Rural Poverty and an Agrarian Crisis in Sri Lanka, 1985-95: Making Sense of the Picture

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and
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Rural Poverty and an Agrarian Crisis in Sri Lanka, 1985-93: Making Sense of the Picture

David Dunham and Chris Edwards

1. Introduction

There is evidence to suggest that a situation of crisis has been building up in the rural areas of Sri Lanka since the mid-1980s. The vast majority of the population (72 per cent in 1990) live in rural areas and, given the country's recent history of rural and ethnic unrest, the plight of the rural population is extremely important, both socially and politically. The crisis -- seen here as an agrarian crisis -- has been mounting against a backcloth of land shortage and low out-migration.

The land shortage is acute and, although there are no up-to-date figures on farm holdings, it is clear that they are extremely small, even if the level of landlessness is still comparatively low by South Asian standards. The latest reliable figures are from the Agricultural Census of 1982. They show that already, at that time, roughly two-thirds of paddy units -- the mainstay of rural subsistence -- were of less than two acres and 44 per cent less than an acre (DCS 1987: 16 and 37). The average size in both these categories had also declined markedly since the previous comparable census of 1962 (*cf.* DCS 1965). There is no indication that pressure on paddy land has eased since the early 1980s, and in many parts of the country it has almost certainly worsened (despite the settlement under the Accelerated Mahaweli Development Programme).

Seen against this stressful background, a number of worrying developments have taken place since the mid-1980s:

- real incomes from paddy production have stagnated, and by some estimates actually declined;
- there has been no significant movement out of paddy into higher-value crops; and
- there has been little growth of regular and remunerative off-farm employment.

It seems, then, that there is a structural agrarian and rural crisis in Sri Lanka and that rural incomes must have stagnated or even declined over the past decade. This is particularly the case if account is taken of the fact that the second half of the 1980s was a period of severe social disruption due to

the JVP[1] insurrection in the south and centre of the country and that throughout the 1985-1993 period there has been a civil war between the Sri Lankan government and the LTTE[2] that has particularly affected the North and East.

Given these factors, it would seem hardly surprising if rural incomes had deteriorated or that absolute poverty had increased. In the 1990s, there have been regular media reports of poverty and acute localised distress (even isolated suicides) amongst farmers in particular areas.

However, this picture of rural immiserisation does not tally at all with the picture painted by the World Bank in its recent Poverty Assessment report on Sri Lanka (World Bank 1995). Indeed, quite the contrary. The World Bank's report covers the period from 1985 to 1993 and argues that, far from there being an increase in absolute poverty over this period, there was in fact a significant decline.

This paper sets out to examine (in sections 2 to 6) the apparent contradiction between the conclusions of the World Bank's report and structural trends in rural Sri Lanka. It is contended that the World Bank's conclusions about recent poverty trends are seriously open to question, if not simply wrong. Having concluded this, the paper goes on to examine the World Bank's approach to the agrarian crisis (in section 7) and suggests, in the last section, that its policy conclusions on what to do about rural development in Sri Lanka are misplaced.

2. Rural Poverty in Sri Lanka -- the Picture Painted by the World Bank's Poverty Assessment Report

The 1995 Poverty Assessment report (PAR) of the World Bank is its first such study on Sri Lanka. The main conclusion of the report is that absolute poverty declined in Sri Lanka between 1985 and 1993. Here the concern is with rural poverty, but the World Bank's conclusion is the same for the rural areas as for the population as a whole, namely that absolute poverty declined over this period. The poverty reference point in the report is a consumption level of Rs 471 per person per month (at 1990/91 prices), roughly equivalent to the dollar-a-day per person (in local purchasing power at

[1] Between 1987 and 1989 rural-based insurgency led by the Janatha Vimukthi Peramuna (People's Liberation Movement) spread and brought almost all economic life to a halt in the affected areas, which included Greater Colombo, much of the rural south and large parts of the centre of Sri Lanka.

[2] Armed conflict between Sri Lankan forces and secessionist groups heightened from the mid 1980s and had developed into a large-scale military confrontation or civil war by the end of the decade. The secessionist rebellion was spearheaded by the Liberation Tigers of Tamil Eelam (the LTTE).

1985 prices) which the World Bank has adopted more widely as a measure of absolute poverty in its cross-country analyses (World Bank 1995: ii). **The proportion of rural households who were below the reference poverty line declined from 32 per cent in 1985/86 to 24 per cent in 1990/91** (*ibid.*: 7). A marked decline was also recorded in the 'poverty gap index', a measure of the 'depth' of poverty (see *ibid.*: 6 and 7). According to the PAR, the decline in absolute poverty in rural Sri Lanka was due in roughly equal parts to a growth in real average per capita consumption (an increase of 5 per cent over the period) and to an improvement in rural income distribution (with the Gini coefficient falling from 0.30 in 1985 to 0.28 in 1990), with a somewhat higher contribution from the latter (*ibid.*: 8 and 9).

According to the PAR, the poverty in Sri Lanka is not **gender-specific** (in the restricted sense that female-headed households in Sri Lanka -- about 20 per cent of the total -- are not markedly worse off than male-headed households) (*ibid.*: 25), it is not **location-specific** (in the sense that it is about the same in all regions except the Western region) (*ibid.*: 23), and it is not **ethnic-specific** (in the sense that it is about the same for Sri Lankan Tamils as for the majority Sinhalese (*ibid.*: *vi*). However, these findings need to be qualified by stressing that the data analysed by the World Bank excluded the North and East Provinces, containing about 15-17 per cent of the total population, because of the civil war (*ibid.*: i and 8).

The decline in absolute poverty in the rural areas was found to be statistically significant, and the largest fall to be amongst those working in the agriculture, forestry and fisheries sector (*ibid.*:24). Agricultural value-added had grown at roughly the same rate as the rural population, but the World Bank claimed that many of the rural workforce had moved out of agriculture with corresponding productivity gains amongst those who continued to be employed there (*ibid.*:10).

Box 1: Basic Data

Total population (1990)	17.0 mn.
Rural population (72%)	12.2 mn.
Rural poor (24%)	2.9 mn.
Poor rural households (at 5.4 persons per household)	0.5 mn.

Source: PAR and HIES 1990/91

The Bank argues that these estimates of poverty derived from consumption for the 1985-1990 period are supported by data on what it calls 'the human development dimension' (*ibid.*: *i*). First, there had been an observed decline in **infant mortality** from 34

per thousand live births in 1980 to 19 per thousand in 1990. Second, there had been a downward trend in the survey data for both **wasting** and **stunting** (although the report cautions readers about making inferences about nutritional trends on the basis of this evidence -- *ibid.*: 21). The percentage of children between 6 and 36 months who were **'wasted'** (those who had significantly low weight-for-height, reflecting acute undernutrition) had fallen from 15.9 per cent in 1979/82 to 14.3 per cent in 1993 *(ibid.: ii)* and the percentage of children who were **'stunted'** (those who had significantly low height-for-age, reflecting chronic longer-term undernutrition) had fallen from 31 per cent in 1979-82 to 22 per cent in 1993 (*ibid.*:19). This data on stunting was for the whole population (separate data for rural areas are not provided in the report) but, given the weight of the rural population in the total (72 per cent in 1990), it would be surprising if the data for rural areas were very different from the national average. However, it should be noted that for both wasting and stunting there was a rise between 1979 and 1989 before falling sharply to the 1993 figure and it also needs to be noted that these percentages are high by international norms *(ibid.: ii).*

Thus it seems, according to the World Bank's PAR, that absolute poverty declined in rural Sri Lanka between 1985 and 1990. In addition the report goes on to contend that absolute poverty declined further over the period between 1990 and 1993. It bases this, not on survey material but on arguments that per capita real consumption rose by an average of 1.7 per cent per annum over the period and that the distribution became more rather than less equal. The latter is based on a number of assumptions and assertions:

- that growth was broad-based in manufacturing (from labour-intensive garments exports), services (which were also relatively labour-intensive) and in the agricultural sector (with sharp growth, in 1993 in particular);
- that the real wages of unskilled workers went up over the period (*ibid.*:15 and table 1.8);
- that there had been a steady increase in private transfers (mostly remittances) from 1985 onwards (despite a short, temporary decline in the wake of the Gulf War) and that they in turn benefited the poor (*ibid.*:14); and
- that social spending was protected *(ibid.: abstract).*

Thus, according to the World Bank's PAR, we get quite a different portrayal of rural poverty from that which emerges from these brush strokes of an agrarian crisis. **The PAR claims that rural**

poverty declined in absolute terms between 1985 and 1990, and that it continued to do so between 1990 and 1993.

3. The Agrarian Crisis in Sri Lanka

Three elements are central to the proposition that real incomes in the peasant sector have been stagnant, or have even declined, since the mid-1980s:

- trends in incomes from paddy production;
- the limited success that has been achieved in crop diversification and in extensive agricultural development; and
- the extremely slow rate of job creation in the rural non-farm sector.

With the poorest households forced to rely heavily on farm activities and more especially on paddy, and with no evidence of a significant growth in income in the paddy sector, the incidence and the depth of poverty are unlikely -- according to this account -- to have shown improvement. On the contrary, the situation seems likely, if anything, to have remained unchanged or to have deteriorated. This section explores the argument that there is an agrarian crisis and that the poor have suffered.

3.1 Incomes from paddy

Paddy is the main peasant crop in rural Sri Lanka, and it provides part or at least seasonal employment for about half the rural labour force. However, rural households are more likely to be poor if their members are employed only in agriculture (World Bank 1995:27), and it is the poorest households that rely heaviest on paddy production for their cash incomes and subsistence (Ranaweera *et al.* 1993). What has been happening to paddy incomes therefore seems a particularly appropriate starting point for a discussion of the changes in rural poverty. A broad indication of recent trends is given in Table 1. This excludes the Northern and Eastern Provinces to facilitate comparison with the World Bank PAR data.

The table shows that, in recent years (1992-93), average gross incomes from paddy have fallen considerably (by 17 per cent in constant price terms) compared with the early 1980s (1981-83).

However, the decline has not been even. By the mid-1980s, they already appear to have declined -- the real farmgate price of paddy had fallen by almost 20 per cent. From then on, average yields stagnated and eventually declined; real prices recovered somewhat in 1990-91 (in a mini boom after the end of the JVP insurgency in November 1989), only to fall back again in 1992-93. The figures in Table 1 show that since 1990-91, paddy farmers have on average had less paddy at their disposal from a plot of any given size and have been receiving a lower real price per kilo. Over the 1980s and into the 1990s, the government did little to support the paddy price through government marketing. Between 1981 and 1993, the Paddy Marketing Board bought less than 5 per cent of total production and the support price was consistently well below the average farmgate price (see Shilpi 1995: table 1.2). The rice price was supported by tariff protection but the 23 per cent **decline in the real rice price in Sri Lanka** between 1980/82 and 1990/92 merely echoed a 40 per cent decline in the **world price of rice** over the same period (see Edwards 1993: 48).

Table 1:
Average real gross earnings from paddy
(excluding the north and north-east) in 1982 prices

Period	Average paddy yield (MT/ha)	Av. real farmgate price (in 1982 prices) (Rs/kg)	Real gross earnings (Rs 000/ha)
1981-83	3.36	3.3	11.1
1985-86	3.48	2.7	9.4
1990-91	3.50	3.0	10.5
1992-93	3.28	2.8	9.2

Source: Average yields are estimated from Department of Census and Statistics, *Paddy Statistics*, (published seasonally); average real farmgate prices are the product of producer prices deflated by the GDP price index; producer prices are estimated from monthly district data of the Department of Census and Statistics published in the *Bulletin of Selected Retail Prices* (various years); real gross earnings are the product of the previous two columns. All figures exclude Jaffna, Kilinochchi, Mannar, Vavuniya, Mullaitivu, Batticaloa, Amparai and Trincomalee Districts (see World Bank 1995:23 footnote 22).

Given the weakness of paddy yields and prices, it is not surprising to find that the incomes of poor rural households do not appear to have been supplemented by an increase in work as hired labour on paddy production. *Cost of Cultivation* surveys of the Department of Agriculture from 1984 to 1993 show relatively stable or declining hired labour inputs per acre of paddy in the (nine) districts on which a relatively complete time series exists, with the sole exception of Kalawewa in the Mahaweli area which saw increased hired labour use in both *maha* and *yala*, and of rainfed production in Kurunegala in the *yala* season (see Appendix 1). Given this decline in the demand for

hired labour, it is perhaps somewhat odd that real wage rates for hired labour on paddy appear to have risen (see Appendix 2). However, the latter do not seem to have offset a decline in employment on paddy since real expenditure per acre on hired labour reveals a stagnant or downward trend (with the sole exception of Kalawewa -- see Appendix 3).

Thus, while the figures in Table 1 support the view that, comparing 1985-86 with 1990-91, there was some improvement in average real incomes from paddy farming, they also seem to suggest that it was no more than a temporary phenomenon. The broader picture is one of long-term decline that was unlikely to have been reversed by casual employment as paddy labourers.

3.2 On-farm diversification and extensive agricultural development

However, even if real incomes from paddy declined, this could still be consistent with a fall in the incidence of rural poverty. Poor producers could have moved out of paddy production and into higher-value crops either on former paddy land or on previously uncultivated land.

So has that been the case? The brief answer is 'yes, but not very rapidly'. There has been a decline in the sown area under paddy -- by 11 per cent between 1984-86 and 1991-93 (Central Bank 1993: table 12). And the declining share of paddy in agricultural GDP (from 28 per cent in 1985 to 23 per cent in 1991, but then up again to 24 per cent in 1993) suggests that there was on-farm diversification in the second half of the 1980s, although the decline in the share of paddy was also in part accounted for by a modest (9 per cent) increase in the real value of tea production. National accounts data show that value-added from "other agriculture" rose by a massive 30 per cent in real terms between 1985 and 1991 (though mainly in 1990 and 1991), and from 42 per cent to 48 per cent of agricultural GDP (CB 1990 and CB 1994: table 3). **However, there is considerable doubt in Sri Lanka about the National Accounts figures for 'other agricultural output' and a significant diversification is not confirmed by sectoral and area studies**. The latter suggest that the progress of on-farm diversification has been chequered, concentrated mainly in *yala,* and in general slow (PMU 1991; Dunham 1992; World Bank 1995a). There are indications that only the few farmers with significant assets were inclined to experiment and to diversify production substantially.

Nor does homestead cultivation appear to have blossomed significantly. Since 1990-91 there have been some efforts to make homegardens more productive but little, if any, real progress was recorded in the second half of the 1980s. As Moore (1990: 17) has argued:

> *"most rural households have de facto or de jure secure rights to the land on which their house stands, and at least a few square metres on which to grow a few useful trees and shrubs. This provides security against the worst destitution... It does not however provide livelihoods for the poor".*

The situation he describes would seem to have been generally the case, and what happened to home gardens could not have made the difference.

Evidence on the additional employment created through crop diversification is extremely flimsy. However, the Department of Agriculture's *Cost of Cultivation* surveys on subsidiary foodcrops provide no evidence of any increase in hired labour per acre over the second half of the 1980s, though there were some increases in area -- in onions, potatoes and green gram in particular (Dunham 1992:14). The one notable exception was bombay onions where hired labour inputs rose sharply, though the area cultivated remained small and comparatively localised, and the additional employment is unlikely to have had any real impact in national terms. In the case of red chillies, which was by far the most widespread crop, there was no discernible increase recorded, and inputs of hired labour by the 1990s were less than a third of those recorded in *Cost of Cultivation* surveys in the north and east in the early 1980s. Overall, the evidence suggests that for both subsidiary foodcrops and non-traditional export crops (such as, for example gherkins), the increase in hired labour input in the second half of the 1980s was small. **In sum, crop diversification does not appear to have been a major new source of income for the rural poor.**

Nor was the picture altered significantly by **extensive** agricultural development -- that is the opening of new land for cultivation. In Sri Lanka, there has been considerable opening up of new land especially in the context of the Accelerated Mahaweli Development Programme. Between 1980 and 1993 some 75,000 households were settled in the Mahaweli area (3 per cent of rural households or roughly 10 per cent of poor rural households if all recipients were poor, which was not at all the case). Of these, just under 31,000 were settled in the period 1980-84; just under 21,000 in 1985-89; and just under 25,600 in 1990-93. In other words, the rate of settlement was slowest during the 1985-93 period when the World Bank argues that the poverty level went down, although

there could well have been a lagged effect, with the gains of earlier settlement only becoming apparent once the colonists were established. However, there is no evidence that many of these settlers escaped from poverty. Scudder and Wimaladharma (1989:4) characterised the Mahaweli after many years of systematic survey and analysis as *"a largely subsistence level paddy monocrop economy, with low yields, low average incomes, little or no savings, with emergent conditions of absolute poverty and increasing disparity in the distribution of income"* (quoted in Wanigaratne *et al* 1991: v). A more recent Project Monitoring Unit report on System C in the Mahaweli confirms this analysis. In *maha* 1989/90 and 1990/91 it recorded declining labour inputs (both hired and household) and little evidence of a corresponding increase in activities other than paddy (Wanigaratne *et al.* 1991:24). Nor does there appear to be other evidence of any marked reversal in these trends between 1991-93.

Outside the Mahaweli areas, there was little scope for the poor to gain access to additional land. If anything, the occupation of marginal lands is likely to have lowered average productivity and the scope for encroachment and for extensive (*chena*) cultivation is severely limited.

Thus it seems that not only have incomes from paddy production declined, but both intensive and extensive non-paddy agricultural development have been insufficient to compensate.

3.3 Rural non-farm incomes

If rural farm incomes have not been rising, another possibility is that more poor rural households, or more members of poor households, have succeeded in finding employment outside agriculture in non-farm activities, in this way augmenting their income.

Unfortunately little is known about the level or quality of rural non-farm incomes. It is clear that in the 1980s many poor households had plots that were too small to subsist on, and that non-farm employment could account for 40 per cent or more of rural household incomes (Bandaragoda 1989; ILO 1991; Ranaweera *et al.* 1993; World Bank 1995a), but whether these incomes were sufficiently important to be an obstacle to poverty remains uncertain. What is known is that much of the income almost certainly originated from temporary, low productivity (and thus low wage) employment (see

Alailima 1991: 23). In the early 1980s, some 80 per cent of rural non-farm employment came under the heading of services (Hewavitharana 1992) and it is not clear that this proportion has been reduced significantly. Most rural non-farm enterprises are known to have been very small-scale -- typically one or two workers who were often family members (Hewavitharana 1989; Finucane 1994); secure employment was limited; and possession of even small plots of land constrained geographical mobility.

Even less is known about the trends over time in rural non-farm income and whether rural non-farm employment (and incomes) increased in the second half of the 1980s. There is little firm evidence on real wage rates in the rural non-farm sector (and almost no evidence at all on the informal sector). The World Bank found that rural wage rates rose in the organised sector (where they are subject to Wages Board legislation) over the 1979-93 period; how fast they rose depends on the choice of deflator, but they almost certainly increased (World Bank 1995:14). By contrast, Alailima (1990) argues that they kept up with the cost of living, but that there was no marked increase and Finucane (1994:14) found no real increase in real wages between 1989-93 in the Mahaweli areas. Indeed he suggests that the rural labour surplus may be "*sufficient and sufficiently mobile to offset any tendency for real wage increases*" (*ibid.*: 15). How far this may have been true elsewhere or have been true earlier is even more uncertain. Moore (1990:16-17), however, suggests that wage rates have in general tended to deteriorate over recent decades because people have continued to stay back in the rural areas, generating increasing competition for limited rural job opportunities.

The World Bank Poverty Assessment report (PAR) argues that there was a significant movement out of agriculture between 1985 and 1990 (1995:10). This could take the form of a movement out of rural areas altogether or a movement into rural industrialisation. Migration out of the rural areas is examined in section 4 but it seems to have been small. Could rural industrialisation have been important? It is very hard to say. Survey data record no great increase in industrial employment in the second half of the 1980s (NPD 1995: table 2.1), and Board of Investment (BoI) data show new investments in that category to have been heavily concentrated within the area of Greater Colombo (*ibid.*:table 7.1). There seems to be no information available on rural informal sector manufacturing. However, Finucane (1994:3) makes the point that "*as most sales by (rural) microenterprises are for household consumption, the level and character of market demand for their products and services is most influenced by real per capita incomes in the areas, particularly farm incomes*". If the contention

that real farm incomes were in long-term decline is correct, it seems unlikely that any substantial level of meaningful employment was being created from this source.

The limited information available suggests that the significant increase in rural employment was in the 1991-93 period, generated most visibly under the **Two Hundred Garments Factory Programme (THGFP).** In 1990, a Cabinet sub-Committee recommended that garment factories should be opened in provincial areas other than the Western Province to meet the high unemployment levels in those areas. Some factories were opened under this scheme but, in late 1991, the attempted decentralisation went further. In early 1992, the 'THGFP' was launched under a plan to set up one garment factory in each of 200 Pradeshiya Sabhas (AGA Divisions). A major incentive for setting up a THGFP factory was the allocation of quotas under the Multi-Fibre Arrangements (MFA), with the allocation being greater (and more valuable), the more isolated the site. Three types of site were identified, namely non-difficult, difficult and most difficult.

There is some dispute about the number of factories that actually became operative and about the number of workers they employed. Edwards (1996: 11) found that just under a hundred factories were in operation by May 1993. The Board of Investment gives the figure as 184 as of 1 February 1994 (NPD 1995: table 7.4) while in 1994/95 quotas were being allocated to 161 factories under the THGFP (Edwards 1996: 23). Similarly, while each factory was supposed to employ at least 500 workers, the Ceylon Chamber of Commerce (CCC 1994) found that, at the end of 1993, some 97 factories had 400 operatives or less, whereas in 1994 the average was 442, giving 77,000 in total (Edwards 1996: 9).

The situation is therefore unclear. However, if -- to get a sense of scale -- the (20 per cent of) factories in non-difficult areas, which were essentially urban locations (BOI 1993) are excluded; 80 other factories are assumed to have been operative by 1993; if it is assumed they had on average 400 workers each; that 75 per cent of their employees were from poor rural households; and that no poor family had more than one worker in such employment, then the THGFP would have supplied them with 24,000 jobs and would have provided a job to one in every 25 poor rural households. This was clearly no mean achievement and may have made a substantial contribution to offsetting rural

poverty.[3] However, it is important to note that this particular form of rural industrialisation did not develop until after 1990.

3.4 Summary

Together, three objective factors seem to signal a situation of deepening crisis in the Sri Lankan countryside:

- prices have moved against paddy and average yields have stagnated, with falling real returns per family labour day in paddy and little or no discernible increase in the availability of casual labour in the paddy sector;
- on-farm diversification out of paddy into other crops has been extremely limited, generating little additional employment, and extensive development has been limited; and
- rural non-farm employment has grown very slowly, at least until after 1990.

Given the already high incidence of rural poverty, these three factors indicate an agrarian crisis since the mid-1980s. Moreover, they reflect not only a production crisis -- but also a social crisis. Declining incomes, limited opportunities, poor facilities and poor standards of living in the rural areas have created an unattractive environment, particularly for young people. At the same time, most of these young people (even the better educated amongst them) have few real alternatives. The absence of off-farm employment means that there is a growing number of people relying on small farms with fragmented holdings, rising person-land ratios and declining real returns per family labour day.

In sum, then, there is a situation where the World Bank's PAR suggests that rural (non-estate) poverty has been declining since the mid-1980s, a position which flatly contradicts the view that there is an agrarian crisis. So, how can these views be reconciled or the anomaly explained? There are four possible candidates that can be put forward to account for the contradiction between them. The first possibility is that there was sufficient out-migration from rural Sri Lanka to reduce poverty in the face of immiserising conditions. The second possibility is that there were income transfers into the rural areas (whether or not associated with out-migration) to compensate for the immiserising forces. These two possibilities are examined in the next section. The third possibility is that the

[3] It is assumed, for example, that a factory had 400 workers, each receiving a salary of Rs. 2,500 a month, then there would have been an injection of Rs. 1 mn. a month into the local economy if all the income were spent there.

agrarian crisis is a myth. This possibility is examined in section 5. The fourth possibility is that the World Bank's PAR is wrong -- 'below par' -- a possibility that will be taken up in section 6.

4. Explaining the Contradiction? -- Injections into the Rural Areas

This section looks at some of the possible ways of explaining the seeming contradiction between the World Bank's Poverty Assessment report on the one hand, in which it is argued that rural absolute poverty declined from 1985 to 1993, and on the other the apparent emergence of an agrarian crisis over the same period. It looks first at the level of out-migration, which might have relieved the land pressure in the rural areas, in section 4.2 at the transfer of income into the rural areas from private remittances, in section 4.3 at transfers into the rural areas from the public purse and, finally, in section 4.4 at transfers relating to employment in the armed forces.

4.1 Out-migration from rural Sri Lanka

Has there been out-migration from the rural areas and has it been on a sufficient scale to compensate for the (otherwise) immiserising trends that are claimed to have been established? This out-migration could take the form of migration from the rural to urban areas[4] or out of Sri Lanka altogether. It could also take the form of permanent or semi-permanent (for more than a year) migration or it could be in the form of commuting to urban areas and therefore temporary. First, attention will turn to permanent and semi-permanent migration and then to commuting.

It is not entirely clear from the available statistics whether significant out-migration took place from rural to urban areas in the second half of the 1980s and in the early-1990s, but looking at the **share** of the total, there does not seem to have been significant out-migration. The rural population holds its position. The 1985/86 *Labour Force and Socio-Economic Survey* (LFSS) put the rural population of Sri Lanka at about 78 per cent of the total while the *Household Income and Expenditure Survey* (HIES) of 1990/91 put it at about 79 per cent, an insignificant change over the five years. Thus the non-urban percentage does not seem to have changed. This conclusion is supported by the World Bank PAR which (on the basis of a three round sub-sample) estimated virtually no change in the

[4] The official definition of 'urban' comprises population within the area of urban or municipal councils. Areas that would be considered urban by other definitions (such as, for example, all settlement of over 5,000 inhabitants) are still categorised as 'rural'.

rural (this time, non-estate) percentage of the total population (**excluding the North and East Provinces**). In both 1985 and 1990 it was about 72 per cent (1995: 8). Nor is there any significant change from 1991 to 1993, since the *Labour Force Survey's* quarterly returns record 79 per cent of the population as rural (this time including estates) in both the 4th quarter of 1991 and the 4th quarter of 1993.

Certainly, there has been a significant increase in the number of Sri Lankans migrating to **overseas** employment. Again the figures are hazy, but it does seem as though the stock of Sri Lankan migrants overseas doubled from just under 250,000 in 1985 to just over 500,000 in 1993 (see Box 2). Thus the net increase over the 8-year period was more than 250,000. In 1990, the rural non-estate population was about 72 per cent of the 17.0 million total or about 12.2 million. Thus, even in the implausible event that the whole of the addition to overseas migration was from the rural areas, it would be equivalent to no more than about 2 per cent of the rural non-estate population. This would have been a significant change, but would it have been sufficiently large to relieve the pressures on poverty? It is doubtful. Remittances from overseas may of course be a different matter and they are examined in section 4.2.

So, where does all this take the argument ? There seems to be some evidence of a drop in the rural (non-estate) population in the late-1980s and early-1990s, but no evidence of mass exodus. Of course, the fact that there was no large out-flow could help support the view that there was no, or at least very little **'push'** effect. In other words, it could be argued that households were **not** being driven out of the rural areas by an agrarian crisis. On the other hand, it could equally provide support for the view that the **'pull'** effect of the urban economy was weak -- it could be consistent with the view that *"there is not only an agrarian crisis but a more general crisis in the Sri Lankan economy*". It may also be that there has been increasing immiserisation in the rural areas but that good social/welfare services in rural areas, combined with the lack of job expansion in the urban areas, deterred a mass exodus from the rural, non-estate, areas.

However, the exodus does not need to have been permanent or semi-permanent (over a year) to have relieved the pressure in the rural areas. It could have been relieved by **daily or weekly commuting from the countryside to urban areas.** Whether an increase in commuting has taken place is even more difficult to estimate than the other trends examined in this paper. Given the

recent upsurge in private minibuses and vans in the rural areas, it may have been made easier, and it also hinges on the rate of urban job creation which will be examined later. What is clear, however, is that manufacturing and service employment continues to be heavily concentrated in urban areas, and more especially Greater Colombo (Richardson and Guild 1995). A large number of these workers commute. Some 80 per cent of those employed in Colombo are said to be commuters, and the proportion is believed to have remained fairly constant, although a constant proportion of an increasing number. If this is true, then commuting into Colombo and its satellite urban areas must also have risen steadily. However, the majority appears to have taken place within Colombo, Gampaha and Kalutara Districts (from within or around the borders of Greater Colombo itself). How much has been from rural areas remains uncertain. There has been some migration of labour to factories in the Export Processing Zones but, given the fact that just under 35,600 jobs were created island-wide in all Board of Investment approved projects in the second half of the 1980s (Central Bank, *Bulletin*, December 1994: table 74), factory employment is unlikely to have been a major source of additional employment for the rural poor during the course of that period. There is even less information available on commuting to towns in other parts of the country, but there is no evidence to suggest that it has provided a major source of additional employment.

4.2 Transfers of income into the rural areas from overseas

It has already been seen that there was a sharp increase in migration overseas between 1985 and 1993. As a percentage of the rural population, this increase is small (at most just over 2 per cent) but its effect on the alleviation of rural poverty through remittances could have been considerable. Certainly, the World Bank in its Poverty Assessment report thinks so. The Bank argues that private transfers from abroad were high and were continuing to climb throughout the 1980s -- from 3.4 per cent of GDP in 1980 to 4.8 per cent in 1992 and 5.3 per cent in 1993 (World Bank 1995:14). It went on to argue that,

> *"the extent to which private transfers from abroad went to households in the lowest deciles of the household income distribution is not known. However it is known that many migrants come from poor families, and hence it is likely that the poverty-reducing impact of these transfers has been quite significant"* (World Bank 1995: 14)

This section takes a closer look at the issue. Though the increase in private transfers as a proportion of GDP was relatively small over the 1985-93 period, what matters here is the **additional** income that flowed into the rural areas and how much of this went to the absolutely poor in the rural areas. It is likely to be of little surprise that the available statistics are shaky.

The stock of overseas migrants seems to have risen from under 250,000 in 1985 to over 500,000 in 1993 (see Box 2). These figures are derived by dividing the total remittances into Sri Lanka by an average remittance per migrant equivalent to Rs 58,000 p.a. at 1993 prices and by assuming that the remittance remained constant in US dollar terms in the other years.

How much of the remittances went to the rural areas? It would seem from the Central Bank's *Consumer Finance and Socio-Economic Survey (1986/87*:515-6) that rural receipts were 55 per cent of the total, that is, less than the rural, non-estate share in the total population which can be assumed to be 72 per cent *(see LFSS 1985/86* and *HIES 1990/91*). Given these figures, the average remittance to each rural person can then be calculated. This needs to be reduced to real terms and from this the share of the remittances going to poor rural households needs to be estimated. Table 2 shows the effect of some assumptions.

Table 2:
Estimated remittances from overseas migrants to the rural poor

Year	Total transfers (Rs bn) (1)	Rural receipts (55%) (Rs bn) (2)	Mid-year population (mn) (3)	Rural population (72%) (4)	Rural receipts per capita/ month (Rs.) (5)
Current prices:					
1985	7.9	4.3	15.8	11.4	31
1990	**16.1**	**8.9**	**17.0**	**12.2**	**61**
1993	30.6	16.8	17.6	12.7	110
In 1990 prices (deflator = CCPI):					
1985	14.4	7.9	15.8	11.4	58
1990	**16.1**	**8.9**	**17.0**	**12.2**	**61**
1993	21.5	11.8	17.6	12.7	77
75% of income to the poorest three deciles:	(75% of the above)			(30% of the above)	
1985	10.8	5.9	15.8	3.4	146
1990	**12.1**	**6.6**	**17.0**	**3.7**	**149**
1993	16.1	8.9	17.0	3.8	194

Sources: Data on private transfers is taken from Central Bank, *Annual Report,* 1994; mid-year populations from DCS, *Statistical Abstracts*, 1994.

Box 2: Data on Overseas Migration from Sri Lanka

1. Wages and remittances (micro-estimates)

	Share (%)[a]	Wages per month[c] (Rs.000) (1993)	Wage per year (Rs.000) (1993)	Remittance as a % of gross wage[d] (1993)	Average remittance (Rs.000) (1993)
Housemaids	61[b]	4.7	56	50	28
Other unskilled	13	8.0	96	40	39
Skilled	26	30.0	360	23	83
Total/weighted average	100	11.7	140	42	58

Sources:

a. De Silva *et al.* 1995:12.
b. Jayamaha (1995:3) puts this at between 60% and 70% for 1991-93.
c. Wages per month for 1993 estimated from de Silva *et al.* (1995:17). Jayamaha (1995) and Marga (1995:69) put the figure for maids at Rs.5,000 - Rs.6,000.
d. De Silva *et al.* 1995:28.

2. Remittances and implied migration (macro-estimates)

Year	Private remittances (Rs. bn.)	Rs./$ exchange rate	Private remittances ($ mn.)	Implied stock of migrants (000)	GDP (Rs. bn.)	Transfers as a % of GDP
1985	7.9	27.2	290	242	162	4.9
1986	8.9	28.0	318	265	179	5.0
1987	10.3	29.4	350	292	197	5.2
1988	11.4	31.8	358	299	222	5.1
1989	12.8	36.1	355	295	252	5.1
1990	16.1	40.1	401	335	322	5.0
1991	18.3	41.4	442	368	372	4.9
1992	24.1	43.8	550	459	425	5.7
1993	30.6	48.3	634	528	500	6.1

Sources:
Private remittances are from Jayamaha (1995). GDP at current prices is from the Central Bank, Annual Report, 1995, table 5, statistical appendix.
The implied stock is calculated by reference to an average remittance in 1993 of Rs.58,000 (see above). Remittances in other years are assumed to be the same in dollar terms, that is Rs.58,000/48.3 or US$ 1201 -- say US$1200 p.a.

3. Remittances to whom ?

Income group (Rs.p.mth.)	Percentage of migrant families
<1000	23
1000-3000	36
>3000	41
Total	100

Source:
De Silva *et al.* (1995:47) based on a 1993 survey. But how many of these are poor? If poor families are defined as those with less than Rs.471 per capita for 1990 -- or Rs.471 x 5.4 (the average family size of poor households being 5.4 in the HIES) = Rs.2543 per household. And if this figure is then increased by 40% to allow for inflation between 1990 and 1993, this gives a poverty threshold per household of Rs.3560 p.a. (in 1993 prices). On this basis, well over 60% of the remittances would have gone to poor families. The Marga report of 1995 is ambiguous on the topic. On page 157 it suggests that "the majority of migrants appear to be in households above the poverty line", on page 158 that 38% of the migrants migrated to "satisfy basic needs", while in its survey data on page 45 it suggests that the vast majority of the (female) migrants came from "absolutely poor" households.

The figures in Table 2 err on the cautious side and they are more likely to overestimate than to underestimate remittances to the rural poor -- though remittances as recorded in the Balance of Payments statistics are also likely to be an **understatement** of the true level of remittances, albeit by a relatively small amount by international standards, estimated at no more than about 13 per cent (see de Silva *et al.* 1995: 34-35).

Moreover, the figures in Table 2 suggest that, although the volume of the cash inflow into rural areas was substantial and must have helped to reduce poverty, the ***additional income*** per capita between 1985 and 1990 does not appear to have been significant in real terms (although it does appear to have been more significant for the 1990-93 period). So, even if the increased income were heavily concentrated amongst the poor (as assumed in the table and as the Bank seems to suggest), it is likely to have made very little difference to changes in the incidence of poverty especially over the 1985-90 period. The figures given above for remittances by migrants to the rural poor are almost certainly on the high side. The 1986/87 *Consumer Finances and Socio-Economic Survey* (CFSES) of the Central Bank (Part II: tables 3.130 and 3.135ff), for example, recorded very few transfers from abroad to the bottom three deciles of income receivers in rural areas. Roughly a quarter of all emigrants are also known to have been males (Ariyawansa 1989), most of whom were from skilled or semi-skilled trades (such as drivers, carpenters or electricians) and therefore less likely to have been poor. And not all migrants came from rural areas, let alone the poorest areas. Korale (1985) found that, in the early 1980s, 60 per cent of migrants came from Colombo or Gampaha Districts (a point supported by Jayamaha 1995), although the situation seems to have been changing (Marga 1995). Five, predominantly rural districts that recorded a high incidence of rural poverty in the mid-1980s accounted for only 8.2 per cent of all migrants -- a pattern that seems to be borne out by the zonal income tables of the CFSES 1986/87. On the other hand, the study by de Silva *et al* 1995 suggests that more than half of the migrants come from the poor households (see Box 2).

In Table 2 it is assumed that 75 per cent of the rural receipts went to the rural poor (the bottom 30 per cent compared to the 24 per cent identified as the rural poor in the World Bank's PAR). In other words (75 per cent of 55 per cent or) 41 per cent of total remittances are going to the 30 per cent poorest of the rural population.

This 41 per cent figure seems on the high side if we compare it with the figure obtained from another direction. If it is assumed (again conservatively) that half the migrants come from poor rural households and that the average remittance of these migrants is Rs 30,000 a year (in 1993 prices) which was the average for unskilled migrants (see Box 2), then remittances to the rural poor in 1993 would have been about Rs. 8 bn or about 26 per cent of the total (see Box 3).

Thus the 41 per cent of remittances going to the rural poor assumed in Table 2 would appear on the high side. The evidence is necessarily crude but it does serve to give a sense of perspective. It suggests that migration and return remittances were unlikely to have played a major role in the reduction of rural poverty in the second half of the 1980s.

Box 3: An alternative estimate of overseas remittances to the rural poor

• Total overseas migrants	528,000
• Migrants from poor rural families (half of the total)	264,000
• Average remittance of these poor rural migrants (Rs p.a).	30,000
• Total remittances to the rural poor (Rs.bn) derived from the above rows	7.9
• Total remittances to Sri Lanka in 1993 (Rs bn) derived from Central Bank figures	30.6
• The percentage of the total remittances going to the rural poor is therefore	26%

Comparing 1990 with 1993, the situation is different. Remittances rose sharply in real terms, with a much faster increase in average real income per capita per month from such transfers in the rural areas (from Rs. 61 to Rs 77 per month -- again in 1990 prices, using the initial assumptions and the CCPI as the deflator). If it is again assumed for this period that 75 per cent of all rural receipts went to the poorest 30 per cent, then the average monthly real income per capita of the rural poor would have risen by Rs. 45 (in 1990 prices) from Rs.149 to Rs.194, which could well have had a significant impact on rural poverty since Rs. 45 is more than 9 per cent of the Rs. 471 per month poverty reference income.

4.3 Transfers of income into the rural areas -- from poverty programmes

Could public transfers and subsidies net of taxation have played an important role in reducing rural poverty? In the World Bank's PAR, four programmes were considered that were designed to assist the poor:

- the Poor Relief Food Stamp Programme (FSP -- 0.7 per cent of GDP in 1992);
- the Jansaviya Programme (JSP -- 0.7 per cent of GDP in 1992);
- the Mid-Day Meal Programme (MDMP -- 0.4 per cent of GDP in 1992); and
- programmes for the Destitute Poor (less than 0.1 per cent of GDP in 1992).

In this section, the first and second are examined because they were the most important.

The FSP. This programme dates back a long way in the sense that it had a predecessor in food subsidies which, in the mid-1970s, had accounted for as much as 5 per cent of GDP. The main food subsidy programme was the rice ration scheme, but there were also generalised subsidies on bread. The rice ration had provided every Sri Lankan national with a ration of the staple food (rice) at free or subsidised prices. In 1978 the coverage of the ration was restricted to the poorest half of the population. In the next year (1979) the scheme was replaced by the FSP which covered the same population but at a lower transfer rate. By 1980, the government had removed all other subisidies on food. By 1984, the fiscal cost of food subsidies had been reduced to just 1.3 per cent of GDP. In 1992 it was 0.7 per cent of GDP

However, 1 per cent of GDP was the equivalent, in 1990 figures, of Rs 3.2 billion. In the same year, the rural population would have amounted to 72 per cent of 17 million or 12.2 million, and the poorest 30 per cent of the rural population would have been 3.7 million. If the whole of the FSP expenditure had gone to the rural poor it would have been equivalent to Rs 865 per capita per annum or about Rs. 72 per month. This amounts to about 15 per cent of the poverty reference income. Clearly, the FSP could have played a significant role in alleviating rural poverty and it is worth looking at it in more detail to see who the beneficiaries were and how much was actually received by them.

On the first point, it is worth noting that in 1986 the number of recipient **households** stood at 1.5 million and in 1991 it was 1.3 million (World Bank 1995: 67). These figures are probably about double the number of rural poor (the World Bank's PAR 1995: 68 talks about the poor comprising roughly 40 per cent of the recipients in 1990) so that the benefit per poor rural household was probably no more than about half of the above Rs. 72 figure (or Rs. 36 per month).

Box 4: Transfers Under Food Subsidies and the Foodstamps Programme

Year	Total transfers (Rs mn.)	
	Current prices	1990 prices
1985	**1514**	**2704**
1986	1549	2582
1987	1666	2563
1988	1895	2561
1989	3932	4795
1990	**5122**	**5122**
1991	4023	3592
1992	4466	3573
1993	**4558**	**3256**

Source: Central Bank, Annual Reports

It is not clear what the net amounts received by beneficiaries have been. The World Bank's PAR (1995: 68) talks about the average household benefit in 1992 being Rs 170 per household per month. On the basis of about 5 people per household this would amount to Rs 34 per capita per month, very close to the figure of Rs. 36 per month.

It seems clear therefore that the FSP was significant in reducing the **level** of rural poverty, but since it was reduced over the 1985 to 1989 period it seems unlikely again to have contributed to a **decline** in poverty between those years. In real terms, it was increased in 1989/90, and for a while would have contributed more, before falling sharply again from 1991 onwards.

The JSP. There is little doubt that the Janasaviya Programme also helped in reducing poverty, if only because the grant was large in relation to the average income of the poor (60 per cent of the World Bank's poverty line per household). But could it have had much real effect by 1990? The first round of the JSP covered 127,000 households (15 per cent of those eligible) and it began in October 1989. The second round did not begin until December 1990. JSP transfers could at best, therefore, explain only a very small part of the reduction in poverty revealed by the Bank's comparison of surveys. The only (three) monthly rounds of the 1990/91 HIES available to the World Bank team at the time of its study were those for June-August 1990 (World Bank 1995: annex 2).

These may have captured Round 1 consumption outlays, but income gains could not have been indicative of any structural change in the situation of the poor. And even this is uncertain. A survey of the Women's Bureau (1991) found that nearly 30 per cent of beneficiary households in Round 1 had incomes of over Rs 1,500 a month before entering the programme (quoted in World Bank 1995:69). Survey data of Seneviratne and Senanayake (1991) also suggest that, in the first round, the net effect on household income was not always positive.

Box 5: Transfers Under the Janasaviya Programme

Year	Total transfers (Rs bn.)	
	Current prices	1990 prices
1985	-	-
1986	-	-
1987	-	-
1988	-	-
1989	705	860
1990	**2,912**	**2,912**
1991	3,407	3,042
1992	3,098	2,478
1993	**3,647**	**2,605**

Source: Central Bank, Annual Reports

Significant effects were again more likely to have been felt in the 1991-93 period as the programme began to take hold. Rounds 2 to 4, which took place in December 1992 and continued beyond the end of 1993, aimed at 305,000 households, and significant lessons had by that time been learnt with regard to more effective targeting.

4.4 Transfers of income into the rural areas -- recruitment for and compensation from the war

A final possibility is that remittances from personnel in the armed forces and the compensation that is paid for being killed, missing or wounded in action has represented a significant inflow of funds to the rural poor. Here again, the information available is extremely thin, but the broad contours of what has been happening can be pieced together (see Box 6). It seems clear, for example, that recruitment increased significantly (by almost 50 per cent) in the second half of the 1980s, but then very much slower between 1990 and 1993. If we assume that roughly 80 per cent of these personnel were in the lower ranks (privates, ordinary seamen and aircraftsmen) and from rural poor households, then their numbers would have increased from about 40,000 in 1985 to roughly 56,000 in 1990 and to roughly 64,000 in 1993. Take-home pay would also appear to have risen sharply in real terms during the second half of the 1980s, after which it appears to have remained fairly steady up to the end of 1993.

Box 6: Military Recruitment, Transfers and Rural Incomes

1. Pay and remittances

	Numbers in the armed forces (000)	Estimated no. of privates or equivalent rank	Estimated total pay (Rs. bn in 1990 prices)
1985	50	40	0.9
1990	70	56	2.0
1993	80	64	2.2

Notes:: Since 1988 the pay of private and other equivalent ranks (with allowances) is estimated to have been just under Rs 3,000 a month in 1990 prices. In 1985, it is assumed to have been about Rs.1,900 per month (1990 prices). The proportion of private soldiers or equivalent ranks is assumed to have been 80% of the total. There were also said to be 10,000 recruits under training and 22,000 "deserters" towards the end of this period.

Sources: "*80,000 under arms in Sri Lanka*" (Sri Lanka Monitor, December 1993). Other sources are confidential.

2. Compensation

	Number killed or missing in action (000)	Number wounded (000)	Compensation (Rs mn in 1990 prices) ... for MIA or KIA	...for WIA	Total
1980-85	0.3	0.2	8	3	11
1986-90	2.4	1.3	60	16	76
1991-93	3.9	5.5	98	69	167

Sources: *Counterpoint*, April-May 1995:11. According to this source, the total KIA, MIA or WIA (including about 8,000 civilians and 26,000 terrorists) between 1981 and 1993 was just over 48,000 of which about 24,000 were wounded. Another source states that "*the war has claimed 32,000 lives since 1983*" (Sri Lanka Monitor, December 1993 -- again presumably on all sides).

Compensation was given in the Sunday Observer, 23 March 1997, as Rs 50,000 for the loss of a husband and Rs 25,000 for the loss of a son. Other sources give Rs 75,000, but here we have assumed a sum of Rs 50,000 for KIA or MIA and half of this is assumed to be payable for WIA. In 1990 prices, the compensation for being KIA (or MIA) is assumed to be Rs 25,000 and for WIA to be Rs 12,500.

3. Effects on the rural poor

	Pay remitted by private soldiers or equivalent rank (Rs bn in 1990 prices)	Annual income of the rural poor (Rs bn. in 1990 prices)	Remittances as a % of income
1985	0.9	18	5
1990	2.0	18	11
1993	2.3	18	13

Compensation that could be assumed to have been paid between 1985 and 1990 and between 1990 and 1993 is a negligible proportion (less than 1%) of the income of the rural poor. The rural population in 1990 was 12.2 mn, of which 30% (or 3.7 mn.) are assumed to be poor (i.e. with an income of Rs 471/person/month or Rs 5,650/person/year or less). Assuming an average income for the poor of Rs 5,000 in 1990, this gives an annual income for the rural poor of about Rs 18 bn.

Remittances (assuming all of it was remitted and remitted to rural areas) must therefore have risen significantly between 1985 and 1990 -- from approximately Rs 0.9 bn. to Rs 2.0 bn., after which the rate of increase would have slowed -- to reach about Rs 2.3 bn. in 1993. Again, assuming all these transfers went to the poorest 30 per cent, this was the equivalent of roughly Rs 20 per capita/month (or 5 per cent of the reference poverty income of Rs 471) in 1985, rising to Rs 44 (or 11 per cent) in 1990 and to Rs 53 (or 13 per cent in 1993). These figures may tend to overestimate transfers to the rural poor (because not all recruits were from rural areas or from amongst the rural poor), though it is also quite likely that some from the rural poor attained slightly higher ranks. There is no information on this. However, it is clear there was a sharp increase in the level of transfers in the second half of the 1980s, and that it could have contributed significantly to the decline in poverty.

In addition to this, compensation was paid to the families of armed forces personnel who were killed, missing or wounded in action. Here again the information available is very imprecise, but the sum involved does not seem large. It increased sharply between 1985 and 1990, and then doubled again between 1990 and 1993. But even by the latter date it amounted on average to less than Rs 4 per capita/month (or less than 1 per cent of the reference poverty level), even if all the lost and wounded had been from the rural poor (which would seem unlikely). The aggregate impact of compensation would therefore appear to have been negligible.

4.5 Summary

Though there are data limitations and areas of considerable uncertainty, outmigration and the injection of funds from outside into the rural areas do not seem to offer a convincing explanation of the way the incidence of rural poverty could have declined between 1985-90 in the face of an apparent agrarian crisis.There is no evidence of a significant outflow from rural to urban areas. Out-migration to jobs abroad certainly rose, and rose quite remarkably, but even if they had all been from rural areas (which was not the case), they would have accounted for no more than 2 per cent of the rural non-estate population. Similarly, while the numbers of people commuting has also increased, the rate of urban job creation has been slow and there is no evidence to show that it has opened major new sources of additional income (especially during the years of the insurgency).

By contrast, remittances from abroad and from anti-poverty programmes were found to have made a significant contribution to the reduction of poverty. However, in the case of remittances

from abroad, there was found to be no real **increase** in the inflows per capita between 1985 and 1990, so it is difficult to argue that it was a major factor in the **decline** in poverty between those years. And in the case of food subsidies and foodstamps there was a steady decline in their real value from 1985-88 and from 1991-93, and it was only in 1989-90 when they were revalued that there was any recovery. The Janasaviya programme only began in earnest in 1990, and it could not be said to have had much effect on poverty before that date. Again, transfers associated with the war, while significant, were less important than remittances from overseas.[5]

5. Explaining the Contradiction -- Is the Agrarian Crisis a Myth?

One possibility that has to be considered in looking at the contrasting viewpoints that have emerged regarding the rural situation in Sri Lanka is that the 'objective factors' that were seen to be behind the crisis were not at all objective and that the agrarian crisis was a myth. This section, reconsiders the earlier argument with that possibility in mind.

5.1 Paddy incomes

Two potential sources of error stand out in the analysis of paddy incomes: the choice of **deflator** and the underlying **methodology** that was used to estimate trends. Each is examined in turn. First the choice of **deflator**. Moore (1990) has argued that the choice of deflator is critical in such an analysis, so could it be that an alternative deflator would have yielded very different results? Table 3 re-estimates the average gross real earnings per hectare of paddy that were given earlier in Table 1 (for all districts except the north and north-east) using a range of different deflators. The exercise confirms the earlier results. Regardless of the choice of deflator, gross real earnings prove to have been markedly lower in 1992/93 than a decade earlier. Between 1985/86 and 1990/91, they rose when the GDP deflator and the CCPI were used, but fell using the domestic component of the WPI. Whatever the deflator, gross real earnings from paddy had declined quite sharply during the early 1990s. There is no reason therefore to believe that our earlier analysis has been biased by the use of an inappropriate deflator.

[5] A summary of remittances and transfers is contained in Section 8 of this paper.

Table 3:
Changes in gross income obtained using DCS prices (excluding the North-North-east) and GDP deflators and alternative price deflators, all in 1982 prices

Deflator	Gross Earnings per Hectare (Rs.'000)				% change	
	1981/83	1985/86	1990/91	1992/93	1985/86 to 1990/91	1990/91 to 1992/93
GDP	11.1	9.4	10.5	9.2	+11.7	-12.4
WPID	11.3	10.0	9.8	9.0	-2.0	-8.2
CCPI	10.6	9.3	9.9	8.4	+6.5	-15.2

Source: Deflators derived from the Central Bank, *Annual Report.*

The second, more important problem is one of **methodology**. Are gross earnings per hectare (defined as the average yield times the average producer price) an adequate measure of what has been happening to paddy incomes? It could justifiably be argued that variations in the area put down to paddy in any given year and costs of production have also to figure in any such analysis, and that their inclusion could result in a more favourable picture. To test this, an attempt was made to estimate trends in real net incomes from paddy under a given type of water use using seasonal net income data from the DoA *Cost of Cultivation* surveys (deflated by the CCPI) and the harvested extent under the same form of irrigation given in the DCS *Paddy Statistics.* Both were expressed as indices (the average of 1984-85 and 1985-86 = 100) and the product of the two was taken as an indicator of the likely trends in real net income from paddy. The results for those districts for which there was adequate time series are shown in Table 4.

Table 4 again confirms the conclusions of the earlier analysis, though the fact that the analysis is by district reveals interesting differentiation. Real net incomes are found to have increased between 1985-86 and 1990-91 -- in all cases except rainfed production in Galle and Gampaha (rising markedly in all the irrigated areas and in rainfed areas of Kurunegala). And all areas record a subsequent decline after 1991 (sometimes an equally sharp one). All rainfed areas record much lower incomes in 1992-93 than in the mid-1980s and, with the sole exception of Kurunegala, they reveal a steady decline in the harvested area. Average net income data of the *Cost of Cultivation* surveys (expressed in constant prices) also reveal that in no area, and at no time in the study period from 1984/85 to 1992/93 could a family of five have met the World Bank's poverty level of Rs 471/capita/month for the year from an acre of paddy land -- though one acre was already the average size of holding in the 1982 Agricultural Census. It was only in 1989/90 that all the irrigated

areas in Table 4 could have reached it with two and a half acres (see Appendix 3) -- the only consistent results being in Kurunegala where the average size was much less.

Table 4:
Indices of real net incomes from paddy
(by type of irrigation, average 1985-86 = 100)

Statistical district	Average 1985-86			Average 1990-91			Average 1992-93		
	Price index	Area index	Inc. index	Price index	Area index	Inc. index	Price index	Area index	Inc. index
IRRIGATED:									
Polonnaruwa	1.00	1.00	**1.00**	1.00	1.42	**1.43**	0.96	1.38	**1.32**
Kalawewa	1.00	1.00	**1.00**	1.70	0.93	**1.58**	1.42	0.77	**1.10**
Kurunegala	1.00	1.00	**1.00**	1.25	0.97	**1.20**	1.12	0.90	**1.00**
Hambantota	1.00	1.00	**1.00**	1.54	1.04	**1.59**	1.30	1.06	**1.38**
RAINFED:									
Galle	1.00	1.00	**1.00**	0.75	0.93	**0.69**	0.57	0.79	**0.45**
Gampaha	1.00	1.00	**1.00**	0.96	0.91	**0.87**	0.85	0.66	**0.56**
Kalutara	1.00	1.00	**1.00**	1.29	0.85	**1.09**	1.11	0.79	**0.88**
Kurunegala	1.00	1.00	**1.00**	1.07	1.19	**1.27**	0.71	1.17	**0.83**
Kandy	1.00	1.00	**1.00**	1.23	0.93	**1.15**	0.83	0.81	**0.68**

Note: Real net income (Inc. index) is defined as the product of two indices:
(i) net return per acre by district and type of irrigation, taken from DoA, *Cost of Cultivation Surveys,* converted into 1990 prices using the CCPI, and expressed as an index with the average for 1985/86 = 100 (price index); and
(ii) the gross extent harvested for the same district and irrigation type taken from the DCS, *Paddy Statistics,* and expressed as an index in the same way. *Maha* and *yala* figures are calculated separately and then aggregated for the agricultural year.

Since the irrigated area (here that under major schemes) accounts for only roughly 45 per cent of the paddy area in Sri Lanka and for a considerably smaller proportion of all paddy producers, these figures seem to underline the inadequacy of paddy incomes and to confirm the fact that those who had to rely on paddy were the most likely to be in poverty. Clearly, there was an improvement in incomes (primarily in irrigated areas) between 1985/86 and 1990/91 (two years used in the Bank study), but it does not appear to have been enough to have lifted many out of poverty. There also appears to have been a reversal of this trend in most areas during the subsequent years. What was happening in other sectors of the rural economy is therefore the crucial issue when it comes to explaining trends in the incidence of rural poverty. From the standpoint of paddy incomes, the notion of agrarian crisis does not appear to be a myth.

5.2 Agricultural diversification

But is the earlier conclusion that on-farm diversification was too limited to have had a significant impact on the incidence of poverty equally warranted? A major obstacle in trying to form any clear picture of changes in cropping patterns on peasant holdings (let alone poor peasant holdings) is the patchiness and limited reliability of the data available. Marked discrepancies exist between the figures from different sources. Central Bank data on 'other foodcrops' (obtained from the Ministry of Agriculture and published in the Bank's *Annual Report*) reveal no significant increase in either area or output between 1985 and 1993, with the exception of three crops -- maize, big onions and green gram. DCS data record expansion in the area and output of green gram between 1985 and 1991, but after that a decline; it presents an opposite trend to Central Bank data in the case of maize, and it does not cover big onions (DCS, *Statistical Abstracts*). Data from *Cost of Cultivation* surveys (though very sketchy) suggest declining real net incomes per acre for both maize and green gram. The data on big onions is very incomplete, but they involve a very small area. Potatoes record a substantial increase in real net income (after 1991 in particular) but they were highly localised and the acreage was again small. Red onions recorded sharp increases in some years, only to fall back in others. Overall, therefore, the picture with regard to 'other foodcrops' (OFCs) -- in as far as it exists -- is one of relative stagnation, with a mixed performance for individual crops but no widespread gains. Wanigaratne and Perera (1991) refer to a "plateau condition" in Mahaweli areas in the second half of the '80s, and the evidence seems to suggest that it may have existed more generally (if only because many OFCs proved insufficiently remunerative). The DCS volume index of highland crop production (DCS 1995:163) was the same in 1990 as in 1985, and there is no indication that the poor would have benefited any better than others. Indeed, some crops such as onions in Puttalam District were under highly commercialised production.

The evidence on non-traditional exports is in many respects similar. There was an almost fourfold increase in the volume of vegetable exports between 1985 and 1990 but the growth was from a very small base (less than SDR 2 million). Most of the progress also took place **after** the economic reforms of 1989/90,[6] and some of the most successful areas of the subsequent expansion (such as cutflowers and plants or fruit juices) did not rely on poor peasant producers. The most important crop for poor households has probably been gherkins, which again took off in 1989/90 (though it

[6] The Sri Lankan Government embarked on a second wave of stabilisation and liberalisation measures in 1989/1990 which included a much enhanced package of incentives for private sector (and especially corporate) investment. On this see Dunham and Kelegama 1997.

had been started earlier). However, at its peak (in 1993) gherkin production was undertaken by very much less than one per cent of all peasant households; real net incomes appear to have declined between 1990 and 1993, and to have been highly skewed (Dunham 1995) with most of the net incomes going to the richer farmers. **It seems unlikely, therefore, that crop diversification was a major contributor to the decline in poverty.**

Taking a broader perspective, the World Bank Poverty Assessment report (1995:10) argues that value-added per capita in agriculture must have gone up between 1985 and 1990 because the value-added in agriculture grew at the same rate as the rural population, and employment in agriculture rose more slowly than population growth. However, value-added in the plantation sector declined by 11.5 per cent over this period, as did value-added in paddy. The World Bank's argument is therefore only true if the recorded increase in "other agriculture" (by 30 per cent in real terms between 1985 and 1991) can actually be substantiated **and** if it also benefited the poor. As the data in this section shows, this is by no means certain.

5.3 Rural non-farm incomes

Have household incomes from non-farm employment been increasing faster than anticipated? The non-agricultural employment that appeared to have been created according to the World Bank's statistics is unlikely to have been generated locally. Calculations in Table 5, which is based on World Bank data, show that the observed decline in agricultural employment between 1985/86 and 1990 (based on the two surveys it analysed) required the creation of between 500,000 and 600,000 new jobs between those years, or roughly 100,000 a year. Meaningful and remunerative employment was not created at this rate in the domestic economy. It is possible that part of the explanation for the data inconsistencies lies in the high rate of net out-migration to the Middle East -- in the range of about 50,000 a year over the 1985 to 1990 period -- but these people would not have been caught in DCS labour force surveys.

Table 5
Implicit non-agricultural employment, 1985-90

Variable	1985/86	1990	Comment
1. Population employed (millions)	5.1	6.0	(World Bank 1995: 13, table 1.7)
2. Rural population (%)	72.5	72.5	(*ibidem*: 8, table 1.5)
3. Rural employed (millions)	3.7	4.3	(1)*(2)
4. Percent employed in agriculture	45.1	40.5	(*ibidem*: 10)
5. Percent employed in non-agriculture	54.9	59.5	
6. No. employed in non-agriculture (Mn.)	2.0	2.6	(3)*(5)

So what was the source of these jobs in the domestic economy ? Clearly, some rural non-farm jobs were being created, especially after 1989/90, but not at a significant rate. In total, some 30-35,000 rural jobs appear to have been created in the 1991-93 period under the Two Hundred Garments Factories Programme, but there is no evidence that employment in other smaller-scale industries expanded any faster than the annual increase in the workforce, and tourist employment actually declined. Additional employment, especially over the 1985-90 period, must therefore have come primarily from the non-registered or informal sector. Here too the evidence is limited, but it suggests that it was likely to have had only a marginal impact on rural poverty. Finucane's survey (1994:20) of Mahaweli areas in 1992 shows that microenterprises (1-2 person ventures) accounted for 92 per cent of the total, on average yielding net incomes of Rs 350 to Rs 700 a month (or Rs 12-25 a day). For both the "owner" and for hired wage labour, day rates were found to be far lower than for agricultural labour, suggesting low productivity and a standard of living that was less than adequate. It suggests that many poor households who were encroachers, or second generation settlers, or technically inefficient as farmers, or who were simply unlucky were forced to turn to microenterprises just to eke out an existence. This pattern is also likely to have been happening more widely, and Hewavitharana (1989:10) speaks of people "piecing together a living" from farming and non-farm activities, with the latter comprising a proliferation of last resort activities. It is possible therefore that what was being observed in the non-farm sector was in large part a distress adaptation, as the poor were forced into self-employment serving a "poverty market".

5.4 Demographic factors

Another possibility is that more members of poor rural households were working. The World Bank report argues that there was a rise in the average employment ratio between 1963 and 1990 (from 27.3 per cent to 35.1 per cent over the 27 years), and that this can be explained by three factors (World Bank 1995:13), namely:

(a) by demographic changes -- by a decline in the proportion of the population that was under 10 (the result of a declining fertility rate);

(b) by higher female participation rates (FPRs); and

(c) by a roughly constant unemployment rate.

However, the period over which these changes were seen to have taken place was almost three decades (1963-90). What, therefore, can be said of the more immediate past? The proportion of the population under 10 years of age fell from 22.1 per cent 1985/86 (LFSS) to 21.6 per cent in 1990/91 (HIES). The proportion of the rural population was slightly higher at 22.6 per cent in 1985/86, but there is no comparable rural figure in the published HIES reports. Nevertheless, these figures do not suggest that demographic changes were really a factor in the short-term. Looking at the later, 1991-93 period, Quarterly Labour Force Surveys (QLFS) confirm a declining proportion of the All-Island population (excluding the North and East) below 10 years, down from 17.7 per cent to 17.2 per cent, between the third quarter of 1990 and that of 1993. But they also, interestingly, record a **declining** labour force participation rate, from 52.3 per cent to 49.1 per cent. However, they do record a decline in rural unemployment from 14.3 per cent to 12.6 per cent between 1990 and 1993 and a sharp increase in the proportion of the rural employed working more than 50 hours per week (from 14 per cent to 23 per cent). This would seem to suggest that jobs were being created, and that it was not so much that the participation rate had changed as they worked longer hours.

However, there does appear to have been an increase in female participation rates in the 1980s, although here again the evidence is ambiguous. Alailima (1991: 23) argues that female wage employment "did not increase at a rate commensurate with their increased participation". Only 35 per cent of the increase, it is argued, was in paid employment -- the rest was in unpaid family labour

and own account work: such was the necessity to find work that many women were "thrust into casual and informal sector employment" which was unlikely to have been very remunerative. Jayamaha (1995:11) suggests that significant numbers of women subsequently dropped out of the labour force after a period when they were unable to find work in their own area. Looking at the later period, 1991-93, Quarterly Labour Force Surveys record a **fall** in female participation rates, from 38.8 per cent in the third quarter of 1990 to 35.6 per cent in the third quarter of 1993. Unemployment rates were also higher for women than for men (World Bank 1995:27, confirmed by the LFSS), although the major cause of rural poverty would seem to be not so much unemployment but low wages. This is supported implicitly by Kelly (1992:3) who points out that only about 6 per cent of poor household heads were unemployed (*cf* World Bank 1992; Edirisinghe 1990).

5.5 Summary

There do not, therefore, appear to be concrete grounds for doubting the earlier conclusions, though there are definite areas of uncertainty. As far as **agriculture** is concerned, there seems to be no ambiguity. **The situation has been one of mounting crisis**. With regard to non-farm incomes, it is impossible to make any hard conclusion based on the data available, but there is room for debate about the extent and quality of the employment that was created in the second half of the 1980s. The period of insurgency was not one of economic expansion, and even after 1990 there are indications that much of the off-farm employment was distress-induced.

6. Explaining the Contradiction -- is the Bank's PAR Below-Par?

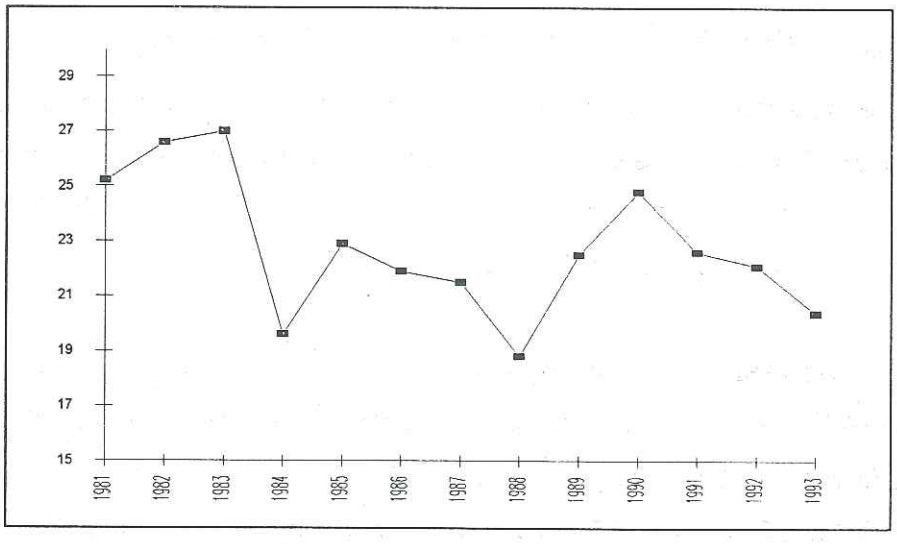
Another possible explanation for the apparent conflict between the declining poverty over the period between 1985 to 1993 as indicated by the World Bank's Poverty Assessment report and the apparent structural immiserisation in the Sri Lankan countryside is that the **World Bank report is wrong**. This possibility is examined briefly here.

No detailed and systematic evaluation was made of the survey data that the World Bank relied on for its 1985 to 1990 conclusion. **However, the argument here is not that the data are wrong but that the periodisation that is used gives a misleading impression.** The years of the two surveys used (the 1985/86 LFSS and the 1990/91 HIES) were in many ways unfortunate, given the task at hand, because 1985/86 was at a downturn in the rural economy whereas 1990/91 saw a mini-boom

following the end of the insurgency and following new policy initiatives. The period from 1990 to 1993 then probably saw a worsening distribution of income instead of the improvement **assumed** in the World Bank report.

The claim that the surveys of 1985 and 1990 give a false impression can be seen from the gross real earnings from paddy shown in Figure 1. This shows that 1985, the year of the first LFSS survey, came after a sharp decline in real paddy incomes between 1983 and 1984 during which there had been very little by way of crop diversification and little discernible growth in non-farm employment. (Mahaweli employment during the construction phase appears to have been much less than previously thought -- Jogaratnam 1995). There was then a further three years of decline (during the period of the JVP insurgency) after some gains in 1985, and a mini-boom after 1989/90 (leading up to the year of the second survey which the World Bank uses). In 1990, gross real earnings from paddy were about 10 per cent up on the 1985 figure. Then, as Figure 1 shows, between 1990 and 1993 gross real earnings from paddy fell by almost 20 per cent. It is perhaps not surprising, therefore, that the survey data for 1990 show a drop in absolute poverty between 1985 and 1990. What is important is whether this can be seen as a significant reversal of the long-term trend, or whether the 1990 data reflected a temporary state of affairs. Figure 1 suggests that it was temporary.

Figure 1:
Real gross incomes from paddy 1981-93
(Rs.000 per ha.)



7. Agricultural Policy and Poverty Reduction -- the World Bank Scenario

Though disagreement exists about what was happening to rural (absolute) poverty in Sri Lanka over the period 1985-1993, there is a general consensus that it affected a large proportion (20-25 per cent) of rural households and that agricultural growth was far too slow to have had any significant impact. In the broad sweep of history, the expansion of non-agricultural employment and the movement of workers to remunerative jobs in other sectors of the economy will have a crucial role to play in reducing poverty. But, in the contemporary Sri Lankan context -- with 80 per cent of poor households in rural areas and with a relatively slow rate of labour absorption in non-agricultural activities, what happens in agriculture itself is of major social and political importance. So how can the agricultural sector be made more dynamic? How can it create higher farm incomes, generate more (direct and indirect) employment in rural areas, produce cheaper food, and make inroads into the extent of poverty? This section examines the World Bank's answers, and in the next offers comments and a brief critique of its position in the light of the earlier analysis. There are suggestions that the analytical dispute that has been traced is not just a matter of numbers, but runs deeper and has direct implications for public policy.

The World Bank's views on agricultural policy and its implications for rural poverty in Sri Lanka are outlined in two major documents: the Poverty Assessment report of 1995 and -- in much greater detail -- the Nonplantation Crop Sector Policy Alternatives report of 1996. The **Poverty Assessment** report (PAR), which is in many ways the more measured of the two, stresses the importance of continued adjustment and broader-based growth in the Sri Lankan economy, and emphasises agriculture and labour-intensive manufacturing (*ibid.*: 29). In agriculture, it stresses diversification from paddy into higher-value crops and into livestock, forestry and fisheries (*ibid.*: vii and 49). However, for this to be achieved, three sets of issues were identified as constraints to be overcome: (i) issues related to the absence of a well-functioning land market; (ii) the need for further privatisation of the treecrop sector (an issue that is not discussed here);[7] and (iii) existing agricultural trade policies and state intervention in marketing (*ibid.*: vii and 43-49). It added that continuing public support was also necessary (albeit better focussed to make it more efficient and more equitable) in agricultural research and extension, infrastructural up-grading and human resource development as were institutional reforms relating to the Mahaweli Authority (*ibid.*: 49-50).

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[7] On this see Dunham *et al.* 1997.

The **Nonplantation Crop Sector Policy Alternatives** report (NCSR), published just over a year later, is confined explictly to agriculture and looks at poverty reduction as a concomitant of better agricultural policies. It is a much more uncompromising document that sees the key to growth very largely in the creation of an effective land market (World Bank 1996: 25-30) and in much less state intervention in trade and pricing policies (*ibid.*: 8-18).[8] On the one hand, a well-functioning land market is considered necessary to collateralise land and to enable low productivity farmers to get out of agriculture without abandoning their asset base (*ibid.*: 29). While, on the other, increased farm size is considered essential for specialisation and for the growth of commercial farming that is necessary to generate incomes comparable to those in the non-farm sector (*ibid.*: 37). Public sector support should be made cost-effective, and where possible and appropriate transferred to the private sector. However, concessional credit programmes should also be designed to provide targeted input-financing to subsistence farmers to make them commercially viable (*ibid.*: 23-25).

The two reports therefore present very similar arguments. The absence of an effective land market is seen to be perpetuating very small holdings, and to be precluding the economies of scale and specialisation that are essential for long-run sector performance (PAR: 47-49; NCSR: 8-18). Inefficient paddy production is seen to be protected by tariffs and subsidies on non-traded inputs (especially irrigation) which do not help the poor. And an effective land market and the removal of price distortions is advocated to encourage the diversification into more profitable crops that can yield higher incomes and to facilitate the emergence of professional farmers who can generate agricultural employment. In the meantime, Sri Lankan farmers are seen to be condemned to poverty by the absence of a land market and by the opportunity cost of labour (which favours off-farm employment) through being part-time paddy producers (because the labour requirement for paddy is so much lower than for other crops). Those who currently rely on agriculture (whether as farmers or workers) are seen to be doomed to poverty.

8. Analytical Approaches and Public Policy

Our discussion in this section is not intended to provide a detailed critique of the World Bank's scenario for Sri Lankan agriculture -- nor indeed would that be entirely relevant in the context of

[8] The World Bank argues that the Government earns about 55% of non-plantation crop land and that there is, as a result, only a limited market in land (see NCSR paragraphs 15 and 16). It is alleged that the Land Development Ordinance is particularly restricted in irrigated Dry Zone areas.

the present discussion on rural poverty. What it argues is that the somewhat stylised approach that the Bank has adopted pays insufficient attention to the specificities of the Sri Lankan context and leads to misplaced conclusions. It looks at the Bank's position on agricultural policy (which was presented *inter alia* as a means of reducing poverty) in the light of the contention that there is an agrarian crisis in Sri Lanka.

The PAR's argument is rooted in the evidence of the two comparable large-scale surveys that were available (those of 1985/86 and 1990/91). The conclusion drawn from the comparison is that the incidence of poverty had declined -- a trend found to be confirmed by other, more limited data sets and by qualitative inferences. Though no comparable survey data was available after 1990/91, the report considered it probable that poverty had continued to decline over the period 1991-93. The underlying message was therefore that, while they may have been incomplete and hindered both by the war and by other factors, the country's economic reforms had worked in the sense that they had benefitted the poor. It may have seemed only logical, therefore, to suggest that the same basic principles needed to be applied to the agricultural sector where most of the poor were located. However, it has been argued in this paper that what has actually been happening in the Sri Lankan countryside is much less clear-cut, and that, precisely because of the predicament in which the rural poor found themselves, the Bank reports have made underlying behavioural assumptions that are of questionable validity. Here two issues are raised: the adequacy of the standard structural adjustment formula for Sri Lankan agriculture, and implications that arise from the nature of the Sri Lankan rural economy.

8.1 Standard approaches and assumptions

The underlying approach of the Bank scenario (and more especially of the NCSR) reflects conventional structural adjustment thinking that the state should retreat and that so-called price distortions should be removed to let markets work. It also rests on behavioural assumptions that are very close to the Schultz (1964) and Hopper (1965) view that, despite their limited resources, poor farmers are efficient and that they are profit maximisers. In this view, farmers weigh the relative profitability of different crops (and the opportunity cost of their labour), and when markets signal a definite advantage in shifting over from low value (paddy) production to higher-value crops, they diversify their production. As a result, they earn more from their plot of land (or, if they are unable to do so, they will at least be able to exit farming, enabling

neighbours who are more efficient to move nearer an optimum farm-size), increasing the demand for labour and reducing poverty.

But many problems arise -- both on a conceptual and empirical level -- with this plea for minimum state involvement and a reliance on market prices when it is applied to poor peasant agriculture. Lipton (1987), for example, has addressed these issues in his well-known critique of the 1986 World Bank *World Development Report* and its 1986 report on *Poverty and Hunger*. He has pointed to a considerable body of even Bank research that shows that, while price distortions may be undesirable, their impact on agricultural growth is invariably much less significant than inadequate infrastructure or R&D outlays by the public sector. Second, he argued that, even if small farmers are quick to shift their resources from one crop to another in response to price changes, the response in terms of agricultural growth is likely to be sluggish because the total resources that they have at their disposal are for any crop limited. Third, he makes the familiar point that policies that make markets more fluid do not necessarily benefit the poor. And, finally, he maintains that -- while the government may be attracted by the cut in real expenditure that arises from "getting prices right" and leaving things to the private sector -- it is by no means true that it will produce results. Major public support, Lipton argues, may be essential to enable farmers to respond significantly to the better prices.

There are therefore a number of reasons to be concerned about the appropriateness of the World Bank scenario for Sri Lankan agriculture. But is this concern borne out by the Sri Lankan evidence? How do poor farmers behave in the Sri Lankan setting? In those areas that are already highly commercialised (such as the Kalpitiya peninsula) there is evidence that farmers are responding to market signals. But they are not poor farmers. And there is ample evidence from elsewhere to support the counter view that, while poor farmers may well be rational, they are also risk averse. It suggests that the people who are most likely to diversify are those who have substantial assets to fall back on -- that people are more inclined to diversify from strength than to diversify from weakness -- and that poor households, even if they have land, are much more likely to look for non-agricultural work for their household members than to commit themselves to a high-value crop that is both more capital- and more labour-intensive. The risks associated with such an investment are likely to be considered too great.

Similarly, while rigidities in the land market are clearly an impediment to agricultural expansion -- making exiting more difficult, hindering consolidation and preventing the use of land as collateral -- it is by no means assured that freehold ownership will make a significant difference over the medium-term. Illegal land markets exist and Bloch (1995: 10), in a working paper of the NCSR, concludes that *"the available data...almost exclusively about Dry Zone paddy...do not...show a clear relationship between agricultural productivirty and the formal security of tenure"*. There is also little evidence of significant economies of scale. For example, in parts of Puttalam District, relatively high farm incomes have been secured from onions, bell-peppers and gherkins on holdings of little more than an acre (Dunham 1995). Very small or micro holdings clearly do need to be consolidated if they are to be more productive but, beyond that, the farm-size argument would seem to be crop-specific. Lags in the substitution of paddy by higher value crops seem likely to prove substantial, and rice production has such a strong, emotive hold in rural Sri Lanka that adjustment costs in the paddy sector in particular would seem to have been dangerously underestimated. Nor is it clear that input credit to subsistence farmers could make them commercially viable. And even if the proposed policies led to increased output, they also seem likely to result in increased social differentiation, which could have serious political consequences.

8.2 The nature of the Sri Lankan rural economy

The World Bank scenario has therefore little to say about the special characteristics of Sri Lankan agriculture or of the rural poor that could affect the way people are likely to respond to its proposed incentive framework. And that seems to be particularly important in the light of the earlier analysis. Indeed, it seems arguable that what has kept the rural economy afloat and ensured that the depth of poverty remained less acute than in other South Asian countries was not just the long inheritance of welfare, but the enormous inflow of transfers. Table 10 brings together the inflows that were discussed in earlier sections as a percentage of the World Bank's reference poverty line of Rs 471 per person per month in 1990 prices.

What it reveals is that the rural economy of Sri Lanka has been heavily and increasingly dependent on transfers from outside, and it is this that has enabled people to survive in the face of an agrarian crisis. Poverty alleviation programmes have been important (accounting for up to 20 per cent of the incomes of the poorest three deciles), but far more important have been remittances from the Middle East. The rural economy of Sri Lanka emerges, in short, as a remittance and transfer economy, and this in turn has major ramifications when it comes to agricultural policy. First, it becomes clear that it is in a sense a vulnerable and brittle economy --

Table 10:
Summary of estimated remittances and transfers to the rural economy of Sri Lanka

Form	Transfers as a percentage of the rural poverty line[6]		
	1985	1990	1993
200 Garment Factories programme[1]	0	0	4
Remittances from overseas[2]	20-31	21-32	26-41
Foodstamp Programme[3]	6	11	8
Janasaviya Programme[4]	0	10	9
Army recruitment and compensation[5]	5	11	13
TOTAL	31-42	53-64	60-75

Assumptions:
1. 60% of the 200 GFP jobs go to the poorest 30% in rural areas.
2. Between 26% and 41% of all remittances go to the poorest 30% of the rural population.
3. 50% of FSP benefits go to the poorest 30% of the rural population.
4. 70% of Janasaviya benefits go to the poorest 30% of the rural population.
5. All pay remitted and 80% of private soldiers (or equivalent ranks) are from the rural poor.
6. The World Bank rural poverty line of Rs 471 per capita per month in 1990 prices.

because the flow of remittances would be threatened by instability or policy changes in the Middle East or by an end to the war without a concomitant increase in jobs in the non-farm sector, either of which could have major social and political consequences in the rural areas. And, second, because the implications of this massive inflow of funds have not been considered explicitly in the formulation of policy. Clearly, what is at stake is not simply a matter of encouraging a shift from paddy to a more efficient cropping pattern. Many of these people are part-time farmers because they rely on major income flows from outside for their everyday survival. There is no indication that they would feel the need to sell their land (if they have any), even with a more efficient land market; there is no reason to believe that concessionary input credit would make a difference to the poor -- there is no evidence that transfers have been fed productively into agriculture, though that possibility has been explored explicitly (Ranaweera *et al. 1993)*; and if land ownership becomes concentrated in larger holdings, and these remittances and transfers fall, then social differentiation and social inequalities would only be exacerbated, with worrying implications in terms of rural-urban migration and/or rural social unrest. Agricultural policy -- if it is serious about the alleviation of rural poverty -- has to take a much longer and harder look at prevailing local conditions in Sri Lanka.

Appendix 1a
Hired Labour Inputs in Paddy Production: *maha* season
(man days/per acre)

District	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Irrigated										
Anuradhapura	23	20	16	18	n.a.	-	-	16	12	11
Gampaha	18	13	14	20	n.a.	13	10	12	13	7
Hambantota	54	26	46	21	n.a.	-	-	25	21	23
Kalawewa	20	17	19	20	n.a.	34	26	28	23	16
Kurunegala	30	24	14	22	n.a.	23	14	10	13	11
Polonnaruwa	41	41	11	26	n.a.	21	44	35	21	22
Rainfed										
Gampaha	5	11	14	17	n.a.	15	11	15	7	16
Galle	34	32	31	34	n.a.	20	20	26	32	21
Kalutara	33	31	28	25	n.a.	-	-	26	24	21
Kandy	20	17	29	21	n.a.	-	22	16	18	16
Kurunegala	9	31	11	-	n.a.	10	9	8	9	11

Notes: The years 1984, 1985, etc. should be read as maha 1983/84, 1984/85 etc.

- signifies that the district was not surveyed.

n.a. signifies that the survey report was unavailable.

Source: Department of Agriculture, *Cost of Cultivation of Agricultural Crops*, (published annually), Division of Agricultural Economics and Planning, Peradeniya.

Appendix 1b
Hired Labour Inputs in Paddy Production: *yala* season
(man days/per acre)

District	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Irrigated										
Anuradhapura	20	19	12	18	21	-	-	-	-	-
Gampaha	13	13	11	17	12	-	13	11	6	11
Hambantota	33	31	28	26	-	-	24	23	25	15
Kalawewa	14	16	16	18	27	27	-	25	23	24
Kurunegala	11	25	30	10	11	-	11	11	-	22
Polonnaruwa	26	27	22	25	24	45	22	28	21	24
Rainfed										
Gampaha	6	9	11	16	13	-	15	9	17	10
Galle	30	33	34	24	-	-	21	19	21	21
Kalutara	32	32	28	34	25	29	31	24	20	18
Kandy	22	19	36	18	11	-	12	17	15	24
Kurunegala	8	12	4	9	-	-	9	14	-	29

Notes: - signifies that the district was not surveyed.
n.a. signifies that the survey report was unavailable.

Source: Department of Agriculture, *Cost of Cultivation of Agricultural Crops*, (published annually), Division of Agricultural Economics and Planning, Peradeniya.

Appendix 2a
Average Wage Rates of Hired Labour Inputs in Paddy Production: *maha season* (Rs/day – 1982 prices)

District	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Irrigated										
Anuradhapura	25	28	27	27	n.a.	-	-	26	33	-
Gampaha	24	25	19	28	n.a.	29	27	29	31	37
Hambantota	24	25	29	32	n.a.	-	-	38	43	41
Kalawewa	23	24	24	25	n.a.	24	27	26	34	31
Kurunegala	19	21	20	21	n.a.	20	20	19	27	30
Polonnaruwa	23	25	-	47	n.a.	48	29	31	33	31
Rainfed										
Gampaha	25	25	22	28	n.a.	29	27	29	31	35
Galle	28	28	29	30	n.a.	-	-	36	39	37
Kalutara	22	19	20	19	n.a.	-	-	36	39	37
Kandy	22	19	20	19	n.a.	-	19	20	27	26
Kurunegala	21	21	15	-	n.a.	23	20	20	-	27

Notes: The years 1984, 1985 etc. should be read as 1983/84, 1984/85 etc.
- signifies that the district was not surveyed.
n.a. signifies that the survey report was unavailable.
Price adjusted using the GDP deflator.

Source: Department of Agriculture, *Cost of Cultivation of Agricultural Crops*, (published annually), Division of Agricultural Economics and Planning, Peradeniya.

Appendix 2b
Average Wage Rates of Hired Labour Inputs in Paddy Production: *yala season* (Rs/day – 1982 prices)

District	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Irrigated										
Anuradhapura	25	35	26	28	30	-	-	-	-	-
Gampaha	34	26	39	28	29	-	29	30	39	41
Hambantota	30	31	31	30	-	-	39	42	44	41
Kalawewa	24	35	27	25	24	25	21	29	31	35
Kurunegala	21	23	20	24	24	-	20	27	-	31
Polonnaruwa	29	27	30	31	26	28	31	31	34	33
Rainfed										
Gampaha	26	26	27	28	29	-	28	31	38	36
Galle	28	32	30	32	-	-	40	40	43	40
Kalutara	29	34	35	34	36	32	38	40	41	37
Kandy	20	20	31	16	19	-	21	25	26	26
Kurunegala	20	22	22	23	-	-	19	26	-	32

Notes: - signifies that the district was not surveyed.
n.a. signifies that the survey report was unavailable.
Price adjusted using the GDP deflator.

Source: Department of Agriculture, *Cost of Cultivation of Agricultural Crops*, (published annually), Division of Agricultural Economics and Planning, Peradeniya.

Appendix 3a
Average Expenditure of Hired Labour Inputs in Paddy Production: *maha season* (Rs'000/acre – 1982 prices)

District	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Irrigated Anuradhapura	0.6	0.6	0.4	0.5	n.a.	0.5	-	0.4	0.4	0.4
Gampaha	0.4	0.3	0.3	0.6	n.a.	-	0.2	0.3	0.4	0.6
Hambantota	1.3	0.9	1.3	0.7	n.a.	-	-	0.9	0.9	0.9
Kalawewa	0.5	0.4	0.5	0.5	n.a.	0.8	0.7	0.8	0.8	0.5
Kurunegala	0.6	0.5	0.3	0.5	n.a.	0.5	0.3	0.2	0.4	0.3
Polonnaruwa	1.0	1.1	1.1	1.2	n.a.	1.0	1.3	0.8	0.7	0.7
Rainfed Gampaha	0.1	0.3	0.3	0.5	n.a.	0.4	0.3	0.4	0.2	0.6
Galle	1.0	0.9	0.9	1.0	n.a.	0.6	0.7	0.9	1.1	0.8
Kalutara	1.0	1.1	1.0	0.8	n.a.	-	0.2	1.0	0.9	0.8
Kandy	0.4	0.3	0.6	0.4	n.a.	-	0.4	0.3	0.4	0.4
Kurunegala	0.2	0.6	0.2	-	n.a.	0.2	-	0.2	0.2	0.8

Notes: The years 1984, 1985 etc. should be read as 1983/84, 1984/85 etc.
- signifies that the district was not surveyed.
n.a. signifies that the survey report was unavailable.
Price adjusted using the GDP deflator.

Source: Department of Agriculture, *Cost of Cultivation of Agricultural Crops*, (published annually), Division of Agricultural Economics and Planning, Peradeniya.

Appendix 3b
Average Expenditure of Hired Labour Inputs in Paddy Production: *yala season* (Rs'000/acre – 1982 prices)

District	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Irrigated										
Anuradhapura	0.5	0.5	0.3	0.5	0.6	-	-	-	-	-
Gampaha	0.3	0.3	0.3	0.5	0.4	-	0.4	0.3	0.2	0.5
Hambantota	1.0	1.0	0.9	0.8	-	-	1.0	1.0	1.1	0.6
Kalawewa	0.3	0.4	0.4	0.5	0.7	0.7	0.6	0.7	0.7	0.8
Kurunegala	0.2	0.6	0.6	0.2	0.3	-	0.2	0.3	-	0.7
Polonnaruwa	0.7	0.7	0.7	0.8	0.6	1.2	0.7	0.7	0.7	0.8
Rainfed										
Gampaha	0.2	0.2	0.3	0.5	0.4	-	0.4	0.3	0.6	0.6
Galle	0.8	1.1	1.0	0.8	-	-	0.8	0.8	0.9	0.8
Kalutara	0.9	1.1	1.0	1.2	0.9	0.9	1.2	1.0	0.8	0.7
Kandy	0.5	0.4	0.8	0.3	0.2	-	0.3	0.4	0.4	0.6
Kurunegala	0.2	0.3	0.1	0.2	-	-	0.2	0.4	0.4	0.9

Notes: - signifies that the district was not surveyed.
n.a. signifies that the survey report was unavailable.
Price adjusted using the GDP deflator.

Source: Department of Agriculture, *Cost of Cultivation of Agricultural Crops*, (published annually), Division of Agricultural Economics and Planning, Peradeniya.

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