

Sri Lanka
State of the Economy Report 2013

Chapter 15
The Divi Neguma Programme and Creating Rural
Employment

by
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15. The Divi Neguma Programme and Creating Rural Employment

15.1 Introduction

Active labour market programmes (ALMPs) are used to reduce the risk of unemployment and to increase the earnings capacity of workers. There are a number of ALMPs in Sri Lanka that can be categorized into three groups based on their main objectives – support employment creation, improve skills and employability, and facilitate the job search process.¹ These programmes are conducted by the government, private sector, and NGOs. Amongst ALMPs, the 'Divi Neguma' programme (DNP) can be viewed as one of the largest, government initiated ALMPs operating across the country.

The DNP is based on the concept "People Initiate; Government Facilitates." This programme is implemented through key government officials at the village level – Grama Niladhari officers, Samurdhi Development Officers, and Agriculture Research and Production Assistants. The main objective of the programme is to strengthen households' economic status by creating one million empowered household units, which would lead to a self-reliant household economy. The programme encourages people to cultivate in their back yards, engage in cottage industries and animal husbandry, and cultivate medium and long term crops. Based on its broader objective, the DNP is implemented in three phases: 1) agriculture, 2) fisheries and livestock, and 3) small enterprises.

The main objective of this Policy Brief is to examine the ALMP characteristics in the DNP and its potential benefits. The following sections will describe the main components of the DNP, examine the potential impacts of the programme, and offer some conclusions and policy implications.

While employment creation and skills development should be objectives of programmes such as the DNP, they should focus mainly on lagging areas, where available opportunities are more limited

¹ Arunatilake, A., R. Jayaweera, and A. Wijesinha, (2008), "Review of Active Labour Market Programmes (ALMPS) in Sri Lanka", Institute of Policy Studies of Sri Lanka, Colombo, mimeo.

15.2 Three Phases in the Divi Neguma Programme

15.2.1 Agriculture and Food Production

Agriculture is the first phase of the DNP, with a focus on creating one million home gardens – i.e., 100 household units per Grama Niladhari Division (GND). Some specific objectives of this component are to increase nutritional levels of households, reduce their cost of living, increase food production in the country, and create new income avenues for households by selling the surplus production.

In this phase, the government provides agricultural inputs,² and plant nursery facilities. The Divi Neguma recipients are able to select suitable seeds, depending on the geography and the climate. The government also provides technical assistance for the use of scientific methods of cultivation, such as using organic fertilizers. Beneficiaries are then expected to maintain their home garden with their first allotment of seeds, and they have to improve on it by breeding their own varieties in the next stages. Over the course of four phases, the government has already spent around Rs. 1 billion for the distribution of vegetable seeds packets. In addition, during 2011-12, the government distributed 4,471 million coconut plants and 6,999 million fruit plants.³

The promotion of home gardening is aimed primarily at addressing issues of food security, as it is expected to increase not only food production, but also the quality of food in the country. Increased food production can reduce food prices, increase variety, and thereby, nutritional levels of households and

their health outcomes. Additionally, home gardening is also expected to increase household income, as households can sell their excess produce.

15.2.2 Fishery and Livestock

The second phase of the DNP is fishery and livestock, again with the objective of ensuring food security, better nutrition, and improving livelihood and household income. Under this segment of the programme, government support is provided towards fishery, poultry and dairy industry, and bee keeping. Fishery projects are implemented through different government agencies such as the Ministry of Fisheries and Aquatic Resources Development, National Aquaculture Development Authority (NAQDA), Department of Fisheries and Aquatic Resources, and the Aquatic Resources Research and Development Agency (NARA). The DNP supports aquaculture, not just for food, but also for the ornamental aquatic industry. This programme supports the industry from the beginning through to completion, which includes pond preparation, pond fertilization, fish stocking, technical support and sample testing, market linkages, fish harvesting, monitoring and evaluation, and the re-start of the culture cycle. During 2011-2012, the government has spent Rs. 122 million for the development of the fisheries industry.⁴

In addition to its support of the fisheries sector, assistance has also been offered to the livestock sector, whereby the government has provided chicks, goats, and cows, to Divi Neguma beneficiaries. The estimated government spending on the distribution of poultry during 2011-12 has been Rs. 432 million.⁵

² Vegetable seeds, vegetable plants, fruit plants, coconut plants, minor export crops, other plants (cereal crops, medicinal crops and permanent crops).

³ Ministry of Economic Development.

⁴ *Ibid.*

⁵ *Ibid.*

15.2.3 Cottage Industry

The objective of this component in the DNP is to ensure sustainable income and employment to rural families in Sri Lanka. It is expected to create and sustain successful entrepreneurs across the country at the village level. This is implemented through different government agencies such as the Ministry of Traditional Industries and Small Enterprise Development, Ministry of Industry and Commerce, Ministry of Technology and Research, Ministry of Youth Affairs and Skills Development, and Ministry of State Resources and Public Enterprise Development.

Support is extended to small scale industries engaged in sectors such as food and beverages, handicrafts, leather based products, paper based products, beauty culture, cane and bamboo, palmyrah and coconut based products, etc. Support for cottage industries is done through a five step approach which will be discussed in detail in the next section.

15.3 Successful ALMP Characteristics in the DNP

ALMPs can be divided into three groups – i.e., those that support employment creation; improve skills and employability; and facilitate the job search process which includes counseling services, career fairs, job clubs, etc. Labour market training include direct provision of training, financial support for training, and infrastructure facilities for training programmes such as labour market information and licensing. These training facilities are expected to enhance the skills and employability of the target group. The programmes which support job creation are intended to create new jobs or maintain existing employment. Three types of programmes fall under this category. They are wage subsidies, public works, and support for self-employment. This can involve offering micro-financing for start-up business or to continue their own business, offering

grants, or providing business development services (BDS).

Self-employment promotion measures range from the development of a business plan, support in accessing capital, training in entrepreneurial skills, as well as mentoring. The underlying motivation for providing this type of assistance is that entrepreneurship is prevented due to various issues. Some of them are marketing problems, input supply problems, enterprise management problems, legal and regulatory compliance issues, transportation issues, and limited access to business facilities and infrastructure.

While the first and the second phases of the DNP focus mainly on home gardening and food security issues of household members, the third phase of the DNP – cottage industry – focuses primarily on livelihood development. As explained in the previous section, this phase supports entrepreneurs to start up their own businesses. In this context, the third phase can be categorized as a programme which supports job creation through assistance for self-employment.

A specific feature of the DNP is that it provides a package of livelihood support, in contrast to many other programmes that provides only credit facilities or training. The DNP offers a wide range of facilities for its target group which include marketing assistance, training, technology and financial assistance. As previously noted, the process of livelihood support begins with a technology showcase and an awareness programme so that potential beneficiaries can select a suitable cottage industry. Beneficiaries are, therefore, better equipped to identify cottage industries suitable for them based on feasibility, their willingness, and the resources available to them.

In the second stage, the government conducts need assessments of beneficiaries. At this

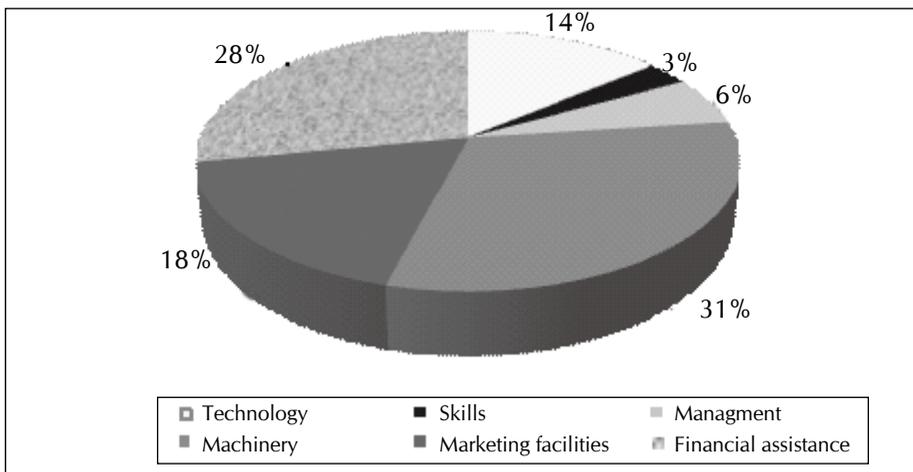
stage, beneficiaries can request for assistance from the DNP. In the third stage, beneficiaries are provided with necessary training and entrepreneurship skills development. These training programmes are conducted by existing vocational training institutes, such as the Small Enterprise Development Division (SEDD) of the Ministry of Youth and Skills Development, National Enterprise Development Authority (NEDA) and Vidatha Centres. The fourth step of the cottage industry development phase provides basic tools and raw materials to the value of Rs. 10,000 per beneficiary, as an outright grant. The final stage is to provide links with banks and financial institutions to assist in obtaining concessionary credit, and provide linkages to markets through sub-contracting arrangements and buy-back arrangements involving the private sector and NGOs to enhance the sustainability of the cottage industry. Private Banks such as DFCC and Hatton National Bank, and government bank such as Samurdhi Development Bank, Peoples' Bank and Bank of Ceylon, are involved in this programme. These banks provide loans with subsidized interest rates for cottage industries, includ-

ing loans to purchase vehicles such as 'Dimo Batta' and three-wheelers for business purposes. This is an important component of the DNP, as a lack of capital has long been identified as a key barrier for many small businesses to start and expand over time.

Another important constraint has been the availability of market facilities for entrepreneurs. The DNP provides marketing facilities for its beneficiaries so that they can more easily sell their products through the development of market places ('Sathi Pola') at a village level.

Considering the five steps involved in the third phase of the DNP, it can be concluded that it provides a comprehensive cottage industry development package to its beneficiaries, ranging from the identification of needs to marketing facilities. As can be seen in Figure 15.1, a need assessment conducted in the Colombo district proves that access to growing markets, new technologies, and appropriate training are often as important as financial facilities. Therefore, unlike other ALMPs operating in the country, the DNP

Figure 15.1
Assistance Required by the DNP Beneficiaries: Colombo District



Source: Ministry of Traditional Industries and Small Enterprises Development.

Table 15.1
Available ALMPs in Sri Lanka for Promotion of Self-Employment

Institution	Type of Institution	Available Programme to Promote Self-employment	Type of Assistance
Small Enterprise Development Division- Ministry of Youth Affairs	Government	Training courses in entrepreneurship and development of small businesses	Training
Ministry of Labour	Government	Microfinance Agriculture development programme Animal husbandry and fishery development programme	Microfinance
Samurdhi Authority	Government	Industrial development programme Marketing and services development programme	Microfinance, grants and training
Sarvoday Economic Enterprises Development Sector (SEEDS)	NGO	Microfinance for self-employment and small business	Microfinance and BDSs
Arthacharya Foundation	NGO	Start and improve your business - SIYB programme	Microfinance and counselling and training programme

Source: Adopted from Arunatilake, A., R. Jayaweera, and A. Wijesinha, (2008), "Review of Active Labour Market Programmes (ALMPS) in Sri Lanka", Institute of Policy Studies of Sri Lanka, Colombo, mimeo.

can be identified as a well-structured ALMP which addresses all the important issues faced by entrepreneurs in Sri Lanka.

Another important feature of the DNP is that it operates through government agencies involved in these activities. This helps coordination between stakeholders and reduces the overlapping between programmes.

15.4 Potential Impacts of the DNP

The potential impacts of ALMPs can be divided into two categories: macroeconomic impacts and microeconomic impacts. At the macro level, participation in ALPMs can reduce unemployment in the country. In addition, there are other ways in which ALMPs affect labour markets. Participation in ALMPs can enhance the efficiency of the matching process so that a given number of job-seekers is associated with fewer vacancies. This

increased efficiency can reduce the mismatch between the qualifications of job seekers and labour demand. It can also increase the productivity of the labour force. This is of course the explicit aim of training activities, but it can also result from on-the-job training in job creation measures, or subsidized employment. The effect of these productivity increases may extend beyond the participants in the programmes; there may be associated externalities that contribute to general productivity increases. On the other hand, ALMPs may help maintain the effective supply of labour and create more competition for available jobs, which will reduce wage pressures.

Sometimes, job creation programme may create the substitution effects on regular labour demand, as it becomes profitable for employers to replace one category of work-

ers with another. This reduction in regular employment might offset the direct job creation effects of ALMPs.

The DNP focuses only on the development of self-employment as a means of addressing unemployment in the country. Therefore, most of these macro level outcomes cannot be expected from the DNP. For instance, an effective matching process cannot be expected from the DNP as it does not include the normal training component by which participants can find employment. The DNP only provides training programmes related to the selected self employment.

At the micro level, the objective of supporting a self-employment programme is to increase the number of persons starting small businesses and improve the survival rate of firms that have started-up. Assessing the impact of the DNP is difficult owing to limitations of data and the nature of its implementation plan. The fact that the implementation is carried out in several steps adds to the complexities. Existing literature shows mixed results with regards to the micro level impact of ALMPs. For instance, some studies show that self-employment is of interest to a small sub-group of beneficiaries, where most pursued their businesses, and a half of these received income above the 'break-even' level.⁶ With regard to the survival rate of businesses, other studies show that the proportion of businesses started and are still operating stood at 42 per cent after one year and 29 per cent after two years.⁷ This suggests that better monitoring mechanisms are needed for the survival of newly started businesses as they cannot compete with well-established businesses in the market.

15.5 Conclusion and Policy Implications

While employment creation and skills development should be objectives of programmes such as the DNP, they should focus mainly on lagging areas, where available opportunities are more limited. According to the Labour Force Survey (2011) carried out by the DCS, around 23 per cent of the employed population in Sri Lanka is working as skilled agricultural and fishery workers, while another 20.6 per cent are working in elementary occupations. Out of those who are engaged in the agriculture and fishery sectors, 96 per cent are working in the informal sector. According to the HIES 2009/10 data of the DCS, almost a half of the heads of households in Sri Lanka are involved in elementary occupations that are not economically sound, and are more vulnerable to risks. Therefore, it is important to provide sustainable employment opportunities for poorer people in these districts. It will not only increase their household income, but it will also encourage more inclusiveness in Sri Lanka's development prospects.

Though the overall unemployment rate is low in Sri Lanka, youth unemployment and unemployment among educated females are higher. According to the LFS (2011), around 17 per cent of youth who are between 15 to 24 years of age are unemployed, and around 9 per cent of those who passed G.C.E (A/L) and above are unemployed. This rate is more severe among educated females. For example, 13 per cent of females who passed G.C.E (A/L) and above are unemployed. On the other hand, according to the LFS (2011), there are some districts where the overall unemployment rate is high. Previously, conflict-affected districts such as Killinochchi and Mannar record a higher rate of unemploy-

⁶ Wander, S. (1992), "Self Employment Programmes for Unemployed Workers", United States Department of Labor, Washington, D.C.

⁷ Brummelaar, J. and P. Gatenby (1992), "NEIS Evaluation: Intergovernment Component of NEIS", Department of Employment, Education and Training, Canberra.

ment. Some other districts also record a high percentage of unemployed people. For example, the Kandy district recorded an unemployment rate of 8.1 per cent.

The promotion of cottage industries through the DNP is one way of reducing the unemployment rate and ensuring the provision of good jobs. It can enhance entrepreneurial skills through training programmes, which take beneficiaries out of elementary occupations and into self-employment. With these objectives, the DNP should focus more on lagging districts where the numbers in elementary occupations and unemployment rates are higher. For example, in districts like Batticaloa, engagement in elementary occupations among heads of households is high. All districts in the Northern and Eastern Provinces should receive more attention as households in these areas are attempting to rebuild their livelihood activities after the conflict. On the other hand, districts where the female labour force participation is lower can also be focused on, with the introduction of cottage industries and agriculture support.

A thorough monitoring and evaluation (M&E) system should be included in the DNP programme to monitor the progress of supported cottage industries. As mentioned earlier, newly started businesses need monitoring and continuous support until they are stable, so that they can survive in the market. In most of the ALMPs in Sri Lanka, M&E is limited.⁸ According to the concept of microfinance, a one-time grant would not work in developing a business. Therefore, there should be a continuous process of financial services until newly started businesses are stable in the market. These financial services do not necessarily have to be in the form of a grant, but it can be a step-by-step loan process. Through this loan process,

businesses can be monitored to better ensure their sustainability.

There should also be coordination between the DNP and other livelihood improvement programmes. As the DNP is already implemented through different government agencies that support livelihood development, overlapping with similar types of other programmes is minimal. There are a number of NGOs that are engaged in this field, especially in the Northern and Eastern Provinces. For example, to support self-employment and small businesses, there are a number of microfinance institutions and programmes such as the North and East Coastal Community Development Project and Promoting Women Economic Leadership Programme, conducted by the SEEDS. In addition, training programmes are also offered by many NGOs, for example, the Arthacharya Foundation provides vocational training programme for its clients. Therefore, the DNP should coordinate with these programmes in order to avoid the implementation of overlapping programmes as well as overlapping beneficiaries. Given that many of these NGOs are already working through government agencies, avoiding such overlaps can be possible.

According to the concept of the DNP, it will contribute to raise and improve livelihood opportunities among poor people in rural and urban areas. To achieve this objective, the implementation process should be more efficient. The selection of the beneficiaries for cottage industries should be based on the quality of the business proposals, and other capacities of the beneficiary. Conducting a needs assessment is important in order to identify the needs of potential beneficiaries. In addition to that, identification of market needs is also pivotal, so that beneficiaries can cater to existing needs through their cottage industries.

⁸ Arunatilake, A., R. Jayaweera, and A. Wijesinha, (2008), "Review of Active Labour Market Programmes (ALMPS) in Sri Lanka", Institute of Policy Studies of Sri Lanka, Colombo, mimeo.