

Alternative Rural Development Through Self-Reliance Approach: A Study on an Export Production Village in Sri Lanka

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Introduction

The application of conventional development theories based on the "trickle-downs approach has not contributed to noticeable improvement in the levels of living of rural communities; it has also remarkably failed to transform and modernize village life in developing countries in the last four decades. The main factors behind this poor achievement have been the lack of popular participation in public development plans, poor awareness of the community in the external sector (government sector), inadequate consideration given to producer organisations, excessive concern with market factors to the neglect of non-market factors and inadequate concentration on economic needs of the rural community. In Sri Lanka, in the beginning of the 1980s, an Export Production Village (EPV) scheme was introduced as an alternative development strategy in the hope that some of the weaknesses indicated above in traditional implementation of policy would be rectified.

This study focusses closely on economic self-reliance as a goal of rural development; however, we have defined this concept not in its classical sense, but to mean a process which harnesses the active participation of the poor in developing productive growth and transfers the benefits of growth more fairly towards the poor without affecting their conventional socio-economic conditions. These goals were to be achieved through the application of the EPV concept as the

main policy instrument in a programme of alternative rural development.

The Concept and Objectives of the Export Production Village

The EPV has been conceptualised as "a trading house of producers at grass-roots level to introduce rural export-oriented products (agricultural and agro-based cottage industry products) into the highly competitive international market". The first such producers' trading house was established in the Dambadeniya Electorate, in the Kurunegala District and was called the "Dambadeniya Export Product Development Company Limited". It was incorporated under the 'Companies Act' and registered with the Registrar of Companies as a *Janatha Samagama* (People's Company) in 1981. In line with other legally constituted companies, this *Janatha Samagama* too had a Memorandum and Articles of Association, according to which shareholding was restricted to producers who would also participate in the management of the company.

The function of the EPV was to meet export demand for selected products that could be supplied by the shareholders of the company; its operational method was to supply the products to export organisations in the country. The EPV scheme thus attempts to enlist directly the active participation of the rural sector in Sri Lanka's export efforts and thereby to improve the overall social and economic conditions of the rural community. The project thus aims at fulfilling an inter-related set of objectives;

diversification of export; increase of farm surplus; improvement of the market; and generation of employment opportunities.

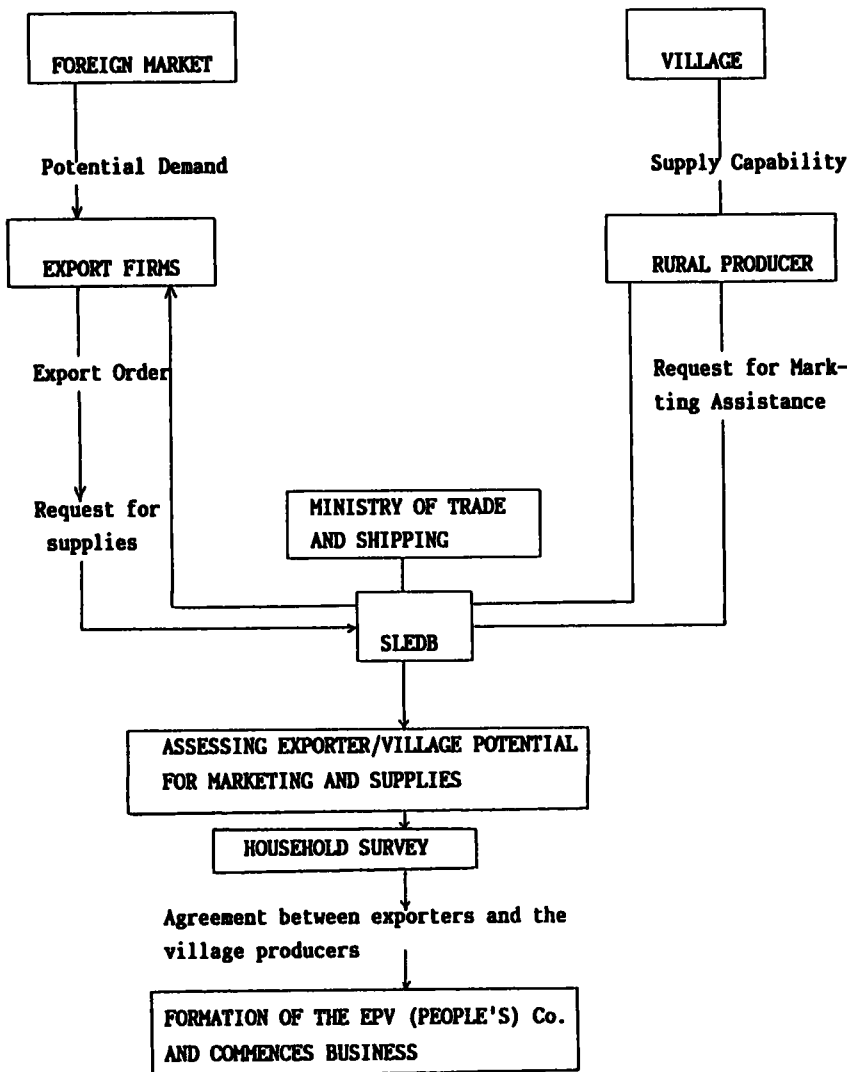
Thus, the EPV samagama was intended to transfer to the village the benefits of participation in the organised export sector/modern sector through creating production and marketing linkages between the organised-export firms of the country and village producers. In a long-term perspective, this integration would help the EPV Samagama to become itself an organised export firm. This is the final target of the EPV concept.

The Modus Operandi of an EPV Company

It was the Ministry of Trade and Shipping which directed the Sri Lanka Export Development Board to launch a project for the establishment of a Model Export Production Village in 1981. The idea was to demonstrate the viability of production for export at the village level. In pursuance of this directive, a cluster of villages (Paranagama, Handapangala and Epaladeniya) in the Dambadeniya Electorate in the Kurunegala District was identified for the first model EPV project. The project was subsequently extended over a period of seven years to cover almost all of the electorate.

The EPV Samagama, with its shares held by the villagers, was established mainly for produce marketing. The SLEDB participates in the equality and in the management of the company. The process of activity involved in the formation of an EPV is shown in Figure 1.

Figure 1 The Process of Activity Involved in the Formation of an EPV People's Company



Source: SLEDB, Export Production Village Project, Colombo, Sri Lanka, (undated)

An EPV Janatha Samagama was expected to have 50 or more shareholders. Between three and ten of its Directors were to be elected by villagers (shareholders) and no more than four Directors were to be appointed by the SLEDB from among government officials working in the area. The authorized total share capital was fixed at Rs. 1,000,000.00 (100,000 shares at a price of Rs. 10.00). Furthermore, no person was to hold more than 10 per cent of the issued share capital of this limited liability company;

shareholders were prevented from holding shares in other companies (except other EPV companies). The EPV project, thus, was intended to make the villagers responsible for the development of their business without much interference from outside parties.

The following arrangements were envisaged in the setting up an EPV people's company and its operations. The Assistant Government Agent's office (AGA) of the area chooses a temporary head office for the Samagama, while the

SLEDB hires a Field Assistant to help the villagers and to act as a communication link between the SLEDB and the Janatha Samagama. The company's Board of Directors meets once a month to discuss financial and other matters. All Directors would function in an honorary capacity until the company was developed. The necessary financial and consultation facilities were provided by the SLEDB and the other government institutions in the electorate. The SLEDB supplied marketing information and made arrangements for direct contact between the Samagama and export firms. Thus, the benefits from exports were brought down to the rural level.

The EPV discusses and signs an agreement with exporters before it undertakes any production in the village for export. The village producer has to supply the products at a predetermined price for a fixed period through the EPV. The advisory Directors from the government provide direction and advice and implement incentive measures for a time, to ensure that producers obtain a stable market and fair prices. This would provide the villagers with practical experience in the working of a money economy, while encouraging them to shift from a traditional to a modern economy.

The following information may be presented as a company profile. There are 1149 producers (shareholders) who supply tea packs; 65 per cent of them are full-time workers while the rest consist of part-time workers. These producers come not only from Kandegedara but also from a number of villages in the Dambadeniya electorate. The household survey reveals that about 66 per cent of the sampled households (141) in Kandegedara are registered as producers on the project. Some significant characteristics of this work-force in Kandegedara can be identified using survey evidence. Firstly, many of them engage in EPV production activities without disturbing their other traditional socio-economic activities; secondly, before taking into account the EPV income, a household's monthly income was less than Rs. 706.00; thirdly, the average land ownership (including all kind of land) of the EPV households is about 1.10 acres while the man-land ratio is about 4:6; fourthly, paddy land comprises only about nine

per cent (19 acres) of the total land. This information reveals that the EPV workforce is among the poorest in the rural economy, who should ideally be the proper target of any rural development policy.

The Experiences of the Dambadeniya EPV Project

The analysis of the project's experiences uses mostly survey data on the project and its shareholding households and looks into three aspects of its operation and performance: (a) conditions of production and marketing; (b) EPV project in the process of rural development; and (c) problems and failure prospects. The first three aspects are investigated with a view to determining how commercially remunerative the project is and how effectively it promotes self-reliance. All these aspects, however, cannot be quantitatively evaluated as some of them are not amenable to quantification. Hence, descriptive analysis has to be resorted to frequently.

Production and Marketing

Production Activities

The production activities of the company have been organised combining three aspects of life people in the electorate concerned are used to. The first is the aspect (or principle) of 'individualism' which allows the producers to engage in their production activities at home on an individual basis, whenever they have time. The second is the 'mobilisation' aspect, whereby it was intended to mobilise people, particularly women, to create production centres in various places in the electorate. The third is the "co-operative" aspect which was implemented through the Samagama under the control and management of the people themselves.

The performance of the EPV in tea pack production during the period 1981-88 is shown in Table 1. Production individually carried out in the producers' houses and in various production centres are covered in this data.

The volume of production and its value had dropped dramatically in 1983, but production picked up after that year. The volume of production thus expanded four times during the period 1982-88.

TABLE 1
Performance in the Production of Tea Packs, 1981-88

Year	Volume(No)	Index of Production	Value(Rs.)	Index of Value
1981*	7,800	**	54,914.00	**
1982	264,138	100	98,428.00	100
1983	90,736	34	491,299.00	50
1984	120,120	45	735,439.00	75
1985	400,796	151	2,547,024.50	260
1986	551,683	208	3,561,217.50	363
1987	706,957	267	4,657,030.80	475
1988	986,649	373	7,368,410.00	751

* From October to December only.

** The year 1982 has been taken as the base year because the data for 1981 covers only a three month period.

This reflects the achievement through reorganisation of production activities via mobilisation of producers as previously described. Production growth was also helped by efficient management of the Samagama and the increase in consumer demand in the international market. Apart from these factors, the rapid increase in the price of other types of competing tea packs, particularly those imported, led to a rise in demand for the hand-made reedware tea packs which the company specialised in. The average productivity of a worker per day has increased from eight to ten packs during the period 1983-88.

Various incentives offered by the project promoted the increase of production capacity and productivity. Some of these incentives were related to the provision of money and real capital; supply of "external" inputs on interest-free credit; a commission of 20 cents paid by the company for each pack for those who supplied over 2000 units of the product in good quality per month; gifts of Singer sewing-machines for the best 15 sellers in every six months; and five cash prizes for the best five producers in a year.

Beside tea packs, the Samagama has made attempts to introduce various other products like table mats, file covers, greeting cards, boxboard, tea pot covers and gift boxes made out of the same materials. This diverse range of products is supplied to the domestic as well as to the international market, through local marketing agents and through sponsoring export firms respectively. In 1982/83, the Samagama supplied Rs. 38,888.70 worth

of boxboard to the export market while supplies were also provided to the local market. However, these experimental products could not thrive and become popular as marketable products among villagers, as they did not have a sufficient demand from the domestic or the international market. These handicraft items are, therefore, negligible in the present production structure of the project.

Except the above cottage industry products, the project got itself involved in supplying a number of agricultural products to the international market. The Samagama collected betel leaves and cashewnuts from producers who are scattered in the area and made necessary arrangements to export them through sponsoring export firms during the initial period of the project. For example, it exported Rs. 11,055.40 worth of betel leaves in the financial year 1981/82, while during the period 1982-84, it arranged to export Rs. 174,681.50 worth of cashewnuts. Of these two agricultural products, betel leaves have a larger marketing outlet within as well as outside the country. But the EPV project had to cease exporting these products due to various obstacles such as transport difficulties, high cost, lower profit margins and poor long-term storage facilities. In particular, betel leaves to be exported have to be air-freighted. This requires the transport of the product from Dambadeniya to the Katunayake International Airport (60 Km. away from the EPV Samagama), where it has to be stored until cargo space is available. These activities involve heavy money as well as labour cost. On the other hand, the

export of cashewnuts yielded a high profit, but this also has not been pursued because of the difficulty of collecting sufficient volumes regularly to meet demand.

Besides trying out villagers' individual initiative in respect of the export of these agricultural products, the company launched three major agricultural projects on a co-operative basis. This was done during the period 1983-86 in respect of ginger, pineapple and white fibre. The ginger and pineapple farms were established on a 10 acre land called Heenkenda, which was obtained from the government on lease. The white fibre project was set up in the office building of the EPV Samagama. This project is ongoing while the other two projects (ginger and pineapple) have already come to an end. The Samagama invested Rs. 118,302.80 in the two Heenkenda projects as an experiment; it yielded only about Rs. 10,963.50 worth of pineapples for the export market while the ginger project did not produce anything. Drought conditions and maintenance difficulties caused the failure of these projects according to officials of the Samagama.

According to survey results, projects formulation deficiencies by the Board of Directors and by the administrative unit of the Samagama were mainly responsible for the failure of the Heenkenda farm. The Samagama had not considered a project report on technical and marketing potential important before its formulation. Technical capability in agriculture existed in the area, and this could have directed the Samagama on technical matters relating to the proposed pineapple and ginger projects; suitability of soil and its potential for these crops; availability of water resources (rainfall and distribution of river water); suitable varieties of the two crops for the area; potential and the desirability of mechanisation; endemic pests and their control. Many producers have emphasized the unsuitability of the Heenkenda land for ginger and pineapple cultivation, as they were aware of the infertility of the soil there. Thus, the failure to carry out a thorough pre-project analysis made the Samagama take a wrong decision ending up with financial losses.

The on-going white fibre project was established in 1986 with the intention of

productively utilising coir which is abundantly available in the area. The Samagama invested, up to December 1986, Rs. 96,673.10 for the purchase of 27 hand-made machines to construct a training centre and for other expenses. But the project was able to produce only Rs. 6,959 worth of products for the local and export market up to that date. The plan implementation officer (government officer) in the area functions as the project manager and receives Rs. 500 per month from the Samagama as an allowance for his assistance. The Samagama has already given full-time training to 54 villagers with the assistance of the white fibre instructor who also gets Rs. 500 per month as an allowance. Moreover, the EPV Samagama provided hand-made machines to the trainees and allowed them to work freely in their own houses. The raw materials for production were supplied by the EPV project on interest-free credit deductible from proceeds due for final goods supplied.

By the end of 1986, it was clear that the white fibre project also was unsuccessful in reaching the desired targets. At the time of the interviews, both the project manager and the white fibre instructor were of the opinion that it could not last long. The producers involved participated actively in the one-month training programme because they were paid Rs. 15.00 per day as an incentive allowance by the Samagama. However, only 48 trainees accepted the machines after their one-month training programme; the others refused to engage in production activities. The main problem at present is that orders cannot be met before expiry of deadlines because producers fail to engage in production activity even though they receive material inputs and machines. Furthermore, although they supply some quantities of the final product, these cannot be forwarded to the market due to insufficient attention being paid to quality requirements. For example, in 1986, the Samagama distributed 1800 kgs. of fibre among the producers, but they produced and delivered only 1,347 kgs. of the final product. As much as 41 per cent (553 kgs) of the final product was rejected due to poor quality. The two officers on this project (project manager and instructor) say they cannot supervise all producers by visiting their houses because of poor

transport facilities. If production was located at the training centre of the EPV office, the officers could have supervised production adequately, but the management committee of the Samagama is opposed to that idea.

From the producers' side, the survey reveals an entirely different picture of the factors that are adversely affecting production. Here, production has to be done in pairs; two persons could produce less than 10 kg. of coir fibre per day; there is only a marginal profit after deducting material cost. Producers cannot meet family needs and survive with income from this activity alone. Therefore, almost all producers emphasize that it is necessary to engage in other work, producing coir fibre only when they have nothing more economical to do. They also spoke of the difficulty of finding free time for two persons simultaneously during the day due to the fact that different people are engaged in different activities. They, therefore, produce coir fibre mostly in the night and this might very well be the reason behind the poor quality of the final product. Producers also complain that the Samagama does not provide materials of the desired quality; this contributes to the poor quality of the final product. Finally, we could conclude by emphasizing that inefficient decision-making and poor management of the EPV Samagama have been mainly responsible for the poor achievement in the white fibre project. However, this conclusion has to be considered provisional as this is an on-going project.

Marketing Conditions

The EPV Samagama is a producers' trading house which intends primarily to supply reedware tea packs through domestic tea export firms. Tea blenders and packers who operate domestically buy these tea packs and export packeted tea. The main target of the Samagama is to increase the sales turnover as much as possible. The ability to do so is the focal point of the achievement of all other socio-economic objectives of the project. The project's marketing activity has two components; first, marketing of the output produced by shareholding households and second, supply of necessary inputs needed by producers.

As noted, while conventional marketing arrangements depend on community inter-dependence, the alternative EPV marketing arrangement strongly depends on money terms. Although the EPV Samagama has introduced an alternative marketing procedure, the villagers have still preserved their traditional marketing habits. This needs to be endured, even at the cost of reducing economic benefits to the villagers, particularly in money terms, because of its greater contribution to improvement of community relationships among the villagers. The EPV Samagama's activities did not involve a reconstruction of this marketing structure through the introduction of modern marketing doctrines; the Samagama involved itself mainly in expanding economic opportunities available to villagers through the development of export-oriented goods in the village itself. The dramatic increase in the sales turnover and in payments to producers and net profits of the Samagama are given in Table 2.

during these years while its shareholders received Rs. 184,863 per month. These increased earnings are the result of the increased sale of tea packs primarily, and of other products, secondarily. The rapid increase in the production of tea packs reflects the positive response of the Samagama and producers to the increasing demand for the product which also raised its price in the foreign market. It is to be noted that as a foreign exchange earner, this is a product with a very high value-added component. These products have already captured the market in Japan, Germany, Australia, Belgium, New Zealand, Canada and Denmark.

The net profit of the Samagama during the period 1982/83 — 1987/88 increased by a little less than 9 times, while its annual compound growth rate amounted to 43 per cent. From the above net profit, the Samagama transferred a sum of Rs. 685,917 into fixed deposits in commercial banks earning an annual rate of interest of between 10 and 12 per cent. In addition, 25 per cent of the profit was

present, the project's dependence on this single export firm (name of the firm is withheld for confidentiality) is total. This naturally prevented the gradual improvement of the self-reliance aspect of the project. The Samagama administration sought to break this monopolistic hold on its marketing activity, but there seems to be opposition to such a course of action by the Board of Directors, especially those representing the government sector. The latter seems to be having strong ties with the export firm concerned. The Project Manager of the Samagama says that, although he wished to change the current marketing system, he was unable to get the necessary approval of the Board of Directors. According to the opinions of the producer-directors and of the administrators of the EPV project, the directors representing the 'external' sector are highly influenced by the export firm concerned in their decision-making. These directors are said to have developed improper social and economic relationships with it, according to producers who even allege that the behaviour pattern of some directors is influenced by corruption. Thus the alternative rural development approach introduced through the EPV is gradually deteriorating into bureaucratic bungling which has been a common feature in all other rural development programmes in Sri Lanka.

Obviously the EPV work-force would not fight against malpractices because of their traditional loyalties. Therefore, the single exporting firm goes on doing what yields it profits with no regard to the future of the project; what is more tragic is that it gets the support of the Board of Directors. As our survey shows, this exporter does everything in his power to keep the project as a supplier organisation, exclusively producing for his firm. He thereby prevents any increase in price through competition. He thus shuts off any shift in international demand towards other exporters. The maintenance of a given purchase price, enables him to obtain a growing profit margin. During the period, 1981-87, the price paid for production increased by less than 25 per cent, whereas the cost of production and the cost of living increased by 57 and 131 per cent respectively. The stagnation of producer prices, partly due to the exporter trying to keep his prices

TABLE 2
Sales Turnover and Payments to Producers and Net Profit
of the Samagama (including all commodities) Rs.

Year*	Sales Turnover	Payments to Producers	Net Profit of the Samagama
1981/82**	69,959.00	47,246.00	5,301.32
1982/83	1,058,175.00	955,653.95	102,632.44
1983/84	484,514.00	364,937.94	4,751.33
1984/85	965,636.00	773,383.46	64,146.33
1985/86	2,742,264.00	2,153,082.90	445,003.00
1986/87	3,416,901.05	2,850,144.50	356,233.00
1987/88	5,737,031.50	4,274,901.75	883,591.00
Total	14,474,530.55	11,419,350.50	1,861,659.06

* Financial year = 1st April to 31st March of the next year.

** Overlooked this year as base year because of its short duration (includes only October 1981 to 31st March 1982)

Source: Audit Reports of Dambadeniya EPV (People's) Company Ltd., Various years, Colombo, Sri Lanka, 1988.

The data show that the monthly (here we are comparing the monthly figures because the data available for 1981/82 are for six months) sales turnover increased by about 41 times during the period 1981/82 — 1987/88. Simultaneously, the Samagama's monthly payments to producers also increased by 45 times during the same period. The average monthly sales turnover of the Samagama amounted to Rs. 185,571

paid back as dividends to shareholders in 1982/83, but this did not happen thereafter due to the financial necessity for further expansion of the activities of the Samagama. This has caused, to some extent, a decline of confidence between producers and the Samagama.

At the beginning of the project in 1981, its produce was supplied to about six export firms but since 1983, it has come to deal with only one export firm. At

constant and partly due to the Samagama trying to keep too large a profit margin, the producers have only about 25 cent of gross profit from a tea pack, after deducting both internal and external costs of production. The Samagama paid Rs. 5 for a pack (200 gr.) to producers and sold it at Rs. 6.50 to the exporter, making a gross profit of Rs. 1.50 per pack which was over six times the producers' profit. Looked at from all these angles, it is difficult to recognize the EPV project now as a marketing organisation providing an optimum price and thereby an optimum return for the producers' labour.

Meanwhile, the production capacity of the project at present amounts to about 100,000 tea packs per month, but the project receives orders for less than 50 per cent of this capacity from the exporter. The balance 50 per cent could be supplied to other exporters but the sponsoring exporter does not permit it. The Project Manager of the EPV project emphasized that the indirect controlling power of the export firm hinders the improvement of the production activities of the Samagama. Sometimes, the exporter suspends orders temporarily by questioning the quality of products. Such improper practices invariably cause the erosion of producers' confidence in the EPV Samagama. Many producers complained that they do not obtain sufficient orders from the Samagama, but the Samagama has to wait until it receives orders from the exporter.

As a result of the weaknesses in marketing practices, the producer reaches out gradually to the middlemen, the collecting merchants. The survey reveals that about six per cent of the EPV shareholding producers already supply their products to collecting merchants. According to project administrators, the actual rate may even be higher. In 1986, collecting merchants visited the producers' houses and provided them with credit before production. The producers state that selling their products to collecting merchants is more advantageous as the latter pay them 25 cents more per pack than the EPV Samagama. Moreover, some producers are obliged to sell tea packs to these collecting merchants because they purchased all their other agricultural and non-agricultural com-

modities. In any case, producers are compelled to sell whatever excess production they have at any price, since they do not receive sufficient orders from the EPV Samagama.

These collecting merchants are a group of middlemen of the tea export firms in the country. The Samagama keeps about a 23 per cent profit per tea pack (after reduction of the transport and other costs) whereas the private middlemen retain only about 15 per cent of profit. Hence the higher price they offer to producers. Although the producer receives a lower price doing business with their own 'middleman' organisation, the Samagama cannot be considered to be letting them down because the retained profit of the Samagama is reinvested for the development of their own village or is given to them later as dividends. But the profit of the private middlemen leaks out of the village. The understanding of the villages on this is poor; the Samagama too has not done anything to improve their knowledge, as it has, in fact, issued dividends only once during the last seven years. Furthermore, the villagers, poor as they are, prefer immediate gain to gain in a distant future. It is moral for them to expect short-term results from their investments. This negative long-term attitude cannot be changed until regularly more and more shares are issued to them, so that their share of immediate profit may also go up.

EPV Project in the Process of Rural Development

An attempt has been made to provide comprehensive description of the experience of the EPV project in the sphere of social, cultural and economic development. It was one part of the prescription that this required the creation of productive employment among villagers and strengthening community cohesion among their poorest sections. The creation of productive employment or self-employment would improve the income level of the poor and thereby reduce income inequality within the village community. Simultaneously, this would enable the poor to improve their consumption levels, not only alleviating rural poverty but also increasing their productivity. The creation of community solidarity would accomplish the goal of their socio-economic development as a group and

also enable them to effectively obtain benefits from the external organisations operating at the village level. The following section is an attempt at an overall evaluation of social and economic development through the EPV project by examining the following: (a) mobilisation of rural producers; (b) producer participation and attitudes; (c) tangible effect of the project on the income levels of the poor people; and (d) creation of job opportunities among the poorest group of the rural community. Although these aspects are separately considered, they are inter-related. Each aspect is linked to the others and improvement in one causes an improvement in the others.

(a) Mobilisation of Rural Producers

The Samagama attempted to create a strong community organisation among a set of poor rural producers by understanding their individual problems and aspirations. In particular, it took into account, methods of channeling the benefits of the project to the poorest members of the community.

The implementation of the EPV concept and the mobilisation of rural producers under their own leadership, requires careful planning if definite results like the improvement of production capacity, product quality, and export supply capability as well as finding immediate solutions to producers' problems are to be achieved. In all this, efficient communication with producers is necessary. It is, however, difficult to guide and co-ordinate the work of thousands of producers scattered over a large area as transport and communication facilities are poor. Therefore, the distribution of marketing orders among them as well as the collection of their production, required some organisation. This was done conveniently and effectively under the leadership of the producers' organisations. On the other hand, the problem of training all producers at the training centre of the EPV office, was sorted out by the system of training centre leaders only, so that they may in turn train other producers. These were unique ways adopted to build up successful rural production for the export market where supply on time and good product quality are important.

The organisation of producers to attain their goals is the responsibility of the

administrative unit of the project. As we noted briefly earlier, under the guidance and supervision of administrative officials, the project created producers' sub-groups, based on existing formal and informal organisations. Four types of such producers' organisations have been created. The first type includes the producing centres, operating under the guidance of appointed volunteer leaders from among the producers. The Samagama pays Rs. 100 per month to these centre leaders to cover their traveling expenses. The leader must organise the production of 800 tea packs per month to receive the Rs. 100. In addition, these leaders receive a 2-4 per cent commission from the Samagama for supply in excess of 800 tea packs per month (two per cent for 801-1500; three per cent for 1501-2000; and four per cent for over 2000). The centre leader is not merely an instructor but is also a producer like others. The project has created 18 such centres in the electorate. One centre includes about 30 producers. At present, 616 producers are at work in those 18 centres. Generally, they gather in one place and produce under the instructions of their respective leaders.

The second category of producers' organisations is based on women's rural development societies which have existed for the last four decades. A society in this category consists of a chairman and a secretary who are appointed by the producers themselves. Producers organised in such societies use their houses as the work-site. At present, 18 such producer-societies are in existence, working under the direction of the EPV project. They comprise about 314 producers.

The third type of producer organisation is based on existing voluntary associations in the area. Such an organisation also has its own leader elected by the producers. At present, 17 such organisations are functioning, involving about 304 producers, who also use their houses as production centres.

Finally, the project has sought to revive the now extinct "screw-pine centres" in the area as EPV producer centres. These centres were established for the development of the rural sector under a small industries development programme in the 1970s. However, they did not yield the expected results due to various

problems and began to disappear after the introduction of open market economic policies in 1977. The EPV project has already reorganised seven such centres as EPV producing centres with about 116 producers. Thus, under these four types of producer-organisations, there are about 1350 producers of whom 56 per cent (750 producers) work as full-time and the other as part-time workers.

(b) Producer Participation and Attitudes

The extent of producer participation in and their attitudes towards the institutional, organisational and managerial aspects of the project have been examined in the survey. The survey reveals that nearly three-fourths of producers participate actively in meetings, training programmes and other activities of the project. Of the rest, 17 and 12 per cent respectively participate "In general" and "rarely". This is a high rate of participation in comparison with that in other rural organisations and is the result of the direct constitution of the EPV project to improve the incomes of the people. Besides, the producers know that they themselves are, in fact, the EPV project and that it builds up their own capital. The producers' fear that they will economically lose unless they participate, may also be contributing to the higher rate of participation. It is, however, questionable whether the higher rate of participation is a result of people's awareness of direct socio-economic benefits from the EPV project or whether it arises out of the scarcity of alternative opportunities in the village for improvement of their incomes. The positive and negative attitudes of the producers towards EPV activities thus need to be examined.

According to the survey, 34 per cent of the shareholding households have positive attitudes while the balance expressed various opinions and problems, generally showing a negative attitude. Among those with positive attitudes, are those producers who emphasized that the EPV project has given a permanent and regular source of income to poor people in the village. According to some, the EPV project has not only opened up an additional source of income, but also provided an opportunity to improve their various skills. The Palm leaf which was not a commodity or a very

important raw material until the creation of this project, became a commodity and an important material paving the way for the improvement of their economy. Some even expressed a sense of indebtedness to this project as it enabled them to earn additional income at times of unemployment. Several producers pointed out the importance of the community solidarity the project has created in addition to its contribution to the improvement of the people's living conditions. The participation of the majority of villagers even in common functions of the village was possible because they gathered for production activities everyday. In addition, some producers and villagers cited the following socio-economic advantages; an opportunity to improve the village economy individually and commonly; enabling them to buy their daily needs on cash rather than on credit from the village boutique; availability of sufficient money for children's education. Moreover, small shop-keepers in the village said that the EPV project indirectly caused an improvement in their business because the villagers' credit purchases declined rapidly.

In spite of these positive opinions on the project, there are serious negative attitudes, indicated by more than two-thirds of the producers. Their main focus has been on the administrative officials of the project. Many spoke against the way decisions were made and implemented by the management and administrative officials respectively. For example, four of the five Directors representing the producers alleged that the Board of Directors never considered their opinions in decision-making. They, furthermore, said that the administrative section did not implement properly the decisions made by the Board of Directors. For example, the commission noted above, for production in excess of 800 tea packs, was not paid to all centre leaders by the administrative officials of the Samagama. Almost all producer-directors emphasized that, although they were appointed as producer-representatives to the Board of Directors, they had no knowledge of the process of decision-making as the secretary to the Board of Directors did not inform them of the dates of meetings regularly.

Producers' confidence in administrative officials has eroded because of discrimi-

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nations in the purchase of products and in payments for them. According to some producers, officials accept or reject products depending on the degree of their social relationships with the producers concerned rather than on strict standards of quality. Those who lose due to such unfair rejections of products try to recover their costs by selling them to collecting merchants. The majority of the group-leaders alleged that the office of the EPV Samagama did not give ready cash for their products. The dates given for later payment are not kept to. When this happens, group leaders lose face with fellow producers who think the former are cheating. Such unfair practices cause a weakening of the relationship between the EPV and the producers and simultaneously lead to a strengthening of the relationship between producers and collecting merchants.

The survey discovered that the distribution of marketing orders among producers is another problem area in the relationships between producers and project officials. Many producers allege that marketing orders obtained from the exporter are not fairly distributed among the centres by the administrative officials of the Samagama. It was alleged that the Samagama sometimes distributes orders among producers outside the project area i.e. in areas like Kuliypitiya, Karawanella, Mawanella and Dedigama. On this aspect, the Samagama's justification is that those producers were earlier in the project area as active producers, although they happen to live in areas outside after marriage. However, the Samagama is said to be unable to fulfil even the needs of producers in its area of operation due to inadequate orders. As a result, some producers have ceased to produce tea packs and are engaged in manufacturing *beedis* (a local cigarette).

Another group of producers notes that they cannot supply orders in time to meet deadlines because the Samagama does not provide external inputs adequately and in time. They ultimately turn to collecting merchants to sell the already made products as these are not accepted by the project due to the expiry of the deadline. Although the Samagama has prohibited sale to private merchants, producers are constrained to do so because of losses they cannot afford and of the need for money to meet their

expenses.

The low price paid for the product is a main reason for the increase of negative attitudes. In the last few years, producers have requested, on a number of occasions, an increase in the price of products, in view of the increasing cost of inputs. But the project failed to respond positively to the requests. The producers say that they cannot meet family requirements by producing tea packs only because of the high cost of inputs and of the limited production per day. An increase in the EPV purchase price and its purchase of other subsidiary products are necessary to uplift their living conditions.

Many producers are of the view that the Board of Directors appointed the permanent staff to the administrative unit without considering their educational qualifications. The EPV Samagama behaves like a private company rather than as a people's company in the selection of officers for the permanent staff. Many of them could not possibly fulfil their duty due to their poor qualifications. Although these officers are appointed from among the producers' families, their political affiliations with the governing party, relationships with the Board of Directors and kinship with the Directors have become the main factors behind their selection. The officers, on the other hand, say that they cannot work properly because of the instability of their posts. Their appointment as well as their dismissal, rests on the power of some Directors on the Board.

(c) Improvement of the Income Level of the Rural Poor

One of the major objectives of the project has been the improvement of the

income of the rural poor through the transfer of the benefits of the organised export sector to the rural sector. All other objectives revolve around this. According to the accounts of the projects, it has distributed Rs. 11.4 million (excluding dividends) to producers during the period 1981-88. This amount of money has contributed to raising the standards of living of the producers by elevating their income level. According to the household survey, the average monthly nominal income per EPV shareholding household is about Rs. 1,255. However, it is difficult to recognize the income disparity in EPV households by considering only their average income level because the minimum and maximum monthly income levels per household vary between Rs. 153 and Rs. 4,038. Therefore, it is necessary to investigate the distribution of total income for one month.

Table 3 discloses that there is still a considerable level of inequality in the distribution of monthly income among the EPV households. The low income class (first two groups) of households makes up nearly one-fourth of total households. This significant accomplishment may be one of the major results of the EPV project. Another feature shown by the above Table is that the middle income class (third income group) amounts to more than half of the total households.

A notable feature of income distribution in EPV households is that the low income class of households enjoyed only about nine per cent of the total income while the affluent class (last category) obtained about 14 per cent of the total income. If we added both income classes of middle and upper-middle (fourth category) into one class, nearly three-fourths of house-

TABLE 3
Distribution of Total Income for One Month (EPV Shareholding Households only)

Income Groups Rs.	Number of households (income receiving)	Percentage of households	Total Income Rs.	Percentage of Total Income	Number of households as a % of total cumulative	Income as a % of total cumulative
Below 300	8	4.3	1,393.00	0.8	4.3	0.8
300- 700	28	18.4	14,867.00	8.4	22.7	9.2
700-1500	76	53.9	82,367.00	46.5	76.6	55.7
1500-3000	26	18.4	52,834.00	29.9	95.0	85.8
over 3000	7	5.0	25,497.00	14.4	100.0	100.0
Total	141	100.0	176,958.00	100.0	—	—

TABLE 4
Sources of Income as a Percentage of Total Income:
EPV Shareholding Households

Income Source	Percentage	Average Income* (Rs.)
Agricultural Income	13.8	196.25
Non-agricultural Income	36.0	541.17
EPV Income	41.3	437.58
Pension and Remittance	1.7	26.08
Food Stamps	7.1	53.92
Total	100.0	—

* Average monthly income derives from each income source.

holds received more than three-fourths of the total income. Therefore, we may conclude by emphasizing that although the income distribution has shown some inequality among the EPV households, it is less significant compared to the income distribution of the other villages in Sri Lanka.

Distribution of Income Sourcewise:

As regards income distribution source-wise among the EPV households, the EPV activity and non-agriculture have contributed a significant share to the total income.

A significant fact is that more than three-fourths of the households derive income from non-agricultural and EPV sources of which the EPV source has contributed the highest in comparison with all other sources. This pattern of income composition, particularly the low contribution rate of agricultural income, reflects the necessity of concentrating on off-farm employment to alleviate the rural poverty of marginal people rather than on the improvement of agricultural productivity; this is specially pertinent because the majority of the rural poor do not have sufficient productive landed property. As shown previously, ownership of land, particularly paddy land, is negligible among EPV shareholding households; hence they have to depend heavily on non-farm employment for income. However, the availability of off-farm employment also depends on the capacity of the government sector and the private sector to generate such employment. Government employment is limited to a few educated young people and the organised private sector does not provide much employment in the rural sector either. Thus, without innovative schemes like the EPV, the availability of off-farm

employment cannot be expanded to meet the villagers' demands for such employment.

Although the contribution of the food-stamps as a source of income to the composition of the monthly income of the EPV shareholding-households is not important, the number of food stamp recipients is significant. According to the survey study, 70 per cent of households are receivers of food-stamps. Nevertheless, the real discovery was that only 23 per cent of households have the right to receive food-stamps according to their income level. The officier who spoke on this subject said that people have not given any information on the EPV income. This exclusion of EPV income in the estimation of family income could be recognized as a main reason for the majority of EPV shareholding-households receiving food stamps.

Inequality of Income Distribution:

The above-described statistical evidence on the income level of households shows a low level of disparity of income distribution among the producers in the EPV project; this means that the income gap between the highest income receivers and the lowest income receivers is not wide. The comprehensive analysis of inequality of income distribution could be measured by the Lorenz curve and the Gini Coefficient. The area of concentration of the Lorenz curve is measured through the Gini Coefficient, which amounted to 0.28. The lowest value of the Gini Coefficient reveals the greater improvement in income distribution among the EPV shareholding households at Kandegedara. This moderate equality of income distribution is one of the expected achievements of the implementation of the concept of EPV.

(d) Generation of Employment Opportunities

In the last four decades, unemployment and underemployment have risen rapidly in the rural sector of Sri Lanka because labour absorption did not occur in the agricultural sector in proportion to the increased demands of the labour-force. Hence, most rural development plans aimed at creating sufficient off-farm employment to meet that demands of the increasing rural labour-force. The creation of off-farm economic activities could be identified as the only solution to relieve the poverty of small land holders, landless households and of wage labourers in the rural community. This is also important for fulfilling the increasing demands of the people on goods and services.

Within a short period, the project originated 15 regular jobs and 1,400 self-employment opportunities in the Dambadeniya electorate. The project's effort at creating direct employment has resulted in the emergence of a number of service occupations. For example, a number of small shop-keepers have emerged to supply the various consumer demands of the EPV producers. The increased money income of the producers has resulted in raising their purchasing power or exchange entitlement.

The survey study reveals that 66 per cent (141 households) of the households in Kandegedara are engaged in EPV production activities. These 141 EPV households comprise about 200 producers because each household has between 1-2 producers. According to the employment structure of these 141 households, EPV-work appears to be the main employment.

The survey data indicate that 36 per cent of the households are engaged in EPV production activities as their main occupation while the balance 64 per cent are part-time producers. The above-mentioned 141 EPV shareholding households consist of about 683 family members of whom 461 (68 per cent) comprise the labour-force. Of this labour-force, 17 per cent hope for white and blue collar jobs after passing the G.C.E.(O/L) and G.C.E. (A/L) examinations. The reason for this unexpectedly high rate of unemployment is that the EPV concept creates mainly women's occupations,

especially housewives' work. Therefore, this project cannot be evaluated as a medium for the creation of employment opportunities for educated young people in the area.

Problems and Failure Prospects

The EPV project has already been in existence for more than seven years as an alternative approach to the rural development process. During this period, the project faced major constraints in its attempts to achieve its objectives and, obstacles will continue to persist in the future. The Samagama achieved considerable success in the spheres of production, marketing and management within a short period, but all of these three aspects have not yet reached any state of stability. However, a number of problems (poor quality, non-delivery of products to the sponsoring export firm in time to meet the deadline, inadequate supply in respect of the demand, failure of timely payment, poor knowledge of various aspects of the project and so on) related to those three aspects which were serious at early stages of the project have already been solved. Nevertheless, the inability to obtain sufficient marketing orders is the biggest problem of the project at present. As we emphasized previously, the project receives less than 50 per cent of orders in proportion to the capacity of its producers. The operation of the project as a supplier organisation of one (a monopoly) export firm may be the cause of this problems. Simultaneously, the stability of the project depends on the decision-making of the export firm on marketing orders. The administrative officials said that the exporter had rejected the supplies a number of times alleging poor quality. But, these products could be sold at any time to other exporters because they have a standard level of quality. The exporter, of course, is against it. For example, such rejected supplies (up to 31 December 1986) amounted to Rs. 190,015 which are stored at the main stores of the Samagama. This big loss cannot be recovered unless the monopolistic marketing practice of the project is changed. But the Samagama has to function according to the wishes of the export firm because the exporter frequently threatens the project with stoppage of orders unless the project follows his instructions. In addition, officials of the project emphasized that

the risk relating to orders has become even higher since most orders are given orally rather than in writing.

Irregularity of orders from the exporter has also resulted in the instability of the project. The lack of regular demand for regular supply may cause a gradual decline in the relationship between the producers and the Samagama. Meanwhile, the producers are driven to the middle men and this results in alienating the producers from the Samagama. Simultaneously, the project faces the difficulty of supplying large marketing orders which it receives occasionally from the export firm.

Little or no rise in the purchase price of the product in proportion to the market price and the cost of living is another major problem of the project which also derives from its anomalous marketing practice. The poor bargaining ability of the project vis-a-vis the exporter could be identified as the main reason for this stagnation of price. Even though the project is strong as a producer organisation, its bargaining strength has been enfeebled by the external official is responsible for this problem. On the other hand, the concept of EPV means the devolution of responsibility for project management to the producers, but still this has not been implemented properly. The producer-directors merely hold their posts nominally while all decision-making and implementation is done by the Directors of the external sector. It is necessary to hand over the management of the Samagama to the producers step by step; but the external officials have created a number of posts and continue to hold power while conceding only negligible positions to producers. For example, three Directors on the Board viz. the Executive Director of the Board, the Executive Director of the Management Committee and the Project Manager of the White Fibre Project are officials from the external sector from 1981 to date. This control of power by external officials prevents the improvement of the management ability of the producers as well as the possibility of handing over to them the responsibility for the activities of the project in the future. The worst side of this is that the Samagama does not merely depend on the decision-making of the external officials but also runs the risk of collapse

on the termination of the service of these external officials.

The expenditure on salaries and allowances of the administrative workforce of the Samagama increased by six times (491 per cent) during the period 1982/83 — 1985-86. During the same period, the net profit of the project increased by four times (334 per cent). The expenditure on salaries and allowances (including Directors' remunerations) was 24 and 19 per cent of the total net profit in 1982-83 and 1986-87 respectively. The accounts reveal that such over-expenditure is not conducive to the improvement of the project. The numbers on the permanent staff are not sustainable by the project because the Samagama does not have a regular source of income through regular orders. Most officials do not have adequate work at the office everyday; hence, they obtain a monthly salary without rendering an adequate service. One of the officers in the management group gave the reason for this over-staffing as the need to have a systematic administrative body and to relieve the unemployment problem among the educated youth in the area. However, the producers maintain that one-fourth of the existing number of workers in the administrative body is sufficient to carry out the present marketing activities of the project.

Apart from the above major items of expenditure, the Samagama has spent a large amount of money on entertainment, advertising, charitable allowances, decorations at annual festivals and on the *Mahapola* (one of the major trade-fairs of the Ministry of Trade and Commerce) during the period 1982-87. These items of expenditure have been identified by the majority of the producers as unnecessary, particularly because the project is still in its infancy and, as leading to a reduction of the dividend payable. It is interesting to note that the expenditure on advertising implies poor decision-making on the part of the management because the project supplies products only to one exporter.

The external expenditure on the maintenance of this project persists entirely as a show price. For example, three officials of the SLEDB their services once a month on consultancy and audit work of the Samagama. Transport cost and all other expenses are sustained by

the public sector. Officials of the SLEDB also devote time to the other 31 EPV projects all over the country. The over-allocation of officials to these projects is harmful to the objectives of the SLEDB because the contribution of these EPV projects to total exports is negligible.

Furthermore, the confidence of the producers in the concept of EPV is beginning to decline because the project has distributed dividends among the shareholders only once. Although the project could have paid dividends on profit more often by while lessening the above-described expenses, this did not happen due to the external influences on the allocation of funds. However, the long-term repression of dividends would most certainly result in distancing the people from the project just as it occurred in the co-operative movement.

Another major constraint of the project is the resurgence of political influence. At present, the concept of EPV is quite popular and fashionable among the politicians in most Districts of Sri Lanka, especially in the Kurunegala District which has already established nine EPV projects for various agricultural and non-agricultural products. Perhaps, it is difficult to create such projects without support from the political authority in the area, but the utilisation of these projects as power bases to secure political autonomy may impede the efficient implementation of the various activities of the project. The producers as well as some of the administrative officials indicated that the politicians of the area often obstruct the independence of the project. For example, it is compulsory for all producers and officials of the project to participate in the various political events of the government like meetings, opening ceremonies and visits of high level politicians. In such instances, the villagers not only have to spend their time and labour but also have to pay out money from the project. Sometimes, villagers have to participate in such political activities even outside the area. This becomes a major obstacle for the improvement of community solidarity.

Furthermore, the politicians of the area sometimes use this project as a supply source of employment and credit for their village level political leaders. For example, a certain politician of the area had appointed an Assistant Production

Manager to this project in 1986; however, the politician did not consider the need for such an officer nor his qualifications nor the approval of the Board of Directors of the Samagama, which are very important prerequisites for new appointments to the project. One of the officers of the project said that the officer appointed does not belong to any producer family and cannot work properly because of poor educational and other qualifications. Besides, because such officers are appointed through political channels, the management body of the Samagama finds it difficult to control them. For instance, many producers remarked that the service of such political appointees is frequently biased in favour of particular political party supporters among the producers. Therefore, this kind of political appointment impedes the endurance of the project as an independent institution, which was meant to be the spirit of the EPV concept from its inception.

In another instance, the political authority of the area had requested the project to issue Rs. 8,585 as a loan for the manufacture of a spraying machine to one of the political organisers in the area. The producers on the project were surprised at this large issue of credit because the creditor was not even a member of the project and did not submit any surety. The management body of the project alleged that this credit was given to him without even calling for any project report on his ability because of the political order. They further remarked that the creditor had not upto date produced any such machine utilising the credit advanced to him. The Samagama had requested him many times to repay the debt but there had been no response from him. Although the administrative section of the Samagama refuses to issue such credit, it has to be done even unwillingly because the Directors from the external sector are influenced strongly by the politicians.

Although we have described the various constraints affecting improvement of the project as a policy for local self-reliance, this does not mean that the EPV project has failed in the alleviation of rural poverty. However, such constraints should be minimised, if the EPV is to continue its efforts and be successful in the long run.