

THE POOREST OF THE POOR IN SRI LANKA

Assessment of some Strategies for Poverty Alleviation tried in Sri Lanka; and Policy Implications and Future Strategies to Alleviate this Problem

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We reproduce here the two final sections of a larger paper presented by Dr. Leslie Gunaratne, at a UNICEF/Central Bank Symposium on the Alleviation of Poverty in Sri Lanka, held in May 1987. His paper which is of relevance in the current context emphasised at the outset that poverty is recognised as a pressing problem of our society, and that there is a near-unanimous commitment to have it eradicated as soon as possible. He raised questions on the fundamental nature of the problem and on what had been done in the past to fight poverty and with what results. His paper attempts to address these questions with a view to identifying specific areas crucial for formulating a Poverty Alleviation Programme to assist the poorest of the poor in Sri Lanka. The first 4 Sections of the paper presented an analytical and descriptive examination of poverty in Sri Lanka and socioeconomic characteristics of the

poor. Reproduced below are Section 5, devoted to an assessment of some of the strategies for poverty alleviation that have been tried in Sri Lanka; and Section 6, which concludes the paper with a discussion on policy implications and future strategies to alleviate poverty in Sri Lanka. (Since 1987 some changes have been made in areas such as the Food Stamp Scheme and other social sector programmes though the basic issues have yet to be tackled).

Of the 14 tables he uses in the paper we reproduce 2 (Tables A6 and A7) and relevant extracts from the commentary which give an indicator of the incidence of poverty by Sectors and socio-economic groups of main income earners, and by Zones and socio-economic groups of main income earners. The manner in which the poverty situation kept changing in particular zones and groups over this 3 year period is of significance.

AN ASSESSMENT IN RETROSPECT OF STRATEGIES TO ALLEVIATE POVERTY

This section presents an assessment in retrospect of some selected strategies for alleviation of poverty in Sri Lanka. Alleviation of poverty connotes a process of ensuring access of the poor to a minimum bundle of goods and services. The strategies for alleviation of poverty

can be classified into two broad categories, (i) those that affect production and thus income generation, and (ii) those that influence the flow of income or consumption to individuals or households. The first category involves a redistribution of the means of production, for instance, productive assets such as land, in favour of the poor or the creation/expansion of the non-land asset base through prog-

rammes such as the Integrated Rural Development Programme, to increase the productivity of the poor. The second set of policies relates to measures guaranteeing employment at a reasonable wage rate and target oriented policies which are of direct benefit to the poor. These include special employment creation schemes undertaken for the poor, food subsidy programmes, income support programmes and state sponsored health care and education programmes.

Land Reforms

The first major institutional reform with respect to land was the Paddy Lands Act of 1958 which was designed to ensure greater equity and productivity by giving tenant farmers security of tenure and protection from excessive rents. The implementation of the Act has, however, met with limited success. It failed to bring about a structural change in the tenure system in the paddy sector. The efficacy of this legislation amidst large scale eviction of tenants, continuation of high rents and unregistered tenancies had been questioned.

Land reform of the 1970s was probably the most far reaching policy measure intended to change the economic structure of the country. This exercise was launched in two stages in 1972 and 1975, against a background of falling paddy holding sizes, increasing unemployment and stagnation in the estate sector and in the backdrop of the 1971 insurrection. Under the first stage of the land reform, holdings of over 25 acres of paddy or 50 acres of other land owned by private owners were appropriated by the State and vested in the Land Reform Commission. All plantations owned by public companies were vested in the State in the second round of the land reform exercise in 1975.

The potential beneficiaries of this land reform were the rural poor

and the estate workers. The former comprising mostly tenant farmers, agricultural labourers and marginal farmers would have benefited in a re-distribution of land. Both categories would have benefitted from greater employment opportunities expected from better management of the estates after the take over. But the realizations were rather below expectations.

The impact of the land reform on the peasant economy was marginal owing to the high ceiling of paddy land (25 acres), compared to average farm size, and the slow progress in the redistribution of acquired land. The extent of paddy land acquired was a little over one per cent of the total land in the country. Most of this land was tenanted and possibly the conditions of the tenants improved. The acquisition of the large plantations by the State did not benefit the rural poor much, as only 12 per cent of the land taken over was distributed to the peasantry and these constituted marginal lands. The balance was vested in the State owned corporations. The expected expansion in productive employment opportunities or the improvement in real wages did not take place due to the continuous fall in output levels and re-investment in the plantations after the take-over. The general mismanagement of the plantations and political interference were blamed for this dismal performance.

Irrigation Development and Land Settlement in the Dry Zone

State sponsored irrigation development and settlement programmes in Sri Lanka have a history of over 50 years. The objectives of these programmes were manifold. Foremost amongst them were the preservation of the peasantry as a social class, easing population pressure and landlessness by shifting the population from the densely populated areas of the Wet Zone to the sparsely populated Dry Zone and stimulating food production.

Under these schemes, designed primarily to provide irrigation water, the necessary economic and social infra-structure and supporting services such as the restoration, construction and maintenance of tanks and channels, roads, the provision of medical and educational facilities, maintenance of nurseries, organization of markets and provision of credit were the responsibilities of the Government. Settlers were given a unit of land sufficient to make them economically independent. Each settler was also provided with a homestead. During the 1930-1980 period, more than 750,000 acres have been allotted to about 100,000 settler families under various settlement schemes.

The settlement phase was heightened with the implementation of the Accelerated Mahaweli Programme. Under the Mahaweli Development Programme alone, over 50,000 families have been settled by end of June 1986.

The greatest contribution of settlement programmes has been the increased food production. However, doubts have been cast upon the contribution of these programmes to employment and income generation of the settler population. A major short coming in the settlement programmes was the over-riding importance attached to agricultural development *per se*. The over-all development strategy lacked an integrated approach predicated to balanced development involving both agricultural, manufacturing and tertiary sectors capable of employment and income generation on a wider scale. The members of the settler families were expected to provide farm labour to develop their 'family farms'. The tenurial condition also favoured the perpetuation of the family farm and the near subsistence living standards associated with miniscular farms. Non-farm activities and employment tended to get neglected. (Wimaladharma, ed. (1982)).

There are also problems con-

nected with the tenurial structure of the alienated land which has numerous social and economic implications. Despite the legal restrictions on subdivision, sale, mortgage and lease of land, there are de facto sub-divisions. The cultivators of these sub-divided extents often resort to obtaining credit from non-institutional sources owing to their ineligibility to receive cultivation on loans from institutional sources. The credit is obtained by illegal mortgage or lease of their paddy land which makes their plight even worse. This system has led to an inequitable distribution of land and exacerbation of poverty among settlers.

The Integrated Rural Development Programme (IRDP)

The District Integrated Rural Development Programme which was initiated in 1979 is conceived as a major programme to reach the rural poor in Sri Lanka. It is now implemented in 13 administrative districts. The IRD Programme is intended to strengthen the pace of rural development by a process of greater allocation of resources to the Rural Sector within a system of decentralised planning aimed at increasing employment opportunities; incomes and better living standards for the rural population. The major part of the funds came from external sources such as the World Bank (IDA), SIDA and NORAD.

The IRD Programme whose emphasis is on decentralized planning and a target area or group oriented development strategy marked a distinct departure from the traditional approach in which the benefits of overall growth was expected to trickle down to the poor. Formulation and implementation of the development activities are undertaken at the district level with the participation of various programme and line department personnel at the district level and local-level organizations of the rural people. Each district IRD Programme takes the form of a five-year

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plan, with annual targets for expenditure and achievement specified by sectors.

There has not been any serious attempt to assess the development impact of various IRD Programmes, particularly the success of those programmes in raising the level of income of the rural poor. However, a broad generalization emerges on some aspects. Firstly, the scale of expenditure committed to these programmes appears to be quite modest from the point of view of achieving the desired targets. Secondly, the dependence of the IRD Programmes on external financing agencies with divergent perspectives of the development problem has pointed to the need of a unified approach to decentralized planning subject only to the over-riding priorities of the particular district or the target group. This helps the IRD Programmes to remain linked with the larger economy.

The projects undertaken by the IRD Programmes emphasize low-cost, quick yielding, labour intensive investments aimed at better utilization of existing infrastructure and potentials. These projects benefit the rural poor in general. While this is so, a serious attempt should also be made to improve the conditions and status of various target groups by providing opportunities for them to acquire assets and skills. There is also a lack of systematic planning for employment generation which involves attention and action at both the district and national level.

The Food Subsidy Scheme

State interventions to guarantee minimum consumption levels have been a significant feature of the overall social welfare package in Sri Lanka since the 1940s. The Food Subsidy Scheme which was replaced by the Food Stamp Scheme in September 1979 formed the cornerstone of this policy package for more than three decades. Under this Scheme, rice which is

the staple food of the Sri Lankan population, and a few other food items were made available to the consumers at heavily subsidized prices. The Scheme which had universal coverage at the inception underwent several minor modifications, until the first attempt to targetting in February 1978 so as to eliminate the non-poor from the receipt of rice ration. Around 50 per cent of the households continued to receive the rice subsidy after this change.

With the population growth and rapidly increasing costs of food imports, the rice subsidy scheme exerted excessive pressure on the Government's budget and country's balance of payments. This means that less resources were available for development. The programme could not be continued on a sustainable basis as a result. There was indeed a case for subsidizing the poor, but the Food Subsidy Scheme was found to be an inefficient and indiscriminate means to achieving this end. Furthermore, it had disincentive effects on food production due to the artificially low prices paid to the producers.

The Food Stamp Scheme

The Food Stamp which was introduced in September 1979 replaced the Food Subsidy Scheme. This marked a fundamental change in the state intervention policy in the provision of minimum consumption levels to the population; a commodity specific price subsidy to a direct income transfer programme (income support programme) aimed at a target population. With this change, all price subsidies on food were removed. This means the virtual elimination of the rice subsidy which was targeted in September, 1978 and the universal price subsidies on certain other food items. Food stamps which have a fixed cash value are encashable against a specified basket of commodities.

The rationale for the shift in policy stance was less government intervention in the market place

and shifting of resources for development purposes in keeping with the growth oriented liberalization policies of the new regime, while at the same time safeguarding the nutritionally vulnerable groups. These policies that enabled people to better meet their dietary needs by growing more food would increase both income and output. Under the rationalization of the food subsidy programme the government intervention in the rice market was confined to the operations of floor prices which were increased substantially to boost production. The share of food subsidies which was around 10-15 per cent of the total government expenditure in the mid seventies (See Edirisinghe (1985)) was brought down thereby releasing savings to investment activity. The vulnerable groups were supported by direct income transfers through food stamps.

The non-indexation of the food stamp values to account for cost of living increases confers obvious fiscal advantages. To the recipients of Food Stamps, however, this represented an erosion of the real value of food stamps. The Government has succeeded in curtailing the cost of the Food Stamp Scheme to about 7 per cent of public expenditure (See Wickremasekera (1985)).

Quite interestingly, the incidence of recipients of Food Stamps was same as the incidence of recipients of targeted rice rations (around 50 per cent at the inception of the Food Stamp Scheme). But the attempts to target the income transfers only to the really needy have been only partially successful. About 30 per cent of the households in the lower half of the population appears not to have received the transfer benefits while a similar percentage in the upper half of the population appears to have enjoyed the benefits. The bottom 20 per cent received only 38 per cent of the Food Stamp outlay of Rs. 1.6 billion in 1981/82. If the intended beneficiaries are those in the bot-

tom 20 per cent of the income distribution, the "leakage" to unintended beneficiaries amounted to 62 per cent of the subsidy (Edirishinghe (1985).

Food stamps were revalidated in 1986 with the intention of eliminating the non-qualified recipients from the scheme and correcting for the erosion of purchasing power of food stamps with the sharp increases in food prices over the years. In this exercise, the value of food stamps was doubled while targeting was halved.

Other Social Sector Programmes

Sri Lanka's high level of achievement in terms of social indicators is considered to be the result of effective government intervention on supply through universal health and education programmes and on incomes through food subsidies or income support programmes such as the food Stamp Scheme. The country has achieved a widespread health coverage. Educational facilities too are widely distributed. There is little doubt that these social welfare programmes strengthen the country's efforts to alleviate poverty.

A major criticism of the high levels of social sector expenditure is that these levels cannot be sustained in the long run and are damaging to country's growth. It is argued that the rate of investment in the economy very likely would have been higher if these programmes were abandoned since they absorbed a significant proportion of government expenditure and of GDP. With economic reforms and more selective programmes aimed at vulnerable groups, the level of social expenditure as a percentage of government expenditure and as a percentage of GDP has declined over the years since 1977. The rationale for this policy is that a successful performance on the basic needs front could be expected with sustained growth coupled with state interventions to guarantee the access

of the poor to a minimum basket of goods and services.

POLICY IMPLICATIONS AND FUTURE STRATEGIES

This concluding section is devoted to a discussion on policy implications and future strategies to alleviate poverty in Sri Lanka. The policy implications of the findings of this study for poverty alleviation are clear. Poverty alleviation programmes must be largely oriented to rural farming and fisher households. About 83 per cent of the poor are to be found in the villages. 29 per cent of them are landless agricultural labourers and fishermen; 17 per cent are small farmers who operate on marginal uneconomical land and tenant farmers. About 28 per cent of the poor are unskilled workers employed in manufacturing, self-employed skilled workers such as carpenters and artisans who operate on a very small scale and the self-employed in the small scale household enterprises. Any governmental effort which is concentrated on rural households in the Dry Zone districts and hill country districts has the potential to reach nearly three quarters of the poor in the country.

Poverty alleviation is concerned with removing mass deprivation. This can be achieved by improving income earning opportunities for the poor and the provision of public services that reach the poor.

The only way that absolute poverty can be eliminated on a permanent and sustainable basis is to increase productivity of the poor. In formulating policies aimed at eliminating poverty, attention must be paid to restructuring patterns of production and income so that they benefit the poor. While rapid growth is desirable, it should be labour-intensive and employment generating with emphasis on human capital.

The efforts to expand productive

employment might include policies that lead to changes in access to the existing stock of productive assets. Since most of the poor are located in rural areas and bulk of them work in agriculture, increased access to land and water merits consideration. This can be achieved through further development and settlement of new land under various settlement schemes. For these efforts to be successful, a necessary condition is the availability of complementary inputs including seed and fertilizers, access to credit and technical advice, marketing and storage and other supporting services.

The poor would benefit more from the assets created or from the work provided. This is one of the main channels for the "trickle down" of the benefits of growth. The policies in this direction might involve widened access to tools or equipment for the self-employed poor. The Regional Rural Development Banks (RRDBs) can go a long way in the mobilization of savings and provision of credit to the small industrialists and farmers. The District IRD programmes should also strive to strengthen the asset-base of the poor paying particular attention to small projects capable of generating employment and income opportunities for them, as generation of employment plays a key role in poverty alleviation programmes. This points to a greater priority on labour-intensive structure of production.

Policies aimed at increasing productivity of the poor must be supplemented by social sector programmes in the provision of basic needs such as health and education. Basic needs is not exclusively a welfare concept. Improved education and health often make a major contribution to increased productivity.

The ultimate goal of an alleviation of poverty programme is indeed the improvement of quality of life of the poor in this country.