fertility rates give an inaccurate indication of the level of completed fertility implicit in current reproductive behaviour because numbers and rates of births are depressed during years in which women delay childbearing and inflated in years where childbearing is advanced. By extrapolating current low levels of fertility into the future some demographers have ignored the fact that these rates are temporarily depressed due to rising age at childbearing. Eventually the age at childbearing will stop rising and the removal of the fertility depressing effect will result in an increase in the total fertility rate. This is very likely to happen in Sri Lanka. In fact, the most recent Demographic and Health Survey conducted in the year 2000 has shown that the average age at first birth has been advanced by two years since 1993 (Department of Census and Statistics, 2002).

### What are the Benefits to Society from Low Fertility?

(a) Low fertility enables the population grow at a slow pace and facilitate the improvements in per capita incomes. For instance, in Sri Lanka the gross National Product has grown below 5 per cent per annum in real terms over the past five decades. If population had grown at a rate of nearly 3 per cent as in the 1950s, per capita incomes would have increased at a much slower pace and Sri Lanka would have been in a more difficult economic situation today.

(b) Secondly, Better birth spacing with contraceptive use has contributed to the reduction of infant and maternal mortality rates in Sri Lanka. In addition, the current decline in the absolute number of births and the primary school going population would enable the qualitative improvement of maternal and child health care services and primary education facilities.

(c) Thirdly, as a result of fertility decline Sri Lanka's current age structure is ideally suited

for economic expansion. The age pyramid is neither broad at the base nor wide at the apex. The bulge in the young working ages known as the "demographic bonus" therefore should be well invested for economic expansion.

### What are the Consequences of Low Fertility? The following section highlights a few examples:

(a) One of the major concerns expressed with regard to fertility decline in Sri Lanka is the possible decline in the absolute number of those in the work force.

The number entering the labour market would decline only marginally from 276,000 during the year 2000 to 254,000 during 2025. However, larger number would withdraw due to population ageing resulting in the net additions declining from 165,000 to 37,000 during the same period (Abeykoon, 1998). This would considerably ease pressure in the labour market and enable the improvement of labour productivity through the application of modern technology. Shortage of labour, however, may occur due to non-demographic factors such as preferences for particular types of jobs. In fact this is already seen in countries like Thailand and Malaysia where considerable amount of cheap labour is drawn from neighbouring countries, as the native populations are unwilling to take up 3 D Jobs. What are these 3D jobs. They are the difficult, dirty and dangerous jobs. If such a situation arises in Sri Lanka, it could take advantage of the cheap surplus labour in other South Asian countries.

(b) Next, population ageing is seen as an important social and health issue. In Sri Lanka the proportion of population over 60 years of age is expected to increase from about 10 per cent today to 20 per cent in 2025. However, given the relatively high life expectancy for both males and females and the high percentage of those in the age group 15-19 years still engaged in educational and training activities, the conventional definition of "age dependency" may be misleading. A more reasonable definition would be to shift the age boundaries upward to 20 and 70 years to reflect the changing patterns of youth and aged dependency. It should be noted that a significant proportion of Sri Lankans in the age category 60 to 70 years are relatively healthy and physically and mentally able to contribute to economic activity. If we exclude those in the age group 60 to 70 years from the elderly population the proportion of those 70 years and over in the total population drops to 4.4 per cent and will increase to only 9 per cent by the year 2025, which is lower than the current proportion of those 60 years and over. This puts the problem of population

ageing into better focus and makes it easier for planners to address the ensuing issues (Abeykoon, 2000).

(c) One of the important concerns in low fertility multi-ethnic countries is the ethnic composition and its future change. Sri Lanka is no exception in this regard. Considerable concern has been expressed in certain quarters about the possible changes in the ethnic composition due to declining fertility. The demographic changes of major ethnic groups in Sri Lanka over the past five decades show a continuous decline in the rate of growth of population as well as declines in mortality and fertility levels of all ethnic groups. The differentials in mortality have narrowed over time. Fertility levels have shown a downward trend among ethnic groups. A clear inverse relationship between fertility and the mother's education is observed among all ethnic groups. Given this relationship, it is very likely that all ethnic groups would reach replacement level fertility at least by the end of the first quarter of this century with continuing rise in the educational attainment of young females particularly among the minority ethnic groups. Population projections by ethnic groups show that when Sri Lanka's population stabilises at around 23 million, the Sinhalese would comprise about 16 million, Sri Lanka Tamils 3 million Moors 2.5 million and Indian Tamils 1.5 million. By then, the proportionate share of the Sinhalese would be about 71 per cent and the Moors will comprise about 10 per cent of the total population. The slower ageing of about 30 per cent of the population would be economically advantageous as the country advances into the first few decades of this century (Abeykoon, 2001).

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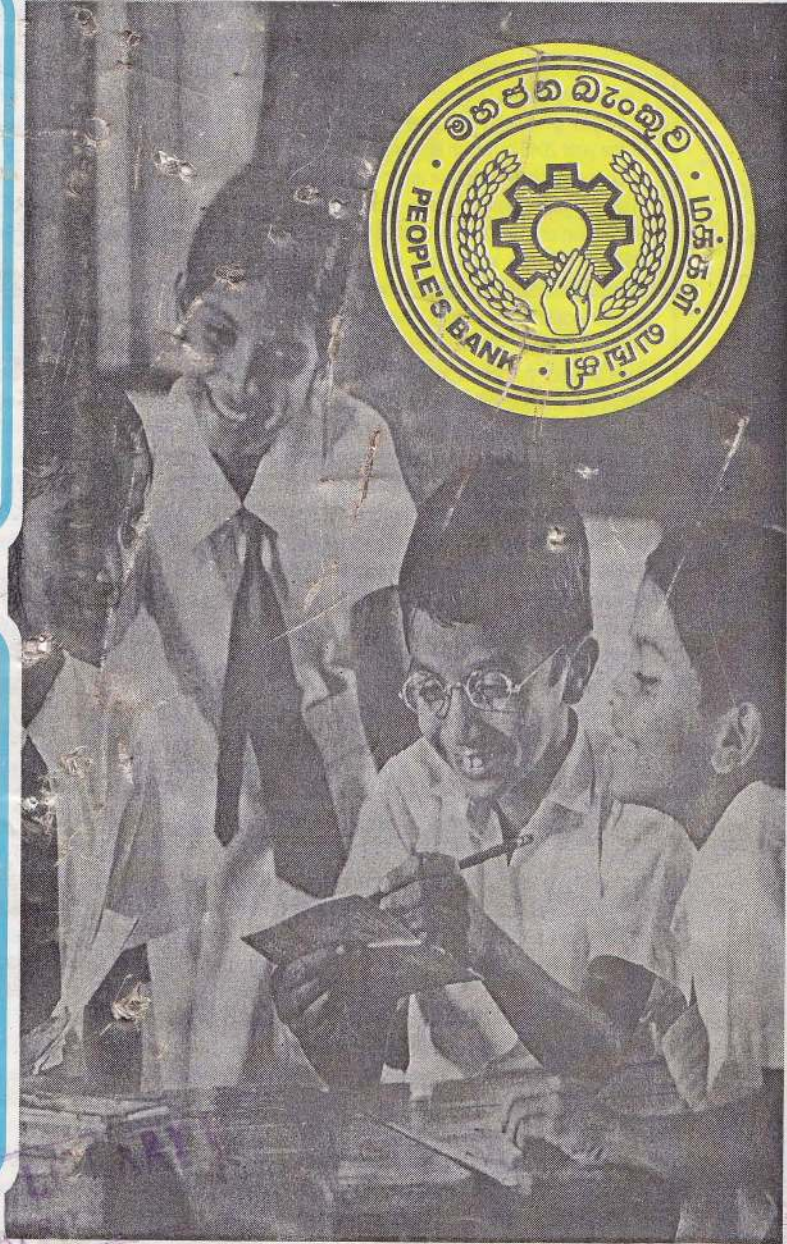
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