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Livelihoods and Poverty in Sri Lanka

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Foreword

This series of Poverty Briefs (No. 1 to 10) was produced for OXFAM Great Britain (GB) by the Centre for Poverty Analysis to provide a macro overview of key thematic areas relating to poverty, of relevance to Oxfam GB's work in Sri Lanka. They are specifically designed to provide Oxfam GB programme staff with insights into the major issues, concerns, and debates within these themes and their linkages and effects on poverty in Sri Lanka. They also aim to highlight potential areas for policy advocacy by Oxfam GB. This input was used in staff preparation for Oxfam GB's Strategic Review in August 2004.

Oxfam GB's mission is, to work with others to overcome poverty and suffering. Its current programme focus is on: Livelihoods and poor people's access to markets; Gender equality, empowerment and ending violence against women; Public health promotion and access to quality water and sanitation facilities; Emergency preparedness and response; Relationship building between and within communities; and Empowerment of the poor through building of Community Based Organisations.

The views and opinions expressed in the Poverty Briefs are those of the authors and do not necessarily reflect those of Oxfam GB or the Centre for Poverty Analysis.

This series of Poverty Briefs was prepared in mid 2004, prior to the events of the Tsunami on 26th December 2004. The context and issues discussed in some of the Briefs could have changed since then.

Livelihoods and Poverty in Sri Lanka

1. Introduction

The incidence of poverty varies depending on the definition used and the source of data. Between 25% to 40% % of the population of Sri Lanka is estimated to be in income poverty. If the World Bank criterion of less than US$1 per day per capita is used, the incidence of poverty is 6.6%. The rate of poverty rises sharply to about 45 % when the cut off point is income below US$2 per day.

The official poverty line calculated by the Department of Census and Statistics in 2004, which was based on a household consumption expenditure being lower than Rs. 1423 per person per month, placed the proportion of poor households in the country at 19% and the proportion of the population in poverty to be 23% in the year 2002.

Although the data shows the highest incidence of poverty to prevail in the estate sector for the survey years 1995/96 and 2002, historically it was the rural sector that experienced the greatest percentage of the poor. Structural weaknesses in the agrarian economy mainly account for this higher incidence of poverty. These are, inter alia, the ownership and cultivation of small sized holdings, low productivity, ineffective extension services, inadequate institutional credit and inefficient marketing systems for food crops.

The estates, with the highest incidence of poverty, comprise of persons who are mostly dependent on wage labour on the plantations. The urban sector has the lowest incidence of poverty of less than 10%.

There are also wide variations in poverty incidence in the country and chronic poverty is endemic in many regions. Poor economic and social infrastructure and limited non-agricultural income opportunities in some rural areas too account for the higher continuing incidence of poverty.

2. Poverty Profile

Although statistical estimates of poverty vary, the overall profile of poverty in the country is fairly clear. The features of poverty in Sri Lanka are:

- Nearly one fifth of the population live below the poverty line. Even though there is some evidence to show that the level of poverty may have declined somewhat in recent years, the statistic of about 20% of the population remaining poor has been a feature for the last several decades.
- The incidence of poverty is highest in the estate sector. On the criterion of household consumption cited earlier, 19.2% of households and 22.7% of the population are poor. In the estate sector 24.3% of households and 30% of the estate population are estimated as being poor. Compared to this only 7.9% of the urban population and 6.2% of urban households are estimated as being poor. Poverty in the rural areas is comparatively lower than in the estate sector at 20.8% of households and 24.7% of the rural population.
- The overall levels of poverty, as well as the incidence of rural poverty, have remained more or less constant over the last three decades, though urban poverty appears to have declined.
- Since about 80% of the population live in rural areas, most of the poor live in rural areas. Conversely, income poverty as well as human deprivations are least in the urban and more industrialised areas of the Western Province, especially, the Gampaha and Colombo districts that are the most industrialised. These two districts together contain 80% of the country's industrial establishments and have the best economic and social infrastructure.
- There are significant variations in poverty with the highest incidences of poverty being in Uva, Sabaragamuwa, Southern, North Western and Central Provinces. The North and East of the country are no doubt suffering the worst deprivations owing to the disruption of economic activities due to two decades of armed conflict. However no precise figures of the entire region are available. Scattered data from limited areas provide evidence of chronic poverty, food insecurity and malnutrition.
- The incidence of poverty is higher among farm households. Although there is no clear co-relation between the size of agricultural holding and poverty, there is a negative correlation between size of paddy holding and poverty: farmers cultivating smaller paddy holdings are poorer.

- Poverty decreases with the level of education. There is a negative relationship between poverty and literacy and education.
- Female-headed households in the urban sector are poorer, though rural and estate households do not disclose such a clear relationship. There is, however, a gender disparity in wages in both the formal and informal sectors. This is not due to gender differences in productivity.
- There is a close correlation between income poverty and human deprivations. This correlation is a two-way relationship, with income poverty being both a cause and effect of human deprivation.

3. Structure of Agriculture

Agriculture in Sri Lanka has been characterised as dualistic. Plantation crops (tea, rubber and, to a lesser extent, coconut) are mainly grown in large estates managed, for the most part, by companies. The labour on these estates is mostly resident on the estates and dependent on wage labour. Food crop agriculture is largely on smallholdings and widespread in the country.

Agriculture is conventionally divided into three zones of cultivation -- dry, intermediate and wet zones. Most rice production is in the dry zone, where the average size of holdings is somewhat larger and cultivation is mostly under irrigation. Most of the other food crops, such as chillies, onions, tomatoes and soya are grown in the dry zone, though low country vegetables are grown in the low country and temperate vegetables such as carrots, beetroot, cabbage and leaks are grown in the up-country regions of the wet zone. Spice crops are harvested mainly in mid-country elevations.

The average size of paddy holding in the country is about one-half hectare; in the dry zone it is about one hectare and in the wet zone as small as one-fourth of a hectare. Paddy and other holdings in the wet zone are very small and rain-fed. Their yields are much lower than in the dry zone. Hence, paddy cultivation is often a part time occupation for most farmers. When off-farm employment is not available to cultivators of very small plots, these farmers have inadequate incomes for their livelihoods.

4. Imports of Food

In a good year the country is self sufficient in rice. However, in most years Sri Lanka imports around 10% of its rice requirements. In 1997, 84% of the total requirements of rice were locally produced. Domestic production was higher in 1998. Consequently, imports were only 8% of requirements. In 2003 there were no imports of rice. This is very different to the situation in the early 1950s when the country imported about one half of its rice requirements to feed a population of 8 million compared to a population of 19 million today.

The reduction in rice imports has, however, been accompanied by increased imports of wheat. Wheat imports have increased threefold from around 300,000 metric tons in 1980 to 919,000 metric tons in 2003. Household consumption of wheat flour and bread has increased to about 30 kilograms per head, while rice consumption has decreased from about 105 kilograms to about 98 kilograms per head.

Other significant food imports are sugar, milk and fish. Sri Lanka imports 85 to 90% of its sugar requirements, a similar proportion of milk requirements and about 70% of fish consumption. A variety of other food imports constitute over one half of total food imports.

Despite these food imports, the value of all food and drink imports as a proportion of the total value of imports in 2001 was only 11%. Between 1997 and 2001 this proportion varied from a high 13% in 1997 and a low 9% in 2000. This is very different to the situation in 1951, when food imports constituted 45% of the total import value, and rice imports alone constituted 15% of imports. Even in 1977, food imports constituted 36% of total import value.

Imported food items constituted about one-fourth of household food expenditure. Owing to the higher consumption of wheat flour, estate expenditure on imported foods was somewhat higher at around 27% of household expenditure. Urban and rural expenditure on imported food items is estimated at about 25% and 23%, respectively.

5. Production and Productivity

Food crop agriculture is dominated by paddy production with around 1.2 million farmers cultivating about 550,000 hectares of land. About 20% of the population are estimated to be directly or indirectly dependent on paddy farming. About 40% of the cropped area in the country is under paddy cultivation.

Although the paddy yield in Sri Lanka compares favourably with those of other Asian rice producing countries, because of the small size of holdings, high costs of inputs and high labour costs the cost of production is much higher than in rice exporting countries

The average paddy yield is about 3.9 metric tons per hectare, whereas the potential yields are estimated at 10.5 metric tons per hectare. Yields vary significantly in the country. The average yield in the dry zone is 4.5 metric tons per hectare, while it is as low as 2 metric tons in the wet zone. Some irrigated paddy yields in the dry zone reach 8 to 10 metric tons. Raising average yields to about half the potential would have a direct beneficial impact on the livelihoods of the rural community.

The potential for increasing yields in the wet zone is more limited. Given the small size of holdings and low yields in this region, the diversification of these lands into other crops and inland fisheries is likely to improve living conditions. However, because low-lying paddy fields collect residual water, ecological and health factors should be considered before diverting water to them.

The average size of paddy holding in the country is less than one-half of a hectare. There are, however, regional differences. Dry zone farmers cultivate larger extents. For instance, in Polonnaruwa the average extent of paddy cultivation is over 1 hectare. In the Ampara and Batticaloa districts paddy is cultivated in larger extents of around 10 hectares and the yields are very high. In the wet zone the average size is only 0.2 hectares and most paddy farmers are part-time farmers. With the diversification of the economy off-farm income opportunities have increased and provide the larger share of household incomes for wet zone paddy farmers.

Paddy production reached a record level of 3.01million metric tons in 2003. This may give the illusion that paddy farming is on a growth path. In fact paddy production increases in recent years have not been very pronounced. It was only about 3% higher than in 1995. Paddy production is expected to fall once again this year.

Paddy farming is in a state of crisis. Paddy farmers face a 'cost–price squeeze'. In the last 15 years, costs of paddy cultivation have more than doubled, while the farm gate price of paddy has not risen to compensate for the increases in costs. The average cost of a kilogram of paddy is estimated at Rs. 8.64. At harvest time, farm gate prices drop to as low as Rs.9.50 per kilo. These costs of cultivation and farm gate prices do not give an adequate income even for farmers cultivating one hectare of paddy for two seasons and having high yields.

Foremost among the high costs of cultivation are the high labour costs. The wage rate in paddy cultivation is about twice that in the plantations or even higher. The high cost of labour is perhaps the most important reason for the high costs of paddy production. The prices of chemicals and fertiliser are also high. In the case of chemicals several research studies have pointed out that farmers use excessive amounts of chemicals because paradoxically, in a country that has a high rate of unemployment, there is in fact a shortage of labour. There may be a need for mechanisation in some areas. The shortage of labour is so acute that farmers have even given up paddy cultivation.

6. Marketing of Produce

Farmers have continuously faced problems of marketing their produce. In the case of paddy, farmers consume about 30% of their produce, while the rest is sold. The marketed proportion is higher in the dry zone areas, and lower in the wet zone. Prices tend to fall to unacceptable levels at harvest time, as was the experience in 2002/3. In this cultivation year prices fell below the cost of production.

Historically, the government has intervened in the paddy market by purchasing paddy at a guaranteed price that has been higher than the international equivalent rice price. This practice was discontinued in 1996 owing to corruption in the Paddy

Marketing Board (PMB) and high costs of administration and subsidisation of its operations. While, at the best of times, the purchases of the PMB were small, there is reason to believe that even its limited purchases exerted an influence in raising open market paddy prices.

In recent years, the government has also intervened through the CWE, State Trading Corporation and other agencies to purchase paddy when farm gate prices have fallen. However, these have been limited operations. Rice millers and middlemen are the dominant players in the paddy market.

One fundamental reason for low producer prices is the fact that farmers have to sell at low prices because of poor cash flow. Other reasons are poor post-harvest practices; inadequate storage capacity, control of the market by traders, middlemen and rice millers and indebtedness if farmers purchase the produce.

In the case of other agricultural produce, farmers are exploited because they are committed to selling their produce to merchants at prices determined by the buyer and they have little alternative means of sale. Farmers often obtain credit from these merchants in return for an agreement to sell their produce to them at harvest. Such tied credit is quite common among cultivators, though the extent has not been estimated.

7. Co-operatives and Farmer Organisations

Co-operatives have been an important institutional feature in rural areas. However, their importance has declined with the liberalisation of trade and the discontinuance of the rice ration scheme. They are no longer the channels for credit disbursement or purchasing paddy. Farmers' Organisations (FO) function with varied efficacy. Some FOs act as a means of obtaining agricultural inputs in bulk and perform a limited role in the marketing of crops. Credit is also obtained by some FOs that take the responsibility for the repayment of loans. However, their overall role is limited. Strong, participatory and dynamic farmer organisations have not yet been developed.

The reasons for their weakness may well be cultural. Divisions in rural communities, especially owing to political differences are important. The market economy may have weakened the cohesiveness of farmers. There is, however, a need to develop these organisations on the basis of mutual advantages and to use them for agricultural extension work, credit disbursement bulk purchase of inputs and marketing of produce.

8. Credit for Agriculture

Institutional credit serves only a small fraction of farmers. Data from many surveys indicate that farmers are very much dependent on informal sources for both production and consumption credit. The higher interest rate of informal credit is another factor in raising costs of production and in depleting the surplus available to farmers.

The two state banks give most institutional credit for agriculture. Regional rural development banks also provide credit in the areas of their operation. Wilful and non-wilful defaulters have made it difficult for banks to recover loans. This has made them reluctant to extend credit significantly. Subsidised interest rates have characterised institutional lending for agriculture. Credit given under government auspices has been notable for high rates of default and the waiving of such defaults regularly has compounded the problem of loan recovery.

9. Subsidies

Subsidies, especially food subsidies, have been a central issue in the political economy of post-independent Sri Lanka. On the supply side, rice producers have been subsidised by a guaranteed price scheme that ensured a floor price above the international market price for a considerable time and a comprehensive system of support for paddy production in the form of fertiliser subsidies, concessional credit and crop insurance. These have been designed to support food production and achieve self-sufficiency in food, mainly for rice.

The consumer food subsidy was a part of a welfare package that also included free health care, free education and more recently the Janasaviya and Samurdhi poverty-alleviation programmes. The first food subsidy-- the rice ration programme-- was introduced in 1942 to overcome the difficulties of procuring basic consumption items during the Second World War, when food supplies became uncertain. Every person (except children under one year) was given a ration book entitling the holder to certain quantities of rice, flour, sugar and other commodities. The retail prices of rice, as well as flour and sugar, were stipulated and controlled. The food ration scheme was continued after the war as a means of easing the cost of living and promoting social welfare.

The subsidy was affordable because of the post-war rise in Sri Lankan export crop prices, accumulated foreign exchange reserves and the low import prices of rice, wheat flour and sugar. In most years there was a cross subsidy in the basic food items on the ration. While the ration price of rice carried a subsidy, flour and sugar were often sold at prices higher than their import cost.

In July 1953, the price was increased from 25 cents per measure (approximately 2 lb.) to 70 cents per measure, about 90% of its import price. This sparked off a public outcry and a strong protest in the form of a haratal (work stoppage) that led to the resignation of the Prime Minister. Subsequently, the price of rice was reduced slightly. Shortly before the election of April 1956, the price was returned to its 'original' level.

In 1956, the deteriorating balance of payments compelled the government to raise the price of the rice ration to 40 cents. In 1960, instead of giving two measures at 35 cents each, the price of the first measure was reduced to 25 cents, while the price of the second measure was increased to 45 cents. The total cost of the two measures remained at 70 cents. In April 1960, the price of the second measure of rice was reduced to 25 cents. The government continued giving two measures of rice at 25 cents each till December 1966, when one measure of rice was given free to every person. The halving of the ration reduced the amount of rice distributed under the programme, increased open market sales, and reduced per capita and total rice consumption.

In September 1970, the government increased the ration by one measure. In 1973/4 the price for the purchased component was increased to Rs. 2.00 and the free ration was reduced from one measure to one half measure and income tax payers were ineligible for the free ration.

In January 1978, there was a break with past food subsidy policies. The ration was restricted to households with an annual income of less than Rs. 3600. This restricted the ration to about one-half of the population. In September 1979, the food ration, which had dominated the political and economic scene for nearly half a century, was terminated and a 'food stamps' programme was introduced. Families with an annual income of less than Rs. 3600 (around half the population) received food stamps with a fixed nominal value. These food stamps could be redeemed against food purchases from state-run co-operatives. This immediately lowered food subsidy expenditure from Rs. 2100 million in 1970 to Rs. 1500 million in 1980.

In 1989, the food stamps entitlement took a new turn. The election manifesto promised that the Janasaviya Programme that would give each household a grant of Rs.2500 each month for two years would replace the food stamps programme to cover all those entitled to food stamps. The Janasaviya entitlement comprised a consumption component of Rs.1458 per month and an investment component (that is, forced savings) of Rs.1042 per month. Since the full coverage promised in the manifesto would have doubled total public expenditure immediately, it was phased out over 11 years. By early 1993, 355,124 households had received Janasaviya entitlements under its first three annual rounds.

The Janasaviya programme was reincarnated as the Samurdhi programme. Its features were similar in that it gave consumption and non-consumption components, the later being saved by the scheme itself. The scheme had covered 58% of the country's households by 2001 but the number of beneficiaries was reduced gradually by screening the recipient households to target the programme to the intended beneficiaries. Nevertheless, though both the Janasaviya and Samurdhi programmes assisted some of the very poor in obtaining their basic food needs, many of the poorest of the poor did not receive Samurdhi benefits as it was a highly politicised programme giving benefits to a larger proportion than those who were needy. An Institute of Policy Studies (IPS) survey in 2002 revealed that a third of the recipients of Samurdhi benefits were not poor and that one-fourth of the needy do not receive these benefits.

10. Policy Implications

The reasons for the persistence of poverty are fundamental and structural. Palliatives cannot remove these. Certainly overall economic policies and economic growth have important contributions to make to poverty reduction. Yet the nature and extent of poverty are such that only reforms that fundamentally change the access to resources, improve the quality of those resources and enhance income-earning capacities can eradicate poverty. An economy that does not grow at a rapid pace would be unable to alleviate poverty effectively. Yet the nature of the growth strategy, fundamental structural reforms, social development expenditure and government interventions are needed to impact on poverty reduction.

Ten suggested levers to reduce poverty:

- Redistribute assets in favour of the poor (e.g. Land reforms and land consolidation)
- Improve social and economic infrastructure in remote rural areas.
- Develop human capital by enhancing the quality of education available to the poor. Especially important for future poverty reduction is the improvement of school education in remote rural areas.
- Implement a big thrust for agricultural development with a special emphasis on improving agricultural technology, improving the link between research and extension, and improving marketing channels for agricultural produce.
- Develop agriculture-based industry and agricultural processing facilities.
- Develop Farmer Organisations by entrusting larger responsibilities to them.
- Revitalise extension services on new effective lines using modern methods of communication.
- Voluntary community-based groups should be involved in improving the services to the rural community. NGOs and donor

agencies should assist such development without undermining their own programmes.

- Design and implement effective safety nets for the unemployable, aged, handicapped and incapacitated and fund these with funds currently wasted in politicised, inadequate and very poorly targeted programs.

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