Long Term Prospectives for Rural Employment and Poverty Programmes

Dr. R.M.K. Ratnayake
Additional Secretary, Ministry of Finance

Background & Introduction

Sri Lanka, being a low-income developing country, while committed to implement a structural adjustment programme, is attempting to strike a balance between growth and equity. In achieving these dual objectives, the policy encourages the private sector dominance in the productive economic activities, while the State continue to invest in human development activities. Those who are not generally benefited through the open market policies, are supported through welfare safely nets.

Socio Economic Environment

During the first three decades since independence, Sri Lanka opted for a strategy of self- reliance, marked by a dominant State intervention in economic activities and heavy import substitution . However the country failed to achieve a major shift in economic development as witnessed in the developing countries in the Asian region during the 1970s/80s. Responding to the delay in development, the government in 1977 removed some of the structural constraints to accelerate economic development by introducing a programme of economic reforms. The reforms aimed at narrowing the gap with the newly industrialized economies relied on private sector- driven, export-oriented made of development.

From a predominantly agrarian economy (agricultural products- tea, rubber and coconut-represented in 1980, 61.8% of total exports), over the years has turned into a successful export of manufactured goods (72.7% of total exports in 1997). As much of today's exports of manufactured goods such as apparels, are based on imported inputs, this underscores Sri Lanka's foray into international markets.

The average GDP growth during the last two decades since the economic reforms has been in the order of 5%. In the five years to 1997, it has risen to 5.6% . though commendable, the pace of growth is insufficient to sustain the catch-up the phenomenon expected to propel the country into the fold of the Asian tigers. On the positive side, the progress registered by Sri Lanka in containing population growth translates into more favourable indices of economic expansion per capita.

On the negative side, the country has been impeded for more than 15 years by a persistent secessionist conflict that has all but annihilated economic life in the North and North-eastern provinces, at the cost of a great share of the Government's budget. Exports of manufactured goods and the foreign direct investment are largely driven by the quota system prevailing under the Multi-Fibre Agreement. As the latter are due to phase out within the next decade, Sri Lanka will face tough competition from her South-east Asian neighbours, aggravated by the combination of a vast pool of cheap labour and the recent competitive devaluations.

The policies adopted, both socially and economically has brought out mixed results. Two decades later, the country has recorded an appreciable progress. GDP per capita increased in 1997 to US $ 837 which places the country amongst the middle income developing countries. More notably, the country has continued to enjoy remarkably high rates of adult literacy, overall school environment, and a life expectancy at birth comparable to much richer industrialized countries.

Unemployment

The unemployment rate in the country has declined to 9.5 percent in 1998 from about 15% in 1990. Total unemployed labour force is estimated to be 0.62 million, of which 0.28 million are men and 0.34 million are females. As a percentage, persons employed in agriculture have declined from 46.8% in 1990 to about 37% in 1998. Occupational categories of agriculture, livestock and fisheries are dominant in the rural sector.

As observed , employment –generation in the country outside agriculture sector has accelerated with high investment, both by the government and private sectors. The large public expenditure programmes, i.e. Accelerated Mahaweli, FreeTrade Zone , and other construction projects, etc. , had been pushing up employment generation till mid-1980s and lost vigour and dynamism thereafter. The labour growth rates of the economy and non-competitiveness in agricultural production correspond with the sluggishness and stagnation in the general investment/growth in the country.

(a) Participation rate of the Labour force has increased from 49.1% in 1993 to 51.9% in 1998. The rates have improved for both males and females.
(b) In absolute terms, the total currently employed labour force has grown by 614,825 between

1993 and 1998 a net annual increase of 122, 965. The unemployed labour force has declined by 207,713 during this period and a net reduction of about 41,540 annually.

(c) The share of labour force in agriculture has declined rapidly from 46.8% in 1990 to 37% in 1998 . The total number employed in agriculture has fallen from 2.36 million to 2.06 million, reflecting a withdrawal of nearly 13% from agricultural employment.

The ongoing work on poverty clearly indicates the overlap between unemployment, under-employment and poverty. Unemployed are not necessarily poor and the employed are not necessarily "not poor" . Many employed are unable to meet the basic needs of their families. Surveys indicate that nearly 90% of the households had their main income-earners classified as being employed. The poor, for the most part are the "working poor" . On the other hand, households with main income earners falling within the category of the unemployed and 'not in labour force' , comprised around 10 percent of the total poverty group.

The Sectoral Pattern of Poverty

The incidence of poverty in Sri Lanka was 27% in 1985/86, 22% in 1990/91 and 21.1% in 1995/96 using the lower (reference) poverty line (Table). The depth of poverty, which was 6.5% in 1985/86, reduced to 4.8% in 1990/91 and further declined to 4.5 in 1995/96. The severity of poverty, too, showed a similar pattern, declined from 2.3% in 1985/86, to 1.6% in 1990/91 and 1.4 in 1995/96.

The sectoral pattern of poverty shows that the incidence of poverty was highest in the rural sector, 24%; followed by the urban sector 18% and the estate sector 13%, in 1990/91. Though this pattern continued, in 1995/96 the incidence of poverty declined to 22.8% in rural sector followed by urban sector 12.3% and estate sector 11.8% in 1995/96. The depth and severity indices of poverty, too showed a similar pattern, with the rural sector suffering the greatest poverty. 4.8% and 1.5% respectively followed by the urban sector, 2.3% and 0.76% respectively ; and the estate sector, 2.5%, and 0.7% respectively.

The inter temporal pattern of poverty showed that poverty declined between 1985/86 and 1991/92 and these gains were further consolidated during the period 1991/92 and 1995/96. The all island incidence of poverty fell by 18% , between 1985/86 to 1990/91 and 5.6% between 1990/91 to 1995/96, the depth of poverty by 26%, and the severity of poverty by 30% during 1991/92 and by 11% between 23% in the rural sector and by 12% in the estate sector, but increased by 11% between 1990/91 and 1995/96. At the sectoral level, the incidence of poverty decreased by 23% in the rural sector and by 12% in the estate sector , but increased by 11% in the urban sector between the period 1985/86 and 1990/91. Some of these gains were consolidated further during the period 1990/91 and 1995/96, where urban poverty declined by 33% , Rural by 6.5% and Estate by 6.3% . Measuring the depth and severity of poverty, reveal that conditions improved in the rural and estate sectors but deteriorated in the urban sector. The most striking finding is that the severity of poverty in the estate sector decreased by 56% over a short period of 5 years between 1991/92 to 1995/96. The main reason for the fall in poverty in the estate sector is most likely to be the action of politically powerful trade unions and of pro-worker minimum wage legislation introduced by the government. In the urban sector, however, the general economic development and improved employment opportunities in industry and service sector contributed mainly for the reduction of poverty in that sector.

TABLE-1

POVERTY IN SRI LANKA, ALL ISLAND AND SECTORAL
NOVEMBER-DECEMBER 1995, JANUARY 1996

	Sample Size	Average Monthly Consumption Expenditure per capita (Rupees)	Incidence of poverty	Depth of poverty	Severity of poverty	Gini Coefficient of construction inequality
Ultra – Poverty Line= 717.09 rupees per person per month						
Sri Lanka	4,921	1,345,75	21.10	4.47	1.44	0.33
Urban Sector	936	1,774.78	12.27	2.34	0.76	036
Rural sector	3.615	1,283.70	22.84	4.87	1.58	0.32
Estate sector	370	1,076.16	11.86	2.48	0.74	0.18
Poverty Line= 860.51 rupees per person per month						
Sri Lanka	4,291	1,345.75	32.79	8.20	2.94	0.33
Urban sector	9.36	1,774.78	21.48	4.84	1.62	0.36
Rural sector	3,615	1,283.70	34.84	8.85	3.19	0.32
Estate sector	370	1,076.16	27.12	5.25	1.67	0.18

Note:

Estimates are based on data from the first three months of the Household Income and Expenditure Survey, 1995/96, conducted by the Department of Census and Statistics. The survey was conducted in all parts of the country except the North , Eastern province, where the security situation precluded survey enumeration.

Source: HIES- 1995/96, Athurupana Harsha- Unpublished 1998.

TABLE 2
INCIDENCE OF CONSUMPTION POVERTY BY SECTOR, NOVEMBER-DECEMBER 1995 - JANUARY 1996

	Incidence of poverty (Lower Poverty Line) %	Incidence of Poverty (Higher Poverty Line) %
Sri Lanka	21	33
Urban sector	12	21
Rural Sector	23	35
Estate Sector	12	27

Source: Aturupane, Harsha and Dileni Gunewardena , Poverty estimates for Sri Lanka , 1995/96.

TABLE 3
RETURNS TO LABOUR, LAND AND NET PROFITS FROM RICE AND CHILLI CULTIVATION IN ANURADHAPURA , MAHA 1993

	RICE	CHILLI
	(PER HECTARE)	
Return to land (Rs)	7,231.0	14,365.0
Income to family labour (Rs)	8,996..0	21,308.0
Person-days	38.0	92.4
Return per person-day (Rs) (2/3)	235.9	230.7
Gross return (Rs)	29,883.0	51,619.0
Total cost (Rs)	30,123.0	50,160.0
Net Profit (Rs) (5-6)	-240.0	1,459.0
Profit rate(%) (7/6)* 100)	-0.8	2.9

Source: Non-plantation Crop Sector Policy Alternatives-Working Paper, 1995, the World Bank

Rural Poverty

Sri Lanka is a rural economy in transition . Policy rigidities are coupled with economic problems in widening the gap between urban and rural areas. The impact of free trade and good side of liberalization has affected the lifestyles and income patterns of the majority living closer to the growth centres while rural economies dominated by non-plantation domestic agriculture suffered from 'bad' effects of liberalization and globalization.

A large majority of poor people in the country live in rural areas. The depth and severity of poverty are also highest amongst rural households. Individuals living in rural communities experience a variety of economic and social constraints, including shortfalls in access to productive assets like land and water, gaps in physical infrastructure like power, transport and communications, imperfectly functioning product and input markets, incomplete flows, inadequate technology and weak institutional arrangements.

Rural poor receiving a major share of income from agricultural activities encounter numerous economic problems. These problems are compounded and aggravated by their low human capital development, and have limited access to other forms of capital. The rural non-plantation agriculture have turned into a livelihood of many of them who failed to attract employment in the other sectors of the economy.

Return to Factors of Production in Agriculture

Low return to factors of production in the rural non-plantation agricultural sector appears to be a recent phenomenon. The gradual dismantling of the inward-looking tariff policy and the reduction of State protection to domestic non- plantation crop production, particularly to rice, which is still a major source of rural employment, accounting more than half of the rural employment, affected the livelihood and welfare of a large segment of farmers in rural areas.

Trade liberalization , though improved the consumer welfare and resource use, that decreases the profitability of many of the import competing crops. The reduction of profitability led to the reduction in production of certain agricultural crops and the farm incomes of certain group of farmers. This has serious implications to poverty amongst farmers who cultivate certain import competing crops in the rural sector.

To illustrate the nature of crop profitability in import competing non-plantation agricultural products, the World Bank Study (1995) have used two alternative definitions: (1) return land and (ii) return to family labour. Return to land is computed by taking out all costs (traded and non-traded and family labour) except land from gross return (yield multiplied by price) . Return to land per hectare is Rs. 7,231 from rice and Rs. 14, 365 from chilli (Table 3) which shows that chilli production provides twice as much return per hectare as paddy production. The return per person day hectare shows that paddy provides higher return than chilli (Rs. 236 against Rs. 231). The two alternative measures of returns give two opposing views as to the efficiency of resource use in paddy and chilli production. However, it is important to note that investment on paddy and chilli production includes not just land and family labour but also other inputs purchased and used by the farmers. Therefore, the total cost of production is the investment during a season and net return is what farmers earn on that investment. The net profit as a percentage of total costs shows that chilli earns about 3 percent return on investment whereas return from paddy is slightly negative (0.8%) . On an average chilli earns a margin of 4% over paddy.

Land Tenure

There are several limitations to the functioning of the land market in Sri Lanka. These limitations reduce the ability of the land market to allocate to its best use. Furthermore, most land is government –owned. In consequence , tenants seeking alternative migration and reduces opportunities for new entrepreneurs willing to take risks and invest in more profitable activities in agriculture.

Land distributed by Government under a variety of "protected tenure" schemes, like land settlement schemes, colonization schemes and village expansion schemes, do not contain freehold rights. These lands cannot be sold, offered as collateral to Banks and financial institutions, or seized or foreclosed for debt repayment. Even where freehold rights exist , the practice of land titling is weak among poor families. This prevents land ownership being clearly demarcated among heirs.

Inability to sell land has meant that over time, through inheritance, land holdings have become highly fragmented. More than two-thirds of smallholdings are estimated to be less than 2 acres in size. Miniature farm holdings of this size are normally unable to produce an adequate income to sustain a family above the poverty line. Lack of private property rights constrain miniature farmers from selling their uneconomical holdings and relocating in pursuit of off-farm wage employment.

Labour Market

There are several regulations in the labour market in Sri Lanka. These regulations, which apply only to formal working relations, contribute to increase substantially the cost of labour to the private sector. Production of fruits and vegetables is a labour intensive activity and the high returns associated with cultivation of these crops should be substantially lower when the real private cost of labour is taken into account. Due to the high managerial requirements of activities such as production of fruits, vegetables and flowers, it is unlikely that the sector could develop without referring to formal labour contracts.

Another consideration with respect to the labour market is the apparent scarcity of labour for the agricultural sector. An indication of this is given by the increases in real wages observed in the economy. Real wages in paddy cultivation increased at an average rate of 1.1 percent per year (deflated by the Colombo CPI) during the period 1979 to 1993 (an overall increase of 16.3 percent). During the same period, increases in real wages were 1.4 percent per year for tea cultivation and 2 percent per year for the construction sector unskilled workers. (Sri Lanka Poverty Assessment).

Credit Market

NGOs An inadequate supply of credit to rural non-plantation crop sector is considered as an important constraint in agricultural development . Lack of credit, market rigidities and resultant high transaction costs put rural small holder farmers beyond the reach of credit. In rural areas there are three types of credit institutions, viz. (I) formal (ii) informal and (iii) a hybrid of informal and formal. The formal sector occupies mainly the two State Banks. The provision of credit through State Banks to domestic non-plantation crop sector in constrained due to large non-performance of small loans. Over the year "Loan forgivers" policy of the government , made the formal financial market credit operations additionally difficult. Several money lenders largely occupies the informal credit markets in rural areas. The volume of credit, however, is not well established. The high risk of operations and restricted supply pushed the interest rates of credit considerably high. The hybrid system is new and upcoming , occupies a small share of the rural credit market operating through and Co-operatives such as Thrift and Credit Societies.

Imperfections in credit markets also constrain production . Poor farmers encounter difficulties in obtaining credit for investment from formal financial institutions due to lack of collateral. This constraint has been partially eased by the availability of credit from government poverty alleviation programmers, rural development projects, NGOs and special lending schemes of Banks. However, a considerable proportion of credit needs of the poor (about 50%) are met from local money lenders. Interest rates charges by money lenders are very high, often exceeding 100% per year, so that poor families borrowing from such sources are likely to be further impoverished in the process.

Long Term Perspectives for Poverty Alleviation

The expansion of non-plantation crop sector is constrained by a number of market and non-market factors. A sound set of policies may require to move rural agriculture forward in the face of globalization and competition encountered through cheap imports. The effect of the market policies to the producers may affect negatively and the withdrawal of labour force from rural non –plantation agriculture and deterioration of incomes of segment of agricultural workers appear inevitable to the short-term strategy to prevent further deterioration of farming incomes of rural households may prevail by encouraging those households to seek employment in off-farm employment.

Poverty levels in Households, where at least some members are engaged in rural non-farm activities are generally lower than among households depending solely on agriculture, especially paddy. Ownership of rural enterprises and employment in rural industries normally yield higher returns than work on miniature farms.

Off-farm work also assists families to enhance incomes, diversify risk and reduce vulnerability. The expansion and growth of economic opportunities in rural non-farm activities are likely to be key ingredients in the future battle against poverty.

Expansion of economic opportunities for poor people in rural and services face several major obstacles.

Shortfalls in physical infrastrucutre

Inadequate infrastructure is the principal bottleneck to the future development of the rural non- farm sector. A considerable proportion of rural areas (over 70%) lack electricity . This severely restricts the range of equipment, machinery and tools that can be used in rural industries and services. In the absence of power, production activities are compelled to operate at a technologically primitive level, lowering productivity, output and incomes.

Rural areas experience large shortfalls in the coverage of modern communication methods. For instance, less than 15% of rural communities have telephone services or a (sub) post office. Even in areas where telephone services are available, these are often unreliable, with aged, low quality lines and equipment. Maintenance and repair services are also weak. The shortage of telephone and postal facilities hinders the development of rural industries and services above the level of small and cottage enterprises catering to localized markets. It also limits information available to the poor concerning economic and social opportunities outside their local community.

There are important gaps in the availability of transport in rural areas. The country has a large and extensive road network, with about 100,000 km of road length. The major proportion of these, approximately 80% , are rural roads. This network of roads provides reasonably comprehensive access to rural communities and villages. However, a small proportion of villages (between 5%- 10%), located in difficult terrain like jungle areas and tops of steep mountains, are isolated. These remote villages, many of small size with about 50 families or less, are among the poorest communities in the country.

Despite the extensive network of access roads, rural communities experience considerable difficulties in transportation. Bus transport is irregular in routes. However, many private buses do not operate according to reliable schedules and regular time tables, making it difficult for poor families in rural communities to utilize the road network to access output markets, production inputs and social services outside their immediate neighbourhood. Further, many rural roads are of low mobility , poorly located and sited, inefficiently designed and constructed, and weakly maintained. Travel is inconvenient and costly in terms of lost time, making it difficult for poor individuals in village to engage in economic activities outside their neighbourhood.

Weak technology adoption and utilization. Rural industrial activities typically contain low technology. Machinery and tools are mainly operated and the level of automation is low. Many cottage industries operate with only hand crafted tools.

There are several reasons for the low levels of technology . Many producers operate in non- competitive markets, and lack motivation to adopt better technologies. Enterprises located in rural areas do not have convenient access to technology. Sometimes technology adoption involves costly financial outlays which are beyond the capacity of rural enterprises. Rural areas also lack skilled staff to use technology-intensive equipment and tools.

Low product quality. Related to the low level of technology adopted, the quality of products manufactured in small rural enterprises are poor. The consumers of such products are usually low income households and are not quality conscious. However, this keeps prices and profit margins low. Many small scale rural producers lack ideas of quality control and technology upgrading. This prevents establishments from improving product quality, increasing output and accessing wealthy and sophisticated markets in towns and cities.

Shortfalls in raw materials and resources. Rural industries encounter considerable difficulties in obtaining regular, assured supplies of raw materials and production resources. The cost of raw material and inputs are also high, due to factors like inefficient resource extraction and raw material production processes and weak transport systems. For instance, industries manufacturing wood based products are constrained by lack of timer. Agro-processing enterprises operate well below capacity due to a shortage of agricultural raw material, like fruits and spices.

Lack of market information and poor market access. Information flows between villages and external communities are limited so that rural producers have scant knowledge of market opportunities outside their neighbourhood. Small enterprises also often lack marketing awareness and skills. Mobility between villages and towns is time-consuming and inconvenient because vertical linkages of the road network are weak. This hampers rural enterprises from accessing *prosperous* urban markets to sell their products and to obtain inputs, especially tools, equipment and finance.

Conclusion

The peasant farmers in the non-plantation crop sector, maintains a mystical attachment to land and prefer to cultivate paddy. Thus, some of the factor markets do not operate in an expected manner as rationality of farmers rooted in their perception and value systems. However, several options are available to improve income-earning capacities and to enhance employment opportunities in the rural sector. Removal of structural rigidities in factor markets and improvement of rural infrastrucutre will be a way forward to generate additional employment opportunities in rural areas and to improve income levels of the rural poor.