

PRO-POOR POLICY OPTIONS: EMPOWERING POOR FARMERS IN SRI LANKA

INTRODUCTION

This policy brief addresses empowerment of rural farmers as a strategy to reduce poverty in Sri Lanka. Although Farmers' Organizations have helped improve rural life, capacity gaps and social environmental challenges remain. To this end, the brief suggests that bolstering investment in irrigation, assessing and empowering Farmers' Organizations, and promoting private sector involvement in agricultural markets are important strategies for reducing rural poverty in Sri Lanka.

Policy analysis findings and recommendations from a study conducted under the auspices of a "Pro-poor Policy Formulation, Dialogue and Implementation at the Country Level" project inform this brief¹. Between 2007 and 2010, the Food and Agriculture Organization–Regional Office for Asia and the Pacific (FAO-RAP), with support from the International Fund for Agricultural Development (IFAD), implemented this project in partnership with governmental and non-governmental organizations in eight Asian countries. The project goal was to enhance institutional capacity to conduct policy analysis, formulate and implement pro-poor agricultural and rural development policies. In total, twenty-three policy studies examined issues identified at national level dialogues in all project countries².

CONTEXT

In comparison with other South Asian countries, Sri Lanka has done reasonably well in reducing overall poverty levels; between 1990 and 2006, the national poverty ratio fell from 26% to 15% (Figure 1) (DCS, 2006-07).

National figures, however, obscure geographic differences; more than ninety percent of Sri Lanka's 2.8 million poor live in rural or estate areas (Figure 2) and almost 50% of the population lives under the national poverty line in certain rural areas (CBSL, 2008 & National Council for Economic Development, 2005). Moreover, nearly 40% of Sri Lankans working in the agricultural and allied sectors live below the poverty line (ADB, 2007).

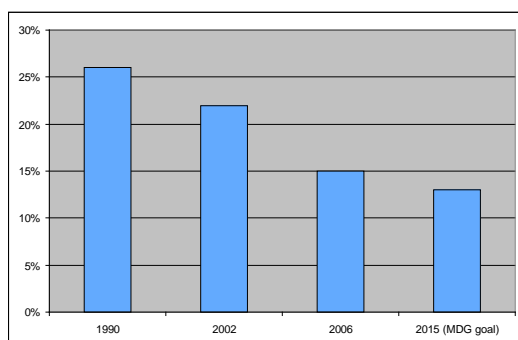


Figure 1. National poverty ratios in Sri Lanka (1990-2006)

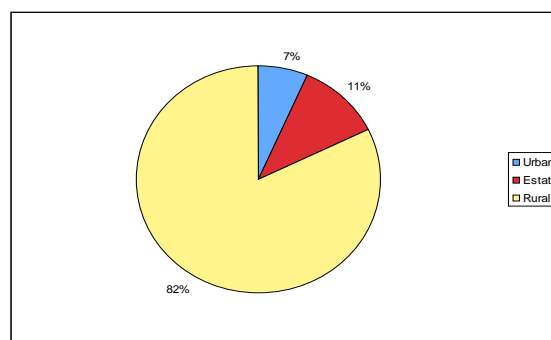


Figure 2. Sector-wise distribution of poor population in Sri Lanka (2006-7)

¹ Mr. ... & Mrs. C. ... Research and Training Institute [HARTI] and Dr. P.A. Samarathunga of Institute of Policy Studies of Sri Lanka authored the study on which this brief was based. Study methods included quantitative and qualitative data analysis, gleaned from both primary and secondary sources, to examine issues addressed by existing policies and consider policy effectiveness. The original study can be accessed by contacting: **INFORMATION**

² The other selected policy issue for Sri Lanka was Pro-Poor Agricultural Research and Extension.

Targeting rural areas and agriculture is therefore an important strategy for combating poverty in Sri Lanka, where small landholding is the norm.

Over the last thirty years, Sri Lanka's agricultural sector has experienced fluctuating and sluggish growth. Its contribution to GDP fell from 27% to 12% between 1977 and 2007. Currently, plantation, food and export crops account for more than 70% of agricultural GDP earnings (Figure 3). An almost 400 million USD trade deficit in 2007 suggests the importance of further investment to increase agricultural exports.

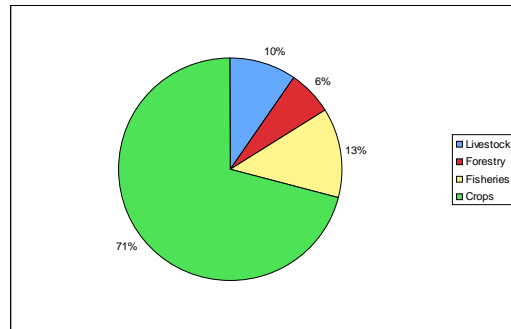


Figure 3. Sector contribution to Sri Lanka's agricultural GDP (2007)

PROBLEM STATEMENT

Farmers' Organizations for food crops, livestock and fisheries have contributed to poor and small landholders' welfare in Sri Lanka through irrigation schemes, revolving loan funds and other activities. Tangible benefits have resulted from group savings and credit schemes which extend timely, flexible and low-cost credit to farmers.

Nonetheless, challenges with Farmers' Organizations' capacities, coordination, transparency and support from allied national organizations handicap their ability to maximize their efficiency. In addition, the opportunity structure surrounding Farmers' Organizations – that is to say the social institution policies, rules, and practices- must be reformed to make the environment more conducive to progress.

Farmer empowerment aims to support individuals and groups to become greater agents in their own development. Empowerment is both a process and an outcome; fostering increased awareness and capacity building, as well as greater decision-making power and participation, which help reduce the role of other social obstacles (DANIDA, 2004). The existence of independent and sustainable Farmers' Organizations is one outcome of empowerment processes.

In particular, the realms of irrigation, institutions, credit and insurance and input/output markets present opportunities for favorably altering the livelihoods of poor farmers in Sri Lanka. A brief overview is offered as a background to the proposed policy recommendations.

BACKGROUND

Irrigation & Water Management

Studies have shown that poverty in Sri Lanka is highest in areas where households do not have adequate access to water supplies (Hussain et al, 2002). Farmers' Organizations are involved in a national project to rehabilitate minor tanks, as a means to improve both yields and cropping intensity. In addition, policies to improve minor irrigation infrastructure and Farmer Organization skills, and the use of participatory irrigation management (PIM) and irrigation management turnover (IMT) explicitly involve Farmers' Organizations in irrigation operations, management, and land use decision-making.

However, several key challenges include:

- Inadequate institutional arrangements for implementing legislation: Provincial council, central government and Farmers' Organizations' responsibilities on irrigation

management and development are not clearly delineated, making coordination difficult. In addition, twenty central government level departments and agencies are responsible for water resources, leading to duplication of authority, overlapping responsibilities and policy confusion.

- Unfavorable policy environment: Currently over 50 different pieces of legislation directly or indirectly regulate water resource management. In addition, there are no bulk water allocation policies and no maintenance standards to ensure sustainability. Irrigation investment represents only 0.4% of the national budget, half of which is dedicated to rehabilitation of existing infrastructure.
- Lack of Farmer Organizations' sense of ownership over canals: Shifts in minor irrigation system management over the past 60 years have led farmers to believe that the government owns the entire irrigation system and has full responsibility for operating it.

Institutions, Credit & Insurance

A three-tier institutional structure involving agricultural institutions, input-supply service institutions, and credit and insurance institutions has been instrumental in shaping agriculture in Sri Lanka. The Departments of Agriculture, Agrarian Development, Animal Production & Health, and Fisheries & Aquatic resources fulfill regulatory, research, extension and certification functions at the central government level. Farmers' Organizations are venues for farmers to represent their interests and agenda at the district and provincial levels, as well at the national level- through federations.

The challenges facing these institutions include:

- Institutional constraints: At the central government level, effective extension services encounter organizational, financial and man-power constraints, especially following the 1987 decentralization of political power. At the grassroots level, less than 6,000 Farmers' Organizations are actively functioning, some with questionable coordination, transparency and insufficient support from state organizations (HARTI, 2008).
- Suboptimal credit services: The benefits of micro-credit are not available to farmers in less developed areas with poor infrastructure (Chandrasiri, 2006). In addition, although interest rates are lower than commercial banks', collateral requirements put loans out of the reach of many.
- Insurance not utilized to full benefit: Insured areas represent a small proportion of total paddy area, and farmers do not tend to insure crops and animals they don't perceive as risky. Farmer apathy toward insurance schemes may be due to inadequate indemnity payments, delays in payments, difficulties in filing claims, among others (Rambukwella et al, 2007).

Input & Product Markets

Product and input markets operate in the broader framework of Sri Lanka's agricultural trade policy, which has become more conservative since the 1990s. Some analysts argue that agricultural tariff limits required by international and regional trade agreements deprive Sri Lankan farmers of needed trade protection.

Input and product market systems must be responsive to farmers' needs and conducive to providing necessary rewards. Existing Sri Lankan government support for agricultural inputs includes fertilizer subsidies (started in the 1960s and expanded in 2006) and national seed policy. Conversely, the private sector largely manages pesticide provision. Guaranteed support prices, as one market intervention, were eliminated under the open economic policies in the late 1970s, but have since been reinstated. The Agricultural Product Market

Authority in particular aims to enhance marketing and ensure fair price for products, especially paddy.

Challenges facing input and factor markets in Sri Lanka include: limited private sector involvement in agricultural commodity production and processing, gaps in property rights law, and excessively restrictive quarantine regulations.

POLICY OPTIONS

The following policy recommendations are proposed to respond to the aforementioned challenges.

1. Bolster investment, policy and institutional arrangements in support of irrigation infrastructure

- **Increase public investment in constructing new irrigation systems and making existing operations sustainable:** Efficient use of effective irrigation infrastructure can improve crop productivity and lead to higher incomes for poor farmers. As the total allocation for agricultural and allied sectors has decreased precipitously in the last decade, additional investments should come from non-agricultural budget heads. Maintenance standards and guidelines should be developed to encourage sustainable management.
- **Create institutional arrangements that encourage better implementation of existing water policy and enact comprehensive water resource legislation to integrate existing piecemeal legislation:** Appoint a high-level decision-making and coordinating body such as the Water Resources Board. Create conditions for effective government hand-over of participatory irrigation management (PIM) funds, powers and rights to Farmers' Organizations.

2. Assess and Empower Farmers' Organizations

- **Conduct comprehensive assessment of Farmers' Organizations' contribution to empowerment and poverty reduction:** As farmers' groups have been a key instrument in facilitating collaborative efforts to improve their communities' economic and social situations, examine the social organization of farmer micro credit groups, water use associations, cooperatives and field schools and assess the remaining gaps to improve future impact.
- **Strengthen leaders', members' and village extension workers' capacities:** Considering Farmers' Organizations' responsibilities for irrigation and credit activities, strengthening their participatory management skills is essential. In addition, a focus on marketing management and skills that provide farmers with fair, competitive prices can be an incentive to further market production.

3. Promote private sector involvement in supporting input provision, product processing & product marketing

- **Provide incentives for private sector engagement:** Tax concessions, backed by sufficient government budgetary allocation and regulation, can encourage private sector engagement in seed production. The government should also ensure a transparent, equitable and favourable trade policy environment and review input market policy mechanisms and instruments, as well as support prices, to identify gaps. Finally, commercial banks can be encouraged to dedicate a portion of their total loan portfolio to poor farmers.

CONCLUSIONS

While Sri Lanka's national poverty rates have fallen over the past 20 years, rural poverty persists. The agricultural sector's share of national GDP has been decreasing, although many Sri Lankans continue to depend on the sector for their livelihoods. Nearly 40% of those involved in the agricultural and allied sectors live below the poverty line. Targeting rural areas and agriculture is therefore an important strategy to combating poverty in Sri Lanka.

Farmers' Organizations in Sri Lanka have made important strides in empowering farmers. There is still room to improve their capacities, as well as create an enabling environment by reforming broader social institution policies, rules, and practices. To this end, Sri Lanka can further reduce poverty by:

- Bolstering investment, policy and institutional arrangements in support of irrigation infrastructure,
- Assessing and Empowering Farmers' Organizations, and
- Promoting private sector involvement in supporting input provision, product processing and product marketing.

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