



CENTRE ON INTEGRATED RURAL DEVELOPMENT FOR ASIA AND THE PACIFIC

RURAL DEVELOPMENT AND POVERTY ALLEVIATION POLICY BRIEF

SRI LANKA

Overall poverty ratio in Sri Lanka was 22.7 per cent in 2002. Poverty ratio in the rural sector was 24.7 per cent and the estate sector 30 per cent. With little over 80 per cent of the people located in the rural sector, over 80 per cent of poverty in Sri Lanka is accounted by rural inhabitants. Similarly, an estimated 40 per cent of those engaged in agriculture or related pursuits have been found to be in poverty by the turn of the decade. It has been found that, higher the people's dependence on agriculture higher the level of poverty amongst them.

The Centre on Integrated Rural Development for Asia and the Pacific (CIRDAP) was established in 1979 to assist national action and promote regional cooperation relating to integrated rural development in the region, and to act as a catalyst for related activities among its member countries.

In the Sixteenth Governing Council Meeting in Manila in 2007, there was a discussion on the changing context of rural development (RD) initiatives and the need to review past policies and to identify policy-level issues and concerns. Accordingly, the CIRDAP Governing Council decided to commission a series of country studies for reviewing past policies and identifying policy issues and concerns with which CIRDAP can engage itself further through strengthening several actors at national and regional level for information generation, policy development and regional cooperation. The country studies as suggested should examine the role of the CIRDAP link institutions and also the need and scope for other linkages. Subsequently, each of the member countries nominated a researcher to work on the country studies. The researchers decided that each country would examine the RD initiatives from the point of future opportunities for CIRDAP.

Twelve countries have submitted the reports out of 14 countries. The country reports vary substantially in nature. Southeast Asian countries, especially Malaysia, Thailand and Vietnam, adopted market based reform policies much earlier than the South Asian countries. The focus in Malaysia and Thailand and now across all the Southeast Asian countries, was on the development of infrastructure, encouragement to foreign capital investment in manufacturing, and providing employment in organised enterprises as well as services catering to the market economy, tourism, restaurants and the like. The focus of development in the first four decades after independence in South Asia was quite different. It focused on the preservation of the rural economy, and attempted to increase employment opportunities in rural areas through public expenditure programmes, and essentially tried to maintain the rural character of these economies. The approach to poverty alleviation has thus been very different in the two regions. While South Asia focused on gains in agriculture and rural employment, Southeast Asia turned to commercialisation of agriculture and more market-oriented growth.

CIRDAP has published all the findings in a separate volume for each country. In this brief note, some of the important findings and policy issues for Sri Lanka are highlighted.

Major Findings

Sri Lanka's rural sector accounts for 80 per cent of its 20 million population. The sector comprises smallholder farmers, agricultural labourers, artisans, waged workers in industrial and service sectors. Thus this sector is not homogeneous. Over the years, household income of rural dwellers has been increasing, in particular due to the spread of non-farm employment and widening opportunities in the informal sector. Those who have income from non-farm sources are relatively better-off than those who depend on agriculture as the major source of household income. Growth in population has accompanied increasing rural landlessness or fragmentation of land and under-employment. This shows the greater need for diversification of the rural economy in Sri Lanka.

Sri Lanka's economy has transformed from a predominantly agriculture based economy to one based on services. The share of agriculture in GDP has dropped from 50 per cent in 1950 to 35 per cent by 1970 and to 11.7 per cent by 2007. Employment in agriculture dropped from 53 per cent in 1953 to about 30 per cent 2007. In contrast, the share of the service

sector increased from about 43 per cent in the late 1970s to 55.7 per cent in 2005. The share of industrial sector in GDP remained more or less the same contributing between 25 to 30 per cent to GDP. The drop in relative contribution of agriculture to GDP has been due largely to the diversification of the economy and shifting the position of the agriculture when the industrial and service sectors started growing speedily and contributing relatively more to GDP. On the other hand, productivity increase in agriculture has been low after 1990s. Low efficiency of agriculture is reflected not only by productivity growth or labour productivity, but also by use of overall productive resources. For instance, agriculture utilises about 30 per cent of land resources and over 80 per cent of irrigation water.

Sri Lanka's economy as a whole needs for refocusing policy and programmes to solve many problems affecting rural and agrarian sectors. Though the slow growth in the economy could not match the high social spending, it has achieved highest social development outcomes relative to its per capita income. Sri Lanka's weak economic performance before liberalisation has been attributed to high social spending as this has been done at the expense of investment on growth inducing sectors. However, quality of publicly provided services is poor and remains inadequate in remote rural areas and estate communities.

Economic reforms in Sri Lanka have been implemented in a stop and go manner and have been clogged. Therefore, the growth rates did not increase appreciably after liberalisation in comparison to the period before that in which predominantly inward looking economic policies were followed. However, liberalisation followed with significant growth in services and industry causing structural transformation in which process the share of agriculture in GDP declined significantly. Along with agriculture's contribution to GDP, the percentage share of the workforce employed in agriculture has declined though absolute numbers in the sector have increased. Given the agricultural land tenure characterised by too smallholdings operated by too many farmers, a major beneficial effect of structural transformation is reducing further pressure brought on land to eke out a living. Transformation also reduced the heavy dependence on plantation crops for foreign income.

Sri Lanka's weak economic performance after the liberalisation has largely been attributed to shortcomings in implementation of reforms. The shortcomings often highlighted include stop-and-go fashion the reforms were implemented; weak economic management resulting in high inflation and high fiscal and balance of payments deficits; poor management of public spending; exchange-rate management with periods of substantial overvaluation; inappropriate financial policies, prolonged trade protection, selective and ad-hoc trade liberalisation; continued distortion in agricultural markets; inflexible labour markets etc.

Policy Priorities

Major thrust areas where immediate action is required:

- Economic and trade reforms that are appropriate for country's rapid growth;
- Assisting in disseminating positive social and cultural value systems that enhance existing social and cultural value system and behaviour;
- Mechanism for inclusive growth and development;
- Programme for rapid economic transformation;
- Rural infrastructure development;
- Social and public service development;
- Assisting in developing rural non-farm sector;
- Agricultural transformation;
- Agricultural diversification;
- Land market reforms;
- Constitutional and law reforms;
- Increasing the skills of females to be engaged in modern vocations; and
- Protection against all kinds of harassments through enhanced legal actions.