

TABLE 1.5
Domestic Savings

| | | | | Rs. Million | | |
|---|----|----|----|-------------|--------|--------|
| Category. | .. | .. | .. | 1977 | 1978 | 1979 |
| 1. GDP at market prices | .. | .. | .. | 36,051 | 42,005 | 52,477 |
| 2. External resources (Net imports of goods & services) | .. | | .. | -1,079 | 2,274 | 6,549 |
| 3. Investment | .. | .. | .. | 5,259 | 8,554 | 13,527 |
| 4. Domestic Savings (3-2) | .. | .. | .. | 6,338 | 6,280 | 6,978 |
| 5. Savings ratio (4 as % of 1) | .. | .. | .. | 17.6 | 15.0 | 13.3 |

Source: Central Bank of Ceylon.

Another contributory factor was that the creation of new employment has increased incomes of people who consume a higher proportion of their incomes. The longer-term series on savings, in Statistical Appendix show, however, that the low savings ratio of 1979 was yet higher than in the mid-seventies.

There is some reason to infer, however that the estimate of savings in the last few years has tended to under-estimate the value of inventory accumulation. This has become particularly significant after import liberalization because of the larger volume of imports of consumer and intermediate goods. Inventories in the public sector have risen almost three-fold in 1979 and have been reckoned in the foregoing analysis. If the inventory growth of the private sector is accurately estimated and reckoned, it is very likely that the savings ratio of 1979 would rise to about the same level as in 1978.

The encouraging growth in capital formation in 1979, considered in the background of a stable domestic savings ratio, reflected a higher utilization of foreign resources for investment in 1979. More than two-thirds of investment in 1979 took place in the public sector, which compared with a 60 per cent share in 1978.

AGRICULTURE

According to latest available estimates, the performance of the agricultural sector in 1979 did not live up to expectations. Of the tree crops, coconut production recovered from its all-time low level of 1977. Rubber production declined by about 2 per cent, despite a remarkable improvement in prices. Tea production increased marginally, despite deteriorating prices since 1978. Minor export crops fared unevenly, the exports of cinnamon, cloves, coffee and cardamom rising and exports of cocoa, pepper and papain declining. Of the annual crops, paddy production has been estimated to have increased marginally, while the production of other food crops such as onions, chillies and indigenous cereals appears to have been depressed at or below the low levels of the previous year. Cane sugar production which rose by 11 per cent in 1978 dropped sharply by 26 per cent in 1979. Fish production which has been estimated to have risen by 12 per cent in 1978, appears to have grown slower by 9 per cent in 1979. Although the National Milk Board's collections rose by 27 per cent, government estimates of milk production in 1979 indicated a decrease of 7 per cent. Egg production has been estimated to have risen by 20 per cent.

Altogether, the disappointing performance of the agricultural sector, which is the mainstay of the Sri Lanka economy, in the context of relative stagnation observed during several past years, should be viewed with utmost concern. Undoubtedly, there were exceptional factors in 1979 such as the failure of the South-West monsoonal rains and the disastrous cyclone of late 1978. But the uneven performance of this sector was also due to many avoidable factors, such as management problems in the state-owned plantations, consumer-oriented pricing and subsidy policies which inhibited production and heavy and inflexible taxation of export crops. These problems have been repeatedly spotlighted in recent Annual Reports.

Further institutional changes in the agricultural sector took place during 1979. The long delayed agrarian reforms were enacted in 1979. As mentioned in previous Annual Reports, the Government, since 1977, had made certain ad hoc institutional arrangements, pending the introduction of a comprehensive agrarian organization and structure. Finally, the Agrarian Services Act No. 58 of 1979 replaced the earlier Agricultural Productivity Law of 1972 and the Agricultural Lands Law of 1973.

The 1979 reform was an important deviation from the earlier agrarian reform laws both in respect of the rent payable by the tenants and the right of the tenant to have an agricultural holding of a particular size. Under the new law, tenant farmers would have to pay 15 bushels of paddy per acre (773.5 kgs per hectare) or one-fourth of the yield, whichever was greater, whereas the former law provided the same alternative, but whichever was lower. Thus, virtually all tenant farmers have been called upon to pay a higher share of crop to the landlords. Ostensibly, the aim of this provision was to make farmers cultivate land more efficiently, but the question whether this would affect farmer incentives would have to be carefully examined.

The new law also specified that the maximum extent which could be cultivated by a tenant should not exceed 5 acres (2 hectares). Any excess would revert to the landlord or would be assigned to another tenant, with the approval of the Commissioner of Agrarian Services. Although the tenant's land ceiling would no doubt prevent the emergence of "super-tenants" who would exploit agricultural farm workers as much as erstwhile landlords, it is worth examining whether the provision for reversion of excess land to landlords would turn out to be a loophole which would bring back the landlord at the expense of the tiller.

The law also created the Agrarian Service Committees, replacing the Agricultural Productivity Committees, for the co-ordination and implementation of field level agricultural policies. The official participation in the Agrarian Service Committees was made more pronounced by specifying that 8 out of 14 members should be officials. However, in the previous Cultivation Committee membership, the farmer representation was more pronounced by the requirement that not less than 10 persons in the committee be direct representatives of farmers. Whether official majorities in the new committees will make them function better is a highly debatable issue. Hence, it would be worthwhile to review the current arrangements after about a year's experience and a thoroughgoing review.

Another institutional development in 1979 was the creation of the "Mahaveli Development Authority" in April for the implementation of the multiple-purpose development of the water resources of the Mahaveli river, which is the main lead project of the country. The authority was vested with wide-ranging powers to establish organizations and engage in the necessary co-ordination of development activities.

The Land Reform Commission (LRC) continued to review appeals made by former land owners for redress with regard to lands they were dispossessed of under the land reforms. In 1979, a total of 1,964 hectares (4853 acres) was given back to the former owners, bringing the total cumulative area given back to the former owners to 5,219 hectares (12,896 acres) or, 2.3 per cent of the originally vested land. The Commission paid Rs. 44 million as compensation in 1979 under the 1972 Law, bringing the total sum paid out under this law to Rs. 239 million as at the end of 1979. The foreign companies affected by the 1975 Law were paid Rs. 69 million during 1979, bringing the total sum paid to some 65 companies to Rs. 159 million.

In June, 1979 the Land Grants (Special Provisions) Act was enacted in Parliament, with the objective of allowing free distribution of lands vested in the LRC to landless citizens. The provisions of the law were implemented in the latter part of the year.

The Canadian International Development Agency (CIDA) that studied the tea industry, submitted its "Tea Master Plan" to the Government in 1979. Among the major policy recommendations made in the report were the replacing of export taxes by land taxes, block in-filling of vacancies rather than wholesale replanting as a means of increasing the production in the short-run, creating facilities for CTC (cut, twist and curled) tea production, and reorganization of the institutional structure of the tea industry.

With regard to the institutional set up, the report observed overlapping and duplicating of functions between various agencies. To overcome these shortcomings, it recommended restricting the role of the Sri Lanka Tea Board to purely an advisory one; that certain functions of the Ministry of Plantation Industries be delegated to existing state organizations. In mid and low elevation areas which are densely populated, the study recommended, as a policy of genuine reform, the distribution of public sector lands to landless workers employed on those estates in lots of half to one hectare, as an incentive for better utilization of tea lands. The draft report is now being examined by the governments.

In the case of coconut, the complicated export tax structure introduced in August, 1978 continued in 1979, with a revision, however, that aimed to give producers Rs. 1 per nut on the average instead of 85 cents (since February) and 65 cents received earlier. A committee which reviewed the tax structure cautioned the government on the serious long-term decline of the industry, on account of high export taxation, which was primarily engineered to keep domestic prices low, which gave a low return to coconut cultivation. It recommended raising of the producer price at least to one rupee per nut on the average during 1979 and thereafter, to raise at least by the rise in the general cost of living; and government intervention to assure the producer of this price, by powering of export taxation, permitting more liberal exports during the glut season from May to September, stockpiling of coconut oil to stabilize prices, and rationalization of the institutional framework. Government accepted the proposals, but when coconut prices moved up during the latter part of 1970, partly as a result of lowering of export duties and partly due to seasonal factors, the authorities reacted with attempts to bring down coconut prices by diverting coconuts from state owned lands to urban areas for consumption. The apparent contradiction in policies yet remains to be resolved.

The year commenced with fertilizer subsidized upto 50 per cent. The subsidy was raised in September to 55 per cent for Sulphate of Ammonia, 85 per cent for Urea and 75 per cent for other fertilizer. The resulting moderation of fertilizer prices had the desirable effect of increasing fertilizer usage during the last quarter of 1979.

The most significant feature that characterized agricultural credit in 1979 was the very sharp decline in the disbursement of loans. Agricultural credit granted in 1979 was 40 per cent lower than the average volume of credit given in any year since 1973. The immediate and apparent cause for this was primarily the removal of the 75 per cent credit guarantee operated by the Central Bank on behalf of the Government in 1978. The decision to withdraw the guarantee was greatly influenced by high rate of defaults that undermined the operations of the Comprehensive Rural Credit Scheme (CRCS) in the past, particularly during the Maha season 1977/78, when credit was liberalized. It was also quite apparent that the existence of the guarantee acted as a disincentive for the commercial banks to tighten up their lending and recovery procedures. With the removal of the guarantee, there was a marked change in attitude of the commercial banks towards rural credit. The banks become more strict and demanding in their requirements in granting agricultural loans.

Clearly, there is a case for adopting a more pragmatic policy towards agricultural credit, in order to rapidly revitalize domestic agriculture. It seemed essential, at least initially, to re-introduce the credit guarantee with a much lower commitment by government. More careful monitoring of the agricultural credit will have to be undertaken with new institutional reforms in the agricultural sector. It may be desirable to require banks to allocate a percentage of their resources for lending in the rural sector. Incentives and rewards will have to be given to bank officials to undertake this more arduous work.

When the response to government-sponsored replanting schemes and the fertilizer subsidy scheme is used as an indicator of long and short-term investment in the agricultural sector, 1979 appears to be an uneven year. Total fertilizer issues to the agricultural sector declined by about 2 per cent. This should be treated as a warning, that even in 1980, a major production increase in agriculture would be difficult to achieve, unless efforts were made urgently to raise input use, including fertilizer. The response to replanting schemes in 1979 was better, both in tea and rubber. State plantations stepped up their replanting programmes, despite negative profit margins. In the case of rubber, however, it was the private sector that took the lead in responding to the replanting schemes, probably on account of increases in subsidies and the rising prices of rubber wood for fuel. Coconut replanting too increased considerably in 1979.

However, considering the level of replanting needed in the tree crop sector, for timely replacement of senile plants and to catch up on the backlog of recent years, the performance in 1979 cannot be deemed as adequate at all. None of the conservatively determined annual targets were achieved. Hence, as repeatedly urged in previous Annual Reports, there is an urgent need for a substantial raising of replanting subsidies in the tree crop sector. Recent increases in subsidies have been small, and very soon, cost increases had vitiated the impact of the increases in subsidies. Moreover, except perhaps in the case of minor exports, none of the replanting subsidies seemed to take account of the loss of income which the grower has to bear for 4 to 6 years, after uprooting his plants until the new plants commence yielding a product. Increasing subsidies should not cause problems, because funds for replanting are generated by a cess on exports. Moreover, the procedures that have to be followed in releasing these subsidies were cumbersome and could easily be simplified.

With the liberalization of food imports, the demand for and the prices of locally grown minor food crops appear to have declined. The government policy of selling wheat flour at a subsidized price (and controlling the selling price of bread) contributed to depress the demand for food crops. The government's "buffer-stock programmes" for generous importation of cereals, potatoes, onions, chillies and chicken too had a dampening effect on domestic production.

The government introduced a "floor price scheme" for 8 commodities viz. maize, blackgram, sorghum, soya-bean, turmeric, unshelled groundnut, gingelly and dired chillies in November. Apparently, the floor prices were fixed higher than cost of production, but just below average open market prices, with a view to assuring the producer of a minimum price, without the government having to get into direct procurement of produce. If that is so, there is a strong case for widening the coverage of the scheme, to include important commodities such as cowpea, green-gram and gram.

The expansion in the production of certain key minor export crops during 1979 was probably due to the complete or partial removal of export duties, which yielded better prices to producers. The increase in production, implied by export volumes, was particularly evident in case of cloves, coffee, nutmeg/mace and cardamom. This evidently demonstrates that small producers do respond positively to price incentives, even in the case of perennial crops, a fact which is often ignored in policy making. New planting and replanting subsidies for minor export crops, which have remained unchanged since 1972, have now been raised substantially, not only taking into account cost escalations, but also, the loss of producer incomes during the long gestation period.

Some progress has been made in the implementation of the Mahaveli development programme - the major development project of the country - during 1979. The feasibility studies were completed for most of the projects in the Accelerated Mahaveli Programme; and in some cases, a fair amount of construction work too has taken place. In the Ulhitiya Oya project, dam construction itself has been started, while preliminary work has commenced in the case of Maduru Oya and Kotmale projects. In the Victoria project, feasibility studies and preparatory work have been largely completed. In the Randenigala project, feasibility studies are still going on, while in the case of Moragahakanda project, a decision has yet to be taken with regard to its future. In the Bowatenna project, which is not in the Accelerated Programme, and which does not seem to have received the priority it deserves, slow progress has been made in the construction of the power house. with regard to the system development for cultivation purposes, about 12,000 hectares of new land were developed by the end of 1979 in the Kalawewa region (known as System 'H') and about 13,300 families were settled, each with an allocation of about one hectare ($2\frac{1}{2}$ acres) for cultivation purposes and $1/5$ th hectare (half acre) for home-gardening and housing.

The total estimated cost of the Accelerated Mahaveli Programme, excluding Moragahakanda project, at 1979 prices, was Rs. 22,550 million. The total cumulative expenditure by the end of 1979 was Rs. 772 million. Of this, a total of Rs. 729 million was incurred during 1979. Details are given in the following table.

TABLE 1.6

Accelerated Mahaveli Programme: Cost Estimates

Rs. Million

| Project | Estimated Total Costs | Budgeted Expendi- ture for 1979 | Actual Expendi- ture for 1979 (Provi- sional) | Cumula- tive Expendi- ture upto end 1979 |
|---|-----------------------------|--|--|--|
| 1. Victoria reservoir | 4,000 | 125 | 93 | 98 |
| 2. Kotmale reservoir | 5,000 | 559 | 280 | 283 |
| 3. Randenigala reservoir | 4,000 | 55 | 23 | 25 |
| 4. Maduru Oya and link tunnel | 1,700 | 64 | 78 | 99 |
| 5. Ulhitiya reservoir, Minipe anicut, Transbasin Canal etc. (Including System C Engineering) | 1,200 | 93 | 134 | 139 |
| 6. Irrigation System A | 1,500 | 16 | 3 | 3 |
| 7. Irrigation System B | 2,600 | 55 | 16 | 18 |
| 8. Irrigation System C | 1,500 | 173 | 100 | 105 |
| 9. Irrigation System D | 1,050 | 2 | 2 | 2 |
| Total | 22,550 | 1,142 | 729 | 772 |

Source: Mahaveli Development Authority.

The apparent neglect of minor irrigation schemes, which has been observed for some years now, appears to have continued in 1979. Apart from the pre-occupation with larger projects, the major factor responsible for this unhealthy development appears to be the division of responsibility for construction, supervision, maintenance and actual implementation among three separate governmental agencies. The responsibility of designing and constructing minor irrigation schemes is given to the Irrigation Department, while the responsibility of supervision maintenance and repair is considered the work of Ministry of Agricultural Development and Research. However, sufficient funds do not appear to have been allocated to any of these agencies, either for designing and construction or for maintenance of minor irrigation schemes. Some funds (Rs. 350 million in 1979) have been assigned to the decentralised budget, which are disbursed at district/electorate levels; but these funds have been spent largely on schools, roads and buildings, and only a fraction has found its way to irrigation. Clearly, one of the quickest and cheapest ways of achieving a short-term increase in agricultural output is to rapidly restore and keep these minor irrigation works in good condition, and therefore, this sector deserves much greater priority. The larger projects which will yield results after several years, could pre-empt resources available for minor works. The grant of adequate resources for minor irrigation works on a continuing Basis, would prevent this.

Tea

Tea production in 1979 has been estimated to have risen by 4 per cent, to 206 million kilogrammes. The production increase was mainly evident in high-grown areas, where production rose by 7 per cent. The two large public sector corporation JEDB and SLSPC- which own about 62 per cent of the tea acreage in the country, together accounted for 164 million kilos or 80 per cent of the total production. However, as their factories also purchase tea leaf from private small-holders, their actual direct share in production would have been slightly lower.

TABLE 1. 7
Tea Statistics 1977 - 79

| Item | Unit | 1977 | 1978 | 1979 (a) |
|-------------------------------------|-----------|---------|---------|----------|
| 1. Production | Mn. kgs. | 208.6 | 198.9 | 206.4 |
| 1.1. High-grown | Mn. kgs. | 78.7 | 71.7 | 76.5 |
| 1.2. Medium-grown | Mn. kgs. | 66.6 | 61.0 | 62.5 |
| 1.3. Low-grown | Mn. kgs. | 63.3 | 66.2 | 67.4 |
| 2. Area cultivated | '000 ha. | 242 | 243 | 244 |
| 3. Yield | Kg./ha. | 1,007 | 958 | 993 |
| 4. Fertilizer use | '000 m.t. | 80.1 | 115.6 | 105.4 |
| 5. Replanting | ha. | 1,242 | 1,141 | 2,035 |
| 6. Prices | | | | |
| 6.1. Colombo net | Rs./kg. | 13.44 | 11.65 | 11.22 |
| 6.2. Export f.o.b. | Rs./kg. | 18.84 | 33.22 | 30.51 |
| 7. Cost of production | Rs./kg. | 7.80 | 10.50 | 12.70 |
| 8. Exports | Mn. kgs. | 185.8 | 192.7 | 187.5 |
| 9. Export earnings | Rs.Mn. | 3,502.5 | 6,400.9 | 5,722.2 |
| | (SDR Mn.) | (336) | (327) | (284) |
| 10. Value added, as % of GDP (b) .. | | 13.5 | 10.9 | 7.9 |

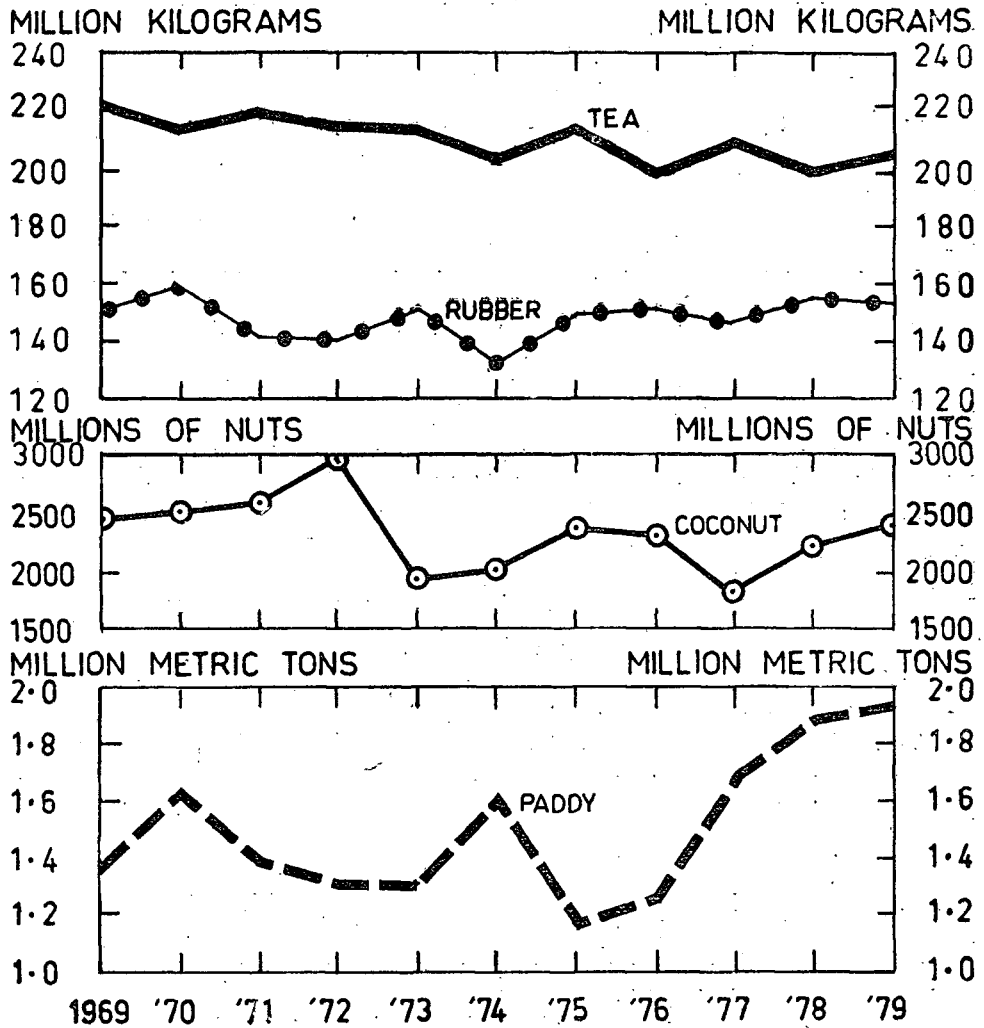
(a) Provisional

Source: Central Bank of Ceylon.

(b) In growing and processing only.

Fertilizer issues to the tea sector during the year declined by about 9 per cent, in contrast to a very sharp increase of about 44 per cent recorded last year. The JEDB and the SLSPC have increased their fertilizer application marginally, and hence the drop in fertilizer application would have taken place in privately owned lands. As this occurred despite an increase of tea fertilizer subsidy, it appears that the lower fertilizer use was the result of the substantial decline in tea prices during 1979. Weather conditions too were not encouraging, especially in low-grown areas, and fertilizer distributional problems too may have retarded usage. Nevertheless, the average yield per acre showed an increase of about 4 per cent, as against a decline of about 7 per cent in the previous year. This may have been mainly due to the adoption of better agricultural practices and the lagged effect of higher fertilizer use in 1978.

PRODUCTION OF PRINCIPAL AGRICULTURAL CROPS



Area under tea had been more or less constant over the recent years because gains in acreage have been more or less offset by land alienation for village expansion and other development projects. In view of the overwhelming value of tea cultivation from a land use point of view, avoidance of tea lands in locating such projects would be highly beneficial, from a national point of view.

The tea replanting subsidy of Rs. 6,000 per acre for all categories of land, was raised to Rs. 8,000 per acre in administrative districts of Galle, Matara, Hambantota, Kalutara, Kegalle, Ratnapura, Colombo and Kurunegala (predominantly low-grown areas) and to Rs. 10,000 per acre in Badulla, Nuwara-Eliya, Kandy and Matale, (predominantly high and medium elevations). The subsidy for planting vegetatively propagated tea on old rubber lands has been increased from Rs. 4,000 to Rs. 4,750 per acre, and for planting on new lands, from Rs. 3,500 to Rs. 4,750 per acre. The rate of replanting in 1979 showed considerable improvement over the very poor performance of last year. But, the area replanted still lagged far behind the annual targets. The total area replanted under high yielding clonal varieties up to last year was 33,037 hectares (81,601 acres), a mere 14 per cent of the total area. Clearly, incentives for tea replanting has been grossly inadequate.

In determining replanting subsidies, inadequate consideration has been given to a systematic study of the actual costs incurred in replanting, and the income foregone during the 5 year gestation period. A successful replanting programme is vital for the long-term interest of the tea industry, as the cultivation of high yielding clonal varieties could contribute to substantial reductions in production costs, which are critical in an industry facing stiff international competition. Also, insufficient attention appears to be paid to the need to have adequate high yielding planting material. These aspects deserve early attention.

From an administrative and management standpoint, relatively stable conditions prevailed in tea plantations during the year. Frequent institutional changes made since the land reforms of 1972 had created an atmosphere of uncertainty in the large public sector organizations - JEDB and SLSPC - but the completion of the reorganization in 1978 left them relatively free to concentrate on improving management and productivity during 1979. As a result, they were able to record a 12 per cent growth in output, despite a liquidity-cum-profit squeeze, especially in early part of the year.

Tea prices declined in 1979. The average net (of taxes) Colombo auction price declined by 4 per cent. The London auction prices of Sri Lanka teas dropped by 9 per cent. The average export (f.o.b.) prices fell by 8 per cent. Meanwhile, average ex-estate cost of production has been estimated to have risen by 21 per cent. Government-induced wage increases alone had raised the cost by 12 per cent. These developments resulted in a liquidity squeeze in the state owned plantations; however they were able to continue with their development programmes uninterrupted by borrowing from commercial banks. The private producers evidently deferred the adoption of recommended cultural practices and new investment. As a result, production during the early part of the year was running well below previous year's depressed levels, when the government was compelled to make a downward revision of taxes in July. Although production picked up thereafter, these adjustments did not appear to be adequate to relieve the industry, and further concessions had to be made through budget proposals announced in November. However, the problems of the tea industry remained unresolved, as the industry continued to be taxed 48 cents for every one rupee of tea exported (reckoning the export duty and the ad-valorem tax alone), thereby qualifying as, perhaps, one of the highest taxed economic activities in Sri Lanka, while continuing to be its mainstay. Clearly, current production costs and taxation are at such a level that the industry appears to be unable to generate an adequate surplus.

The acute shortage of labour, felt especially at higher elevations due to the cumulative effect of repatriation of non-national labour in the past, seems to have eased a little in 1979. This may be due to greater availability of village labour following wage increases, discernible slowing down of repatriation, and the movement of some surplus labour to deficit areas. But, this may be a passing phenomenon. It is time that studies are made to increase productivity of labour by simple mechanization so that future labour shortages and rising wage costs would not impair Sri Lanka's competitiveness in world markets. Current research, which is concentrated primarily on cultivation aspects, may have to be broadened to cover all aspects of the industry, ranging from cultivation, plucking and processing, to packaging and exporting, more comprehensively.

Despite the improved performance of the JEDB and the SLSPC, their full potential levels of production would have been much higher than was realized. By improved management practices, and through more effective decentralization of management, and by elimination of outside interference in operations it should be possible for these corporations not only to increase production, but also to eliminate waste and losses and increase profitability. There were frequent reports of highly organized pilfering of made tea from estates, which were finally exported, without payment of internal taxes. The general view of those in the trade was that these thefts could be as high as 10 to 15 per cent of national production. Unless immediate corrective measures are taken, the situation is likely to get out of control.

Another area which needs special attention for the development of the tea industry is the tea small-holdings, which constitute bulk of the low and mid country areas. The minimum prices under the guaranteed price scheme introduced on 1st October, 1978 to assure the small-holder a reasonable minimum price, was revised upwards several times and was replaced by a price support scheme introduced on 1st November, 1979.

The usefulness of these schemes has been questioned in view of the problems created by green leaf collectors, who virtually monopolize leaf collections from small-holders, and are not averse to using their power to deny the guaranteed price to the small grower. Hence, the formation of producer societies of small-holders, for whom Tea Small-Holdings Development Authority (TSHDA) is having a scheme of assistance, appears desirable. The TSHDA's role could be further expanded to provide better extension, fertilizer distribution and planting materials. At present, its activities are hampered by the absence of a regular source of funds. The present practice of making funds available by the Tea Board at its discretion at irregular intervals creates uncertainties and prevents the adoption of a planned programme of work. Hence, a certain percentage of the tea cess collection, according to the total share in production of the small-holders, may be assured to the TSHDA on a regular basis to facilitate the smooth operation of a planned programme of work.

Rubber

Rubber production in 1979, has been provisionally estimated to be 153 million kilos, which indicated a marginal decrease when compared with production in 1978. This was a rather disappointing performance, when considered in the context of the 7 per cent growth achieved last year, and a highly favourable outlook for rubber, arising from buoyant prices. Rubber producers could look forward to an era of stability, with the signing of the International Buffer Stock Agreement in Geneva, in September.

DISCARDED

TABLE 1.8
Rubber Statistics—1977 - 79

| Item | Unit | 1977 | 1978 | 1979 (a) |
|--|-----------------------|----------------|-------------------|-------------------|
| 1. Production | Mn. kgs | 146 | 156 | 153 |
| 2. Area | | | | |
| 2.1 Under cultivation | '000 ha | 226.7 | 226.4 | 226.7 |
| 2.2 Under tapping | '000 ha | 188.8 | 184.8 | 186.6 |
| 3. Yield | kg/hect | 773 | 845 | 837 |
| 4. Fertilizer use | '000 m.t. | 12.4 | 21.0 | 23.5 |
| 5. Replanting | hectares | 2,617 | 3,226 | 4,168 |
| 6. Cost of production (c) | Rs/kg. | 3.74 | 4.85 | 6.86 |
| 7. Average Price | | | | |
| 6.1 Colombo RSSI | Rs/kg. | 4.51 | 6.92 | 9.15 |
| 6.2 Export f.o.b. | Rs/kg. | 6.85 | 14.90 | 19.44 |
| 8. Exports | Mn. kgs. | 135.8 | 138.0 | 128.2 |
| 9. Domestic consumption | Mn. kgs. | 6.8 | 9.1 | 10.6 |
| | Rs. Mn. (SDR. Mn.) | 930.6 (93) | 2,020.6 (103) | 2,491.4 (124) |
| 10. Export earnings | | | | |
| 11. Value added, as % of GDP (b) | | 2.7 | 2.9 | 4.1 |

Source: Central Bank of Ceylon.

(a) Provisional

(b) In growing & processing only

(c) Weighted average cost of production of public sector estates (Rs. 11.00 per kg.) and private sector estates (Rs. 5.00 per kg.)

The area under rubber cultivation indicated a marginal increase in 1979. However, the average yield showed a marginal decrease. This may be largely due to reduced number of tapping days during the year due to adverse weather conditions, although a faster declining yield of new high-yielding rubber tree varieties has also been mentioned.

The JEDB and SLSPC accounted for 25 per cent of Sri Lanka's rubber producing area, and for about 30 per cent of the national production. Thus private estates, particularly small-holders, accounted for 75 per cent of rubber land and produced about 70 per cent of the output. Thus, more than in the case of tea, policies aimed at increasing production should be really geared to this target group in the private sector, which is responsible for the bulk of rubber production.

The area replanted during the year increased considerably, by 29 per cent. An area of 583 hectares was newly planted during the year as against 379 hectares last year. Better prices, accompanied by the increase in planting subsidies announced in November were the main reason for this increase. The replanting

figure is still far below the official target of about 6,000 hectares (15,000 acres) per year. It has also been reckoned that, to catch up with past arrears of replanting at least 8,000 hectares (20,000 acres) should be replanted annually.

Replanting subsidies were revised twice during 1979. In September, the replanting subsidy was raised from Rs. 9880 (Rs. 4,000/acre) to Rs. 12,350 (Rs. 5,000/acre) per hectare and again in November, it was raised to Rs. 16,055 (Rs. 6,500/acre) per hectare for private estates and small holders. However, they still appear to be inadequate for reasons given earlier. Current costs of replanting are in the region of Rs. 21,000/- to Rs. 25,000 per hectare (Rs. 8500 to Rs. 10,000 per acre). An annual (or even more frequent) review of the quantum of the replanting subsidy seems essential if the replanting targets are to be achieved.

The cumulative rubber area replanted at the end of 1979 amounted to 144,514 hectares or 64 per cent of the total registered rubber lands. Although this is a better record than in tea, the fact remains that rubber tree becomes completely uneconomic after 30 to 33 years, whereas tea plants could remain productive for a very long time. It appears that fairly stringent conditions for obtaining subsidies have discouraged growers while some have not been able to obtain the finance to undertake the preliminary work. A change in the attitude of the authorities from one of control to one of positive promotion of the industry would be necessary.

Although fertilizer issues for rubber increased by 12 per cent in 1979 the usage was still far below the optimum. Fertilizer application on the major estates was fairly satisfactory, but in the case of small holders, was minimal.

The future prospects for natural rubber have never looked brighter with rising oil prices. The prices of competitive synthetic rubbers which are a product of petro-chemical industry, is certain to move up appreciably and become even more uncompetitive in the future. The signing of the International Natural Rubber Agreement in Geneva in September has also improved the future climate for natural rubber. Thus barring a major world-wide recession, the future appears promising and very good prices are expected for natural rubber in 1980.

Keeping these developments in mind the performance of the rubber industry in 1979 was disappointing. It is also disquieting that production in 1980 would, in all probability, be lower than in 1979, as more and more senile trees go out of production. Thus the key to the future of the rubber industry lies in increasing the rate of replanting and concurrently developing new clones which will produce much higher yields in shorter periods. Even a doubling of the current replanting rate does not seem to be excessive.

Coconut

Coconut production in 1979 has been estimated at 2,393 million nuts, an increase of 8 per cent over last year. This must be compared with a 21 per cent growth recorded last year. Despite this increase output has continued to lag well behind the production in the early seventies when the average exceeded 2,500 million nuts.

TABLE 1.9
Coconut Statistics—1977 - 1979

| Item | Unit | 1977 | 1978 | 1979 (e) |
|------------------------------------|---------------------|-------------|---------------|---------------|
| 1. Production (a) | Mn.nuts | 1,821 | 2,208 | 2,393 |
| 1.1. Desiccated coconut | Mn.nuts(b) | 206 | 283 | 272 |
| 1.2. Coconut oil | Mn.nuts(b) | 393 | 641 | 803 |
| 1.3. Copra (d) | Mn.nuts(b) | 1 | 5 | 5 |
| 1.4. Domestic nut consumption .. | Mn.nuts(b) | 1,257 | 1,278 | 1,313 |
| 2. Average Price | | | | |
| 2.1. Colombo | Rs/nut | 0.92 | 0.85 | 1.13 |
| 2.2. Export f.o.b. | Rs/nut | 1.19 | 1.85 | 2.45 |
| 3. Fertilizer use | '000 M.ton | 29.1 | 42.6 | 49.7 |
| 4. Cost of production | Rs/nut | 0.21 | 0.33 | 0.44 |
| 5. Export earnings | Rs.Mn. (SDR Mn.) | 496 (47) | 1,271 (65) | 1,699 (84) |
| 5.1. Kernel products | Rs.Mn. (SDR Mn.) | 335 (32) | 972 (50) | 1,298 (64) |
| 5.2. Other products | Rs.Mn. (SDR Mn.) | 161 (15) | 299 (15) | 401 (20) |
| 6. Value added, as % of GDP (e) .. | — | 5.4 | 5.2 | 4.9 |

Source: Central Bank of Ceylon.

(a) Estimate

(b) In nut equivalent, converted at 1 Mt. ton D.C. = 6,800 nuts;
1 Mt. ton oil = 8,000 nuts; and
1 Mt. ton copra = 4,925 nuts.

(c) Provisional

(d) Exports only.

(e) In producing & processing only.

As in the previous year, the increase in production in 1979 could be mainly attributed to favourable weather conditions and an increase in fertilizer use. Fertilizer application increased by about 20 per cent in 1979, as compared with an increase of 46 per cent last year. It should be noted, however, that current levels of fertilizer application are considerably below the recommended optimum. This could be partly due to the fact that the island was in the grips of a drought during a significant part of the year. The fertilizer use was very pronounced during the last quarter of the year, coinciding with rain in the main coconut growing areas. The increase in the fertilizer subsidy, particularly for Urea, from September insulated the producers from rising world prices. The producers were further assisted by a special credit scheme for coconut fertilizer which came into effect in April, which gave credit at a low interest rate (9 per cent), with repayment over 5 years, inclusive of a grace period of 2 years. Loans were available to lessees of lands as well.

The total acreage replanted and underplanted and the area newly cultivated in 1979 amounted to 1,727 hectares (4,266 acres) and 1,215 hectares (3,001 acres), respectively, exceeding the targets set for the year. In November, the new planting and replanting subsidies were raised to take account of increased labour costs. The subsidy for new planting was raised from Rs. 5,434/hectare (Rs. 2,200/acre) to Rs. 6,793/hectare (Rs. 2,750/acre) and the subsidy for replanting was raised from Rs. 4,446/hectare (Rs. 1,800/acre) to Rs. 5,558/hectare (Rs. 2,250/acre).

There could also have been a higher level of intercropping of coconut lands in 1979, when compared with the previous year, as indicated by the number of permits issued. The subsidies payable for intercropping were also raised in November. These subsidies were designed to effect a change in the mono-cultural patterns of coconut farming, where desirable; but, the co-ordination between the Coconut Cultivation Board which administered the subsidies and the Ministry of Agricultural Development and Research which provided technical support, needed stream-lining, if the scheme is to be more effective.

Desiccated coconut production declined marginally. A limited export market and the official discouragement of exports during the lean season, may have been the main reasons for this decline. Coconut oil production, on the other hand, indicated a substantial increase of about 25 per cent. High prices in the world market, a steadily expanding domestic market and the removal of restrictions on coconut oil exports (which was subsequently reintroduced in November) were the main causes. The decline in desiccated coconut production meant a sacrifice in foreign earnings, as Sri Lanka's product has always fetched a premium demand in world markets, and as it yielded the highest export value per nut.

In the cyclone devastated areas, attempts were made to rehabilitate coconut lands. Four new nurseries were set up in the three districts, and about a million seedlings were distributed from these nurseries. Assistance was available from U. K., Italy, the F. A. O. and the E. E. C. to implement the rehabilitation program.

The year 1979 was characterised by more open conflict between the producer and consumer interests. The functioning of the coconut industry has been characterized by a multitude of controls and regulations, which have been designed to afford protection to the consumer, at the expense of the producer. During the lean season in 1979 (November to April) when the price of coconut rose seasonally, authorities intervened with a series of controls, ranging from making it compulsory for state-owned estates to sell coconuts to government procuring agencies, distribution of these coconuts in urban areas at lower prices and tightening up on the export of kernel products. The main reason given for the implementation of this strategy was that certain unscrupulous traders were taking advantage of the lean season to hold the consumers to ransom. However, it also resulted in the producer losing out on a chance to benefit from the seasonal improvement in prices.

The average estimated cost of production now is in the range of 44 cents per nut and minimum target producer price is Re. 1 per nut. Taking into account the rapidly rising cost of living, coupled with rising costs of inputs, it will be necessary at least to protect producer margins, if not increase them. The long-term development of the industry is dependent to a great extent on the successful rationalisation of the producer interest against that of the consumer. Coconut and coconut products constitute about 22 per cent of nutrition of the average Sri Lankan's diet, and thus, any increase in the price of coconut would have a substantial impact on the cost of living. On the other hand, restrictive pricing policies will also ensure that coconut will remain a stagnant and declining industry. The development of the industry is also dependent on the investment that goes into processing. Thus, it is imperative that a remunerative price structure is worked out to the benefit of the producer. Developments in 1979 seem to indicate that policies were cautiously and slowly geared to achieve this aim.

Minor Export Crops

All export crops other than the three majors have been designated as "minor export crops", although some of these crops (e.g. spice crops) have had a very long history of cultivation in Sri Lanka. Under incentives offered in more recent times, there have been signs of a revival of these crops. Reliable production data are not available; but as domestic consumption is small, exports can be reckoned as an indicator of domestic production trends.

Higher exports in 1979 indicated that the production of cinnamon, cloves, coffee, mace and cardamon has increased over 1978. The production of cloves rose by 66 per cent, mace by 33 per cent, and cardamon by 25 per cent. Very good export prices fetched by these products for quite some time, combined with enhanced subsidy payments, would have contributed to this encouraging development. On the other hand, export data indicate that pepper, cocoa, and papain production has declined. But, it is possible that domestic consumption of pepper and cocoa has risen.

New planting and replanting of minor export crops more than doubled in 1979, the result of the more favourable outlook for these crops and the raising of subsidy payments from October. Export duties, which were scaled down in 1978, were abolished, except in the case of cinnamon, where monopolistic conditions are reported to exist in world markets.

Clearly, an important contribution to Sri Lanka's plans for export-led economic growth will have to come from this long-neglected sector. The Minor Export Crops Research Institute has expanded its activities and replanting subsidies have been raised to take account of farmers' loss of income during the gestation period. Further measures will have to be taken to improve extension services and marketing.

Paddy

Paddy production in 1979 has been estimated at 1.9 million metric tons (91.9 million bushels of paddy or 1.3 million metric tons of rice) by the Department of Census and Statistics. This represented a marginal increase over the record crop of 1978. The major Maha season of 1979 yielded an all-time record crop of 1.4 million metric tons (66.8 million bushels), which was 8 per cent higher than the previous season's crop. But the minor Yala season was affected by inclement weather and the crop declined by 13 percent to 0.5 million metric tons (25.1 million bushels). The record Maha crop, despite a sharp drop in fertilizer use and credit, could be attributed to favourable weather and better prices. The South-West Monsoon rains were poor and the Yala crop was severely affected. It would appear that, an overall decline in annual production was averted by a considerably improved performance of paddy grown under the major irrigation schemes, a point which underscores the significance of irrigation and water management in further development.

The land area sown in 1979 was 4 per cent lower, largely due to adverse weather during Yala. The fertilizer issues declined sharply by 37 per cent. This decline was most pronounced during Maha, when it dropped by 44 per cent. Most probably, the high fertilizer prices that prevailed until September, 1979 depressed the demand for fertilizer. Also, cultivation loans declined very sharply from Rs. 448 million in 1978 to Rs. 74 million in 1979, following the tightening of credit after the ill-advised credit liberalization during Maha 1977/78.

TABLE 1.10
Paddy Statistics 1978-79

| Item | Unit | 1978 | | | 1979 | | |
|--------------------------------------|-------------------|--------|--------|---------|--------|--------|--------|
| | | Maha | Yala | Total | Maha | Yala | Total |
| Gross extent sown .. | '000 Hec tares | 575 | 300 | 875 | 578 | 261 | 839 |
| Fertilizer issues .. | Mt. tons | 78,367 | 35,442 | 113,809 | 43,829 | 29,892 | 73,720 |
| Credit granted .. | Rs. Mn. | 416 | 32 | 448 | 60 | 14 | 74 |
| Extent under improved seeds | '000 Hec tares | 475 | 210 | 685 | 448 | n.a. | n.a. |
| Gross extent harvested | '000 Hec tares | 553 | 287 | 840 | 551 | 232 | 783 |
| Yield per hectare .. | Kgs. | 2,733 | 2,402 | 2,613 | 2,819 | 2,574 | 2,750 |
| Production | '000 Mt. tons. | 1,286 | 605 | 1,891 | 1,393 | 524 | 1,917 |
| Purchased under GPS .. | '000 Mt. tons. | 498 | 177 | 675 | 464 | 77 | 541 |
| Imports (paddy equivalent) | '000 Mt. tons | — | — | 243 | — | — | 304 |

Source: Central Bank of Ceylon.

The paddy yields registered a 5 per cent improvement from 51 to 53 bushels per acre. This increase, despite the sharp decline in fertilizer use, could be attributed to a substantial improvement in yields from lands under irrigation, particularly from those under major irrigation schemes, and this may have been due to some improvements in cultural practices and water management. However, the yields obtained were yet far below the potential, particularly in the irrigated areas. As mentioned in the previous Annual Report, high priority should be given to promote intensive farming with efficient water management, in order to maximize productivity per unit of land.

The Paddy Marketing Board (PMB) purchased 29 per cent of the 1979 production, indicating a decline of 20 per cent from the previous year, when it was successful in purchasing 36 per cent of the crop. A decreasing trend in purchases was evident from the middle of 1979, resulting from the lower Yala crop and increased competition from the private sector. The PMB should not be overly concerned if its purchases drop owing to competition from the private sector, because that would mean that farmers obtained better prices. This was the primary purpose of establishing the PMB, although the current law assigns to it a role designed to completely control the paddy market. This law has been enacted during a regime of controls, and has now become irrelevant. When faced with declining purchases, the PMB may use its extensive powers, because it may believe that it was its duty to buy as much paddy as it could, under any circumstances. Hence, it may be advisable to amend the law suitably. The curtailment of the powers of the PMB would also help to remove current uncertainties in the private sector milling industry.

On 1st September, 1979 the Government introduced the Food Stamp Scheme, replacing the state sponsored rationing and distribution scheme which existed in the country for nearly four decades. Under the new scheme, the eligible households received "Food Stamps" according to entitled values, which could be utilised to purchase specified goods viz. rice, paddy, flour, bread, sugar, selected milk foods and dried fish. The administered prices of these goods, which were hitherto influenced by government policy, were thereafter expected to reflect true market conditions, and the object of the food stamps was to initially compensate the truly indigent families for the resulting higher cost of basic food items. Unlike in the case of the former ration scheme, the eligible households were not tied to a predetermined weekly supply of rice and/or paddy and other goods at predetermined prices. Thus, the government was able to extricate itself from the dual stranglehold of guaranteed supplies of food under rationing and of price subsidization, irrespective of the income or wealth of beneficiaries. It was thus able to direct food income subsidization to the most needy groups, with a fairly definite financial commitment.

Accordingly, the monthly rice supply commitment of the Food Commissioner (FC) has been greatly reduced from an average issue of about 52,000 mt. tons during the pre Food Stamp Scheme period to about 33,500 mt. tons per month after September, 1979. On the other hand, private sector suppliers have expanded their operations to meet the increased demand for rice in the open market. In this new situation, the role of the PMB and the FC has changed dramatically from mere purchasing-cum-distributing agencies to that of market regulation, the PMB holding the market 'floor' for farmers' paddy and the FC holding the market 'ceiling' for consumers' rice (and substitute wheat flour) by importing the shortfall in supplies. It appears that these two functions, in the new context, are best performed by one organization. As much as the PMB should not measure its achievements by the proportion of the annual harvest it purchases from the farmers, but by its ability to stabilize the paddy/rice market to the farmers, the FC should not feel obliged to standby to exchange food stamps for food items at predetermined prices, but to stabilize the consumer market by efficient supply management at the wholesale level. There were signs during the year that these two institutions were moving towards a clearer definition of their respective roles in the newly emerging context.

The guaranteed price of paddy has remained at Rs. 40 per bushel since November, 1977. However, the average price of a bushel equivalent of paddy of imported rice has increased from Rs. 54 in 1978 to Rs. 61 in 1979. On the other hand, the producer margins in paddy cultivation have continued to decline in 1979, owing to increasing cost of production. The conditionalities for obtaining credit for paddy growing too were tightened. The farmer was also faced with the increasing cost of living. The erosion of producer margins will reduce the resources available with the farmer for reinvestment and for improving his standard of living. Hence, an improvement in farmers real incomes may be necessary in order to sustain production incentives in this vital sector.

Sugar

The sugar production by the Sri Lanka Sugar Corporation in 1979 has been provisionally estimated at 18,908 mt. tons, indicating a sharp decrease of 26 per cent, when compared to with the production of the previous year. This has been attributed to inadequate water supply and cyclone damage. On the other hand, sugar imports rose by 48 per cent from 106,335 metric tons in 1978 to 241,449 metric tons in 1979 (F.C.'s data). The expenditure on sugar imports rose from Rs. 600 million in 1978 to Rs. 928 million in 1979.

Sugar production has been one of the early public sector industries started in Sri Lanka, on account of considerable import substitution potential. From the outset, it has been bedevilled with problems arising from its inability to organize an adequate intake of cane. Large scale state managed cane plantations have been attempted on a scale unprecedented even under private management. Government's pricing policies of subsidizing sugar prices have compounded the problems of the industry. As a result, after over 20 years of effort, the country is able to produce a meagre 8 per cent of its requirements.

Clearly, import substitution prospects in sugar are considerable. Organizing of individual farmer settlements around a processing factory, as is done in India, the world's largest producer, would easily relieve the Corporation of the tremendous task of organizing its own cultivation on such a large scale. A realistic pricing policy should resolve the eternal conflict between rice and cane cultivation among the farmers. It appears that this is a field where policy changes would evoke a quick production response, without having to wait for large scale capital investment.

Minor Food Crops

It is not possible to get a complete picture of minor food crop production in 1979, as the Yala season figures are not available. However, when the 1978/79 Maha figures are examined, the Yala 1979 weather being unfavourable, a further deterioration in production of minor food crops in 1979 was indicated, following the sharp decline last year. This decrease was most pronounced in the case of maize, kurakkan, chillies, manioc and sweet potatoes.

There have been the traditional factors which have been mentioned as having discouraged minor food crop production in Sri Lanka, such as inadequate marketing and storage and high cost of inputs. But the main factor responsible for the situation appears to be the government's pricing policy on food items. Heavy subsidization of flour and rice, and sporadic imports under "buffer stock schemes", appear to have depressed prices, for the benefit of the consumer. The government increased the price of flour twice (although marginally) and introduced a "floor-price scheme" from the 1979/80 Maha season, but as mentioned earlier, these measures appeared to be inadequate.

Fish and Livestock

The Ministry of Fisheries has provisionally estimated the fish production in 1979 at 170,554 mt. tons, an increase of 9 per cent. This was credit-worthy, in view of the fact that one-sixth of the country's fishing fleet was reported to have been destroyed by the November, 1978 cyclone. Perhaps, liberalized import of fishing gear and motors, higher issues of mechanised boats and vastly improved prices were responsible for this improvement. The Fisheries Corporation gave up its own uneconomic production and sensibly concentrated on purchase and sale. Nevertheless, largely on account of higher open market prices, its purchases dropped by 30 per cent. On the other hand, dried fish imports were 6,828 Mt. tons in 1979, while other fish imports were 12 mt. tons, involving an import outlay of Rs. 19 million. A five year "Master Plan" for fishery industry was drawn in 1979 to raise production to an ambitious 351,553 mt. tons by 1983. If this production target is realized, it would increase the present per capita consumption of 13 kgs. to 23 kgs. by 1983.

Milk production 1979, estimated at 198 million litres by the Department of Census and Statistics, showed a drop of 7 per cent from the 1978 level. The depletion of the national herd by increased slaughter of animals in recent years probably affected milk production. Despite the reported fall in production, the National Milk Board was able to increase its intake of milk. This was probably due to higher prices offered by the Board and an increase in the number of collecting centres. Milk imports during 1979 amounted to Rs. 479 million, indicating considerable potential for import substitution, but producer margins appeared to be inadequate.

The Census and Statistics Department has estimated that egg production rose by 20 per cent to 432 million eggs in 1979. Higher demand for eggs arising from increased prices of meat and fish, and cheaper and more liberal availability of poultry feed would have been responsible for this increase.

Rural Credit

The amount of credit extended under the Comprehensive Rural Credit Scheme (CRCS), the Rural Bank Scheme and by Bank of Ceylon sub-offices at Agrarian Service Centres, dropped drastically by 67 per cent in 1979. Half of the loans granted this year were for crop cultivation, although the amount was less than one fourth of the credit granted last year. The People's Bank accounted for only Rs. 26 million or 25 per cent of the total loans granted, while the Bank of Ceylon emerged as the major lending institution to the rural sector by providing Rs. 49 million or 46 per cent. Details of cultivation loans granted under CRCS are given in the Statistical Appendix.

TABLE 1.11
Rural Credit (a) 1978-1979

| Purpose | Rs. Million | | | | | | | |
|--|----------------------|--------|-------------|-------|---|--------|------------|-----------|
| | People's Bank (b) | | Rural Banks | | Bank of Ceylon sub-offices (c) | | Total | |
| | 1978 | 1979 | 1978 | 1979 | 1978 | 1979 | 1978 | 1979 |
| 1. Crop cultivation | 154.1 | 25.8 | 4.5 | 4.6 | 100.9 | 25.5 | 259.5 | 55.9 |
| 1.1 Paddy .. | (122.4) | (20.5) | (0.5) | (1.0) | (60.2) | (17.7) | (183.1)(d) | (39.2)(d) |
| 1.2 Minor Food Crops | (27.8) | (5.3) | (4.0) | (3.6) | (29.1) | (7.5) | (60.9) | (16.4) |
| 1.3 Sugar Cane and Cotton | (3.9) | (—) | (—) | (—) | (11.6) | (0.3) | (15.5) | (0.3) |
| 2. Animal Husbandry .. | | | 1.5 | 1.7 | 0.7 | 0.6 | 2.2 | 2.3 |
| 3. Small Industry | | | 1.3 | 1.4 | 0.6 | 0.9 | 1.9 | 2.3 |
| 4. Purchase of Machinery and Equipment .. | | | — | — | 30.3 | 11.9 | 30.3 | 11.9 |
| 5. Debt Redemp- tion .. | | | 4.1 | 3.7 | — | — | 4.1 | 3.7 |
| 6. Consumption .. | | | 1.1 | 1.0 | 0.6 | 0.5 | 1.7 | 1.5 |
| 7. Housing, Electrification and Water Supply .. | | | 14.0 | 15.8 | 2.4 | 2.6 | 16.4 | 18.4 |
| 8. Trade and Other .. | | | 3.7 | 3.4 | 6.2 | 6.6 | 9.9 | 10.0 |
| Total .. | 154.1 | 25.8 | 30.2 | 31.6 | 141.7 | 48.6 | 326.0 | 106.1 |

Sources: People's Bank;
Bank of Ceylon;
Hatton National Bank Limited.

(a) Excluding overdrafts and advances under pawn broking.

(b) Under the CRCS only.

(c) Includes loans granted under the CRCS.

(d) Includes loans granted by Hatton National Bank Limited under CRCS.

Total loans for paddy cultivation for the incomplete Maha 1979/80 season amounted to Rs. 31 million at the end of 1979, reflecting an increase of 35 per cent over the same period last year. This is a noteworthy improvement in view of the tighter credit criteria applied by the banks. Credit extended for minor food crops, sugar cane and cotton have decreased to negligible proportions.

Of the total loans amounting to Rs. 1,156 million granted for paddy cultivation since 1967 upto end of Yala 1979, only Rs. 525 million has been recovered and 54 per cent were in default. Similarly, from the total amount of Rs. 312 million granted for the cultivation of other crops, only Rs. 140 million has been recovered, leaving 55 per cent of the loans in default. Of Rs. 66 million granted for paddy cultivation in 1978/79 Maha, the first season without the government credit guarantee, Rs. 38 million or 58 per cent was recovered and 42 per cent was in default. Out of Rs. 16 million lent for the cultivation of other crops, Rs. 9 million or 55 per cent was recovered and 45 per cent was in default. These better recovery rates in recent times could have been achieved through adoption of improved credit supervision by banks, as well as by limiting credit to the more affluent.

This decline in agricultural credit means that the farmer would have to resort to non-institutional sources for obtaining his credit needs, where credit is often available at a very heavy cost. Sri Lanka's food crop sector is dominated by small holdings of less than 1-2 acres. This would mean that a sizeable proportion of farmers would be starved of credit.

The main problems associated with rural credit schemes in the past were two fold. First, the loans were disbursed as if they were government largesse; the need to repay such loans was seldom inculcated. Lack of adequate staff prevented the banks from closely supervising credit use. Secondly, much of the credit was channelled to small farmers operating at subsistence level. Often, they were unable to repay the loans due to the absence of a marketable surplus. For any rural credit scheme to succeed, solutions to these basic problems must be found. Institutional credit resources should be used to raise agricultural productivity. This is virtually impossible on small scale farms. Hence, an agrarian reform of consolidation of uneconomic small holdings may have to precede a viable rural credit scheme. Bank credit could be made available to continuous tracts operated by farmer groups organized on the basis of service co-operatives. These have to be closely supervised by banks. As these supervised loans involve additional work for bank staff, there should be compensatory incentives to offset this disadvantage. The banks and their branches may be requested to allocate a part of their resources for lending in this manner to the rural sector. Also, the banks which have thinly spread their limited trained staff on account of ambitious branch expansion programmes in recent times, should seriously consider expanding their training programmes, especially in lending to rural agriculture. The commencement of internationally supported "Integrated District Development Programmes" in several districts should provide a vital opportunity for banks to get into rural banking, with greater confidence. If the banks could initiate meaningful action in these aspects, there would be a strong case for the re-introduction of the credit guarantee, perhaps at a more moderate level. For its part, the Central Bank has reorganized its former Development Finance Department as a new Department of Rural Credit and Development Finance, with a view to initiating new responses in the field of rural credit.