



Impact of ADB Projects on Agricultural Policies

A joint impact assessment for
the Asian Development Bank

Anura Herath

November 2007

Working paper series No. 15 - 2007

Impact of ADB Projects on Agricultural Policies

A joint impact assessment for the Asian Development Bank

Anura Herath

November 2007

© Centre for Poverty Analysis 2007

First Published - 2007

ISBN: 978-955-1040-40-6

National Library of Sri Lanka-Cataloguing Publication Data

Herath, Anura

Impact of ADB projects on agricultural policies: a joint impact assessment for the Asian Development Bank/Anura Herath.— Colombo : Centre for Poverty Analysis, 2007.

p. :136 ; 29cm.- (Working paper series 15)

ISBN: 978-955-1040-40-6

Price: 300

i. 630.95493 DDC 22

ii. Title

1. Agricultural policies-Sri Lanka

Cover design : Karunaratne & Sons Ltd.

Printed by : Karunaratne & Sons Ltd.
67, UDA Industrial Estate
Katuwana Road
Homagama
Sri Lanka.

Published by : Centre for Poverty Analysis

The CEPA Publication Series currently includes the following categories; Studies, Edited Volumes, Working Papers and Briefing Papers.

Anura Herath (M.Phil, Peradeniya, Ph.D, University of London) is an agricultural economist currently serving for the International Fund for Agricultural Development as the Country Programme Management Facilitator. Dr Herath is a member of many professional bodies such as Trade Sub-Committee for Agriculture in the Ministry of Trade and International Association of the Agricultural Economists. He has authored several papers in the areas of agricultural trade, poverty and rural development.

The **Centre for Poverty Analysis (CEPA)** was established in 2001 as an independent institute providing professional services on poverty related development issues. CEPA provides services in the areas of applied research, advisory services, training and dialogue and exchange to development organisations and professionals. These services are concentrated within the core programme areas that currently include: Poverty Impact Monitoring, Poverty and Conflict, and Poverty Assessment & Knowledge Management.

This report is a product of the Poverty Assessment & Knowledge Management Programme, undertaken jointly and sponsored by the Asian Development Bank through a technical assistance grant supporting the programme.

Abbreviations

ADB	Asian Development Bank
AFNS	National Agriculture and Food and Nutrition Strategy
ANR	Agriculture and Natural Resource
APL	Agriculture Programme Loan
CARP	Council for Agriculture Research Policy
CBO	Community Based Organisations
CBSL	Central Bank of Sri Lanka
CEPA	Centre for Poverty Analysis
CIC	Chemical Industries of Colombo
CWE	Cooperative Wholesale Establishment
DEA	Department of Export Agriculture
DOA	Department of Agriculture
EAC	Export Agricultural Crops
EDS	Enterprise Development Service
FCD	Food Commissioner's Department
GDP	Gross Domestic Product
GOSL	Government of Sri Lanka
IFAD	International Fund for Agricultural Development
MLCF	Medium and Long Term Credit Fund
NAC	National Agribusiness Council
NACS	New Agricultural Credit Scheme
NCPRDP	North Central Province Rural Development Project
NCRCS	New Comprehensive Rural Credit Scheme
O&M	Operation and Maintenance
PCDP	Perennial Crop Development Project
PCR	Project Completion Report
PFI	Participatory Financing Institutions
PMB	Paddy Marketing Board
S REAP	Southern Province Rural Economic Advancement Project
SEEDS	Sarvodaya Economic Enterprise Development Services
SME	Small and Medium Enterprises
SMI	Small and Medium Industries
SPCDP	Second Perennial Crop Development Project
UWMP	Upper Watershed Management Project
VAT	Value Added Tax
WRC	Water Resources Council
WRS	Water Resources Secretariat
WTO	World Trade Organisation

Table of Contents

Executive Summary: English	I - VII
විධායක සාරාංශය	VIII -XIV
epHthfr;RUf;fk;	XV - XXII
1. BACKGROUND, OBJECTIVES AND SCOPE	1
1.1. Introduction	1
1.2. ADB partnership in development	1
1.3. Objective and scope of the evaluation	2
1.4. Scope of the study	3
1.5. Methodology and approach	3
1.6. Issue of attribution	4
1.7. Limitation of the study	5
1.8. Format of the report	6
2. THE DOMESTIC AGRICULTURE SECTOR	7
2.1. Introduction	7
2.2. Agriculture sector and challenges for development	7
2.3. Key problems in the agriculture sector	10
2.4. Development needs of the agricultural sector	12
2.5. Conclusion: Chapter 2	13
3. AGRICULTURE POLICY - HISTORICAL PERSPECTIVE	14
3.1. Introduction	14
3.2. Is the pace of agricultural growth influenced by policy?	14
3.3. Policies in the pre-liberalisation period	15
3.4. Agriculture policies during the period of analysis - lack of coherence	16
3.5. Summary and conclusion: Chapter 3	21
4. POLICIES AND PROGRAMMES OF ADB IN THE AGRICULTURAL SECTOR	23
4.1. ADB policies in the agricultural sector - An overview	23
4.2. Coherence of the ADB and GOSL policy thrusts - A critical Assessment	24
4.3. ADB projects and programmes affecting the agriculture sector	25
4.4. Contribution of the projects to the ADB policy thrust	27
4.5. Summary and conclusion: Chapter 4	28

5. RURAL FINANCING AND CREDIT BASED PRODUCTION IMPROVEMENT	29
5.1. Introduction	29
5.2. Government policies and programmes on rural financing	29
5.2.1. <i>Development of financing institutions - GOSL contribution</i>	29
5.2.2. <i>Performance of rural financing</i>	30
5.2.3. <i>Micro-financing and institutions</i>	31
5.2.4. <i>General trend of GOSL rural financing policies</i>	32
5.3. ADB projects and their influence on rural financing policies	32
5.4. Main features of the ADB loan components	33
5.5. Policy impact of ADB intervention in the rural credit market	34
5.6. Reasons for the failure to initiate a sustainable rural credit market	35
5.6.1. <i>credit demand and supply limitations</i>	35
5.6.2. <i>Lack of commercialisation in rural financing markets</i>	36
5.6.3. <i>Financial dualism in the market</i>	37
5.6.4. <i>Infrastructure inadequacies</i>	39
5.6.5. <i>Lack of facilitative market structures in rural areas</i>	39
5.6.6. <i>Administrative and bureaucratic inefficiencies</i>	39
5.6.7. <i>Political economic conditions</i>	40
5.6.8. <i>Macro-economic conditions</i>	40
5.7. Impact of rural credit policies on the poor	41
5.8. Policies on rural financing of other donors - impact of ADB policies	42
5.9. Summary and conclusion: Chapter 5	43
6. CREATING A COMMERCIALISATION AND BUSINESS ORIENTATION	45
6.1. Introduction	45
6.1. Government policies for supporting or opposing commercialising agriculture	45
6.1.1. <i>General policy support for commercialisation</i>	45
6.1.2. <i>Institutional support for commercialisation</i>	46
6.1.3. <i>Regulatory facilities for commercialisation</i>	47
6.1.4. <i>GOSL privatisation policy in the domestic agriculture sector</i>	47
6.1.5. <i>Tariff and subsidisation policies</i>	48
6.2. ADB interventions and policies supported in commercialisation	49
6.2.1. <i>Projects and components</i>	49
6.2.2. <i>Fertiliser subsidy policy</i>	49
6.2.3. <i>Rural financing and commercialisation</i>	50
6.2.4. <i>Privatisation of extension</i>	51
6.2.5. <i>Research and research policy supports</i>	52
6.2.6. <i>Business development</i>	53
6.2.7. <i>Increased private-sector participation</i>	55

6.2.8. Sustainability of the business development efforts of EDS providers	55
6.2.9. Prices and market rationalisation	55
6.3. Overall impact on the government policy of commercialisation	56
6.4. Constraints in facilitating policy in commercialisation of domestic agriculture	57
6.4.1. Limitations in the facilitative environment	57
6.4.2. Failure of privatised extension system	58
6.4.3. Effective information dissemination	59
6.4.4. Disorganised marketing systems	59
6.4.5. Lack of proper sequencing - overall policy reform failure	59
6.5. Poverty impacts of policy on commercialisation and agri-business	60
6.6. Direct benefits of commercialisation policy for the poor	61
6.7. Summary and conclusion: Chapter 6	61
7. SUPPORTING ENVIRONMENTAL AND NATURAL RESOURCES MANAGEMENT	63
7.1. Introduction	63
7.2. GOSL policies in the environment and natural resource sectors	63
7.3. National policies related to management of land and water resources	64
7.4. ADB projects and facilitation of policy in the environmental sector	65
7.4.1. Water Policy: History, Performance and Failures	65
7.4.2. Watershed management policy: formulation and ADB assistances	67
7.5. Summary and conclusion - Chapter 7	70
8. OVERALL CONCLUSIONS AND RECOMMENDATIONS	72
8.1. Introduction	72
8.2. Agriculture sector and the policies	72
8.3. Credit policies	73
8.4. Policies on commercialising agriculture	73
8.5. Policies on the natural environment	73
8.6. Overall recommendations	74
List of Appendices	
Appendix 1 : Performance of agriculture imports and export	82
Appendix 2 : Importance of the agriculture sector at sub-national level	86
Appendix 3 : National Agricultural policy for food, export agricultural crops and floriculture	94
Appendix 4 : Presentation discussion notes: Assessing the impact of ADB supported projects on Sri Lanka's agricultural policies	100

Executive Summary

Introduction, objectives and methodology

The Sri Lankan agricultural sector needs a transformation if it is to face numerous challenges. A prerequisite for this is a sound policy framework and strategies. The donor community supports the policy reform process through their programmes. This study assesses the performance of the Asian Development Bank assistance in policy reform in the Sri Lankan domestic agricultural sector and agriculture-related areas in the natural resource sector. The Poverty Assessment and Information Management Project sponsored by the ADB financed this joint study within the Poverty Assessment & Knowledge Management (PAM) Programme of the Centre for Poverty Analysis (CEPA).

Sri Lanka has received a total of US\$ 4.1 billion of financial assistance since joining the ADB in 1968 to 2005. The agricultural and natural resource sector received about 19% of this, which was the highest share for a single sector. A significant proportion was for facilitating policy reforms. A detailed assessment of the performance of policy revision, which is the main objective of the study, is therefore pertinent.

The specific objectives of the study include:

- highlighting the type of agricultural policies that ADB has supported
- assessing the consistency and effectiveness of ADB programmes in advocating the policies
- ascertaining whether ADB's policy advocacy has adequately facilitated the GOSL policy-reform process
- assessing the impacts on the poor of the policies supported by ADB in the agricultural sector
- suggesting ways for ADB to improve its policy interventions for greater poverty reduction and productivity growth
- assessing the influence of political economic factors and capacities of GOSL bodies to absorb proposed policies.

The reference period of the study is from 1996 to 2006. The evaluation methodology followed a three-stage approach. The first stage focused on the major policy thrusts of the Government in the domestic agriculture sector while the second stage assessed the ADB involvement with these policies. The third stage focused on the impact of policy on the performance of the agricultural sector, the impact on poverty and the sector's constraints in sustaining ADB-supported policies. The analyses were based on an extensive literature review and a series of semi-structured interviews with professionals, private-sector representatives and other beneficiaries.

Domestic agriculture sector and development needs

The agriculture sector, including plantations, contributed about 16.8% to Sri Lanka's GDP and employed about 32% of the labour force in 2006. It grew at a rate of 2% per annum during 1996-2006, which was considerably lower than the industry and service sectors. The agriculture sector's relative contribution to national economy is gradually reducing and its basic structure is slowly changing from a subsistence nature to a commercial nature.

Slow performance in the sector is mainly attributable to low crop-productivity, stagnating labour-productivity (which results in a depressed wage structure and consequent labour shortages in rural areas), lack of rural infrastructure, poor access to basic services, and degradation of natural resources. The sector's development is, nevertheless, important because the sector has a high potential for contributing to poverty-reduction; it plays a strategic role in enhancing an equitable approach to development; it contributes to reducing food imports; it is able to absorb rural labour; and it has the potential to meet household food security needs.

Government policies in the agriculture sector

Before the economy was liberalised in 1977, the agriculture sector was protected by food import-substitution policies as a strategy for saving foreign exchange. As facilitative measures, GOSL provided subsidised inputs, investment in irrigation and land-settlement, research, extension and crop insurance services, marketing and agrarian services, and banned imports of many food items. It was evident that protectionist policies did support the growth of staple food crops, but subsistence agriculture systems continued where paddy was given disproportionate advantages. The open economic regime after 1977 brought about some policy reforms but protection continued with policies related to food self-sufficiency.

The major policy areas during 1990-2006 included liberal tariff policies with frequent changes in the tariff structure; subsidies on fertiliser, irrigation, extension and perennial crops cultivation; facilitating rural financing with concessionary credit arrangements; encouraging private-sector operations in domestic agriculture in addition to the plantation sector privatisation; and minimising state interventions in agricultural product and input marketing. The new policy statement of 2006 shared many salient features with previous policies. The main changes included encouraging increased private-sector participation in sector-development and conserving the natural resource-base.

GOSL agriculture policies lacked consistency, coherence and the long-term vision to drive the sector in a particular direction. The main reason is that policy planners are guided in policy formulation by political and social forces rather than technical considerations; the former varies with different political regimes which means there are frequent policy changes.

ADB policies and programmes in the agriculture sector

ADB's policy agenda in the early 1990s and 1996-2006 focused on improving productivity and increasing competitiveness in the sector. ADB recommended that correcting market distortions, undoing distorted incentives, minimising misallocation of resources, and reducing high fiscal deficits could address the agenda. Accordingly, three major areas of policy thrusts were supported:

- changing subsidy and grant-based agriculture into credit-based self-financing enterprises;
- creating a commercialisation and business orientation;
- supporting environmental and natural resources management, including land regularisation in the critical watershed to facilitate sustainable development of agriculture.

GOSL and ADB policies were inconsistent and incompatible in many areas. The design and sequencing of ADB projects showed a clear trend towards the commercialisation of agriculture. The transient nature of GOSL policies caused a lack of focus in this direction until

recently. The differences between ADB and GOSL policies have caused inefficiencies in the delivery of intended project inputs and hindered the commercialisation process.

A total of 15 ADB projects, six in the agriculture sector, four in the natural resource sector, another four in the small and medium industries sectors with agriculture-based industries, and one reform programme were reviewed.

Rural financing and credit-based production improvement

The main form of providing rural financing with GOSL assistance has been conventional credit and micro-credit. The Central Bank provided credit guarantees for agriculture loans and that enabled participating banks to operate credit in a virtually risk-free environment, which partly restricted the development of a liberal credit market. With economic liberalisation, GOSL introduced stringent credit policies, which have negatively affected credit uptake in the agricultural sector, but with a better record of recovery. On various occasions, the risk-taking tools of providing guarantees for loan recoveries were reintroduced.

GOSL rural financing policies were characterised by changing interest rates, credit guarantees and credit refinancing policies, and expanding credit availability to the rural poor. In 2000 and thereafter GOSL facilitated micro-financing, supported micro-financing institutions and provided credit-plus services in rural areas.

With a view to bringing about a commercial orientation to rural financing culture, ADB supported a policy framework to minimise both ad hoc interventions and direct involvements of GOSL in providing rural financing services. The recommended reforms included, inter alia, increasing interest rates of agricultural production loans in a phased manner to reflect market rates, and adjusting interest rates of the Central Bank refinancing facilities with internal sources in line with the market rates. The projects that were reviewed did not use micro-credit institutions for credit delivery and there was no dedicated poverty-targeting system in the credit delivery process. ADB attempted to bring prudent credit policies into rural financing markets and maintained liberalised market features by recommending criteria such as minimum annual collection ratio; a minimum cumulative collection ratio; maximum debt to equity ratio; and basing the interest rate on Average Weighted Deposit Rate. Some of these criteria prevented micro-financing institutions from becoming partners in ADB projects; if they had not been prevented, more credit might have been channelled to the rural poor.

Performance of ADB interventions in stabilising rural credit deliveries

ADB projects have failed to create a sustainable rural financial market with the potential to support the domestic agriculture sector. There were several reasons for this. The supply-led approach of the projects assumed that the demand created by project activities would continue in the market, but there was no evidence to support this assumption. The structural problems of both demand and supply sides of the market, and erratic changes in interest rates further constrained credit operations. Until Southern REAP was established, ADB did not give much support to micro-financing institutions; credit delivery would have been promoted if they had given more support. Micro-financing could have been more useful to the rural poor. Inadequate assistance provided in credit-related institution-building was another reason for credit operations being unsustainable.

Bureaucratic inefficiencies disrupted the continuity of the credit policies supported by ADB. The continuity of revolving funds established by ADB has been ineffective in some cases. One of the reasons provided by the Central Bank was lack of resources and inadequate

infrastructure to implement the revolving funds. Political economic conditions and policies was another reason. The market was affected by political lobbying for writing-off agricultural loans and lowering interest rates. Unfavourable general economic conditions such as high inflation, high budget deficits, and a negative trade balance limited the performance of the credit market.

The conclusion was that ADB interventions during the period of analysis could not reform GOSL policies such as changing interest rates, application of interest rates lower than market rates and credit guarantees that distorted rural financial markets, and this prevented a sustainable growth of credit institutions. The analyses also showed that the ADB interventions were ineffective in developing the rural credit market in the domestic agriculture sector and did not disburse credit with a view to targeting poverty.

Creating a commercialisation and business orientation in agriculture

Crop diversification and commercialisation has been recognised as an important strategy for the development of the sector. The National Agriculture and Food and Nutrition Strategy of 1984 initially provided policy support for the commercialisation process followed by the waga lanka food drive in 1996. Private-sector institutions such as National Agribusiness Council and Fruits and Vegetable Exporters Association were set up by the GOSL to support private-sector participation in the process. In addition, the GOSL provided institutional support such as establishing a commodity forward-contact system under the Govi sahanaya scheme of the CBSL, abolishing the state monopoly in agricultural insurance, and investing in private-sector marketing. There were supporting regulatory structures such as favourable revision of import-duty schemes for various intermediary goods in the agricultural and livestock industries.

Facilitation of commercialisation process through ADB programmes

Many ADB projects supported the commercialisation process. Among the important supports were privatisation of extension, enterprise service provisions, and research and product-development. The commercialisation process was however constrained by a poor facilitative environment, failure of the privatised extension system, ineffective information dissemination, disorganised marketing systems and lack of proper sequencing of overall policy-reform process. There was no evidence that the poor had been directly targeted as beneficiaries of the commercialisation policies or processes of the ADB.

Fertiliser subsidy policy

The fertiliser subsidy has been an excessive burden on treasury financing. ADB recommended its abolition on several occasions and encouraged private-sector participation in the fertiliser market. GOSL removed all subsidies on fertiliser in 1990, but re-introduced them in 1994. During the non-subsidy period, there was a reduction in the use of fertiliser, but usage quickly increased about two years after, even before the re-introduction of the fertiliser subsidy. Since 1994, the subsidy continued mainly for political and electoral reasons. Decisions on fertiliser subsidy policy were not based on evidence. Mahinda Chintana: Vision for a new Sri Lanka includes provision of fertiliser subsidy in its ten-year plan.

Privatisation of extension

ADB promoted privatised agricultural extension on a pilot basis in 1988. GOSL had accepted an extension privatisation policy in the belief that the private sector would be able to deliver a demand-driven service and recoup part of the service-cost from the beneficiaries. In most

cases the service-providers supported obtaining credit which was available from the same project that promoted private extension services, rather than providing advice. The fact that continued linkages between the private companies and the farmers only existed during the project period indicated that the system was not sustainable.

Research and research policy supports

In a commercialisation environment, priorities on research and extension should largely be demand-driven. GOSL's institutional focus has been less demand-driven. ADB encouraged through CARP the initiation of demand-driven agricultural research to meet the needs of commercialising agriculture. This push in the research system has had an impact on the long-term outlook of the CARP policy. There has been a change of emphasis in the research and extension focus from being supply-driven to being more market-driven and the emphasis is on increasing profitability rather than increasing productivity.

Business development

Three ADB projects initiated and heavily supported agri-business development activities through facilitating business-plan preparation, making credit available and providing the necessary training. Involvement of the private sector and the line-departments in the business-planning process that was supported by the perennial crop project was minimal. The National Agribusiness Council was identified by ADB as a co-ordinating body to harness the private sector to support business-development activities. Logistical, administrative and monitoring difficulties and NAC involvement contributed to a failure to initiate agribusiness activities on a sustainable basis. There were no outreach programmes to serve the rural sector. This programme could be expected to have only a marginal impact on poverty.

Southern REAP used a different approach with extensive and direct involvement of the private sector through Enterprise Development Service providers who were well-integrated into the local business community. EDS providers pre-identified viable activities, including agri-businesses, and made contacts with potential future clients and provided investment assistance. The policy contributions of this model included accepting private-sector organisations with government funding to facilitate agri-business promotion; providing operational modalities; accepting technical business proposals of EDS providers by both state and private banks; enlisting the support of the pradeshiya sabha and provincial politicians for the public-private partnership; and maintaining a mandatory share of rent from public infrastructure facilities for their maintenance.

Market rationalisation

ADB encouraged market rationalisation to promote commercialisation. Rationalisation of PMB operations was one of the main policy recommendations and was a sound one. During the policy implementation period of 1985-90 the volume of paddy purchased by PMB had declined. Other influences on the rationalisation were a liberalisation drive and a structural adjustment process. Political influences brought a policy reversal in 1995 leading to an increase in PMB operations. However, PMB was disbanded in 2000 because of increased losses.

Overall impact on the government policy of commercialisation

ADB programmes helped GOSL policies to bring about a commercial orientation in agriculture. These programmes included establishing an enterprise development division in the Agriculture Ministry, increased budgetary allocation for commercial activities over the next ten years, the private-public partnership in conducting research, accepting the involvement of community-

based organisations as partners in agricultural extension, and encouraging private-sector participation in extension.

Supporting environmental and natural resources management

Major policies, policy guidelines and strategies in the natural resource and environment sector are stable and coherent in comparison to policies in the agricultural sector. However, three key constraints limited implementation of some policies. The first constraint was undervaluing the potential contribution of environmental services to development and poverty-reduction. Other constraints were inadequate financing for environmental management and institutional weakness. ADB assisted the sector substantially to overcome these limitations.

Three policies in the environmental sector had direct impacts on domestic agriculture: the National Water Resources Policy, the National Watershed Management Policy and the National Land Use Policy. ADB provided institutional support to formulate the first two and the World Bank supported the third. Reform of water policy came under much public criticism because of: lack of public consultation; the top-down nature of the process; failure to draft the policy document in the local language; insensitivity to the cultural aspects of water; and favouring donors' interests. Left-wing political forces were very powerful in opposing the policy. There was no progress in policy-formulation, which led to eventual closure of the ADB loan which had been facilitating the process. The watershed management policy received adequate support from concerned stakeholders and the formulation process was highly participatory. It is an example of a win-win situation where technical, socio-political and administrative concerns were in harmony when formulating the policy. Currently the institutional arrangements for implementation are deficient.

Main conclusions

GOSL policies were less coherent, were mutually unsupportive and frequently changing in terms of the nature and the focus, and have not facilitated the emerging market trends and opportunities in the sector. The formulation process has been less evidence-based or theory-based. Socio-political reasons rather than economic or market factors have often influenced the policy-formulation process.

While the economy was liberalised, agricultural policies did not change at the same pace to respond to emerging liberalised market opportunities. However, an emerging trend is visible in the policy-formulation process for supporting the commercialisation trend in the sector. The commercialisation process faces several impediments, such as: underdeveloped infrastructural facilities, poor rural financing, trade-liberalisation policies, external globalisation factors and poor market access for many exportable agricultural products.

Participation of donors is all the more important in such an environment in order to drive policies in the desired direction when the policy-making process is not adequately harmonised because of various realistic limitations. Has the ADB adequately taken note of such underlying themes in supporting policy reform? There are no simple answers. Together with the success stories, there were several reversals and failures of the ADB policies in the agriculture sector and several inconsistencies between GOSL and ADB policies. In such cases, GOSL policies prevailed, even with the risk of policies not having 'ideal' development directions. Policies in the natural resource sector were driven by socio-political and technocratic forces even at the risk of implementation difficulties.

Overall recommendations

The study strongly recommends that donors, including ADB, should support and be active partners in the policy-formulation process. There are several reasons. Donors have advantages which help them to recommend more inclusive policies: they are active in a cross-section of sectors of the country; they can use experiences from other countries; they can provide grant-assistance for the policy-dialogue processes; they can finance follow-up investments to improve institutional capacities and infrastructure development to kick-start policy implementation; and they can help to develop evidence-based methods of formulating policy.

The direction of donors' policy needs to take account of the economic, social and political realities of the country and of the capabilities of programme implementers and beneficiaries. Continuous sound and inclusive socio-economic evaluations are necessary to support the policy-formulation process. Unless donors apply a holistic view of the sector and understand its dynamics in their policy-formulation, their involvement will risk being unsustainable or even being rejected.

විධායක සාරාංශය

කෘෂිකාර්මික ප්‍රතිපත්ති කෙරෙහි ආසියානු සංවර්ධන බැංකුවේ ව්‍යාපෘතිවල බලපෑම් පිළිබඳ ඒකාබද්ධ ඇස්තමේන්තුව

විධායක සාරාංශය

හඳුන්වා දීම, අරමුණු සහ ක්‍රමවේදය

ඉදිරියෙහි ඇති විවිධ වූ අභියෝගවලට මුහුණදීමට නම්, ශ්‍රී ලංකාවේ කෘෂිකාර්මික අංශය පරිවර්තනයකට භාජනය විය යුතු ය. මේ සඳහා ප්‍රශස්ත ප්‍රතිපත්ති රාමුවක් සහ උපාය මාර්ග තිබීම පූර්ව අවශ්‍යතාවයක් වේ. මෙම අධ්‍යයනය, ශ්‍රී ලංකාවේ දේශීය කෘෂිකර්ම අංශය සහ ස්වාභාවික සම්පත් අංශයෙහි කෘෂිකර්මය ආශ්‍රිත කෙරුණු සඳහා ආසියානු සංවර්ධන බැංකුව ලබා දුන් සහාය හේතු කොටගෙන ඉටු වූ කාර්යසාධනය ඇස්තමේන්තු කර යි. දරිද්‍රතා විශ්ලේෂණ කේන්ද්‍රය මෙහෙයවනු ලබන දිළිඳුකම ඇස්තමේන්තු කිරීම සහ දැනුම කළමනාකරණය පිළිබඳ වැඩසටහනෙහි අංශයක් සේ සලකා, ආසියානු සංවර්ධන බැංකුවේ අනුග්‍රහය ලබන දිළිඳුකම ඇස්තමේන්තු කිරීමේ සහ දැනුම කළමනාකරණය කිරීමේ ව්‍යාපෘතිය, මෙම ඒකාබද්ධ අධ්‍යයනයට අරමුදල් සම්පාදනය කළේය.

1968 දී ආසියානු සංවර්ධන බැංකුවේ සාමාජිකයකු වූ අවස්ථාවේ සිට 2005 වසර දක්වා, ඇමරිකා එක්සත් ජනපද ඩොලර් බිලියන 4.1ක මුදලක් ශ්‍රී ලංකාව මූල්‍ය ආධාර වශයෙන් ලබාගෙන ඇත. මෙම මුදලෙන් 19% ක් කෘෂිකාර්මික සහ ස්වාභාවික සම්පත් අංශයට ලැබී ඇත. මෙම ප්‍රමාණය එක් අංශයකට ලැබුණු වැඩිම ආධාර ප්‍රමාණය ද වන අතර ඉන් සැලකිය යුතු අනුපාතයක් ලැබී ඇත්තේ ප්‍රතිපත්ති සංශෝධනය පහසු කිරීම සඳහා ය. එබැවින් ප්‍රතිපත්ති සංශෝධනය සඳහා ඉටු වූ කාර්යසාධනය පිළිබඳ විස්තරාත්මක ඇස්තමේන්තුවක් සිදුකිරීම උචිත ය. එය මෙම අධ්‍යයනයේ ප්‍රධාන අරමුණ යි.

අධ්‍යයනයේ විශේෂිත අරමුණු ලෙස පහත සඳහන් දෑ ඇතුළත් ය.

- ආසියානු සංවර්ධන බැංකු ආධාර ලැබූ කෘෂිකාර්මික ප්‍රතිපත්ති මාදිලිය ඉස්මතු කොට දැක්වීම.
- ප්‍රතිපත්තිවල යහපත්භාවය වෙනුවෙන් පෙනී සිටීමේ දී ආසියානු සංවර්ධන බැංකුවේ වැඩසටහන්වල දක්නට ලැබුණ ස්ථිරසාරභාවය සහ ඵලදායිතාවය ඇස්තමේන්තු කිරීම.
- ආසියානු සංවර්ධන බැංකුව සහාය දුන් ප්‍රතිපත්තිවල යහපත් බව ඒත්තු ගැන්වීමට එම බැංකුව කළ කටයුතු හේතු කොට ගෙන ශ්‍රී ලංකා රජයේ ප්‍රතිපත්ති සංශෝධන ක්‍රියාදාමය ප්‍රමාණවත් අයුරින් පහසු වූයේ ද යන වග නිර්ණය කිරීම.
- කෘෂිකර්ම කෙරුණු තුළ, ආසියානු සංවර්ධන බැංකුව ආධාර කළ ප්‍රතිපත්ති, දිළිඳු ජනතාව කෙරෙහි බලපෑ ආකාරය ඇස්තමේන්තු කිරීම.
- දිළිඳුකම අවම කිරීම සහ ඵලදායිතා වර්ධනය ප්‍රගුණ කිරීම සඳහා, ආසියානු සංවර්ධන බැංකුවට තම ප්‍රතිපත්තිමය මැදිහත් වීම් වැඩි දියුණු කළ හැකි විවිධ යෝජනා කිරීම.
- යෝජිත ප්‍රතිපත්ති උකහා ගැනීම කෙරෙහි දේශපාලන හා ආර්ථික සාධක බලපාන ආකාරය සහ ඒ සඳහා ශ්‍රී ලංකා රජය සතු හැකියාව ඇස්තමේන්තු කිරීම.

1996 සිට 2006 දක්වා වූ අධ්‍යයන කාල සීමාව තුළ දී අදියර තුනකින් සමන්විත ක්‍රමවේදයක් ඇගයීම සඳහා අනුගමනය කරන ලදී. පළමු අදියරේ දී, දේශීය කෘෂිකර්ම කෙරුණු තුළ සිදුවන රජයේ ප්‍රමුඛ ප්‍රතිපත්ති මෙහෙයුම් වෙත අවධානය යොමු කළ අතර දෙවන අදියරේ දී මෙම ප්‍රතිපත්ති කෙරෙහි ආසියානු සංවර්ධන බැංකු මැදිහත් වීම් ඇස්තමේන්තු කළේ ය. තුන්වන අදියර ලෙස, කෘෂිකාර්මික අංශයේ කාර්යසාධනය කෙරෙහි ප්‍රතිපත්ති බලපෑ ආකාරය, එම ප්‍රතිපත්ති දරිද්‍රතාවය කෙරෙහි බලපෑ ආකාරය සහ ආසියානු සංවර්ධන බැංකුව ආධාර කළ ප්‍රතිපත්ති විරස්ථායී ලෙස පවත්වා ගැනීමට අංශයට ඇති අවහිරතා වෙත යොමු විය. විස්තරාත්මක අයුරින් ලිපි ලේඛන සමාලෝචනය කිරීමෙන් සහ වෘත්තිකයන් පෞද්ගලික අංශයේ නියෝජිතයන් සහ වෙනත් ප්‍රතිලාභීන් සමග අර්ධ-ව්‍යුහගත සම්මුඛ සාකච්ඡා පැවැත්වීමෙන් ලත් කරුණු මත විශ්ලේෂණය පදනම් විය.

දේශීය කෘෂිකර්ම අංශය සහ සංවර්ධන අවශ්‍යතා

2006 වසර තුළ දී ශ්‍රී ලංකාවේ දළ දේශීය නිෂ්පාදිතයට, වැවිලි බෝග ඇතුළු කෘෂිකර්ම අංශය 16.8% ක දායකත්වයක් ලබා දුන් අතර එමගින් 2006 දී ශ්‍රම බලකායෙන් 32%කට රැකියා අවස්ථා ලැබුණි. 1996-2006 කාලය තුළ එම අංශයෙහි වර්ධන වේගය 2% ක් වූ අතර, එම වර්ධන වේගය කර්මාන්ත හා සේවා අංශවල පැවති වර්ධන වේගයට වඩා සැලකිය යුතු ප්‍රමාණයකින් අඩු විය. තවද ජාතික ආර්ථිකයට කෘෂිකාර්මික අංශයෙන් ලැබෙන සාපේක්ෂ දායකත්වය ක්‍රමයෙන් අඩුවන අතර එහි මූලික ව්‍යුහය ශාප්‍රමි ස්වභාවයෙහි සිට වාණිජ ස්වභාවයට සෙමෙන් වෙනස් වෙමින් පවතී.

අඩු භෝග ඵලදායිතාවය (අඩු වැටුප් ව්‍යුහයක් සහ එහි ප්‍රතිඵල වශයෙන් ග්‍රාමීය ප්‍රදේශවල ඇතිවන කම්කරු හිඟයට හේතු පාදක වන්නා වූ), එක් තැන රැඳී තිබෙන්නා වූ කම්කරු, ඵලදායිතාවය, ග්‍රාමීය යටිතල පහසුකම් හිඟවීම, මූලික සේවාවන්ට සමීප වීමට ඇති අපහසුතා සහ ස්වාභාවික සම්පත් හායනය, කෘෂිකර්ම අංශයෙහි මන්දගාමී කාර්යසාධනයට ප්‍රධාන වශයෙන් හේතු වී ඇත. එසේ වුව ද, දිළිඳුකම අවම කිරීමට මෙම අංශයෙන් ලැබෙන දායකත්වය හේතුවෙන් එය සංවර්ධනය කිරීම වැදගත් ය: සංවර්ධනයට සාධාරණ ප්‍රවේශයක් ලබාගැනීම වැඩි දියුණු කිරීමෙහි ලා, මූල්‍යමය මෙහෙවරක් කෘෂිකර්ම අංශය ඉටු කර යි. එම අංශය ආහාර ආනයනය අඩු කිරීමට දායක වන අතර ග්‍රාමීය ශ්‍රම බලකායට රැකියා නියුක්තිය ලබා දෙයි. තව ද, එම අංශයට ගෘහස්ථ ආහාර සුරක්ෂිතකරණ අවශ්‍යතා සපුරාලීමේ විභවතාවයක් ඇත.

කෘෂිකර්ම අංශය පිළිබඳ රාජ්‍ය ප්‍රතිපත්ති

1977 වසරේ දී ආර්ථිකය නිදහස් මාවතට පිවිසීමට පෙර, විදේශ විනිමය ඉතිරි කරන උපාය මාර්ගයක් වශයෙන් අනුගමනය කළ ආයතන ආදේශන ප්‍රතිපත්ති මගින් කෘෂිකාර්මික අංශය ආරක්ෂා කරනු ලැබී ය. පහසුකම් සැලසීමේ ක්‍රමවේදයන් ලෙස ශ්‍රී ලංකා ආණ්ඩුවල සහනාධාර සහිත යෙදවුම් සම්පාදනය, වාරි ජල සම්පාදනය සහ ජනාවාසකරණය, පර්යේෂණ සහ ව්‍යාප්ති සේවය, වගා රක්ෂණය, අලෙවිය සහ ගොවිජන සේවය යන අංශවල ආයෝජනයන් සිදුකරන ලදී. තව ද ආහාර ද්‍රව්‍ය රැසක් ආනයනය කිරීම තහනම් කරනු ලැබීය. ආරක්ෂණ ප්‍රතිපත්තිවලින් ප්‍රධාන ආහාර බෝග වගාව දියුණු කිරීමට පිටුවහලක් ලැබුණු නමුදු, වී වගාවට ප්‍රමාණානුකූල නොවන වාසි ලබා දෙන තත්වය තුළ, ශාප්‍රමි කෘෂිකර්ම පද්ධති තවදුරටත් පැවතුණි. 1977න් පසුව ඇති වූ විවෘත ආර්ථික රටාව ඇතැම් ප්‍රතිපත්ති පිළිබඳ වෙනසක් ඇති කළ ද, උල ආහාර ස්වයංපෝෂණය ආශ්‍රිත ආරක්ෂණ ප්‍රතිපත්ති අඩුණ්ඩුව පැවතුණි.

හිරු බදු ව්‍යුහය නිතර වෙනස් කිරීම ඇතුළු නිදහස් හිරුබදු ප්‍රතිපත්තියක් අනුගමනය කිරීම, පොහොර සහනාධාරය, වාරි ජල සම්පාදනය, ව්‍යාප්ති සේවය, බහු වාර්ෂික භෝග වගාවල සහනදායී ණය ක්‍රම උපයෝගී කොට ග්‍රාමීය මූල්‍ය සම්පාදනය පහසු කිරීම, වැවිලි භෝග අංශය පෞද්ගලිකරණයට අමතරව දේශීය කෘෂිකාර්මික ක්ෂේත්‍රය තුළ පෞද්ගලික අංශයේ මෙහෙයුම්වලට අනුබල දීම සහ කෘෂි නිපැයුම් සහ යෙදවුම් අලෙවියෙහි රාජ්‍ය මැදිහත්වීම් අවම කිරීම 1990-2006 කාලය තුළ අනුගමනය කළ ප්‍රතිපත්ති ක්ෂේත්‍රවලට ඇතුළත් විය. 2006 වසරේ දී නිකුත් වූ නව ප්‍රතිපත්ති ප්‍රකාශයෙහි ද පෙර අනුගමනය කළ ප්‍රතිපත්තිවල වැදගත් රක්ෂණ ඇතුළත් විය. ප්‍රධාන වෙනස්කම් ලෙස ඇතුළත් වූයේ කෘෂිකාර්මික අංශය ආශ්‍රිත සංවර්ධනයෙහි ලා වැඩි වශයෙන් පෞද්ගලික අංශයේ සහභාගිත්වය ලබාගැනීම සහ ස්වාභාවික සම්පත් පදනම සංරක්ෂණය කිරීම යි.

ශ්‍රී ලාංකීය කෘෂිකාර්මික ප්‍රතිපත්ති තුළ කෘෂිකර්මය නියමිත දිශානතියකට ගමන් කරවීමට අවශ්‍ය ස්ථාවරභාවයක්, ඒකරාශීකරණයක් හා දීර්ඝකාලීන දර්ශනයක් නොමැත. මෙයට ප්‍රධාන හේතුව ලෙස, තාක්ෂණික හේතු නොව දේශපාලන හා සමාජ බලවේග විසින් ප්‍රතිපත්ති සැලසුම්කරුවන් මෙහෙයවනු ලැබීම දැක්විය හැකිය. දේශපාලන හා සමාජ බලවේග, විවිධ දේශපාලන ආධිපත්‍යයන් තුළ වෙනස් වීම හේතුවෙන් ප්‍රතිපත්ති වෙනස්වීම නිතර සිදුවේ.

කෘෂිකර්ම ක්ෂේත්‍රය තුළ ආසියානු සංවර්ධන බැංකුවේ ප්‍රතිපත්ති සහ වැඩසටහන්

1990 ගණන්වල මුල් භාගයෙහි සහ 1996-2006 කාලය තුළ ආසියානු සංවර්ධන බැංකු ප්‍රතිපත්ති න්‍යාය පත්‍රය, ඵලදායිතාවය දියුණු කිරීම සහ කෘෂිකාර්මික අංශය තුළ තරගකාරීත්වය වැඩි කිරීම කෙරෙහි යොමු විය. වෙළඳ පොල විකෘති නිවැරදි කිරීම, විකෘති කරන ලද දීර්ගැනීම් වෙනස් කිරීම, සම්පත් බෙදීයාමේ විෂමතාවය අවම කිරීම සහ ඉහළ මට්ටමේ මූල්‍ය හිඟයන් අඩු කිරීම, පවත්නා ප්‍රශ්නවලට විසඳුම් සෙවීම ආසියානු සංවර්ධන බැංකුව විසින් නිර්දේශ කරන ලදී. ඒ අනුව ප්‍රතිපත්ති පිළිබඳ වැදගත් ක්ෂේත්‍ර තුනක් සඳහා ආධාර කරන ලදී:

- සහනාධාර සහ ප්‍රදාන පදනම් කරගත් කෘෂිකර්මය, ශාය හා ස්වයං-මූල්‍ය යෙදවුම් සහිත ව්‍යවසායයන් බවට පත් කිරීම.
- වාණිජකරණය සහ ව්‍යාපාර නැඹුරුව ඇති කිරීම.
- ස්ථිරසාර කෘෂිකාර්මික සංවර්ධනය පහසු කිරීම සඳහා පලාධාර ප්‍රදේශ ලෙස තීරණාත්මකවන්නා වූ ප්‍රදේශවල ඉඩම් පරිහරණය නියමානුකූල කිරීම ඇතුළුව පරිසර සහ ස්වාභාවික සම්පත් කළමනාකරණයට ආධාර කිරීම.

බොහෝ ක්ෂේත්‍රවල ආසියානු සංවර්ධන බැංකු ප්‍රතිපත්ති සහ ශ්‍රී ලංකා ආණ්ඩුවේ ප්‍රතිපත්ති නොසැසඳෙන හා නොගැලපෙන තත්ත්වයන් පැවතුණි. ආසියානු සංවර්ධන බැංකුවේ ව්‍යාපෘති සැලසුම්කරණය සහ අනුපිළිවෙල කෘෂිකර්මය වාණිජකරණය වෙත යොමු කිරීමේ පැහැදිලි නැඹුරුවක් දැක්වී ය. ශ්‍රී ලංකා ආණ්ඩුවේ ප්‍රතිපත්තිවල වෙනස්වන සුළු ස්වභාවය නිසා මෑතක වන තුරුම යොමුවක් හා දිශානතියක් නොමැති තත්ත්වයක් පැවතුණි. ආසියානු සංවර්ධන බැංකුවේ සහ ශ්‍රී ලංකා ආණ්ඩුවේ ප්‍රතිපත්ති අතර වෙනස නිසා, අපේක්ෂිත ව්‍යාපෘති යෙදවුම් ලබා දීම අකාර්යක්ෂම වූ අතර වාණිජකරණ ක්‍රියාවලියට බාධා සිදුවිය.

කෘෂිකර්ම අංශයෙහි ව්‍යාපෘති 06 ක්, ස්වාභාවික සම්පත් අංශයෙහි ව්‍යාපෘති 04 ක්, කෘෂිකර්මය පදනම් කරගත් කුඩා හා මධ්‍ය පරිමාණ කර්මාන්ත අංශයෙහි ව්‍යාපෘති 04 ක් සහ සංශෝධිත වැඩසටහන් 01 ක් යනාදී වශයෙන් සැලසුම් ලද ආසියානු සංවර්ධන බැංකුවේ ව්‍යාපෘති 15 ක් සමාලෝචනය කරන ලදී.

ග්‍රාමීය මූල්‍ය සම්පාදනය සහ ශාය පදනම් කරගත් නිෂ්පාදනය දියුණු කිරීම

ශ්‍රී ලංකා ආණ්ඩුවේ සහාය ඇතිව ග්‍රාමීය මුදල් සම්පාදනය සිදු කරන ප්‍රධාන විධික්‍රමය සම්ප්‍රදායික ශාය දීම සහ ක්ෂුද්‍ර-ශාය සම්පාදනය යි. කෘෂිකාර්මික ශාය සඳහා මධ්‍යම බැංකුව ඇප වූ බැවින්, සහභාගි වූ බැංකුවලට බොහෝසෙයින් අවදානමකින් තොරව කටයුතු කළ හැකි වූ අතර එම හේතුව නිසා නිදහස් ශාය වෙළඳ පොලක් ඇති වීම සීමා විය. නිදහස් ආර්ථිකයන් සමග ශ්‍රී ලංකා ආණ්ඩුව දැඩි ශාය ප්‍රතිපත්ති හඳුන්වා දීම කෘෂිකර්ම ක්ෂේත්‍රයෙහි ශාය ගැනීම කෙරෙහි සෘණ බලපෑමක් ඇති කළ නමුත්, ශාය ආපසු අයකර ගැනීම වඩාත් සාර්ථක විය. විවිධ අවස්ථාවල දී ශාය ආපසු අය කර ගැනීම සඳහා අවදානම දරන ඇප තබන ක්‍රම හඳුන්වා දෙන ලදී.

රජයේ මුදල් සම්පාදන ප්‍රතිපත්තිවල මූලික ලක්ෂණ වූයේ; පොළී අනුපාතය වෙනස් කිරීම, ශාය සඳහා ඇප වීම සහ ශාය ප්‍රති-මූල්‍යකරණ ප්‍රතිපත්ති අනුගමනය කිරීම සහ ග්‍රාමීය දිළිඳු ජනතාව සඳහා ශාය ලැබීම පහසුකම් වැඩි කිරීම යි. 2000 වසරේ දී සහ ඉන් අනතුරුව ශ්‍රී ලංකා රජය ග්‍රාමීය ප්‍රදේශවල ක්ෂුද්‍ර ශාය පහසු කිරීම් දල ක්ෂුද්‍ර මූල්‍ය සම්පාදන ආයතනවලට ආධාර කිරීම දල ශාය සහ අදාළ අමතර සේවා සැපයීම ද, සිදු කළේ ය.

ග්‍රාමීය මුදල් සම්පාදන සංස්කෘතියට වාණිජ නැඹුරුවක් ලබා දීමේ අරමුණ ඇතිව, ශ්‍රී ලංකා ආණ්ඩුව ග්‍රාමීය මූල්‍ය සම්පාදන සේවයේ දී ඒ ඒ අවස්ථාව අනුව මැදිහත් වීම සහ සෘජු ලෙස සහභාගි වීම අවම කරන ප්‍රතිපත්ති රාමුවකට ආසියානු සංවර්ධන බැංකුව ආධාර කළේ ය. යෝජිත සංශෝධනවලට, වෙනත් කරුණු අතර, අදියර කීපයකින් වෙළඳ පොළ අනුපාත පිළිබඳව ලෙස කෘෂි නිෂ්පාදන ශාය පොළ අනුපාතය වැඩි කිරීම සහ වෙළඳ පොළ අනුපාතවලට අනුකූලව මධ්‍යම බැංකුවේ ප්‍රති-මූල්‍යකරණ පහසුකම්වල පොලී අනුපාතය අහ්‍යන්තර ප්‍රභවයන් සමග ගැලපීම ඇතුළත් විය. සමාලෝචනයට භාජන කළ ව්‍යාපෘති ශාය පහසුකම් සැලසීමට ක්ෂුද්‍ර-ශාය ආයතන භාවිත කර නැත. තව ද ශාය දීමේ ක්‍රියාවලියෙහි විශේෂිත ලෙස දිළිඳුකම අරමුණු කරගත් ක්‍රියාදාමයක් නොවේ ය. ග්‍රාමීය මූල්‍ය සම්පාදන වෙළඳ පොලට විවක්ෂණ ශාය ප්‍රතිපත්ති ඇතුළත් කිරීමට ආසියානු සංවර්ධන බැංකුව උත්සාහ කළ අතර, අවම වාර්ෂික එකතු කිරීමේ අනුපාතය, අවම සමුච්චිත එකතු අනුපාතය, උපරිම ශාය හා හිමිකම් අතර අනුපාතය සහ සාමාන්‍ය බර තැබූ තැන්පතු අනුපාතය මත පොළී අනුපාතය පදනම් කිරීම වැනි උපමාන නිර්දේශ කිරීම මගින් නිදහස් වෙළඳ පොළ ලක්ෂණ පවත්වා ගත්තේ ය. මෙම උපමාණ අතරින් සමහරක් හේතු කොට ගෙන, ක්ෂුද්‍ර මුදල් සම්පාදන ආයතනවලට ආසියානු සංවර්ධන බැංකුවේ ව්‍යාපෘතිවල කොටස්කරුවන් වීමට නොහැකි විය. ඔවුන්ගේ සහභාගිත්වය වැළැක්වූයේ නැත්නම් ග්‍රාමීය දිළිඳු ජනතාවට වැඩි ප්‍රමාණයක් ශාය ගලා යාමට සලස්වන්නට ඉඩ තිබුණි.

ග්‍රාමීය ශාය සම්පාදනය ස්ථාවර කිරීමට ආසියානු සංවර්ධන බැංකුවේ මැදිහත්වීම්වලින් ඉටු වූ කාර්යසාධනය

දේශීය කෘෂිකර්ම අංශයට සහාය වීමේ විභවයතාවය ඇති විරස්ථායී ග්‍රාමීය මූල්‍ය වෙළඳ පොලක් නිර්මාණය කිරීමට ආසියානු සංවර්ධන බැංකුව අපොහොසත් වී ඇත. මෙයට හේතු රාශියක් ඇත. ව්‍යාපෘති සැපයුම විසින් මෙහෙයවන

ලදව, ව්‍යාපෘති ක්‍රියාකාරකම්වලින් ඇති වූ ඉල්ලුම වෙළඳ පොලෙහි අඛණ්ඩව පවතිනු ඇතැයි උපකල්පනය කරන ලදී. නමුත් මෙම උපකල්පනයට හේතු වූ සාක්ෂි නොතිබුණි. වෙළඳ පොලෙහි සැපයුම සහ ඉල්ලුම යන අංශ දෙකෙහිම පැවති ව්‍යුහගත ගැටළු ද, පොලී අනුපාතයෙහි පිළිවෙලක් නැති වෙනස්කම් ද, තවදුරටත් ණය මෙහෙයුම්වලට අවහිරතා ඇති කළේ ය.

දකුණු පළාත් REAP සංවිධානය ඇති කරන තුරුම, ආසියානු සංවර්ධන බැංකුව ක්ෂුද්‍ර ණය ආයතනවලට එතරම් සහායක් දැක්වූයේ නැත. එම ආයතනවලට වැඩි සහායක් ලැබුණි නම්, ණය සැපයුම වැඩිවන්නට ඉඩ තිබුණි. ක්ෂුද්‍ර මූල්‍ය සම්පාදනය ග්‍රාමීය දිළිඳු ජනතාවට වඩාත් ප්‍රයෝජනවත්වනට ද ඉඩ තිබුණි. ණය ආශ්‍රිත ආයතන ගොඩනැගීමට ප්‍රමාණවත් ආධාර නොලැබීම, ණය මෙහෙයුම් විරස්ථායී නොවීමට තවත් හේතුවකි.

නිලධාරීවැදී අකාර්යක්ෂමතාවය ආසියානු සංවර්ධන බැංකුව ආධාර කළ ණය ප්‍රතිපත්ති අඛණ්ඩව ක්‍රියාත්මක වීම අවුල් කළේ ය. ආසියානු සංවර්ධන බැංකුව ඇති කළ වක්‍රීය අරමුදල අඛණ්ඩව පවත්වා ගෙන යාම සමහර අවස්ථාවල එල රහිතවී ඇත. එසේ එලරහිත වීමට හේතුව හැටියට මහ බැංකුව දක්වා ඇත්තේ වක්‍රීය අරමුදල් පවත්වාගෙන යාමට අවශ්‍ය සම්පත් මදවීම සහ යටිතල පහසුකම් ප්‍රමාණවත් නොවීම යි. තවත් හේතු හැටියට දේශපාලන ආර්ථික තත්ත්වය හා ප්‍රතිපත්ති දැක්විය හැක. කෘෂිකාර්මික ණය කපා හැරීම සහ පොලී අනුපාත අඩු කිරීමට දේශපාලන ඉල්ලීම් යොමු වීම වෙළඳ පොල කෙරෙහි බලපෑමක් ඇති කළේ ය. ඉහළ මට්ටමේ උද්ධමනය, ඉහළ අයවැය හිඟය සහ සෘණ වෙළඳ ශේෂය වැනි අයහපත් ආර්ථික තත්ත්වයන් ණය වෙළඳ පොලෙහි කාර්යසාධනය සීමා කළේ ය.

නිගමනය වූයේ සමාලෝචනයට භාජනය වූ කාලය තුළ පොලී අනුපාතය වෙනස් කිරීම, වෙළඳපොලෙහි පැවති අනුපාතවලට වඩා අඩු පොලී අනුපාත භාවිතයට ගැනීම සහ ග්‍රාමීය මූල්‍ය වෙළඳපොල විකෘති කළ ණය ඇප වීම වැනි ශ්‍රී ලංකා ආණ්ඩුවේ ප්‍රතිපත්ති, ආසියානු සංවර්ධන බැංකුවේ මැදිහත්වීම්වලින් සංශෝධන කළ නොහැකි වූ බව සහ එම හේතුව විරස්ථායී ලෙස ණය දෙන ආයතන වර්ධනය වැළැක් වූ බව යි. ආසියානු සංවර්ධන බැංකුවේ මැදිහත්වීම් දේශීය කෘෂිකර්ම අංශයෙහි ග්‍රාමීය ණය වෙළඳපොල සංවර්ධනය කිරීමෙහි ලා අපොහොසත් වූ බව ද එම මැදිහත්වීම් දුර්දුතාවය එල්ලකොට ගෙන ණය මුදාහැරීම නොකළ බව ද විශ්ලේෂණය පෙන්වා දුන්නේ ය.

කෘෂිකර්ම ක්ෂේත්‍රයෙහි වාණිජකරණය සහ ව්‍යාපාරික නැඹුරුව ඇති කිරීම

බෝග විවිධාංගීකරණය සහ වාණිජකරණය මෙම අංශයෙහි සංවර්ධනයට අවශ්‍ය වැදගත් උපායමාර්ග හැටියට පිළිගෙන ඇත. 1984 වසරේ දී දියත් කළ ජාතික කෘෂිකර්ම ආහාර සහ පෝෂණ උපායමාර්ග සහ ඉන් අනතුරුව 1996 දී ආරම්භ කළ වගා ලංකා ආහාර නිෂ්පාදන ප්‍රයත්නය වාණිජකරණ ක්‍රියාවලියට ප්‍රතිපත්තිමය සහාය පළ කළේ ය. මෙම ක්‍රියාවලියට පෞද්ගලික අංශයේ සහභාගිත්වයට සහාය පිණිස ශ්‍රී ලංකා ආණ්ඩුව විසින් ජාතික කෘෂි ව්‍යාපාර සභාව සහ එළවළු සහ පලතුරු අපනයන සමාජය පිහිටුවන ලදී. මෙයට අමතරව ශ්‍රී ලංකා මහ බැංකුවේ ගොවි සහන යෝජනා ක්‍රමය යටතේ භාණ්ඩ සඳහා පූර්ව ගිවිසුම්ගත ක්‍රමය ස්ථාපනය කිරීම, කෘෂිකර්ම රක්ෂණය සඳහා පැවති රාජ්‍ය ඒකාධිකාරය අත්හැරීම සහ පෞද්ගලික අංශය මෙහෙයවන අලෙවිකරණයෙහි ආයෝජනය කිරීම වැනි ආයතනික ආධාර ශ්‍රී ලංකා රජය මගින් ලබා දෙන ලදී. කෘෂිකර්ම සහ පශු සම්පත් කර්මාන්තවල විවිධ අතරමැදි භාණ්ඩ සඳහා ආනයන බදු ක්‍රම හිතකර ලෙස සංශෝධනය කිරීම වැනි ආධාරක නියාමන ව්‍යුහයන් ද ඇති කරන ලදී.

ආසියානු සංවර්ධන බැංකුවේ වැඩසටහන් මගින් වාණිජකරණ ක්‍රියාවලිය පහසු කිරීම

ආසියානු සංවර්ධන බැංකුවේ බොහෝ ව්‍යාපෘති වාණිජකරණ ක්‍රියාවලියට ආධාර කළේය. කෘෂි ව්‍යාපෘති සේවය පෞද්ගලිකරණය කිරීම, ව්‍යවසායක සේවා සම්පාදනය, පර්යේෂණ සහ නිෂ්පාදන සංවර්ධනය, සැපයුම වැදගත් ආධාර අතර ඇතුළත් වේ. දුබල පහසුකම් සහිත පරිසරය, පෞද්ගලිකරණය කළ ව්‍යාප්ති පද්ධතිය සඳහා එකඟ වීම, එල රහිත තොරතුරු ව්‍යාප්තිය, හොඳින් සංවිධානය නොවූ වෙළඳපොළ පද්ධතිය සහ සමස්ථ ප්‍රතිපත්ති සංශෝධන ක්‍රියාවලිය යෝග්‍ය ලෙස පෙළගැස්වීම සිදු නොවීම නිසා වාණිජකරණ ක්‍රියාවලියට අවහිරතා ඇති විය. ආසියානු සංවර්ධන බැංකුවේ වාණිජකරණ ප්‍රතිපත්ති හෝ ක්‍රියාදමවල ප්‍රතිලාභීන් හැටියට දිළිඳු ජන කොටස් සෘජුවම අරමුණු වූ බවට සාක්ෂි නැත.

පොහොර සහනාධාර ප්‍රතිපත්තිය

භාණ්ඩාගාර මූල්‍ය සම්පාදනය දරණ අධික බරක් හැටියට පොහොර සහනාධාරය හැඳින්විය හැක. එය අහෝසි කරන ලෙස ආසියානු සංවර්ධන බැංකුව නොයෙක්වර නිර්දේශ කළ අතර පොහොර වෙළඳපොළට පෞද්ගලික අංශයේ

සහභාගිත්වය ලබාගැනීමට අනුබල දුන්නේය. ශ්‍රී ලංකා ආණ්ඩුව 1990 දී පොහොර සහනාධාරය අවලංගු කළ නමුත් 1994 දී එය නැවත ඇති කළේය. සහනාධාර නොදෙන ලද කාලය තුළ පොහොර භාවිතය අඩු වූ නමුත් අවුරුදු 2ක් ගතවූ පසු සහනාධාරය නැවත ඇති කිරීමට පෙරාතුව වුව ද පොහොර භාවිතය ඉක්මණින් වැඩි විය. 1994 ට පසු ප්‍රධාන වශයෙන් දේශපාලන සහ ජන්ද ව්‍යාපාර ආශ්‍රිත හේතු නිසා සහනාධාර තවදුරටත් පැවතුණි. පොහොර සහනාධාර ප්‍රතිපත්තිය පිළිබඳ තීරණ ගනු ලැබුයේ සාකච්ඡා පදනම් කරගෙන නොවේ. 'මහින්ද විත්තන: නව ශ්‍රී ලංකාවක් සඳහා දැරිය යුතු' යන ප්‍රකාශයෙහි ඇතුළත් දස අවුරුදු සැලැස්මෙහි දී පොහොර සහනාධාර සැපයීම යන්න ඇතුළත්ය.

කෘෂි ව්‍යාප්ති සේවය පෞද්ගලිකරණය කිරීම

1988 වසරේ දී ආසියානු සංවර්ධන බැංකුව විසින් නියමු පදනමක් යටතේ කෘෂි ව්‍යාප්ති සේවය පෞද්ගලිකරණය කිරීම ප්‍රවර්ධනයට කටයුතු කළේය. 'ඉල්ලුම් විසින් මෙහෙයවනු ලබන සේවයක් ලබාදී එම සේවයෙහි පිරිවැයෙන් කොටසක් ප්‍රතිලාභීන්ගෙන් අයකර ගැනීමට පෞද්ගලික අංශයට හැකිවනු ඇත.' යන විශ්වාසයෙන් ව්‍යාප්ති සේවය පෞද්ගලිකරණය කිරීමේ ප්‍රතිපත්තිය ශ්‍රී ලංකා රජය පිළිගෙන තිබුණි. බොහෝ අවස්ථාවල පෞද්ගලික ව්‍යාප්ති සේවය ප්‍රවර්ධනය කළ මෙම ව්‍යාපෘතිය යටතේ ලබාගත හැකි වූ ණය ලබාගැනීමට සේවා සපයන්නෝ බොහෝ අවස්ථාවල උදවු කල ද උපදෙස් සැපයීමට උනන්දුවක් දැක්වූයේ නැත. ව්‍යාපෘති කාලය තුළ පමණක් පෞද්ගලික සමාගම් සහ ගොවීන් අතර සම්බන්ධය අඩුණ්ඩුව පැවතීම, මෙම පද්ධතිය විරස්ථායී නොවූ බව පෙන්වා දීමට සමත් විය.

පර්යේෂණ සහ පර්යේෂණ ප්‍රතිපත්තිවලට ආධාර කිරීම

ව්‍යාප්තිකරණ පරිසරයක් තුළ පර්යේෂණ හා ව්‍යාප්ති පිළිබඳ ප්‍රමුඛතා ඉල්ලුම් විසින් මෙහෙයවනු ලැබිය යුතුය. ශ්‍රී ලංකා ආණ්ඩුවේ ආයතනික යොමුව ප්‍රමාණවත් ලෙස ඉල්ලුම් විසින් මෙහෙයවා නැත. ආසියානු සංවර්ධන බැංකුව කෘෂිකර්ම පර්යේෂණ ප්‍රතිපත්ති සමාගම මගින්, ව්‍යාප්තිකරණය වූ කෘෂිකර්මයෙන් අවශ්‍ය සපුරාලීමට, ඉල්ලුම් විසින් මෙහෙයවන කෘෂිකර්ම පර්යේෂණ ආරම්භ කිරීමට අනුබල දෙන ලදී. පර්යේෂණ පද්ධතියට එල්ල කළ තෙරපීම කෘෂිකර්ම පර්යේෂණ ප්‍රතිපත්ති සභාවේ ප්‍රතිපත්ති පිළිබඳ දීර්ඝ කාලීන දර්ශනය වෙනස්කිරීම කෙරෙහි බලපෑමක් ඇති කළේය. පර්යේෂණ හා න්‍යාප්ති සේවයේ යොමුව සැපයුම විසින් මෙහෙයවීම වෙනුවට ඉල්ලුම් විසින් මෙහෙයවීම කෙරෙහි අවධානය දක්වන අයුරින් වෙනස් වීමක් පෙන්වන අතර දැනට අවධානය වැඩි වශයෙන් දැක්වෙන්නේ ලාභය වැඩි කිරීමට මිස එලෙසිනාවය වැඩි කිරීමට නොවේ.

ව්‍යාපාරික දියුණුව

ආසියානු සංවර්ධන බැංකු ව්‍යාපෘති 3ක් මගින් ව්‍යාපාරික සැලසුම් පිළියෙල කිරීම පහසු කිරීම, ණය පහසුකම් ලබාදීම සහ අවශ්‍ය පුහුණුව ලබා දීම මගින් කෘෂි ව්‍යාපාර සංවර්ධන කටයුතු ආරම්භ කොට ඒවාට බෙහෙවින් ආධාර දීම සිදු කරන ලදී. බහු වාර්ෂික හෝ ව්‍යාපෘතිය මගින් ආධාර කරන ලද ව්‍යාපාර සැලසුම් ක්‍රියාවලිය සමග පෞද්ගලික අංශය හා රේඛීය දෙපාර්තමේන්තුව සම්බන්ධවීම සිදුවූයේ අවම වශයෙනි. ව්‍යාපාර සංවර්ධන කටයුතුවලට ආධාර කිරීමට පෞද්ගලික අංශය මෙහෙයවීමේ සම්බන්ධීකරණ ව්‍යාපෘතිය ලෙස ජාතික කෘෂිකර්ම ව්‍යාපාර සභාව ආසියානු සංවර්ධන බැංකුව විසින් හඳුනාගන්නා ලදී. මනා සංවිධානය පිළිබඳ ගැටළු ද, පරිපාලන හා පසුපසින් දුෂ්කරතා ද, ජාතික කෘෂි ව්‍යාපාර සභාවේ සම්බන්ධතාවය ද, කෘෂි ව්‍යාපාර කටයුතු විරස්ථායී පදනමක් මත ආරම්භ කිරීම අසාර්ථක වීමට දැකිය හැකි විය. ග්‍රාමීය අංශයට සේවය කිරීම සඳහා පිටස්තර ප්‍රදේශවලට ලගාවීමේ වැඩසටහන් තිබුණේ නැත. මෙම කෘෂි ව්‍යාපාර වැඩසටහන දර්ශනවය සම්බන්ධයෙන් ආන්තික බලපෑමක් කරන්නට ඇතැයි සිතිය හැක.

ප්‍රාදේශීය ව්‍යාපාර ප්‍රජාව සමග හොඳින් ඒකාබද්ධ වූ ව්‍යාපාර සංවර්ධන සේවා සපයන්නන් මගින් පෞද්ගලික අංශය පුළුල් හා සෘජුව සම්බන්ධ කර ගැනීමේ වෙනස් ආකාර වූ ප්‍රවේශයක් දකුණු පළාත් 'REAP සංවිධානය' භාවිතා කළේය. ව්‍යාපාර සංවර්ධන සේවා සපයන්නන් විසින් කෘෂි-ව්‍යාපාර සම්බන්ධ ක්‍රියාකාරකම් කල් ඇතිව හඳුනාගෙන, ගනුදෙනුකරුවන් වීමට විභවතාවයක් ඇති පිරිස් සමග සබඳතා ඇතිකර ගැනීමෙන් අනතුරුව, ඔවුන්ට ආයෝජන ආධාර සපයන ලදී. මෙම ආකෘතියෙහි ප්‍රතිපත්තිමය දැකවීමවලට පහත සඳහන් දෑ ඇතුළත්ය: රජයේ ආධාර ලද පෞද්ගලික අංශයේ සංවිධාන කෘෂි-ව්‍යාපාර ප්‍රවර්ධනය පහසු කිරීම සඳහා පිළිගැනීම, මෙහෙයුම් ආකෘති සැපයීම, ව්‍යවසාය සංවර්ධන සේවා සපයන්නන්ගේ ව්‍යාපාර තාක්ෂණ යෝජනා රාජ්‍ය හා පෞද්ගලික බැංකු මගින් පිළිගැනීම, රාජ්‍ය-පෞද්ගලික හවුල් සබඳතාවට ප්‍රාදේශීය සභාවේ සහ පළාත් දේශපාලකයන්ගේ සහයෝගය ලබාගැනීම සහ පොදු යටිතල පහසුකම්වලින් බදු කොටසක් ලබා ගෙන එම පහසුකම් නඩත්තු කිරීම.

වෙළඳපොල යතාර්ථකරණය

වාණිජකරණය ප්‍රවර්ධනය කිරීම සඳහා වෙළඳපොල යතාර්ථකරණයට ආසියානු සංවර්ධන බැංකුව අනුබල දුන්නේ ය. වි අලෙවි මණ්ඩලයේ මෙහෙයුම් යතාර්ථකරණය කිරීම ප්‍රධාන ප්‍රතිපත්තිමය නිර්දේශයක් වූ අතර එය ප්‍රශස්ත වූ නිර්දේශයක් විය. 1985 සිට 1990 දක්වා පැවති ක්‍රියාත්මක කිරීම් තුළ මිලට ගත් වි ප්‍රමාණය අඩු විය. යතාර්ථකරණය කෙරෙහි බලපෑ තවත් සාධක නම් නිදහස්කරණ පරිශ්‍රමය සහ ව්‍යුහාත්මක ගැලපීම් ක්‍රියාවලිය යි. 1995 දී දේශපාලන බලපෑම් මගින් ක්‍රියාදාමය ආපසු හරවන ලදුව, වි අලෙවි මණ්ඩලයේ මෙහෙයුම්වල වර්ධනයක් ඇති යි. කෙසේ වුව ද, වැඩි වූ අලාභ හේතු කොට ගෙන 2000 වසරේ දී වි අලෙවි මණ්ඩලය අහෝසි කරන ලදී.

රජයේ වාණිජකරණ ප්‍රතිපත්තියෙහි සමස්ත බලපෑම

කෘෂිකර්ම ක්ෂේත්‍රයෙහි වාණිජ නැඹුරුවක් ඇති කිරීම සඳහා රජයට සහාය වීමට ආසියානු සංවර්ධන බැංකුවේ වැඩ සහභාගිවීමට හැකිවිය. කෘෂිකර්ම අමාත්‍යාංශයෙන් ව්‍යවසාය සංවර්ධන අංශයක් ඇති කිරීම, ඉදිරි දස වසර තුළ වාණිජ ක්‍රියාකාරකම් සඳහා අයවැයෙන් වැඩි ප්‍රතිපිදනයක් වෙන්කිරීම, පර්යේෂණ කටයුතුවලදී පෞද්ගලික-රාජ්‍ය අංශ හවුලේ කටයුතු කිරීමට මග පෑදීම, කෘෂිකර්ම ව්‍යාප්ති කටයුතු වලදී හවුලකරුවන් හැටියට ප්‍රජාමූල සංවිධානවල සහභාගිත්වය පිළිගැනීම සහ ව්‍යාප්ති කටයුතුවලදී පෞද්ගලික අංශයේ සහභාගිත්වයට අනුබල දීම ඉහත සඳහන් වැඩසටහන්වලට ඇතුළත්ය.

පාරිසරික හා ස්වභාවික සම්පත් කළමනාකරණයට ආධාර කිරීම

කෘෂිකර්ම අංශයෙහි ප්‍රතිපත්ති හා සසඳන විට, ස්වභාවික සම්පත් හා පරිසර අංශයෙහි ප්‍රධාන ප්‍රතිපත්ති, ගුරු උපදේශ හා උපාය මාර්ග එකිනෙකට ගැලපෙන ස්ථාවර තත්ත්වයක පවතී. එසේ වුවද, ප්‍රධාන අවහිරතා තුනක් සමහර ප්‍රතිපත්ති ක්‍රියාත්මක කිරීම සීමා කළේය. පළමු අවහිරතාවය නම් පරිසර සේවාවන්ගෙන් සංවර්ධනයට හා දිළිඳුකම අවම කිරීමට ලබාදිය හැකි දයකත්වය අවතක්සේරු කිරීමයි. අනෙක් අවහිරතා නම් පරිසර කළමනාකරණයට ප්‍රමාණවත් ලෙස අරමුදල් නොලැබීම සහ ආයතනික දුර්වලකම්ය. මෙම සීමාකාරකයන් පියවීමට ආසියානු සංවර්ධන බැංකුවේ වැඩසටහන් සැලකිය යුතු ආධාර කළේය.

පරිසර අංශයෙහි ප්‍රතිපත්ති තුනක් දේශීය කෘෂිකර්මය කෙරෙහි සෘජු බලපෑම් ඇති කළේය. එම ප්‍රතිපත්ති නම්, ජාතික ජල සම්පත් ප්‍රතිපත්තිය, ජාතික ජලාධාර කළමනාකරණ ප්‍රතිපත්තිය සහ ජාතික ඉඩම් පරිහරණ ප්‍රතිපත්තියයි. මේවා අතුරින් ප්‍රථම ප්‍රතිපත්ති දෙක සකස් කිරීමට ආසියානු සංවර්ධන බැංකුව ආයතනික ආධාර දුන් අතර තුන්වැන්නට ලෝක බැංකුව ආධාර කළේය. ජල ප්‍රතිපත්තිය සංශෝධනය කිරීම බෙහෙවින් මහජන විවේචනයට පාත්‍ර විය. එයට හේතු නම්; මහජනතාවගේ අදහස් නොවීමයි; ක්‍රියාදාමය ඉහල සිට පහලට ක්‍රියාත්මක වන ස්වරූපයක් දැරී; ලේඛනය දේශීය භාෂාවලින් සම්පාදනය නොවී; ජලයෙහි සංස්කෘතික අංශ වෙත සංවේදී නොවීම; සහ ප්‍රදායකයින්ගේ උවමනාවන්ට පක්ෂපාති වීමයි. වාමාංශික දේශපාලන බලවේග ප්‍රතිපත්තියට බලවත් වූ විරෝධයක් එල කළේය. ප්‍රතිපත්ති සකස් කිරීමෙහි ලා කිසිදු ප්‍රගතියක් නොවූ බැවින් මෙම ක්‍රියාදාමයට ආධාර කළ ආසියානු සංවර්ධන බැංකුවේ ශාඛ මුදල නිකුත් කිරීම අවසානයේ දී අත්හිටුවන ලදී. ජලාධාර කළමනාකරණ ප්‍රතිපත්තියට ප්‍රමාණවත් සහායයක් අදාළ පාර්ශවකරුවන්ගෙන් ලැබුණි. ප්‍රතිපත්තිය සකස් කිරීමේ දී බෙහෙවින් සහභාගි පිළිවෙතක් අනුගමනය කරන ලදී. ප්‍රතිපත්ති සකස් කිරීමේ මෙම ක්‍රියාවලිය තාක්ෂණික, සමාජ-ආර්ථික සහ පරිපාලන අවශ්‍යතා සමඟ වූ, පරාජයක් නැති තත්ත්වයකට ඉතා හොඳ උදාහරණයක් විය. දැනට මෙම ප්‍රතිපත්තිය ක්‍රියාත්මක කිරීමේ ආයතනික පහසුකම් දුර්වලය.

ප්‍රධාන නිගමන

ශ්‍රී ලංකා ආණ්ඩුවේ ප්‍රතිපත්ති තර්කාන්විත භාවයෙන් හීන විය. ඒවා එකිනෙකට සහාය වන තත්ත්වයක නොපැවතුණි. තවද එම ප්‍රතිපත්ති ස්වභාවය හා යොමුව අතින් නිරතුරුව වෙනස්වන සුළු විය. මෙම සාධක සියල්ල අංශයෙහි පැන නගින වාසිදායක අවස්ථාවලින් ප්‍රයෝජන ගැනීම සහ වෙළඳ නැඹුරුවා පහසු නොකළේය. ප්‍රතිපත්ති සම්පාදනය ක්‍රියාවලිය සාක්ෂි මත හෝ නියාය මත පදනම් වූයේ මද වශයෙනි. ආර්ථික හෝ වෙළඳ බලවේගවලට වඩා සමාජ-දේශපාලන හේතු ප්‍රතිපත්ති සම්පාදන ක්‍රියාවලියට බලපෑවේය.

ආර්ථිකය නිදහස් කළ විට පැන නගින නිදහස් වෙළඳ අවස්ථාවලට ප්‍රතිචාර වශයෙන් කෘෂිකර්ම ප්‍රතිපත්ති එම වේගයෙන්ම වෙනස් වූයේ නැත. කෙසේ වුව ද අංශයෙහි වාණිජකරණ නැඹුරුවට සහාය දක්වන නැඹුරුවක් ප්‍රතිපත්ති සම්පාදන

ක්‍රියාවලියෙහි දක්නට ඇත. වාණිජකරණ ක්‍රියාවලිය මුහුණපාන ගැටළු රැසක් ඇත. ඒවා නම්: උගණ සංවර්ධන යටිතල පහසුකම්, දුබල ග්‍රාමීය මුදල් සම්පාදනය, වෙළඳම නිදහස් කරන ප්‍රතිපත්ති, බාහිර ගෝලීයකරණ සාධක සහ අපනයනය කළ හැකි විවිධ කෘෂිකර්ම නිෂ්පාදනවලට වෙළඳපොළට සම්පවීමට ඇති බාධාය.

විවිධාකාර වූ තාත්වික සීමාවන් නිසා ප්‍රතිපත්ති සම්පාදන ක්‍රියාවලිය ප්‍රමාණවත් ලෙස සුසංගත වී නැති කල්හි, ප්‍රතිපත්ති අපේක්ෂිත දිශානතියට ගමන් කරවීමට, ඉහත සඳහන් අන්දමේ පරිසරයක් තුළ ප්‍රදායකයන්ගේ සහභාගිත්වය වඩාත් වැදගත් වේ. ප්‍රතිපත්ති සංශෝධනයට ආධාර කිරීමේ දී එවැනි මතුපිටට යටින් පවතින තේමාවන් ආසියානු සංවර්ධන බැංකුව ප්‍රමාණවත් ලෙස සැලකිල්ලට ගෙන තිබේද? මෙම ප්‍රශ්නයට සරල පිළිතුරු නැත. සාර්ථක ලෙස අරමුණු ඉටු වීම පිළිබඳ කතාන්තර සමග කෘෂිකර්ම ක්ෂේත්‍රයෙහි ආසියානු සංවර්ධන බැංකුවේ ප්‍රතිපත්ති පසුබෑමට ලක්වූ හෝ අසාර්ථක අවස්ථාව කිපයක් ඇත. තව ද ශ්‍රී ලංකා රජයේ ප්‍රතිපත්ති සමග ආසියානු සංවර්ධන බැංකුවේ ප්‍රතිපත්ති නොගැලපුණු අවස්ථා රැසක් ඇත. එබඳු අවස්ථාවලදී ප්‍රතිපත්තිවලට ‘පරමාදර්ශී’ සංවර්ධන දිශානති නොමැතිවීමේ අවදානම පැවතිය ද, ශ්‍රී ලංකා අණ්ඩුවේ ප්‍රතිපත්ති පිළිගැනීමට පාත්‍ර විය. ක්‍රියාත්මක කිරීමේ දුෂ්කරතා පිළිබඳ අවදානම් තත්ත්වයක් යටතේ වුව ද, ජාතික සම්පත් අංශයෙහි ප්‍රතිපත්ති සමාජ-දේශපාලන සහ තාක්ෂණවාදී බලවේග විසින් මෙහෙය වන ලදී.

සමස්ත නිර්දේශ

ආසියානු සංවර්ධන බැංකුව ඇතුළු ප්‍රදායකයින් ප්‍රතිපත්ති සම්පාදන ක්‍රියාවලියට සහාය විය යුතු අතරම එහි ක්‍රියාකාරී සාමාජිකයන් විය යුතු බව අධ්‍යයනය තරයේ ම නිර්දේශ කර යි. මෙයට හේතු රැසක් ඇත. බැහැර කිරීම නොව වඩාත් හොඳින් අන්තර්ගතකරණයට ඉඩ දෙන ප්‍රතිපත්ති නිර්දේශ කිරීමට අනුබල දෙන වාසි ප්‍රදායකයන් සතු ය. ඔවුහු රටෙහි අංශවල හරස්කඩක ක්‍රියාත්මක වී සිටිති. ඔවුනට වෙනත් රටවල අත්දැකීම් භාවිතයට ගත හැක. ඔවුනට ප්‍රතිපත්ති සංවාද ක්‍රියාදාමයට ප්‍රදාන මගින් දායකවීම් ලබා දිය හැක. ප්‍රතිපත්ති ක්‍රියාත්මක කිරීම ආරම්භ කිරීමට ආයතන හැකියාවන් වර්ධනය කරනු වස් අනුගාමී ආයෝජන සිදු කිරීමට සහ යටිතල පහසුකම් සංවර්ධනයට අරමුදල් සම්පාදනය කිරීමට ඔවුනට පුළුවන; ප්‍රතිපත්ති සම්පාදනයට සාක්ෂි පදනම් කරගත් ක්‍රම වර්ධනය කිරීමට ඔවුනට සහාය විය හැක.

කිසියම් රටක ආර්ථික, සාමාජික සහ දේශපාලන යථාර්ථය සහ එම රටෙහි වැඩසටහන් ක්‍රියාත්මක කරන්නන් සහ ප්‍රතිලාභීන්ගේ හැකියාවන් ප්‍රදායකයන්ගේ ප්‍රතිපත්ති මෙහෙයුමේ දී සැලකිල්ලට ගත යුතු ය. ප්‍රතිපත්ති සම්පාදන ක්‍රියාදාමයට සහාය පිණිස අඩණ්ඩ ප්‍රශස්ත සමාජ-ආර්ථික ඇගයීම් අවශ්‍ය වේ. ප්‍රදායකයන් තම ප්‍රතිපත්ති සම්පාදනයේ දී අංශය පිළිබඳ සාකච්ඡා දර්ශනයක් උපයෝගී කොට ගෙන එහි ගතිකයන් තේරුම් ගැනීමෙන් තොරව කටයුතු කළ හොත්, ඔවුන්ගේ මැදිහත් වීම විරස්ථාසී නොවීම සහ ප්‍රතික්ෂේප වීමේ අවදානමට මුහුණ දීමට සිදුවනු ඇත.

நிறைவேற்றுச் சாராம்சம்

அறிமுகம், நோக்கங்கள் மற்றும் முறைமையியல்

இலங்கையின் விவசாயத்துறை பெரும் எண்ணிக்கையிலான சவால்களுக்கு முகங்கொடுக்க வேண்டுமானால் அது உருமாற்றமடைவது அவசியமானதாகும். சிறந்த கொள்கைத் திட்டவரையும், மூலோபாயங்களுமே இதற்கான ஒரு முன்-நிபந்தனையாகும். தமது செயல்திட்டங்கள் ஊடாக கொள்கைச் சீர்திருத்த நடைமுறைக்கு நன்கொடைச் சமுதாயம் ஆதரவளிக்கின்றது. இலங்கையில் உள்ளூர் விவசாயத் துறையிலும், இயற்கை மூலவளத் துறையில் விவசாயம்-தொடர்பான துறைகளிலும் கொள்கைச் சீர்திருத்தத்தில் ஆசிய அபிவிருத்தி வங்கியினாலான உதவியின் செயற்றிறனை இவ்வாய்வு மதிப்பீடுகின்றது. ஆ.அ.வங்கியினால் ஆதரவளிக்கப்பட்ட வறுமை மதிப்பீடு, தகவல் முகாமைத்துவக் கருத்திட்டமானது வறுமை ஆய்வு நிலையத்தின் (வ.ஆ.நி.) வறுமை மதிப்பீடு, அறிவு முகாமைத்துவ (PAM) செயல்திட்டத்தினுள் இந்த இணை ஆய்வின் ஆ.அ.வங்கி நிதிப்படுத்தியது.

1968இலிருந்து 2005 வரை ஆ.அ.வங்கியில் இணைந்து கொண்டது முதல் மொத்தமாக 4.1 மில்லியன் அமெரிக்க டொலர் கொண்ட நிதிசார் உதவியை இலங்கை பெற்றுள்ளது. இதில் சுமார் 19%ஐ விவசாய மற்றும் இயற்கை மூலவளத் துறை பெற்றது. இது தனித்தொரு துறைக்கு ஆகக்கூடுதலான பங்காகும். கொள்கைச் சீர்திருத்தங்களை வசதிப்படுத்துவதற்கு ஒரு குறிப்பிடத்தக்க விகிதாசாரம் வழங்கப்பட்டது. ஆகவே, ஆய்வின் பிரதான நோக்காக விளங்குகின்ற கொள்கை மீளாய்வின் செயற்றிறனின் விரிவானதொரு மதிப்பீடு பொருத்தமானதாகும்.

ஆய்வின் குறிப்பான நோக்கங்கள் பின்வருவனவற்றை உள்ளடக்குகின்றன:

- ஆ.அ.வங்கி ஆதரவளிக்கின்ற விவசாயக் கொள்கைகளின் வகையை முனைவுபடுத்துதல்
- கொள்கைகளைப் பரிந்துரைக்கும் ஆ.அ.வ. செயல்திட்டங்களின் மாறாததன்மையையும், சக்திவாய்ந்ததன்மையையும் மதிப்பிடுதல்
- இலங்கை அரசாங்கத்தின் கொள்கைச் சீர்திருத்த நடைமுறையை ஆ.அ.வங்கியின் கொள்கைப் பரிந்துரைப்பு போதியளவு வசதிப்படுத்தியுள்ளதா என்பதை உறுதிப்படுத்துதல்
- விவசாயத்துறையில் ஆ.அ.வங்கியினால் ஆதரவளிக்கப்பட்ட கொள்கைகள் பற்றி ஏழைகள் மீதான தாக்கங்களை மதிப்பிடுதல்
- அதிகளவு வறுமைக் குறைப்புக்கும், உற்பத்தித்திறன் வளர்ச்சிக்கும் அதன் கொள்கைத் தலையீடுகளை மேம்படுத்துவதற்கு ஆ.அ.வங்கிக்கு வழிகளைச் சுட்டிச் சொல்லுதல்
- உத்தேசமான கொள்கைகளை எடுத்துக் கொள்வதற்கு இலங்கை அரசாங்கத்தின் உறுப்புக்களின் அரசியல் பொருளாதாரக் காரணிகளினதும், ஆற்றலளவுகளினதும் செல்வாக்கினை மதிப்பிடுதல்

ஆய்வின் மேற்கோள் காலம் 1996 முதல் 2006 வரையாகும். மூன்று கட்ட அணுகுமுறையொன்றை ஆய்வு முறைமையியல் பின்பற்றியது. உள்நாட்டு விவசாயத் துறையில் அரசாங்கத்தின் பாரிய கொள்கை உந்துகைகள் மீது முதலாவது கட்டம் நோக்கினைக் கொண்டுள்ள அதே வேளை, இக் கொள்கைகளுடனான ஆ.அ.வங்கியின் சம்பந்தத்தை இரண்டாவது கட்டம் மதிப்பிட்டது. விவசாயத் துறையில் செயற்றிறன் மீதான கொள்கையின் தாக்கம், வறுமை மீதான தாக்கம் மற்றும் ஆ.அ.வங்கி ஆதரவளிப்பிலான கொள்கையை நிலைத்திருக்க வைப்பதில் துறையின் மட்டுப்படுத்தல்கள் ஆகியன மீது மூன்றாவது கட்டம் நோக்கினைக் கொண்டிருந்தது. விஸ்தாரமான இலக்கிய மதிப்பாய்வினதும், சீவியத்தொழில் புரிபவர்கள், தனியார் துறைப் பிரதிநிதிகள் மற்றும் வேறு பயனாளிகள் ஆகியோருடன் ஒரு தொடரான ஓரளவு-கட்டமைக்கப்பட்ட நேர்முகங்காணலினதும் மீதான அடிப்படையை பகுப்பாய்வுகள் கொண்டிருந்தன.

உள்நாட்டு விவசாயத் துறையும், அபிவிருத்தித் தேவைகளும்

இலங்கையின் மொத்த உள்நாட்டு உற்பத்திக்கு சுமார் 16.8%ஐ பெருந்தோட்டங்கள் உட்பட விவசாயத் துறை பங்களித்ததுடன், 2006இல் உழைப்பாளர் படையின் சுமார் 32%ஐத் தொழிலுக்கு அமர்த்தியிருந்தது. 1996-2006இன் போது ஆண்டுக்கு 2% என்ற வீதத்தில் இது வளர்ச்சியடைந்தது. இது கைத்தொழில் மற்றும் சேவைத் துறைகளை விட கணிசமானளவு குறைவானதாகும். தேசியப் பொருளாதாரத்திற்கு

விவசாயத் துறையின் சார்புரீதியிலான பங்களிப்பு படிப்படியாக குறைவடைவதுடன், அதன் அடிப்படைக் கட்டமைப்பு மானியத் தன்மையிலிருந்து வர்த்தகத்தன்மைக்கு மெதுவாக மாற்றமடைகின்றது.

குறைந்த பயிர் உற்பத்தித்திறன், தேங்கிக் கிடக்கும் உழைப்பு-உற்பத்தித்திறன் (இது பலவீனமான வேதனைக் கட்டமைப்பையும், அதைத் தொடருகின்ற கிராமியப் பகுதிகளில் உழைப்பாளர் தட்டுப்பாட்டையும் விளைவிக்கின்றது), கிராமிய உட்கட்டமைப்பு இன்மை, அடிப்படைச் சேவைகளுக்கான மோசமான அடைதல், மற்றும் இயற்கை மூலவளங்களின் சீர்கேடு ஆகியனவற்றுக்கு துறையின் மெதுவான செயற்றிறன் பிரதானமாகக் காரணங் கற்பிக்கின்றது. இருந்த போதிலும், துறையின் முன்னேற்றம் பங்களிப்பதற்கான உயர்ந்த ஆற்றலளவை துறை கொண்டுள்ளது; அபிவிருத்திக்கான நியாயமான அணுகுமுறையொன்றை மேம்படுத்துவதில் மூலோபாயமான வகிபங்கொன்றை இது ஆற்றுகின்றது; உணவு இறக்குமதிகளைக் குறைப்பதற்கு இது பங்களிக்கின்றது; கிராமிய உழைப்பினை இது பெற்றுக் கொள்ளக்கூடியதாக இருக்கின்றது; அத்துடன் குடித்தன உணவுப் பாதுகாப்புத் தேவைகளை நிறைவேற்றுவதற்கான ஆற்றலளவை இது கொண்டுள்ளது.

விவசாயத் துறையில் அரசாங்கக் கொள்கைகள்

1977இல் பொருளாதாரம் தாராளமயமாக்கப்படுவதற்கு முன்னர், அந்நியச் செலாவணியை மீதப்படுத்துவதற்கான மூலோபாயமொன்றாக உணவு இறக்குமதி பதிலீடு கொள்கைகளினால் விவசாயத் துறை பாதுகாக்கப்பட்டது. வசதிப்படுத்துதல் நடவடிக்கைகளாக, மான்யத்திலான உள்ளீடுகள், நீர்ப்பாசனத்திலும், காணிக் குடியேற்றத்திலும் மூலதனம், ஆராய்ச்சி, விஸ்தரிப்பு மற்றும் பயிர்க் காப்புறுதிச் சேவைகள், சந்தைப்படுத்தல் மற்றும் கமநல சேவைகள் ஆகியவற்றை இலங்கை அரசாங்கம் வழங்கியதுடன், பெருமளவு உணவுப் பொருட்களின் இறக்குமதிகளைத் தடை செய்தது. நிலையான உணவுப் பயிர்களின் வளர்ச்சிக்கு பாதுகாப்பிலான கொள்கைகள் ஆதரவளித்தன என்பது கண்கூடானதாகும். ஆனால், நெல்லுக்கு உரிய விதத்தில் அமையாத அனுசூலங்கள் வழங்கப்பட்டவிடத்து, மானிய விவசாய முறைமைகள் தொடர்ந்தன. 1977இன் பின்னரான திறந்த பொருளாதார ஆட்சிமுறை சிறிதளவு கொள்கைச் சீர்திருத்தங்களைக் கொண்டு வந்தது. ஆனால், உணவு சுய-நிறைவு தொடர்பிலான கொள்கைகளுடன் பாதுகாப்பு தொடர்ந்தது.

இறுப்புப் பட்டியல் கட்டமைப்பில் அடிக்கடியான மாற்றங்கள்; உரங்கள், நீர்ப்பாசனம், விஸ்தரிப்பு, பல்லாண்டு பயிர்களின் செய்கை ஆகியன மீதான மானியங்கள்; சலுகையிலான கடன் ஒழுங்குகளுடன் கிராமிய நிதிப்படுத்தலை வசதிப்படுத்துதல்; பெருந்தோட்டத் துறையை தனியார்மயமாக்கலுக்கு மேலதிகமாக உள்நாட்டு விவசாயத்தில் தனியார் துறை தொழிற்பாடுகளுக்கு ஊக்கமளித்தல், அத்துடன் விவசாய உற்பத்தியிலும், உள்ளீடு சந்தைப்படுத்தலிலும் அரசாங்கத் தலையீடுகளைக் குறைந்தபட்சமாக்குதல் ஆகியனவற்றை 1990-2006இன் போது பாரிய கொள்கைத் துறைகள் உள்ளடக்கின. முன்னைய கொள்கைகளுடன் பெருமளவு முக்கியமான அம்சங்களை 2006இன் புதிய கொள்கைக் கூற்று பரிமாறிக் கொண்டது. துறை அபிவிருத்தியில் அதிகரித்த தனியார்துறை பங்களிப்பினை ஊக்குவித்தல் மற்றும் இயற்கை மூலவள தளத்தைப் பேணுதல் ஆகியனவற்றை பிரதான மாற்றங்கள் உள்ளடக்கின.

குறிப்பிட்டதொரு திசையில் துறையைச் செலுத்துவதற்கான மாறாத் தன்மையிலான முரண்பாடில்லாத, நீண்ட காலத்திலான நோக்கினை இலங்கை அரசாங்கத்தின் விவசாயக் கொள்கைகள் கொண்டிருக்கவில்லை. தொழில்நுட்பக் கரிசனைகளை விட அரசியல் மற்றும் சமூக சக்திகளினால் கொள்கையை வகுத்தமைப்பதில் கொள்கைத் திட்டமிடலாளர்கள் வழிநடத்தப்படுகிறார்கள் என்பதே பிரதான காரணமாகும். முன்னையது வேறுபட்ட அரசியல் ஆட்சி முறைகளினால் வேறுபடுகின்றது. அடிக்கடியான கொள்கை மாற்றங்கள் உள்ளன என்பதே இதன் கருத்தாகும்.

விவசாயத் துறையில் ஆ.அ.வங்கிக் கொள்கைகளும், செயல்திட்டங்களும்

1990களின் முற்பகுதியிலும், 1996-2006இலும் ஆ.அ.வங்கியின் கொள்கை நிகழ்ச்சி நிரலானது துறையில் உற்பத்தித்திறனை மேம்படுத்துவதிலும், போட்டித்தன்மையை அதிகரிப்பதிலும் நோக்கினைக் கொண்டிருந்தது. சந்தை திரிப்புத்தல்களைத் திருத்துதல், திரிப்புத்தப்பட்ட ஊக்குவிப்புக்களை மாற்றியமைத்தல், மூலவளங்களின் தவறான ஒதுக்கீட்டினைக் குறைந்தபட்சமாக்குதல், உயர்வான பிசுக்கால் பற்றாக்குறைகளைக் குறைத்தல் ஆகியன நிகழ்ச்சி நிரலைக் கவனத்தில் எடுக்க முடியும் என ஆ.அ.வங்கி விதந்துரைத்தது. இதன் பிரகாரம், கொள்கை உந்துகைகளின் மூன்று பிரதான துறைகளுக்கு பின்வருமாறு ஆதரவளிக்கப்பட்டது:

- கடன் அடிப்படையிலான சுய-நிதிப்படுத்தல் வியாபார முயற்சிகளாக உதவித் தொகை மற்றும் மானிய-அடிப்படையிலான விவசாயத்தை மாற்றுதல்
- வர்த்தகமயப்படுத்தல், வியாபார முனைப்பினை உருவாக்குதல்
- விவசாயத்தின் நிலைத்திருத்தல் அபிவிருத்தியை வசதிப்படுத்துவதற்காக முக்கிய நீர்ப்பிடிநிலத்தில் காணியை ஒழுங்குபடுத்துதல் உட்பட சூழல் மற்றும் இயற்கை மூலவளங்கள் முகாமைத்துவத்திற்கு ஆதரவளித்தல்

பெருமளவு துறைகளில் இலங்கை அரசாங்கத்தினதும், ஆ.அ.வங்கியினதும் கொள்கைகள் முரண்பட்டவை என்பதுடன், பொருத்தமில்லாதவையாகும். விவசாயத்தின் வர்த்தகமயப்படுத்தலை நோக்கிய தெளிவானதொரு போக்கினை ஆ.அ.வ. கருத்திட்டங்களின் வடிவமைப்பும், இடைவிடா வரிசையும் காட்டின. அண்மைக் காலம் வரை இத் திசையில் நோக்கற்ற நிலையை இலங்கை அரசாங்கக் கொள்கைகளின் நிலையற்ற தன்மை விளைவித்தது. உத்தேசமான கருத்திட்ட உள்ளீடுகளின் விநியோகத்தில் செயற்றிறனின்மைகளை ஆ.அ.வங்கியினதும், இலங்கை அரசாங்கத்தினதும் கொள்கைகளுக்கு இடையில் வேறுபாடுகள் விளைவித்துள்ளதுடன், வர்த்தகமயப்படுத்தல் நடைமுறைக்கு தடங்கலையும் ஏற்படுத்தியுள்ளது.

விவசாயத் துறையில் ஆறு, இயற்கை மூலவளத் துறையில் நான்கு, விவசாய-அடிப்படையிலான கைத்தொழில்களுடன் சிறிய மற்றும் நடுத்தர கைத்தொழில் துறைகளில் மேலும் நான்கு, மற்றும் ஒரு சீர்திருத்தச் செயல்திட்டம் என மொத்தமாக 15 ஆ.அ.வங்கி கருத்திட்டங்கள் மதிப்பாயப்பட்டன.

கிராமிய நிதிப்படுத்தலும், கடன் அடிப்படையில் உற்பத்தியை மேம்படுத்துதலும்

இலங்கை அரசாங்கத்தின் உதவியுடன் கிராமிய நிதிப்படுத்தலை வழங்குவதன் பிரதான அமைப்பு மரபுரிதியான கடனாகவும், நுண்-கடனாகவும் விளங்கியது. விவசாயக் கடன்களுக்கு கடன் உத்தரவாதங்களை மத்திய வங்கி வழங்கியதுடன், இது உண்மையிலேயே அபாயமற்ற சூழலொன்றில் கடனைத் தொழிற்படுத்துவதற்கு பங்கெடுக்கும் வங்கிகளை இயலச் செய்தது. இது சுயேச்சையான கடன் சந்தையின் முன்னேற்றத்தை ஓரளவுக்கு கட்டுப்படுத்தியது. பொருளாதார தாராளமயப்படுத்தலுடன், கடுமையான கடன் கொள்கையை இலங்கை அரசாங்கம் அறிமுகப்படுத்தியது. இது விவசாயத் துறையில் கடனைப் பெறுவதனை மறுதலையாகப் பாதித்துள்ளது. ஆனால், கடனை அறவிடுவதில் சிறந்த பதிவு ஏற்படுத்தப்பட்டுள்ளது. பலதரப்பட்ட தருணங்களில், கடன் அறவிடல்களுக்கு உத்தரவாதங்களை வழங்கும் அபாயத்தை எடுக்கும் கருவிகள் மீள்அறிமுகப்படுத்தப்பட்டன.

மாற்றமடையும் கடன் வீதங்கள், கடன் உத்தரவாதங்கள், மற்றும் கடன் மீள் நிதிப்படுத்தல் கொள்கைகள், மற்றும் கிராமிய ஏழைகளுக்கு கடன் கிட்டுதலை விஸ்தரித்தல் ஆகியவற்றினால் இலங்கை அரசாங்கத்தின் கிராமிய நிதிப்படுத்தல் கொள்கைகள் சித்திரிக்கப்படுகின்றன. 2000இலும், அதற்குப் பின்னரும் இலங்கை அரசாங்கம் கிராமியப் பகுதிகளில் நுண்-நிதிப்படுத்தலை வசதிப்படுத்தியது, நுண்-நிதிப்படுத்தல் நிறுவனங்களுக்கு ஆதரவளித்தது, அத்துடன் கடன் சக சேவைகளை வழங்கியது.

கிராமிய நிதிப்படுத்தல் கலாசாரத்திற்கு வர்த்தக முனைப்பாக்கமொன்றைக் கொண்டு வரும் நோக்கமொன்றுடன் கிராமிய நிதிப்படுத்தல் சேவைகளை வழங்குதில் இலங்கை அரசாங்கத்தின் எழுந்தமான தலையீடுகளையும், நேரடியான சம்பந்தங்களையும் குறைந்தபட்சமாக்குவதற்கு கொள்கைத் திட்டவரையொன்றுக்கு ஆ.அ.வங்கி ஆதரவளித்தது. விதந்துரைக்கப்பட்ட சீர்திருத்தங்கள், பிறவற்றுள், சந்தை வீதங்களைப் பிரதிபலிப்பதற்காக கட்டடம் கட்டமான தன்மையொன்றில் விவசாய உற்பத்தியின் வட்டி வீதங்களை அதிகரித்தல், சந்தை வீதங்களுக்கு அமைவாக உள்ளக மூலங்களுடன் மத்திய வங்கியின் மீள் நிதிப்படுத்தல் வசதிகளின் வட்டி வீதங்களைச் சீரமைத்தல் ஆகியனவற்றை உள்ளடக்கியிருந்தன. மதிப்பாயப்பட்ட கருத்திட்டங்கள் கடன் விநியோகத்திற்கு நுண்-கடன் நிறுவனங்களைப் பயன்படுத்தவில்லை என்பதுடன், கடன் விநியோக நடைமுறையில் அர்ப்பணிக்கப்பட்ட வறுமையை இலக்குப்படுத்தும் முறைமையும் இருக்கவில்லை. கிராமிய நிதிப்படுத்தல் சந்தைகளினுள் புத்திசாலித்தனமான கடன் கொள்கைகளைக் கொண்டு வருவதில் ஆ.அ.வங்கி முயற்சித்ததுடன், குறைந்தபட்ச வருடாந்த அறவிடல் வீதம்; குறைந்தபட்ச ஒன்று திரண்ட அறவிடல் வீதம்; ஒப்புரவு வீதத்திற்கு ஆகக்கூடுதலான கடன்; சராசரி பெறுமதியிலான வைப்பு வீதம் மீது வட்டி வீதத்தை அடிப்படையாகக் கொண்டிருத்தல் போன்ற மூலப்பிரமாணத்தை விதந்துரைப்பதன் மூலம் தாராளமயப்படுத்தப்பட்ட சந்தை அம்சங்களைப் பராமரித்தது. ஆ.அ.வங்கி கருத்திட்டங்களில்

பங்காளிகளாக நுண்-நிதிப்படுத்தல் நிறுவனங்கள் வருவதை இம் மூலப்பிரமாணங்களில் சில தடுத்தன. அவை தடுக்கப்பட்டிருக்காவிட்டால், கிராமிய ஏழைகளுக்கு அதிகளவு கடன் வழங்கப்பட்டிருக்கக்கூடும்.

கிராமிய கடன் விநியோகங்களை ஸ்திர்ப்படுத்துவதில் ஆ.அ.வங்கி தலையீடுகளின் செயற்றிறன்

உள்ளூர் விவசாயத் துறைக்கு ஆதரவளிப்பதற்கான ஆற்றலளவுடன் நிலைத்திருக்கத்தக்க கிராமிய நிதிப்படுத்தல் சந்தையொன்றை உருவாக்குவதற்கு ஆ.அ.வங்கி கருத்திட்டங்கள் தவறியுள்ளன. இதற்கு பெருமளவு காரணங்கள் உள்ளன. கருத்திட்டச் செயற்பாடுகளினால் உருவாக்கப்பட்ட கிராக்கி சந்தையில் தொடரும் என கருத்திட்டங்களின் விநியோகத் தலைமையிலான அணுகுமுறை அனுமானித்தது. ஆனால், இந்த அனுமானத்திற்கு ஆதரவளிப்பதற்கு சான்று இருக்கவில்லை. சந்தையின் கிராக்கி மற்றும் விநியோகப் பக்கங்களின் கட்டமைப்புப் பிரச்சினைகளும், வட்டி வீதங்களில் ஒழுங்கில்லாத மாற்றங்களும் கடன் தொழிற்பாடுகளைக் கட்டுப்படுத்தின.

தெற்குப் பகுதிக்கான REAP தாபிக்கப்படும் வரை, நுண்-நிதிப்படுத்தல் நிறுவனங்களுக்கு ஆ.அ.வங்கி அதிகளவு ஆதரவை வழங்கவில்லை. அதிகளவு ஆதரவை அது வழங்கியிருந்தால் கடன் விநியோகம் மேம்பாடடைந்திருக்கும். கிராமிய ஏழைகளுக்கு நுண்-நிதிப்படுத்தல் அதிக பயனுள்ளதாக விளங்கியிருக்கும். கடன்-தொடர்பான நிறுவனத்தைக் கட்டியெழுப்புதலில் வழங்கப்பட்ட போதிய உதவியின்மையானது கடன் தொழிற்பாடுகள் நிலைத்திருக்காததிற்கான இன்னொரு காரணமாகும்.

ஆ.அ.வங்கியினால் ஆதரவளிக்கப்பட்ட கடன் கொள்கையின் தொடருகின்ற நிலையை அதிகாரவர்க்கத்தின் செயற்றிறனின்மைகள் குழப்பின. ஆ.அ.வங்கியினால் தாபிக்கப்பட்ட சுழற்சி நிதியங்களின் தொடருகின்ற நிலை சில சந்தர்ப்பங்களில் பயனற்றதாகும். சுழற்சி நிதியங்களை அமுல்படுத்துவதற்கு மூலவங்கள் இன்மையும், போதிய உட்கட்டமைப்பு இன்மையுமே மத்திய வங்கியினால் வழங்கப்பட்ட காரணிகளில் ஒன்றாகும். விவசாயக் கடன்களின் பதிவை அழிப்பதற்கும், வட்டி வீதத்தைக் குறைப்பதற்கும் அரசியல்நீதியாக ஆதரவு தேடியதனால் அது சந்தையைப் பாதித்தது. உயர்ந்த பண வீக்கம், உயர்ந்த வரவு-செலவுத் திட்டப் பற்றாக்குறைகள் மற்றும் மறுதலையான வர்த்தக சமநிலை போன்ற சாதகமற்ற பொதுவான பொருளாதார நிலைமைகள் கடன் சந்தையின் செயற்றிறனை மட்டுப்படுத்தியது.

பகுப்பாய்வுக் காலத்தின் போது ஆ.அ.வங்கியின் தலையீடுகள், வட்டி வீதங்களை மாற்றுதல், சந்தை வீதங்களை விட குறைவாக வட்டி வீதங்களைப் பிரயோகித்தல், கிராமிய நிதிசார் சந்தைகளைத் திரிபுபடுத்திய கடன் உத்தரவாதங்கள் போன்றன இலங்கை அரசாங்கத்தின் கொள்கைகளைச் சீர்திருத்தவில்லை என்பதுடன், இது கடன் நிறுவனங்களின் நிலைத்திருத்தல் வளர்ச்சியைத் தடுத்தது. உள்ளூர் விவசாயத் துறையில் கிராமியக் கடன் சந்தையை விருத்தி செய்வதில் ஆ.அ.வ. தலையீடுகள் பலனற்றவையாக திகழ்ந்ததுடன், வறுமையை இலக்குப்படுத்தும் நோக்குடன் கடனைப் பகிர்ந்து கொள்ளவில்லை எனவும் பகுப்பாய்வுகள் காட்டின.

விவசாயத்தில் வர்த்தகமயப்படுத்தலையும், வியாபார முனைப்பாக்கத்தையும் உருவாக்குதல்

துறையில் முன்னேற்றத்திற்கான முக்கியமானதொரு மூலோபாயமாக பயிர் பன்னிலையாக்கமும், வர்த்தகமயப்படுத்தலும் அங்கீகரிக்கப்பட்டுள்ளன. 1984இன் தேசிய விவசாய, உணவு, போஷாக்கு மூலோபாயம் ஆரம்பத்தில் வர்த்தகமயப்படுத்தல் நடைமுறைக்கும், அதைத் தொடர்ந்து 1996இல் வகா லங்கா உணவு இயக்கத்திற்கும் கொள்கை ஆதரவை வழங்கியது. நடைமுறையில் தனியார் துறைப் பங்கெடுப்புக்கு ஆதரவளிப்பதற்காக தேசிய விவசாய வியாபாரச் சபை, மற்றும் பழங்கள், மரக்கறி ஏற்றுமதியாளர் சங்கம் போன்ற தனியார் துறை நிறுவனங்கள் இலங்கை அரசாங்கத்தினால் அமைக்கப்பட்டன. மேலதிகமாக, இலங்கை மத்திய வங்கியின் கொவி செவன திட்டத்தின் கீழ் பண்ட முன்னோக்கிய-தொடர்பு முறைமையொன்றை உருவாக்குதல், விவசாயக் காப்புறுதியில் அரசாங்கத்தின் ஏகபோக உரிமையை ஒழித்தல், மற்றும் தனியார் துறை சந்தைப்படுத்தலில் மூலதனமிடுதல் போன்ற நிறுவனரீதியிலான ஆதரவை இலங்கை அரசாங்கம் வழங்கியது. விவசாய மற்றும் கால்நடைக் கைத்தொழில்களில் பலதரப்பட்ட இடைத்தரப் பொருட்களுக்கு இறக்குமதித் தீர்வைத் திட்டங்களின் சாதகமான மீளாய்வு போன்ற ஆதரவளிப்பிலான ஒழுங்குபடுத்தல் கட்டமைப்புகளும் இருந்தன.

ஆ.அ.வ. செயல்திட்டங்களின் ஊடாக வர்த்தகமயப்படுத்தல் நடைமுறையை வசதிப்படுத்துதல்

வர்த்தகமயப்படுத்தல் நடைமுறைகளுக்குப் பெருமளவு ஆ.அ.வ. கருத்திட்டங்கள் ஆதரவளித்தன. விஸ்தரிப்பினை தனியார்மயப்படுத்தல், வியாபார முயற்சி சேவை ஏற்பாடுகள் மற்றும் ஆராய்ச்சி மற்றும் உற்பத்தி முன்னேற்றம் ஆகியன முக்கிய ஆதரவுகளின் மத்தியில் விளங்குகின்றன. எனினும், மோசமான வசதிப்படுத்தல் சூழல், தனியார்மயப்படுத்தப்பட்ட விஸ்தரிப்பு முறைமை தவறியமை, பலனற்ற தகவல் பரம்பல், ஒழுங்குபடுத்தப்படாத சந்தைப்படுத்தல் முறைமைகள், மற்றும் முழுமையான கொள்கைச் சீர்திருத்த நடைமுறையை தோதாக இடை வரிசைப்படுத்தல் செய்யாமை ஆகியவற்றினால் வர்த்தகமயப்படுத்தல் நடைமுறைக்கு தடையேற்பட்டது. ஆ.அ.வங்கியின் வர்த்தகமயப்படுத்தல் கொள்கைகளின், அல்லது நடைமுறைகளின் பயனாளிகளாக ஏழைகள் நேரடியாக இலக்குப்படுத்தப்பட்டார்கள் என்பதற்கான சான்று இருக்கவில்லை.

உர மானியக் கொள்கை

திறைசேரி நிதிப்படுத்தல் மீது உர மான்யம் ஒரு மிதமிஞ்சிய சமையாக விளங்கியுள்ளது. அது ஒழிக்கப்பட வேண்டும் என பெருமளவு தருணங்களில் ஆ.அ.வ. விதந்துரைத்ததுடன், உரச் சந்தையில் தனியார் துறையின் பங்கெடுப்புக்கு ஊக்கமளித்தது. 1990இல் உரம் மீதான சகல மான்யங்களையும் இலங்கை அரசாங்கம் அகற்றியது. ஆனால், அவற்றை 1994இல் மீளாற்றிமுடிக்கப்பட்டது. மான்யம் வழங்கப்படாத காலத்தின் போது, உரத்தின் பாவனையின் குறைப்பொன்று இருந்தது. ஆனால், சுமார் இரு ஆண்டுகளின் பின்னர், உர மான்யத்தின் மீள்அறிமுகப்படுத்தலின் முன்னரேயே பாவனை விரைவாக அதிகரித்தது. 1994 முதல், பிரதானமாக அரசியல் மற்றும் தேர்தல் காரணங்களுக்காக மான்யம் தொடர்ந்தது. சான்றின் அடிப்படையில் உர மான்யக் கொள்கை மீது தீர்மானங்கள் அடிப்படையைக் கொண்டிருக்கவில்லை. அதன் பத்து வருடத் திட்டத்தில் உர மான்யத்தின் ஏற்பாட்டினை மகிந்த சிந்தனை புதியதொரு இலங்கைக்கான நோக்கு என்ற ஆவணம் உள்ளடக்குகின்றது.

விஸ்தரிப்பினைத் தனியார்மயப்படுத்தல்

1988இல் முன்னோடி அடிப்படையொன்றின் மீது தனியார்மயப்படுத்தப்பட்ட விவசாய விஸ்தரிப்பினை ஆ.அ.வங்கி விருத்தி செய்தது. கிராக்கி செலுத்தலிலான சேவையொன்றை தனியார் துறையினால் வழங்க முடியும்; அவ்வாறாக பயனாளிகளிடமிருந்து சேவை ஆகுசெலவின் பகுதியை திரும்பப் பெற முடியும் என்ற நம்பிக்கையில் விஸ்தரிக்கப்பட்ட தனியார்மயப்படுத்தல் கொள்கையொன்றை இலங்கை அரசாங்கம் ஏற்றுக்கொண்டுள்ளது. பெருமளவு விடயங்களில், ஆலோசனையை வழங்குவதை விட, தனியார் விஸ்தரிப்புச் சேவைகளை விருத்தி செய்கின்ற அதே கருத்திட்டத்திலிருந்து கிட்டுகின்ற கடனைப் பெறுவதில் சேவை வழங்குனர்கள் ஆதரவளித்தனர். தனியார் நிறுவனங்களுக்கும், விவசாயிகளுக்கும் இடையிலான தொடருகின்ற தொடர்புகள் கருத்திட்டக் காலத்தின் போது மட்டுமே நிலவின என்ற உண்மை முறைமையானது நிலைத்திருக்கத்தக்கதல்ல என்பதை எடுத்துக் காட்டியது.

ஆராய்ச்சி மற்றும், ஆராய்ச்சிக் கொள்கை ஆதரவுகள்

வர்த்தகமயப்படுத்தல் சூழலொன்றில், ஆராய்ச்சியினதும், விஸ்தரிப்பினதும் மீதான முன்னுரிமைகள் பெரிதுமே கிராக்கி செலுத்தலிலானதாக விளங்க வேண்டும். இலங்கை அரசாங்கத்தின் நிறுவனரீதியான நோக்கு குறைந்த கிராக்கி செலுத்தலிலானதாகும். விவசாயத்தை வர்த்தகமயப்படுத்தலின் தேவைகளை நிறைவேற்றுவதற்கு கிராக்கி செலுத்தலிலான விவசாய ஆராய்ச்சியை க.ஆ.கொ.ச. ஊடாக ஆரம்பிப்பதற்கு ஆ.அ.வ. ஊக்கமளித்தது. ஆராய்ச்சி முறைமையின் இந்த அழுத்தம் க.ஆ.கொ.ச. கொள்கையில் நீண்ட கால நோக்கத்தில் தாக்கமொன்றைக் கொண்டிருந்தது. விநியோக செலுத்தலிலிருந்து அதிக சந்தை செலுத்தலிலானதாக இருப்பதற்கு ஆராய்ச்சி மற்றும் விஸ்தரிப்பு உற்பத்தித்திறனை அதிகரிப்பதை விட இலாபத்தன்மையை அதிகரிப்பது மீதே வலியுறுத்தல் இருந்தது.

வியாபார முன்னேற்றம்

ஆ.அ.வ. கருத்திட்டங்கள் ஆரம்பிக்கப்பட்டு, வியாபாரத் திட்டத் தயாரிப்பினை வசதிப்படுத்துதல், கடனை கிட்டச் செய்தல் மற்றும் அவசியமான பயிற்சியை வழங்குதல் ஆகியனவற்றின் ஊடாக கம-வியாபார அபிவிருத்திச் செயற்பாடுகளுக்கு பாரியளவில் ஆதரவளிக்கப்பட்டது. பல்லாண்டுப் பயிர் கருத்திட்டத்தினால் ஆதரவளிக்கப்பட்ட வியாபார-திட்டமிடல் நடைமுறையில் தனியார் துறையினதும், நிரை-

திணைக்களங்களினதும் சம்பந்தம் மிகக் குறைவானதாகும். வியாபார முன்னேற்றச் செயற்பாடுகளுக்கு ஆதரவளிப்பதற்கு தனியார் துறையின் உதவியை அடைவதற்கு ஒருங்கிணைக்கும் உறுப்பொன்றாக ஆ.அ.வங்கியினால் தேசிய விவசாய வியாபாரச் சபை அடையாளங் காணப்பட்டது. தேவைகள், விநியோகங்கள் ஒழுங்கமைப்பு, நிருவாக மற்றும் கண்காணித்தல் கஷ்டங்கள் ஆகியனவும், NACஇன் சம்பந்தமும் நிலைத்திருக்கத்தக்க அடிப்படையில் விவசாய வியாபாரச் செயற்பாடுகள் ஆரம்பிப்பதை தோல்வியடையச் செய்வதற்கு பங்களித்தன. கிராமியத் துறைக்கு சேவையாற்றுவதற்கு வெளியிலிருந்து செயல்படும் செயல்திட்டங்கள் இருக்கவில்லை. வறுமை மீது சிறிதளவு தாக்கமொன்றை மட்டுமே இச் செயல்திட்டம் எதிர்பார்க்க முடியும்.

உள்ளூர் வியாபாரச் சனசமூகத்தினுள் நன்கு ஒன்றிணைந்த வியாபார முயற்சி அபிவிருத்தி சேவை வழங்குனர்களின் ஊடாக தனியார் துறையின் விஸ்தாரமானதும், நேரடியானதுமான சம்பந்தத்துடன் வேறுபட்ட அணுகுமுறையொன்றை தென் பகுதி REAP பயன்படுத்தியது. விவசாய வியாபாரம் உட்பட சாத்தியமான செயற்பாடுகளை வி.அ.சே. வழங்குனர்கள் முன்கூட்டியே அடையாளங் கண்டதுடன், உத்தேசமான எதிர்கால வாடிக்கையாளர்களுடன் தொடர்புகளை ஏற்படுத்தி, மூலதன உதவியை வழங்கினார்கள். விவசாய வியாபார விருத்தியை வசதிப்படுத்துவதற்காக அரசாங்க நிதிப்படுத்தலுடன் தனியார் தாபனங்களை ஏற்றுக்கொள்ளுதல்; தொழிற்படுகின்ற முறைகளை வழங்குதல்; அரசாங்க மற்றும் தனியார் வங்கிகளினால் வி.அ.சே. வழங்குனர்களின் தொழில்நுட்ப வியாபார முன்மொழிவுகளை ஏற்றுக்கொள்ளுதல்; அரசாங்க-தனியார் பங்காண்மைக்கு பிரதேச சபை மற்றும் மாகாண அரசியல்வாதிகளின் ஆதரவை இணைத்துக் கொள்ளுதல்; அவற்றின் பராமரிப்புக்காக பொதுசன உட்கட்டமைப்பு வசதிகளிலிருந்து கட்டாயமான பங்கொன்றைப் பராமரித்தல் ஆகியனவற்றை இம் மாதிரியின் கொள்கைப் பங்களிப்புகள் உள்ளடக்கியிருந்தன.

சந்தையை தர்க்கரீதியாக அர்த்தப்படுத்தல்

வர்த்தகமயப்படுத்தலை விருத்தி செய்வதற்கு சந்தையை தர்க்கரீதியாக அர்த்தப்படுத்துவதற்கு ஆ.அ.வங்கி ஊக்கமளித்தது. நெல் சந்தைப்படுத்தல் சபையின் தொழிற்பாடுகளின் தர்க்கரீதியான அர்த்தப்படுத்தலானது பிரதான கொள்கை விதந்துரைப்புகளில் ஒன்றாகும் என்பதுடன், திறமையான ஒன்றுமாகும். 1985 - 90இன் கொள்கை அமுலாக்கல் காலத்தின் போது, நெ.ச. சபையினால் கொள்வனவு செய்யப்பட்ட நெல்லின் அளவு வீழ்ச்சியடைந்துள்ளது. தாராளமயப்படுத்தல் இயக்கமொன்றும், கட்டமைப்பு சீராக்கல் நடைமுறையொன்றுமே தர்க்கரீதியாக அர்த்தப்படுத்தல் மீதான ஏனைய செல்வாக்குகளாகும். இது 1995இல் அரசியல் செல்வாக்குகள் கொள்கையைத் தலைகீழாகக் கொண்டு வந்து, நெ.ச.ச. தொழிற்பாடுகளில் அதிகரிப்பு ஒன்றுக்கு இட்டுச் சென்றது. எனினும், அதிகரித்த நஷ்டங்களின் காரணமாக 2000இல் நெ.ச.ச. கலைக்கப்பட்டது.

வர்த்தகமயப்படுத்தலில் அரசாங்கக் கொள்கை மீதான முழுமையான தாக்கம்

விவசாயத்தில் வர்த்தக முனைப்பாக்கமொன்றைக் கொண்டு வருவதற்கு இலங்கை அரசாங்கத்தின் கொள்கைகளுக்கு ஆ.அ.வ. செயல்திட்டங்கள் உதவியுள்ளன. விவசாய அமைச்சில் வியாபார முயற்சி முன்னேற்றப் பிரிவொன்றைத் தாபித்தல், அடுத்த பத்து வருடங்களுக்கு வர்த்தகச் செயற்பாடுகளுக்காக அதிகரிக்கப்பட்ட வரவு-செலவுத் திட்ட ஒதுக்கீடு, ஆராய்ச்சியை நடத்துவதில் தனியார்-அரசாங்கப் பங்காண்மை, விவசாய விஸ்தரிப்பில் பங்காளிகளாக சனசமூக அடிப்படையிலான தாபனங்களின் சம்பந்தம், மற்றும் விஸ்தரிப்பில் தனியார் துறைப் பங்களிப்புக்கு ஊக்கமளித்தல் ஆகியனவற்றை இச் செயல்திட்டங்கள் உள்ளடக்கியுள்ளன.

சூழல், மற்றும் இயற்கை மூலவளங்கள் முகாமைத்துவத்திற்கு ஆதரளித்தல்

இயற்கை மூலவளத்திலும், சூழல் துறையிலும் பாரிய கொள்கைகளும், கொள்கை வழிகாட்டல்களும் மற்றும் மூலோபாயங்களும் விவசாயத் துறையில் உள்ள கொள்கைகளுடன் ஒப்பிடுகையில் நிலையானவை என்பதுடன், இசைவானவையுமாகும். எனினும், சில கொள்கைகளின் அமுலாக்கத்தை மூன்று முக்கியமான தடைக் காரணிகள் மட்டுப்படுத்தின. அபிவிருத்திக்கும், வறுமையைக் குறைப்பதற்கும் சூழல் சேவைகளின் உத்தேசமான பங்களிப்பினை குறைத்து மதிப்பிடுவதே முதலாவது தடைக்காரணியாகும். சூழல் முகாமைத்துவத்திற்கும், நிறுவனரீதியான பலவீனங்களுக்கும் போதிய நிதிப்படுத்தல் இன்மையே ஏனைய தடைக்காரணிகளாகும். இம் மட்டுப்படுத்தல்களை தீர்த்துக் கொள்வதற்காக துறைக்கு ஆ.அ.வங்கி கணிசமானளவு உதவியளித்தது.

தேசிய நீர் மூலவளங்கள் கொள்கை, தேசிய நீர்ப்பிடிநிலை முகாமைத்துவக் கொள்கை மற்றும் தேசிய காணி உபயோகக் கொள்கை ஆகிய உள்ளூர் கமத்தொழில் மீது நேரடித் தாக்கங்களை சூழல் துறையில் உள்ள மூன்று கொள்கைகளும் கொண்டிருந்தன. முதல் இரு கொள்கைகளையும் வகுத்தமைப்பதற்கு நிறுவனரீதியான ஆதரவை ஆ.அ.வங்கி வழங்கியதுடன், மூன்றாவது கொள்கைக்கு உலக வங்கி ஆதரவளித்தது. நீர் கொள்கையின் சீர்திருத்தம் அதிக பொதுசன விமர்சனத்தின் கீழ் வந்தது. பொது மக்களின் கருத்தினைக் கேட்காமை, நடைமுறையில் மேலிருந்து கீழான தன்மை; கொள்கை ஆவணத்தை உள்ளூர் மொழியில் வரைவதற்குத் தவறியமை; நீரின் கலாசார அம்சங்களுக்கு கூருணர்வுதன்மையின்மை; மற்றும் நன்கொடையாளர்களின் அக்கறைகளுக்கு சலுகை காட்டுதல் ஆகியனவே இதற்குக் காரணமாகும். கொள்கையை வகுத்தமைப்பதில் முன்னேற்றம் இருக்கவில்லை. முடிவாக, இது நடைமுறையை வசதிப்படுத்திய ஆ.அ.வ. கடன் நிறுத்தப்படுவதற்கு இட்டுச் சென்றுள்ளது. நீர்ப்பிடிநிலை முகாமைத்துவக் கொள்கை சம்பந்தப்பட்ட பங்குடமையாளர்களிடமிருந்து போதியளவு ஆதரவைப் பெற்றதுடன், வகுத்தமைத்தல் நடைமுறையானது உயர்ந்தளவில் பங்கெடுப்பிலானதாகும். இது வெற்றி-வெற்றி சூழ்நிலையொன்றின் உதாரணமாகும். இங்கு கொள்கையை வகுத்தமைக்கும் போது தொழில்நுட்ப, சமூக-அரசியல் மற்றும் நிர்வாகக் கரிசனைகள் இணக்கமாக விளங்கின. தற்போது, அமுலாக்கத்திற்கான நிறுவனரீதியிலான ஒழுங்குகள் குறைபாடாக விளங்குகின்றன.

பிரதான முடிவுரைகள்

இலங்கை அரசாங்கத்தின் கொள்கைகள் குறைந்தளவில் இசைவானவையாகும்; பரஸ்பரரீதியில் ஆதரவற்றவையாகும்; அத்துடன் இயற்கையையும், நோக்கினையும் பொறுத்தளவில் அடிக்கடி மாற்றமடைகின்றன; துறையில் தோன்றுகின்ற சந்தைப் போக்குகளையும், வாய்ப்புக்களையும் வசதிப்படுத்தவில்லை. வகுத்தமைத்தல் நடைமுறையானது குறைந்தளவு சான்று அடிப்படையிலானது, அல்லது கோட்பாட்டு அடிப்படையிலானதாகும். பொருளாதார, அல்லது சந்தைக் காரணிகளை விட, சமூக-அரசியல் காரணிகள் கொள்கையை வகுத்தமைத்தல் நடைமுறையில் அனேகமாக ஆதிக்கம் செலுத்தியுள்ளன.

பொருளாதாரம் தாராளமயப்படுத்தப்பட்ட அதே வேளை, தோன்றுகின்ற தாராளமயப்படுத்தப்பட்ட சந்தை வாய்ப்புக்களுக்கு பதிலிறுப்பதற்கு அதே வேகத்தில் கமத்தொழில் கொள்கைகள் மாற்றமடையவில்லை. எனினும், துறையில் வர்த்தகமயப்படுத்தல் போக்குக்கு ஆதரவளிப்பதற்கு கொள்கை வகுத்தமைத்தல் நடைமுறையில் மெதுவாகத் தோன்றுகின்ற போக்கொன்று கண்கூடானதாகும். குறைவாக விருத்தியடைந்துள்ள உட்கட்டமைப்பு வசதிகள், மோசமான கிராமிய நிதிப்படுத்தல், வர்த்தக-தாராளமயப்படுத்தல் கொள்கைகள், வெளிவாரியிலான உலகளாவிய காரணிகள் மற்றும் பெருமளவு ஏற்றுமதி செய்யக்கூடிய விவசாய உற்பத்திகளின் சந்தைக்கான மோசமான அடைதல் போன்ற பெருமளவு இடையூறுகளுக்கு வர்த்தகமயப்படுத்தல் நடைமுறை முகங்கொடுக்கின்றது.

பலதரப்பட்ட தத்ரூபமான மட்டுப்படுத்தல்களின் காரணமாக, கொள்கை வகுக்கும் நடைமுறை போதியளவு பொருந்தியிருக்காத போது விருப்பப்பட்ட திசையில் கொள்கைகளைச் செலுத்துமுகமாக இத்தகையதொரு சூழலில் நன்கொடையாளர்களின் பங்கெடுப்பு எல்லாமே அதிகளவு முக்கியமானதாகும். கொள்கைச் சீர்திருத்தத்தை ஆதரிப்பதில் இத்தகைய அடிப்படையிலான கருப்பொருள்களை ஆ.அ.வங்கி போதியளவு கவனத்திற்கு எடுத்துள்ளதா? இதற்கு எளிய பதில்கள் இல்லை. வெற்றிக் கதைகளுடன் சேர்த்து, விவசாயத் துறையில் ஆ.அ.வ. கொள்கைகளின் பின்னடைவுகளும், தோல்விகளும், இலங்கை அரசாங்கத்தின் கொள்கைகளுக்கும், ஆ.அ.வங்கியின் கொள்கைகளுக்கும் இடையில் பெருமளவு முரண்பாட்டுத் தன்மைகளும் உள்ளன. இத்தகைய விடயங்களில், 'பொருத்தமான' அபிவிருத்தித் திசைகளைக் கொண்டிருக்காத கொள்கைகளின் ஆபத்துடனும் கூட இலங்கை அரசாங்கத்தின் கொள்கைகள் நிலவின. அமுலாக்கல் கஷ்டங்களின் அபாயத்திலும் கூட சமூக-அரசியல் மற்றும் தொழில்நுணுக்க சக்திகளினால் இயற்கை மூலவளத் துறையில் கொள்கைகள் செலுத்தப்பட்டுள்ளன.

முழுமையான விதந்துரைப்புகள்

ஆ.அ.வங்கி உட்பட நன்கொடையாளர்கள் கொள்கையை வகுத்தமைத்தல் நடைமுறையில் ஆதரவளிப்பதுடன், தீவிரமான பங்காளிகளாக இருக்க வேண்டும் என ஆய்வு பலமாக விதந்துரைக்கின்றது. இதற்கு பெருமளவு காரணங்கள் உள்ளன. அதிக உள்ளடக்கங்களான கொள்கைகளை விதந்துரைப்பதற்கு அவர்களுக்கு உதவுகின்ற அனுசூலங்களை நன்கொடையாளர்கள் கொண்டுள்ளார்கள். நாட்டின் துறைகளின் குறுக்கு வெட்டுமுகத்தில் அவர்கள் தீவிரமாக விளங்குகின்றார்கள்; வேறு நாடுகளில் இருந்து அனுபவங்களை அவர்களால் உபயோகிக்க முடியும்; கொள்கைக் கலந்தாய்வு நடைமுறைகளுக்கு

மான்ய உதவியை அவர்களால் வழங்க முடியும்; கொள்கை அமுலாக்கத்தை ஆரம்பிப்பதற்கு நிறுவனரீதியான ஆற்றலளவுகளை மேம்படுத்துவதற்கும், உட்கட்டமைப்பு அபிவிருத்திக்கும் பின்தொடர் மூலதனங்களை அவர்களால் நிதிப்படுத்த முடியும்; அத்துடன் கொள்கையை வகுத்தமைப்பதற்கு சான்று அடிப்படையிலான முறைகளை விருத்தி செய்வதற்கு அவர்களால் உதவி செய்ய முடியும்.

நாட்டின் பொருளாதார, சமூக மற்றும் அரசியல் உண்மைநிலைமைகளையும், செயல்திட்டத்தை அமுல்படுத்துபவர்களினதும், பயனாளிகளினதும் ஆற்றலளவுகளையும் நன்கொடையாளர்களின் கொள்கையின் திசை பொறுப்புக்கு எடுப்பது அவசியமானதாகும். கொள்கை வகுத்தமைத்தல் நடைமுறைக்கு ஆதரவளிப்பதற்கு தொடர்ச்சியான திறமையானதும், உள்ளடங்கலானதுமான சமூக-பொருளாதார ஆய்வுகள் அவசியமாகும். துறையின் முற்று முழுதான நோக்கொன்றை நன்கொடையாளர்கள் பிரயோகித்து, தமது கொள்கையை வகுத்தமைப்பதில் அதன் சக்திவாய்ந்த தன்மையைப் புரிந்து கொண்டால் அன்றி, அவர்களது சம்பந்தம் நிலைத்திருக்க முடியாததாக, அல்லது நிராகரிக்கப்படுவதாக விளங்கும் ஆபத்தை அடையும்.

1. Background, Objectives and Scope

1.1. Introduction

Agriculture in many developing countries is facing ever-increasing challenges related to productivity improvement, efficient resource-allocation, enhancing competitiveness and providing adequate livelihood for producers. Economic globalisation, encompassing closer integration of countries through an increased flow of capital, goods and services, and trade liberalisation, including reduction of tariffs and restrictions to markets, make it difficult for developing countries to meet these challenges. They have to reform their agricultural sectors vigorously to meet the challenges. Formulating proper policies and strategies in this sector is a prerequisite for the whole reform process.

Policy-formulation is a complex process. There are many players such as politicians, bureaucrats, academics, and ordinary citizens. Policy-makers have to balance the needs of all these players to make a policy sustainable. The donor community supports the policy-formulation or reform process by incorporating and recommending certain policy guidelines through their projects and programmes, and directly suggesting certain policies that should be followed. The main purpose of this study is to assess the performance of the donor community in the policy-reform process in the Sri Lankan agricultural sector, focusing on the Asian Development Bank (ADB). The study will examine government policies and the reform process in the non-plantation agricultural sector, and assess what type of policies have been encouraged by the projects and programmes of the ADB. The study will also look at how effectively these projects and programmes supported such policies and the reform process. Both the government and ADB have poverty-reduction as the overarching goal of their development programmes. The study also assesses the poverty impacts of agriculture policies that were supported by the ADB.

The Poverty Assessment and Information Management Project sponsored by the ADB financed this joint evaluation within the Poverty Assessment & Knowledge Management (PAM) Programme of the Centre for Poverty Analysis (CEPA).

The rest of this chapter summarises ADB assistance in Sri Lanka; outlines the objectives and the scope of the study; outlines the methodology and approach; and lists the limitations of the study.

1.2. ADB partnership in development

Sri Lanka has received total assistance of US\$410 million from the ADB since joining the ADB in 1968 to 2005, including US\$370 million for 128 public-sector loans and US\$91.59 million for 220 technical-assistance projects.¹ From these resources, the agriculture and natural resource (ANR) sector received about 19% of loans in 23 projects and 21 loans amounting to US\$607 million. In addition, 46 Technical Assistance (TA) projects have been supported with US\$22.3 million of funds, which is 26% of the total allocation for TAs. The ANR sector has received the highest percentage allocation in both programme loans and TAs which indicates the importance of the sector in the ADB lending portfolio. The especially high allocation of TAs implies the ADB's commitment to improve the ANR sector capacity and its policy aspects.

¹ A Fact Sheet: Sri Lanka and ADB – as of 31 July 2006.

A notable part of programme assistance has been for facilitating policy-reform or policy-formulation processes. There were several independent evaluations of ADB interventions in its member countries in the past², but the ADB's interventions in the policy-reform process has not been a subject of previous studies. This study aims to fill that gap with a broad scope of assessing the performance of the policy-reform process. The lessons of the assessment could be an input to the country-assistance programme strategy.

ADB's country-strategy and programme update 2006-2008 included plans to direct a significant amount of resources to areas with a high incidence of poverty and conflict and to areas affected by the tsunami.³ At the same time, ADB's assistance to Sri Lanka has gradually moved away from mainly agricultural support to assisting the power sector, roads, and improving education.⁴ However, the agricultural sector will still be an important area of interest for the ADB because a high incidence of poverty is found in areas where agriculture predominates.⁵ From a poverty-alleviation perspective, an agricultural policy-analysis of past ADB interventions will be useful for formulating future country-strategies.

ADB supported three main policy thrusts in the agricultural sector during the evaluation period of 1996 to 2006. These include:

1. Changing agriculture from a subsidy- and grant-based culture into credit-based self-financing enterprises;
2. Creating a commercialisation and business orientation in the agricultural sector; and
3. Supporting environmental and natural resources management.

There is more detail on these policy areas in Chapter 3.

1.3. Objective and scope of the evaluation

The agricultural sector comprising domestic agriculture, plantations, forestry and fisheries sectors has hardly expanded during the last ten years. The growth rate averaged around 1% per year, and poverty in the rural areas where agriculture is the mainstay remained high and persistent. Some districts, such as Badulla and Monaragala, experienced increased poverty levels during the period 1992-2002.⁶ Labour productivity in agriculture has fallen during the last decade, and yields of key crops are substantially lower than in comparable Asian countries. Throughout the last decade, various governments have attempted to improve agricultural output and productivity, while ensuring food self-sufficiency and affordable food prices. Progress has not been impressive.⁷

A transition in several areas of the agriculture sector in Sri Lanka is necessary to achieve progress. A shift from import-substitution to export-promotion, a change from subsistence to commercial farming, and a drop in government interventions in production and marketing are some of the key transitions that have been highlighted in the past⁸ and in the recent ten-year development plan of *Mahinda Chinthana*⁹. ADB has intervened in promoting such transitions

² ADB (2001) and ADB (2002)

³ A Fact Sheet (*op.cit.*)

⁴ A Fact Sheet (*op.cit.*)

⁵ World Bank (2007), Sri Lanka Poverty Assessment – Engendering Growth with Equity: Opportunities and Challenges.

⁶ World Bank (2007) (*op.cit.*)

⁷ Kelegama, S (2006).

⁸ Department of National Planning (1992), Public Investment (1992-1996) – Chapter II clearly mentioned these changes in the agriculture sector.

⁹ Available at: <http://www.mahindarajapaksa.com/MahindaChinthanaEnglish.pdf>. Sections of the election manifesto of the government are very relevant to this study. The government promised to foster rural development and to address regional inequalities. The strategy of the government stresses the need for an efficient private sector with the public sector playing a facilitative role. The strategy calls for infrastructure development, investment in human capital, technology improvements, nationwide investment promotion by ensuring policy consistency and stability, and institutional support and incentives for research and development.

through facilitating policy reforms in the past two decades. Policy is a compelling instrument for effecting transitions in an economy. With the premise that policy could influence the performance of the agricultural sector, the general objective of this study is to assess the contribution to the policy-reform process in the Sri Lankan agricultural sector of ADB-financed projects and programmes.

The study has the following specific objectives:

- a. To examine the type of agricultural policies that ADB has supported through its projects and programmes in Sri Lanka over the last ten-years (1996-2006);
- b. To assess the consistency and effectiveness of the ADB-funded projects and programmes in advocating the policies in the agriculture sector;
- c. To ascertain whether or not the ADB's policy advocacy has adequately facilitated the government's policy-reform or formulation process;
- d. To assess the impact on the poor of policies supported by ADB in the agricultural sector;
- e. To suggest how ADB can improve its policy interventions in the agricultural sector to bring about greater poverty-reduction and productivity-growth; and
- f. To assess the influence of political-economic factors and capacities of GOSL bodies to absorb proposed policies in the agricultural sector with a view to making the ADB aware of such forces in the policy-formulation process.

1.4. Scope of the study

The scope of this evaluation is limited to the policies and their impacts on the agricultural sector, which includes domestic food crops, agricultural export crops (EAC)¹⁰, other perennial crops and livestock.¹¹ Fisheries and forestry are not included. The agriculture and natural resource sectors are considered as one sector in ADB programmes. However, the policies, programmes and projects that were exclusive in their targeting the natural resource and environment sector are not addressed in this study. Nevertheless, a few policies in the natural resource sector have direct relevance for agricultural production. ADB projects have assisted in formulating some of these policies. A short review of them is included in this study.

Policy formulation in the agricultural sector has a long history. ADB projects had close involvements on many occasions in the policy formulation process. For reasons of manageability, this study limits the period of analysis to ten years from 1996 to 2006. The policy changes in the agriculture sector during this period were examined. The assessment generated lessons and recommendations that would be useful for all donors who intend developing projects and supporting the policy-reform process in the agricultural sector in Sri Lanka.

1.5. Methodology and approach

The terms 'policy influence' or 'policy reform' were used in this assessment to cover three interrelated factors. The first was the government commitment to accept certain policies because of social, economic or political forces. Generally, these forces are internally generated within the country. They can even be external on certain occasions, such as structural

¹⁰ This included spices, beverage crops (coffee and cocoa) and essential oil crops (citronella and lemongrass).

¹¹ The CBSL adopt this definition for the domestic agriculture sector.

adjustment requirements proposed by the IMF and the World Bank.¹² The second factor was the implementation procedures adopted by government and non-government institutions in reacting to policy proposals. The third was the formulation of programmes based on proposed policy and procedures that affect the sector. Development of institutions was also an integral part of the policy-reform process.

Within this broad focus, the study took a three-stage approach to the evaluation. In the first stage, major policy thrusts of the Government of Sri Lanka (GOSL) in the domestic agriculture sector over a period of ten years were identified and summarised. ADB involvement with these policies was assessed in the second stage. In this analysis policies that were supported by ADB through the projects in the agriculture and natural resources sectors were examined. The third stage examined policy impacts on the performance of the agriculture sector and on the rural poor, and the limitations of the sector to sustain the ADB-supported policies.

The third step in the analysis looked at the impacts of policies. Evaluation of impacts needs to focus on the broad objectives of ADB lending and non-lending programmes. Contributing to the overarching objective of poverty-reduction, ADB programme interventions concentrated on:

- pro-poor sustainable economic growth
- inclusive social development and
- good governance

as three pillars.¹³ The impact analysis concentrated on these three areas. However, impacts of policies on any sector in general and the agricultural sector in particular are felt in the long run. An analysis of the short term will not capture the effects. Therefore, a detailed policy-impact analysis was beyond the scope of this study. However, efforts were made in the study at least to indicate observable trends.

The research tools adopted were: (a) perception analysis and (b) assessment of various documents and data (mainly published and unpublished secondary information - see references). The perception analysis was based on (i) face-to-face and telephone interviews with private-sector representatives and professionals associated with or knowledgeable about general changes in agriculture policies; and (ii) key informant interviews with beneficiaries and a range of people influenced by ADB-supported agricultural policies.

The study will propose, on the basis of these results, ways in which the ADB can improve its policy intervention in the agricultural sector to bring about faster poverty-reduction and productivity-growth. Information for the first and the second steps was collected from an extensive literature review, which included (i) literature on general country context and economic development process; and (ii) published and unpublished reports, research papers, interim reports, and other references that were available from CEPA, ADB, the government, or other independent sources.

1.6. Issue of attribution

Evaluation of project operations in influencing policy reform is a difficult task. This is because policy reform is a complex process and requires long-term commitments of the government and other related bodies to accept policy changes. Administrative and political considerations

¹² Dushni Weerakoon, 'The Influence of Development Ideology in Macroeconomic Policy Reform Process' in Kelegama (2004)

¹³ ADB (2006c)

carry more weight than the economic requirements of the country in formulating projects and practical programmes to support policies.

This study hypothesises that ADB-financed projects are not the only key instruments in improving policies. It is difficult to attribute policy changes to impacts of individual projects in a complex environment where other development efforts and political influences take a leading role in formulating policies. It is risky to conclude that the ADB-financed projects alone could contribute to any policy change that was seen in the agriculture sector.

The report further stresses the point that all government policies are not necessarily based on economic or development criteria or on sound evidence. The political economy has played and continues to play a crucial role. However, this study endeavours to investigate the possible associations between ADB projects and advocacy, and the changing nature of agricultural policies.

1.7. Limitation of the study

The study faced the following limitations in the process of investigation based on the secondary source of information.

- Project-related documents are potential sources of material for the analysis of project interventions in various areas. Discussions with former officials of projects (1st Perennial Crop Project; NCP RDP, UWMP etc.) revealed that there is no system of maintaining project documents except the documents such as PCR and audit reports which are available on the ADB website. There is a lack of institutional memory and information as to why certain policies and programmes succeeded and others failed in the field. Apart from the documents maintained at the ADB, most other important documents are either misplaced or difficult to locate. This limited the investigation of the full history of interventions and policy implications.
- Policy formulation is a complex and evolving process. There are many economic, social and political variables contributing to the process. The personal understanding and wishful thinking of policy proponents also influence the process as there is little recourse to evidence-based methodology in policy-formulation. It is extremely difficult to credit the formulation of a particular policy to a particular intervention, whether it is a project, a covenant or a socio-political condition. Different literature interprets policy changes and policy reversal in different ways because of lack of research evidence and loss of institutional memory where institutions were the ones involved in projects. This prevented the analysis from establishing clear causes and effects.

The assessment covered a wide area and several ADB projects, which are listed in Chapter 4. A wide and spread out field study would have provided valuable primary data mainly to assess the performance of policies in the field and to evaluate policy impacts on different socio-economic groups including the poor. However, such a field study would have faced the following constraints:

- Many projects assessed in the study have already been completed, and there is a serious institutional deficiency in organising necessary field samples and group meetings to collect primary data;
- The projects under investigation were spread out over a wide geographical area: NCP-RDP was in North Central province; S REAP is in Southern province, two Perennial Crop Projects were in many districts in four provinces, UWMP was operating in Uva, Sabaragamuwa and Central provinces. Organising a field study to cover issues in a

scientific manner needs a considerable amount of financial, time and human resources which was beyond the scope of this study.

- As an alternative to a field study, several research studies in the subject areas of the assessment were used. There is a limitation to such studies too. The studies referred to were conducted for various purposes with their own objectives and scope. Nevertheless they provided useful and relevant information to support this study.

The study covered diverse issues in the policy and policy-related influence on the agricultural sector and in a limited way on the environmental sector. Since issues are so diverse there is a risk of the report being disjointed. However a common flow of arguments was maintained as far as possible and the concluding section attempted to present a coherent account of the study.

1.8. Format of the Report

The report has eight chapters and three appendices. The **first chapter** introduced the study and presented the scope, objectives and the method of assessment. The **second chapter** presents a brief description of the agricultural sector. The main issues addressed in the chapter are the decline of the sector and recent trends. The chapter concludes with a comment on the need for developing the domestic agriculture sector. General agricultural policies of the government are examined in the **third chapter**. The policies of three periods are discussed and their differences are described. The description of sector-specific policies is deferred to respective chapters. **Chapter four** summarises the policies and programme of the ADB. The main policy thrusts are listed. The projects and programmes that were assessed in this study are listed. There is a short review in this chapter of the policies that were promoted by the ADB and the contribution of ADB projects to the facilitation of these policies. **Chapter five** analyses the policies in the areas of rural credit and credit-based production-improvements. The details of credit policies of both GOSL and ADB are examined and the contribution of ADB projects to institutionalising rural financing policies are summarised. The chapter also looks at policy failures and causes for failures. There is a short review in this chapter of the impacts of policies on the rural poor. **Chapter six** analyses policy influence on commercialising the agriculture sector. It looks at government policies first and then describes the policies promoted by the ADB. The overall impact of both sets of policies and constraints in achieving commercialisation in the agriculture sector is summarised. Natural resource-sector policies are examined in the **seventh chapter**. The policies and ADB involvement in policy formulation are summarised. The failures and the causes of failures of water policy, and the success story of the watershed management policy are presented in this chapter. **Chapter eight** concludes the report. First it presents overall conclusions and then lists recommendations for improving the policy formulation process.

There are three appendices which support some of the arguments presented in the main report. The first appendix presents an overview of agricultural imports and exports and examines some of the consequences of different policy regimes on the agriculture sector. The second appendix looks at crucial roles that are played by the domestic agriculture sector in rural areas. The sector contribution at the sub-national level in terms of rural development and rural livelihood is summarised in this appendix. The third appendix presents the recent National Agriculture Policy for the Domestic Agriculture Sector, which is in its final draft form at the time of writing this report. The main report could however be used without referring to the appendices.

2. The Domestic Agriculture Sector

2.1. Introduction

The chapter provides an overview of the domestic agricultural sector with a brief description of the performance of the agricultural sector in the national and rural economies and the sector's strategic importance in rural economic development. The agricultural sector is beset with several problems. The chapter lists these problems with a view to accentuating the urgent need for reform. It argues that a dynamic agricultural sector has strategic importance in rural development, food security and rural livelihoods; even though the sector's relative contribution at the national level has reduced over the years. Sound policies are the key to achieving dynamism. The chapter concludes that persistent impediments and structural problems in the sector hamper its growth, and strategic changes are necessary if it is to develop.

2.2. Agriculture sector and challenges for development

Contribution of the sector to the economy

The agricultural sector¹⁴, including the plantation sector, earned Rs.179,278 million and accounts for 17.2% of Sri Lanka's Gross Domestic Product (GDP) in 2005; the ratio has come down to 16.8% from Rs.187,729 million in 2006.¹⁵ In terms of 1996 constant prices there is an increase in the earnings of the sector although its relative contribution has declined. The sector employs about 2,122,000 people or 32% of the country's labour force in 2006 and paddy accounted for half of this employment. Employment in the sector in 1995 was 1,967,000 and therefore the growth in the ten-year period was about 8%. This growth compares poorly with the industrial sector which had a 70%, and services sector which had a 35% increase in labour force participation during the same period.¹⁶

The growth of the agriculture sector was approximately 2% per annum during 1996-2005 at constant prices whilst the services and industry sectors grew at an average rate of about 6-7% during the same period. The non-plantation agriculture sector, which is the subject of this study, had a share of 12% of the GDP in 2005.¹⁷ The predominant sectors in terms of GDP contribution are plantation crops such as tea, rubber, and coconuts¹⁸ and non-plantation crops such as paddy, export agricultural crops¹⁹ and fruits and vegetables, and other field crops²⁰. In the last two decades, the sector has gradually diversified into other non-plantation crops,²¹ which now account (excluding fisheries and livestock) for nearly two-thirds of the agricultural GDP. Livestock accounted for 1.2% of total GDP, 5.6% of the agricultural GDP, and supplied 20% of domestic milk requirements in 2005.²²

¹⁴ Agriculture includes domestic agriculture, plantation, fisheries, forestry, and livestock according to the accounting definition of the Central Bank. However, this study focuses only on the non-plantation agriculture crop sector and the livestock sector.

¹⁵ CBSL Annual Report of the respective years.

¹⁶ The industrial sector employed 1,188,000 and 2,018,000 in 1995 and 2006 respectively and the services sector employed 2,202,000 and 2,972,000 in 1995 and 2006 respectively (CBSL Annual Reports).

¹⁷ CBSL (2005), Annual Report (pp 17)

¹⁸ There are about 222,000 ha of tea, 116,000 ha of rubber and 395,000 ha of coconut in the plantation and small holding sector. About 40% of tea, 10% of rubber and 5% of coconut lands are in the plantation sector while the rest are with smallholders and private estates (Ministry of Plantation Industries, Plantation Sector Statistical Pocket Book, 2005)

¹⁹ Export agricultural crops include spices (cinnamon, pepper, clove, cardamom, nutmeg), beverage crops (coffee and cocoa), and essential oil crops (citronella and lemon grass).

²⁰ Other field crops include onion, potatoes, chillies, legume crops, maize, soybean etc.

²¹ Other crops refer to non-plantation and subsidiary food crops such as potatoes, onions, maize, and high value crops such as fruits, vegetables, herbs, and spices.

²² Ministry of Finance and Planning (2006)

The agricultural sector is undergoing two important changes: (a) its contribution to national economy, growth rates and its relative importance as a rural income-generator are gradually decreasing, and (b) its basic structure is slowly changing from a subsistence nature to a commercial nature.

Reducing relative importance

The receding relative importance of the agricultural sector is shown in the Sri Lanka Poverty Assessment of the World Bank²³. The average annual growth rate of output value of the agriculture sector, excluding forestry and fisheries, has declined from 2.8% in the period 1982-1990 to 0.9% in 2002-2004.²⁴ The rice sector showed a negative growth of 0.3% in the former period and it has declined to 4.5% in the latter period, making it the worst performer in terms of growth decline. However, paddy recovered from negative growth and recorded a 2.1% growth in 2006. The non-paddy sector, mainly vegetables, fruits and spices (chiefly cinnamon, pepper and cloves) had a growth rate of 6.5% and declined to 2.6% in the two respective periods. The non-paddy sector managed to maintain its share of about 10% in the agriculture sector, including forestry and fisheries, over the reference period of 1985 to 2004.

The disappointing relative growth in the agriculture sector during the last two decades contributed to lower export-earning and higher food imports (see Appendix 1 for the details on the poor performance of agriculture exports and increasing food imports). Both these have deprived the country of resources, especially foreign exchange resources, which could be used for reinvestments in the sector. The cumulative effect is the overall retardation of the sector and a shrinking contribution to the national economy.

Agriculture and poverty

Nearly 80% of the population lives in rural areas and most of them depend on agriculture for their livelihoods.²⁵ The decline in the agricultural sector contributes directly to changes in poverty-incidence in rural areas. Agriculture plays a crucial role in linking rural areas to the broader rural economy through backward and forward linkages, and hence any downturn in the sector both directly and indirectly affects rural livelihood and rural development. This was demonstrated by the growth-incidence analysis of rural income, especially among agriculture-dependent households. Two observations are apposite.²⁶ The poorest 7% of rural households and 10% of agricultural households suffered a decline in income in real terms between 1995 and 1996 and 2001 and 2002, and only 19% of agricultural households achieved an increase in income greater than 10% during the same period. It is likely that most of the farmers who suffered would be paddy growers as the paddy sector shows the highest negative growth (see Appendix 2 for details about poverty levels and their association with agriculture).

Future trends in the sector

Firstly, agriculture is generally losing ground as a rural income earner, although it is still the mainstay in certain provinces. The proportion of agriculture and non-agriculture income of the rural agricultural households was estimated at 31.6% and 41.9% respectively.²⁷ The

²³ World Bank (2007), Chapter 6 of the report gave details of the performance of the agricultural sector in a succinct manner and in this section the report only highlights the key findings.

²⁴ Table 6.2, pp 61 of World Bank (2007)

²⁵ World Bank (2007), *op.cit.* (pp 60)

²⁶ World Bank (2007), *op.cit.* (pp 61-62)

²⁷ Sri Lanka Integrated Study (1999/2000) quoted in World Bank (2007), *op.cit.* (pp 133)

proportion of farm income varies in different agriculture sectors. The paddy sector, with 32%, is one of the lowest farm income-earning sectors. The fruit and vegetable sector showed a gradual change as commercial farming ventures contribute 42% to the total household income. These are national level averages based on aggregated analyses. Disaggregated information however shows that provinces such as Uva and Sabaragamuwa have significantly higher proportions of their income coming from agriculture (see Appendix 2 for details).

The second trend that is observed in the sector is its gradual but very slow process of commercialisation. This is mainly visible in the smallholder tea sector (which is not dealt with in detail in this study) and the non-paddy domestic crops sector including fruit, vegetables and spices, and the agro-based industrial sector. Table 2.1 shows that there are recognisable changes in the domestic agricultural sector at the macro-level with more production in the diversified and commercial agriculture sector which are categorised as 'other crops'. While the contribution of paddy to the agricultural GDP is receding, the contribution from the diversified crop sector including fruit, vegetables and spices is increasing. De Silva noted²⁸ that while there is an overall stagnation in the non-plantation agriculture there is a strong undercurrent of commercialisation. There is no widespread resistance to commercialisation and farmers are generally agreeable to moving into commercial farming.

Value-addition to agricultural products in terms of agro-based industries with exports is also increasing, albeit very slowly. In 1997 agro-based industries took a share of 15% of total industrial exports and this has increased to 18% in 2006 in value terms.²⁹ This too could be attributed to increasing commercialisation of the agricultural sector. However, for the reasons given in Chapter 6, the commercialisation process has been notably slow.

Table 2.1: Progress Indicators of Changing the Structure of the Domestic Agriculture Sector (current factor cost prices of respective years)

Indicator	Units	1982	1992	1994	2001	2005	2006
GDP	Rs mn	94,679	386,999	523,300	1,245,599	2,098,323	2,443,439
Total Agric GDP	Rs mn	20,771	81,137	98,519	249,790	360,808	409,003
Paddy	Rs mn	5,484	19,659	21,241	34,731	53,286	49,404
Other crops (diversified sector)	Rs mn	8,836	45,490	58,047	133,232	199,594	223,633
Agric. GDP as a % of GDP	%	22	21	19	20	17	17
Income from diversified crops as a % of GDP	%	9	12	11	11	10	9
Income from paddy as a % of Agric. GDP	%	26	24	22	14	15	12
Income from diversified crops as a % of Agric. GDP	%	43	56	59	53	55	55

Source: Respective issues of CBSL Annual Report

The slow performance of the agricultural sector in relative terms can be attributed to various technical limitations, structural rigidities, policy failures and factor market imperfections that prevail in the sector. The next section examines key limitations of the sector and the following chapters assess policy conditions that influence the sector performance.

²⁸ De Silva, K T et al (1999)

²⁹ CBSL Annual Reports of respective years.

2.3. Key problems in the agriculture sector

There were several key issues and constraints that limit the progress of the agriculture sector. These are adequately discussed in the literature³⁰ and only listed below with a view to stressing the importance of implementing sound policies to overcome these limitations. In addition to these, there are specific limitations, such as credit and agriculture commercialisation, which are dealt with under respective areas.

Low Productivity: All crop sectors, apart from paddy; report low productivity levels in comparison to many other countries (see Table 2.2). This shows that the Sri Lankan agricultural sector is not internationally competitive. At the same time, the domestic agricultural sector has a high potential for improvement. The plantation sector too has a substantially low production. The average plantation tea yield of 1,500 kg/ha is lower than the yields of smallholder tea producers (about 2,200 kg/ha) and tea yields in other countries such as India (1,700 kg/ha) and Kenya (2,200 kg/ha).³¹ The productivity of rubber at 798 kg/ha is below the average yields (1,500 kg/ha) of India, Thailand and Malaysia.³² Coconut production too shows a notably low yield of 4,271 kg/ha compared to 6,000 in Indonesia (Table 2.2).

Table 2.2: Productivity of selected agricultural crops (kg/ha)

Commodity	Sri Lanka	China	India	Indonesia	Pakistan	Thailand	Vietnam
Rice	3,394	6,170	3,006	4,517	2,988	2,676	4,694
Maize	1,103	4,964	1,874	3,241	2,319	3,656	3,333
Groundnut	585	2,904	975	2,013	971	1,512	1,678
Soybean	1,049	1,781	865	1,270	1,250	1,356	1,317
Potatoes	16,543	15,462	18,555	18,555	15,051	12,054	13,159
Eggplant	6,882	18,631	16,146	7,034	10,556	5,826	
Cabbage	13,889	18,743	21,330	20,334	14,856	11,011	17,972
Chillies	2,888	19,160	9,182	3,808		14,000	
Tomatoes	7,593	26,121	14,789	12,678	9,964	26,095	
Sugarcane	56,966	65,376	62,731	69,710	48,378	68,862	54,215
Pepper	623	1,530	237	718		3,093	1,733
Tea	1,450	863	1,690	1,405		295	1,011
Coconut	4,271	10,099	4,809	6,013	4,000	4,327	6,804
Rubber	798	1,292	1,596	896		1,623	876

Source: World Bank (2007), *op. cit.*

Two conclusions can be drawn from this. Firstly, improved technology through research and dissemination and effective extension is essential to improve low productivity. Secondly, state investment and facilities for the private sector to intervene in the non-paddy sector need to be supported to promote the overall improvement of productivity.

Agricultural labour productivity: Agricultural labour productivity stagnated in the 1990s and the 2000s. In terms of 1996 factor cost prices, agricultural labour productivity was Rs.79,363

³⁰ Kelegama (2006) *op.cit.*, Nimal Sanderatne (2002); World Bank (2007) *op.cit.*

³¹ Ministry of Plantation Industries (2005) Plantation Statistical Pocket Book

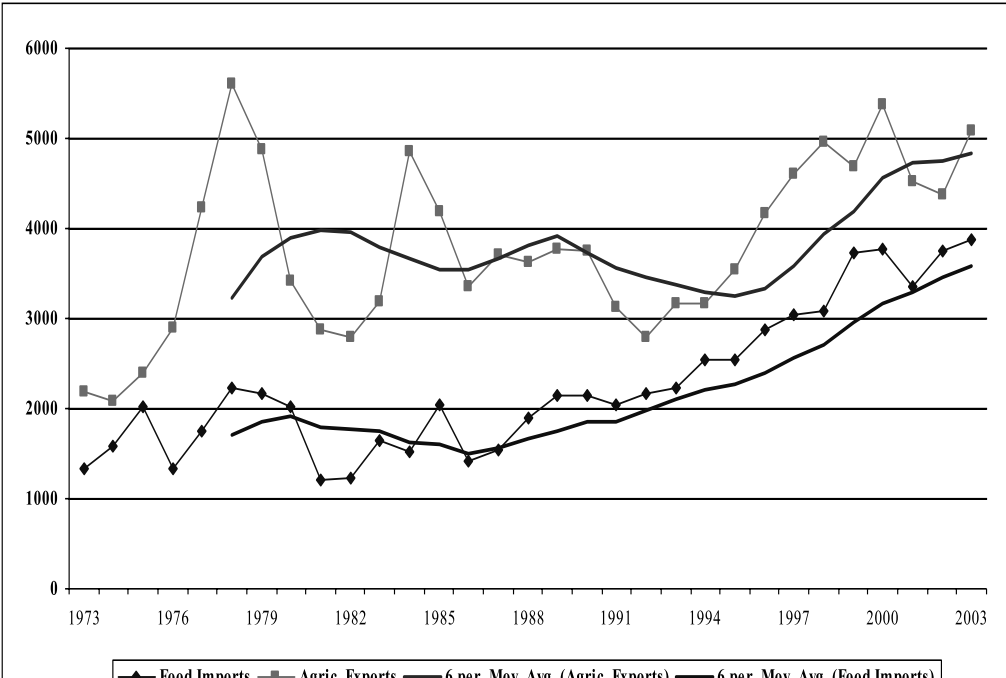
³² World Bank (2007), *op.cit.*

in 1995 and it has slowly increased to Rs.88,468 in 2006 showing an increase of 11.5%.³³ The comparative figures in the industry sector were Rs.154,929 in 1995 and 149,149 in 2006, a 3.7% decline, and in the service sector, Rs.161,566 and Rs.211,139 in respective years showing a 30.6% increase. Comparatively, agricultural labour productivity is low but has been increasing at a rate more than the industry sector, perhaps because of overmanning in the industry sector (a point which will be taken up again to show the importance of agricultural development).

The low productivity of crops is one of the main reasons for low labour productivity. The use of modern technology, such as better seed and improved plant varieties, soil nutrient replenishment systems and efficient water-use are not widespread in Sri Lanka. As a result, poor improvement in quality and productivity depresses the return on labour.

Stagnating labour productivity causes depressed wage rates in relative terms. A comparison between the increasing trend of the food price index and the agriculture wage index³⁴ over the last 40 years shows that the food index is growing much faster than the wage index, especially during the first and second wave of liberalisation (see Figure 2.1). The net result is a reduction in real wages in the agricultural sector. This partly explains the labour shortage in rural areas. There is high migration of both skilled and semi-skilled workers abroad, and an increasing number of rural people who seek employment outside agriculture. In plantations alone, an estimated 274,000 workers have left the sector between 1980 and 2003.³⁵ This threatens the future labour requirements of the agricultural sector, particularly the plantation estates.

Figure 2.1: Monthly food rice index and agricultural labour wage index (base year = 1970)



Source: Department of Census and Statistics, Statistical Abstract (2004)

³³ CBSL Annual Reports of respective years.
³⁴ Food index is the Colombo Consumer Price Index which is computed monthly by the Department of Census and Statistics (DCS). The wage index was also computed by the DCS based on the wage rate of agricultural workers. The base year for both was 1970.
³⁵ Antonia Engel (no year), From Conflict-prone Industrial Relations to Social and Economic Stability in the Sri Lankan Tea Plantations.

Lack of infrastructure and access to basic services: Infrastructure, such as road linkages, particularly farm to market roads, market facilities and market information, access to affordable electricity and other forms of power, access to rural and micro-financing services, are inadequate especially in rural areas.³⁶ Despite substantial public investment, irrigation facilities operate at sub-optimal level because of poor maintenance by public and private bodies, institutional weaknesses, capacity deficiencies in proper maintenance and water-distribution, and irregular and inconsistent farmer participation in operation and maintenance.³⁷ Poor infrastructure and lack of access to enabling facilities have increased operating costs and reduced the competitiveness of the agricultural sector. Infrastructure deficiencies have negative impacts particularly on the commercialisation process. For example, post-harvest losses due to mishandling, storage, and transport, have accounted for 25% to 40% of losses for perishable items such as fruits and vegetables.³⁸

Natural resource degradation and agriculture: Natural resources have been threatened by unsustainable agricultural activities, population pressure, and increasing dependence of poor people on many types of resources. Intensification of agricultural production, opening of marginal lands for agriculture, and lack of soil and land-conservation measures have contributed to serious degradation of land and reduced land-productivity.³⁹ In addition, deforestation, soil-erosion, coastal-erosion, riverbed mining, water-pollution, threats to biodiversity arising from illegal agricultural activities in protected areas, and fuel-wood extraction are other problems which affect the productivity of the agricultural sector.⁴⁰ Many policies and policy strategies are in place to regulate unsustainable uses of natural resources. Chapter seven assesses their effectiveness in controlling land-degradation.

2.4. Development needs of the agricultural sector

Despite poor performance the agricultural sector is important for several reasons. Firstly, because of the predominance of agriculture, its growth contributes significantly to the reduction of rural poverty, increasing rural income and employment opportunities and household food security. Agricultural development is also a strategy to enhance an equitable approach to development and poverty-reduction. This is particularly so when other employment avenues and opportunities are scarce as they are in many rural areas.⁴¹ Agriculture addresses the problem of poverty more directly than industrial development or exports. Sen (1982) gave this idea profound expression in his entitlement theory. Entitlements to material resources and food among the poor could be improved through rural agriculture development.⁴²

Secondly, the sector has an impact on reducing food imports thereby saving much needed foreign reserves. The share of food imports out of total imports in 1975 was 51% and it has gradually reduced to 9% in 2006 in constant-value terms.⁴³ In spite of increasing wheat imports, this marked reduction is a result of an exceptional increase in local paddy production from about 2,133 million metric tons in 1980 to about 3,300 million metric tons in 2006 and

³⁶ World Bank and Asian Development Bank (2004)

³⁷ Manchanayake and Bandara (*op.cit.*)

³⁸ World Bank and Asian Development Bank (2004).

³⁹ Project Administration Memorandum, Upper Watershed Management Project, 1998.

⁴⁰ Ministry of Environment and Natural Resources (2003). *Caring for the Environment 2003–2007 – Path to Sustainable Development*. Sri Lanka.

⁴¹ Almost 80% of the registered small and medium industries up to 2004 are located in the Western Province according to the Statistical Abstract of the Department of Census and Statistics (2004).

⁴² Sen, A (1982)

⁴³ Food import share has been 21% in 1980, 20% in 1985, 15% in 1990, 12% in 1995 and 10% in 2000 (CBSL, Annual Reports in respective years).

increases in various other food crops. The move away from dependence on imported food needs to be continued with policies that encourage balanced trade and production.

Thirdly, the agriculture sector is still necessary to absorb rural labour. It was shown earlier that labour productivity is higher in absolute terms in the industrial sector compared to agriculture. Labour-force participation in the industrial sector showed a 70% increase during the twelve-year period from 1995 to 2006. However, labour productivity has shown a negative growth of 3.7% during this period. If the trend continues there will be a reversal in labour participation in the agricultural sector since it has a positive labour productivity growth of nearly 12%. Development efforts in the agriculture sector should therefore continue to encourage labour re-absorption.

There is a substantial body of literature both by early development writers such as Hirschman (1958), Jorgenson (1961), Kuznets (1968) and recent writers such as Stern (1994) concerning the importance of agricultural development in developing countries. Stern (1994), summarising empirical evidence concerning the correlation between agricultural and non-agricultural or overall growth, reported that the contribution of agriculture to income and employment reduces with development. This is an outcome of an initial disparity of labour productivity in the agriculture and non-agriculture or 'modern' sectors. It is important to equalise the labour productivity of the agriculture and non-agriculture sectors to bring about overall development. Policies to promote equalisation of labour productivities in the two sectors are essential in this period. Sri Lankan agriculture is currently going through this stage.

Fourthly, agricultural development has an important contribution to make to household food security. Overall economic growth and diversification are important factors in ensuring national food security. At the same time, agricultural development has a vital role to play in ensuring food security at household level. Increased agricultural production by improving incomes of rural households could considerably enhance household food security as a large proportion of the population is dependent on agricultural income (see Appendix 2 for details of the dependency).

2.5. Conclusion: Chapter 2

The importance of the agricultural sector in the overall economy is receding. However, the sector still has a significant role to play in the future development of the country. The potentials of the sector will be maximised if the correct combination of policy framework, institutional support, and response from the farming and the private sectors is in place.

The government has accorded a high priority to supporting the sector in the past. The Ten-year Plan of *Mahinda Chintana: Vision for a New Sri Lanka* has recognised the need for major investment in the sector. In this scenario the policy in the sector could play a vital role in steering its development, which is the subject of the next chapter.

3. Agriculture Policy - Historical Perspective

3.1. Introduction

This chapter presents the broad policy framework for the agriculture sector, which would generally be responsible for making changes in the sector. In addition to this broad policy framework, there are subject-specific policies such as policies relating to agricultural credit, commercialisation of agriculture and natural resource management in the agriculture sector. These policies are presented in respective sections along with the analysis. Against the background of this chapter, the next chapter will assess how well ADB policies cohere with GOSL policies.

The analytical period covered by this study is limited to 1990 to 2005. The policies that prevailed before this period are presented in a historical preview to set the policy-evolution process in perspective. The discussion concentrates on policies in three periods: 1989-1995, the first period; 1996-2000, the second and 2000-2005 is the third. There are two main reasons for this division into periods:

- Firstly, changes of governments, and concomitant policy changes, during these periods. There was a major change in macro-economic policies in 1989 -1994. The United National Party (UNP) government implemented the second wave of economic liberalisation and policy-reform from 1989 with a great emphasis on liberalisation and social welfare programmes such as the Janasaviya poverty-alleviation programme; the newly-elected UNP government in 1994 continued these policies with more open economic policies with a human face. The People's Alliance (PA) came into power in 1999 (effectively in 2000 in terms of policy analysis) and made some changes to deepen market reform and this, more or less, prevailed until 2005. This was the third wave of liberalisation of the economy.
- The second reason is the extent of liberalisation, mainly through trade policies. The economy was progressively liberalised during these three periods and that has impacted on changing agriculture policies.⁴⁴

At the end of the chapter a summary is presented to show the main policy thrust of the government to facilitate the discussion on the ADB policies in the agricultural sector and their relevance and appropriateness to overall GOSL policies.

3.2. Is the pace of agricultural growth influenced by policy?

The main subject of the study is agriculture-related policies and how they have been influenced by different forces. But do policies strengthen agriculture growth? This is a pertinent question since the final goal of the donors and GOSL is agricultural development. The literature on economic development provides substantial evidence to show that there is an association between sound policies and agricultural development. A number of policy areas have been repeatedly cited in the literature: financing policies which emphasise rural financing, technology, broad-based rural development policies, liberal input markets, liberal pricing policies, and policies for appropriate government investments.⁴⁵ So the answer to the question: 'is there a strong connection between appropriate policies and agricultural development' is an emphatic 'yes'. It is, however, beyond the scope of this study to provide a

⁴⁴ Kelegama (2006) *op.cit.*

⁴⁵ A good review of policy and agriculture development is found in Morrison and Sarris (2007)

detailed account of evidence or literature to support the argument although it is a pertinent area for academic research.

3.3. Policies in the pre-liberalisation period

The open economic environment encouraged from 1977 meant that that year was a clear turning-point for economic policies. However the main policy of food self-sufficiency which had begun before 1970 remained unchanged.⁴⁶ During 1970-1977 GOSL was compelled to maintain a closed and protectionist economy because of severe depletion of foreign exchange reserves.⁴⁷ The fiscal problem of lack of reserves was the main driving-force behind the food self-sufficiency policy of this period. The Marxist element in the government which was in power during this period supported the protectionist economic policy. Specific policies in the agricultural sector under the broad protectionist environment were proposed and implemented with a minimum of controversy.

As a strategy for saving foreign exchange, there was a heavy emphasis on import-substitution in the agricultural sector. Foreign exchange controls and quantitative restrictions (QRs) on imports under import licensing were imposed to achieve food self-sufficiency.⁴⁸ Many private business enterprises were taken under government control and management. Several new, state-owned industrial enterprises were established. At the same time the government encouraged export-promotion, especially of non-traditional exports, and direct investment by foreign interests in the import-competing industries. The government used the dual exchange rate system (introduced in 1968) to facilitate exports and to curtail imports in the sector.⁴⁹ Land-reform policy, which was one of the main agricultural policies, was implemented during the 1970s with meagre benefits to poor and landless farmers.⁵⁰

GOSL supplied subsidised inputs such as fertiliser, pesticides, tractors, improved seed and planting material and rural credit during this period of import-substitution policy and encouragement of food self-sufficiency. Large amounts of state investment went into irrigation development and land-settlement programmes in the dry zone.⁵¹ There was a marked improvement in research and extension services; crop insurance, marketing and agrarian service institutions. In addition to direct-marketing assistance such as the Paddy Marketing Board, guaranteed minimum prices for paddy and other field crops was provided.⁵² GOSL banned the import of many food items during this period to support the import- substitution strategy.

Contribution of protectionist policies in agriculture growth

There was growth in the food sector during this period. Paddy production grew from 509,700 metric tons in 1960 to 1,035,000 metric tons in 1980; sugar from 13,000 metric tons in 1970 to 26,290 metric tons in 1980; and milk from 108 metric tons in 1960 to 283 metric tons 1980

⁴⁶ There were several key policies with substantial impacts on agriculture before 1977 such as land settlements in the 1940s, highland colonisation in the 1950s, village expansion and youth settlements in the 1950s, tenancy reforms in paddy lands in the 1950s, accelerated *Mahaweli* programme in the 1970s and land-reform and privatization in the 1970s. These are not discussed in this report. Sanderatne (2004) *op.cit.* provides a summarised account of these policies and their impacts on the agriculture sector.

⁴⁷ Nimal Sanderatne (2004), *Agricultural Development: Controversial Issues*, in Saman Kelegama (2004), *op.cit.*

⁴⁸ Saman Kelegama (2006)

⁴⁹ Kelegama (2006) *op.cit.*

⁵⁰ The benefits and cost the land reform programme was much discussed and debated in the literature and we need not repeat the discussion here. The broad conclusions of many studies are that the land-reform policy and the programme have not solved land-distribution issues in the country and particularly the poor had not benefited through this policy. (see Gunawardana, P J, (1981) Land Policy and Agrarian Change in Independent Sri Lanka. *Sri Lanka Journal of Agrarian Studies*, 2: 27-43. Brow, J. and Weeramunda, J. (1992) *Agrarian Change in Sri Lanka*. Sage Publications: New Delhi.

⁵¹ Nimal Sanderatne (2004), *Agriculture Development: Controversial Issues* in Saman Kelegama (ed), *Economic Policy in Sri Lanka: Issues and Debates*, Sage Publications, New Delhi

⁵² Sanderatne (2004), *op.cit.*

(Central Bank Annual Reports in respective years). However, the protectionist policy and related GOSL programmes could not reduce the expenditure on food imports. The total value of food imports in 1970 was Rs.1,051 million and it has increased to Rs.6,940 million in 1980 in nominal terms. Food prices have increased as shown in Figure 1. The annual average growth rate of non-plantation agriculture was 3.5% during 1970-77 which was slightly higher than the growth rate of 1-2% before the 1970s.⁵³ There is no detailed empirical analysis in the literature of the impact of protectionist policies on agriculture.⁵⁴ Gunawardana and Somaratne (*op.cit.*), presenting an empirical analysis reported that protectionist policies did support the increase in production of staple food crops, but the basic character of the agricultural sector, with subsistence crops predominating, did not change during this period. The paddy sector got the most benefit from these policies.

Compared to neighbouring Asian countries, the Sri Lankan growth rate was slow during the period 1970-77 when protectionist policies were predominant. Partly because of slow growth, the government in 1977 implemented far-reaching reforms and created an open economic framework. The aim was to create employment opportunities, increase capacity utilisation, stimulate savings and investment, and improve the balance of payments.⁵⁵ These policies brought about reforms in agricultural policies and programmes and continued with some of the previous agricultural policies which had protectionist elements. This is a result of GOSL policy makers' obsession with food self-sufficiency.⁵⁶

3.4. Agriculture policies during the period of analysis - lack of coherence

A list of policy thrusts and main policy goals of the government during the period from 1990 to 2006, which includes the main period of analysis covered by this study, is presented below⁵⁷. The main observation of the analysis is that the policies did not have a logical progression which could support a growing, productive and commercialising agricultural sector. The focus of policy has frequently changed, responding more to political and economic forces than to the needs of sector development⁵⁸ or sector analyses based on evidence. The subsidy policy, import restrictions, price controls are some examples of such forces.

Period 1989 -1995: Second wave of liberalisation

The policies of the period 1989-1995 were conditioned by the second wave of economic liberalisation and policy reforms designed to encourage an open economy. **The major policy thrust for the agriculture sector during this period was the diversification towards commercial agriculture.** The policy strategies which had a potential impact on agriculture included reducing rigidities in the tariff system - tariffs in agricultural imports were reduced to 45% with a three-band structure (formerly six bands); devaluing the currency to promote exports; removing the fertiliser subsidy with effect from 1990; increasing the interest rate of rural credit schemes and promoting crop-diversification and export of non-plantation agricultural crops (export promotion as against the previous policy of import-substitution).

⁵³ CBSL (respective years), Annual Report

⁵⁴ The detailed text available in the literature on this subjects are Sanderatne (2004) *op.cit.*, Kelegama (2006), and Athukorala, P and Jayasuriya, S (1994) which dealt with qualitative analyses.

⁵⁵ Athukorala, P and Jayasuriya, S (1994)

⁵⁶ Kelegama (2006) *op.cit.* (Page 240).

⁵⁷ This discussion is based on the following literature: Kelegama (2006) *op.cit.*; Gunawardana P J and Somaratne W G (2000) and relevant issues of the CBSL Annual Reports (each annual report has a section on agricultural policies).

⁵⁸ A classic example of political economic domination in policy formulation is found in the process of preparing the negative list of agricultural products for the Indo-Lanka bilateral agreement. The producers constituted a strong lobby and, with the support of the Minister of Agriculture, exerted pressure for more protectionist policies for their products during the post-1996 period. This resulted in putting the entire agricultural sector into the negative list of the Indo-lanka bilateral free trade agreement (Kelegama (*op.cit.* page 231).

The aim of these policies was to change the basic character of the agricultural sector, particularly the domestic agricultural sector, from subsistence to commercialisation with diversification into high-value crops.

This was necessary as there was a substantial policy and investment emphasis on the paddy sector⁵⁹ at the expense of other crop sectors which have the potential to earn more income for the rural farmers. At the same time, paddy had almost reached self-sufficiency level⁶⁰ and further improvement of paddy production would have led to a price depression. The export opportunities that were available for non-paddy crops⁶¹, which were more than that for paddy, were to be utilised.

In economic terms, the relative prices of high-value crops compared to paddy would be the most important driving-force for crop diversification. This is assuming that the infrastructure facilities that were available in the sector would be equally conducive for both paddy and non-paddy food crops. It was empirically shown⁶² that although there was a shift of production from more subsistence crops⁶³ to commercial crops, there was a continuous increase in paddy production to about 1,700,000 metric tons. During the late 1990s there was an overall reduction of commercial crop production. The empirical analysis quoted here has not taken into account the spices and beverage export crops, which are also a part of the domestic agricultural sector and represent high-value crops. There was only a marginal increase in the production of these crops during this period.⁶⁴ The final analysis shows that the shift from subsistence to commercial agriculture was only marginal.

Period 1996 - 1999: Liberal economy and further liberalisation

The major policy thrust during 1994-1999 was the **removal of institutional and policy obstacles in the agriculture sector**. These obstacles have retarded profitability and constrained investment in this sector⁶⁵. There was a mixture of policies in this period. Some policies and strategies supported subsistence agriculture and others continued to foster commercialisation. The extensive World Bank⁶⁶ study published in 1996 influenced some of the policies favouring commercialisation. There were several criticisms⁶⁷ of the study's findings, mainly those relating to the paddy sector. The study's conclusions about lack of competitiveness in the paddy sector did not take account of the nature of rural markets, high adjustment-cost for other agricultural systems, and political economy; and disregarded the very high sunk cost in irrigation systems for paddy. The focus of the Ministry of Agriculture on promoting paddy continued in spite of the World Bank's recommendations.

The specific policy strategies that affected the agricultural sector during this period were:

- tariff policy - the tariff on imports of rice and subsidiary food crops was reduced. A 35% tariff on rice imports was again imposed. Almost all agriculture tariffs were set at 50% during the Uruguay Round of the WTO agreement on Agriculture. Tariffs on agricultural inputs such as tractors were reduced;

⁵⁹ These interventions were import restrictions, high investment in irrigation including *Mahaweli* and other irrigation projects and the research emphasis on paddy.

⁶⁰ Sri Lanka achieved near self sufficiency in paddy in mid-1980s (CBSL, 1989). This report emphasises 'near self sufficiency' because wheat flour has replaced rice consumption by a large proportion. It does not mean that rice production has increased to meet the full demand of the staple food. Over 12% of calories is obtained from imported wheat flour and the calorie intake from this source has been increasing at a rate of 2% per year, the fastest rate of growth for any item in Sri Lankan diet (Yapa, Lakshman, 1998)

⁶¹ The high-value crops in the sector are potatoes, cowpea, green gram, chillies, onions, spices and beverage crops.

⁶² Gunawardana and Somaratne (*op.cit.*)

⁶³ In addition to paddy, the other subsistence crops included in the analysis were manioc and *kurakkan*.

⁶⁴ The total volume of spices and beverage crops collectively called export agricultural crop increased from 17,900 metric tons (average of 1984-89) to 20,300 metric tons (average of 1990 to 1994)

⁶⁵ Policy Statement of the government of Sri Lanka presented by the President of Sri Lanka, 9th February 1996.

⁶⁶ The World Bank (1996), Sri Lanka: Non-Plantation Crop Sector Policy Alternatives, Report No. 14564-CE, Washington, DC

⁶⁷ Baker and Samad (1998) argued that the paddy cultivation was still competitive and have a comparative advantage of paddy in late 1990's: Baker, R and Samad, M (1998).

- even though the World Bank (1996) insisted that the fertiliser subsidy be removed, political and economic forces were strong enough to reinstate it;
- reducing the interest rates of agricultural credit;
- reducing the turnover tax on agricultural inputs; partially removing consumer subsidies on wheat-flour and bread to improve the balance between the consumption of wheat and rice - which is a rice-promoting strategy;
- allowing completely duty-free imports of rice for a temporary period (in 1995);
- re-imposing 35% tariff rate for rice imports (in 1999);
- removing government interventions in marketing but reintroducing the minimum purchase price scheme for selected crops (rice, potatoes, dried chillies, onions, cowpea, green gram, maize and ground nuts in 1999);
- promoting more commodity-orientated and problem-orientated research;
- widening the scope of agricultural insurance through the establishment of the Agricultural and Agrarian Insurance Board which permitted private insurance companies to insure crop activities;
- initiating a fee-based private extension service for the first time as a pilot project under the Second Perennial Crop Project in 1999⁶⁸;
- supporting rural financing through a Central Bank-supported forward-contract mechanism for agricultural produce under the Govi Sahanaya Scheme ⁶⁹; and
- commercialising the seed and planting material sector in line with the National Seed Policy ⁷⁰ with government-initiated duty-free imports of seed.⁷¹

Tariff is an important fiscal policy in driving various investment activities of the agricultural sector and is subject to frequent changes. The changes have varying impacts on food imports and local production. A detailed presentation or an analysis of the tariff policy is not attempted in this study, because it has not been a policy area in which ADB has intervened with their projects.⁷² Nevertheless, it is necessary to underline the implications of the tariff structure on the competitiveness of the sector. Sri Lanka fixed nearly all agricultural tariffs at a 50% ceiling, and notified the WTO in mid-1990.⁷³ This was one of the lowest tariffs in the Asian region.⁷⁴ The Sri Lankan agriculture sector was not structurally developed (in fact it was still underdeveloped) and was unable to face product competitiveness, transmitted through imports, from other producing countries. It is evident (see Appendix 1) that low-fixed tariffs and consequent low-applied tariffs (in the range of 35% - 28%, when India had a tariff of nearly 100% for many agricultural products) led to a gradual erosion of production of some food crops. This eventually triggered ad hoc tariff changes to meet producers' demands. The tariff structure was not strong enough to safeguard the production base from prevailing international price distortions in agricultural trade.

⁶⁸ This was advocated and supported by ADB and the government also endorsed this policy during this period (Public Investment: 1992-1996, Department of National Planning)

⁶⁹ The scheme began in 1999 and encouraged by the World Bank. The initial funding requirement was provided under the Development Market Place Project in 2002 and 2003. (refer CBSL, 2003, Annual Report, page 241)

⁷⁰ Drafting of the Seed Act started in 1996 (CBSL, 1999, Annual Report, pp 32) and it is still in circulation for comments (personal discussion with Dr Kumudu Fernando, Department of Agriculture) and National Seed Act was approved in 2003.

⁷¹ At the same time government allocated Rs 100 million in strengthening production centres at Maha Illuppallama, Batalagoda, Ambalantota, Bata-ata and Nikeweratiya (CBSL, 1999, op cit.). Only two seed farms, Hingurakgoda and Pelwehera were privatised. This would have weakened the private-sector involvement although the government has encouraged the private sector in seed production.

⁷² There are several studies on tariff policy and their impact in the domestic agriculture sector. Among them Jayanetti and Tilakaratna (2005); Weerahewa, J (2004); Ratnasiri, S; Marasinghe, R and Weerahewa, J (1999) are noteworthy.

⁷³ Herath (2006) and Kelegama (2006), pp 27. The author strongly believes that this was a serious policy error that Sri Lanka has committed. The binding tariff level was proposed to WTO without a basis of any sound study or wide consultation of the concerned institutions or the public. There are sensitive products in the sector which cannot sustain 50% bound tariff level as it provide a very narrow policy space to protect such crops in any import surge or import price decline.

⁷⁴ Several sources provide evidence for this claim and among them Centad (2005) and Bellmann et al (2003) are key references.

Because of the unsatisfactory tariff structure, there were frequent changes in the tariff policy on main food crops. Changing tariff rates affected crops such as rice, potatoes, onions and chillies.⁷⁵ Most of these changes were requested by the Ministry of Agriculture to maintain the food security situation of the country. Many of these changes were politically motivated and sought to maintain producer and customer satisfaction following crop failures, gluts in crop production or high seasonal food demand. It is often asserted that frequent changes of tariff policies have unfavourable effects on the agribusiness processes, and the private sector who could invest in food storage. Changes affect resource-allocation decisions and in certain cases lead to confusion.

Period 2000 - 2005: Commercialisation drive

During 2000-2005 a major emphasis was put on the policy thrust for **commercialisation and productivity improvement of agriculture for shifting low-value to high-value products**. The policy strategies adopted during this period were much more forceful and direct in their intervention as policies in promoting commercial agriculture in the domestic agricultural sector. These include:

- initiating private-public partnership in research, extension, processing, value-addition in and marketing of agricultural products;
- promoting more secure land-ownership (transferred land grants to permits, regularised encroachments, relaxed land-regularisation process);
- approving the national agricultural research policy of 2003; shifting responsibility for commercial seed production and veterinary services to the private sector;
- introducing partial cost-recovery and other local financing mechanisms to enhance the responsiveness of research and extension services to the needs of small farmers;
- upgrading the agricultural marketing system;
- continuing with similar rural financing systems;
- continuing with a similar set of trade and tariff policies that were used in the previous period but with frequent changes in tariff rates for different commodities - reducing the applied tariff rate of many food commodities to 28% in 2002 and maintaining it at that rate.

Subsidy policy of GOSL - Mainly the fertiliser subsidy

The main subsidised inputs provided in the agricultural sector include chemical fertiliser, irrigation water and water-management, agricultural extension, and seed-quality certification services. Among these policies, fertiliser-subsidy policy is controversial. With a view to increasing production, GOSL began subsidising fertiliser prices as far back as 1962. The subsidy scheme has been in operation since then with several changes in the rate of subsidy, fixing the fertiliser price, the type of fertiliser that was subsidised (urea and other types of fertiliser), crop sectors that were assisted and the distribution systems. During the period 1990-1994, there was no subsidy for fertiliser. A detailed empirical study⁷⁶ on the use of fertiliser in the paddy sector and the effect of the subsidy scheme concluded that the demand for fertiliser is a function of paddy prices rather than of prices of fertiliser. The study implied

⁷⁵ Paddy faced the highest variation in the tariff rates in terms of total tax incidence (i.e. custom duty, surcharge, VAT, National Security Levy, gives the total tax incidence): January 1995 – 65.7% in *ad-valorem* equivalents; Feb, 1995 – 44.6%; April 1996 – 7.6%; Jan 1997 – 44.6%; Oct 1999 – 20.9%; Jan 2000 – 48%; Feb 2001 – 60%; Nov 2001 – 8.1%; Dec 2001 – 34.1%; Jan 2002 – 60%; Nov 2002 – 27.4%. Potatoes also had a high fluctuation: Feb 1995 – 54.7%; Dec 2000 – 172%; Feb 2001 – 223% etc (Jayanetti and Tilakaratna, 2005).

⁷⁶ Ekanayake, H K J (2006)

that the GOSL policy should be revised to minimise the budgetary constraint on the fertiliser subsidy and recommended that an alternative strategy for targeting the poor to safeguard their income should be formulated. Both the Agriculture Policy Statement of 2006⁷⁷ and Mahinda Chinthana pledged a continuation of the fertiliser subsidy.⁷⁸ The ten-year Investment Plan of GOSL (2007-2016) allocated about 30% of its total funding in the agriculture sector to the fertiliser subsidy for the ten-year period.

Although the fertiliser subsidy policy does not directly support the productivity improvement or commercialisation process, the GOSL was adamant that it had to be continued to protect the poorer farmers.⁷⁹ The motive for this is political. Poorer farmers are not in reality protected by the fertiliser subsidy because there is no targeting mechanism to provide fertiliser to the poor; therefore, it is doubtful if the political objective is achieved by this policy. A comprehensive policy analysis is required to advise the GOSL to reform the fertiliser subsidy policy. As an alternative policy, a part of the money allocated for the subsidy could be targeted on the poor, while the balance could pay for improving the fertiliser distribution process.

Agricultural policy in Mahinda Chintana - Beyond 2006

The Government elected in 2004 proposed yet another policy regime for the agricultural sector (see Appendix 3 for the full policy paper). The vision of this policy statement is that An agriculture sector contributing to regionally equitable economic growth, rural livelihood improvement, and food security through efficient production of commodities for consumption, for agro-based industries and for exporting competitively to the world market. This policy statement has the following objectives⁸⁰:

- Increase domestic agricultural production to ensure food and nutrition security of the nation;
- Promote agricultural productivity and ensure sustainable growth;
- Maximise benefits and minimise adverse effects of globalisation on domestic and export agriculture;
- Adopt productive farming systems and improved agro-technologies with a view to reducing unit costs of production and increasing profits;
- Apply environment-friendly techniques in agriculture;
- Promote agro-based industries and increase employment opportunities thereof; and
- Enhance incomes and living standards of the farming community.

The salient features of the new policy statement are similar to those of previous policies. Within the policy framework, the main emphasis is on food security, but it does not depend completely on local food production; certain restrictions on import liberalisation; facilitating the private sector participation in seed supply, research and product development, delivery of farm machinery, and agricultural marketing; rural credit; rationalised use of fertiliser including organic and bio-fertiliser; and conserving the natural resource-base for sustainable agriculture. The draft policy paper was used as a basis for preparing the Ten-year Development Plan of the *Mahinda Chintana*.

⁷⁷ National Policy for Agriculture (2006, *op.cit.*)

⁷⁸ A committee (author of this study is a member of the committee) appointed by the Secretary to the Treasury is reviewing the fertiliser subsidy with a view to formulating a programme with less treasury financial allocation than is allocated currently. The committee report is pending at the time of writing this report.

⁷⁹ The paddy fertiliser was provided at a subsidised rate of Rs 350 per 50 kg bag in 2006. This was further extended to cover food crops such as chillies, maize, onion, vegetables and smallholders growing tea, rubber or coconut who have less than 5 acres.

⁸⁰ The policy statement is still in draft form and proposed to be presented to the Minister of Agriculture in June. The author of this study is a member of the policy drafting committee.

The main differences of the new policy are the emphasis on private-sector participation in many activities, fostering private-public partnership in the implementation of research and product-development efforts, recognition of the importance of conserving the natural resource-base through agricultural policy⁸¹, and farm mechanisation. These changes in policy focus would benefit the slowly emerging commercialisation drive in the sector.

3.5. Summary and conclusion: Chapter 3

The aim of GOSL agricultural policies since 1996 was the promotion of agricultural growth, food security, expanding exports and commercialisation. This was mainly to increase productivity, initiate crop diversification, promote exports in the domestic agricultural sector and improve competitiveness. The policy strategies were however, less coherent, mutually un-supportive and frequently changing in terms of their nature and focus. The sequencing of GOSL policy priorities has not been in line with support of emerging trends in the sector, which were mainly responding to market opportunities.

The tariff policy in particular fluctuated between high protectionist rates and liberal tariff structures. Because of inconsistent tariff policy and lack of physical infrastructure facilities, a factor input market in the agricultural sector failed to develop. This in turn acted as a brake on economic performance in the domestic agriculture sector.⁸²

Among the plethora of policies in the agricultural sector the following could be identified as having marked implications for changing the nature of the domestic agricultural sector:

- Implementing a liberal tariff policy and frequent changes in the tariff structure for agricultural commodities;
- Providing subsidies on fertiliser, irrigation, extension and perennial crops cultivation;
- Facilitating rural financing with concessionary credit arrangements and financing schemes;
- Encouraging private-sector operations in the domestic agriculture sector in addition to the plantation sector privatisation; and
- Minimising state interventions in agricultural product and input marketing.

GOSL policies lacked consistency, coherence and a long-term view of how to drive the agricultural sector in a particular direction. There were some understandable reasons for this unfavourable situation. Policy formulation is a multifaceted process where economic, social and political forces play equally important roles. Anecdotal evidence indicates that in Sri Lanka, policy planners are guided more by political and social forces than economic or market forces or the technical requirements of the sector. Policy changes when the political regime changes. Various pledges are made from political platforms; sometimes these fit in with existing agricultural policies but other pledges are inconsistent with them.

The bureaucracy, which is a part of the political system, is heavily involved in the formulation of policy. Policies must be aligned with the pledges of the regime that is in power. A shift in policy may be necessary to move the development process in a particular direction. However,

⁸¹ Natural resource conservation has hitherto been emphasised in the environmental policy rather than agricultural policy, although there is a natural connectivity.

⁸² Gunawardana and Somaratne (*op.cit.*)

the socio-political environment and other non-economic factors will not change quickly in order to support such policy changes. Policy directions which deviated too much from socio-political expectations would not be sustainable. This is particularly so in a highly socially-interwoven sector such as agriculture. Several pro-market policies such as tariff reforms, fertiliser subsidy, credit markets, and price controls underwent reforms, and then a policy reversal in these areas took place with a change of government. In Sri Lanka, governments do not always fulfil political pledges on a sustainable basis in the agricultural sector. There are budgetary restrictions at times. There are occasions when, whatever is said in election pledges, agriculture is, in reality, not on the agenda.

Even with such vacillations however, GOSL policies are gradually moving towards facilitating the commercialisation of agriculture. Policy thrusts have become more orientated towards the private sector in the latter part of the period analysed. Less state-involvement is seen in the factor and input markets. Trade policies have agricultural tariff structures which are among the lowest in the Asian region.⁸³ The new policy framework contained several elements reinforcing this trend.

Donors' influence is crucial to move policy formulation towards a commercial environment. There were a number of failures in donors' attempts, but such attempts teach some useful lessons for technocrats involved in the policy formulation process. One good example is the ADB emphasis on the potential and comparative advantages of private-sector involvement in providing various services in the agricultural sector. Although some interventions were failures, the potential of the private sector in service-provision is being gradually recognised.

It is important however, that donors' policy directions should take account of economic, social and political realities. When developing policies they should be aware of the capabilities of programme implementers and programme beneficiaries. An analysis of whether the ADB is incorporating these realities in its policy advocacy process is the subject of the next chapter.

⁸³ Herath (2006)

4. Policies and Programmes of ADB in the Agricultural Sector

4.1. ADB policies in the agricultural sector - An overview

This chapter presents an overview of the policies of the ADB in relation to the Sri Lankan agricultural sector and analyses the relevance of those policies and determines to what extent ADB policies supported overall GOSL policies in the agricultural sector.

The major policy goals of the ADB in the early 1990s, and in the evaluation period (1996-2006) were towards improvement of productivity and increasing competitiveness in the agricultural sector.⁸⁴ To achieve this goal, the ADB, and even other donors such as the World Bank, advocated a reform process which included strategies such as correcting the market distortions prevailing in Sri Lanka⁸⁵, undoing distorted incentives, minimising misallocation of resources in the agricultural sector, and reducing high fiscal deficits. The kind of market distortions prevailing in Sri Lanka during the period of assessment include support prices (guaranteed price of paddy), subsidies for producers (fertiliser subsidy, cultivations subsidies for most of the perennial crops, irrigation subsidies, and free extension services), and export price distortion through taxes and cess⁸⁶.

ADB supported three major areas of policy thrusts in the agriculture sector⁸⁷ to achieve these policy goals through various loan programmes and technical assistance programmes (listed in the next section) during the evaluation period of 1996 to 2006. These policy thrusts are:

1. Changing subsidy- and grant-based agriculture into credit-based self-financing enterprises to increase service-delivery and crop productivity: under this thrust several projects of ADB provided credit lines and other rural financing facilities.
2. Creating a commercialisation and business orientation in the agricultural sector in order to increase productivity, competitiveness and diversification into high-income crops. Under this broad policy the ADB supported:
 - a. Rationalising subsidy policies;
 - b. Promoting private-sector participation in agriculture sector investments including sectors such as seed production, extension, research and marketing;
 - c. Diversification into high-value crops; and
 - d. Rationalising prices by removing administrative prices, market policies, removal of export taxes on plantation crops, privatisation of public sector- enterprises, and provision of support services.
3. Supporting environmental and natural resources management including land-regularisation in the critical watershed to facilitate sustainable development of agriculture and poverty reduction.

The ADB adopted a logical sequence in supporting these policies which would take the domestic agriculture sector on the pathway to commercialisation. The policies adopted during the early period covered by this analysis revolved around the first policy thrust listed above.

⁸⁴ The discussion is based on (a) ADB (December 1998b), Country Operational Study: Sri Lanka (STS SRI – 98017), Manila; and (b) ADB (August 2005), Country Strategy and Programme Updates (2006-2008), Manila

⁸⁵ Saman Kelegama, (2004) (reading in Part 1: Development Strategy and Ideology).

⁸⁶ This is a tax collected at the border against exports of some selected items such as tea, rubber and coconut.

⁸⁷ The domestic agricultural sector is the focus of the analysis (fisheries, forestry, and the plantation sectors are not included in the analysis). Many policy areas have a direct impact on the domestic agriculture sector and the others have an indirect impact on the sector.

Specifically, rural financing, institutional strengthening and improving extension services were targeted.

Increased attention was then given to commercialisation of the agricultural sector. The notable interventions of the ADB during late 1990 and early 2000 were to facilitate higher-income production systems; to make recommendations for institutional reforms, such as removing administrative prices, reforming subsidy and market policies and removal of export taxes on tea; privatisation of public-sector enterprises; and provision of support services. These were mainly within the second policy thrust.

After 2000 the ADB placed increased emphasis on fostering commercialisation by facilitating reallocation of functions from the public to the private sector, and improving the interface between them to enhance productivity and sector viability.

The importance of the third policy thrust, that is, management of the environment, was recognised in the mid-1990s. Starting in the mid-1990s the ADB supported environmental management through several projects. Some interventions in environmental areas have direct relevance to maintaining agricultural productivity. As sustainability is a key requirement, even in commercial agriculture, interventions in natural resource-management is part of the process of commercialisation.

4.2. Coherence of the ADB and GOSL policy thrusts - A critical assessment

There has been a clear indication in the design and sequencing of many ADB projects that they were supporting a transformation towards commercialisation in agriculture. However, the transient nature of GOSL policies over the period of analysis caused a lack of coherence. Projects were allowed to operate in a particular policy environment, but not all the policy directions of projects were included in the overall government agriculture policy framework. Privatisation of extension is a good example of this.

At GOSL policy level the necessary impetus to promote commercial agriculture only starts in the early 2000s. A detailed discussion on policy and commercialisation is presented in section 6.1. Private-sector domination of various services is necessary to ascertain progress in commercial agriculture. Many ADB projects included components to support private-sector involvement in agriculture. The two perennial crops development projects were good examples. GOSL support for private-sector participation in agriculture is marginal until about the year 2000. The main policy supports for commercialisation until recently were exemptions from value added tax (VAT) on any agriculture activities, duty concessions for importing agriculture machinery, exempting all agricultural activities, including value-added products, from income tax, and promoting the forward-sale contract programme as a marketing tool. Agricultural tariff policy, seed policy and the pricing and marketing policies of the government were generally incompatible with the policy guidelines that were supported by the ADB.

This difference in policy focus between the ADB and GOSL, particularly in the commercialisation drive, caused inefficiencies in the delivery of intended project inputs in addition to impeding the commercialisation drive. Privatised extension in the perennial crop project, which will be dealt with in detail in section 6.2.4, is an example. GOSL bodies which were not geared to working with the organised private sector such as Chemical Industries of Ceylon (CIC) and Matale Agro-foods (MA's) had inadequate mechanisms to interface with them to provide technical expertise. The seed industry is another example. GOSL bodies played only a regulatory role, while the private sector needed them to be facilitators as well to

increase the efficiency of the seed distribution system.

On many occasions the state bodies, such as the Department of Agriculture, Department of Export Agriculture, Department of Animal Production and Health, Tea Smallholding Authority and Provincial Councils, implemented ADB project components in a project-specific mode. There were two main reasons why continuity was not ensured by incorporating activities like project components, concepts, policies and strategies into the state institutional system.

First, GOSL agendas and policies were not always in line with the ADB framework. GOSL policies have to heed social and political economic demands in addition to the economic demands. The second reason is that the regular government budget is inadequate for the measures needed to foster the implementation of specific policies promoted by ADB. Evidence for both reasons is given elsewhere in this report. At this point it is enough to say that there is no strict coherence between the policy framework of ADB and that of GOSL.

4.3. ADB projects and programmes affecting the agriculture sector

The following ADB-assisted projects⁸⁸ had components/loan covenants to support the ADB policies discussed in the previous sections. Projects Administrative Memorandums, Project Completion Reports or Programme Completion Audit Report of these projects which are available on the ADB Web site were reviewed in the assessment to arrive at conclusions.

1. Loan No. 994-SRI [SF]⁸⁹ - (APL1) - Agriculture programme loan. The loan was effective from March 1990 to December 1992. The objective of APL1 was to revitalise the agriculture sector through improving overall productivity and growth; achieving a high degree of self-reliance in rice; enhancing export income from tree and export agricultural crops; promoting agro-industries and preparing the groundwork for future market-orientated interventions in the agricultural sector. This programme proposed many reforms in the rural credit sector through loan covenants. The reforms recommended as covenants included increasing the interest rates for short-term agriculture production loans to reflect the market rates; end users' interest rate to be increased; and (c) interest rates of the Central Bank refinancing internal sources to be adjusted to reflect the market rate.
2. 873-SRI [SF] Small and Medium Industries Project (approved 21-Feb-89): mainly targeted on private sector development, provision of credit for the SME sector, and capacity building of SME sector
3. 899-SRI [SF] Perennial Crops Development Project (approved 30-Aug-88): mainly focused on perennial crops development and providing credit for crop productivity improvement and processing investment
4. 955-SRI [SF] Smallholder Tea Development project (approved 21-Feb-89): the main focus was productivity improvement, institutional strengthening, rationalisation of staff in the institutions connected with the tea industry and providing credit for production activities;
5. 994-SRI [SF] Second Agriculture Programme Loan (APL1) (period - 1988): the main focus was influencing agriculture policy on commercialisation, credit policy and subsidy policy.

⁸⁸ Some projects began before the period of the analysis of this study. However, these projects are included in the project review as their components were operating during the period of analysis.

⁸⁹ This was one of the initial programmes with several reform recommendations and hence some details are presented.

6. 1084-SRI [SF] Second Small and Medium Industries Development Project (approved 30-May-91): mainly targeted on SME development including agriculture industries.
7. 29601-01 Second Perennial Crops Project (approved 1997): focusing on credit facilities for crop development, nursery development, market development, and agro-processing; provision of farm advisory, marketing, and technical services for perennial crops on a commercial basis; research support for perennial crops; support for production of quality seeds and planting materials; and institutional strengthening and staff-training.
8. 606-SRI [SF] Livestock Development Project (approved 1983): the objectives of the project were to improve the genetic quality of livestock, development of stock feeds, improve marketing, provision of production and marketing credit-supporting government programmes of extension and disease-control systems.
9. 1128-SRI [SF] Southern Province Rural Development Project (approved 26-Nov-91): focusing on rural development including agriculture investment and SME development.
10. 28162-01 Upper Watershed Management Project (approved 1997): focusing on increasing forest cover through integrated and participatory approaches; raising crop productivity in cultivated areas through the promotion of conservation-orientated farming systems; and strengthening the capacity and coordination of implementing agencies and assisting in the drafting of a long-term policy to enable the Government to achieve sustainable watershed management
11. 29600-01 Tea Development Project (approved 1998-99) focusing on replanting and infilling on smallholdings and private tea estates; rehabilitation and modernisation of tea factories; commercial production of high-quality planting materials; providing facilities for collection and transportation of green leaf; and promoting and strengthening tea smallholder-development societies and producer associations. There was a credit line for tea planting, factory improvement, green tea leaf marketing and commercial nursery development. Under this project the PFI staff-training was a capacity-improvement activity.
12. 30215-01 Forest Resources Management Sector Project (approved 2000) focusing on increasing the value and sustainability of forests by creating a policy and governance framework to enable local communities and the private sector to participate in forest resource-development and management.
13. 31288-01 Water Resource Management (approved 2000) focusing on strengthening the government's capacity to manage its water resources in a sustainable, participatory, and transparent way.
14. 31381-01 Protected Area Management and Wildlife Conservation Project (approved 2000) focusing on private-sector participation and natural resources, including biodiversity conservation.
15. 31282-01 Southern Province Rural Economic Advancement Project (S-REAP) (approved 2001) focusing on establishing and expanding agriculture and agriculture-related micro, small and medium enterprises (SMEs) in the region; provision and maintenance of key economic infrastructure; and the enhancement of capacities in the public and private sectors to facilitate, support and sustain this process.

4.4. Contribution of the projects to the ADB policy thrust

Several projects reviewed have consistently maintained the *policy of changing subsidy and grant-based agriculture into credit-based self-financing enterprises*. Projects had components for providing loans to production, processing and even marketing of agricultural products. In the 1980s the projects included a small proportion of subsidy elements in crop-production and credit components with the intention of gradually transferring into credit-based investment in agricultural production. As a strategy to support the policy of credit-based self-financing agriculture, many lending strategies were adopted. Credit-based financing in the agriculture sector is one of the consistent policy proposals that the ADB has maintained throughout its lending period. However, the efforts have had only partial success in bringing improvements in the rural financial sector. Interventions and sustainability in the rural financial sector will be analysed in detailed as it is one of the important areas in ADB policy interventions in the agriculture sector.

Creating a commercialisation and business orientation in the agriculture sector was recognised as an important ADB policy thrust. A number of projects, except those in the natural resource sector, supported this policy thrust. As early as 1992,⁹⁰ the government too recognised the importance of getting the private sector increasingly involved in agricultural development. However, except for privatisation efforts in the plantation sector, hardly any other programme supported the thrust. ADB viewed this as an important aspect of increasing productivity, competitiveness and diversification into high-income crops. The commercialisation process in the agricultural sector is promoted by a few projects such as Southern REAP, SPCDP and SMI development projects. ADB projects used components to facilitate private-sector involvement in production, processing and marketing; proposed regulations and reforms to increase the responses of the private sector to invest more in agriculture; assisted in developing business proposals, financing proposals, providing technical and market information; and included loan covenants to bring about regulations and facilities to support the private sector.

The performance of the private sector in solving some of the key problems in the agricultural sector was poor. Chapter 6 looks at the reasons for the failures. The ADB expected the private sector to make a more effective contribution to the agricultural development process than the government sector. The evidence does not support a conclusion that the private sector is inherently inefficient. However, the main issue is the incompatibility of the operational modalities of the private and state sectors. Government bodies need to be developed to facilitate private-sector efficiency through establishing congenial working relationships; working systems including rules and regulations, ethics and partnership; and resource-sharing arrangements between the private sector and government bodies. Some of these are policy issues and others are simple matters of working relationships. One of the main reasons for unimpressive performance of private-sector agents was that these relationships were not established⁹¹. The ADB appraisal reports of perennial crops projects and S-REAP made the optimistic assumption that the mutual relationship between the two parties would evolve during the life of the project. To ensure better performance of both parties such relationships need to be built up in both sectors at the initial stages of future ADB projects.

Environmental conservation and natural resources management were supported by more recent projects in the sector. The environment is considered one of the important areas of policy and advocacy for ADB because of the need to sustain the natural resource-base to

⁹⁰ Department of National Planning (1992), Public Investment: 1992-1996 (chapter 3).

⁹¹ The discussions that the author had with ex-project director and line agency officers mentioned this issue.

support poverty-reduction and employment-generation.⁹² Some projects make direct interventions in the agricultural sector and others have less influence. Issues related to agriculture are focused on the assessment of environmental projects. One of the main policy issues analysed in this review is institutional capacity-improvement in the environmental sector. Institutions which are particularly involved in agriculture-related activities and environment issues are examined.

4.5. Summary and conclusion: Chapter 4

Two empirical studies⁹³ show a trend in the agricultural sector towards commercialisation through crop-diversification into high-value crops. This trend has been supported by GOSL and ADB policies. Recognising this trend ADB's most recent project, the Agribusiness Development Project⁹⁴ is considering high investment in facilitating commercialisation process. In the overall analysis, the policies in the domestic agricultural sector that were supported by ADB were in line with those supported by GOSL. However there was a lack of coherence between the two sets of policies. GOSL policies encompass socio-political demands in addition to economic demands of the sector. ADB policies had a more focused and narrow approach to improve commercialised features in the agricultural sector.

The ADB policies that were outlined in the previous section were implemented or included into the development activities of the country through projects and their components which were listed above. In broad terms, projects that were assessed in the study addressed the main policy thrusts of the ADB. The next three chapters take each of these main policy thrusts and analyses how effectively the ADB programme and projects have supported the implementation in these policy areas.

⁹² ADB. (1998a). *Country Operational Strategy for Sri Lanka*. Manila.

⁹³ De Silva, K T *et al* (1999); Gunawardana, P J and Somaratne, W G (2000)

⁹⁴ To continue building on the SPCDP and concentrating more on marketing and value addition, the project 'Agribusiness Development Project' was included in the Country Strategy and Program Update 2006-2008 for Sri Lanka (2005) as a project stand-by for 2007 and firm for 2008. This project would address the general development of the agriculture sector as the sector is central to the development policy of the government, both by guaranteeing food security through paddy and by recognising the potential for diversification of agriculture.

5. Rural Financing and Credit Based Production Improvement

5.1. Introduction

Rural financing has a direct impact on the productivity improvement of the agriculture sector by providing the capital required for farming. It is particularly important to facilitate the commercialisation process in the domestic agricultural sector. Soon after independence, GOSL emphasised rural financing and credit and continued with several schemes. A number of ADB projects had rural financing and related capacity-building components. This chapter analyses how the ADB has supported rural financing through their projects, and influenced GOSL policies and programmes of rural financing; the effectiveness in bringing rural financing into a sustainable financial market; and the limitations encountered in developing rural financing markets.

The second part of the chapter summarises the GOSL policies and programmes in rural financing in relation to agriculture. The third will examine ADB projects and their operations in supporting rural financing. The next two sections deal with performance and the problems of rural financing and policy performances.

5.2. Government policies and programmes on rural financing

5.2.1. Development of financing institutions - GOSL contribution

The main form of providing rural financing with GOSL assistance is conventional credit and micro-credit through various micro-credit institutions. Until about 2000, GOSL was concentrating on providing rural credit through conventional banking structures. In 2000 micro-financing was also promoted in rural areas through non-commercial banks. Even in the twentieth century there was a growing concern for the provision of institutional credit to rural smallholder farmers in Sri Lanka.⁹⁵ The government policy on agricultural credit until 1947 was providing loans to cooperative societies. This was unsatisfactory because of inadequate coverage and failure to meet all the credit needs of the farmers.⁹⁶ The establishment of the People's Bank in 1961 (a government-owned commercial bank) was a major step forward in providing rural credit.⁹⁷ Because of high inefficiency and very low loan recovery, the People's Bank took the main responsibility for providing rural credit in 1967 through New Agricultural Credit Scheme (NACS) by ending the government management of credit.⁹⁸ Under this scheme the Central Bank provided credit guaranteed up to 75% of cultivation loans in default to the People's Bank. This enabled the bank to operate credit in a virtually risk-free environment as the rate of credit-recovery at that time was around 60%.⁹⁹ Although the government was not directly involved in credit systems, such a high rate of credit guarantee would have restricted the development of a liberal credit market.

After 1977, with economic liberalisation, the government introduced a stringent credit policy, withdrawing the financial guarantee and recommending that the banks to lend only to credit-worthy clients. This has directly and negatively affected the credit-uptake in the agricultural

⁹⁵ Enactment of Co-operative Credit Societies Ordinance in 1911 was one of the results of this concern (Fernando, S T G (1979), *Role of Agricultural Credit in Developing Grassroots Level Small Farmer Institutions for Small Farmer Development*, Staff Studies, Vol. 9 No 1 and 2, Central Bank of Sri Lanka.)

⁹⁶ Fernando (*op.cit.*)

⁹⁷ Annual Report (1962), Central Bank of Sri Lanka

⁹⁸ Annual Report (1968), Central Bank of Sri Lanka

⁹⁹ Fernando (*op.cit.* pp.77)

sector: rural credit under the NACS declined from Rs.563 million in 1977/78 to Rs.79 million in 1978/79 and Rs.83 million in 1979/80, although the recovery rate increased from 23.7% to 58.1% during the same period.¹⁰⁰

5.2.2. Performance of rural financing

The loan uptake and the recovery performance of the NACS were far from satisfactory. The Central Bank started two new schemes in early 1986, the New Comprehensive Rural Credit Scheme (NCRCS)¹⁰¹, and the medium and long-term credit fund (MLCF) under the All Island Self Employment Scheme¹⁰². These were designed to meet small rural farmers' credit needs and were supported by the Central Bank refinance facilities. The Bank of Ceylon and the other state-owned commercial banks also participated in the scheme.¹⁰³ The Central Bank reintroduced the risk-taking tools of providing guarantees for loan recoveries, but at a lower rate. It provided a 50% guarantee, instead of 75%, in respect of losses incurred by participating banks on loans granted under the NCRCS.¹⁰⁴ The NCRCS has policies which are not market-friendly as the credit-guarantee and interest rates are below the market rates. However, the amount of credit-uptake increased sharply to Rs.337 million in 1986/87 under the new scheme.¹⁰⁵

With a view to initiating a market-friendly environment in the rural credit systems, APL1 programme of the ADB proposed reforms which are discussed below. The government accepted the policy recommendation of the ADB on upward revision of the interest rates of both loan schemes.¹⁰⁶ As targeted by APL1, the interest rate of NCRCS was increased from 9% to 16% in two phases in 1990 and 1991. The interest rates of MLCF under the All Island Self Employment Scheme were increased from 12.5% to 18% in two phases in 1990 and 1991.

The CBSL (1991)¹⁰⁷ reported an 81% increase in loans under the NCRCS in 1991 compared to 1990, even after the reform. This was because of higher acreage of paddy cultivation and increased scale of loan facilities provided and the increase in the number of Regional Rural Development Banks (RRDB). The Central Bank continued taking a half of the risk of loans and provides 50% guarantee in respect of losses incurred by banks on loans granted under the NCRCS.¹⁰⁸ A faster growth was observed in the MLCF scheme which was 416% from Rs.160 million to Rs.840 million. The main reason was fund availability and the coverage under the RRDB. People's Bank, Bank of Ceylon and RRDB were active in the market.

This indicates that market interest rates have not significantly affected the rural credit market from the end-users viewpoint. However, as the Central Bank was bearing a 50% risk on credit, lending institutions were not operating in an ideally open credit market. The government adopted a policy decision to abolish the 50% loan-guarantee scheme again in 1992 because of lack of funds.¹⁰⁹ This resulted in the participating state and private banks bearing the total risk of loans that were disbursed. The analysis of credit-distribution over time with the Central

¹⁰⁰ CBSL (respective years), Annual Report

¹⁰¹ Loans were provided under this scheme to paddy and 29 other subsidiary food crops.

¹⁰² This scheme covers credit for individuals to under take agriculture and allied activities in livestock, small scale industries and services.

¹⁰³ Karunathilake, H N S (1986)

¹⁰⁴ This was substantial in 1991 amounting to Rs.50 million when the total amount of loans was Rs.1052 million (some of them were due in 1992).

¹⁰⁵ CBSL (1987), Annual Report

¹⁰⁶ CBSL (1991), Annual Report, reported as refinance rates and the on-lending rates under both schemes had to be revised upward in keeping with the demands of monetary policy (page 151).

¹⁰⁷ CBSL (1991), Annual Report

¹⁰⁸ This was substantial in 1991 amounting to Rs.50 million when the total amount of loans was Rs.1052 million (some of them were due in 1992).

¹⁰⁹ There is no evidence to propose that any of the ADB projects influence the abolition of this facility.

Bank liberal policies of abolishing 50% loan-guarantee scheme, clearly shows that the amount of credit distributed has decreased (see Table 5.1).

Table 5.1: Amount of Loans Disbursed by the State and Private Banks under NCRC (Rs. million)

Year	Peoples, Bank	BOC/state banks (from '95 no separate data)	Private Banks	RRDB	Other	Total
1989	71	118	7	21	0	217
1990	196	264	26	94	1	582
1991	341	442	33	236	1	1,052
1992	285	326	28	225	1	865
1993	297	323	36	297	4	957
1994	299	293	81	296	8	977
1995		943	85	155		1,183
1996		445	61	80		586
1998		283	77	82		442
1999		271	91	101		463
2001		262	151	225		638
2002		353	161	200		714

Source: Various issues of the CBSL Annual Report

Responding to intense political pressure, GOSL took a decision¹¹⁰ in 1995 to write off all past due loans provided under NCRCS with a condition that credit-forgiveness was available only for those who had paid 25% of the loan. Although this decision enabled a large number of farmers to continue getting credit in subsequent seasons it has created distortions in the credit market.

The Forward Sale Contract System (FSCS) which was introduced in 1999 provided credit- plus services. This scheme provided credit for annual cropping and facilitated a forward contract between farmers and traders. These policies continued to 2004 and thereafter.

5.2.3. Micro-financing and institutions

Micro-credit schemes with their emphasis on group-based collateral and lending, local saving mobilisation and the use of a range of financial intermediaries evolved in early 2000 and thereafter as a preferred alternative to the use of subsidised and directed bank lending to the poor.¹¹¹ Sri Lanka has many micro-credit institutions¹¹² and GOSL has provided considerable support for these institutions. The GOSL policy on micro-financing is that there will be continuous support for the improvement of micro-finance schemes and institutions with a view to developing them into sustainable, solvent and secure financial bodies.

¹¹⁰ This was not a GOSL policy which will continue in the financial market but was a temporary decision taken as a response to political pressure that was created due to a severe crop loss under drought conditions.

¹¹¹ Government of Sri Lanka (2002), *Connecting to Growth: Sri Lankan Poverty Reduction Strategy*, Colombo (pp 80-81)

¹¹² The large micro-financing institutions are cooperative rural banks, SANASA and Sarvodaya Economic Enterprise Development Services (SEEDS)

5.2.4. General trend of GOSL rural financing policies

GOSL rural financing policies during the period of analysis (1996-2005) were characterised by changing interest rates, credit-guarantee policies, and credit refinancing policies and at the same time there was a series of attempts to expand credit-availability to the rural poor. In 2000 and thereafter GOSL facilitated micro-financing, supported micro-financing institutions and provided credit-plus services in rural areas. The next section examines how ADB projects supported these policies.

5.3. ADB projects and their influence on rural financing policies

Promoting rural credit and bringing a commercial orientation to rural financing culture is one of the main policies of ADB projects. In view of this broader objective, ADB attempted to develop a policy framework for the rural finance sector to minimise ad hoc interventions and direct involvement of GOSL in provision of rural finance services. There were several ADB programmes and projects with components supporting this objective. Some of them were reviewed for the study and summarised below.

Early ADB intervention in early 1990s: One of the earliest interventions of ADB in rural credit was through the first Perennial Crop Development Project (PCDP) initiated in 1988, which was completed in 1997. PCDP had a credit component with a subsidy element attached to it. It promoted an entrepreneurial approach and the beneficiaries prepared a bankable farm plan to receive project benefits. The PFIs were nine regional rural development banks, Bank of Ceylon, Peoples Bank, Hatton National Bank, Commercial Bank, and Seylan Bank. No micro-credit institution was involved.

Secondly, Agriculture Programme loan (Loan No. 994-SRI [SF]) - (APL1) proposed many reforms in the rural credit sector through loan covenants. The reforms recommended as covenants included (a) increasing the interest rates for short-term agriculture production loans under the New Comprehensive Rural Credit Scheme adjusting in a phased manner to reflect market rates; (b) end-users' interest rate to be increased to 12%; and (c) interest rates of the Central Bank refinancing internal sources to be adjusted at 14% to reflect the market rate.

During the latter stages of the APL1, the Livestock Development Project (Loan No. 606-SRI [SF]) of ADB was implemented to provide for production and marketing activities of the livestock sector with a credit line operated through the state and private banks. Even at the latter stage of the project period (in 1991 - 1992), when the ADB was influencing the credit market towards commercial lending through APL1, no loans for marketing were disbursed. A total of US \$ 401,000 was used for production activities in the livestock sector. The reasons given in the Project Performance Audit Report of the same project were mainly unawareness and lack of proper procedures in credit-delivery programmes. During mid-1990s the credit operations, mainly from state banks, have not developed into liberal processors in line with open-market operations.

The most intensive intervention in rural credit reform is found in three ADB projects initiated in the late 1990s and early 2000s: the North Central Rural Development Project (NCPRDP), the Second Perennial Crop Development Project (SPCDP) and Southern REAP.

North Central Province Rural Development Project

The loan sub-component of the NCPDRDP had long-term objectives of promoting on-farm, off-farm and non-farm rural enterprises and an entrepreneurial culture in the project areas; and weaning rural people away from the subsidy culture to a credit culture. The immediate objective was to promote and assist enterprise and entrepreneurship development utilising the infrastructure facilities established under the project and/or otherwise and the credit-refinancing facilities provided under the project. The project provided loan facilities, even in very remote areas, for various farm and non-farm activities. The credit institutions participating were Bank of Ceylon, People's Bank and Rajarata Development Bank. The project allowed the use of the terms of credit and recovery processes of the respective banks. No micro-credit institution was used in credit-delivery. Although the project was intended to support the poor, there was no poverty-targeting system in the credit-delivery process.

Second Perennial Crop Development Project

The SPCDP's direct objective was to initiate measures to ensure sustainability of credit facilities provided by several banks, all of which were conventional banks, for perennial crops. Credit was made available for all the crop-production activities, crop-processing, value-addition and marketing activities. However, there was a sharp difference between the credit programmes of the two projects. The NCPDRDP simply refinanced the loans provided by the participating bank without imposing stipulated conditions on loans. A ceiling of Rs.250,000 per loan was, however, maintained to ensure a wider circulation of loans with available project resources.

However, SPCDP had several conditions for credit-delivery. The Participatory Financing Institutions (PFIs) were selected on stringent performance criteria such as (a) minimum annual collection ratio of 80% for the total portfolio; (b) minimum cumulative collection ratio of 70%; (c) maximum debt to equity ratio of 8:1; (d) the interest rate charged by the PFIs to be based on Average Weighted Deposit Rate (AWDR) computed by the Central Bank; and (d) stipulated contribution structure, namely borrowers were to pay 25% (or more), PFIs to pay 10% and project refinancing 65%. At completion SPCDP has disbursed Rs.1,670 million in 2810 loans which are mostly large loans. The poverty-focus in loan-distribution was hardly visible in the project.

Southern REAP

The purpose of the credit line in this project is to facilitate the investment component of the business proposals formulated by the enterprise development service (EDS) providers for the clients through identified financing institutions. This project included micro-financing institutions (for example SEEDS) in addition to the conventional banks which is a main difference in the ADB credit policy. The minimum credit limit was Rs.50,000 and for all loans, including those provided by the micro-credit institution, a proper collateral requirement was insisted upon.

5.4. Main Features of the ADB Loan Components

There are some features of the credit components of many ADB projects which are noteworthy.

- a. The design of SPCDP, NCP RDP and even the First Perennial Crop Project included policy recommendations to improve rural financing, but the emphasis on necessary

infrastructure and capacity development of PFI were inadequate to sustain such policies and modalities for policy implementation. The loan covenants were provided to strengthen policy areas but such interventions could not remove some policies and practices that distorted rural financial markets and made a sustainable growth of credit institutions impossible.

- b. The projects have mainly used the conventional commercial banking system to reach their clientele except later in the period under analysis when S-REAP used SEEDs and SPCDP used Bank of Ceylon, Peoples Bank and some Regional Development Banks. These financing institutions have better rural coverage than many of the commercial banks. Inclusion of micro-financing institutions and state banks would have channelled credit in a more inclusive manner to the rural poor. For example, 70.6% of the credit under the NCRCS basket was mobilised by micro-financing institutions (see section 5.6.3) and the World Bank and the ADB (2004) noted that only 6% of rural credit has been provided by the state and commercial banking system and the balance was from various unconventional and micro-financing institutions (see section 5.6.3).
- c. Most of the credit lines offered medium and long-term loans. The dominant activities include on-farm investments (SPCDP), agribusiness (SPCD & Southern REAP), SMI (Southern REAP), and livestock (livestock project). A minimum loan size was recommended which had the effect of excluding the poor.
- d. Most interest rates were administered rates which were slightly lower than the market rates. The spread of interest rates, mainly in the SPCDP, did not provide sufficient margin to the PFIs to make their participation in projects adequately profitable.

The comparison of the two sets of policies indicates that ADB policies have not always supported GOSL policies, particularly micro-financing policies. The main reason for this is that ADB was keen to bring prudent credit policies into the rural financing markets and to maintain features of a liberalised market. The specific impacts of such policies are discussed below.

5.5. Policy impact of ADB intervention in the rural credit market

The ADB rural credit programmes were not effective in developing the rural credit market. Even after implementation of ADB projects (it is too early to comment on the S-REAP effect on the credit market) there was no consistent and progressive policy-development in the rural credit market or effective response to demands for agricultural sector loans. The Consumer Finance Survey and Socio-Economic Survey (2003/04) of the Central Bank reported (pp.171) that the agriculture sector including plantations has taken 5.9% of total number of loans and 4.5% of the total amount of loans in 2003/04. In comparison to 1996-1997 situation (i.e. 6% and 3% of number and amount of loans respectively) there was hardly any increase in agricultural loans. The utilisation of unconventional credit has not been taken into account in these statistics. Anecdotal evidence¹¹³ suggests that a substantial amount of credit operations are carried out in the unconventional sector.

The ADB loan programmes were unsuccessful in sustainably increasing credit-delivery from conventional state or commercial banks in post-project period (using revolving funds), increasing the participating rate, securing repayments and reducing the number of defaulters, and creating a sustained interest among the participating credit institutions in delivering credit.¹¹⁴ Most of the rural credit components of ADB projects tended to adopt a supply-led

¹¹³ Sanderatne (2002)

¹¹⁴ According to the CBSL (2003/04), The Consumer Finance and Socio-Economic Survey Report, Part 1, Chapter 9 there is no notable change in any of these indicators between the period 1996/97 and 2003/2004.

approach, on the assumption that credit demand would arise once there was availability.¹¹⁵ Project designs encouraged the achievement of physical targets and assumed that demand so created would continue in the market and there would be sustained demand for credit. There is no evidence to support this presumption. The discussions with the Rural Development Department of the CBSL demonstrated¹¹⁶ that the development of micro-credit facilities is crucial to the improvement of the overall development of rural financial markets.

However, the ADB projects, mainly the two perennial crop development projects, demonstrated the feasibility of using credit for developing commercial agriculture. On the basis of these experiences, the Agriculture Policy Statement of 2006 recognised the importance of providing commercial-level credit for the agricultural sector and agri-business in addition to small-scale credit.¹¹⁷

5.6. Reasons for the failure to initiate a sustainable rural credit market

GOSL and the ADB support and reform policies in the financial sector. Their optimal performance depends on how conducive various other factors were. The following sections briefly examine whether the rural financial sector has favourable conditions to operate optimally.

5.6.1. Credit demand and supply limitations

The literature¹¹⁸ records that there are demand and supply-side causes for the failures. From the demand side, there were high rates of defaulting¹¹⁹ which limits the demand as the defaulters are not allowed to take further credit (some treat credit as a subsidy and such attitudes are consolidated by writing-off loans as the government did on several occasions); negative attitudes in the community about institutional credit discouraged institutional loans; the high transaction-cost of borrowing¹²⁰ - tedious loan application procedures¹²¹, repeated visits to the bank before getting a loan and the bank supervision process for approving loan all contribute to this; lack of required collaterals; and procedural difficulties discouraged the taking-up of loans. From the supply side, conventional credit institutions faced limitations such as rigid and high interest-rate policies in comparison to the returns from agriculture and rural industries¹²². The World Bank and the ADB study said that the high interest rate of commercial lending is partly a result of the operations of two state banks (Bank of Ceylon and People's Bank) who take about 40% of the market-share and have high administrative costs which leads to a high interest rate. It indicates that even the commercial banks have to maintain higher interest rates¹²³. The other factors that affect the supply include high administrative costs in disbursing loans; and lack of support from other institutions to monitor credit utilisation and repayment. These limitations have hampered the growth of the rural credit market and hindered bringing commercial orientations and open market credit operations into the rural credit structure. The assistance provided by the ADB, such as

¹¹⁵ ADB (2001), Impact Evaluation Study on ADB's Rural Credit Assistance in Bangladesh, People's Republic of China, Indonesia, Nepal, Philippines, Sri Lanka, and Thailand, IES:REG 2001-04, Manila.

¹¹⁶ Discussion with Mr D M S Dissanayake, Deputy Director of the Rural Development Department of the Central Bank, Sri Lanka.

¹¹⁷ National Policy for Agriculture (final draft), Ministry of Agriculture, Irrigation and Mahaweli Development, (13th policy statement)

¹¹⁸ Among many the following dealt with this issue: Ratnayake, P (1992); Nakamura, H; Ratnayake, P; and Senanayake, S M P (1997), "Agricultural Development: Past Trends and Policies" in Lakshman W D (ed) Dilemmas of Development: Fifty Years of Economic Change in Sri Lanka, Sri Lanka Association of Economists, Colombo.

¹¹⁹ Reasons were reported in various Annual Reports of CBSL as crop failures, low returns from crops, and limited off-farm income sources.

¹²⁰ Sanderatne (2002)

¹²¹ World Bank and Asian Development Bank (2004), pp. 24

¹²² World Bank and Asian Development Bank (2004), pp. 25

¹²³ World Bank and Asian Development Bank (2004), pp .23-26

consolidating institutional support, credit-monitoring, interest-rate policy, ease some of these difficulties but need further assistance to make a critical impact.¹²⁴

5.6.2. Lack of commercialisation in rural financing markets

Rural financing systems in Sri Lanka have not been fully commercialised. Commercialised markets should have features such as adopting a for-profit orientation in the administration and operation of rural financing, even micro-credit; developing diversified and demand-driven portfolios; cost-recovery interest rates; use of market-base funds - i.e. non-subsidised sourcing; and channelling credit through conventional financial institutions with prudential regulation and supervision. Some of the commercial banks and the state banks lack these features (Hemachandra 2005).¹²⁵ There is evidence of unsustainable recoveries and credit revolving processors¹²⁶ during the time of preparation of many ADB projects. Ad hoc policies which are not market-friendly in the rural credit market still exist. For instance, the interest rate of the NCRCS was revised downward in 2003 to 8% which was below the market rate and behaved erratically. The interest subsidy on agricultural loans continued to 2004.¹²⁷ Although interest rates were liberalised in 1977 and this was supported by the ADB projects discussed in the study, the main components of the interest-rate determinant are less market-orientated, but more under government control. The determinants are government borrowings and the dominance of the state banks. Erratic interest rates could have adverse effects on the mobilisation of domestic savings.¹²⁸

A variety of interest rates applied by various lending programmes also creates confusion in the credit market. Table 5.2 summarises the annual interest rates of various credit programmes of donors and the GOSL. Such variation in interest rates diminishes the potential for evolving a commercially effective credit market.

Table 5.2: Credit Programme Financed by Donors and their Interest Rates

Credit Programme (2005 /06) and the Funding Agency	Annual Interest rates
Tea project (ADB)	8.5-10.5% & AWDR+6
Skill development project (ADB)	10%
Poverty alleviation micro-financing (JBIC)	16-20%
Small farmer & landless credit (IFAD, CIDA)	16-20%
Matale REAP (IFAD)	12%
NCRS Scheme (GOSL)	8%
Sabaragamuwa Rural Development (revolving fund, GOSL)	10%
Southern province rural development (RF, GOSL)	12%
Tsunami focused credit programmes (3 no.)	6-8%

Source: CBSL Annual Report 2006

¹²⁴ Discussions with the staff of rural financing division of the CBSL.

¹²⁵ This is one of the reasons that ADB selected banks which has [X] percentage of loan recovery – for this reason, Bank of Ceylon and Peoples Bank were not PFIs for 2nd Perennial Crop Project, but this policy restricted the credit outreach to the poor farmers in the rural areas.

¹²⁶ NWP Dry Zone Development Project of IFAD; NCP PRP of IFAD; NCP Rural Development Project of ADB etc.

¹²⁷ CBSL (2003), Annual Report

¹²⁸ Hemachandra (2005, *op.cit.* pp.227)

5.6.3. Financial dualism in the market

Many ADB projects have hardly addressed the issue of financial dualism in the credit market. Until recently ADB projects and policies supported only one side of the dualistic conventional lending structure. S-REAP, which was operational in early 2004, was the point of departure for the inclusion of micro-credit institutions. However, the main source of rural lending is the unconventional and micro-financing institutions, which were not supported by the ADB programmes.

Sri Lanka has a dualistic financial system in which organised or institutional credit markets mostly cater to the modern business sector, while the unconventional credit markets serve the needs of the traditional rural agricultural sector. Commercial banks, savings institutions, co-operatives and the share market serve as sources of conventional finance. The informal credit market operates through cash in hand, friends and relatives, small groups, money-lenders, indigenous bankers, pawn-brokers, landlords, traders and merchants. The World Bank and the Asian Development Bank (2004) reported that Sri Lanka's rural enterprises are financed by the following sources: 43% from internal resources (i.e. cash in hand), 35% from family and friends, 2% from SANASA, 2% from private banks, 3% from rural banks, 3% from money lenders, 6% from samurdhi, and 6% from state banks.

Table 5.3 shows the differences in interest rates and the proportion of rural credit of the two different sectors. The table also shows that the dualism was gradually disappearing during the latter part of 1997. Wickramanayake (2004) demonstrated that the dualistic structure has been disappearing, but at the same time micro-credit institutions are taking the place of unconventional sector lending.

Table 5.3: Interest Rates and Proportions of Debt in the Rural Sector Classified by Formal and Informal Sectors

Year	Interest Rates (%)		Proportion of Rural Debt (%)	
	Formal	Informal	Formal	Informal
1957	4.5-8.0	12.0-18.0	7.8	92.2
1969	7.5-11.0	26.0	25.0	75.0
1976	8.5-14.0	16.0-50.0	45.4	54.6
1981/82	15.0-28.0	11.0-50.0	42.9	57.1
1986/87	13.0-30.0	1.0 - 30.0	60.2	39.8
1996/97	14.5-29.0	1.0-30.0	68.6	31.4

Source: Wickramanayake (2004)¹²⁹

In 2003, state banks and commercial banks who participated in the NCRCS have disbursed Rs.2,617 million, whereas semi-conventional or micro-financing institutions disbursed Rs.6,311 million¹³⁰ for agricultural activities. This gives a proportion of 70.6% for micro-financing institutions in the NCRCS basket. In addition, it is believed that the unconventional sector's role will continue, albeit at a lower level.¹³¹

¹²⁹ Wickramanayake, J (2004)

¹³⁰ Co-operative Rural Banks disbursed Rs.4,206 million; SANASA, Rs 2,921 million; SEEDS, Rs.1,250 million; and SANASA Development bank, Rs.1,161 million for both agriculture and non-agricultural activities (CBSL (2003) Annual Report).

¹³¹ Sanderatne (2002), Rural Financing in Sri Lanka, PGIA.

Although this trend was apparent, ADB has given little support to micro-financing institutions such as small saving groups. Many projects in Sri Lanka,¹³² and in other countries, show that micro-financing systems are more useful to the rural poor who are unable to access loan facilities from commercial financing institutions. Micro-financing can minimise some of the limitations on the demand side by accepting small-group savings as collateral, and offering low transaction costs and simple procedures for getting loans.¹³³ From the supply side too such systems have low administrative costs, higher rate of recovery, low rate of interest and pro-poor credit reach.

There are several micro-financing institutions in Sri Lanka with either government or NGO support. Regional Rural Development Bank, Govijana Banks, Co-operative Rural Banks, Thrift and Co-operative Credit Societies, Sarvodaya Economic Enterprise Development Services (SEEDS) and Janasakthi Banking Societies (JBSs) are some examples. These banks were not used as participating credit institutions of the ADB projects except SEEDS which was used by S-REAP.

Table 5.4: Credit Source by poverty groups

Credit Source	Very Poor	Poor	Not so poor	Rich	Total
Small Village Group	33%	12%	4%	3%	6%
Formal Village Organizations	0%	15%	11%	10%	11%
Village Money Lenders	0%	9%	13%	0%	11%
SAMURDHI Bank	67%	36%	15%	10%	18%
Bank of Ceylon	0%	3%	5%	13%	6%
People's Bank	0%	3%	14%	23%	13%
Rajarata Development Bank	0%	0%	9%	7%	8%
Hatton National Bank	0%	3%	2%	10%	3%
Seylan Bank	0%	0%	1%	0%	1%
Other Sources	0%	18%	26%	23%	24%
Total HH who got credit (column %)	100%	100%	100%	100%	100%
Total HH in the sample who got credit	3	33	170	30	236
Total HH who got credit (row %)	1%	14%	72%	13%	100%

Source: Herath *et al.* (2004)

The impact-assessment study of the NCPRDP¹³⁴ provides empirical evidence in a micro-environment to support the macro trend of recognising the importance of micro-credit institutions. The evidence suggests that micro-credit institutions are popular in rural areas providing almost 100% of the credit needs of the poor. The sources of credit disaggregated by poverty groups¹³⁵ (see Table 5.4) show that the very poor use small village groups, which are unconventional, and semi-conventional credit institutions such as samurdhi. The poor have limited sources of credit. The rich have a variety of credit sources as shown in the table below. The project PFIs are included in these sources and the poor have only limited connection with these institutions. This shows that the credit programme of the NCPRDP was less pro-poor and inequitable.

¹³² Several IFAD projects namely North Western Province Dry Zone Participatory Development Project (2000's); Second Badulla Integrated Rural Development Project (late 1990's); North Central Province Participatory Rural Development Project (2000's) etc.

¹³³ Wickramanayake (2004 *op.cit.*)

¹³⁴ Herath, Weerasinghe and Jayawardane (2004), Project Impact Assessment: NCPRDP, Planning Divisions, North Central Provincial Council.

¹³⁵ The sample respondents were asked to group themselves into four poverty groups, based on the poverty features they themselves identified. This is a relative grouping exercise taking each household position in relation to the population of the area. A majority is in the 'not so poor' group. The income level which was separately analysed in detailed shows that their own grouping is accurate, where the average household income increases systematically with the decreasing rate of poverty in the groups

5.6.4. Infrastructure inadequacies

Inadequate assistance for institution-building was another reason some of the policy recommendations on credit operations by the ADB were not sustained. Stiglitz and Weiss¹³⁶ raised the argument that the root causes of the gap between demand and supply of financial services are high transaction costs and risks due to information asymmetries and moral hazard. This is particularly relevant in rural financing. They stressed the importance of building sustainable institutions, institutional innovation to reduce costs and risks thus improving market-driven provision of financial resources. Many institutional deficiencies of conventional and semi-conventional credit institutions in Sri Lanka have been reported in the literature.¹³⁷ The ADB investments anticipated that the allocations provided as credit lines with loan covenants would improve the efficiency and the delivery of credit to the rural sector. Progress has been hindered by a weak institutional infrastructure including lack of competent staff, weak accountability for problem loans, and political intervention in credit operations.

5.6.5. Lack of facilitative market structures in rural areas

Other necessary market conditions other than credit are weak in many rural areas. Non-credit market facilities are essential to maximise the utilisation of credit. The empirical results of Wickramanayake (ibid) showed that a supportive institutional framework involving access to banking in rural areas, markets, the farm-gate price of paddy (very much influenced by the guaranteed price scheme for rice paddy) and other crops, and crop insurance have all contributed positively to the operation of the credit scheme and whatever performance observed for rice farmers in Sri Lanka during 1980-2001. Although there were government-supported schemes to cover these issues, their sustenance was changing and unpredictable. These have negatively affected the sustenance of ADB supported rural financing policies.¹³⁸

5.6.6. Administrative and bureaucratic inefficiencies

These inefficiencies are also an impediment to continuing the credit policies and approaches that were supported by the ADB. The continuity of revolving funds established by ADB projects has been ineffective in some cases. The SPCDP and the Tea Development Project (1639-SRI) had serious limitations in continuing with the credit line and the policies attached to it as a result of state inefficiencies. In the case of the revolving fund in the Tea Development Project, repayments from recipients of the original project credit line (tea smallholders, factories, etc.) were to be pooled into a fund for re-lending through the PFIs after the project closure. The same was expected at the close of SPCDP. The expectation was to make credit available on a continuous basis for tea replanting and perennial crop development. Although establishing the revolving fund has been approved for both projects, the Tea Development Project Loan was not operational at the end of April 2006¹³⁹ and the SPCDP has a serious re-imburement limitation from the Central Bank at the project closure.¹⁴⁰ As a result a large sum of money, which is potentially available for the agricultural sector as credit, remains out of circulation. One of the reasons provided by the Central Bank is lack of resources and inadequate infrastructure to operationalise the revolving funds.

¹³⁶ Stiglitz and Weiss (1981)

¹³⁷ Sandaratne (2002, *op.cit.*)

¹³⁸ Some of these deficiencies have been addressed in the Rural Finance Sector Development Program of ADB. It supports: (i) conducive policies, (ii) supportive legal and regulatory framework, (iii) institutional reforms for sustainability, (iv) strengthening the demand side, and (v) expansion of rural finance in conflict-affected areas. The programme will strengthen micro-financing institutions and the conventional credit institutions.

¹³⁹ ADB (2006d), Lessons in Capacity Development: Sectoral Studies in Sri Lanka, Special Evaluation Study, Operation Evaluation Department, ADB, Manila

¹⁴⁰ Discussions with the ex-Project Director and the staff of the CBSL.

5.6.7. Political economic conditions

The performance of rural financing can be hindered by political economic conditions involved with credit policy. The literature suggests that reforms are easier in a stable macroeconomic environment.¹⁴¹ In Sri Lanka, political economic forces, such as lobbying by interest groups, have often disturbed the stability of the macro-economic environment. The interest rate change and response to it by the private sector is a classic example. Tight monetary policy in late 1990s and early 2000s led to high interest rates and the private sector protested about the cost of capital.¹⁴² Nelson (1984)¹⁴³ suggested that the private sector in developing countries, including Sri Lanka, unlike those in the developed countries, ask for relief in the form of concessions rather than a change of policy when faced with high interest rates. Political lobbying influences the policy-making authorities. This has happened many times in Sri Lanka¹⁴⁴ and interest-rate policies have been revised several times. These changes bring about uncertainty and lack of confidence in the credit markets and affect performance.

Taking the political economic realities into consideration, the Central Bank was compelled to provide several types of credit subsidies, writing off loans and setting interest rates below the market rates. Such credit subsidies, however, were necessary at that stage in order to foster rural development.¹⁴⁵ The very structure of the credit market and market realities limited the application of ADB-directed policies. For instance, it took some time for both ADB and the government to realise the importance of intervening in the micro-financing sector of the country in addition to the conventional credit market. This intervention is very well-reflected in the Rural Finance Sector Development Program (RFSDP) of ADB which will invest in the development of the micro-credit institutions as well as conventional credit institutions.

5.6.8. Macro-economic conditions

Financial assets in an economy should increase at a required rate to support the development of the financial sector including rural financing. There are certain factors which constrain financial sector development and those factors affect the development of the rural financial sector too. Even where the policy environment is conducive the following macro-economic conditions could limit the development process.¹⁴⁶

Sri Lanka experienced high inflation and increasing budget deficits during the 1990s and the 2000s. This resulted in lowering real interest rates which discouraged savings. Low savings limit the creation of financial assets. High budget deficits experienced during much of the last two decades¹⁴⁷ resulted in low government savings. This is another reason for a low rate of creation of financial assets. A negative trade balance experienced during the period of analysis¹⁴⁸ also restricted the creation of assets. The dominance of the state bank operation has also been cited as a reason for low performance in the financial sector. The state banks

¹⁴¹ Kellegama (2006) *op.cit*

¹⁴² Kellegama (2006) *op.cit*.

¹⁴³ Nelson (1984)

¹⁴⁴ Kellegama (2004) *op.cit*.

¹⁴⁵ This type of credit subsidy policies is found in many other developing countries where the agriculture sector is passing through an initial development process. To improve farmer access to credit and redress income distribution disparities, the interest rate on loans made to agricultural sector entities has been artificially reduced over the decade to 1970 in Brazil. A great majority of this reduction is a result the Brazilian Interest Rate Equalization System (IRES). About 30% of the total loans available to farmers by the Brazilian Central Bank are impacted by IRES. Losses to banks that lend at below market interest rates to IRES qualified agricultural entities are reimbursed by the Brazilian government. (Eduardo Rodrigues de Castro and Eryl Cardoso Teixeira (2006), *Agricultural Credit Interest Rate Equalization Policy: A Growth Subsidy?*, Contributed paper presented at the International Association of Agricultural Economists Conference, Gold Coast, Australia, August 12-18, 2006). This is mainly to increase the activities in the agriculture sector with the assumption that it would lead to more and more activities in other sectors. According to Hirschman's Theory of Unbalanced Growth, increasing activity in one sector demands that production factors also increase, thereby stimulating investment in ancillary sectors: a chain reaction in which development of one sector stimulates the development of others. In this perspective it is rational for the government to give various types of credit subsidies.

¹⁴⁶ This discussion is based on: Hemachandra, W M (2005).

¹⁴⁷ High level of expenditure due to socio-economic and political factors created the budget deficits (Hemachandra, (*op.cit.*))

¹⁴⁸ CBSL Annual Report 1995-2004.

have to finance the government budget deficit, which in 1997 was 15%. This prevents state banks from operating in a commercially viable manner.

5.7. Impact of rural credit policies on the poor

A well-defined poverty-focus was not evident in many of the projects in the rural credit operations of ADB. Reaching the poor was seen as effectively the same as reaching small farmers. In the case of PCDP, the initial project design specified farmers with more than five acres as the target group, which completely excluded the poor. Project documents referred to poverty and providing equity in rural financing, but there was very little evidence in PCRs or other project-related documents¹⁴⁹ of any practical efforts to target poverty through rural financing. The recommendations include some suggestions on improving the poverty impact of rural financing.

Example from NCPRDP on poverty impacts

The NCPRDP demonstrates the failures to target the poor by applying liberal credit policies and delivering credit through conventional institutions in rural areas.¹⁵⁰ The target of the credit component of NCPRDP was to provide 5,600 poor beneficiaries with credit to enable them to improve their incomes and to generate employment through commercial activities such as threshing and storing of crops, upgrading of paddy milling facilities, processing of field crops, and fish production, processing and marketing. Credit was to be provided by PCIs such as the Bank of Ceylon, People's Bank, Seylan Bank, and Hatton National Bank from their own resources, at high interest rates. Collateral was required. Finally, only negligible amounts of credit had been disbursed at the project midterm review and at the completion of the project. Even after providing training and capacity-development through service providers to establish small and micro-enterprises, the total number of beneficiaries was 1,108, against the midterm target of 1,300 and the appraisal target of 5,600 with a loan fund utilisation rate of only 38%. The borrower repayment rates were low, between 40% and 60%. Loan activity was undermined by the exclusion of semi-conventional micro-credit institutions such as non-government organisations (NGOs) from the project, as was covenanted in the project design.

This section summarises the poverty-impact of credit using those who have obtained loans from NCPRDP.¹⁵¹ The findings of the impact assessment were used to assess the poverty impact. The average loan sizes and the number of loans to the very poor and poor categories were substantially lower than that of the other two poverty groups in both the districts (see the bar chart below). It is highly disproportionate to their family monthly income: the loan size to the very poor is about 168% of their monthly income and the same ratio for the rich was 445%. This suggests that the poor are very averse to borrowing from project resources for any purpose. The ratio between family income and the loan size is consistently increasing with decreasing poverty levels, with an increasing rate, i.e. ratio between the income of the very poor and the rich is 1: 2.8, while that of the credit is 1: 7.7. While family income is definitely a governing factor of the loan size, these disproportionate ratios suggest that there are several other factors relating to rich households which facilitate taking credit. In addition to the internal factors such as resource level, education, and opportunities, there are external factors that influence the credit culture. According to the discussion held at Participatory Rapid

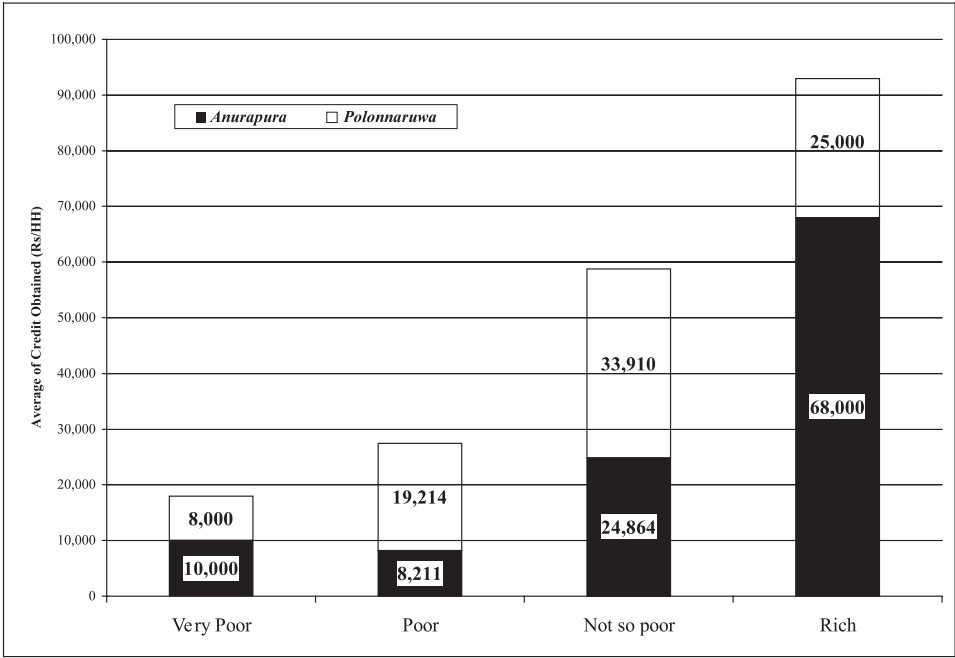
¹⁴⁹ Impact assessment study of the PCDP, Impact assessment study of the NCP RDP, PCR of the Livestock Development Project.

¹⁵⁰ This discussion is based on (i) ADB (2006a), Completion Report - Sri Lanka: North Central Province Rural Development Project, Project Number: 27186, Loan Number: 1462(SF) and (ii) Herath, Weerasingha, Somapala and Jayawardhane (2004), Project Impact Assessment: North Central Province Rural Development Project, Planning Division of the North Central Provincial Council.

¹⁵¹ The evidence for the discussion was obtained from Herath *et al* (2004, *op.cit.*)

Appraisal sessions, economic mobilisation, training and skill development to seek opportunities, motivation towards commercialisation, providing market linkages, facilitating bank collaterals are some of the important external factors to initiate an effective credit culture. It appears that the project has failed to contribute to such factors. Provision of credit by itself is not effective enough to bring about equitable distribution. The credit programme of the project appears to be less pro-poor.

Figure 5.1: Average size of credit by poverty groups



Source: Impact Evaluation Study sample data Herath *et al.* (2004, *op.cit.*)

5.8. Policies on rural financing of other donors - Impact of ADB policies

The International Fund for Agricultural Development (IFAD) provides a large amount of rural financing through its projects. IFAD has been in operation in Sri Lanka from the 1970s. There were a number of projects with rural financing components financed by IFAD.¹⁵² The main objective of IFAD projects is poverty-alleviation. The main difference between many ADB projects reviewed in this study and the IFAD project is that the latter has a holistic approach in addressing poverty, whereas the former has a sectoral approach. The credit components of many of the IFAD projects were directly targeted on the poor. The specific features of many credit components of IFAD projects are:

1. Establishing and strengthening rural saving systems including small-group saving and CBO savings;
2. Promoting micro-credit and micro-credit institutions such as SANASA, SEEDS, Janashakthi Banking Societies, and some NGOs. These micro-credit institutions have been linked with conventional banks and IFAD credit lines were provided through them. There are success stories (NCP PRDP, and Badulla IRDP) and failures (NWP Dry Zone Development Project). The risk of the loan is borne by project funding.

¹⁵² The projects include: (a) Small Holder Out-Grower Estate Development Project (2007) in the plantation and smallholder sector; (b) Matale REAP (2001); (c) IFAD Loan No 384-LK; UNOPS Project SRL/95/F01, North Central Province Participatory Development Project (1995); (d) IFAD Loan No 283-SR; UNOPS Project SRL/90/F01, Badulla IRDP Project (1990); (e) North Western Province Dry Zone Participatory Development Project (1988); (f) Integrated Rural Development Projects in Kegalle (1980); (g) Integrated Rural Development Projects in Kurunegala & Puttalam (1978)

3. Concessionary rates were provided even for the loans provided through conventional lending banks such as the Bank of Ceylon and People's Bank.
4. Credit-plus services are provided along with credit which involves financial training, mobilisation for group savings, capacity-building and business-training

The IFAD projects listed above have shown acceptable levels of success for small-group saving mechanisms and small-group revolving loan mechanisms, especially run by women. Anuradhapura NCPRDP small-group credit culture is one example. These loan systems provide multiple-use loans, as a stepping-stone into more commercial levels of credit with the assistance of CBO or Integrated Community Organisations (ICO). The use of the systems for safety-net purposes is quite important and practised by many in poor communities. In addition, the beneficiaries have reported greater empowerment as a result of their grass-roots savings and credit institutions with substantial community funds behind them.¹⁵³ The IFAD Small Farmers' and Landless Credit Project implemented by CBOSL through SEEDS is another intervention in developing rural financing.

IFAD intervention in rural financing was also shown in the Women's Development Foundation (WDF) in Kurunegala, the Social Mobilisation Foundation (SMF) in Badulla and Anuradhapura Participatory Development Foundation (APDF). They have been very powerful instruments for reaching the rural poor with a considerable amount of rural financing. They have developed a healthy credit culture, mobilisation of savings mobilisation and institutional ownership by the beneficiaries as a result of their bottom-up approach, which starts from village-based small groups that gradually federate at village CBO levels and Divisional ICO levels. One of the major strengths of these institutions is that community groups like the CBO or ICO at Badulla and Anuradhapura are empowered by their experience of managing technical and financial accountability.

These approaches and policies are quite different from the ADB rural financing policies. There is no evidence to suggest that the IFAD rural finance programme was influenced by ADB's policy or rural financing approaches.

5.9. Summary and conclusion: Chapter 5

Summary: Rural financing facilitates the commercialisation process in the domestic agricultural and helps improve productivity by providing capital required for farming. The main form of rural financing with GOSL assistance is conventional credit and micro-credit through various conventional banks and micro-credit institutions. With a view to initiating a market-friendly environment in rural credit systems, several ADB projects intervened with investment components, credit lines and policy recommendations and loan covenants.

GOSL rural financing policies during the period of analysis were characterised by changing interest rates, credit-guarantee policies, and credit-refinancing policies and at the same time there was a series of attempts to expand credit-availability to the rural poor through micro-credit schemes with their emphasis on group-based collateral and lending, local saving-mobilisation and the use of a range of financial intermediaries.

Promoting rural credit and bringing commercial orientation to the rural financing culture is the main aim of ADB projects. This is required in the financial markets to maintain sustainability and to make credit delivery more efficient. In view of this broader objective, ADB attempted to develop a policy framework for the rural finance sector which would minimise ad hoc

¹⁵³ Impact Assessment Study of NCP PRDP.

interventions and reduce the direct involvement of GOSL in provision of rural financing services.

Conclusion: ADB interventions could not remove some of the GOSL policies and practices (such as changing interest rates, application of interest rates lower than the market rates and credit guarantees) that distorted rural financial markets and hindered the sustainable growth of credit institutions. Most of the ADB projects have mainly used the conventional commercial banking system to reach their clientele and have attempted to bring in prudent credit policies and to maintain features of the liberalised market. ADB policies during the assessment period have not supported the micro-financing policies of GOSL.

The analyses show that the ADB rural credit programmes have not been effective in developing the rural credit market in the domestic agricultural sector. Even after implementation of ADB projects, there was no consistent and progressive policy development in rural credit markets or effective demand for agriculture sector loans. The main reasons were failures, such as targeting, in the project designs, and more failures in the financial market. These include limitations on credit-demand and supply, lack of commercialisation in the rural financing markets, financial dualism in the rural financial market, inadequacies of infrastructure, lack of facilitative market structures in rural areas for agricultural product and inputs, administrative and bureaucratic inefficiencies in operating credit and revolving funds, and political economic conditions, i.e. industrial lobbying through the political structures influencing the interest rate changes and writing-off debt.

The sector-specific projects of the ADB and regional development projects such as S-REAP were not exclusively concerned with targeting poverty. The NCPRDP, which is a rural development project, did target poverty. However, in general, the poverty impact of rural credit policies and programmes that the ADB has introduced through both types of projects was minimal.

6. Creating a Commercialisation and Business Orientation

6.1. Introduction

Crop diversification and commercialisation of agriculture has been recognised as an important strategy for the development of the domestic agricultural sector. The emphasis on cereal production over the past three decades in most developing countries and rice production in Sri Lanka has resulted in low output prices and profitability for cereals and has dampened agricultural growth. To reverse this trend, one of the opportunities identified in the agricultural strategies of donor agencies is agricultural diversification.¹⁵⁴

Crop diversification is not a new concept or practice in Sri Lanka. Traditional farming systems such as Kandyan Forest Garden Systems and shifting, slash-and-burn (chena) cultivation have diversified cropping systems.¹⁵⁵ What is new is the introduction high-value crops into cropping systems and initiating commercialisation and entrepreneurship development in rural farming. These policies are intended to make the agricultural sector productive enough to face some of problems listed in chapter 2 and to provide income and employment for the rural sector.

Commercialisation is consistent with the trends in economic transformation where subsidies for the agricultural sector are diminishing, state intervention in production and marketing is dwindling and the private-sector role is increasing. The agricultural sector needs a transformation into business ventures that can respond adequately to market opportunities. GOSL, donors such as the World Bank¹⁵⁶ and the ADB have supported this transformation process in various ways and degrees.

This chapter examines the policies that have supported commercialisation in the domestic agriculture sector. GOSL-specific policies are listed first and then the policies supported by the ADB are examined in the second and third sections. The fourth section analyses the performance of ADB policies in supporting the process and their impact on the poor in rural areas. The chapter concludes with recommendations to improve the effectiveness of commercialisation policies.

6.1. Government policies for supporting or opposing commercialising agriculture

6.1.1. General policy support for commercialisation

The National Agriculture and Food and Nutrition Strategy (AFNS) of 1984 initially provided policy support for the commercialisation process. There were concerns in policy-planning circles even before 1984 about crop diversification and improvement of productivity. The first of such concerns was diversifying uneconomic tea and rubber lands in the mid-country in the late 1960s. The concept was consciously and emphatically recognised and supported in the domestic agriculture sector only after AFNS in 1984. Although there were a few policies supporting commercialisation¹⁵⁷, the assessment focuses more on the specific policies that were adopted during the period of analysis of this study which is after 1995.

¹⁵⁴ World Bank (1991). 'Agricultural Diversification: Policies and Issues from East Asian Experience'. Policy and Research Series no.11 of the Agriculture and Rural Development Department, World Bank in Dunham (1995), Contract Farming and Export Horticulture: Can Agribusiness Revitalise the Peasant Sector in Sri Lanka, Institute of Policy Studies, Colombo.

¹⁵⁵ There are substantial literature on the subject such as (a) Wickramasinghe, Abeysekara, Jayasekara, and Herath (2002), (b) Wickramasinghe, Abeysekara, and Herath (2003)

¹⁵⁶ The importance of diversification and a concomitant requirement of systemic change, advocating broad-based sectoral investment in adaptive research and generating market information were highlighted by the World Bank (*op.cit.*).

¹⁵⁷ Abolishing the Paddy Marketing Board, allowing the private sector to import fertiliser and other food commodities and tariff policies are some examples.

The second major policy support of GOSL for commercialisation was initiated at the end of 1996 with the setting up of the waga lanka food drive.¹⁵⁸ This was a response to the FAO prediction in 1994-95 of a global food shortage in 2005. Commercialisation of subsistence agriculture was mentioned in the policy brief of the Ministry of Agriculture. The policy was supported by the introduction of modern techniques (mainly multiple cropping, protected agriculture, irrigation, seeds and pest control methods for non-paddy crops), the farmers' company concept and the development of private-sector marketing.

6.1.2. Institutional support for commercialisation

GOSL has facilitated the establishment of several institutions to support private-sector participation in the agricultural commercialisation process. The National Agribusiness Council (NAC) was founded in 2000 as a private-sector institution.¹⁵⁹ Its membership is composed of 18 agribusiness associations representing approximately 75% of the agribusiness sector. The NAC functions as an umbrella organisation coordinating many other product-specific private-sector institutions that have a mandate to facilitate business operations in the agricultural sector. The main product-specific private-sector institutions are: the Fruits and Vegetable Exporters Association which is involved in both producing and exporting fruits and vegetables; the Spices and Allied Product and Traders Associations which operates mainly in the spice export markets; the Floriculture Producers and Exporters Association which mainly assists floriculture exporters; the Spice Council which operates as an apex body to assist the development of the spice industry; the Seed Producers Association which works closely with the Department of Agriculture in producing seeds; the Dairy Development, the Milk Procurement and Processors Association which are concerned with the improvement of dairy products; and the Association of Animal Products. Many of these institutions have members on their boards from the respective GOSL line departments to coordinate GOSL and private sector programmes.

The NAC was established to provide a wide range of services to its members who are involved with the private-sector agri-business development activities. These services include providing marketing and product-quality information, making linkages with various GOSL and other institutions, coordinating agricultural research and extension activities that the private sector is keen on getting involved with, and organising technical training programmes. The second perennial crop project financed these activities. Most of these activities were outsourced with a payment to state departments such as the Departments of Agriculture and the Export Agriculture, Animal Production and Health and were dependent on them for technical interventions. During the project life or thereafter NAC did not have an institutional development intervention or established self-sustaining efforts. Neither did they have resources secured from members or from the Government to develop institutional capacity. Therefore most of these services have ceased to function because of lack of financing and technical capacities.

The commodity forward contract system under the Govi sahanaya scheme of the CBSL was a risk-minimising marketing tool that was introduced in 1999 and supported by GOSL to facilitate commercialisation of rural agriculture. This scheme includes a legally-binding forward contract¹⁶⁰ agreement between a buyer and a seller. The agreement includes the commodity volume, quality, the price and the date of the commercial transaction.¹⁶¹ This system has been

¹⁵⁸ CBSL (1996), Annual Report (pp. 31).

¹⁵⁹ The establishment of NAC was supported by a USAID project, 'Improved Framework for Trade and Investment, 383-001'. NAC has a mandate to continue to improve the enabling environment for a viable and profitable agribusiness sector in Sri Lanka.

¹⁶⁰ The legal standing of the contract is vested in the Sale of Good Ordinance No.11 of 1896.

¹⁶¹ CBSL Annual Report (1999)

in operation since its inception with varying degrees of performance.¹⁶² All Rural Development Banks, Seylan Bank, People's Bank, Bank of Ceylon, SEEDS and Co-op Rural Banks implement the programme.¹⁶³ This creates a commercial orientation in agriculture where farmers make business decisions based on the content of the contract. The contract is bankable and the farmers can obtain credit on the strength of the contract.

Abolishing the monopoly in agricultural insurance was another institutional support. The former Agricultural Insurance Board which had the monopoly of agricultural insurance was reconstituted with a wider scope as Agricultural and Agrarian Insurance Board. With this change the private insurance companies were allowed to operate in the agricultural insurance market.

Private-sector marketing was facilitated by the GOSL investment in dedicated economic centres in Meegoda and Embilipitiya in 2003 providing trading floors for the farmers and traders to transact.

6.1.3. Regulatory facilities for commercialisation

The other GOSL policies adopted in early 2000 that facilitate the commercialisation were enactment of the Seed Act of 2003 which recognised private and public sector participation in seed production, imports and distribution¹⁶⁴; abolishing duty on seeds, spores, and imports of planting materials making the private sector competitive in the seed industry; abolishing import license for maize which is increasingly used in the animal feed industry that is in the hands of the private sector; abolishing the import duty on all purebred breeding animals; waiving the duty on irrigation equipments, high-tech agriculture equipment and agricultural netting for greenhouse preparations to increase the competitiveness of private-sector investment; and waiving or reducing duty on materials used for packaging milk and juices, canning and food processing machinery.

6.1.4. GOSL privatisation policy in the domestic agriculture sector

Privatisation¹⁶⁵ has become an integral part of the economic reform process advocated by GOSL from 1980. Privatisation of input and output market functions facilitates the process. In the early 1990s, the plantation sector was subject to privatisation and all aspects of production, processing and marketing were transferred to private sector plantation companies. This process was facilitated by two Plantation Reform Projects of the ADB in addition to the GOSL privatisation process.

However, the privatisation process in the domestic agricultural sector was late to start and has been limited to a few areas. A clear policy statement about privatisation of the domestic agricultural sector institutions was seen in the National Policy Framework (NPF) of 1995 prepared by the Ministry of Agriculture. The privatisation process was further endorsed in the National Policy on Agriculture and Livestock (NPAL) drafted by the Ministry of Agriculture for the period 2003 to 2010. The policy tools that were mentioned in the NPF were transfer of ownership of several state farms such as Pelwehera and Hanguranketha to the private sector,

¹⁶² Every Annual Report of the CBSL reports the progress of the scheme. During the initial period of the scheme, it saw a slow progress of having contracts of about 3,577 in 2000 which was increased to 38,000 in 2003 and progressed further. The typical crops that were included in these contracts are mainly paddy, gingili, maize, onion, medicinal crops, soybeans, passion fruits, tea leaves, and mushrooms.

¹⁶³ Weliwita and Epaarchchi (2003)

¹⁶⁴ The Seed Act, No 22 of 2003 has the provision to establish a National Seed Council, with members from the Department of Agriculture and not more than four members from the private sector representing seed producers, seed users including farmers and seed importers. The Council functions as a regulatory body and actual production, imports and distribution can be operated by the private sector. (Gazette of Sri Lanka, August 1, 2003, Seed Act, No 22 of 2003).

¹⁶⁵ Privatisation can be defined as the transfer of ownership of resource and responsibilities for provision of services from the public sector to the private sector.

production of planting material was to be mainly undertaken by the private sector and state marketing was to be abolished.

The GOSL has supported the policy of liberalising extension services in the sector. The CBSL, Annual Report, 1999 says:

“with a view to improving efficiency and to making agricultural extension activities competitive, a fee-based private extension service was initiated as a pilot project during the year, under the SPCDP” (CBSL 1999:32).

In line with the privatisation policy, GOSL privatised in 2003 the loss-making National Livestock Development Board farms in Ridigama, Kandakaduwa, Haragama, Martina farm, Welikada farm, Kottukachhiya farm and Parasangahawewa farm.¹⁶⁶

6.1.5. Tariff and subsidisation policies

These two policy areas could influence the commercialisation process. The ADB has not addressed tariff policy reforms except to say that frequent changes in the tariff policy to satisfy consumer and producer demands could bring about an uncertainty in the investment climate of the private sector. However, the performance of export crops such as spices, vegetables and fruits in the domestic agricultural sector have not been constrained by tariff policy. These are the crops which have more commercial potential than paddy, potatoes or onions as these are subsistence crops. Many of the export crops have only to face business turnover tax and VAT which were comparatively stable. Cess is applied only to plantation crops. The only possible way of affecting the changing tariff policy was by giving false signals about resource-allocation - mainly of land. Even land has its structural rigidities and technical limitations on transferring from one crop to another. These limitations are severe in paddy lands. Therefore it is imprudent to say whether or not the changing tariff policy on food commodities has a notable impact on the overall commercialisation of the domestic agricultural sector.

The main subsidised inputs that the GOSL is providing are fertiliser, irrigation water and water management, agricultural extension, and seed quality certification services. Among these policies, fertiliser subsidy policy is controversial (see chapter 3 for details). Although the fertiliser subsidy policy is not directly and decisively supporting the commercialisation process, the GOSL is adamant about the continuity of the policy arguing that it protects poorer farmers. Since there is no targeting mechanism for the poor, there is no evidence that this objective is being achieved. The fact that the government has allocated a substantial amount of money for the fertiliser subsidy in the ten-year development plan indicates that the government will continue with the fertiliser subsidy policy. A comprehensive policy analysis is required to advise the GOSL to reform the fertiliser subsidy policy.

¹⁶⁶ CBSL (2003) Annual Report

6.2. ADB Interventions and policies supported in commercialisation

6.2.1. Projects and components

During the period of analysis (1995-2005), the two main sector interventions of ADB for facilitating the commercialisation process in the domestic agriculture sector¹⁶⁷ were the first and the second perennial crop development projects. The S-REAP also assists agri-business development and the commercialisation of rural agriculture through the business-development component. The specific policies that the first two projects, and in particular the SPCDP, supported were improvement of rural credit market facilities; improving extension facilities through privatisation of extension; providing farm inputs such as farm advisory, marketing, and technical services for perennial crops; and supporting production of quality seeds and planting materials on a commercial basis.

S-REAP, which is an integrated rural advancement project, facilitates the commercialisation programme in the agriculture sector through:

- establishment and expansion of agriculture and agriculture-related micro, small and medium enterprises (MSMEs) in the southern region;
- the provision and maintenance of key economic infrastructure such as farm-to-market roads, village and town fairs;
- the enhancement of capacities, which include agri-business and agriculture development, in the public and private sectors to facilitate, support and sustain the development process.

The ADB project interventions in reforming or supporting each policy are discussed in the proceeding sections.

6.2.2. Fertiliser subsidy policy

ADB proposal and government policy: The fertiliser subsidy has been an excessive burden on treasury financing.¹⁶⁸ Mainly to rationalise the government expenditure, the Agriculture Programme Loan (APL1)¹⁶⁹ proposed that the government shall completely remove all fertiliser subsidies by 31st December 1989 and encourage the private sector to increase their role in the fertiliser market through maintaining transparency in the market and target prices of fertiliser by publishing the prices; providing equal treatment of private and public sector companies with regard to the terms of payment for fertiliser importers; provision of credit from the banking systems to improve storage facilities and encourage private sector increase its share of 60% to 80% in the fertiliser market through providing credit. ADB's intention was to support commercialisation of the rural agricultural sector through efficient financial allocation of the correct type and quantity of fertiliser. GOSL removed all subsidies for

¹⁶⁷ There were several other projects and programme lending facilities of ADB which had assistance for crop development focusing on diversification. Most of these projects operated in the plantation sector except for a few which focused on sugar cane. These include Loan No. 712-SRI(SF): *Plantation Sector*, for \$45.0 million, approved on 27 September 1984; Loan No. 1402-SRI(SF): *Plantation Reform*, for \$60 million approved on 9 November 1995; Loan No. 2-SRI: *First Modernization of Tea Factories*, for \$2.0 million, approved on 2 July 1968; Loan No. 39-SRI: *Second Modernization of Tea Factories*, for \$3.5 million, approved on 29 October 1970; Loan No. 472-SRI(SF): *Third Tea Development*, for \$12.8 million approved on 7 October 1980; Loan No. 955-SRI(SF): *Smallholder Tea Development*, for \$25 million, approved on 28 February 1989; Loan No. 123-SRI(SF): *Gal Oya Sugar Industry*, for \$2.8 million, approved on 24 September 1981; Loan No. 369-SRI(SF): *Sevanagala Sugar Development*, for \$33.9 million approved on 29 November 1979; Loan No. 526-SRI(SF): *Coconut Development*, for \$12 million, approved on 24 September 1981; Loan No. 899-SRI(SF): *Perennial Crops Development*, for \$17.3 million, approved on 30 August 1988 (this was included in the review); Loan No. 820-SRI(SF): *Agricultural Inputs Program*, for \$29.0 million, approved on 16 December 1986; Loan No. 994-SRI(SF): *Agriculture Program Loan*, for \$80 million, approved on 28 November 1989; Loan No. 1127-SRI(SF): *Second Agriculture Program*, for \$60 million, approved on 26 November 1991. These were not included in the review in this study because either they were operated before the period of analysis of they focused on the plantation sector.

¹⁶⁸ Kelegama (2006, *op.cit.*)

¹⁶⁹ This project was in operation before the cut-off point for this analysis, but is mentioned here to indicate the interest of the ADB in reforming the fertiliser subsidy policy. The main objective of APL1 was to revitalise the agriculture sector through improving overall productivity and growth in agriculture, achieving a high degree of self-reliance in rice, enhancing export earnings from tea and minor export crops, and promoting agro-industries.

fertiliser by 1990 (a year later than expected by APL1) with the intension of reducing budgetary deficit. However, as discussed below subsidy was re-introduced.

Policy Impact: Public expenditure on agriculture was reduced from 4.6 in 1986 to 1.2 in 1992 as a percentage of GDP and this was partly because of the removal of fertiliser subsidy. Concomitantly there was a reduction in the use of fertiliser from 525,¹⁷⁰ metric tons in 1988 to 436,949 metric tons in 1990, but the usage quickly increased to 548,120 metric tons in 1993¹⁷⁰ even before re-establishing the fertiliser subsidy in 1994.¹⁷¹ The paddy sector too showed an increase in fertiliser use even before the re-introduction of subsidy. The largest drop in fertiliser use was in the rubber sector mainly because of the low rubber out-prices. The coconut sector too showed a decline. The latter two sectors have not shown an increase in fertiliser use even after re-introduction of fertiliser subsidy. In the food-crop sector, there was no significant diversification of crops during the programme period.¹⁷²

Revised GOSL policy of fertiliser: Because of political pressure and a significant increase in import prices¹⁷³, the subsidy was re-introduced in October 1994¹⁷⁴ and covered 30% of the prices of fertiliser.¹⁷⁵ The Ceylon Fertiliser Co. Ltd continued to dominate the market accounting for 30% of the market share.¹⁷⁶ Subsequently, there were several changes in the fertiliser subsidy policy. The 30% subsidy was abolished in January 1995 and re-introduced in April 1995 with a cap on subsidy allocation.¹⁷⁷ Fertiliser usage showed that such policy changes affected fertiliser application on crops.¹⁷⁸ However, the fertiliser subsidy policy was thereafter continued with changes in the rate of subsidy. The basis for providing the fertiliser subsidy was political advantage and election pledges, rather than evidence-based decision-making. Mahinda Chintana: Vision for a New Sri Lanka includes provision of fertiliser subsidy in its ten-year plan.

6.2.3. Rural financing and commercialisation

The importance of rural financing for agricultural commercialisation has been well covered in research and publications. GOSL policies concerning rural financing and the ADB assistance in credit were discussed in chapter 4. The concluding statement about bringing a commercial culture to the financing of rural agriculture is covered in this section.

ADB projects, mainly the two perennial crop development projects, facilitated credit delivery for commercialisation. At the end of the SPCDP in 2005, 4,586 loans with a value of Rs.1,754.4 million were disbursed for crop cultivation (Rs.1077 million), agro-processing and marketing (Rs.352.6 million), floriculture (Rs.218.9 million), nursery development (Rs.86.5 million), and vegetables under protected agriculture (Rs.19.4 million). Almost all the activities had a commercial nature.¹⁷⁹ The government PCR of the SPCDP reported that most of these loans were above Rs.200,000 and disbursed through commercial banks with collaterals required as security. This has restricted access to these loans for small-scale rural farmers. However, the

¹⁷⁰ National Fertiliser Secretariat (respective years), The Review of Fertiliser.

¹⁷¹ The fertiliser used in the paddy sector which accounted for 50% of total use rose by 8% where as tea, rubber and coconut dropped by 11%, 7% and 14% respectively (CBSL, (1994), Annual Report).

¹⁷² Gunawardana & Somaratne (2000, *op.cit.*)

¹⁷³ The international price escalation was most drastic in urea due to the high cost of raw material and closure of urea plants in major producing countries (CBSL, (1994) *op.cit.*)

¹⁷⁴ The CBSL, Annual Report, 1994 (page 38) identified this as a significant policy measure.

¹⁷⁵ CBSL Annual Report (1995)

¹⁷⁶ CBSL Annual Report (1994)

¹⁷⁷ The subsidy paid to the importers was at a rate of US \$ 80 per mt in Urea and 20 for TSP and later increased and capped at US \$ 131 per mt for urea and US \$ 29 per mt for SA, US \$ 19 per mt for MOP and US \$ 59 per mt for TSP costing the treasury a Rs 1,700 million per year from 1995 onwards.

¹⁷⁸ Ekanayake (2006, *op.cit.*)

¹⁷⁹ Project Management Office (2006), Project Completion Report of the Second Perennial Crop Development Project, Peradeniya.

project encouraged a culture where resourceful investors started taking bank loans for commercial agriculture.¹⁸⁰ Except for a few isolated cases this had not been the case in Sri Lanka before the project. The project improved bank officials' capacity to operate commercial agricultural loans. This was a positive contribution to GOSL efforts to facilitate the commercialisation programme in domestic agriculture.

6.2.4. Privatisation of extension

The SPCDP facilitated the attempt to privatise agricultural extension on a pilot basis in 1988. GOSL had accepted this as a policy. The basis for GOSL acceptance was that private sector extension would be able to deliver demand-driven services, which would be more efficient in comparison to public-sector extension, and be able to recoup part of the service cost from the beneficiaries.

The present system of extension in the perennial crop sector has a supply-driven approach where two leading government bodies, the Provincial Departments of Agriculture and the Department of Export Agriculture provide extension advice and training.¹⁸¹ The SPCDP also supported the regular extension activities of these institutions¹⁸². However, it was claimed that these institutions were not equipped to provide extension material for commercialised agribusiness ventures. The existing private-sector extension services were highly commodity-focused. The Ceylon Tobacco Company deals only with tobacco farmers; the Chemical Industries of Colombo deals with agrochemicals, and the Dairy Farmers Association focuses on dairy products. These systems covered only a limited geographical area and there were few attempts to broaden the concept by sharing lessons.

Project Interventions: The project covenants of SPCDP had conditions for utilising private firms to provide extension services to the perennial crop growers. Accordingly, contracts were given to three private-sector companies to provide extension. These are Ma's Tropical Food Processing Pvt. Ltd for food and spices in the Matale District; Environmental and Management Lanka Pvt. Ltd. for flowers and foliage in the Western, North Western and Central provinces and CIC Fertiliser Pvt. Ltd. for fruits and spices in the Western and North Western provinces.

The Ministry of Agriculture, accepting the concept of private extension, contracted with the private-sector companies to facilitate the process and monitor it. The agreement stipulated that service-providers should make technical, financial (mainly credit), marketing and training services available to the beneficiaries for an agreed fee. The SPCDP paid the salaries of the officers engaged in delivering the services. These companies began contacting farmers with a view to providing extension from 2001.

Performance of the pilot intervention of SPCDP: In most cases the service-providers supported obtaining credit. The GOSL PCR of the SPCDP reported that only CIC provided training programmes in addition to facilitating credit.¹⁸³ The services rendered by the companies were mainly to facilitate obtaining the loan rather than providing technical extension information.

¹⁸⁰ Discussions with BOI and Export Development Board – Export Agriculture Division, revealed that there were a few cases who took bank loans with the support of the Export Development board for setting up protected agriculture (under green house conditions) for production of various exotic vegetable such as salad leaf, paprika, red lettuce etc.

¹⁸¹ There are other public institute providing agricultural extension such as National Department of Agriculture, Mahaweli Development Authority, Agrarian Development Department, Provincial Department of Animal Production and Health, Small Holder Tea Development Authority, Coconut Cultivation Board, Rubber Extension Service, Cashew Corporation, HADABIMA etc. Their role is highly commodity- or area-specific.

¹⁸² Regular extension activities included conducting awareness and promotional programmes, facilitating business proposals and loan procedures, training programmes and demonstrations, and print and electronic media communication (GOSL PCR).

¹⁸³ About 80% of these training programmes, a total of about 100 in number, were on crop cultivation and the balance was on fertilizer application which was one of the commercial functions of CIC.

The continuation of linkages between the private companies and the farmers only existed during the project period. There is no evidence of post-project continuation of such linkages. Interviews conducted with the CIC and Ma's did not reveal any post-project service-provision. This indicates that the efforts initiated by the project to establish private extension services are not sustainable. The Ministry of Agriculture called for bids from the private-sector organisations during the SPCDP period to participate in the process with a view to expanding the same services in other areas and for other commodities. There was no willingness from the private sector to continue with a similar service. The reasons for lack of sustainability in the pilot programme are assessed in subsequent sections.

6.2.5. Research and research policy supports

Since the late 1990s, the Ministry of Agriculture has endorsed the policy of introducing commercialisation to the rural agricultural sector. The technical departments under the ministry, such as the Department of Agriculture, Department of Export Agriculture (DOA) and Department of Agrarian Development, the main public-sector service-providers in the agriculture sector, continued with the regular extension, research, input supply and water-management programme, even after promoting commercialisation. Many of these interventions have a supply-driven approach. Assistance provided for the processing of essential oils and value-added products of pepper, coffee, and cardamom from the Department of Export Agriculture (DEA) in the direction of commercial agriculture was an exception. Another exception was the assistance provided for group-processing, and central-processing for cinnamon, pepper, clove, and nutmeg, again from the DEA. This was initially facilitated by the first Perennial Crop Projects and continued under the SPCDP. In both cases however, there was no research component supporting these activities.

Agricultural diversification and commercialisation requires research efforts to develop innovative solutions to new problems associated with alternative and unknown production enterprises. A good example was the need for a new variety of tomato suitable for pulp production when AgEnt¹⁸⁴ was supporting business in tomato production and related industries.¹⁸⁵ In a commercialisation environment, research and extension priorities should largely be demand-driven. GOSL's institutional focus on investments in research and extension systems did not respond adequately to demand. Traditional research projects by DOA and DEA have long time-horizons, crop-specific (i.e. yield increases as heavily applied in paddy-sector research, shorter duration cultivars such as maize, paddy and chillies, improved quality characteristics such as capsicum, papaw etc., and greater tolerance to pest stresses) , or adaptive types of research.

Project interventions: SPCDP encouraged, through CARP, agricultural research that would respond to some of the needs of the commercialisation of agriculture. Examples of such needs are good-quality seeds, short-term high-yielding varieties, the possibility of diversifying farming systems, processing and value-additions, control of post-harvest losses, and high-tech agriculture such as tissue culture. A review of the list of contract projects proposed for support under SPCDP¹⁸⁶ shows that much research has a commercial orientation and supports crop diversification.¹⁸⁷ This push in the research system has had an impact on the long-term outlook of the CARP policy. The review of research policy shows that research and extension

¹⁸⁴ The USAID assisted project which encouraged agri-business during the late 1990s.

¹⁸⁵ The DOA has never produced a variety for tomato pulp production even after completion of the AgEnt programme (personal discussion with the staff of HORDI and a review of the list of research topics supported coordinated by CARP).

¹⁸⁶ GOSL PCR of the SPCDP lists all the contract research topics.

¹⁸⁷ Out of 46 research proposals that have been accepted for CARP and SPCDP funding, 22 were supporting commercial agriculture of perennial crops, commercial meaning responding to specific commercial needs of productivity improvement or diversification etc.

focus must shift from being supply-driven to becoming more market-driven and that the focus must shift from increasing productivity to increasing profitability.¹⁸⁸ This can be considered as an important contribution to reforming policy and shifting the attention of the line departments to promoting commercialised agriculture.

6.2.6. Business development

The need for business development in the agriculture sector has been acknowledged by governments in the late 1990s and early 2000s and in a recent Agriculture Policy Statement Both SPCDP and Southern REAP initiated and supported agri-business development activities. The SPCDP facilitated this process through extensive involvement of the project and the three private sector companies who were chosen to provide extension support. The main activities were facilitating the preparation of business plans - in most cases this was related to crop-cultivation or processing -, making credit available and providing the necessary training. Involvement of the private sector in the initial business planning process was minimal. The line departments too were not directly involved in the process of business-plan development. It was the project officers who coordinated business-plan preparation. There was no capacity-improvement of department officials on this subject. Therefore any continuation of the agri-business activities needs to be undertaken by the private sector.

Project interventions - SPCDP: The National Agribusiness Council, which was already formed, was identified by SPCDP as a co-ordinating body to win the support of the private sector for business-development activities. This was accepted as a policy in 2001 by the Ministry of Agriculture. NAC was commissioned to:

- provide agribusiness and market information;
- train investors and the staff;
- devolve contract research to CARP to oversee the business orientation is built into the research process.

The costs of items such as recurrent and technical services incurred in the process were met by the project.¹⁸⁹ During the project period the NAC conducted several training programmes¹⁹⁰, produced a number of market-analysis information reports and coordinated some of the research proposed by public bodies. In delivering the services and training, NAC out-sourced many activities to the regular training staff of the Department of Agriculture and DEA.

There appeared to be little direct involvement between the other private-sector agents which were co-ordinated by the NAC and the beneficiaries. The business information that was collected by the NAC did not get through to the trainees. No-one took the responsibility of checking whether trainees or other beneficiaries were actually starting agro-businesses. These limitations meant that NAC involvement failed to foster agribusiness activities on a sustainable basis. There were no outreach programmes to serve the rural sector. This programme could only be expected to have a small impact on poverty.

Project interventions - S-REAP: Southern REAP used a different approach, involving the private sector extensively and directly. The S-REAP contracted a private-sector organisation as the main Enterprise Development Service (EDS) provider.¹⁹¹ EDS was well-integrated into the

¹⁸⁸ CARP (February 2007), Reviewing Sri Lanka's Agricultural Research and Extension System: Towards more Innovation and Market-orientation, Draft Paper of CARP.

¹⁸⁹ The total financial support that SPCDP provided to the NAC was about Rs 12 million (GOSL, PCR of the SPCDP).

¹⁹⁰ The training programmes included agri-business management principles, protected agriculture, cultivation practices of crops such as vanilla, pepper, orchid etc., nursery management etc.

¹⁹¹ The principle EDC is ISB of Kurunegala. Under the direction of ISB, several EDS providers are assisted by S REAP.

local business community, i.e. small-scale business providers, private-sector firms, and had various contacts with micro-enterprise clients as well as with larger businesses.¹⁹² Agri-business was one band of the spectrum.

The EDS provider picked out viable micro-enterprise activities and organised meetings with existing and potential micro-entrepreneurs to identify candidates for new business activities. During these meetings, micro-entrepreneurs or potential clients of EDS providers proposed a potential enterprise. Examples were new cultivations of cash crops, food processing (dairy-based products and crop-based confectioneries were common), value-added agricultural products and high-value processed products. In some cases, these entrepreneurs formed 'enterprise clusters' and the EDS provider fostered market linkages between the clusters and marketers. The EDS providers contacted the potential future clients that would join the micro-enterprise cluster and provided technical requirements, product characteristics and the estimated demand for the new or adapted products that the cluster was offering. A successful case involved dairy-based products in Galle and Matara. The EDS provider co-ordinated and organised training. In many cases it represented CEFE or SIYB methodologies promoted by GTZ and credit from the ADB designated financing institutions. EDS providers provided assistance to prepare business plans, submit them to financing organisations (both conventional banks and micro-financing institutions), obtain credit for the micro-enterprise¹⁹³ and initial monitoring. SEEDS is an example of micro-financing institutions providing these services, both as an EDS and a financial institution.

The incentives for the EDS to operate in this field are the commissions that they get for all the services provided to clients and allowances to cover total recurrent expenditure that the S-REAP providers. EDS such as SEEDS, which is one of the main EDS providers working with S-REAP, claimed that they would continue to have business clientele with the involvement of S-REAP and believed they would continue even after the project.

In terms of policy of agri-business development the Southern REAP intervention has contributed in several areas:

- accepting private-sector organisations (EDS providers) with government funding-assistance to play a main role in the facilitation process and promotion of agri-business activities (however, auditing requirements undermine true private-sector operational modalities¹⁹⁴);
- providing operational modalities in business promotion, establishing and maintaining a close involvement between the small-scale entrepreneurs and the private sector;
- accepting technical business proposals prepared by the EDS providers by both state and private banks for financing (conventionally the banks or a state institution prepared these proposals - an example is the First and Second perennial crops projects for the bank or project officers helped with the business proposal), and EDS involvement is a sustainable way of preparing business proposals in the rural sector;
- gaining the support of the pradeshiya sabha and provincial politicians for direct private-sector involvement with GOSL funding for the promotion of a rural business environment;

¹⁹² Based on a telephone interview with the manager of EDS in Galle and Hambantota.

¹⁹³ By February 2007, about 3500 micro-enterprise loans have been disbursed and a notable proportion of this was for agribusiness activities (discussions with the Project Manager of the S-REAP).

¹⁹⁴ Based on discussions with the Project Manager, Mr Gamini Kularatna.

- maintaining a mandatory share of rent from public infrastructure facilities such as local fairs and markets for the maintenance of such activities.¹⁹⁵

6.2.7. Increased private-sector participation

Private-sector participation in agricultural development with GOSL and ADB support was limited to providing privatised extension. Bodies such as CIC and seed importing companies are active in the agricultural sector on a commercial scale. GOSL and ADB policies ensure private-sector participation. However, in order to obtain deep and widespread participation, modalities need to be developed to secure private-public partnership. There were no ADB or government programmes to support such modalities.

6.2.8. Sustainability of the business development efforts of EDS providers

It is critical to continue with the services of the EDS providers for business promotion in general and agri-business promotion and assistance in particular. The S-REAP provided certain essential financial and technical services such as an allocation to cover recurrent expenditure and appraising the business proposals prepared by the EDS providers. The coordinating EDS provider, ISB, Kurunegala which is the main body for coordinating and providing institutional support to the EDS providers, also receives heavy assistance from the S REAP. Discussion with some of the EDS providers and with the project manager indicated that many of these EDS providers still need assistance to provide business services. The expected service-fee from potential entrepreneurs is inadequate because of the small number of investors requesting the services. After the project closure, there is no body to continue such technical and financial assistance. There is no indication at present that the EDS providers could self-sustain. Some felt they were too new to the system to self-sustain as service-providers. They also felt that factors such as market facilities, credit and lack of training personnel prevent them becoming business facilitators. This will affect the continuity of the activities and policies that have been initiated. The current situation indicates that there are good practices, but is doubtful whether the model will be suitable for a larger section of the community.

6.2.9. Prices and market rationalisation

GOSL Policy: During the early 1980s and mid 1990s there was direct GOSL intervention in marketing domestic agricultural products.¹⁹⁶ The Paddy Marketing Board (PMB), Cooperative Wholesale Establishment (CWE) and Food Commissioners Department (FCD) were the main bodies that intervened in the markets of domestic food-crop sectors. The perpetuation of these bodies is not compatible with a policy of commercialisation as public subsidies will distort the market environment.

The main objective of the PMB was to operate a Paddy Guaranteed Price Scheme (GPS) in order to ensure a reasonable price for both producers and consumers and to supply milled rice to consumers at a fair price. It also markets a small amount of pulses and grains. The CWE was very active¹⁹⁷ in marketing not only agricultural products but other consumer goods as well. It imported essential food items with a view to meeting food-security conditions. The role of CWE reduced significantly after 1996 when the private sector was allowed to operate in import markets with licences, but still continue with the traditional functions of storing

¹⁹⁵ This is essential as local authorities allocate inadequate funds for the maintenance of such public infrastructure and they soon deteriorate.

¹⁹⁶ Both GOSL and ADB Policies during this period is outside the scope of analysis. However the marketing policies of the GOSL have affected commercialisation and the ADB emphasised on market rationalisation through APL 1, the policy changes were briefly dealt with.

¹⁹⁷ CWE has 42 wholesale wear houses, 149 retail outlets, and 4000 active franchise-holders (Kelegama, 2006, *op.cit.*)

essential food items and distributing them. There is political pressure to maintain CWE as a state body. It was very clear that there was a policy reversal - CWE was privatised in 2005 and re-nationalised in 2006. This was mainly to maintain food security which is considered a political imperative. The FCD functioned as the distribution arm of the PMB when it was in operation. Currently FCD regulates the food import market through provision of licences for food imports.

ADB intervention in market rationalisation: ADB's initial intervention to rationalise marketing and prices came with APL1. One of the major policy and institutional reform measures of the programme was rationalising the PMB. Among the three main bodies involved in marketing, APL1 addressed the reform of the PMB. Initial steps were taken to reduce the operating losses of the PMB. The number of storage and milling facilities of the PMB was reduced, and PMB's overdraft was converted to a term loan.

Performance of the PMB: During the programme period of 1985-90 the volume of paddy purchased by PMB declined rapidly to about 0.2% and private-sector participation in the rice market increased. This could be because of ADB intervention and the liberalisation drive¹⁹⁸. There was a political influence during 1995 which led to an increase in the operation of the PMB. The main reason for the influence was that the farm-gate prices of paddy were so low that farmers were not receiving an adequate price. The volume handled by PMB increased to 10%. This was only temporary and the PMB could not operate economically in the market. It ceased to function in 1997 and was formally disbanded in 2000.¹⁹⁹

Lost opportunity in policy reform: Except for the reduction of the tree crop taxation, all the policy reforms proposed in the APL1 were reversed. In the case of PMB, the main reason for the closure, according to GOSL sources, was the financial loss incurred rather than the reform process. The very reason for the reform process was the expected loss of profit as rationalised by the ADB in the APLI documentation. There was evidence of continuous losses and mismanagement of PMB. However, political decisions led to a policy reversal in 1995 and PMB re-entered the paddy market. In 1997, closure was inevitable because of severe financial losses. As well as regular losses, PMB's ineffectiveness as a market player prevented it from disposing of an accumulated stock of rice. This resulted in debt of Rs.2 billion to the domestic banking system.²⁰⁰ The policy reform recommended by APL1 would have been adopted while PMB was going through a period of unstable performance. Political imperatives allowed the Board to function until it had unaffordable losses.

6.3. Overall impact on the government policy of commercialisation

Since the early 1990s, ADB and several other donors have stressed the importance of agri-business development and crop diversification in the commercialisation of agriculture. ADB has invested in activities which demonstrate the feasibility of the process. These programmes have complemented GOSL policies to encourage commercial orientation in agriculture.

- The Ministry of Agriculture has accepted the need for private-sector participation in agro-enterprise. An enterprise development division was established with the support of the national budget in the Agriculture Ministry under a director. It was charged with co-ordinating the private sector, chamber of commerce, farmers out-grower system and markets;

¹⁹⁸ The reduction of the PMB role in marketing was mainly attributed to the economic liberalisation process and structural adjustment process proposed by the World Bank and IMF rather than the intervention of the ADB project (CBSL, Annual Reports, 1989-92).

¹⁹⁹ CBSL, Annual Reports of respective years.

²⁰⁰ CBSL (1995), Annual Report, pp.23

- Establishing an enterprise development unit in the Department of Agriculture with a budgetary provision. This unit is responsible for providing training, business ideas and extension. However, this is not linked up with other programmes of the DOA.
- A ten-year plan of the DOA has recognised the importance of developing fruits, floriculture and protected agriculture as commercial activities. About 15% of the five-year budget from 2007-2012 has been allocated for these commercial activities.²⁰¹
- DEA has accepted the importance of commercial orientation for crop-development programmes for agricultural exports and allocated a substantial amount of funds in the ten-year (2006-2017) development plan for the agricultural export-crop sector. The commercial activities included in the programme are CBO-based group- processing of spices and beverage crops; investment in central processing centres with out-grower systems for cinnamon, pepper, clove, and cardamom processing; and dissemination of market and trade information.²⁰²
- Sharing public resources in research institutes with the private sector to initiate a private-public partnership in conducting research. This system will incorporate some of the needs of private-sector commercial agriculture into the research system.
- Accepting the need for achieving competitiveness in the agricultural sector by increasing both productivity and improving product quality in the domestic agricultural sector
- Accepting the involvement of community-based organisations as partners in agricultural extension; and encouraging private-sector participation in extension.
- Encouraging technical departments to facilitate and direct CBOs, other farmer organisations and the private sector to be partners in the development process and making linkages with private marketing systems.

6.4. Constraints in facilitating policy in commercialisation of domestic agriculture

The World Bank (1991) and Gunawardana and Somaratne (2000) noted that the process of commercialisation in the sector has been very slow. The process is constrained by several factors. This section highlights them with a view to improving future policy-making processes.

6.4.1. Limitations in the facilitative environment

1. *Research and extension to generate and disseminate the required technologies in a wide array of commodities:* Crop diversification and the agro-business process involve active and flexible decision-making. Technical options need to be available to facilitate such decisions. High commodity bias (paddy and a few food crops, a few export crops) in research and extension does not provide this wide base.²⁰³ None of the ADB projects or GOSL programme have taken adequate efforts to broaden the base of commodity research to offer a variety of options for commercialisation.
2. *Establishment of secure rights to scarce resources and markets for those rights:* This is a particular problem for land as a resource. Restrictions in the land market have been identified as a bottleneck in the commercialisation process. There were some efforts, with donor support, to rationalise land titles and allow liberalisation in the land market. ADB

²⁰¹ Department of Agriculture (2006), Five Year Work Plan: 2006-2010

²⁰² Department of Export Agriculture, Six Year Development Plan (2005)

²⁰³ Even the contracted research programme which was part of the support for agri-business activities under SPDP had a limited number of crops for research namely anthuriums, cardamom, cinnamon, cocoa, floriculture, guava, jak fruit, marketing fruits, papaya, pineapple. There were no research activities for livestock activities.

has not intervened to influence land-market changes. GOSL has not made a commitment to liberalise the land market so this will continue to be an impediment.

3. *Investment in rural infrastructure and markets:* This has been a policy of all governments and many donors; ADB has supported building up the infrastructure. Investment in developing market structures is low and this is a problem for commercialisation.²⁰⁴
4. *Continuous investment in upgrading the sanitary and phytosanitary (SPS) laboratories:* Prospects for agri-business depend heavily on the performance of export markets for the products. SPS measures have been identified as a problem in promoting exports.²⁰⁵ Apart from many limitations associated with increasing quality of export products²⁰⁶, entrepreneurs who are willing to invest in quality-improvement complained that quality-testing facilities are lacking.²⁰⁷ This is a hindrance to increased commercialisation in the sector. No ADB project has invested in this area.
5. *Availability of specialised inputs, and investment in the processing level:* Shortages of appropriate machinery and light farm tools, processing equipment and machinery with low-cost energy are often said to be limitations on improving agri-business.
6. *Knowledge of the export markets and credibility as a high-quality producer:* Both are lacking in the agri-business sector. Acquiring the necessary knowledge and reputation takes time and effort. GOSL efforts towards getting a brand name and Geographic Indicator status for tea and cinnamon will set the stage to identify Sri Lanka as a quality producer.

6.4.2. Failure of privatised extension system

Extension has been a public good in Sri Lanka and in many other Asian countries. Economic theory posits two important characteristics of public goods: they are non-rival (that is, the marginal cost of providing the good to an additional consumer is zero) and non-exclusive (that is, no consumer can be excluded from consuming it).²⁰⁸ This theory generally applies to the extension service in Sri Lanka: when there is extension dissemination in a community, any additional farmer using it will not have a marginal cost and no farmer can be excluded from using the information. Even the farming information received through training is generally shared among the peer-group members according to traditional customs.

According to this argument, privatised extension systems will have a demand if the information is unique (uniqueness could be because of time utility, place utility and price utility), highly commodity-specific and carrying a high proportion of internalised information (as against the externalities). An example would be high-value crops cultivated in a greenhouse culture. All extension advice should be unique, case-specific and has a direct use in field operations. Beneficiaries would be willing to pay for such extension advice. Investors have taken such specialised extension advice from privatised channels on many occasions under SPCDP.

However, this is not the general agriculture environment in many rural areas. Commercial orientation is only marginal and therefore specific information in the rural agriculture systems is not sought. Privatised extension services could be effectively activated when agriculture is

²⁰⁴ World Bank and ADB (2005, *op.cit.*)

²⁰⁵ The literature dealing with this subject includes Herath (2001, 2006, *op.cit.*)

²⁰⁶ Lack of knowledge about quality, poor post-harvest processing methods, lack of price incentives in the markets for better-quality products are limitations (Anura Herath, 2001, 'Cost of Compliance of Sanitary and Phytosanitary Requirements in Beverages and Spices in Sri Lanka', paper presented at 'Negotiating Agenda for Market Access: Cases of SPS and TBT', 24-25 April, 2001, United Nation, Geneva. [available at www.unctad.org/trade-envj]).

²⁰⁷ Anura Herath (2006).

²⁰⁸ Broadway, R W and Bruce, N (1984).

sufficiently commercialised. Such a form of agriculture would search for specific information which would be very specific. According to these arguments it cannot be expected that privatised extension would be effective at the early stages of commercial agriculture.

The study conducted by the Hector Kobbekaduwa Agrarian Research and Training Institute²⁰⁹ confirmed these views and showed that privatised extension service is not generally acceptable in the rural sector. The study also showed that rural farmers preferred a public-sector service-orientation to the profit-orientation of the private sector. Farmers feel a general distrust for the concept of privatisation and reject the user-pay extension service. The privatised extension service has not created trustworthy image even in areas where the SPCDP has operated.²¹⁰ The study showed that the private sector has failed to develop and maintain a congenial relationship with the farming community; the private sector lacked permanent personnel responsible for the delivery of extension input compared to the responsible service provided by the public-sector extension officers.

Can the private sector fill the gap left by the withdrawal of public-sector extension? Until there is evidence that it can it would be harmful fully to privatise extension.

6.4.3. Effective information dissemination

Producers and processors need to adjust rapidly to changing national and international market opportunities if diversification and commercialisation are to be successful; there must be quick recognition of opportunities; access to appropriate technologies and knowledge, and fast adoption of these technologies in the producers' fields and factories. Most of these are made available to the entrepreneurs through efficient information flows and communication mechanisms. This requires efficient back-and-forth flows of information from researchers and market agents to extension agent and then to farmers and processors.

Although the DOA and DEA disseminate information, linkages of the nature summarised above are not effectively functioning. Information about markets, prices, which products there is a demand for and associated quality issues are available from the Export Development Board but there is no effective system for passing it on to farmers. There is an urban bias and information asymmetry in the agriculture sector. Future projects must reduce this mismatch.

6.4.4. Disorganised marketing systems

The marketing system is very disorganised in Sri Lanka. This results in heavy post-harvest losses, high transaction marketing costs of and high price fluctuations. GOSL has not made substantial attempts to form a national private company with private traders and farmers' organisations as stakeholders to undertake marketing. There was a GOSL proposal for setting up an Agricultural Purchasing Authority with high investment from the government, but this has not got past the discussion stage.

6.4.5. Lack of proper sequencing - Overall policy reform failure

GOSL has adopted several pro-commercialisation reforms in the domestic agricultural sector. These did not entail complete system changes such as privatisation of plantations. Many of the reforms promoted the commercialisation of domestic agriculture. However, a proper sequencing of reforms and adequate facilitative structures were lacking. Liberalisation of

²⁰⁹ Weerakkody, P R; Kumar, S K and Ratnayake (2004)

²¹⁰ This was further validated when the Ministry of Agriculture has advertised to expand the services and found no response.

fertiliser marketing made product adulteration easier so regulatory capacity for controlling fertiliser quality was required. This was used by the proponents of fertiliser subsidy to oppose the policy.²¹¹

The rice trade was liberalised by reforming the PMB, before producers' marketing capacities were developed. This resulted in widening trade margins²¹² and the JVP-PA coalition argued strongly for the allocation of funds for paddy purchasing in 2004. The process of commercialisation is impeded by ad hoc policy-making and reversal.

6.5. Poverty impacts of policy on commercialisation and agri-business

Participation of the poor in commercial agriculture

The Impact Assessment Studies of NC RDP of the ADB, NCP PRDP of the IFAD, and detailed discussions with the project officers of the SPCDP and Southern REAP showed that those who have established commercial agricultural operations are resource-rich farmers. There are operational conditions attached to SPCDP and S REAP, as listed below, which exclude the poor from getting into commercial agriculture:

- The minimum limit of credit provided under the SPCDP and S REAP was Rs.200,000 and Rs.50,000 per sub-loan respectively. This scale of credit is not pro-poor. The Consumer Finance Survey of 2003/04 showed the average size of agricultural loans were about Rs.9,000 and industrial loans of about Rs.40,000 per loan;
- Collateral, which poor farmers do not have, is needed to get a loan from either project;
- No micro-credit activities mobilise community-group savings or disburse credit from micro-credit institutions (SEED of S REAP do to some extent but they do not apply some of the micro-credit tools for S-REAP activities) so that poor farmers could benefit; and
- Two ADB projects with commercial aspects have not used exclusive targeting criteria for selecting the poor as project beneficiaries.

There is no evidence that the poor have been directly targeted as beneficiaries of commercialisation policies. This needs to be recognised in future policy formulation processes.

Increasing income fluctuation

High-value crops are subject to severe price fluctuations because of heavy involvement in domestic and export markets. For example, pepper income has been increasingly variable during the last two decades.²¹³ To promote pro-poor diversification with high-value crops, investment should therefore be directed to reduce yield and/or income fluctuations by developing yield stability and market stability. No intervention in this area was evident in GOSL policies or ADB policies. An increased participation of the poor in commercial agriculture cannot be expected under such an environment of risk.²¹⁴

²¹¹ Fertiliser Secretariat (2000) mentioned adulteration as a major problem in the open market.

²¹² Based on unpublished information in the price recording systems of HKARTI shows rapid increase of consumer price of rice since 1997.

²¹³ Anura Herath, (2003)

²¹⁴ A number of research studies have repeatedly shown that poor farmers are risk averse and they attach safety-first objective in the agriculture sector.

6.6. Indirect benefits of commercialisation policy for the poor

Commercialisation and crop-diversification policies have several indirect benefits for the poor. These benefits are summarised below. The information came from meetings with former field officers of the SPCDP and clients of BDS of the S REAP.

Employment generation

The commercial drive in seed and planting-material production generated substantial employment opportunities because the landless rural poor provided the labour. There was demand for labour for harvesting, cleaning, grading, and packaging of export agricultural crops, protected agriculture, vegetable cultivation for exports and fruits. It was estimated that a one-hectare shift of paddy to vegetables in one season (mainly yala as there is a water shortage) generates more than one-year-round full-time employment (that is, the difference between paddy and vegetables was more than 220 working days per hectare).²¹⁵ This was clearly evident in gherkin cultivation in the Mahaweli areas in the early 1990s under the USAID agri-business programme. An off-farm employment effect of similar magnitude was predicted through the expansion in the agricultural business activities that are taking place in economic centres.

Several agro-business activities initiated under the S-REAP and supported through EDS providers have generated employment for the poor. Although poverty-targeting is not the sole aim of S-REAP, employment-generation is considered a strong pro-poor element of the project.²¹⁶

Diversification and commercialised agriculture typically involves a movement away from traditional commodities (requiring minimal secondary processing) toward commodities that have value added from packaging and processing. Additional processing requires labour which mainly comes from the poorer section of the community. The HADABIMA Authority claimed that new vegetable supply-systems created employment for poor land less families in some of the farming villages.

Technology transfer to the poor

Commercial agriculture uses various advanced technologies. Protected agriculture, nursery techniques, processing and value-addition techniques are some examples that are supported by the ADB perennial crop projects. Labourers from the poor group gained knowledge of these technologies through wage-labour activities.

6.7. Summary and conclusion: Chapter 6

Summary: Crop diversification and commercialisation, and the introduction of high-value crops into farming systems, has been recognised as an important strategy for the development of the domestic agricultural sector. The National Agriculture and Food and Nutrition Strategy of 1984 initially provided policy support for the commercialisation process. GOSL has facilitated the process through establishing private-sector institutions to support the process, introducing commodity forward-contact system as a risk-minimising marketing tool, abolishing the monopoly of agricultural insurance, facilitating private-sector marketing, supporting private

²¹⁵ Cost of production studies of DOA.

²¹⁶ Discussion with the Project Manager, Mr Gamini Kularatna of S REAP.

extension systems, privatising some of the seed farms, and investing in dedicated economic centres. Along with these, there was input subsidy policies for fertiliser and irrigation, which targeted the poor.

The commercialisation process was heavily supported by the first and the second perennial crop development projects of ADB and the Southern Province Rural Economic Advancement Project. The process of privatising extension was assisted as a pilot model by the ADB. GOSL accepted the reform, but the process adopted to maintain privatised extension did not continue. The S-REAP introduced a new model where enterprise-development support (EDS) providers initiate and support enterprises including agri-business. The process is still continuing with appreciable results. The project activities of S-REAP were able to bring about several policy reforms supporting agri-business activities in the Southern province.

The process however was constrained by several non-policy factors. Poor facilitative environment, the failure of the privatised extension system, ineffective information dissemination, disorganised marketing systems, lack of proper sequencing of the overall policy reform process were some of the key limitations. With the advancement of the overall economic conditions of the country, there are opportunities for agri-business development. Removing constraints, mainly non-policy limitations are important to capture the opportunities.

In assessing impact of the commercialisation policy on the poor it appeared that there was no evidence to suggest that the poor were directly targeted as beneficiaries of commercialisation policies. This needs to be recognised in future policy. Several indirect benefits of the commercialisation process for the poor have been highlighted. Employment- generation and technology-transfer to the poor are among the major ones.

Conclusion: The chapter showed that there is an appreciable trend of policy support from the government and from various projects including several ADB projects for commercialising agriculture. However, the policy reform process has been slow with several policy reversals. The evolution of coherent policies has been hindered by political considerations. In the agricultural sector evidence-based policy formulation is secondary to political economic factors, which, in many cases, dictated policy and practice. This has prevented the agricultural sector from being transformed into a vibrant commercial venture. Even if the policy environment were highly conducive, there are a number of non-policy factors which need rectifying if the domestic agricultural sector is to move forward as a competitive commercial sector. These factors include infrastructure, including roads, input and output markets, information-dissemination services, technology, low-cost energy and capacity-improvement. If the agricultural sector is to become vibrant, GOSL and the donor-funded projects cannot be satisfied with policy-improvement alone unless there is emphatic and properly planned investment in these areas.

7. Supporting Environmental and Natural Resources Management

7.1. Introduction

This chapter reviews GOSL policies on the environment and natural resources management which have a direct relationship to domestic agriculture; it assesses ADB interventions and support for GOSL policies. Agriculture and natural resources are no doubt interlinked. However, there are certain policies, such as coast-conservation polices, wild-life conservation and forestry replanting, whose main purpose is environmental. These are not covered in this assessment.

After listing the policies in the next section, the third section of the chapter looks at the sort of policies ADB has supported, or on the initiation or reformulation of which it had an influence. The fourth section examines failures of policy-implementation and the extent to which objectives were achieved. In the last section there are recommendations for future action.

7.2. GOSL Policies in the environment and natural resource sectors

Major polices, policy guidelines and strategies in the natural resource and environmental sector are more coherent than in the agriculture sector. There are good reasons for the differences:

- most environmental policies were formulated after 1990 when the importance of conserving land was recognised in the National Agriculture Food & Nutrition Strategy of 1984 and National Conservation Strategy-1988, prepared in 1982, with a clear focus and guidelines for environmental conservation;
- the United Nations Conference on Environment and Development (UNCED) held in 1992 in Brazil, known as the earth summit, laid down the main expectations for environmental conservation and the mechanisms to implement them;
- the donor community, through the World Bank, the Global Environmental Facility (GEF), UNDP and Australian Aid, was directly involved in the preparation and implementation of various policies and action plans in the environmental sector.
- Sri Lanka is a signatory to many international treaties and conventions whose conditions and covenants are mandatory and thus need coherent policy support.²¹⁷
- Environmental policy programmes and decisions are less driven by political ideology and less frequently changed.

Although the policies are stable and coherent, there are three key constraints that limit implementation²¹⁸:

- Lack of articulation of the contribution of the environment and natural resources to economic development, growth and poverty reduction;
- Lack of financing for environmental management, particularly a shortfall in domestic financing, and
- Institutional weakness and political interference in effective environmental management.

²¹⁷ Some of the international conventions dealing with the environment (in relation to agriculture) ratified by Sri Lanka are the Ramsar Convention on Wetlands (June 1990); Conservation and the Protection of World Cultural and Natural Heritage (June 1980); Conservation and Migratory Species of Wild Life (June 1990); and Conservation of Biological Diversity (March 1994).

²¹⁸ The limitations were identified in "Institute of Policy Studies (2007), Caring for the Environment (CFE), 2003-7: Review of Implementation, Final Report.

ADB programmes, particularly UWMP and Forest Resource Management Project, in the environmental sector provided resources to overcome these limitations. Policies which are associated with agriculture are summarised below.

7.3. National policies related to management of land and water resources

Land and water policies directly affect agriculture. The main concerns are land-degradation, land-improvement and efficient utilisation of water. There are three main policies that directly address land-degradation and water use.

The National Water Resources Policy: This was a controversial policy, closely associated with agriculture and irrigation, addressing GOSL aims for the management of inland waters. The next section examines the evolution, political economic influences and the failure of the water policy.

National Land Use Policy drafted in 2002 and completed in 2006: This was a comprehensive policy statement about land. It covers the rational utilisation of land as a resource, while ensuring a high quality of life, equity and ecological sustainability. This was initiated by the NFP and formulation was facilitated by the Land Use and Policy Planning Division with GOSL assistance. The policy-formulation process and capacity-building were facilitated by the Land Titling and Related Services Project 2002-2004 of the World Bank. This policy is very relevant to agriculture. The policy addresses three main areas: land and people; agriculture and food security; and land and nature.²¹⁹ Several policy guidelines are included in the policy document. However the policy has not been implemented, but included in the ten-year development plan of the Mahinda Chintana: Vision for a New Sri Lanka. This policy is not assessed in detail as there is no direct ADB involvement in the formulation process except a loan covenant, which addressed the land-tenure issue, included in UWMP.²²⁰ The tenure issue is well-focused in the land-use policy.

National Watershed Management Policy - 2004: This was formulated by the Ministry of Environment and Natural Resources in 2004 with the assistance of the ADB-financed Upper Watershed Management Project. The policy aims for sustained and equitable economic and social benefits to people and other life-forms particularly within watersheds, and in general to the whole nation, while ensuring the long-term protection of the natural functions of the watersheds. There are twenty-five policy statements in five categories:

- protection, conservation, and management;
- evaluation of services and investments;
- coordination and integrated management;
- research;
- training

The policy objectives are to conserve, protect, rehabilitate, use and manage the watersheds sustainably by evaluating the services provided by watersheds while maintaining their environmental characteristics with the involvement of people, to rationalise investments through continued provision of funds from the national budget or otherwise, to co-ordinate and monitor all activities in watershed areas and secure a system of integrated management.

²¹⁹ Land Use Planning Division, Ministry of Agriculture (2006), Land Use Policy of Sri Lanka.

²²⁰ The covenant said GOSL, through the Ministry of Environment and Ministry of Agriculture, shall prepare a (a) draft framework for the regularisation of land tenure, which shall include details of the lease arrangements and benefit-sharing arrangements between MFE, MAL, and the project beneficiaries, and where appropriate, will begin to implement the draft plan; (b) draft framework for regulating the use of critical watershed areas.

7.4. ADB projects and facilitation of policy in the environmental sector

There are several ADB-assisted projects in the environmental sector; this study focuses on the following projects associated with the agriculture sector and analyses their facilitative role in policy reform.

7.4.1. *Water Policy: History, performance and failures*²²¹

Relevance for domestic agriculture: Agricultural irrigation is the largest water user in Sri Lanka accounting for about 90% of the total water use irrigation.²²² The total irrigated area, mainly in paddy cultivation, is about 0.6 million hectares. The irrigation sector consists of major surface irrigation schemes with command areas over 400 hectares, medium schemes with command areas of 80-400 hectares and minor schemes with command areas less than 80 hectares.²²³ The proper use of water in these areas is crucial for productivity improvement for paddy and other crops. Water policy aims to rationalise water-use and regulate exploitation and utilisation of ground water. A regulatory function in the water market is necessary to prepare for water scarcity and to improve groundwater quality.

Early reform: Sri Lanka does not have a formally-approved water policy, although attempts to formulate a policy go back to the 1950s. Policy statements are often made in official documents such as public investment programmes, the annual budget speech and the President's address to parliament. In the early 1970s, the Water Resources Board was established and charged with the formulation of national water policies, integrated water resources planning, river basin and trans-basin development, and project coordination and pollution control. However, the Board largely focuses on technical aspects such as hydro-geological investigations and groundwater development. As one of the earliest attempts, a comprehensive proposal for national water policy was prepared during the 1990s with financial and technical support from the ADB, United States Agency for International Development (USAID) and the Food and Agriculture Organisation (FAO). The policy contained the essential elements of a water policy such as cost-recovery, water-conservation, irrigation management-transfer, basin-development and an integrated water-management approach. The difficulty of achieving consensus within political circles prevented it getting through parliament.

First ADB involvement: In 1993 the GOSL initiated an action plan for water policy and institutional reforms under a technical assistance activity of the ADB in association with the ISPAN/USAID.²²⁴ Under this initiative, the Water Resources Secretariat (WRS) was set up in 1996 to implement the project and it was vested with the task of formulating the national water policy. The WRS functioned under the guidance and direction of a Water Resources Council (WRC), which consisted of secretaries of the ministries representing the water sector, academics, the private sector, NGOs representing various interest groups including women's organisations and farmer representatives. Both bodies were under the Finance Ministry, which was under the President. This gave a signal of commitment at the highest level. A key strategy adopted by the WRS in the policy-development process was a wide stakeholder consultation including government agencies at national and provincial levels, policymakers, water managers, the private sector, professional bodies, NGOs and all major water users. By early 2000, a draft policy document entitled National Water Resources Policy and Institutional

²²¹ The discussion is largely based on Madar (2005); and Manchanayake and Madduma Bandara (1999)

²²² Manchanayake *et al.* (*op.cit.*)

²²³ Department of Census and Statistics (2003), Statistical Abstract

²²⁴ Mohideen (1996). Comment and discussion on the country institutional context in Arriens, Bird, Berkoff, & Mosley, (eds.), *Towards Effective Water Policy in the Asian and Pacific Region*, Vol.3, Asian Development Bank, Manila, Philippines.

Arrangements had been prepared. The proposed policy was supposedly approved by the GOSL Cabinet of Ministers on 28 March 2000 but the process was never completed.

Repeated ADB involvement: ADB's Water Resource Management Project (31288) was designed to improve the management of water resources in Sri Lanka through the implementation of the new water policy in a participatory and transparent way. The project supported the establishment of the National Water Resource Authority (NWRA), the new apex body responsible for water-resource management, linkages to key partner agencies in the water sector; and development of institutional capacity through practical measures to resolve existing conflicts in selected river basins. Infrastructure for water-resource management had to be constructed through the project.

The reform programme proposed the establishment of parallel bodies reporting to the minister responsible for water resources the National Water Resources Authority (NWRA), WRC and a Water Resources Tribunal (WRT) to fill some major gaps in the existing arrangements for water-management. The NWRA, as the apex body in the water sector, will be responsible for coordinating, planning, regulating and monitoring water resources in the country and will be charged with formulating policy proposals, river-basin planning, catchment management, issuing of bulk-water entitlements and monitoring and enforcement. The WRC remained the permanent high-level coordinating and advisory body.

Political involvement and policy failure: The process through which the reform programme was formulated came under much public criticism²²⁵ that public consultation was grossly inadequate, the process was top-down and the government was secretive about the proposed changes.²²⁶ Other factors were failure to draft the policy document in the local language, insensitivity to the cultural aspects of water and catering to donor interests rather than national needs. There was forceful opposition from the left, using the issue to demonstrate alleged right-wing political insensitivity to the grievances of the poor. Responding to the intense agitation by the public and the media against the proposed national water policy, the government first distanced itself from the policy and then withdrew the proposal.

With the change of government in 2003, action was taken again to reformulate the national water resources policy. The WRC and WRS which functioned under the Ministry of Finance and Planning were relocated to the Ministry of Irrigation and Water Resources Management. In April 2004, there was another change to a government with a predominantly leftist ideology; work on the national water policy was suspended. On 13 September 2004, ADB suspended Part A of the loan to the Water Resource Development Project on account of non-compliance and the loan closed on 30 June 2006.²²⁷

The policy reform, in spite of a clear perception among the government, donors and technical agencies of the need and direct benefits of the process, could not be sustained. There was intense political pressure, responding to the voice of rural constituencies, on the government to abandon the policy, particularly the provisions on cost-recovery and charging irrigation fees to farmers.

Failure to include prevailing experience in policy reform: There was an experience of irrigation cost-recovery during the early 1980s. Based on a Cabinet Memo of 1983, cost-recovery through the O&M fee was begun nationally in 1984. Agreements with lending agencies, including ADB through Agriculture Programme Loan 2, obligated the government to

²²⁵ Gunatilake, Herath, Chennat, Gopalakrishnan (2002)

²²⁶ Discussions with the Water Resource Board Officials and mentioned in both Gunatilake *et al.* (*op.cit.*) and Samad (*op.cit.*)

²²⁷ Project Information Documents, ADB website (Water Resource Management Sri Lanka [31288-01] - ADB_org.htm)

recover at least 50% of the cost of O&M from the beneficiaries and to increase the rate to cover full annual costs in five years. The amount was computed at Rs.200.00 per ha at 1982 costs. The collection amounts demonstrated that this policy was and could be implemented, but not all farmers including the poor farmers, participated in the programme. The collection was much lower than anticipated.²²⁸ Reasons for this low level of collection were identified in Sri Lanka and other countries.²²⁹ Political lobbies, particularly at the rural level, discouraged some farmers from paying and others followed suit when effective sanctions were not imposed. Once the Irrigation Ordinance Chapter 453 was revised to enforce civil courts to collect penalties, the number of defaulters reduced. This amendment process was supported by the APL1. The Cabinet White Paper, 1988 accepted the policy of participatory management involving beneficiaries in all stages of management of irrigation systems. However, this experience was not properly articulated in the draft water policy discussed above.

The specific problems experienced in the water policy reform process: The literature²³⁰ suggests several factors that negatively affected the policy-formulation process and brought about a political risk if the proposals were accepted. These problems are listed below²³¹ with a view to making recommendations to improve the policy-formulation process.

- The proposal must be aptly timed to win political acceptance. Radical changes which are against the prevailing political thinking are unlikely to succeed.
- The awareness campaign did not convey to the public the relevance and urgency of the proposed reforms.
- The publicity process did not clarify issues such as the system of water rights or describe how the policy would protect the poor and avoid misuse by wealthy groups.
- A strong programme for public education and political liaison to obtain political articulation for the proposals was lacking.

7.4.2. Watershed Management Policy: Formulation and ADB assistances

Relevance of the policy in the domestic agriculture sector: The policy contributes to agriculture in the following manner and therefore warrants an assessment of the ADB supports in the formulation process:

- It is a main component of land-use policy and assists rational land-use planning and land-allocation in agriculture production and conservation;
- The policy addresses the conservation of the watershed which charges groundwater tables and it determines soil moisture for agricultural purposes;
- It addresses minimisation of soil-erosion and its on-site and off-site effects, which directly affects crop productivity; and
- It addresses soil-management and replenishment of soil which is an essential element of crop production.

Upper Watershed Management Project (1998-2004) and its assistance: This provided all the assistance to formulate the policy. The objectives of the Upper Watershed Management Project (UWMP) were to rehabilitate, manage and protect critical watersheds, through integrated participatory watershed management practices and to strengthen the capacity of

²²⁸ Manchanayake *et al* (*op.cit.*)

²²⁹ Rabi, Namika (*op.cit.*)

²³⁰ The literature includes Samad (*op.cit.*) and Gunatilake *et al* (*op.cit.*)

²³¹ Many of these issues have been addressed adequately in the formulation of 'Caring for the Environment: 2003-2007, Path to Sustainable Development'.

agencies in charge of watershed management.²³² The project was developed to implement soil and water conservation as outlined in the Forestry Sector Management Plan and was operational in four main upper watersheds in the country, which are severely degraded and in need of rehabilitation.

One of the loan covenants of UWMP was to prepare a draft national policy for watershed management, as part of the national water policy, that will identify and address issues related to the:

- long-term sustainability of forests and watersheds;
- recovery of Government investment costs for the rehabilitation and improvement of watersheds from the downstream beneficiaries;
- adoption of an integrated approach to national watershed management.

In order to institutionalise the watershed management concept at province level, Watershed Management Units were to be set up in the provinces, where the staff was to be given the responsibility of continuing the work once UWMP was completed. There was institutional support for the initiation of the Watershed Management Unit from UWMP. As a supportive measure UWMP included another loan covenant to amend the soil conservation act. The covenant said:

“GOSL through the Ministry of Agriculture shall adopt and gazette a regulation to address the degradation of steep slopes in upper-watershed areas. The regulation shall prohibit any cultivation and agriculture activities which may have a negative impact on critical slopes on a prospective basis” (ADB, 2006b: 71).

Formulation process: The formulation process was participatory.²³³ The draft policy paper prepared by a consultant was presented to a cross-section of GOSL officials, university academics, and NGO and farmer organisations, both at the central and provincial levels. As a facilitative process of the Watershed Management Policy and the Soil Conservation Act, UWMP demonstrated the risk of using sloppy lands in watershed areas for agricultural activities, particularly annual crop cultivation. Awareness was created through public meetings, discussions, electronic and print media about the long-term risk of environment and natural resource depletion if watersheds were not managed. There was an intense positive response from the policy-makers, technocrats in the Department of Agriculture, and among the provincial and pradeshiya sabha politicians to the need to regulate agricultural and other residential activities (such as building constructions) on high slopes.

Soil Conservation Act: Regulations under the existing Soil Conservation Act were amended with the help of UWMP in 2002 empowering the Department of Agriculture to identify and regulate sensitive areas, make recommendations to control or adopt good practices for agricultural activities and declare sensitive areas for strict conservation. Subsequently the Ministry of Agriculture decided to draft a comprehensive new Soil Conservation Act in 2004. The act was strengthened by incorporating some of the activities carried out by the Natural Resource Management Centre of the Department of Agriculture with the experience of UWMP.

The latest Soil Conservation Act 2004 submitted to the Cabinet made provisions for the enhancement and sustenance of the productive capacity of the land through conservation of soil; restoration of land degraded by soil erosion; protection and/or restoration of land against

²³² Project Administrative Memorandum, UWMP, ADB

²³³ The author of this paper was the Deputy Team Leader of the Team of Consultants for the UWMP and worked full-time and part-time through out the project-life. These details are some of the on-work personal experiences.

damage caused by salinity, alkalinity, water-logging and fire; to repeal the Soil Conservation Act 1951. It should be noted that the new Act is effective over the entire country. The new provisions to the Act include: establishment of a Soil Conservation Board comprising senior government officials, representatives from NGOs engaged in activities related to soil conservation and land-use and people with special knowledge on subjects pertaining to the environment and the establishment of Soil Conservation Fund. This act is pending approval by the Legal Draftsman.

The Draft Policy on Watershed Management was prepared in September 2003. The content of the Soil Conservation Act was useful in the reform process. The policy was formally endorsed by Cabinet in July 2004 and awaits implementation of the final administrative functions.

Supporting factors in accepting the watershed management policy: Unlike the reforms of water policy, the watershed management policy received adequate support from concerned stakeholders. It is an example of a win-win situation of technical, socio-political and administrative concerns. The Ministry of Environment anticipates that the policy will have a minimum political risk of rejection.²³⁴ Several main reasons can be identified for the success. These are listed below as a learning experience in policy formulation:

- On-site and off-site impact of weak watershed management has long been a topic of discussion. Earlier projects such as Upper Mahaweli Catchments Project addressed the results of watershed degradation. The need for actions has been discussed at pradeshiya sabha, provincial and national government level.
- A substantial amount of information to support the technical aspects of the policy was available because several environmental projects implemented under the Ministry of Environment had looked at degradation and watershed-based planning.
- Technical studies convincingly blamed poor management of the watershed for landslides on the upper parts of the watershed and flash floods downstream.²³⁵ The public who suffered, as well as politicians who witnessed, such catastrophes were easily convinced by workshop presentations²³⁶ of the need for the policy.
- The UWMP had an effective electronic and print media programme demonstrating the need for soil conservation on both private and common properties which are potentially degradable. These experiences were successfully incorporated the policy formulation process.

The Watershed Management Policy formulation process was a well-articulated exercise and the policy itself was substantially evidence-based and responded to a real need. Adequate funding from the UWMP and a competent and dedicated staff ensured the success of the formulation process. However there were financial and administrative limitations for its implementation and therefore the policy is not translated into action for implementation.

Policy impact: Various institutional arrangements such as the implementing authority, funding sources and field implementation programmes need to be in place for its implementation. The formulation-process was spearheaded by the Ministry of Environment as

²³⁴ Ministry of Environment (2005), Progress Report, 2005 and Action Plan 2006; and personal discussions with the officials of the Policy Planning Divisions (Ms A L F Nazeema and Mr R Semasingha).

²³⁵ The detailed report of the Ministry of Environment and Natural Resource entitled 'National Action Programme (NAP) for Combating Land Degradation in Sri Lanka: 2002' contained in its Annex 2 a list of position papers by researchers and academics on the subject of degradation, watershed management etc. which were in circulation.

²³⁶ Participants of some of the meetings organised by UWMP were taken to see landslides and shown the associations between bad practices on watersheds and the impact of them on land slides and areas prone to landslides. The process was financed by UWMP.

the UWMP was under that Ministry. However, most of the agriculture-related field activities that need to be regulated by the policy are under the purview of the Department of Agriculture. A close and effective coordination of these bodies will be necessary for implementation. However, with the closure of UWMP, there is no steering committee or an apex body to monitor the process. At this stage it is not possible to comment on the impact of the policy in general or on the poor farmers.

7.5. Summary and conclusion - Chapter 7

Summary: Most of the policies in the environment sector are stable and coherent in comparison to the policies in the agriculture sector. Nevertheless, they still face limitations such as: lack of articulation of the contribution of the environment and natural resources to economic development, growth and poverty-reduction; lack of financing for environmental management; and institutional weakness and political interference in effective environmental management. The ADB's help therefore becomes all the more necessary to improve the formulation-process and the implementation of policies in the sector.

There are three policies in the environmental sector with direct impacts on domestic agriculture: the National Water Resources Policy, which is highly controversial, National Land Use Policy, which awaits implementation, and the National Watershed Management Policy, which was accepted by the Cabinet of Ministers but is facing institutional implementation problems.

The formulation of the Water Policy was assisted by the Water Resource Development Project, the Watershed Management Policy was assisted by UWMP and the World Bank Land Titling Project assisted the formulation of the Land Use Policy.

Water-policy reform came under much public criticism for the following: lack of public consultation; the top-down nature of the process; failure to draft the policy document in the local language; insensitivity to the cultural aspects of water; and favouring donor interests. Left-wing political forces were very vocal in opposing the policy. A consensus on finalising the policy and on developing relevant implementation programmes could not be reached and the ADB withdrew project support for policy development.

The Upper Watershed Management Project of ADB assisted the formulation of the watershed management policy. The formulation process was participatory. There was an intense positive response from the policy-makers, technocrats and politicians to the need to regulate agricultural and other residential activities. The content of the Soil Conservation Act which was already formulated was useful in the reform process. The policy was formally endorsed by Cabinet in July 2004 and awaits the final administrative implementation functions. The policy-formulation process was a well-organised exercise and substantially evidence-based. However, institutional arrangements are not yet in place to implement it.

Conclusion: The way the process of formulating water-resource and watershed-management policies was handled presents useful lessons for future policy formulation. Support must be consolidated in advance by consultation of all stakeholders in the policy. It will be a long process and at times go beyond the time given by project covenants. Yet the importance of that process was amply demonstrated by this policy-formulation process.

The projects that support policies have a general idea of expected policy outcomes and the mechanisms required for implementation. Projects should decide what institutional support

they need at least at the beginning of policy-implementation and factor these needs into project budgets. UWMP was very successful in formulating the watershed-management policy but did not have sufficient funding for initial implementation. This will lead to policy failure.

8. Overall Conclusions and Recommendations

8.1. Introduction

This chapter presents the overall conclusions of the study followed by recommendations for both GOSL and ADB to improve the policy-formulation process. This chapter draws heavily on the specific conclusions in previous chapters, but attempts to draw out more general conclusions and recommendations.

8.2. Agriculture sector and the policies

The importance of the agricultural sector in the overall economy is reducing, but the sector still has a significant role to play in the future development of the country. The government has given high priority to support the sector in the past and continues support it under the ten-year development plan of Mahinda Chintana. Policy in the sector could play a vital role in steering the development process

The intention of GOSL agricultural policies since 1996 was promoting agricultural growth, food security, expanding exports and commercialisation. GOSL policies lacked coherence, were mutually unresponsive and frequently changing in nature and focus, and were not consistent with facilitating the emerging market-trends in the sector. The formulation process was insufficiently grounded in evidence or theory. This study has tried to find the reasons for this. A major reason is that socio-political rather than economic or market factors have often influenced agricultural policy formulation.

During the period covered by this analysis, the economy was progressively liberalised. However, agricultural policy did not change at the same pace to respond to emerging liberalised market forces. However, there is a detectable trend of supporting and gradually moving towards agricultural commercialisation. Policy thrusts have become more liberal and orientated towards the private sector in the latter part of the period covered by the analysis. Less state involvement is seen in the factor and input markets. Sri Lanka's agricultural tariffs are among the lowest in Asia. The new policy framework contained several elements supporting the trend to commercialisation.

The analyses in this report showed that there are several impediments, such as an underdeveloped infrastructure, to the commercialisation of agriculture. The trade liberalisation policy did not improve competitiveness as expected. Many parallel reforms such as abolition of quarantine restrictions on seed importation, improving land markets, development of marketing and post-harvest storage systems have not been implemented. Globalisation has unfavourably affected the agricultural development process. The agriculture subsidies of the European Union, United State and Japan to the north and India and other South Asian countries to the south have not been reformed to comply with of WTO rules. In addition, market access for many exportable agricultural products was restricted by various non-tariff barriers such as phytosanitary standards (SPS) and technical barriers to trade (TBT).

The donors' influence is important to drive policies in a desired direction when there are impediments to the policy-making process. It is important for the donors to facilitate the material changes that are pre-requisites for policy development and their sustenance.

Has ADB adequately taken note of such underlying themes in the domestic agricultural sector in supporting policy reform? There are no simple answers. ADB adopts a sound analysis of the country situation through its operational strategy development process. However, there were several reversals and failures of ADB policies in the agriculture sector. Particularly there were several instances where agricultural policies proposed by ADB were not sustainable. There were several inconsistencies between the GOSL and ADB policies in the agricultural sector. In such cases GOSL policies, shaped by political imperatives, prevailed, and the result was failure to achieve the desired effect. Policies in the natural resource sector were sustained and supported by socio-political technocratic imperatives even when there were implementation difficulties.

After the concluding remarks of each subject area, which are presented below, this study recommends certain strategies to improve the policy-making process to respond to the needs of the sector.

8.3. Credit policies

The ADB interventions could not reform some of the GOSL policies and practices such as changing interest rates, application of interest rates lower than the market rates and credit guarantees that distorted rural financial markets, and prevented a sustainable growth of credit institutions. The analyses show that the ADB rural credit programmes have not been effective in developing a rural credit market in the domestic agricultural sector. There were several reasons: credit demand and supply limitations, lack of commercialisation in the rural financing markets, financial dualism, infrastructure inadequacies, lack of facilitative market structures, administrative and bureaucratic inefficiencies in operating credit and revolving funds, and industrial lobbying through political structures. In general, the poverty-impact of the rural credit policies and programmes that the ADB has introduced through both types of projects was hardly visible.

8.4. Policies on commercialising agriculture

There is an appreciable trend of policy support from the government and several ADB projects for commercialising agriculture. The policy-reform process has been slow, with several policy reversals. Even if the policy environment is highly conducive, there are a number of non-policy factors which need improvement for the domestic agricultural sector to move forward to become a competitive commercial sector. There is little evidence that the policy framework has made a significant contribution to the development of the sector. GOSL or the donor-funded projects cannot be satisfied with policy improvement alone; there must be positive and properly planned investment in these areas if the agricultural sector is to become vibrant.

8.5. Policies on the natural environment

The process of formulating water-resource and watershed management policies presents useful lessons for future policy-formulation. It is necessary, through consultation with all stakeholders of a policy area, to gather views, concerns and support. It will be a long process and at times go beyond the time allowed by project covenants. Yet the importance of that process was amply demonstrated by the policy formulation process in these areas where, except for the water policy, the process was successful.

8.6. Overall recommendations

Are donors' interventions necessary for a sound policy-formulation process in the Sri Lankan domestic agricultural sector, or will they be passive in the process? This study strongly recommends that the donors, including ADB, should support and be active partners in the policy-formulation process for the following reasons.

1. Donors have a more comprehensive outlook than any single ministry, in this case the Ministry of Agriculture, and are better able to foster mutual relationships, interactions, complementarities and benefits of specific policies in the sector. Donor input supports more inclusive policy recommendations.
2. Donors have experience in different countries which they can bring to bear to improve the policy formulation process.
3. A participatory and inclusive policy-formulation process needs substantial financial assistance. This may be beyond GOSL budgetary resources and require external assistance. This was the case in the process of formulating watershed-management policy, environment policy and forestry policy. Many donors provide grant assistance for policy-dialogue processes.
4. Many policy recommendations need a kick-start for implementation and follow-up investments are needed to improve institutional capacities and infrastructure development. GOSL needs funding support for such investments. When the donors are fully involved in the process, the technical support for such investment would be provided. The lack of such support was the main impediment to the implementation of the watershed conservation policy (this was finalised in the last year of the UWMP and necessary funding could not be provided).
5. Evidence-based policy-formulation could improve the general effectiveness of policy recommendations. Accountability and independence force donors to adopt evidence-based methods of formulating policy. Although there are limitations, it brings prudence to the process.

Donors' policy directions need to recognise the economic, social and political realities of the country and to acknowledge the extent of the capabilities of the programme implementers and beneficiaries, otherwise the policy will fail.

Constant, robust and inclusive socio-economic evaluations are necessary for both GOSL and ADB policy-makers to formulate sound as well as appropriate policies. Unless ADB, or for that matter any other donor, applies a holistic view of the sector and incorporates an understanding of its dynamics in their policy formulation, their involvement may be unsustainable and may even be rejected.

In addition to this general recommendation, the study makes the following specific recommendations.

Recommendations for improving credit policies:

1. Credit policies should cover the whole range of rural financing including commercial credit, micro-lending, sector insurance, credit-plus services, group-saving culture, capacity-building of micro-credit institutions, and state banks.
2. The scope of policy should be flexible enough to include micro-credit systems and institutions catering primarily for the poor. Policies should focus more on micro-credit

development in rural areas that will target the poor and allow participation of beneficiaries and other stakeholders.

3. There is a plethora of micro-credit institutions in the country with their own systems of providing financial services. These systems have evolved over a period of time in response to market experience. These systems need to be evaluated and a set of policies developed to improve their financial prudence and to foster commercial discipline.
4. Policies need to be designed to target the poor more directly on the basis of income and asset criteria, allowing small loans and mobilising savings including small-group and community savings.
5. The recently established Credit Information Bureau could be upgraded to provide necessary information to all sectors for initiating credit transactions.

Recommendations for improving commercial agricultural policies:

6. Crop diversification and commercialisation initiatives require a multi-component approach involving many specific investment areas. Policy and institutional environment, technical support, science and technology, and rural infrastructure are among these requirements. Policies need to be holistic.
7. ADB projects have included various policies and activities to promote agri-business. For instance, Southern REAP accepted micro-financing institutions as well as commercial banks for credit-delivery, whereas SPCDP was more inflexible about financing institutions. However, S-REAP did not include technical line-departments to link EDS providers and rural entrepreneurs. This inflexibility will make it difficult for EDS to continue after the project. The recommendation therefore is to maintain a policy of flexibility by including different approaches to the intervention process.
8. For the commercialisation process to be pro-poor, extension systems need to be designed especially to reach smallholders. Also, research systems need to be responsive to the technological requirements of small and marginal farmers. Private investment in research and extension may not meet these needs. Policy formulation should recognise the need to reach the poor while promoting private-sector extension.
9. Crop-neutral support policies need to be promoted. In addition, policies such as direct income-support (such as samurdhi), that are only used for target groups such as the poor to help the transition process, need to be promoted. Income-support in a transition period will facilitate demand-driven crop diversification and the commercialisation process.
10. Lack of collateral for obtaining credit was seen as one of the main limitations in agri-business development in rural areas. Providing secure land title is one answer to this problem where it enables farmers to use land as collateral. There are several examples of innovative ways of giving land-ownership rights. One example is the World Bank-funded Agricultural Diversification Project in Vietnam²³⁷ where the project allocates secure long-term land-use rights certificates to promote stable land use, reduce land disputes, and encourage investment to increase production. A robust policy needs to be developed to secure land-ownership rights.
11. The dissemination of relevant information to stakeholders, particularly small growers, is critical to identify profitable markets and opportunities, improve the efficiency and competitiveness of the supply chain and convey consumer demands backward to

processors and ultimately to primary producers. GOSL policy is to establish village-level communication facilities, such as nenasala, where computer facilities are provided. This policy needs to be linked with the agro-information communication policy and to utilise the general facilities.

12. The government stressed the importance of achieving food security and self-sufficiency, and therefore some level of protectionism seems inevitable. Harmonisation of policies that address domestic food security, protection of small farmers' interests and commercialisation of agriculture is essential. This requires policy coherence to avoid conflicting signals to investors in the sector. The policy-formulation process should take account of this need.

Recommendations for improving natural resource sector policies:

13. ADB has supported policies that have addressed the pressure on and competing uses of natural resources in the agricultural sector and in sectors such as energy. An institutional capacity analysis needs to be incorporated in policy analysis to gain the maximum policy advantage. Water policy should be looked at again and a more inclusive modality adopted to develop the policy.
14. Projects should provide adequate institutional assistance at least at the beginning of policy implementation and include them in project budgets. UWMP was very successful in formulating the watershed management policy but did not have sufficient funding for implementation. This will lead to policy failure.

References

- ARRIENS, W.L., BIRD, J., BERKOFF, J. and MOSLEY, P. eds., Undated. *Towards Effective Water Policy in the Asian and Pacific Region*, Vol. 3. Manila: Asian Development Bank.
- ASIAN DEVELOPMENT BANK, 1996. *Project Administration Memorandum, Upper Watershed Management Project*. Manila: Asian Development Bank.
- ASIAN DEVELOPMENT BANK, 1998(a). *Country Operational Strategy for Sri Lanka*. Manila: Asian Development Bank.
- ASIAN DEVELOPMENT BANK, December 1998(b). *Country Operational Study: Sri Lanka (STS SRI – 98017)*. Manila: Asian Development Bank.
- ASIAN DEVELOPMENT BANK, 2001. *Impact Evaluation Study on ADB's Rural Credit Assistance in Bangladesh, People's Republic of China, Indonesia, Nepal, Philippines, Sri Lanka, and Thailand*. IES:REG 2001-04. Manila: Asian Development Bank.
- ASIAN DEVELOPMENT BANK, 2002. *Impact of Rural Roads on Poverty Reduction: A case study-based analysis*. IES: REG 2002-15. Manila: Asian Development Bank.
- ASIAN DEVELOPMENT BANK, 2005. *Country Strategy and Programme Updates (2006-2008)*. Manila: Asian Development Bank.
- ASIAN DEVELOPMENT BANK, 2006(a). *Completion Report - Sri Lanka: North Central Province Rural Development Project*. Project Number: 27186, Loan Number: 1462(SF). Asian Development Bank.
- ASIAN DEVELOPMENT BANK, 2006(b), *Completion Report – Sri Lanka: Upper Watershed Management Project*, Project Number: 28162, Loan Number: 1545. Asian Development Bank.
- ASIAN DEVELOPMENT BANK, 2006(c). *Guidelines for the Preparation of Country Assistance Program Evaluation Reports*. Operations Evaluation Department. Asian Development Bank.
- ASIAN DEVELOPMENT BANK, 2006(d). *Lessons in Capacity Development: Sectoral studies in Sri Lanka, Special Evaluation Study*, Operation Evaluation Department. Manila: Asian Development Bank.
- ATHUKORALA, P., and JAYASURIYA, S., 1994. *Macroeconomic Policies, Crises and Growth in Sri Lanka, 1969-90*. Washington. DC: World Bank.
- BAKER, R., and SAMAD, M., 1998. *Irrigation Development and Food Security in Sri Lanka*. Economic Review, Vol. 23, No. 12. Sri Lanka: People's Bank of Sri Lanka.
- BELLMANN, C., DUTFIELD, G., and MELENDEZ-ORTIZ, R., 2003. *Trading in Knowledge*. Geneva: ICTSD.
- BROADWAY, R. W., and BRUCE, N., 1984. *Welfare Economics*. Oxford: Basil Blackwell.
- BROW, J.. and WEERAMUNDA, J., 1992. *Agrarian Change in Sri Lanka*. New Delhi: Sage Publications.

- CENTRE FOR TRADE AND DEVELOPMENT, 2005. *South Asian Year Book of Trade and Development – 2005. Mainstreaming Development in Trade Negotiation: Run Up to Hong Kong*. New Delhi: Centre for Trade and Development.
- COUNCIL FOR AGRICULTURE RESEARCH POLICY, 2007. *Reviewing Sri Lanka's Agricultural Research and Extension System: Towards more innovation and market-orientation*. Draft Paper. Centre for Trade and Development.
- DE CASTRO, E. R., and TEIXEIRA, E. C., 2006. Agricultural Credit Interest Rate Equalization Policy: A Growth Subsidy?. *Contributed paper presented at the International Association of Agricultural Economists Conference, 12-18 August 2006*. Gold Coast: Australia.
- DE SILVA, K. T., *et al.*, 1999. *No Future Farming? The Potential Impact of Non-Plantation Agriculture on Rural Poverty in Sri Lanka*. Kandy: Centre for Inter-sectoral Community Health Studies.
- DUNAHAM, D., 1995. *Contract Farming and Export Horticulture: Can agribusiness revitalise the peasant sector in Sri Lanka?*. Colombo: Institute of Policy Studies.
- EKANAYAKE, H. K. J., 2006. *The Impact of Fertilizer Subsidy on Paddy Cultivation in Sri Lanka*. Central Bank Staff Studies. Vol. 36, Nos. 1 & 2 – 2006.
- FERNANDO, S. T. G., 1979. *Role of Agricultural Credit in Developing Grassroots Level Small Farmer Institutions for Small Farmer Development*. Staff Studies, Vol. 9, No. 1 & 2. Colombo: Central Bank of Sri Lanka.
- GOVERNMENT OF SRI LANKA, 2002. *Connecting to Growth: Sri Lankan Poverty Reduction Strategy*. pp.80-81. Colombo.
- GUNATILAKE, HERATH M., and CHENNAT, GOPALAKRISHNAN, 2002. *Proposed Water Policy for Sri Lanka: The policy versus the policy process*. Water Resources Development, 18(4), pp.545–562.
- GUNAWARDANA, P. J. and SOMARATNE, W. G., 2000. *Non-Plantation Agriculture Economy of Sri Lanka: Trends, issues and prospects*. Sri Lanka Journal of Agricultural Economics, Vol. 3, No. 1, pp.15-45.
- HEMACHANDRA, W. M., 2005. *Financial Deepening and its implication for the Sri Lankan Economy*. Colombo: Central Bank of Sri Lanka.
- HERATH, A., 2006. WTO Negotiations on the Agreement on Agriculture and Sri Lanka's Perspective, *Report presented to: International Trade Centre on EU-Sri Lanka Trade Development Project, 2006*. Geneva: International Trade Centre.
- HERATH, A., WEERASINGHE, J., and JAYAWARDANE, P., 2004. *Project Impact Assessment: NCP RDP*, Planning Divisions, North Central Provincial Council.
- HERATH, A., 2003. Pepper and Poverty in Rural Sri Lanka, *Paper presented at 31st International Pepper Conference, 3 September 2003*. Cochin, India.
- HERATH, A., 2001. Cost of Compliance of Sanitary and Phytosanitary Requirements in Beverages and Spices in Sri Lanka. *Paper presented at Negotiating Agenda for Market Access: Cases of SPS and TBT, 24-25 April 2001* Geneva. Geneva: United Nations. Available from: www.unctad.org/trade-env [Accessed 4 April 2007].

- HIRSCHMAN, A. O., 1958. *The Strategy of Economic Development*. New Haven, Connecticut: Yale University Press.
- JORGENSON, D. G., 1961. *The Development of a Dual Economy*. *Economic Journal*. Vol. 71, pp.309-334.
- KARUNATHILAKE, H. N. S., 1986. *The Banking and Financial Systems of Sri Lanka*. Colombo: Centre for Demographic and Socio-economic Studies.
- KELEGAMA, S., 2006. *Development Under Stress: Sri Lankan economy in transition*. New Delhi: Sage Publications.
- KELEGAMA, S., 2006. *op.cit.*, 2002. The Changing Significance and Character of Agriculture in Sri Lanka 1950-2001: Is there a Role for Agriculture? In: N. SANDERATNA and H. M. GUNATILAKE, eds. *Essays in Development Issues*. Sri Lanka Agricultural Economics Association. Sri Lanka: World Bank
- KELEGAMA, S., 2004. *Economic Policy in Sri Lanka: Issues and debates*. Part 1: Development Strategy and Ideology. New Delhi: Sage Publications.
- KUZNETS, S., 1969. *Towards a Theory of Economic Growth with Reflections on the Economic Growth of Nations*. New York: Norton.
- LAND USE PLANNING DIVISION, MINISTRY OF AGRICULTURE, 2006. *Land Use Policy of Sri Lanka*.
- MANCHANAYAKE, P., and MADDUMA BANDARA, C. M., 1999. *Water Resources of Sri Lanka*. Natural Resource Series – No. 4, National Science Foundation.
- MINISTRY OF ENVIRONMENT AND NATURAL RESOURCES, 2003. *Caring for the Environment 2003–2007 – Path to Sustainable Development*. Sri Lanka.
- MINISTRY OF FINANCE AND PLANNING, 2006. *Mahinda Chintana: Vision for a new Sri Lanka. A Ten-Year Horizon Development Framework 2006–2016*. Discussion Paper. Colombo.
- MINISTRY OF PLANTATION INDUSTRIES, 2005. *Plantation Statistical Pocket Book*.
- MORRISON, J., and SARRIS, A., 2007. *WTO Rules for Agriculture Compatible with Development*. Trade and Market Division. Rome: FAO.
- NAKAMURA, H., RATNAYAKE, P., and SENANAYAKE, S. M. P., 1997. Agricultural Development: Past Trends and Policies, in W. D. LAKSHMAN, ed. *Dilemmas of Development: Fifty Years of Economic Change in Sri Lanka*. Colombo: Association of Economists.
- NELSON, J., 1984. *The Political Economy of Stabilization: Commitment, capacity and public response*. *World Development*. Vol. 12, No. 10, pp.345-382.
- RATNASIRI, S., MARASINGHE, R., and WEERAHEWA, J., 1999. *Economic Impact of Trade Liberalisation for Other Field Crops in Sri Lanka*. *Tropical Agricultural Research*. Vol. 11: pp.255-271.
- RATNAYAKE, P., 1992. *Towards Self-reliance Rural Development: A policy experiment in Sri Lanka*. Colombo: Karunaratne and Sons Ltd.
- SAMAD, M., 2005. *Water institutional reforms in Sri Lanka*. Colombo: International Water Management Institute.

- SANDERATNE, N., 2004. *Agricultural Development: Controversial Issues*, in S. KELEGAMA . 2004. *op.cit.*
- SANDERATNE, N., 2002. The Changing Significance and Character of Agriculture in Sri Lanka 1950-2001: Is there a role for agriculture? In N. SANDERATNE and H. M. GUNATILAKE, eds. *Essays in Development Issues*. Sri Lanka: Sri Lanka Agricultural Economics Association
- SANDERATNE, N., 2002. *Leading Issues in Rural Finance*. Postgraduate Institute of Agriculture, University of Peradeniya.
- SEN, A, 1981. *Poverty and Famines: An essay on entitlement and deprivation*. Oxford: OUP.
- STERN, N., 1994. *Growth Theories, Old and New, and the Role of Agriculture in Economic Development*. Mimeographed report prepared for the Policy Analysis Division. FAO.
- STIGLITZ, J. E., and WEISS, A., 1981. *Credit Rationing in Market with Imperfect Information*. The American Economic Review. Vol. 71 (3): pp.393-410.
- VIETNAM PAD (1998). *Agricultural Diversification Project (Project ID: P004844)*, World Bank.
- WEERAHEWA, J., 2004. Impacts of Trade Liberalization and Market Reforms on the Paddy/Rice Sector in Sri Lanka. *MTID Discussion Paper*, No. 70, Washington DC: International Food Policy Research Institute ,Trade and Institutions Division.
- WEERAKKODY, P. R., KUMAR, S. K., and RATNAYAKE, 2004. *The Privatisation of Extension Services in the Non-Plantation Agriculture Sector in Sri Lanka: Scope and limitations*. Colombo: Hector Kobbekaduwa Agrarian Research and Training Institute.
- WEERAKOON, D., 2004. The Influence of Development Ideology in Macroeconomic Policy Reform Process in S. KELEGAMA, ed. *Economic Policy in Sri Lanka: Issues and debates*. New Delhi: Sage Publications.
- WELIWITA, A., and EPAARCHCHI, R., 2003. *Forward Contract: A market based alternative to government intervention in agriculture marketing in Sri Lanka*. Research Studies: Agriculture Policy Series No. 6. Colombo: Institute of Policy Studies.
- WICKRAMASINGHE, P., ABEYSEKARA, T., and HERATH, A., 2003. Agricultural Diversification in Sri Lanka. *Paper presented at the Workshop on South Asia Initiative: International Workshop on Agricultural Diversification and Vertical Integration in South Asia*. 5-6 November 2003. New Delhi, India: FICCI Federation House.
- WICKRAMASINGHE, P., ABEYSEKARA, T., and HERATH, A., 2002. Agricultural Diversification in Sri Lanka. *Paper presented at the Workshop on Agricultural Diversification in South Asia*, 21-23 November 2002. Paro, Bhutan..
- WICKRAMANAYAKE, J., 2004. Financial Structure, Rural Credit and Supportive Institutional Framework in Sri Lanka: An empirical analysis, *ABERU Discussion Paper 2*. Department of Accounting and Finance. Monash University.
- WORLD BANK, 2007. *Sri Lanka Poverty Assessment – Engendering Growth with Equity: Opportunities and challenges*. Colombo: World Bank.
- WORLD BANK AND ASIAN DEVELOPMENT BANK, 2004. *Sri Lanka: Improving the Rural and Urban Investment Climate*.

WORLD BANK, 1996. *Sri Lanka: Non-plantation crop sector policy alternatives*. Report No. 14564-CE. Washington. DC.

WORLD BANK, 1991. *Agricultural Diversification: Policies and issues from East Asian experience*. Policy and Research Series No. 11. Agriculture and Rural Development Department. World Bank

YAPA, L., 1998. *The Poverty Discourse and the Poor in Sri Lanka*, Transactions of the Institute of British Geographers. New Series. Vol. 23, No. 1, pp.95-115.

Appendix 1

Performance of agriculture imports and export

Export and import market structures

Sri Lankan exports are highly concentrated in terms of destination markets, the US accounting for more than 40%, while the EU takes slightly less than 30% (UK alone about 10%). These two markets take around 95% of total exports from the garment industry. Germany, the third largest buyer, accounted for 4% of Sri Lanka's exports. The industrialised countries as a group, which had lost importance since the early 1970s, has now become the major export partner. These countries accounted for almost 74% of total exports in 2002 and the situation hardly changed in 2003 and 2004. Amongst developing countries, Asia accounted for only 10% of total exports, while the SAARC region received approximately 5%.

In a country as highly dependent on trade as Sri Lanka, such a limited diversification of exports both commodity-wise and market-wise makes the economy vulnerable. Export diversification, with agricultural sector playing a major role, is vital for sustainable economic development.

On the import side, capital goods and industrial intermediate goods represent about 75% of total imports. Most of these are from the manufacturing sector, which is characterised by a heavy dependence on imported inputs, with domestic value-additions accounting for just one-third of total output. Textiles alone, almost exclusively used in the garments industry, account for about 20% of all imports. The share of oil imports (on average around 10%) is rather volatile, because of variations in international prices, although the proportion of imports represented by oil is increasing. Food imports' share averaged about 20% over the last five years with high fluctuations, not only because of international commodity prices, but because of effects of domestic harvests and demands.

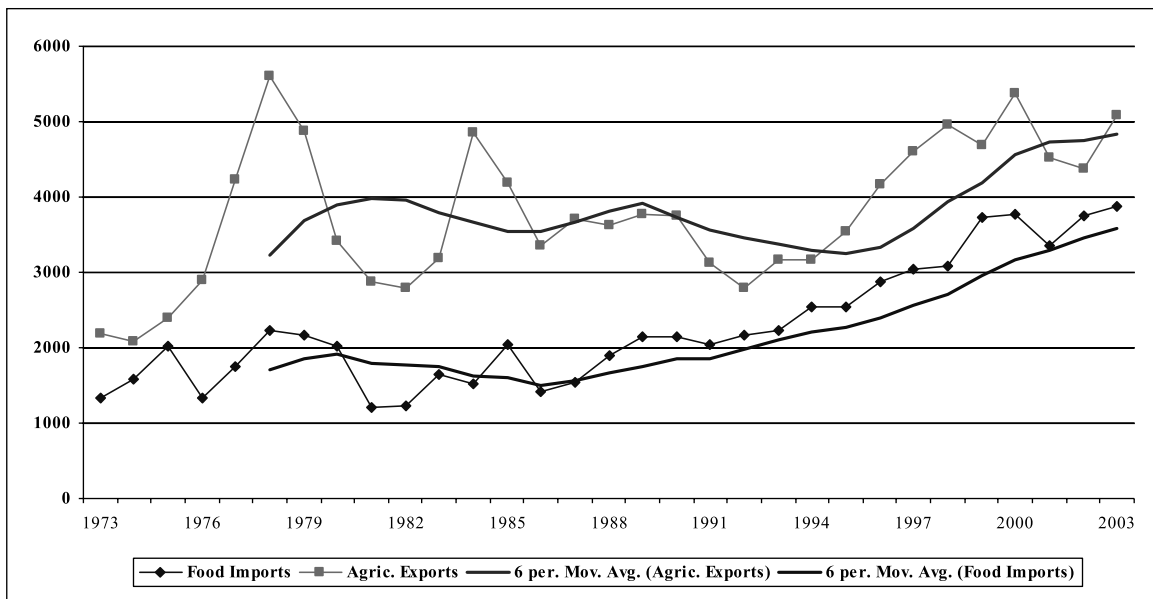
Industrialised countries as a group dominated Sri Lanka's imports until 1990 when they ceased their domination. Now Asian countries (excluding Japan) have taken the lead in import trading. Developing countries provided about 69% of imports in 1997 and out of that almost 55% came from the Asian countries. The import share of the SAARC countries was 15% during this period.

In the SAARC region, the emergence of India as the largest exporter to Sri Lanka was because of food items such as rice, onion, red lentils, potato and fruits; vehicles and related parts; cotton; iron and steel; cement; machinery; and pharmaceutical products. India's share was about 10% in the 1990s. Benefiting from the Free Trade Agreement, the Indian share increased to 14% in 2002. Accordingly, Asian countries, as a group, continued to be the major origin of Sri Lanka's imports.

Changes in agricultural commodity trade in the liberalised economy

As Figure 1 shows, both agricultural exports and food imports have increased markedly during the last 30-years. Liberalised trade and other economic policies have to a large extent facilitated this dynamism. The six-year moving average trends of agricultural exports and food imports (see Figure 1) show that growth of food imports was faster than the growth of agricultural exports.

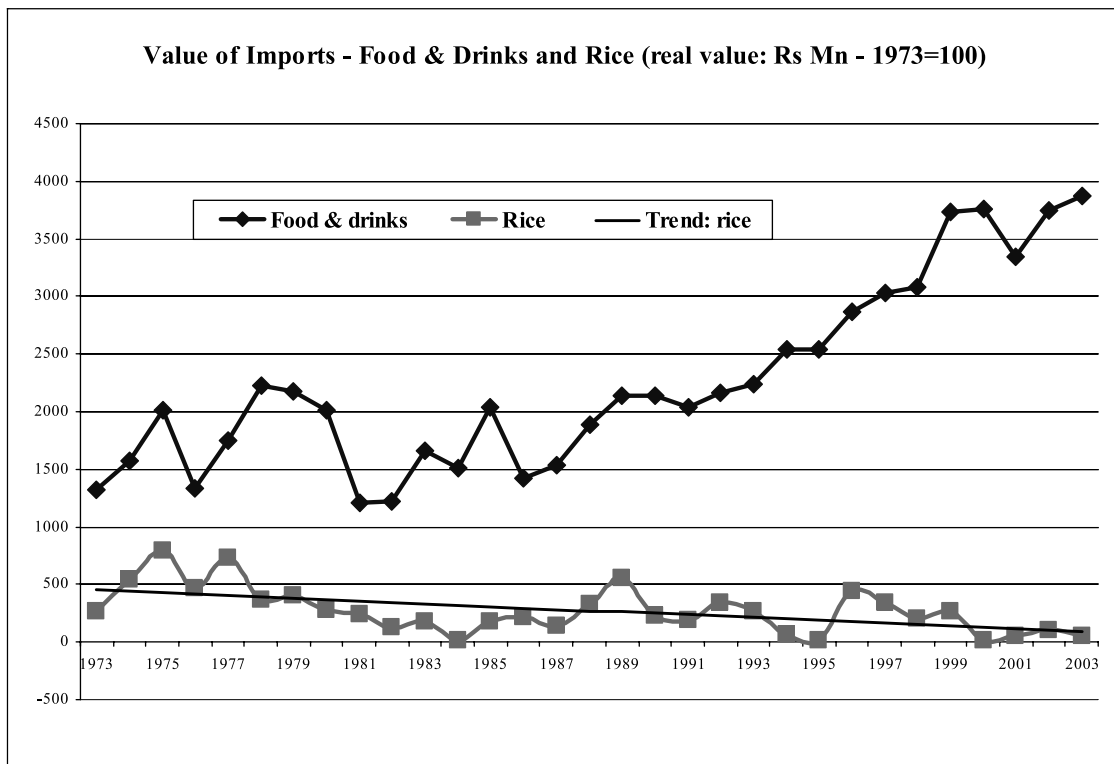
Figure 1: Growth of agricultural exports and food imports since 1973 to 2003



Source: Central Bank of Sri Lanka - respective years

As shown in Figure 2, when imports of rice are excluded, the growth of food and drinks was phenomenal - from Rs.1500 million in 1975 to Rs.4000 million in 2003 in real terms (1973=100).

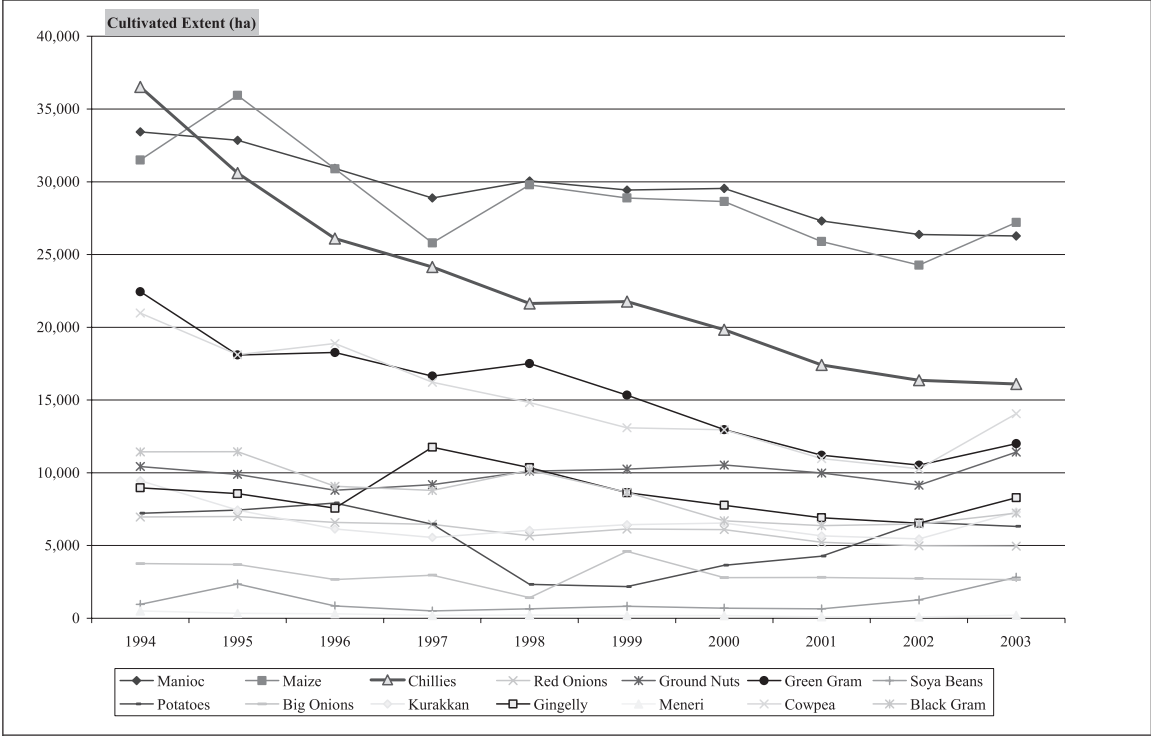
Figure 2: Growth of food and drinks imports (excluding rice)



Source: Central Bank of Sri Lanka - respective years

The main imported food items included wheat, other cereals, legume products, milk products, sugar, potatoes and onions. The growth of food imports has reduced the extent of cultivation of many field crops. As Figure 3 shows, root crops, chillies, maize and legume crops are among the OFC which had a drastic reduction. This has had a direct impact on rural development and livelihood security. It is thus important to have policies which do not discourage the cultivation of OFCs.

Figure 3: Decline in the cultivated extents of many field crops in Sri Lanka: 1994-2003

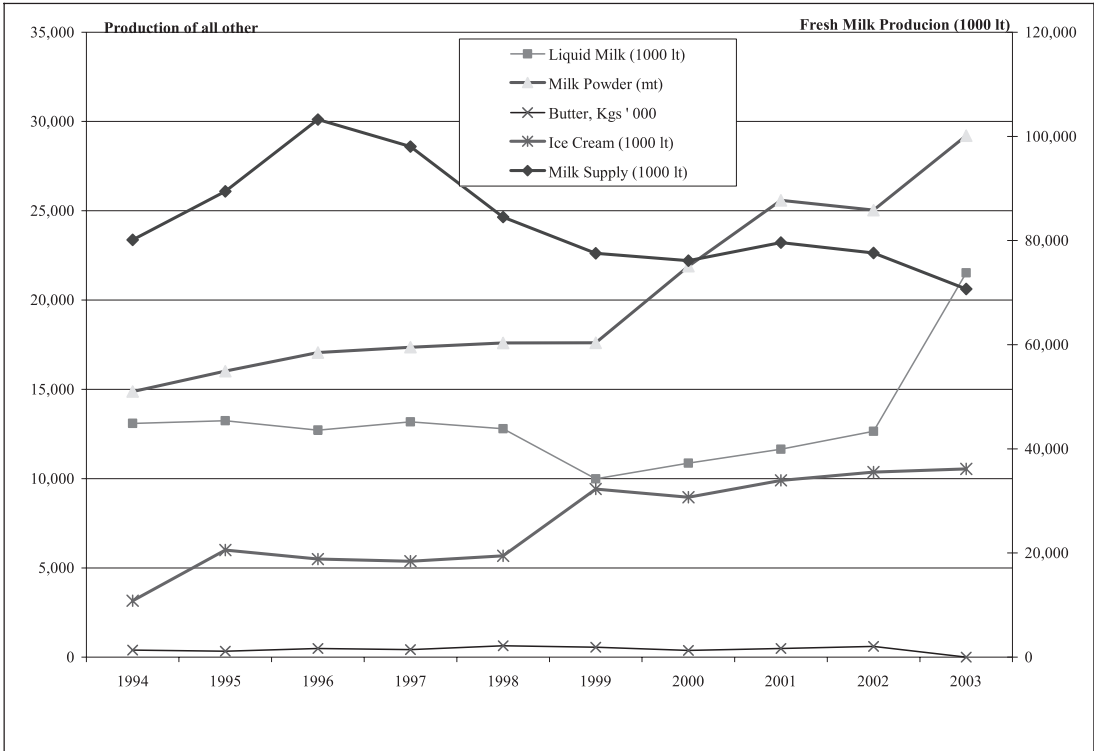


Source: Central Bank of Sri Lanka - respective years

Dairy production shows a mixed picture as shown in Figure 4. There is a decline in fresh milk production, but the volume of value-added products has gradually increased. Some of the dairy-based industries selling value-added products are new and emerging. The milk powder and ice cream industries are examples. To foster their development these industries need special protection from import competition.

The poultry sector is also affected to some extent by cheap imports of poultry parts. The rest of the meat industry is not significantly constrained by meat imports. However, the local price structure is sensitive to cheap meat imports.

Figure 4: Changes in dairy products - Fresh milk and processed dairy products



Source: Central Bank of Sri Lanka (2003)

Appendix 2

Importance of the agriculture sector at sub-national level

Farming population and poverty in rural areas in Sri Lanka

Among the nine provinces, nearly 30% of the total population lives in Western province 70% is distributed among the others (see Table 1). Apart from most of the Western province, and some parts of Central and Southern provinces, all the other provinces are mainly rural. The estimated number of farming households and poor populations in each of the provinces show the association between the poverty levels and agriculture population.

Apart from Western province, all the other provinces have about one third of the population below the standard poverty line of Rs.1,423 per person per month (Department of Census and Statistics 2004). The proportion of the total and poor population in the provinces is shown in Figure 1. While almost 30% of the total population live in Western province, it has about 12% of the total poor in the country. It is therefore a rich province. All the other provinces, except North-Central, have a higher proportion of the poor than their share of the total population. For instance Uva province has about 6% of the total population while having 10% of the total poor population in the country. This comparison indicates the distribution of poor people in the provinces and relative poverty rates among the provinces. Apart from Western province all the other provinces are mainly rural and have most of the poor.

Table 1 : Provincial population and poverty rates

Province	Total Population	Poor population [1]	Farming population	Poor % [2]	Farming Households % [3]	Rural nature of the province [4]
Western	5,361,185	573,488	193,785	9.2	18	Urban
Central	2,414,973	611,863	216,496	20.8	42	Moderately rural
Southern	2,277,145	631,192	287,548	23.6	58	Rural
Northern	1,040,963	385,156	68,686	32	30	Highly rural
Eastern	1,415,949	523,901	95,155	32	26	Highly rural
North-Western	2,157,711	581,748	320,382	22.3	55	Highly rural
North-Central	1,105,663	235,500	210,300	18.1	75	Highly rural
Uva	1,170,728	433,169	173,883	31.8	67	Highly rural
Sabaragamuwa	1,787,938	572,140	220,380	28.9	51	Highly rural
Total: Sri Lanka	18,732,255	4,548,159	1,786,615	19.2	43	-

Source: Department of Census & Statistics Figures (2003)

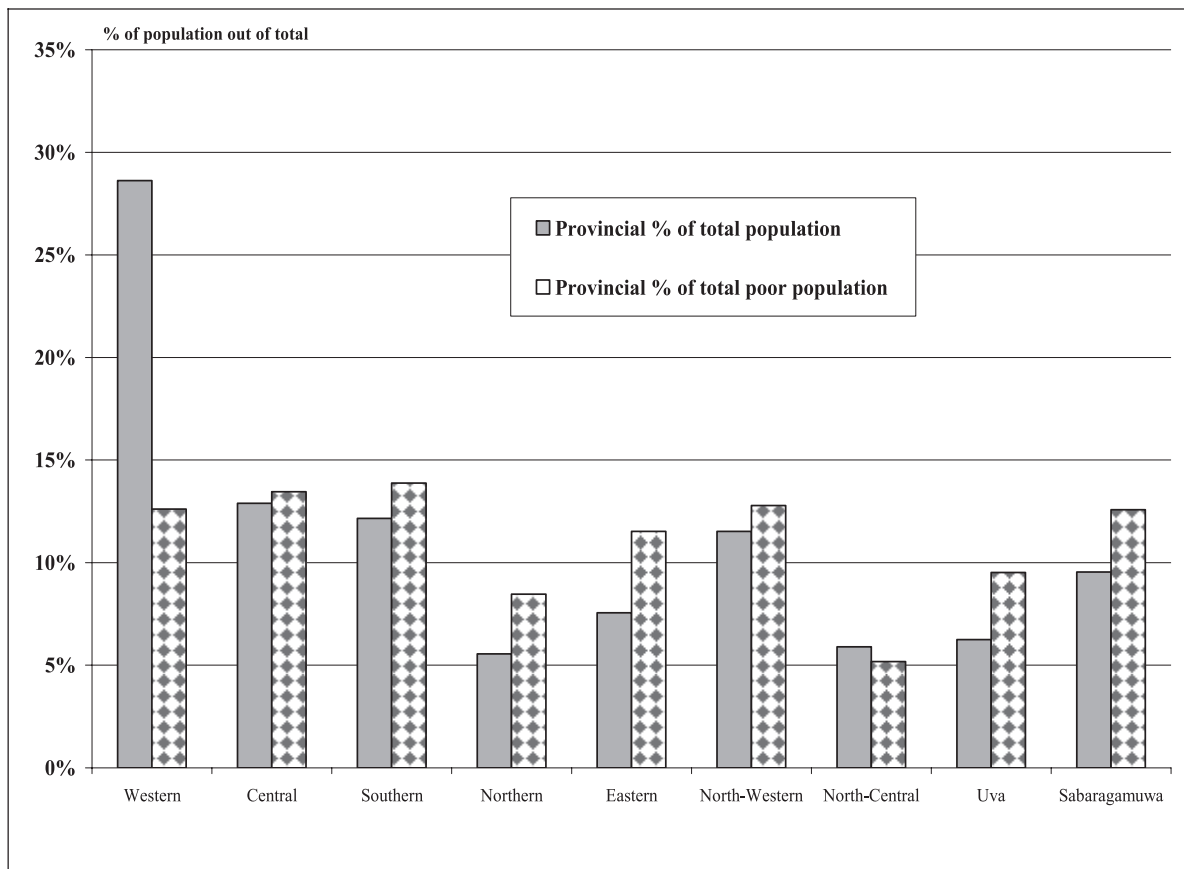
Notes:

[1] District wise Head count ratio (HCI) of the poor population is given in Department of Census and Statistics, 2003. The district poor population was computed using HCI and then aggregated over the districts in various provinces. HCI is not available for Northern and Eastern Provinces, but it was reported widely that the highest poverty rates are prevailed in these two provinces. Thus the highest HCI reported for Uva province is used in these two provinces too.

- [2] Except for Northern and Eastern, Department of Census and Statistics (2004) is the source. The exception is computed using total population and estimated poor population.
- [3] This is estimated by taking the number of farm households (reported by the Department of Census and Statistics) as a proportion of total households in the country (population divided by the average household size).
- [4] This is based on author's personal experience and various socio-economic surveys.

A large proportion of the families in the provinces apart from Western Province, are farmers as shown in Table 1. The distribution of farming households across the provinces is shown in the bar chart of Figure 2.

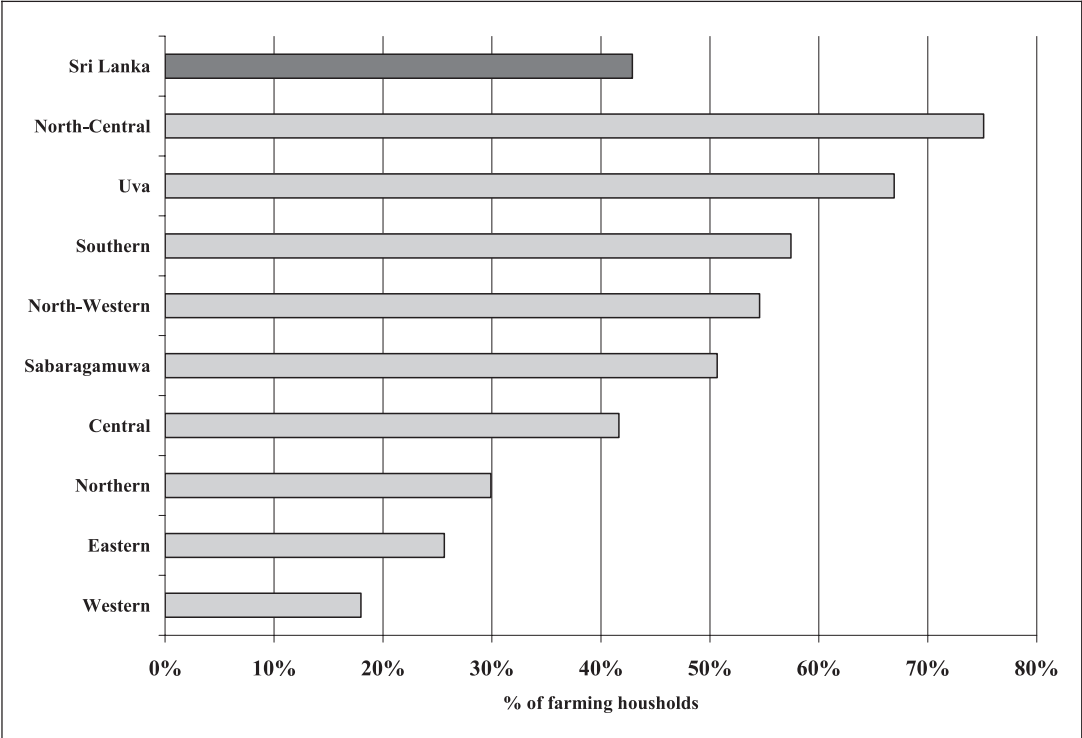
Figure 1: Percentage of population and poor population in each province out of the total populations in Sri Lanka



Source: Author's estimates based on Department of Census and Statistics (2003)

About 40% of households in the country are farmers, and this proportion varies from a barely 15% in Western province to 75% in the North Central province. Six out of nine provinces have nearly or more than 50% of their households involved in agriculture. Some of them grow locally-consumed crops and the others produce export crops as shown in Figure 3. The export crops include smallholders of tea, rubber and coconut; coffee, cocoa, and spices. Central, Sabaragamuwa, and Southern provinces have more export crops, and others have more domestically-consumed crops. As a number the latter is more than twice the former (see Figure 3) indicating their importance in rural livelihoods.

Figure 2: Percentage of farm households out of total households in each province

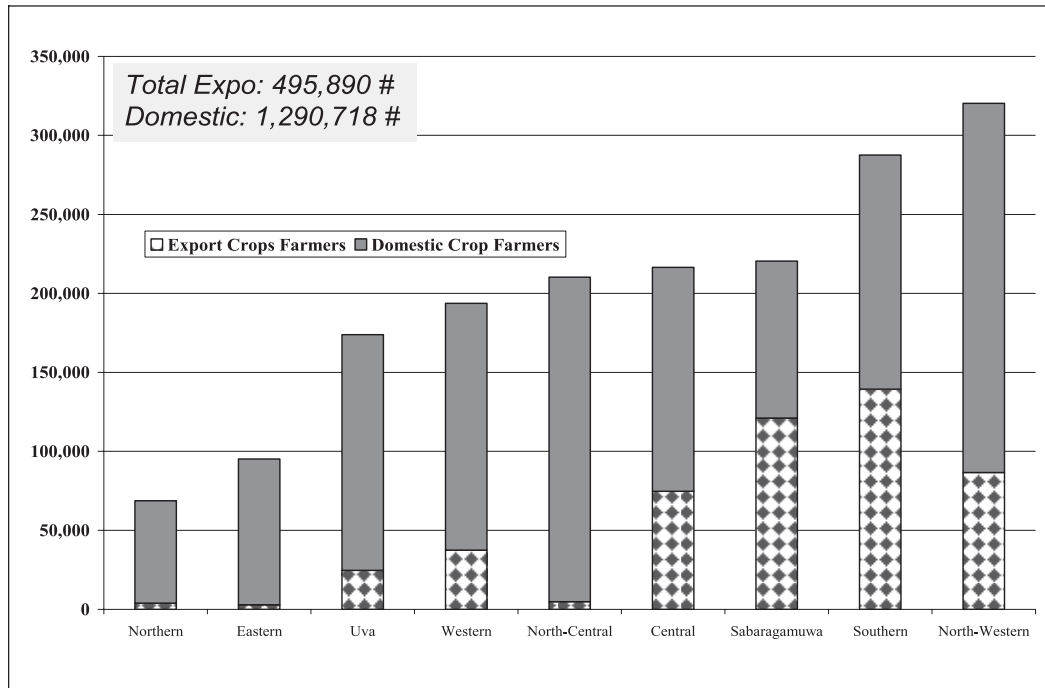


Source: Author’s estimates based on Department of Census and Statistics (2002)

The above discussion shows that all the rural provinces have a predominant farming population and they also have a high poverty level. A possible association between poverty and farming was assessed using the district-level information on farming population and the poverty rates measured by HCI. Figure 4 shows the relationship. Although the association has not been statistically verified, it is clear that there is a marked association between the percentage of farming population of a district and its poverty rate. When the percentage of farming population is higher it is fairly consistently associated with high poverty rates. Two exceptions are Kurunegala and Anuradhapura districts. The former has a marked number of coconut farmers who are not so poor and the latter district has farmers with Mahaweli irrigated²³⁸ water which produce high yields and consequently farmers are not so poor.

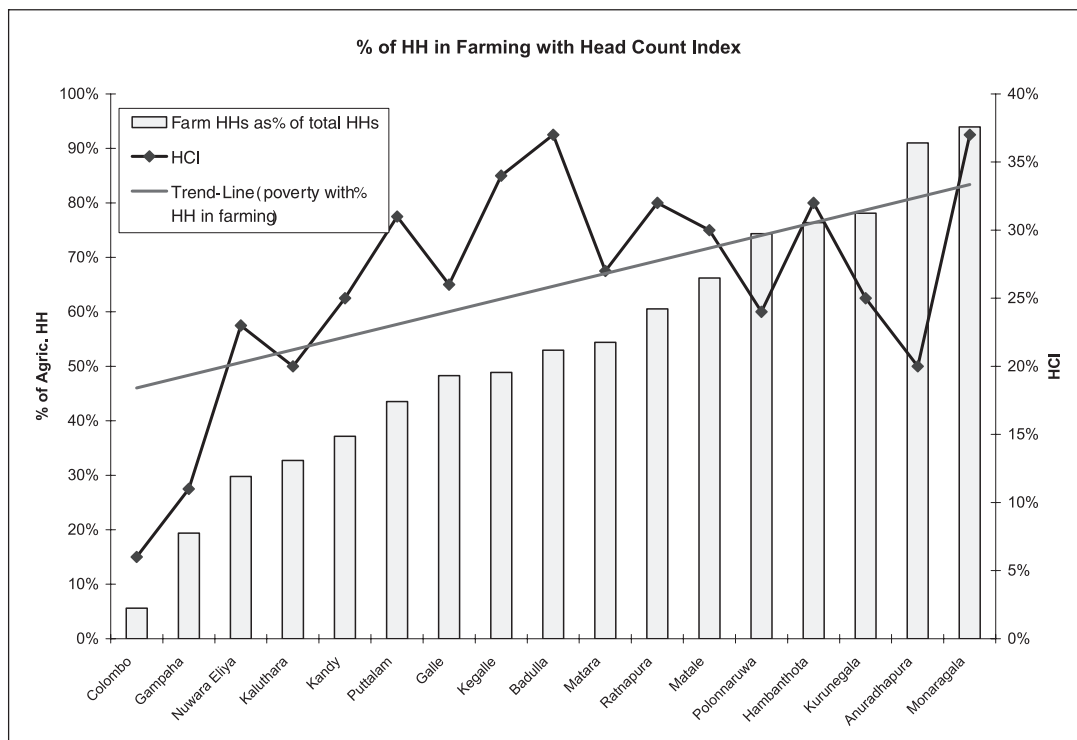
²³⁸ The Mahaweli scheme provides assured irrigation water through the diversification of the mahaweli river to various tanks.

Figure 3: Number of farming households involved in domestic crops and export crops production



Source: Author's estimates based on Department of Census and Statistics (2002)

Figure 4: Percentage of farming population and the poverty rates (HCI) of districts



Source: Author's estimates based on Department of Census and Statistics (2002)

The above analyses show that rural areas have a higher proportion of farmers in the population and that they are poorer. The indication is that development of the agriculture sector is crucial in rural Sri Lanka for overall poverty-reduction.

Contribution of agriculture to rural development

Gross domestic product (GDP) is used in this study as a proxy to assess rural development at the national as well as provincial levels. Components which contribute to provincial GDP are major players in rural development. Contribution of the agriculture sector at the provincial level is assessed in this light.

The contribution of the agriculture sector including forestry and fishery to the GDP at the national level is about 18%. The contribution at provincial level varies from about 3% in Western province to 53% in Uva provinces as shown in Table 2.

Table 2: Provincial Gross Domestic Product and contribution from agriculture at current factor cost prices - 2004: Rs. million

Provinces	Total GDP (Rs. million)		Agriculture GDP (Rs. million)*	% of Agric. GDP
Western	918,300	51%	27,051	3%
Northern	51,470	3%	14,397	28%
North Western	153,643	9%	35,162	23%
Eastern	98,075	5%	32,699	33%
Sabaragamuwa	114,996	6%	31,737	28%
Southern	168,071	9%	60,389	36%
Central	156,528	9%	51,768	33%
North Central	65,297	4%	27,950	43%
Uva	74,369	4%	39,370	53%
Sri Lanka	1,800,749	100%	320,523	18%

Source: Central Bank of Sri Lanka (2005)

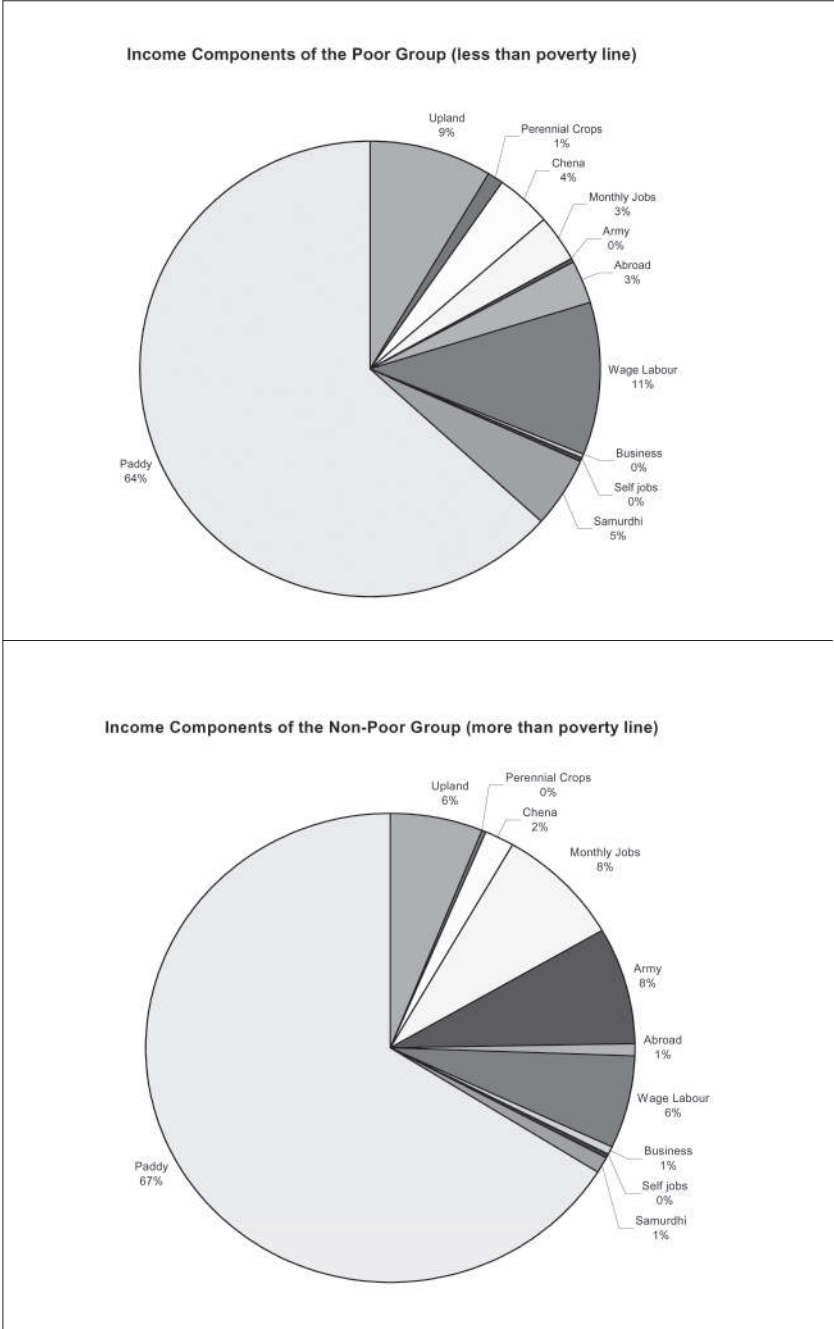
Note: These figures also include the contribution from forestry and fisheries.

The contribution of provincial GDP to the total national GDP is highly unequally distributed among the provinces. Western province alone takes a share of more than 50% of the national GDP (see Table 2) and all the others take less than 10%. Agriculture is the main contributor in economic development of all the provinces except Western province. The low monetary values in the agriculture sector in absolute terms make a lower provincial contribution to the national GDP. In order to maintain a balanced economic development across the country, the agricultural sector should be further developed in the rural provinces as they have predominantly agricultural resources.

In addition to the provincial level information, individual farmer level information also shows the overwhelming importance of agricultural income in the family income profile. Two field studies conducted in North Central province based on cross-sectional samples were used to prove the point. Figure 5 shows the income components of two samples of farmers representing the poor group (those who are below the national poverty line) and non-poor

group (those who are above the national poverty line). Information was obtained from a study (Lanka Environment Development Services Pvt Ltd, 2003)²³⁹ conducted in the last quarter of 2003. Income components of both groups show that paddy and other crops, and wage labour are the main income components of the farmers in the sample. Wage labour too is mainly in the agriculture sector.

Figure 5: Income components of a sample of rural population in Anuradhapura district - North Central province (sample contained 1000 farmers)



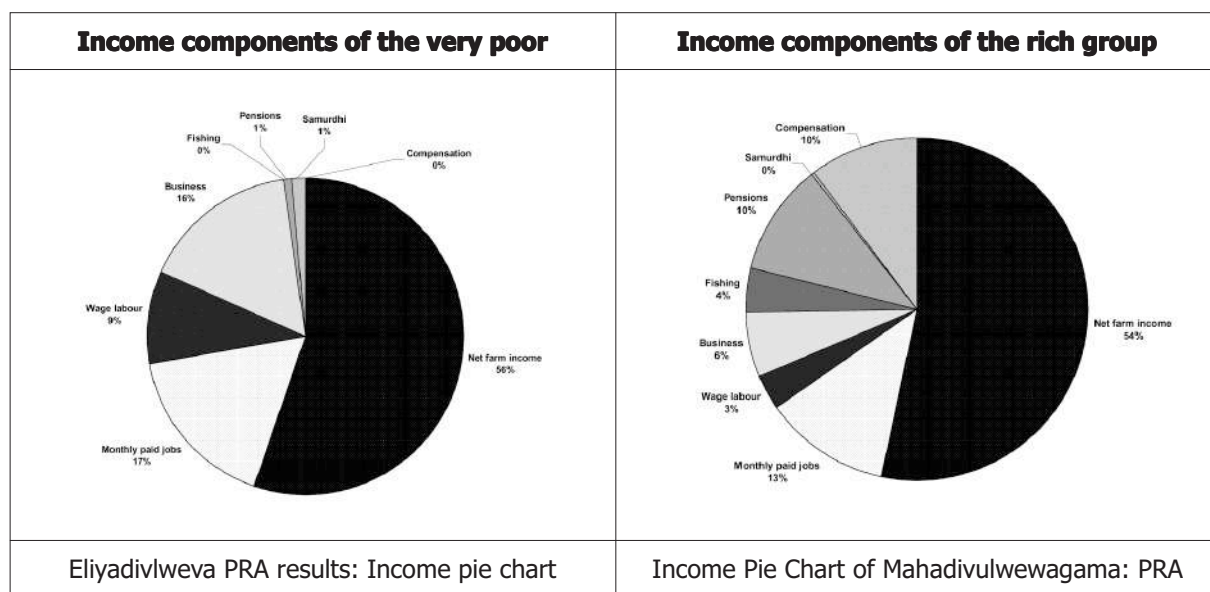
Source: Lanka Environment Development Services Pvt Ltd (2003)

²³⁹ This was a project impact assessment study on the IFAD funded North-Central Province Participatory Rural development Project conducted by a team of local consultants. The author of this report was the Team Leader and the Agricultural Economist of the team of consultants.

A second study (Herath et al 2004) was also conducted in North Central province in both Anuradhapura and Polonnaruwa districts. Both quantitative statistics and qualitative data collected through a participatory rural appraisal (PRA) sessions clearly show that the agricultural income of the rural population predominates in their household income profile. The net agricultural income takes 68% and 64% shares in the total household income of very poor and rich groups respectively of the population in these districts.

This analysis amply demonstrates that agriculture is the main income source in rural areas of Sri Lanka and its progression will greatly determine the livelihood of the people and also the rate of rural development.

Figure 6: Income components of a sample of rural population in Anuradhapura and Polonnaruwa districts - North Central province (sample contained 950 farmers)



Source: Herath *et al.* (2004): Sample data and PRA data (income pie chart)

Agriculture and rural employment

Agriculture is a major source of employment for the rural population. At the national level agriculture, forestry and fishery employ about 30% of the total labour force, which was 50% in 1970 (see Table 3). The share dropped to 30% as the industry and service sectors have gradually increased their number of employees.

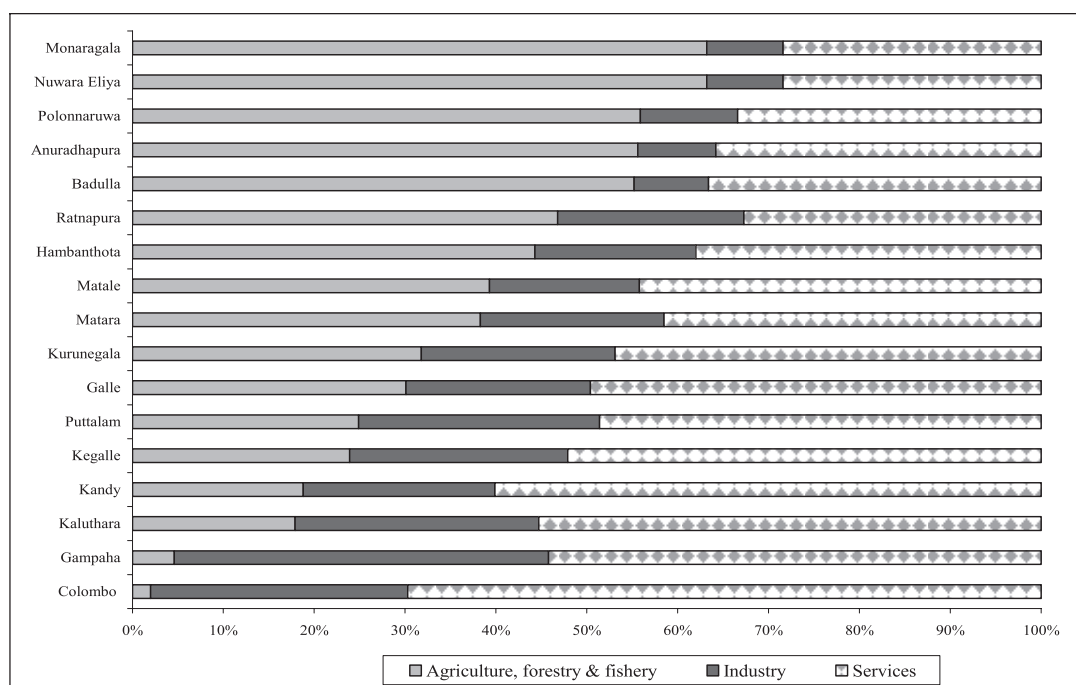
Table 3: Total labour force and the employment rates (%) in different sectors of the economy and unemployment

Description	1970	1980	1990	2000	2005
Total Labour Force (million)	4.5	5.6	6.0	6.8	7.4
Agric. Forestry & fishing (%)	50.1	45.9	46.8	36.0	30.7
Industry (%)	12.8	18.5	37.5	23.6	24.5
Services (%)	37.1	35.6	15.7	40.3	44.8
Unemployment (%)	18.7	15.3	15.9	7.6	8.7

Source: CBSL Annual Report (2005)

The share of the agriculture employees varies considerably in different districts is shown in Figure 7.²⁴⁰ It is about 2% and 4% of the total labour force in Colombo and Gampaha districts respectively which are in Western province. Industry and service sectors take the lead role in providing employment in this province. However, agriculture is the main employment source in more rural districts. Monaragala district in Uva province and Nuwara Eliya in Central province have the highest proportion of agriculture employees amounting to nearly 70% of the total labour force. Out of 17 districts for which data is available, eight districts have more than 50% of the total labour force employed in agriculture, indicating the importance of the agriculture sector in providing employment for the rural population.

Figure 7: Percentage of employment out of total labour force in agriculture, industries and services



Source: Department of Census and Statistics (2003)

²⁴⁰ North and Eastern Provinces are not included in the analysis as there is no data.

Appendix 3

National Agricultural Policy for Food, Export Agricultural Crops and Floriculture

Draft

Introduction

The agricultural sector is the cornerstone of Sri Lanka's economy with more than 70% of the population living in rural areas depending on agriculture for their livelihoods. Currently this sector contributes about 18% of the GDP and 30% of employment. Agricultural productivity has remained relatively stable, except for rice which has reached near self-sufficiency in recent years. This explains at least in part why poverty is proving to be recalcitrant at levels of 25-30 % of the population, with a large majority of the poor living in the rural areas. The low productivity of the agricultural sector also contributes to 23% of household incomes as against 60% by non-farm activities. The agricultural sector was also not as prepared as the other sectors of the economy to absorb the rural unemployed. It is necessary to reverse this trend and improve the agricultural sector to meet the aspirations of the people, particularly those of the farming community. Therefore, the importance attached to agricultural sector development by the government is to meet these formidable challenges by accelerating its growth in order to bring prosperity to the people of the nation.

The agricultural sector will continue to play an important role in the application of strategies targeted towards planned socio-economic development. Rapid growth of the agricultural sector, particularly the domestic food production, floriculture and export crop sectors is essential to achieve self-reliance at national level, ensure food security and to bring about equity in the distribution of income and wealth for alleviating of poverty.

This document presents the National Agricultural Policy Statements for the Food, Floriculture and Export Agricultural Crop Sectors, with the aim of solving many problems and facilitating their rapid growth. The objectives stipulated in the policies therein have been designed to meet the basic needs of the farming community in terms of food and nutrient security, enhanced employment opportunities and incomes, through the adoption of socially acceptable, economically viable and environmentally friendly agricultural production technologies, marketing and related strategies.

Goals and Objectives

1. Increase domestic agricultural production to ensure food and nutrition security of the nation
2. Promote agricultural productivity and ensure sustainable growth.
3. Maximise benefits and minimise adverse effects of globalisation on domestic and export agriculture
4. Adopt productive farming systems and improved agro-technologies with a view to reducing the unit cost of production and increase profits.
5. Apply environmentally friendly techniques in agriculture
6. Promote agro-based industries and increase employment opportunities thereof, and
7. Enhance the income and the living standard of farming community

Policy Statements

1. Promoting agricultural production

- 1.1 Implement technically sound, economically viable, environmentally friendly and socially acceptable programmes to promote sustainable agricultural development by taking measures to ensure maximum utilisation of existing resources.
- 1.2 Increase local food supply, employment opportunities, and agricultural exports by encouraging cultivation of rice and other field crops, horticultural and floricultural crops, roots and tuberous crops, export agricultural crops, herbal crops, other underutilised crops and bee-keeping.
- 1.3 Increase productivity of water and land by enhancing crop production through the application of suitable cultivation methods.
- 1.4 Promote good agricultural practices such as integrated pest management (IPM) and integrated plant nutrition management (IPNM), for sustainable agricultural development.

2. Seeds and planting materials

- 2.1 Supply high quality seeds and planting materials of commercial varieties in a competitive environment with participation of the private sector.
- 2.2 Maintain seed security by having buffer stocks of certified seeds of recommended varieties.
- 2.3 Enforce strictly governmental certification and quarantine regulations with regard to seeds and planting materials.
- 2.4 Enact laws to ensure that the seeds and planting materials available in the market are of good quality.

3. Fertilisers and manures

- 3.1 Promote production and utilisation of organic and bio-fertilisers and gradually reduce the use of chemical fertilisers.
- 3.2 Ensure timely availability of inorganic fertilisers and in sufficient quantities, while providing soil and plant testing facilities for their rational use through site-specific application.
- 3.3 Promote application of straight fertilisers.
- 3.4 Promote manufacturing of chemical fertilisers using locally available raw materials.

4. Pesticides

- 4.1 Minimise the use of synthetic pesticides through promoting bio-pesticides and integrated pest management (IPM).
- 4.2 Provide adequate institutional and infra-structural facilities to operate a pesticide regulatory system effectively in conformity with the Food and Agriculture Organisation (FAO) international code of conduct on the distribution and use of pesticides in order to minimise associated health and environmental risks.
- 4.3 Promote the production and use of environmental friendly bio-pesticides with public and private-sector participation.

- 4.4 Strictly adhere to plant protection regulations to prevent foreign pests and diseases from entering the country.

5. Agricultural machinery

- 5.1 Provide low-cost, high-quality machinery by encouraging the public and private sectors to develop and manufacture agricultural machinery, with appropriate technology applicable to the agricultural sector.
- 5.2 Promote mechanisation to make agriculture more efficient and cost effective.

6. Irrigation and water management

- 6.1 Encourage the use of efficient water management and moisture-retention techniques to achieve high productivity in agriculture.
- 6.2 Conserve the existing water resources for sustainable agricultural development.
- 6.3 Improve efficiency of rain-fed agriculture through water harvesting, mulching and other appropriate techniques.
- 6.4 Promote participatory irrigation management.
- 6.5 Safeguard irrigation reservoirs, canals and structures from damage by natural calamities.

7. Land use

- 7.1 Adhere to the National Land Use Policy in allocating land for cultivation purposes
- 7.2 Promote maximum use of degraded, barren, infertile and lands under shifting cultivation (Chena) to ensure higher productivity and idle lands to be used for crop/forest cultivation and animal husbandry.

8. Soil conservation

- 8.1 Enforce implementation of the provisions of the Soil Conservation Act to ensure proper soil conservation.
- 8.2 Create awareness among the farming communities on the importance of soil conservation for sustainable agricultural development.

9. Agricultural credit

- 9.1 Strengthen rural credit institutions connected with farmers' investments, savings and risk-management.
- 9.2 Introduce simple procedures for providing loan facilities for agricultural activities and agro based industries.
- 9.3 Ensure availability of credit to farmers at concessionary interest rates.
- 9.4 Establish a mandatory share for agricultural credit in the state bank's overall lending.

10. Agricultural insurance

- 10.1 Introduce appropriate agricultural insurance schemes to protect farmers from the risks associated with natural calamities.

11. Agricultural research

- 11.1 Focus agricultural research and development on livelihood improvement and poverty alleviation, achieving food security, enhancing agro-based industries and preparing the agricultural sector to face global challenges.
- 11.2 Use cutting-edge technologies such as bio-technology, Geographical Information System (GIS) technology, pre- and post-harvest technology, nano-technology for efficient agricultural production and environmental conservation.
- 11.3 Promote problem-solving collaborative research with the involvement of the private sector, universities, farmer and producers' organisations and other relevant partners.
- 11.4 Promote investment by the private sector in agricultural research and development.
- 11.5 Formulate strategies for quick dissemination of research outputs to end-users and avoid technology lag.

12. Agricultural extension and education

- 12.1 Reorganise and strengthen the existing extension system to disseminate innovation and information to the farming community.
- 12.2 Introduce modern Information Communication Technology (ICT) for effective information dissemination to the farming community.
- 12.3 Ensure the active participation of farmers and other community based organisations as partners in the dissemination and use of updated technologies through an effective research and extension linkage.
- 12.4 Redesign and modernise the curricula and courses in the schools of agriculture and other agriculture related training institutes to meet the current and future demands of the agricultural sector.
- 12.5 Provide opportunities for agricultural scientists and farmers for local training and foreign training for skills-development.

13. Post harvest technology

- 13.1 Develop and popularise better harvesting, processing, value-addition, storage and transport methods to minimise pre and post-harvest losses to improve quality to meet domestic and export market demands.
- 13.2 Enforce sanitary and phytosanitary measures in post-harvest processing and value-addition of agricultural products.

14. Marketing

- 14.1 Minimise problems associated with marketing of agricultural products through government intervention as and when necessary for price stabilisation.

- 14.2 Promote private-sector investment to improve infrastructure facilities necessary for marketing agricultural products.
- 14.3 Explore and promote foreign markets for crops with high export potential.
- 14.4 Encourage product branding, certification and use of geographical indicators for products to enter competitive markets.
- 14.5 Facilitate marketing information dissemination and marketing operations through the establishment of district level agro enterprise centres.
- 14.6 Appropriately align the agricultural sector in the current multi and bilateral trade agreements.
- 14.7 Identify the requirements of agro-business enterprises to cater to the needs of small farmers and promote public and private investments in such agro business.
- 14.8 Promote the involvement of producers in agricultural marketing.
- 14.9 Strengthen supply-chain management to develop an efficient agricultural marketing system.

15. Agro-based Industries

- 15.1 Promote agro-based industries and product diversification in collaboration with the private sector.

16. Traditional agricultural crops and methodologies

- 16.1 Foster, preserve and disseminate traditional knowledge in agriculture relating to organic farming, pest control, and preservation and processing of food for nutritional and medicinal purposes and facilitate exchange such knowledge among the farming communities.

17. Home-gardening

- 17.1 Promote home-gardening and urban agriculture to enhance household nutrition and income.
- 17.2 Promote women's participation in home-gardening for improving family nutrition.

18. Investment in agriculture

- 18.1 State to invest adequately on the agricultural sector for its rapid and sustainable growth.
- 18.2 Encourage private-sector investments, particularly in areas of seed and planting material production, agricultural research and development, human-resources development, post-harvest management, marketing, export-promotion and agricultural entrepreneurship.

19. Institutional development

- 19.1 Develop mechanisms for coordination among government and provincial council institutions involved in agriculture and related activities.
- 19.2 Ensure active involvement of all community based organisations (CBO) in agricultural development and strengthen the same.

20. Utilisation and sharing of plant genetic resources

- 20.1 Collect and conserve crop varieties and their wild relatives for future crop breeding and improvement programme
- 20.2 Develop and maintain diverse farming systems for ex-situ conservation of crop genetic resources.
- 20.3 Use farmer participatory breeding methods for utilisation of crop genetic resources.
- 20.4 Adopt suitable strategies to preserve national identity in utilisation and sharing of benefits of genetic resources with other countries through international treaties.

21. Youth involvement in agriculture

- 21.1 Promote youth organisations for active participation of youth in agriculture and related ventures.
- 21.2 Promote high-value crops and agro-based small and medium scale industries for enhancing rural employment-generation and youth involvement in the sector.
- 21.3 Provide concessions and rewards to young entrepreneurs for promoting agriculture and related industries.

22. Agricultural exports

- 22.1 Facilitate promoting all forms of agro-based exports
- 22.2 Establish coordination mechanisms among governmental bodies and agricultural producers, marketers and the trade sector, to promote agricultural exports
- 22.3 Establish food safety and quality-assurance mechanisms for crops with export potential that could meet international food safety standards.

Appendix 4

Presentation Discussion Notes: Assessing the Impact of ADB Supported Projects on Sri Lanka's Agricultural Policies

A presentation of the review findings was held on September 11, 2007 at the Organisation for Professional Associations (OPA), Sri Lanka to initiate a discussion on the issues raised in the review. A presentation by Dr. Anura Herath, the lead consultant of the review was followed by presentations by eminent discussants; Professor T. Jogaratnam, Dr. Jerry Jayawardena and Mr. Senaka Abeyratne. The presentations led to an open discussion and these notes cover the issues raised during this discussion

The notes presented in this annexure have been grouped according to certain themes that arose during the session. It is provided here to stimulate further discussion among a wider audience.

The presentations made at this event are available for download from the CEPA website www.cepa.lk.

Presentation made by Prof. T. Jogaratnam, Emeritus Professor, University of Peradeniya, Sri Lanka

Prof. Jogaratnam focused his presentation into three subject areas related to the agricultural policies discussed in the review. He commented specifically on the evaluation of agricultural policies in Sri Lanka in terms of the contribution, or lack of it, of the policies to agricultural development and technology-improvement in Sri Lanka. He discussed the ADB's support for policies initiated by the government. He addressed the issue of wider learning for donors and the policies on which they should target their aid. He also looked at the question of whether agricultural policies in Sri Lanka in general are poverty-neutral, pro-poor or anti-poor.

His presentation raised numerous talking points and brought out the following issues, categorised within the broad areas of improving the study, agriculture and poverty alleviation, the need for clearer policy focus by state and other actors, and the need to identify gaps in the research so that research can more effectively feed into policy formulation.

Strengths and limitations of the study

Despite the report's comprehensive coverage, the period of the analysis (ten years from 1996-2005) in the review was not sufficient to see the impact of projects on agricultural policies. The report did not assess the proportional or relative contribution of impacts of ADB projects to policy reforms.

Agriculture and the poverty-alleviation debate

He stressed that the agricultural policy objectives in Sri Lanka has mainly focused on food and nutritional security, narrowing regional disparities and alleviating rural poverty. These issues were also relevant in a discussion on policy and its impacts on poverty. This was demonstrated by data that show that the poorest proportion of the population could not meet their food/calorie requirements. He said that other organisations, such as the World Bank, also identified regional disparities and noted that this type of study should be country-specific and site-specific with each region and area being studied separately.

A clarification was requested by a participant about the contribution of agriculture to the total income of agricultural households in Sri Lanka. It was said that agricultural households represent nearly 40% of rural households and agriculture consists of 28% of household income. National statistics may hide regional variations and thus the importance of having disaggregated information for decision making cannot be underestimated. It was noted here that the Consumer Finance Survey published by the Central Bank of Sri Lanka provided information about regional variations in the income source of agricultural households down to district level.

Prof. Jogaratnam said the landlessness and the non-viability of landholdings (small and fragmented agricultural holdings) hindered poverty alleviation in Sri Lanka. It had been said that a minimum of two acres were necessary for landholdings to be viable. While agriculture contributes only 28% of the income of agricultural households in Sri Lanka other constraints and contributory factors to limited poverty alleviation include: low productivity, out-migration of labour from agriculture, poor agricultural infrastructure and poor coverage by agricultural support services.

State policy focus

During the 1960s, 1970s and 1980s agricultural policies and projects were considered pro-poor. Land distribution and irrigation-development policies introduced between the 1960s and the 1980s mainly concentrated on the poor. These policies contributed to the high performance of the non-plantation sector. For example, the Mahaweli project is considered by many a pro-poor project and in the initial stages the benefits were targeted towards the poor. During the time of the accelerated Mahaweli project, poor people from the wet zone were settled in the dry zone.

The government has placed emphasis on price supports on agricultural outputs, inputs and trade and other support-services such as credit, marketing, research and extension. However the benefits of these services were accessible to high-producing farmers with marketable surplus rather than poor farmers.

Donor policy focus

ADB interventions in rural financing and product-improvement were small in scope. Cheap credit and, more importantly, access to credit was important for poverty alleviation. Further, ADB projects were not been spread over the country. Therefore the benefit transferred to poor farmers might not have amounted to much. Policy-making was also politicised and hence the influence that donors could have on policy was doubtful.

Commercialisation of the sector

He stressed the importance of crop-diversification, value-addition and export-promotion for commercialising the agricultural sector. Between the 1970s and the 1980s, the main focus was on the production of crops such as chillies, onions and potatoes and hence attention to crop-diversification was limited. Today, the debate about crop diversification should pay more attention to export-orientated production and should include crops such as cut flowers and foliage plants.

The growth of supermarkets and contract-farming in relation to the commercialisation of farming also needs to be flagged. He said supermarkets must be regulated to prevent the exploitation of farmers.

Impacts, lessons and research gaps

Since independence, the agricultural sector has had a low growth rate. Countries like India have also indicated the need to raise agricultural productivity. Yet the lack of competitiveness and comparative advantage was a persisting problem, while there were regional variations in the impacts of policies. For example, farmers in some areas had better access to resources and this gave them an advantage over other farmers in poorer regions.

He said that proper targeting of policies was essential and that improvements to agriculture itself were not enough to alleviate poverty. There was a need to understand the prevalence and importance of the off-farm sector in addressing poverty.

The focus on research was decreasing, especially within the state sector. Donors could do more to promote research through universities and the Department of Agriculture. However there was a tendency for the research agenda to be dictated by donors rather than with a view to addressing local needs.

Presentation made by Dr. Jerry Jayawardena, Chairman, Tea Research Institute of Sri Lanka

Dr. Jerry Jayawardena concentrated on two areas relating to the policy review. He emphasised the limitations of policy formulation and the implementation process within a context of a plethora of state bodies in the agriculture sector and discussed whether the current political economy facilitated or constrained policy-formulation and the implementation process.

Defining the agriculture sector

Dr. Jayawardena started his contribution by noting that the definition of the agricultural sector needed to include the fisheries and forestry sectors as well as agriculture. He pointed to the multifaceted nature of the agricultural sector in Sri Lanka; it was a cultural phenomenon at the village level, requires the management of natural resources, and involves social, economic and gender issues as well as food and nutritional security issues.

Limitations of policy-formulation and implementation

There was a lack of awareness amongst the politicians and secretaries of the ministry about ongoing donor-funded agricultural projects in Sri Lanka. These projects tended to address components rather than factoring in the larger elements of the picture. They did not approach people's livelihoods in a holistic manner. For instance, there were people engaged in both food crops and inland fisheries; yet when interventions were planned they tended to address food crops and fisheries separately. People's livelihood portfolios and limitations were not been addressed as a whole. The social aspects of the sector were ignored in this process. For the agriculture sector to become sustainable it should provide proper institutional linkages and be intellectually and financially rewarding for people working in it.

The lesson that could be drawn from past experiences of donors as well as domestic policy-makers was that the holistic situation in Sri Lanka had to be considered. Policies formulated and implemented by the government should take note of agricultural policies and vice versa in

order to implement them sustainably. The overlaps in ministerial functions and policy creation also needed to be taken into account in this discussion.

Agriculture was not a 100% economically viable sector and the importance of off-farm sources of income should not be underestimated. For instance, a son or a daughter of a farmer could be working in a tile factory and that salary might be spent on buying fertiliser, making it an important contribution to agricultural productivity. He claimed that the new government policy *Mahinda Chintana* brings out this point very well.

He said that the value-addition of the agricultural sector was quite low. In the United States, 3% of the population worked in agriculture while 37% was engaged in value-addition. In Sri Lanka, value-addition took place through supermarkets. The export of agricultural products such as vegetables, fruits and cut flowers could be considered to be profitable and was a fast-growing industry. It was also becoming an important means of employment-generation.

Finally, he noted that in considering some of these factors it could be acknowledged that public-private sector partnership is important and should be further encouraged and expanded. Existing policy mechanisms such as the fertiliser subsidy scheme needed to be better targeted.

Presentation made by Mr Senaka Abeyratne, Agricultural Economist

Mr Abeyratne stressed the importance of such a policy analysis within the context of private-sector engagement in the policy process. He noted the ways that the private sector could be more active in the GOSL policy-formulation process. He looked at how ABD-supported government policies affected private-sector involvement in the agribusiness sector. In his presentation he compared the development of the sector before and after the liberalisation of the economy and examined the private-sector engagement.

Liberalisation and the agriculture sector

The drive to commercialise the agricultural sector began in the 1970s when there was a shift away from producing rice to other crops. During the period 1970-1977 the focus of government policy was towards protectionism, with the import of various food items being banned, leading to an increase in domestic agricultural production and the achievement of self-sufficiency. However, there was no significant improvement in productivity. Production increased because the proportion of land used for agriculture was high. He noted that a policy of protectionism badly affected the poor who were also consumers. Therefore, the level of poverty and malnutrition increased. Though living standards improved in the short term, productivity remained stagnant. The farmers as producers benefited from protectionist policies because they were able to get higher prices for their produce, but the poor were unable to afford the produce because of those higher prices.

The introduction of liberalisation meant that domestic producers were badly affected as they found it hard to compete with the price of imported items although importers benefited. There is no example anywhere in the world of a country achieving sustainable development through protectionism. There could have been a short-term benefit but productivity stagnated in the long run. Countries such as Malaysia, Japan, Taiwan and Korea were moving away from protectionism towards liberalisation, while others such as China were choosing to mix policies of liberalisation and protectionism.

Changes in private-sector involvement

Private-sector participation in the agricultural sector increased after liberalisation while during the era of protectionism the private sector engaged mainly in marketing. The state, on the other hand, engaged mainly in providing support services in addition to marketing. Presently, the private sector had taken up support services. He noted that it was an accepted fact that the private sector was more efficient than the state sector in providing these services.

Need for improvement in the private sector engagement

He said that this study was useful to private sector because they could use it as a reference point when attempting to engage in dialogue on policy with the government. He said that his experience at the National Agribusiness Council (NAC) taught him that there is no homogeneous thinking within the private sector as in the government sector.

The private sector should be dealing with a mixture of inward-looking and outward-looking policies. It needed to be more politically educated. The sector lacked skills in the art of serious policy dialogue as well as skills to enable effective negotiation with state actors. The possession of these skills would enable the private sector to be proactive in taking issues to the government and anticipating and preparing for government reaction.

The private sector should be better informed and its decisions should be based on facts and experiences. There was a need for the private sector to be more proactive than reactive. The private sector should tap the resources of all sectors and build networks with all the stakeholders such as civil society and the government.

Donor influence on the private sector

He noted that although the ADB has contributed to a certain extent to the development of the sector, the increase in private-sector participation in agriculture and agribusiness could not be attributed to one organisation. There are many players; such as the World Bank, UNDP, USAID and IFAD and all of these organisations together had helped to promote commercialisation of the agricultural sector.

Plenary discussion

The discussion on the presentations led to a plenary discussion that brought out the following points.

The discussion raised the issues of the importance of the influence of donor agencies in the formulation of agricultural policy in Sri Lanka. Donor involvement should not replace existing local expert knowledge and resources. Donor agencies had insights from their international