

RURAL DEVELOPMENT THROUGH SELF-RELIANCE APPROACH: LESSON FROM PRACTICE IN SRI LANKA

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1. INTRODUCTION

The rural sector in Sri Lanka is the base for existence of three-fourths of the country's population whose main occupational structure is primarily concentrated on agriculture. It is also a main supply source of the production factors required for the improvement of national economy, such as land, labour, capital, foreign exchange, market, and raw materials. However, rural economy is becoming a subordinate factor in the growth performance of the national economy whereas previously, it was a dominant and influential factor. A noteworthy feature of this change is that the pace of decline in the agricultural share in GDP is faster than the pace at which the labour force is shifting from the agricultural sector to other sectors. At present, approximately half of the total labour force is occupied in agriculture but has contributed less than one-fifth of the GDP. The problem is that this uneven structural change in production and in the employment has led to further misery for the rural poor in the last two decades. Moreover, this also has widely led to a further decline of labour productivity in agriculture and the per capita crop land area, thereby creating a low-income group in the rural sector. Today, crucial socioeconomic problems like poverty, unemployment, underemployment, income and wealth inequality have become common features in this sector.

As a result, the rural economy of Sri Lanka has become dependent on four major factors: first, migrant workers, particularly female labour force in the Middle East¹⁾; second, female workers in the Export Processing Zone; third, government soldiers fighting Tamil terrorists; and fourth, poverty alleviation programme of the Sri Lankan government. These new unexpected dependent factors of the rural economy have made additional difficulties to find a constructive solution to the prolonged uncertainty

of the rural life while deteriorating the socioeconomic condition of rural communities. This reveals poor contribution of rural development policies to the improvement of people's capabilities and entitlements sufficiently.²⁾

The present study will first attempt to overview the experiences of rural development practices over the post-independence period to provide why we need to look for an alternative approach for rural development to achieve people's capabilities and entitlements. It will thereafter analyse theoretical frame and experiences of the ongoing new approach namely Export Production Village (EPV)³⁾ which aims to achieve economic self-reliance or economic independence in the rural sector in Sri Lanka since 1981. Finally, it examines how far this strategy has contributed towards the resolution of rural socioeconomic problems, particularly improvement of income level, which leads to reduction of poverty, unemployment and inequality in the rural sector. The analysis of these aspects is based on the findings of macro and micro level investigations conducted on the Dambadeniya EPV project in Sri Lanka.

2. EXPERIENCE OF RURAL DEVELOPMENT IN SRI LANKA: AN OVERVIEW

Though the term rural development has been defined in several ways by several scholars, all definitions have certain common elements, because the problems of the rural sector in developing countries, which the rural development attempts to resolve, show a remarkable similarity. According to World Bank (1975:3), rural development is a strategy designed to improve the economic and social life of a specific group of people, the rural poor. It is concerned in extending the benefits of development to the poorest who seek a livelihood in the rural areas, namely small-scale farmers, tenants and landless. The UNDP (1979:1) defined rural development as a process of socioeconomic change involving the transformation of agrarian society, in order to reach a common set of development goals based on the capacities and needs of people. These goals seek to achieve a nationally determined growth process that gives priority to the reduction of poverty, unemployment and inequality and to the satisfaction of minimum human needs. They should stress self-reliance and participation, particularly of those with the lowest living conditions.

There are various postulates in the theoretical literature pertaining to the process of rural development employed in Sri Lanka to meet some of the above goals during the last five decades. Most of them were overwhelmingly engaged in the improvement of agriculture to fulfill people's aspirations. In general, these strategies which exercised in Sri Lanka have two major approaches: (a) growth-oriented approach or rural development through agricultural modernisation; and (b) people-oriented or an integrated approach which emphasized creation of off-farm employments in the rural sector itself. The first approach dominates traditional rural development policies and second integrated rural development strategies respectively.

Although these two policies have different approaches, all have a great deal in common, which can be summarised as follows: alleviation of rural poverty, unemployment and inequality; expansion of off-farm employment; improvement of living conditions of the rural community through increase of production and productivity of agriculture; improvement of social and economic infrastructure; mobilisation of available resources; increase economic self-reliance; expansion of people's active participation in development projects and decision making and improvement of the value and quality of life in rural communities.

Growth-Oriented Approach: Under this concept, enhancement of agricultural productivity and efficiency of resource allocation are of fundamental significance in the process of rural development. In order to achieve these two major objectives, Sri Lanka has introduced three types of strategies: first is to increase cultivable land area through improvement of irrigation and other infrastructure facilities; second is to intensify cultivation through promotion of land-savings and labour-intensive technologies; and third is to implement various reforms such as land reform, price supporting policies on inputs and outputs and decentralised management systems. Extensive land settlement schemes, particularly colonisation schemes fall under the first type of strategy while the Green Revolution falls under the second. Various other agrarian reforms, as referred to above, were expected to encourage farmers to make efficient use of the first two strategies.⁴⁾

People-Oriented Approach: In addition to modernisation of agriculture, there has

been a great deal of improvement of non-agricultural pursuits, specifically small and medium scale industries in rural areas for creation of off-farm job opportunities. This aim was expected to achieve mainly under the Integrated Rural Development Programme (IRDP) which was introduced by Sri Lankan policy makers with financial and technological help of the international donor countries since 1970s.⁵⁾ It was implemented in almost all districts in Sri Lanka during the last two decades.

In broad sense, the role of rural industrialisation in IRDP is to alleviate rural poverty through facilitating the efficient use of local resources (human and material), expansion of additional employment opportunities, improvement of agricultural production and productivity, augmentation of rural income and improvement of basic needs.⁶⁾ Theoretically there is no doubt that the concept of IRDP and its rural industrialisation effort have constituted a consistent approach to alleviate rural poverty at micro level and to national development at macro level. This means, the provision of equal benefits of economic growth to the rural poor by giving them equal opportunities to participate in growth activities, which become the major theme of the IRDP.

Results of the Practices: The question is whether and to what extent both the growth- and people-oriented approaches have accomplished to achieve their expected goals or how much these policies have contributed to the abatement of rural poor. The empirical evidence of these two practices in Sri Lanka reveals a mixed basket of results which contains less success than failure.

The success consists of remarkable increase of paddy land area, irrigated land area, arable land area (upland), land productivity, domestic food capacity, specifically self-sufficiency rate of rice. These achievements in the domestic agricultural sector in Sri Lanka have been summarised in Table 1.

The data in the above Table reveals that the paddy cultivated area increased from 431,425 ha in 1950 to 749,000 ha in 1996 or by 74 per cent during this period. As a result paddy production surged from 459 thousand Mt to 2,061 thousand Mt that is about five times during the same period. These significant achievements in the staple food sector of Sri Lanka have contributed to the strength of the country's food capacity, particularly total availability of domestic product or self-sufficiency rate of rice⁷⁾

Table 1: Performance of Domestic Agricultural Sector in Sri Lanka

Item	1950	1996
1. Paddy Cultivated Land Area (ha.)	431,425	749,000
2. Irrigated Land Area (%)	24.8	71.6
3. Total Paddy Production (000, MT)	459	2,061
4. Land Productivity of Paddy (Kg./ha.)	1,064	3,513
5. Area Shown Improved Varieties (%)	54.6 *	98.0
6. Self-sufficiency Rate of Rice	17	86
7. Rice Imports as a % of Food & Drinks Imports	47	9
8. Rice Imports as a % of Total Imports	23.8	1.7

* 1965

Source: Peebles Patrick, 1982, *Sri Lanka : A Handbook of Historical Statistics*, G. K. Hall & Co., Lincoln Street, USA. Central Bank of Sri Lanka, *Annual Report*, Various Issues, CBSL, 1997, *Economic and Social Statistics of Sri Lanka*.

which increased from 17 per cent in 1950 to nearly 90 per cent in 1996. At the same time, the successful performance in this sector has largely contributed to the improved situation of balance of payments in Sri Lanka: value of rice imports as a percentage of food & drinks imports declined dramatically from 47 per cent in 1950 to 9 per cent in 1996. Moreover, rice imports shrunk from one-quarter of the total import value to less than two per cent in the same period. There is no argument that these successful performances in the staple food sector in Sri Lanka have been a direct and indirect result of the land saving and labour using technologies introduced under both the growth- and people-oriented rural development practices employed in the last five decades.

Thus, although rural development strategies have fulfilled national demands of food and consumer requirements, the aims which were anticipated to accomplish these policies, specifically relief of rural poverty, unemployment and inequality have not been achieved at any significant level. Table 2 reveals more worsening of these three socioeconomic constraints than resolving them at any remarkable level in the last half a century.

The data in Table 2 reveals failure to attain central objectives of the rural development policies at any substantial level in the post-independence period of Sri Lanka. Rural economy is continuing its prolonged problems without any significant change regardless of huge investment in various activities in economic and non-economic activities launched by the respective governments. It is reasonable to emphasize that the present socioeconomic situation of this sector is aggravated more than previously. According to some scholars (Wignaraja, 1984:3; Satish, 1987:83), rural development through agricultural modernisation caused poor become poorer and the rich, richer in most Asian countries in spite of their significant achievements in the increase of agricultural output and the remarkable improvements in rural infrastructure facilities. Although it is difficult to provide a correct reason for this failure, it can be noted that the rural development strategies employed in Sri Lanka did not contribute sufficiently to improve people's capabilities and entitlements by creating productive employment in the village itself through utilisation of commodity

Table 2: Unemployment, Poverty and Income Inequality in the Rural Sector in Sri Lanka

Rural Sector	1969/70	1973	1978/79	1981/82	1985/86	1990	1995
Unemployment (a)	18.9*	24.0*	14.8	11.7	14.1	15.9	12.0
<i>Poverty Incident:</i>							
1. Hopkins & Jogaratnam	18.0d	11.8	16.0	39.2	28.6	32.4e	---
2. Anand and Harris	12.8 f	31.6	23.8	23.2	32.4	32.9g	---
3. World Bank	---	---	---	---	45.5	38.1	22 c
4. Propotion of Poor	71.9	94.4	77.1	78.7	84.2	88.1b	90
Gini Coefficient	0.44	0.37	0.49	0.49	0.56	0.46h	0.43I

* All countries in 1971 . (a) Percentage of labour force. b. 1986/87, c. 1991-97, d. Allilima for 1969/70, e. 1986/87, f. Bhalla and Glewwe, g. Edirisinghe, h. 1986/87, i. 1996/97

Source: World Bank, *World Development Indicators*, 1998; Lakshman, W.D. 1997, *Dilemmas of Development: Fifty Years of Economic Change in Sri Lanka*, Sri Lanka Association of Economics, 1997, 171-222; Quibria M.G. (ed), *Rural Poverty in Developing Asia*, Vol. 1, Bangladesh, India and Sri Lanka, Asian Development Bank, 1994; CBS, 1998, *Economic Progress of Independent Sri Lanka, 1948-1998*, Colombo.

and non-commodity production factors available in this sector.

Furthermore, the decline of the rural sector has been the result of neglecting the traditional sector and also the inability to recognise its real problems in conventional development policies and strategies, specifically those which are directed to achieve high growth, while ignoring improvement of people's capabilities and entitlements through distribution of growth benefits. The expected "trickle-down" effect did not take place, as there was a virtual exclusion of the traditional sector in growth efforts that were biased towards the modern sector. There is no doubt that in the long run, economic development of ever growing rural population would depend upon the combined expansion of both modern and non-agricultural sectors. Yet, too strong emphasis on the modern sector is likely to leave out the growth potentials of rural areas. At the other extreme, government policies concentrating mainly on promoting social equity in rural areas may have discouraged investment in the non-traditional sector, resulting in economic stagnation. (World Bank, 1975:16) At the same time, this policy may also have resulted in increasing community dependence on government subsidies or so-called food ration and stamp programme^{b)} rather than on their own living strategies based on working capacities. Failure to identify these complexities inherent in the development process have led to a negligence of rural sector which has caused rural poor leaving without the benefits of growth.

The present rural development strategy (Export Production Village: EPV Project) ought to have two main components which leads to improvement of people's capabilities and entitlements: (a) distribution of fruit of growth more fairly among the rural poor, through creation of production linkages between the modern sector and rural producer; and (b) development of agriculture, rural industries and cottage industries based on resource endowment (land, labour, capital, technology etc.) of the village economy where there is a sufficient market potential in international as well as domestic markets. The organisation of such rural and cottage industries and creation of marketing relationships between the two sectors are essential for the long-run improvement of the rural economy. The creation of greater interaction between the two sectors would not only reduce the acute socioeconomic problems in the rural sector but also in the reduce of socioeconomic disparities between them.

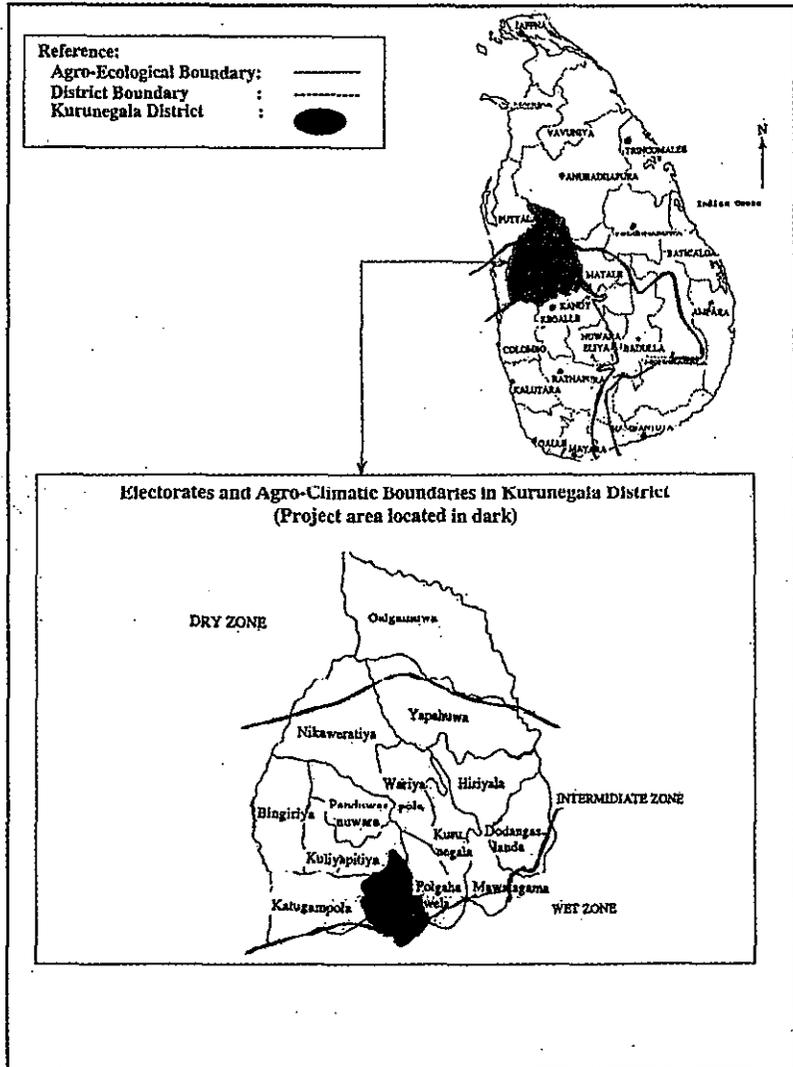
3. RURAL DEVELOPMENT THROUGH SELF-RELIANCE APPROACH: THE CONCEPT OF EPV

(1) The Concept and Objectives

The EPV has been conceptualised as “a trading house of producers at grass-roots level to introduce rural export-oriented products (agricultural and agro-based cottage industry products) into the highly competitive international market”. The first such producers’ trading house was established at a cluster of villages (Paranagama, Handapangala and Epaladeniya) in the Dambadeniya Electorate, in the Kurunegala District (see Map 1) and was called the “**Dambadeniya Export Product Development Company Limited.**” It was incorporated under the ‘Company Act’ and registered with the Registrar of Companies as *Janatha Samagama* (People’s Company) in 1981. The function of this *Samagama* was to meet export demand for selected products that could be supplied by the shareholders of the company; its operational method was to supply the products to export firms in the country. This project thus attempts to enlist directly the active participation of the rural sector in Sri Lanka’s export efforts and thereby improve the overall socioeconomic conditions of the villagers. Thus, the company aims at accomplishing an inter-related set of objectives; it was also expected to evolve a replaceable model for rural development in other villages of Sri Lanka.

The project was aimed to achieve the following multiple objectives in particular: (a) to survive traditional socioeconomic base at village level by providing additional economic sources through producing some specific products to their own company utilising their own resources; (b) to improve people’s capabilities and entitlements as much as possible; (c) to generate employment opportunities by using village resources, particularly material resources and traditional technology; (d) to provide additional income which eventually helps to improve their living conditions; (e) to create a strong marketing organisation based on people’s aspirations to face competitive open market; and (f) to ensure that their own development depends on their own efforts and not on the government intervention.

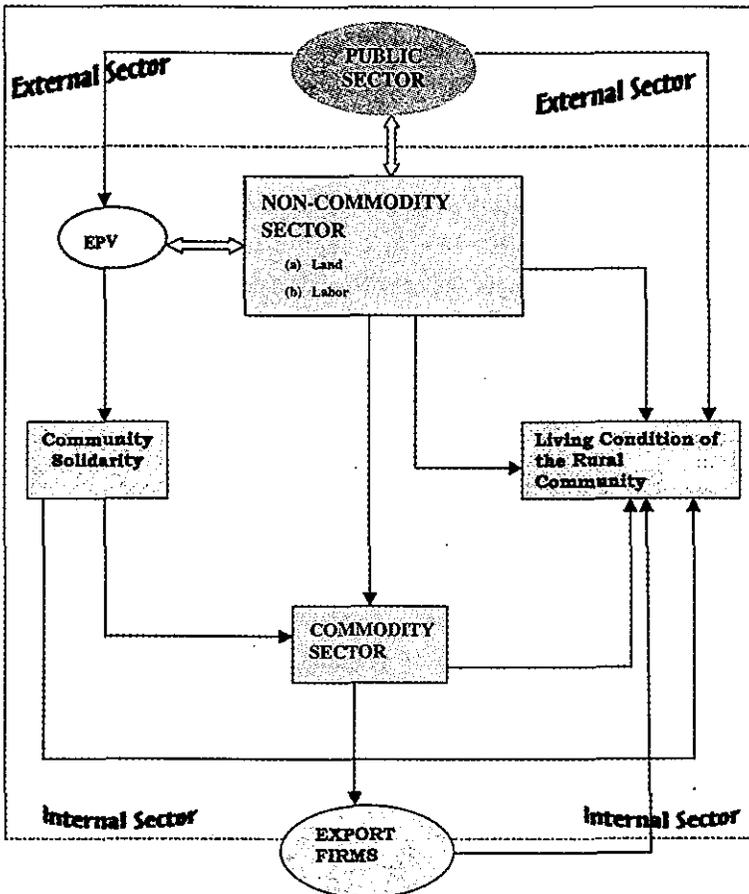
Map 1: Agro-Climatic and District Boundaries in Sri Lanka



(2) Theoretical Framework

The theoretical frame of the project focuses closely on economic self-reliance as a goal of rural development; however, we have defined this concept not in its classical sense, but to mean a process which harnesses the active participation of the poor in national economic growth and transferring the fruit of growth more fairly towards the poor without affecting their conventional socioeconomic conditions. These goals

Figure 1: Theoretical Frame of the Proposed Export Production Village Project



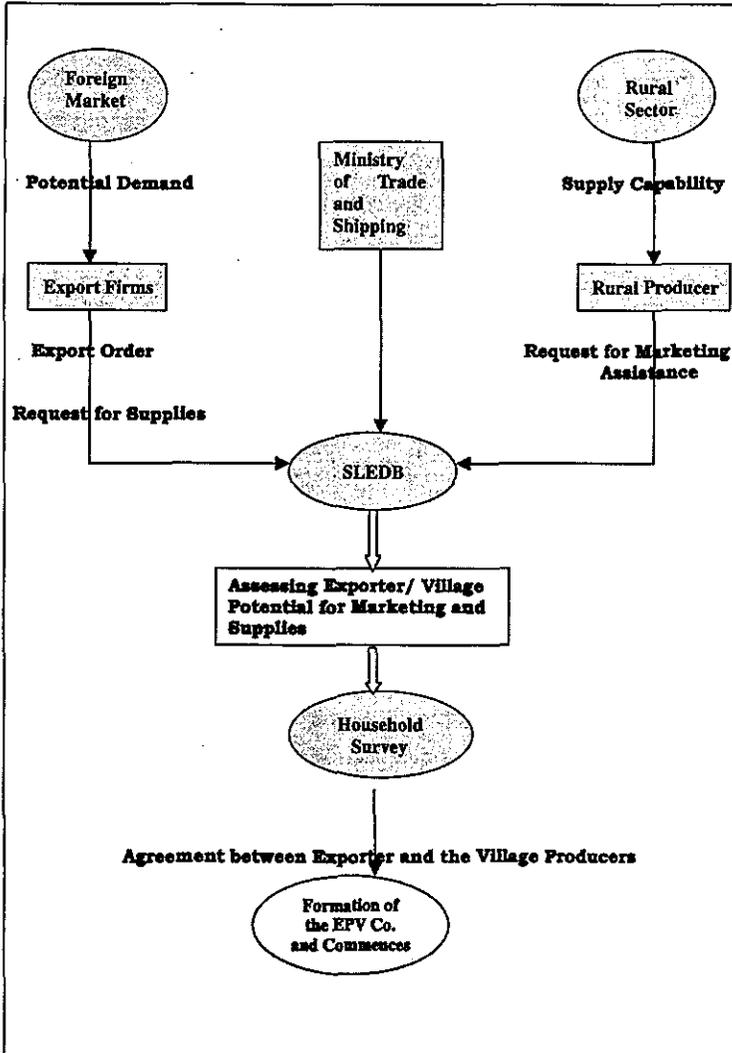
were to be achieved through the application of the EPV concept as the main policy instrument. The outline of the theoretical framework of the project has been summarised in Figure 1.

According to Figure 1, the living condition of the rural community depends on five dimensions which remained under two major categories: (A) External Sector and (B) Internal Sector. The external sector can be defined as a government sector or outside of the village boundary. This sector is directly involved in improvement of living conditions of the villagers. For example, it provides many assistance to improve agriculture and other socioeconomic activities by employing a number of government officials. The internal sector is defined as the existing resource base of the village economy which has an influence directly and indirectly on improvement of people's living conditions. This sector comprises of four sub-dimensions: (a) resource endowment in the non-commodity sector; (b) production, consumption and marketing in the commodity sector; (c) community solidarity and people's participation in village organisations; and (d) living conditions of the rural folks. The last dimension is assumed as a final dependent variable on the other four variables. The EPV is considered a highly influential policy instrument which contributes to the improvement of all variables, particularly living conditions of the rural people. This variable represents the most influential factors which were extracted from both the internal and external sectors, specifically power bases of the two sectors.

(3) The Modus Operandi of an EPV Company

The process of an activity involved in the formation of an EPV Company is shown in Figure 2. This reveals a combination of the village economy with modern economy (external sector) to facilitate transfer of growth benefits from this sector to rural sector. In this context, Sri Lanka Export Development Board (SLEDB)⁹ takes the role of a mediator to make business contact between rural producer and exporter while supplying initial cost to create a people's company at the village. Both the villagers and exporters have direct relations with SLEDB because it provides various services such as marketing information, arrangement of trade fairs, conducting feasibility studies on export goods, preparing project proposals, technical advice, financial

Figure 2: The Process of Activity Involved in the Formation of an EPV People's Co.

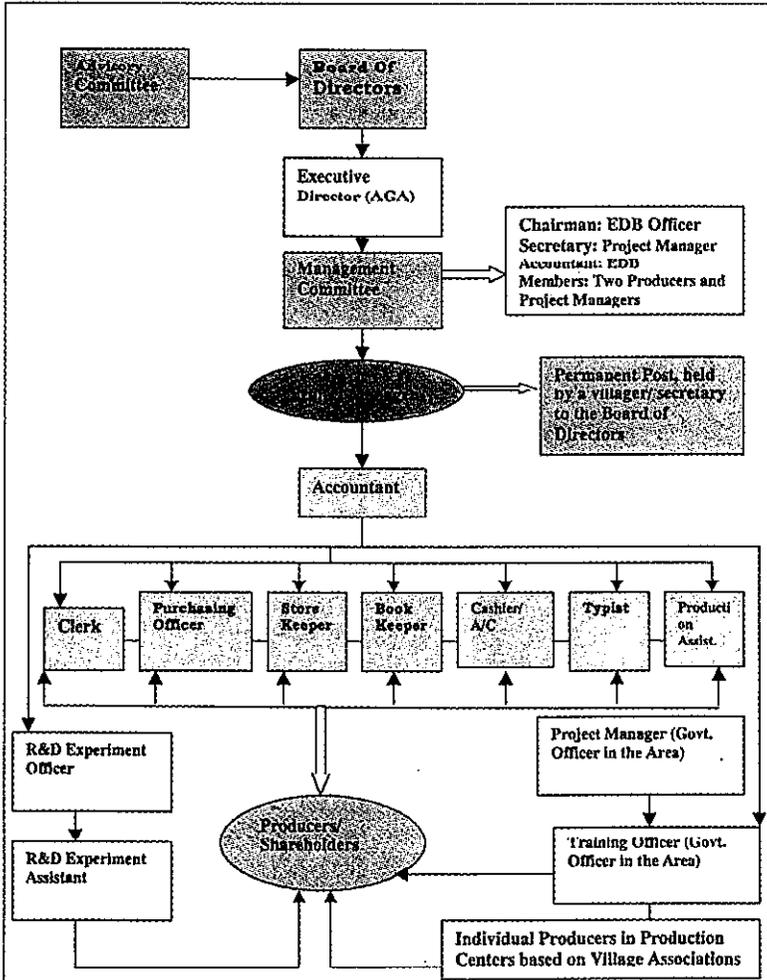


support etc. to encourage country's export efforts.

When the SLEDB received an inquiry from villagers to find a marketing source (international market only) for their products, officials of the SLEDB visit this village and conduct a feasibility study to explore whether there is any possibility to create a people's company to supply goods for international market. After this survey, the SLEDB takes the role of a middle man to establish a company of the rural producers, providing all necessary information, training, official work, regular management advice, initial cost, equity participation etc. The most noteworthy feature of this *Janatha Samagama* is that it attempts to grasp internal and external power bases, particularly newly emerged business leaders, traditional business leaders in the area, traditional village leaders like a retired school teacher, government agent, and government officials at the village level who dealt with various development activities in the area. This has been demonstrated in Figure 3.

The most significant characteristic of the institutional organisation and management structure of this *Janatha Samagama* (Figure 3) is that it was an embodiment of influential factors or responsible people in government sector, private sector and village itself, aiming to provide a stable position and transfer of management skill from organised sector to village community. For example, Board of Directors of this company comprises of highly established enterprises in the neighbouring villages, high ranking government officials, village leaders and producers. The Secretary (Project Manager) of the company who is responsible for directing, guiding or managing the company is a retired school teacher in the same village. These internal and external combination of the management structure of this project have resulted in efficient management and utilisation of village resources (human and material) for profitable production activities. Moreover, recruiting of twelve administrative officials from village community as permanent staff from among producers' households also became effective factor in successful implementation of decisions made by the officials in the management section. These officers have a real understanding of the people's problems because they themselves belong to these families. This is one of the most important strategies adopted to encourage producers' confidence in project activities. Producers are thus able to present their problems to this staff without hesitation,

Figure 3: The Institutional, Organizational and Managerial Structure of the Dambadeniya EPV People's Company Limited



ensuring successful communication. This helps in winning the producers' active participation in various activities of the company.

This company produces mainly reedware packs used in packing black tea for export. In addition, it was originally intended to produce betel leaves, ginger, pineapple and coir products on an experimental basis for export market but this attempt failed due to inadequate demand, the marginal nature of profits from this activity and difficulties of transport. Recently, the company attempted to diversify reedware products by producing a number of handicraft items. However, the most remuneratively marketed product still remains, the reedware tea packs.

(4) Experience of the Dambadeniya EPV Company (1981-1997)

The analysis of the experience of this economic enterprise is investigated with a view to determining how commercially remunerative the company is, and how effectively it promotes self-reliance through improving people's capabilities and entitlements during the last 17 years (1981-97). In particular, the examination looks into four major aspects of the project's operation and performance to determine how far it attained the above noted core objectives of the company: (a) augmentation of capital endowment; (b) generation of exchange entitlements; (c) creation of productive employment opportunities; (d) other contributions.

(a) Augmentation of Capital Endowment

A noteworthy feature of this *Janatha Samagama* is that it was established in 1981 with an initial share capital of Rs. 31,910 (\$1,553) of which 47 per cent (Rs. 15,000 or \$730) was contributed by SLEDB, while the balance 53 per cent was provided by 533 share holders who purchased shares. The company has not only increased its share capital by four times but also its small initial capital used to become a highly profitable economic enterprise during the period 1981-1997. (see Table 3) It is interesting to note, how the company increased its assets within a period of 17 years: fixed assets and net current assets increased by 62 times or from Rs. 139,844 in 1982/

1983 to Rs. 8,629,114 in 1996/97. The most significant achievement of this company is that except the SLEDB's purchasing of shares, all other money capital needs were met by the villagers, particularly the producers themselves. The point is that this company was formed on a small amount of capital, belonging to a large number of shareholders. When this company was formed in 1981 in this area, the most essential initial necessities, i.e. tables, chairs, and office space had been borrowed from the

Table 3: Dambadeniya EPV People's Company Ltd.

Balance Sheet as at March 1983, and 1997

Unit: Rs.

Items	As at March, 1983*	As at 31 March, 1997
Share Capital:		
Authorised	1,000,000	1,000,000
Issued & Paid Up	31,910	129,390
Reserves:		
Share Premium	0.0	24,525
General	0.0	52,556
Profit & Loss Account	107,934	2,288,805
Funds	0.0	6,108,838
Long Term Liabilities		
SLEDB	0.0	25,000
Total (Rs.)	139,844	8,629,114
Represented By:		
Fixed Assets	450	3,198,381
Current Assets	140,694	8,626,820
Less: Current Liabilities	1,300	3,196,087
Net Current Assets	139,394	5,430,733
Total (Rs.)	139,844	8,629,114

Note: * The year 1982 has been taken as the base year because the data for 1981 covers only a three-month period. Financial year of the company begins from April 1 to March 31 of the next year.

Source: The Company's *Annual Audit Report*, Various Issues.

Table 4: Fixed Assets of Dambadeniya EPV People's Co. Ltd.
(As at 31st March 1997)

Items	Value (Rs.)
Land	2,843,000
Furniture	24,250
Office Equipment	147,331
Building	38,799
Plant and Machinery	32,900
Safe	8,385
Motor Vehicles	546,500
Computer	182,398
Other	87,297
Total	3,910,860

Source: Same as Table 1

Assistant Government Agent's Office in Alawwa.¹⁰⁾ On the other hand, it did not have any transport or communication facilities to contact and transport its goods to export firms located in Colombo. The company used public transport facilities like train and bus services to overcome this difficulty while appointing a temporary field assistant who liaises between the EPV company and export firms or SLEDB. However, at present, this trading house has acquired almost all necessary facilities and official equipment like its own land, building, motor vehicles, machinery, computer, telephone, facsimile etc. worth Rs. 3.9 million. The details of the fixed assets have been presented in Table 4. Data in the Table reveals how far this grass-roots trading company developed into a standard trading firm within a short period.

This is the first experience of the registration of such a company with the Registrar of Companies in Sri Lanka.¹¹⁾ Although the concept of company and its international marketing activities are new to the rural people involved, those living in the villages acted through these unfamiliar channels to achieve the normal level of the company by using their own limited capital endowment and on the basis of a trust in self-reliance.

(b) Generation of Exchange Entitlement

The generation of exchange entitlement of most of the villagers in the project area overwhelmingly depends on the ability and opportunity to offer their labour power for wages rather than selling their own agricultural and nonagricultural products. The EPV *Samagama* paid special attention on this matter and provided an opportunity to sell or use their labour power and traditional knowledge to produce market-oriented products, utilising non-commoditised material resources available in the village itself. In this aspect, the EPV concept emphasized the conventional skills of villagers coming down from their ancestors rather than the level of their formal education. For example, many women in this area had traditionally been in the practice of producing a number of daily household utility items like mats, bags, boxes etc. using materials obtained from their own or neighbouring homestead or communal lands. Such production activities had not been market-oriented. What the EPV project has done is to show how these skills could be used for producing marketable products through the mobilisation of producers. As noted previously, the company has attempted to produce reed ware tea packs (used for tea packing by exporters), utilising villagers' traditional knowledge and non-commoditised material inputs. The performance of the EPV in tea pack production during the period 1981-97 is given in Table 5.

Although the production of tea packs of this company has an intermittent decline in some years, the accumulated volume and value of tea packs produced during the last 16 years amounted to about 10 million packs and Rs. 138 million respectively. The supply of production increased by 57 per cent while expanding its money income by 16 times during this period. It is interesting to note that this huge amount of money transferred from the modern sector or so-called industrial sector through production linkage between rural producers and modern sector. Another significant aspect is that the EPV people's Company generated this income for villagers by using people's own technologies and some of non-commoditised production inputs.

These success performances of production activities of the company can be recognised as a result of its organisation strategy based on three major conventional behaviours of villagers in Sri Lanka. The first is the aspect of "individualism" which

allows the producers to engage in production activities at home on an individual basis, whenever they have time. The second is the “mobilisation” aspect, whereby it was intended to mobilise people, particularly women labour force, to create production centres in various places in the electorate. The third is the “co-operative” aspect which was implemented through the company under the control and management of the people themselves.

Table 5: Performance in the Production of Tea Packs, 1981-1997

Year	Volume (No)	Index (1982=100)	Value (Rs.)	Index (1982=100)
1981	7,800	----	54,914	----
1982	264,138	100	981,428	100
1983	90,736	34	491,299	50
1984	120,120	45	735,439	75
1985	400,796	152	2,547,025	260
1986	551,683	209	3,561,218	363
1987	706,957	268	4,657,031	475
1988	986,649	374	7,368,410	751
1989	588,601	223	8,731,000	890
1990	995,693	377	7,365,000	750
1991	849,095	321	11,648,000	1,187
1992	704,078	267	14,080,000	1,435
1993	798,227	302	10,755,000	1,096
1994	689,430	261	14,846,000	1,514
1995	821,079	311	15,073,000	1,536
1996	953,908	361	18,853,000	1,921
1997	415,013	157	15,797,000	1,610
Total	9,944,003	-----	137,554,768	-----

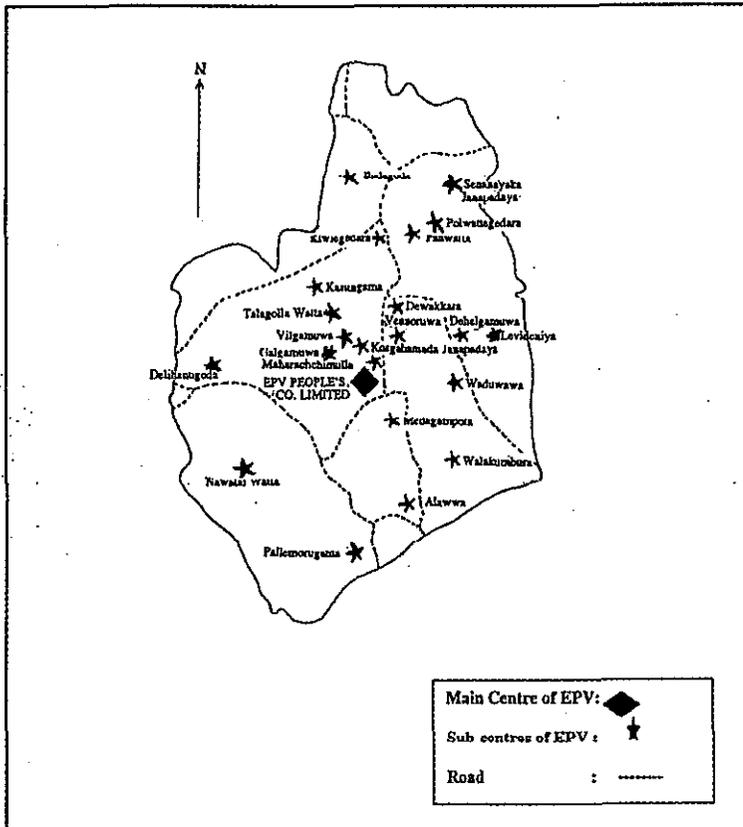
Source: Annual Audit Report of the Dambadeniya EPV People's Co. Ltd., Various Years

The first strategy contributed to the survival of traditional spirit of village life from modern concept of factory based production activities. The housewives in a village setting have manifold duties as wife, mother and worker. When they engage in production activities at home, they can fulfil all these duties by shifting from one role to the other as required while saving time, labour and transport costs. Furthermore, the villages which implemented EPV concept do not provide infrastructure facilities

like day-school and other baby care centres to enable mothers to work full-time. When a rural woman works outside home, she may face a number of other social problems as well, which may be harmful to her family life and social stability of the rural society.¹²⁾

Under the second strategy, the company mobilised a large number of scattered producers within the electorate into production centres based on existing traditional and non-traditional village organisations. (see Map 2) The *Samagama* appointed centre leaders from among the producers and trained them at the training centres of the Company's R & D division.

Map 2: Production Centres around the Dambadeniya EPV People's Company Limited



The other producers gathered into these centres were given training and instructions on production activities by these centre leaders.

Under the third strategy, the *Samagama* established a production centre in the company office that can be directly controlled by the company officials. Producers who live around the office gather in this centre and engage in production activities in terms of marketing orders received. Payment is made for their work by the office according to the quantum of production carried out.

These three strategies reveal the company's endeavour to develop an organised production system whereby marketing orders can be supplied efficiently according to various quality requirements and regularly in time to meet deadlines. Moreover, these principles imply the repudiation of the conventional factory management or workers bound to a factory form of life. This means, EPV concept believes that work is for the living struggle of the people and not for the development of a factory.

The organisation of village producers as an economic enterprise under the EPV *Samagama* has contributed to improve villagers' entitlement and capabilities directly, while expanding marketing activities of the company with export firms of the country. The rapid surge of in sales turnover and in payments to producers, and net profit of the *Samagama* are given in Table 6 to demonstrate evidence of the company's achievements during the last 16 years. The Company's sales turnover and its payments to producers have increased by 15 and 16 times respectively during the period 1982/83-1996/97. Simultaneously, monthly payments of this trading house to producers also increased from Rs.79,638 in 1982/83 to Rs. 1,286,250 in 1996/97. The average monthly sales turnover of the *Samagama* amounted to Rs. 732,803 during this 15-year period while its producers or shareholders received Rs. 634,790 per month. These successful marketing performances can be identified as a result of increased sale of reedware tea packs primarily, and of other products secondarily. The rapid surge in the production of tea packs reflects the ability of the EPV to win villagers' confidence and produce regularly to the increasing demand of the product in the international market. According to the Department of Information (1983:4-5), this is a product with a very high value-added component. These products have already captured the market in Japan, Germany, Australia, Belgium, New Zealand, Canada, Denmark, USA and many other countries in the world.

Table 6: Sales Turnover and Payments to Producers and Net Profit of the Dambadeniya EPV People's Company Limited (including all commodities)

Unit: Rs

Financial Year	Sales Turnover (Rs.)	Index (1982/83=100)	Payments to Producers (Rs.)	Index	Net Profit of the Company	No. of Producers
1981/82	69,959	----	47,246	---	5,301	525
1982/83	1,058,175	100	955,654	100	102,632	526
1983/84	484,514	46	364,938	38	4,751	581
1984/85	965,686	91	773,383	81	64,146	654
1985/86	2,742,264	259	2,153,083	225	445,004	886
1986/87	3,416,901	323	2,850,145	298	356,233	1,206
1987/88	5,737,032	542	4,274,902	447	883,591	1,206
1988/89	8,723,000	824	6,123,000	640	1,530,000	1,835
1989/90	7,358,000	695	6,441,000	673	-473,000	2,100
1990/91	11,649,000	1,101	10,510,000	1,099	-328,000	2,400
1991/92	14,442,000	1,365	12,630,000	1,321	-304,644	2,550
1992/93	10,756,000	1,017	9,441,000	987	332,000	2,550
1993/94	14,847,000	1,404	12,607,000	1,318	508,630	2,600
1994/95	15,073,000	1,425	12,445,000	1,301	-228,700	2,800
1995/96	18,854,000	1,782	17,258,000	1,804	-311,000	2,800
1996/97	15,798,000	1,493	15,435,000	1,613	-54,100	2,800
Total	131,974,531	-----	114,309,351	-----	2,532,834	2,800

Source: Annual Audit Reports of the Company, Various Years

However, net profit of the Company began to decline since 1989/90 due to lack of marketing orders from the sponsored export firm and political influences on the management body and shareholders of the Company. Until this year, there is only this firm which produced reedware packs in large volumes to export market but a similar production process was shifted to another EPV *Samagama* established in Tissamaharama in the recent past. At present, nearly 1,000 persons are engaged in reedware tea packing in this new project.¹³⁾ This has resulted in the decline of marketing orders from export firms in order to meet producers supply in Damabadeniya EPV *Samagama*. But it has to be noted that the Dambadeniya EPV *Samagama*'s net profit increased from Rs. 102,632 in 1982/83 to Rs. 1,530,000 in 1988/89 or by about 15 times. Another significant aspect of this is that its cumulative net profit still remains at Rs. 2.5 million and it began to recover slowly in recent years.

In spite of this temporary decline of the profit level of the Company, there is no argument to emphasize that this project was highly impressive in the improvement of the income level of the rural poor. This was one of the most important objectives of this concept because all other aims of the project revolve around this. According to a household survey in 1986, the average monthly income per EPV shareholding household was about Rs. 1,255. Although this income was eight per cent lower than the average monthly income of a household in this village, it was 17 per cent higher than that of the neighbouring village which is not having an EPV or a similar project. As indicated previously, EPV households in this village are not having sufficient landed property, particularly paddy fields and upland fields compared to non-EPV households in the same village. This means, most of the EPV member people were considered as landless or near landless people who have only labour to improve their entitlements and capabilities. Therefore, there is an urgent need to expand the production activities of the EPV *Samagama* to reach the average income level of the non-EPV households and to minimise income disparity between both groups (EPV & Non-EPV) irrespective of their ownership of landed property.

(c) Creation of Employment Opportunities

Relief from unemployment and underemployment in the rural sector in Sri Lanka was a major aim of most rural development policies implemented in the last five decades because transfer of surplus labour from this sector to modern sector or absorption of the surplus labour force by rural sector itself did not occur in proportion to increased demands of the rural labour force. This is the main reason for deterioration of rural economy and its people's living conditions. Hence, the creation of off-farm economic activities could be identified as the only solution to alleviate the poverty of small land holders, landless households, and of wage labourers in the rural society.

The generation of productive employment opportunities in the village itself to reduce incidence of rural poverty is a major objective of the ongoing EPV project.

Table 7: Generation of Employment Opportunities in the Dambadeniya Electorate, 1981-97

Type of Employment	Number of Positions
<i>Permanent Employment:</i>	
Project Manager	1
Production Manager	3
Assistant Production Manager	1
R & D Experiment Officer	1
R & D Training Officer	1
White Fibre Instructor	1
Administrative Officials	7
<i>Self-employment:</i>	
Producers in Production Centres	616
Producers in Women's Rural Development Societies	314
Producers in Volunteers Organisations	304
Producers in Screw Pine Centre	116
Other	1,450
Total Employment	2,815

Source: *Household Survey in 1986 and Annual Reports of the Dambadeniya EPV People's Co. Ltd., Sri Lanka, 1997*

The EPV concept is highly conducive to the establishment of agricultural and non-agricultural occupation in the village without harming its conventional socioeconomic activities. It is a well known fact that socioeconomic disparities among the village people can be reduced through increasing employment opportunities and money income level which directs to the improvement of people's entitlement and capabilities. During the period 1981-97, the number of permanent and self-employments generated by this project in the Dambadeniya Electorate amounted to 2815. The description of these occupations is given in Table 7.

In spite of this direct employment opportunities created by the EPV *Samagama* within a short period, there is a similar number of indirect employment opportunities that emerged in the area as a result of the increased demand of producers on various services. For example, a number of small shop keepers and private transport services have emerged around the EPV office and production centres to supply various consumer demands of the producers. It is reasonable to emphasize that the increased money income of the producers has resulted in raising their exchange entitlement.

(d) Other Contributions

There are many other direct and indirect contributions of this project to the augmentation of the socioeconomic pattern of the rural society, particularly shareholding households of the study village. Some of these contributions can be summarised as follows; alleviation of poverty, decline of income inequality, increase of consumption level of food and other essential commodities, increase of savings rate, improvement of children's education level, housing conditions and some sociocultural patterns. However, all these cannot be analysed numerically due to unavailability of data. Hence, we discussed only some selected contributions according to availability of information.

Income Inequality: Decline of income disparity in the project area can be recognised as a far-reaching effect of the EPV People's Company. This took place as a result of significant increase of EPV income share to the total income of households. For example, nearly half of the household income is derived from EPV

income sources, contributing a highest share to total income compared with any other sources. Moreover, mean income of EPV source also has a higher rate in value terms compared with all other income sources. This pattern of income composition (share and value), particularly low contribution rate of agricultural income, reflects the necessity of concentrating on off-farm employment to alleviate rural poverty of marginal people rather than on improvement of agricultural productivity.

According to a household survey, Gini Coefficient of income distribution in this area is accounted to 0.28. The lowest value of Gini-coefficient reveals the greater improvement in income distribution among the EPV share holding households at the cluster of villages. This means, the income gap between the highest income receivers and the lowest income receivers is not much wide. This moderate equality of income distribution is one of the expected achievements of the implementation of the EPV concept.

Improvement of Consumption Level: Improvement of consumption level of food and clothing through improvement of exchange entitlements of the people is another objective of this project. However, it is difficult to determine how far consumption level improved after launching of the EPV project because there was no pre-project survey on consumption level. Therefore, the analysis in this section is mainly qualitative and is a comparison with the neighbouring non-EPV village rather than a quantitative analysis. Although the inequalities of socioeconomic conditions between the two types of villages (EPV and non-EPV) may have caused the accuracy of information, it was negligible because the conditions of these two villages are comparable in most cases except for a few variables.

The average expenditure on food per week between the two groups of households shows a significant difference, the respective figures being about Rs. 293 for EPV and Rs. 266 for non-EPV households. This implies a nine per cent higher level of consumption expenditure on food among the EPV households and this could be attributed to the improvement of their exchange entitlements. However, nearly 70 per cent of households in the non-EPV village hold paddy field but, it is less than nine per cent among the EPV households. This is an evidence of the fact that an increase of exchange entitlements is more favourable for increasing level of

consumption rather than improvement of paddy productivity.

Furthermore, there is a higher rate of expenditure on consumption (except rice, dry fish, tea & sugar) among the EPV producers in proportion to the non-EPV village. The slightly higher rate of rice consumption in the non-EPV village may be a result of ownership of paddy land by the majority of households in this village. The poor exchange entitlement capacity of the people in the non-EPV village could be identified as the main reason for the low rate of expenditure on most consumer goods. For example, the per capita expenditure on food per week among the EPV households is about Rs. 64 while it is about Rs. 54 in the non-EPV village. However, the per capita expenditure on food in the non-EPV village mainly depends on the number of subsidiary crops which do not involve money payments because they are produced in their own homesteads and paddy fields. On the other hand, EPV producers mainly depend on the exchange entitlement derived from the EPV production activities because they do not have sufficient landed property.

The average expenditure on clothing per year in the two types of villages (EPV and non-EPV) also show a significant difference, the respective sums being Rs. 1,895 for the EPV households and Rs. 1,803 for the non-EPV households. Even though people in the rural sector in Sri Lanka generally buy their clothes periodically, the EPV shareholding households have purchased clothes throughout the year because they have improved exchange entitlements. As a result, the per capita expenditure on clothes amounted to Rs. 391 for the EPV producer while it is about Rs. 369 in the non-EPV village.

Improvement of Sociocultural Pattern: In spite of the above achievements, the EPV *Samagama* emphasized that it is necessary to involve in improving quality of life of its shareholders by means of the newly-secured exchange entitlement and employment. It is common knowledge that many villagers considered only of today's consumption but not of tomorrow's and because of this consumption habit, people are accustomed to look to various extraneous sources when they face any particular money problem. The company has given people a perception of the importance of self-dependence through savings and its reliability in the face of future uncertainty.

For example, the project instructed 65 producers to open savings accounts at the Regional Rural Development Bank situated near the *Samagama's* office. At the same time, the *Samagama* arranged to open 80 Investment Savings Accounts for producers in the same bank, which indirectly encourage producers to save money every month. These savings in banks have accomplished high interest rate (between 8-10 per cent per year) as profit and have given them the ability to settle their future money problems independently. Another benefit of this saving is that they serve as a collateral for obtaining credit facilities at low rates of interest for their agricultural and non-agricultural pursuits. By these efforts, the poor people of the rural community were also able to have access to the benefits of the banking system which had been earlier limited to the upper strata of the village society. Moreover, it also ensured the possibility of rural development through internal capital which was created by villagers themselves.

Apart from the utilisation of market and non-market factors for the improvement of quality of life, the project has paid special attention to the development of community solidarity. Community cohesion in the rural sector had diminished due to the implementation of various socioeconomic policies from colonial period to date. The endeavours of the public sector in the reconstruction of community solidarity have not achieved much success. The EPV project sought to unify the people on the basis of their sociocultural values. In 1986, *Samagama* organised a welfare society for the producers and administrative officials of the project as an alternative method for unifying the people according to their common needs. This society intends to provide financial as well as other community assistance to members at weddings, funerals and at times of distress. The fund of the society was built up from members' fees; members have a right to receive Rs. 10,000 for a funeral or wedding, while distress aid could be received according to its gravity. This society helps to prevent any negative impact on the people's solidarity arising from the marketing activities of the *Samagama*.¹⁴⁾

In 1986, the *Samagama* initiated a fund with the assistance of exporters, private merchants, and wealthy people in the area and government officials for the development of sociocultural activities among the villagers. According to audit reports

of the company, this fund has grown to a sum of Rs. 6.1 million in 1996/97. The fund will be used for organisation and construction of common amenities, housing development and social development within the village boundary. These activities aim at achieving community solidarity, improvement of social infrastructure, and people's active participation in various activities of the *Samagama*.

4. CONCLUDING REMARKS

The experience of rural development practices during the last five decades have revealed their failure to provide a secure answer for prolonged severe socioeconomic problems confronted by rural people in Sri Lanka. However, augmentation of national food supply, specifically self-sufficiency rate of rice surged dramatically as a result of rural development policy through modernisation of agriculture. The poor contribution of these policies to resolve rural poverty, unemployment and inequality can be recognised as a result of their insufficient attempt to improve people's capabilities and entitlements. As emphasized by Sen (1983:755), the process of expanding the capabilities of the people as a main strategy of rural development has not taken place from those policies implemented in rural sector of Sri Lanka.

The other negative impact of rural development strategies is that they eventuated to increase economic dependency of the people in Sri Lanka. This is the major cause for poverty in rural sector in this country. Most villagers depend on government or foreign job opportunities in the Middle East or in other countries for economic gains. Although there have been increases in the levels of money income, the dependency it generates has not contributed to eradicate rural poverty. In addition, the government's poverty alleviation programme or so-called food-stamp policy has also caused an indirect increase in economic dependency in the rural sector. If this relief assistance was distributed with utilisation of people's labour, it would have been directed towards rural poor to find an economic independence in the village itself.

Moreover, the dependency of rural development policies on foreign capital and technologies has also resulted in the increase of economic dependency of the country

as a whole on foreign donor countries. These policies have not considered the utilisation of internal and external power bases and resource endowment of which most is available on free of charge to process of expanding capabilities and entitlements of the rural poor. It is a common knowledge that most of the production inputs such as land, labour, capital, technology and material resources are accessible sufficiently in the village economy that required to produce any product towards domestic or international market. The necessary factor is how they are organised in productive manner with acquiring people's confidence and their active participation.

Although the EPV concept is confined to a limited area in Sri Lanka on an experiment basis, it has authenticated the ability to expand people's entitlements and capabilities, depending on village owned resource endowment and not on foreign donors. The household survey in Dambadeniya EPV project demonstrated that the mobilisation of rural poor in a fruitful manner was conceived as a part of a major process towards resolving serious socioeconomic problems substantially. Furthermore, the survey proved that even if the people did not own paddy land and other landed property, they could still improve their economic self-reliance through mobilisation and utilisation of non-commodity social relations in a worthwhile manner.

Another major finding of the survey is that the degree of people's participation in this project is amounted to the highest level compared to any other organisation in the cluster of villages. The greater attention of the EPV concept on people's objectives and their aspirations could be the main reason for this popular participation. People are drawn to the EPV project because it has helped them in their struggle against poverty.

Although we have emphasized the value of EPV concept as an alternative strategy for rural development in Sri Lanka, insufficient market orders from the modern sector and political influence have recently hampered further progress of the project towards self-reliance. It has, however proved that the possibility exists for improving the rural economy by combining internal and external resources under producers' leadership without utilising foreign capital and technology.

Finally, it is necessary to emphasize some limitations in the arguments and analyses

employed which should be given due consideration. Firstly, the socioeconomic survey was limited to one EPV project but there are nearly 40 such projects operating with various products in different districts of the country. These villages may have faced different socioeconomic problems and possessed different extent of resource endowment. Secondly, the present study is limited to an in-depth analysis of the supplier side or producers' side. However, it is important to study on the demand side for EPV products by export firms of the country. Such analyses will provide further information for making an assessment as to whether or not the EPV concept can be recognised as an alternative policy for process of expanding the capabilities of people that directs to economic self-reliance in rural Sri Lanka.

Notes

- 1) More than 700,000 Sri Lankans work in countries in the Gulf and in Southeast Asia, many as domestic and construction workers. More than three-fourths of these workers are rural unskilled women who work as house maids for rich people in these countries under severe work conditions on relatively low wage rate. See *IPS, World News*, January 4, 1999 for further information.
- 2) Entitlement refers to the set of alternative commodity bundles that a person can command in a society using the totality of rights and opportunities that he or she has. In a market economy, if a person can earn \$ 200 by selling his labour power and other saleable objects he has or can produce, then his entitlements refer to set of all commodity bundles costing no more than \$200. He can buy any such bundle, but no more than that, and the limit it sets by his ownership (endowment) and his exchange possibilities (exchange entitlement), the two together determining his overall entitlement. On the basis of this entitlement, a person can acquire some capabilities, i.e. the ability to do this or that (e.g. be well nourished), and fail to acquire some other capabilities. The process of economic development can be seen as a process of expanding the capabilities of people. (Sen, 1983:754-755)
- 3) The pilot project, the Dambadeniya EPV project was initiated by the author himself under direction of Ministry of Trade and Shipping in 1981.
- 4) See Ratnayake, P. (1992:57-122) for descriptive analysis on agricultural policies, programmes and performances in the post-independence period in Sri Lanka.
- 5) The IRDP in Sri Lanka was initiated in 1976 by the World Bank and was begun in Kurunegala District in 1979. This concept which was recognised as a new approach to rural development was aiming to improve living conditions of the poor by alleviating poverty and improving the quality of life in the rural sector. See People's Bank, 1989; and Morapaya, 1989 for detailed analysis on IRDP in Sri Lanka.
- 6) Basic needs comprise mainly of availability of sufficient food, shelter and clothing. The concept of poverty was defined as lack of means to satisfy these basic needs

by people. See Ratnayake (1992:31-37) for further detail on poverty alleviation through basic-needs approach.

- 7) Self-sufficiency Rate of Rice = $\frac{\text{Amount of Domestic Products Available for Consumption}}{\text{Domestic Product} + \text{Import}} \times 100$
- 8) See Alailima (1997:127-170) for descriptive analysis on government subsidy programme and its impact on socioeconomic conditions of Sri Lanka.
- 9) The SLEDB is a state organisation established in 1979 under the Sri Lanka Export Development Act., No. 40 of 1979 to assist the government in the formulation and implementation of policies for the development of exports. It aims at a systematic identification of the basic constraints affecting the growth of exports as well as of functional areas such as export financing. This institution functions under the Ministry of Trade and Shipping. (*SLEDB Documents*, undated)
- 10) Alawwa is one of the government administrative divisions in the Dambadeniya electorate. This office roles as a principal centre of various development activities implemented by the central government in the area. All government officials who work in the area were attached to this office.
- 11) This company was registered as a legal company under the General Companies Act in 1981; however, an amendment was made under the Companies Act., No. 17 of 1982 (part VII) for the specific registration of EPV People's Companies. The amendment requires the following for the establishment of an EPV company: liability is limited; nominal value of a share is Rs. 10.00; authorised share capital is Rs. 1,000,000.00; no person (individually or together with his wife or minor child/children) could hold more than 10 per cent of the share capital; no company shall hold any share in any other People's Company; minimum of three directors and maximum of 10 directors appointed by the shareholders; and a minimum of 50 shareholders needed to form an EPV People's Company. (SLEDB, 1986; Companies Act., No. 17 of 1982:177-180)
- 12) As noted earlier, rapid increase of female migrant workers in Middle East and in Free Trade Zones in major cities of Sri Lanka have created many social problems, particularly disorganisation of family life, increase of suicides, alcoholism, drug addiction, prostitution and indebtedness in rural Sri Lanka. This reveals high social cost towards rural community than economic benefits gained from this

migrant female workers who work in major cities of the country or Middle East.

- 13) Recently, the European Fair Trading Association (EFTA) has sent Mrs. Heleen Verschuren — a Dutch consultant to train selected producers of this project in putting out a new range of packaging items for air flighting to European marketing channels as samples for test marketing. She not only changed the design but made the product cost effective and put out many samples. She also prepared specially designed packs for niche markets like gift packs for Christmas and New Year. (*Daily News*, 05.02.1998)
- 14) It is a well known fact that the social values, particularly reciprocal labour in the rural community has declined along with expansion of money economy based on modern marketing doctrines. This was experienced by most societies in Asia which introduced market economy for some decades ago. After expansion of market economy at some level in these countries, people's community solidarity vanished because they began to consider everything on money terms rather than on social values.

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