

**RURAL-URBAN INTERFACE**  
**IN SRI LANKA**

**STUDIES IN REGIONAL  
DEVELOPMENT**

Edited by

**M.M.Karunanayake**

Department of Geography

University of Sri Jayewardenepura

Sida/SAREC Research Cooperation Project

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## CONTENTS

List of Tables	ii
List of Figures	iii
Preface	v
About the Authors	vii
1 Introduction <i>M.M. Karunanayake</i>	1
2 Preliminary Analysis of Rural Periodic Markets ( <i>polas</i> ) in the Central and the North Central Provinces of Sri Lanka <i>L.P. Rupasena</i>	44
3 Dynamics of a Rural Periodic Market Circuit in the Anuradhapura District of North Central Sri Lanka <i>M.M. Karunanayake</i> <i>Y.A.D.S. Wanasinghe</i> <i>R.M.K. Ratnayake</i>	62
4 Institutional Financing of Regional Development in Sri Lanka: The Role of Domestic Banks <i>L. Siriwardena</i>	104
5 The Role of Small Towns in the Development of the North Central Province in Sri Lanka <i>Y.A.D.S. Wanasinghe</i>	132
6 Urban Development and Regional Planning in Sri Lanka <i>Y.A.D.S. Wanasinghe</i> <i>M.M. Karunanayake</i>	198

## LIST OF TABLES

2.1	Number of Periodic Markets by Province and District	47
2.2	Organization and Operation of Periodic Markets in the North Central and Central Provinces	49
2.3	Number of Consumers Benefiting from Selected Periodic Markets in the Central and the North Central Provinces	54
2.4	Quantities Sold to Different Categories of traders at the Dambulla Market	55
2.5	Number of Traders in Selected Periodic Markets in the Central and the North Central Provinces	56
3.1	Periodic Market Circuits in the Anuradhapura District	68
3.2	Classification of Traders by Residence Within and Outside the District (% values)	71
3.3	Circulation of Traders within the Major Circuit (% values)	72
3.4	<i>Pola</i> Circuit Attendance of Traders Interviewed in Each <i>Pola</i> (% values)	72
3.5	Classification of Traders by Gender (% values)	73
3.6	Primary Sources of Items Sold at the <i>Pola</i> According to Traders	76
3.7	Classification of Traders by Commodities Sold (% values)	77
4.1	Expansion of Rural Banks	108
4.2	Expansion of Commercial Bank Branches	109
4.3	Financial Deepening in Sri Lanka	113
4.4	Cooperative Banks: Surplus/Deficit Ratios	116
5.1	Occupation Structure of Selected Rural Settlements in the Hinterlands of Small Towns in the NCP	147
5.2	Occupation Structure of Female Members of Rural Households, 2003	149
5.3	Urban Settlements by Size, 1981-2001	153
5.4	Urban Settlements by Size Class and Percentage Distribution of Urban Population in Each Class in Sri Lanka (1963-2001)	154
5.5	Functions of Small Towns in the NCP	155

5.6	Non-farm (Private Sector) Employment at Hingurakgoda in the Minneriya Settlement Scheme, 1978	160
5.7	Availability of Services in Central Places in the NCP	161
5.8	Commercial and Industrial Activities in Small Towns in the NCP	166
5.9	Number of Enterprises by Sector and Town in Mahaweli Townships, 1992	167
5.10	Enterprises in Mahaweli Towns	168
5.11	Place of Permanent Residence of Employees in Small Towns	169
6.1	Urban Population According to Size of Towns (1946 – 2001)	200
6.2	Primacy of the City of Colombo	201
6.3	Average Annual Growth Rates of Urban Population in Sri Lanka 1981 - 2001	204
6.4	Primacy of the Colombo Metropolitan Region (CMR)	206
6.5	Functional Diversity of the Tissa-Weerawila-Pannegamuwa Urban Agglomeration	208
6.6	Issue of Trade Licenses in Selected Small and Medium Scale Towns, 1991	211
6.7	Land Use in Towns Selected for Development by the UDA	212
6.8	Concentration of Central Functions in Major Service Centres in Hambantota District, 1994	213
6.9	Role of the Private Sector in Establishing Enterprises in Ambalantota Town and Smaller Service Centres in its Hinterland	214
6.10	Regional Distribution of Industrial Enterprises in 2000	216
6.11	Industrial Estates under the Urban Development Authority Integrated Development Project, CMR	219
6.12	Proposed Industrial Estates under the UDA Integrated Development Projects within the CMR	219

## LIST OF FIGURES

3.1	Distribution of <i>Pola</i> (Rural Periodic Markets) in the Anuradhapura District	89
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3.2	Population Density and Distribution of <i>Pola</i> (Rural Periodic Markets) in the Anuradhapura District	91
3.3	<i>Pola</i> Attendance of Traders in the Major Circuit	93
3.4	Major and Minor <i>Pola</i> Circuits in the Anuradhapura District	95
3.5	Layout of Kahatagasdigiya <i>Pola</i>	97
3.6	Layout of Galnewa <i>Pola</i>	99
3.7	Consumer Hinterland of Major <i>Pola</i> Circuit in the Anuradhapura District	101
5.1	Levels of Poverty in the NCP - 1999	177
5.2	Downgraded Urban Centres - 2000	179
5.3	Hierarchy of Central Places in the North Central Province - 2001	181
5.4	Correlation between Population and Centrality	183
5.5	Medawachchiya - Unplanned Growth	185
5.6	Mahaweli Townships in the NCP	187
5.7	Tambuttegama Planned Township	189
5.8	Zones of Influence of Selected Small Towns in the NCP	191
6.1	Trends in Urban Growth (1971 – 1981)	239
6.2	Urban Development Strategies – Different Options (Strategies A & B)	241
6.3	Urban Development Strategies – Different Options (Strategies C & D)	243
6.4	Urban Development Strategies – Different Options (Strategies E & F)	245
6.5	An Appropriate Urban Strategy for Sri Lanka	247
6.6	Priority Metro Urban Centres and their Service Hinterlands, 2030 – Proposed Urbanization Policy for Sri Lanka	249

## PREFACE

This publication on the "Rural-Urban Interface in Sri Lanka: Studies in Regional Development" includes five papers that have been prepared under the aegis of the Sida/SAREC Research Cooperation Project on Overcoming Regional Imbalances and Poverty. Two of the papers, the one on an evaluation of the significance of rural periodic markets and the other on institutional financing were originally conceived as concept papers and have been revised and widened in scope by the authors for the purpose of this publication. The two papers included in Chapter 3 and 5 are the outcome of the on-going research being undertaken through the research programme. The final paper on Urban Development and Regional Planning was originally presented at the National Conference on Regional Development for the Next Decade (1997) that was convened by the then Regional Development Studies Centre, University of Colombo. It has been subject to revision in the light of the more recent field experience of the authors.

In addition to publishing the findings of research in established international journals the Sida/SAREC Research Cooperation Project is mandated to disseminate knowledge through its own publications programme. This constitutes the third in the series of publications.

An ultimate objective of the of the Research Cooperation Project is to influence State policy relating to regional development and poverty alleviation to better meet the developmental challenges facing the country and thereby to ensure for the people of Sri Lanka a future that accords with their aspirations.

I gratefully acknowledge the encouragement extended by the Vice Chancellor Dr. D.S. Epitawatte to bring out this publication. Assistance received from the Dean, Graduate Studies is also gratefully acknowledged. I also wish to thank the authors of papers and the members of the editorial board for their cooperation. The

contribution made by Messrs H.M.P. Jayantha and H.P.M. Janaka Handunpathiraja (in preparing maps and diagrams) H.A. Nishantha Hettiarachchi (in tabulating field data) and Ms. D.N. Dilruksi Premarathna (by way of clerical assistance) to bring out this publication is much appreciated. I am thankful to Dr. Per-Einar Troften (who was responsible for the Sri Lanka Desk at SAREC until early 2002) and his successor Dr. Anders Clarhall for their facilitation of the Research Cooperation Project and sustained interest in its outcomes and to Sida/SAREC for the generous funding of project activities. Last but not least it is my duty to thank Prof. M.D.C. Abhayaratna for providing unstinted support to bring out this publication.

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*September 2003.*

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## INTRODUCTION

*M.M. Karunanayake*

This publication is intended to focus on an important but nonetheless neglected aspect of regional development, namely, the interface between the rural and the urban. Simply expressed the term interface would imply 'a surface common to two areas' but more figuratively it would mean a surface where two areas could meet and interact with one another. Hence from a regional development perspective the importance of the interactions that take place at the rural-urban interface cannot be overestimated. However, regional planning in Sri Lanka more often than not has considered the two in isolation. The need for strong rural-urban linkages for regional growth is now receiving increasing emphasis (Gooneratne, 2000) and it is at the interface that the most vibrant articulation of linkages takes place. It is worth noting that from a regional development perspective the quality of rural-urban linkages is important, more than the linkages *per se*. A parasitic relationship between the urban and the rural would not be in the best interests of promoting peripheral growth or development. In this publication the implications of the rural-urban interface for regional development are examined with reference to (a) rural periodic markets, (b) institutional financing of the rural sector (through rural banking) (c) role and functions of small towns and (d) urban development in general.

### CONCEPTUALIZING THE RURAL-URBAN INTERFACE

It has been commonplace to conceptualize development in terms of a rural-urban divide. The general assumption has been that the rural and the urban sectors exist as discrete entities. However, there is evidence to show that the interpenetration of the rural into the urban and vice-versa results in an interactive rural-urban interface whose character is dependent on the nature and intensity of the linkages that characterize it. As Doughlass (1998) has pointed out:

*To a rural household...the landscape of daily life includes both rural and urban elements. Rural-urban linkages are part of the local reality for household members carrying out the diverse tasks of producing income on and off-farm, maintaining a living space in the village, and going to local and even distant towns for shopping, marketing, work and specialized services. The challenge for rural regional planning is to overcome the rural-urban divide by incorporating this reality into development frameworks and, further identifying policy measures to foster mutual benefits for both town and village households.*

For well over fifty years development scientists have been debating the issue whether development should follow an urban or a rural trajectory. The main threads of this debate have been succinctly summarized by Doughlass (1998). It is pertinent to note that the dominance of the urban bias has been such that even after the importance of the interdependence between the rural and the urban came to be realized the planning efforts have been influenced by a thinly disguised urban bias as demonstrated by the Urban Functions in Rural Development (UFRD) approach. It is in this context that Gaile's (1992) notion (referred to below) of evaluating the role of small towns with reference to the potential of their hinterlands merits attention.

As a means of strengthening rural-urban linkages Doughlass (1988) advocates the creation of regional networks/clusters as a spatial framework for regional development. It is asserted that:

*In sum the regional network approach advocates a more decentralized system of planning for working out the dynamics of rural urban linkages. It challenges many of the precepts of the centre-down diffusion and urban systems models that have dominated policy formulation. It suggests a more diversified, multi-stranded approach to regional development which rests on integrating rural with urban development at the local scale...*

In a recent paper Rigg (1998) draws attention to the manner in which the forces of economic and social change resulting from linkages between the rural and urban are reworking rural areas and bringing about fundamental change in rural life and livelihoods in Southeast Asia. He also points to the manner in which such developments are being replicated across the countries of the developing world. A basic premise of the argument presented by Rigg is that more than the agrarian processes per se, the multiplicity of occupations and the diversity of portfolios of rural households resulting from rural-urban linkages explain such transformation.

However, in looking at rural-urban linkages as a means of promoting regional development one has to be mindful of both the positive and negative aspects of such linkages. In a negative sense the leakage of rural savings to finance urban investment is highlighted by Siriwardane in his contribution to this volume. The flow of agricultural produce from rural to urban areas without value addition has been a feature in development projects in Sri Lanka (Wanasinghe and Karunanayake, 1997). Rural-urban linkages also exert a differential impact on rural household incomes depending on the nature of rural social stratification (Cederroth, 1995). Hence it is imperative that policy interventions should aim at promoting the more positive outcomes of rural-urban linkages while curtailing or avoiding the more negative outcomes.

Evans (n.d.) finds that three key issues merit consideration in regard to the strengthening of rural-urban linkages viz.

- ◆ Establishing an institutional framework for planning and execution. It should provide for the participation of all stakeholders and actors in the planning and implementation strategy such as government agencies at both the central and local level, local authorities, producer groups, non-governmental organizations, and community based organizations;
- ◆ Identifying actions to strengthen rural-urban linkages. They should include a mix of interventions that aims at infrastructure improvements, support services, facilities to add value and capacity building; and

- ◆ Mobilizing resources to execute these actions. There exists the potential for funding through (a) line agency budgets, (b) local government, and (c) a special service fund. However, all these options have their strengths as well as weaknesses that the planners and policy makers should take note of.

It is suggested by Evans (n.d.) that one or the other of the following two options may be considered in evolving a strategy to strengthen rural-urban linkages, namely,

- (i) Focus on linkages and transactions between areas and their hinterlands within a particular region or physical space. This strategy places a high premium on the provision of rural infrastructure but tends to 'underplay the role of the private sector and key issues of demand, production, marketing and the manner in which the local economy is functioning;
- (ii) Focus on clusters or related economic activities within a region and the set of linkages that bring together the producers, suppliers, traders, exporters and consumers located within the cluster. According to Evans:

*Typically, a cluster might be defined as those activities that revolve around an important element in the local economy, such as tourism, garment production, fishing, timber, or agricultural commodities such as coffee, tea, rice, cocoa or horticulture. This approach is more conducive to identifying specific bottlenecks or opportunities facing those engaged in the cluster. It also explicitly highlights issues of demand, production, and marketing, and the role of farmers, fishermen, traders, small businesses, larger firms, and other actors in the private sector.*

## RURAL PERIODIC MARKETS

Rural periodic markets (*polas* in local parlance) constitute a lower order central place whose functioning is marked by periodicity. Hence, as claimed by Braun et al (1998) they signify both a spatial

and temporal system. They also claim that the intensity of activity associated with periodic markets as centres of collection and distribution reflects the economic activity and efficiency of a region. Furthermore, 'the range of products and services offered indicates the importance of markets as supply centres'. Rather surprisingly the importance of periodic markets for rural/regional development has not received the attention of the policy maker or the planner to any significant extent. However, this seems to be a situation that Sri Lanka shares with many other developing countries. Thus Bohle (1986) finds that the existence of rural periodic markets has largely been ignored in official circles of developing countries.

Hodder (1967) basing his arguments on the West African experience suggests that the origins of indigenous markets have to be explained by factors such as (a) political control of a kind to guarantee market peace (b) sufficiently high density of population (not less than 20 per sq. km) and (c) location on or near long distance trade routes. He finds that an understanding of market origins is important because:

*It may be relevant to contemporary attempts to induce self-generating change to a market economy among those peoples of the tropics who as yet lie largely outside modern economic influences. If this notion has any validity, it means in modern terms that only where there is a political administration, a sufficiently high density of population-probably not less than 50 persons to the square mile (20 per sq. km)- and long distance lines of transportation, especially good trunk roads, are efforts to induce rapid economic change likely to be effective. And where these conditions are not fulfilled, then their provision must be a precondition for any significant economic development.*

The conditions identified by Hodder seem to be of general validity and are borne out by the historical developments relating to the growth of rural periodic markets in Sri Lanka as well. Thus Robert Knox who spent a considerable length of time in Sri Lanka in captivity in the Kandyan kingdom found that there were no markets in the Island. Knox was referring to the situation in the second half of the 17<sup>th</sup> century (1660-1679). The constant warfare and

the political instability that accompanied it from around the early 16<sup>th</sup> century would have contributed to create this situation and sustain it until the country was ceded to the British in 1815. The rapid growth of the rural periodic markets in the Wet Zone of the Island seems to have been closely associated with the Pax Britannica established by the British. The need for peace and stability for the growth and stability of the periodic market systems is validated as well by more recent developments in Sri Lanka. Thus the civil war in the North and the East of the Island has resulted in either the weakening or the disintegration of the periodic market network in these areas. It is also quite evident that the conditions identified by Hodder are mutually reinforcing. Thus in Sri Lanka a stable government was also accompanied by a rapid increase of population and the establishment of the plantation economy. The plantation economy led to the rapid opening up of the interior Wet Zone of the country mainly as a consequence of a well-planned network of roads and railways. It is pertinent to note that until more recent times there was no corresponding growth of periodic markets in the Dry Zone of the Island on account of the desolation caused by the prevalence of malaria and the general neglect of the region by the British especially in the early years of colonial rule. In fact the growth and expansion of rural periodic markets in the Dry Zone of Sri Lanka has much to do with the establishment of government sponsored land settlement schemes (Farmer, 1957). It is also evident that the commissioning of the Mahaweli Development Project has given further impetus to this process.

It may, however, be pointed out that in addition to the factors mentioned by Hodder (1967) the juxtaposition of ecologically diverse regions (e.g. the wet and the dry, lowland and highland) also leads to the growth of exchange economies that have to do with rural periodic markets. This means that ecological diversity contributes to product diversity which in turn stimulates commodity exchange. This may also be one compelling reason that explains the higher density of rural periodic markets in the Wet Zone vis-à-vis the Dry Zone of the Island.

In the light of his West African experience Hodder (1967) postulated that the different types of market operations in West Africa form

'intermediate stages on a single, albeit many-stranded continuum from the most primitive to the most complicated economies'. He visualizes market systems evolving from the simple periodic market to the more advanced urban market systems characterized by retail shops and wholesale markets. In this evolutionary scheme some periodic markets pass through the stage of a daily market. However, in some contexts the progression into an advanced urban system is more direct. Hodder found that analogies could be drawn between markets in West Africa and those of Europe from the medieval to the present but cautioned that any attempt to apply this hypothesis to other parts of the tropics must await similar studies elsewhere.

In Sri Lanka the situation is quite different. The periodic markets are found in juxtaposition with the urban markets. Rather than the urban market reaching its present status having evolved from a periodic market, the evidence is that the development of urban markets has preceded the development of periodic markets. The prevalence of periodic markets existing outside the ambit of an urban location is more the exemption than the rule in Sri Lanka. How do we explain this situation? The answer is to be found in the fact that development of urban centers in Sri Lanka is not organically linked to the rural economy. Urban development has taken place in response to the needs of the plantation economy. Hence it is tempting to hypothesize that the periodic markets have been drawn to urban locations to fill the lacunae created by the failure of urban markets to well and truly integrate with the rural hinterland.

Rural periodic markets are clearly marked by the periodicity of their operations. Most markets operate on a specific day of the week. However, some *polas* may operate not on one but two or three days per week. Exceptionally *polas* have evolved into daily markets as was found in some parts of the Jaffna Peninsula before the outbreak of the war. The daily occurrence of periodic markets is a clear indication of the presence of a vibrant rural economy.

It is also important to note that often rural periodic markets do not operate in isolation but in circuits. The operation of *pola* circuits can be seen as a strategy that helps the trader to expand the

catchment area from where he draws his clientele. Jackson (1977) found that in Central Sri Lanka the *pola* drew its clients from around a radius of 3.75 miles (approximately an area of 44 sq. miles). Therefore the area of operation of a *pola* trader can be significantly expanded by operating in a circuit that combines five or six *polas*. According to Jackson the customers unlike the traders have a more localized view of the *pola*. She claims that,

*From the customers' viewpoint the area served by a single market tends to be discrete. It appears that the consumers patronize the pola nearest to where they live unless a much larger pola is only slightly more distant. Then they may go further than necessary in search of lower prices and greater variety.*

In some parts of the world the periodic market circuits have evolved into complex regional marketing systems. Nash (1971) found that in the Middle American Indian economies the rotating markets operate in the form of a 'solar system' where there is a major market centre in daily operation that is surrounded by a series of small markets that have their special days. It is indicated by Nash that:

*Each market place tends to specialize in a given produce or commodity and to carry a reduced selection of goods available in the central market. Goods, buyers and sellers move around the solar system in terms of the days of the week when market activity centres in a particular market place.*

This type of complexity is not characteristic of the rural periodic market systems found in Sri Lanka.

It is possible to identify three categories of rural periodic markets in Sri Lanka viz. retail markets, wholesale markets and retail cum wholesale markets. The retail markets cater primarily to the needs of local producers and consumers. They are also smaller (in terms of both frequentation and choice of commodities offered for sale) than the retail cum wholesale markets. There are very few wholesale markets that exclusively serve a wholesale function.

As Jackson (1977) has observed wholesale markets in central Sri Lanka specialize in one or two commodities e.g. betel leaf, arecanut or low-grown vegetables. The retail cum wholesale markets operate in the same location with a temporal differentiation of activity. The wholesale activities are conducted either early in the morning of the *pola* day or in the previous evening. The trading activities of the wholesale markets involve on one hand the bulk purchase of items from producers by visiting wholesalers for dispatch outside the region and on the other sale of bulk purchased items in smaller quantities at a high unit price to smaller traders for eventual resale. The same pattern is in evidence in the wholesale segment of the retail cum wholesale markets. In this sense the wholesale markets perform a highly significant commodity distribution function in the regional economy.

In Sri Lanka Jackson (1977) has identified three basic types of commodity flows associated with rural periodic markets. These are (a) commodities that come in from the local area around the *pola* and then flow back into the same area; (b) commodities that come in from outside the *pola* area and then flow out to other different areas; and (c) commodities that come in from outside areas and are then circulated within the local area. It is appropriate to add another to the three types of flow identified by Jackson in the form of commodities that enter the *pola* from within the *pola* area but flow out into other outside areas.

It is also important to look at the type of producer, assembler, retailer, wholesaler and consumer relationships that the several commodity flows entail. In (a) above the commodity flows would involve direct producer-consumer relationships or wholesaler-retailer and retailer consumer relationships. In type (b) the commodity flows would primarily be characterized by wholesaler-retailer relationships. Given this situation the *pola* at times acts as a break of bulk point from where retailers who buy from wholesalers would dispatch items albeit in smaller quantities to outside regions. The commodities would involve industrial or manufactured items as well as food items collected from outside areas through the assembler-transporter-wholesaler network. Type (c) commodity flows would be determined by wholesaler-retailer-consumer

transactions or retailer-consumer transactions. In the latter case the retailer may have obtained his goods for sale from outside quite independent of the wholesaler.

In the final category noted above the commodity flows would be determined by assembler-wholesaler or producer-wholesaler relationships. In this instance the *pola* would act as a bulking point of commodities for dispatch to outside areas.

There is evidence to show that the periodic markets and the market circuits are sensitive to changes that take place around them. As a consequence some markets may be in a position to enlarge their area of operation through a process of capturing the catchments of the less vibrant markets. When this happens the weaker market may find itself in a declining position as demonstrated by the Negama *pola* that has had to compete with the newly emergent Galnewa *pola*. Braun et al. (1998) writing in the Senegalese context finds traditional markets with insufficient accessibility have been unable to maintain their position.

Cash transactions are now the norm in rural periodic markets. But even as recently as the mid 1960s transactions based on the barter (goods for goods) principle existed side by side with the exchange of goods for cash. It appears that the items were bartered taking their monetary value into consideration. It may be surmised that bartering of items based on their money value characterizes a transitional stage in the passage of a relatively less monetized rural economy to a monetized one. Nash (1971) in his study of the Middle American Indian economies found a similar tendency. Hence his comment:

*The economy is pecuniary, but there is much exchange of items for other items, albeit in terms of price-money equivalents.*

The price setting at the market place takes place in several ways. The retailer consumer transactions are based on haggling. The price will eventually be set to the satisfaction of buyer and seller. In this situation neither the seller nor the buyer has a control over the market. This is because on one hand the individual retailer

has limited stocks to sell and on the other the buyers represent a fragmented market. Hence the buyers too are not in a position to set the market price. The fact that the trader-buyer relationships in periodic markets are dyadic and fleeting (Foster, 1961) may also contribute to this situation. This means that regular buyer-seller relationships are the exception rather than the rule in periodic markets. The bottom price of the retailers will be determined by the price at which he buys from the wholesaler and other overheads. The wholesalers call the tune in purchasing locally produced commodities and hence the price at which they sell commodities to the retail traders. The reasons for this situation are dealt with later. The prices for urban factory produced goods or imported items are set by the urban based wholesale dealers and distributors. But such items, with no difference in quality, are sold at the periodic markets at prices lower than in the urban market. This is to be explained by the low overhead costs of *pola* retailers.

The commodities sold at the rural periodic markets can be broadly classified into agricultural and non-agricultural commodities. Geist (1990) has noted that in the Senegalese rural periodic markets the larger markets tend to have both a wide range and a greater supply of goods. This is true of rural periodic markets in Sri Lanka as well. Braun et al. (1998) found that in the 'lower tier' periodic markets of Southeast Nigeria agricultural goods are more important unlike in the 'higher tier' markets that specialize in industrial goods. Such a sharp distinction in the composition of goods is not evident between the larger and the smaller periodic market places in Sri Lanka. It could be argued that this is an indication of the fact that the lower order urban centres in Sri Lanka are not totally geared to serve the needs of the rural economy. However, this is a matter that merits further investigation.

Apart from periodicity there are other manifestations of the time dimension that characterize rural periodic markets. Most *pola* activity is evident in the immediate post harvest period when people have the opportunity to buy and sell. During such times there are higher frequentation of *polas* by both the buyers and the sellers. The volume as well as the range of goods offered for sale show a sharp increase. *Pola* attendance drops sharply during the cultivation season. This means that during the cultivation season

there would be a sharp decline in the circulation of money and goods (including food items) in the rural economy. What impact these changes have on the rural household economy awaits further research.

Although both male and female traders are found in rural periodic markets in Sri Lanka men play the more dominant role. It is therefore evident that women occupy niches in a male dominated market system. Braun et al. (1998) found that in the Southeast Nigerian context women traders are more active in 'lower tier' markets in contrast to the men traders who prefer the 'higher tier' markets. It is claimed that:

*The trading pattern of women is characterized by a greater immobility. The time spent in trading, and therefore the radius of action, is reduced by various activities in the household and agriculture. Women usually attend smaller markets in the vicinity of their residence in the market cycle. About 55% of the markets visited are in an area of less than 5 km.*

In the Sri Lanka situation too generally the women are active in periodic markets nearest to their villages of residence, irrespective of the size of the market. However, it is worth noting that there are also a group of women traders who are more professional in their orientation and hence do the *pola* circuits as do the men traders. But they may not be active in all the markets that make the *pola* circuit. Male traders engage themselves in the sale of both the agricultural and non-agricultural items of trade but the women confine themselves to agricultural items such as vegetables, betel and arecanut, spices etc.

A recent development of considerable importance to the functioning of rural periodic markets in parts of Central and North Central Sri Lanka is the setting-up of Dedicated Economic Centres (DECs) whose primary objective is to establish direct producer wholesaler links. Through this process it is expected to ensure higher prices to the producer by eliminating the middlemen from the marketing chain. Indeed Ratnayake et al. (2001) finds that with the establishment of the Dambulla Dedicated Economic Centre (DDEC) the role of intermediaries in the marketing of

agricultural produce has considerably declined in the region. It is claimed that the farmer-producers have become the largest group of suppliers to the DDEC in terms of numbers although in terms of quantities sold collectors and traders still account for 63 percent of the supply. One particular advantage that the DDEC offers to the farmer-producer is that it is kept open for twenty four hours a day. Thus,

*..The hours of business might provide a new option for the small farmer. Dambulla market never really closes, all vendors might not be there all the night but a sufficient number is there to make trading possible 24 hours a day. It is hence possible for a farmer to work in the farm as long as there is daylight and then go to the market. Although it might seem cruel to expect a farmer to work full days and spend nights at the market place it is still a fact that for small scale farmers' time is often a scarce resource. Often indebtedness is in the form of labour power and not in cash. And, a farmer's household can be big enough to take advantage of this increased time.*

In concluding this section it would be relevant to look at the manner in which rural periodic markets in Sri Lanka relate to regional development. Periodic markets provide the means for both the intra and inter-regional flow of commodities. However the contribution of periodic markets to regional development would depend on their ability to serve the needs of producers and consumers. This is constrained by the fact that with the exception of the two regions Dambulla and Tambuttegama (where a second Dedicated Economic Centre has been established) the producers have to depend on intermediaries to market farm produce. Self-marketing of produce by the farmer-producer is often constrained by the nature of rural roads and the means of transport.

Ratnayake et al. (2001) observes that:

*As most farmers lack adequate transporting and storage facilities, they still need to negotiate for access to these resources. This is a major bottleneck on the*

*line from farmer to consumer. Another constraint is time. Farmers often spend long hours traveling or negotiating. This is a cost in itself as it deducts labour from production. Hence farmers in less accessible areas frequently sell their produce at the farm itself to collectors or pay for transport.*

It is important to realize that through this process the producer earns less and the consumer pays more. There is no doubt better transport facilities would help in strengthening the links between the Dedicated Economic Centres and the rural producers. Improvements are necessary in the mode of transport as well. At present open-body trucks and two wheel tractors are the dominant means of transport utilized to reach the periodic markets (Rupasena et al. 2001). There is a real need to improve the means of public transport on *pola* days, for example, by increasing the frequencies of service between village and market.

The manner in which wholesale activities in periodic markets is configured by the road network also has important implications for rural and regional development. In this regard it is important to note that most periodic markets specialize in retailing and relatively few markets perform both a retailing and wholesaling function. Anuradhapura district was perhaps distinctive in this respect as the majority of markets perform both functions until the setting up of DEC's. Jackson (1977) observed that in the periodic market system in the central hill country of Sri Lanka the geographical distribution of periodic markets that perform a wholesale function is such that it works to the disadvantage of the producer vis-à-vis the wholesale trader. This is because (a) the wholesale *polas* are located on major transportation routes (without being located interstitially in the landscape) and (b) they are located at the edges of marketing circuits enabling the wholesaler to receive produce from 'many circuit regions' than if they were located centrally. It is therefore reasoned that the development of intermediate wholesale levels that would have helped both the producer and consumer is impeded. Consequently, according to Jackson more than serving the rural areas the wholesale markets are characterized by a 'dendritic functional structure' that is geared to serve the needs of urban consumers.

## RURAL FINANCING

Another important theme on which this publication focuses attention is on rural financing. The objective is to draw attention to the manner in which the credit delivery to the rural poor is influenced by processes that operate at the rural-urban interface. Informal sources of credit have played a dominant role in meeting the credit needs of the rural sector. However, as a result of strengthening of financial mediation by the institutional sector in the rural credit market the importance of informal sources of credit has shown a gradual decline. Nonetheless where institutional mediation is weak the importance of informal credit can hardly be overestimated. It is evident that the informal sources of credit can take many forms. Qureshi et al. (1996) has identified four major types of informal credit in rural Pakistan viz. (a) socially based arrangements, (b) commercial arrangements, (c) land based credit system, and (d) money lending. These different forms of credit are replicated to a greater or lesser extent in countries of South Asia.

Socially based arrangements allow for a flow of credit from friends and relatives of those in need. These arrangements work on the basis of reciprocity. Usually credit is provided without interest. A somewhat formal socially based arrangement is shown by 'rotating credit and savings associations'. Commercially based credit arrangements are linked to the activities of market intermediaries such as commission agents, village traders or shopkeepers. Generally credit arrangements are linked to the supply of inputs or the purchase of output. Land based arrangements involve the landowning class and the tenants and subsistence farmers in a web of interaction. In Sri Lanka there has been a loosening of these ties because institutional changes that have taken place in the paddy sector. The system entails the advancing of credit, usually without collateral, by the landlord for the purchase of inputs and for consumption. In this system repayment of credit constitute the first charge on the produce. Money lenders have also played a crucial role in meeting the credit needs of the rural poor. But credit is provided at exorbitant rates of interest. According to

Qureshi et al. (1996) the importance of money lending has tended to decline in countries of South Asia in the wake of post independence development initiatives.

In the rural context informal credit has both advantages and disadvantages. It is opined by Qureshi et al. (1996) that in rural Pakistan:

*Informal credit has a low transaction cost and a short transaction time. There are no procedural rigours, the lag between agreement and disbursement of credit is minimal, no collateral is required, and documentation is minimal. At the same time, there are no standard terms and conditions, and there is great variation in interest and maturity periods. Interest rates are usually twice institutional rates. Interest rates can be usurious where competition from the formal market is weak. Due to growing availability of formal credit, the rates of interest for informal credit are believed to be declining, although firm data are not available. Where commodity transactions are involved, interest charges are generally not explicit but are embedded in prices.*

There is no doubt that in an emergent rural economy the institutional credit market has to function in such a way as to either eliminate or circumscribe the informal credit market.

In countries of South Asia there have been many initiatives to strengthen the provision of institutional credit to the rural poor. Some of the early attempts had to do with the setting up of cooperative credit schemes. Later they were either supplemented or supplanted with more specialized banking services directed at the rural sector. The establishment of specialized agricultural banks is illustrative of this point (Malhotra, 1986). A more recent development has been to extend the outreach of commercial banks to the rural sector.

The extension of banking to the rural sector has made it possible to mobilize rural savings on a large scale and also to monetize the rural sector. These initiatives have been further supported by other measures such as specifying levels of advances and the

imposition of credit-deposit ratios. Thus the Reserve Bank of India (RBI) had prescribed that the commercial banks were to earmark 40 percent of advances to meet the financial needs of the 'Priority Sector' that comprised the weaker sections of society (Das, 2001). A credit-deposit ratio of 60 percent had also been prescribed to ensure that savings mobilized from the rural areas were to primarily serve a rural development function. As a further means of sustaining banking services in the rural sector the RBI had taken steps to establish credit guarantee and refinancing facilities to cover lending operations in rural areas. Thus in India the National Bank for Agricultural and Rural Development (NABARD) under the aegis of the RBI provides refinancing facilities to commercial banks, regional banks and cooperative banks (Malhotra, 1986).

In Sri Lanka too the need for the banks to fulfill a developmental role had been recognized for well over three decades. Thus the Bank of Ceylon that had been established as a State aided bank in 1939 was nationalized in 1961 to be in line with political changes that swept across the country in 1956. The People's Bank was established in the same year as a State owned bank with a mandate to specifically serve the financial requirements of the rural and the agricultural sector. By 1970 the two State banks were directed to play a developmental role. In order to make this happen the Central Bank provided refinancing facilities at concessionary terms as well as credit guarantees to the banking sector. As a consequence the two State banks extended their activities to the rural sector in full measure. Indeed the government sponsored poverty alleviation programmes (the *Janasaviya* and the *Samurdhi*) for several years were financed by the two State banks.

The liberal economic policies introduced in 1977 have seen the opening up of several foreign and indigenously owned private banks. In recent times there has been a comprehensive expansion of the outreach of indigenously owned private banks - a process that has been facilitated by the restrictions placed on the two State banks from 1993 on the opening of new branches and expanding

banking activities, very much in deference to the wishes of the World Bank and the International Monetary Fund. While the private banks have been keen to mobilize rural savings it is rarely that they have shown an enthusiasm to play a developmental role at the grassroots, though there are notable exceptions. Perhaps it was the failure of the private banks to respond adequately to the developmental needs of the rural sector that prompted the Central Bank in 1995 to establish Regional Rural Development Banks (RRDBs) under its wings to serve the credit needs of the rural poor. While these measures have helped in extending the reach of banks to the rural sector, there are constraints that restrict their efficiency.

A persistent problem that commercial banks operating in rural areas have to put up with is that of low recovery rates. This is the outcome of several factors. A high proportion of loans are used for consumption rather than for production. This is compounded by the generally inadequate supervision of loans. Moreover, the low rates of interest charged on loans prevent banks from enforcing more rigorous loan appraisal and supervision procedures. The banks are unable to raise interest rates as they are expected to play a developmental role through rural financing. It is also evident that rural lending is high risk prone not only because of social and political processes at work but also because of the all too frequent exposure to natural hazards such as droughts and floods. In the latter case the banks are obliged to reschedule loans or in extreme cases write them off. But both adjustments have inherent weaknesses. Rescheduling of loans brings about what has been called 'repayment exhaustion' (Das, 2001) while writing off of loans encourage expectations among defaulting borrowers for similar relief whenever defaults accumulate (Malhotra, 1986). Bank procedures are often complicated and result in transaction costs for the poor as well as for the banks themselves. Often bank lending is also subject to high contraction costs because of the small size of loans, low interest rates and the widely dispersed nature of loan disbursement.

The social and political configurations of rural areas lead to

situations wherein loan schemes meant for the poor are often preempted by the rural elites. This certainly has been the experience of India (Malhotra, 1986). Malhotra observes that when high income borrowers default it has a negative demonstration effect on the poorer borrowers.

It may also be noted that the problems within the banking sector also have a dampening impact on rural banking. According to Malhotra (1986) these have to do with infrastructure development; training, orientation and placement of bank staff; and overstretching of chains of command within banks that lead to a corresponding reduction in efficiency.

It has been observed by Das (2001) that banking sector reforms in India which aim at raising the financial viability and competitiveness of banks have created a mismatch between the social and the financial agenda that the banks have to dispense with. Such an opinion is equally applicable to the Sri Lanka context. Concern with the profitability of banks has also seen the leakage of rural savings to the urban sector that is well brought out in Siriwardena's contribution to this volume.

It is thus evident that institutional provision of rural credit has not been altogether successful in meeting the credit needs of the rural poor. A solution has been sought in the formation of micro-credit schemes based on socially mobilized small groups. The forerunner of micro-credit schemes has been the well known Grameen Bank in Bangladesh which is characterized by 'a group based lending scheme that uses peer pressure to monitor and enforce contracts and to screen good borrowers from bad' (Qureshi et al., 1996). The bank principally targets the poor and especially the women. The loans are linked to an integrated social development programme. The bank not only provides loans but also lends for food storage and capital recovery. Transaction costs are kept to a minimum. However, in order to eliminate the subsidy dependency of the bank the need to raise on-lending interest rates has been recognized (Qureshi et al., 1996). It is pertinent to note that the micro-credit schemes in Sri Lanka have benefited from the Grameen Bank experience.

In Sri Lanka micro-credit schemes have been successful in mobilizing substantial rural savings and in creating a credit culture among the poor (Gunatilaka, 1997). According to Gunatilaka (1997) they have been capable of meeting the emergency consumption needs of the poor as well as in reducing their vulnerability. But they have been much less successful in meeting investment needs. Zaman (1999) on the basis of his experience in Bangladesh states that in regard to countering income poverty the moderately poor micro-credit borrowers benefit more than the extremely poor. The extremely poor are constrained by poor assets; poor health and poor access to educational and other facilities. Zaman, therefore, posits the view that the impact of micro-credit on income poverty is a function of borrowing beyond a certain loan threshold and also on how poor the borrowers were to begin with.

While micro-credit programmes have decided advantages in lending to the poor studies undertaken in Sri Lanka (e.g. Gunatailaka, 1997; Dale, 2002) show that they too suffer from systemic weaknesses such as:

- ◆ Weak financial management and poor accounting standards;
- ◆ Inability of poor groups to sustain savings through group pressure;
- ◆ Static nature of small groups that restrict initiative on the part of the more dynamic members;
- ◆ Emphasis placed on the protectional role of credit as against its promotional role;
- ◆ Difficulty of maintaining group solidarity in situations of intra-group differentiation; and
- ◆ Neglect of some essential principles of community institution building.

What emerges from studies on micro-credit is that their objectives will be better met by an 'integrated' rather than a 'minimalist' approach to the provision of credit. A minimalist approach would

be concerned with financial intermediation only, whereas an integrated approach would incorporate a broader set of objectives. According to Dale (2002):

*For member-based programmes....a minimalist approach is hardly ever feasible. Pre-requisites for effective financial operations- in terms of attitude, knowledge, organizational structure and management systems- are normally lacking and therefore need to be promoted as well. Consequently, social mobilization and organization building are central components of a strategy for promoting people based systems of micro-finance, in order to have the financial services properly managed. Simultaneously, these linked activities may generate a range of other benefits.*

The setting up of appropriate organizational structures to implement micro-credit programmes is receiving the increasing attention of development strategists in Sri Lanka. Thus according to Gunatilake (1997) Sarvodaya has established a two-tiered system of credit dispensation for the poor. It is observed that at the level of providing loans for household consumption and contingency purposes the programmes are owned and managed by the beneficiaries themselves, while in the dispensation of larger loans the approach has been to link up with conventional financial institutions. This has been made possible by making arrangements to deposit the surplus generated by micro-savings groups as interest bearing collateral. It is thus possible for the credit needs of the more enterprising micro-entrepreneurs to be met through special arrangements made with conventional financial institutions. A three-tiered structure was introduced under the Social Mobilization Programme of the Hambantota Integrated Rural Development Project comprising (a) small groups (b) self-banking society consisting of several groups and (c) the union bank at the divisional level. Nearing the winding up stage of the HIRDEP the Social Mobilization Foundation (SMF) was set up as a district level body. The SMF has several units including the 'banking union' with responsibilities to promote and coordinate the work of union banks. Despite these initiatives on the part of the State and the NGOs, the linking of micro credit programmes with the commercial

banking sector remains intractable as ever. Nonetheless, 'the government appears to be trying to yet again to get the formal banking sector to respond to the needs of the poor through the SASANA (*Samurdhi Sanvardhana Naya*) and the *Surathura Diriya* credit programme of the *Samurdhi*' (Gunatilaka, 1997).

### **SMALL TOWNS, URBAN DEVELOPMENT AND REGIONAL PLANNING**

We have already noted that rural and regional development necessitates a symbiotic relationship between the urban and the rural sector. In Sri Lanka such symbiosis does not exist. Consequently, the role that the small towns have played in the social and economic transformation of the periphery has been somewhat muted. How do we explain this situation?

First, there is a clear imbalance in the distribution of urban settlements. There is not only a primacy problem (resulting from the dominance of Colombo) and an uneven distribution of mid level regional cities (Gooneratne, 2001), but also an inadequate geographical coverage of small towns and lower order service centres. Approximately 30 percent of the urban centres are found in the Western Province of the Island. Furthermore, urban centres other than Colombo, Jaffna and Kandy continue to function as primary service centres that prevent them from generating the kind of dynamism required for the development of regions (Deheragoda, 2002). However, this appears to be a situation common to many if not all developing countries (Gaile, 1992).

Secondly, there has been the downplaying of the role of small towns as a consequence of the enactment of the Pradeshiya Sabha Act No 15 of 1987. As an outcome of this Act all Town Council areas were brought under *Pradeshiya Sabhas* and thereby lost their urban status in the administrative sense. It is a situation that has brought with it negative planning and developmental implications.

Thirdly, there are significant drawbacks in planning urban development. Thus even at present Sri Lanka has not firmly committed itself to a well defined urban development strategy

within the overall framework of a national regional development strategy. The link between the rural and urban as a process that leads to 'circular causation' that benefits both the rural and the urban sector (Baker and Pederson, 1992) has not been given due consideration. The prevailing urban bias in internal terms of trade and rural financing and the segmentation of urban-rural markets has worked to the disadvantage of the rural sector. Even when there have been systematic attempts at urban development as in the older land settlement schemes and the more recent Mahaweli Development Scheme (a two tiered system in the former, and a three tiered system that comprised village, block level centre and township in the latter) the primary emphasis has been on service provision. Their potential to contribute to the economic transformation of the rural hinterland has not been utilized to any significant extent. Hence, the lower order service centres in particular have merely functioned as outposts of urban extraction without the ability to contribute to the upward transition of regions. According to Gooneratne (2001),

*The small towns in the Mahaweli systems were essentially 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.*

The neglect of urban development is again well evident in the Integrated Rural Development Programmes (IRDPs) that had been an important component of Sri Lanka's rural-regional development strategy from around 1979 until the late 1990s. Wanasinghe and Karunanayake (1997) have observed that in the IRDPs rural development was attempted without reference to urban development. Not only was the development so generated lopsided, but it also made the IRDPs to function as closed systems (Gooneratne, 2001). It appears that the neglect of rural-urban linkages in promoting integrated development of rural areas had much to do with global developmental thinking of the 1970s. As

Baker and Pederson (1992) observe it was then the generally accepted view that urbanization was a parasitic process that leads to the neglect of agriculture and the immiseration of the countryside.

It is noted in Chapter 6 there are many deficiencies in the urban/regional planning process that have constrained urban development and its potential contribution to regional development. Of the constraints noted specific mention could be made of the following:

- (a) Limitations imposed by an urban definition based solely on the administrative criterion;
- (b) Lack of fiscal and other policies supportive of decentralized growth; and
- (c) Weaknesses inherent in urban local authorities that restrict their capacity to contribute to economic and regional planning.

It is, therefore, significant that more recently there has been some rethinking on the urban development policy in official circles. In 1993 the Urban Development Authority of Sri Lanka launched the Urban Development Sector Project for medium and small urban centres. Through the UDSR, 17 selected Municipal and Urban Councils have been upgraded by improving their physical infrastructure. In regard to the North Central Province the USDP included only two centres viz. Anuradhapura (administered by an Urban Council) and Polonnaruwa (that actually has no urban status being administered by the Tamankaduwa *Pradeshiya Sabha*). The project while contributing to physical infrastructure development in selected urban centres, it overlooked the equally important aspect of promoting greater urban-rural interdependence.

A further development is the formulation of a National Physical Planning Policy in 2001 for the purpose of developing a well integrated national urban system supported by an efficient transport network. However, the plan does not seem to have given

specific consideration to the role of small towns and service centres in regional development. It envisages that future urban development could make use of one of four options viz.

- (a) Continuation of the existing pattern allowing for ad hoc low density urban sprawl along major arterial roads with minimum or no planning interventions over the next thirty year period;
- (b) Development of 29 urban clusters, a limited number of urban settlements that comprise small and medium scale centres and a network of isolated rural centres;
- (c) Concentrated high density development within existing urban centres that will be surrounded by low density settlement areas;
- (d) Development of nine metropolitan regions with 15 mega cities that will be linked to one another by a network of major access roads, harbours and airports.

The above options may be compared with that offered in Chapter 6 of this publication which proposes a national urban development strategy that combines an urban-rural area development strategy in the periphery with that of the polycentric spatial strategy proposed for the metropolitan region of the Island.

#### **INTEGRATING THE RURAL WITH THE URBAN: PLANNING PERSPECTIVES**

This section focuses attention on planning issues that merit consideration in the strengthening of rural-urban linkages in the North Central Province of Sri Lanka. However, the issues raised are of validity in the general Sri Lanka context. The central places in the North Central Sri Lanka fall into the category of rural service centres. In terms of centrality five gradations of central places have been identified (Indrasiri, 2000) of which the majority belongs to fourth and fifth order central places. In fact the first and second order is characterized by just one central place under each

category. Hence from a regional development perspective it is necessary to induce growth in the lower order central places to enhance their capacity to provide better and more effective services to their hinterlands.

In what manner does the growth of small towns catalyze regional development? As pointed out by Deheragoda et al. (1992) they contribute to regional development by providing essential services to rural hinterlands as exemplified by (a) making available consumer goods and agricultural inputs; (b) acting as marketing and collecting points for local produce; and (c) providing a locus for industrial development. It is also recognized that small towns provide opportunities to generate non-farm employment. They do also contribute to contain excessive rural to urban migration. The demand for services by a growing rural economy would in turn contribute to the expansion of the urban economy. However, as pointed out by Gaile (1992) for linkages to be mutually beneficial market imperfections between the urban and the rural sectors have to be reduced as much as possible. The failure to do so would result in the unleashing of backwash effects that would be counter productive in terms of rural-regional development. The 'distance decay gradients' (i.e. the decrease in the rate of growth with increasing distance) is also more favourable in the case of small towns than in the case of larger towns where growth tends to pile-up make its dividends increasingly difficult to distribute (Gaile, 1992). Therefore it also provides a rationale for developing small towns as a promoter of regional development.

In view of the above there is a clear case to support the growth of small towns to catalyze regional development. However, the selection of small towns for induced growth has to be based on sound criteria. Gaile (1992) has suggested a range of selection criteria for the purpose that comprise (a) size of the centre; (b) number of centres considered; (c) size of the market area of the centre; (d) agricultural and livestock productivity of the market area; (e) economic potential of the market area; (f) proximity of competing market centres; (g) current levels of infrastructure and non-farm economic activity; (h) project package viability; and (i) local regional priorities.

It may be noted that the criteria suggested by Gaile are not only concerned with the attributes of the towns themselves but also with those of their hinterlands. Douglass (1998) has observed that while the selection of key towns for development is not altogether an easy task, there has also been a tendency to overlook the attributes of the hinterlands. This then is a consideration that should receive attention in developing small towns as catalysts of regional development.

Another consideration that merits attention is that the development of small towns may follow different trajectories. This certainly has been the experience of francophone West Africa since 1960. Thus Giraut (1997) finds that in the case of towns in francophone West Africa:

*Some have grown rapidly, others have declined and in some cases individual centres have experienced alternating phases of growth and decline.*

Therefore it may be useful to bear this in mind in the planned growth of small towns in the North Central Province as well as in other parts of the Island.

We have noted that Sri Lanka is deficient in a balanced urban settlement structure. This characteristic is prevalent at both the national and the regional level. The promotion of new growth centres is a prime necessity to overcome this situation (Deheragoda, 2002). However, this too cannot be a haphazard exercise. The selection of nodal growth points will have to be undertaken on the basis of objective criteria. There have been many examples of promoting growth centres in Sri Lanka as evinced by the Mahaweli Development Scheme. But what is most striking is that while some centres have prospered (e.g. Tambuttegama) there are others that have failed to generate any growth momentum (e.g. Galnewa). It has been observed by Baker and Pederson (1992) that in the African context urban centres of similar size may perform dissimilar functions. They also point out that the factors which determine the growth and development of towns are extremely complex. These issues have to be taken note of in regional planning.

A related issue is the need to promote rural urban linkages through regional urban networks. This implies a greater horizontal diffusion of impulses signifying on one hand urban-rural links and urban-urban links on the other (Doughlass, 1998). Wanasinghe and Karunanayake (1997) have noted the formation of incipient urban networks in Sri Lanka through the coalescing of previously separated towns. The promotion of such networks has to be of concern to the urban/regional planner. In the transformation of rural hinterlands the provision of physical infrastructure is of vital significance. In fact even at present market access is very much impeded in the North Central Province during the rainy period accompanying the Northeast monsoon. However, the provision of physical infrastructure in itself would not be sufficient to bring about the needed transformation. It is in this sense that the Urban Functions in Rural Development (UFRD) approach that emerged in the 1990s is found deficient. The simple provision of physical infrastructure would only help activate processes that lead to the leakage of rural income and surpluses to the urban sector. Deheragoda (2002) finds that whereas some rural areas generate surpluses, they yet remain poor because such surpluses are siphoned off to the urban sector through adverse features relating to terms of trade, rural banking and the market structure. The unfavourable terms of trade not only prevent capital formation in the rural sector but also push the poor to rely on low productive activities (Gooneratne, 2001). At the same time Siriwardena in his contribution to this volume clearly points to the manner in which institutional financing of the rural sector is constrained by the urban bias of the commercial banking sector.

Hence from a planning perspective deliberate policy options are necessary to promote a strategy that integrates rural-urban area development in the periphery. It should be possible to accommodate those urban functions that serve rural development within such a framework. It was noted above that the rural periodic market system is primarily geared to serve the needs of the urban economy. The marketing of rural produce takes place mainly through the intervention of middlemen who are mostly urban based. It is therefore necessary to have less costly access to urban markets for rural-urban interaction. Gaile (1992) has shown that market growth can be a primary mechanism to both strengthen

rural urban linkages and reduce market imperfections. Value addition to products is also a vital function that has to be provided by towns and rural service centres to energize the rural economy. Similarly urban centres should also be capable of meeting the credit needs of the rural economy through institutional lending. In doing so it would be necessary to overcome the constraints identified by Siriwardena in Chapter 4 of this publication.

A final point that could be raised from a planning perspective is that strengthening of rural-urban linkages be accommodated within a well defined regional development strategy. Given the existing spatial inequalities this would require the synchronization of two approaches viz. an 'outside-oriented development approach' for the more dynamic regions and an 'auto-centric development approach' for the lagging regions that may also include 'backward areas' within the more dynamic areas. 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 groundwork for establishing more complex production units with the potential to link up with external markets (Rauch and Redder, 1990). This approach could in the first instance opt for the closer integration of rural-urban networks in such regions.

## OVERVIEW OF THE CONTRIBUTIONS

In Sri Lanka periodic markets have strong historical antecedents but their rapid growth in central parts of the Island seems to be associated with the development of the plantation economy since the mid 18<sup>th</sup> century. The opening up of the Dry Zone of the Island that commenced with vigour from around the 1930s through the process of government sponsored land settlement has seen the rapid development of periodic markets in North Central Sri Lanka. More recent trends in land settlement such as Mahaweli development have further contributed to the expansion of the periodic market system in these parts.

Rupasena provides a preliminary assessment of periodic markets

in the North Central and the Central Provinces of Sri Lanka and their likely impact on regional development. He classifies periodic markets into (a) wholesale cum retail markets and (b) retail markets. In general periodic markets in the two provinces belong to the category of retail markets but in the Anuradhapura district until recently they were predominantly wholesale cum retail markets. The author notes that in the Central Province there are competing systems of rural marketing based on the commission agent system that has transport agents as intermediaries. In the North Central Province the seasonal character of agricultural activity particularly in the *purana* (traditional) villages has prevented the emergence of close producer-trader relationships. The point is also made that some commodities play only a marginal role in the exchange economy of the periodic market system as made evident by plantation crops (tea, rubber and cocoa in the Central Province) and rice in the North Central Province. It would be interesting to investigate the manner in which these tendencies have impacted the periodic market system and therefore by implication regional development. The author finds that the periodic markets perform five major functions in relation to regional development viz. (1) serve as outlets of farm produce (2) distribute food and other consumer items at reasonable prices in the rural hinterland (3) provide employment both direct and indirect to sections of the rural and the urban population (4) disseminate information and (5) generate income to local authorities. Hence their contribution to regional development cannot be overestimated. It is also important to realize that periodic markets effectively integrate the rural and the urban sectors through a two-way flow of commodities. However, much has to be done to purposefully relate periodic market systems to regional development planning. There is also the added problem that many of these markets are not properly managed. These call for urgent remedial measures on the part of local authorities.

In the paper titled "Dynamics of a Rural Periodic Market Circuit in the Anuradhapura District of North Central Sri Lanka" Karunanayake, Wanasinghe and Ratnayake attempt to understand

the nature of operation of the main *pola* circuit in Anuradhapura with reference to its dynamics as well its role in the regional economy. The main *pola* circuit in the Anuradhapura district functions as a discreet system although it does overlap with three minor circuits thus allowing the traders to cross circuit boundaries when necessary. It is evident from their findings that the precise link between the major and minor circuits and the role of shared market places need further investigation. The chapter goes on to analyze the main features that characterize the major *pola* circuit in the Anuradhapura district in some detail. The authors make the point that the *pola* circuit plays an important role in integrating the rural with the market economy. According to the authors this is made possible by the well articulated circuit system that allows the traders wide spatial coverage of rural areas. The *pola* system can also be seen as a means of monetizing the rural economy. However, it is claimed that the *polas* have primarily performed an extractive function to support the urban economy through its trading activities. It has, therefore, resulted in the leakage of income generated through the *pola* system by the rural economy to the urban economy via the marketing process mediated through intermediaries. The establishment of Dedicated Economic Centres (DECs) has brought about a significant change in *pola* activities by undermining its role in wholesale trading. Therefore, the authors claim that their principal function is now confined to redistribution of commodities through the retail trade which is characterized by more an inward rather than an outward movement of goods. According to the authors' the *pola* circuits as much as the individual *polas* that constitute them are not static features of the landscape but are highly sensitive to the changes taking place in the regional economy. It is suggested that the implications in terms of hinterland capture by the more dynamic *polas* have to be investigated over the long-term. The authors conclude by pointing out that it would be incumbent on the part of policy makers and regional planners to work out strategies to restructure the rural marketing system so that the *pola* circuits could better serve the needs of the rural regional economy.

Post-Independence governments in Sri Lanka were confronted with a number of regional development issues caused by the lack of infrastructure facilities, basic health and education services and

chronic poverty in the peripheral regions. This was in a sense the result of massive investment by colonial rulers in the plantation sector and export trade through exchange banks. It was a process that led to centralization of financial resources mostly in the Central and the Colombo Metropolitan Region. Therefore, national leaders since Independence had regarded welfare oriented policies and supply-led credit delivery to neglected rural regions as an essential development intervention.

The paper by Siriwardena examines the causes and consequences of regional disparities in banking finance and highlights key issues that have emerged as a result of intense competition among banks to mobilize funds from the more 'backward' regions to support further investment in the more developed urban regions.

The nationalization of banks and their rapid branch expansion in rural areas to deliver subsidized credit, and the strengthening of the operation of Cooperative Rural Banks were the major policy initiatives taken by the government of Sri Lanka to reduce regional disparities in the availability and utilization of financial resources. According to Siriwardena this subsidy regime, which was characterized by a State protected banking operations, political patronage in resource allocation and a bureaucratic management system, began to lose ground with the introduction of free market policies.

The author asserts that moving away from State dominated banking to open market competition through financial reforms was regarded as the best policy intervention required to decentralize financial resource management to create more income generating opportunities in the country. However, even free market based competitive financial services offered by commercial banks have failed to reduce regional disparities in banking and financing services in Sri Lanka. Moreover, the competition had intensified only in highly profitable areas of banking business. Financial intermediaries have moved into rural areas only for low-cost deposit mobilization for the purpose of financing urban borrowers. This has had the inevitable consequence of depleting the resource base of peripheral regions by preventing re-investment, to any marked degree, in the periphery itself.

An attempt has been made to counter these negative tendencies by innovating the delivery of rural finance. Siriwardena points out that the introduction of micro finance projects by several banks is indicative of such tendencies. Group based micro finance has seen the emergence of a large number of solidarity groups at village level for savings and credit operations. However, the minimalist approach to small sector finance though successful in some 'poverty pockets', has not been altogether strong enough to reduce regional disparities in financing. The dilemma facing the banking sector in Sri Lanka is to set up a system of decentralized financing to benefit the peripheral regions without compromising the viability of banking operations.

In India, Nepal and Bangladesh commercial banks allocate a share of profits to selected development finance institutions to implement micro finance programmes and develop resource poor regions. This lesson is important for Sri Lanka, as most financial institutions have neglected their development responsibility, although profits are generated out of funds siphoned off from the rural areas and reinvested in the urban. All banking and non-banking institutions need to integrate their services at the regional level to benefit local people and communities.

Siriwardena contends that leading banks with strong outreach capabilities should be encouraged and empowered to finance under banked regions, through a process of capital infusion. It could be made a requirement for high profit earning urban-based small banks to annually contribute a small percentage of their profits for the purpose of strengthening micro finance institutions. It is evident that centralized financing by commercial banks, because of their narrow focus on short-term profits, tends to negate the good intentions of development banking. Therefore, the author advocates that in order to realize maximum social returns within a framework of financial sustainability, decentralized banking be incorporated in the policy agenda and cost-benefit assessments of banking finance.

Wanasinghe in her paper on the 'Role of Small Towns in the Development of the North Central Province' attempts to evaluate the contribution of small towns to the development of a less

developed part of the periphery of Sri Lanka. The paper traces the changing perception of small towns in development theory and notes that the role of small towns in regional development has been a subject of controversy since the 1950's when a debate arose whether small towns play predominantly a negative or a positive role in regional development. The different points of view are considered important by the writer since they have had an impact on regional planning and on the growth and development of small towns in developing countries. In the 1950s and 1960s small towns had been perceived as important centres that can play a positive role but in the 1970s they were looked upon as centres of extraction that led to the impoverishment of rural areas. Hence the IRDPs and the basic needs strategies in developing countries had focused directly on the rural areas and the farmers thus bypassing small towns and ignoring the value of reciprocal relationships that exist between rural areas and small towns. Very little attention was focused on the vital role the small towns can play in rural and regional development until proponents of bottom up strategies such as Johnson (1970) and Rondenelli and Ruddle (1978) stressed the fact that small towns can function as catalysts in regional development.

The paper provides an overview of small town growth in Sri Lanka and traces the history of small towns in the NCP. Planners had introduced small towns or townships in colonization schemes and in the Mahaweli Development Project area in the NCP primarily to provide essential services to the settler population while other objectives included the modernization and diversification of agriculture, increase of rural production, absorption of excess rural labour and stimulation of industrialization. In the remaining areas of the NCP, a number of small towns that had emerged spontaneously are dispersed over a wide area but they have been provided with services and facilities by the State. The degree of Government involvement in the provision of essential services and facilities to all the small towns is reflected in the multitude of public sector institutions introduced by the State such as administrative, health, educational, security, postal and telecom-

munication services. These functions draw people in the hinterland to towns on week days. Hence small towns have played a vital role in raising the Quality of Life of the people in the area.

It is evident that the behaviour of producers and consumers at the village level as well as that of different actors involved in marketing (purchase of agricultural produce and sale of general provisions, agro inputs, higher order goods etc) such as the village boutique keeper, *pola* functionaries, visiting traders and middlemen is important in reducing the role of small towns as important commercial centres. Small towns generally function as a market for local produce and a supplier of agricultural inputs and consumer goods at competitive prices but due to low income, seasonal poverty and indebtedness, the poorer households, particularly those in the less accessible parts of the NCP, are 'bound' to the local boutique keeper or the visiting collectors. The visits of members of farm households to small towns, except for the purpose of using the services, generally coincide with the *pola* days. The majority of the commercial establishments in small towns belong to the micro-enterprise category- either they were single owner operated enterprises or employed less than four persons. These shops functioned mainly as retail stores (for low and middle order goods) and catered to the demands of town dwellers and the rural population. The paper also notes that there is a distinct seasonal and weekly fluctuation in business activities in all the small towns.

Small towns have failed to act as loci for industries except where liberal incentives offered by the State had enabled entrepreneurs to locate a few garment factories. Industries are confined to a few small enterprises involved in the fabrication of metal and cement products and agro-processing. A large proportion of the local agricultural produce leaves the region unprocessed. One reason for their inability to attract industries is the inadequacy or the absence of town serving, demand driven infrastructure facilities.

In concluding Wanasinghe makes the point that most of the small towns in Sri Lanka are not recognized by the State as urban centres

and are not appreciated as an important element in integrated regional development. So far no effort has been made to formulate an area development policy for the NCP based on urban and rural interdependencies.

In the final paper Wanasinghe and Karunanayake look at urban development in Sri Lanka from a regional planning perspective. According to the authors prior to 1981 the most striking feature in the urban system of Sri Lanka has been the demographic and functional dominance of the city of Colombo. But even prior to 1981 there was a declining trend in the demographic primacy that can mainly be attributed to suburbanization than to the growth of towns in the periphery. Another interesting development has been the downgrading of some 87 urban settlements as a result of Town Councils being incorporated in the *Pradeshiya Sabhas* consequent to the enactment of the *Pradeshiya Sabha* Act No. 28 in 1987. But the reality has been that in addition to the 53 officially recognized urban settlements another 200-250 centres with urban characteristics have emerged indicating the acceleration of the tempo of urbanization. Hence a reclassification of urban settlements is necessary using criteria such as population size, extent of the built-up area, quality and functions and centrality, and also the extent of 'under-boundedness' of towns.

The paper shows that two new trends can be observed in the urban scene in Sri Lanka viz. (a) the emergence of incipient metropolitan regions in the periphery and the formation of agglomerations through the coalescing of previously separated towns, and (b) the coalescing of towns through ribbon development. Tangalle-Beliatta, Tissamaharama-Weerawila-Pannegamuwa, and Middeniya-Katuwana in the Hambantota District are some of the incipient agglomerations that have emerged in the periphery.

Colombo as the primate city has been responsible for higher order administrative, financial and commercial, health, education and other functions. The majority of Colombo suburbs performed a

purely residential function prior to 1971. Since then there has been both a spontaneous and planned decentralization of the above functions to the suburbs. Yet, interestingly the numbers commuting to the city of Colombo has been increasing. Towns in the periphery are multi-functional. But the predominant economic activity in these towns is retail and wholesale trade. Manufacturing appears to be the least important activity. The majority of establishments house only medium and small enterprises.

The authors find that whereas an important element determining the dynamism of urban centres is industrial development, in Sri Lanka the distribution of industries is extremely uneven. At the end of 1995 out of a total of 2605 industries set-up under the Ministry of Industrial Development and Board of Investment initiative as much as 87 percent were concentrated in the Colombo Metropolitan Region (CMR). Even within the CMR there is a greater concentration of industry in the Colombo District. The setting-up of the Katunayake and Biyagama Export Promotion Zones has further strengthened this trend. Even though successive governments in Sri Lanka have made attempts to promote regional industrial development (e.g. Export Promotion Zones, Industrial Estates, 200 Garment Factory Programme etc.), they have been constrained by many physical and institutional factors. The paper identifies several pertinent issues that have a bearing on regional industrial development, namely,

- (a) Industries need be promoted in 'growth centres';
- (b) Infrastructure provision has to pay attention to regional growth centres and agglomerations in peripheral regions;
- (c) Industrial development should aim at promoting rural-urban linkages; and
- (d) Local authorities should be able to play a pro-active role in the economic development of areas within their administrative jurisdiction.

Wanasinghe and Karunanayake while indicating the significance

of rural-urban linkages as a means of promoting regional development also highlight limitations that are specific to the Sri Lanka situation. Thus in most parts of Sri Lanka there are 'unserved interstices' owing to the dearth of rural service centres or towns to provide adequate goods and services, market facilities and non-farm employment opportunities. Even when they do exist, most rural areas are poorly linked to these towns. Seasonal poverty and lack of savings and indebtedness of farmers compel them to resort to distress sales when prices are low which inhibits their earning capacity. Furthermore, during low income periods they can afford to buy only small quantities at any one time which they often do from the local boutique keeper. In new settlement schemes located in the periphery e.g. in the Galnewa township in Mahaweli System H, outsiders have taken over local business. As a result, profit from agriculture and commerce is steered towards recently settled businessmen (internal linkages) or towards outsiders who do not depend or invest in the region (external linkages). It is also found that forward linkages are not as extensive as backward linkages. Yet a large part of the local produce does not leave the region as value added products.

The authors also point to three significant features that underline links between the core and the periphery. Thus,

- (a) there is a tendency for locally manufactured and imported goods to flow from the core to the periphery;
- (b) distribution of goods is undertaken through a limited number of urban centres thus adding to the transaction costs that the rural consumer has to bear. This is an outcome of the uneven distribution of urban centres and the manner in which the urban hierarchy itself is constituted;
- (c) agricultural production is drawn to the core by an arterial road system that converges in Colombo. It helps to generate profits to the commission agents and middlemen and prevents benefits from accruing either to the urban consumer or the rural producer.

Wanasinghe and Karunanayake posit the view that to reduce rural-

urban disparities three conditions have to be fulfilled in the Sri Lanka context. First, is the need to develop small and medium towns, and where necessary, fill in the gaps in the existing urban hierarchy. Secondly, considerable improvements have to be made in rural-rural and rural-urban accessibility. Thirdly, improved accessibility has to be complemented by policy initiatives relating to investment, credit and taxation to prevent small and medium towns from merely being the outposts of a system of urban extraction.

In regard to urban planning in Sri Lanka the authors emphatically note the absence of an explicit national urban strategy. They make the point that from a regional development perspective urban planning needs to address two crucial issues viz.

- (a) Allowing for the continued development of the metropolitan region which also means equalizing deficits within the CMR; and
- (b) Opting for a peripheral development strategy based on rural-urban area development within an integrated framework.

Hence Wanasinghe and Karunanayake propose a national urban strategy that combines the polycentric development strategy proposed for the CMR by the Colombo Metropolitan Structure Plan, with one that promotes the development of sub-national centres, incipient metropolitan centres or higher order central places in the periphery. The proposed strategy is intended to integrate rural and urban areas in the periphery while reducing excessive concentration in the CMR. The paper makes it explicit that a national spatial strategy which promotes urban and rural interdependence is crucial in moving towards nationally meaningful regional development goals.

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## **PRELIMINARY ANALYSIS OF RURAL PERIODIC MARKETS (*POLAS*) IN THE CENTRAL AND THE NORTH CENTRAL PROVINCES OF SRI LANKA**

*L.P. Rupasena*

### **INTRODUCTION**

Rural periodic markets (known in local parlance as *pola*) form a significant feature in the socio-economic landscape of rural Sri Lanka. The *pola* activities are marked by the periodicity of their operations. Hence in a given location a *pola* may function on one or two days per week. As pointed out by Karunanayake in the Introduction to this volume, while the *polas* are a rural phenomenon they are sited in urban locations. Therefore they act as a synapse that link the rural with the urban economy. There is evidence to believe that rural markets have been a feature in Sri Lanka from very early times. However Robert Knox who spent some eighteen years in the Kandyan Kingdom in the second half of the 17<sup>th</sup> century finds it rather curious that there were no 'markets' in the Island. It is tempting to surmise that the emergence of rural periodic markets as a significant feature of the wet zone rural economy of Sri Lanka is linked to the development of the plantations. However it is a matter for further investigation. In the North Central Province as in other parts of Dry Zone Sri Lanka the growth and expansion of periodic markets have been closely associated with government sponsored land settlement. The launching of the Accelerated Mahaweli Development Program in the late 1970s has given further impetus to the expansion of periodic markets in the North Central Province. This paper attempts a preliminary analysis of rural periodic markets in the Central and the North Central Provinces of Sri Lanka. In this paper the terms 'rural periodic market(s)', 'market(s)' and '*pola(s)*' are used interchangeably.

### **EVOLUTION AND GROWTH OF PERIODIC MARKETS**

Historical information on rural markets in ancient Sri Lanka is

somewhat sketchy. It is likely that the exchange of commodities was primarily organized through a system of barter. In this sense the infiltration of the money economy into rural areas has to be viewed as a more recent phenomenon that has links with the plantation economy introduced by the British. However, there is evidence from the hill country to show that the money economy did not replace the barter economy all at once. In fact the two systems had existed side by side in some hill country periodic markets as late as the early 1970's. As noted earlier, Robert Knox found that there were no markets in the Island, but for a few shops. Hence Knox chronicled that "All sorts of money here is scarce and they frequently buy or sell by exchanging commodities". With the introduction of the plantation economy pivoting initially on coffee and later on tea, rubber and coconut the self-sufficiency of the rural economy was eroded at its roots. The disintegration of the predominantly self-sufficing rural economy on one hand and the expansion of the plantations induced transport system on the other created a situation that was favourable to the development of trade. As a result, there has been a rapid expansion of rural periodic markets in the wet zone of Sri Lanka in the early part of 20<sup>th</sup> century. At the initial phase the rural periodic markets would have operated very much in isolation with little or no links with the neighbouring markets. But before long a rapidly changing socio-economic scenario (population increase, urban development, expansion of the rural road network, and an increasing specialization in agriculture) resulted in inter-linkages being established for example between producer and consumer markets. As argued by Karunanayake in the Introduction, the development of periodic market circuits (or rings) can be seen as a culmination of this process.

There is no time series data on periodic markets and hence a trend analysis cannot be undertaken to show their growth over time. However, this can be done to some extent by a review of earlier studies. Senanayake (1980) reported that in 1979 there were some 550 periodic markets in Sri Lanka. In 1988 Bandara reported that the total number of periodic markets in the Island (excluding the North and the East) was 406. According to the study done by Menege et al (1998) the number of periodic markets in Sri Lanka in 1977 was 459. By 1997 the number had increased

to 517 even after excluding many districts in the North and Eastern Provinces of the country. In the same year the number of periodic markets in the Jaffna district had been around 78. In view of the civil war that had deeply affected the Northern and the Eastern Provinces there is no information on the number of periodic markets in operation in these areas at present. However, there is evidence that some markets in the Jaffna region had evolved into daily markets thus losing their periodic character. One could surmise that it signifies a higher level of development of the periodic market system. The increase in periodic markets noted above is to be explained by a number of reasons such as the densification of rural areas, increasing commoditization of the rural economy, promotion of markets by local authorities, and the growing involvement of periodic markets in the distribution of food and other items particularly in the rural sector. Local authorities derive considerable income from periodic markets. Thus, the Embilipitiya *Pradeshiya Sabha* in Southern Sri Lanka receives more than 50 percent of its locally generated income from rent charged on market premises or on traders.

#### PERIODIC MARKETS IN THE CENTRAL AND THE NORTH CENTRAL PROVINCES

As evident from Table 2.1 in overall terms the Western Province had the most number of periodic markets (120) in 1997. It is worth noting that most of them are consumer markets. The lowest number of periodic markets (47) is found in the Uva Province, a reflection of the lagging nature of its rural economy besides its low population density. The Southern Province ranks second with a total of 95 markets. The Northwestern Province with 82 and the Sabaragamuwa Province with 60 are in third and fourth positions respectively. The Central and the North Central Provinces are placed just above the Uva Province. The number of markets in the Central Province (55) is slightly higher than in the North Central Province (50).

TABLE 2.1

Number of Periodic Markets by Province and District

Province/District		1977	1997	% Increase
<b>Western Province</b>				
1	Colombo	52	93	79
2	Gampaha			
3	Kalutara	26	27	4
	<i>Sub-total</i>	78	120	54
<b>Central Province</b>				
4	Kandy	20	21	5
5	Matale	8	12	50
6	Nuwara Eliya	6	22	267
	<i>Sub-total</i>	34	55	62
<b>North Central Province</b>				
7	Anuradhapura	11	31	182
8	Polonnaruwa	10	19	90
	<i>Sub-total</i>	21	50	138
<b>North Western Province</b>				
9	Kurunegala	55	56	2
10	Puttalam	19	26	37
	<i>Sub-total</i>	74	82	11
<b>Southern Province</b>				
11	Galle	22	28	27
12	Matara	38	39	3
13	Hambantota	19	28	47
	<i>Sub-total</i>	79	95	20
<b>Uva Province</b>				
14	Badulla	15	21	40
15	Monaragala	16	26	63
	<i>Sub-total</i>	31	47	52
<b>Sabaragamuwa Province</b>				
16	Ratnapura	29	43	48
17	Kegalle	14	17	21
	<i>Sub-total</i>	43	60	40

Northern and Eastern Province				
18	Jaffna	78	NA	--
19	Batticaloa	10	NA	--
20	Mannar	NA	NA	--
21	Mulativu	NA	NA	--
22	Ampara	5	8	60
23	Trincomalee	6	NA	--
24	Vavuniya	NA	NA	--
25	Kilinochchi	NA	NA	--
	<i>Sub-total</i>	99	--	--
<b>Sri Lanka</b>		<b>360</b>	<b>517</b>	<b>41</b>

Note: NA indicates non-availability of data.

Source: Menege et al (1998)

In terms of percentage increase in the twenty-year period from 1977-1997 the picture is somewhat different. The largest increase in periodic markets has taken place in the North Central Province (138 percent). In second place is the Central Province with an increase of 62 percent. The lowest rate of increase is found the Northwestern Province (11 percent). The Uva Province has seen a 52 percent increase in the number of periodic markets. There is no recent information on periodic markets of the Northern and the Eastern Provinces but as indicated in the Table 2.1 the Ampara District shows an increase in numbers from five to eight.

The growth of periodic markets in the Anuradhapura district has been prolific with a 182 percent growth over a period of two decades. This is a direct outcome of the Mahaweli Development Project, which has seen the establishment of new settlements as well as an increase in the cultivation of seasonal crops especially in the *yala* (dry) season. There is evidence that many newly established periodic markets in the Anuradhapura district had to undertake both wholesale and retail functions as a result of the changing socio-economic scenario (population increase and growth in agricultural productivity) in the hinterland. The same is true of the Polonnaruwa district, but the rate of growth has been slow as most lands are given to paddy cultivation and the periodic markets are not the main channels of marketing paddy in the district. Paddy is sold at the farm gate to collectors. The collectors

sell paddy to the larger assemblers who in turn channel them to the dealers and commission agents at the urban markets.

At the time of the field survey two broad types of periodic market (wholesale cum retail and retail only) were identifiable in the North Central and the Central Provinces of Sri Lanka (Table 2.2).

TABLE 2.2

Organization and Operation of Periodic Markets in the North Central and Central Provinces

	North Central Province		Central Province			Total
	Anuradhapura	Polonnaruwa	N'Eliya	Matale	Kandy	
<b>Type</b>	No.	No.	No.	No.	No.	No.
Wholesale/ Retail	25	2	4	2	3	36
Retail only	6	17	18	10	18	69
<b>Day of Operation</b>						
Weekend	10	5	15	7	16	53
Week day	21	14	7	5	5	52
<b>Ownership</b>						
Local Authority	31	19	12	12	21	95
ASC	--	--	10	--	--	10
Private	--	--	--	--	--	--
<b>Management</b>						
Local Authority	1	3	11	9	21	45
Tender	30	16	1	3	--	50
ASC	--	--	10	--	--	10

Note : ASC denotes Agrarian Service Centre.

Source: Menege et al (1998).

In the Anuradhapura district 25 out of the 31 *polas* were carrying out both wholesale and retail activities. This duality of function benefited the producers who were in a position to sell their produce at the *pola* and use the cash entitlement so derived to purchase consumer items from the *pola* itself. Table 2.2 also provides

information on the operational characteristics of periodic markets in the two provinces, under several heads. It may be noted that the Anuradhapura District of the North Central Province has the most number of periodic markets followed by Nuwara Eliya and Kandy Districts of the Central Province. The least number of markets is found in the Matale District of the Central Province. However, there is an increasing tendency in the Anuradhapura district for the wholesale function of *polas* to be down played primarily as an outcome of the establishment of Dedicated Economic Centres at Dambulla and Tambuttegama.

### **ROLE OF PERIODIC MARKETS IN REGIONAL DEVELOPMENT**

Markets play an important role in regional development because of its price setting function. In a number of ways price is an important determinant of regional development. First, it determines the degree of allocation of scarce resources. Secondly, the income of producers depends on the price they receive for their marketable surplus. Thirdly, the purchasing power of consumers is determined by the prices. Fourthly, prices determine the country's inflation rate. It is, therefore, evident that markets and prices are interrelated and cannot be considered in isolation. Of the different types of market, periodic markets play a conspicuous role in regional development because they serve large numbers of rural producers and consumers.

In regard to regional development, periodic markets perform five major functions viz. (1) serving as producer outlets (2) channeling of food items (3) providing employment (4) disseminating information and (5) generating income for local authorities. The Importance of these five areas is discussed below with reference to periodic markets in the Central and the North Central Provinces.

#### **Periodic Markets as Producer Outlets**

Major market outlets available at farm level are (1) periodic markets (2) assemblers (resident collectors) (3) visiting wholesalers and (4) commission agents in market centres such as Dambulla, Kandy

and Colombo. The importance of each of these market outlets depends on the location and type of commodity traded. In up-country areas where year-round vegetable production takes place, assemblers and visiting wholesalers are found to be active outside the periodic market system because of the prevalence of close producer-trader relationships. Quite in contrast periodic markets form dominant market outlets for producers in the North Central Dry Zone of Sri Lanka where production is highly seasonal. Until recently the wholesale buyers played an active role within the periodic market system. The plantation commodities (tea, rubber and coconut) have well-organized channels of marketing (such as direct links to factories) and do not figure prominently in the rural periodic market system. Similarly, paddy is not sold at periodic markets because of the large volume that each farmer has to dispose of. Hence many farmers sell at the farm-gate. The main commodities traded at periodic markets include vegetables, pulses, fruits, betel and arecanut that are mainly produced by the small and the marginal farmers.

Until recently the majority of farmers in the Anuradhapura district who grow pulses, vegetables and fruits used periodic markets as outlets for their produce. This is made evident by the fact that 25 out of the 31 markets in the Anuradhapura district fell into the category of wholesale cum retail 'fairs'. Likewise, the number of periodic markets has increased threefold from 11 to 31 during the last two decades. None of the other districts shows such a large concentration of producer 'fairs'. However, the character of periodic markets as producer outlets is undergoing transformation for the reasons noted earlier.

In the two Provinces under consideration Nuwara Eliya district ranks second in importance in terms of number of periodic markets, closely followed by the Kandy district. But the *polas* in the Nuwara Eliya, Kandy and Matale districts primarily function as retail markets. The districts of Nuwara Eliya, Kandy and Matale are traditional vegetable growing areas with year round production is found in many areas (Rupasena, 1999). As such a commission based marketing system has been in operation for a long time. In this system the producer sells vegetables to commission agents through transport agents. Many producers are bound to

commission agents through diverse forms of contractual arrangements that include advances or even borrowing of money to tide over contingencies. However these traditional arrangements are rapidly breaking down for a number of reasons such as high price risk that the farmers have to bear because they come to know the price only after sale and increasing transport costs that have to be borne by the farmer. Furthermore, as a result of the relaxation of regulations relating to the import of commercial vehicles since the late 1970s, many wholesalers now visit supply areas in their own or hired vehicles and purchase agricultural commodities from resident collectors. However, the system is not properly organized as yet. The wholesalers have to visit many collectors in dispersed locations for their requirements, which is costly in operational terms.

Hence, there is a growing tendency on the part of wholesalers to purchase their requirements from one or more 'centrally located' periodic markets. Similarly, on the part of producers they need periodic markets to deal directly with wholesalers in order to bypass the collectors. As such there is the potential for the emergence of more periodic markets in the Nuwara Eliya, Kandy and Matale districts of the Central Province. Even today, small-producers in these districts sell their surplus directly to consumers at the periodic markets. For example, a large number of small-producers from areas like Madulla could be seen selling directly to consumers on the Nuwara Eliya *pola* day.

In the Anuradhapura district for those producers who live in proximity to periodic market places and have better access to them the *pola* had been the main market outlet for disposal of surplus. Therefore, such farmer-producers were in a position to deal with the wholesalers directly and by-pass a host of intermediaries. It resulted in lower transaction costs and higher income for the producers. However, for the farmers in remoter and less accessible locations links with the market have been through the traditional channels involving a host of intermediaries. However the bargaining power of the farmer-producer under both

systems is curtailed by the absence of price information and group action. The manner in which the wholesale and retail functions of the *polas* in the Anuradhapura district are undergoing change is highlighted in Chapter 3 of this publication.

The availability of products and their quality are two major considerations that determine the price of farm products sold at the periodic markets. As could be expected the supply is high during the harvesting season, which leads to a decline in prices that does not even cover production costs. This could be attributed to lack of storage and processing facilities. None of the fairs in Sri Lanka has storage facilities. Similarly, products are not often offered in an attractive form to the customer as there is lack of quality control (relating to cleaning, sorting, handling and packing) of products offered for sale. This leads to considerable price variations and fluctuations.

The bulk of the produce purchased at fairs in the North Central and the Central Provinces moves to the more densely populated districts, especially Colombo, Kalutara, Galle and Matara, where there is a high demand for agricultural products. It enables a transfer of income from the urban and semi-urban consumers to the rural producers leading to a reduction in income disparities between the urban and the rural areas. The buyers also prefer to purchase from periodic markets by-passing urban terminal markets owing to lower prices, opportunity to bargain and the better quality of products as compared to the terminal markets.

#### **Periodic Markets as Centres of Distribution of Consumer Items**

The importance of periodic markets in servicing the consumers is increasing. In the North Central and the Central Provinces retail periodic markets number 69 out of a total of 105. We have noted that the wholesale function of periodic markets in the Anuradhapura district is on the decline. Most markets operate on specific days of the week to attract more consumers. Some retailers who normally sell in the 'public market' turn to periodic markets on *pola* days to take advantage of the customers who are drawn

there. Therefore, it is not uncommon for sales in the public market to drop on *pola* days.

TABLE 2.3

Number of Consumers Benefiting from Selected Periodic Markets in the Central and the North Central Provinces

Province / Location	No of Consumers
<b>Central Province</b>	
Gampaha	2,645
Kandy	1,000
Matale	1,400
Nuwara Eliya	8,500
Dambulla	3,800
<b>North Central Province</b>	
Polonnaruwa	2,000
Tambuttegama	4,200
Total	23,545

Source: Menege et al (1998)

Table 2.3 shows the number of consumers that are drawn to selected periodic markets on the *pola* day. The number of consumers who visit the Nuwara Eliya *pola* exceeds 8000 on a *pola* day. High consumer preference for periodic markets is due to a number of reasons such as lower prices, availability of a large variety of consumer items (that offer a choice to the consumer) and the opportunity to bargain. In comparison with public markets, lower prices are obtained at the periodic markets for reasons such as low overhead costs (resulting from low costs incurred on rent and transport) as well as the low profit margins kept by the traders.

It could be surmised that initially daily necessities were sold at the periodic markets. Consumer durables such as agricultural implements and kitchen utensils made their appearance later as '*pola*' functions expanded overtime. Now more items are offered for sale such as planting-material, factory products, household necessities etc. in many periodic markets. The *polas* may also

provide opportunities for activities that help entertain visitors such as snake charming, stunt acts etc. During festival seasons these markets display a carnival atmosphere.

*Pola* retailers purchase agricultural food items mainly from the Dambulla 'Dedicated Market'. A common practice is to arrange a group hire of a truck to go to Dambulla for their purchases. As shown in the Table 2.4 the *pola* traders purchase nearly 50 percent of their stocks from the Dambulla market. Interviews with retailers reveal that this is possible, as the market is kept open even at night enabling them to transact business during the day and travel to Dambulla in the evening to replenish stocks.

TABLE 2.4

Quantities Sold to Different Categories of Traders at the Dambulla Market

Province / Location	Quantity per week (kg)	% of total
1) Wholesalers	498,200	19.50
2) <i>Pola</i> retailers	893,955	34.98
3) Other retailers	305,232	11.94
4) <i>Pola</i> wholesalers / retailers	324,892	12.71
5) Other wholesalers / retailers	473,128	18.52
6) Others	60,066	2.35
Total sales	2,555,473	100.00

Source: Menege et al (1998)

In regard to the distribution of consumer items it is important to recognize that the rural periodic markets significantly contribute to ensure the food security of rural households. Food security necessitates that food be made available at all times for all the people at affordable prices. In this regard the periodic markets play an important role because of generally low prices obtained at these markets and their role in the distribution of food items both locally and regionally. It is also worth noting that the periodic markets in particular contribute to the food security of low-income consumers.

### Periodic Markets as Provider of Employment Opportunities

Periodic markets play an important role in providing employment to the rural population. Table 2.5 shows the number of traders who were active in selected fairs in the Central and the North Central Provinces when the study on agricultural markets in Sri Lanka was undertaken by HARTI, NDP and WB in 1998. It should be noted that these figures provide approximations only and may vary significantly depending on the seasons.

TABLE 2.5

Number of Traders in Selected Periodic Markets in the Central and the North Central Provinces

Province and Location	Stalls	Open Space	Total
<b>Central</b>			
Gampola	33	--	33
Kandy	--	201	201
Matale	144	--	144
Nuwara Eliya	102	270	372
Dambulla	162	226	388
<b>North Central</b>			
Hingurakgoda	6	139	145
Polonnaruwa	262	245	507
Tambuttegama	318	146	464
<i>Total</i>	<i>1,027</i>	<i>1,227</i>	<i>2,254</i>

Source: Menege et al (1998)

Many youths have found employment in rural periodic markets as traders and service providers. It is well known that unemployment is high (approximately 25 percent) in this age category. Gender-wise, women are also active participants in *pola* trading. Some children undertake selling of small items such as lottery tickets and shopping bags. This is an additional income for school children. Many traders have full time employment at least five or six days per week because they do the periodic market circuits as discussed in Chapter 3. The number of traders operating in the

periodic markets is on the increase. This is mainly due to the fact that finding a niche for trading in the periodic market is quite easy. The requirement of working capital is limited. At times trading can be undertaken even with zero capital by taking goods from the wholesaler on the understanding that the payment will be made after sales. It is not difficult to obtain a place in the periodic market as there are no strict rules in this regard and the local authority or others (lessees for example) who run the periodic markets permit more traders to operate to enhance their own income. In most cases trading takes place either in open spaces or in stalls of a temporary or semi-permanent nature. Thus overhead costs are minimal.

In addition to direct employment many people are also employed in services such as vehicle repairs, managing parking lots, running canteens and transporting goods and people. The demand for these services is growing with the rise in popularity of periodic markets. An indication of the opportunities available for indirect employment is seen in the large number of three-wheelers in operation on a *pola* day.

### Periodic Markets as Centres of Information Dissemination

Rural periodic markets also act as centres of disseminating information. It is a place where villagers meet on a regular basis and spend long hours. Hence, it provides them with the opportunity to exchange information on social, political and economic matters. Increasingly the governmental and non-governmental organizations are making use of periodic markets as centres for the diffusion of a wide range of developmental information. Similarly the private sector makes use of the *pola* to introduce new consumer brands and trade names. Creating an awareness of product markets is another vital contribution made by the periodic markets.

### Periodic Markets as Source of Income to Local Authorities

Incomes raised from periodic markets are one of the major sources of income to many of the local authorities. Since local authorities

do not get adequate funds from the central government, locally derived income is utilized to meet some responsibilities such as infrastructure development. As a means of raising funds quickly local authorities resort to the practice of leasing out *pola* premises on an annual basis through the tender procedure (Table 2.2). Over 95 percent of periodic markets in the NCP have been leased out on this basis. However, in the Central Province the local authorities themselves operate most *polas*.

#### PROBLEMS FACING PERIODIC MARKETS

There are many problems confronting periodic markets. Some problems have to do with the inadequacy of infrastructure facilities such as electricity, toilets, water supply, parking spaces etc. These facilities are found to be deficient in many periodic markets. The selling of farm produce usually commences either early in the morning on a *pola* day or in the evening prior to the *pola* day. Hence, some traders as well as producers have to stay overnight at the market site, making it imperative to have the basic amenities referred to above. It is a common sight to see stray cattle loitering about the market premises causing considerable inconvenience to *pola* users whether they are traders, producers or consumers. Proper fencing of *pola* premises and securing of entry points would help in solving the problem. At times difficulties are caused by the inability of vehicles to approach the sites of *pola* stalls or open booths for easy loading or unloading of goods.

A close look at the layout of periodic markets shows that they are poorly designed. At some markets the location of stalls and selling booths is rather haphazard and prevent the advantages to be reaped by the producers, vendors and consumers by their concentration in clearly defined spaces. The manner in which seasonal problems such as heavy monsoonal rainfall could adversely affect the market grounds has not been given adequate consideration in locating some periodic markets. Hence on rainy days it is not uncommon for storm water to flood the stalls. Some stalls do not have adequate space, a factor that not only affects the quality of perishable goods but also the convenience of consumers.

None of the markets is properly managed. The markets are managed either by local authorities or private parties selected through the tender procedure. However, both types of management are only interested in the collection of fees / taxes. But there is no uniformity in this either. Usually producers pay higher fees than the retailers. For producers the fee is usually based on the quantity offered for sale and for retailers it is based on space. For instance, a farmer-producer pays Rs.5/= per sack and the retailer pays Rs.15/= for 36 sq. ft. (6' x 6' space). This is quite unreasonable from the producers' perspective. The daily turnover of the retailer is much higher than the income derived by a producer who offers stocks for sale. Although the maintenance of market premises is the responsibility of the local authorities they do not seem to perform this function adequately.

#### CONCLUSIONS AND RECOMMENDATIONS

In most countries periodic markets indicate an early stage of evolution of food markets. In some countries these markets have emerged in locations of minimal market exchange. In Sri Lanka periodic markets are found in urban locations. Whereas daily transactions in public markets in Sri Lanka show a general decline, the periodic markets or *polas* have become the major outlet for buying and selling for the majority of rural producers and consumers.

In the present context alternative channels of marketing cannot compete with the periodic market system because of the many advantages that it offers. Periodic markets play an important role as outlets of farm produce and in the distribution of consumer goods. They create employment in the rural sector and generate income for the local authorities. These activities have a direct impact on regional development not only in the Central and the North Central Provinces but also in the other Provinces as well. But much can be done to further strengthen their contribution by providing better facilities at market locations and also by improving

the management of periodic markets by the local authorities. It is also necessary to set up new periodic markets at suitable central locations in rural areas for the benefit of both the producers and consumers. Where spontaneous growth of markets is taking place the process has to be promoted through the provision of infrastructure and other facilities. It may be a reasonable policy on the part of local authorities to re-invest at least 25 percent of the income derived from the periodic markets for their upkeep involving maintenance and upgrading of facilities and management.

The fee collection system in operation at the periodic markets has clear inequities. For example, the producers are charged a fee based on the sales value of items offered for sale, whereas the traders are charged on the basis of the ground space that they occupy. In this system the items sold by the producers are over valued. The fee collection system could be based on the principle of cost recovery that includes both the initial and the working capital expended by the local authorities. However, the *pola* traders do not favour this kind of rationalization of the basis on which fees are levied.

One of the major constraints to the setting up of new periodic markets or indeed of developing existing ones is the problem of non-availability of land. Periodic markets require not only adequate space but also central locations (e.g. in proximity to central bus stands or railway stations) for the convenience of traders, producers and consumers. Finding space in the more densely populated areas is increasingly becoming a problem. The periodicity of *polas* results in *pola* grounds remaining idle on days that the *pola* is not held. In countries such as Malaysia and Thailand a solution to this problem has been sought in night fairs. The markets are held on street venues on certain days of the week by closing them for vehicular traffic by night. The possibilities of having night fairs may be feasible in some of the larger urban centres in Sri Lanka. However, a major constraint for the establishment of night fairs in the Sri Lankan rural context is the absence of an efficient transport system that links periodic markets to their hinterlands.

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## **DYNAMICS OF A RURAL PERIODIC MARKET CIRCUIT IN THE ANURADHAPURA DISTRICT OF NORTH CENTRAL SRI LANKA**

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### **INTRODUCTION**

The point has been made by Braun et al (1998) that the periodic markets constitute both a spatial and a temporal system. The two systems are further articulated by the propensity to operate in the form of circuits rather than as independent market (*pola*) centres. It is interesting to note that the circuit based periodic market is more the rule than the exception in the rural scenario of the developing world. In some regions such market circuits have evolved into very complex systems as noted by Nash some decades back (1967). Some authors (e.g. Hodder, 1967) tend to talk of 'market rings' or 'market circles' rather than of circuits. But given the situation that a periodic market system is superimposed on an existing road system the notion of a 'ring' or 'circle' is only an idealized representation of the ground situation. Hence the preference for the term 'circuit' in this chapter. The basic principle underlining the functioning of a market circuit (the terms *pola* for market and *pola* circuit for the market circuit will be used from here onwards) is that the several *polas* (plural of *pola*) which form the circuit operate on different days of the week to avoid competition with one another. Jackson (1977) observed that this allows a *pola* trader to significantly expand his area of operation by fitting into a system that combines five or six *polas*. However, Jackson found that the customers' view of the *pola* tends to be more discreet so that:

*From the customers' view point the area served by a single market tends to be discreet. It appears that the consumers patronize the pola nearest to where they live unless a much larger pola is only*

*slightly more distant. Then they may go further than necessary in search of lower prices and greater variety.*

This chapter deals with the major *pola* circuit in the Anuradhapura district in North Central Sri Lanka with a view to ascertaining its dynamics and role in the regional economy.

### **METHODOLOGY**

A team comprising four investigators was deployed to collect field information. Two of the authors made field visits and interacted with the investigators, while collecting field information themselves. The investigators were given a thorough grounding on the aims and objectives of the study as well as on interviewing techniques. The field survey was conducted in two stages.

The first stage involved a reconnaissance survey of a few *polas* in the Anuradhapura district. The objective of the reconnaissance survey was to gain a general understanding of the *pola* system. It also enabled the identification of the major *pola* circuit in the Anuradhapura district for the purpose of this study. Information gathered through the reconnaissance survey was subjected to collective reflection of the investigators and the members of the research team which enabled to plan out stage two of the study or the survey proper.

The survey proper involved a study of all seven *polas* in the market circuit comprising Anuradhapura, Eppawala, Galenbindunuwewa, Galnewa, Kahatagasdigiliya, Talawa and Tambuttegama. Quota sampling involving forty traders and ten consumers from each *pola* formed the basis of the study. Care was exercised to exclude traders included in the quota for one *pola* from reappearing in another. The higher weightage given to traders in the survey is justified on the grounds that the *pola* circuits are meaningful more for the traders than the consumers. The interviews with the traders and the consumers were undertaken using a structured interview schedule that was prepared on the basis of the experience gained at the reconnaissance stage. The structured interviews placed a

high premium on qualitative data but some questions were designed as to obtain data of a more quantifiable nature e.g. the number of *polas* visited by the traders and the distance from which consumers were drawn to a particular *pola*. In addition to the quota based survey of traders and consumers some interviews were undertaken of *pola* service providers such as the lessees of *pola* grounds, transporters and officials of local authorities on an ad hoc basis. As part of the survey, case studies of a cross section of *pola* 'actors' were undertaken to view the trader, transporter and the consumer from a more personalized perspective. Three of the case studies are presented in Box 1, 2 and 3.

### THE SETTING

Anuradhapura district is one of two districts that comprise the North Central Province of Sri Lanka. Climatically it belongs to the Dry Zone of Sri Lanka with an annual rainfall of between 1000-1500 mm. In spatial terms it covers an extent of 7179 sq. km and is the single largest district in the Island. At the recent census (2001) the population of the Anuradhapura district was enumerated at 746, 466 with a density of 112 per sq. km. Of the total population the rural population comprised 92 percent.

The Anuradhapura district together with the adjoining Polonnaruwa district formed the heart of the ancient hydraulic civilization. The region had lain desolate since the disintegration of the hydraulic civilization in the 13<sup>th</sup> century A.D. that had been attributed to many reasons such as civil strife and constant warfare, tank siltation, spread of malaria and the weakening of the political organization etc. The resurgence of the Anuradhapura district from the early part of the 20<sup>th</sup> century had to do with the general development that took place in the Dry Zone consequent to the establishment of state sponsored land settlement schemes. These developments were accompanied by the re-population of the Anuradhapura district as much as the rest of the Dry Zone. The establishment of the land settlement schemes was accompanied by the provision

of infrastructure facilities to the Dry Zone that included the development of an arterial road network. However, there are regional inequalities in service provision within the Anuradhapura district that is also very much in evidence in other Dry Zone districts as well. The development trends in the Dry Zone have been carried forward and sustained by the implementation of the trans-basin Mahaweli Development Scheme. It may be noted that a large part of 'System H' of the Mahaweli Development Scheme lies within the Anuradhapura district. The evolution of the *pola* system in the Anuradhapura district has been greatly influenced by the developments noted above.

### RURAL ECONOMY OF THE ANURADHAPURA DISTRICT

The Anuradhapura district is characterized by a rural and agricultural economy. Agriculture is both irrigated and rain-fed. Irrigated agriculture is practiced under both major and minor systems of irrigation. Paddy is the predominant crop although attempts have been made to introduce field crops into the cropping system particularly in the *yala* (dry) season when there is water scarcity. These innovations have had some impact in the major irrigation schemes but not in the minor or village irrigation schemes that often face water scarcity in the dry season. Traditionally paddy has been a subsistence crop but the agricultural innovations that accompanied the green revolution have led to yield increases making it a marketable crop. The use of high input technology has also necessitated the commoditization of paddy as a means of cost recovery. What is important is that such developments have taken place under both major and minor irrigation systems. Rain-fed agriculture finds expression in upland cultivation undertaken as 'slash and burn' (*chena*) agriculture. However, paddy may also be cultivated under rain-fed conditions. Traditionally *chena* cultivation was practiced as a system of mixed cropping involving the cultivation of a wide range of cereals and vegetables that was also a means of ensuring household food security. Whatever surpluses generated had found their way to

the market. Increasing market orientation of the farmers has resulted in the transformation of *chena* cultivation from a mixed to a mono-culture based on a single crop (e.g. chillies).

The increasing market orientation of the farmers has resulted in the evolution of different types of market network. Ratnayake et al (2001) state:

*Paddy production requires more input and very often farmers obtain credit from the village entrepreneur. They are then tied to the entrepreneur and after harvest are obliged to sell paddy to repay the debt. The village entrepreneurs usually offer a reasonable price to farmers as they are friends and neighbours and are also potential customers, who purchase essential commodities.*

In regard to the marketing of crops other than paddy the farmers have a number of possible outlets among which the *pol*a plays a pivotal role. Despite the developments noted above the rural economy of the Anuradhapura district has not been fully integrated with the market economy. What explains this situation?

There is no doubt that development initiatives have had a tremendous impact in terms of human development in the Anuradhapura district. Yet there are many constraints that impede the rural economy. Thus income poverty continues to unceasingly assail a high proportion of the rural population despite the many attempts that have been made to overcome poverty (Karunatilake, 2001). Non-farm and off-farm activities are little developed with not much diversification of the rural household economy. Seasonal water scarcity in *yala* as well as recurrent droughts have contributed to a situation of low cropping intensities, distress sale of agricultural commodities and even the divestment of resources. It is significant that these characteristics are found not only under minor irrigation but also under major irrigation. Conditional droughts that take place when a drought is least expected (for example in the *maha* season when rain is most assured) has a devastating

impact on rural households. These problems are further exacerbated by landlessness, land fragmentation and tenure. It may be noted that these problems are in evidence not only in the *purana* (traditional) villages of the Anuradhapura district but also in the major settlement schemes. There has been little progress in industrial development as a result of low factor endowments. However, some attempts at industrial development are evident in the setting up of garment factories that have been helpful (though to a small extent) in diversifying the rural economy. Other than Anuradhapura which is run by an Urban Council all other urban places are lower order service centres with little capacity to contribute to the transformation of the rural economy. Hence the link between the rural and the urban economy is rather tenuous with the lower order service centres primarily serving as outposts of urban extraction. In this context the *pol*a circuits assume greater significance in view of the fact that:

*Markets as physical exchange points are more important at the lower development stage where farmers are less market oriented and general communication systems are less developed (Ratnayake et al 2001).*

### **POLA CIRCUITS IN THE ANURADHAPURA DISTRICT**

The distribution of *pol*as in the Anuradhapura district is shown in Figure 1. There is a high concentration of *pol*as in the central and southern parts of the district. Their sparse distribution in the northern, western and eastern parts of the district is quite striking. Figure 3.2 demonstrates that there is a close relationship between population density and *pol*a distribution. Note that the Habarana *pol*a shown in Figure 3.1 lies just outside the Anuradhapura district.

Anuradhapura district shows a complex pattern of *pol*a circuits. Thus three minor circuits are found in association with a major circuit. The spatial and temporal articulation of *pol*a circuits in the Anuradhapura district is shown in Table 3.1.

TABLE 3.1

## Periodic Market Circuits in the Anuradhapura District

Day of week	'Polas' in the Major Circuit	Polas in the Minor Circuits		
		Circuit 1	Circuit 2	Circuit 3
Sunday	Anuradhapura	Kebitigollewa	Migalewa*	Track 5
Mondy	Kahatagasdigiliya	Kahatagasdigiliya	Ambanpola*	Track 8
Tuesday	Galenbindunu Wewa	Galenbindunu Wewa	Galgamuwa*	Puttalam Junction
Wednesday	Tambuttegama	Mihintale	Habarana*	Tambuttegama
Thursday	Talawa	Rambewa	Talawa	Vilachchiya
Friday	Eppawala	Medawachchiya	Eppawala	Eppawala
Saturday	Galnewa	Horowpatana	Mahawa*	Perakumpura

Source: Field Survey 2002.

\* Lies outside the Anuradhapura District.

Several features may be highlighted in regard to the major circuit. First all *polas* in the major circuit are found within the Anuradhapura district unlike some in the minor circuits. Secondly, the circuit covers all seven days of the week with the circuit centres functioning in succession and cyclically. Thirdly, no two *polas* belonging to the circuit operate on the same day of the week. Fourthly, the major and minor *polas* overlap at some points in the cycle. Fifthly, in terms of the number of traders present the *polas* vary in size. Anuradhapura, Kahatagasdigiliya and Galenbindunuwewa in that order form the three most important *polas* in the major circuit (Fig. 3.3).

Of the three minor circuits two are found within the Anuradhapura district (Fig. 3.4). It is found that circuit number 2 (Fig. 3.4) cuts across the district boundary. Thus Ambanpola, Galgamuwa, Mahawa (Maho) and Migalewa are in the Kurunegala district with Habarana lying in the Polonnaruwa district. It is interesting to note that while the three minor circuits operate as discrete units there

is also some degree of overlap with the major circuit which makes it possible for the traders to cross circuit boundaries when warranted by circumstance. Thus circuit 1 shares the two centres of Kahatagasdigiliya and Galenbindunuwewa with the major circuit. Similar overlap is found between circuit 2 and the major circuit in respect of Talawa and Eppawala. Circuit 3 shares Tambuttegama and Eppawala with the major circuit.

It is seen that several *polas* in the Anuradhapura district (Tantirimale, Nachchaduwa, Ipologama and Negampaha) function outside the circuit system and, therefore, operate as independent units. The position of Tantirimale is explained by its relative isolation. In the case of Ipologama, Negampaha and Nachchaduwa a previous circuit system linking them with *polas* in the Kurunegala district appears to have been disrupted by the newly emergent *pola* centres that have accompanied the establishment of 'System H' of the Mahaweli Development Scheme. It is, therefore, reasonable to conclude that the *pola* circuits as much as the individual *polas* that constitute them are not static features of the landscape but are highly sensitive to the changes taking place in the regional economy. It could be argued that given this tendency it is possible for some *polas* to expand at the expense of the weaker ones by capturing the hinterland of the latter. This is a proposition that calls for investigation over the long-term.

#### DYNAMICS OF THE MAJOR POLA CIRCUIT

The *polas* are managed either by local authorities or by lessees who acquire managerial rights on an annual lease executed through a tender procedure. Leasing out the *pola* grounds allows the local authorities to collect the rental in a single payment leaving the hassle of collecting dues from the traders to the lessee.

A cursory look at a *pola* presents a somewhat disorganized picture. However, closer scrutiny shows that there is order in the manner that a *pola* functions. Figures 3.5 and 3.6 show the layout of *pola* grounds at Kahatagasdigiliya and Galnewa respectively. Both layouts are characterized by certain common features that are more or less replicated in the other *polas* forming the circuit.

It is evident from the layouts that a *pola* is usually sited at the periphery of a service centre, in proximity to an arterial road. Usually access roads lead into the *pola* from the main road. Trading takes place in permanent stalls; semi-permanent structures; temporary structures; open stalls; and by the wayside. There are also the itinerant traders. The permanent and semi-permanent structures are set-up by the local authorities while the temporary structures are put up either by the lessees or the traders themselves. Setting-up open stalls is the responsibility of the individual trader. Items such as textiles and garments, plastic goods, fish and meat, dry fish, tobacco and betel are sold at the margins of *pola* grounds while vegetables and fruits prefer more central locations. A general characteristic is the spatial concentration of similar commodities.

Until recently i.e. prior to the establishment of the Dambulla Dedicated Economic Centre (DDEC) the *pola* activities commenced in the evening of the day preceding the *pola* or in the early hours of the *pola* day itself with traders engaged in buying and selling wholesale. For reasons that will be discussed later wholesale trading is no longer important within the circuit except in Anuradhapura. With wholesaling no longer important retail activity usually commences around 7 a.m. on a *pola* day. Most buyers arrive at the *pola* between 10 a.m. and 12.30 p.m. This is the peak activity time for the traders when there is brisk buying and selling. The pattern of trade in some items that are perishable (e.g. vegetables, smaller varieties of fish) undergoes change during the course of the day. It is common for the prices to be marked up and the items sold by weight from the early hours in the morning up to around mid-day. The actual sales are at a discounted price determined partly by the haggling skills of the consumer, but the trader is clever enough to retain a sufficient margin of profit. Beyond the mid-day the prices fall and the perishable items are sold in heaps. The concern of the trader is to rid him of the perishable items in the absence of proper keeping facilities.

TABLE 3.2

Classification of Traders by Residence Within and Outside the District (% values)

<i>Pola Location</i>	Within A'pura District	Outside A'pura District
Anuradhapura	91	09
Kahatagasdigiliya	89	11
Galenbindunuwewa	86	14
Tambuttegama	65	35
Talawa	73	27
Eppawala	71	29
Galnewa	88	22

Source: Field Survey 2002.

As shown in Table 3.2 most traders who operate within the major circuit are from within the district itself. Within district traders are less important in Tambuttegama (65 percent). It was evident in the field that most within district traders come from a radius generally not exceeding 10 km from a *pola* centre. Table 3.2 also shows that the proportion of traders from outside the district is generally higher in the *polas* that come within the Mahaweli 'System H'. They mostly come from Kurunegala, Matale and Kandy districts. Very few traders are from distant locations such as Colombo, Galle and Matara.

The pattern of trader circulation within the major circuit is evident in Table 3.3. A high proportion of Anuradhapura *pola* operators (53 percent) do not visit other *polas*. This no doubt is linked to the fact that Anurashapura being the regional capital attracts a large consumer clientele preventing a need for the traders to achieve economies of scale by doing the *pola* circuit. The number of traders active in all seven *polas* of the circuit varies from 3 percent in Galnewa to 13 percent in Eppawala. It is seen that in Eppawala, Galnewa and Tambuttegama a high proportion of traders are active in 4-6 *polas* in the

TABLE 3.3

Circulation of Traders within the Major Circuit (% values)

Number of 'Polas' visited	Anuradhapura	Kahatagasdigiliya	Galenbindunuwewa	Talawa	Eppawala	Galnewa	Tambuttegama
One	53	16	13	02	03	04	03
Two	06	09	03	15	06	08	10
Three	06	25	33	18	06	07	14
Four	10	15	18	28	24	27	24
Five	11	21	17	15	22	25	20
Six	09	09	06	15	26	26	21
Seven	05	05	10	07	13	03	08
Total	100	100	100	100	100	100	100

Source: Field Survey 2002.

circuit. There is no clear indication as to why this is so. However, it does indicate that not all *polas* in the circuit are viewed with equal favour by the traders. The *pola* circuit attendance of traders as revealed by interviews conducted in each of the *polas* constituting the circuit is shown in Table 3.4. The 'off' days may be utilized to replenish stocks or to attend to personal chores.

TABLE 3.4

*Pola* Circuit Attendance of Traders Interviewed in Each *Pola* (% values)

<i>Pola</i>	Attendance at Each <i>Pola</i>						
	A'pura (Sunday)	K'digiliya (Monday)	G'wewa (Tuesday)	T'gama (Wednesday)	Talawa (Thursday)	Eppawala (Friday)	Galnewa (Saturday)
Talawa	80	48	55	63	100	48	38
K'digiliya	75	100	64	43	36	30	34
Eppawala	76	46	58	79	77	100	58
G'wewa	65	65	100	51	35	32	32
A'pura	100	41	31	24	26	26	12
T'gama	65	31	31	100	49	33	29
Galnewa	60	24	24	84	25	40	100

Source: Field Survey 2002.

The traders in all of the seven *polas* forming the circuit are preponderantly male (Table 3.5). Other than in Galenbindunuwewa (30 percent) and Tambuttegama (22 percent) the proportion of female traders in the other *polas* in the circuit averages only 14 percent. It is likely that the mobility of women and their participation in activities outside the confines of the home are impeded by social and cultural factors. It is also seen that most women traders belong to the older age group to whom the social and cultural restrictions may be applied with less rigidity. Nonetheless, there are some female traders who have carved out a niche in what appears to be the domain of the male and are active in the *pola* circuit as are the males (Box 1). But their involvement in the *pola* circuit more often than not is confined to 2 or 3 *polas* that are not too distant from the villages that they come from. The study revealed that there is a gender differentiation in the activities undertaken by the male and female traders.

TABLE 3.5

Classification of Traders by Gender (% values)

<i>Pola</i> Location	Male	Female
Anuradhapura	88	12
Kahatagasdigiliya	85	15
Galenbindunuwewa	70	30
Tambuttegama	78	22
Talawa	88	12
Eppawala	84	16
Galnewa	84	16

Source: Field Survey 2002.

**Box 1****Woman Trader**

I was born in 1945 at Kaikawala, Matale. After marriage I came to live in Rajagana Tract 5 with my husband. This was in 1967. At first we practiced agriculture. Several

### Box 1 (contd....)

droughts in succession affected us badly. We had lost our savings and there was no means to cultivate. At the same time my husband was very badly afflicted with asthma and he could not work. I was compelled to find some work to keep the home fires burning. That is how I became a *pola* trader. This was in 1974.

In those early days transport facilities were lacking. To do business as an itinerant trader in packeted tea I had to walk all the way from the village to the Tambuttegama *pola*. The *pola* then was small with not many traders. Yet because of my circumstances I could not find a fixed stall. After some years I managed to save enough to buy a push bicycle. I was now in a position to expand my activities. I gradually started visiting few other *polas* close by such as Talawa and Eppawala. I bought tea leaves in Kandy to be sold at the *pola* but still I was operating as an itinerant dealer. With the establishment of the Mahaweli Scheme many traders were attracted to the *polas* that came within the Mahaweli. The more affluent traders who bought goods wholesale were able to undercut the smaller traders. There was also competition from *mudalalis* (businessmen) in the town who opened up stalls on *pola* days. These changes affected my business as well. So like several others I too decided to shift to another circuit (*pola wataya*) to avoid competition. That is how I came to operate in this circuit.

Since 1982 I have been active in, Track 5 (Sunday), Track 8 (Monday) Puttalam Junction (Tuesday), Tambuttegama (Wednesday) and Parakumpura (Saturday). Except Tambuttegama all these *polas* are smaller than the *polas* that I used to visit earlier. There is less competition as the number of traders is low by comparison. Until 1987 I continued with my accustomed activity of selling

### Box 1 (contd....)

packeted tea. In 1987 I managed to get fixed stalls in the *polas* that I visit. This gave me the opportunity to change my business. I now deal in spices and dry rations which gives me a better income. Initially I had to buy things from a *mudalali* on credit. But now I am on my own feet. I am able to invest on my own. In 2001 I expanded my activities once again to Eppawala. But I have not been able to find a fixed stall.

I do the *pola* round in a lorry that belongs to a *mudalali*. This lorry visits all the *polas* in the circuit. For the traders it is a popular means of getting about the circuit. The service is regular and the lorry driver and his assistants are responsible for the safety of the items transported. If there is space in the lorry the traders may travel to the *pola* in the lorry itself.

Otherwise they use other means of travel and claim their goods at the *pola*. It is common for a trader to pay something between Rs 30/-Rs 40/- for the transport. The *natami* (person loading and unloading) charges have to be paid separately. The transport owner is himself a trader. He collects things from the villages and sells it to *pola* traders as well as the buyers.

During the festive season I earn something like Rs 2000/- to Rs 3000/- on a *pola* day. During the 'off season' income drops to something like Rs 1500/- Rs 1800/-. Some of the clients are regulars. They do not go to other traders to buy the items that I sell. At times I sell on credit to such customers. There are also other customers with whom my relationship is essentially business like.

It has been a hard life for me. There is only a little profit for all the hard work that I do. Being a woman it has not been easy to survive in a competitive world. I have not been able to become rich. But I have saved something for the future, put up a small house and brought up three children who are now on their own. I am now advancing in years and cannot go on working much longer.

TABLE 3.6

Primary Sources of Items Sold at the Pola According to Traders

Pola	Source					
	Within District	Outside District				
		Colombo	Kandy	Kurunegala	Matale	Other
A'pura	45	23	02	03	18	09
K'digiliya	36	29	05	11	11	08
G'wewa	60	25	02	03	10	0
T'gama	37	27	08	10	14	04
Eppawala	23	46	02	12	14	03
Galnewa	40	28	04	04	24	0

Source: Field Survey 2002.

N.B. Sources are indicated in % terms.

Most traders who are active in the pola circuit purchased sales items primarily from locations in the districts of Colombo, Kandy, Kurunegala and Matale i.e. from outside the district. The only exception is seen in Galenbindinuwewa. The proportion of traders who acquired their items of sale from outside the district varied from 55 percent in Anuradhapura to 77 percent in Eppawala. Of the districts mentioned Colombo and Matale are the most popular among the traders for the purchase of sales items (Table 3.6). The links formed with districts outside the Anuradhapura district have been determined by the comparative advantages that they have for particular products. Thus most plastic goods come from Kandy, Kurunegala and Colombo. Vavuniya is noted for tobacco and Negombo and Chilaw for fish. The traders who bought their items of trade from within the district did so at the pola itself or from locations lying at a distance of approximately 8-10 km from a *pola*.

Generally a wide range of non-industrial goods are sold in *polas* that form the circuit. In terms of trader involvement textiles and garments, and vegetables formed the dominant categories (Table 3.7).

TABLE 3.7

Classification of Traders by Commodities Sold (% values)

Commodities Sold	Pola													
	A'pura		K'digiliya		G'wewa		T'gama		Talawa		Eppawala		Galnewa	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Textiles and garments	04	10.0	05	11.9	09	22.5	08	20.0	08	20.0	11	27.5	05	12.5
Vegetables	13	32.5	07	16.7	11	27.5	07	17.5	10	25.0	07	17.5	07	17.5
Fruits	04	10.0	02	4.8	03	7.5	03	7.5	02	5.0	01	2.5	06	15.0
Retail items and daily needs	06	15.0	07	16.7	05	12.5	05	12.5	07	17.5	04	10	06	15.0
Spices	-	-	01	2.4	01	2.5	-	-	02	5.0	01	2.5	02	5.0
Dry Fish	02	5.0	02	4.8	04	10.0	03	7.5	04	10.0	03	7.5	03	7.5
Coconuts	03	7.5	03	7.1	01	2.5	03	7.5	-	-	-	-	-	-
Betel and arecanut	02	5.0	07	16.7	-	-	03	7.5	01	2.5	05	12.5	05	12.5
Clay products including Pots	01	2.5	01	2.4	01	2.5	01	2.5	-	-	-	-	-	-
Shoes, sandals and miscellaneous items	03	7.5	03	7.1	02	5.0	03	7.5	04	10.0	05	12.5	03	7.5
Fish and meat	01	2.5	01	2.4	-	-	03	7.5	-	-	01	2.5	-	-
Snacks and drinks	01	2.5	03	7.1	03	7.5	01	2.5	02	5.0	02	05	03	7.5
No. of traders	40	100	40	100	40	100	40	100	10	100	10	100	40	100

Source: Field Survey 2002

In regard to the supply of goods as against the range of goods available the larger *polas* were seen to have advantages over the smaller *polas*. The categorization of traders in Table 3.7 shows that the sale of more expensive industrial goods is of limited significance in the *pola* circuit. It is more common to find the cheaper industrial items such as textiles and garments and plastic goods being sold in them. This is to be explained by the fact that

the consumer could purchase such items from the lower order service centres with which the *polas* are juxtaposed. We have noted earlier that the lower order service centres in Sri Lanka perform a distributing and extracting function for the urban system as they are not organically linked to the rural economy.

In the *pola* circuit there are distinct variations in the attendance of traders and consumers. During the post harvest season that follows the *maha* and *yala* cultivation activities attendance of both groups increases. The *maha* post harvest season also coincides with the Sinhala New Year. There is a definite decline in attendance when the agricultural activities are in full swing. This has to do with time constraints on one hand and the generally low circulation of capital within the rural economy during the cultivation season on the other. It was revealed that while the number of traders in a *pola* may go up during a particular time of the year it did not necessarily mean that all such traders would work their way through the full circuit.

During the course of the survey the regular *pola* operators were asked as to why they preferred to operate in a particular circuit. The proximity to one's village of residence certainly mattered as well as the familiarity with the region. But the most significant reason was the contractual arrangement arrived at with a transport operator (Box 2). It was revealed that there are transport operators who have developed their preferred routes of circulation. The trader's circuit usually overlaps with the transporter's circuit. It is important to note that this arrangement offers several advantages to the trader such as the ability to conveniently move within the circuit; ensure the safety of goods in transit; provision of informal insurance against any losses that may be incurred in transit etc.

#### Box 2

##### Transporter

I started life as a *natami*. I worked hard and managed to save enough to buy an old lorry. This made it possible for me to take up the role of a transporter. The long experience that I had as a *natami* was very helpful in my new job as I

#### Box 2 (contd....)

knew the *pola* circuit quite well. Now I have four lorries doing the *pola* circuits.

I myself work in one lorry. I do two trips to Colombo per week. On Sunday evening I leave for Colombo and come back to Anuradhapura on Tuesday morning. I leave on my second trip on Thursday noon and return to Tambuttegama in the early hours of Saturday. These trips are intended to supply goods to a number of *pola* traders who want to buy wholesale. Some traders accompany me in the lorry, do their buying, and after delivering goods to the lorry leave on their own for Anuradhapura or Tambuttegama. There are other traders who give me the money to buy their requirements. Accounts are settled on return. I also buy things in Colombo that I sell to *pola* traders in Anuradhapura and Tambuttegama. I earn a fair income by providing this service and also from what I get as the lorry hire.

Of the three other lorries that I own two visit the *polas* in the Anuradhapura main circuit. One lorry plies between Anuradhapura and Nachchaduwa. This is not particularly remunerative and I have to think of a solution.

Each lorry has a team comprising the driver, cleaner (driver's assistant) and two or three *natamis*. I have implicit trust in them. I treat them well and pay them well. The driver of the lorry is responsible for maintaining the lorry in good condition and effecting running repairs. He has to deduct these expenses and settle my dues. I pay reasonable salaries to my drivers and cleaners. The *natami* charges are directly paid by the traders who make use of their services for loading and unloading. The lorry drivers are free to settle my dues once a week or once in two weeks.

In this business it is important to maintain the goodwill of the traders who are my clients. I have certain obligations towards them. A primary obligation is to provide them with a reliable service to transport their goods to the *polas* in the circuit. This means that the service has to be available on the right day, at the right time and at the right place. If there is a breakdown it is my responsibility to arrange alternate transport. As a matter of fact the lorry driver is free to do the

### Box 2 (contd....)

needful to meet such exigencies. As the transporter I have to be ultimately responsible for the security of the items transported. This is important not only while the lorries are on the move but also when they are parked at night. Though rare there have been occasions when I have had to make good the loss. There is no restriction on the items transported. The traders have to hand over the goods to the lorry with an identification mark tagged to each bundle. These are then packed in the lorry according to the type of goods. At the time of delivery the traders identify their items with the help of the identification tag. Each transported item is charged by type and quantity. The distance between *polas* does not matter. The *polas* in the circuit after all are located not too far from one another. A trader may pay something like Rs. 20/- 30/- for a particular trip. There is a verbal agreement between the traders' and myself that is binding. I am bound to provide a reliable service. The trader on his part would transport his goods in my vehicle and no other. Similar type of arrangement exists between other transporters and their clients. As my income depends on the traders the people who work for me and I try to maintain the best possible relationship with the traders with whom we interact.

The work of the lorry drivers and the helpers is very strenuous. During the peak seasons they may have to start their rounds as early as 3 a.m. and wind up only around 8 or 9 p.m. Every night they have to keep watch over the parked lorry. However, in a given week the members of a lorry team may take turns in visiting their homes. On some days the traders who make use of the transport join them to keep company at night. Then they may enjoy a drink and take food together by a camp fire. However life is hard for everybody. Even the basic facilities are lacking in most of the *polas*. Anuradhapura is an exception.

The survey revealed that the personal circumstances of *pola* traders could change overtime. It appears that there is both upward and downward mobility. The case study of the female trader presented in Box1 shows that she had graduated from the status

of itinerant vendor to the operator of a fixed *pola* stall. She had also graduated from selling packeted tea to selling spices and dry rations. She voices the opinion that while there is collective responsibility on the part of traders there is also intense competition among them. The better off traders who invest more capital and who can buy wholesale undercut the smaller traders by selling cheap. This may culminate in the smaller traders being pushed out of the circuit.

We have earlier noted the point made by Jackson (1977) that unlike the trader the consumer has a more localized view of the *pola*. This applies to the Anuradhapura major *pola* circuit as well. Nonetheless, there is a degree of overlap of consumer hinterlands of the *polas* forming the circuit (Fig. 3.7) a feature well seen in relation to Talawa, Tambuttegama and Eppawala. All these *polas* are located in 'System H' of the Mahaweli Development Scheme. It is evident that their proximate location and a higher densification of the road network allow the consumers' a greater choice in deciding between *polas*.

Contrary to the commonly held view that the dealings between the trader and consumer are of a fleeting and transitory nature it was found that some circuit traders have developed more stable links with customers. This means that there is more regular interaction between customer and the trader. It is common for regular customers be given price concessions. They are also in a position to buy on credit (Box 3).

### Box 3

#### Consumer

I come from Kele-Siyambalawa located some three kilometers away from Eppawala. I come here on push bike on *pola* day mainly for the purpose of buying vegetables, betel and arecanut, leaf tobacco and dry fish. These items are available at the village boutique too. But the price is high and there is much less choice. I buy vegetables that can be kept without spoilage for a time-potatoes, beet and carrots, for example. I normally do not buy any leafy vegetables from the *pola*.

### Box 3 (contd....)

I am a paddy farmer. When possible I grow subsidiary crops in *yala* in the paddy field. Vegetables and onions figure prominently as *yala* crops. In addition I cultivate manioc, ash plantains and varieties of beans in the homestead. But I have to sell my produce in Dambulla (Dedicated Economic Centre) as the wholesale dealers do not buy them at the *pola* anymore. They prefer to buy things from the 'economic centre'. In an emergency I would sell a little to the village *mudalali* (boutique keeper) who is also a collector.

I have come to the *pola* to-day as there is nothing of food value in my homestead at the moment. But the main reason is that I also need to buy dry fish, betel and arecanut here. Buying at the *pola* has its advantages. There is a wider choice in what we buy and it is also possible to buy according to one's means. Items are definitely cheaper than at the town or the village boutique.

I have traders with whom I interact regularly. This has several advantages. Often I can buy things at a lower price. I can return any items and get my money back on the next *pola* day if the quality is found wanting. This applies to items such as leaf tobacco and dry fish for example. If necessary I can also buy things on credit on trust.

The *pola* day is a rather busy day for me. I make use of the *pola* day to attend to a number of activities in town. I might go to the bank, get coconut oil pressed at the mill or chillies ground at the grinding mill. I also buy kerosene at the petrol 'shed' in town. It is cheaper to buy kerosene from the shed. The village *mudalali* charges the price of a litre for just a bottle. I normally buy 4 litres of kerosene per week.

Although I come to the *pola* on push bike, there are others who come in groups in two wheel tractor-trailers. There are at least four such tractor-trailers in the village. It is mostly the women who make use of this facility. But they do not bring very much to sell. For them it is mostly a case of buying things at the *pola*. Although I come from a village 3 km away, there are others who come from much longer distances (7-8 km).

### Box 3 (contd....)

The advantage that I see in the *pola* is we can buy our requirements at reasonable prices. It helps us to keep our expenses down. After all we do not have much money to play around with.

## ROLE OF THE POLA CIRCUIT IN THE REGIONAL ECONOMY

The main *pola* circuit and the minor circuits play an important role in integrating the rural economy of the Anuradhapura district with the market economy. The field survey reveals that paddy has its own marketing network and, therefore, by passes the *pola* circuit in reaching the market. The *pola* circuit provides the most important means by which agricultural produce other than paddy reaches the market. The sales are effected on one hand as direct producer-consumer or producer dealer transactions and on the other as transactions that pass through a chain of intermediaries. The wholesale dealers in particular operate through the latter means. The traders are in a position to realize wide spatial coverage by working their way through the major and/or minor *pola* circuits. Therefore, it is evident that the major and minor *pola* circuits in the Anuradhapura district have evolved into a finely articulated system of spatial ordering to link the rural with the urban-market economy. What is significant in this regard is that while from the traders' point of view the *pola* circuits are distinct entities this does not prevent them from crossing the circuit boundaries when necessary. The crossing of circuit boundaries by the traders is made necessary to derive market advantage, avoid competition or simply to make things convenient. The overlapping of the major and minor circuits at convenient points of interception has already been noted.

In addition to their integrating function of linking the rural with the market economy the *pola* circuits have also contributed to monetize the rural economy. The *pola* system facilitates this process by the fact that transactions are cash based (unlike in the past when bartering was a predominant form of exchange). Add to this the local traders occupy a dominant position in market operations.

The pola also plays a dominant role in the regional economy by balancing demand and supply. It is observed by Ratnayake et al (2001) that:

*Since the marketable surplus of small farmers fluctuates in terms of quantity and quality and according to season, market centres are convenient places to balance supply and demand with regard not only to the fluctuation of quantity but also that of quality.*

The same authors argue,

*Market centres can be seen as physical nodes in this marketing system; these are locations where supply meets demand and prices are decided. Hence in a very direct sense the welfare of farmers are often decided at these centres. The process, to a great extent influences the farmers' initiative to produce different crops and thereby determines the production in a regional and national context.*

The process of balancing supply and demand is facilitated by the linkages that the traders have formed both within and without the district in the procurement of their items of trade. It is evident that the traders derive price efficiencies by maximizing on the comparative advantages made possible by their links to different localities and regions. This is exemplified by the fact that vegetables are obtained from the surrounding areas as well as from the two Dedicated Economic Centres (DECs) of Dambulla and Tambuttegama. Betel and arecanut are obtained from places such as Maho and Kegalle. Tobacco is purchased in Vavuniya. Plastic and aluminium goods are obtained primarily from the urban centres of Colombo, Kandy and Kurunegala. Depending on the season fish vendors go to Negombo, Kalpitiya, Trincomalee, Colombo and Chilaw for their fish supply. The availability of a range of goods from the different areas of specialization has a bearing on the type, quality and the price of goods available to the consumer. In a district where poverty is so pervasive the pola circuit exerts an overwhelming impact on raising the quality of life of the poor by (a) providing the opportunity to choose between

*polas*, (b) making a range of goods available to the consumer to choose from and (c) by offering goods at affordable prices.

In the context of the regional economy the *polas* forming the circuit provided the traders with the opportunity to sort, grade and price easily perishable commodities. This was linked to wholesale dealings that were an important *pola* function until the setting-up of Dedicated Economic Centres (DECs). Through its wholesale dealings the *polas* comprising the circuit performed an important bulking and de-bulking function in respect of agricultural commodities in the regional economy.

The different *polas* in the circuit also provide the opportunity for people other than the regular traders to take up various types of income generating activity on a weekly basis. Such activities provide the opportunity for some to derive supplementary income. A host of ancillary employment activities can be identified that the people engage in activities such as selling sweets, herbal medicines, cycle repairs, itinerant vending that includes the selling of trinkets and, cheap bangles and ornaments (*manibadu*). All these are activities based on low investments which, nonetheless, provide an important source of income for the poor. However, not all such practitioners of ancillary activities are regular participants in the *pola* circuit. For them the *pola* tends to be a much more discreet unit located within close proximity to their villages of residence.

In regard to the contribution that the *polas* make to the regional economy their position vis-à-vis the lower order service centres (only Anuradhapura enjoys Urban Council status in the Anuradhapura district) merits attention. It is evident that on *pola* days the number of customers attracted to the lower order service centres (towns) goes up significantly as compared to the non-*pola* days. Consequently the income generated by the businesses located in the formal sector of the lower order service centres shows a sharp increase. The formal sector businesses also make use of the *pola* to gain access to a wider circle of customers. This is accomplished by the businesses in the formal sector finding niches in the *pola* to sell their merchandise. Usually the items are sold at a lower price than in the shops themselves because of low overhead costs, but it is also not uncommon for goods of lower

quality (factory seconds) be sold to customers. It is found that the service sector in the towns also thrives on *pola* days e.g. saloons, hotels and tea kiosks, money lending, pawn brokering etc.

The point has been made that the *polas* have been an important factor in the monetization of the rural economy through the commoditization of agricultural produce that has been a feature in particular of the wholesale trade. However, the *polas* have primarily performed an extractive function for Metropolitan Colombo and other higher order urban centres. This in essence has meant that much of the income generated within the rural economy finds its way back to the urban system via the marketing process comprising assemblers, middlemen, transporters, commission agents and the like. A restructuring of the rural marketing process is called for to reverse these trends and help energize the regional economy.

Another important role played by the *pola* circuit in the regional economy is the dissemination of information through the nexus of trader-producer-consumer interaction. The round the circuit movement of traders provides them with the opportunity to obtain information on prices, commodities, regional specializations, regional and seasonal variations in demand and supply, consumer habits and preferences etc. which then is passed on to the producers through informal means. This undoubtedly exerts an influence on the economic decisions made by the rural producers pertaining to production and marketing. The consumers too receive information on prices, product brands (in the case of manufactured items) and market specializations for particular products both from traders and other consumers. It is also worth noting that for the *pola* actors (traders, producers and consumers) the *pola* is also a place of social interaction where information of a social and political nature is frequently exchanged.

The manner in which the recently established DEC's, the one in Dambulla and the other in Tambuttegama, has affected the hitherto *pola* centred marketing of agricultural produce in the Anuradhapura district too merits investigation. As previously noted the *polas* comprising the market circuits (major and minor) in the Anuradhapura district have performed a commodity bulking role for the wholesale trade. The better off farmers brought their produce to the *pola* to

be handed over to commission agents but the smaller farmers without the ability to face contraction costs of different sorts (particularly transport) found it expedient to sell their produce to the village level collectors. In this process the agricultural commodities reached the *pola* through a network of intermediaries that considerably reduced the income received by the farmer-producer. An important outcome of the establishment of DEC's has been that the farmers with easy access to roads and transport have been able to supply the DEC's direct by-passing the middlemen because of the opportunities made open to them. Ratnayake et al (2001) discussing the Dambulla DEC observes,

*The number of farmers who bring vegetables directly to the market has increased, due to the presence of large number of vendors at the DDEC. Thus farmers could by pass local shopkeepers and other middlemen.*

However, the present study reveals that the elimination of the middlemen has not been possible in the case of those small farmers from distant locations who are also constrained by transport costs. They have had to send their produce to the DEC's through the usual marketing channels (i.e. via intermediaries) leaving out the *polas* as all wholesale buyers have now transferred their activities from the *pola* circuits to the DEC's. The resident traders at the DEC's have also evolved a system of buying commodities at the farm gate by sending their own vehicles into the rural hinterland. Some such transactions are defined by commission sales where the trader keeps a commission with a profit margin. As an outcome of these developments the *polas* in the Anuradhapura main circuit (other than Anuradhapura itself) have lost their wholesaling function. Consequently the *pola* circuit now performs the function of distributing commodities through the retail trade where the movement is more inward than outward.

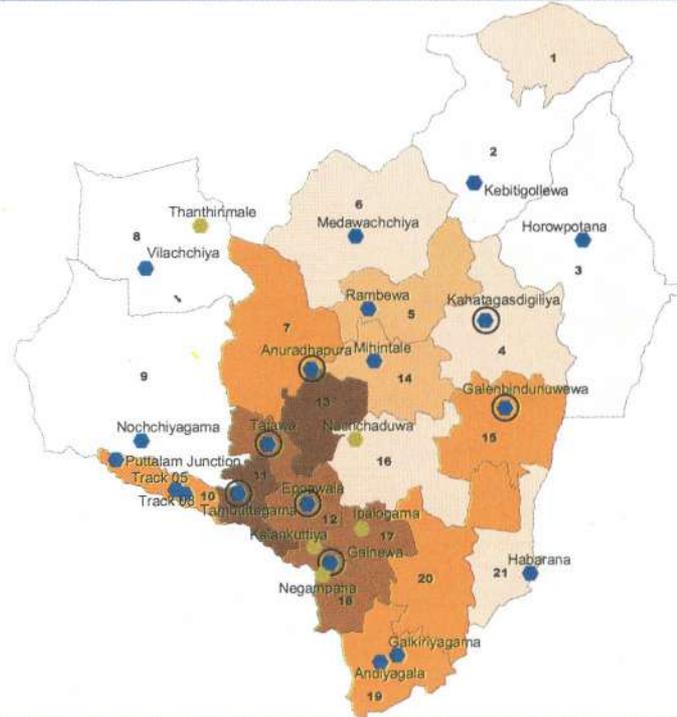
## CONCLUSION

In this chapter an attempt has been made to understand the nature of operation of the main *pola* circuit in Anuradhapura with reference to its dynamics as well as its role in the regional economy. The main *pola* circuit in the Anuradhapura district functions as a discreet system although it does overlap with three minor circuits



Fig 3.2

Population Density and Distribution of *Pola*(Rural Periodic Markets) in the Anuradhapura District



Reference No	DS Division
1	Padaviya
2	Kebitigollewa
3	Horowpotana
4	Kahatagasdigiliya
5	Rambewa
6	Medawachchiya
7	Nuwaragampalatha West
8	Mahawilachchiya
9	Nochchiyagama
10	Rajanganaya
11	Tambuttegama
12	Talawa
13	Nuwaragampalatha East
14	Minintale
15	Galenbindunuwewa
16	Tirappane
17	Ipalogama
18	Galnewa
19	Palagala
20	Kekirawa
21	Palugaswewa

- Pola
- Surveyed Pola
- Pola not in a Circuit
- Divisional Secretariat Division

**Population Density 2001**

- < 45
- 46 - 90
- 91 - 136
- 137 - 182
- 183 - 228
- 229 <

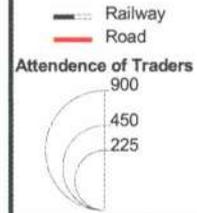
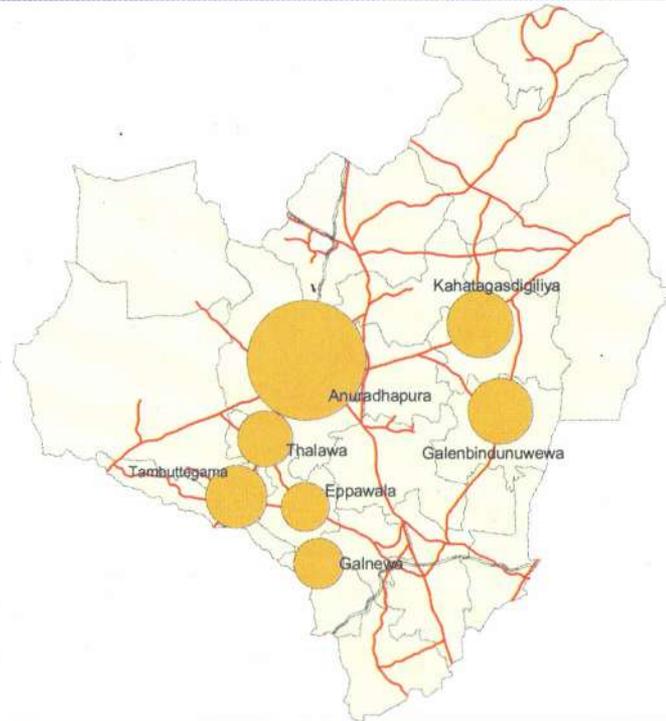


Source : Censuses Data, 2001 and Field Data, 2002

10 0 10 Km

Fig 3.3

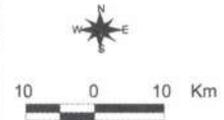
***Pola* Attendance of Traders in the Major Circuit**



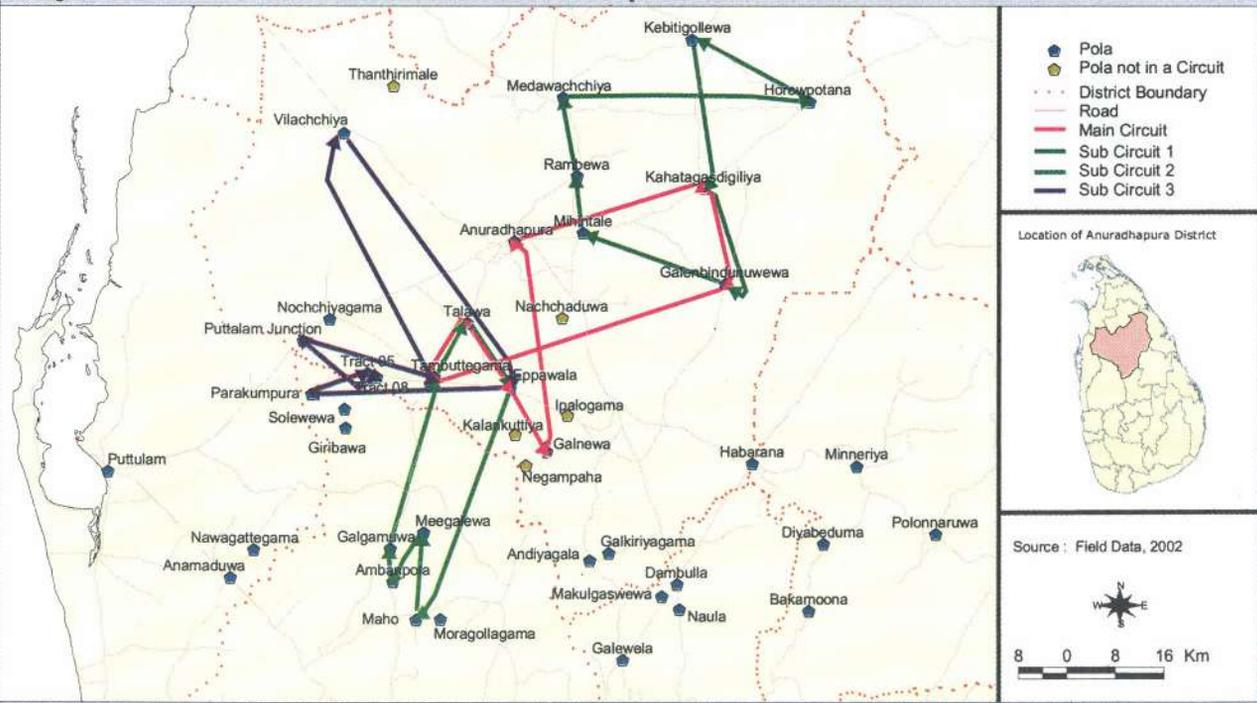
Location of Anuradhapura District



Source : Field Data, 2002



**Fig 3.4**  
**Major and Minor *Pola* Circuits in the Anuradhapura District**



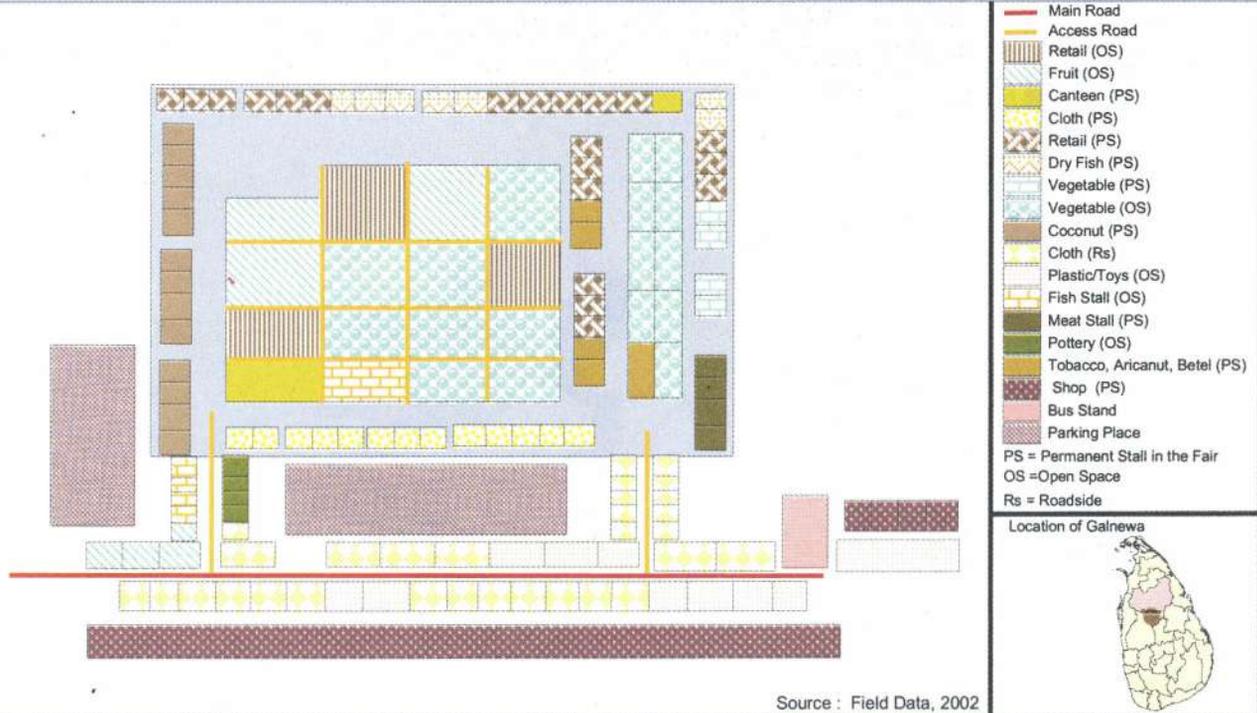
GIS Facility : USJP - Sida/SAREC Research Cooperation Project - Department of Geography

**Fig 3.5**  
**Layout of Kahatagasdigiya Pola**



Source : Field Data, 2002

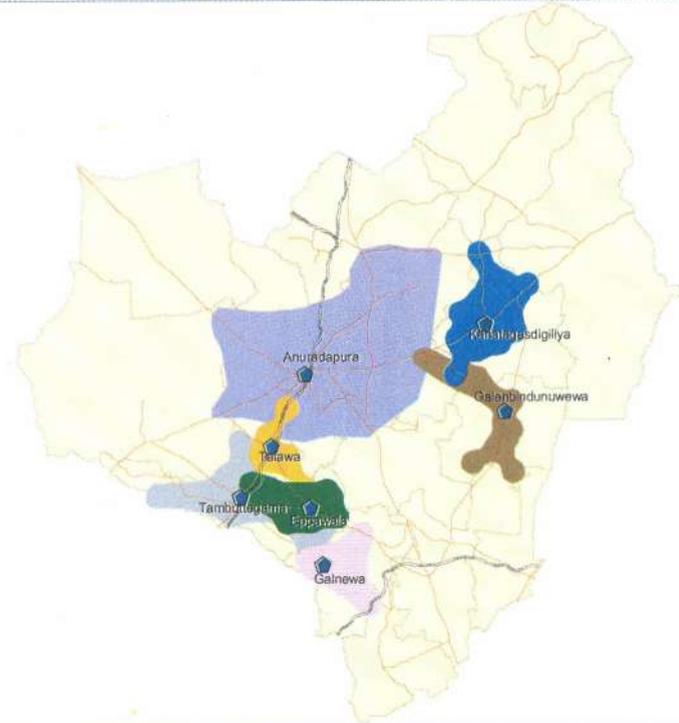
**Fig 3.6**  
**Layout of Galnewa Pola**



Source : Field Data, 2002

Fig 3.7

Consumer Hinterland of Major *Pola* Circuit in the Anuradhapura District

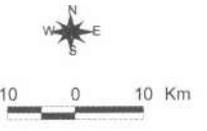


- Railway
- Road
- Pola
- Galnewa
- Kahatagasdigiliya
- Eppawala
- Tambuttigama
- Galenbindunuwewa
- Eppawala
- Anuradhapura

Location of Anuradhapura District



Source : Field Data, 2002



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# **INSTITUTIONAL FINANCING OF REGIONAL DEVELOPMENT IN SRI LANKA: THE ROLE OF DOMESTIC BANKS**

*L. Siriwardena*

## **INTRODUCTION**

Post-Independence governments in Sri Lanka were confronted with a number of regional development issues caused by the lack of infrastructure facilities, basic health and education services and chronic poverty in the peripheral regions. This was in a sense the result of massive investment by colonial rulers in the plantation sector and export trade through exchange banks. It was a process that led to centralization of financial resources mostly in the Central Province and the Colombo Metropolitan Region. Therefore, national leaders since Independence had regarded welfare oriented policies and supply-led credit delivery to neglected rural regions as an essential development intervention.

The nationalization of banks and their rapid branch expansion in rural areas to deliver subsidized credit, and the strengthening of the operation of Cooperative Rural Banks were the major policy initiatives taken by the government of Sri Lanka to reduce regional disparities that was evident in the availability and utilization of financial resources. This subsidy regime which was characterized by a State protected banking operation, political patronage in resource allocation and a bureaucratic management system, began to lose ground with the introduction of free market policies.

This paper examines the causes and consequences of regional disparities in banking finance and highlights key issues that have emerged as a result of intense competition among banks to mobilize funds from the more 'backward' regions to support further investment in the more developed urban regions.

## **CONCEPTUALIZATION**

Moving away from State dominated banking to open market competition through financial reforms was regarded as the best policy intervention required to decentralize financial resource management to create more income generating opportunities in the country. However, even free market based competitive financial services offered by commercial banks have failed to reduce regional disparities in banking and financing services in Sri Lanka. It is evident that competition had intensified only in highly profitable areas of banking business. Financial intermediaries have moved into rural areas only for low-cost deposit mobilization for the purpose of financing urban borrowers. This had the inevitable consequence of depleting the resource base of peripheral regions, as there was no re-investment in the periphery itself. Understandably it has resulted in the retardation of the regional development process in the peripheral regions lying outside the metropolitan core.

Against this adverse trend of urban banking development and the widening gap between the rural and urban regions, various financial innovations have been experimented with in recent years. Setting up of micro finance projects by several banks is indicative of such tendencies. Group based micro finance has seen the emergence of a large number of solidarity groups at village level for savings and credit operations. This minimalist approach to small sector finance though successful in some 'poverty pockets', has not been altogether strong enough to reduce regional disparities in financing. The dilemma facing the banking sector in Sri Lanka is to set up a system of decentralized financing to benefit the peripheral regions without compromising the viability of banking operations.

## **BANKING IN SRI LANKA**

### **Dominance of Foreign Banks**

Banking in Sri Lanka has gone through several phases of development. The first phase was characterized by the monopoly exercised by foreign banks that catered to the plantation sector and the export/import trade. In this early phase of colonial banking

the rural sector, which was critically important for the development of the domestic economy, was excluded. Concentration and centralization of financial resources as a result of massive investment in the plantation economy led to greater regional disparity in physical and social infrastructure development as well as in human development. This imbalance in development saw the emergence of a dual economy in the country, the plantation economy on one hand and the subsistence economy on the other. The colonial banking system, which operated through exchange banks, was concerned only with foreign trade. The European managers in local branches of foreign banks were not inclined to take the responsibility of lending to local businessmen or producers. The foreign banks were centered in Colombo with only a few branches in other important towns in the plantation sector (Sandaratne, 1996). The entire credit demand of other regions was met by the informal sector. The cumulative effect of this imbalance in banking operations adversely impacted the economic activities of the domestic sector. Landlessness, destitution and food insecurity were key issues that confronted the majority who were dependent on the rural subsistence economy. The rural people were also deprived of access to financial and other resources. This situation paved the way to the second phase of development in the sphere of domestic banking.

### **Decentralizing Banking Operations**

The second phase of development was characterized by the intervention of the State to decentralize banking operations, through the establishment of nationalized banks for the purpose of providing financial services to the hitherto neglected rural sector. It was found that the overwhelming majority of people lived in rural areas and was dependent on agriculture for livelihood and employment. The rural sector consisted of smallholdings that did not generate sufficient income or savings for further investment. The majority of rural small producers were in debt and only a very small proportion of their credit requirements was obtained from institutional sources. The commercial banks did not play a significant role in providing credit to the rural sector.

Hence, it had become increasingly clear that no meaningful development of the economy was possible unless and until the

rural people who constituted the majority in the country were in a position to participate more directly in productive economic endeavours (Hettiarachchi, 1986). A major constraint to the development of the rural sector was the lack of institutional credit. It is in this context that the government of Sri Lanka strongly justified its direct intervention in the supply of credit to under-banked regions by establishing a new bank for the purpose. This intention was made explicit in the administrative report of the Cooperative Commissioner for 1956:

*—“Every incentive must be given by the government for the healthy growth of the island-wide bank if such a bank is started. It is only an all island bank that could follow a uniform policy of cooperative development, make the best possible use of the funds that are available to the movement from both the public and the government, and take credit and banking to the rural sector in an effective way. The great advantage of such a unified system would be that it would happily lend itself to uniformity and expedition in the matter of financial assistance to the movement. In cooperative financial matters there would then be no varying rates of interests or degrees of assistance. The entire island will be able to obtain the benefit of any scheme of development in the same degree and in the quickest way possible”.*

The year 1961 was significant in the history of banking of Sri Lanka. The Bank of Ceylon, the first indigenous bank was nationalized and a new State aided bank – the People’s Bank – was established by an Act of Parliament with equity participation of the co-operative sector. The People’s Bank absorbed the Co-operative Federal Bank of Ceylon Ltd., which had an island-wide branch network. The main objective of the People’s Bank was to serve the rural sector and the co-operatives. The bank was also given the power to engage in pawn brokering an activity that was not undertaken by any other bank. With the advent of the People’s Bank, the government placed restrictions on Sri Lankans opening

accounts with foreign commercial banks. This was done with a view to mobilizing internal savings for the purpose of providing adequate finances to priority sectors such as agriculture and industry. As a result of this restriction the foreign banks were compelled to operate on a low key. The establishment of the People's Bank marked a distinct shift from the earlier pattern of banking geared to serve the metropolis and other urban areas.

After the establishment of the People's Bank, it was soon realized that the high cost of extending bank branches to remote rural areas with limited banking activities were bound to affect the viability and continuity of banking operations. This was mainly because it was not feasible for a formal banking institution to grant and service loans to a multitude of small farmers on a direct bank-borrower basis. Therefore, linking with Co-operative Societies was regarded as a suitable method of outreaching banking activities to rural villages. The People's Bank under the Extended Credit Scheme provided overdraft facilities to selected co-operatives to disburse credit to members for approved purposes. This was an effective method of decentralizing banking finance and transferring funds to badly under-financed areas. Furthermore, the People's Bank helped to link co-operative societies with rural banks. It is clear from Table 4.1 that there was a rapid increase in the number of rural banks between 1965 and 1999.

TABLE 4.1

Expansion of Rural Banks

Year	Total no. of Rural Banks
1965	8
1970	70
1975	447
1980	641
1985	914
1990	1,028
1995	1,177
1999	1,309

Source: People's Bank Annual Reports (1965 – 1995)

In addition to the expansion of the rural banking network throughout the country, the State Banks were also directed by the government to expand their own specialized branches to provide better financial services to the periphery. The impact of this directive is seen in Table 4.2. The People's Bank led the way in making it possible for rural areas to access commercial banking facilities (Sandaratne, 1996). Prior to the establishment of the People's Bank there were 45 main branches of commercial banks in the country but only a few were located outside Colombo. Hence, the outreach was grossly inadequate to establish a banking network capable of providing financial services to meet the local needs at the regional level. Therefore, an important turning point in the regionalization of commercial banking was the establishment of the People's Bank as the specific focus on expanding commercial banking in the neglected rural regions. Within five years of establishing the People's Bank the number of outstation branches increased from 22 percent in 1960 to 78 percent in 1975. Since then the number of outstation branches has declined to 62 percent (1999).

TABLE 4.2

Expansion of Commercial Bank Branches

Year	No. of Banks	Total No. of Branches	Outstation Branches (Periphery)	Percentage
1960	14	45	10	22
1965	12	97	45	46
1970	12	165	99	76
1975	11	162	125	78
1980	21	487	351	72
1985	21	600	445	74
1990	24	678	459	68
1995	26	626	582	63
1999	25	1,012	627	62

Source: Commercial Bank Annual Reports (2000)

The late 1970's saw the setting up of commercial banks by the private sector. It also set the pace for extensive branch banking by the two State Banks. The two State Banks had to aggressively compete for the mobilization of rural deposits when newly established private banks moved into the rural areas. This era of mass banking was characterized by the rapid expansion of the branch network and the introduction of State sponsored agricultural credit schemes. Until the late 1970's the two State Banks had the monopoly of domestic banking. As the government was committed to implement special credit programmes through the commercial banking system (in particular to develop the agricultural sector) it was inevitable that the State Banks had to develop a strong commitment to development banking.

The policies adopted by the government in the early 1970's were linked to the objective of reducing food imports to facilitate the promotion of domestic food production in Sri Lanka. In support of this policy the two State Banks were required to increase their share of industrial and agricultural portfolios and to branch out into the rural areas. The Bank of Ceylon, which traditionally was a commercial bank and hence did not participate in rural banking, took steps in the period 1974-1976 to establish 390 Agrarian Banking Service Centres in almost every village in the country in order to promote agricultural credit. The People's Bank set up an agricultural rural banking network (under the Commissioner of Agriculture) that served as an agent of the People's Bank. More generally, the establishment of rural banks could be viewed as a strategy that was formulated to extend at least the minimum of banking and credit facilities to areas where the existing economic conditions did not warrant such extension. However, there were also areas with limited banking potential. In such areas a solution was found in the establishment of rural banking units with low operating costs. The unit banking system, which effectively integrated itself with the social system through personalized knowledge of clientele and local conditions, gained popularity among rural savers and borrowers. It was thus possible for the banking system to transfer resources through the medium of rural unit banking to difficult-to-reach areas ensuring both the security and stability of funds (Siriwardena, 1998).

### Free Market Based Banking Business

The third phase of development began in the late 1970s with the introduction of the "Open Economy" which permitted the establishment of both locally owned private banks and foreign banks. As a result commercial banking entered a new phase by moving into a competitive banking environment (People's Bank, 1994).

Since 1977 the government has undertaken major policy initiatives in the financial sector inclusive of the capital market. These include:

- Permitting the establishment of domestic banks by the private sector as well as foreign commercial banks (1979)
- Providing preferential tax rates for companies listed on the stock exchange (1980)
- Permitting the establishment of private domestic insurance companies (1987)
- Privatization of state owned enterprises (1989)
- Permitting foreign nationals to purchase up to 40 per cent of shares of a company (1990)
- Establishment of a Credit Information Bureau (1990)
- Abolition of the wealth tax on listed shares (1991)
- Abolition of Capital Gains Tax (1992)
- Removal of most exchange controls on Current Account transactions (1993)
- Acceptance of Article VIII of the IMF's Articles of Agreement (1994)
- Termination of Central Bank refinance for most credit schemes (1994)

In addition, interest rates were effectively deregulated during the 1980s and are now determined by market forces. As a result financial institutions are free to set the interest rates on deposits and loans. Interest rates on both deposits and loans have been positive in real terms over the past several years (People's Bank, 1997). In a competitive environment the commercial banks, mostly private banks, were hopeful of expanding their services to rural regions with a business potential by expanding the branch network.

But even after more than 10 years of operation the private banks have restricted their operations to Colombo and other main cities. Compared to the outreach capabilities of the two state banks that have more than 670 branches, the four private commercial banks – with only 193 branches – have a more limited outreach to the rural areas. There have been pilot efforts to increase the outreach through innovative approaches such as the 'Gami Pubudu' scheme of the Hatton National Bank and the 'Praja Seva Sanyojaka' scheme of the Sampath Bank. In terms of concept and design, the 'Gami Pubudu' scheme is not only innovative but also promising. However, its implementation is still in a pilot stage and therefore the coverage is limited. Furthermore, given the corporate culture of the private commercial banks, these schemes may end up as 'showpieces' to ease political pressure rather than serious banking ventures aimed at reaching the rural areas.

In 1985 Regional Rural Development Banks (RRDBs) were set up as direct arms of the Central Bank with mandate to exclusively serve the rural sector. RRDBs operate through a network of 169 branches. Because of their recent origin they face a number of problems in regard to capital adequacy, loan recovery and profitability. The future of RRDBs is unclear.

Despite these developments in the formal financial sector the informal financial sector still plays a dominant role in Sri Lanka. In regard to savings, the indigenous Rotating Credit Associations (*Cheetu*) remains a thriving phenomenon in rural Sri Lanka, especially among women. A considerable share of savings is held in the form of gold and jewellery. Among rural people there is also much informal borrowing from friends and relatives, moneylenders, traders and shopkeepers.

We have noted that there had been considerable pressure exerted on the formal sector, in particular on the Bank of Ceylon and the People's Bank, to expand financial services to the rural people. Both banks have been quite successful in mobilizing savings. However, in so far as lending is concerned achievements have been far from impressive. Thus in 1994 the loans granted under the New Comprehensive Rural Credit Scheme (NCRCS) by the Bank of Ceylon and the People's Bank amounted to slightly more than Rs 150 million. They represent less than two percent of the

respective total loan portfolios of the two banks and just over 10 per cent of the loans given by a semi-formal institution like Sanasa.

As compared to most other Asian countries Sri Lanka has experienced a considerable financial deepening in the early stage of financial system transformation i.e. from around the 1970s. However, throughout the 1980s the ratio of Broad Money Supply (M2) to GDP as a measure of financial deepening remained constant at 30 percent or so. Only the renewed reform measures relating to financial re-structuring introduced in 1989 appear to have ended the decade-long stagnation. Since then the ratio has increased from 27 percent in 1990 to 33 percent in 1994 and to 41 percent in 1999 (Table 4.3). The stagnation noted above was mainly due to a concentration of the bank's credit portfolio on trading and commercial activities to the neglect of productive investment. In other words all commercial activities were related to large-scale imports and circulation of trading capital (Siriwardena, 1997).

TABLE 4.3

Financial Deepening in Sri Lanka

Year	Rate of Financial Deepening
1982	31
1984	32
1986	28
1988	31
1990	27
1992	32
1994	33
1996	36
1998	38
1999	41

Source: Central Bank Annual Reports

With the implementation of financial sector reforms in 1980 the State-led development oriented commercial banking in Sri Lanka has been subject to further changes. The policy of promoting private sector participation permitted the establishment of new

private banks and foreign banks posing a threat to the two already established State Banks viz., the Bank of Ceylon and the People's Bank. These two banks controlled more than 70 percent of the market share of the banking business. In the process of financial restructuring the two State banks were not allowed to expand their branch network any further whereas the new private banks were permitted to do so. As a result the commercial banking system in the country was once again bent on generating private profits but not social gains. Both the State and private banks are presently undergoing dramatic changes in the wake of financial liberalization, de-regulation and increased competition. All commercial banks are obliged to follow international standards of banking such as norms of capital adequacy, assets classification and provisioning requirements (Siriwardena, 1998). The People's Bank in spite of its major role in rural finance is compelled not only to comply with international standards of performance but also to concentrate on large-scale export, import and trade finance within city boundaries to increase profitability.

Since early 1980s the commercial banks in the country have launched aggressive campaigns to attract Colombo-based corporate customers and big clients to maximize profits and achieve international standards of performance. This process of centralization of banking finance has led to a concentration of financial resources in the urban areas to the neglect of the rural areas. It was assumed that increased allocation of financial resources by the banks on a competitive basis to enterprises with high rates of return would contribute not only to increase income but also reduce the intermediation cost (People's Bank, 1997).

#### **TRANSFER OF RESOURCES FROM THE RURAL TO THE URBAN SECTOR**

During the 1980s and 1990s competition for urban-based lending increased sharply. In order to meet the lending requirements of the urban sector the banks encouraged rural savings by offering a range of attractive deposit products. As a result a substantial share of the total savings mobilized in the country came from a large number of small rural savers. However, the central issue was that the savings thus mobilized were not reinvested in rural areas to promote small enterprise development or to help solve the prevailing rural unemployment problem. The State banks that

had a widespread branch network in rural areas and a strong deposit base showed a lending to deposits ratio of 2:1. As a consequence there was an outflow of financial resources from the rural to the urban areas, mainly to Colombo. Hence, the rural resource-base, which was originally an important source of financing for small enterprises and agriculture at the regional level, was severely eroded. The period 1985-1994 witnessed (a) stagnation in the flow of small and micro finance (b) disempowerment of development bankers and (c) general slow-down in credit delivery to small rural enterprises.

The commercial banking system extracts considerable surplus from the rural areas through the difference between the district deposit mobilization and district loan deployment. This surplus is diverted to the much more profitable or bankable metropolis through "International Divisions" of the Bank of Ceylon and the People's Bank to finance import, export and service transactions, and other urban oriented banking activities.

It can be argued that the high profits recorded by the People's Bank International Division in particular from 1977 onwards were possible because of the channeling of funds mobilized through the rural banking system for investment in the urban sector. It is clear from Table 4.4 that the surplus generated by the Co-operative Rural Banks was siphoned off from the rural areas to provide the credit base for urban banking activities. It was inevitable that the structure and mode of operation of centralized branch banking, as against of decentralized cooperative banking left the rural sector in a chronic and worsening condition of underdevelopment.

Attempts to remedy this condition only with recourse to resource inflows into the rural sector in the form of transfer payments, subsidies, welfare projects or capital investment and control from outside without an understanding of the process of surplus extraction have necessarily created an environment for rural underdevelopment (Fonseka, 1986).

The outflow of financial resources via banks, combined with the outflow of raw material, and labour from the rural to the urban and metropolitan centres was detrimental to the redistributive objectives of financial sector development. Increased allocation of financial resources by commercial banks to promote investment by wealthy borrowers in a difficult-to-predict and volatile economic

environment is much riskier than financing a large number of small-scale enterprises or regions that is lacking in banking services. Most banks are reluctant to diversify activities and finance under-banked regions with high development potential or support activities that are socially beneficial or environmentally sound.

TABLE 4.4

Cooperative Banks: Surplus/Deficit Ratios

Year	Co-operative Bank	Deposits	Advances	Surplus/Deficit	%
1974	403	62.7	67.4	-4.7	107.5
1975	447	74.2	87.3	-13.1	117.7
1976	503	116.3	101.8	14.5	87.5
1977	544	175.5	110.9	64.6	63.2
1978	558	222.1	125.1	97.0	56.3
1979	586	271.0	129.3	141.7	47.7
1980	641	334.7	176.8	157.9	52.8
1981	746	434.0	271.6	162.4	62.6
1982	804	541.5	329.3	212.2	60.8
1983	843	718.0	391.6	326.4	54.5
1984	888	905.5	508.3	397.2	56.1
1985	914	1087.5	574.8	512.7	52.9
1986	932	1295.0	657.0	368.0	50.7
1987	955	1560.0	707.0	853.0	45.3
1988	970	1908.0	828.0	1080.0	43.4
1989	986	2211.0	950.0	1261.0	43.0
1990	1028	2497.0	1450.0	1047.0	58.1
1991	1060	3448.0	2188.0	2160.0	63.5
1992	1094	4772.0	2702.0	2070.0	56.6
1993	1120	5496.0	2971.0	2625.0	53.6
1994	1142	6359.0	3242.0	3117.0	51.0
1995	1177	7500.0	3762.0	3738.0	50.2
1996	1230	7616.0	4056.0	3560.0	53.0
1997	1264	10063.0	5786.0	4277.0	57.5
1998	1291	11874.0	6873.0	5001.0	57.9
1999	1309	12779.0	7128.0	5651.0	55.8
2000	1330	15110.0	7687.0	7423.0	50.9

Source: Hettiarachchi (1986).

When resource allocation is market driven then the circulation of capital is likely to be dominated by urban trading and other businesses. The long-term effects of this process are often reflected in a shift from food crops to cash crops for exports, marginalization of borrowers in the small sector, abandonment of agriculture, food insecurity and potentially unreliable markets for basic foods.

The competition for profit maximization by relying heavily on large-scale trade and finance on one hand and private income accumulation on the other resulted in the emergence of over-financed speculative sectors. Thus in the early 1990s when foreign investors withdrew consequent to the financial crisis that affected most Asian countries, the large scale borrowers were not in a position to sustain their expanded businesses and increased turnover any longer. Permitting accelerated lending to large borrowers on the basis of highly appreciated land and property values resulted in the collapse of the centralized credit operation. The value of collateral fell below the value of outstanding loans resulting in a high level of non-performing loans (Siriwardena, 1998).

The new credit culture, developed in response to financial reforms and severe competition for profit, rejected the small sector on the ground that there was insufficient scope to finance small enterprises. This was a ploy that was adopted to divert financial resources for speculative business ventures in the metropolitan and urban centers and to promote share trading and investment on securities etc. Such tendencies too resulted in the flow of revenue away from the rural to the urban regions.

International norms such as Capital Adequacy Ratio and Return on Assets are applied in equal measure even to development-oriented banks. The establishment of new private banks in the urban centers that ranked good performance purely on recorded growth of profits and reduced administration costs (to maximize on efficiency) were key factors that influenced banking sector de-

velopment. High levels of efficiency were to be achieved by the elimination of peripheral business activities with high costs and low returns. This in turn deprived the small enterprises in rural regions of access to banking finance (Acharya and Acharya, 1995).

Since the early 1990s, competing banks relied heavily on the trading community for viable business and to maintain financial sustainability under the free market and economic liberalization measures. Hence, the contribution made to export-led growth was very marginal. At the same time the concentration of capital in the trade sector not only prevented capital formation in productive sectors but also negatively influenced employment generation and the balanced distribution of income in the regions. This situation amply demonstrated the fact that the switch over to free market based financial reform alone could not guarantee the maintenance of the growth momentum in a volatile economic environment.

The negative consequences of banking finance on regional development in Sri Lanka include (a) increasing pressure on land and other resources, worsening income inequalities and growing urban-rural disparities, (b) depletion of ground water resources, (c) damage to coastal ecosystems caused by high intensity prawn farming, (d) depletion of forests for timber and fuel wood, (e) flooding and water logging caused by the filling of urban low lands for construction of container yards and warehouses on borrowed funds. Hence, there is an urgent need to re-direct resources away from the environmentally sensitive to less sensitive areas.

The Government has had no alternative but to invest a considerable share of domestic savings in its own debt instruments. Deposits of the National Savings Bank and the Public Provident Fund have been almost entirely absorbed by the Government. The private sector has been denied access to important sources of domestic long-term funds although in the past two years, the Government has allowed a modest diversification in the portfolio of some of these institutions. It may also be noted that over the years the Government and the State Corporations have absorbed the lion's share of domestic credit thereby pushing out private investors. This development goes

against the notion of decentralization of finance for regional development. However, owing to structural changes that have been implemented this share has been reduced from a high 50 percent in 1989 to 23 percent in 1998 thereby allowing more room for utilization by the private sector.

Another issue of relevance is the structural deficiencies in the rural credit delivery and recovery systems that have resulted in a low equilibrium in the supply and demand of institutional rural credit. Rural lending is not perceived as a viable or profitable venture by the banks owing to both the high costs and the risks associated with the dispensation of small loans to rural entrepreneurs. Similarly various barriers prevent many potential borrowers from approaching the banks for a loan. Instead they depend on informal sources of credit (Ruyan and Rebert, 1997). The two dominant State banks have frequently been criticized for their high intermediation cost (attributed to low productivity and high incidence of non-performing assets) that has increased the cost of loans to borrowers.

A fundamental question that arises from this situation is whether the banks can generate profits by financing under developed rural regions? A common interpretation is that the more the banks aim at high profits and financial sustainability, the less impact there will be on the financial empowerment of resource-poor. This argument is no longer valid as many commercial banks in recent years have proved that it is possible to integrate banking finance with the development of lagging rural regions on a commercially viable basis.

Another set of problems relates to the low recovery of loans under most development credit schemes. The banks tend to cite the low rate of loan recovery as proof that the rural loans portfolio is exposed to high risks. External risks that affect the repayment capacity relate to circumstances that are unexpected and beyond the borrower's control. Agricultural production is high risk-prone owing to its dependence on weather and climatic conditions that are beyond human control. Micro and small enterprises are generally exposed to entrepreneurial risks that relate to input

supply, markets, prices, technology etc. In the past these risks have frequently been underestimated by lending institutions, partly because of the lack of information and partly because they did too little to assist the borrower to manage and minimize external risks.

However, it may be noted that many institutions providing micro finance such as the Grameen Bank in Bangladesh, have moved into rural areas with various innovations to channel financial resources to the resource poor for poverty alleviation, employment creation and income generation. New banking norms and new organizational arrangements have been established on the assumption that the poor are credit worthy and bankable. The Grameen Bank experience shows that a bank could be made to function without losing financial viability if committed to undertake peripheral business through a process of financial decentralization. It is necessary that decentralization be combined with a change in the ownership of the means of production and in the production relations themselves.

### **CREDIT OPERATIONS IN RURAL AREAS: THE NEW APPROACH**

The last decade has witnessed a boom period for micro-savings and credit initiatives that seek to alleviate poverty through self-enterprise rather than through welfare provision. Banking with the poor makes it necessary to establish links between commercial banks on one-hand and NGOs and self-help groups on the other for the purpose of channeling credit to under-banked regions on a sustainable basis. Hence, the government and the donor agencies are funding an increasing number of micro finance programmes. Many of these programmes are concerned with the specific objective of reaching the poor through savings and credit groups.

#### **Group Finance Projects (GFPs)**

In recent years the expansion of group based micro finance has paved the way to a new era of micro enterprise development that places emphasis on participation of client groups in development

decision-making (Otero and Regan, 1994). This process of area focused rural finance aims at building the capacity of individuals and local institutions to manage local resources effectively.

As the new strategy is economically more rational and politically acceptable the NGOs and development finance institutions with support from donor agencies have initiated special programmes for micro finance, by diverting welfare oriented funds, to establish group based rural finance projects. Instead of direct State intervention in the delivery of subsidized rural credit, client groups have been formed at village level paying special attention to the recovery mechanism of credit. In Sri Lanka the formation of solidarity groups reflects elements of the traditional rotating credit (*cheetu*) association or of death donation societies. Both types of association illustrate the wide prevalence of sustainable informal credit operations in rural areas. Some basic features of group finance projects (GFPs) are as follows:

- (a) Commitment to the group lending approach. Field workers assist in the formation of borrower groups with about five members in each group;
- (b) Six to ten groups are federated into a centre with group leaders representing each group. The chairperson and office bearers of a centre are normally elected;
- (c) Initially one or two members of a group are allowed very small loans as "first time borrowers". If their repayment performance is good, loans are provided to others. After full repayment of the first loan a 'good borrower' is allowed to re-borrow. The amount of the loan is gradually raised to the upper limit set by the project if 'a repeat borrower' continues to maintain an excellent repayment record;
- (d) Loans are extended to individual members under a group guarantee without physical collateral;
- (e) Loan recoveries in most projects are based on a weekly repayment system;
- (f) Groups meet once every week to allow the field officers to collect repayments as well as deposits;

- (g) Attendance at weekly meetings, weekly repayment of installments and the contribution of a predetermined percentage out of savings to the group fund are compulsory;
- (h) Most groups have established emergency funds as a form of insurance to tide over contingencies such as sickness that the group members may have to face;
- (i) Field workers would visit groups each week to collect loan installments as well as savings deposits and to process loan applications as well as to identify training needs;
- (j) "Peer group" pressure is exercised to force borrowers to repay loans on a weekly basis. If one group member were to fail all others in the group are deprived of their right to borrow.

All GFPs are based on a set of common assumptions of which the more important are as follows:

- (a) Group lending is an effective and low-cost strategy to extend the outreach of financial institutions to reach the rural poor;
- (b) It is a means of significantly reducing the costs to both the borrower and lender;
- (c) High levels of loan recovery is possible through the exercise of peer group pressure;
- (d) Enables enhanced individual savings through the promotion of compulsory group savings;
- (e) Allows active participation of all group members in credit and savings activities;
- (f) Set in motion social commitment of group members to share knowledge, resources and equipment.

Therefore, a solidarity group credit system was established by

the People's Bank in the 1980s as a special programme leading to poverty alleviation and services were extended to even the most remote parts of the country. Some of these village groups proved successful from the very outset of the credit programme. Hence there was a clear demonstration of not only the ability to repay loans but also the capability for institution building. However, the commitment that the field officers attached to the programme initially demonstrated tended to slacken with a rising dropout rate among group members. It was also recognized that the regular follow up by the Bank's field officers was extremely necessary to ensure loan recovery. The members of peer groups as individuals were constrained to play only a marginal role in group banking activities owing to social and other commitments.

This is because peer groups are impositions on the social scene. The group members are socially rather than legally bound to operate the credit system. The most active members in a group are expected to exert pressure to compel their non-complying members to pay. But the failure of some members to comply affects the internal cohesion of the group that is so vital in exercising peer pressure. Defaulting members making use of the free exit possibility to leave the group and insulate themselves from group control and obligations.

### **Complexity of Group Finance**

Group finance as an anti-poverty financial product has a short life cycle. The initial stage of Group Finance Projects (GFPs), usually of one to two years of duration, can be regarded as a high growth period. The enthusiasm and commitment of field workers during this period remains high. The participants in group projects organize themselves quickly through the effective utilization of social mobilization and awareness building programmes. However, after a few years of repeated borrowing both group members and field officers encounter various problems relating to loan recovery and day-to-day operations of the programmes. As a result the field officers fail to sustain their initial commitment. When the signs of weakening begin to surface they are compelled to either find new solutions or adopt new styles of management to protect the projects from total disintegration. As donors support

most GFPs constant attempts are made to understand the problems and failures that beset them and take corrective actions for rehabilitation.

It is well known that the life of the poorest of the poor is generally characterized by extremely low material endowments. Furthermore, there is a constant struggle for day-to-day survival. They are generally illiterate and powerless. Yet they also have access to social capital in the form of inter-household cooperation for social and economic security and collective action to meet crisis situations. For the poor, group based finance is the only possible means to institutional borrowing. However, when they fail to free themselves from the vicious circle of poverty despite repeated borrowings a situation is created that lead to "borrowing in order to do something and do something in order to borrow" type of vicious circle. In such situations "peer pressure" merely provides the compulsion to exit rather than the incentive to stay (Yaqub, 1995).

GFPs are generally established to serve the poor. It is mostly the poorer women who operate village groups successfully. They benefit most from group finance and utilize credit and training and other services to improve their living conditions. Once their original circumstances change for the better it is found that the more enterprising tend to leave the groups for the purpose of establishing their own enterprises. Bringing in new members through a quick recruitment programme compensates for the loss of group membership resulting from this process at the top and from dropping out of the less entrepreneurial at the bottom. In a situation of persisting poverty the numerical expansion of group-based finance can be continued. As the official records in Sri Lanka, India and Bangladesh reveal there is no doubt that millions of poor people have benefited from the GFPs. But how many of them have been able to completely lift themselves above the poverty level is a question yet to be answered.

Members of GFPs from the very beginning are made to understand that the group system provides credit within a regime of strong

discipline. A problem faced by many GFPs is to change from this system of externally imposed discipline to one of internally generated self-discipline.

### **Village Banking Units**

The concept of village banking aims at organizing community managed credit and savings schemes based on kinship and friendship networks that function as self-regulatory and homogeneous entities. Most of the bank branches located in the remoter rural districts often approach village communities by using the above strategy. In this social mobilization plays an important role. It is found that individuals in the village situation obtain loans for different purposes such as trading, cottage industries, agriculture, animal husbandry, processing of commodities etc. but there is some degree of interdependence among these activities. In village banking the bank officials play the role of change agents in addition to performing their substantive responsibilities. Participation in cultural activities and community meetings (to provide advisory services) and attendance at funerals are the key features of their social integration with the communities that they serve. Such integration is proving to be an effective participatory strategy to evaluate small enterprises and the monitoring of loan repayments. The prospective village borrowers have to first qualify themselves by achieving a pre set savings target. Loans are granted on a first come first served basis. Decisions on loan disbursement, processing of loan applications, receiving bulk loans for disbursement among group members, maintaining savings accounts and passbooks are successfully handled by village leaders. It is worth noting that the village leaders, who act as agents of village banking units or sub units of the Bank, have been identified by the villagers themselves. The loan entitlement of a first time borrower depends very much on the extent of his or her savings. It is possible to gradually increase the loan entitlement depending on the track record of the borrower.

### **Credit Windows**

The fundamental problem faced by most GFPs is the absence of special credit windows to accommodate group members once they

graduate from the subsistence to the commercial level. It is often found that members of credit groups though they start off with the same level of expectation would not achieve an equal level of success in utilizing the credit package. Leadership in a group is closely defined by a leader's strong social commitment and his/her ability to sacrifice time for group work. In most cases peer group leaders are also successful micro-entrepreneurs. Their capacity to absorb skills through exposure to training programmes is comparatively high. To maintain their leadership position they often demonstrate steady progress through repeated and enhanced borrowing. Progressive repeat borrowers who have demonstrated a reliable track record play an important role in supporting micro-enterprise development by providing role models for the less progressive borrowers.

In this respect, providing enterprise finance to satisfy the higher expectations of the more enterprising members of a group is one of the important innovations adopted by the GFP of the People's Bank. The progressive entrepreneurs are permitted to access higher loans even exceeding the upper limit set for group finance, in order to retain them in the group and to show the way for enterprise development to the less progressive members. Usually progressive leaders and members of groups have their own marketing and processing units. They have been able to provide employment to less talented group members.

### **AN INTEGRATED APPROACH TO RURAL FINANCE**

With the experience gained from GFPs the People's Bank took a step further and strengthened the rural area branches through the establishment of an enhanced savings and credit programme. This was done with the objective of serving borrowers who have different credit needs and who operate at different levels.

Taking heterogeneous economic and social behaviour of small entrepreneurs together with different credit needs in a local operating area, all requirements of small and medium enterprises had to be met by integrating financial and non-financing services. It is only then that the small enterprises sector can become dynamic, stimulate economic growth, generate employment and

rationalize income distribution. Therefore, the People's Bank has made all possible efforts to link branch level financial services with small enterprise development services found in local areas of operation.

### **GTZ, Kandy District RRDP and the People's Bank**

Integration of small enterprise finance at regional or district level with activities launched by other institutions involved in small enterprise development was an innovative step taken to establish strong cross-functional and coordinated efforts to strengthen micro enterprise development programmes. The Regional Rural Development Programme (RRDP) encompasses a wide range of activities geared to the development of many rural districts in the country in close association with the People's Bank branches operating in such districts. The RRDP of the Kandy District in the Central Province has shown exceptional results. The GTZ being an external agent for supporting and facilitating the process of 'regional rural development' has taken impressive efforts to increase efficiency and productivity of institutions concerned with promoting regional self-sufficiency and sustainable development. An effort has also been made to set up a decentralized Private Sector Enterprise Promotion Programme.

### **RBIP and Service Integration**

The Rural Banking Innovative Project (RBIP) that the People's Bank has initiated in collaboration with GTZ is also a major component of this attempt aimed at financial strengthening of small enterprise development projects in the Kandy region. The project intends to (a) provide efficient banking services to micro, small and medium scale entrepreneurs in the Kandy District who have so far had no access to the bank's services, (b) ensure the economic viability of People's Bank branches in the district, and (c) strengthen interaction and sharing of experience among small and medium enterprises on a franchise basis.

RBIP is intended to deal with the roots of the twin problem confronting small sector enterprise finance namely, high

transaction costs and poor repayment performance. Linking with NGOs or Small Household Groups is a modality adopted by the RBIP. Such linkages have helped reduce transaction costs while ensuring better repayment performance. The project instead of targeting specific income groups covers a range of clients in the region engaged in micro, small and medium enterprises (Gibson, 1997). The need for financial services differs according to the size and scale of operation of the enterprises. The majority of small entrepreneurs including agricultural producers generally require working capital, whereas medium scale entrepreneurs normally need capital for long-term investment and business expansion. As such the transaction costs of branch based service delivery to micro enterprises is quite high.

Therefore the project has attempted to adopt an innovative approach to reduce transaction costs. Such innovations range from simplification of documentation procedures to integration of a field operation service by the induction of trained field officers to the selection of appropriate private sector intermediaries. Another approach is to further decentralize branch operations by establishing savings and pawning units at the village level for the convenience of micro entrepreneurs. A service network to upgrade the knowledge base of micro entrepreneurs is also built in the project.

.From its inception the project has built up a reputation in regard to high repayment performance of borrowers by making strenuous efforts to avoid loan defaults. This has not been easy in an environment in which there is ever so frequent rescheduling of bad loans and writing off of non-performing loans.

The RBIP has placed much emphasis on project viability and sustainability. This is to be achieved by building institutional integrity and creating space for project staff to socially interact with its clients. Therefore, field staff is encouraged to move away from traditional branch-based banking and step into the living environment of small entrepreneurs and agricultural producers in their areas of operation. By developing this kind of borrower-lender relationship, the project aims to economize on costs

associated with collateral appraisal, supervision and time-consuming recovery procedures.

## CONCLUSIONS

The conventional development interventions in Sri Lanka over the past 50 years have resulted in a consistent disparity in the accumulation and re-investment of financial resources between the rural and urban regions. The growth achieved through financing trade and other services has failed to "trickle down" to the less developed regions.

Under a State protected environment the two State banks had succeeded in expanding their outreach capability to play a developmental role. However, with the introduction of free market policies competition among banks intensified not so much to provide financial services to under-banked regions, but to draw away financial resources from such regions to invest in urban areas where there was acceleration in the circulation of trading capital. This process has contributed to financial disempowerment of backward regions while increasing regional disparities. The concentration of trading capital within city boundaries has prevented productive capital formation and re-investment in rural regions. This in turn has had a negative impact on rural employment generation and a balanced distribution of regional income.

Some banks have taken on the challenge of competition for profit together with a commitment to rural development. Many attempts have been made to redirect financial resources to under-banked regions by expanding the outreach through innovative micro finance interventions such as group lending and unit banking. In India, Nepal and Bangladesh commercial banks allocate a share of profits to selected development finance institutions to implement micro finance programmes and develop resource poor regions. This lesson is important for Sri Lanka, as most financial institutions have neglected their development responsibility, although profits are generated out of funds extracted from the rural areas. All

banking and non-banking institutions need to integrate their services at the regional level to benefit local people and communities.

Leading banks with strong outreach capabilities should be encouraged and empowered to finance under-banked regions by infusing capital. It could be made a requirement for high profit earning urban-based small banks to contribute a small percentage of their profits annually for the purpose of strengthening micro finance institutions. It is evident that centralized financing by commercial banks because of their narrow focus on short-term profits creates new issues in development banking that compound existing ones. Therefore, the importance of decentralizing banking finance to promote maximum social returns and financial sustainability should be incorporated in the policy agenda and cost benefit assessment of banking finance.

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# **THE ROLE OF SMALL TOWNS IN THE DEVELOPMENT OF THE NORTH CENTRAL PROVINCE IN SRI LANKA**

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## **INTRODUCTION**

Although the role played by small towns has been the subject of a great deal of controversy during the past five decades, empirical evidence from developing countries proves that small towns can play a decisive role in regional development. Small Towns are central places at the lower tiers of the Central Place hierarchy and contribute to the forging of vital links with rural areas on the one hand and with larger towns and cities on the other. Interchange of commodities, services, information, capital and human resources in a region can occur through Small Towns.

Small Towns are numerically dominant but are dispersed over a wide area in the periphery of Sri Lanka which covers the hinterland of the Colombo Metropolitan Region. In fact they are the only towns available to serve a large and growing population in less developed areas. During the past 4-5 decades, incipient small towns have emerged spontaneously at road junctions while a large number of small towns has been established by the State in land settlement schemes (colonization schemes and in the Mahaweli Development Project Area). In-depth studies have yet to be undertaken to assess the contribution of small towns to regional development and to ascertain whether they play a negative and a parasitic role or a positive and a beneficial role in the development of the periphery. Such studies are essential to identify and help resolve issues that prevent the small towns from performing their functions for the benefit of the people in the region.

The main objective of this paper is to evaluate the contribution of Small Towns to the development of the North Central Province in

the periphery of Sri Lanka. More generally it aims to analyse and understand the growth patterns and the functional diversity of existing Small Towns (the quality and quantity of goods and services provided); discuss the nature of their linkages with the rural hinterlands and with larger towns; identify constraints that hinder Small Towns from performing their functions and make suitable recommendations to strengthen the beneficial role of small towns. An attempt is also made to examine the perceptions of proponents of different approaches to regional development regarding the role played by small towns.

As mentioned above the study focuses on a less developed part of the periphery viz., the North Central Province in which there is only one officially recognized medium sized urban centre (the Provincial capital of Anuradhapura which ranks first in the hierarchy of Central Places in the Province), the District capital of Polonnaruwa (the only second order Central Place in the region but which is not officially recognized as an urban centre) and a number of Small Towns that do not have any administrative status. These Small Towns are of diverse origin - some have emerged spontaneously at junctions and expanded gradually over the years - others are former small junction settlements that have been upgraded by the State while a few have been established by the State as planned new townships to serve older colonization schemes and the Mahaweli Development Project. The population, central functions and the size of the hinterlands differ from town to town.

## **METHODOLOGY**

The study is based on primary data collected by extensive field work in the North Central Province (NCP) conducted between 2001 and 2003. It is complemented by secondary data on Central Places in the region obtained from the Urban Development Authority (UDA) and by current literature on theoretical approaches and empirical studies on the role of small towns in the regional development of other developing countries.

The sample selected for detailed study represents different types of small towns in the study region with populations ranging between 1000 and 13,000 and included the following:

- ◆ Medawachchiya- an old town located among traditional tank villages.
- ◆ Hingurakgoda- established by the State in a colonization scheme and until 1987 administered by a Town Council.
- ◆ Tambutteagama- a planned town located in the Mahaweli Development Project area.
- ◆ Kekirawa- an old town that has benefited from the establishment of colonization schemes and the Mahaweli Development Project. It was until 1987 administered by a Town Council.

Despite differences in origin, population size and location, all these small towns are identified as Third order Central Places that perform important central functions.

Two Fourth order central places were also selected viz.,

- ◆ Galnewa- a planned new township and
- ◆ Kahatagasdigiliya- old town located among the traditional tank villages.

Information was gathered through questionnaires, semi-structured interviews and focus group discussions with entrepreneurs, consumers and Committee members of Traders' Associations.

Further, in-depth studies of twelve villages in the hinterlands of Tambutteagama, Hingurakgoda, Kahatagasdigiliya and Medawachchiya viz; Adhiranigama, Kothmalpura, Siyambalagahagama, Hatamuna, Kohombadamana, Rotawewa, Bethkewa, Kudapattiya, Diganhalmillewa, Mahakumbugollewa, Sangilikanadarawa and Yakawewa provided information with regard to (a) seasonal dimensions of linkages between villages and small towns and (b) the different functional roles played by entrepreneurs in the nearest small town, the traders in the periodic market, local 'boutique' keepers and visiting traders.

#### PERCEPTION OF THE ROLE OF SMALL TOWNS

The role of small towns in regional development has been a subject

of controversy since the 1950s – the point at issue was essentially whether small towns play a negative or a positive role in regional development. These opposing points of view are extremely valuable since they have influenced the thinking of donors, decision-makers and regional planners and consequently have impacted on the growth and development of small towns which in turn affected their ability to contribute to regional development. This section highlights some of the relevant theories and approaches that focus on small towns and elucidates the reasons for the changing perception of the role of small towns during the past five decades.

Dewar et al (1986) have analyzed the role of small towns in promoting rural/regional development as advocated by proponents of different theories and approaches to national and regional development such as the export base and sector theory (whose spatial base is the Central Place Theory), the redistribution through growth approach, the basic needs approach, the accelerated growth approach and the agropolitan and selective territorial closure approach. Dewar et al assert that the above theories and approaches perceive small urban centres as providing a number of functions although differences can be observed in the emphasis placed on the different roles played by them. These roles include modernization of agriculture, increase of rural production, provision of access to markets, absorption of excess unemployed population in rural areas, stimulation of rural industrialization and provision of essential services. The concept of rural modernization for example is emphasized in the sector theory and the accelerated growth approach but to a lesser degree in the redistribution through growth approach. Thus

*the aim of rural development is to commercialize the peasantry. It is believed that rural productivity will be raised if urban centres, and thus markets, are made accessible and that peasants can be induced to produce more by exposure to the goods and services available in urban centres, since these will affect motivation to earn more..... By contrast, agropolitan development and, to a lesser extent, basic needs, attempt to move away from the association of 'urban' with 'modernization'...In these approaches,*

*urban centres can support rural areas by providing support services for agriculture, a locus for rural industry, a means of absorbing that surplus rural population who wish to remain in rural areas and a physical structure for coordinating local political, social and economic development. Significantly, however, a basic needs approach is not wholly dependent on the existence of small urban centres (Dewar et al, 1986).*

The marketing function is stressed in the export base and sector theories and in the accelerated growth and redistribution of growth approaches but not in the basic needs and agropolitan and territorial closure approaches. However, all these approaches consider the Small Town as an important locus for industrial location, since even small concentrations of small scale industries, allow for

*the emergence of localization economies.....,  
a more efficient system of marketing.....,  
the rationalization of organizational assistance and  
a focussing of development efforts (Dewar et al, 1986).*

Service provision is emphasized in all the theories and approaches. In the sector theory for example, basic social and utility services (health, education, communications, potable water and sanitation facilities), financial and agricultural extension services, repair and maintenance etc. are delivered through a hierarchy of central places at the lower levels of which are found small towns. Other functions performed by small towns include innovation diffusion and the 'capture' of income leakage.

Pedersen (1997) provides a comprehensive overview of the changing perception of small towns and its impact on regional development since the 1950s. Although his studies focus on the African situation, his analysis is highly relevant to understand the reasons for the neglect of small towns during certain decades in other developing countries. In the early 1950s and 1960s for example, small towns were viewed as important centres that can play a positive role. By 1970s however, the perception of the role of small towns changed considerably and they were looked upon as parasites that contributed to resource extraction. Pedersen

(1997) ascribes this change to the presence of traders and middlemen in small towns who were

*seen as agents of the exploitive, central economic powers, but also as superfluous profiteers in their own right. This negative view of small town traders was in part based on Marxist theory; but in eastern and southern Africa, it merged ..... with the strong aversion to Asian and other foreign traders who had dominated rural trade during the colonial period and also after independence in many areas...*

Southall's (1979,1988) research on the role of small towns in African countries led him to conclude that small towns play a negative role in African rural development and that they contribute to the impoverishment of rural areas. Kabwegyere (1979) too stressed that

*if the experience in Kenya is any indication, the growth of small urban centres is in many ways an intensification of dependence relationships and underdevelopment-this time extended to incorporate the rural areas and in no way concerned with development.*

In the same volume, Ahmed and Rahman refer to small towns in Sudan as 'vanguards of exploitation'. Schatzberg (1979) when analyzing the role of 'small cities' (towns that are larger than the small towns) in Africa, remarked that they were

*both centres of extraction that siphon off financial and human resources from the countryside, and blockage points that inhibit the downward flow of resources as well'. In fact they had become 'parasitic islands of privilege in a sea of rural poverty and contribute little to the development of their respective hinterlands.*

He concluded that the

*structures and organizations of these small towns usually benefit the already wealthy elements of local society who have the means and skill to co-opt most developmental resources and initiatives that originate*

*with the national governments and that small towns are structured to enhance the well-being (social, economic and political) of those who are relatively advantaged.*

Lipton's (1977) views on the urban bias and the nature of rural-urban relationship have also contributed to the negative perception of the role of urban centres that were prevalent at the time. Hence, he remarked that

*the most important class conflict in the poor countries of the world today .....is between the rural classes and the urban classes. The rural sector contains most of the poverty, and most of the low-cost sources of potential advance; but the urban sector contains most of the articulateness, organisation and power.*

As pointed out by Baker and Claeson (1990), Lipton had viewed the

*rural and urban societies as dichotomous entities when in reality the rural-urban*

*relationship cannot be dichotomized because of the inherent interplay, overlap and reciprocities (economic, cultural, social and political) which integrate them.*

As a result of these adverse and negative points of view regarding the role of towns, the proponents of bottom-up strategies recommended a different approach for rural and regional development. In the Integrated Rural Development Projects (IRDPs) introduced into developing countries such as Sri Lanka for example, attention was directly focussed on the rural areas and the farmers thus bypassing small towns and ignoring the value of reciprocal relationships that exist between rural areas and small towns. In the Sri Lankan context, Baker and Pedersen's (1992) remark that the main thrust of IRDPs was on agricultural change and little consideration was given to the vital role of small towns

in rural and regional development, is therefore correct. In the basic needs strategies too, the focus was directly on the poor rural communities. It was later realized that the neglect of small towns resulting from the 'myopic focus on rural development' (McNulty, 1987) would be detrimental to regional development.

Other proponents of bottom up strategies such as Johnson (1970), Rondinelli and Ruddle (1978) and Mathur (1982) have focused on the need to support development of small towns for rural development. This reversal in the perception of small towns in regional development is seen in the Urban Functions in Rural Development (UFRD) approach which uses lower order central places (mainly small towns) as advocated in Christaller's Central Place Theory, to foster rural development. The UFRD approach was applied to the Bicol Region in the Philippines and in countries such as Nigeria, Botswana, Zimbabwe and Kenya. Rondinelli and Ruddle (1978) justified the use of small towns in regional development since they consider small towns as

*the most critical settlements in a well articulated spatial system for linking rural and urban functions. In countries where they have been fully developed 'they provide institutions for the collection, exchange and distribution of agricultural products and contain storage, basic processing and transportation facilities to ship products to larger urban markets. They are the locations of basic financial and brokerage and functions.....of non-agricultural work opportunities for surplus rural labour... They facilitate social, cultural and administrative interaction among groups and villages within their areas of influence and with larger cities and metropolis.*

The UFRD approach has been subjected to a number of criticisms by writers such as Southall (1988), Koppel (1986) and Douglass (1990). Douglass for example correctly considered the UFRD approach as a 'one-sided urban view of rural development' and argues that

*without efforts directed to agriculture to generate rural income increases for a broad section of the rural population, and not just a few elites, the placing of a missing function in a rural town is unlikely in and of itself to generate either rural or urban growth in rural regions. In sum, in the absence of a careful integration of the small town development policy with a broader conceptualization of rural development and poverty, this component of a national spatial development strategy risks becoming merely a variation of the very model it seeks to counter, namely, trickle down and urban bias wearing a rural disguise.*

Douglass advocated the Rural-Urban Area Development approach to foster the symbiotic expansion of city and countryside in 1990 which

*calls for a simultaneous emphasis on rural and town centred aspects of development based on rural-urban interdependencies rather than unidirectional urban-to-rural flows of development impulses.*

In 1998, Douglass proposed the Regional Network Approach where he maintains that rather than rural-urban relations being viewed from the conventional town-hinterland construct, focus should be placed in the context of regional networks. According to Douglass, the network or cluster concept

- ◆ incorporates rural and village structures with rural-urban linkages and flows;
- ◆ is based on a clustering of many settlements, each with its own specializations and localized hinterland relationships;
- ◆ instead of a hierarchical urban system centred on a single dominant centre as in the Growth Pole concept the urban system is horizontal;
- ◆ instead of a diffusion process that moves from the top, downwards in

the hierarchy and outwards from the towns to the hinterland, growth stimuli emanates

from both urban and rural areas;

- ◆ it recognizes the need to rural as well as urban infrastructure and social as well as economic overhead capital.

Since it is clear from the above discussion that small towns have the potential to play an important role in regional development, a number of developing countries have conducted research on the possibility of formulating small town or rural service centre policies ( includes small towns with less than 20,000 inhabitants). Kenya launched the Small Towns Development Programme in 1989 ( Mshila, 1997). In 1993, the UNCRD Africa office initiated a research project on the in-depth analysis of the role of small urban centres in economic recovery and regional development in Eastern and Southern Africa since it was believed that

*despite their potential, small urban centres often tend to be a neglected dimension of local and regional development. This owes to a large extent to an inadequate appreciation of the role which they play in rural and regional development, inadequate information about the structure and growth of these centres, and an imprecise understanding of the factors behind their development in relation to the regional economy (UNCRD, 1996).*

The research findings of the above study include the following:

- a. Small urban centres play a critical spatial role and function as intermediaries between the rural sector and the larger urban centres, and hence are sensitive both to rural and urban and to micro and macro policies.
- b. Market-based regional planning recognizes that the private sector relies on the public sector for an enabling environment (provision of basic infrastructure, public goods and services) and that the public sector relies on the private to foster

economic growth and development. The development and balanced distribution of small urban centres is one of the major spatial conditions for an effective interaction between the two.

- c. Small urban centres have had to bear a greater brunt of the negative consequences than the large urban centres for the following reasons:
- ◆ Small urban centres, though operating on a cash economy, are more closely linked to the rural poor than to the large urban centres,
  - ◆ Provision of public funds declines first in small urban centres where the effects of such a step are limited in scope than would be the case in large urban centres, and
  - ◆ Small urban centres have inherently weak financial base and cannot sustain their physical, economic and social development.
- d. Structural adjustment programmes have had positive impact on small urban centres and rural economy in terms of deregulation and trade liberalization.

The case studies undertaken by the study group showed that small urban centres change as a result of policy changes; thus small urban centres seem to stagnate in periods of centralizing government policies as in Ethiopia and Malawi, while they tend to grow during periods with more liberal economic policies. Further, the growth and decline of small urban centres affect performance of the rural economy in the hinterland. The recommendations included the

- need to change the structure of markets found in small urban centres, from being essentially consumer markets into producer markets.
- need to strengthen the financial resource and revenue base of small urban centres.

In Cote d'Ivoire, Malawi, Nigeria and Tanzania small centre policies have been justified on the ground that they can provide infrastructure and services to support agriculture, assist in rural poverty reduction, coordinate economic growth in newly opened areas, redress existing spatial/regional imbalances in development and contribute to the decentralization of local government and administration (UNCHS, 1993). Instead of a single, large and dominant Growth Pole, which aims to attract propulsive industries and as reiterated by Douglass instead of relying on a 'single centre to lead regional growth', planners have used a hierarchy of growth points and growth centres (including small towns) to promote regional development, sometimes referring to the centres as growth centres and sometimes as service centres. According to the UNCHS publication, a growth centre

*must have an economic base and should, through multiplier effects, be capable of stimulating growth in its hinterland. It will also offer the normal commercial, administrative and transport services which service centres without economic bases offer for both their own internal and hinterland populations.*

Most of these settlements designated as 'growth centres' are in fact central places at the lower tiers of the central place hierarchy which contribute directly to the basic economic and social needs of agricultural producers. Such Growth Centre approaches have been adopted in Malaysia, Bangladesh, Nepal, the Philippines, Pakistan and India as well (Misra, 1981). In the Sri Lankan development programmes too (other than the IRDPs), small towns have been established to perform a number of essential services, provide opportunities for non-farm employment and foster rural and regional development.

In addition to the studies mentioned above, there is a large and growing volume of literature on the analysis of the role of small towns in regional development including the work of Hardoy and Satterthwaite (1986). However a critical assessment of the role

of small towns in the development of the periphery of Sri Lanka has not yet been undertaken.

## THE REGION

The NCP is a major migrant receptive region from the late 19<sup>th</sup> Century onwards when State sponsored large and medium scale colonization schemes such as Minneriya, Parakrama Samudra, Rajangana, Huruluwewa, Kandalama, Kagama-Kattiyawa were launched by rehabilitating existing reservoirs and constructing new ones. After 1948 migration accelerated and the NCP became a major destination for internal migrants. During the inter-censal decade of 1953-1963 for instance, while the urbanized Colombo District in the core area had an Index of Attraction of 23.32, that of the NCP had reached 12.07. The corresponding figures for the 1963-1971 inter-censal period were 22.9 and 10.6 respectively. Migration to these twin destinations reached a peak when the Census of 1981 recorded net gains of 203,000 and 228,720 in the NCP and Colombo District respectively. Between 1948 and 1981, the average annual growth rate of population (natural increase and migration) in the NCP was 5.3 percent, whereas the core area had grown only at the rate of 2.2 percent per annum. There had been a further increase of migrants in the Mahaweli Development Project Area after 1977 but the rate of migration was not as high as that in the pre-Mahaweli Period. The proportion of migrants in the total population in the Galnewa and Tambuttegama regions in the irrigation System H for example, amounted to only 18.3 percent and 27.2 per cent respectively. In addition to farm families, there was an influx of 'pioneering entrepreneurs', contractors, casual labourers and Government Servants to the region from the other provinces.

The NCP is predominantly an agricultural region. Due to the opening up of the area by colonization schemes the area under crops had increased by 212 percent between 1952/53 and 1962/63. Of particular significance is the increase of the gross area

under paddy from 29,000 ha to 110,990 ha during the same period. Paddy was cultivated in approximately 76,000 ha under major and minor irrigation schemes and in rainfed areas during the *Maha* or the main agricultural season of 1999/2000. The average yield of 4MT/ha in the NCP (excluding the Mahaweli system) exceeded that of most paddy growing areas in Sri Lanka while the Mahaweli systems of H and G had higher yields of 4.7 and 4.3 MT/ha respectively. The region produces 22 per cent of Sri Lankan paddy output and has become a surplus paddy producing area. A substantial proportion of chillies, big onions, gingelly and other field crops is also sold outside the region.

The NCP has not succeeded in attracting large or medium scale industries. At the end of 2000, only 27 factories established under the Board of Investment (2 percent of the total) were located in the region with local and foreign funds amounting to Rs.1085 million. They included 19 factories under the 200 Garment Factory Programme which provided direct employment to 8500 persons. The Industrial Estate project in the NCP has not been a success.

The Per Capita Gross Domestic Product in the 2 districts that comprise the NCP was relatively high (Rs. 10,832/= in the Anuradhapura District and Rs.9,047/= in the Polonnaruwa District). The average annual growth rate of 9.9 percent between 1990 and 1995 had surpassed that of the core. The Human Development Indices of 0.85 and 0.86 in these two districts are on par with that of the core area.

Considerable regional differences can be observed between (a) the Anuradhapura and Polonnaruwa Districts (b) irrigation systems in the Mahaweli and the rest of the area and (c) among the smaller administrative divisions (Divisional Secretariat Divisions or DSDs). Higher investments (Rs. 112,000/= per settler family) have enabled the population in the Mahaweli Systems to have better social and economic levels. These more prosperous enclaves have relatively low poverty levels of 26 - 37 percent while the DSDs in the areas

affected by the separatist war have the highest incidence of poverty (nearly 90 percent) (Fig. 5.1).

Problems identified in the rural areas of the NCP include low agricultural productivity, non-diversification of agriculture, low income, lack of employment opportunities, increasing incidence of malaria and other vector borne diseases, poor nutrition levels and the degradation of the natural environment. Research reveal that in the recently opened up Mahaweli systems too, despite the equitable distribution of land at the inception, increasing land fragmentation and illegal land transactions have occurred (Siriwardane, 1981, Wanigaratne, 1997, 2000, Gooneratne, 2000). Other major issues identified by researchers are

- the wide variation in income levels among farmers (the poorest 50 per cent receive 26 per cent of the total);
- 60 percent of surplus paddy and other crops being marketed as "distress sales";
- seasonal poverty among poorer farmers;
- declining farmer profits;
- vast gap between gross per capita income and real per capita income;
- high incidence of childhood malnutrition and acute malnutrition (32 percent and 42 percent respectively) and
- the absence of a dynamic non farm sector to absorb second and third generation of settler families (Gooneratne, 2000, Wanasinghe, 1987).

Although a dynamic non-farm sector which could absorb the less - educated unskilled labour and the more educated and skilled job aspirants within the NCP is not available, some degree of diversification of village and household economies has occurred in most parts of the N2CP. As disclosed by Table 5.1, on the average the proportion engaged in agriculture in 3 traditional villages around Kahatagasdigiliya amounted to 66 percent. With the exception of Hatamuna the

TABLE 5.1  
Occupation Structure of Selected Rural Settlements in the Hinterlands of Small Towns in the NCP

Occupation	Rural Settlements around																	
	Kahatagasdigiliya						Hingurakgoda						Tambuttegama					
	1		2		3		4		5		6		7		8		9	
No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	
Agriculture	318	63.35	356	72.95	261	62.29	127	38.96	151	63.18	286	74.29	316	80.20	265	74.02	246	75.69
Employees in the Government Sector																		
a. Armed Forces & Police	82	16.33	12	2.46	99	23.63	12	3.68	21	8.79	13	3.38	09	2.28	13	3.63	10	3.08
b. Other	44	8.76	36	7.38	36	8.59	60	18.40	16	6.69	40	10.39	23	5.84	29	8.10	08	2.46
Employees in the Private Sector																		
a. Garment factory workers	28	5.58	33	6.76	11	2.63	26	7.98	21	8.79	17	4.42	11	2.79	21	5.87	22	6.77
b. Other	30	5.98	51	10.45	12	2.86	101	30.98	30	12.55	29	7.53	35	8.88	30	8.38	39	12.00
Total	502	100.00	488	100.00	419	100.00	326	100.00	239	100.00	385	100.00	394	100.00	358	100.00	325	100.00

1. Bethkewa
2. Kudapattiya
3. Digamhamillewa
4. Hatamuna
5. Kohombadamana
6. Rotawewa
7. Adhiranigama
8. Kotmalpura
9. Siyambalagahagama

Source: Ratnayake, 2003

proportion engaged in agriculture in the other 5 rural settlements located within the zones of influence of Hingurakgoda and Tambuttegama ranged from 63 percent to 80 percent. Table 5.1 also highlights a recent trend of seeking employment in occupations that provide regular income such as

- a) the Police, the Armed Forces and village-level Home Guards (employed to protect 'border' villages in the conflict zone).
- b) semi-skilled and low-skilled work in the Middle Eastern countries or
- c) blue collar work in export-oriented garment factories within the NCP (based in towns or rural areas) and in the core area.

Hence the flow of capital into the region as remittances from abroad or as wages earned locally, makes it possible for such 'straddler households' (Baker, 1996) to enhance their incomes and ensure economic security. Others in the non-primary occupation category included Government Servants in clerical and teaching professions etc, self-employed entrepreneurs, petty traders, producer/retailers, craftsmen and construction workers in the formal and informal sectors.

Among those employed in non-farm activities are females who have entered the job market recently. As illustrated in Table 5.2, 25 women in Sanagilikahdarawa and 11 in Yakawewa located within the zone of influence of Medawachchiya town have opted for regular wages earned as housemaids in Middle Eastern countries while many others in the region work in garment factories and shops in urban centres.

TABLE 5.2

Occupation Structure of Female Members of Rural Households, 2003

Occupation	Sangilikahdarawa		Mahakumbukgollewa		Yakawewa	
	Total	%	Total	%	Total	%
Agriculture	18	19	12	19	33	39
Garment Factory Worker	08	08	18	27	15	18
Professionals in Govt. Service	12	12	07	11	04	05
Sewing / Dress making	04	04	01	02	05	06
Sales Person / Trader / Vendor	05	05	04	06	04	05
Employees in Middle East Countries	25	26	05	08	11	13
Labourers	20	20	12	19	10	12
Other	05	05	02	03	02	02
Security service (State and Private sectors)	01	01	03	05	-	-
Total	98	100	64	100	84	100

Source: Field Survey, 2003

One significant factor to be noted is that 69.2 percent and 49.4 percent of the employees in the State sector are permanent residents in the Anuradhapura and Polonnaruwa districts respectively. The remainder are temporary migrants. In the Provincial Public Sector, only 16.3 percent and 23.4 percent are migrants while in the Semi-Government sector, the proportions were 28.1 percent and 55.5 percent respectively (Dept. of Census and Statistics, 1994).

The region receives funds from different sources for development activities. The Provincial Council for the North Central Province has been allocated 6 percent or Rs.3284 million of the total budgetary allocation for the provinces by the Central Government in 1999 which is considerably higher than the amount received in 1998. Further, funds for the development of the Anuradhapura

District had been provided from the IRDPs from 1982 to 1995. From 1996 onwards, the ADB funded Rural Development Project and the North Central Province Participatory Rural Development Project funded by Sida, IFAD and the Government of Sri Lanka were in operation.

## OVERVIEW OF SMALL TOWNS IN SRI LANKA

### Definition

Any study of small towns in Sri Lanka has to face the problem of defining small towns. Physical extent or population size cannot be considered as a valid criterion for delineating small towns. The ideal definition should be based on functions but since accurate data on functions are not available for all the urban centres, population size and administration status have been used widely in the delimitation. The internationally accepted upper threshold population for small towns is 20,000 inhabitants but the lower limit changes from country to country. In 1988, the writer used the officially recognized Sri Lankan definition of urban centres namely, areas administered by Municipal, Urban and Town Councils combined with population size. Thus all those settlements with urban administrative functions, with a population below 20,000 were considered as small towns. A lower threshold population was not considered necessary since even areas administered by Urban Councils such as Kadugannawa had less than 2000 inhabitants.

In recent years, the definition and delineation of small towns has become more problematic. The definition of urban centres adopted by Sri Lanka changed after 1987 when Town Council areas were incorporated into rural local authorities referred to as *Pradeshiya Sabhas*. As a result, most of the small towns as well as some of the intermediate size towns that possessed urban characteristics had lost their urban status as illustrated in Table 5.3. It should be stressed that the absence of an acceptable definition of urban centres in Sri Lanka has created numerous problems for the study of small towns, such as

- ◆ the lack of accurate data for comparing growth trends of small towns after 1981. Data for former Town Council areas are not available at the 2001 Census of Population;
- ◆ the failure to revise town boundaries. At present population

growth occurs beyond the town limits of officially recognized but 'under bounded' centres. It is expected that when these densely populated areas are incorporated into towns, there would be a significant increase in urban population;

- ◆ the failure to recognize most of the former Town Council areas (currently incorporated into rural local authorities) as urban settlements.
- ◆ the delay in upgrading a number of emerging small towns that perform important urban functions. As indicated in Table 5.3 as many as 200 centres have been identified by Indrasiri (2000) as emerging towns.

Hence, there is an urgent need to formulate an acceptable definition of small towns in the Sri Lankan context, before embarking on the analysis of the role of small towns in regional development.

### Characteristics of Small Towns in Sri Lanka

Sri Lanka uses the administrative criterion (as outlined above) to delineate urban settlements. These urban settlements range from Kadugannawa with 1215 inhabitants to Colombo with 642,020 at the 2001 Census of Population. When combined with the Internationally accepted definition (urban places with a population less than 20,000), small towns in Sri Lanka can generally be defined as "all the officially recognized urban centres with a population below 20,000". A lower threshold limit has never been considered.

Numerically, small towns have always dominated the urban system in Sri Lanka. In 1946, of the 42 urban settlements in the country 76 percent were classified as small towns. Owing to the upgrading of areas administered by Town Councils to urban status, the number of small towns had increased to 74 at the 1963 Census of Population, which meant that the proportion of small towns among urban settlements amounted to 74.8 percent but the proportion of the total urban population in the country falling within this category was relatively low at 26 percent. By 1981, although the number of small towns had increased to 94 (which was 70 percent of the country total), the percentage of urban population contained in small towns continued to remain low (25 percent). After the re-definition of urban settlements in 1987, there was a dramatic

reduction in the number of small towns from 94 in 1981 to 17 in 2001 (Table 5.4).

The Dry Zone districts of Sri Lanka have been severely affected by the non-recognition of former Town Council areas as urban settlements. For example, thirteen small towns with a population between 5000-19,999 and 30 Smaller Towns (population below 5000) were incorporated into rural local government areas or *Pradeshiya Sabhas* (Table 5.3). In addition to the 41 towns downgraded, more than 100 settlements in the Dry Zone have been identified by the UDA, as emerging/incipient urban centres. In order to perform a catalytic role and to remove the main constraints, such small towns have to be officially recognized as urban centers, upgraded and funds allocated for the provision of infrastructure and services (A discussion of functions of small towns in the periphery of Sri Lanka appears in the chapter on "Urban Development and Regional Planning in Sri Lanka" in this volume).

### Small Towns in the NCP

#### Definition

Two types of small towns can be identified in the NCP viz; (a) those settlements that are officially accepted as small towns and (b) incipient centres that have been identified by the UDA as potential small towns.

For the study of the role of small towns in the NCP, the writer adopted the functional definition for which data were available for the Province together with population size. Indrasiri's (2000) study of Central Places based on Centrality Indices and the study of the hierarchy of Central Places, their functions and zones of influence in the NCP undertaken by the Urban Development Authority (2002) provided valuable information for the study.

The criteria considered as important by the writer in identifying small towns in the NCP included

- the availability of functions (administrative, financial, commercial, health, educational, judicial, postal and telecommunication) at each centre ;
- the quality of functions (based on points allocated on a scale of 0-5 to each function by the UDA.

TABLE 5.3  
Urban Settlements by size, 1981 - 2001

Name of District	Cities >100,000		Intermediate size towns 20,000-99,999		Small towns < 5,000				Total (Official)		No. lost after 1987	No. of emerging centers	Total
	1981	2001	1981	2001	5000-19,999	1981	2001	1981	1987				
					1981	2001	1981	2001	1981	1987	2001	2001	2001
<b>Wet Zone</b>													
Colombo	4	4	6	2	1	0	1	0	12	6	6	4	16
Gampaha	0	0	10	4	2	2	4	0	16	7	9	11	27
Kalutara	0	0	4	3	3	1	3	0	10	4	6	5	15
Kandy	1	1	1	1	1	3	4	1	7	5	2	12	19
Galle	0	0	1	1	5	1	3	0	9	2	7	6	15
Kegalle	0	0	0	0	2	1	5	0	7	1	6	3	10
N'Eliya	0	0	1	1	1	0	2	0	4	3	1	8	12
Matara	0	0	1	2	1	0	2	0	4	2	2	7	11
Ratnapura	0	0	1	1	1	1	3	0	5	2	3	12	17
Sub-Total	5	6	25	15	16	11	28	1	74	32	42	68	142
<b>Dry Zone</b>													
Jaffna	1	1	0	0	9	n.a	3	n.a	13	4	9	n.a	13
Hambantota	0	0	0	0	1	2	5	0	6	2	4	9	15
Batticaloa	0	0	1	0	2	0	0	0	3	1	2	1	4
Matale	0	0	1	1	0	0	3	0	4	1	3	6	10
Kurunegala	0	0	1	1	0	1	4	0	5	2	3	33	38
Puttalam	0	0	2	2	0	0	5	0	7	2	5	7	14
Badulla	0	0	1	1	0	2	6	1	7	3	4	9	16
Mannar	0	0	0	0	1	0	0	0	1	0	1	n.a	1
Polonnaruwa	0	0	0	0	1	0	1	0	2	0	2	11	13
Anuradhapura	0	0	1	1	0	0	1	0	2	1	1	27	29
Vavuniya	0	0	0	0	1	0	0	0	1	1	0	6	7
Mullaitivu	0	0	0	0	0	0	1	0	1	0	1	n.a	1
Trincomalee	0	0	1	0	2	1	0	1	4	1	3	7	11
Ampara	0	0	1	1	2	1	0	0	3	1	2	10	13
Moneragala	0	0	0	0	0	0	1	0	1	0	1	9	10
Sub-Total	1	1	9	7	19	6	31	0	60	19	41	135	195
Total	6	7	34	22	35	17	59	2	134	51	83	203	337

Source: (1). Department of Census and Statistics (2). Indrasiri L. H. (2000)

TABLE 5.4  
Urban Settlements by Size Class and Percentage Distribution of Urban Population in Each Class in Sri Lanka (1963 - 2001)

Town Type and Size Class	1963			1971			1981			2001*		
	1	2	3	1	2	3	1	2	3	1	2	3
<b>Large Cities</b> >100,000	02	2.0	30.9	03	02.2	29.0	06	04.5	38.1	06	14.0	55.8
<b>Intermediate (medium) Towns</b> 50,000-99,999	05	5.0	18.8	05	03.7	14.5	03	02.2	06.1	05	07.0	15.0
20,000-49,999	18	18.2	24.2	25	18.5	27.5	31	23.1	30.6	17	41.9	22.1
<b>Sub Total</b>	23	23.2	43.0	30	22.2	42.0	34	25.3	36.7	22	48.9	37.1
<b>Small Towns</b> 10,000-19,999	21	21.2	13.8	34	25.2	17.3	35	26.1	16.0	08	25.6	04.7
5,000-9,999	23	23.3	07.9	30	22.2	07.6	28	20.9	06.2	06	07.0	02.0
<5,000	30	30.3	04.4	38	28.2	04.1	31	23.2	03.0	05	04.5	00.4
<b>Sub Total</b>	74	74.8	26.1	102	75.6	29.0	94	70.2	25.2	19	37.1	7.1
<b>Total</b>	99	100.0	100.0	135	100.0	100.0	134	100.0	100.0	47	100.0	100.0

1. Number of settlements
  2. As percentage of total urban settlements
  3. Population as a percentage of total urban population
- Source: adapted from Census of Population Reports. (department of Census and Statistics)  
Note: \*Population enumerated from 18 Districts only.

TABLE 5.5  
Functions of Small Towns in the NCP

Name of Settlement	Centrality Values	Hierarchy (Order)	Population 1998	Radius of zone of influence (km)
<b>Prov. Capital</b> Anuradhapura	82	1 <sup>st</sup>	60,820	> 50
<b>District Capital</b> Polonnaruwa	70		42,000	> 50
<b>Small Towns</b> Hingurakgoda	65	3 <sup>rd</sup>	13,082	> 50
Tambuttegama	63		7,358	20-29
Kekirawa	60		6,524	40-49
Medawachchiya	59		2,050	40-49
Bakamuna	58		1,576	40-49
Nochchiyagama	57		4,177	40-49
Kahatagasdigiliya	56	4 <sup>th</sup>	1,073	40-49
Medirigiriya	56		2,750	20-29
<b>Other Central Places</b> Horowpothana	55		1,034	30-29
Padaviya	55		4,457	30-39
Mihintale	55		948	10-19
Galenbidunuwewa	55		1,162	30-39
Aralaganvila	52		1,684	20-29
Kebithigollewa	51		1,145	20-29
Galnewa	51		2,611	20-29
Thalawa	50		2,327	10-19
Habarana	50	2,470	10-19	

Source: UDA, Anuradhapura, 2001

The small towns selected from the list of central places include the following:

1. Central Places with a population threshold below 20,000. This criterion excludes the two intermediate size towns viz., Provincial capital of Anuradhapura and District capital of Polonnaruwa that are first and second order central places respectively within the regional hierarchy and perform important functions.
2. All those centres that satisfied the above criteria and earned a total Centrality value of 56 and above were considered as small towns in the NCP. These central places include settlements with 1,000-13,000 inhabitants. However in view of the significant functions they perform,

even small central places with a population between 1,000-2,000 have been included in the small town category.

3. Nine central places that had Centrality Values between 50-55 have been designated rural service centres.

Thus, 5 third order central places and 3 fourth order central places have been selected as small towns in the North Central Province (Table 5.5).

They include

- older towns that have developed in areas of traditional tank villages and colonization schemes such as Hingurakgoda, Kekirawa, Medawachchiya, Kahatagasdigiliya and Medirigiriya,
- townships established under the Mahaweli Development Project such as Tambuttegama (System H), Bakamuna (System G), Nochchiyagama (System H), Aralanganwila (System B), Galnewa (System H), and Talawa (System H).

The population of each town, its functional magnitude and the radius of the zones of influence or complementary areas shown in Table 5.5 illustrate the diverse nature of small towns in the NCP. Although the resident population of most of the small towns is below 3000, they perform important multiple functions as indicated by the centrality values that range between 55 and 65 (Fig 5.4).

#### History of Small Town Growth in the NCP

Two distinct periods can be discerned in the historical development of towns in the NCP-the pre-Mahaweli (prior to the launching of the Mahaweli Project) and the post-Mahaweli period. During the early British period in the 19th Century, small junction settlements and railway stations such as Kekirawa, Medawachchiya, Mihintale, Kahatagasdigiliya, Horowpothana, Galoya, Minneriya, Polonnaruwa, Giritale, Manampitiya and Maradankadawela had

catered to the requirements of scattered tank villages in the region while a few settlements had performed administrative functions.

With the establishment of colonization schemes, Civic centres and Townships were introduced to the recently opened up areas. Each Township was expected to serve 5000 persons and land was allocated for a variety of higher level services that included a rural hospital, a rice mill, co-operative store, marketing centre, school, places of worship, revenue office, shops and artisans workshops (Silva 1979). The expectations of the planners were not realized since Civic centers and Townships did not develop at the planned locations. On the other hand others had emerged spontaneously at junctions where people frequently congregated. Commenting on the growth of Townships in the Parakrama Samudra scheme, Gunawardene (1979) remarked that such centres that had emerged spontaneously were not able to provide the quality and quantity of services required by the settler population. This statement is substantiated by Karunatileke's (1986) analysis on Township development in colonization schemes in the pre- and post-Mahaweli periods. In the Mahakanadarawa scheme, the only Township of significance was Rambewa which had to serve as many as 18,000 persons but it could not offer the range of services required by the colonists. Further, the single Township of Galenbindunuwewa, established to serve 28,000 in the Huruluwewa scheme was not only inadequate for such a large scheme but was also not centrally located. In the Minneriya Scheme however, Hingurakgoda provided a wider range of services and developed faster than the other Townships mentioned above.

Two studies-one by Mendis (1973) and the other by the Central Bank of Ceylon (1975), highlight the problems faced by farmers due to the inadequacy of townships and small towns in and around areas that were to be developed under the Mahaweli Project. Anuradhapura and Polonnaruwa in the NCP were the only 1<sup>st</sup> order and 2<sup>nd</sup> order Central Places that had developed by the 1970s.

Other small towns (either developed spontaneously or planned by the State as Townships to serve colonization schemes) belonged to 3<sup>rd</sup> and 4<sup>th</sup> order categories. They include Kekirawa, Hingurakgoda, Medawachchiya, Negampaha, Ipologama, Eppawela, Talawa, Padaviya Mihintale, Horowpothana, Habarana, Maradankadawala, Maha Illupallama and Minneriya. It is noteworthy that most of the Townships established specifically to serve colonization schemes had not developed even up to the level of 4<sup>th</sup> order Central Places.

By the 1970s, Kekirawa- a spontaneously developed junction settlement, had expanded into a prosperous trade centre and was providing services to settlers in colonization schemes in the vicinity. In 1978, 329 establishments were in operation, 75 percent of which were related to wholesale and retail trade. The proportion of establishments performing community, social and personal services and those associated with manufacturing amounted to 13 percent and 11 percent respectively (Silva, 1978). Manufacturing establishments included rice and oil mills, welding and lathe work and bakeries.

Kekirawa was administered by a Town Council until 1987 and in terms of the functional magnitude ranks 3<sup>rd</sup> among the Small Towns and 5<sup>th</sup> among Central Places in the regional hierarchy (Table 5.5). It had an average annual growth rate (AAGR) of population of 2.84 percent during the intercensal decade of 1971-1981 and an estimated AAGR of 3.00 percent between 1981-1997.

Medawachchiya is another Small Town that had come into existence in the early 20<sup>th</sup> Century but had developed rapidly only after the 1970's. It is located midway between Anuradhapura and Vavuniya at a road-railway junction. It provided low order goods and services to people in the Padaviya colonization scheme and the traditional villages and areas under shifting cultivation. The town began to expand after the Second World War when a Petrol Station (1946), a row of 10 permanent shops (1947), a Cinema Hall (1959) and other buildings were constructed by a single entrepreneur and the built-up area at the junction came to be known as the CP Town after the owner of the buildings. The second stage in the evolution of the town began in 1960 when the State established a Peoples Bank, two schools, a hospital,

Executive Engineer's office, a branch of the Survey Department and other Government institutions in an area close to the original node and is termed the 'New Town'. In the late 1960's and 1970's the town was provided with a water supply scheme, a bus stand, a market complex and electricity and telephone services.

Among the new Townships introduced into colonization schemes, only Hingurakgoda in the Minneriya scheme had grown into a Small Town. By 1980, public sector institutions such as administrative, judicial, education, health, postal and telecommunications had provided employment to nearly 3200 persons-more than the number employed by the private sector which was nearly 2000 (Table 5.6). Of the total number employed in commercial establishments located in the Minneriya Colonization scheme, as many as 63 percent were working in Hingurakgoda. Similarly the proportion of employees engaged in personal and support services at Hingurakgoda was 60 and 58 percent respectively. It had an AAGR of 2.98 percent and an estimated 3.00 percent during the periods 1971-1981 and 1981-1997 respectively. It was previously administrated by a Town Council and after 1987, was incorporated into the *Pradeshiya Sabha*.

#### The Impact of the Mahaweli Development Project on Small Town Growth

The launching of the Mahaweli Project has had a profound impact on the growth and development of Small Towns in the NCP. The project upgraded a number of existing junction settlements within the project area such as Eppawela, Talawa, Nochchiyagama and Tambuttegama and established Townships at new locations such as Galnewa and Migalewa in the Irrigation System H, Aralaganwila, Manampitiya and Welikanda in System B and Bakamuna in System G. The main objective of introducing Townships, Village/ Area centers at the lower level, was to efficiently and effectively deliver essential urban services and facilities so as to spread social benefits to the largest number of farm and non farm families in rural hinterlands. (Fig. 5 ). The State provided schools, hospitals or Central Dispensaries, Post Offices, Police Stations, Secondary Schools and Banks in Townships and had allocated land for shops, workshops and periodic markets as well Fig. 6 (Wanasinghe, 1987).

TABLE 5.6

Non-farm (Private sector) Employment at Hingurakgoda in the Minneriya Settlement Scheme, 1978

Type of Employment	Number of persons employed		Total in the colonization scheme
	In Hingurakgoda town	Within hinterland	
<b>1. Business and Trade</b>			
Shops (Garments)	162	118	280
Grocery shops	185	115	300
Tea shops and Restaurants	217	102	319
Bakeries	43	28	71
Meat stalls	13	03	16
Fish stalls	06	02	08
Ice cream shops and vendors	13	-	13
Jewellery shops	13	-	13
Photo studios	16	-	16
Printing presses	09	-	09
	677	368	1,045
<b>2. Supporting Services</b>			
Motor repair garages	80	40	120
Blacksmiths	12	10	22
Bicycle repairs	22	13	35
Radio repairs	06	03	09
Tinker shops	08	07	15
Petrol sheds	17	-	17
Welding workshops	14	11	25
Drivers/Carters	23	52	80
	187	136	323
<b>3. Personal Services</b>			
Medical profession	06	10	16
Tailors	03	10	13
Laundries	11	08	19
Barber shops	13	07	20
Cinemas	21	-	21
	54	35	89
<b>4. Manufacture and Processing</b>			
Grinding (Paddy Mills)	45	300	345
Timber Saw Mills	20	-	20
Furniture workshops	35	27	62
Tobacco barns	03	10	13
	103	337	440
<b>5. Labourers</b>	935	1,960	2,895
<b>Total</b>	1,962	2,923	4,885

Source: Wimaladharm, 1982

By 2000, six of the townships established in the Mahaweli Systems have developed faster than others in the NCP and risen to higher levels in the Central Place Hierarchy (Table 5.7) These surpassed older small towns in the region such as Rambewa and Maradankadawela.

TABLE 5.7  
Availability of Services in Central Places in the NCP

Central Places	Administration			Education	Health			Judicial & Security		Postal & Telecom				Transportation			
	Central Govt	Branch Offices	Pradeshya Sabha		Divisional Secretariat	District Hospital	(>=50 beds)	Peripheral hospital (30 beds average)	Rural Hospital (22 beds average)	ASP Office	Police Station	Post office (Telephone Service)	Telephone exchange	Agency post office (IDD/Fax/Telex)	Communication Centers	Railway Station	Regional Bus Terminal / CTB depot
Anuradhapura	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Polonnaruwa	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Hingurakgoda	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Thambuttegama	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Kekirawa	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Medawachchiya	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Bakamuna	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Nochchiyagama	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Kahatagasdigiliya	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Mediriginya	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Horowpothana	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Padaviya	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Mihintale	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Galenbidunuwewa	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Aralaganvila	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Kebirthigollewa	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Galnewa	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Talawa	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦
Habarana	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦

♦ Indicates availability  
Source: UDA, Anuradhapura, 2001

## FUNCTIONAL DIVERSITY OF SMALL TOWNS

Among the central places identified by the Urban Development Authority, the district capital of Polonnaruwa has been elevated to the second ranking position after Anuradhapura. Hingurakgoda in the Minneriya Colonization scheme and Tambutegama in the Mahaweli Project have emerged as the most important small towns in the region displacing the old established towns such as Kekirawa and Medawachchiya.

### Government Intervention in the Provision of Services

The degree of Government involvement in the provision of essential services and facilities is reflected in the multitude of public sector institutions introduced by the State such as administrative, health, educational, security, postal and telecommunication services (Table 5.7). Almost all the small towns possess branches of Central and Local Government Institutions (branches of line Ministries, *Pradeshiya Sabhas* and Divisional Secretariat Offices). Other functions that draw people in the hinterland to towns on week days include senior secondary schools, district hospitals, peripheral hospitals or rural hospitals, police stations and post offices. By the year 2000, all the small towns had attracted at least 3 different banks each. The location at road/rail or road junctions has also contributed to the growth of small towns and strengthened their linkages with rural hinterlands.

### Services Provided by the Private Sector

An increasing involvement of the private sector in education (Tutories, Computer Centers), health (Allopathic and Ayurvedic dispensaries, pharmacies, nursing homes), postal and telecommunication (agency post offices, communication centers with IDD facilities) and transport (3 wheel cabs, lorry, van and bus transport including Inter City buses) services can be observed in most of the small towns.

### Commercial and Industrial Functions of the Private Sector

This section focuses on selected small towns. In all the small towns

the prime importance of commercial activities is reflected in the relatively higher percentage of the private sector establishments devoted to retail and wholesale trade (Table 5.8). Kekirawa possesses 432 licensed enterprises of which 79.6 percent belong to this category. Owing to its strategic location, it can cater to a vast, rich and growing hinterland comprising colonization schemes and the Eastern part of Mahaweli System H by

- a) supplying urban-based commodities such as agro-inputs, agro-equipment and general merchandise-either directly to consumers or indirectly via village boutiques;
- b) collecting agricultural produce in the hinterland for urban markets and
- c) providing essential services.

Kahatagasdigiliya is a small junction settlement with an estimated population of 1073 in 1997 but performs important administrative (Divisional Secretariat and the offices of the *Pradeshiya Sabaha*), educational (Senior Secondary and other schools), health (District Hospitals), postal and security services. Despite its small size the town caters to a population residing within a radius of 40-49 km. The economic activities are similar to those at Kekirawa but are on smaller scale with only 124 establishments. Hingurakgoda as discussed above, differs from Kekirawa, Medawachchiya and Kahatagasdigiliya since it was established by the State to serve the Minneriya colonization scheme.

An attempt is made below to highlight the salient characteristics of private sector enterprises and entrepreneurs in two small towns with different historical backgrounds, that are located outside the Mahaweli Project viz., Kahatagasdigiliya and Hingurakgoda.

Ratnayake's (2003) study reveals that although they are relatively 'old' towns, a significant feature in both Kahatagasdigiliya and Hingurakgoda is that approximately 60 percent of enterprises had been established after 1991. As much as 50-60 percent of the

enterprises were owned and operated by the proprietor himself with help from family members. Less than 10 percent of the establishments employed more than 4 full time workers.

Seasonal and weekly fluctuations in business activities is a regular feature in all the Small Towns,. Seasonal changes in business turnover follows the agricultural calendar. During March and April when the " Maha" season (the main agricultural season) crop is harvested and New Year festivities begin in the rural hinterland, there is a rapid increase in the sale of wide variety of goods ranging from electrical goods, vehicles and jewellery, clothing and groceries while purchasing of paddy and other local produce is undertaken in retail and wholesale enterprises. Two other periods of relatively high business activity (but not at the scale generated by the March-April period) occur during a) August (after the harvest is gathered) from the Yala (lesser) agricultural season when farmers in colonization schemes earn a relatively high income and b) during November December months when the Maha cultivation season commences and agricultural implements and agricultural inputs are purchased by farmers and village boutique keepers. Thus the type of goods sold is closely related to the changing requirements, the available income and the consumption pattern of consumers in the region.

During these periods of enhanced trading activity, the entrepreneurs either employ more workers (47 percent and 45 percent at Kahatagasdigiliya and Hingurakgoda respectively) or increase the number of hours that the shops are kept open (47 percent and 48 percent at Kahatagsdigiliya and Hingurakgoda respectively). Every week, business activities in Small Towns increase on days when the periodic (weekly) markets or 'polas' are held when there is an influx of mobile vendors, wholesale and retail traders, lorry drivers, carters and members of farm households to the towns. However, seasonal variations in the number of market participants-both traders and consumers can be observed in the periodic markets as evidenced by the market

participants at the Medawachchiya pola. From August to October 2002, the number of traders fluctuated between 300 and 345 but during the New Year season (March-April) the numbers exceed 500.

Another noteworthy feature is that 77 percent of entrepreneurs at Kahatagasdigiliya and only 43 percent at Hingurakgoda had been born locally. The majority of migrant entrepreneurs at Hingurakgoda had arrived between 1961 and 1980 from the Central and Southern Provinces and from the core area (Western Province).

Of the total, 38 percent at Kahatagasdigiliya and 46 percent at Hingurakgoda, stated that they have had no prior experience or training in entrepreneurship or business management. The remainder had gained some experience as unpaid family workers (training imparted to sons who would inherit the family business) or employees/ apprentices in similar businesses. Some entrepreneurs were retired Government Servants who had served in the region and were of the opinion that the towns offered excellent business opportunities. Their own savings or loans from relations have been mobilized as an initial investment for the enterprises. In fact only 11 percent and 21 percent of entrepreneurs at Hingurakgoda and Kahatagasdigiliya had obtained Bank loans to set up their business. Thus the 'family network' has been a significant factor in small town enterprises.

Most of the entrepreneurs born in the region maintained that they had either inherited or purchased land in the neighboring villages while a few others had leased agricultural land. The extent ranged between 1 acre to 5 acres. This supplementary income was used to expand the business and to purchase vehicles or land.

Approximately 60 percent of the business premises in Hingurakgoda had been rented or leased but at Kahatagasdigiliya, 60 percent of the establishments were located in buildings owned by the proprietor. Buildings in both towns were mainly single storied structures with a floor area of 100-700 square feet. Larger establishments had a floor area between 1100-1750 square feet. The road frontage of the majority of buildings did not exceed 20 feet.

TABLE 5.8

## Commercial and Industrial Activities in Small Towns in the NCP

Activities	Kekirawa		Hingurakgoda		Medawachchiya		Tambuttegama	
	No	%	No	%	No	%	No	%
<b>Wholesale and Retail Trade</b>								
General Merchandise	175	40.5	152	33.7	91	34.5	91	23.6
Vegetable/Fruit/Meat/Fish Stalls	23	5.3	31	6.9	11	4.2	23	5.9
Textiles and Apparel	24	5.6	28	6.1	19	7.2	18	4.7
Agro equipment, Chemicals and Fertilizers	10	2.3	11	2.5	07	2.7	18	4.7
Collecting Centres of agricultural produce	*		13	2.8	05	1.9	21	5.4
Electrical goods	13	3.0	10	2.2	08	3.0	05	1.3
Vehicles and Spare parts	11	2.5	08	1.8	02	0.8	11	2.9
Furniture and fittings	07	1.6	07	1.5	02	0.8	16	4.1
Miscellaneous	80	18.6	67	14.8	43	16.3	78	20.2
<b>Manufacturing and Service industries</b>								
Grinding Mills	34	7.9	35	7.7	10	3.8	08	2.1
Saw Mills/ Timber Stores	13	3.0	19	4.2	06	2.2	20	5.1
Repair of motor vehicles, agro equipment and electrical goods	04	0.9	38	8.5	44	16.6	22	5.7
Miscellaneous	38	8.8	33	7.3	16	6.0	55	14.3
Total	432	100.0	452	100.0	264	100.0	386	100.0

Source: Field Survey 2002/2003 and UDA (2001) Trade Licenses Issued for Enterprises Anuradhapura

\* Included under General Merchandise

Miscellaneous commercial activities include jewelry shops, pharmacies, photography studios

Miscellaneous industries include, lathe and welding work shops, printing presses, barber saloons etc.

≠Among the small towns in the Mahaweli Project, Tambuttegama possessed the largest concentration of enterprises in 1992 followed by Nochchiyagama (Table 5.9) The Mahaweli towns do

not possess such a large number of establishments as in the older towns of Kekirawa and Hingurakgoda but the proportion of establishments engaged in commercial activities ranged from 65 percent at Talawa to 75 percent at Tambuttegama. Those conducting community and personal services ranged between 14 and 19 percent. As illustrated in Table 5.9, manufacturing was not an important activity. Instead of concentrating in Small Towns, most of the raw material and consumer (market) oriented manufacturing activities (predominantly agro processing for local consumption) were dispersed in the region with minor nodes at Village and Block centers. Field studies conducted in 2000/2001 reveal that no significant changes to the above pattern had occurred during the past 7 years although the number of enterprises had increased especially at Tambuttegama where there was a rapid increase of enterprises from 225 to 433. The stagnation of Galnewa is attributed to its unsuitable location (away from a main junction) and to the shifting of the Resident Project Manager's Office for the System H from Galnewa to Tambuttegama. In fact, the Village Centre of Bulnewa located at a junction close to Galnewa is experiencing higher rates of growth.

TABLE 5.9

## Number of Enterprises by Sector and Town in Mahaweli Townships, 1992

Town	Agriculture, Forestry & Fishing	Mining and Quarrying	Manufacturing	Construction	Wholesale & Retail Trade	Transport, Storage & Communications	Banking & Financial Services	Community & Personal Services	Total
<b>System B</b>									
Aralaganwila	-	-	17	-	96	-	1	23	137
<b>System G</b>									
Bakamuna	-	-	2	-	62	-	4	13	91
<b>System H</b>									
Galnewa	-	-	12	-	67	-	4	15	98
Tambuttegama	1	-	30	-	180	1	5	38	255
Talawa	-	-	14	-	77	2	2	20	115
Nochchiyagama	-	-	20	-	143	2	3	40	208

Source: GHK International et al, 1993.

A salient feature common to all enterprises in Mahaweli as well

as non-Mahaweli towns is that an overwhelming majority of businesses are either owner operated establishments or micro enterprises (Table 5.10). In fact, 95–100 percent of enterprises at Bakamuna, Nochchiyagama and Aralanganwila belong to these two categories. The other characteristics of non-Mahaweli towns such as the seasonal and weekly dimensions in trading activities and the presence of numerous petty traders in the informal sector can be observed in the Mahaweli small towns as well.

TABLE 5.10  
Enterprises in Mahaweli Towns

Systems and Townships	Number of Enterprises by type of Entrepreneur				Total
	Owner/ Propr. Only	Micro Enterprises	Small Enterprises	Medium/ Large Enterprises	
	Propr. & 1-4 full time (or equi. in part time workers)	Propr. & 5-24 full time (or equi. in part time workers)	Propr. & over 25 full time (or equi. in part time workers)		
<b>System G</b>					
Bakamuna	57	29	05	-	91
<b>System B</b>					
Aralaganwila	98	39	-	-	137
<b>System H</b>					
Galnewa	59	33	6	-	98
Tambuttegama	154	87	14	-	255
Talawa	77	30	7	1	115
Nochchiyagama	123	77	8	-	208

Source: GHK International et al, 1993.

### INTERACTIONS WITH RURAL AREAS

Interaction is a two-way process which occurs between urban and rural areas and includes the movement of people, goods, and capital as well as social transactions and the provision of administrative and other services. Unwin (1989) when presenting a broad overview of rural-urban interactions explained that economic, social, political and ideological linkages between urban and rural centres find their 'physical expression in measurable flows of ..... people, money or budgetary allocation' and these flows are associated with interactions between people, places and objects.

The nature of the interactions between small towns and rural areas in the region can be analyzed under a few selected themes such as:

- movement of people
- sale of local produce
- purchase of goods

The occupation structure of small towns revealed that a large number of Government Servants in the administration, education, health, transport and other sectors and numerous private sector entrepreneurs and their employees work in small towns. A substantial proportion of these workers do not reside in towns and thus a daily movement of people from rural areas can be observed which is beneficial to both the small town enterprises and the commuting workers alike. Table 5.11 indicates that 31 to 60 percent of the employees in private sector establishments in Tambuttegama, Hingurakgoda and Kahatagasdigiliya live outside the town.

TABLE 5.11

### Place of Permanent Residence of Employees in Small Towns

Location	Tambuttegama		Hingurakgoda		Kahatagasdigiliya	
	Total	%	Total	%	Total	%
In the small town	38	45.24	22	26.83	26	35.14
Villages in the vicinity of the small town	26	31.95	45	54.88	45	60.81
Home towns/villages of entrepreneurs	10	11.90	15	18.29	03	4.05
Other	10	11.90	-	-	-	-
Total	84	100.00	82	100.00	74	100.00

Source : Ratnayake, 2003

This fact is substantiated by a study of commuting patterns of garment factory workers at Medawachchiya. Thirty seven per cent of the young female workers (1256) at the Carlton Bridal Wear Factory arrive from within a radius of 2 km from the factory while 46.0 per cent travel from villages located 2-10 km away. They

purchase clothes, shoes, jewellery and even household goods from the town itself rather than depending on the village boutique or shops in larger towns. However, electric and electronic goods are purchased in the factory premises, on easy payment terms from visiting agents of Colombo-based Companies such as Singer and Hayleys.

Regular visits (on a weekly basis) by traders and consumers to periodic markets involves a different type of movement. On market days, permanent business enterprises such as hotels, eating places, tea boutiques, communication centres, record bars and pharmacies in small towns gain more customers than on ordinary days but the majority of rural consumers patronize the periodic markets since the price of goods is relatively low. In fact most of the villagers visit the town only on market days.

Small towns are visited occasionally by villagers from a longer distance in order to avail themselves of the middle order administrative, health and other services provided. Hence the radius of the zone of influence of the more important small towns such as Hingurakgoda extends as far as 50 km. It should however be noted that the size of the zone of influence is reduced when there are towns located close to each other.

Linkages with small towns in the sale of local produce and purchase of commodities by villagers are reflected in the behaviour of producers and consumers at the village level which is governed by a complex set of factors such as

- the purchasing power of the population, the extent of seasonal poverty
- the amount produced and the proportion sold as 'distress' sales
- the extent of indebtedness or the degree to which the producer is 'bound' to the village boutique keeper or the shop keeper in the small town
- distance and the accessibility or the availability of cheap transport facilities.
- the role played by different actors involved in marketing (the purchase and resale of agricultural

produce and the sale of general provisions, agricultural inputs, higher order goods etc)

Hence the degree of interaction can vary from village to village. For example, nearly 75.0 per cent of the paddy produced by 56 percent of farmers at Adiranigama - a hamlet in the hinterland of Tambuttegama - was sold mainly to the village boutique keeper rather than to the nearest small town because of poverty and indebtedness. As a result the bulk of the general provisions (94.0 per cent) and agricultural inputs (64.0 per cent) were also purchased locally. Villagers at Hathamuna-located 2 km from Hingurakgoda, had closer links with the traders at the small town rather than with the village boutique keeper because of its close proximity to the town. On the other hand, farmers at Kudapattiya, a traditional village located 6 km away from Kahatagasdigiliya, had forged links with traders in the small town since the local boutique keepers did not provide them with credit to buy agricultural inputs. Hence they were not compelled to sell their produce to the local trader.

The interaction of village producers and consumers with different actors-the village boutique keepers, visiting collectors and middlemen, shop keepers at the nearest junction settlement and at the small town can be illustrated further by another example of travel patterns of villagers at Maha Kumbukgollewa which is located 7 km from Medawachchiya town. Daily provisions are generally purchased from the two main boutiques at the village or from the periodic market at Medawachchiya. The bulk of the paddy, chillies and other local produce of the poorer farm households is sold to the village boutique keeper while agricultural inputs are also bought from the same boutique. The village boutique keeper plays a more significant role in this village particularly for the poorer groups. The nearest junction settlement with a main bus stop (to reach larger towns in the region) and a railway station (for long distance travel), is located 2 km away at Punewa. Services not available at the village such as a secondary school, a post office (to draw pensions, use the telephone or pay electricity bills), an Agrarian Service Centre, private dispensary, barber saloon and a

few shops are concentrated at Punewa. Hence villagers at Maha Kumbukgollewa visit Punewa frequently and travel to Medawachchiya which is the main administrative centre and a multi-functional town for middle and higher order services.

### INFRASTRUCTURE IN SMALL TOWNS

The inadequacy or absence of town serving, demand-driven infrastructure facilities such as good roads, water and power supply and environmental infrastructure such as solid and liquid domestic and industrial waste disposal methods is a characteristic feature of most of the small towns in the region. They are provided with water supply schemes but not all the towns possess water purification plants and piped water supply with public taps and private connections. The majority of towns with the exception of Galnewa have been supplied with 3-phase electricity and three phase transformers.

Detailed studies of Kekirawa and Hingurakgoda highlight the main problems associated with the provision of infrastructure facilities in small towns in the NCP (PADCO, 2000). They include

- a. the poor quality of internal roads. As much as 80 percent of B class roads in Kekirawa are not in good condition due to the absence of side drains and poor maintenance. The condition of roads in Hingurakgoda is fairly satisfactory.
- b. Inadequacy of potable water. At Kekirawa, water obtained from the river is supplemented by an irrigation tank whose water level falls during the dry season. At present only 60 percent of the population is served and the supply is restricted to 12 hours each day. The situation at Hingurakgoda is similar since the water sources dry up during the long dry season. Water obtained from 3 large tube wells is not adequate to meet the increasing demand. Tambuttegama faces

the some problem and its water supply is curtailed to 6 hours each day.

- c. inadequacy of power supply. Low voltage in the evenings at Hingurakgoda and frequent power failures at Kekirawa are the major issues.
- d. poor sanitation. Accurate data are not available for Kekirawa but at Hingurakgoda, 1500 households use water sealed latrines and another 200 use insanitary latrines. Another issue is that 32 percent of the households are not served by any sanitation facilities at all.
- e. lack of facilities to drain storm water and sullage. The blocking of drains with solid waste cause floods during wet weather.
- f. inadequacy of facilities for collection of waste and dump sites for solid waste disposal.

In order to rehabilitate infrastructure and provide facilities and to address environmental problems in selected towns the Urban Development Sector Project for medium and small centres was launched by the UDA in 1993. The sub-projects identified included provision of water supply, sanitation and sullage disposal, storm water drainage and solid waste management (UDA, 1992). Only Anuradhapura and Polonnaruwa were selected from the NCP at the initial stage. There is an urgent need to expand this programme to cover the smaller towns since low or fluctuating voltage, inadequacy of a continuous supply of water, poor roads etc. discourage entrepreneurs from selecting these small towns to locate factories.

### CONCLUSIONS

More recently theoretical approaches have focused on the positive role that Small Towns can play in regional development. They are seen as centres that can stimulate agricultural modernization and rural industrialization. They also perform service and marketing

functions, contribute to innovation diffusion and prevent 'leakages'.

This paper explained how the perception of Small Towns had changed from time to time during the last five decades which had a detrimental effect on regional development. Empirical evidence from African countries had proved that monopsonistic middlemen based in small towns had been exploiting rural farmers. Hence small towns were looked upon as 'vanguards of exploitation' and 'parasitic islands of privilege'. As a result, certain bottom up strategies by-passed small towns to reach the farmers directly when providing aid to rural areas. Today there is once again a swing towards the recognition of small towns as essential elements in regional development.

In Sri Lanka regional/rural development strategies have embraced both view points viz; that small towns are parasitic and that they are beneficial. While planners of colonization schemes and the Mahaweli Development Project have focused on the value of small towns for development, the IRDPs have completely ignored them. In the NCP too these two points of view prevailed as evidenced by the Mahaweli Project on the one hand and the ADB funded Rural Development Project and the Participatory Rural Development Project that are in operation on the other. The Anuradhapura UDA is currently preparing land use plans for small towns but so far no attempt has been made to formulate an area development plan that incorporates both rural and urban areas.

The analysis of functions of Small Towns in the NCP indicates that they have played a vital role in providing essential health, education, financial, security and other services for the rural population thus helping to raise their Physical Quality of Life. Since the majority of small towns and rural service centres are concentrated in the Mahaweli Project, people in this recently developed area have benefited more from services available in small towns than others in the NCP. Access to small towns in the remaining areas of the NCP is restricted by distance, lack of roads and transport facilities.

When assessing the role of small towns as collecting and distributing centres, it was observed that the benefits accruing to the poorer farm and non-farm families faced with low income and

seasonal poverty are limited and as indicated in the foregoing discussion, they appear to be 'locked into the sphere of influence' of local boutique keepers or visiting collectors. The wealthy farmers generally by pass small towns to reach larger urban centers.

Small Towns have failed to perform as loci for industry. The attempt made to attract investors to the newly established industrial estate at Tambuttegama did not succeed. A significant proportion of the agricultural produce therefore leaves the region as unprocessed material while there is an influx of processed goods to the region. Under the 200- and 50- Garment Factory Programmes initiated by the State to decentralize industries, a few small garment factories have been located in the region because of liberal incentives provided by the State but not always in urban areas. The study highlighted the catalytic role played by a small factory in Medawachchiya which helped to generate employment and enhance incomes in the town as well as in rural areas.

Most of the Small Towns in Sri Lanka have been ignored and neglected by the State and are not recognized as urban centres. Hence funds are not adequate to create an enabling environment for investors. As indicated in this paper, no attempt has been made to define and delineate urban centres or to recognize small towns as important elements in integrated regional development.

From the foregoing discussion it is clear that most of the problems stem from the absence of an integrated area development policy which is based on urban and rural interdependencies. The planners in settlement projects appear to have adopted the UFRD approach which according to Douglass (1990) is a one sided urban view of rural development while the IRDPs have completely neglected small towns. Hence the need for integration of the small town development policy with a broader conceptualization of rural development and poverty is clearly indicated in the NCP.

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**Fig 5.1**  
**Levels of Poverty in the NCP - 1999**

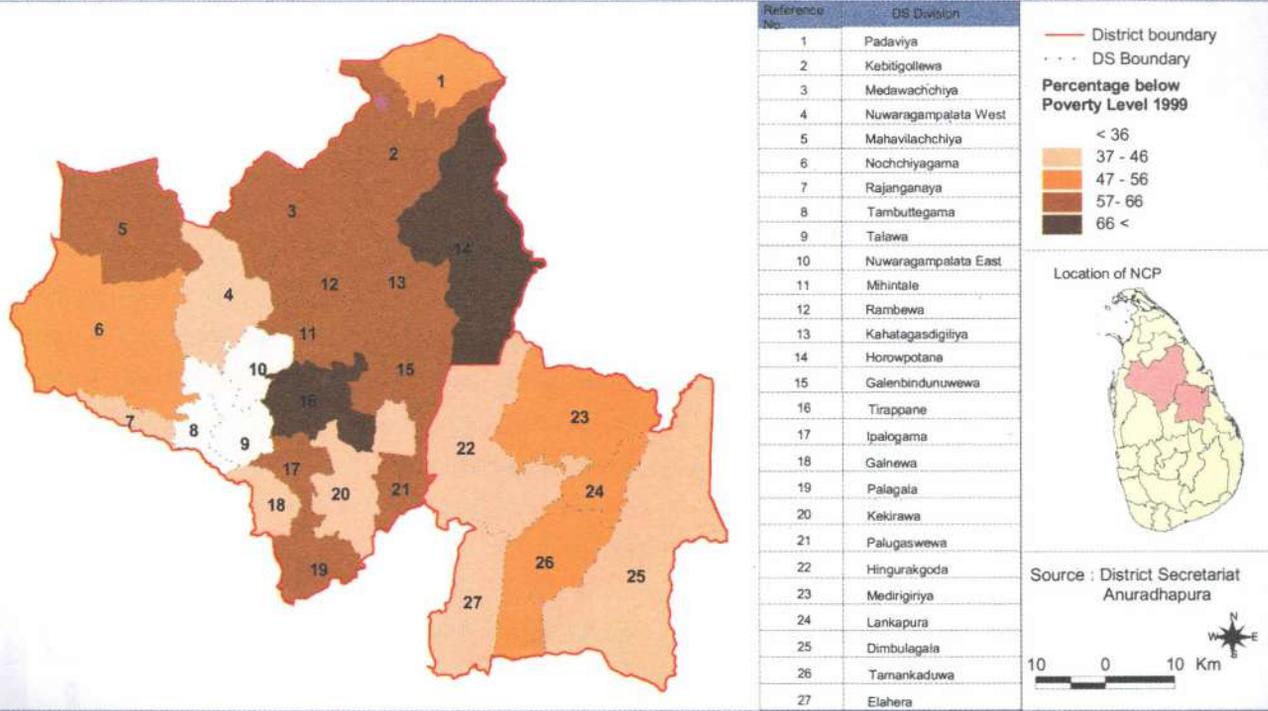
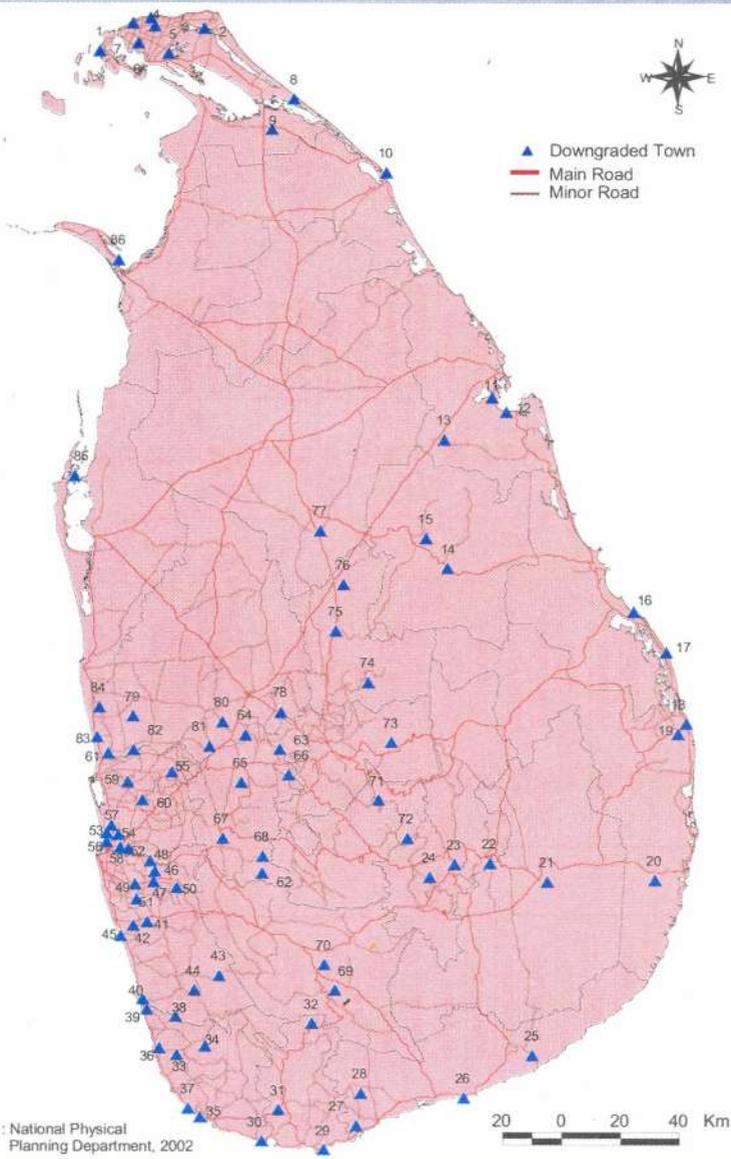


Fig 5.2

Downgraded Urban Centres - 2000

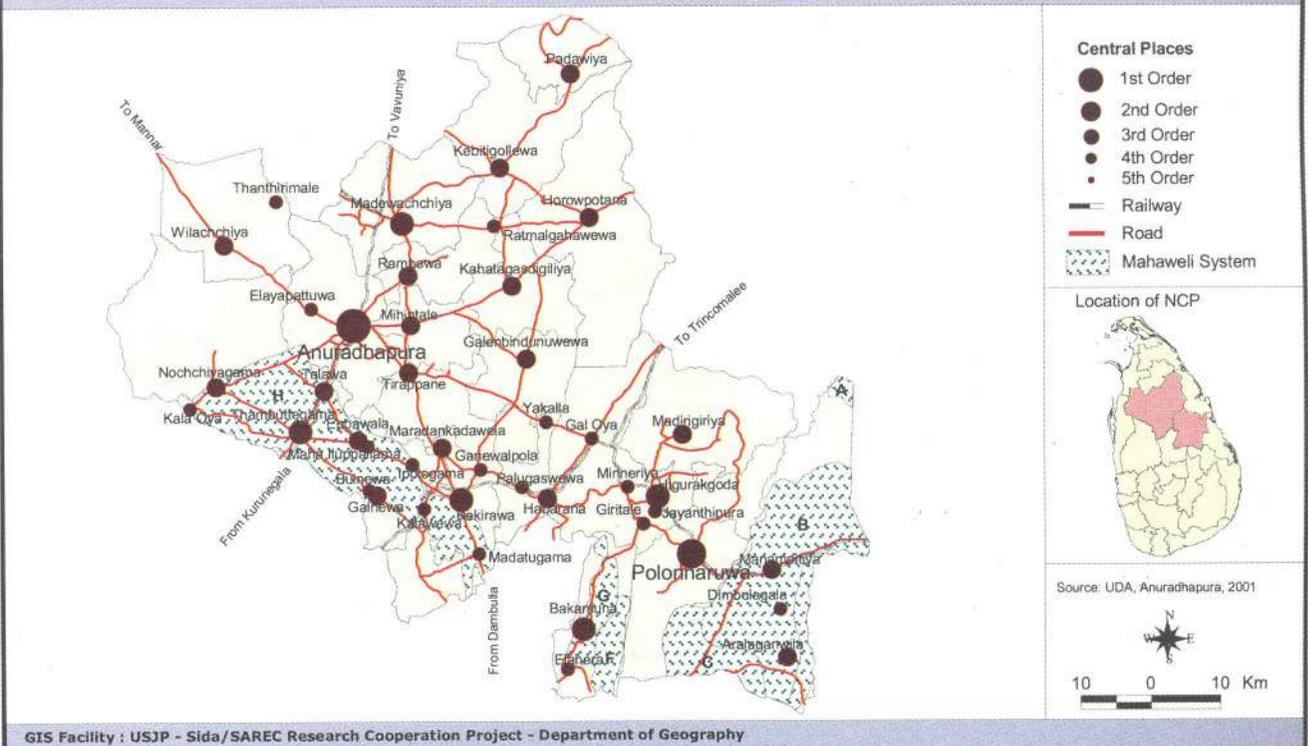


GIS Facility : USJP - Sida/SAREC Research Cooperation Project - Department of Geography

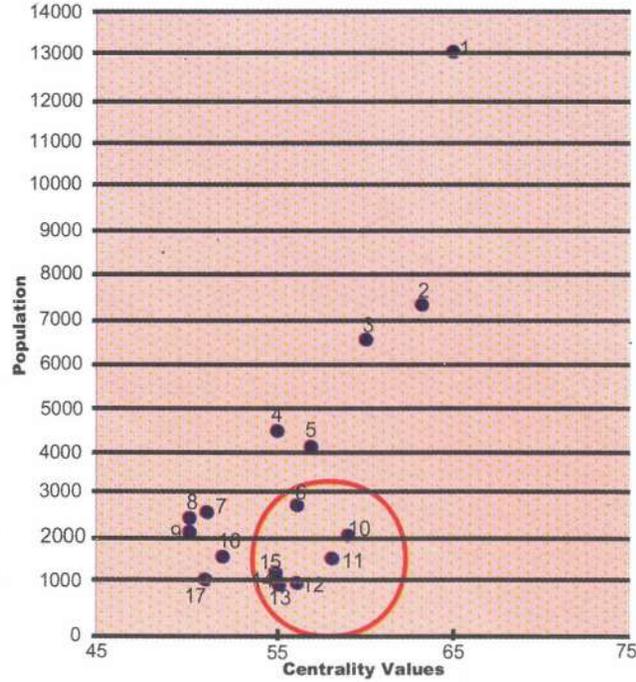
RF Number	Name	RF Number	Name	RF Number	Name	RF Number	Name
1	Kayts	27	Beliatta	53	Welisara	79	Nattandiya
2	Nelliady	28	Walasmulla	54	Ragama	80	Narammala
3	Urumpiral	29	Devinuwara	55	Mirigama	81	Allawwa
4	Kankasanturai	30	Ahangama	56	Hendala	82	Dankotuwa
5	Manipai	31	Akuressa	57	Kandana	83	Wennappuwa
6	Chenkanai	32	Rakwana	58	Dalugama	84	Madampe
7	Pandatarippu	33	Watugedara	59	Minuwangoda	85	Kalpitiya
8	Chunnakam	34	Elpitiya	60	Veyangoda	86	Mannar
9	Kilinochchi	35	Dodanduwa	61	Kochchikade		
10	Mullaitiu	36	Balapitiya	62	Dehiovita		
11	Kinniyai	37	Hikkaduwa	63	Rambukkana		
12	Mutur	38	Darga Town	64	Polgahawela		
13	Kantale	39	Bentota	65	Warakapola		
14	Polonnaruwa	40	Alutgama	66	Mawanella		
15	Hingurakgoda	41	Bandaragama	67	Ruwanwella		
16	Eravur	42	Keselwatta	68	Yatiantota		
17	Kattankudy	43	Agalawatta	69	Kahawatta		
18	Kalmunei	44	Matugama	70	Pelmadulla		
19	Samanturai	45	Wadduwa	71	Pussellawa		
20	Lunugala	46	Mulleriyawa	72	Pundalu Oya		
21	Monaragala	47	Battaramulla	73	Teldeniya		
22	Passara	48	Kotikawatta	74	Rattota		
23	Hali Ela	49	Maharagama	75	Galewela		
24	Welimada	50	Homagama	76	Dambulla		
25	Tissamaharama	51	Piliyandala	77	Kekirawa		
26	Ambalantota	52	Kelaniya	78	Mawatagama		

RF Number = Reference Number

**Fig 5.3**  
Hierarchy of Central Places in the North Central Province - 2001



**Fig 5.4**  
**Correlation between Population and Centrality**

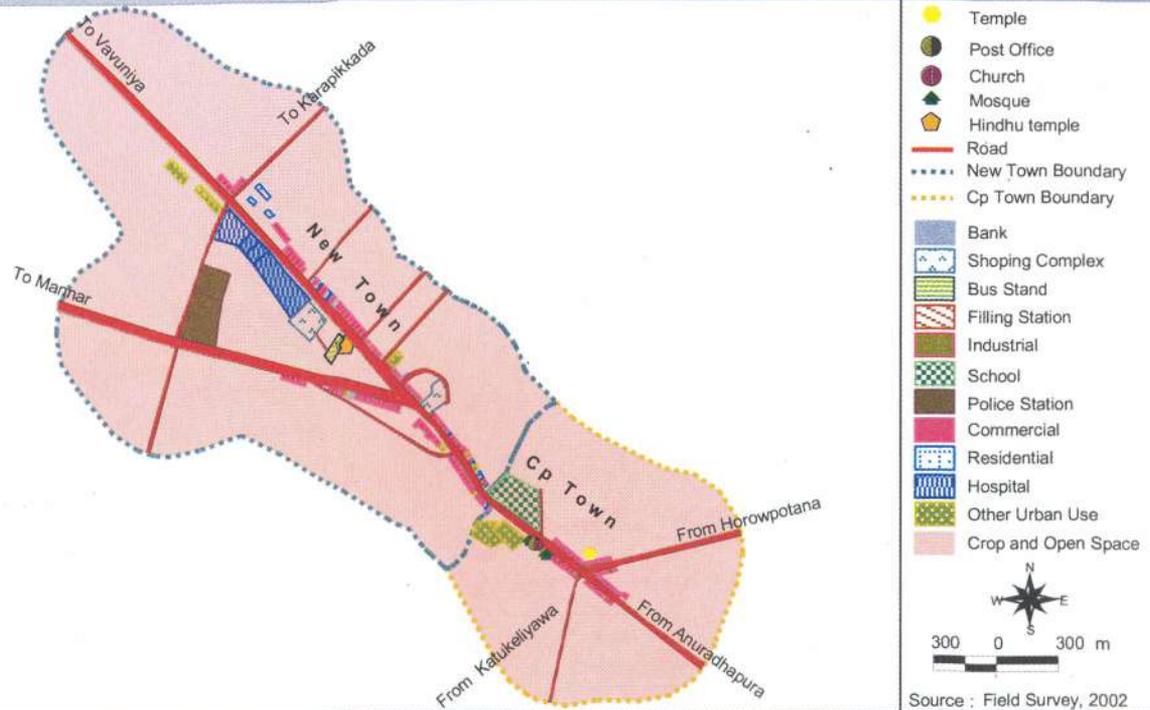


- 1 Hingurakgoda
- 2 Tambuttegama
- 3 Kekirawa
- 4 Padaviya
- 5 Nochchiyagama
- 6 Medirigiriya
- 7 Galnewa
- 8 Habarana
- 9 Talawa
- 10 Medawachchiya
- 11 Bakamuna
- 12 Kahatagasdigiliya
- 13 Mihintale
- 14 Horowpotana
- 15 Galenbindunuwewa
- 16 Aralaganwila
- 17 Kebitigollewa

Source : Based on data from UDA  
Anuradhapura, 2001

Fig 5.5

### Medawachchiya - Unplanned Growth



**Fig 5.6**  
**Mahaweli Townships in the NCP**



- District Capital
- Township
- Railway
- Road
- Mahaweli River
- Mahaweli System

Location of NCP



Source : Mahaweli Development Authority

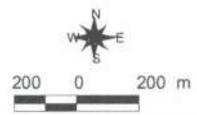


**Fig 5.7**  
**Tambuttegama Planned Township**



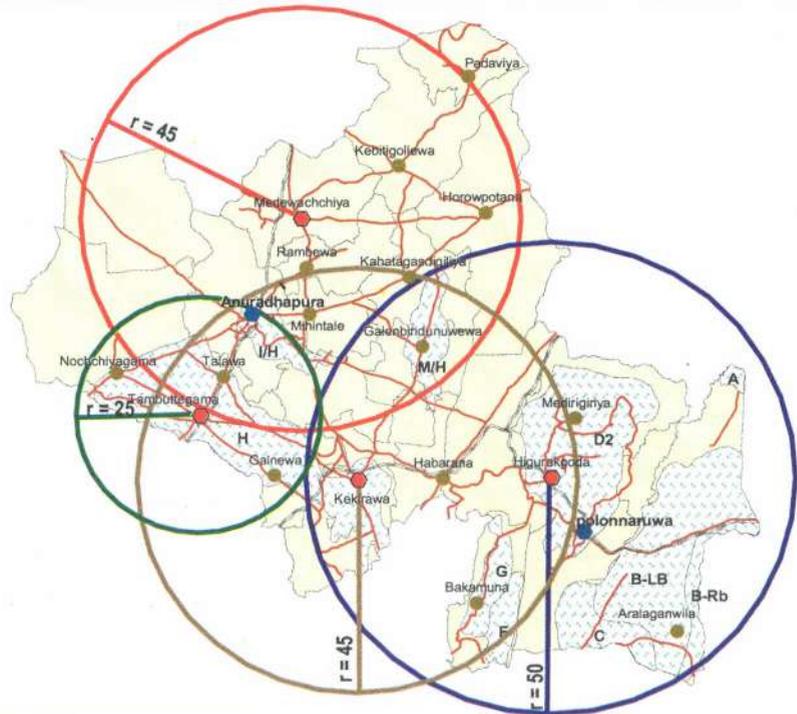
- Railway
- Main road
- Minor road
- Canal
- Stream
- Residential
- Commercial
- Forest
- Rock
- Tank
- School
- Playground
- Periodic Market
- Sport Complex
- Post Office
- Bank
- Library & Cultural Centre
- Rural Hospital
- Police Station & Quarter
- Cemetery
- Open space

Source : Block out Map, 1985



**Fig 5.8**  
**Zones of Influence of Selected Small Towns in the NCP**

- 191 -

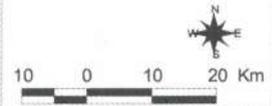


- District capital
  - ◆ Selected Township
  - Township
  - Railway
  - Road
  - ▨ Mahaweli System
- Zone of Influence**
- ▨ Tambuttegama
  - ▨ Kekirawa
  - ▨ Hingurakgoda
  - ▨ Medawachchiya

Location of NCP



Source: UDA, Anuradhapura, 2001



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## **URBAN DEVELOPMENT AND REGIONAL PLANNING IN SRI LANKA**

*Y.A.D.S. Wanasinghe and M.M. Karunanayake*

### **INTRODUCTION**

Although Sri Lanka is a small Island State there are considerable imbalances in regional growth and development. These imbalances are evident both within and between regions (Wanasinghe, 2001). Regional inequalities are further delineated by a core-periphery differential resulting from the polarization of the Colombo Metropolitan Region (CMR). Hence, there is an urgent need to develop specific approaches and strategies to reduce regional imbalances and inequalities. This need also assumes urgency within the context of a political ideology committed to decentralization, devolution of political authority and power sharing.

However, this does not mean that hitherto there has been no concern with regional development and planning in Sri Lanka. Indeed, there have been many approaches to regional development as demonstrated by Dry Zone land settlement, river basin development, dispersed development of industry and District Integrated Rural Development Programmes. Furthermore, the Accelerated Mahaweli Development Programme and the more recent Southern Area Development Programme can also be viewed as institutional approaches for the planning and development of specific regions. The above strategies have had a measure of success in that Sri Lanka has been able to contain the more undesirable features of a core-periphery dichotomy such as a high rate of rural to urban migration.

Nevertheless, the strategies that have been followed so far have not been sufficient to fully realize the dynamism and competitiveness of regional economies. Moreover, the regional differences have been widening and the open economic policy as well as the effects of globalization have tended to further accentuate the polarization of the metropolitan core.

The argument posited in this paper is that in Sri Lanka regional planning has failed to integrate rural and urban area development. This means that strategies have been worked out in watertight compartments for the urban and the rural sector. What is more, Sri Lanka does not have an explicit urbanization policy. Nor does it have a well formulated urban spatial strategy, for example, articulated in terms of a rural-urban area strategy as enunciated by Douglass (1990). Hence, this paper examines the urban development experience in Sri Lanka from a regional perspective. While recognizing the need for the sustained development of the core area the paper presents the case for a spatial strategy which integrates rural-urban area development in the periphery and complements the polycentric spatial strategy proposed for the metropolitan region.

TABLE 6.1  
Urban Population According to Size of Towns (1946 - 2001)

Year	Towns	Small Towns					Intermediate Size Towns			Cities	Total
		Below 2,000	2,000 to 4,999	5,000 to 9,999	10,000 to 19,999	20,000 to 49,999	50,000 to 99,999	100,000 & Over			
1946	Number of towns	3	9	7	13	5	4	1	42		
	Population Percentage of total urban	3,601	28,386	55,874	1,745,981	1,771,231	2,213,88	362,074	1,023,044		
1953	Number of towns	0.4	2.8	5.5	7.1	7.3	21.6	35.4	100		
	Population Percentage of total urban	4,062	28,338	29,691	213,150	154,727	383,038	426,127	1,239,133		
1963	Number of towns	0.3	2.3	2.4	17.2	12.5	30.9	34.4	100		
	Population Percentage of total urban	15,342	74,681	158,280	278,153	487,986	379,265	622,578	2,016,285		
1971	Number of towns	0.8	3.7	7.9	13.8	24.2	18.8	30.9	100		
	Population Percentage of total urban	10,819	104,095	215,846	499,561	781,874	411,311	823,798	2,848,116		
1981	Number of towns	0.4	3.7	7.6	17.5	27.5	14.4	28.9	100		
	Population Percentage of total urban	5,173	90,518	199,189	511,138	976,957	195,094	1,216,830	3,194,899		
2001*	Number of towns	0.2	2.8	6.3	16.0	30.5	6.1	38.1	100		
	Population Percentage of total urban	1,215	8,526	47,237	116,636	545,665	370,385	1,376,805	2,466,469		
		0.05	0.34	1.91	4.72	22.12	15.01	55.82	100		

\* Data for 18 districts only.

Source: Department of Census and Statistics

## TRENDS IN URBAN GROWTH AND URBANIZATION

### Trends Prior to 1981

As indicated in Table 6.1, there has been a three-fold increase in the number of towns from 42 in 1946 to 134 in 1981. Between 1953 and 1971, the number of towns had increased from 43 to 135 primarily due to the elevation of localities administered by Town Councils to urban status. When classified according to size, they can be grouped into 3 categories viz., Cities with a population of over 100,000, Intermediate Size or Medium Towns, with a population between 20,000 - 99,999 and Small Towns, with a population below 20,000. In 1946, although Colombo was the only city with a population exceeding 100,000, it had appropriated as much as 35 percent of the total urban population. By 1981 the number of Cities had risen to 6 in which 38 percent of the total urban population was concentrated. The proportion acquired by intermediate sized towns had declined from 43.4 percent (in 12 intermediate size towns) to 36.6 percent (in 34 intermediate size towns) between 1953 and 1981. In spite of the fact that there was a proliferation of small towns in the country (94 in 1981) the urban population concentrated in this group had always been less than 30 percent.

The most striking feature in the urban system during this period is the demographic and functional supremacy gained by Colombo. However from 1931 onwards the demographic primacy, as measured by the 2-City Index had declined from 6.3 to 3.7 in 1971 (Table 6.2).

TABLE 6.2  
Primacy of the City of Colombo

Census year	1901	1911	1921	1931	1946	1953	1963	1971	1981	2001
Popu. Of C'mbo ('000s) P1	154	211	244	284	362	426	511	562	585	642
P1/P2 (1 <sup>st</sup> and 2 <sup>nd</sup> City)	4.2	5.3	5.8	6.3	5.9	5.3	4.6	3.7	3.4	3.2
Name of 2 <sup>nd</sup> city	Galle	Jaffna	Moratuwa	Moratuwa	Dehiwala Mt. Lavinia					

Source: Wanasinghe (1994) and Dept. of Census and Statistics, Census of Population, 2001.

This apparent decline can be attributed to the metropolization of Colombo rather than to the growth of competing towns in the periphery (Wanasinghe, 1985). By 1981, the urban system in Sri Lanka was dominated by the vast functional urban region of Colombo referred to as the Colombo Metropolitan Region (CMR) which resulted in city primacy being superseded by regional primacy. The CMR comprises the economic capital of Colombo and the administrative capital of Sri Jayewardenepura with numerous suburbs and urbanized rural areas known as 'rurban' settlements along with other towns linked to the main urbanized area by urban sprawl (Wanasinghe, 1985).

The spatial distribution of urban settlements was characterized by a concentration of 5 of the 6 Cities and 25 out of 34 Intermediate size towns in the agro-ecological region called the Wet Zone, located in the south western quadrant of the Island. The majority of urban settlements in the remaining area, known as the Dry Zone belonged to the Small Town category.

Except during the two inter censal periods of 1946-1953 and 1971-1981, the average annual growth rates of the urban population had surpassed those of the rural population. The period between 1953 and 1963 and 1963 and 1971 had recorded relatively high average annual growth rates of 4.8 percent and 4.23 percent respectively with a relatively high Urban-Rural Growth Difference (URGD), which measures the tempo of urbanization, of 2.3 percent. It should be noted that the tempo of urbanization in Sri Lanka has always been slow except during the period 1953 - 1971 when there was an acceleration of the tempo primarily due to the upgrading of areas administered by Town Councils into the urban category. During the 1971-1981 inter censal decade however, the URGD had declined to -0.6 percent due to the faster growth of the rural population.

This period saw the deceleration in the growth rates of 5 Cities. The majority of intermediate size towns (some of which were Provincial or District Capitals) as well as 50 percent of the small towns had also experienced slow growth rates (Fig. 6.1). The expansion of built up areas beyond the corporate limits of cities and towns such as Kandy, Galle, Gampaha that had reached saturation level; the inability of many towns to attract investment due to the inadequacy of infrastructure facilities; the weakening of forces that had generated their initial growth; and the out migration of certain ethnic groups are some of the factors that contributed to the slow growth or stagnation of urban centres during

the 1971-1981 inter censal decade.

The new suburbs that had emerged around Colombo such as Maharagama, Kelaniya, Ragama and Battaramulla and small towns located in or near the land settlement schemes in the Dry Zone lowlands such as Tissamaharama, Ambalantota, Kekirawa and Hingurakgoda were the most dynamic urban settlements during this decade.

The level or the degree of urbanization was relatively low, increasing from 15.3 percent in 1953 to 21.4 percent in 1981. The slow tempo and low level of urbanization can be attributed to the government policies concerned with improving the social and economic conditions of the rural population which had greatly reduced the rural to urban migration.

### Trends after 1981

The analysis of trends in urban growth and urbanization after 1981 is hampered by the absence of an acceptable definition of urban settlements and an island-wide Census. The Census of Population in 2001, enumerated only 18 out of the 25 districts. Furthermore, after the 13<sup>th</sup> Amendment to the Constitution in 1987, Town Councils were incorporated into rural local government bodies termed *Pradeshaya Sabhas*, with the result that 83 urban settlements were re-classified as rural settlements. These downgraded Town Council areas included some of the most dynamic and densely populated suburbs of Colombo such as Maharagama and fast growing small towns in the Dry Zone. Ambalantota for example, had an average annual growth rate (AAGR) of 4.6 percent between 1981 and 1993, while Tissamaharama had grown at the rate of 6 percent. Even District capitals such as Polonnaruwa have been excluded from the urban category (Wanasinghe, 1995). The net result was the loss of 21 towns in the CMR and 9 and 7 towns in the districts of Jaffna and Galle respectively. Another shortcoming in the new urban definition is that it excludes towns that have emerged after 1981. As many as 203 such towns have been identified in 1994 (Indrasiri, 1997).

A reclassification of urban settlements using such criteria as population size, extent of built-up area, quality and quantity of functions or the degree of Centrality as well as a revision of boundaries of under-bounded towns are essential for a clear understanding of recent urbanization trends. In addition to the 51 officially accepted urban settlements, another more than 200

centers that exhibit urban characteristics (including the downgraded Town Councils and emerging towns) can be considered as 'urban' settlements which means that after 1981, there had been in fact an acceleration in the tempo of urbanization and consequently a higher degree of urbanization.

The growth profiles of the officially accepted towns during the inter censal period 1981- 2001 indicate that the majority had recorded AAGRs between one percent and two percent, in contrast to the situation that had prevailed during the last inter censal decade (Table 6.3).

TABLE 6.3

Average Annual Growth Rates of Urban Population in Sri Lanka  
1981 - 2001

Officially accepted Urban Settlements	2001	1981	AAGR (%)
Colombo M.C.	642,020	587,776	1.01
Dehiwala-Mount Lavinia M.C.	209,7987	174,385	1.01
Moratuwa M.C.	177,190	135,610	1.53
Sri Jayawardenapura Kotte M.C	115,826	101,563	0.70
Kolonnawa U.C.	55,341	41,149	1.72
Seethawakapura U.C.	21,597	14,011	2.71
Negombo M.C	121,933	61,376	4.93
Gampaha M.C.	9,438	10,667	-0.57
Ja-Ela U.C	30,910	24,403	1.33
Katunayaka-Seeduwa U.C.	73,025	28,741	7.70
Minuwangoda U.C.	7,651	6,400	0.98
Peliyagoda U.C.	29,880	25,522	0.85
Wattala-Mabola U.C.	28,852	19,960	2.23
Beruwala U.C.	33,053	25,175	1.56
Horana U.C.	9,149	8,807	0.19
Kalutara U.C.	37,081	31,495	0.89
Panadura U.C.	33,432	31,090	0.36
Kandy M.C.	110,049	101,281	0.43
Gampola U.C.	24,283	20,736	0.85
Kadugannawa U.C	1,215	1,493	-0.93
Nawalapitiya U.C.	13,533	12,153	0.57
Wattegama U.C.	7,843	6,453	0.79
Matale U.C.	36,352	12,153	0.79
Nuwara Eliya M.C.	25,049	21,319	0.87
Hatton-Dikoya U.C.	14,255	9,802	2.27

Talawakele-Lindula U.C.	3,746	4,864	-1.15
Galle M.C.	90,934	77,183	0.89
Ambalangoda U.C.	19,720	15,605	1.32
Matara U.C.	42,756	39,162	0.46
Weligama U.C.	21,783	17,872	1.09
Hambantota U.C.	11,213	8,559	1.55
Tangalle U.C.	10,458	9,567	0.46
Ampara U.C.	17,965	16,213	0.54
Kalmunai U.C	94,457	22,825	15.69
Kurunegala M.C.	28,337	26,519	0.34
Kuliyapitiya U.C.	6,382	5,810	0.49
Chilaw U.C.	24,105	20,830	0.79
Puttalam U.C.	40,967	21,463	4.54
Anuradhapura U.C.	56,632	36,248	2.81
Bandarawela U.C.	6,774	4,941	1.85
Haputale U.C.	4,780	2,432	4.83
Ratnapura M.C.	46,309	37,354	1.20
Balangoda U.C.	12,062	10,262	0.88
Kegalle U.C.	17,130	14,928	0.84

Source: Department of Census and Statistics

Notes: 1. MC-Areas administered by Municipal Councils, UC-Areas administered by Urban Councils

2. Census of Population, 2001, enumerated in 18 districts.

The urban settlements that have experienced relatively high growth rates include the former slow growing hill country towns in the periphery such as Haputale, Bandarawela, Nuwara Eliya, Hatton-Dickoya and Badulla. Impetus to growth of towns in the periphery was provided by economic growth such as the increase in the area under traditional and non-traditional export crops and growth of industry, trade and tourism. However, Talawakele-Lindula and Kadugannawa in the hill country and Gampaha located within the CMR had negative growth rates. The decline of population in Gampaha and slow growth and stagnation of cities and towns such as Kandy, Galle and Matara can be attributed to growth outside town limits.

Population estimates for selected former Town Council areas reveal that the AAGRs of the majority had ranged from 01 percent to 3 percent between 1981 and 1997. The most dynamic towns such as Tissamaharama, Ambalantota, Dambulla, Kekirawa and Hingurakgoda located in and around the colonization schemes and the Mahaweli Development Project area had experienced higher growth rates between 3 to 4 percent.

The CMR continued to dominate the urban system both demographically and functionally, and attracted more population and economic activities during this period. Within the CMR, population growth in the city of Colombo slowed down to 0.46 percent per annum between 1981 and 2001. By contrast, the population growth rate of the wider city region- the CMR (which had a population of 5,361,000 at the 2001 Census of Population) was 1.8 percent per annum and population projections envisage an AAGR of 2.3 percent by 2010. The demographic primacy of the CMR is clearly indicated by the 2-city Primacy Index which shows that the CMR is nearly 50 times larger than the second ranking city of Kandy (Table 6.4).

TABLE 6.4

Primacy of the Colombo Metropolitan Region (CMR)

	1981	2001
Population of Colombo Metropolitan Region (P1)	3,919,000	5,361,000
Name of second ranking city	Jaffna	Kandy
P1/P2	32.9	48.7

Two new trends that can be observed in the urban scene at present are the emergence of small metropolitan regions in the periphery and the formation of agglomerations through the coalescing of previously separated towns. Suburbanization and rurbanization have transformed the occupation structure, land use and functions of settlements adjacent to Galle and Kandy but the two regions

have not yet been officially recognized as Metropolitan Regions.

The other recent phenomenon is the coalescing of expanding towns through ribbon development. Tangalle-Beliatta, Tissamaharama-Weerawila-Pannegamuwa, Middeniya-Katuwana in the Hambantota district are three such agglomerations that have emerged in the Southern Province. As indicated in Table 6.5, the Tissa-Weerawila-Pannagamuwa agglomeration is dominated by the rapidly expanding Tissamaharama town. It had a population of 6,998 in 1993 with a Centrality Index of 2560 (Gunawardena et al 1994). It is a multi-functional centre with a predominance of consumption and service-related activities and caters to the requirements of the farming community in a prosperous agricultural hinterland as well to a transient pilgrim and tourist population. The town has a concentration of agro-based and other small scale industries. The other two centres in the agglomeration viz., Weerawila and Pannegamuwa are small service centres with low centrality scores of 97.8 and 359.7 respectively. Similar agglomerations can be identified in other parts of the country.

Due to re-classification and the loss of 83 urban centers, the degree or the level of urbanization appears to have declined further to 14.6 per cent at the 2001 Census of Population. As a result of this low level of urbanization, the tempo of urbanization in the country, as measured by the URGD had also slowed down especially during 1980-1985 when the AAGR of the rural population (including former Town Council areas) was faster than that of the urban growth rate. After 1985, there has been a slight acceleration in the tempo. It can be concluded that the low level and the slow tempo of urbanization during the post-1981 period are direct results of the downgrading of 83 urban centers, the failure to revise city boundaries and to incorporate emerging dynamic centers. The country has under-estimated the rapidity of growth of the urban population. According to the Urban Development Authority (UDA), a more realistic degree of urbanization would be 30 percent and this proportion is projected to increase to 65 percent by the year 2030.

TABLE 6.5  
Functional Diversity of the Tissa - Weerawila - Pannegamuwa Urban Agglomeration

Name of Service Centre	Popu. 1993	DCI*	Educational		Health		Financial		Institutional		Social & Recre.		Commercial		Industrial		Total	
			1	2	1	2	1	2	1	2	1	2	1	2	1	2	1	2
Tissamaharama	6,998	2560	8	19	10	28	7	11	20	58	4	17	71	492	10	64	130	689
Weerawila	925	97.8	1	1	2	3	0	0	4	6	2	2	12	36	2	4	23	52
Pannegamuwa	2,503	359.7	5	8	3	6	3	6	4	8	3	5	40	91	5	14	63	138
Total	10,426	3017.5	14	28	15	37	10	17	28	72	9	24	123	619	17	82	216	879

Source: Gunawardene K, Wanasinghe Y. A. D. S. and Indrasiri L. H. (1994)

\* DCI - District Centrality Index

## THE ECONOMIC STRUCTURE OF URBAN SETTLEMENTS

### The CMR

As the primate city region of the country, higher order administrative, financial, commercial, health, educational and many other functions are concentrated in the City of Colombo. Prior to 1971, the majority of Colombo's suburbs performed a purely residential function. Since then, the spontaneous and planned decentralization of commercial, financial, industrial and administrative functions to the suburbs has succeeded in diversifying their economy and transforming them into "employing" suburbs. The concentration of industrial, commercial, financial, health, educational and other functions has contributed to a great extent to the functional supremacy gained by the CMR.

Further, the difference between the per capita Gross Regional Product in the CMR between 1981 and 1990 was the highest for the country (55 percent). The contribution of CMR's manufacturing sector to the GDP was 72.4 percent in 1996. The region has attracted entrepreneurs to such an extent that the 84 percent of the industries and 88 percent of the manufacturing employment were concentrated in the region. This region is referred to as the 'core' area and during the past 3 decades the gap between the CMR and the rest of the country (the periphery) has widened considerably (Wanasinghe, 2001).

### Towns in the Periphery

As mentioned above, due to the change in the classification of urban centers, 83 of the former towns administered by Town Councils had been incorporated into rural local authorities viz., the *Pradeshiya Sabhas*. In addition to the number of towns being deprived of the urban status, over 200 settlements having urban characteristics have been identified, of which a substantial proportion can be upgraded to urban status (Indrasiri, 2000). A noteworthy feature is that as many as 62, out of the 83 former Town Council areas and 180 of emerging towns are located outside the CMR.

Apart from Kandy and Jaffna - for which recent Census data is not available - all the other towns in the periphery are either intermediate size or small towns.

The analysis of the economic structure of towns in the periphery is constrained by the inadequacy of recent data. Hence this paper draws heavily upon the data provided by studies conducted on a limited number of towns viz;

- a) Urban Development Sector Project for Medium and Small Urban Centres (Urban Development Authority, 1992)
- b) Study of Service Centres in the Hambantota District (Gunawardena, Wanasinghe and Indrasiri, 1994)
- c) Southern Area Development Programme : Study of Urban Centres (RDC, 1994)
- d) Urban Development and Low Income Housing (UDLIH) Project, Draft Final Report (PADCO, 1998)
- e) Redefining Urban Centres and Urbanization in Sri Lanka (Indrasiri, 2000)

It should be noted that the following analysis includes both the officially recognized towns as well as others that were downgraded. These towns are multi-functional centres that perform commercial, administrative, health, financial and other central functions.

The predominant economic activity is wholesale and retail trade conducted as small or medium scale enterprises. As revealed by data from the Urban Development Sector Project for Medium and Small Urban Centres (UDA, 1992) and the more recent 50 Towns Study undertaken by PADCO in 1998 (which includes areas administered by Municipal and Urban Councils as well as former Town Council areas), manufacturing is the least important economic activity. Other functions performed by these towns include institutional, health, educational and recreational activities (Table 6.6).

TABLE 6.6

Issue of Trade Licenses in Selected Small and Medium Scale Towns, 1991

Towns	Type of Town	Wholesale		Retail		Manufacturing		Other		Total
		Total	%	Total	%	Total	%	Total	%	
Galle	MT	76	4.4	1226	71.2	52	3.0	369	21.4	1723
K'gala	MT	167	14.8	693	61.4	22	2.0	246	21.8	1128
N'Eliya	MT	37	6.3	435	73.5	12	2.0	108	18.2	592
T'malee	MT	53	8.4	384	61.0	13	2.1	179	28.5	629
A'goda	ST	71	10.5	290	43.0	47	7.0	267	39.6	675
A'pura	MT	69	4.8	787	55.2	100	7.0	469	32.9	1425
B'wela	ST	28	6.1	257	57.4	23	5.1	140	34.3	448
Chillaw	MT	6	1.8	252	77.5	33	10.2	34	10.5	325
Gampola	MT	128	13.8	453	48.8	13	1.4	335	36.1	929
H'tota	ST	7	1.8	210	55.0	14	3.7	151	39.5	382
K'pitiya	ST	34	6.9	307	62.4	34	6.9	117	23.8	492
Matara	MT	118	10.4	771	68.5	154	13.7	83	7.4	126
M'gala	ST	6	0.9	364	52.4	65	9.4	260	37.4	695
P'naruwa	ST	74	8.9	504	60.9	121	14.6	129	15.6	828
Weligama	ST	36	7.2	303	60.7	14	2.7	146	29.4	499
Ratnapura	MT	72	7.9	563	62.1	164	18.1	107	11.8	906
Total		982	7.7	7799	60.9	881	6.9	3140	24.5	12802

Source: UDA (1992) Urban Development Sector Project for Medium and Small Towns.

These urban functions are reflected in the land use patterns (UDA, 1992). In the 16 towns originally selected for development by the UDA, industrial land uses generally covered less than one percent of the land area with minor variations in Hambantota (2.8 percent) and Nuwara Eliya (1.5 percent). Commercial activities though important, were concentrated in the Central Business Districts and along main roads leading from the towns. Hence, the average area allocated for commercial activities in the 16 towns was 1.8 percent but in Bandarawela, Kuliypitiya and Matara, the proportion exceeded 4 percent (Table 6.7). In Trincomalee the percentage under institutional land uses amounted to 17 percent but the average for the 16 towns was only 6.6 percent. The largest proportion of urban land was utilized for residential purposes with an average of 33.9 percent and in "over-bounded" towns such as Ratnapura, agricultural uses extended over 73 percent of the land area within the corporate limits of the town.

TABLE 6.7

Land Use in Towns Selected for Development by the UDA (Hectares)

Town	Residential	Commercial	Industrial	Institutional	Parks & open space	Transportation	Agriculture	Other	Total
<b>High Priority Towns</b>									
Galle	1,081.4(62.1)	30.5(1.8)	15.5(0.9)	120.2 (6.9)	9.1(0.5)	172.3(9.9)	134.4 (7.7)	178.6(10.3)	1742.0
Kurunegala	334.0(29.1)	16.4(1.5)	8.8(0.8)	90.8 (8.1)	8.0(0.7)	80.0(7.1)	412.6(36.7)	172.4(15.4)	1123.0
Nuwara Eilya	377.0(25.1)	34.0(2.3)	22.0(1.5)	54.0 (3.6)	66.0(4.4)	147.0(9.8)	443.0(29.5)	358.0(23.9)	1501.0
Ratnapua	320.7(14.8)	10.1(0.5)	4.4(0.2)	55.6 (2.6)	1.9(0.1)	70.3(3.2)	1594.5(73.3)	116.5 (5.4)	2174.0
Tircomalee	374.5(48.2)	21.1(2.7)	1.7(0.2)	131.8(17.0)	31.5(4.1)	45.4(5.8)	84.1(10.8)	86.8(11.2)	776.9
Sub Total	2,487.6(34.0)	112.1(1.5)	52.4(0.7)	454.2 (6.2)	116.5(1.6)	515.0(7.0)	2668.6(36.5)	912.3(12.5)	7318.7
<b>Priority Towns</b>									
Ambalngoda	296.8(41.7)	6.4(0.9)	0.5(0.1)	23.0(3.2)	2.4(0.3)	45.3 (6.4)	217.5(30.5)	120.3(16.9)	712.1
Anuradhapura	790.2(21.6)	44.1(1.2)	31.2(0.9)	290.8(7.9)	140.7(3.8)	244.1 (6.7)	779.0(21.3)	1343.2(36.7)	3663.3
Bandarawela	64.7(29.8)	10.8(5.0)	1.6(0.7)	29.4(13.5)	3.6(1.7)	27.0(12.4)	43.1(19.9)	36.8(17.0)	217.0
Chilaw	203.6(36.4)	5.5(1.0)	4.3(0.8)	27.8(5.0)	17.7(3.2)	69.3(12.4)	115.4(20.6)	115.5(20.7)	559.1
Gampola	202.8(39.6)	9.2(1.8)	3.2(0.6)	43.6(8.5)	2.6(0.5)	25.2 (4.9)	103.0(20.1)	122.3(23.9)	511.7
Habantota	84.7(14.9)	6.9(1.2)	15.8(2.8)	29.7(5.2)	4.6(0.8)	29.2 (5.4)	124.3(21.8)	273.9(48.1)	569.1
Kuliyapitiya	84.0(23.1)	15.0(4.1)	4.0(1.1)	51.0(14.0)	7.0(1.9)	29.0 (8.0)	170.0(46.7)	4.0(1.1)	364.0
Matara	503.0(61.5)	40.0(4.9)	9.0(1.1)	58.0(7.1)	8.0(1.0)	41.0 (5.0)	122.0(14.9)	37.0(4.5)	818.0
Monaragala	445.0(56.7)	7.5(1.0)	6.8(0.9)	37.9(4.8)	3.4(0.4)	4.1 (0.5)	167.5(21.3)	113.1(14.4)	785.2
Polonnaruwa	391.0(36.5)	27.0(2.5)	8.0(0.7)	45.0(4.2)	-(0.0)	54.0 (5.0)	402.0(37.5)	145.0(13.5)	1072.0
Weligama	245.5(48.0)	19.6(3.8)	5.1(1.0)	37.0(7.2)	6.2(1.2)	45.6 (8.9)	146.1(28.6)	6.2(1.2)	511.2
Sub Total	3311.3(33.8)	192.0(2.0)	89.5(0.9)	673.1(6.9)	196.1(2.0)	613.8 (6.3)	2389.8(24.4)	2317.3(23.7)	9782.7
Total	5798.9(33.9)	304.1(1.8)	141.9(0.8)	1127.3(6.6)	312.6(1.8)	1128.8 (6.6)	5058.4(29.)	3229.6(18.9)	17101.4

Note: Figures in perenthesis represent percentages under each category

Source: UDA (1992) Urban Development Sector Project for Medium and Small Urban Centres.

The Study of Service Centres in the Hambantota District mentioned above, analysed the functional diversity of small towns. As illustrated in Table 6.8, the number and type of activities and the quality of services varied from town to town and depended on factors such as their administrative status, nodal location, population size and the economic activities in the hinterland. The importance of each centre was assessed by using the Centrality Index (Gunawardena et al, 1994). In the Amblantota D.S. Division for example, 1601 establishments are distributed among 87 Central Places. Although only 31 percent of the establishments are concentrated in the main town i.e., Amblantota, its high Centrality score of 2247.44 indicates that most of the higher and middle order functions are located in this town rather than in the other small towns in the neighbourhood such as Hungama and Nonagama which had Centrality values of 495.69 and 91.39 respectively.

TABLE 6.8

Concentration of Central Functions In Major Service Centres in Hambantota District, 1994

D.S. Division	No. of Central Places in District	No. of Establishments in district	Name of Main Central Place	No. of Establishments In Main Centre	Centrality Index
Hambantota	63	1201	Hambantota	510	4375.07
Tangalle	118	1299	Tangalle	572	2903.04
Tissamaharamaya	73	1562	Tissamaharama	574	2560.12
Ambalantota	87	1601	Amblantota	442	2247.44

Source: Gunawardene et al (1994)

TABLE 6.9

Role of the Private Sector in Establishing Enterprises in  
Ambalantota Town and Smaller Service Centres in its  
Hinterland

Function	DS Division		Ambalantota		Proportion by Private Sector
	No. of Functions	No. of Establishments	No. of Functions	No. of Establishments	
Commerce	132	1123	79	383	97.7
Education	40	90	06	19	68.4
Health	33	103	08	36	47.2
Finance & Insur.	23	42	06	15	80.0
Social & Recre.	23	42	06	15	80.0
Institutional	60	201	20	48	4.2
Total	311	1601	125	516	Ave-32.0

Source: Gunawardena et al (1994)

The importance of the private sector in urban growth is reflected in the figures provided in the Table 6.9 since as much as 98 percent of the commercial establishments are owned by the private sector. The Ambalantota town provides essential services and acts as a collecting and distributing centre for a rich agricultural hinterland. Its industrial activities are confined to a few agro-based and service industries.

Similarly, 118 out of the 158 settlements in the Tangalle D.S.Division, perform central functions but 44 percent of all the establishments are located in Tangalle. In contrast to the relatively low Centrality values (below 50) of the majority of service centres in the area, Tangalle had a high Centrality value of 2903.04 since almost all the higher order administrative, educational, health, commercial and other central functions in the region are concentrated in one main town.

Another recent study of Central Places in the Southern Province (1995) highlights the variations that can be observed in the relative importance of different central functions in towns (RDC, 1995). In Kataragama and Tissamaharama, a significant proportion (69 percent and 75 percent respectively) of the gainfully employed

population in the formal sector was engaged in retail and wholesale trade. In small towns such as Buttala, Elpitiya, Ambalantota, Deniyaya, Kirama and Siyambalanduwa, the proportion engaged in trade ranged between 45 percent and 55 percent. Nearly 50 percent of those employed in towns that catered to tourists such as Hikkaduwa and Bentota, worked in the recreation sector. On the other hand, small towns that perform administrative roles (as district capitals or those in the lower administrative ranks) have a significant concentration (30-35 percent) of salaried public servants. The growth of Embilipitiya, Angunakolapelessa, Tangalle and Hambantota can be attributed partly to their administrative functions.

### Urbanization and Regional Development of Industry

Dynamic urban centres are an essential element of regional development. Fuchs et al (1987) contend that low levels of urbanization in the poorer regions of developing countries, not merely reflect regional poverty but also a condition for the perpetuation of poverty. An important element determining the dynamism of urban centres is industrial development. It is therefore, pertinent to consider the extent to which urbanization is linked to regional industrial development in Sri Lanka.

A salient characteristic in Sri Lanka is that the distribution of industries is extremely uneven. An analysis of figures shown in Table 6.10 reveals that at the end of 2000, out of a total of 3712 industries set-up under the Ministry of Industrial Development and Board of Investment initiatives as much as 81 percent were concentrated in the CMR. Even within the CMR there is a greater concentration of industries in the Colombo District (70 percent of the total in the Western Province as against 25 and 5 percent in Gampaha and Kalutara Districts respectively). The setting-up of two Export Promotion Zones (in Katunayake and Biyagama) had further strengthened an already existing situation. As Forbes and Thrift (1987) have commented, a consequence of growing international investment in manufacturing industry in developing countries is to reinforce the position of large or primate cities.

It is also evident that even if there is some degree of concentration of industry, its composition is rather narrowly defined. The Central Bank Annual Report (1996) reveals that 40 percent of the industries belong to the textiles, wearing apparel and leather products category; 26 percent to the

food, beverages and tobacco category and 18 percent to the chemicals, petroleum, rubber and plastic products category. Therefore, in terms of composition these three categories account for 84 per cent of the industries in Sri Lanka. A consequence is that industrial linkages (in terms of sub-contracting and outwork systems) are poorly developed except in a few industries such as the manufacture of fabricated metal products, machinery and equipment (Karunanayake, 1990).

TABLE 6.10  
Regional Distribution of Industrial Enterprises in 2000

Province / District	Total 2000	Percentage
<b>Western Province (CMR)</b>	<b>3005</b>	<b>80.95</b>
Colombo	2104	56.68
Gampaha	744	20.04
Kalutara	157	4.22
<b>Southern province</b>	<b>174</b>	<b>4.69</b>
Galle	92	2.48
Matara	46	1.24
Hambantota	36	0.97
<b>North Western Province</b>	<b>202</b>	<b>5.44</b>
Kurumegala	71	1.91
Puttalam	131	3.53
<b>Central Province</b>	<b>165</b>	<b>4.45</b>
Kandy	102	2.74
Matale	18	0.48
Nuwara Eliya	45	1.21
<b>Sabaragamuwa Province</b>	<b>65</b>	<b>1.75</b>
Ratnapura	37	1.00
Kegalle	28	0.76
<b>North Central Prvince</b>	<b>36</b>	<b>0.97</b>
Polonnaruwa	9	0.24
Anuradhapura	27	0.73
<b>Eastern Province</b>	<b>19</b>	<b>0.51</b>
Ampara	11	0.30
Batticaloa	4	0.11
Trincomalee	4	0.11
<b>Uva Province</b>	<b>41</b>	<b>1.10</b>
Badulla	29	0.78
Monaragala	12	0.32
<b>Northern Province</b>	<b>5</b>	<b>0.13</b>
Vavuniya	2	0.05
Jaffna	3	0.08
<b>Total</b>	<b>3712</b>	<b>100.00</b>

Source: Central Bank of Sri Lanka, Annual Report (2000).

A further point is that the larger industries are concerned with import substitution and therefore, depend to a high degree on imported raw material leaving little room for the development of backward linkages.

As discussed in the Section on 'The Economic Structure of Urban Settlements' above, the industrial structure outside the CMR is dominated by small and medium scale production units. It is evident that the small industries are characterized by low productivity because of low factor endowments. Such enterprises are also heavily dependent on family labour which acts as a disincentive to the use of hired labour.

In Sri Lanka, successive governments have attempted to promote regional industrialization. Among the more recent strategies have been the 200 Garment Factory Programme and the Industrial Estates (inclusive of Export Promotion Zones and Industrial Parks) Programme. The Board of Investment (BOI), established by Law No.49 of 1992, involved the restructuring of the Greater Colombo Economic Commission set-up in 1979. This in effect has made the entire Island a single Export Promotion Zone. The Southern Area Development Programme underlines regional development efforts in the Southern region. However, as seen from Table 6.10 so far these efforts have had limited success in reducing regional imbalances in industry. On the contrary, BOI approved industries have tended to further strengthen the position of the CMR. There is no doubt that the advantages enjoyed by the CMR in terms of infrastructure and services have contributed to this situation. From a regional development perspective it is more important to identify some of the constraints to regional industrialization. Among these constraints are:

- Infrastructure deficiencies. Facilities are lacking and when available their capacities are inadequate. This is particularly so in regard to pipe borne water, power supply, communication and transport facilities. There are also problems that relate to the maintenance of these systems.
- Scarcity of land within urban areas to either set-up or expand industries. The problem is compounded by the ad hoc physical development of towns. Similarly there is

also the problem of over development in some urban areas leading to problems of zoning and environmental pollution.

- Failure to integrate industry with agriculture. The opportunity to promote industrial linkages through outwork systems, agro-processing and agro-service industries has been neglected.
- Urban local authorities are not geared to undertake economic planning of development activities. Outdated legislation is also restrictive in promoting industrial development.

It would be relevant to take note of (a) the Industrial Estates Programme and (b) the 200 Garment Factory Programme as strategies for the distribution of industry. There are several public agencies viz., BOI, UDA, IDB and the Ministry of Industries responsible for the Industrial Estates Programme. These agencies have developed their programmes quite independently of one another. Richardson and Guild (1995) have pointed out that while there is some degree of specialization by the agencies involved (e.g. BOI focussing on IPZs and Industrial Development Board (IDB) on medium and small-scale industry) there is also a considerable overlap. They also question the rationality of these agencies planning for a rapid increase in the number of industrial estates when at present the capacities of existing estates are under-utilized. It is estimated that the number of industrial estates proposed by the several agencies could be quite high (80) though a total enumeration is difficult. However, according to the Central Bank Annual Report (1995) in addition to the international standard industrial estates to be located at Sitawaka and Kalutara, 23 industrial sites have been identified for development.

In regard to the siting of industrial estates, there is both an over concentration (in favour of the CMR) and an over dispersion (in the periphery) of existing and proposed industrial estates. Both situations show limitations from a regional development perspective. Over concentration leads to further polarization of

the CMR in terms of industrial development while over dispersion is costly in terms of infrastructure provision. Tables 6.11 and 6.12 provide an indication of the established and planned industrial estates within the CMR under the UDA Integrated Development Project.

TABLE 6.11

Industrial Estates under the Urban Development Authority Integrated Development Project, CMR

Location	District	Area (Acres)	No. of Industries	Employment	Type of Industry
Peliyagoda	Gampaha	180	39	3100	Small/Med
Orugodawatta	Colombo	40	27	2800	small/Med
Homagama	Colombo	62	32	3900	Small/Med
Ratmalana	Colombo	27	11	1800	Medium
Panadura	Kalutara	40	19	3300	Medium

TABLE 6.12

Proposed Industrial Estates under the UDA Integrated Development Projects Within the CMR

Location	District	Aria	Type of Industry
Ekala	Gampaha	285	High-tech
Aturugiriya	Colombo	60	Small/Medium
Kesbawa	Colombo	80	Science park
Panagoda	Colombo	80	Small/Medium
Peliyagoda Stage 11	Gampaha	185	Small/Medium

Source: Urban Development Authority

The 200 Garment Factory Programme has also been another strategy aimed at employment creation and poverty alleviation in the peripheral regions. Richardson and Guild (1995) state that by the end of March 1994 around 70,000 jobs had been created with

the average factory employing 425 workers at an investment cost of Rs.77,000/= per job. It had also made a significant contribution to foreign exchange earnings. The distribution of factories shows a more even regional dispersal though some of the more peripheral districts e.g., Ampara, Matara, Batticaloa, Trincomalee, Polonnaruwa and Vavuniya are not so favoured in the siting of plants. A general weakness is that many of the plants have been established at uneconomic sites and some even in isolated sites (involving high infrastructure costs) because of the urgency with which the programme had been implemented. Richardson and Guild (1995) have commented that

*Even with their continuance, many of the Garment factories may be uneconomic and over time the number of plants may decline with attrition. The Garment factories are already complaining about the higher costs affecting operating margins (e.g., recent government authorized wage increases), but GOSL should resist entreaties to increase subsidy levels. The world textiles and garments industry is highly competitive, and Sri Lanka cannot afford to undermine its competitiveness by promoting export oriented plants at disadvantaged localities*

In order to remedy inadequacies in infrastructure in urban centres outside the CMR, the government has recently launched the Urban Development Sector Project (UDSP) through the UDA. The programme involves the development of basic urban community needs such as water supply, sanitation, storm water drainage, solid waste management, roads, walkways etc. In addition it will make available sites for building and industrial development. Initially the UDSP benefited 17 small and medium towns, viz., Galle, Kurunegala, Kuliypitiya, Nuwara Eliya, Ratnapura, Trincomalee, Anuradhapura, Bandarawela, Chilaw, Gampola, Hambantota, Matara, Ambalangoda, Moneragala, Polonnaruwa, Weligama and Aluthgama. Other towns are to be incorporated into the UDSP later with a view to realizing the objective of balanced regional growth (Dickson, 1996). In its present form the programme is estimated to cost Rs. 1.8 billion. It may be noted that the UDSP has identified the need to provide for industrial

development in the selected towns and opportunities for industrial development and expansion are looked at in its urban action strategy (UDA, 1992). From the regional development point of view it is important that local authorities actively seek ways and means of establishing rural-urban linkages through agro-processing and agro-service industries.

The fact that the local authorities lack the capability for economic planning and implementation is a limiting factor in the regional development of industry. In addition, the efficiency of urban local authorities is found to be wanting (Sivaramakrisnan and Green, 1986). They are also constrained by antiquated by-laws and legal procedures which are unduly restrictive of economic activity (Karunanayake and Wanasinghe, 1988). It is evident that the Provincial Councils (PCs) and *Pradeshiya Sabhas* (PSs) have the potential to play an important role in regional development. According to section 4.3 of the Provincial Councils Act No. 42 of 1987, the Provincial Councils shall

*promote, establish and engage in agricultural, industrial and trading enterprise and other income generating projects within the Province.*

Except in a few instances, and to a limited extent, neither the PCs nor PSs have been concerned with actively promoting economic development. The opportunities to facilitate and support rural-urban area development have not been grasped nor utilized to any extent. The presence of a large number of special service agencies and authorities has further compounded the situation. There is a clear need to define the role and responsibilities of special agencies/ authorities vis-à-vis local authorities in regard to rural and urban development. In looking at the relationship between urbanization and regional development of industry several salient points emerge:

- (a) A reclassification of urban settlements would show an urbanization level of 30 percent or more at present. As industrial development is generally associated with urban centres, this implies an upward trend in industrial development in Sri Lanka in recent times.

- (b) Most of the industrial development has taken place in the CMR, thus acting as catalysts to further urban growth, though centres such as Peliyagoda, Wattala and Mabole have recorded annual growth rates of less than one percent. It has been noted that the city of Colombo whose growth rates had slowed down to 0.4 percent per annum during 1971-1981 had an average annual growth rate of 0.62 percent between 1981 and 1994.
- (c) Growth rates of some of the officially designated towns outside the CMR too have increased during the 1971-1981 decade. As shown in the Section on "Urban Growth and Urbanization" in this article there has also been the growth of incipient metropolitan regions and agglomerations.

In the light of the foregoing, the following implications for regional development of industry may be noted:

- (a) While regional development of industry should be the ultimate objective, industries should be promoted in "growth centres" rather than in each town or in uneconomic or isolated sites to derive benefits of agglomeration economies.
- (b) In view of (a) infrastructure provision should take due note of emerging regional growth centres and agglomerations in peripheral regions.
- (c) Industrial development has to be planned in such a manner as to promote rural-urban linkages.
- (d) Local authorities need to be restructured to enable them to play an effective role in regional development. Their role should be not merely to regulate but also to promote economic development. At present they have little capacity to plan and implement industrial ventures. This would require a clear definition of the role of local authorities vis-à-vis other agencies (e.g. Southern Area Development Authority) in relation to regional development of industry.

## LINKAGES IN REGIONAL DEVELOPMENT

Linkages are patterns of transaction between rural areas and rural service centres on the one hand and between rural service centres and larger urban centres on the other. Linkages play an important role in regional development since they 'allow development impulses to flow from the periphery and let their products flow (primarily) to the core regions' (Knesl, 1982). These linkages can be physical (transport and communications); social (though population movement); economic (between local production and advanced technologies and inputs or as backward and forward linkages) and management (between the farmers and the bureaucracy).

### Linkages between Rural and Urban Areas in the Periphery

In most parts of Sri Lanka there are 'unserved interstices' due to the dearth of rural service centres or small towns to provide adequate goods and services, marketing facilities and non-farm employment opportunities. In places where they do exist, the majority of rural areas are poorly linked to these towns. The role of linkages in the development of these rural areas can be assessed by studying the evolving pattern of linkages in a recently settled area viz; the Galnewa region in System H in the Mahaweli Development Project Area. In this region, physical linkages such as the construction of all-weather roads and farm to market link roads have helped in the spatial integration of settlements at different levels (Wanasinghe, 1987). The broadening of economic linkages such as the flow of inputs and know-how to the region has contributed to the commercialization of agriculture. The farmers were able to increase production and reach more competitive markets. Their bargaining power had increased and as a result, their dependence on the village boutique keepers or middlemen had been reduced to some extent but due to seasonal poverty and indebtedness most of the poorer farmers were compelled to sell their produce to local businessmen or traders when the price was at the lowest. Furthermore, it was observed

that during low income periods, daily provisions were purchased in small quantities from the local boutique keeper usually for credit.

Evolving linkages in the Galnewa region have enabled the farmers to obtain modern urban manufactured or imported equipment at a reasonable price. In most of the townships in the Accelerated Mahaweli Development Programme (AMDP) therefore, a new type of service industry has emerged i.e. the repair and maintenance of farm machinery, bicycles, tractors and motor vehicles. These forward linkages are however not as extensive as the backward linkages that exist between the agricultural sector and the small agro-based industries.

An emerging problem in the region is the presence of 'outsiders' who either own or operate commercial and other types of establishments in the region. At the inception of the project, as much as 92 percent of the shops at Galnewa township for example, were owned and operated by the settlers themselves (Lundqvist, 1978). By 1982, 81 percent of the shops were being operated by 'outsiders'. As a result, profit from agriculture and commerce was steered either towards recently settled businessmen (internal leakages) or towards outsiders who do not spend or invest the profits in the region (external leakages).

Provision of incentives by sub-national Governments to encourage local entrepreneurs to locate labour-intensive industries and to employ local labour will undoubtedly enhance the circulation of capital in the region itself but at present neither the Provincial Councils nor the Urban Local Authorities play an active economic role.

#### **Linkages between the Core (CMR) and the Periphery**

In view of the paucity of data, a detailed analysis of linkages between the core and the periphery will not be attempted. However, it is possible to observe certain broad-based trends such as

- a) the flow of locally manufactured and imported goods to the periphery from Colombo;

- b) the distribution of such goods is through a limited number of urban centres owing to deficiencies in the urban hierarchy, which adds to the transactional cost of the rural consumer;
- c) the transport network is such that it is able to draw the agricultural produce from the peripheral areas to the core. In view of the transaction costs involved, the profits are siphoned off by the commission agents and middlemen. Benefits do not accrue either to the urban consumer or to the rural producer.
- d) the convergence of the arterial road system on Colombo resulting in a deficiency in the transport network both in relation to overall availability and distribution. For example, the interior areas in the periphery are served mainly by C, D and E class roads.

While it is necessary to reduce rural-urban distortions, at least three considerations are vital from a regional perspective.

First, is the need to develop small and medium towns and where necessary, filling in the gaps in the existing urban hierarchy. The point at issue is when there are gaps in the existing hierarchy, towns have to cater to a very wide hinterland and the peripheral populations may be deprived of access to middle and higher order goods and services.

Second, considerable improvements in accessibility are necessary to link rural-rural and rural-urban areas.

Third, improvements in accessibility have to be supported by policy initiatives relating to investment, credit and taxation to prevent small and medium towns being merely the outposts of a system of urban extraction. Adding value to production to generate multipliers should be the explicit objective of such policies.

#### **Linkages within the Core (CMR)**

The CMR comprises three major zones viz. i) the Central city or the inner zone, ii) two suburban crescents (the older suburban crescent and the new crescent) and iii) the rural-urban fringe.

Interaction among these three zones include (a) migration (both temporary and permanent), (b) commuting, (c) trade in commodities and (d) transport and communication.

As a result of the centralization of functions in Colombo, the city had attracted a large number of permanent and temporary migrants from all parts of the island in the post war years. However most of the city-ward migrants have been diverted to the suburbs due to the spiraling cost of land and high rents of buildings within Colombo. During the inter censal decade of 1971-1981 while population in Colombo and the older suburbs had increased slowly, the new suburbs in the outer crescent such as Battaramulla, Kelaniya, Ragama, Maharagama and Hendala had growth rates that exceeded 2 percent per annum. Further, there is an influx of temporary migrants to the region who work in the secondary and tertiary sectors.

In addition to the decentralization of residential activities mentioned above, there is a tendency for a spontaneous decentralization or suburbanization of industrial, financial, commercial and a planned decentralization of administrative functions to Sri Jayewardenepura-Kotte (which has incorporated parts of suburbs and the rural-urban fringe areas (Wanasinghe, 1985).

The most dynamic zone within which most of the changes and interactions are taking place at present is the fringe which is located beyond the built-up area of Colombo and suburbs. Both blue collar and white-collar workers who cannot afford the spiraling cost of land and exorbitant rents in the suburbs, are attracted to the more accessible settlements in the fringe. Due to migration, the rate of population growth is higher than that of the city and suburbs. In the Kesbawa *Pradeshiya Sabha* area for instance, the AAGR of population occurred at the rate of 5.5 percent between 1981 and 1991 and by 5.13 percent between 1991 and 1997. The estimated growth rate for 1991-2002 for the fringe as a whole was 58.6 percent, which is the highest rate for the CMR.

In the past, the suburbs and fringe settlements had performed a predominantly residential function. Hence there was a strong outward movement daily (one-way commuting) to Colombo, which provided most of the employment opportunities. Even today as

much as 1.5 million arrive in Colombo daily either for employment or to avail themselves of the services and facilities in Colombo. As a result the Average Daily Traffic (ADT) flow to Colombo, which was 130,000 in 1980 had increased to 233,000 by 1993 (UDA, 1998). It is interesting to note that a large proportion of this vehicle load had originated within the CMR. Further, 85 percent of the rail traffic had also originated partially or totally, within the CMR. Today, due to decentralization of functions, in addition to this one-way traffic flow towards Colombo, a complex pattern of daily movement of people can be observed viz., (a) from the fringe to suburbs, (b) from suburbs to the fringe and (c) to and from settlements within the fringe.

Interaction among settlements in the CMR can also be studied in relation to the flow of commodities. Karunanayake's (1990) analysis shows that vegetables grown in the fringe enters the city of Colombo via assemblers and / or middlemen or numerous vendors who are mostly women. Most of the vegetables reach the Pettah Central Market from which point they are distributed in the city by a host of retailers. Wholesale distributors who purchase at the Central market redistribute the goods to the suburbs.

Similarly, the flow of high-grown and low-grown vegetables from outside the CMR reach the Colombo market along the arterial roadways. On the way to Colombo some vegetables are off loaded at convenient break points for redistribution in the outer zone in the CMR. Much of the redistribution of vegetables in the suburbs is undertaken from the Central Market in Colombo. It is therefore evident that the transactional relationship resulting from vegetable marketing lead to integrating linkages between the city and the region and within the region itself. The spatial patterns relating to the market flow of fish is again an indication of the integrating function of the transactional environment.

### **Urban Planning in the Regional Context**

What is immediately evident is that there is no explicit national urban strategy for Sri Lanka. Hence, urban growth is unplanned and as Dickson (1996) has stated what is being attempted in Sri Lanka is to move from an unplanned to a planned situation in

order to achieve a balance in regional development. Although there is no explicit national urban strategy, a concern with balanced regional development has been a primary objective of governments in the post-independence period. This is made evident by many projects (e.g., Integrated Rural Development Projects (IRDPs), Accelerated Mahaweli Development Project [AMDP], Dry Zone Settlement Schemes etc.). It could reasonably be assumed that these initiatives have had a moderating impact on the polarization of the CMR.

While the Colombo Metropolitan Regional Structure Plan has its spatial components, often urban planning in Sri Lanka appears to be overwhelmingly concerned with physical urban land use planning with not much concern for the regional context and situation. Indeed to some extent the rationale for spatial area development projects such as the AMDP and the Southern Area Development Project (SADP) derives from this deficiency. Hence it is important to formulate an urban spatial plan preferably in terms of a Rural-Urban Area Development strategy as advocated by Douglass in 1990.

A situational analysis of Sri Lanka's spatial setting brings several important features. The dominance of the metropolitan region of Colombo is the most striking. The dominance is evident in many ways. The share of the urban population has been estimated at 46 percent by Richardson and Guild (1995). According to their estimates, Colombo district had an urban population of nearly 74 percent whereas the share of urban population was much less in the other two districts in the CMR viz., Gampaha (27 percent) and Kalutara (21 percent). However, Jaffna district had an urban population of 31 percent while Trincomalee, Batticaloa and Galle districts had 32 percent, 23 percent and 21 percent respectively. It is also evident that the other peripheral regions had extremely low levels of urbanization, which varied from 19 percent in Vavuniya to only 2 percent in Moneragala. The dominance of the CMR is also evident in terms of other criteria such as the Gross Regional Product, per capita income, growth in employment and value added per worker (Richardson and Guild, 1995). The dominance of the metropolitan region in regard to industrial location has been referred to under 'Linkages within the Core'. As mentioned earlier,

a concomitant of these developments is that the primacy of Colombo has been superceded by the primacy of the metropolitan region. But at the same time there are fairly significant intra-regional differences within the CMR, which have to be given due consideration in the formulation of a national urban spatial strategy.

The absence of a regular national urban hierarchy (characterized by several urban size classes where the number in each size class increases as the size class decreases) has been noted by Richardson and Guild (1995). This had been noted by others such as Jackson (1977) and Berry (1988). In fact Berry raises the issue whether there is a need to fill existing gaps in the system, that might help in diversifying and transforming rural agriculture. At the same time existing small and medium towns show deficiencies in services and infrastructure, the recognition of which has led to the launching of the Urban Sector Development Programme by the UDA. This programme was initially concerned with the upgrading of facilities in 17 urban centres located outside the CMR. Mendis (1996) has observed that the capacity of mono-centric centres has become fully saturated and that incipient urban centres will have to be absorbed into medium and small towns. However, despite the above noted deficiencies, a tendency towards incipient metropolitan growth and formation of agglomerations in the periphery is also evident.

Another consideration that has to do with the national urban spatial strategy is that of rural-urban linkages. Factors inhibiting rural-urban linkages have been looked at earlier. An outcome of the existing situation is that the whole periphery has become the hinterland of Colombo. The effects of the arterial road system converging on Colombo has been to make the small and medium towns the outposts of an extractive system. Berry (1988) contends that at the geographic scale of Sri Lanka, "even modest improvements in transport would markedly reduce the core-periphery differentials". However, prospects for the elimination of improved accessibility should be supported by measures that prevent leakages from the periphery without value addition. According to Mubyarto (1990) the expansion of secondary sectors of metropolitan regions that depend on the transfer of resources from the rural to the urban that is characterized by unequal rural-

urban trade relationships would only contribute to drain resources from the hinterland.

In evolving a national urban spatial strategy, several perspectives have to be borne in mind. As Richardson (1987) has rightly pointed out an effective national urban policy should be capable of integrating spatial components with macro and sectoral economic and social policies. He also underlines the point that "national urban policy goals have little validity outside the context of a society's goals". A second perspective is the need to reconcile the objectives of balancing the growth of the metropolitan region with that of peripheral development. This perspective rests on the premise that the development of the metropolitan region is far too advanced to effect any reversals. On the other hand there has to be a more committed approach to the development of the periphery than has hitherto been attempted. Accordingly this paper proposes the rural-urban area development based strategy for the periphery to complement the polycentric development strategy that has been proposed for the metropolitan region of Colombo (section below). A final perspective is that there has to be an early commitment to a national urban spatial strategy as there may be an interest in the development of specific regions as for example the project conceived by the Southern Area Development Authority. It is important that strategies for the development of specific regions should be formulated within the framework of a national urban spatial strategy.

In the light of the above discussion there are two specific issues that urban planning should address particularly from a regional development perspective.

- a) Allowing for the continued development of the metropolitan region of Colombo. The planning effort should also be concerned with equalizing deficits within the CMR particularly in regard to Gampaha and Kalutara districts;
- b) Opting for a peripheral development strategy based on rural-urban area development. This would essentially

mean a strategy which would include rural and urban development within a single framework. As Douglass (1990) has stated,

*rural-urban development approaches seek to place a regional planning framework on both rural and urban development policies. Just as the urban function in rural development approach is a one sided urban view of rural development, much of what passes for rural development in text books and in practice fails to see a city or a town in the rural landscape. Usually defined as rural development planning has thus proceeded on a spatial bases.....urban versus rural bias has become the debate of the day... with planners called upon to take sides rather than to try to integrate rural with urban planning.*

Again such an approach would also entail,

*A simultaneous emphasis on rural and town centred aspects of development based on rural-urban interdependence rather than unidirectional urban to rural flows of development impulses. For example, producing food, a major role of the agricultural sector can be expanded through the development of local market centres. Conversely without increases in food production, the work itself cannot be expected to expand. Similar relations hold for all the interdependencies.*

Within such a single framework that permits the integration of urban and rural area development it would be necessary to deal with issues such as strengthening of linkages, filling-in gaps in the urban hierarchy, diversifying the rural-urban economies, reorienting the transport networks etc. for meaningful regional development.

In concluding this section it would be relevant to make note of some urban and regional planning constraints in Sri Lanka. The following may be highlighted.

- ❖ Limitations imposed by an urban definition based solely on the administrative criterion. The importance of a

definition utilizing several criteria such as administrative status, population size, local government status, urban characteristics and predominant economic activities has been suggested. In the absence of such re-definition and re-demarcation, problems of indecision constrain the urban planning process;

- ❖ Difficulties in analysing patterns and levels of urbanization and urban growth and their impact on regional development in view of the absence of reliable data. Moreover, rural-urban linkages and patterns of transformation of regional economies have not been adequately researched.
- ❖ Fiscal and other policies supportive of decentralized growth and encourage investment, prevent leakages and add value to production are not in place.
- ❖ Urban local authorities have little capacity for either economic or regional planning viewed in terms of financial, human and institutional resources. Some of the by-laws governing economic activities are unduly restrictive of generating livelihoods specially for the poor (Karunanayake and Wanasinghe, 1988).
- ❖ A number of line ministries, sectoral agencies, local and special authorities are responsible for regional planning decisions as well as for their implementation. This has resulted in divided responsibilities as well as conflicting interests.

## **AN APPROPRIATE URBANIZATION STRATEGY FOR SRI LANKA**

The most appropriate urbanization strategy for Sri Lanka should help maintain national cohesion among various regions, prevent the excessive concentration of economic activities and population in the CMR, efficiently manage city growth and attempt to eliminate unintended spatial effects of national economic policies. The strategy should not in any way be detrimental to peripheral development.

As mentioned in the earlier section, currently implicit spatial policies have reinforced polarization of economic activities in the CMR although rural development programmes have attempted to reduce regional disparities to some extent. Towns in the periphery are beset with problems such as the inadequacy of infrastructure, lack of serviced land, finance and qualified staff that have prevented the towns from attracting investment. The Urban Development Sector Project (UDSP) for Medium and Small Urban Centres which focuses attention on 17 sub-national capitals (five Provincial capitals and five District capitals) along with seven other towns and the Urban Sector Policy Action Plan which is being formulated for 50 small and medium towns aim to facilitate private sector investment in the periphery.

The several options identified by Richardson (1981) are discussed below at the theoretical level for the purpose of evolving a suitable urbanization strategy for Sri Lanka.

**Strategy A** is a policy of concentrated urbanization. This would result in the continued polarization of the CMR and the widening of the gap between the core and the periphery (Fig. 6.2).

**Strategy B** aims to strengthen one or two towns or expanding metropolitan areas in the periphery as counter-magnets to the CMR. The towns selected could be Trincomalee, Jaffna, Anuradhapura or Batticaloa as suggested in the new Physical Plan, 2000. This strategy involves excessive investments in one or two towns, which would reduce regional disparities. Such a counter-magnet should have the ability to compete successfully with the CMR and to attract foreign and local entrepreneurs.

**Strategy C** is a policy of "concentrated decentralization" which aims to designate, either an existing town with a "demonstrated economic potential" or a new town with a capacity to develop, as a Growth Pole in which a set of expanding industries are located (Fig 6.3). Growth Poles are expected to induce further development of economic activities throughout their zones of influence through development impulses that would spread outward over the rest of the region. The policy objective is to attract large-scale industries to the periphery. Investment Promotion Zones and Industrial Estates have been designated as Growth

Poles in many developing countries. Recent assessments of the impact and contribution of Growth Poles to regional development have revealed that in many developing countries, they have failed to measure up to expectations. Some researchers have observed that the local multiplier effects generated by growth Poles are weak, and that the multiplier effects are oriented "upward and outward" to other countries rather than into their immediate hinterlands (Stohr and Todtling, 1977). Other criticisms are that Growth Poles lead to the concentration of scarce resources in one or two cities and to "place prosperity" rather than to "people prosperity".

However, Richardson (1981) was of the opinion that one reason for the failure of this policy was the lack of courage and tenacity of policy makers who have frequently abandoned the strategy before it could be expected to bring results.

**Strategy D** promotes axes of development along transport corridors and in the case of Sri Lanka, this strategy would involve urban growth along major roads leading from Colombo. This option was rejected by the Colombo Master Plan team since "it would contribute little to shifting the inter-regional balance". Richardson in 1981 had maintained that if this strategy is to succeed the end point cities should be relatively large and travel speeds along the axes should be very fast.

**Strategy E** advocates the promotion of Secondary cities or Sub national capitals. Some of the Provincial capitals in Sri Lanka have experienced relatively high growth rates after 1981 and are expanding into Metropolitan regions. This strategy could contribute to regional growth and to the reduction of regional inequalities to some extent (Fig 6.4).

**Strategy F** would result in a more dispersed pattern of small towns and rural service centres. It involves the development of central places at the lower levels of the hierarchy or the upgrading of small settlements into central places to "fill the gaps" in the urban system. The significant role played by such centres in stimulating economic growth and in improving the quality of life of the rural population has been discussed by Johnson (1970), Rondinelli and Ruddle (1978) and by Rondinelli in 1984. Since there is a symbiotic relationship between rural service centres and rural development,

prosperity in rural areas would in turn encourage the emergence of new service centres or the expansion of existing lower order central places into larger urban centres. Such centres help to achieve social equity through a more equitable distribution of basic services. They also contribute to economic development through the provision of institutions for the collection, exchange and marketing of local produce at competitive prices; for the sale of agricultural inputs and for credit, advisory and agrarian services. They can provide a locale for non-farm enterprises. However, the experience in the Mahaweli Development shows that not all the service centres have the potential to contribute to regional development. Another criticism leveled against this strategy is that it gives a one-sided view of regional development. Without agricultural development in the hinterland and a more equitable distribution of rural income, rural service centres will not be able to generate urban growth.

An appraisal of these options indicates that an appropriate national urbanization strategy for Sri Lanka needs to incorporate elements of the different strategies outlined above. In order to reduce regional disparities, it is necessary to formulate a strategy which would integrate rural-urban area development in each of the provinces. Stohr (1981) explained that in the paradigm of "development from below", urban centres would primarily act as supportive components of their respective hinterlands rather than developing (as in the centre down strategy) as a function of selective requirements of the urban system. The devolution of political power enables the Provinces to plan and implement such a programme.

Previous attempts at balanced regional development such as the IRDPs had failed to consider the significant role of urban centres and rural-urban linkages. Lindhal et al (1991) have pointed out that the Matara IRDP had become marginal to the overall development problems of the district. In their evaluation of the Matara IRDP, it was clearly demonstrated that there was an inherent conflict between rural development as 'regional' development and development focusing on the poor.

This paper proposes a strategy that promotes the development of sub-national centres, incipient metropolitan centres or higher order central places in the periphery. A small developing country such as Sri Lanka should make use of the advantages offered by agglomeration economies in the CMR but should attempt to avoid excessive centralization with its attendant social, economic and environmental problems. Hence it is proposed that the poli-centric strategy as proposed by the Colombo Metropolitan Structure Plan, which promotes guided urbanization of the city region of Colombo be combined with elements of Strategies E and F (Fig. 6.5).

## CONCLUSION

It is evident from the discussion presented in this paper that there are considerable imbalances in regional growth and development in Sri Lanka. The regional differences are further articulated by a core-periphery differential. In a political environment conducive to decentralization, devolution and power sharing, reducing regional imbalances assumes a sense of urgency.

Having looked at trends in urban growth and urbanization in Sri Lanka from a regional perspective (i.e. with reference to regional imbalances, rural-urban linkages and economic characteristics including the distribution of industry), a national spatial strategy is presented here based on rural-urban area development. The proposed strategy is intended to integrate rural and urban areas in the periphery while reducing excessive concentration in the CMR. In the final analysis, it is important that in a small country such as Sri Lanka no disparate urban spatial strategies are implemented at the regional level. It is therefore imperative to formulate a national spatial strategy as a matter of urgency to move towards nationally consistent regional development goals.

## EPILOGUE

This paper was originally produced in 1997, after considering the socio-economic and political scenario that existed at the time. In

2001 the National Physical Planning Department presented a National Physical Planning Policy in which an urbanization policy was incorporated. In this plan urban centers were viewed as places of production, marketing, employment generation and recreation etc. (NPPD, 2001) in order to enhance sustainable urban development in Sri Lanka and to recognize the potential role of the urban centres in stimulating the economic development in the next millennium. The urbanization policy aimed to

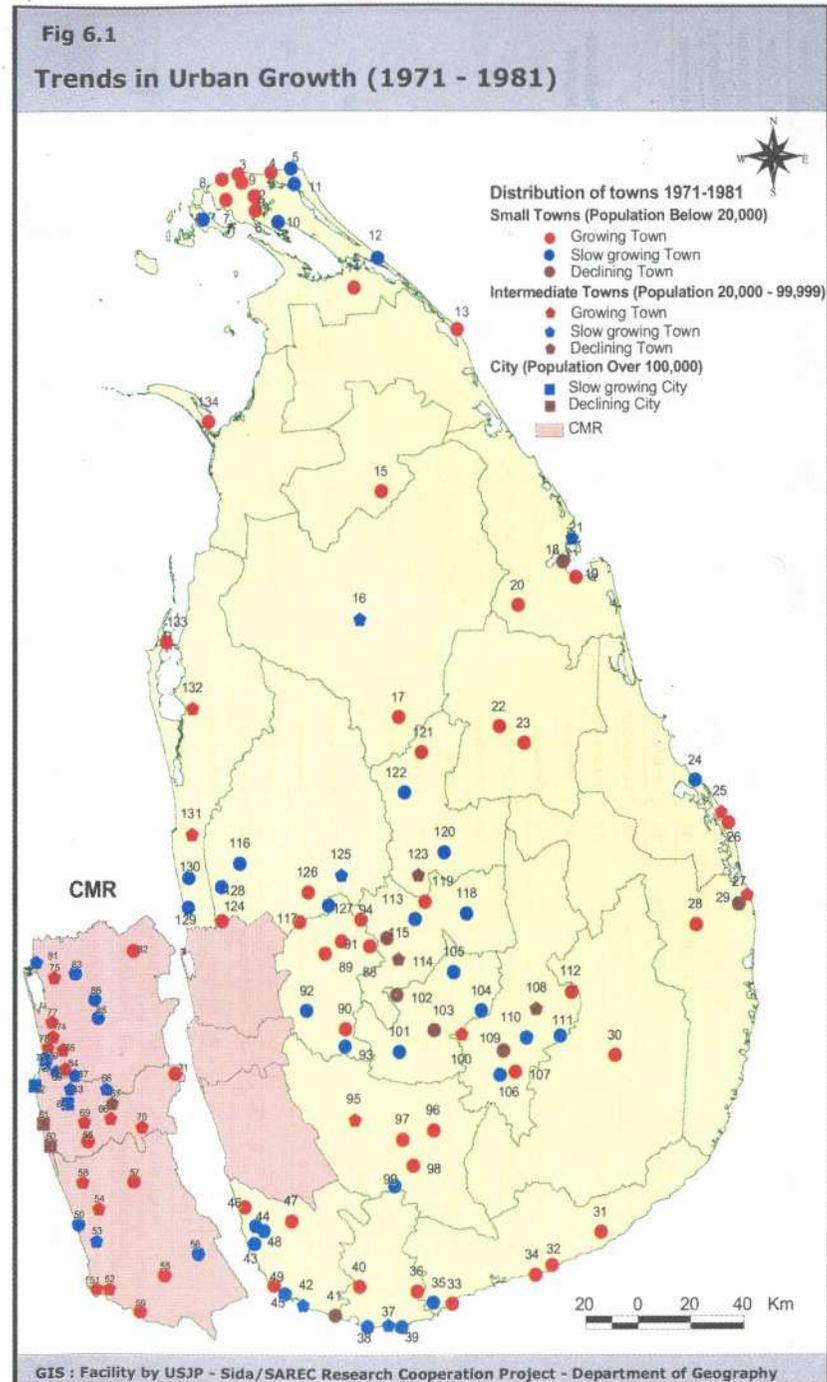
*develop 13 large compact cities with a population ranging between 0.6 million and 1.75 million in each city (with the exception of the Colombo core with 3.75 million) and occupying 0.80 mn hectares of land.*

According to this policy, all the urban development activities in the future are to be considered as part of the Integrated Regional Structure Plans prepared on the basis of the National Spatial Development Plan and

- ❖ All the development activities are to be considered within specific urban agglomerations (Fig. 6.6).
- ❖ A nationwide integrated multi-mode transport network is to connect all the important economic / urban centres.
- ❖ Legislation to promote functional coordination and management of national, regional and urban land uses is to be introduced.
- ❖ Conservation areas, and cultural and recreational activities is to be integrated in to urban physical planning.
- ❖ High and medium density concentrated residential development is to be promoted (both vertical and horizontal) in the core areas of urban clusters to optimize land use.
- ❖ Private sector large and medium scale settlement development projects are to be encouraged.

- ❖ Unauthorized occupations, construction and land converted for ad hoc development are to be discouraged.
- ❖ The vulnerability of buildings and infrastructure in settlements within natural disaster prone areas are to be reduced.
- ❖ Reclamation of conservation areas occupied by settlements and other uses to be carried out systematically.

It would be interesting to evaluate the extent to which the National Physical Planning Policy takes cognizance of the many issues of urban development and regional planning raised in this paper.



RF	Town	RF	Town	RF	Town	RF	Town	RF	Town	RF	Town
1	Kayts	27	Kalmunai	53	Kalutara	79	Hendala	105	Pussellawa	131	Chilaw
2	Jaffna	28	Ampara	54	Panadura	80	Kochchikade	106	Haputale	132	Puttalam
3	Kankasanturai	29	Samanturai	55	Matugama	81	Negombo	107	Bandarawela	133	Kalpitiya
4	Vellveturai	30	Monaragala	56	Agalawatta	82	Mirigama	108	Badulla	134	Mannar
5	Point Pedro	31	Tissamaharama	57	Horana	83	Minuwangoda	109	Welimada		
6	Manipay	32	Hambantota	58	Keselwatta	84	Dalugama	110	Haliela		
7	Chenkanai	33	Tangalle	59	Dhrraga Town	85	Gampaha	111	Passara		
8	Pandatherippu	34	Ambalantota	60	Moratuwa	86	Veyangoda	112	Lunugala		
9	Urumpiral	35	Beliatta	61	Dehiwala	87	Kelaniya	113	Kandy		
10	Chawakachcheri	36	Walasmulla	62	Colombo	88	Mawanella	114	Gampola		
11	Nelliady	37	Matara	63	Kolonnawa	89	Warakapola	115	Kadugannawa		
12	Chunnakam	38	Weligama	64	Kotte	90	Yatiantota	116	Kuliyapitiya		
13	Mullaittu	39	Devinuwara	65	Piliyandala	91	Kegalle	117	Alawwa		
14	Kilinochchi	40	Akuressa	66	Battaramulla	92	Ruwanwella	118	Teldeniya		
15	Vavuniya	41	Ahangama	67	Mulleriyawa	93	Dehiwita	119	Wattegama		
16	Anuradhapura	42	Galle	68	Kotikawatta	94	Rambukkana	120	Rattota		
17	Kekirawa	43	Ambalangoda	69	Maharagama	95	Rathnapura	121	Dambulla		
18	Kinniyai	44	Balapitiya	70	Homagama	96	Balangoda	122	Galewela		
19	Mutur	45	Dodanduwa	71	Avissawella	97	Peimadulla	123	Matale		
20	Kantale	46	Bentota	72	Peliyagoda	98	Kahawatta	124	Dankotuwa		
21	Trincomalee	47	Elpitiya	73	Wattala Mabola	99	Rakwana	125	Kurunegala		
22	Hinguragoda	48	Watugedara	74	Kandana	100	Nuwara Eliya	126	Narammala		
23	Polonnaruwa	49	Hikkaduwa	75	Seeduwa-Katunayaka	101	Hatton Dikoya	127	Polgahawela		
24	Eravur	50	Wadduwa	76	Ragama	102	Nawalapitiya	128	Nattandiya		
25	Batticaloa	51	Alutgama	77	Ja-Ela	103	Talawakele	129	Wennappuwa		
26	Kattankudy	52	Beruwala	78	Welisara	104	Pundalu Oya	130	Madampe		

RF = Reference Number

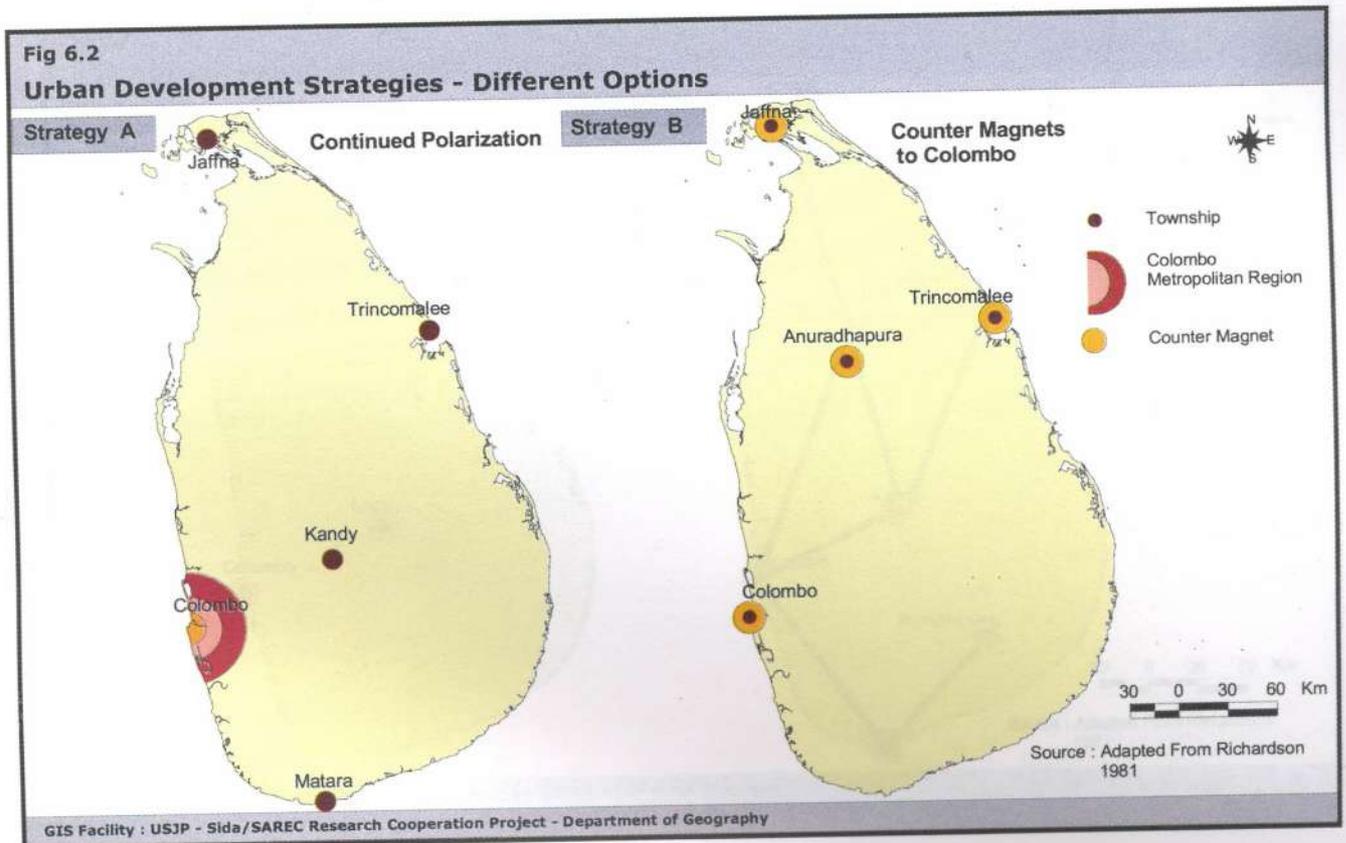


Fig 6.3

Urban Development Strategies - Different Options

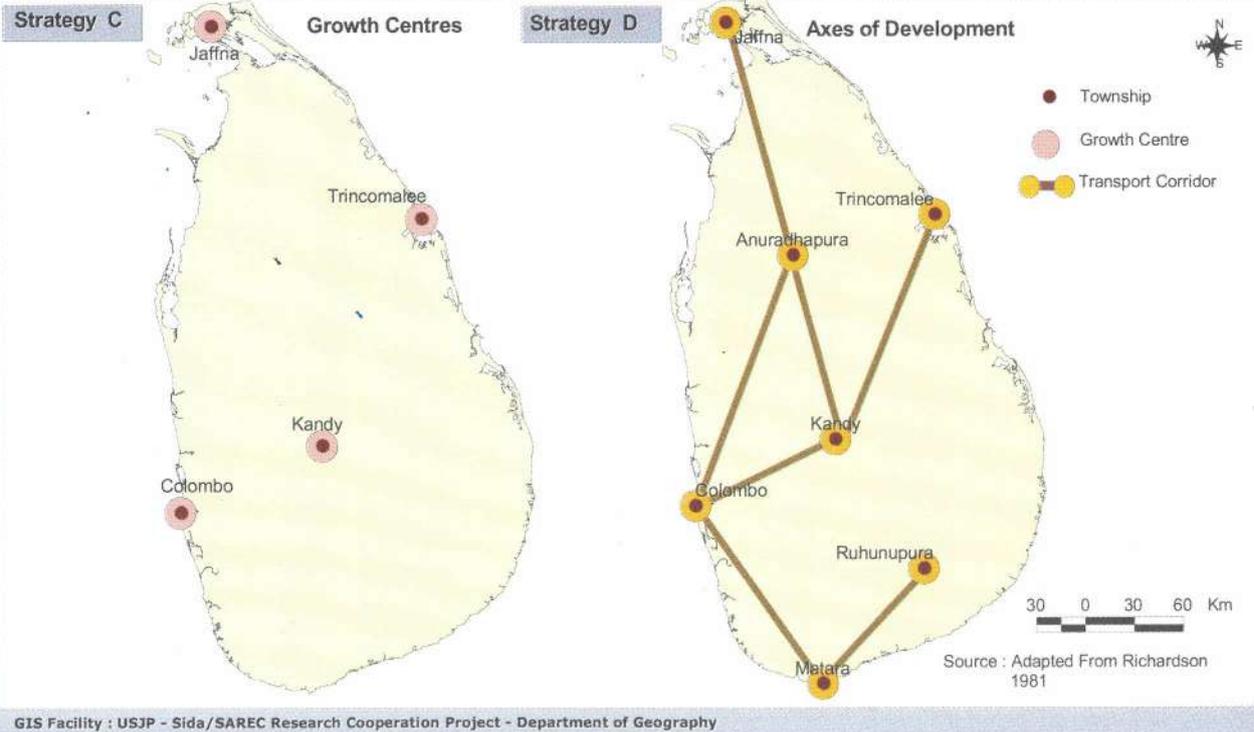
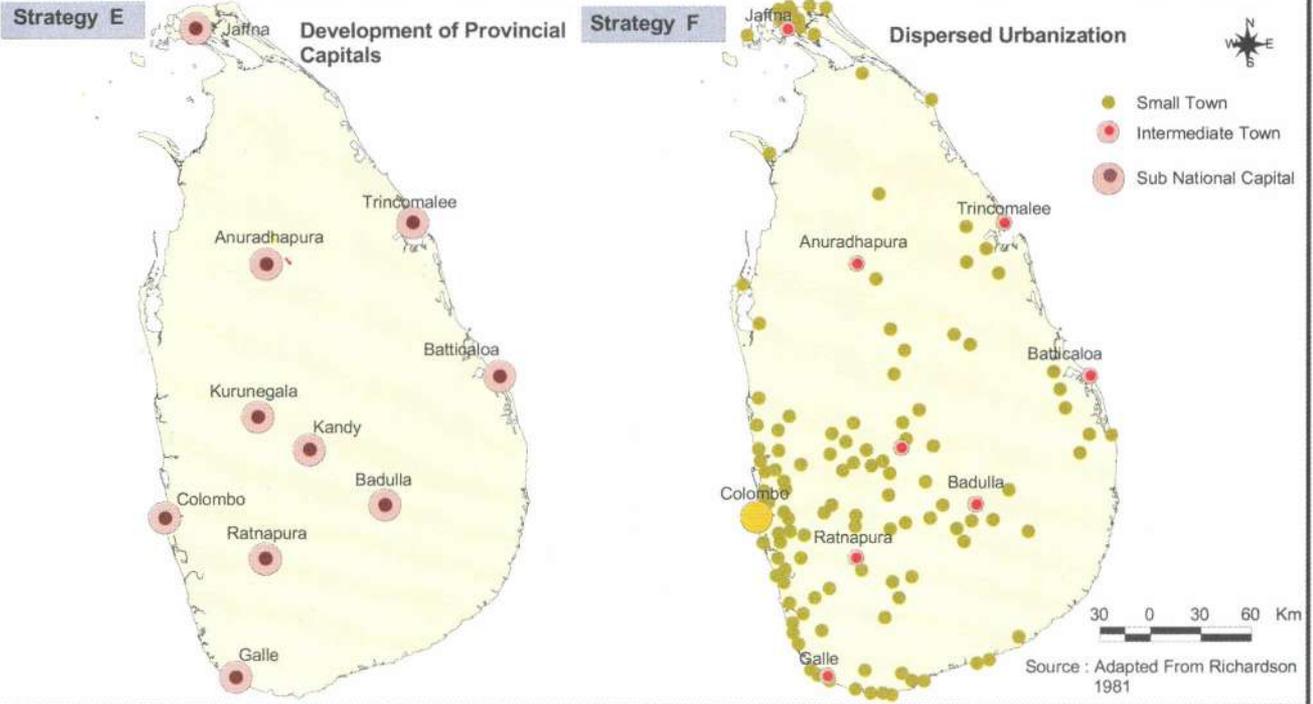


Fig 6.4

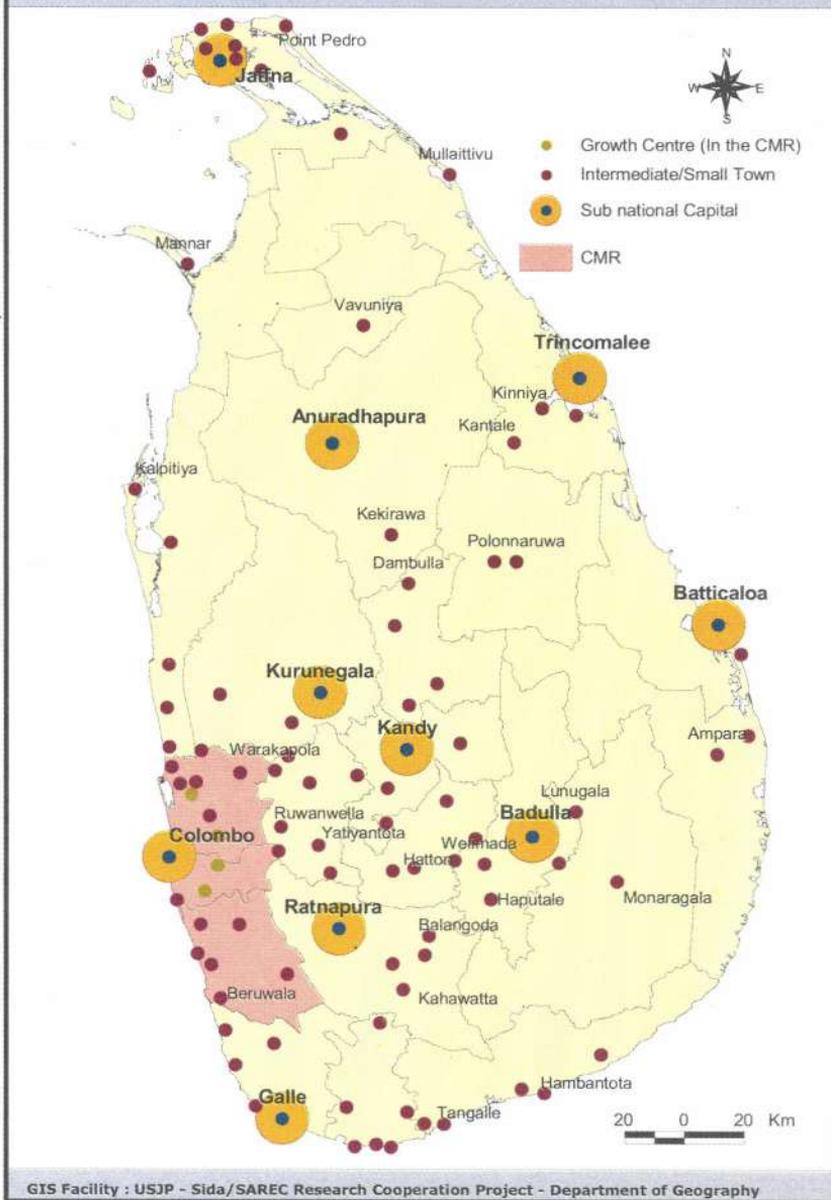
Urban Development Strategies - Different Options



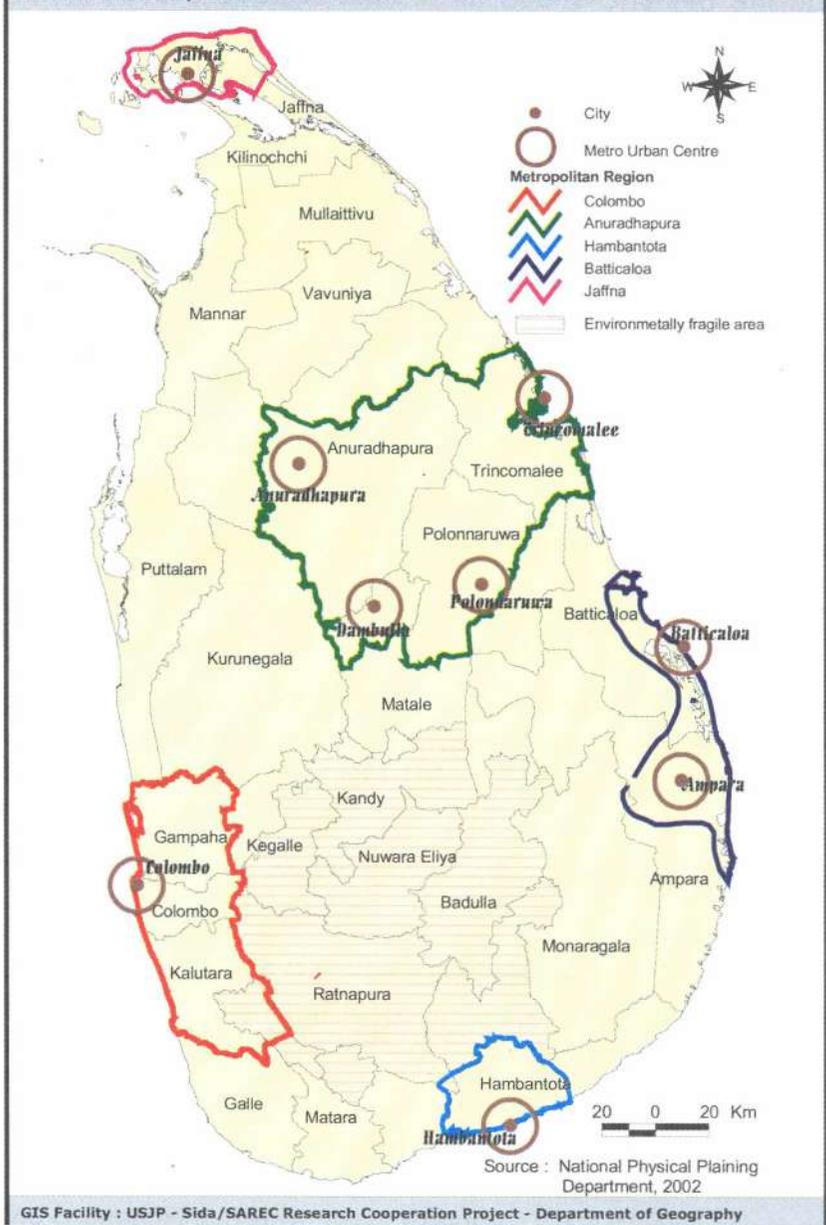
GIS Facility : USJP - Sida/SAREC Research Cooperation Project - Department of Geography

Fig 6.5

### An Appropriate Urban Strategy for Sri Lanka



**Fig 6.6**  
**Priority Metro Urban Centres and their Service**  
**Hinterlands, 2030 - Proposed Urbanization Policy For Sri Lanka**



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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.

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