



# BUILDING RESILIENCE: PUBLIC INVESTMENTS AND SRI LANKA'S RURAL ECONOMY

*From the IPS flagship publication 'Sri Lanka: State of the Economy 2018 Report'*



In 2016, of the 20.7 million population in the country, 17 million (or 82 per cent) resided in the rural (16.1 million) and estate (0.9 million) sectors, implying that despite urbanisation and rural to urban migration, the rural economy remains an integral part of the economy. The rural and estate sectors are home to 92 per cent of the poor in the country. In addition, a large proportion of the population, mainly in rural areas, lives just above the poverty line making them highly vulnerable.

Rural employment is dominated by agricultural employment in Sri Lanka. In 2016, 30 per cent of the employed in the rural sector were in agriculture, while the corresponding statistics for the urban sector was only about 5 per cent. With around 69 per cent of the employed recorded in agriculture, the estate sector had the highest share of workers in

agriculture. But, this is not surprising, as by definition, the estate sector comprises plantations with more than 20 acres.

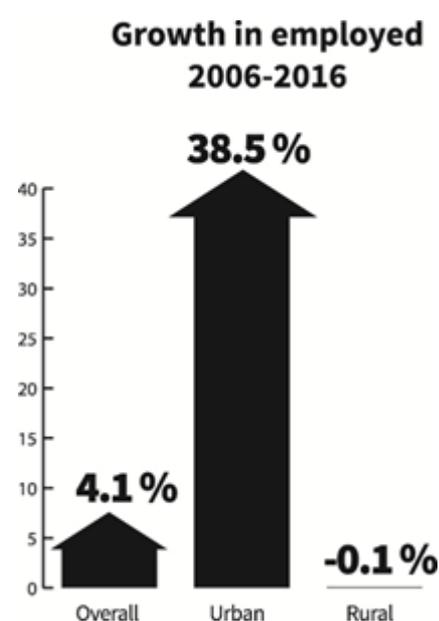
### Main Findings

In Sri Lanka, although a large share of the employed are engaged in the agriculture sector, the main source of employment in rural areas is the non-agriculture sector. Further, the importance of the agriculture sector as a source of employment has declined over time. The non-agricultural employment is a heterogeneous sector where the employment in construction, transport and communications, and commerce has grown over the 2003 to 2012 period. On average, the reliance of rural households on agricultural activities as an income source has declined over the years, while their dependence on wage and salaried work and on non-agricultural activities as sources of income has increased.

Education and skills, R&D, rural infrastructure, and irrigation can improve productivity of rural economic activities by reducing transaction costs and enabling greater access to input and final markets. Further, the evidence for Sri Lanka shows that the more educated participate more in economic activities, and the levels of labour market participation increases with education across all districts.

Access to infrastructure and irrigation is fairly high in Sri Lanka, but there is

room for improvement in some areas. The access to electricity in the country is very high, the road density and the quality of roads have improved substantially over the past years and a high number of households have access to telephone facilities. Further, close to a half of the farmers use irrigated water for cultivation. Better statistics on the benefits of investments in roads, irrigation and electricity facilities are needed to assess the impact of investments in infrastructure development as well as to identify areas with infrastructure gaps, so that public investments on infrastructure can be directed to areas where these are needed the most.



Employment opportunities available in rural areas are of lower quality and tend

to be in the informal sector where workers have less access to social protection. Although a few programmes have been developed to provide social protection to farmers, such as the pension scheme for farmers, fishers and the self-employed and the crop insurance programmes, these programmes are not effective due to poor designing.

## Policy Recommendations

Investments in education have the best potential for improving employment prospects for the rural population. Education will allow rural workers to migrate to urban areas more easily, as well as to improve the productivity of rural economic activities. The reason is that more educated workers are in a better position and able enough to adapt to new technologies, and make use of available information to improve the productivity and profitability of their enterprises. Although Sri Lanka performs well in access to education, available studies show that the quality of education can improve, especially in rural areas. Improving access to better quality, more labour market oriented education has/create the potential to improve incomes of rural people.

Public investment in R&D is very low in Sri Lanka, and further dissemination of information to farmers is also not happening efficiently. The productivity of agriculture can improve with better access to information. Improving the penetration of ICT in the country and devising means of disseminating information more effectively can help farmers to make informed decisions on

their agricultural practices to improve productivity.

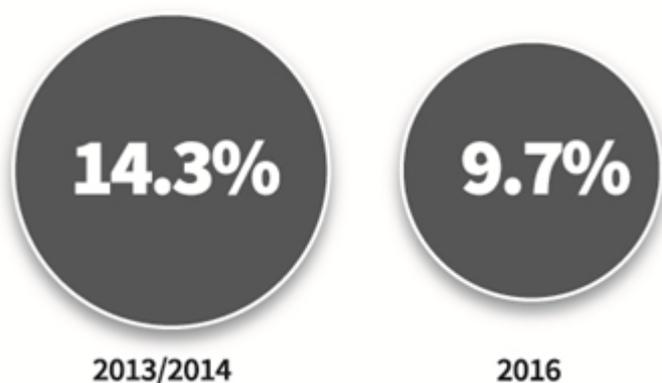
Given their geographical locations, rural farmers and entrepreneurs have little voice in making their needs known to policy makers. Better statistics for better understanding the specific issues facing different rural areas and strengthening farmer organisations can increase the visibility of the needs of farming communities. As access to infrastructure is fairly high in the country, further investments in infrastructure should be done after taking into account the needs of the farmers and the cost benefits of such investments.

As most social protection programmes available in Sri Lanka are targeted to formal sector workers, most of the rural

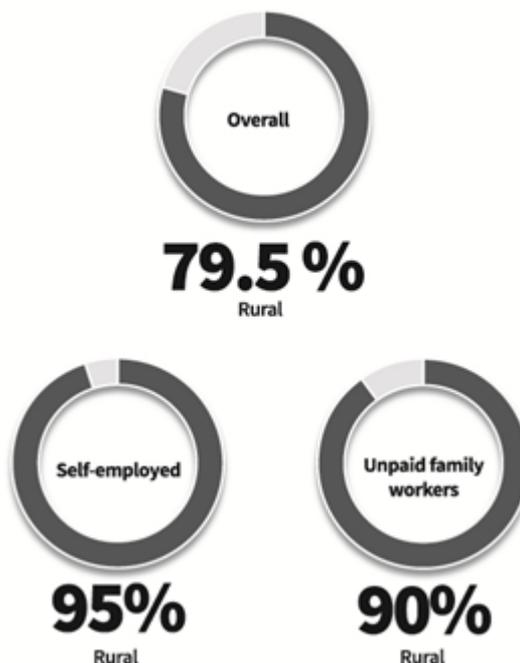
workers who work in the informal sector are not covered by these programmes. Some social protection programmes have been extended to the informal sector, but the performance of these programmes is not very good/in a satisfactory standard. Improving the design of the social protection programmes intended for those in the informal sector has the potential for improving the living standards of those in rural areas.

*This Policy Insight is based on the comprehensive chapter on "Building Resilience Public Investments: Public Investments and Sri Lanka's Rural Economy" in the 'Sri Lanka: State of the Economy 2018 Report' - the flagship publication of the Institute of Policy Studies of Sri Lanka (IPS). The complete report can be purchased from the publications section of the IPS, located at 100/20, Independence Avenue, Colombo 7. For more information, contact the Publications Unit on 0112143107/0112143100.*

## Average monthly household income from agriculture (%)



## Share of workers by sector



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