

Significance of Rural Economy

In the process of the globalization, the traditional rural sectors 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 competitive 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 the need for labour. Job opportunities have shifted between sectors and occupations creating winners and losers. Local employers have demanded higher and different sets of skills than before.

Obviously, the impacts of globalisation 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 characterise 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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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 *globalisation* 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 limb is 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 purported 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 90% 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.

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 Chillie, Bombay Onion, a variety of vegetables and rice grown on large extents 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)

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

- iii. 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 those 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 egalitarian growth.

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 offers immense 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 deferent 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 for 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, since 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 to 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 or 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 fea-

sible, and what form they should take, cannot be determined without an examination of the macroeconomic context in which they must function. In situations where this acts 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 of 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 39% of the current expenditure, (G. Indra 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 utter 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 more 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
- Malnutrition
- Paucity of houses

This situation has been the main cause of debility 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
- * 35% of the total hectareage of 6.5 m. are rural agricultural lands
- * Contribution of 19.4% by agriculture to the Gross Domestic Production
- * Engagement of 51% of the total in-service

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.

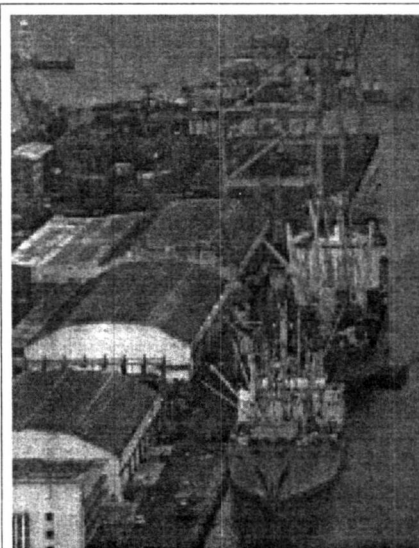
In Sri Lanka a number of programs have been launched and implemented during the last 50 years, with a view to alleviating poverty through rural development. While a Ministry and a Department have been established for rural development with a host of Rural Development Officers, many a programme, such as multi-purpose rural development programmes, welfare programmes, and relief programs 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 cultivation loans granted to them through the commercial banks with the state sponsorship, are an outright relief. Because of this it has now become necessary to direct the rural folk towards a new way of thinking by 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 devotedness, creativity, leadership, know-how skills and efficiency of the citizens concerned, are more meaningfully 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 singly 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 people have improved marginally. Despite programmes prepared by the Government and implemented by the Government itself, for the purpose of bettering the living conditions of the poor peasants, and alleviating poverty that were incorporated in the state welfare programmes. However, these schemes have been effective 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 to rural development.



Rural economy should focus towards export led growth strategies from its traditional dependency scenario. We have a centrally located port for this purpose.

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 deviate from the developmental requirements, and (b) the economic developmental requirements, as a result of the diffusion of the globalisation activity on account of a closer unification of the global economy.

2. There is a need to focus attention on the expansion of the Internet 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 Proposals for Rural Development, for the year 2003. This will give opportunities to innovate 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 density 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 dependent 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 ad-hoc 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 helpless, and therefore a burden to the state.

The prevailing pension scheme to disburse a small dole to the needy people under the Social Service Ministry, has not reached all such people. A farmer's and fishermen'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 activated 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 financial misappropriation has been associated with our Developmental Projects. Examples can be given from the construction sector. Most of the present day construction work inevitable is associated with sub-standard work, and construction which in turn involves heavy maintenance expenditure. While ancient 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 realization of financial investments, or in a broader sense, the result-

ing social and economic changes. According to Rondinelli (1983) and Gritinger (1982), a Project could be identified 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 reaching the prime object must be unduly publicised. Those who are involved in the implementation of these projects, there should have a genuine sense of nationalism and a 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, these relief schemes 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 on the caution if any relief scheme makes a person or his totally dependant 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 far relief deserving recipients. Various corrupt and acts of indiscipline take place, in doling out the relief mainly 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 abovementioned "Welfare Benefits Act" is to eliminate such shortcomings and implement the Relief Programs with a new approach.

A Statutory Board will be established to make guidelines for the correct identification of the prospective beneficiaries, and to review the presently 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 doles 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 raise technology and a professional inclination. In doing so it would be feasible to give a new facelift to the rural economy by improving the low levels of productivity and income of the Rural Sector where about 60% of the total national population live. At this stage, the importance of the "Non-farm activities" mentioned earlier, have to be taken into consideration.

2. Creation of three Funds for Rural Development

Specialised 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 Enterprises 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 tertiary education and vocational training to schoolchildren 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 Elections Manifesto, for qualified schoolchildren to pursue tertiary 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.