

POVERTY, SPATIAL IMBALANCES AND
REGIONAL PLANNING IN SRI LANKA
POLICIES AND ISSUES

Edited by

M.M.Karunanayake

Department of Geography
University of Sri Jayewardenepura
Sida/SAREC Research Cooperation Project

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First published 2001

ISBN 955-9054-35-X

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PREFACE

This publication includes three papers that have been prepared under the aegis of the Sida/SAREC Research Cooperation Project on Overcoming Regional Imbalances and Poverty Alleviation. The three papers were originally conceived as concept papers but have been revised and widened in scope by the authors for the purpose of this publication.

The Sida/SAREC Research Cooperation Project is mandated to disseminate the findings of research through a publications program. This constitutes the second in the series of planned publications.

An ultimate goal of the Research Cooperation Project is to influence State policy relating to regional development and poverty alleviation to better meet the challenges of growth and equity facing Sri Lanka at the present juncture. It is hoped that this publication is a step in this direction.

I gratefully acknowledge the encouragement and assistance given by the Vice Chancellor Prof. J.W. Wickremasinghe to bring out this publication. I am also equally grateful to Mr. Thomas Kjelqvist and Dr. Per-Einar Troften for their facilitation of the Research Cooperation Project and sustained interest in its outcomes. Mr. H.M.P.Jayantha assiduously attended to the task of preparing maps and diagrams and deserves a very special word of thanks. Last but not least it is my duty to thank all members of the editorial board and in particular Prof. M.D.C. Abhayaratna for providing unstinted support to bring out this publication.

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December 2001.

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T.B.Weerasekara holds a Bachelor's degree in Geography of the University of Peradeniya in Sri Lanka. He has undergone training in Industrial Management at the Institute of Management Science, Netherlands and the Institute of Small-Scale Industries in the Philippines and has long years of experience in enterprise and entrepreneurship development, regional industrial development and the establishment of industrial estates. He has held key positions in the State Sector as Regional Manager, Industrial Development Board of Sri Lanka and as Director, Ministry of Industries in the provincial administration of the Central Province of Sri Lanka. He has been consultant to many national and International organizations on industrial and micro enterprise development. More recently he has contributed to the formulation of the micro, small and medium scale industrial development policy for the Central Province of Sri Lanka.

Wilbert Gooneratne who holds a Doctorate from the University of Paris, Sorbonne, is Director of the recently established multi-disciplinary Institute of Development Studies of the University of Colombo. He also served as the Director of the former Regional Development Studies Centre of the same University (1997-2001). He has served with the United Nations as a senior staff member attached to the International Labour Organization's *Asian Employment Programme*, based in Bangkok (1979-1985), United Nations Centre for Regional Development (UNCRD) based in Nagoya, Japan (1985-1990) and as Head of the Africa Office of the UNCRD based in Nairobi, Kenya, (1991-1996).

Gooneratne has also been a Visiting Research Fellow at the Institute of Developing Economies, Tokyo, Japan and has served as a Council-nominated member of the Board of the Faculty of Graduate Studies of the University of Sri Jayawardenepura. His research interests and major contributions are in the fields of rural and regional development. His research interests have covered the regions of South and South East Asia and Eastern and Southern Africa, besides Sri Lanka. Gooneratne is the co-author of *Basic Needs, Poverty and Government Policies in Sri Lanka*, published in Geneva by the International Labour Organization (1981) and some of his more recent publications include: *Regional Development Impacts of Labour Migration in Asia* (co-editor), UNCRD, Nagoya, Japan, 1994, *State and Community in Local Resource Management: the Asian Experience* (co-editor), Har Anand Publications, New Delhi, 1996, *Regional Development Policy Analysis: Issues in Food Security, Resource Management and Democratic Empowerment in Eastern and Southern Africa*, UNCRD Text Books Series No. 5 (co-author), UNCRD, Nagoya, 1996 and *Contemporary Issues in Regional Development Policy: Perspectives from Eastern and Southern Africa* (co-editor), Avebury, U.K, 1997. Gooneratne has also served as a member of the Editorial Board (1985 - 1996) of the international journal (*Regional Development Dialogue*) published by the UNCRD.

INTRODUCTION

M.M.Karunanayake

This text is concerned with two of the foremost challenges facing regional development in Sri Lanka viz. (a) over riding poverty of a large segment of the population and (b) spatial imbalances in development. Both issues have been made even more complex by the on-going civil war in the North and East. Two of the papers included in the publication take up the issue of poverty alleviation by focusing on the sub-national level while the third paper looks at national imperatives of regional planning to overcome spatial imbalances and respond to the demands of a changing socio-political milieu. All three papers were originally conceived as concept papers in support of research studies launched under the aegis of the USJ-Sida/ SAREC Research Cooperation Project. They have been presented at the South-South Research Cooperation meeting held in Kandy in February 2001 (under the sponsorship of the USJ-Sida/SAREC Research Cooperation Project) and have been revised and rewritten by the authors for the purpose of this publication.

POVERTY IN SRI LANKA

Extent and Nature of Poverty

In general consumption poverty remains at much higher levels than human poverty in Sri Lanka. In fact the National Development Report 1998 of the UNDP indicates a human development index of 18 for the country. Yet much remains to be done in the provision of social amenities such as safe drinking water, safe sanitation and electricity to the country's population. Indeed since 1977 some setbacks have been noted in indices linked to human poverty as a consequence of the structural adjustments implemented in the wake of the open market economy.

While consumption poverty is a measure of absolute poverty a consideration of the *poverty gap* and the *severity index* would provide an indication of the degree of deprivation among the poor.

Data from the Consumer Finances and Socio Economic Survey of 1996/1997 of the Central Bank of Sri Lanka show that the all Island poverty gap using the lower poverty line stood at 04 percent. The poverty gap measured in relation to the upper poverty line was 03 percentage points higher. The severity index (or the squared poverty gap) was 01 and 03 percent respectively with reference to the lower and the upper poverty line. It is therefore evident that the poor are not homogenous and that there are segments of the poor with poorly defined 'entitlements rights' as described by Sen (1981).

It is stated by Nayar and Gunatilaka (2000) that

A large majority of the population is closely clustered around the poverty line, making poverty rates very sensitive to fluctuations in economic conditions. This reflects the kind of high risk earning activities that the poor are engaged in, mainly casual work in the agriculture, mining and the construction sectors; petty trade and informal sector work; cultivation of uneconomic plots of land; animal husbandry and fishing; and intermittent craft based work.

It is important to note that the above situation may exert adverse impacts not only on the poor but also on the near poor who are located above the poverty line.

The sensitivity of the poor to fluctuations in economic conditions is all the more significant as it is found that the poor (in particular the rural poor) spend a disproportionately high proportion of income to meet food requirements. Thus a survey undertaken in the Hangeranketha Divisional Secretary's Division revealed that 40 percent of the poor spent 80 percent or more of their income on food with another 36 percent spending between 60-80 percent for the same purpose (Karunanayake et al, 1998). A similar situation was found in the Walapane Division where as much as 57 percent of the poor spent more than 80 percent of their income on food while the proportion spending between 60-80 percent of their

income was 26 percent (Karunanayake and Abhayaratna, 1999). Undoubtedly the above situation has serious implications for human welfare. Given this situation the poor have little capacity to save or spend on other needs. At the same time even the slightest aberration in the economic position would have dire consequences on their ability to secure food and ensure household food security.

In the Dry Zone of Sri Lanka seasonal poverty is a phenomenon that affects the household economies of the poor and the near poor. Unfortunately policy makers have failed to truly perceive the reality of the ground situation and hence slow to respond to its implications. While public works programmes are in place they have not been designed or implemented to create an asset base for the poor in the long-term. As noted by Sen (1981) in the case of the asset-less and the asset poor seasonal changes for the worse subject them to the impacts of 'derived poverty', which worsens their situation.

The gender dimension of poverty in relation to feminization finds increasing expression in development literature. It would therefore be relevant to examine the extent to which this is a feature in the context of Sri Lanka. It is revealed that in Sri Lanka the female headed households are not any poorer than male headed households and in fact the proportion of the impoverished male households appear to be greater (NPD, 2000). Furthermore the Gender Development Index for Sri Lanka is almost 70 percent (UNDP, 1998). However, a study by Aturupana (1998) shows that the incidence of poverty is higher in female headed households in five of the Provinces viz. North Western, Sabaragamuwa, North Central, Central and the Western Province. Nonetheless Aturupana also makes the point that "within the poor regions, the levels of poverty between the female headed households and male headed households are similar".

How do we reconcile the conflicting evidence? The comment has been made that given the extended family system that is widely prevalent in Sri Lanka the notion of male and female-headed households may not be entirely relevant as a way of measuring the welfare of women (NDP, 2000). There is also a growing awareness that gender equity in the Sri Lanka context,

is a more inclusive concept woven round the whole family- wife, husband, son and daughter. It was clearly not wife versus husband (Sirivardana, 2001).

Yet there is evidence to show that there is some discrimination in the indexation of female wage labour. The land policies in settlement schemes have favoured ownership by men than women. The transfer of household stress from men to women in times of hardship and adversity is evident in particular in the rural situation but its seriousness and magnitude has to be determined. It is also significant that the Gender Empowerment Index (that shows the empowerment of women vis-à-vis men in the participation in political and economic spheres) is only 31 percent, the lowest in fact among all developing countries (UNDP, 1998)

In looking at the extent and nature of poverty in Sri Lanka it is also important to take note of the spatial pattern of poverty. The Household and Consumption Survey of 1995/1996 of the Department of Census and Statistics reveals that poverty is least in the Colombo Metropolitan Region comprising the districts of Colombo, Gampaha and Kalutara when measured against the upper poverty line. However the proportion of the poor in the Kalutara District (38 percent) is much higher than in the other two metropolitan districts.

On the basis of the upper poverty line the levels of poverty in the districts lying outside the CMR vary from 39 percent in the Galle District to 66 percent in the Moneragala District. Matale, Puttalam, Kurunegala, Anuradhapura, Ratnapura and Moneragala are the worst affected districts (Fig 1.1). The pattern depicted by the application of the lower poverty line is broadly similar. It is argued by Aturupana (1998) that the magnitude of poverty in the poor regions is much greater than in the country as a whole. As shown in Karunatileke's paper appearing in this publication spatial poverty also has an intra district dimension. This holds true for other districts in the Island as well.

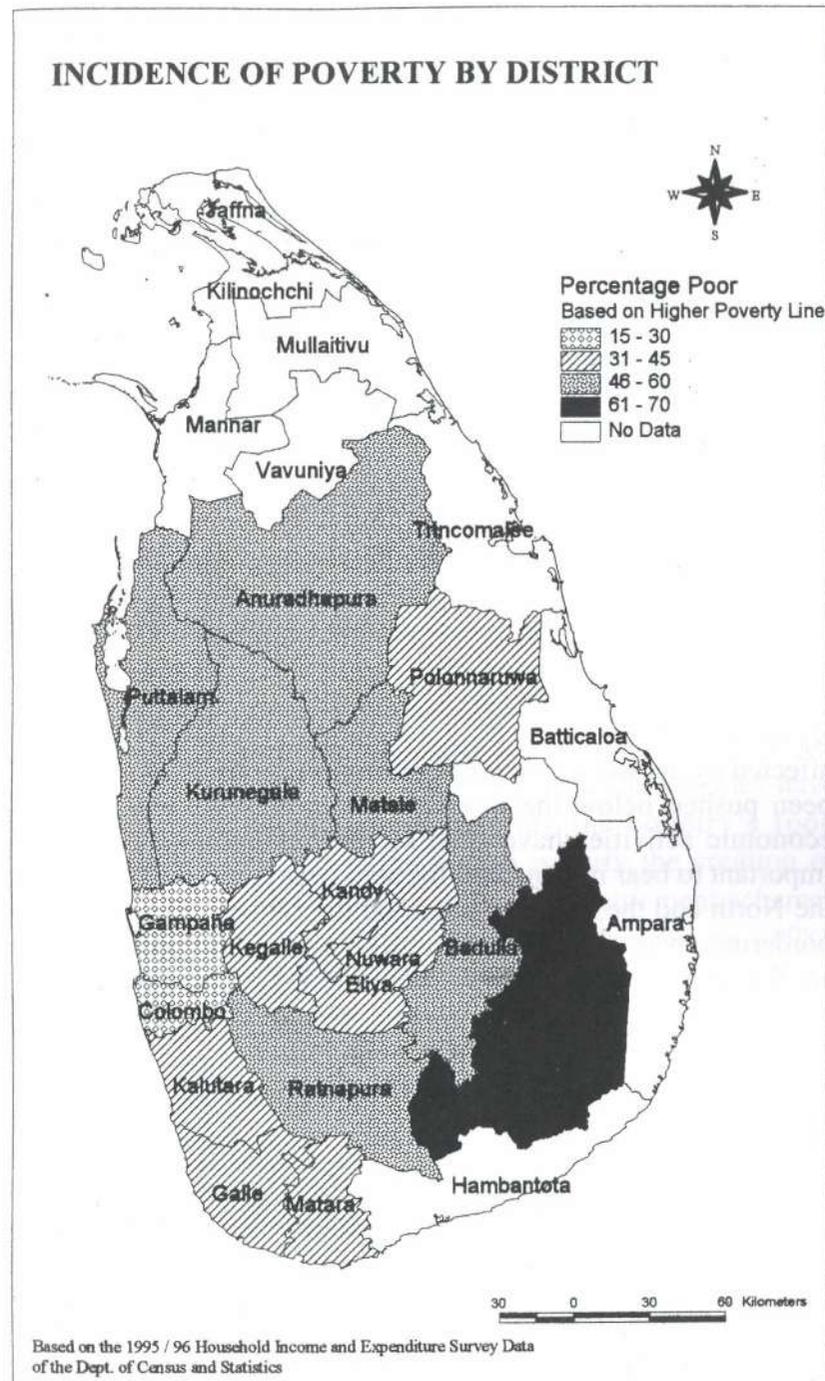


Fig 1.1

The on-going civil war in the North and the East has also added a new dimension to spatial poverty in Sri Lanka. It is estimated that the number of poor households in the North and East may range from 500,000 to 1.1 million. While the levels of consumption poverty that range from 25 to 55 percent (NDP, 2000) are no worse than in other parts of Sri Lanka the situation in regard to human poverty varies significantly. It is stated that in the North and East poverty is

...experienced in dimensions quite different than that in other parts of the nation. Loss of civilian life, physical and psychological trauma, the horror of forced displacement, the disintegration of community and social networks, forcible recruitment into terrorist organizations, constant fear and uncertainty and prolonged dependence on relief are all facts of impoverishment in the North and East... Qualitative reports suggest that the income poverty, healthcare, education and economic conditions are wracked by civil conflict than in other parts of the Island (NDP, 2000).

It is further pointed out that even those who have not been deeply affected by the war (by not being displaced or resettled) have also been pushed below the poverty line in view of the fact their economic activities have been subject to disruption. But it is important to bear in mind that the spill over of the displaced from the North and the East has impacted the poverty situation in the bordering areas as well. This is well illustrated by divisions such as Kebitigollewa, Medawachchiya and Horowpotana in the Anuradhapura District that has had to accommodate the internally displaced.

Poverty Alleviation Measures

Successive governments in Sri Lanka since independence have been concerned with the economic well being of the population. The measures adopted undoubtedly helped ease the problem of poverty. However in these attempts poverty alleviation was mostly an implicit or one among several objectives (e.g. land policy). Some of the attempts addressed only specific aspects pertaining to poverty (e.g. land tenure). Hence the assertion by Nayar and Gunatilaka (2000) that

...until the late 1980's, Sri Lanka did not implement any programme that was explicitly targeted at alleviating poverty. Instead, development in social indicators was achieved through a series of ad hoc programmes rather than through any coherent strategy to reduce poverty.

Among the early attempts at social and economic development one of the most significant had been the development of the major land settlement and irrigation schemes. While the creation of a land owning peasantry was one of the central concerns of these schemes there were other objectives such as achieving self sufficiency in the production of rice and effecting a redistribution of the country's population by sending the landless of the overcrowded Wet Zone to the sparsely populated Dry Zone for resettlement (Farmer, 1957). However it may be noted that in the process some of the landless people from the *purana* or traditional villages of the Dry Zone too were resettled in these schemes. It is claimed that a disproportionate number of *purana* villagers were resettled in these schemes (Farmer 1957). The climactic point of land settlement was reached with the establishment of the Mahaweli Development Scheme. While the land settlement schemes have made a major contribution in meeting the country's food requirements and in alleviating human poverty the creation of pockets of consumption poverty in the land settlement schemes including the Mahaweli has been recognized (Wanigaratne, 1998). The explanation according to Karunanayake (2001) is to be found in the fact that

...the land settlement schemes that were concerned with asset transfer to the poor had to function within given political-economic structures and therefore constrained by internal contradictions inherent in them.

Among other attempts for the benefit of the poor have been the land reform measures introduced in the late 1950's and the early 1970's. The Paddy Lands Act No 1 of 1958 was concerned with

the securing of rights of tenants, regulating rent and conferring tenant status on agricultural labourers etc. The last provision was never implemented. The Land Reforms Law No 1 of 1972 was concerned with the imposition of an upper ceiling on the ownership land (both lowland and highland). But these legal instruments failed to bring about the intended changes to the desired extent in securing the rights of tenants and in paddy lands ownership. The Agrarian Services Act No 58 of 1979 did in fact go back on some of the well meaning provisions of the Paddy Lands Act No 1 of 1958 and the Amended Act of No 11 of 1964.

The other strategies that have had an impact on poverty alleviation have been programmes for the development of small, medium and large scale industries; village tank rehabilitation; regularization of encroachments; land distribution through the Presidential Task Force; and the different types of subsidy programmes. The rice subsidy programme was a mainstay of Sri Lanka's social welfare strategy. It was a broad-based social welfare programme that did benefit the poor although it was specifically not targeted at them.

Another front on which the State has been active is in human development through the provisioning of improved health and education facilities, meeting basic needs and in ensuring other social amenities. The high human development index for the country as a whole and also for the regions (though there are wide variations) is an indication of the positive impact of these programmes. It has to be recognized that in regard to human development Non Governmental Organizations have often been supportive of State initiatives.

The third front on which action has been taken relates more explicitly to poverty itself. The most notable among the initiatives in this category has been the Food Stamps Scheme and the *Janasaviya* and the *Samurdhi* programmes. The *Janasaviya* programme has now been phased out and *Samurdhi* has emerged as the single most important programme that is explicitly concerned with poverty alleviation. Both the *Janasaviya* and the *Samurdhi* programmes attempted a frontal thrust on poverty alleviation by

focussing on components such as employment generation (micro enterprises and self-employment), assets creation (micro-financing and savings), income support (income transfer) and empowerment (social mobilization and participatory development). The *Samurdhi* programme has also been innovative in the area of rural banking by setting up a network of *Samurdhi* Banks for the poor. It must however be noted that components such as those referred to above have featured in much area and project based development programmes as well, where poverty alleviation has been an implicit rather than an explicit objective. There has also been policy and implementation related problems linked to these programmes. The non-indexation of food stamps to accord with prevailing rates of inflation is a case in point. There are instances when the non-availability of essential food items in co-operatives or franchised outlets to be purchased out of food stamps has encouraged 'negative' spending on the part of the poor. The contraction costs to the poor in the disbursement of assistance has also not received due consideration. The unintended social costs of poverty alleviation programmes (e.g. the reservation price of labour and its effects on the rural economy) have not properly taken into account. Politicization of poverty alleviation programmes has also been a problem. This may lead to situations in which the genuinely poor are excluded while the non-poor are included. Thus it is claimed that,

While some 2.1 million households benefit from this (Samurdhi) programme, recent research finds that the programme does not assist some 40 percent of the poorest income quintile at all. This suggests that the programme both misses a large number of the poor and provides benefits to many non-poor households. Efforts are needed to tighten targeting and concentrate income-transfer assistance to the poorest groups.

In addition to the above there are broader issues that influence the performance of poverty alleviation programmes. Lack of congruence between macro and micro development policies have

surfaced from time to time. Issues of political ecology undermine efforts at the sustainable use of the environment and this is particularly evident in relation to the management of natural resources (Karunanayake, 2001a). The link between poverty alleviation and good governance (in terms of transparency and accountability) has not been recognized. While there is concern for empowering the poor the institutional mechanisms for the voice of the poor to be heard at higher levels are conspicuously absent. Karunanayake (2001b) has recently pointed out that there has been a failure to generalize participatory processes. He also mentions that there has been a singular failure to link participatory processes to political and administrative structures. Sirivardana (2001) states that the poor themselves have now begun to give expression to such a notion. Thus, the poor had,

a message to the technocracies and bureaucracies in the system. They were appalled at the way they (the poor) were misperceived. Their new found and hard fought identities and self-empowerment was not considered worth anything. They were not integrated in any real way to the organizational structures at divisional and district levels. They were merely tolerated and associated in token ways.

There has also been a failure to evolve monitoring and evaluation mechanisms that allow the beneficiaries to play a role as stakeholders. The volatile situation resulting from the on-going civil war has deeply affected the life situation (particularly in terms of human poverty) of the people of the North and East and also in the bordering areas, for example, by the influx of the internally displaced. It has also impeded the consolidation of benefits resulting from the implementation of pro-poor programmes.

At present the government of Sri Lanka is concerned with the adoption of a more inclusive strategy for poverty alleviation and this finds expression in the policy document titled *Sri Lanka: A Framework for Poverty Reduction* of the National Planning Department (2000). It points out that the past efforts at combating

poverty have not altogether been successful and hence the need for a more inclusive approach to alleviate poverty. Three major components are projected as constituting the strategic foundation for future poverty reduction efforts viz. (a) creating opportunities for the poor to participate in economic growth; (b) strengthening the social protection system; and (c) empowering the poor and strengthening governance. The need to build awareness and consensus on peace and conflict resolution underscores the implementation of strategies proposed in the document. It is clear from the document that it proposes a course of action in which the poor are increasingly in a position to take advantage of opportunities created in a private sector led market economy. The attempt is not to eliminate poverty through direct public intervention but through a participatory process in which the poor become actively involved in the market economy. It also proposes that active involvement of the different actors (private sector, NGOs and community groups) be encouraged in attempts to alleviate poverty.

Notwithstanding the above other actions are necessary. The need to mainstream poverty alleviation emerges as an important issue. This would require among other initiatives the restructuring of macro-policies to make growth more pro-poor while also channeling resources to sectors where the poor are employed in such activities as agriculture, rural off-farm enterprises, urban micro-enterprises etc. (UNDP, 2000). Strong commitment at the highest level is necessary to prevent politicization of poverty alleviation programmes. Better targeting criteria that go beyond simple income criteria have to be evolved to identify the poor. The susceptibility of the poor and the 'near poor' in rural areas to seasonal impacts has to be recognized in the implementation of poverty alleviation programmes. Adaptive and pro-poor technology has to complement income generation initiatives. The concept of empowering the poor needs to be revisited. It has to be understood in terms of the 'rights approach' to empowerment, which means that the poor needs to be capacitated to assert their rights through social activism and an actual understanding of their legal rights. This has been a serious lacuna in the empowerment process of the poor. The poor themselves are increasingly becoming aware of

this need (Sirivardana, 2001). This would also entail more commitment to empower women. It is also important that implementation of poverty alleviation strategies be embedded in good governance. Hence it would require a system of governance that is caring of the people and works, as people mattered. The issue of good governance is invariably tied to evaluation. As Khan (1999) has pointed out "an evaluating government is also likely to be viewed by its citizens as a caring government". The participation of stakeholders in monitoring and evaluation is a *sine qua non* of good governance. Generally speaking in Sri Lanka technocracies and bureaucracies have fought shy of adopting participatory methodologies.

Role of Micro Enterprises in Poverty Alleviation

Statistical definitions of micro enterprises vary from country to country and even within countries there are significant differences in the definitions used. In Sri Lanka for example there is no agreement as to the definition of micro enterprises. Thus the number of employees in a micro enterprise may range from 4 to 10. This makes it difficult to compare one set of data with another. In Sri Lanka there is also some doubt as to the accuracy of available data. Often unregistered operations may be left out of census and thus fail to provide an all-inclusive picture of the micro enterprise sector. However, it could be surmised that micro enterprises (inclusive of self-employed operations) cover a wide range of activities with potential to exert a significant impact on poverty alleviation. Their role in poverty alleviation would of course depend on a number of factors as discussed below.

Most developing countries consider micro enterprises as essential elements in diversifying household economies, reducing poverty and redressing regional imbalances. They are labour intensive and could to a degree ensure a rise in employment opportunities and income. In addition they are capable of strengthening household economies and, in rural areas in season proofing them. The growth of such enterprises means the increased investment of accumulated small savings of a large number of people (especially the poor) in

the local area itself, thus preventing the outflow of capital into more favoured areas. They may also result in value addition to local raw material, as is the case with agro processing. Micro enterprises in the trade, service, transport and construction sectors also provide inputs, consumer goods and credit and other services to local people and are generally concentrated in small towns. They also enable the poor to use indigenous and appropriate technology and have the added advantage of being less capital intensive than the larger industries. Their distribution pattern is governed either by the availability of raw materials (e.g. agro processing industries in the major tea, rubber, coconut and paddy producing areas) or the presence of experienced traditional craftsmen (e.g. woodcarving, brassware and silverware) or markets (e.g. food and beverages, cement blocks and brick making). Hence they have a high potential for dispersal that is significant from the point of view of reducing regional imbalances in livelihood and income generation opportunities. For the female population being micro entrepreneurs would not only help in raising income but also in building up confidence and self-esteem.

We may also take note of the claims made by Setty (1991) in support of micro enterprises. According to Setty such enterprises, whether traditional or modern provide a training ground for local entrepreneurs for upward mobility. It is posited that the knowledge and managerial skills gained through small-scale industrial enterprises can be transferred to more sophisticated enterprises. By creating opportunities for the small businessmen, small industrial enterprises can bring about more equitable distribution of income. They have the capacity to create economic stability in society by diffusing prosperity. Furthermore the development of small-scale industries would help realize relative local self-sufficiency and social justice.

Some generalizations can now be made taking note of the Sri Lanka situation. It is found that micro enterprises constitute a heterogeneous group of economic activities and a multitude of entrepreneurs. Since raw materials, markets and labour are dispersed, micro enterprises are also dispersed over a wide area-in villages, along roads and around small junctions. The number

of jobs generated is relatively low when compared to large enterprises. However, micro enterprises provide the only source of livelihood to a large number of people who would otherwise be destitute or would migrate to the metropolitan core in search of employment. Income generated by micro enterprises contributes to supplement family income.

Yet underemployment is a characteristic feature of these enterprises even in the service sector (Senanayake et al, 1989). In the study cited Senanayake et al point out that the level of underemployment was most evident in crop-agricultural enterprises. Among factors responsible for this situation are the small scale of operations, low opportunity cost of labour, market constraints and the seasonal character of enterprises. According to Nayar and Gunatilaka (2000) the difficulty of financing micro enterprises also remains an intractable problem. They stress the importance of setting-up credit wholesaling relationships between micro financing institutions and commercial and development banks in an appropriate regulatory environment that is mindful of standards and performance indicators.

In common with countries of the developing world, formal education does not appear to be a pre-requisite to micro enterprise development. As Pederson (1997) has remarked "former work experience, on-the-job training and family (or other) networks may often be more appropriate qualifications than formal education".

Contrary to the commonly held view local availability of raw material is emerging as a problem in promoting micro enterprises among the poor (Hewavitharana, 1992). The exhaustion of non-renewable resources such as clay deposits and restrictions placed on the use of paddy fields for the extraction of clay have affected the manufacture of traditional as well as modern clay products. The study by Hewavitharana cited above also noted that one constraint to the growth of traditional industries is the problem related to the acquisition of natural raw materials such as wood, clay, rushes and reeds.

Gunatilaka (1997) argues that in relation to micro enterprises,

A distinction needs to be made between people who do not have an aptitude for business, are risk averse and are therefore likely to cling to their traditional occupations (the majority of the poor would fall into this category), and those few displaying entrepreneurial talent. A differentiated strategy is needed to address the needs of both groups of the poor: a protectional strategy to reduce income vulnerability of poor households in the context of their existing portfolio of survival strategies; and a promotional strategy to enable the less poor, the less risk averse households to move into greater income earning opportunities.

Despite the problems confronted by micro enterprises they do have a role to play in alleviating poverty either by supplementing livelihoods or generating them. However, the point made by Senanayake et al (1989) is worth bearing in mind.

It must be stressed, however, that these programmes alone cannot solve the problems of poverty and unemployment, and they must be regarded as partial measures for poverty alleviation. What is important to recognize however is that in the absence of such palliatives, a large body of human capital will go waste, thereby compounding the problems of social and political unrest. Thus a policy to promote special employment creation schemes should not substitute but complement the policies aiming at long-term economic development and growth of the industrial sector, as well as programmes designed to attack the poverty levels of specific target groups (e.g. food stamp scheme).

REGIONAL PLANNING

Spatial Imbalances

In Sri Lanka spatial imbalances in regional development are well marked (Karunanayake and Abhayaratna, 2000; Wanasinghe, 2001). Figures 1.2 and 1.3

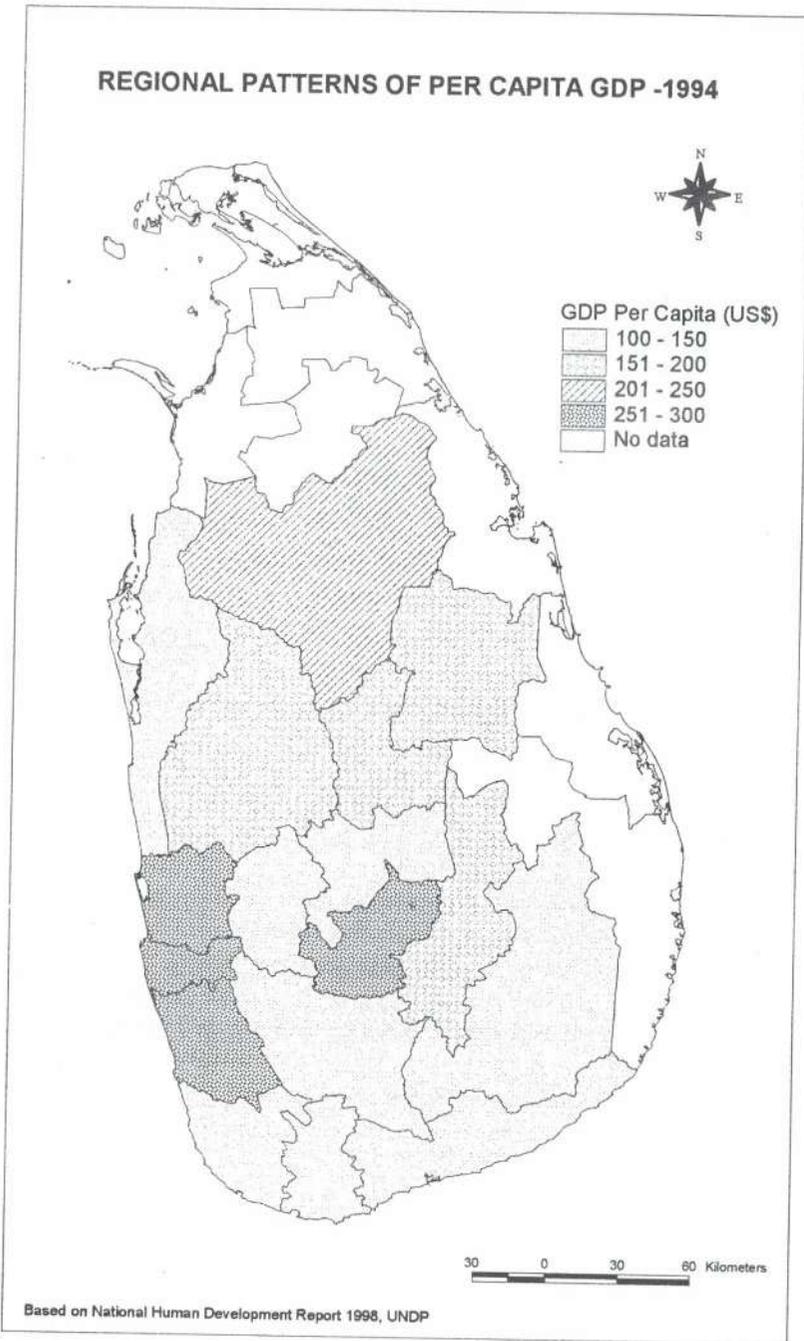


Fig 1.2

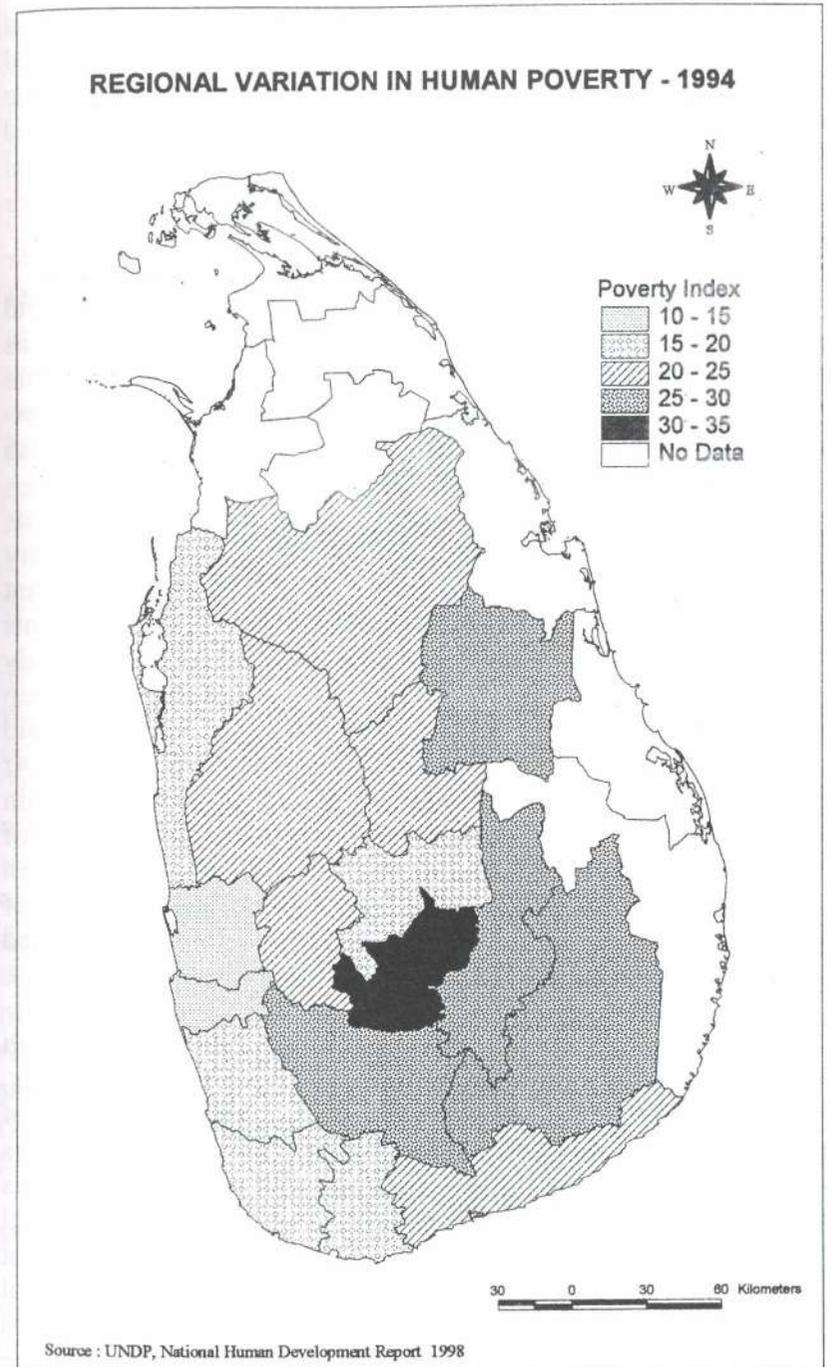


Fig 1.3

show some aspects of the spatial variations in development. Several issues may be highlighted in relation to imbalances in regional development. First is the dominance of the 'core region' or the Colombo Metropolitan Region (CMR). This has led to the so-called core-periphery dichotomy. What is significant is that recent aspatial and spatial policies have led to an acceleration of the process further widening the core-periphery differentials.

Secondly it needs to be recognized that the core itself has to contend with regional development issues relating to rapid growth such as pollution, traffic congestion, problems of urban sanitation and waste disposal to mention just a few. Yet the core has its own less-developed 'periphery' as signified by the Kalutara district, and also pockets of urban and rural poverty.

Thirdly while the core-periphery dichotomy is a fact, the periphery is not uniform in terms of development either. There are significant differences within the periphery based on resource endowments and historical and political-economic circumstances. As already seen the on-going war in the North and the East has had a deep impact on the social and physical infrastructure development and the Physical Quality of Life of the people living in these areas. At the same time there are significant variations in development within micro regions as well. A case in point is the Walapane Division of the Nuwara Eliya District. A similar situation is found in Medawachchiya, Kebithigollewa and Horowpotana Divisions of the North Central Province. Similar lagging areas can be identified in other Districts as well.

Fourthly there is uneven urban growth and development which has also been a factor contributing to spatial imbalances. Wanasinghe (2001) points out that the geographical coverage of lower order central places including that of rural periodic markets is inadequate. It is now recognized that lower order central places have to play a vital role in stimulating the growth of regional economies (Mathur, 1982). Another development that has not received much attention of the regional planner is the mix of rural and non-rural activities along arterial roads extending from urban nodes (e.g. along the Colombo-Kandy road). These replicate the *desa-kota* identified by McGee (1987) in Indonesia and elsewhere, though not on the same scale.

In regard to spatial imbalances and their implications for regional development Wanasinghe (2001) has attempted to classify the periphery into development regions. This has been done on the basis of multiple criteria such as the Average Annual Growth Rate of GDP; per capita GDP; per capita Gross Regional Product; contribution of each province to the GDP and to the manufacturing sector; Aggregate Infrastructure Index; and the Human Development Index. Three broad regions have been identified. First an active and relatively fast developing periphery represented by the Southern and the Central Province. Secondly a moderately fast developing periphery to which belongs the North Central and the North Western Province and thirdly a slow growing periphery that includes the Sabaragamuwa and the Uva Province as well as the Northern and the Eastern Province. Parts of the North Central Province affected by the on-going war too fall within the slow growing periphery.

What implications do spatial imbalances hold for regional planning? These differences call for a region and place focussed development that enables each region to realize its fullest potential. The idea should be to overcome spatial imbalances in development not by limiting the development of the core (which in any case is not possible because of the advantages of agglomeration economics) but by making it possible to complement the development of the 'core'. At the same time the regional development of the North and the East would require a special planning effort that combines social and infrastructure reconstruction with development. Overall the planning process should also be capable of making use of the heterogeneity of regions (in terms of geo-economy) to derive competitive and comparative advantages.

Weaknesses in the Planning Process

We may now turn to a consideration of the weaknesses inherent in the regional planning process in Sri Lanka. First and foremost is the fact that there has been no regional development policy for the country that sets out the overall vision and strategies. Such a policy

could have outlined national imperatives while also identifying the role of the 'regions' in realizing them. It could also have focused on the growth and equity issues relating to regional development and also the manner in which regional development, by promoting the interdependence of regions, could have served the purpose of national integration. Moreover the short, medium and long term goals of regional development could have found expression in the policy statement. In the absence of a national policy ad hoc projects and programmes with an area focus have substituted for comprehensive region based planning strategies.

Secondly regional development has been interpreted to mean rural development. A consequence of this has been that the importance of linking the rural and urban sectors has not received due consideration in the planning process. In fact this has been an identifiable weakness in the Integrated Rural Development Programmes as well. Consequently the District-based IRDPs were conceived as closed systems (Gooneratne et al, 1999) and the complementary nature of rural and urban development was not taken into account (Wanasinghe and Karunanayake, 1998). It may however be noted that Sri Lanka is yet to evolve its national urbanization policy. A well-conceived regional development policy would greatly facilitate not only the formulation but also the implementation of a national urban strategy.

Thirdly despite the fact that regional development in Sri Lanka has seen the operation of two concurrent processes, namely, the political and the economic, there has been the failure to integrate the two processes (Karunanayake and Abhayarana, 2000). According to Leitan (1997) decentralized governance has lagged behind in the planning and implementation of development activity and instead of a coordinated regional plan fragmented and uncoordinated projects have taken its place. This situation is somewhat incongruent with that projected in the Public Investment Plan 1988-1992:

With the establishment of Provincial Councils, the regional development mechanism could be further strengthened by integrating all resources earmarked for regional and rural development from various

sources...Once the resources are pooled, a more meaningful programme could be implemented to develop the entire region. Under the Provincial Council system administrative responsibility for regional planning and development will be in the hands of the Provincial Council under the chairmanship of the Chief Minister while the planning staff drawn from the existing district planning offices would serve as the technical arm of the Provincial Council.

Unfortunately this has not been realized in practice. Unless such a transformation takes place 'planning close to the people' will only be a pious hope. However it is encouraging to note that some Provincial Councils have developed Provincial Development Plans (e.g. North Western and Central Provincial Councils) and others are in the process of doing so (e.g. North Central Provincial Council). But much will depend on their ability to implement them.

Lastly there have been institutional problems that have constrained regional planning. While a major achievement of the IRDPs was the building of a planning capability at the District Level much remains to be accomplished in systemizing data collection, storage and retrieval. Updating of data at regular intervals has not been systematically attempted. Making data available in the form of maps, tables and diagrams for easy reference for planning of projects has also not been satisfactory. No attempt has been made to build institutional memory in regard to projects and programs. Thus not much opportunity has been available to benefit from project successes and failures. Except in some projects, and to a limited extent, not much has been done to effectively utilize Geographic Information Systems for practical planning exercises e.g. poverty mapping or to identify the potential of regions. Not many attempts have been made to develop project specific monitoring and evaluation indicators and also to bring in the beneficiaries into the evaluation process. Failure of governance mechanisms that have a bearing on transparency and accountability has been particularly evident in infrastructure projects. The need

to review financial and other regulatory mechanisms to keep them in line with recent thinking on regional development, for example, to involve the private sector in promoting regional growth and development has not been attempted. Hence there is a real necessity to identify the imperatives of regional development for the future not only to overcome the weaknesses noted above but also to bring about sustained growth in the regions.

Planning Imperatives

In the light of the foregoing we may now look at the imperatives of regional planning in Sri Lanka. This section draws from a previous paper prepared by Karunanayake and Abhayaratna (2000) while incorporating new considerations as well. The planning imperatives may be considered under five sets of principles viz. Planning, Financial, Political, Spatial and the Strategic.

Planning Principles

It is necessary to formulate a national policy on regional planning incorporating national objectives and priorities. Regional planning has to take place close to the people meaning that sub-national units of governance should be given the responsibility for regional planning within the guidelines set by the national plan. This would also entail establishing a close link between national level sectoral planning and regional planning. As will be discussed later the regional planning process needs to be underpinned by a grasp of spatial principles. The planning process should be guided by a desire to realize the comparative and competitive advantages of regions as well as their individual potential. The regions should also be encouraged to be mindful of the complementary nature as well as the interdependence of regions. This calls for the synchronization of two approaches. Accordingly there could be an 'outside-oriented development approach' for the more vibrant regions and an 'auto-centric development approach' for (a) the lagging regions and (b) for lagging areas found within vibrant regions. It may be noted that auto-centric development is related to the 'concept of locally integrated economic units' where

development would start from below, within small units, and progressively lay the ground work for establishing larger production units. Such production units could lead to the organization of more complex production units that could eventually be linked to external markets (Rauch and Redder, 1990). Appropriate planning units have to be evolved and if necessary they will have to be superimposed on devolved units of governance. The human resource development for regional planning as well as the establishment of data banks for the purpose has to be put on a sound footing.

Financial Principles

At present the bulk of the funding for regional development comes from the central government or from donor agencies. This has severely constrained the provincial and local administrations taking up development or planning functions. Hence it is vital that their capacity to generate funds be enhanced through a review of existing legislation and procedures. The manner in which the central government allocates funds among the provinces too has to be reviewed and steps taken to eliminate any shortcomings. In addition to financial auditing, physical auditing of development projects has to be undertaken. It is also necessary for the political and the regional planning process to converge for more effective use of development funds.

Political Principles

In enacting the 13th Amendment to the Constitution the Government of Sri Lanka has opted for a policy of devolution. As a corollary to the 13th Amendment Provincial Councils and *Pradeshiya Sabhas* were instituted as the institutional mechanism for sub-national and local governance. But in reality there has been 'de-concentration' of administration rather than devolution in its proper form. As pointed out earlier for effective regional planning there has to be the convergence of the political and the development processes and the devolved units of governance should be made to play a pivotal role. It is evident that at present the development functions of sub-national and local authorities are rather narrowly conceived.

There are other issues that should form the core of political principles. There has to be a firm commitment to issues of social and distributive justice. The planning process should also be concerned with the quality of growth as much as with its pace. This would involve issues such as improved access to education, protecting the environment, managing global risks and improving the quality of governance in the sense of making institutions less corrupt, more transparent and accountable to the ordinary people (World Bank, 2000).

The political principles should also be firmly committed to participatory development and empowerment of people. While there has been some commitment to participatory processes in project implementation the political process has erred by not incorporating them in formal institutional structures. A related issue is that of peoples' empowerment. If people are to meaningfully participate in the development effort they should be aware of their rights and the manner of asserting them. The empowerment of women should also be a political consideration that has to be given due consideration for reasons explained earlier. Hence these considerations have to be built in the regional planning process.

Spatial Principles

The core- periphery dichotomy has emerged as a central issue in Sri Lanka's development debate. However it would be unrealistic to view the situation from a core versus periphery stance. It would also be unrealistic to assume that a policy of containing the core would help in overcoming regional disparities. It would be more relevant to develop the peripheral areas, each area according to its potential, to complement the development of the core. As pointed out earlier there are less developed regions and pockets of poverty within the core region itself.

In regard to spatial principles there is the need to integrate the urban and the rural sectors in regional planning. This was a serious lacuna in the Integrated Rural Development Projects. However the spatial integration of the urban and rural areas calls for a National

Urban Spatial Strategy. There are several issues of concern here. As already mentioned there are un-served interstices in the periphery owing to the dearth of and the unequal spread of service centres and rural towns. This problem is now being partly addressed by the Urban Sector Development Project for Medium and Small Urban Centres. The scope of the project has to be expanded to better serve the needs of regional development.

Spatial principles also call for the better integration of the peripheral areas themselves. The lack of integration of the Mahaweli Systems is a case in point. The failure of areas that are proximate to the Mahaweli Development Scheme to benefit from developments taking place within it is equally illustrative of the lack of integrated development of regions. In fact there has been many unintended negative impacts of the Mahaweli on the peripheral regions. As a consequence of unintended negative impacts there are clear inequities in social and physical infrastructure development between the Mahaweli development areas and the neighbouring areas, for example, in the Anuradhapura District. It is also evident that it has led to a pattern of labour mobility that has exerted negative impacts on the agricultural activities of villages bordering the Mahaweli Development Scheme (Karunanayake, 2001).

We have already noted that the periphery could be categorized into development regions based on the pace of development. It would be necessary to develop strategies that would help in the 'upward transition' of the 'lagging regions'. Similarly strategies will have to be mindful of 'internally lagging areas' within the more progressive regions. The two pronged approach to regional development proposed in the section on 'planning principles' is of relevance here. The fast evolving 'transactional environment' along arterial roads should also be evaluated and incorporated in the regional development process (Karunanayake, 1990). The war torn North and the East will eventually require strategies that combine social and physical reconstruction with development.

Strategic Principles

The term strategic principles is used here to denote those principles that are of vital significance to give meaning to regional planning and development. These principles may be designated as mainstreaming poverty alleviation; optimizing the use of local resources; developing local resilience; effecting guided involvement of the private sector including NGOs; sustaining the environment; and institutionalizing an effective monitoring and evaluation system.

In regard to mainstreaming poverty alleviation it is necessary that poverty alleviation be built in the regional development process. This would necessitate rethinking the approach to poverty alleviation. The Samurdhi Programme, for example, could provide a safety net to the poorest of the poor. Others should be helped to overcome poverty through mainstream development processes. A change in strategy also calls for better targeting of beneficiaries. Poverty alleviation should take note of the varying dimensions of poverty and adjust strategies accordingly. The idea would be to afford 'choices' and 'options' to the poor and lead them in the direction of income generation and assets creation. It is also important to be mindful of the gender dimensions of poverty. While feminization of poverty is not a significant feature in Sri Lanka, as noted earlier, there are certain disadvantages faced by women in the economic sphere. In mainstreaming poverty alleviation, strategies should be evolved to counter such tendencies. In the final analysis the guideposts to reduce poverty has to be well understood and action taken to reduce inequality that will in turn reinforce the growth process itself (Khan, 2000).

A second strategic principle would be to optimize on the use of local resources. To achieve this a prerequisite would be to identify, assess (both qualitatively and quantitatively) and map the locally available resources. Resource use will have to be guided by a consideration of comparative and competitive advantages. Value addition through processing and product development should also be a prime strategic consideration.

For the purpose of sustained development of regions the planning process has to be concerned with the resilience of regions. Man-made and natural disasters, market failures and the impacts of globalization may hinder sustained development. Developing resilience would require that regional planning be based on alternative scenarios, that the regional economy is diversified to the extent possible, and that poor households are season proofed through appropriate strategies. Product development, finding new markets and becoming competitive in traditional markets should also be of concern to the regional planner.

The declared policy of the government is to enlist the support of the private sector for economic and regional development. However, the danger is that there will not be value congruence between the public and the private sector in regard to the wider concerns of social and regional development. The private sector is primarily driven by the profit motive. Similarly the NGOs may also be guided by their own agendas. Hence the public sector will have to provide firm rules of the game to guide the private sector and the NGOs. On their part the Private Sector and the NGOs have to be bound by a sense of ethics and social responsibility.

Sustaining the environment is another strategic principal that must underline regional development. It is evident that environmental problems are both development and poverty related. In rural areas environmental degradation assumes a particular significance because of the dependence of the people on a bio mass economy. Understandably ecological poverty exerts a deep impact on the capacity of the poor to generate livelihoods. Therefore, it is important that the strengthening of institutional and legal mechanisms be given due consideration in regional planning. At the same time participatory processes for environmental management has to be incorporated in regional planning. In regard to environmental management, hitherto, only the NorthWestern Provincial Council has adopted an Environmental Charter. However, the ability of the Provincial Council to give effect to its provisions leaves much to be desired.

A final planning imperative of strategic importance is to institutionalize an effective monitoring and evaluation system. This has been one of the weak points in the implementation of development projects in Sri Lanka. A general weakness is that there has been no compulsion to bring the substance of evaluation reports to public scrutiny. It has also been observed that in Sri Lanka the Performance Evaluation Unit of the Ministry of Plan Implementation is not institutionally linked to the planning process (Khan, 1999). However, there is now a growing concern in the State Sector to institutionalize monitoring and evaluation and a shift from activity based to results based monitoring and evaluation is in evidence. These changes being effected at the national level must necessarily find expression in planning for regional development. A vital requirement here would be to develop suitable monitoring and evaluation indicators to assess all aspects of regional development such as indicators to measure poverty, household stress, household food security, social welfare, satisfaction of people with their life situation, quality of infrastructure development etc. These indicators should be such as to be comprehensible to the local communities themselves. Hitherto, no attempt has been made to institutionalize participatory forms of monitoring and evaluation. It is also crucial that communities are actively involved in the monitoring and evaluation process.

OVERVIEW OF THE THREE PAPERS

In the first paper Karunatileke looks at the experience of implementing poverty alleviation programs in Sri Lanka with special reference to the North Central Province. He classifies poverty alleviation programs into three categories for the purpose of analysis, namely, interventions with poverty alleviation as the primary objective; interventions that focus on poverty alleviation from a target (low-income) and area based (rural/peripheral) perspective; and the more generalized programs such as the Mahaweli Development Scheme, Village Tank Rehabilitation Project, Major Irrigation and Land Settlement Schemes etc. The attempt is to make a critical assessment of these programs. In the light of the analysis the findings are generalized under several heads

viz. selection of beneficiaries; targeting assistance; rethinking assistance; assets creation for the poor; activating community based organizations; policy issues in poverty alleviation; implementing poverty alleviation programs; poverty alleviation in a regional development context; and national macro-policies and reality at the grassroots.

The paper points to the need to be more objective in the selection of beneficiaries. Care has to be exercised to prevent the politicization of the selection process. The need to provide the poorest segments of the population with a comprehensive package of assistance is stressed. At the same time the point is made that poverty alleviation programs have to be restructured. It is argued that there has to be a fundamental change in the poverty alleviation programs that enables to look beyond the individually targeted families to a broader based program of activities that encompass the wider community. It is contended that such an approach would create an environment capable of expanding the range of choices and opportunities available to the poor. Such a broader based program could be implemented in a community area specific frame of reference to enable a clearer understanding of objectives and identification of targets.

It is explained that in the NCP the livelihoods of poor pivot on agriculture. Assets creation through agriculture necessitates structural changes pertaining to land ownership and tenure, highland cultivation and the use of marginal lands that have been occupied under conditions of spontaneous land settlement. It is proposed that the extreme sub-division of arable land be arrested. Although complicated and expensive the implementation of a land consolidation program is called for. As the majority of the poor live and work under highland conditions a solution to the problem of highland cultivation is urgently required. The point is made that it is relevant to find the reasons for the failure to evolve a suitable system of farming under highland conditions even after several decades of experimentation. The need to relocate those occupying marginal lands in more favourable areas where assistance could reach them is presented. Where relocation is not an imperative the marginalized groups utilizing highland have to be provided with the social and economic infrastructure and basic services in situ.

Karunatileke points out that the social mobilization programs implemented by the IRDPs have been a useful means to mobilize community involvement and support for development activities. He further makes the point that the process has to be sustained and further strengthened by an institutional support system built in the community. It is posited that the process has to be facilitated by a 'network of institutional development service points' covering the district and steered by a 'central service organization'. It is also necessary that the community-based organizations derive inspiration from the needs and expectations of the community itself. There is a need to work towards an institutional arrangement that enables the community-based organizations to be linked to the divisional level planning and implementation process.

The author is supportive of a flexible approach to the formulation and implementation of poverty alleviation programs.

Considering the fact that the really poor are not well served by the formal financial sector it is proposed that an institutional mechanism be devised to meet their credit needs. Such an institutional arrangement could be based on the micro-credit practices of small village groups. What is important is to devise a system that is simple and convenient.

The author is at pains to show that the poverty alleviation programs too suffer from a lack of coordination of activities. The problem is made more complex by the need to bring in many divisional and village level functionaries into the implementation process. The fact that the target groups may be widely scattered only adds to the complexity. It is therefore necessary to improve the coordination of activities at different administrative and management levels as well as in respect of specific areas. Special emphasis has to be made for proper coordination of activities at the grassroots. One possible approach as demonstrated by the NCP Participatory Rural Development Project (PRDP) would be to foster an organic relationship between the rural organizations and the divisional authorities based on the concept of co-partnership.

The importance of place and area specificity of projects that deal with poverty alleviation is well demonstrated by drawing attention to the civil war affected area in the north and northeast of the NCP. The on-going civil war has added a new dimension to the problem of poverty. On the one hand is the poverty of households caused by their proximity to the war-zone. On the other is the poverty of the internally displaced that has had to flee the war torn area. The problems faced by the two groups have both similarities and dissimilarities that need to be taken into account in poverty alleviation.

Karunatileke stresses that poverty alleviation programs have to be a part of an overall regional development strategy. Poverty alleviation has to be supported by the promotion of 'growth poles' within and around the region. This would be an imperative for the alleviation of poverty in the north and northeastern parts of the NCP.

A final issue to which the author draws attention is the need to achieve congruence between macro-policies and grassroots level development. It is necessary that the State take a clear stand, within the open economic policy, on issues such as the long-term food production strategy, import of agricultural products, provision of subsidies etc. At present conflicting policies have made it difficult for the poor to break away from the shackles of poverty and join the mainstream of development.

Weerasekara's Paper on "Poverty Alleviation through Micro Enterprise Development: A Case Study of the Central Province of Sri Lanka" highlights micro enterprise development in the Central Province as a means to alleviate poverty. The micro enterprise sector's significance has been analyzed with reference to its contribution towards employment, value addition in production and public investment.

With reference to the policy on micro enterprise development in Sri Lanka the paper states that although there is no specific policy at national level, the Government's dependence on the micro

enterprise sector as a strategy for income generation is made explicit by continued support through different State institutions. For instance, the Industrial Development Board (IDB) helps micro enterprises (MEs) to modernize, diversify and expand. It also provides consultancy services and counseling while the Small Enterprise Development Division (SEDD) maintains district offices for entrepreneurship and management training as well as for the transfer of technology. The institutions such as the Sri Lanka Handicrafts Board, National Design Centre and Crafts Council cater to the promotion of MEs, particularly the cottage level industries. In addition the GOSL also helps entrepreneurs to market their products through *Laksala*, the national emporium for handicrafts. The avowed objective of the GOSL in supporting micro enterprises has been to promote a class of small entrepreneurs who otherwise cannot stand on their own and also to generate employment. The paper analyzes the existing institutional arrangements for the purpose with particular emphasis on the Central Province.

As a backdrop to the study the author has analyzed the extent and spatial variation of poverty in the Central Province. It is pointed out that in the Central Province consumption poverty is more marked in comparison with the other provinces. As far as human development is concerned the Province fares comparatively better on many counts. However, there are noteworthy inter-district and inter-D.S. Division variations in consumption poverty as well as in human development. D.S. Division-wise figures depicting these variations are provided in the paper. The paper also provides information relating to employment by sectors. It is shown that trade and commerce together with the services provide 49 percent of employment while agriculture and livestock account for 35 percent of all employment. Only a small percentage is engaged in MEs.

The paper makes the point that the rate of unemployment in the Province is higher than the national figure of 10.3 percent as recorded by the Central Bank (1998). The distribution of unemployment in the Province shows noteworthy variations with the highest rate in the Matale district (36 percent) and the lowest (21 percent) in the Nuwara Eliya district.

The paper presents a typology of micro enterprises and divides them into four major categories viz., industry, trade and commerce, agriculture, and services. The data indicate that the most prominent category with reference to the number of units, is trade and commerce followed by small-scale industries and services. The paper also gives a picture of the spatial distribution of micro enterprises in the Central Province. A tax (Rs. 500/= per annum) based on enumeration of MEs indicates that 60 percent of such enterprises are concentrated in the Kandy district while only 17 percent is located in the Nuwara Eliya district. Even within districts some D.S. Divisions more than others stand out prominently with reference to MEs.

An attempt has been made to analyze the institutional set-up and the nature and extent of the support extended to micro enterprises by the Government Agencies and the NGOs. It is pointed out that although there are no specific institutions to cater to micro enterprises, the existing small and medium enterprise developers invariably assist micro enterprises as 70 percent of the small-scale enterprises in the Central Province belong to this category. The role of these institutions in regard to MEs is mainly one of promotion and facilitation.

The services extended to micro enterprises by the governmental and non-governmental institutions cover, inter alia, credit disbursement, design improvement, skill and management training, technology transfer, assistance to identify suitable locations and preparation of business plans. However, much emphasis is placed on training and the establishment of new enterprises, resource evaluation, demand for products and the prospects for sustainability. It is observed that both governmental and non-governmental institutions, in many instances, operate through Community Based Organizations (CBOs) and Self Help Groups (SHGs). Programmes carried out by these grass roots institutions have proved to be more effective than others.

The paper also makes an analysis of the constraints that the micro enterprises in the Province are faced with. The major constraints highlighted relate to problems of enterprise selection owing to inadequacy and inaccessibility of market information; inability to

compete with products from the medium and large-scale industries and from imports; difficulty of obtaining micro-finance from the formal credit disbursing institutions - mainly the commercial banks - for want of guarantors or collaterals; lack of proper technical know-how; inadequate management skills and the paucity of infrastructure development to support MEs in the rural areas thus escalating the cost of production.

The paper also discusses the implications of ME development for poverty alleviation. With reference to policy interventions aimed at income generation and assets creation for the poor, the paper points to the fact that the results obtained are far below expectations not only because of financial constraints and bureaucratic inefficiencies but also because of the inadequate attention placed on the formation of social capital. It has been shown that credit disbursement should essentially be linked to non-financial services in order to make a dent in the existing set-up. As the author emphasizes there is scope to alleviate poverty through micro enterprise promotion. For this purpose, different packages would have to be provided (a) to generate self-employment among the poor and (b) to promote small entrepreneurs with promise who could expand their enterprises to provide employment to the poorest of the poor who cannot aspire to be 'entrepreneurs' on their own. It is argued that a correct mix of financial and non-financial services is of crucial importance to ensure the sustainability of micro enterprises. In order to increase rural household incomes it is necessary to encourage the youth to venture into non-traditional fields such as the cultivation of foliage plants and mushrooms which assures high economic returns.

It is also shown that if the quality of the products is improved and market access is ensured, micro enterprise development has a great potential to alleviate poverty by creating employment and supplementing agricultural income in the rural sector.

Finally, the paper makes several recommendations that have implications for removing those factors that constrain ME development on one hand and creating a healthy atmosphere to promote the rapid growth of micro enterprises on the other. These

include infrastructure improvements, effective utilization of local resources, social mobilization through Community Based Organizations and Self Help Groups and the provision of improved credit delivery systems. The most noteworthy recommendation relates to the establishment of a dedicated Chamber of Commerce for micro enterprises and the creation of a Center for Micro Enterprise Development (CEMED).

In the paper titled "Rethinking Sri Lanka's Regional Development: Concepts, Policies and Institutions" Gooneratne identifies areas that require fundamental rethinking to meet the regional development challenges faced by Sri Lanka. Attention is focused on concepts, major policies and institutions that are considered essential to the organization of a more effective system of regional development.

Gooneratne considers the regional approach to development as an essential and an integral part of the development strategy of the country because of (a) the polarization of the Colombo Metropolitan Region (CMR) and the widening disparity between this 'core' and the periphery; (b) the physical, economic and socio-cultural diversity of its sub-national regions which requires region specific approaches to development and local specific solutions; and (c) the need to address the growing environmental problems at the regional level.

In order to place his arguments in context the author analyses the past attempts and achievements of regional development policies in the country. Among the projects initiated prior to 1978, are investments in infrastructure, Dry Zone land settlement and the decentralization of certain central government functions to districts. After 1978 under the liberalized economic regime large-scale public sector investment was undertaken as 'lead projects' that included the Mahaweli Development Project. Since these projects lacked spatial and sectoral breadth, Integrated Rural Development Projects (IRDPs) were introduced in areas that were not covered by the lead projects. Other major thrusts of a regional development nature were the attempts at decentralizing industries and the devolution

of considerable authority and responsibility to sub-national regions under the 13th Amendment to the Constitution and the Provincial Councils Act of 1987.

Although these development programs have contributed to the improvement of socio-economic conditions in backward rural areas, they have not succeeded in arresting the polarization of the CMR or in achieving a more spatially balanced regional development. Furthermore they have not been able to accelerate growth or build resilience of regions and/or enhance their competitive edge.

Gooneratne discusses the emerging realities and challenges in regional development in Sri Lanka and explains how recent developments have altered the background against which future development policy in the country has to be conceived and put in place. At the global level, new opportunities have been created by the gradual weakening of the pre-eminent position of the primate cities for the location of industries and the emergence of regional centers and small towns that can attract industries. However he warns of the possible dangers posed by an expanding CMR that will push other sub national regions to a position of disadvantage and exacerbate core-periphery differences. He stresses the need to develop new policies and practices for regional development. At the national level, liberalization of the economy and the move towards a greater reliance on the private sector pose new challenges for regional development by accelerating the polarization of the CMR. Migration of youth to urban areas and the reduction of resource allocations to the provinces also aggravate problems of regional inequality. At the local level there is a growing demand for greater responsibility in managing local affairs. According to Gooneratne all these changes require shifts in thinking and repositioning of strategies.

For a more effective system of regional development, Gooneratne has identified three broad areas that merit reconsideration viz. guiding concepts, policy priorities, and institutional mechanisms. Under guiding concepts, he maintains that the concept of the region and of regional development has been loosely defined and

insufficiently understood in Sri Lanka. He questions the suitability of the existing geo-political regions such as the Provinces as appropriate units for organizing and promoting regional development. Moreover the absence of an overall regional development strategy for the country and the failure to recognize that regional development merits a more comprehensive approach are considered as other drawbacks.

Another weakness highlighted by the author is that regional development programs in Sri Lanka have been planned and implemented by the centre. To overcome this weakness he recommends more local level development initiatives.

In order to create competitive and resilient regional economies, the author identifies key areas of policy that merit new thinking. They include the setting-up of an efficient settlement system in order to moderate the further growth of the CMR and to support the development of a region-focused and region-serving system of urban centers in the periphery as well as the strengthening of rural-urban linkages. Policy wise another priority is the promotion of local stakeholder partnerships within each region so that the capacity for self-organization and the ability to achieve internal stability is improved. In order to realize competitive advantage he also stresses the need to enhance the capacity of regions for innovation. Hence priority should be given to the adoption of some elements of the concept of 'innovation' or 'learning' regions in Sri Lanka as well.

Gooneratne expresses the view that appropriate institutional mechanisms constitute the foundation on which regional development can be organized in efficient and sustainable ways. These institutional mechanisms should be vertically and horizontally linked to include national, regional and local levels. At the national level in Sri Lanka there is no clearly established institutional mechanism that is responsible for regional development. Although there is a plethora of ministries and agencies that handle different aspects of regional development, their activities are not organized within the broad framework of a national regional

development policy. Thus there is a growing need for a strong inter-regional planning bureau at the centre to deal with issues of inter-regional balance between growth, equity and sustainability.

At the regional level he argues for a separate regional planning agency to prepare long-term development perspectives for each region of a geo-economic nature. The preparation of such plans is to be the responsibility of local stakeholders along with the national planning agency and planning units geo-economic regions. A strong, accountable and an efficient system of governance is required at the local level to enhance the capacity to formulate development policies and programs. Gooneratne outlines the shortcomings of local government institutions in Sri Lanka and explains why it is necessary to strengthen the local government system. He concludes by focusing on the significance of undertaking research to understand the dynamics of regional growth and change.

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IMPLEMENTING POVERTY ALLEVIATION STRATEGIES IN RURAL SRI LANKA: EXPERIENCE AT THE GRASSROOTS WITH SPECIAL REFERENCE TO THE NORTH CENTRAL PROVINCE

T.H.Karunatileke

INTRODUCTION

This paper looks at the experience of implementing poverty alleviation strategies in Sri Lanka with reference to the North Central Province to enable lessons to be drawn for the future. The paper outlines its conceptual framework and then proceeds to provide a brief account of poverty and underdevelopment in the North Central Province. This is followed by a discussion of selected poverty alleviation strategies that have been implemented in the North Central Province from time to time. The substantive contribution of the paper is devoted to a discussion of the learning experience to be derived from them. The final section ties-up the main threads of argument presented in the paper and highlights policy implications.

CONCEPTUALIZATION

Poverty alleviation approaches and interventions are not single stranded. They are many and interrelated. A basic consideration in most approaches and interventions is to raise incomes and create assets for the poor. Some are aimed at providing basic needs to the poor. Others are aimed at effecting improvements in sectors that are considered vital to uplift the quality of life of the poor e.g. health and sanitation, nutrition, and education. Yet another approach has been to adopt policies involving the redistribution of resources and factors of production to benefit the poor e.g. fiscal incentives for local production, subsidy schemes and control of imports to encourage local production. In addition to the above interventions there have also been programmes concerned with the provision of assistance to poor families on a selective basis. Poverty alleviation interventions in Sri Lanka could be broadly classified into:

- (i) interventions that have poverty alleviation as their primary objective as exemplified by the *Janasaviya* and its successor the *Samurdhi* programme. These are national programmes that extend to the local level;
- (ii) interventions with target (low income families) and area based (rural/peripheral) focus. Programmes such as the Integrated Rural Development Programmes (IRDPs), North Central Province Participatory Rural Development Project and the North Central Province Rural Development Project fall into this category;
- (iii) interventions of a general nature for the economic advancement of rural communities (rationalization of encroachments, land settlement, village tank rehabilitation, Mahaweli Development etc.) that do not have poverty alleviation as the primary objective. That is to say poverty alleviation is not so much an explicit but an implicit objective.

An underlying assumption of the paper is that these interventions have both directly and indirectly and to different degrees contributed to alleviate rural poverty. But at the same time there have been significant omissions and commissions in their implementation. The point at issue is what lessons could be drawn from past experience for the more purposeful and effective implementation of poverty alleviation programmes in the future?

An objective of the paper is to focus on the grassroots level experience in implementing poverty alleviation programmes. However, this cannot be done without reference to the entire planning and implementing process from the national to grassroots level. Nevertheless, given the scope of the paper an attempt is made here to look at the total process from the perspective of grassroots level operations.

POVERTY AND UNDERDEVELOPMENT IN THE NORTH CENTRAL PROVINCE

The North Central Province covers an extent of 10511 sq. km, which is approximately 15 percent of the total land area of Sri Lanka. Hence it constitutes the largest single province of the Island.

In 1999 the NCP had an estimated population of 1.07 million. The economy of the province is basically agricultural with 70 percent of the population depending on farming to earn a livelihood. There is very little diversification of the household economy.

On the basis of the number of *Samurdhi* recipient families as much as 52 percent of families in the NCP can be classified as poor. On the same basis considerable intra provincial variation in poverty can also be identified. Thus in some administrative divisions of the province the number of *Samurdhi* beneficiary families (and hence poor families) may be as high as 70 percent or more of the total number of families (e.g. Horowpotana 76.5 percent, Palagala 73.3 percent, Tirappane 71.3 percent, Kebitigollewa 70.5 percent and Weli-oya [temporarily included in the NCP] 87 percent). But there are also the relatively better off divisions such as Tambutteagama, Nuwaragam Palata East and Talawa with only 26, 34 and 38 percent respectively of the families being classed as recipients of assistance under the *Samurdhi* Programme. However, the high levels of poverty depicted by the figures cited above may be somewhat inflated by the politicization of poverty assistance that result in the leakage of benefits to the non-poor as well.

While the NCP had formed the heartland of the 'hydraulic civilization' of the past, at present it depicts some of the lowest indices of development in Sri Lanka. According to the NCP Planning Council Publication No 2 (n.d) the following features characterize the socio-economic scenario of the NCP:

- (i) The gross regional product is the lowest for any province in Sri Lanka except the North that is affected by the disturbances caused by the civil war;
- (ii) In terms of infrastructure indicators it records the lowest average excluding the Uva Province. Thus it had the lowest road density (km/km²) and electricity supplies (kwh/per capita);
- (iii) Industrial development has lagged behind that of the other provinces. By 1997 the NCP share of registered industries as well as Board of Investment Projects stood at less than 1 percent for the Island;

- (iv) High incidence of unemployment is characteristic of the NCP. In 1994 nearly 11 percent of the total workforce numbering some 43512 persons were reported unemployed;
- (v) Urban development has been confined to a few large centers such as Anuradhapura and Polonnaruwa that have by and large remained insulated from their rural hinterlands.

In regard to poverty and underdevelopment in the NCP there are certain noteworthy development issues that are of particular relevance from a regional development perspective. While the NCP makes a significant contribution to the total paddy production of the Island (21.8 percent in 1994/1995) the cropping intensity is low in the dry season particularly in the medium and small (village) irrigation systems. While there is an estimated 400,000 ha of land available for agricultural expansion, water is seen both as a critical and a limiting factor. The North and the Northeastern parts of the NCP are remote and poorly served with infrastructure facilities. As compared to social infrastructure, physical infrastructure development has tended to lag behind (Abeywickrema, 2000). The development issues are further complicated by the ongoing civil war in the areas bordering the province, which result in spill over effects such as the in-migration of the 'internally displaced persons' or the IDPs. The IDPs bring into contention issues of resource use and resource use conflicts. The Mahaweli Development Scheme, which covers parts of the NCP has also caused unintended negative impacts of development (Karunanayake, 2001a). It is also evident that the devolution of power to the province under the 13th Amendment to the Constitution has not resulted in a convergence of the political and the development process (Karunanayake and Abhayaratne, 2000). Consequently the Provincial Council thus far has not been totally successful in performing a truly developmental function.

SELECTED POVERTY ALLEVIATION INTERVENTIONS

Nationally Executed Poverty Alleviation Programmes

In this section an attempt is made to provide an account of selected poverty alleviation interventions in accordance with the three-fold classification provided above.

Food Stamps Scheme

The Food Stamp Scheme was introduced in 1979 by modifying the then implemented Food Subsidy Scheme. Under this scheme food stamps were issued to families whose income was below Rs 750/- per month. It was found that by 1987, nearly half of the total population in the country was receiving food stamps under the Poor Relief Programme. The scheme aimed at a direct income transfer to the poor whereby food stamps with a fixed cash value were made encashable against a specified basket of commodities. The scheme suffered from several drawbacks. The non-indexation of the food stamps to accord with the rising cost of living was a major drawback. It also did not have a specific nutritional objective (Fernando, 1988). Furthermore, as Edirisinghe (1985) has pointed out despite the attempt to target the poor, there was considerable leakage of benefits to the non-poor. The *Janasaviya* Programme replaced the Food Stamp scheme in 1989.

Janasaviya Programme

The objective of the *Janasaviya* Programme was poverty alleviation through the promotion of self-reliant development among the selected poor through a process of community mobilization. The poor were expected to contribute their labour to Public Works Programmes for the purpose of community assets creation. A credit scheme was introduced to help beneficiaries to develop opportunities for self-employment. The poor were also entitled to a monthly subsistence allowance. The *Janasaviya* Programme was implemented in a number of phases.

Other community development programmes such as the *Gam Udawa* (Village Awakening Programme) were implemented to help achieve the objectives of *Janasaviya*. Other programmes of a similar nature were the Nutrition Improvement Programme and the Land Alienation and Regularization Programme that was implemented through a Task Force. There was also a special housing construction/ improvement Programme. The *Gam Udawa* had as its main objective the improvement of physical infrastructure in

selected villages. This included improving village roads, construction of multipurpose buildings and sinking of tube wells for drinking water, etc. The Land Alienation Programme aimed at providing land to the needy for the purpose of house construction or for cultivation. It took the form of either alienating new land or regularizing the encroached upon State land.

A special fund known as the *Janasaviya* Trust Fund was established in 1991, with the assistance of the World Bank, to meet financial requirements for the implementation of the *Janasaviya* Programme. It financed developmental programmes launched by the *Janasaviya* and also the *Samurdhi* Programme in its early phase. The Trust Fund consisted of four separate funds, viz. (a) Partner Organization Fund, that provided funds for lending to the poor for investment in self-employment activity, through the partner organizations, responsible for the implementation of the credit programme at the village level (non-governmental organizations, community based organizations, etc); (b) Human Resources Development Fund that was intended to strengthen the performance capacity of the partner organizations; (c) Community Project Fund intended to finance community development work; and (d) Nutrition Fund that had as its target children and lactating mothers belonging to poor families. In 1991 there were some 12-partner organizations operating in the prospective Participatory Rural Development Project (PRDP) area. These partner organizations provided deposit and credit services worth over Rs 37 million refinanced by the JTF (MPPI 1993). The Trust Fund was wound up recently in view of operational difficulties that were intrinsic to the Programme.

Samurdhi Programme

The *Samurdhi* Program replaced the *Janasaviya* Program in 1994 as a result of change of government. It has now become a key project of the government. The Program functions through a process of community mobilization. A *Samurdhi* animator with responsibility for a Grama Niladhari (GN) Division mobilizes the targetted beneficiaries into groups (brigades) and trains them for development work at the grassroots. These groups are encouraged

to mobilize savings and contribute to community development work. Employment and income generation activities are promoted and support services provided. Village groups at the level of GN division form *Samurdhi* societies and these coalesce to form zonal *Samurdhi* centres. *Samurdhi* banks are established at zonal level. The beneficiaries receive a monthly subsistence allowance, the amount depending on criteria such as the number of dependents, family income etc. The poverty line is defined by an income of less than Rs. 1500/= per month per family. By the end of 1998, there were 1,973,183 families in the country receiving assistance under *Samurdhi* (Central Bank, 1999). In 1999 out of a total of 198,328 families 104,260 families benefited from the Programme in the Anuradhapura district.

TABLE 2.1

Categorization of *Samurdhi* Beneficiaries in the Anuradhapura District

Number of dependents	Payment in Rs.	Number of recipient families	Percentage
+3	1,000	1,213	1.16
3	500	52,985	50.82
	250	23,694	22.72
2	200	16,542	15.87
1	100	9,826	9.42

Note : Beneficiaries receiving Rs. 250/= per month are those who were in receipt of *Janasaviya* benefits earlier.

Source : Office of the *Samurdhi* Commissioner (1998).

In the Anuradhapura district credit to the value of Rs. 43 million was disbursed for agricultural and small enterprise development activity through the *Samurdhi* Programme. *Samurdhi* banks were established commencing 1996. By 1999 there were 53 banks functioning in the 22 divisional secretary areas in the district. The savings totaled a sum of Rs 57.98 million (deposits and savings of members as well as of non-members). According to the Office of the *Samurdhi* Commissioner, in 1999 the membership of *Samurdhi* Banks in the Anuradhapura district numbered approximately 80,000.

The Samurdhi Programme is implemented and coordinated by the District Secretary with the assistance of the Assistant Commissioner of Samurdhi. At the field level, the Divisional Secretary assisted by Samurdhi Managers and Animators bear responsibility for its implementation.

Area Based Programmes Targetting Low Income Families

Integrated Rural Development Projects (IRDPs)

There have been 15 IRDPs implemented in the country since 1979. According to the Central Bank by the end of 1998 the funds utilized by IRDPs amounted to Rs. 11,254 million. In general IRDP activities were targetted at the poor.

The development programmes implemented by the IRDPs during the period 1979 - 1994, pivoted on providing rural infrastructure such as community wells for drinking water, rehabilitation of irrigation works and construction of rural roads; delivering services to improve health, nutrition, education and housing conditions; community and institution development; and on gender issues.

At the beginning the IRDP strategy on rural development was not well defined. It was mainly concerned with the filling-in of gaps created in the process of delivery of services by the line agencies. In the mid 1980s the strategy became more oriented to one of participatory rural development. This approach was first tried out in Hambantota district (1993) and subsequently came to be adopted in all IRDPs. [Other development strategies tried out in the IRDPs were: Key Area Planning (Ratnapura), Backward Area Development - Intensive Village Development (Matara), Settlement Cluster and Village Development (Hambantota), Divisional Level Planning Support Programme (Moneragala) and Divisional Secretary Division based Village Development (Kandy)].

The social mobilization process placed emphasis on awareness creation, micro-savings mobilization, operation of group based credit schemes and community development (partly on self-help basis). Indeed there are experiences where the socially mobilized

village groups have come together to form higher-level organizations. The IRDPs have been gradually phased out and in their place projects that place emphasis on rapid economic and area development have been introduced. Yet, the indispensability of the participatory approach to project implementation is now recognized.

An IRDP was implemented in the Anuradhapura district from 1992 -1995 in five selected Divisional Secretary (DS) divisions. Simultaneously with the IRDP a Change Agent Programme (CAP) was also operational in the District. The implementation experience of the IRDP shows that it had some shortcomings in regard to poverty alleviation. While the IRDPs significantly contributed to alleviate human poverty they were much less successful in alleviating income poverty. In general they have also overlooked the essential link between economic growth and reduction of poverty (Hewavitharana, 1989). Indeed in view of the above there is now a shift in strategy from 'integrated rural development' to 'rural economic advancement' (Karunanayake and Abhayaratne, 2000).

NCP Participatory Rural Development Project

The NCP Participatory Rural Development Project (PRDP), which succeeded the IRDP, embodied the positive experiences of both the CAP and the IRDP. The PRDP, which is funded by Sida/IFAD, serves fifteen DS Divisions in the Anuradhapura district, leaving out the six in the South that are wholly or partly served by the Mahaweli Project. Its fundamental approach to development is through community participation. The main project components are social mobilization and participatory planning; water resource development; agriculture; health and nutrition; storage and processing; income generation; and rural credit (IFAD, 1996).

The project is targetted at the low-income community. The target group comprises: beneficiaries of poverty alleviation programmes; families in *purana* villages who are served by poorly functioning

tanks; landless families in *purana* villages; families dependent on agricultural and other forms of wage labour; descendents of settlers in colonization schemes; female headed households; internally displaced families and those living in remote and less favourable areas. The targetted beneficiary families are in the region of 30,000.

Drawing on experiences of the IRDP and the CAP, the project implements a social mobilization and participatory development programme. A cadre of social animators and field trainers facilitate this process. In addition, they are expected to mobilize the poor for the implementation of sectoral work programmes of the line agencies. This involves creating community awareness, forming small groups that would eventually coalesce to form village level organizations, promoting micro-savings and credit schemes among the poor and involving them in community development work, mostly in village infra-structure development activities to provide agricultural roads, market centres, community wells for drinking water, community meeting halls etc. A Village Development Fund (VDF) is provided to finance community development work. Identification of development needs and their prioritization are done through participatory rural appraisals. Community groups subject to availability of funds approve proposals that fall within given guidelines for implementation.

The value of projects undertaken through the VDF amounted to approximately to Rs. 40 million during the period 1996 -1999. By end of 1999, some 19,195 families were socially mobilized and there were at least 3,220 small groups. According to the Project management Office of the PRDP their total savings amounted to Rs. 8.5 million. The PRDP has initiated action to support the incorporation of small groups and village organizations within a larger organizational structure to enable them to be strong and resourceful in interacting with the external environment while also being self-reliant.

The water resources development component focuses on rehabilitation of medium and minor irrigation tanks, construction of agro-wells and the development of tank ecosystems.

The agricultural development component focuses on crop demonstrations, stabilization of highland cultivation, field crop research, and development of animal husbandry with emphasis on goat rearing.

The health and nutrition programme lend support to the provincial health department in aspects of public sanitation and control of malaria. The nutrition programme is directed towards improving the nutrition of children and lactating mothers of poor families.

The storage, processing and income generation component is concerned with the introduction of and training in low cost storage, as well as in the processing of agricultural produce. It has a component with limited scope for the promotion of income generation. The rural credit component is expected to provide a simple and convenient means of meeting the investment credit needs of low-income groups. The credit services were to be provided through commercial banks. They were to utilize funds provided under the *Janasaviya* Trust Fund for the purpose. However, this arrangement did not bear fruition.

NCP Rural Development Project

The NCP Rural Development Project (RDP) through its Village Advancement Programme covers 415 villages in both the Anuradhapura and Polonnaruwa districts. The project benefits an estimated total of 43,000 households comprising a population of 185,000 (Thalpawila, 2000). However, the Project itself is wider in scope and involves support for the development of production components: (irrigation improvement, inland fisheries and the provision of credit) and economic and social infrastructure development (road improvement and the Village Advancement Programme). It may be noted that the PDP has adopted an assets creation / transfer strategy for poverty alleviation. The selection of villages for poverty alleviation is based on the following objective criteria:

- (a) At least 50 percent of families would be dependent on rainfed upland farms with limited or no access to paddy land;

- (b) At least 30 percent of families would rely on agricultural labour as the main source of income;
- (c) At least 50 percent of houses would be of poor quality and deficient in physical and social amenities;
- (d) Villages would be found in relative isolation mainly as a result of poor access to roads.

The strategy of the Village Advancement Programme which is three pronged is responsive to the local resource situation both natural and human. The first strategy deals with assets transfer to small and marginal farmers. Specific activities include (a) agro-wells based crop production in small plots during off season (b) off season field crop production in paddy fields (c) commercialization of some crops (d) pond fish farming and (e) promotion of cottage industries.

The second strategy has to do with assets creation for and human resource development of the landless and the unemployed youth. Activities that have been taken up include (a) establishment of farms for the intensive cultivation of crops by unemployed youth; (b) skills development of educated youth to enable them find employment in the labour market; and (c) development of small and medium scale rice milling complexes as companies.

The third strategy focuses on the creation of 'rural economic advancement centres' with the idea of providing access to markets and technology. It is also envisaged to establish production, processing and marketing linkages through the same process.

Lack of trained manpower and resulting deficiencies in programme implementation as well as inconsistencies in macro and micro-economic policies constrain the achievement of project objectives in full measure (Thalawila, 2000).

Generalized Interventions

Major Irrigation Settlement Schemes, Mahaweli Development, Village Tank Rehabilitation and other Development Strategies

The development of major irrigation settlement schemes as a strategy for the social and economic advancement of the poor goes back to the early decades of the 20th century. The Land Development

Ordinance of 1935 formed the framework for the development of the major irrigation settlement schemes. At present the major irrigation settlement schemes number around 110 of which 09 (Padawiya, Wahalkada, Huruluwewa, Dewahuwa, Kagama-Kattitawa, Rajangana, Nachchaduwa, Mahakanadarawa and Mahawillacchiya) are located in the NCP. Other than Galoya and Udawalawe all other major irrigation settlement schemes are primarily based on irrigated paddy agriculture. There is no doubt that these schemes have contributed in large measure to the country's food production efforts. However in terms of achieving distributive equity they have been much less successful. Consequently problems of subdivision and fragmentation of land, operation of hidden forms of land tenure, landlessness, poverty and indebtedness and marginalization of segments of the farmer community has been in evidence in these schemes (Siriwardhana, 1981; Wickremasekera, 1985).

The Mahaweli Development Programme that was established in 1977 covers parts of the North Central Province. It differs from the land settlement schemes established earlier in view of its multi-purpose and multi-basin character. The project has no doubt contributed to bring about the social and economic advancement of the settler families to some extent.

During the period 1975-1990 the Mahaweli Programme benefited the land needy in the NCP in substantial manner. Over 70 percent of the settlers for the System H, which lies largely in the Anuradhapura district, were selected from within the district. Similarly a large number that were settled in System B (Maduru Oya) were selected from within the Polonnaruwa district (MASL 1986). Land alienation through the Mahaweli Development Project helped in substantial measure to solve the problem of landlessness and poverty in the NCP. However, numerous problems have also arisen within the project areas that have prevented them from being transformed into 'upward transition zones' (Wanasinghe, 2001). Furthermore, poverty has also been recreated within the project area quite in contrast to the expected outcome (Wanigaratne, 1998).

Although an area specific programme the Anuradhapura Dry Zone Agricultural Development Project (ADZAP) was designed as an agricultural development project. Nonetheless it had important implications for poverty alleviation. The programme was expected to increase food production, raise income levels and provide employment opportunities to the farmers and the landless in the Anuradhapura District. This was to be achieved through the establishment of a farming system that combined rainfed and irrigated agriculture with livestock development. Although at the outset it was planned to rehabilitate 600 minor tanks and stabilize upland farming in 27,000 ha. within a five-year period (1981-1985) its scope was later reduced to the rehabilitation of only 138 tanks. But the period of implementation was extended to 1987.

One positive aspect of the project had been the granting of legal ownership of land to the poor that had made it possible for them to derive a sense of personal dignity and worth. Nonetheless the project had suffered from major drawbacks. According to an evaluation carried out by the Evaluation and Coordination Unit of the Ministry of Policy Planning and Implementation (1993):

Rehabilitation as well as selection of tanks was not based on sound technical feasibility studies, and the quality of construction work was also very poor. The command area, which was overestimated, led to number of problems resulting a failure in paddy cultivation. Lack of extension services and related problems affected adversely the development of the upland farming system. Improper selection of farmers had resulted in abandonment of allotments. Investment in livestock sector has given satisfactory results although it has not developed to the level expected.

It has also been observed that whereas stabilization of chena cultivation was one of the main objectives of the project, there were no signs of project beneficiaries giving up the practice owing to drawbacks in the settlement programme. It has also been asserted that the politicization of land distribution resulted in some instances in an absentee system of cultivation (Dayaratne, 1991).

The Village Irrigation Rehabilitation Project (VIRP) and its predecessor, the National Irrigation Rehabilitation Project has benefited small farmers in the *purana* villages who depend on village irrigation for paddy cultivation. Under the VIRP some 295 irrigation works were rehabilitated in the Anuradhapura district. In addition are the rehabilitation programmes currently funded under the PRDP and the Anuradhapura District Rural Development Project. These have enabled the farmers to receive a more assured supply of water to cultivate at least one season a year, with minimum risk of water shortage, unlike in the past when the supply of irrigation water was badly affected by system failure.

However, the VIRP also had its problems in regard to the overall impact on the poor. The project had failed to consult project beneficiaries at the design stage. Therefore it was not possible to benefit from the knowledge and experience of beneficiaries in undertaking rehabilitation (Dayaratne, 1991). The poor quality of rehabilitation was one such problem. Hence there was the problem of sustaining benefits. The project failed to set-up workable institutional arrangements for maintenance in the post rehabilitation phase. Moreover the VIRP primarily benefited those with some amount of land and not the landless. Whatever benefits that have accrued to the landless were indirect in the form of wage labour or sharecropping. It has also been shown by Wimaladharma and Karunanayake (1984) that the project was unable to make a significant contribution in terms of (a) expanding the irrigable extent (b) double cropping (c) raising income and (d) generating employment. However this assessment was made just two years into the project.

The regularization of encroachments too had been adopted as a policy to deal with the problem of poverty in rural Sri Lanka. According to the declared policy of the government (MLLD, 1983) this took three forms:

- (a) Regularization of encroachments;
- (b) Eviction of encroachers from environmentally sensitive areas and their relocation in alternative locations;

- (c) Non-regularization of encroachments deemed to have taken place after 31st March 1979.

However, (a) and (b) suffered from implementation difficulties. Similarly the non-regularization of encroachments was never considered a viable proposition given the political agendas of the different stakeholders (Karunanayake, 2001b).

IMPLEMENTING POVERTY ALLEVIATION PROGRAMMES : LEARNING FROM EXPERIENCE

Selection of Beneficiaries

The selection of beneficiaries in poverty alleviation programmes leaves much to be desired. This is equally true of programmes such as the Samurdhi. Lapses on the part of the bureaucracy as well as the over politicization of poverty alleviation programmes have contributed to this situation. Consequently there have been leakages to the non-poor. Needless to say these weaknesses damage the spirit and purpose of the programmes while also contributing to a loss of credibility. There is a need to identify the target populations more objectively and also to de-politicize poverty alleviation programmes.

Targetting Assistance

Hitherto poverty alleviation programmes have focused on selected families. This undoubtedly has its merits. However, the non-exclusion of the wider community in the implementation of the programmes has prevented a community-focused approach to poverty alleviation. Such an approach would have made the community to have a stake in the implementation of the programme while also generating more benefits to the poor. There is a limit to assistance that could be extended to individually targetted families. Conditions and factors conducive to sustainable growth and provide leverage for development have to be built both within and outside the targetted groups and also with reference to their immediate and wider environment. Policies that concentrate on individual families in the implementation of poverty alleviation programmes limit their overall scope to achieve results. There are certain key

area programmes, which could be implemented more profitably by involving those members of the community who are outside the targetted low-income families.

Some experiences of the PRDP may be cited to illustrate this point. In regard to tree planting programmes it has not been easy to find quality-planting material to be issued to the beneficiaries during the planting period from nurseries within the area or even in the district. The nurseries in the district do not have the capacity to provide plants of quality, in sufficient number and variety, to meet the heavy seasonal demand. Insistence of the project that commercial nurseries should be promoted to fill this gap, by involving the low-income beneficiaries did not prove effective, as their resource capabilities and priorities were at variance with the needs of such an enterprise. As a result, the project had to revise the strategy midway to enable the establishment of commercial nurseries of the requisite standard by involving non-targetted families and this is proving effective.

Similarly, the effort to promote the participation of the village well-to-do (who are willing to contribute to the development process) in the organizations of the poor is proving to be advantageous as shown in the Hidogama area of Nuwara palatha East. However, this may not be universally true and the decision to provide membership to the well-to-do in the organizations of the poor needs to be location specific. Moreover their inclusion in such organizations has to be permitted when the poor are sufficiently empowered. Setting-up the right checks and balances within such organizations will also require some degree of social engineering.

It is also found that developing village level enterprises solely through the involvement of low-income members has not proved effective as successful entrepreneurship, (which is the outcome of both inborn and acquired qualities) cannot be nurtured solely within the ranks of the poor. The skill and interest of others too need to be harnessed for entrepreneurship development among the poor.

The strategy of *Janasaviya* and Samurdhi was to assist the targetted individuals by way of providing loans to set up self-employment enterprises. It is arguable whether the expectations of the

programmes have been achieved in terms of numbers benefitting, long-term survival of projects, income and employment generated and the number that has advanced above the line of poverty. Certainly, it is useful to continue with the strategy at least in respect of the more promising Samurdhi recipients. However, the adoption of a broader complementary strategy that supports those who are outside the poverty limit and indeed even those who could be considered economically well off, with the capacity and the potential to develop enterprises would be rewarding, provided certain conditions such as the ability to provide wage employment are met. It would thereby create the means to provide opportunities for employment and generation of income to the poor.

Rethinking Assistance

An aspect that needs examination is the manner in which assistance is provided under the poverty alleviation programmes and its impact on the poor. This could be looked at from two perspectives. One is the capacity of the poor to benefit from the assistance that is intended to improve their basic life situation. The other is the adequacy of 'individual family centered strategy', and the need for an alternative or complementary strategy.

It is worth asking the question whether the type of assistance provided to alleviate poverty, has taken the poor beyond the level of subsistence? Of the total number of families in the Anuradhapura district 53 percent (i.e. 104,260 of the 198,328 families) are given Samurdhi assistance in amounts ranging from Rs 100/- to Rs 1,000/- per month, the vast majority falling within the Rs 200/- to Rs 500/- range (OACS, 1999). According to the Central Bank of Sri Lanka only about 26.5 percent of the population should be within this category. As noted earlier there is a category that belongs to the really impoverished and the destitute who need to be assisted even in amounts larger than already provided to make a living in the current economic environment. They have to be properly identified as selectees. Selections should neither be across the board nor should they be based on political patronage. Providing assistance to the non-deserving brings about negative results. They

would develop the habit of depending on State benevolence on a continuing basis, become indolent and worse, withdraw from the labour market. Thereby the labour market would be affected by labour scarcities, particularly during times of seasonal labour demand.

When one compares the very large number that had benefited from the subsistence allowance under the *Janasaviya* and Samurdhi, with the number that has succeeded in lifting themselves above the poverty line, the difference between numbers is not significant. This is a clear indication of the non-effectiveness of current interventions aimed at alleviating poverty.

There are justifiable reasons for the really poor (those who are marginalized in economic terms) to be provided with assistance to make a living. But this has to be a short-term measure for redress at best. What is more important is for them to be provided with the opportunity to integrate with mainstream society. However, it is in the interest of long-term development to plan and implement broad based development programmes to benefit the larger community rather than the individually targeted families. This would help provide choices and opportunities for the poor within their own communities through a process of generalizing the benefits of growth.

Assets Creation for the Poor

Issues of Land and Land Tenure

The main occupation of the people in the NCP is agriculture. This is especially true of the poor. The land owned by them may be inherited or held on permits issued by the State. They may also come to acquire land through a process of spontaneous occupation. Unless regularized by the State such holdings have no legal basis. There is also the situation where there may only be operational rights to land based on sharecropping or lease arrangements. Some have to simply engage in wage labour.

Land is their basic and the most vital resource. The land held by the poor is not generally favourable for cultivation on account of a number of factors. Note that more than 50 percent of agricultural land in the NCP consists of rainfed highland (homesteads 76,880 ha; perennial crops 960 ha; asweddumized 156,690 ha and rainfed highland 239,160 ha) (Department of Census and Statistics 1996). This makes surface irrigation difficult. The prospect of using groundwater is remote. Hence it is necessary to depend on the rainfall that is variable and seasonal to cultivate the land in the form of *chena* (shifting) cultivation, now partially stabilized.

The possibility of finding new land that is favourable for cultivation, especially irrigable land, is almost non-existent. Good arable land had been taken over by traditional village settlements and also the State sponsored land settlement schemes. Therefore whatever land available is mostly highland and that too generally in less hospitable areas. The Programme that was implemented under the Presidential Task Force in the early 1990s to complement the poverty alleviation Programme not only showed the prevailing high demand for land but also the limitations that had to be encountered in alienating it to the poor in the NCP, and in particular in the Anuradhapura district.

The Presidential Task Force initially expected to alienate all available land that was suitable for cultivation. However, a survey conducted revealed that people who had encroached upon State land were already cultivating whatever lands were cultivable, and even this was done under highland rainfed conditions. Therefore, the main strategy of the Task Force changed to one of regularization of encroachments. In the NCP, approximately 115,520 ha were identified for alienation. According to the Provincial Land Commissioner's Office in Anuradhapura (1996) this was 40 percent of the total extent of land that was identified for alienation in the country.

However, leaving aside the major colonization schemes the availability of land in extents sufficient to earn a reasonable income by a cultivator family is becoming scarce in the NCP. This is true

of the *purana* (traditional) villages as well. It is the outcome of population growth and the limited prospects for off-farm employment in the rural Dry Zone economy. The relatively large land units worked by the earlier generation have come to be subdivided more and more into small uneconomic units. In the *purana* villages sub-division and fragmentation of land has given rise to a complicated and unproductive system of land tenure reflected in different forms of sharecropping, leasing, rotational cultivation, multiple ownership of very small allotments scattered over the village or the irrigation command area, and in the extreme situation, abandoning of land. A study in the village of Ulankulama in the Thirappane divisional secretary area in the Anuradhapura district, showed that owing to excessive fragmentation of land the *akkarawela* (paddy land adjoining the *purana* field) had not been cultivated for a continuous period of about ten years (Dept of Agrarian Services, 1991).

The acute problem of subdivision of land and its resulting counter productivity was noted in some of the feasibility studies undertaken in the Anuradhapura district for the Village Irrigation Rehabilitation Project. Among the constraints to raising the productivity of paddy land in the surveyed area were the uneconomic and multiple ownership smallholdings.

A few examples may be cited to show the pressure exerted on the limited land that is available and the creation of poverty even in the planned major irrigation settlement schemes in the Polonnaruwa district. These schemes were fairly well planned and were originally alienated in large units. The original number of settler families in the Parakrama Samudra scheme was 3,372. It had increased to 12,200 by early 1990s. In Minneriya it had increased from 2,600 to 10,825, in Giritale from 1,817 to 9,675 and in Kauduluwewa from 1,817 to 16,850, (RDD, 1994). If such is the situation in these schemes, which originally had land extents ranging from 5 - 8 acres (paddy and highland) per allottee one could well imagine the plight of the population in the traditional villages where the availability of land and water resources is very much restricted.

One way to solve this problem of continuous sub-division of land and make them viable production units is to implement a programme of land consolidation. But a caveat is that the cultural factors and the traditional values attached to land would militate against this. Moreover implementing a land consolidation programme is very costly and would take a long period of time to accomplish. Yet, it is necessary. The effort would be very much facilitated by generating alternative sources of income to draw people away from these lands. If not, the conditions would only worsen the incidence of poverty in the province. This is a strategic issue that merits consideration in planning for poverty alleviation.

Developing Marginal Lands

Unlike in the earlier established irrigation settlement schemes (and some highland colonization schemes), the planning of which received considerable attention and were generally provided with basic infrastructure and community facilities, the new human settlements on highland areas in the dry zone, established in particular in the last two decades, have not been well planned. Consequently it has led to a number of problems that concern the poor.

These problems are distinctly observable in a wide geographic area in the Anuradhapura district. Allocation of highland has been done more in the breach of established policy that relates to the establishment of new settlements. The systematic approach followed earlier allowed for (a) selection of land usually with reference to its physical, socio economic and spatial characteristics; (b) selection of settlers based on identified criteria and (c) provision of basic facilities as housing, infrastructure (access roads, community wells for drinking water) and community and production services to the settlers. The settlements were established in areas not far from existing settlements and often in contiguity with them. Even the regularization of encroachments was done within this framework. There was a policy and an established scheme for the purpose of planning and regulating the use of land resources. This is not to say that the planning of such settlement schemes worked to perfection all the time.

However, the practice at large, during the last two decades, has been one of giving official recognition to land encroached upon i.e. one of regularization of spontaneous settlements. This has generally resulted in not realizing the benefits that could have been realized from a systematic approach to land settlement and worse, it has brought about a situation whereby a large number of very poor squatter families have been permanently positioned in a situation from which they cannot free themselves.

These spontaneous settlements have certain salient characteristics. Most of them are scattered in isolated units over a large area and generally located far away from villages. Therefore, they deter efforts to provide social and community amenities in a satisfactory manner. Communication and transport services are thinly spread out and difficult and uneconomical to provide at times. These settlements are generally in the highland areas, mostly in the upper parts of the NCP cascade system. The natural conditions in these areas are not too conducive to agriculture. Availability of surface or groundwater is limited and therefore, cultivation is possible only during the *Maha* (Nov – Jan) rainy season, which too is subject to marked variability. Agricultural activity is on the whole rainfed and of the *chena* type. The crops produced are those commonly cultivated in the dry zone during the *Maha* season and often result in a seasonal glut that makes it difficult for the cultivator to make a reasonable income.

The development of a comprehensive programme to provide the required facilities for stabilization of highland cultivation has evaded the planners and this has pushed those who depend on these lands into a situation of destitution. It may be noted that these lands are mostly occupied by the poorest of the rural poor. The need to provide assistance to these marginalized groups at least after the regularization of encroachments has not received due attention of the authorities.

Approximately 17,000 units of land encroached upon by low income families were regularized with the assistance of the PRDP. This was expected to be a point of entry to provide development

support to improve their life situation. This expectation is yet to be realized. The scattered locations and the non-availability of other target-oriented programmes to complement the efforts of the PRDP are some of the factors that contribute to this situation. That poverty is ingrained and bred in this type of environment is a reality. Hence policy measures are needed to free the poor from a state of perpetual poverty. Otherwise, attempts at improving their condition and helping them to be self-reliant will in effect be only temporary and palliative. It is worth looking at the possibility to relocate the most marginal and vulnerable of these settler communities on a planned basis. Considering the complexity and the expenditure involved in such an attempt it may be done on the basis of a phased out long-term plan.

Issues of Technology and Extension

The dry zone highland farming system remains very much unchanged despite over six decades of research. The outcome of research results if any have not reached the people for whom they were intended, to the desired extent. Even under the agro-wells programme the contribution of the extension staff on the whole has been negligible. This may be due to the depletion of the cadre of village level extension workers. In this context one has to question whether the 'training and visit system' of agricultural extension followed since the early 1980s satisfies the needs of the poverty-stricken dry zone smallholder highland cultivator.

The Department of Agriculture and other related agencies have to work out the needs and priorities of extension services particularly in the localities and the areas that the poverty alleviation programmes are being implemented. Conservation of soil and soil moisture, more effective use of rainfed agriculture, conservation of groundwater and adoption of suitable farming systems are certain key aspects that require attention in regard to highland cultivation.

It is timely that a serious study is undertaken to assess the reasons for the failure to develop a suitable form of highland cultivation despite many years of research. The fact that a viable system of highland cultivation is of crucial importance in creating assets for the poor cannot be overstated.

Activating Community Based Organizations

Imperatives of CBOs

The social mobilization programme implemented in many of the IRDPs had been a useful means to promote collective strength and involvement of the community in the development process. It needs to be sustained and further developed by an institutional support system built in the community and facilitated by a network of institutional development service points covering preferably the district that is steered by a central service organization.

Community organizations have to derive inspiration from the needs, interests and expectations of the community itself. They could develop roots only if concepts and methods are entrenched in the political and cultural milieu. They cannot surface out of compulsion or regimentation or through programmes that promise immediate benefits. Those based on such premises often wither away on withdrawal of compulsion or of patronage. There have been a good number of experiences illustrative of this situation in the last few decades e.g. the cooperative villages, farms set up by District Development Councils, cooperative youth farms etc. This is a lesson even for on-going efforts at organization building.

The spirit and values of voluntarism, trust and self-reliance are eroded when authorities use organizations merely as instruments to 'get things done'. Such tendencies inhibit the growth of genuine rural organizations (ROs) and in the long-term cause their disintegration. Programmes to promote the growth of ROs need to be based on and nurtured in the value systems referred to above. Then only could they grow as capable and strong entities to serve the community in partnership with the administration.

Farmer Organizations for Irrigation Management

The large number of irrigation tanks (categorized as large, medium and minor according to their size and the cultivable extent) provides the basis of the rural economy of the NCP. The medium and minor

tanks are of high significance in the Anuradhapura district. The minor village irrigation tanks alone number about 2000. It has been estimated that more than a third of the number of these tanks are in operation. Most of these tanks have been or are being rehabilitated by the government. The traditional society had an effective institutional system for their maintenance and operation. However, with the policy of government intervention and the changing socio-economic milieu there has been an erosion in the sense of community responsibility (Karunanayake, 1980).

This situation is exemplified by the data collected in respect of a sample of minor irrigation tanks in the Anuradhapura district. Out of 81 tanks studied, water management in 51 percent was found to be poor; operation and maintenance system in respect of 74 percent of tanks was either not sustainable or doubtful; farmer participation in the designing of the rehabilitation was good only in respect of 35 of the 115 tanks surveyed and participation of farmers in the physical rehabilitation was adequate only in 33 of the 115 tanks surveyed. It was found that:

As a rule the standard of operation and maintenance in minor schemes depend on the farmer efforts. Farmers usually clean the canals. However they rarely maintain the headwork's often resulting in wastage at heads of the canals and shortage at the tail ends. As a result irrigation facilities in most of the 22,000 minor schemes (in the country) have been allowed to deteriorate to the point where full-fledged rehabilitation has become necessary (World Bank, 1991).

According to available information the situation has not changed much since 1992 despite the many minor tank irrigation rehabilitation projects implemented in the Anuradhapura district (e.g. the National Irrigation Rehabilitation Project, which succeeded the Village Irrigation Rehabilitation Project).

The necessity to involve the beneficiaries through their organizations, in the entire process of rehabilitation hardly needs emphasis. One reason for the poor performance of the Dry Zone Rehabilitation Project, implemented in the Anuradhapura district in the early '80s was the inadequate consideration given to farmer participation in the programme (ADB 1991). The same is true of the Five Tank System Rehabilitation Project launched in the Anuradhapura district, in the early 1980s. It was concerned with the development of an efficient system of water management but the involvement of farmers was not sought to the desired extent. This was identified as one main reason for the low performance of the project.

Strong farmer organizations that serve community interests are necessary to ensure a sense of community ownership of the irrigation system and develop a sense of collective responsibility for their proper operation and maintenance. Despite the implementation of many programmes to develop farmer organizations to bear this responsibility, the result has been not up to expectations. The physical rehabilitation has been more in the nature of opportunities and means of income mostly to the technical officers of the departments concerned through contracts and construction related activities often in collusion with office bearers of farmer organizations. This is a situation that calls for change. Hence a more realistic institutional approach has to be adopted.

Planning Issues in Poverty Alleviation

Adoption of a Comprehensive Development Approach

The line agency based segmented approach to the planning and implementation of poverty alleviation programmes has proved to be ineffective. Given the conditions under which the poor live in, an alternative strategy based on the concept of a comprehensive approach to development has to be adopted to properly address the problem of poverty.

The PRDP among its activities provides assistance for the development of animal husbandry and the construction of agrowells. The experience has been that the poor saddled with numerous

problems and struggling to survive are not in a position to benefit much from some of the schemes of assistance. There has to be a 'package deal' type of approach in reaching the poor. In providing an alternative package attention needs to be focused not only on their immediate felt needs, but also on strategies to set them on the path to economic progress and self-improvement.

Flexibility and Accountability

At times the limitations to effective implementation of poverty alleviation programmes are set at the stage of project formulation. In the course of implementing projects and programmes, often the necessity arises to revise the strategy or even to make drastic changes in the programme itself. This is because all the field situations cannot be anticipated and forecast at the planning stage itself. It is best that there is provision for revision of projects in the course of implementation. It has to be built in project plans.

Instances have come to light when leaders of technical assistance teams have doggedly insisted on rigid adherence to the letter but not the spirit of what is in the project document. There have also been instances when the provisions in the agreement between the Government of Sri Lanka and the donors provided the team leader of the technical assistance programme to function as the *de facto* project director. In such situations, the success of the project itself has been compromised by the inability of expatriate team leaders to understand the nuances and the subtlety of the social situation at the grassroots. There have been occasions when the determination of action programmes and their method of implementation were guided by considerations other than those of development. It leads to a situation in which the beneficiaries and front line officials lose their interest and commitment to the success of the programme. Note that this observation is not applicable to any of the on-going poverty alleviation projects in the NCP.

Implementation of Poverty Alleviation Programmes

Better Coordination of Project Activities

On the whole, the target groups of poverty alleviation programmes in the NCP are scattered over a wide area and this makes the management and implementation of programmes difficult. Moreover many divisional and village level functionaries (apart from those of the poverty alleviation programmes) are called upon to assist in the implementation of poverty alleviation programmes in addition to their normal duties. This situation has been circumvented to some extent in the implementation of the Samurdhi Programme by the fielding of a special management and field cadre, closely supervised by the Divisional Secretaries and monitored by the Government. However, even in implementing the Samurdhi programmes it has not been possible to do away with the services of other divisional level functionaries. The existence of a large number of village and divisional level officers representing many public service and other agencies makes coordination all the more problematic.

The village level officials are responsible for providing coordinated support to the implementation of poverty alleviation programmes. But the failure to do so badly affects the achievement of programme objectives. The uncoordinated single line functioning of a number of agencies in the district, often duplicating the functions of each other and causing waste of resources, is also in evidence. A case in point is the promotion of enterprises by several agencies e.g. Industrial Development Board, Provincial Ministry of Industrial Development, the Food Technology Division of the Department of Agriculture, Rice Processing and Research Centre, PRDP, etc.

Similarly the poorly coordinated functioning of the different divisions within departments e.g. between the research and extension divisions of the Department of Agriculture hampers the implementation of agricultural development programmes.

Therefore, one could observe that these programmes have a long way to go before they have an impact on the rural economy. It is evident that measures are necessary to improve the coordination and steering of multifarious activities at the different administrative and management levels and in respect of specific areas.

Strengthening of management, organization, system, and process is necessary at the higher political and administrative levels as well as at the divisional, district and provincial levels. Of these what is of crucial importance to programme implementation is proper coordination at the divisional/ village level. Weaknesses in coordination at these levels affect the outcome of grassroots level operations. Recognizing this, the PRDP approach is to strengthen the capacity for coordination at the divisional level. The rural organizations are expected to co-partner the divisional authorities. Thereby an organic relationship is expected to develop between them. The expectation of the PRDP has been to create:

An increased capacity at divisional level (Divisional Secretariat and Pradeshiya Sabha) to undertake systematic planning of multi-sectoral area development; improved data management and problem analysis procedures; operationlization of beneficiary participation as part of the normal planning procedure; ability to formulate project proposals, budgets and schedules and to prepare them for presentation to stakeholders and decision making bodies. (RDD,1994).

Whether the Divisional Administration has developed the capacity to effectively attend to these matters is a subject, which deserves closer scrutiny. It appears that there is much that can be done to enhance capability at the divisional level. The currently available mechanisms, viz. the Divisional Coordination Committee and the Divisional Agricultural Coordinating Committee, are far too general in purpose and intention. It is necessary to integrate the village level planning process with the divisional level. Such integration would make decision making more effective at the divisional level, for example, in deciding on proper priorities and appropriate allocation of funds for investments from different sources of funding. The coordination of activities of different agencies, even those of non-governmental organizations should be possible, within this frame. The cumulative result would then be the application of resources to derive optimum benefits to the people and the area.

Strengthening Management

Certain aspects of management need strengthening for the better implementation of poverty alleviation programmes in order to realize their objectives and to make optimum use of resources invested in them. These relate to the organization, system and process of management, the commitment of the officials concerned and the methods of realizing community participation.

The management process should be such as to allow the beneficiaries who participate in the programmes to develop confidence and satisfaction that the planned activities are in their interest, that they are implemented properly, and that the available resources are used efficiently and also legitimately.

One way of achieving this objective is to institute a system to scrutinize project and work proposals before they are implemented. This has to be done to ascertain the extent to which they reflect real needs, reliability of cost estimates, adequacy of institutional measures proposed for the maintenance of assets that would be created etc. There has to be close progress monitoring of project/ programme activities by the management. It has been proposed that:

Action should be taken to establish and operationalize comprehensive supervision and independent quality assurance systems.

Certification of payment for all future contracted civil works should be supported and substantiated with independent quality assurance certificates.

Proper internal control and internal checking system should be designed and operated to ensure that the supervising and the payment certifying officials are not involved in the construction of contract work. Moreover, it is very timely to strengthen the quality of control and the technical

system to ensure quality assurance. There should be technical checks to improve the accountability and transparency aspects of the project.

It is timely to establish an independent technical audit mechanism to ensure performance accountability. (MPI & PA 1999)

A reliable means to ascertain that the resources are efficiently invested and projects properly implemented is to check (audit) the physical performance, preferably by independent management/technical teams. It is desirable that the coverage of the audit be 100 percent of the projects/ work programmes. The sporadic auditing done by the general audit (government) is not sufficient for this purpose. The value of resources spent on this would be more than compensated by the improvement in terms of investments and performance that would result by enforcing such a system.

The advantages of beneficiary participation in the planning, implementation, monitoring and impact evaluation of projects are well recognized.

The rural organizations by themselves do not have sufficient capacity to function as active partners in the management process and in strongly interacting with public agencies and other institutions. Their membership is small. By themselves they cannot generate the organizational strength to interact gainfully with the political and the administrative system.

An integrated build up of small organizations into larger units provides the strength and the means to generate power, influence and the self-reliance necessary for their functioning. In the absence of such an integrated organization, the very survival of the small, isolated groups and village organizations becomes difficult beyond the period of external assistance. The likelihood is that they will wither away. When this happens, the rural organizations would have served only as a project 'tool' and 'participation' would have been motivated only by material considerations relating to project

benefits. A serious outcome of such tendencies is the long-term damage that they will have on the ideology and potential for collective action.

This situation points to the necessity to promote the integration of small units into an organization of considerable size having the required strength, capability, resources and recognition. Except in a few districts, wherein the IRDPs have been implemented for over two decades, integrated development of small rural organizations has not taken place. The trend in many districts is for the community organizations to disintegrate after the withdrawal of external assistance. A larger body, with necessary support, could arrest such a situation and would keep the organization moving forward.

The Participatory Rural Development Foundation of Social Animators in the Hambantota district is an effort in this direction. The establishment of the Anuradhapura Participatory Development Foundation (APDF) being promoted by the PRDP is another example wherein the large number of small low income groups initially numbering 30,000 would form themselves into an integrated body vertically linked at the village, division and the district level. Such an organization could develop the institutional capability and gain recognition as the body representing and advocating the cause of the rural community, particularly of those who are marginal. It would be a body for training and dissemination of information as well as a resourceful and strong partner organization for the public and other development authorities functioning in the area. It is expected to be an organizational system for the pooling of rural savings and for rural credit servicing in a simple and convenient manner. It is also expected to be instrumental in providing development services at the grassroots, in collaboration with the respective establishments/ agencies.

Direct relationships maintained by officials with individuals in the village, circumventing the rural organizations in the matter of providing project benefits make room for unjust and even dishonest financial dealings. This was particularly observed in the distribution of animals, planting material, construction material and in financial

disbursements for construction work e.g. in rehabilitation of irrigation works, roads, community and agro wells etc. These malpractices could be prevented to a considerable extent through the active involvement of rural organizations in the selection of beneficiaries, implementation of projects and in the distribution of assistance. A complementary and important device is to institute a system of participatory monitoring and field checking by the higher management together with the representatives of village organizations. These measures would make certain that the resources allocated for projects really go to the community and not to a few favoured individuals.

Rural Savings and Credit Servicing

Institutional facilities for making credit available to the low-income category are very limited in the rural sector. The institutional sector is neither geared nor interested in issuing small credit in view of administrative costs. The really poor find it difficult to get credit even from the informal sector owing to their low 'creditworthiness'. Such a situation calls for an alternative system that is simple and convenient, to serve this category.

There are in fact many positive experiences of micro savings and credit systems practiced by small groups in the villages. They are found to be convenient and easily available credit systems meeting the needs of the small groups. However, the amount mobilized is far too small to meet the demand for investment credit by the community. Here then is a situation where policy makers could benefit by looking at the operational methods of village level savings and credit systems. A more resourceful system could be developed outside the banking sector to serve the poor from such a learning experience. Furthermore, the possibility of integrating the savings of the scattered small groups should be explored. Such a system needs to be supported, where necessary, at least in the initial years, with resources from outside to widen the capital base for credit servicing.

POVERTY ALLEVIATION AND REGIONAL DEVELOPMENT

Focussing on Key Areas/ Sectors and on the Wider Geographical Area

In the formulation of poverty alleviation programmes it is useful to follow a model of development that focuses on specific areas/ communities. Such a frame of reference makes planning and implementation of poverty alleviation and related development programmes effective. The objectives and targets would then be clear and specific. The present manner of planning and implementing projects fall short of this expectation. Their scope and coverage is fragmented and dispersed.

It is also evident that the micro (individual family) target approach followed in poverty alleviation programmes varies in form, intensity and effectiveness. It is certainly necessary and useful in implementing programmes to benefit the poorest of the poor. However, the expectation to in-build all conditions conducive to economic development by adopting this strategy is inadequate and shortsighted.

Hence the strategy has to be modified to develop selected villages/ communities by focusing on key areas / sectors in the larger region. Thereby the economy and society of the small communities could benefit by integrating with the larger region. Space has to be created for such functional integration. This is a matter, which should receive attention in designing programmes with poverty alleviation as the main objective. Hitherto it has not been given due weight in plan formulation. It is a matter of vital concern to regional development. Without such a 'larger area' focus the success of programmes aimed at poverty alleviation of targetted individuals scattered in small villages would essentially be of limited impact.

Consider for example, the northern and northeastern areas of the NCP, i.e. the Divisional Secretary areas of Medawachchiya, Kebithigollewa, Horowpothana and Padaviya. The known resources

in the region are limited and except for the very little opportunity available to engage in the services sector, the bulk of the population has to depend on cultivation, mostly under seasonal rainfed conditions, except in the small-scattered areas under village irrigation. Even in the irrigated area, cultivation is possible only during the *Maha* (rainy) season and *Yala* (dry) season is generally not cultivable. The annual cropping intensity is only around 50 percent. The distance to markets and the lack of transport makes the marketing of crops difficult. The potential for development in the area will remain limited unless steps are taken to develop the larger region and induce the emergence of growth poles within and around it.

Without such a regional development effort, programmes to alleviate poverty in the region will only provide short-term benefits to the poor. The northern and northeastern parts of the Anuradhapura district, in particular, will drift into a worsening situation causing a perpetual drain of the public purse on poverty alleviation.

There is also another dimension to the problem. The poverty evident in the northern and eastern parts of the NCP is also deeply affected by the on-going civil war in the North and the East of the country. This has not been recognized to any great extent by the authorities. The social cost that the region undergoes is very high in terms of widowed women; social trauma and distress to which the people are exposed; increasing stress placed on women who have to substitute as breadwinners when husbands are lost; disabled victims of the war; disruption of economic pursuits; and the failure of development programme to reach the region. It is clear that poverty alleviation and regional planning have to be sensitive to these issues and work out strategies to deal with the situation. The best option of course is to restore peace. However, it is important to note that the process of social rehabilitation in the aftermath of the war will be equally demanding in terms of planning strategies and resources.

Extending the Reach of Administration

There are marked regional differences in the NCP and they are accentuated in the distant marginal areas as its northern and northeastern parts. The impact of the administrative and

development services are not felt much in the remoter areas that adjoin the 'war zone'. The incidence of poverty in the Divisional Secretary areas comprising this region [Medawachchiya (68 %), Kebithigollewa (70 %), Padaviya (58 %), Horowpotana (77 %), Kahatagasdigiliya (66%) and Welioya, in the Mullativu district adjoining Padaviya, but included in the Anuradhapura district as an interim measure (87%)] is quite high.

Caring for the Internally Displaced

Another issue that the regional planning process has to take note in the context of poverty alleviation in the NCP is the problem of Internally Displaced Persons (IDPs). At least five categories of internally displaced persons have been recognized namely, (i) those accommodated in welfare centers set-up by the government on a short-term basis; (ii) those that have to spend a longer time in welfare centers; (iii) those who have resettled on their own based on social and kinship networks; (iv) those resettled in new settlements usually comprising within district IDPs; and (v) those IDPs who have completed the displacement cycle (Sangasumana, 2001).

The IDPs pose problems for regional development because of the demands placed by them on resources in the host areas. Their presence when overextended may result in social tension and resource use conflicts. A caring attitude has to be adopted towards the IDPs that would also be helpful in minimizing social and resource use conflicts in the host areas. At present the problem of the IDPs is looked at solely as the responsibility of the central government. However, it is important to identify the problem of IDPs not only as the responsibility of the central government but also of the sub-national (provincial) government. The sub-national level planning machinery should be resilient enough to meet this exigency as it is entwined with the issue of poverty alleviation of both the host communities and the IDPs.

NATIONAL MACRO POLICIES AND REALITY AT THE GRASSROOTS

The open economic policy, structural adjustments reflected in the removal of subsidies, and import of food commodities cultivable in the NCP have reduced the poorer farmers in particular to a distressing situation. There are not many crops, which provide an income to the farmer in the short term. It is crops such as chillies and onions, which figured prominently as cash crops, and gave farmers the opportunity to earn an income higher than that from paddy. With imports, even this possibility has been constrained, and the policy itself has become a disincentive to the production effort. The oft made advocacy that production should be competitive and the farmers should diversify their production, though sound in abstract economic terms, is not realistic in the ground situation where conditions are harsh and not of much help to the poverty stricken farmer. There are certain unresolved issues and conditions that obstruct him from breaking this barrier. An issue that needs attention is whether there are crops (other than paddy and subsidiary crops as chillie and onion), which could provide a fair income to the cultivator? This remains an unresolved issue and offers a challenge to agricultural research and economic policy. The infra structure and support services for the small farmer are not satisfactory over large areas of the NCP.

It is necessary to think boldly about the action, which should be taken to eliminate the basic conditions that cause poverty. This would require the adoption of a rigorous 'pathological examination' of problems. Simple palliative measures have not provided the answer to poverty alleviation. Without such an approach poverty alleviation programmes will continue to feature on the national economic agenda. There are certain basic factors that have to be considered in formulating a development strategy for the NCP to arrest the increasing trend of impoverishment. Among these the following are important: (a) the NCP economy is dominated by small farmers most of whom are just above or below poverty line; (b) it is an area producing a substantial part of the food needs of the country; (c) the majority of the small farmers eke out an

existence by cultivating the marginal highland areas, and (d) it contains a large poverty ridden population that cannot be left alone to face the vagaries and challenges of the 'open economy'.

It is necessary that within the framework of the open economic policy, a decision is taken by the State on the long-term food production policy, the within country food production target and the limits to self-sufficiency, etc. The needs and conditions for the marginal small farmers to survive have to be built in that policy and strategy, e.g. policy on import of agricultural commodities, subsidies and other special assistance schemes. Without such a policy, the dry zone small farmer will become even more impoverished. One has to consider which policy is more realistic and more sensible: to continue with the payment of the paltry poor relief allowance, keeping the poor for ever dependent on State benevolence or to assist them to be self-reliant and make it possible for them to contribute to the advancement of the household and the regional economy.

CONCLUSIONS

This paper looked at the experience of implementing poverty alleviation programmes in Sri Lanka with special reference to the North Central Province. Poverty alleviation programmes were classified into three categories for the purpose of analysis, namely, interventions with poverty alleviation as the primary objective; interventions that focus on poverty alleviation from a target (low-income) and area based (rural/peripheral) perspective; and the more generalized programmes such as the Mahaweli Development Scheme, Village Tank Rehabilitation Project, Major Irrigation and Land Settlement Schemes etc. The attempt has been to make a critical assessment of these programmes. In the light of the analysis the experience has been generalized under several heads viz. selection of beneficiaries; targeting assistance; rethinking assistance; assets creation for the poor; activating community based organizations; policy issues in poverty alleviation; implementing poverty alleviation programmes; poverty alleviation in a regional development context; and national macro-policies and reality at the grassroots.

The paper points to the need to be more objective in the selection of beneficiaries. Care has to be exercised to prevent the politicization of the selection process. The need to provide the poorest segments of the population with a comprehensive package of assistance is stressed. At the same time the point is made that poverty alleviation programmes have to be restructured. It is argued that there has to be a fundamental change in the poverty alleviation programmes that enables to look beyond the individually targeted families to a broader based program of activities that encompass the wider community. It is contended that such an approach would create an environment capable of expanding the range of choices and opportunities available to the poor. Such a broader based programme could be implemented in a community area specific frame of reference to enable a clearer understanding of objectives and identification of targets.

It is explained that in the NCP the livelihoods of poor pivot on agriculture. Assets creation through agriculture necessitates structural changes pertaining to land ownership and tenure, highland cultivation and the use of marginal lands that have been occupied under conditions of spontaneous land settlement. It is proposed that the extreme sub-division of arable land be arrested. Although complicated and expensive the implementation of a land consolidation programme is called for. As the majority of the poor live and work-under highland conditions a solution to the problem of highland cultivation is urgently required. The issue is raised that it is relevant to find the reasons for the failure to evolve a suitable system of farming under highland conditions even after several decades of experimentation. The need to relocate those occupying marginal lands in more favourable areas where assistance could reach them is presented. Where relocation is not an imperative the marginalized groups utilizing highland have to be provided with the social and economic infrastructure and basic services in situ.

It is pointed out that the social mobilization programmes implemented by the IRDPs have been a useful means to mobilize community involvement and support for development activities.

The point is made that the process has to be sustained and further strengthened by an institutional support system built in the community. It is posited that the process has to be facilitated by a 'network of institutional development service points' covering the district and steered by a 'central service organization'. It is also necessary that the community-based organizations derive inspiration from the needs and expectations of the community itself. There is a need to work towards an institutional arrangement that enables the community-based organizations to be linked to the divisional level planning and implementation process.

The paper is supportive of a flexible approach to the formulation and implementation of poverty alleviation programmes.

Considering the fact that the really poor are not well served by the formal financial sector an institutional mechanism has to be devised to meet their credit needs. Such an institutional arrangement could be based on the micro-credit practices of small village groups. What is important is to devise a system that is simple and convenient.

It is clear that the poverty alleviation programmes too suffer from a lack of coordination of activities. The problem is made more complex by the need to bring in many divisional and village level functionaries into the implementation process. The fact that the target groups may be widely scattered only adds to the complexity. It is therefore necessary to improve the coordination of activities at different administrative and management levels as well as in respect of specific areas. Special emphasis has to be made for proper coordination of activities at the grassroots. One possible approach as demonstrated by the PRDP would be to foster an organic relationship between the rural organizations and the divisional authorities based on the concept of co-partnership.

The importance of place and area specificity of projects that deal with poverty alleviation is well demonstrated by drawing attention to the civil war affected area in the north and northeast of the NCP. The on-going civil war has added a new dimension to the problem

of poverty. On the one hand is the poverty of households caused by their proximity to the war-zone. On the other is the poverty of the internally displaced that have had to flee the war torn area. The problems faced by the two groups have both similarities and dissimilarities that need to be taken into account in poverty alleviation.

It is stressed that poverty alleviation programmes have to be a part of an overall regional development strategy. Poverty alleviation has to be supported by the promotion of 'growth poles' within and around the region. This would be an imperative for the alleviation of poverty in the north and northeastern parts of the NCP.

A final issue to which attention is drawn in the paper is the need to achieve congruence between macro-policies and grassroots level development. It is necessary that the State take a clear stand, within the open economic policy, on issues such as the long-term food production strategy, import of agricultural products, provision of subsidies etc. At present conflicting policies have made it difficult for the poor to break away from the shackles of poverty and join the mainstream of development.

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POVERTY ALLEVIATION THROUGH MICRO ENTERPRISE DEVELOPMENT: A CASE STUDY OF THE CENTRAL PROVINCE OF SRI LANKA

T.B. Weerasekara

INTRODUCTION

Generation of employment and income opportunities for the poor, both in the urban and rural areas in a sustainable manner, has been a challenge that the Government of Sri Lanka (GOSL) had to contend with during the last few decades. A noteworthy step taken to meet this challenge is the emphasis given to Micro Enterprise Development. The underlying objective of micro enterprise development is to work for poverty alleviation through self-employment. The promotion of micro enterprises (MEs) also aims at developing the latent potential of the deprived groups of the community towards successful entrepreneurship. The thrust is to move away from the survival frame to make them more entrepreneurial. Successive Governments in Sri Lanka have realized that in the context of the rural sector it is the small and micro businesses that have the potential to generate employment with a very high labour capital ratio. Hence, considerable allocation of funds has been made every year to promote micro enterprises. The net result is the present concentration of an estimated 16 percent of manufacturing sector's value addition and 30 percent of industrial employment in the ME sector (Kumaradasa, 1998).

CONCEPTS AND DEFINITIONS

World Bank Report on Sri Lanka Poverty Assessment, (1995) has adopted the poverty line of 1 US\$ per day using the year 1995 as the benchmark. However, under the *Janasaviya* Poverty Alleviation Programme the recipients were selected from among families that received a monthly income of less than Rs 700/=. Subsequently when *Samurdhi* was launched as a poverty alleviation

programme in succession to *Janasaviya*, the criterion used for the selection of beneficiaries was a monthly family income of Rs. 1000/= or less. Therefore, the official poverty line has been used for the purpose of this study.

The term 'micro enterprise' has been defined in a variety of ways by various countries and organizations using employment and investment as determining criteria. Even in instances when the same criterion such as employment is used, there is no uniformity in its application. For example, a joint study by UNDP, ILO and UNIDO titled "Development of Rural Small Industrial Enterprises: Lessons from Experience" (1998) considers an enterprise having 1-4 employees as a micro enterprise, whereas the Department of Census and Statistics, Sri Lanka, considers an enterprise employing up to 5 employees as a small enterprise. However, there can be enterprises utilizing the services of less than 5 employees with a high investment on machinery. There is no justification to refer to them as 'micro'. Hence, the present study defines MEs by combining investment and employment criteria. An enterprise is considered a ME when:

- a) the fixed assets without land and building is below Rs. 100,000/- and
- b) the number of employees ranges from 1-5 including family members.

METHODOLOGY

Information on poverty and status of Micro Enterprise Development was collected from secondary sources. Organizations in the Central Province, specializing on poverty alleviation Programmes such as *Samurdhi and Sarvodaya* Economic Enterprise Development Services (SEEDS) were interviewed, to gather data as well as to inquire into the lessons that can be learnt from their experiences in poverty alleviation through ME development. A survey was conducted in 12 promotional organizations to gather information pertaining to various aspects of ME development. Trained enumerators were employed to visit these organizations and to meet

with the officers responsible for ME development. A format was used to collect data on institutional credit disbursement to micro enterprises, provision of training and the number of new units set up and existing units which received assistance during 1997, 1998 and 1999. The constraints faced by organizations in promoting MEs and their views to overcome them were also obtained.

In addition micro entrepreneurs from about 15 types of different enterprises were interviewed and their views regarding the problems that they commonly encountered were obtained. They were asked as to how they would like to be assisted. Further, discussions were held with Bank Managers of leading banks in the Province regarding the implementation of various loan schemes for MEs.

NATIONAL AND REGIONAL POLICY ON MICRO ENTERPRISE DEVELOPMENT

The national policy on industrial and other enterprise development is one of facilitating the private sector to invest on projects that would generate more employment leading to enhancement of income of the people. Although there is no specific policy regarding micro enterprise development *per se* at the national level, the government's faith and reliance on this sector is made explicit by the continued support through State institutions that promote and develop the ME sector in the country.

Industry is seen as the main mechanism through which increased employment and income could be achieved. The GOSL recognizes the private sector as the engine of economic growth in keeping with current global trends. State intervention in various forms has moved further in the direction of facilitating and promoting enterprise development through government agencies.

Micro enterprises in Sri Lanka can be classified under several categories viz. industry, trade and commerce, agriculture and services. The government's outreach for the promotion and development of micro, small and medium-scale industries is the Industrial Development Board (IDB) with its 9 regional offices and 16 District offices, operating outside the North and East.

Approximately 50 percent of IDB clientele falls into the micro category where the number employed is less than five people, including family labour. The IDB assists micro enterprises not only in the identification of suitable projects but also in guiding them through the entire range of services to make them operational.

The IDB also helps the existing micro enterprises to expand, modernize and diversify in addition to providing consultancy and counseling services free of charge. Similarly, the Small Enterprise Development Division (SEDD) of the Ministry of *Samurdhi*, Youth Affairs and Sports maintains district offices in all the districts which provide training in entrepreneurship, management and transfer of technology to MEs at village level. The services of the SEDD cover micro enterprises of all four major sectors i.e. industry, trade and commerce, agriculture and services. Both the IDB and SEDD prepare business plans and recommend them to lending institutions for financing.

The Sri Lanka Handicrafts Board, the National Design Centre and the Crafts Council that come under the purview of the Ministry of Vocational Training and Rural Industrial Development have been set up mainly to cater to the handicrafts sector projects, majority of which operate at micro enterprise level mostly with family labour. These units are essentially cottage level industries that engage at most 3 to 4 workers. The Handicrafts Board imparts training through workshops to potential micro entrepreneurs in the manufacture of rush and reed ware, lacquer work, mat weaving, pottery painting etc.

Laksala, the national emporium for handicrafts, is the main government outlet for the products of this sector. The National Design Centre assists these craftsmen in developing new designs, which will have a better market appeal, and the Crafts Council helps craftsmen in the procurement of essential raw materials, equipment and accessories at reasonable prices.

Hence, the Government has already provided the support structure and these institutions have assisted the ME development over the years. Their support had led to the creation of new businesses and the improvement of existing ones, thereby helping to raise the

standard of living of the micro entrepreneurs. As referred to at the beginning although there is no declared policy as such for micro enterprise development in the country, the Government's Public Investment Programme (PIP) 1999 states

The small industries sector has been accepted as one which holds great prospects for the future. The potential of this sector for the overall economic development and especially for the creation of employment has been accepted.

The PIP also refers to the potential of the animal husbandry sector to increase self-employment and its capability to enhance the nutritional level of the rural people. As mentioned in the 1998 Budget Speech the government has set up a Skills Development Fund for the purpose of conducting demand-based vocational training. The Vocational Training Authority that is the nodal agency for skills training has set up 180 rural centres, 12 district training centres and 7 centres at national level. The intake of students has risen to 10,559 in 1998 from only 1,770 in 1995 (PIP, 1999-2000). This shows the attention paid by the government to provide the necessary skills for self-employment.

The regional policy on micro and small enterprise promotion and development is contained in the policy statement of the Governor of the Central Province for the year 2000 (Governor's Policy Statement, 2000). In regard to realizing the potential of the small industrial sector for the generation of employment, the policy statement proclaims, "the Council will develop the small scale industries to create more and more self-employment opportunities". It is also made clear that the handloom sector will be supported to improve the quality of fabrics, by providing better technology. Vocational training centres of the Department of Education and the Department of Small Industries will be upgraded and updated by modernizing them. Recognizing the potential of the inland fishery to generate employment and raise the level of living of the population in the Province, the policy statement is supportive of

its development. Arrangements will be made to make available equipment and foster Fisheries Cooperatives, to promote MEs. In addition the policy statement emphasizes the commitment to livestock development in the Province by improving the health of animals and increasing the yield of milk. The farmers will be encouraged to go into milk based value added products. As the policy statement asserts, "these policies will help to improve the nutrition standards of the rural people and generate sufficient income to overcome poverty". Referring to youth affairs the policy statement of the Governor stresses the need to "involve the youth in the national development process and increase the vocational and skills development programme to reduce unemployment among them".

POVERTY IN THE CENTRAL PROVINCE

Poverty generally has two dimensions. One is consumption poverty and the other is the human dimension of poverty. The former is the inability to achieve a certain minimum standard in consumption and the latter is related to health factors such as nutrition, mortality and morbidity and access to basic education.

Consumption poverty is more in evidence in the Central Province. This situation has arisen from the inability of a large segment of the population to procure basic material needs such as food, clothing and shelter and other services to maintain a reasonable standard of living. The deprivation of these human needs has a co-relation to the income levels of families and individuals. The higher the income the chances of attaining better living standards are more promising.

The state of consumption poverty in the Province is made evident by the number of families included in the *Samurdhi* Programme (Table 3.1).

TABLE 3.1

Number of *Samurdhi* Families in the Central Province by District - 1997

District	Total No. of Families	No. of <i>Samurdhi</i> Families	Percentage
Kandy	292,060	142,847	48.9
Matale	115,854	67,253	58.0
Nuwara Eliya	168,609	57,203	33.9
Province total	576,523	267,303	46.4

Source: Provincial Planning and Monitoring Division, 1997

As shown in Table 3.2 there are four categories of beneficiaries under the *Samurdhi* Programme.

TABLE 3.2

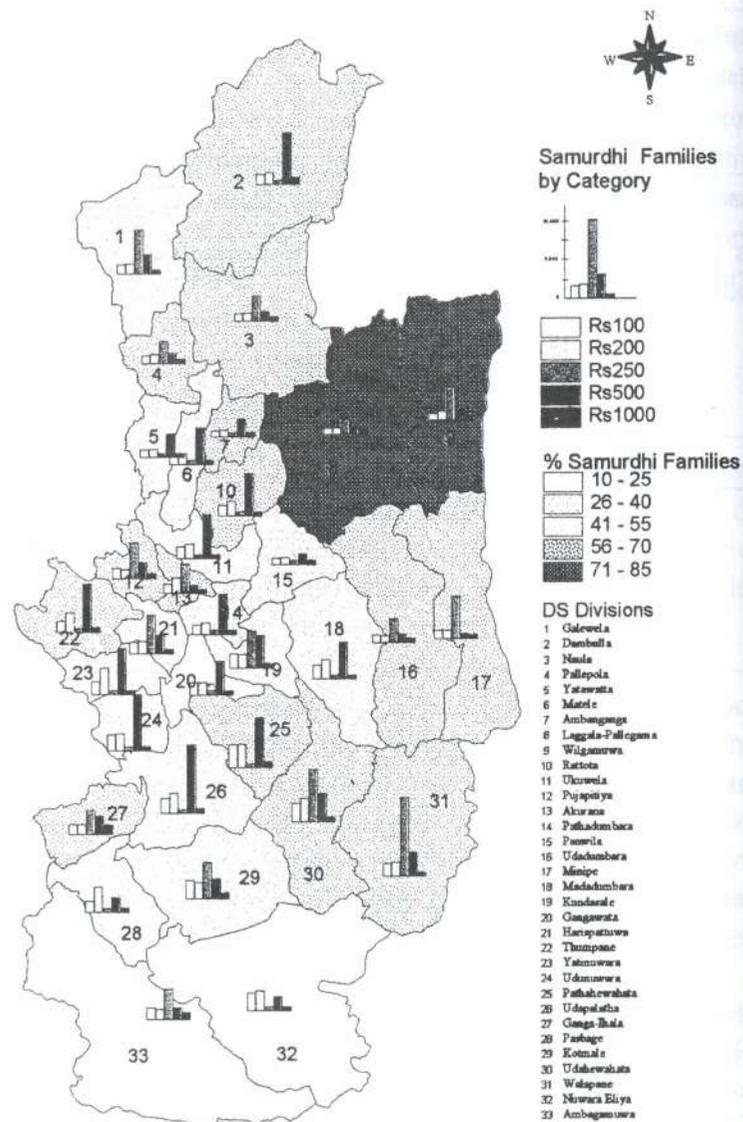
Categories of *Samurdhi* Beneficiaries

Eligibility	Criteria
Rs 1000/= p. m.	5 members or more in the family
Rs 500/= p.m.	3-4 members in the family
Rs 200/= p.m.	2 members in the family
Rs 100/= p.m.	1 member

The cash allowance would be withdrawn once a member in the family finds employment and family income is raised above the poverty line. The beneficiaries under the former poverty alleviation Programme, *Janasaviya*, were also brought under the *Samurdhi Programme* at the time of its commencement. Distribution of *Samurdhi* beneficiaries according to the categories indicated in Table 3.2 is shown in Fig. 3.1.

Of the total of 576,523 families in the Central Province 267,303 fall into the category of *Samurdhi* families (including former *Janasaviya* families). This shows that approximately 46 percent of the families in the Central Province are

SAMURDHI FAMILIES CENTRAL PROVINCE BY D.S. DIVISION



Based on Provincial Planning & Monitoring Division Data of the Central Province - Kandy

6 0 6 12 Kilometers

Fig 3.1

recipients of *Samurdhi* grants. According to the statistics maintained by the Provincial Planning and Monitoring Division of the Chief Secretariat, Central Province, the highest number of *Samurdhi* families is from the D.S. Divisions of Udapalatha, Pahatha Hewaheta and Kundasale in the Kandy district; Galewela, Dambulla and Ukuwela in Matale district; and Kotmale, Udahehaheta, and Walapane in the Nuwara Eliya district. But on the basis of percentage of poor families D.S. Divisions such as Wilgamuwa (78 percent), Laggala-Pallegama (74 percent), Naula (65 percent) in the Matale District and Udahehaheta (65 percent) and Walapane (65 percent) in the Nuwara Eliya District emerge as the poorest areas of the Province.

Low levels of poverty are reported from the D.S. Division of Nuwara Eliya (12 percent) and Ambagamuwa (17 percent) in the Nuwara Eliya District and Panwela (21 percent) and Gangawata Korale (23 percent) in the Kandy District. The low rates for Nuwara Eliya and Ambagamuwa may be due to the high rates of employment found in the plantation sector in these two divisions and consequently the low incidence of consumption poverty in the estate sector.

As far as the Human Development factor is concerned the situation in the province is favourable. The health indicators that compare favourably with the other provinces are given in Table 3.3.

TABLE 3.3
Selected Health Statistics by Province/District 1987 - 1995

Province/ District	BPOP			BINP			DPOP			DINP			DOP		
	1987	1995	GR	1987	1995	GR	1987	1995	GR	1987	1995	GR	1987	1995	GR
			-87 95			87- 95			87- 95			87 95			87 95
Western	3.69	3.75	0.2	21.24	18.73	-1.5	2.27	4.25	10.9	1.3	2.12	7.8	1.87	2.45	3.9
Central	3.16	3.38	0.8	17.67	19.11	1	1.27	2.47	11.8	0.07	0.14	12.1	0.68	1.25	10.5
South	2.17	2.35	1	14.79	14.48	-0.3	0.84	1.91	16	0.06	0.12	13.3	0.57	1.12	12.2
Northeast	2.39	2.04	-1.8	20.72	16.95	-2.3	0.8	0.86	0.8	0.07	0.07	0.3	0.31	0.38	2.6
Northwest	2.29	2.37	0.4	12.46	14.66	2.2	0.64	1.15	9.8	0.03	0.07	12.9	0.27	0.61	16.3
North - Central	2.97	3.11	0.6	11.93	13.73	1.9	0.69	1.44	13.7	0.03	0.06	16.4	0.27	0.46	8.7
Uva	2.52	2.65	0.6	12.83	15.26	2.4	0.6	1.18	12.2	0.03	0.07	15.4	0.29	0.48	8.5
Sabara- Gamuwu	2.42	2.38	-0.2	13.7	13.88	0.2	0.7	1.41	12.9	0.04	0.08	13.6	0.39	0.86	14.9
Matale and Polonnaruwa	2.47	2.76	1.4	12.35	13.82	1.5	0.73	1.72	10.7	0.07	0.13	10.2	0.62	1.12	9.9
Average	2.81	2.84	0.2	16.58	16.42	-0.1	1.19	2.2	16.8	0.04	0.09	16.9	0.22	0.74	29.1

BPOP = No of Beds per 1000 population
 BINP = No of Beds per 1000 inpatients
 DPOP = No of Doctors per 10,000 population
 DINP = No of Doctors per 1000 inpatients
 DOP = No of Doctors per 10,000 outpatients
 GR = Growth rate

(Source: Economic Review June 1997)

This is because the GOSL and the Provincial Councils have maintained a fairly high level of expenditure on health leading to improved access to health facilities even in the more distant rural areas. However, the remoter areas in the Province such as the D.S. Divisions of Walapane, Hanguranketa and Kotmale, in the Nuwara Eliya district and Ambanganga Korale, Rattota, Laggala-Pallegama and Wilgamuwa in the Matale district need better attention for the improvement of preventive health care and sanitation. High incidence of malaria, dysentery and diarrhoea is not uncommon in Rattota, Dambulla, Galewela and in the estate sector in the Nuwara Eliya District.

The literacy rate of 88 percent in the Province compares favorably with the other provinces. But the quality of education has to improve in the above mentioned D.S. Divisions especially through the provision of better infrastructure, laboratory facilities and teachers. At the divisional level a high rate of illiteracy of around 16 percent is recorded in Panwila, Uda Dumbara, Mahanuwara and Minipe (Provincial Planning and Monitoring Division, 1997). In the Matale

district Ambanganga Korale and Laggala-Pallegama records an illiteracy rate of 13 percent whereas in the Udahehaheta and Kotmale Divisions of the Nuwara Eliya district the rate is higher (15 percent). As found in other parts of the country there appears to be a concentration of schools with better facilities in the urban centres of the province than in the remote and inaccessible rural areas.

Another area of concern is the under nutrition of young children especially in rural areas of the province which stems from the low income generated in the rural sector. Approximately 50 percent of houses are without electricity in the Central Province. D.S. Divisions with poor supply of electricity are Dambulla, Ambanganga Korale, Laggala and Wilgamuwa where about 70 percent of the households do not have access to electricity.

Of the families in the Central Province about 20 percent are without land. Landlessness is rife in the divisions of Ambanganga Korale and Ukuwela in Matale District, Patha Dumbara, Panwila, Mada Mahanuwara and Pasbage Korale in the Kandy district and Ambagamuwa and Walapane in Nuwara Eliya District (Table 3.4).

TABLE 3.4
Extent of Landlessness in the Central Province - 1997

District	No. of families	Landless families	Percentage
Kandy	292,060	52,482	17.97
Matale	115,854	15,879	13.71
Nuwara Eliya	168,609	55,873	33.14
Central Province	576,523	124,234	21.55

Source: Provincial Planning and Monitoring Division, 1997

EMPLOYMENT STATUS IN THE CENTRAL PROVINCE

Unemployment rates in the Central Province are higher than the national average of 10.3 percent recorded by the Central Bank Report for 1998. According to the Data Bank of the Planning and Monitoring Unit of the Provincial Council, the number unemployed

in the Province has been 452,266 constituting 31 percent of the workforce. There is a district-wise variation in the level of unemployment. For example, the highest unemployment rate (36 percent) as compared to the employable labour force is found in the Matale District. Second is Kandy with 35 percent and third is Nuwara Eliya with 21 percent.

Of the total number employed (900,410) only 33 percent is in permanent employment. It is found that 41 percent is in temporary employment, 4 percent in foreign employment, and 22 percent self employment (Table 3.5).

TABLE 3.5
Types of Occupation in the Central Province by District 1997

District	Permanent	Temporary Employment	Foreign Employment	Self Employment	Total Employment
Kandy	128,102	186,279	25,502	105,022	444,905
Matale	32,210	78,415	8,314	43,074	162,013
N' Eliya	136,389	106,105	6,299	44,654	293,492
Province Total	296,701	370,799	40,115	58,650	900,410

Source: Provincial Planning and Monitoring Division, 1997

Of the total employed 35 percent is in agriculture and livestock sector, 16 percent in industry and the balance 49 percent is in trade and commerce and services. Majority of the permanently employed category is in the State and the Private Sector. Temporarily employed category is mostly found in agriculture because of its seasonal character. A large proportion of the self-employed, nearly 40 percent, is engaged in agricultural pursuits such as vegetable cultivation, animal husbandry and horticulture. Another 40 percent is engaged in activities related to trade and commerce such as running boutiques, hotels, hardware shops and furniture shops etc.

A relatively small percentage, approximately 15 – 20 percent, is found in micro, small and medium-scale industries indicating that only a few of the self-employed have chosen industries in order to earn a living or supplement their income, mainly owing to financial constraints. The inability of the poor to start enterprises, even at

micro level, could be explained with reference to other factors as well. For instance, poor physical infrastructure, low levels of educational attainment and unfavourable health conditions also inhibit the capabilities of the poor. The situation clearly points to the fact that the poor should have a strong financial backing and other services delivered from outside for them to start enterprises of their own.

In the rural environment of the Central Province, landless families are deprived access to agriculture, unless as labourers or tenant farmers while the poor educational levels of the members of such families restrict employment opportunities in non-farm sectors outside the village. Yet, they find it difficult to command the means to start their own micro enterprises. As has been established with reference to many developing countries the poor use a very large proportion of their income on food and hence they are left with only a meagre proportion of the earnings for all other purposes including investments to secure supplementary income. This situation is more predominant in the rural sector where the majority depends on agriculture for a living. It may be noted that agriculture is sensitive to fluctuations of weather and to changes in market conditions, thus worsening the earning and saving capacities of the poor.

MICRO ENTERPRISE DEVELOPMENT IN THE CENTRAL PROVINCE

Typology of Micro Enterprises

A survey undertaken in 1996 by the Provincial Planning Unit has established that there were 75,883 enterprises in the Central Province. The enterprises were counted from the lists maintained by the local authorities for revenue collection. The Local Government Ordinance requires that all business activities be registered with the local authority in the area for the purpose of revenue collection. The survey has revealed that nearly 95 percent of the businesses in a given local authority area such as *Pradeshiya Sabha*, Urban Council and Municipal Council are registered with

their respective local authorities as it is illegal to conduct businesses without such registration. It is about five percent of the micro enterprises that have evaded payment of taxes and these are the enterprises of the poor without a fixed location. Of the total number of enterprises the units which paid an annual tax of Rs. 500/= and less were treated as micro enterprises. Each of them had an investment of less than Rs 100,000/= and 5 employees or less per unit. The total number of micro enterprises in the Province in the year 1996 was 52,723. This constitutes approximately 70 percent of the total number of enterprises. The balance 30 percent falls into small, medium and large-scale sectors.

Of the total number of micro enterprises, 43,594 fall into a wide spectrum of activities. The balance 9,129 are unclassified and remain as 'other'. Table 3.6 shows the major sectors occupied by micro enterprises in the Province. Trade and commerce leads with 57 percent while the industrial sector represent approximately 17 percent of the units.

TABLE 3.6
Types of Micro Enterprise in the Central Province.

Type of enterprise	Total no. of units	Percentage
Industry	8,916	17
Trade and commerce	29,834	57
Agriculture	525	01
Services	4319	08
Other	9129	17
Total	52,723	100

Source: Field Survey 2000.

Major enterprises that come under trade are retail shops, grocery shops, vegetable stalls, textile shops, fruit stalls, hardware shops, jewellery shops dispensaries etc. Enterprises such as rice mills, tobacco curing units, bakeries, carpentry workshops, light engineering workshops, grinding mills, brick kilns, metal quarries, blacksmithies, brass workshops fall into the industrial category. Small scale tea kiosks and canteens, come under the hotel category. Dairy farming, goat rearing and poultry breeding are major activities included under animal husbandry. The service sector is covered by saloons, tailoring shops, garages, T.V. and radio repair shops, vulcanizing and battery charging units, photocopy service centres and studios.

Distribution of Micro Enterprises

Distribution of micro enterprises in the Central Province shows marked inter district variation. Kandy district witnesses the highest concentration while the Nuwara Eliya district shows the lowest (Table 3.7).

TABLE 3.7

Distribution of Micro Enterprises in the Central Province by District

District	No. of micro enterprises Paying >Rs.500/= as tax	Percentage
Kandy	31,538	60
Matale	12,213	23
Nuwara Eliya	8,972	17
Province total	52,723	100

Source : Field Survey 2000.

These concentrations are directly related to the population distribution in the Province, and do not reflect any special entrepreneurial abilities of the people in the respective districts. However, the location of the provincial capital, better infrastructure and easy access to markets are other factors that explain this concentration.

In the Kandy District the highest concentration of enterprises is seen in Kundasale and Gangawata Korale D.S. Divisions. The Divisions such as Thumpane, Yatinuwara and Udunuwara also show high concentration of MEs.

The lowest concentration is seen in the D.S. Divisions of Panwila, Minipe and Akurana. The low concentration in Panwila could be attributed to the estate population in the area that has fixed sources of income. In Minipe dependence of the majority on agriculture explains the low emphasis on MEs. Micro enterprises are few in the Akurana D.S. Division, a predominantly Muslim area, as there is a large concentration of timber and rice mills which fall into the medium-scale enterprise category.

In the Matale district the highest concentration of micro enterprises (2347) is found in the Galewela D.S. Division while the lowest (264) is recorded in Ambanganga Korale. Poor Micro Enterprise Development is seen in the D.S. Divisions of Lagalla-Pallegama, Wilgamuwa, Naula, Yatawatte and Pallepola as well. This is explained by poor infrastructure, lack of opportunities and the low population density.

In the Nuwara Eliya district a large number of micro enterprises (2,228) are found in the Walapane D.S. Division. This may be due to the concentration of tobacco curing barns in the area. D.S. Divisions of Ambagamuwa and Kotmale have a lesser number of enterprises. This could be explained by the presence of tea estates in Ambagamuwa and the resultant employment opportunities available in the plantation sector. Kotmale is essentially a Division with a high rate of agricultural activity (such as paddy cultivation and mixed garden crops) that has to some extent contributed to limit the development of other enterprises.

Institutional Support for Micro Enterprises

There are as many as 16 State institutions and Non-Governmental Organizations (NGOs) supporting micro enterprise development in the Province. Although they are not designated micro enterprise promoters or developers their role as small and medium enterprise developers encompasses the responsibility for the promotion of MEs as well. As 70 percent of small-scale enterprises in the Province fall into what is defined as micro enterprises, these institutions essentially cater to the needs of the micro enterprises.

The leading State institutions that cater to the needs of the MEs are:

- Industrial Development Board (IDB)
- Department of Small Industries (DSI)
- Small Enterprise Development Division of the Ministry of Youth Affairs (SEDD)

- Sri Lanka Handicrafts Board (SLHB)
- National Designs Centre (NDC)
- National Youth Council Centre at Polgolla
- *Samurdhi* Programme
- National Youth Service Cooperative (NYSCO)
- Polgolla NYSCO Training Centre and
- Women's Bureau

Apart from the above there are two GTZ funded projects operating in the Province namely the

- Provincial Enterprise Promotion Centre (PEPC) and
- Vocational Training Centre for Women (VTW).

There is also a UNDP assisted Programme, the "South Asia Poverty Alleviation Programme" which is confined to three D.S Divisions of the Nuwara Eliya District, viz., Kotmale, Hanguranketa and Walapane. The IDB and SEEDS are the two leading State organizations providing extension services to MEs from project identification stage to implementation which entails a whole range of services such as preparation of business plans, identification of suitable locations, provision of technology, skills and management training assistance etc. All the institutions are providing skills training, technology and process demonstrations. The IDB, SEEDS, *Samurdhi*, Women's Bureau and NYSCO Training Center at Polgolla provide entrepreneurship and management training as well. The Women's Bureau and the GTZ funded Vocational Training for Women provide the necessary vocational training and entrepreneurship training for women in selected activities such as handicrafts and leather products.

The organizations assisting the industrial sector are the IDB, DSI, SLHB, NDC while others assist in the promotion and development of enterprises in agriculture, horticulture, animal husbandry, trade and commerce, tourism, and the service sectors. The Industrial units are mainly in agro-processing, dress-making, knitting, leather products, wood-based products, handicrafts, (rush and reed ware), light engineering and clay and cement-based products.

According to information made available by various institutions engaged in micro enterprise training, it was found that during the three-year period from 1997 to 1999 a total of 809 skills training programmes have been conducted and 26,724 entrepreneurs trained in various vocations. This training is mostly related to industrial and trade skills and 71 such vocations have been identified by the survey. This has however not taken into account various awareness programmes conducted by the *Samurdhi* Managers in the respective D.S. Divisions. Most of these awareness programmes are conducted for groups of 300 – 400 *Samurdhi* beneficiaries in agriculture related pursuits such as home gardens, foliage plant nurseries, mushroom cultivation, bee-keeping and floriculture. They also conduct awareness programmes on nutrition, drug addiction and beauty culture. Other programmes conducted include technology transfer courses on screen-printing of fabric and readymade garments, pottery, painting, food processing and jewellery. The Nuwara Eliya *Samurdhi* office in particular, has included management training in marketing, enterprise management, book-keeping and accountancy, in some of its programmes.

The Nuwara Eliya *Samurdhi* office has conducted 14 such programmes training a total of 339 *Samurdhi* beneficiaries by 1999. On the whole, the *Samurdhi* movement in the Central Province has conducted 656 programmes for 151,806 participants during the three-year period from 1996 - 1998. The South Asia Poverty Alleviation Programme which operates in three D.S. Divisions of the Nuwara Eliya district assists income-generating projects by improving existing agro-based enterprises and introducing new enterprises that market products with a ready demand. Agro-based units mostly comprise seed paddy, seed reddish, cut flowers, livestock farming, dairy based products, beekeeping, vegetable farming, mushroom cultivation and inland fisheries.

TABLE 3.8

Number of Micro Enterprises Established and the Number of Existing Enterprises Supported from 1997 to 1999

Organization	New enterprises			Existing enterprises supported		
	1997	1998	1999	1997	1998	1999
Industrial Development Board-CP	285	432	347	128	288	195
Small Enterprise Development Division (SEED)	100	153	86	438	583	482
NYSCO	56	33	24	4	1	7
PEPC	10	85	17	40	100	14
Sri Lanka Handicrafts Board	7	7	7	335	398	398
National Designs Center	12	14	16	193	349	307
Women's Bureau	65	228	229	32	52	58
Women's Chamber of Commerce	20	20		50	50	
Total	555	972	716	1,220	1,471	1,453
Average		745			1,471	

Source: Field Survey, 2000.

Table 3.8 gives the number of new units established and the existing enterprises improved by the various promotional interventions from 1997 to 1999. The average number of new enterprises developed is 745 and the average number of existing units assisted is 1,471 per annum. The IDB leads in promoting new enterprises with the Women's Bureau coming a close second and SEDDS assuming the third place (Table 3.8).

In the development of existing enterprises the Small Enterprise Development Division (SEDD) of the Ministry of *Samurdhi*, Youth Affairs and Sports leads while the Sri Lanka Handicrafts Board and the National Designs Center occupy second and third place respectively.

Majority of the organizations assisting micro enterprises in the Province extend their services through the direct approach method. This is to say that the training in management skills development, technology transfer, assistance to obtain credit through banks take place by interacting with individuals or groups selected by the facilitating agency.

However, organizations like *Samurdhi*, Women's Bureau, *Sarvodaya*, South Asia Poverty Alleviation Programme and National Youth Services Co-operative operate their programmes through community based organizations (CBOs). They may either operate through existing CBOs as in the case of South Asia Poverty Alleviation Programme or through Self Help Groups (SHGs) formed at village level as in the case of NYSCO, *Samurdhi* or *Sarvodaya*. Table 3.9 indicates the number of such SHGs operating under various organizations as well as their membership.

TABLE 3.9
Number of Self-help Groups Formed under Various Organizations

Organization	No. of self-help groups	No. of members
NYSCO	57	131,338
Women's Bureau	165	6,600
<i>Samurdi</i>	1,706	130,554
<i>Sarvodaya</i>	409	39,374
Total	2,337	307,866

Source: Field Survey, 2000.

As shown in the Table *Samurdhi* Programme commands the largest number of SHGs as well as the largest membership. This is because it is a government sponsored island-wide programme where the poor are the beneficiaries.

Income generating projects of the SEEDS, *Samurdhi*, Women's Bureau, NYSCO and the South Asia Poverty Alleviation Programme are mostly funded by savings made by the members of the SHGs themselves. This is supported by supplementary loans obtained from Commercial banks as well. The *Samurdhi* Banks, in particular, have established linkages with the People's Bank to service its customers with bigger loans.

In the year 1999 *Samurdhi* has made savings to the value of Rs. 87.6 million and disbursed credit to the value of Rs. 48.1 million. In the same year the *Sarvodaya* SEEDS Programme made savings of Rs. 76 million while disbursing a sum of Rs. 26.7 million as credit. The NYSCO savings for the same year was Rs. 121.4 million and the credit component was Rs. 339 million. Women's Bureau has no savings Programmes but registered a credit disbursement of Rs. 424 million. This indicates that approximately Rs. 850 million has been made available to the micro enterprise sector in the Province in the year 1999.

The Provincial Enterprise Promotion Centre has effected a grant scheme for MEs whereby one-third of the investment on either new or existing enterprises is borne by funds provided by the scheme. The other two-thirds of the project cost has to be equally shared by the investor and the Bank from where he/she obtains the loan. There is also a number of credit programmes launched by Commercial Banks in the provinces to cater to the requirements of the MEs. Although there is no particular package of assistance for micro enterprises as such offered by any of these banks, the micro enterprises could seek assistance under any of the programmes designed for the promotion of enterprises. The promotional institutions, except where there are SHGs, refer their clients to the banks. The People's Bank operates a number of credit programmes such as Small Entrepreneur Development and Seed Capital which offer loans up to Rs. one million at interest rates ranging from 8 to 18 percent. Bank of Ceylon offers credit under its SMILE and *Kantha Ran Divi Maga* Programmes at interest rates ranging from 12 to 14 percent. All other commercial banks such as Sampath, Seylan and the Hatton National, service the micro enterprise sector through their industrial loan schemes such as Small Enterprise Development loans and *Gami Pubuduwa* at interest rates ranging from 18 to 24 percent.

CONSTRAINTS ON AND THE POTENTIAL FOR THE DEVELOPMENT OF MICRO ENTERPRISES

The survey on Micro Enterprise promoters reveals that constraints on the development of this sector are many. They arise out of the difficulties that the micro entrepreneurs have to face in selecting

projects that have a market orientation. As a result they face difficulties in finding good markets for their products. The inadequacy and inaccessibility of market information causes added problems in disposing of the goods to the consumers. Related to this is their inability to supply products or services of right quality and quantity owing to inefficient technologies or the processing methods adopted. The lack of adequate capital to expand, poses problems even when enterprises deal with quality products with a ready market. The products of micro enterprises especially in the industrial sector have to compete with the products available in the market which are manufactured by large-scale enterprises at a relatively low cost and marketed so as to attract the customers.

In East Asian countries such as Japan and Korea where there is much industrial development MEs are linked to medium and large-scale industries on sub-contracting arrangements. The difficulty of implementing such a scheme in Sri Lanka is due mostly to the absence of industries requiring ancillarization and even if such facilities were available the MEs are not geared to supply due to other constraints such as paucity of capital and technical know-how.

Despite so many credit schemes made available by the commercial banks, micro enterprises still find it difficult to access loans facilities due to their poor creditworthiness. The entrepreneur is constrained in providing guarantors or collaterals the banks require. Further, the rates of interest levied by these banks are far too high as the micro entrepreneur operates on poor profit margins. The entrepreneur faces difficulties in using even the available raw material for value addition as there is no mechanism available to provide him with the know-how or the processes pertaining to the use of raw materials. His knowledge of the promotional organizations too is poor and he is not geared to access these institutions either by himself or through intermediaries.

The failure of many MEs is due to the lack of management know-how. Their biggest problem is related to management of borrowed funds and as a result many fall into the 'default syndrome'.

Inadequacy of developed infrastructure especially in the remote areas of the Province by way of motorable roads, inhibits the transport of raw materials and finished goods to the market. This results in the escalation of costs and the product being edged out of the market as it becomes less competitive.

Another issue faced by the micro entrepreneurs is the paucity of properly developed factory sites or buildings for them to set-up enterprises. In a way this hinders expansion and introduction of modern technology. Some entrepreneurs especially in the handicrafts sector are averse to the adoption of modern methods and techniques. They prefer to use conventional methods and resist change to minimize risk. Changing the attitudes of some of these micro entrepreneurs is not easy as they have got used to a particular way of doing things over the years. Further, lack of coordination among promotional agencies has led to duplication of services and very often repetition of programmes as well.

Apart from the constraints faced by the micro entrepreneurs those faced by the extension workers, in their role as promoters of SMEs merit discussion. These constitute: the inability to identify good entrepreneurs, lack of support staff, lack of cooperation from banks, lack of know-how, inadequate financial resources and political interference in the recovery of loans.

The observations of the promotional organizations, involved in Micro Enterprise Development provide an insight into the current developments in this sector. They acknowledge that women entrepreneurs are now prepared to accept new challenges and they are no longer constrained by conservative ideas and practices. Their participation in seminars and workshops has been found to be satisfactory. However, there is also a tendency to select conventional projects by the micro entrepreneurs as they are not confident in introducing new products to the market. There has been a lack of initiative on the part of the majority of trainees to launch a project after training.

It is also observed that the recovery of loans granted to the animal husbandry and mushroom sectors is satisfactory but that constant monitoring is necessary. The follow up on loans is made easy whenever the loans are granted through self-help groups or associations through the intra-group guarantee system. The promotional organizations are of the opinion that weekly 'fairs' organized at village level have considerably helped the micro entrepreneurs to dispose of their goods. The promotional organizations also have observed that there is a need to introduce new products and designs as the conventional products have failed to capture the markets effectively. This is particularly so in dressmaking, brassware, rush and reed ware, lacquer work etc. Smallness of MEs has in itself been an obstacle to access bigger loans from banks as they do not have the collateral.

At the same time it has been revealed that whenever an understanding and mutual trust have been built between the lender and the borrower, the recovery of loans becomes smoother. It is also stated that total dependence on the promotional agencies has dampened the entrepreneurial ability of some of the micro entrepreneurs. They have also acknowledged the positive contribution made by the Provincial Council to financially assist promotional agencies to meet the requirements of this sector.

Despite the constraints faced by the micro entrepreneurs there is a vast potential for the expansion of micro enterprises in the Province. Compared to the small, medium and large-scale enterprises, where the investment is heavy and technology used rather complex, in the case of micro enterprises the capital outlay remains small and technology simple and locally available. MEs essentially cater to domestic markets and very often trading takes place in village fairs or in the urban centres. There is tremendous potential in agriculture, horticulture, animal husbandry, agro-processing, dress-making and knitting, leather products, building materials, light engineering, handicrafts, trading and service sectors for the generation of MEs. What is required is to assist the micro entrepreneur to deliver a better product/ service by providing him with better technology and processing methods, along with better marketing of products.

If these could be addressed there is the potential to provide sub-contracting opportunities through the larger companies both within and outside the Province. As a Centre for Technology and Information Services (CETIS) is already established in the Province, the technology related problems could always be addressed by this Centre.

The resource base of the Province both agricultural and mineral has been explored and this information is already available. Most of the projects that could be started on small or micro scale have been identified and they are with the Divisional Secretariats of the Province. The potential in horticulture and animal husbandry sector is very wide and the extension services available are quite adequate for commencement of new projects in this sector. There is a need to have special liberalized credit schemes with low interest rates as well as loan recovery and grace periods tailor made to suit the requirements of micro entrepreneurs. The state should step-in and guarantee these loans as an incentive for the banks to lend to micro enterprises.

There is also a plethora of promotional organizations that could give advice and guidance to the new entrepreneurs. Yet there is a serious lack of coordination among the skills and vocational training organizations leading to duplication of training programmes. An attempt should be made by these promotional organizations to conduct demand-oriented programmes that would assist the micro entrepreneurs to have a better foothold in the market. Taking the above facts into consideration it could be surmised that the potential for the development of micro enterprise sector is very promising in the Province.

IMPLICATIONS OF MICRO ENTERPRISE DEVELOPMENT FOR POVERTY ALLEVIATION

As has already been noted approximately one-half of the population in the Central Province live below the official poverty line. This means that 267,303 families in the CP are affected by poverty. Poverty is closely related to the type of economic activity pursued. For example, levels of poverty are high in predominantly paddy-

based economies when compared with paddy and non-paddy combinations or with other field crops (Silva, 1999; Ranaweera, 1998). On the whole, the small farm agricultural economies of the rural areas of the Central Province are characterized by under-employment and unemployment. Seasonal unemployment is also observed in some localities. In the circumstance, the poor rural households have a very low saving capacity which is invariably linked to the limited possession of assets. As assets are vital to enhance the productive capacity of the poor, they could become micro entrepreneurs only if they are in a position to create and possess productive assets. Commenting on the significance of assets in the context of the poor the World Bank (2001) has noted:

Assets interact with market and social opportunities to generate income, a better quality of life and a sense of psychological well-being. Assets are also central to coping with shocks and reducing the vulnerability that is a constant feature of poverty.

Despite the crucial significance of productive assets the poor have limited opportunities to create assets mainly owing to their low levels of income. Further, they are socially excluded in many fronts. For example, the poor have chronic and multiple disadvantages in housing, infrastructure, health, education and other services thus making them difficult to escape poverty on their own (Silva, 1998). The same author has noted that tied relations with non-institutional sources of credit, difficulty to access institutional credit and inability to utilize market mechanisms ensuring better terms of trade are also instrumental in social marginalization of the poor.

With a view to combating the above situation many Third World governments have made considerable efforts towards policy interventions particularly to reduce inequalities and to create income opportunities for the poor enabling the latter to take advantage from economic growth. Although the ultimate objective of such policies is to generate income and help asset creation among the poor segments of the society, results obtained are far below expectations mainly because of financial constraints and

bureaucratic inefficiencies. It should also be noted that there is no proper understanding of the means by which social capital could be effectively utilized for poverty alleviation. Social capital in this sense means accessibility to added resources through social networks. The reciprocal social relations established through such networks help to protect the poor in times of crises particularly because of their inability to afford formal insurance.

In view of the existing limited absorptive capacity of labour in traditional agricultural pursuits the GOSL has also tried to create more employment opportunities through the expansion of small and micro enterprises in an effort to generate or supplement family income to ensure a reasonable standard of living for the poor. However, the outcome is disappointing as the opportunities created to absorb the spill over from the agricultural sector are inadequate to cope with the increasing demand for jobs. As noted earlier this is manifested in the high unemployment rates of 36 percent, 35 percent, and 21 percent for Matale, Kandy and Nuwara Eliya Districts of the Central Province respectively.

In the circumstance, the basic question is, how could micro enterprise development be effectively made use of to contain the high employment rate of the Province? As all sections of the poor cannot be elevated to the position of micro entrepreneurs it is equally important to ensure the growth of small and medium-scale industries, which would create avenues of employment to the skilled and unskilled labour mainly from among the poor in the Province.

Although MEs are promoted as a solution to the problem of seasonal poverty by many developing countries, there are no explicit policies for the purpose in Sri Lanka. In the context of the CP seasonal poverty is not rampant as in the case of the areas falling under the Dry Zone in Sri Lanka. This is mainly because of the existence of more economic opportunities and year-round agricultural activities owing to climatic endowments. There is evidence to indicate that even the landless poor can work as hired labourers in agricultural pursuits. Hence, the demand for micro enterprises of a seasonal nature is not very pronounced in the

Province. The MEs found in the CP are mostly carried out on a year-round basis and majority of them utilize family labour for producing the required goods and services. A list of MEs registered with the local authorities for tax purposes is provided in Appendix 1. MEs listed therein carry out their activities mainly by using family labour. Even if paid labour is used the total number employed in each unit does not exceed five. Note only those enterprises with fixed locations are included in Appendix 1. Although the majority of the MEs in the Province function on a year-round basis, their levels of income fluctuate depending on the market and other factors. It should also be noted that there are instances when a few micro entrepreneurs from among the poor engage in petty trading on temporary basis during times of distress, particularly when there is a fall in agricultural incomes.

A close scrutiny of the MEs run at household level in the CP shows that there is a division of labour pertaining to specific activities. Although all family members, including children, collectively contribute to family businesses, collection of raw materials and marketing remain mainly in the men's domain while women contribute largely to the production process of many MEs run at household level. It is also observed that male and female biases are evident in the case of some enterprises. For example, the production processes pertaining to beedi rolling, mushroom farming, rush and reed ware, knitting, readymade garments, handloom products and several confectionary items are exclusively controlled by women from the poor households. Similarly, male labour dominate in the production of leather goods, rexin ware, school chalk, cement blocks, iron grills and other light engineering items. As Hewavitharana (1992) has observed most craft and cottage industries such as pottery, brass-smithy, laquer work and silver-smithy are family affairs with different family members working at different levels on different tasks. Usually, children attend to minor tasks and material preparation, females help in ancillary activities and the difficult tasks are performed by the more experienced and knowledgeable family members. There are instances where females also accomplish highly skilled tasks in some crafts such as brass carving and engraving.

Despite the fact that most of the MEs are family concerns, there are some which recruit labour on casual basis as the necessity arises owing to the seasonal demand. The poor who cannot afford to start MEs on their own provide casual labour for such enterprises. Further, outsiders are employed when the family members do not possess the required skills for specific production processes. Even when labour is recruited from outside, in many instances, payments are made on task basis or on piece rates, rather than on fixed daily rates. In the circumstance, MEs cannot be looked upon as a panacea to solve the unemployment problem in the rural areas by absorbing unlimited numbers.

As has been noted earlier, many new MEs have been established in the CP during recent years through the aegis of different agencies. The official records of the major government sponsored agencies indicate that many new enterprises have been established and numerous existing ones have been supported during the last few years. For example, an average of 745 new MEs have been established between 1997-1999 while 1,471 existing ones have been supported during the same period (Table 3.8). Credit disbursement or facilitation to access credit was the major role played by the different state sponsored agencies in assisting ME development.

NGOs have also helped ME development mainly by extending credit facilities, at times through the medium of revolving funds. Owing to dearth of information on the nature and extent of NGO interventions in ME development in Sri Lanka, their impact on poverty alleviation can hardly be assessed. However, the track record in many developing countries points to the fact that more women than men have been attracted by NGO programmes. As Rahman (1986) has noted 70 percent of the borrowers of the Grameen Bank in Bangladesh (which first started as an NGO) had been women. Similarly, with reference to Central Java, Goldmark and Rosengard (1983) have observed that 60 percent of the borrowers from the *Badan Kredit Kecamatan*, provincial development bank operating since 1970s, have been women. In Kenya women constitute the majority of the clients of the National

Council of Churches' Loan Programme (Hellinger, 1985) and in Zimbabwe women represent 97 percent of the members of the Federation of Rural Saving Clubs which provide savings facilities as well as loans (Berger, 1995). Programmes in many developing countries strongly support group-based credit through voluntary organizations for MEs with a view to supporting the poor who possess entrepreneurial skills. This move has not only reduced the transaction costs of the lending institutions but has also enabled to pass down the risks from the lending organization to the Voluntary Organization (VO) and from the VO to the group (Premchander, 1998). Another distinct advantage of the group lending system (as practiced by a number of organizations functioning in the Central Province as well) is that it can reach the poorest of the poor who are usually by-passed by the formal credit delivery systems.

Solidarity group mechanism through the formation of small groups has been tried out in Sri Lanka as well in relation to both State Sponsored and NGO Programmes. Small groups formed under the Change Agent Programme of the Ministry of Plan Implementation and the *Samurdhi* Programme of the Ministry of *Samurdhi*, Youth Affairs and Sports and solidarity groups formed under the NGOs such as Redd Barna are cases in point. Although these are not meant exclusively for ME development, the solidarity groups have facilitated the utilization of credit by the poor for small businesses in the rural areas. Nevertheless, no statistical information is available to establish how many from among the poorest of the poor have been successful in becoming micro entrepreneurs in the CP.

It is pertinent to note that the poor cannot be made entrepreneurs only by providing micro-financial facilities. Past experience has shown that credit disbursement per se, has not contributed to asset creation among the poor. As far as MEs are concerned, non-financial services such as training, mobilization of the poor entrepreneurs, ensuring the sustainability of the enterprises and establishing suitable marketing channels are equally important. Poverty alleviation through the promotion of MEs is bound to fail

if a correct mix of support services, both financial and non-financial, is not in place. It is observed that many enterprises that have secured credit facilities, have no proper access to markets. Hence, their sustainability is questionable.

However, if the quality of the products is improved and marketing is assured ME development would help mitigate under-employment and raise family incomes in the rural sector. In the circumstance, MEs can also absorb excess family labour thus reducing the pressure on agricultural land in the rural setting to reach the ultimate goal of poverty alleviation and raising the standard of living in the rural areas. Micro enterprises have certainly contributed to increase the income levels of the families and this is specially so in the rural areas where the conditions have not favoured the establishment of medium and large-scale enterprises which may not be attracted to the interior areas in the Province because of inadequate infrastructure facilities. The intervention of the South Asia Poverty Alleviation Programme (SAPAP) in Kotmale, Nuwara Eliya and Walapane D.S. Divisions can be cited as an example. The progress report of the SAPAP for the year 2000 claims that the income generating activities and the MEs initiated and supported by the Programme for the poor have contributed to double the income of 48 percent of the target families.

Even if the poorest of the poor cannot always own MEs they could get benefit by a reorientation of the present approach to ME development. This necessitates a two pronged approach. First, those among the poor who are desirous of starting MEs but have no means to commence on their own, should be given the necessary assistance. Secondly, those who are capable of starting MEs with least external support should be encouraged by providing a reasonable level of assistance to expand their absorptive capacity of labour. It would thus be a means of creating wage employment opportunities for the poor. The present ME development strategy has made no distinction between these two categories of the potential entrepreneur.

Despite the attempts at ME development both by the governmental and non-governmental organizations, avenues are limited to absorb the spillover from the agricultural sector, the unskilled landless

labourers and the youth solely in the MEs. In view of this situation GOSL has also paid much emphasis on creating labour-intensive industrialization with a view to expanding employment opportunities. A recent publication of the Ministry of Finance and Planning (2000) has outlined the strategy pursued for industrial growth in the country.

The current strategy for encouraging more opportunities for the poor in the industrial sector is based on providing an enabling environment for labour intensive industrialization. Industrialization policy is based on a combination of liberal access to imports of raw materials and capital goods, generous fiscal incentives for new enterprise start-up and expansion, public sector support for the establishment of industrial estates and export processing zones, public subsidies for industrial pollution reduction and credit support for small and medium-scale industrial enterprises

This strategy has made a noteworthy contribution to the growth of industries with much concentration in the Western Province (83 percent of all industries approved by the Board of Investment). Textile and garment sector grew very rapidly accounting for two-thirds of the industrial growth in the 1990s and this sub-sector has provided employment to nearly 350,000 persons throughout the country most of whom had been low-income women (Ministry of Finance and Planning, 2000). Although this may have had an impact on the poor in the Province, the exact number who were benefited from the policy cannot be established owing to lack of data.

Attempts have also been made by both governmental and non-governmental organizations to impart training to unemployed youth to venture mainly into non-traditional fields. Past experience shows that many of the programmes, specially those relating to foliage plants, mushrooms and goat rearing have attracted the females. These ventures bring higher incomes when compared to traditional MEs pursued by women. It is observed that males are reluctant to undergo training unless employment is assured and in many

instances, they prefer to move out of homes to compete for limited jobs with higher incomes. Opportunity cost of labour also looms large in their decisions.

Different programmes have linked the youth from poor family backgrounds with micro-finance facilities to venture into self-employment. At the initial stage, the ME promotion drive of both the State and the NGOs suffered from drawbacks such as ad hoc planning, lack of resources, weak technical inputs and limited markets that resulted in sub-standard output and negligible returns (Perera, 1995).

In view of the liberal economic policies followed by the GOSL since late 1970s and the technological changes relating to the production process, MEs are faced with increasing competition from imports as well as from products of the formal sector. This situation led to the closure of many MEs in different parts of country particularly handlooms and coir fibre works run by the poor indicating the negative impacts of liberalized economic policies (Perera., 1995). The situation in the Central Province provides no exception.

Many MEs in the CP especially those run by the poor without recourse to new technology and product improvement have already faced risks that are a threat to their sustainability. Threats for survival are more pronounced in the case of MEs whose products face the highest level of competition. The majority of the micro entrepreneurs in the CP sell most of their produce in the periodic markets in the neighbourhood. As noted by a number of authors (Mudalige and Perera 1998, Senanayake et.al., 1988, Chandrasiri,1998) marketing constitutes a baffling problem for many small entrepreneurs. The position of the poor micro entrepreneurs has further deteriorated during recent years with the entry of better quality products from the formal sector into the local market. The net outcome is that the poor micro entrepreneurs who cater to a poor clientele cling on to the same products because they would pass the threshold price that the poor can afford if any improvements are effected at added cost. As Islam (1987) (quoted in Hewavitharana, 1992) has observed,

The different industries have varied abilities or potentials for absorbing efforts at improvement, for adapting themselves by diversifying products and changing quality of products and, therefore, for responding to changing pattern for consumer preferences and demand. Hence, when certain new technologies are introduced, production can shift or get transferred from the poor producers to the richer ones who can afford to adopt such technologies. Therefore, from the point of view of raising the incomes of the poor it is important to ensure that the poor producers have sufficient access to new technologies. This will be facilitated if the technological improvements introduced were to take the form of gradual improvements to traditional technologies rather than an abrupt change to high technology.

However, there are some non-traditional MEs in the CP which exhibit a great potential to expand and a capacity to survive. One such emerging enterprise is the cultivation of foliage plants. It is not possible to conclude that this activity is solely performed by the poor. But the expansion of the foliage plant industry has created at least some jobs for the poor not only in cultivating plants but also in related activities such as transport and marketing. Favourable climate in Kandy and Nuwara Eliya districts of the CP has been a blessing for the expansion of this activity that shows no clear seasonality in production.

The production of mushrooms is another noteworthy non-traditional ME. Mushrooms have a fast expanding market in the urban centers, particularly in the hotels which cater to the tourists. Mostly females carry out the cultivation of mushrooms as a ME. Males contribute to the transport and sale of the product in packeted form.

The poor are also engaged in the production of numerous confectionary items that possess a ready market with the potential for expansion. Even the traditional products could be given a facelift by using new technology in the production process. For example,

the South Asia Poverty Alleviation Programme (SAPAP) has boosted the production of *Kitul* jaggery (a product obtained by processing the sap from the *kitul* palm) in the Kotmale area by making significant technological improvements to the traditional production process. As a result a considerable value addition has taken place thus benefiting the poor producers. The Programme has also helped the CBOs and People's Companies to market the produce through sales outlets of the urban areas.

In sum the implications of micro enterprises for poverty alleviation can be summarized as follows:

- (a) Micro enterprises cannot be conceived as a panacea for poverty alleviation as they can create only a limited amount of self-employment for the poor especially in view of the unsatisfactory market situation for their products;
- (b) Employment creating potential lies mostly with the non-traditional MEs where youth and particularly women can seek self-employment;
- (c) Employment should be created by helping those with entrepreneurial ability to develop small and medium enterprises for the benefit of the poor who cannot be 'entrepreneurs' on their own;
- (d) Promotion of wage employment with a view to alleviating poverty could be effected only by re-adjusting the ME policy to accommodate promising entrepreneurs with a package of assistance to enable create wage employment;
- (e) There is evidence to suggest that MEs have been a means to raise incomes of the poor in rural areas that have not been particularly attractive for small and medium-scale enterprises (e.g. Kotmale);
- (f) Serious rethinking is necessary as to how new technology could be introduced in order to improve the quality of the products while also making it user friendly.

POLICY RECOMMENDATIONS FOR POVERTY ALLEVIATION THROUGH MICRO ENTERPRISE DEVELOPMENT

The fact that approximately 70 percent of enterprises in the Province falls into the micro enterprise category is an indication of the significant role that the MEs play in the economy of the Province. Although the contribution of MEs to provincial GDP cannot be assessed owing to lack of data, their numerical strength indicates their importance in the rural economy. Strengthening of the existing micro enterprises and introduction of non-traditional MEs could be profitably used in the future development efforts in the Province. Hence, ME promotional sector in the Province need to be restructured and revamped with State and Provincial Council patronage.

Presently there is no apex body in the Government, Private or the NGO sectors which looks after the interests of the micro enterprises. Micro enterprises are serviced by the promotional organizations in the course of normal extension work for the small and medium sector in the Province. As a result the ME sector does not get sufficient attention as it should, though it is a major component of the provincial economy. The Chamber of Commerce and Industry of the Central Province does not reflect the aspirations of the micro entrepreneur as its membership is constituted largely of representatives from the small, medium and large enterprises.

Chamber of Commerce for Micro Enterprises

Therefore it is recommended that the MEs form themselves into a Chamber of micro enterprises in the Province to start with.

Association of Industrialists

Wherever the number of entrepreneurs in each category of enterprise (e.g. leather, light engineering, food processing or studios) is sufficiently large they should be encouraged to form themselves into associations and such associations in turn could seek affiliated status in the main chamber.

Apex Body for promotional extension services

Once the Chamber of MEs is formed it is suggested that a Center for Micro Enterprise Development (CEMED) be established within the Chamber to act as an apex body for this sector.

The Provincial Ministry of Industries should take the initiative in forming the Chamber by inviting a representative group of micro entrepreneurs in the Province for a meeting. The proposed CEMED would be set up with the Provincial Council probably with Donor Agency patronage and its upkeep would be looked after by the Provincial Council or by a Donor Agency or by both during the formative years. This arrangement would proceed initially for two years at the end of which the CEMED should be able to generate its own funds through the services rendered. The CEMED will assist entrepreneurs at pre-investment, implementation and post implementation stages. This apex body shall have a manager who will be in overall charge and there will be three experts under him to handle (1) enterprise development (2) marketing and sub-contracting (3) information, publicity and training along with a small staff as felt necessary by the Board of CEMED. Setting up of such an apex body would look after most of the problems faced by MEs such as inadequacies in technology, lack of management know-how, marketing information, feasible project ideas, training etc.

Marketing Support

Assistance to MEs by a majority of promotional organizations has been weighted more in favour of the supply side of enterprises by way of training and financial support through banks etc. Equally important aspects on the output side such as market identification, market information, marketing techniques to enable the sale of products/produce are yet to receive sufficient attention in many training Programmes. As a result the micro entrepreneurs focus more attention on the production aspects such as the availability of raw material, labour and technical know-how, at the cost of marketing. Market aspects are far too crucial to be thus overlooked and without post training follow up the newly started enterprises

could fail even before the gestation period. The neglect of the marketing side can cause damage to the enthusiasm shown by the potential entrepreneurs because virtually 90 percent of MEs try to sell their products in the area itself. In the event that this limited market is lost there will be no hope for survival. The main marketing problems of micro enterprises are the lack of understanding of the market, inferior quality of products, lack of skills in product presentation and distribution, lack of adequate promotion and publicity, poor pricing strategy and very slow product development and innovation.

These are very crucial aspects that have to be addressed by the entrepreneurs as well as the promoters. Therefore, it is recommended that the marketing expert of the proposed micro enterprise development coordinate with the ME promoters in the Province and make arrangements to:

- a) Organize Marketing Associations and People's Companies for collective marketing of products.
- b) Identify ME projects that are found to be viable in the market and promote such projects in place of projects that are haphazardly chosen.
- c) Explore Sub-Contracting opportunities within and outside the Province and float such arrangements under CEMED.
- d) Establish trade centres in the urban locations of the Province to act as outlets for the products of the MEs and also as a publicity measure.

Infrastructure Improvements

D.S. Divisions in the District are very unevenly developed. There are areas which are very remote viz., Laggala-Pallegama, Wilgamuwa, Walapane, Rattota etc. with low levels of infrastructure development, particularly with inadequate motorable roads, electricity and communication in terms of the size of the population. Low level of infrastructure directly hampers the growth of viable enterprises such as dairying, horticulture, poultry breeding which

are essentially rural oriented ventures. Even vegetables that are easily grown in these villages face marketing difficulties. Therefore, as a long-term measure the CEMED should lobby with the State and the Provincial Council to develop most of the link roads to urban centres to facilitate transport of raw materials and finished goods thus keeping the cost of production at a minimum level.

Electricity and communication facilities are equally important for the specific purpose of introducing machinery and new technology to the units. These matters also should be taken up with the authorities concerned.

Training Panel

The survey of promotional institutions reveal that most of them concentrate in skills and technology training at the expense of management training and entrepreneur development training. Skills and technology transfer programmes should be immediately followed by entrepreneur development training and management training, if they are to be effective. These competencies will empower the trained entrepreneurs to launch well planned enterprises of a viable nature. Further, the training programmes have to be conducted on a selective basis and the skills imparted must cater to self-employment opportunities. Taking the above factors into consideration it is recommended that a Training Panel be set up in the Province which could develop a Plan of Action and review the present training programmes.

This panel should comprise representatives from the Ministries of Industries, Agriculture, Trade and Commerce, Tourism, Vocational Training Authority, National Apprenticeship Board and CEMED. The last could coordinate the meetings and other activities of this body which would in addition to streamlining the training programmes also help in avoiding unnecessary duplication. The same panel also could undertake standardization of programmes.

Social Mobilization

An examination of the performance of some of the ME promoters in the field reveal that training, credit and other extension services delivered by the CBOs and the SHGs have been far more effective

than others. Cases in point are the promotional work undertaken by the South Asia Poverty Alleviation Programme, *Samurdhi*, SEEDS of *Sarvodaya*, NYSCO, and Women's Bureau where there is better control of credit and savings, better follow up of activities and effective support services.

Therefore, the CEMED should encourage social mobilization Programmes even in areas that are not covered by such Programmes. Other ME promotional agencies could be utilized for the purpose.

It is also important to strengthen the capabilities of social mobilizers by training them in entrepreneur development especially in areas such as

- a) Identification of entrepreneurs,
- b) Selection of participants for training,
- c) Starting and managing a business.

The above programmes should be coordinated by the enterprise expert attached to the CEMED.

Resource Mobilization

Resource Profiles

There are resource profiles prepared in almost all the D.S. Divisions in the Province going back to the 1990s. These profiles contain useful information with regard to resources, skills, infrastructure, potential areas for investment etc. These reports have to be updated.

Preparation of Project Briefs

Providing Information pertaining to the MEs with potential in various districts or divisions alone is inadequate. The model project report already prepared by the Provincial Ministry of Industries is more relevant to the small and medium enterprise sector than to the micro sector. Prospective investors should have the option of selecting a viable enterprise based on a particular location. Therefore Project Briefs outlining the salient features of a project

need to be developed for viable enterprises and they should be made freely available to any prospective entrepreneur. Outlets for these project briefs could be the libraries of local authorities, schools, reading rooms, community centres etc. Due to the absence of such an arrangement many prospective entrepreneurs have not had access to such information which otherwise could have triggered off many micro projects.

Improve Credit Delivery

The availability of credit in right amounts at the right time is a *sine qua non* for the success of MEs. The constraint is found not in the availability of credit facilities in the formal sector but in the difficulties that the micro entrepreneurs have to face in accessing credit. Very often they are neither able to establish credit worthiness nor are they in a position to provide the collateral or the guarantors as required by the banks. The credit disbursed through SHGs is rather small. It is also important to educate the entrepreneurs of the facilities available with the banks in particular if they need a bigger loan facility to either expand, diversify or modernize a business. There is a tendency among the micro entrepreneurs to remain small, but they need to aspire to grow from small to big. Therefore, they have to be educated in the benefits of borrowing from banks for setting up MEs and they should rid themselves of the fears and reservations if any in borrowing from commercial banks. Hence the CEMED in association with the Ministry of Industries, Trade and Commerce of the Provincial Council should

- (a) Negotiate with the banks to simplify loan procedures when it comes to lending to the micro sector, and
- (b) Request to review their lending criteria to enable more entrepreneurs to avail of their facilities.

CONCLUSIONS

Of the total enterprises in the Central Province 70 percent falls into the micro enterprise category indicating that MEs are very significant in the provincial economy. About 57 types of ME and a

total of 52,723 units are operative in the Central province at present. To make them more viable their emerging needs have to be addressed timely and effectively. Although institutional support from both government agencies and non-governmental organizations are available to the MEs there are many constraining factors for their healthy growth.

Expansion of the micro enterprise sector in the Province could effectively address the poverty syndrome, as they do not require high capital investment or sophisticated technologies. Prospects for the development of MEs especially in areas such as agro-processing, animal husbandry, dress making, light engineering, building materials etc., are very promising in the Province. What is needed to support this sector in the Province is to facilitate access to credit, right technology, markets and infrastructure in areas with a considerable growth potential.

The promotion of MEs could profitably be used to alleviate poverty in the rural areas of the Province, if solutions could be sought to overcome the constraining factors particularly through a correct mix of micro-finance and other services tailor made to suit the needs of the poor entrepreneurs. Different support packages would be necessary to cater to self-employment of the poor and create wage employment for the poorest of the poor who cannot afford to be 'entrepreneurs'.

Although both public and private sector organizations make noteworthy contributions to revamp the ME sector, the setting up a Chamber of Micro Enterprises would be a step in the right direction, as it could be a dedicated institution that focuses attention on the major issues confronting this sector.

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Appendix 1

Micro Enterprises by Activity in the Central Province

No.	Type of Enterprise	No. of Enterprises (Tax amount < 500 Rs)
1. Industries:		
1	Rice Mill	1,419
2	Tobacco Barn	1,406
3	Bakery	1,026
4	Carpentry & Beeralu Workshop	907
5	Paddy Grinding Mill	557
6	Welding Workshop	509
7	Grinding Mill	479
8	Brick Kiln	407
9	Metal Quarry	324
10	Blacksmith	245
11	Radio Repair	236
12	Rubber Mill	220
13	Brass Workshop	202
14	Quarry	162
15	Production of Sweets	154
16	Saw Mill	150
17	Carpentry Workshop	143
18	Lime Kiln	140
19	Shoe Shop	130
20	Beedi Production	100

2. Trade & Commerce:

1	Retail Shop	11,954
2	Boutique	6,697
3	Grocery	2,501
4	Tea Kiosk	2,471
5	Vegetable Stall	1,757
6	Cooperative Shop	544
7	Fruits Stall	514
8	Textile Shop	495
9	Fancy Goods Shop	352

RETHINKING SRI LANKA'S REGIONAL DEVELOPMENT: CONCEPTS, POLICIES AND INSTITUTIONS

Wilbert Gooneratne

INTRODUCTION

Despite the relatively small size, Sri Lanka is a country of considerable local and regional variation in its geography, economy and society. Regional disparities in income and living standards of the population are significant and increasing. The development problems and potentials of different regions are also not uniform. This diversity makes most centrally determined, uniform and all-embracing general solutions to the problems not only inadequate but also inappropriate. Centralized planning and management can never be a substitute for local initiative and creativity in such an environment of diversity. The problem of regional disparities in Sri Lanka has also taken a new dimension with excessive growth concentration in the Colombo Metropolitan Region (CMR) vis-à-vis the other less developed and disadvantaged regions, following the shift to a more liberalized economic regime in 1978. The resulting polarized growth and the associated socio-political tensions (that includes the north-east secessionist war) have clearly underscored the need to address the issue of regional inequalities as a matter of great concern. In addition, the growing impact of globalization has exposed the country and its regions to new and complex challenges, both in respect of opportunities and risks. The widespread recognition of the need for enlightened systems of local governance and management has also clearly brought to the forefront the desirability of major shifts in regional development and policy.

The current policies and programmes of regional development are clearly inadequate to face these challenges, although the wide-ranging initiatives taken since Independence have helped to improve the welfare of rural and peripheral areas, moderate rural to urban migration, open up resource frontiers and achieve some degree of population redistribution.

10	Furniture Shop	303
11	Frozen Food Shop	291
12	Spice Dealer	263
13	Arecanut, Betel and Tobacco Stall	234
14	Hardware and Paint Shop	209
15	Cool Spot	197
16	Timber Depot	173
17	Jewellery Shop	147
18	Pharmacy	146
19	Agro Chemicals, Fertilizer & Seed Shop	125
20	Fertilizer Shop	119
21	Tea Sales Centre	119
22	Dry Fish Stall	112
23	Sweet House	111

3. Agriculture:

1	Poultry Farm	262
2	Dairy Farm	147
3	Green Tea Leaves Collecting Center	116

4. Services:

1	Tailor Shop	1,068
2	Saloon	1,065
3	Hotel	799
4	Garage	351
5	Winkle	249
6	Battery Charging	226
7	Dispensary	122
8	Ayurvedic Dispensary	116
9	Canteen	113
10	Photo Copy Service	110
11	Studio	100

There are three major challenges that Sri Lanka needs to address in the coming years:

1. How to attain a high overall growth rate of the national economy, in order to alleviate widespread poverty and generate higher levels of employment and income. This would require not only raising the contribution of the key sectors of the economy, but also enhancing the contribution of different regions of the country through optimum utilization of their potential and comparative advantages.
2. How to achieve an equitable distribution of the benefits of national growth among social classes and among different regions of the national territory.
3. How to ensure sustainable management of the environment and the resource base which are under increasing pressure due to uneven growth.

The main objective of this paper is to identify those areas that require fundamental rethinking in order to effectively meet the above challenges. The discussion will mainly focus on three major factors that are central to the organization of a more effective system of regional development, namely: key concepts, major policies and institutional mechanisms.

REGIONAL DEVELOPMENT, REGIONS AND REGIONALISM

Irrespective of how we define regions, regional development generally refers to the integration of policy and coordination of development activities within designated territorial units of a country. The need for a regional policy arises from two fundamental reasons: one is to address the persistent and growing problems of regional inequality, and the other is to promote overall national development by harnessing the potentials and strengths of different regions. Today, however, regional development is not only about the elimination of disparities between regions; it is also about a) building competitive and resilient regions that are better geared to

meet the challenges of a rapidly changing global economy and b) creating dynamic and vibrant living spaces across national territory to accommodate the needs of a society that is increasingly influenced by the forces of globalization.

Historically, the central concern of regional policy has been equity. Its underlying objective has been a greater territorial redistribution of social, economic and political power across national space, an objective that goes beyond the simple pursuit of economic efficiency per se. This has once again come to the centre stage of development since the 1980s after decades of emphasis on growth that has often aggravated regional disparity.

Today, the need for regional development processes that widely benefit the national territory and promote a more balanced development across national space is recognized. The objective is to offer the populations of all regions much the same possibilities of securing similar economic, social, political, cultural and environmental opportunities. This, however, does not mean interregional "uniformization" comprising identical elements in the regions. Rather, it is also aimed at providing interregionally differentiated human environments.

The meaning we attach to the "region" has a direct bearing on regional development and planning. Although, there is still no agreement on the appropriate territorial unit for regional development, a "region" is broadly understood to constitute an identifiable geographical territory below the national lever possessing a particular constellation of characteristics.

There are, of course, different types of regions. These are produced by the interplay of many complex factors. It is, therefore, important to go beyond the simple dichotomies such as centre/periphery, rural/urban and growing/lagging regions. These are not contiguous geographical regions. Rather, they are spatially interspersed, functional regions with close linkages between them. This is why even the so called "problem region", which has preoccupied

regional planners for a long time must be seen differently as there are many different types of problem regions. Very often, the solutions to their problems are linked to the realities and potentials of other regions. For example, the issue of backward or lagging regions cannot be effectively addressed by targeting these regions alone. They are too poor in resources and competencies or poor in locational advantages or too isolated to stand on their own. Hence focusing on such weak regions alone is not sufficient. Today, it is possible to realize greater benefits by combining the potentials and capabilities of different regions to strengthen complementarities. The emerging initiatives in East Asia through the now well-known "Growth Triangles, appear to provide innovative solutions to the problems of poor, peripheral areas and to some of the long-standing problems of regional inequality (Thong Wu 1998).¹

A clear distinction must be made between two major types of regions:

Geo-political or administrative region: a designated governmental/ administrative territory at sub-national level, such as the province or the district in Sri Lanka.

Geo-economic or development region: a geographical area characterized by a particular type of economy with particular problems and potentials, such as the area that was demarcated for the Southern Development Authority, although the demarcated region did not form part of a recognized system of regions at the national level.²

In most cases, the geo-political or administrative regions may not coincide with the geo-economic regions. The former usually trace their origins to historical, linguistic or religious factors. They are, therefore, not necessarily the best units for planning development. However, due to their enduring character they are always difficult to change. Yet, they possess important advantages such as organization, administrative machinery and data. They also can show trends in spatial inequality and disparity. But planning for

long-term economic and social progress of such units cannot be realistically undertaken without placing them in the context of a scientifically designated system of larger development regions. These regions need not have strict geographical or temporal boundaries and must be flexible enough to adjust to the demands of the evolving national and global economy.

Thus, a combination of the two appear to provide the best approach to regional development; that is to have a long-term development perspective at the geo-economic or development region level and short to medium term development plans and programmes at the administrative region level.

Regionalism, on the other hand, refers to a strong feeling of a community of people living in an identifiable territorial entity due to ethnic, religious or other cultural, political or economic factors. Regionalism generally emphasizes cleavages and narrow regionalism promotes protectionist tendencies and may even become excessively selfish. However, under certain conditions a strong feeling of regional identity can be a positive factor in regional development. The 13th Amendment to the constitution of Sri Lanka establishing Provincial Councils was to recognize and accommodate the growing sense of regionalism in the North and the East of the country.

Why Regional Development for Sri Lanka ?

There are many who think that Sri Lanka being a small and compact country does not require any kind of decentralized or regional approach to development. Some experts have even advised that it is not necessary to worry much about the lagging and slow growing regions at this stage of development of the country and that what is required is to link the different parts of the country by an efficient system of transport and communications (Richardson and Guild 1995). But there are three fundamental reasons that make regional development an essential and integral part of the development strategy of the country. These are:

- Growing regional disparity,
- Diversity despite its small size, and
- Worsening ecological problems and the need for sustainable resource management.

Growing regional disparity

The post-1978 economic growth in Sri Lanka has been characterized by increasing regional disparity and widening income inequality. An increasingly polarized pattern of economic growth between the Western Province, which coincides with the Colombo Metropolitan Region (CMR) and the rest of the country is clearly emerging (Maps 1 & 2 and Table 1). This has already created a dualistic pattern of economic growth across national space. The benefits of growth centered around the CMR do not appear to be spreading to the regions. Increasingly, the issue of growing disparity is recognized as a matter of serious concern, as seen from the numerous recent discussions on the subject (RDSC 1998, UNDP 1998, SDA 1997, RDD 1997 etc.). Note that the earlier city primacy of Colombo has been superseded by regional primacy.

The most important indicator of interregional economic disparity is the growing income gap between the CMR and other regions. Although the GDP per capita has increased in all the provinces, the gap between the CMR and other regions is increasing. Thus the GDP per capita ratio for CMR and other provinces which stood at 1:0.62 in 1990 worsened to 1:0.59 in 1995. In 1995, the ratio was 1:0.44 for the Southern Province, 1:0.48 for Uva and 1:0.46 for Sabaragamuwa. The human poverty index at 13.9 for the Western Province was 27.5 for Uva (UNDP 1998).

The principal reason for this widening income gap between the CMR and other regions is of course their differential growth rates. For example, between 1992 and 1995, the growth rate in the CMR was over 7%, where as in most other provinces it was around 4%. Manufacturing and services also show a high degree of concentration in the CMR, accounting for 72.4% of the manufacturing sector and 46% of the service sector of the country.

Manufacturing industry accounts for close to 35% of the Western Province GDP, while in most other provinces it is less than 10%.

Since growth rates of different industries vary considerably, industrial structure exerts an important impact on economic growth performance of the regions. For example, since the liberalization of the economy in 1978, the flow of Foreign Direct Investment (FDI) has increased significantly, reaching Rs. 117,000 millions in 1999. However, the bulk of the FDI (75%) has been concentrated in the CMR, especially Colombo and Gampaha districts (Central Bank of Sri Lanka 1999). The FDI flow is determined by the investment environment and return on capital in different regions. CMR is the seat of government and business and the major port, airport and other key infrastructure facilities are concentrated here. In addition, the best schools, hospitals recreation and entertainment facilities are also located in this region.

In order to attract global investment, vast amounts of capital are invested in this region. At the same time, there is a decline in fiscal subsidies and project grants from the centre to the provinces, partly as a result of the escalating cost of the war. In addition, unfavourable terms of trade for rural areas, particularly the low prices for agriculture products have further weakened the rural economy. The growing malaise in the rice sector is a case in point. These have affected capital formation and income growth in rural areas due to large-scale transfers of population, especially educated and more dynamic people as well as savings and surpluses³, thus weakening the rural economy and its vital component, agriculture. As a result, increasing numbers of rural people are pushed to rely on low-productive non-farm employment or remittance incomes from working in the city or abroad (now increasingly in the armed forces). This indeed means that there has been no real diversification of rural employment. Poverty has continued to remain widespread.

The CMR has of course created its own share of now well known problems of congestion, pollution, slums, unemployment, over-stretched life supporting amenities such as water, poor sanitation, poverty and crime (Ministry of Housing and Urban Development 1998), increasing the diseconomies of the region and creating further pressures on resources.

Geographical diversity

Despite its small size, Sri Lanka is a country of great diversity; geographically, economically and culturally. Indeed, the degree of diversity seems somewhat out of proportion to its size, be in its climate, topography, vegetation, agricultural systems, religion and culture. The development problems faced by different regions as well as their development potentials are also different.

This diversity calls for region-specific approaches to development and situation-specific solutions to numerous local problems. Further, it is also possible to use this diversity as a positive factor that can be harnessed for development across national space in more specialized, competitive and innovative ways. Increasingly, the hitherto unseen and untapped advantages of certain regions are being recognized, such as the unique natural environment of Uva or the development potential of the North Central Province anchored on its distinctive hydrological, ecological, agricultural and cultural setting. For example, reference is made to the potential for a booming tourism industry in the traditionally agricultural Uva Province (RDD 1999) and remoteness and nature in its pristine form as the most important comparative advantage in the Moneragala district in the same Province (RDSC 2000). Several authors have also referred to a combination of agro-hydrological, ecological and cultural factors that combine to make the Mahaweli region a unique area for tourism development (NASS 2000). The development of such diverse potentials and turning them into comparative advantages require region-focused policies and programmes and the close involvement of local stakeholders.

Ecological Threat

A third reason that justifies a regional approach to development in Sri Lanka is the growing ecological threat and the need for sustainable resource management. Many areas and certain vital resources such as soils, forests, water sources etc. are subject to severe stresses and deterioration due to a variety of reasons such as poor management and uncontrolled exploitation (NARESA 1991 and Ministry of Forestry and Environment, nd).

There is growing recognition today that these problems require long-term actions, both at the national and regional levels. While broad directions need to be established at the national level, it is at the regional level that concrete and more pro-active actions can be initiated. For example, the need for integrated resource management in the Mahaweli region has been explicitly recognized by the Mahaweli Authority (NASS 2000). Thus the need for a regional approach to address the concerns of environmental degradation and sustainable use of natural resources in a comprehensive manner is widely recognized today.

The notion held by some that a small country like Sri Lanka does not require any kind of decentralized or regional approach to development is clearly unfounded. This is probably not very different from the debate about regionalization in Russia many decades ago. When discussing regional development in that country, it has been said that "the idea that regionalization became a leading topic of study in Russia just because of the large size is too primitive and mechanistic an explanation" (Pokshishevsky, 1985). Similarly, in Sri Lanka's case too, to say that the small size of the country does not warrant any regional approach to development is even more primitive and mechanistic.

Regional Development in Sri Lanka: Past Attempts Achievements

The concern for regional development in Sri Lanka got to a centre stage under the post independence parliamentary system of government. Successive governments made attempts to address the concerns of specific areas, in particular the remote rural areas, by adopting a variety of interventions. The elected members of parliament from different regions and political parties began articulating the problems of their constituencies and their regional power bases. Issues such as over-crowding and poverty in the Wet Zone, poverty and agricultural potential of the Dry Zone, the problems of the Kandyan peasantry and estate workers in the up country plantation areas were at the forefront of such discussions. Among the more important programmes that were initiated to address these issues, the following are the most noteworthy.

1. *Investment in infrastructure.*

These included physical infrastructure such as roads and social infrastructure such as schools, hospitals etc. in rural areas.

2. *Resource development programmes.*

The major programme under this has been the development of land and water resources of the Dry Zone to raise agricultural (especially food) production, generate power and settle landless people from the overcrowded Wet Zone areas. Therefore, population redistribution was an important objective of the land settlement schemes.

3. *Decentralization of governmental functions.*

There have been a series of initiatives aimed at decentralizing certain central government functions to the lower administrative unit of the district. They were also intended to achieve better coordination of various activities. Some of the more important initiatives were the following:

District Coordinating Committees [DCC] of 1953: to coordinate development activities at district level under the leadership of the Government Agent (the administrative head of the District).

District Political Authority of 1973: headed by a senior member of parliament, this was expected to provide leadership to the government's food production drive.

Decentralized Capital Budget [DCB] of 1974: to allocate funds to the districts to undertake local capital works, based on the number of Parliament members who decided on how to utilize the funds.^{4,5}

District Development Councils [DDC] of 1980: to formulate and implement district development plans. About 15 subjects were decentralized to the DDC, which was headed by a district Minister.

4. *Regional development thrusts under the liberalized economic regime since 1978*

The change to a liberalized economic regime in 1978 and the reliance on the private sector as the engine of growth, led to three major thrusts of a regional development nature.

- i) Massive public sector investment in several 'lead projects' such as the Greater Colombo Urban Development Project, Free Trade Zones Project, the Mahaweli Project and the One Million Housing Project. The first two were CMR related and the third was largely confined to the North Central Province. The Fourth was an Island-wide programme focusing on the poor in both urban and rural areas.
- ii) Since the lead projects lacked both spatial and sectoral breadth, the Integrated Rural Development Projects (IRDPs) were introduced in 1979 to deal with the problems of the rural sector that were not addressed by the lead projects and other district level programmes. The IRDPs are district-level programmes funded mainly by foreign donors.
- iii) Attempts have also been made to decentralize industries as a means of generating jobs in rural areas and in the regions. For example, the establishment of industrial estates in different parts of the country has been one such effort. The other is the establishment of garment factories in rural locations, starting with the 200-garment factories programme of the previous UNP government.

The large river valley development projects such as Galoya, Walawe and the more recent Mahaweli project were all centrally planned and implemented agriculture development projects with power generation as a major component, although they have often been referred to as regional development projects. The establishment of the Southern Development Authority (SDA) marked the first attempt to plan and coordinate the development of a demarcated development region (the Ruhuna), going beyond district and provincial boundaries.

5. *Devolution of power to the Provincial Councils*

The 13th Amendment to the Constitution of Sri Lanka and the Provincial Councils Act No. 42 of 1987 have devolved considerable authority and responsibility to the sub-national level; the province. Provincial Councils are elected by the voters of each province and are provided with large sums of financial resources.

There is no doubt that the above noted programmes and initiatives have contributed in many different ways to improve the socio-economic conditions of many rural and backward areas of the country. They have also contributed in a significant way to attain several national level development objectives of employment generation, food production, power generation, population redistribution etc. (RDD 1995, Gunatilake and Williams 1999, Gooneratne et al 1999, Wimaladharma 1981, ASSL 2000, UNDP 1998).

However, notwithstanding these considerable achievements, the past regional development policies have been clearly insufficient to promote growth at the regional level in ways that would have helped the following:

- Arrest the growing polarization between the CMR and other parts of the country,
- Accelerate growth and resilience of different regions and enhance their competitive edge, and
- Achieve a more spatially balanced settlement system and growth pattern.

A closer look at the past experience of regional development in Sri Lanka shows that there have been three areas of fundamental weakness.

- i) The narrow and restricted conceptual framework that has so far guided regional development in the country defined by the very interpretation of regional development itself, the territorial unit of development and the responsibility for regional planning.
- ii) The restrictive nature of the policies and programmes adopted, both in scope and time. They were insufficient to promote spatially balanced development and create competitive and resilient regional economies.
- iii) The inadequacy of the institutional mechanisms at national, regional and local levels to undertake more effective regional development.

Regional Development: the Emerging Realities and Challenges

There are several dynamic processes that are at work at different levels which exert a profound impact on regional development today. For example, at the **global level**, the ongoing dramatic changes are creating new opportunities as well as problems for developing countries like Sri Lanka. Globalization has fundamentally restructured the economic and political geography of Asia by creating a new architecture of regional space, such as mega-cities, extended metropolitan regions, large interurban corridors and cross-border growth regions. Some mega cities are rapidly emerging as world cities that function as centres of investment (especially FDI), economic growth and wealth creation.

Commitment to globalization is also closely tied to metropolitan industrial development. Many countries are competing to build global cities to speed up industrialization, neglecting in the process their rural areas, secondary and regional cities and small urban centres. In other words, the expanding mega-urban regions are pushing other sub-national regions to a position of disadvantage, thus further polarizing the national territory. This is also true of Sri Lanka.

The vulnerability of such a strategy became evident with the East Asian crisis in the late 1990s and the desirability of promoting greater economic resilience across national space as against one (or two) mega-urban region(s) is now widely recognized. This clearly underlines the need to develop new policies and practices for regional development.

An important component of the globalization process that has vast implications for regional development constitutes the unprecedented advances in science and technology and the revolution in transport and communications. These developments help to shift the traditional comparative advantages of regions and dramatically alter the industrial location dynamics. For example, the substitution of mechanical with electronic processes, the development of high value light weight products, the increasing miniaturization of products etc. have all made production location

more flexible or even foot loose. The revolutionary improvements in transportation and communication/information systems are also dramatically altering the industrial and investment locations. In addition, the new technologies have eased the barriers to entry by making possible efficient production with small capital outlays. These developments are contributing to bring about the following two important shifts:

- The gradual weakening of the preeminent position of the big/primate city as the dominant location of industry, and
- The emergence of regional centres and small towns as attractive locations for investment.

At the **national level** too the on-going major structural changes have important implications for regional policy. Foremost among these is the liberalization of the economy and the move towards a greater reliance on the private sector as the engine of economic growth, creating new challenges for regional development.

The private sector is not guided by concerns of regional equity. It will invest in places where profits are high and these places invariably happen to be the major urban centres with better infrastructure and access to world markets. Thus, despite the increasing integration of the national settlement system due to the expansion of transport and communication facilities, growth concentration in the CMR, as noted above, is likely to intensify, further aggravating the problems of regional inequality. Added to this is the impact of increasing rural to urban migration, especially of the youth in the context of a rapidly aging population, with adverse consequences for the regional economies. The growing resource constraints at the centre, partly as a result of the impact of the separatist war, have clearly reduced resource allocations for the regions/provinces.

Finally, at the **local level**, there is also a clear and growing demand from the grassroots for greater responsibility in managing local affairs through representative local governance systems. This is the result of two major factors, namely:

- i) the growing disenchantment with an over-centralized and over-patronizing state, that has contributed to peripheralize other regions, perpetuate monotony in policy by sacrificing diversity, innovation and experimentation and stifling local initiative in many different areas, including such purely local matters as finding local solutions to local problems, and
- ii) the growing awareness of the democratic rights of the citizens due to the spread of education and the explosion in information. The high voter turn out rate at the provincial and local government elections is a clear manifestation of this growing desire on the part of the local populations to have a greater say in managing their development.

All these emerging and complex changes have clearly altered the background against which future regional development policy will have to be based. They require guarded but effective shifts in our thinking as well as repositioning of our strategies. This is necessary in order to create space for our participation in the global processes as an active player, without allowing us to be completely overwhelmed by them. It is also necessary to ensure the yet deprived populations improved access to basic needs of food, water, shelter, health and education. At the same time, it is necessary to take to such populations and regions those vital components that are so necessary for the growth of these economies and their sustainability and resilience (better education, technology, transport and communications).

Rethinking Regional Development: Recent Initiatives

There is already a growing recognition of the need for a shift in thinking about regional development in this country. This recognition is evident from a number of recent initiatives, such as the following.

- The new *Regional Development Programme Framework: A Strategy for Area-based Economic Growth in Sri Lanka*, introduced by the Regional Development Division (RDD) of the Ministry of Plan Implementation, which outlines an area-based strategy to promote rural economic growth (RDD 1997:

Documents No.1 and 2). The new policy is an attempt to reorient the IRDPs that are fatigued by low rural dynamism, to focus on private sector-led economic growth by tapping the development potentials of different areas. More recently, the RDD has further stressed the need to rethink the regional development policy in Sri Lanka (RDD 1999 and RDD 2000).

- The proposed Regional Councils, empowered with greater autonomy, are expected to better address the development issues of the provinces and harness their development potential more effectively. Although the devolution proposals are intended mainly as a solution to the ethnic conflict, and the provinces do not represent scientifically designated development regions, the whole initiative can be considered as an implicit recognition of the need for a regional approach to development and the need for devolved/decentralized governance.
- A major conference organized by the Regional Development Studies Centre of the University of Colombo in 1997, which brought together a large gathering of senior policy-makers, academics and researchers and donor/NGO representatives, was unanimous in endorsing the need for a more enlightened regional development policy for the country as an integral part of national development (see RDSC 1998).
- The creation of the Southern Development Authority in 1996 saw, for the first time, an attempt to adopt a development region cutting across the traditional administrative boundaries for the purpose of comprehensive regional development based on a coordinated multi-sectoral strategy. Although the Ruhuna Development Strategy prepared by the SDA in 1997 was not taken up, as a whole, for implementation, it represented a major departure from the earlier river valley development projects which were more narrowly conceived.
- Recent initiatives by the UDA to prepare a National Spatial Development Strategy to address the problems of over-concentration of population and development activities in the South west and central regions of the country is also a recognition of the need for a broad-based regional approach to development (UDA 1998).

Three Areas for Reconsideration

We have identified three broad areas that merit reconsideration in any discussion on a more effective system of regional development. These are (a) guiding concepts, (b) policy priorities and (c) institutional mechanisms.

Guiding Concepts

It is a well-known fact that conceptual rigidity can cripple initiative and innovativeness. Yet, when development policies and programmes are based on concepts that are loosely understood or interpreted, the consequences can be even more crippling. Based on Sri Lanka's past experience, there are at least three important conceptual areas that merit serious reconsideration if regional development is to become a vital component of national development.

The first is the concept of the "region" itself and the related concept of "regional development". Both these have been rather loosely defined and insufficiently understood in Sri Lanka.

The term "regional development" has been used in a very narrow sense in Sri Lanka. It has been generally used to mean almost any activity that is undertaken outside the CMR. The territory outside the CMR has been lumped together, at least implicitly, as the arena of regional development. The national economy has not been explicitly recognized as a product of many local and regional economies. Programmes implemented in the outlying areas are considered as regional development programmes. Among such programmes, the following are worth noting:

1. The numerous peasant colonization schemes of the Dry Zone, including the large river valley development projects such as Gal Oya, Walawe and the more recent Mahaweli Project. These were all intended to raise agricultural, especially food production and settle poor landless families from the overcrowded Wet Zone areas of the country. Power generation was also a major objective of the river valley development projects.

2. The Integrated Rural Development Projects (IRDPs) implemented in more than 15 districts of the country that did not benefit from the lead projects of the 1977 government. These were aimed at improving the living conditions of the rural population particularly the poor.
3. Industrial development initiatives in the regions outside the CMR, such as industrial parks and industrial estates.

All these did not form part of an overall strategy of regional development for the whole country that explicitly recognized the wider concerns of harnessing regional growth potentials, reducing disparities and ensuring the sustainability of resource use.

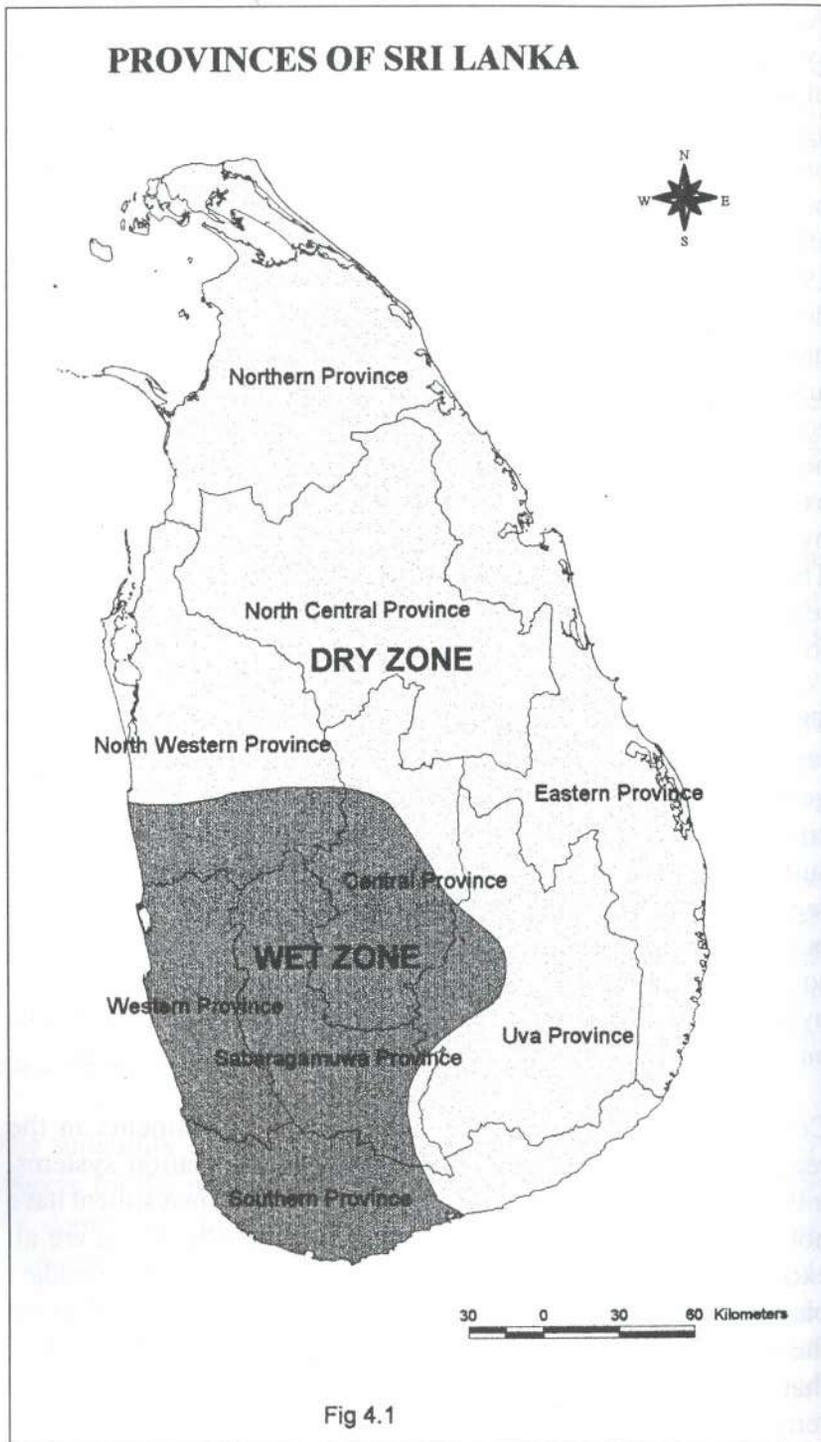
Sri Lanka still does not have a system of regions delineated for development purposes, based on any recognized development criteria. The broad territorial divisions of Wet, Intermediate and Dry Zones are based on climate, while the hill country-low country division is a purely topographical one. Concepts such as the coconut triangle and upcountry plantation region are specific crop or agricultural regions and do not form part of a larger system of geo-economic or development regions. It is the administrative district that has been used as the unit for planning, coordinating and implementing development activities and central government policies at the sub-national level. The introduction of the elected Provincial Councils in 1987 created, for the first time, an intermediate layer of government (a geo-political unit) with considerable devolved powers and functions.

The suitability of the existing Provinces, created by the colonial powers for the purpose of political and administrative control of the country, as appropriate territorial units for organizing and promoting socio-economic development has been doubted and questioned by many. The PCs were established mainly in response to the Tamil demands for self-determination and the proposed Regional Councils, with enhanced powers, have also adopted the existing provincial boundaries (Fig. 4.1).

As an alternative to the provinces, several proposals that suggest a system of regions for the country have been advanced by a number of academics, researchers and others. These are mostly based on agro-hydrological, historical and other considerations and have been suggested as an alternative to the present administrative provinces and as a solution to the ethnic problem. (Dennis Fernando 1985, Nanayakkara 1985, Amarakone 1990 and Wickramanayake 1990⁶, Madduma Bandara 1991). These are not geo-economic or development regions that have been demarcated on the basis of present and future development needs of the country, potentials and comparative advantages of different areas and the socio-economic and geopolitical realities. It is for this reason that the need for a "fundamental reworking of the regional development exercise within designated regions" has been recently reiterated by the Agency dealing with regional development (RDD 2000). The Regional Economic Advancement Programme (REAP) which replaces the IRDPs continues to have a district focus and does not form part of a clearly spelt out regional policy.

The second aspect is the conceptual weakness of considering regional development as the sole responsibility of the central government. Past regional development experience in many countries, including Sri Lanka, clearly shows that the long-term sustainability of regional growth is more a function of what the regions themselves can do than what can be done by the centre or outside. In other words, sustainable regional development must be solidly anchored on local initiatives. These must be spearheaded by key local stakeholders and institutions, based as much as possible on local resources and skills and guided by local knowledge.

Centrally conceived and centrally planned investments in the regions (in the form of highways, telecommunication systems, industrial parks etc.) and other incentives to attract investment have not helped in achieving sustained regional growth. These are all exogenous development initiatives, where the local stakeholders play a passive, recipient and dependant role. They have not helped the regions to create "internal capability". It is a well-known fact that even in developed countries, central institutions are far too removed from local/regional realities and needs.



Almost all the programmes aimed at regional development in Sri Lanka have always been conceived, planned and implemented and even managed by the centre. One of the most revealing examples is the Dry Zone land settlement schemes, including the more recent Mahaweli project. They failed to create self-reliant, dynamic and diversified agricultural communities, not to speak of regional economies (Wimaladharmasiri 1981 and NASS 2000). The Mahaweli project has been noted for creating a “dependency syndrome” or a “monstrous type of dependency” (Gooneratne 2000). The well-known IRDPs were similarly centrally planned and implemented, at times with centrally conceived programmes for ensuring local participation (Gunatilaka and Williams 1999). The regional industrialization programme of the government has always been a centre determined one. The establishment of industrial parks and estates and garment factories in outer regions are all centrally initiated and implemented programmes (Business Today, April 2000). Even the responsibility for provincial industrial development is said to be in the hands of the central bodies (Lakshman et al, 1998). The new REAP, which is replacing the IRDPs, has recognized that self-sustaining economic growth in the regions must be based on local capacity and enterprise and that it must be supported by a carefully orchestrated programme of investment to create favourable conditions for the private sector to play a more dynamic role. This is a clear recognition of the importance of development through local initiatives.

Thirdly, the need to recognize regional development as a comprehensive concept, particularly in order to address the interrelated concerns of efficiency, equity, environmental stability and empowerment at local level has emerged as a major concern. These are interrelated issues and need to be addressed together in order to achieve greater efficiency.

Comprehensive regional development aims at attaining certain socio-economic goals (particularly higher employment and income levels) by raising the efficiency and dynamism of the regional economy. These will provide the optimum conditions and opportunity for production specialization and growth in

productivity of the regional economy to strengthen its competitiveness and resilience, both requiring a comprehensive approach. In order to address the numerous interrelated issues, comprehensive empirical studies are necessary to allow good diagnosis of the present state of the regional economy. The new REAP, with its emphasis on the private sector, appears to have abandoned the "integrated" component of the earlier IRDPs.

Policy Priorities in Regional Development

Sri Lanka has reached a critical stage where it has become imperative to decide on a clear set of broad development objectives that it wishes to pursue in the next several decades in order to address the challenges and opportunities that we noted earlier. Such a set of goals or perspectives will determine not only how the different sectors of the economy but also how different regions in the country are going to contribute to their realization. It is only when the latter is clarified that it would become possible for the public sector to decide on appropriate measures that would support the designated/recognized regions to realize their full potential. The identification and elaboration of such a regional development perspective would in turn provide the sub-national and local governments with a long-term framework to situate their strategies and programmes. National and regional development are not separate things; they are integral parts of the national-local development chain.

The most important policy priority today is to create competitive and resilient regional economies. This is perhaps the most effective way to address the problems of growing regional inequality, achieve spatially balanced economic growth and aggressively face the challenges of globalization. The recognition of this reality calls for a major reorientation of policy priorities. Hitherto, the policies adopted were guided more by such short-term exigencies of winning elections than promoting regional development. They have always been excessively populist in nature.

We have identified three key areas of policy that merit new thinking:

1. Promoting an efficient settlement system.

An efficient system of settlements provides the physical basis for effective regional development. The growth, prosperity and resilience of regions are greatly influenced by the equitable, livable and dynamic character of the settlement system of a country. Like in most Asian countries, Sri Lanka's settlement system is highly unbalanced. There is clearly a primacy problem, absence of mid level regional cities and lack of strong functional linkages between rural and urban sectors. These three form key policy concerns that need priority attention.

i) Moderating the further growth of the CMR.

The concentration of population, employment and production in one or two big cities and strongest regions is a major problem of economic space. The mounting negative consequences of growth concentration in the CMR are increasingly recognized as serious concerns from several respects: political, economic and social (Mendis 1997, Vos 1999, UDA 1998, Wanasinghe and Karunanayake 1997, Gooneratne 1998). The Colombo Metropolitan Regional Structure Plan (CMRSP) now being implemented by the government aims at developing the CMR as a modern, dynamic and efficient metropolitan region by relying on better management and more investment. However, the CMRSP does not form part of a broader national regional development strategy or perspective. Hence the implementation of the Plan will only make CMR a magnet for millions of migrants from other areas, especially from the poor and lagging rural areas, further dislocating the economies of these regions and aggravating the disparity. Therefore, making the CMR efficient by emphasizing better city management and more investment is not likely to have any significant impact on the persistent and growing problem of spatial inequality. If at all, it will leave rural poverty and vulnerability more or less intact and the capacity to absorb the shocks of a volatile global economy extremely weak. A recent news paper report titled "all for city, none for rural areas" commented

on the Board of Investment (BoI) approval of sixteen more hospitals with "most of them to be in Colombo resulting in a surfeit of hospitals in the city and little or nothing for the rural areas" (The Sunday Times, 10th September 2000).

The dangers of developing the CMR in isolation have been recently highlighted by several researchers mentioned above. Any gains to national growth from such polarized development may be seriously compromised by the likely political repercussions of such a growth pattern. Extreme polarized development is also clearly inimical to devolved/decentralized governance.

There are also growing doubts about the actual contribution of the mega-city region to the national economy, despite the heavy concentration of industrial and other economic activities. Regional accounts, where they are available, tend to underestimate the contribution of secondary cities and rural areas. Also, the superior efficiency of the large city to a dispersed pattern of economic organization is said to be unfounded (Hansen 1990 and Douglas 1998b). Fears of growing negative externalities of growth concentration in the CMR that might undermine economic growth have been expressed by several researchers, drawing attention to rising costs of land, rentals, wages etc., traffic congestion, and the growing pressures on housing and environment (Mendis 1997). Already, attracting labour to the Free Trade Zones in the CMR is reported to be facing difficulties and the BoI is even said to be considering the possibility of importing labour, when large reserves of the unemployed are locked up in rural areas (The Sunday Times, 24th September 2000) (Table 4.1 and Fig. 4.2).

Following the 1997 economic crisis, the reality of the excessive polarized growth has clearly dawned upon the South East Asian countries. In Thailand for example, there is a growing recognition of the need to revert to a policy of rural (and agricultural) regional growth (Economist, July 8th-14th 2000 and Far Eastern Economic review, 13 July 2000) and the promotion of regional cities and greater rural/urban linkages (Douglas 1998 and Kaothien and Webster 1998).

TABLE 4.1
Provincial Characteristics

Province	Land size (Sq.km)	Population (1000s)	Shares of GDP (%)		Growth of GDP (%)		Average Monthly income (Rs)		Industry (%) 1995
			1990	1995	1994	1995	Per Household	Per capital	
Western province	3,632	4,698	41.4	43.3	7.2	7.2	4,764	947	72.4
Central province	5,620	2,381	9.5	9.7	2.9	4.8	2,859	574	4.7
Southern province	5,497	2,335	11.3	11.1	4.8	4.1	3,244	616	8.6
Northern province	8,688	1,391	4.4	2.5	1.7	4.3	-	-	1.0
Eastern province	9,635	1,263	4.0	3.9	1.2	7.9	-	-	1.2
North-Western province	7,826	2,132	10.9	10.3	6.5	3.8	3,145	624	2.9
North-Central province	10,259	1,075	5.2	6.4	7.4	4.0	2,906	577	1.4
Uva province	8,348	1,138	5.6	5.1	0.7	4.3	2,652	517	2.5
Sabaragamuwa province	4,948	1,790	7.7	7.6	8.3	6.1	3,209	650	5.4
Sri Lanka	64,454	18,203	-	-	5.6	5.5	3,549	708	100

Source : Department of National Planning and
Department of Census and Statistics

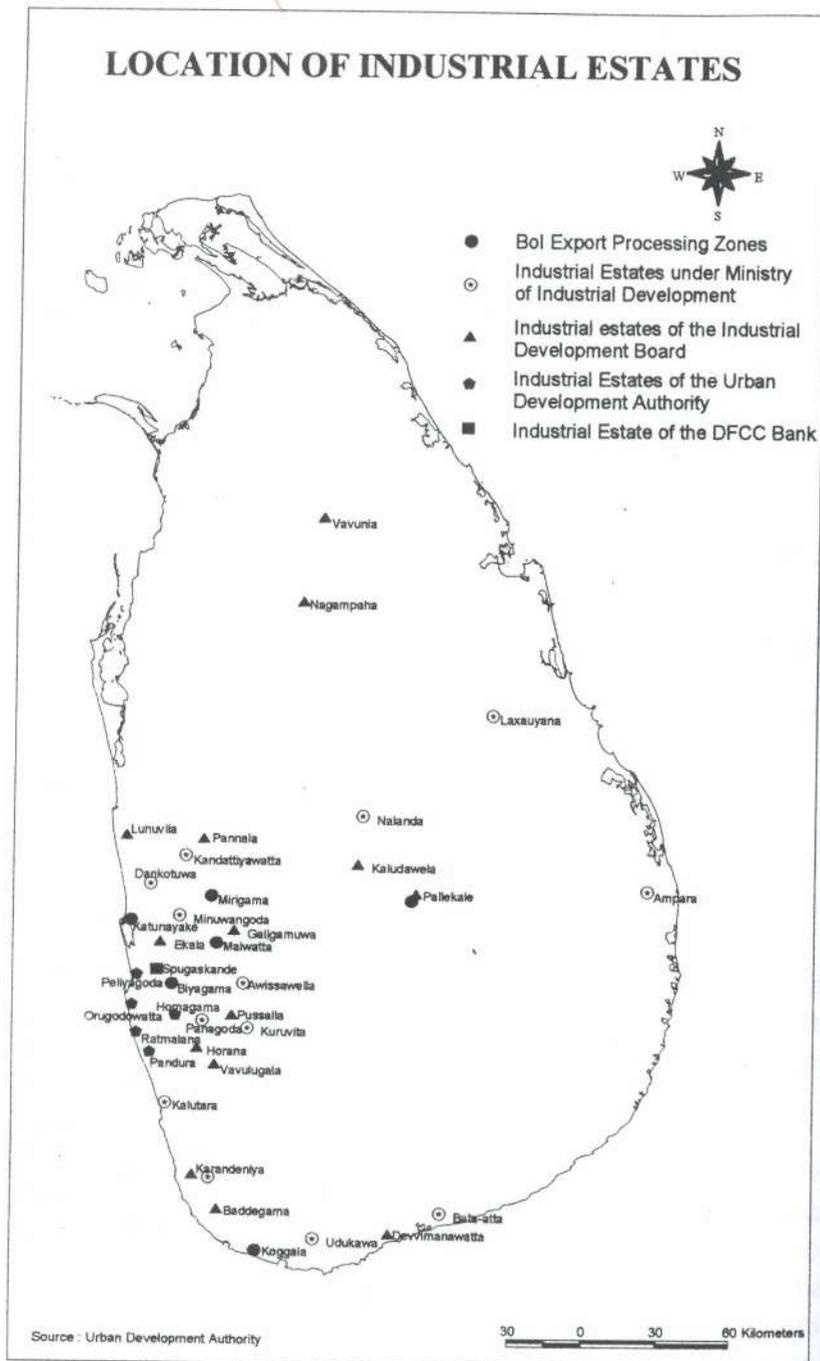


Fig 4.2

Of course, it is not so much the size of the CMR itself that is at issue. Developing country mega-cities are also faced with serious problems of meeting their complex and growing need for food, water and energy and the resources to sustain them in the future. This is why, a system of manageable cities, distributed across national space appear not only desirable but also essential.

ii) Promoting a region-focused and region-serving system of urban centres.

If a less polarized national space with competitive and resilient regions are recognized as an important goal to pursue, the need for a dispersed pattern of efficient, manageable and sustainable regional cities becomes obvious.

The spatial distribution of urban settlements in Sri Lanka was characterized by the concentration of five out of six cities above 100,000 population and twenty five out of thirty four intermediate-size towns in the Wet Zone comprising the south west quadrant of the country, leaving the larger Dry Zone region with a major urban deficit (Wanasinghe and Karunanayake 1997).

Regional cities have a qualitatively different role to play as catalysts of regional economic growth. There are at least three important areas where regional cities can play an important role.

(a) Under a devolved/decentralized system of governance, without a region-serving city (cities), the programme of devolution is reduced to a meaningless exercise. Genuine power sharing by the centre with the devolved/decentralized units could become a reality only when such units are able to sever the traditional dependence on the centre and the capital/primate city for routine activities. The regional cities should emerge as centres that cater to the needs of the regions, without having to rely on the centre. A region should be connected to its own regional centres than to the distant capital city.

- (b) Regional cities also have the even more important role of catalyzing economic growth in the regions. Dynamic regional cities contribute to strengthen the competitiveness and the resilience of the regional economy by serving as production, distribution and financial centres. They also promote forward and backward linkages in the regional economy and help to strengthen the internal economic circuits that help to vastly improve the competitiveness and the resilience of the region. Further, decentralized cities will be in a better position to harness the emerging possibilities of solar and wind power technologies on a larger scale to better face the impending energy crisis more effectively in the future.
- (c) Dynamic regional cities are even more necessary for retaining educated, skilled, talented and 'aggressive' people within the region and to attract such people from outside. This would be possible only when regional cities develop as centres of superior amenities in education, health, housing, recreation, entertainment etc. In the end, a region must emerge as an attractive place for residence and not only for investment. Today, regional development performance is increasingly linked to high quality amenities where dynamic regional cities provide the best locations for retaining and attracting skills and talent. Regional cities also play an important role in promoting a regional image or identity, especially by serving as centres of arts, crafts, festivals, food etc.. The proposal to build Ruhunupura, a city of such superior amenities, as part of the Ruhuna Development Strategy prepared by the SDA was an attempt to concretize such an idea for the South.

iii) Establishing strong rural-urban linkages

The importance of vital and fast growing rural/urban linkages and their links to regional growth has been slow to gain recognition in Sri Lanka. The two have been generally taken as separate entities, independent of each other. Thus the long-established rural development programmes, including the numerous IRDPs, overlooked this connection and its critical role in promoting rural economic growth and dynamism (erve et al 1992 and Gooneratne et al 1999). The numerous irrigated land settlement schemes in the

Dry Zone were again excessively agriculture and rural focused and even the recent Mahaweli Project, despite a planned effort to establish a hierarchy of service centres, failed to create the basis for promoting a dynamic system of urban centres that is capable of strengthening productive linkages in the regional economy (NASS 2000). The small towns in the Mahaweli systems were designed as mere service centres to serve agriculture, which was essentially paddy agriculture. They were not conceived as centres of wider economic and social interaction, in particular as centres catering to the growing and changing needs of the youth. Needless to say in the traditional plantation regions, the estate/rural-urban linkages are still poorly developed.

Sri Lanka's experience in urban development itself has been generally one sided. The urban territorial units, with their respective governance structures such as Municipal Councils, Urban Councils, Town Councils etc. have been rarely concerned with the larger hinterland region where they are located when planning and managing the development of these entities. The activities of the UDA are largely confined to the physical development of towns and the selection of towns for development and improvement rarely takes in to account the wider aspects of the regional economy. In other words, urban development efforts in Sri Lanka have not been placed in the context of a broader regional development perspective.

The need for a well-articulated hierarchy of urban centres has emerged as a key component of any program for accelerating rural growth and injecting dynamism and resilience to the rural economy. Besides their traditional role as service centres, urban centres have a more important future role in serving as locations for activities that serve the rural/regional economy (particularly for information, extension, finances, marketing, processing and value adding etc.) and cater to the emerging society of heightened aspirations, especially of the youth.

The Growth Pole concept, which provided for a long time the strategic framework for regional development in many developing countries has generally failed to promote a strong rural-urban

integration in these countries. Despite considerable doubts about the efficacy of the strategy (Lo and Salih 1975), it has been widely adopted in modified form, such as Growth centres, in many countries. The Growth Pole concept relies on vertical diffusion of development impulses through a downward or trickle down process. But experience has shown that such single horizontally unconnected growth centres generate few region-wide growth impacts and benefits.

A more efficient mechanism of promoting wider rural/urban linkages would be a system of regional urban networks. These networks consist of a connected and interactive cluster of dynamic urban settlements. By strengthening these centres, it is possible to integrate rural and urban development more efficiently and capture upstream and down stream multiplier effects in a region. Improved transport and communications can improve these interactions. The network concept emphasizes greater horizontal diffusion of impulses. Thailand has recently adopted the regional network strategy as a more efficient way of strengthening rural/urban linkages (Douglas 1998). The formation of incipient urban networks through the coalescing of previously separated towns has been noted recently for Sri Lanka as well (Wanasinghe and Karunanayake 1997).

The adoption of such a concept of regional networks has clear implications for infrastructure development. First, it is now clear that one of the major obstacles to regional industrial development and attracting investment to outer regions is not the mere inadequacy of infrastructure. It is more the lack of concentrated infrastructure that strengthens regional urban networks and their agglomeration economies. Secondly, the role of high quality social amenities in regional development has been neglected for a long time in Sri Lanka. As noted above, this is now increasingly recognized as a key element in dynamic regional growth.

The largely dispersed, low profile and unconnected small scale infrastructure development, such as under the IRDPs and other decentralized programmes have not been sufficient to enhance the

generative power of the regional economy by creating higher multiplier effects. Thus it is important for the settlement system and infrastructure networks to develop in a more integrated manner.

2. Making local stakeholders the key players in regional development.

A region's ability to grow and prosper and, perhaps more important, sustain its prosperity is clearly a function of what the region itself can do, than what can be done from outside. What a region can do depends largely on the strength of the partnership between the key stakeholders: state, local governments, private sector, educational institutions and the civil society. Among these, it is the "committed stakeholders" who need to play a pivotal role. These are the stakeholders with a long-term commitment to the region, who are not in the region merely for short-term profit and who will not leave when business and profits experience short term downturns (see box for the partnership institutions in the Chubu region of Japan). For example, in the centrally implemented IRDPs, only a few of the gains have been sustained beyond the life of the programme (Gunatilaka and Williams 1999).

The stakeholder partnership in regional development has two related implications. One is that it is only strong partnerships or coalitions among committed stakeholders that help to improve the capacity for self-organization, which is so essential for mobilizing local potential. The other is that it creates an internal capability, which alone is the most important factor that enhances the competitive edge of a region as well as its resilience. Such positive social forces of regional development as leadership, creative response and innovative spirit can be provided only by committed stakeholders. Note that the so-called "regional industrialization" programmes of the government, aimed at taking industries and investors to the regions are centrally conceived programmes that provide only a passive role to the local stakeholders.

Chubu Region of Japan
Chukyo Regional innovation System

Partnership Institutions

Core Firms

Bankers and Suppliers

Government Agencies

National

Prefectural

Local

Non-government Agencies

Local Chambers of Commerce

Chubu Economic Federation

Universities

Source: Eddington 1998

3. *Enhancing the capacity for innovation*

Today, there is broad agreement on the inadequacy of the traditional public works (hard infrastructure) approach to regional development. In many cases, infrastructure development such as roads have mostly promoted massive leakages from rural and peripheral regions perpetuating their underdevelopment. The social welfare oriented and poverty focused approaches have also been marked by their inability to generate growth and dynamism in the rural/peripheral regions. For example, after more than 15 years of implementation of the IRDPs, their inadequacy to generate economic growth has been clearly acknowledged (RDD 1997). Now it is widely recognized that the long-term competitiveness of the regional economy has to be enhanced by shifting towards continuous upgrading of production and productivity.

Technology as the key to sustained regional development has moved to the centre stage in both theoretical analysis and recent policy discussions (Asheim and Dunford 1997). Technology is the key to raising productivity and efficiency of the regional economy. It is

essential for the efficient management of the resource base; irrigation systems, forests, water bodies etc., diversification and modernization of agriculture, expansion of agro-processing and value adding to local produce. This entails the acquisition, adaptation, development and diffusion of region-specific technologies. One of the major requirements for supporting technological progress is the strengthening of regional capacity for R & D.

Technology-based regional development rests on strengthening the capacity of a region for innovation. Innovative regions enhance their competitive edge by adopting new technologies, developing new and better products and responding rapidly to market changes.

The main requirements for building innovative regions are

- local networks for industries and business (both private and state).
- strong R & D base, with private/public research link.
- concentrated infrastructure, such as transport and communication systems, universities and research institutes, science parks etc.

The process of territorial clustering of industries, economic activities and infrastructure appear to provide the most suitable context for an innovation-based regional economy. These regions depend on "incremental and continuous innovations" for sustained growth and not on irregular breakthroughs or one off events. Terms such as regional production systems and technological districts also convey a similar idea as "innovative regions".⁶

Technological innovation is increasingly a product of social innovation. It is a collective learning process involving strong inter-organizational links and alliances between business and industry, universities and research institutes, governments and the civil society of the region. Such "Innovative Regions" in their mature stage are also called "Learning Regions"; regions that have created for themselves a sustainable economic advantage based on several

things such as, knowledge creation, local technology development, building a regional business culture, upgrading local labour skills and strengthening production networks (Edington 1998).

In order to gain a competitive advantage for regions, it is necessary to give priority to those activities that offer unique and clear advantages. However, since the risks associated with a volatile global economy are clearly very high, narrow regional specialization, often leading to extreme standardization, could be harmful for developing countries like Sri Lanka. This is why it is important for a region to also look for maximum "economic completeness" by producing those economically justified goods within the region; a kind of selective diversification. This would amount to attaining regional competitiveness without sacrificing completeness.

How to adopt some elements of the "Innovative Region" concept to the Sri Lanka situation to create dynamic conditions for regional growth is a major challenge that begs serious discussion. Note that for the first time in Sri Lanka, the concept of a Science and Technology Park (STP) in regional development aimed at supporting R & D and business development was proposed for Ruhuna in the development perspective prepared by the SDA in 1997.

Institutional mechanisms

Appropriate institutional mechanisms constitute the foundation on which regional development can be organized in efficient and sustainable ways. They must be vertically and horizontally linked to include all three levels: national, regional and local.

1. National level

At the national level, Sri Lanka still does not have a clearly established institutional mechanism to deal with regional development. Different aspects of regional development have been handled by several ministries and agencies, such as the Ministry

of Plan Implementation and its Regional Development Division (responsible for IRDPs and now REAP), Ministry of Housing and Urban Development and its Urban development Authority and the Department of Town and Country Planning, Ministry of Provincial Councils and Local Government, Ministry of Mahaweli Development and its Mahaweli Development Authority, Ministry of Industrial Development etc. The activities of these Agencies are not organized within the broad framework of a national regional development policy. There is no agency responsible for dealing with regionalization itself, elaborating national regional development priorities, providing technical support for regional development and monitoring regional performance.⁷

In a predominantly market economy where the private sector determines the appropriate locations for economic activity while the state focuses on macro-planning and establishing guiding policies, the state still need to play certain critical roles such as:

- Providing key infrastructure, public services, R & D facilities etc. in different regions,
- Regulating certain business activities in different regions (land use controls, location of industrial parks etc.) and
- Bringing about coordination among sectors and regions.

This is because free market policies in the context of persistent regional inequality and other well-known market imperfections are likely to further aggravate regional disparity in the absence of positive public sector role. There is a greater likelihood of some regions being completely left out from the growth process. The issue of inter-provincial balance or equity, for example, can only be resolved at the centre. It is the centre that can determine the provincial allocation of central government funds on the basis of the needs and potentials of each region. It is also only the centre that is able to assist the 'lagging regions' to catch up with the 'leading regions'. Public action is required to activate the underutilized factors of production in less developed regions. These are immobile by themselves and cannot attract investment

without artificial stimulation. Macro policies alone are unlikely to adequately address such issues. Thus, a regional approach to development does not imply, as feared by some, an abdication of the important role of the national government in planning and decision-making (Hewavitharana 1997).

Regional development must always be placed within the framework of a multi-level system of planning. This can be concretized only when the national development plan or perspective has a clear regional or spatial dimension. A national regional development policy by providing the framework for appropriate resource allocation, coordination and mediation can assist national development in the following ways:

- Accelerating the growth potential of different regions by exploiting their comparative advantages or creating competitive advantages and helping to release pressures on growth.
- Integrating different regions into the national economy, while promoting dynamism and resilience in each region.
- Supporting the emergence of specialized competitive regions (see box for the example of policy-based finance in reducing regional disparity in Japan).

Generally, it is not so easy to measure the potential comparative advantages of a region. But with appropriate interventions and investments, even a poor region could be transformed and its comparative advantages changed. Careful location of major investments can have a bearing on spatial efficiency and balance and hence on regional development

Policy-based Finance in reducing Regional Disparity: The Japanese Experience

Japan provides a good example of a country that has adopted various policy measures over the long-term to alleviate regional disparity and promote regional economic development in line with priorities set out in successive National Development Plans (NDP). Alleviation of economic disparity among regions was particularly emphasized in the first (1962) and second (1969) NDPs. This policy was implemented largely through the Japan Development Bank by means of i) fiscal incentives on one hand, and ii) prioritized allocation of public works to the regions on the other.

The national policy for reducing regional disparity was characterized by clear shifts in emphasis with each NDP, in keeping with the structural changes in the economy and the demands of a rapidly integrating world economy..

NDP 1 (1962): Balanced development between regions and away from the Pacific belt area. Emphasis on the creation of Regional Development Centres based on core industrial cities and areas.

NDP 2 (1969): Relocation of industries to regions and promotion of industries appropriate to each region.

NDP 3 (1979): Attracting high-tech industries to regions and assisting SMEs to speed up regional economic development. Introduction of the *Technopolis Law*.

NDP 4 (1987): Relocating some of the capital area functions decentralize the structure of the Japanese economy.

NDP 5 (1998): Promote independent and diversified development strategies for *larger regional units*, in order to more effectively meet the demands of globalization, aging of population, revolution in communications etc. Advocated the formation of multiple belts within Japan, such as the North East Belt, Japan Sea Belt and the New Pacific Belt.

In order to achieve the stated policy goals, regional development was supported through the Regional Development Loan Programme of the Japan Development Bank (JDB) initiated in 1959. Started as a special project to assist the sluggish Kyushu region, it was later extended to cover the other major regions of Japan (Hokkaido, Tohoku, Kanto/Koshietsu, Kokuriku, Tokai, Kinki, Kyugoku, Shikoku and Kyushu) but excluding the major metropolitan areas such as Tokyo, Osaka and Nagoya.

The programme had two distinguishing features:

- 1) The focus of development support was different in each region.
- 2) The JDB played a key role in the preparation of regional development plans and programmes. It thus functioned also as a *knowledge bank*, particularly through macro-economic and industrial research.

Two things were achieved by this programme:

- 1) A substantial reduction of income disparities among regions already by 1975. Thus the per capita income ratio between Tokyo and other regions which stood at 1.65:1 in 1965 was brought down to 1.34:1 in 1975.
- 2) By 1994, the net inflow of population to major metropolitan areas has been reversed.

The Japanese experience offers useful lessons on the feasibility of attaining high economic growth and equitable distribution of wealth among regions and social echelons.

Source: Masahiko Ishida, 1998

Thus, there is a growing need for a strong interregional planning bureau at the centre, particularly to deal with the issues of interregional balance between growth, equity and sustainability. Such an institution will work out alternatives for different regions based on good information, political priorities and growth potentials. It will be responsible for dealing with such important areas as regionalization itself, elaborating national regional development priorities, providing technical support for regional development, monitoring regional performance and recommending corrective measures. The need for such an institutional mechanism has been further strengthened by the emerging needs of a devolved/ decentralized system of governance.

2. Regional Level

If the need for a scientifically determined system of development regions is recognized and accepted as a more rational approach to regional development within a devolved/decentralized system of governance, it would strengthen the case for a separate regional planning agency to prepare long-term development perspectives for each region.

With the consolidation of a devolved system of governance, prospects for initiating regional development using geo-economic region as the territorial unit for planning are likely to improve considerably. This is because of the fact that the present provinces are not necessarily the best territorial units for organizing regional development. The province is not a scientifically determined geo-economic or development region. Thus, the adoption of a scientifically determined system of regions resting on a devolved system of local governance would be a more rational approach to regional development, where a separate regional planning agency will prepare the long-term perspectives for the region. Detailed medium-term plans would be prepared and implemented by geo-political/administrative regions and local government entities (Fig. 4.3).

The above mentioned regional planning agency should not have political power or administrative responsibility. It should remain essentially as a technical planning agency. The preparation of the development perspectives for each designated region would be the responsibility of the key stakeholders and undertaken with the close participation of the national planning agency and the planning units of the administrative regions comprising the geo-economic or development region.

It is important to stress the fact that the solutions to the long-standing problems of the regions and the maximization of their potentials require sustained action over several years. A long-term perspective framework is essential for tracking the impact of policies on deep-seated problems, taking corrective actions and repositioning priorities.

3. Local Level

In a context where the need to create competitive and resilient regions, and where the trend towards a greater devolution of power is fast emerging as a reality, the need for the institutions of local governance to enhance the capacity for formulating their own development policies and programmes has increased. The prospects for attaining long-term regional growth and resilience are clearly dependent on a strong, accountable and efficient system of local governance.

Experience worldwide shows that excessive centralization is negative power, because it retards local action but rarely promotes local initiative.

A Simplified Hypothetical System of Development Regions for Sri Lanka within a Devolved/ Decentralized Governance Structure

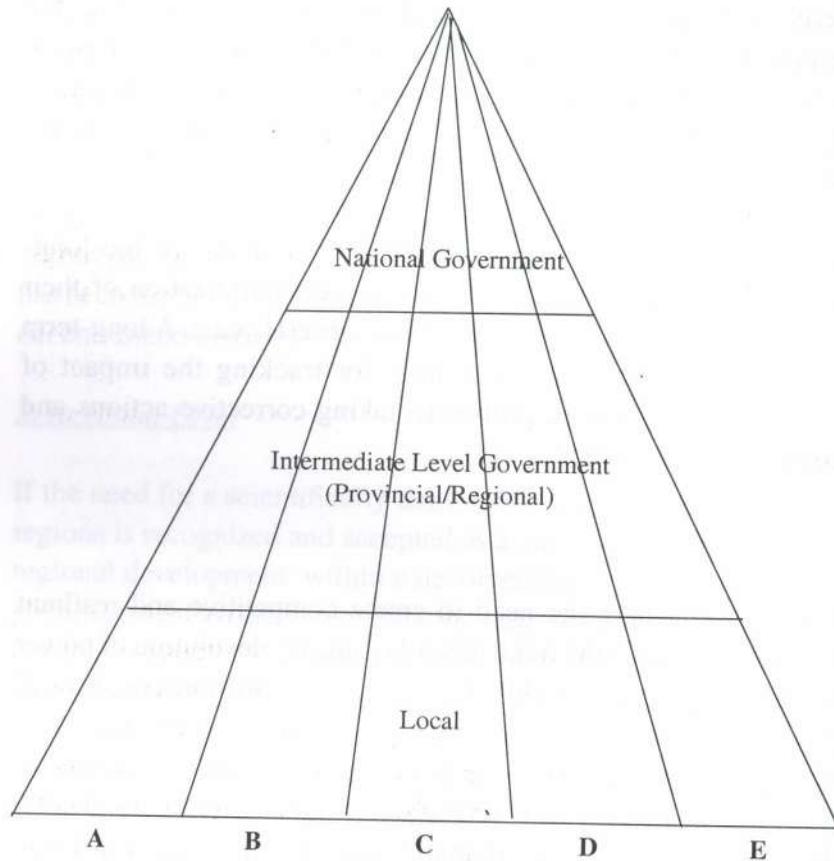


Fig. 4.3

Both participation and accountability can be better ensured with shared powers at different levels. A high degree of devolution of power is also a prerequisite to nurture democracy and empowerment, because democracy derives its real meaning and worth in smaller territorial units. Although large regional structures could have the same failings as central governments and local governments have the propensity to degenerate in to unrepresentative oligarchies, local autonomy that emphasizes citizen participation can become a powerful tool of managing local development by promoting local mobilization to raise the consciousness of all branches of the community.

If the sub-national and local governments are to play a more dynamic role in regional development they must be provided with real decision-making powers, adequate financial resources and skills for planning and implementation. However, several analysts have come to the disappointing conclusion that, after more than a decade of experience, the structures and institutions of decentralized governance in Sri Lanka are not sufficiently equipped to plan and implement development activities at the local level (Leitan 1997, Hewavitharana 1997, de Silva 1997). A more recent study of the Sabaragamuwa Province underscored the weak position of the Provincial Council with regard to its "insignificant role in provincial economic growth", its preoccupation with "welfare oriented activities", its "dependence on central government funds" and "allocating less than 5 percent of those funds for growth oriented economic activities" (Lakshman et al, 1998).

The local government (*Pradeshiya Sabha*) system is saddled with numerous problems, such as (i) excessive fragmentation of responsibility among a plethora of state agencies that subverts any coordination of resources, planning or implementation, (ii) the short-term horizon of development programmes that leads to a scramble for a share of funds, scarce expertise etc. that prevents coordinated team work to achieve agreed goals based on specialist processes of planning, and (iii) the marginalization of the *Pradeshiya Sabha* vis-a-vis the administrative agency of Divisional Secretariat⁸ through which most central government programmes and even Provincial Council programmes are channeled.

Decentralized government is usually more expensive than centralized government (Hewavitharana 1997). However, in the case of Sri Lanka, this is probably not so much a problem of decentralized government, but more the result of an overblown public sector saddled with low pay and low productivity and irrational overlapping of public agency jurisdictions (Belshaw 1998). An overblown, low productive public sector is a direct product of over-politicization of the public service, political rivalries and excessive patronage. Ad hoc and half-hearted approaches to devolution and decentralization have further compounded the situation.

Hence, a genuine commitment to strengthen the local governance system in the country is an indispensable requirement for repositioning future regional development on more scientific lines.

Conclusion

The preceding brief survey has attempted to underscore the need to reposition our regional development strategy to make it more relevant and responsive to the emerging realities of a rapidly evolving global, national and local environment on one hand and the unprecedented advances in science and technology, transport and communications and education on the other. All these developments exert a profound influence on the way regional development is conceptualized, planned and implemented. In particular, the need to promote economically competitive and resilient regions that are at the same time socially vibrant and environmentally sustainable has clearly emerged. The trend towards a devolved/decentralized system of governance would, no doubt, create the needed institutional impetus for organizing regional development within the framework of a scientifically designated system of development regions.

In any endeavors to reposition future regional development in the country, the role of regional studies as one of the most important tasks cannot be underestimated. High quality regional studies are essential for gaining a deep understanding of the dynamics of regional growth and change such as the persistent weaknesses of regions and their inability to change or adapt to change; how regions create internal dynamism of growth, and what are the emerging opportunities for regional development? Such studies should provide in-depth analysis of the mechanisms that influence the functioning of the regional economy, create the basis for a dialogue between theory and practice and promote interdisciplinary approaches to the study of regional issues. Future regional studies that are able to capture the rapidly evolving institutional arrangements of economic relations, changing political and economic alliances at different geographical scales, evolving human resource and resource management relations would clearly involve

the re-examination of concepts, the sharpening of theoretical tools and the adoption of more sensitive empirical methods.

The other related issue is who should play a key role in regional studies? Regional studies are required at all levels; central, regional and local. At the regional and local levels, the universities located in the regions need to play a more active role in the development of the region where they are located. Although, there may be individual staff members, departments and faculties of these universities who participate in various activities concerning the region, organized mechanisms to play a more dynamic role in regional development by our universities are lacking. Universities in the regions could undertake some of the following:

- Teaching of regional development and planning as a subject of study,⁹
- Organizing studies on regional issues,
- Collecting and maintaining regional data and information,
- Providing technical support for regional development.

Notes

¹ *Cross border planning is also practiced in many European countries (see European Commission 1994)*

² *There are also systems of spatial organization of the sectoral activities such as education or health, which may not coincide with the administrative or designated development regions.*

³ *Massive leakages of savings and surpluses in the form of capital outflows from the rural/peripheral regions, particularly through the banking system, has been a persistent problem and is reported to have increased in recent years (Fernando 1998, Attanayake 1988).*

⁴ *A long-term multi-sectoral development strategy was prepared for Ruhuna in 1977, with several large anchor projects (a harbour, airport, industrial park, new city, Science and technology Park, express way etc.) However, the Ruhuna regional development strategy was not implemented and a down-graded SDA has been since preoccupied with small-scale local projects.*

⁵ see, *Economic Review*, Vol. 18, No. 4, July 1990 for the articles dealing with the devolution/redemarcation by the first four authors.

⁶ Well-known examples include Third Italy, Baden Wurttemberg in Germany, Chukyo region of Japan and Ulsan and Pusan in Korea.

⁷ Department of National Planning of the Ministry of Finance and Planning performs certain specific functions related to regional development such as maintaining data systems at sub-national levels and allocating national investments among different parts of the country under the Public Investment Programme. These are, however, not done within the framework of a national regional development policy. The Human Settlements Unit deals with regional development issues.

⁸ The Divisional Secretariat serves as the focal point of the deconcentrated administrative structure of the central government at the sub-district level. It exercises statutory and administrative authority delegated to it by various government departments and the Provincial Councils. It is directly answerable to the centre and operates as a parallel organization to the elected Pradeshiya Sabha thus undermining the devolved authority.

⁹ None of the universities in Sri Lanka has a department of regional development and planning. The Department of Town and Country Planning of the University of Moratuwa focuses on urban, physical planning. The Regional Development Studies Centre of the University of Colombo, established in 1992, is the only such centre among all the universities and undertakes research and training on local/regional development.

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**Sida/SAREC Research Cooperation Project
University of Sri Jayewardenepura, Sri Lanka**

Sida/SAREC Research Cooperation Project that commenced in January 1999 deals with policy relevant studies on regional development and poverty alleviation.

The rationale for studies in regional development is derived by the need to rethink the regional development policy in Sri Lanka for the purpose of (a) establishing the relevance of a regional development approach to development; (b) refocusing attention on the development of the periphery to complement the present and future development of the 'core' region; (c) determining the ways in which the political and economic processes at the regional level have to converge for better spatial distribution of the benefits of social and economic development; (d) making regional development 'people' and 'place' focussed; and (e) utilizing regional planning as a tool for national integration.

Similarly, while there has been a concern for poverty alleviation, implementation strategies in Sri Lanka have often overlooked the deeper issues relating to poverty such as poverty derived destabilization of households, seasonal impacts of poverty, poverty thresholds, feminization of poverty, transfer of poverty related stress from men to women, poverty and its impact on environmental degradation and the cultural attributes of poverty as they shape the world view of the poor. The Project aims at investigating these issues at the micro level to help fine tune poverty alleviation strategies.

It is proposed to bring out a series of publications covering the above issues during the project period (first phase due to end in December 2002) to disseminate the findings of research among as wide an audience as possible, with interest in development issues.

ISBN 955-9054-35-X