

Consumption in real terms increased by 6.7 per cent and capital formation by 25 per cent compared to increases of 9 per cent and 20 per cent, respectively in 1979. The volume of exports in 1980 was the same as in 1979 thus continuing the trend observed in the last few years, when real exports showed little increase.

TABLE 1.7

## Savings

Rs. Million

Category	(a)		
	1978	1979	1980
1. G. D. P. at market prices .. ..	42,428	52,147	68,271
2. External resources (net imports of goods & services) .. ..	2,274	6,549	15,279
3. Investment .. ..	8,554	13,527	24,466
4. Savings (3 - 2) .. ..	6,280	6,978	9,187
5. Savings ratio (4 as % of 1) .. ..	14.8	13.4	13.5

(a) Provisional

Source: Central Bank of Ceylon.

According to present estimates savings amounted to Rs. 9,187 million compared with Rs. 6,978 million in 1979 an increase of 32 per cent. However, the ratio of savings to G D P at 13.5 per cent was nearly the same as in 1979. This is further evidence that despite inflationary pressures, the share of savings has not declined.

## AGRICULTURE

The performance of the agricultural sector in 1980, with the exception of the paddy sub-sector, was again below expectations. Agricultural production in 1980 recorded a marginally improved growth rate of 2.9 per cent as against the 2 per cent registered for 1979. The corresponding rates of growth for 1978 and 1977 were 4 per cent and 7 per cent, respectively. If the growth rates for 1979 and 1980 are adjusted for population increases, the resulting per capita growth rates are positively disappointing. The production of the tree crop sub-sector decreased reducing the surpluses available for exports. Tea production in 1980 declined by 7 per cent<sup>1</sup> while rubber production declined by 13 per cent. Coconut production declined by 15 per cent. It is likely that the production in the minor export crop sub-sector too would have either declined or remained more or less at the level of performance in 1979.

In the field crop sub-sector, paddy output increased by 11 per cent as against a marginal drop of one per cent in 1979. The minor food crop sub-sector recorded a marginal increase in production. Sugar production recorded an increase of 43 per cent in 1980 reversing the trend observed in the previous year when there was a reduction in output of nearly 25 per cent. Increases were also recorded in fish and livestock sub-sectors. Fish as well as milk production increased by 8.8 per cent, while the production of eggs recorded an increase of 26 per cent.

The continued disappointing performance of the agricultural sector as a whole for several years, should be viewed with concern. The failure of South-West monsoonal rains had been a factor that affected the production of coconut and tea. However, as stressed in the Annual Report for 1979, the uneven performance

<sup>1</sup> The exports of tea declined by less than 2 per cent in 1980. The tea export volumes recorded in the Customs in recent years, have been much more than what could have been possibly exported, given the reported production, estimated consumption and changes in stocks.

of the agricultural sector was also due to many controllable factors such as management problems of state-owned plantations, tax structures on traditional export-crops, and lack of sufficient incentives for production increases in the small-holder sectors.

The paddy sub-sector responded admirably to the incentives offered. The increase in paddy production in 1980 was primarily due to the attractive open market prices that prevailed, which helped the farmers to obtain a remunerative income, notwithstanding the increase in prices of a wide range of farm inputs. According to estimates made, the average open market paddy price in the first half of 1980 which was about Rs. 46 per bushel on average, increased to Rs. 58 per bushel during the second half of the year. In 1980 the majority of farmers sold their paddy output to private dealers and the Paddy Marketing Board (PMB) was able to purchase 211,000 metric tons, only 10 per cent of the total production, as against 541,000 metric tons purchased in 1979 which was equivalent to 28 per cent of total production. The increase in the fertilizer subsidy announced in November, 1979 too had the desired effect of promoting fertilizer use enabling higher productivity and yields per acre. There was a 97 per cent increase in the issues of fertilizer for paddy production in 1980.

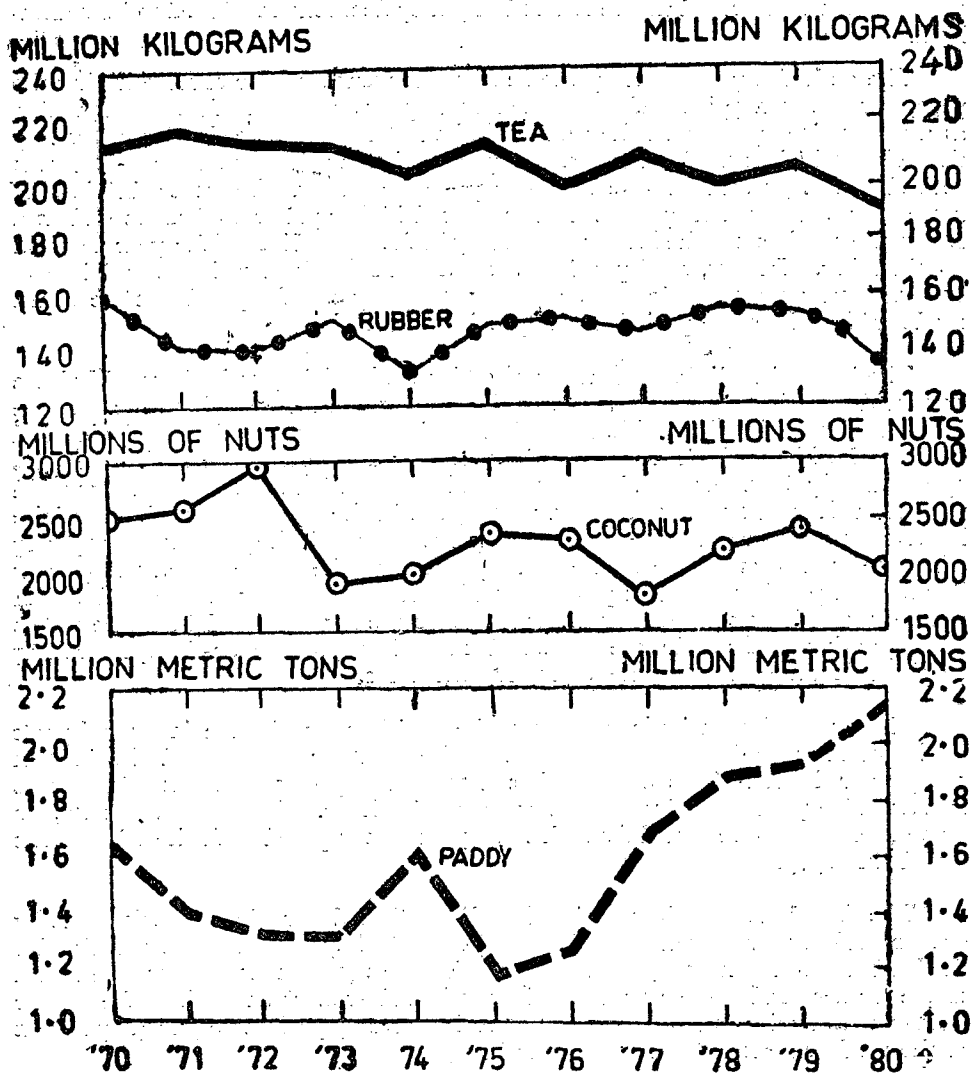
The production of coconut declined very considerably, primarily due to the drought conditions which prevailed in the main coconut growing areas. The beneficial response from increased fertilizer applications, observed in recent years, could not be realised due to prolonged dry weather conditions.

In the tea sub-sector too, the effects of the drought were felt severely in 1980, but the poor management of the plantations which has been continuing for some years, liquidity problems facing the two Corporations, rising costs and apparent labour shortages would have contributed to the low level of production observed. In the rubber sub-sector, the increasing senility of trees, due to neglect of replanting over the years and below optimum level of maintenance, combined with the reduced tapping area which is the result of uprooting for replanting purposes, were factors primarily responsible for the reduced rubber production in 1980.

In the animal husbandry sector, poultry farming registered a very significant expansion in 1980, mainly due to the entry of a few large scale producers. The low feed prices which were made possible by a government subsidy, assisted in the expansion of the industry. Growth impulses were also seen in the fishing sector. The private sector fish production increased in 1980, compensating for the reduced fish production by the public sector. It is estimated that total fish production in 1980 increased by 9 per cent responding to greater availability of fishing gear and other capital equipment made available at greatly subsidised prices. The operations of the Fisheries Corporation in 1980 were characterised by the higher emphasis placed on fish purchases. Purchases increased by 30 per cent above the previous year's level. Fish production by the Corporation on the other hand, indicated a decrease of 48 per cent, mainly due to an inability of the Corporation's trawlers to fish in the "Wadge Bank" area off the south coast of India, due to an expiry of an agreement between the two countries. However, due to a significant increase in fish purchases, the total supply of fish of the Fisheries Corporation indicated an increase of 13 per cent in the year under review.

The Ministry of Rural Industrial Development carried through a number of dairy development projects in 1980 with the assistance of the International Development Association (IDA) and the Government of Netherlands. The number of milk collecting centres of the National Milk Board (NMB) was increased during 1980. Policies and measures carried out in 1980 had the desired effect of increasing milk production. As provisionally estimated, the islandwide milk production in 1980 increased by 9 per cent while data pertaining to the NMB revealed an increase of 6 per cent in liquid milk production.

# PRODUCTION OF PRINCIPAL AGRICULTURAL CROPS



Further significant institutional changes in the agricultural sector took place during 1980. The two state-owned plantation corporations were re-organised reconstituting them into two Ministries, namely, the Ministries of Janatha Estate Development Board (JEDB) and Sri Lanka State Plantations Corporation (SLSPC). The work of the two Corporations were further decentralized by creating regional boards. The JEDB selected regional boards to be at Hatton, Kandy, Badulla and Kegalle while SLSPC sited its regional boards, in Hatton, Nuwara Eliya, Kalutara and Galle. The act of decentralisation did not bring in any immediate improvement in the management of the plantations as the head offices in Colombo were somewhat reluctant to delegate authority. The full beneficial effects of this move could not be realised as policy decisions continued to be centralised.

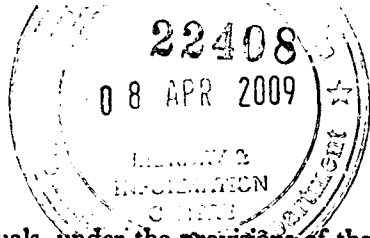
The activities performed by the PMB underwent a major change during the year, from being a 'price leader' and near monopoly operator to that of functioning as a floor price operator in the paddy market. The guaranteed price offered by the PMB which remained at Rs. 40 per bushel until November 1980, was revised to Rs. 50 and became the floor price for paddy. However, in view of increasing consumption, private traders offered higher prices to farmers and as a result, the purchases of the PMB, particularly in the second half of the year declined considerably. In fact, total purchases of the PMB during the second half of 1980 was only 1,700 metric tons or barely 2 per cent of the purchases the Board made during the same period in the previous year.

The increasing difficulties encountered by the PMB in purchasing paddy have certain deeper implications. Some of these are of an adverse character. There is, for instance the observable fact of increasing under-utilization of the capital stock of the PMB which deserves serious attention. Most of the PMB rice mills operated only for a few months in 1980, and the situation in all probability would worsen in the years to come. As a participant in the buffer stock scheme of the Food Commissioner (FC), the PMB was faced at times with the problem of supplying adequate quantities of rice to the FC. Apart from the above, given the present low level of purchases and its possible continuance, the supply of rice to the open market through its sales outlets is bound to be greatly restricted in future unless PMB purchases of paddy are increased through aggressive on-the-spot trading or through other appropriate corrective measures.

There was also an improvement in the fertilizer distribution in several parts of the country arising from operations of the fertilizer mixing and distribution complex at Maho. This complex has a storage capacity of about 16,000 tons and a mixing plant capacity of 10 tons per working hour. In 1980, about 45,000 tons of fertilizer were issued from this complex as compared with the 16,000 tons issued in 1979.

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 1980, a total of 4,134 hectares (10,211 acres) was given back to the former land owners bringing the total land area given back to the former land owners by the end of the year to 9,662 hectares (23,864 acres) or 4.4 per cent of the total extent of land taken over in 1972.

Under the 1972 Land Reform Law, a sum of Rs. 34.2 million was paid out to former land owners, bringing the total compensation payment under this Law to Rs. 273.2 million. The LRC paid out under the provisions of the 1975 Amendment, a total of Rs. 69.3 million as compensation payments in 1980. Of this amount, a sum of Rs. 62.3 million was paid to 61 Sterling Companies. By the end of 1980 compensation payments to public companies amounted to Rs. 233 million.



The scheme of land re-distribution to individuals, under the provisions of the Land Grants (Special Provisions) Act No. 43 of 1979, continued to be operative in 1980. A total of 3,581 hectares was re-distributed to individuals during the year. As the economic use of redistributed land depends on the provision of the required ancillary services such as extension and marketing facilities, on time and with sufficient coverage, it needs to be stressed that there is much to be done in this direction.

The decline in total disbursement of loans for cultivation purposes which was observed in 1979 continued its trend unchanged in 1980. Total rural credit disbursed in 1980, at Rs. 101.9 million was 4 per cent lower than the amount granted in 1979. In so far as cultivation loans are concerned, the value of cultivation loans given in 1980 was 41 per cent lower than the average volume of credit given since 1973, the year the Comprehensive Rural Credit Scheme was started. As pointed out in the Annual Report for 1979, the cause and explanation for this pronounced reduction in rural credit was the withdrawal of the 75 per cent credit guarantee operated by the Central Bank on behalf of the Government.

The response in 1980 to government sponsored replanting schemes was satisfactory. The replanting and new planting in the coconut sector showed considerable improvement over the levels reached in the previous year, the increases being 59 per cent and 80 per cent, respectively. The extent under rubber which was replanted increased by 30 per cent. However, the extent replanted fell far short of the desired replanting targets required for both the timely replacement of senile plants and to clear the backlog. The tea replanting programme which has been performing poorly in the past years, recorded a further decrease in 1980. The extent replanted with tea in 1979 totalled 2,491 hectares. In 1980, the extent replanted was marginally lower at 2,078 hectares. The poor response in replanting in SLSPC estates was somewhat more noticeable.

Increased rates of replanting subsidy, announced in the 1979 budget appear to have had the desired effect of increasing replanting activities in the smallholder dominated sub-sectors of coconut and rubber. In so far as public sector plantations are concerned, considerable replanting activity was recorded in the case of rubber but with regard to tea the replanted extent declined by 21 per cent. As it has been repeatedly urged in previous Annual Reports, replanting subsidies require to be continuously reviewed and revised.

The "Floor Price Scheme" for minor food crops continued in 1980. These prices were revised upward during the year. The number of commodities covered under the scheme was increased to twelve to include cowpea, greengram and potatoes. The purchases made under the scheme were small, but it is likely that the production of some of the commodities, particularly ground nuts, cowpea, greengram and potatoes increased largely as a result of the floor prices offered and with the increased availability of marketing outlets.

In the second half of 1980, there were considerable increases in the production of vegetables and minor food crops. In the principal producing areas of the country, farm gate prices of several of these items fell markedly making continued cultivation of these commodities uneconomic. There was also some evidence of a lack of adequate marketing arrangements for vegetables. Despite low farm gate prices, consumers in urban centres purchased these commodities at relatively high prices. Notwithstanding the marked increase in the country's lorry transport fleet, there was evidence of inadequacy of storage and marketing facilities. In the immediate exercise of supply augmentation and keeping down the cost of living of items figuring

in household budgets, considerable relief could have been obtained in 1980 had this sector been efficiently organised. There were numerous instances in the course of the year where even state enterprises in this field had failed to move into afford much desired relief to both producers and consumers.

Considerable progress was made in 1980 in the implementation of the Accelerated Mahaveli Programme, the lead development project in the country. Of the cumulative total of Rs. 3,436 million spent on the programme, approximately 77 per cent was incurred in 1980.

**TABLE 1.8**  
**Accelerated Mahaveli Programme: Cost Estimates**

Project	Rs. Million				
	Budgeted Expenditure for 1980			Actual Expenditure for 1980(a)	Cumulative Expenditure upto end 1980(a)
	Provisions	Supplementaries	Total		
1. Victoria reservoir ..	500	685	1,185	901	999
2. Kotmale reservoir ..	500	145	645	862	1,145
3. Randenigala reservoir ..	10	33	43	30	55
4. Maduru Oya & link tunnel ..	300	274	574	383	482
5. Ulhitiya reservoir, Minipe anicut, Transbasin canal etc. (Including System C Engineering) ..	75	70	145	145	284
6. Irrigation System A ..	10		10	3	6
7. Irrigation System B ..	75	65	140	99	117
8. Irrigation System C ..	75	50	125	240	345
9. Irrigation System D ..	1		1	1	3
<b>Total</b> ..	<b>1,546</b>	<b>1322</b>	<b>2,868</b>	<b>2,664</b>	<b>3,436</b>

(a) Provisional.

Source: Mahaveli Authority of Sri Lanka.

In the Victoria Project the respective contracts for the construction of the dam, tunnel and power house and the supply of equipment have been awarded. On the basis of information gathered it is seen that out of a total of approximately Rs. 1000 million spent on this project, a sum of Rs. 900 million had been spent in the year 1980. The project is expected to be completed and the power station commissioned by the middle of 1984. Initial site works and the construction of the underground tunnel of the Kotmale project have commenced. But the contract for the dam construction is yet to be awarded. Total expenditure on the Kotmale project as at the end of 1980 was around Rs. 1,145 million, of which Rs. 862 million was spent in 1980. The contracts for the construction of the reservoir and the tunnel for the Maduru Oya Project have also been awarded. Of a total of Rs. 482 million spent on the Maduru Oya project, a sum of Rs. 383 million was spent in 1980.

There was considerable progress achieved in the development of the downstream irrigation systems of the Mahaveli area. Approximately, Rs. 240 million was spent in System C in 1980 where 24,291 hectares would be developed. In System B, which envisages a development of 48,583 hectares, a sum of Rs. 99 million was spent in 1980.

About 6,700 families were settled in 1980 in the Kalawewa region (System H area). At the end of 1980, a total of approximately 20,000 families had been settled, each with an allocation of about 1 hectare for cultivation purposes and 1/5 hectare for home gardening and housing. In the Ulhitiya region (System C area) over 1,000 advance settlers were enlisted to participate in the preliminary work of settlement development.

In 1980, about 15,000 hectares of crop area were brought under cultivation in the 'H area', of which about 13,500 hectares were cultivated with paddy.

Several district projects based on the concept of integrated rural development aimed at providing assistance to develop a wide range of activities in the rural sector such as irrigation, field crops, agricultural credit, animal husbandry, ground water exploration, health, education and rural electrification were considered in 1980. Under the World Bank IRD Project II, Puttalam and Matala districts would be developed in 1981 at a cost of approximately Rs. 780 million. The projects for Mannar and Vavuniya districts which fall under the World Bank IRD Project III, are still in the preliminary stages of preparation. The Netherlands Government has indicated willingness to finance certain priority projects to be identified in the Nuwara Eliya district. The Belgian Government likewise has shown interest in financing the development work in the Monaragala district and has tentatively selected the Magandana Oya for the construction of a dam and the provision of irrigation and settlement facilities at an estimated cost of about Rs. 130 million.

Two other integrated projects in which work has been initiated and some progress has been achieved are the Hambantota project funded by the Norwegian Government at an estimated cost of Rs. 335 million and the Matara project funded from a Swedish Government grant of Rs. 55 million.

As stressed in the Annual Report for 1979, the minor irrigation schemes continued to be neglected for lack of funds as well as to a division of responsibility between separate government agencies. There was no improvement in this position in 1980. It deserves re-stressing that one of the quickest and economic ways of achieving short-term increases in agricultural output would be to increase the present allocation of resources for the restoration and proper maintenance of minor irrigation schemes on a priority basis. Such action would also correct the apparent imbalance in the allocation of resources between major and minor irrigation works.

## Tea

Tea production in 1980 has been estimated to have decreased by 7 per cent to 191 million kgs., the lowest level recorded since 1959. The drop in production which was evident in all three elevational categories was more pronounced in mid grown areas where production fell by 11 per cent. In high and low grown areas the shortfalls in production were 5 and 6 per cent, respectively. The large public sector corporations JEDB and SLSPC managing about 53 per cent of the registered tea lands in the country, produced about 130 million kilogrammes or 68 per cent of the total production. However, when account is taken of the 25

million kgs. of bought green leaf, processed in the public sector factories, the total made tea production of the two public sector corporations was 155 million kgs. or 81 per cent of total production. According to data released by the Sri Lanka Tea Board, tea production of the public sector corporations fell by 7.4 per cent in 1980 as compared with performance of the previous year, while that of the private sector decreased by 1.2 per cent.

**TABLE 1.9**  
**Tea Statistics 1978 - 1980**

Item	Unit	1978	1979	1980 (a)
1. Production .. ..	Mn. kgs.	198.9	206.4	191.4
1.1 High grown .. ..	Mn. kgs.	71.7	76.5	72.6
1.2 Medium grown .. ..	Mn. kgs.	61.0	62.5	55.6
1.3 Low grown .. ..	Mn. kgs.	66.2	67.4	63.2
2. Area cultivated .. ..	'000 ha.	243	244	245
3. Yield .. ..	Kg./ha.	958	993	922
4. Fertilizer issues .. ..	'000 mt. tons	115.6	105.4	101.7
5. Replanting (b) .. ..	hectares	1,709	2,491	2,078
6. Prices .. ..				
6.1 Colombo net .. ..	Rs./Kg.	11.65	11.22	17.33
6.2 Export f.o.b. .. ..	Rs./Kg.	33.22	30.51	33.41
7. Cost of production .. ..	Rs./Kg.	10.50	12.70	15.50
8. Exports .. ..	Mn. kgs.	192.7	187.5	184.7
9. Export earnings .. ..	Rs. Mn.	6,400.9	5,722.2	6,170.1
	(SDR Mn.)	(327)	(284)	(287)
10. Value added as % of GDP (c) ..		10.9	7.9	6.3

Source: Central Bank of Ceylon.

(a) Provisional

(b) Revised

(c) In growing and processing only

Fertilizer issues to the tea sub-sector continued to decline during the year recording a decrease of 3.5 per cent over the issues made in 1979. The two corporations JEDB and SLSPC which marginally increased their fertilizer applications in 1979, however, registered a 12 per cent decline in fertilizer used in 1980. One of the main contributory factors for the lower level of fertilizer applications was the prolonged drought which prevailed in the first half of 1980. This adverse circumstance affected both yield per hectare and total production.

The registered area under tea cultivation in 1980 was almost the same as in the previous year. The government subsidy for tea replanting remained unchanged at Rs. 8,000 per acre (Rs. 19,760 per ha.) for predominantly low grown areas and



at Rs. 10,000 per acre (Rs. 24,700 per ha.) for predominantly high and medium grown areas. The subsidy for new planting of clonal tea on old rubber lands and new lands which was increased to Rs. 4,750 per acre (Rs. 11,733 per ha.) last year, continued unchanged in 1980. According to the data available, the area replanted decreased by 413 hectares from 2,491 in 1979 to 2,078 hectares in 1980; the estates managed by the SLSPC accounted for 92 per cent of this decrease. However, it must be stressed that the area replanted by SLSPC in 1980 was higher than the extent replanted by the JEDB.

In addition to inclement weather, the liquidity problems experienced by the two corporations along with the increasing cost of replanting jointly contributed towards the overall poor performance. The total extent replanted with vegetatively propagated (VP) tea by the end of 1980 was 36,139 hectares, about 15 per cent of the total registered area.

Tea prices in general were favourable in 1980. The average net (of taxes) Colombo auction price showed a substantial increase of 55 per cent over the average price which prevailed in the previous year. This was largely due to tax reductions effected in mid 1979. However, the average export (f.o.b.) price increased by only 10 per cent. The reduced flow of supply from major producing countries would have contributed to this improvement in export prices. The cost of production of made tea has been estimated to have increased by 22 per cent. The cost of tea chests, transport and fuel accounted for the bulk of the increase. According to the Sri Lanka Tea Board, the tea industry, as a whole, was able to maintain a positive producer margin as against the negative margin observed in the previous year. The SLSPC and the JEDB recorded positive margins of Rs. 1.42 and Re. 0.95 per kg. of made tea, respectively.

Recognizing the increasing demand for packeted teas and tea bags in the consuming countries overseas, the Government granted a substantial reduction in the export duty in respect of these two items with a view to encouraging higher exports. The export duties on tea in packets and tea bags, which were uniformly applied at Rs. 10.50 per kg., were reduced to Rs. 8.50 and Re. 1.00 per kg. respectively, with effect from 1st July, 1980. In order to assist the manufacturers to cope with the increases in the costs of fuel, tea chests, electricity, etc., the amount deductible as manufacturing charges by the factories under the 'Price Support Measure Scheme' was increased from Rs. 4.70 to Rs. 5.40 per kg. with effect from 1st October, 1980. To qualify for the subsidy under this scheme, the floor price was increased from Rs. 11 to Rs. 12 per kg. in view of the increasing trend in the auction prices and the need to improve quality of made tea. Another important policy measure adopted in the course of the year was the decision by the Government to allow interested investors to enter into the tea blending industry. Such action would help to diversify exports.

## Rubber

Rubber production in 1980, which has been provisionally estimated at 133 million kgs. revealed a decrease of 20 million kgs. or 13 per cent when compared with the previous year. The decrease in production was primarily due to the trend of declining yields brought about mainly by the growing incidence of senility in rubber trees which is partly the result of poor levels of replanting undertaken in the past. Reduced tapping area due to increased replanting in recent years may also have been a contributory factor. The Rubber Master Plan prepared by the Commonwealth Development Corporation (CDC) has identified that nearly 25 per cent of the planted extent has a productive life of less than four years. The seriousness of the situation underlines the urgent need for a more vigorous programme

of rehabilitation in this sector. The tapping practices followed by smallholders, to take advantage of high price which prevailed in the not so distant past may have contributed to the current low average yields in the smallholder sector.

**TABLE 1. 10**  
**Rubber Statistics 1978 - 1980**

Item	Unit	1978	1979	1980(a)
1. Production .. ..	Mn. kgs.	156	153	133
2. Area				
2.1 Under cultivation .. ..	'000 ha.	226.4	226.4	227.4
2.2 Under tapping .. ..	'000 ha.	184.8	186.6	185.7
3. Yield .. ..	Kg./ha.	845	820	716
4. Fertilizer issues .. ..	'000 mt.tons	21.0	23.5	21.4
5. Replanting .. ..	Hectares	3,226	4,168	5,436
6. Prices				
6.1 Export f.o.b. .. ..	Rs./Kg.	14.90	19.44	21.42
6.2 Colombo RSS 1 .. ..	Rs./Kg.	6.92	9.15	10.62
7. Cost of production .. ..	Rs. /Kg.	4.85	6.86(c)	8.20(c)
8. Exports .. ..	Mn. kgs.	138.0	128.2	120.9
9. Domestic consumption .. ..	Mn. kgs.	9.1	10.6	14.9
10. Export earnings .. ..	Rs. Mn. (SDR Mn.)	2,020.6 (103)	2,491.6 (124)	2,590.5 (120)
11. Value added as % of GDP (b) .. ..		2.9	4.1	3.0

Source: Central Bank of Ceylon.

(a) Provisional.

(b) In growing and processing only.

(c) Weighted average cost of production of public sector estates, private sector estates and small holdings.

Rubber production in 1980 in the state-owned plantations recorded an increase. The production from SLSPC estates showed an increase of approximately 10 per cent and the estate production of JEDB a marginal increase, when compared with the previous year. The share of the state-owned sector in total rubber production increased from 30 per cent in 1979 to 37 per cent in 1980, while the share of total rubber land in tapping, coming within the authority of the JEDB and SLSPC remained at 25 per cent, indicating that the smallholders sector performed poorly in 1980. As in other plantation crops, the economic problems of the smallholder remained the same. The rate of replanting continued to increase in 1980 as in the previous year. An extent of 5,436 hectares were replanted in 1980 with improved varieties indicating an increase of 30 per cent over 1979. The increase in the replanting subsidy announced in the 1979 budget appears to have stimulated replanting. It is also envisaged that with approximately 18,000 hectares earmarked for rehabilitation in the Kalutara, Kegalle and Ratnapura districts with World Bank aid over the next five years, there would be a further increase

in replanting activity. In the context of increasing export receipts, it is imperative that efforts be continuously made to increase the replanting extent to 6000-7000 hectares per year. As the future of the rubber sector hinges on the ability to increase yields and reduce cost of production, replanting with high yielding varieties should be accorded high priority. The replanting subsidy at Rs. 5,000 per acre (Rs. 12,350 per hectare) for public sector estates and Rs. 6,500 per acre (Rs. 16,055) per hectare) for private estates and small holders, appears inadequate in view of the current high costs of replanting. The latter has been estimated to be in the region of Rs. 10,000 per acre (Rs. 25,000 per hectare). A closer view of the problem to enable a breakeven subsidy payment appears prudent.

The new planting subsidy at Rs. 2,700 per acre (Rs. 6,670 per hectare) which came into effect in November, 1979 continued in 1980 unchanged. An extent of 977 hectares was newly planted in 1980, indicating an increase of 68 per cent over the previous year. The present subsidy rate for new planting seems inadequate, as it is sufficient only to cover less than half the new planting costs.

The rubber replanting cess was raised from Re. 0.35 to Re. 0.50 per kilo in 1980 to increase the monies available in the rubber replanting cess fund. If the subsidy is to be further raised to permit a higher level of replanting, the replanting cess would have to be increased, possibly coupled with a corresponding adjustment in the duty to maintain adequate margins to producers.

The overall producer margin for the industry continued to be positive, though the JEDB and the SLSPC indicated negative margins due to their higher average costs. The low price of latex crepe, in particular, affected the major estates, engaged in crepe manufacture. As the crepe-sheet differential moved in favour of sheet production, there was an inducement to switch from crepe to sheet rubber production. It has been estimated that about 30 per cent of the public sector estates have dual processing facilities. A programme designed for greater installation of dual processing facilities would enable the major estates to switch from one product to the other with minimum disruption. In this regard, it would be useful to examine the possibilities of producing centrifuged latex on government-owned estates. Some JEDB estates have processing facilities and it may be possible to utilise this capacity to increase the availability of centrifuged latex in the country. At present there are local manufacturing concerns using centrifuged latex and with greater availability of the raw material, more firms both local and foreign, may be induced to invest in producing latex based products for export, thereby increasing the value added component of natural rubber based products within the country itself.

Rubber stocks at the end of 1980 were estimated by the Rubber Controller at around 60 million kgs. However, some independent estimates indicate a total stock figure of around 40 million kgs. The importance of reliable stock figures for planning and economic analysis should not be underrated.

### **Coconut**

Coconut production in 1980 has been estimated at 2,026 million nuts revealing a decrease of 15 per cent over the previous year. There was accordingly a reversal of the increasing trend in production observed in the last two years, and performance was below levels of production registered in the early seventies when the average exceeded 2,500 million nuts. The decline in production reduced the exportable surplus by about 390 million nuts when compared with 1979. The drought which was experienced in the country during the latter part of 1979, and in the early part of 1980 has been the main cause for this substantial decline in coconut production.

**TABLE 1.11**  
**Coconut Statistics 1978-1980**

Item	Unit	1978	1979	1980(a)
1. Production (b) ..	Mn. nuts	2,207	2,393	2,026
1.1 Desiccated coconut ..	Mn. nuts(c)	283	272	217
1.2 Coconut oil ..	Mn. nuts(c)	641	803	500
1.3 Copra(d) ..	Mn. nuts(c)	5	5	1
1.4 Domestic nut consumption ..	Mn. nuts(e)	1,278	1,302	1,326
2. Average price ..				
2.1 Colombo ..	Rs./nut	0.85	1.00	1.48
2.2 Export f.o.b. ..	Rs./nut	1.85	2.40	3.13
3. Fertilizer issues ..	'000 Mt. tons	42.6	49.7	55.8
4. Cost of production ..	Rs./nut	0.33	0.37	0.40
5. Export earnings ..	Rs. Mn. (SDR Mn.)	1,271 (65)	1,699 (84)	1,234 (57)
5.1 Kernel products ..	Rs. Mn. (SDR Mn.)	972 (50)	1,298 (64)	754 (35)
5.2 Other products ..	Rs. Mn. (SDR Mn.)	299 (15)	401 (20)	480 (22)
6. Value added as % of GDP(f) ..		5.2	4.9	5.1

*Source:* Central Bank of Ceylon.

(a) Provisional.

(b) Estimate.

(c) 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.

(d) Export only.

(e) Estimated on the basis of per capital consumption of 90 nuts/year.

(f) In producing and processing only.

The fertilizer application on coconut lands continued to be below the recommended optimum, though there has been a considerable increase in the level of fertilizer applications in recent years. Fertilizer applications in 1980 picked up from the middle of the year, with the onset of more favourable weather conditions. Fertilizer issued to the coconut sub-sector in 1980 amounted to 55,800 metric tons, indicating a 12 per cent increase over the previous year. The subsidised fertilizer prices in force in 1980 effectively insulated the producers against rising fertilizer import prices. The Coconut Fertilizer Credit Scheme implemented by the two state-owned banks, since the early part of 1979, helped to increase fertilizer use in 1980.

The increase in new planting and replanting subsidies announced in the 1979 government budget appears to have stimulated planting activity in 1980. The total area replanted and newly planted amounted to 2,742 hectares and 2,089 hectares recording increases of 59 and 80 per cent, respectively. About 13,000 hectares of coconut land were also rehabilitated during the year under review, almost a doubling over the previous year. The increase in planting and rehabilit-

ation activities in the coconut sub-sector is an encouraging development particularly in view of the large extent of coconut lands which had gone out of production over the years. The subsidies paid for replanting and new planting in 1980 amounted to Rs. 3.4 million and Rs. 0.7 million compared with Rs. 1.7 million and Rs. 2.5 million paid respectively, in 1979. In 1980, the subsidy payment for rehabilitation amounted to Rs. 6.7 million as against Rs. 2.8 million in 1979. The response to the subsidy increases for inter-cropping of coconut lands announced in the 1979 budget was also encouraging. In 1980, 573 hectares of coconut land were inter-cropped as against 306 in 1979.

The reduced supply of nuts resulting from the drought led to a sharp decline in the production of desiccated coconut (DC) and coconut oil in 1980. The production of DC was also affected by the imposition of power cuts. On the other hand, it appears that one of the reasons for low DC production in the early part of 1980 was the maintenance by the authorities of minimum f.o.b. prices at too high a level which actively discouraged exports. A reduction in the minimum f.o.b. price in the second half of the year led to an increase in production and exports. It is imperative that Sri Lanka maintains a hold on the profitable but highly competitive world market for DC. Interference in the production and marketing processes may adversely affect this important source of foreign exchange earnings. The strict control maintained on the opening of new DC mills in the country during the past has resulted in a decrease in production capacity due to existing old mills going out of commission. There was also some measure of protection given to existing DC mills by this policy which is not in the longer term interest of modernization of the industry. However, it is encouraging to note that the Ministry of Coconut Industries has recently entertained applications to open new DC mills. In the case of coconut oil, the virtual ban on exports, which continued to be in existence through most of the year, coupled with the lower level of nut supply due to the drought led to a marked decline in production.

The year 1980 was characterised by a reduced supply of nuts, which led to increased nut prices in the local market. In a bid to prevent local prices from escalating further and to ensure adequate domestic supplies, the authorities imposed stringent regulations on the export of fresh nuts, and kernel products except desiccated coconut. Thus, the relaxation of controls and regulations which appeared a possibility in 1979, faded away in 1980. However, the producer was given some measure of relief by the revision of the administrative levy in June, 1980 to enable producers to obtain a higher price of Rs. 1.25 per nut compared with the earlier target price of Re. 1 per nut. In determining the administrative levy, account should be taken periodically of the escalating costs of production.

As it has been stressed in previous Annual Reports, the long term development of the industry is dependent upon harmonising the producer interest with that of the consumer. While it is essential to keep consumer prices at a realistic level, it is also necessary to encourage investment in the coconut sub-sector, to prevent it becoming a stagnant or declining sector. Developments in 1980 appear to indicate that policies are still geared towards satisfying consumer requirements. It is only from expanded production that the consumer interest could be met in the long-run.

### **Minor Export Crops**

The production of minor export crops is characterised by widely dispersed planting units which are either "mixed gardens" or "home gardens". Therefore, accurate data on volume of production are not readily available. However, the volume of minor exports is considered a better proxy for production as the domestic consumption of several of these items account for only a small fraction of total production.

On the basis of volume of exports, the production of arecanut, cloves and cinnamon recorded significant increases during 1980. The production of oil seeds, cocoa products, mustard and cashew nuts has also increased over 1979. On the other hand, reduction in export volumes were reported in the case of coffee, pepper, nutmeg, cardamom, sesame seed, betel leaves, tobacco, papain and essential oils. However, the drop in export volumes of these crops may be attributed to factors such as increased domestic consumption and adverse weather which affected production in general.

The total extent planted under the Minor Export Crops Assistance Scheme in 1980, recorded only a marginal increase over the previous year. The only significant increase in the area planted was recorded in the case of cloves where 387 hectares were brought under cultivation as compared to 202 hectares in 1979.

### Paddy

Developments in the paddy sector in 1980 are heartening and create prospects for self-sufficiency in the near future. The economy is now near the threshold of self-sufficiency in paddy production.

The Department of Census and Statistics has estimated paddy production in 1980 at 2.1 million metric tons (102.2 million bushels of paddy or 1.5 million metric tons of rice), an increase of 11 per cent over the previous year. The paddy

**TABLE 1 . 12**  
**Paddy Statistics 1979 - 1980**

Item	Unit	1979			1980		
		Maha	Yala	Total	Maha	Yala	Total
Gross extent sown	'000 Hectares	578	261	839	574	271	845
Fertilizer issues ..	'000 Mt. tons	44	30	74	92	53	145
Credit granted ..	Rs. Mn.	60	14	74	46	14	60
Extent under improved seeds ..	'000 Hectares	448	200	648	487	196	683
Gross extent harvested ..	'000 Hectares	551	232	783	555	261	816
Yield per hectare ..	Kgs.	2,819	2,574	2,750	2,950	2,886	2,927
Production ..	'000 Mt. tons	1,393	524	1,917	1,453	680	2,133
Purchases under GPS ..	'000 Mt. tons	464.3	76.9	541.2	210.5	0.8	211.3
Imports (Paddy equivalent)	'000 Mt. tons	168	136	304	176	134	310

Source: Central Bank of Ceylon.

production in 1979/80 Maha has been estimated at 1.5 million metric tons (69.6 million bushels), an increase of 4.3 per cent, while the production in Yala 1980 has been estimated at 0.7 million metric tons (32.6 million bushels) recording an increase of 30 per cent. The major contributory factors for this appreciable increase in paddy production were the attractive open market price of paddy and the expansion of the area cultivated, particularly in the Kalawewa region. The yields too increased considerably from 2,750 kgs. per hectare (53 bushels per acre) in 1979 to 2,927 kgs per hectare (56 bushels per acre) in 1980, largely due to increased fertilizer use, better cultural practices, more extension services and favourable weather conditions. In 1980, the sown extent of paddy increased by 6,000 hectares or by 1 per cent over the previous year. There were less crop failures during the year. The difference between the sown and harvested extent was 29,000 hectares or 3 per cent of the gross sown extent when compared to 56,000 hectares or 6.6 per cent reported for the previous year.

Fertilizer issues to the paddy sub-sector almost doubled during the year, increasing from 73,603 metric tons in 1979 to 145,110 metric tons in 1980. Thus, the increased subsidy, which was announced in September 1979, had the desired effect of increasing fertilizer use during 1979/80 Maha and 1980 Yala, even beyond what was achieved in 1978 by 35 per cent. Large increases in fertilizer use were reported in the districts of Kurunegala, Ampara and Jaffna. However, in contrast there was a considerable decline in fertilizer use in the main paddy producing districts of Polonnaruwa and Anuradhapura. Both in Maha and Yala seasons, considerable yield increases were recorded in the districts of Kurunegala, Ampara, Colombo and Uda-Walawe region.

In view of the scarcity of cultivable land, high priority should be accorded to increasing productivity per unit of land in the agricultural development strategy. In this regard, the significance of enhanced and systematic fertilizer use should be stressed. Other ancillary services have also to be maintained to secure maximum use of inputs and facilities provided.

The purchases of paddy under the Guaranteed Price Scheme (GPS) by the PMB declined by over 50 per cent in 1980. About 98 per cent of the paddy purchases made by the PMB in 1980 was confined to the first half of the year. The purchases made by the PMB from the Yala paddy crop was only about 772 metric tons (37,000 bushels) or 1 per cent of the amount purchased during the previous Yala season. Similar to the situation in the previous years, PMB made its largest purchases in the dry zone districts, particularly in Anuradhapura, Mannar, Ampara and Polonnaruwa.

From about June, 1980, PMB found it increasingly difficult to make any significant purchases owing to acute competition from private dealers. Until November, 1980, the guaranteed price of paddy remained at Rs. 40 per bushel while the average open market price of paddy during January-June period hovered around Rs. 46. When the PMB increased its purchasing price to Rs. 50 per bushel in November 1980, the open market price of paddy had moved further upward exceeding even Rs. 60 per bushel in most districts.

The rice sales of the PMB, which are being done through its own sales outlets, increased considerably as the PMB selling price was substantially lower than the open market price of rice. At a time when the general price level, including

agricultural input prices, was increasing, farmers would have found it difficult even to maintain existing levels of productivity and real incomes if the market was monopolised by the PMB. However, the operative role of the PMB changed dramatically in 1980. The important role which the PMB could perform as a floor price operator should not be underestimated. As mentioned in the previous Annual Report, in the light of the changes in the paddy/rice market, it is time to rationalise the whole process of paddy and rice marketing by re-organising and unifying the state-owned institutions involved in paddy/rice marketing in order to minimise the area of overlap in activities.

### **Sugar**

Sugar production by the Sri Lanka Sugar Corporation in 1980 was estimated at 26,300 metric tons, an increase of 43 per cent when compared with the production in 1979. Production at the Hingurana and Kantalai factories indicated increases of 28 per cent and 60 per cent, respectively.

The area planted with cane at Hingurana was more or less the same as in last year, though the area harvested indicated a decline of 9 per cent. However, a marked increase in average yields from 41 metric tons in 1979 to 57 metric tons per hectare in 1980, brought on by the greater availability of water, recovery of cane production from the adverse effects of the 1978 cyclone and better management practices resulted in a significant increase in the quantity of cane harvested.

The extent planted and harvested at Kantalai was more or less at the previous year's level. However, here too a marked increase in yields from 39 metric tons in 1979 to 51 metric tons per hectare in 1980 resulted in a 32 per cent increase in the quantity of cane harvested. The better performance at Kantalai was also due to the greater availability of Mahaveli water, coupled with improved management and cultural practices.

The operational efficiency of the factories also appears to have improved marginally, yet desirably, as indicated by the better sugar recovery rates recorded in the year. However, it should be pointed out that the recovery rates in sugar are still far below those discernible in the major sugar producing countries. An improvement in recovery rates would enable higher output at lower cost.

### **Minor Food Crops**

In contrast to past experience, the minor food crop production increased in 1980. The cultivated area of almost all minor food crops, except Bombay onions, manioc and sorghum showed increases which in turn resulted in higher production of these crops.

The recovery made by the minor food crop sector during 1980, may be attributed mainly to the upward adjustment of prices of flour and bread which made the production of these crops remunerative. The fertilizer use in the minor food crop sector too increased in response to the increase in fertilizer subsidy rates.

### **Fish and Livestock**

According to the provisional estimates of the Ministry of Fisheries, fish production in 1980 was 183,291 metric tons, an increase of 9 per cent over the production realised in 1979. Among the major factors responsible for this increase are the large number of mechanized boats issued under the mechanization programme and the availability of increased supplies of fishing gear and other inputs.



Another contributory factor was the higher level of subsidies paid under the mechanization and cyclone rehabilitation schemes which amounted to Rs. 55.5 million in 1980, an increase of about 43 per cent over the previous year's subsidy payments.

The Department of Census and Statistics has provisionally estimated milk production (including buffalo milk) in 1980 at 283 million litres, an increase of 9 per cent over the 1979 production. However, the production of buffalo milk which on the average accounts for about 25 per cent of total milk production in the country increased only by 5 per cent in 1980 when compared with the previous year. The NMB collected 61.8 million litres of milk in 1980, recording a marginal decrease over the last year. The drop in the collection of milk by the NMB was probably due to the industrial disputes which prevailed in the institution and partly to increased competition from the private sector in the sphere of collection.

According to a provisional estimate made by the Department of Census and Statistics, egg production in 1980 was 544 million, an increase of 26 per cent over the previous year. This increase is largely explained by the entry of a few large scale poultry farms and the attractive feed prices which prevailed, particularly till September.

### **Rural Credit**

The amount of credit made available under the Comprehensive Rural Credit Scheme (CRCS) the Rural Bank Scheme and Bank of Ceylon Sub-offices at Agrarian Service Centres decreased by 4 per cent to Rs. 101.9 million in 1980. The level of rural credit disbursed in 1980 revealed a further deterioration from the drastic decline noted in 1979. The volume of credit granted in 1979 was 67 per cent less than the amount extended in 1978. In 1980 too, the loans for crop cultivation accounted for the larger share of loans disbursed. The People's Bank, together with rural banks continued to be the major lending institutions to the rural sector in the country by providing Rs. 58.9 million or 58 per cent of all the loans granted in the year. The rural banks which accounted for 30 per cent of the loans granted to the rural sector in 1979 increased their share to 39 per cent in 1980. The Bank of Ceylon provided about Rs. 43 million or 42 per cent of all loans granted in the year. Details of cultivation loans granted under the CRCS are given in the Statistical Appendix.

Lending for activities such as animal husbandry, small scale industries and purchase of capital equipment remained almost at the preceding year's level. The loans granted for housing, electrification and water supply increased by 26 per cent to Rs. 23.4 million in 1980.

There has been a marked decline in rural lending by the banking institutions. Reference has to be made that despite the stricter criteria adopted by banks in lending, since 1979, there has been no significant improvement in the recovery of loans. Out of the total amount of Rs. 1,209 million granted for the cultivation of paddy since the inception of the new Agricultural Credit Scheme in 1967, upto the end of Yala 1980, only Rs. 579 million has been recovered. The default rate is as high as 52 per cent. These figures indicate the existence of more fundamental problems with regard to rural lending and the need for speeding up recoveries.

**TABLE 1.13**  
**Rural Credit (a) 1979 - 1980**

		Rs. Million							
Purpose		People's Bank (b)		Rural Banks		Bank of Ceylon Sub-offices (c)		Total	
		1979	1980	1979	1980	1979	1980	1979	1980
1.	Crop cultivation .. ..	25.8	19.6	4.6	4.4	25.5	21.0	55.9	45.1
1.1	Paddy .. ..	(20.5)	(16.0)	(1.0)	(1.1)	(17.7)	(13.5)	(39.2)(d)	(30.7)(d)
1.2	Minor food crops .. ..	(5.3)	(3.4)	(3.6)	(3.3)	(7.5)	(7.5)	(16.4)	(14.2)
1.3	Sugar cane and cotton .. ..	(—)	(0.2)	(—)	(—)	(0.3)	(—)	(0.3)	(0.2)
2.	Animal husbandry .. ..			1.7	2.1	0.6	0.8	2.3	2.9
3.	Small industry .. ..			1.4	2.1	0.9	0.4	2.3	2.5
4.	Purchase of machinery and equipment .. ..			—	—	11.9	10.4	11.9	10.4
5.	Debt redemption .. ..			3.7	3.9	—	—	3.7	3.9
6.	Consumption .. ..			1.0	1.1	0.5	0.6	1.5	1.7
7.	Housing electrification and water supply .. ..			15.8	20.7	2.6	2.7	18.5	23.4
8.	Trade and other .. ..			3.4	5.0	6.6	7.0	10.0	12.0
Total .. ..		25.8	19.6	31.6	39.3	48.6	42.9	106.1	101.9

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

- (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 Ltd.,