

TABLE 1.7
Domestic Savings

			Rs. Million		
Category			1979	1980*	1981*
1.	G.D.P. at Market Prices	..	52,387	66,527	85,405
2.	Net Imports of Goods & nonfactor Services	..	6,309	15,022	14,381
3.	Investment	..	13,527	22,465	24,859
4.	Domestic Savings (3 - 2)	..	7,218	7,443	10,478
5.	Domestic Savings ratio (4 as a % of 1)	..	13.8	11.2	12.3
6.	Net Private Transfers	..	754	2,260	3,849
7.	Savings (4 + 6)	..	7,972	9,703	14,327
8.	Savings ratio	..	15.2	14.6	16.8

* Provisional

Source: Central Bank of Ceylon.

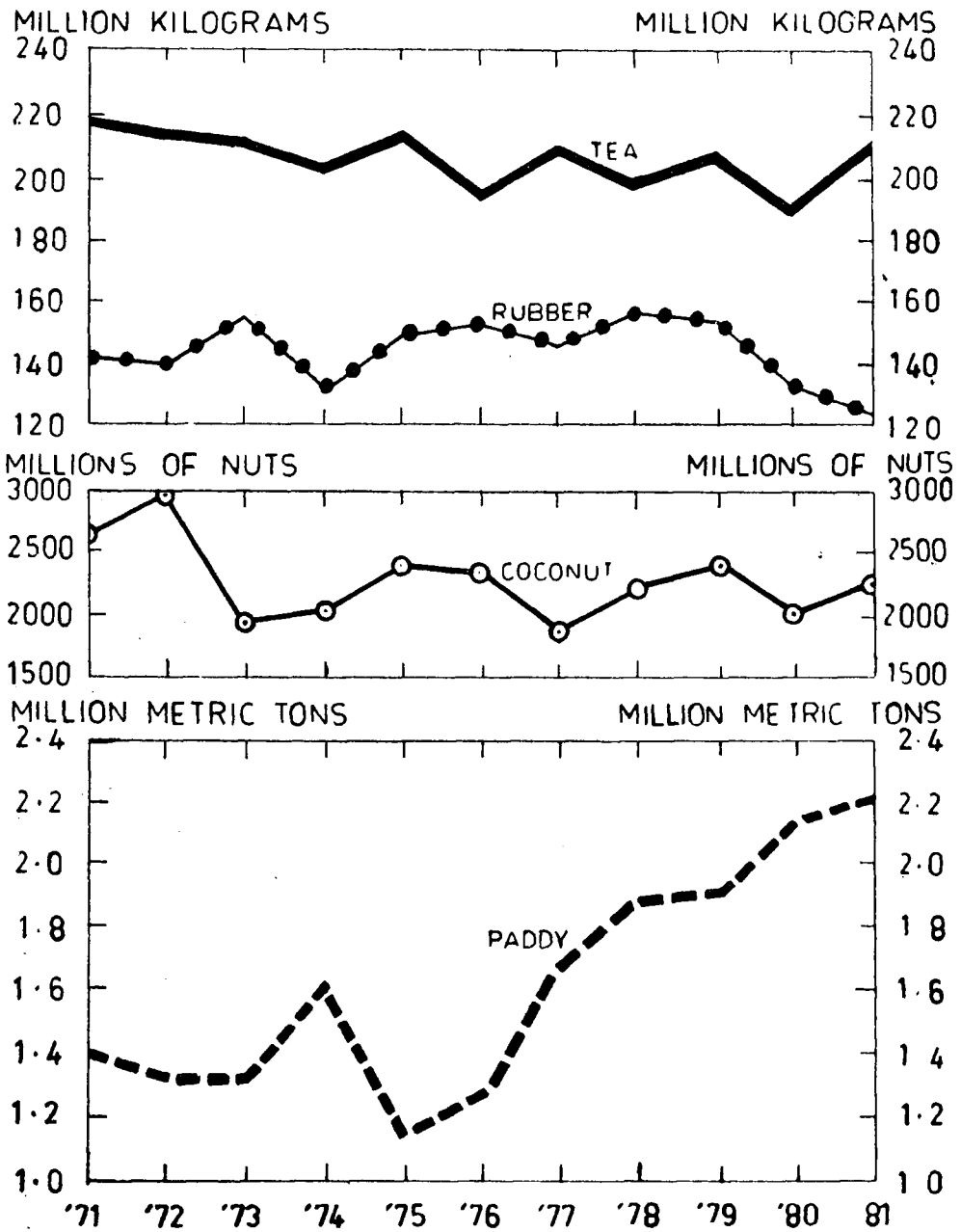
AGRICULTURE

After two years of relatively poor performance, the agriculture sector showed encouraging growth during 1981. The sector as a whole recorded a rate of growth of 6.9 per cent largely due to the favourable output trends in tea, coconut and paddy sub-sectors. This compares with a rate of growth of 3.1 per cent in 1980.

Tea production recovered considerably from the all-time low level of 1980 to register a 10 per cent growth. Coconut production rose by 11 per cent from the depressed levels recorded in the previous year. The export performance of minor export crops during the year showed that production had increased, recovering from the sluggish growth recorded by this sub-sector in the recent past. However, the production of rubber registered a decline of nearly 7 per cent mainly due to the decline in the area under tapping and a drop in the average yield. Among field crops, paddy production reached an all time high level recording a growth of 4.6 per cent, despite the drought conditions that prevailed in several districts. The performance of the minor food crops sub-sector which showed only a marginal improvement in 1980 was impressive in 1981 with many crops recording increases in output. The only exception was chillies. Sugar production increased marginally by 1 per cent. These increases in the output of both the tree and field crop sectors were recorded inspite of a sharp drop in the use of fertilizer. The drop in fertilizer was observed in all major sub-sectors, with paddy recording the largest decline. In the non-crop agriculture sector, egg production is estimated to have increased by 3 per cent. The fisheries sector recorded increased output despite various constraints.

No significant institutional changes were effected in the agriculture sector in 1981. The implementation of the Agrarian Services Act enacted in late 1979 was slow. Several amendments were enacted to the Land Reform Law to make it more effective. Activities of various sub-sectors are discussed in the sections below in greater detail.

PRODUCTION OF PRINCIPAL AGRICULTURAL CROPS



Tea

Tea production in 1981 has been estimated at 210.1 million kgs. showing an increase of 18.7 million kgs. or 10 per cent over the production for the previous year. This increase was shared by all elevational categories, with high-grown areas reporting an increase of 11 per cent or 7.9 million kgs., while the increase in low-grown areas and medium-grown areas amounted to 7.1 million kgs. (11 per cent) and 3.7 million kgs. (7 per cent), respectively. The Janatha Estate Development Boards (JEDBs) reported an increase of 9.5 million kgs. or 14 per cent in production with leaf obtained from their own estates while production from 'bought leaf' declined by 0.7 million kgs. or 10 per cent. The production performance of the Sri Lanka State Plantation Corporations (SLSPCs) followed a similar pattern. The SLSPCs recorded an increase of 4.9 million kgs. (8 per cent) in production with leaf obtained from their own estates while production from 'bought leaf' decreased by 0.7 million kgs. or 5 per cent. Though the relative growth in production appears to be impressive, when compared with that of the previous year, cognizance must be taken of the fact that the production in the previous year was severely affected by the drought. When compared with the year 1979—a year with normal weather conditions—the increase in production amounted to only 3.7 million kgs. or less than 2 per cent. Thus, undoubtedly the relatively favourable weather conditions that prevailed during 1981 explain the bulk of the improvement in tea production over that of the previous year.

TABLE 1.8
Tea Statistics 1979 - 1981

Item	Unit	1979	1980	1981 (a)
1. Production ..	Mn./kgs.	206.4	191.4	210.1
1.1 High grown ..	"	76.5	72.6	80.5
1.2 Medium grown ..	"	62.5	55.6	59.3
1.3 Low grown ..	"	67.4	63.2	70.3
2. Area cultivated ..	'000 ha.	244	245	245
3. Yield ..	Kg./ha.	993	922	n.a.
4. Fertilizer issues ..	'000 mt.tons	105.4	109.9	103.3
5. Replanting (b) ..	hectares	2,491	2,078	2,627
6. Prices				
6.1 Colombo net ..	Rs./kg.	11.14	17.73	17.71
6.2 Export f. o. b. ..	"	30.51	33.41	34.00
7. Cost of production (b) ..	"	13.43	15.45	18.66
8. Exports ..	Mn. kgs.	187.5	184.7	192.0
9. Export earnings ..	Rs. Mn.	5,722.2	6,170.1	6,444.0
	SDR. Mn.	(284)	(287)	(284)
10. Value added as % of GDP (c) ..		7.9	6.3	n.a.

Source: Central Bank of Ceylon.

(a) Provisional.

(b) Revised.

(c) In growing and processing only.

Fertilizer issues to the tea sector in 1981 amounted to 103,300 metric tons registering a decrease of 6 per cent when compared with the previous year. However, since the JEDBs and SLSPCs have reported increases in the fertilizer used on the tea plantations managed by them, the use of fertilizer in the privately owned tea lands including small holdings is likely to have decreased as in the previous year. Evidently, the small holders appeared to have sharply reduced fertilizer application on their lands. This drop in fertilizer application on privately owned tea lands was mainly the result of the price increases in fertilizer announced in February and September, 1981.

The registered area under tea cultivation in 1981 was the same as in the previous year. However, a significant extent of tea land is estimated to have gone out of production during the past several years. On the other hand, some of the new tea lands have not been registered. Nevertheless, even after making an allowance for the latter, the registered tea area in the country appears to be an overestimate of the actual extent in cultivation. There is an urgent need for revision of the tea land registers to reflect the changes that have taken place during the recent past.

The area replanted increased from 2,078 hectares in 1980 to 2,627 hectares in 1981 largely due to the better performance of the SLSPCs. The extent replanted by SLSPCs increased by 449 hectares. The JEDBs also reported an increase of 94 hectares in the area replanted. Available information indicates that the replanting performance of the private sector continued to be highly unsatisfactory. Though, the area replanted rose significantly during the year, annual achievements continued to be far behind the targets set for the sector as a whole. At the end of 1981, the total area replanted amounted to 38,766 hectares or 16 per cent of the total registered area. In view of poor replanting performance, the subsidy for replanting on privately owned tea lands was raised to Rs. 12,500 per acre (Rs. 30,888 per hectare) for high and medium grown areas and to Rs. 10,000 per acre (Rs. 24,711 per hectare) for low-grown areas, with effect from November, 1981. However, the replanting subsidy to state-owned plantations, remained unchanged. Given the high cost of replanting, even the new rates of subsidy, which do not cover the total cost of replanting, are unlikely to have a tangible impact on the replanting performance in the private sector.

As a vigorous replanting programme is of vital importance to the long-term interests of the tea industry, an upward revision of the existing subsidy rates to approximate the actual cost of replanting appears to be essential. Administrative machinery dealing with the replanting subsidy scheme also has to be strengthened to avoid undue delays in order to harness the full benefits of the enhanced rates.

The average export (f.o.b.) price of tea improved marginally by 2 per cent in 1981 while there was a marginal drop in the average net (of taxes) Colombo auction price. Even the marginal improvement in the export (f.o.b.) price was largely a result of the depreciation of the rupee. This marginal improvement in prices was offset by a sharp increase in the cost of production (COP) leading to a marked deterioration in producer margins. The higher prices of fertilizer and electricity, together with higher finance charges accounted for the bulk of the increase in COP. In order to assist the manufacturers to cope with the increase in the cost of manufacturing, the amount deductible as manufacturing charges for processing of bought green leaf of private holdings by the factories coming under the 'Price Support Measure Scheme' (PSMS) was raised from Rs. 5.40 per kg. to Rs. 6.12 per kg.

Several fiscal measures affecting the tea industry were introduced during the year to arrest the deterioration of producer margins and also encourage exports of tea in a higher value added form. In April, 1981 the cash incentive scheme for export of packeted teas and tea bags was replaced by a duty rebate scheme. Later, in November, 1981 the export duty on packeted tea was reduced from Rs. 8.50 to Rs. 6.50 per kg. and that on bulk tea was reduced from Rs. 10.50 to Rs. 8.00 per kg. The price at which the ad valorem tax was payable was raised from Rs. 18.00 per kg. to Rs. 22.00 per kg. and the tax rate was fixed at 35 per cent of the excess over Rs. 22.00 per kg. Though these changes meant a significant revenue loss to the Government in the short-run, they are expected to contribute to the future development of the industry.

With a view to granting relief to the tea small holders who were also beset by rising costs of production, the guaranteed minimum price for green leaf paid under the 'Price Support Measure Scheme' was raised from Rs. 2.20 per kg. to Rs. 2.53 per kg. in March, 1981. Evidently, this increase was not adequate to offset increases in the cost of production during the year which resulted from high prices of fertilizer and labour. Also one has to take cognizance of the fact, as was revealed in a survey conducted by the Central Bank, that the bulk of the small holders who sell their leaf through various types of intermediaries get prices well below the guaranteed minimum price. The green leaf market is characterized by a high degree of imperfection and these market imperfections have to be minimized to enable small holders to benefit from various schemes of assistance such as the guaranteed price paid under the PSMS. The evidence that the Central Bank has gathered shows that the lack of easy access to institutional credit is a binding constraint on the development of the small holder sector. The state-owned commercial banks should look into the credit needs of the small holders in the economy in order to realize the maximum production potential in that sector. In this context, the proposed "Fertilizer Credit Scheme for Tea and Rubber Small holders" may be considered a commendable step towards easy access to institutional credit for the small holders.

The eight public sector Corporations/Boards continued to account for the major share of both registered tea acreage (52 per cent) and total reported tea production. These Corporations/Boards were beset by a multitude of problems during the year. As in the last year, the liquidity problems of these institutions compelled them to continue their dependence on bank overdraft facilities and on various other methods of bank financing. Higher finance charges resulting from this dependency were partly responsible for the increases in their cost of production. The increase in fertilizer prices compounded their problems as there was hardly any possibility of cutting down fertilizer use without adverse effects on production. Declining producer prices amidst rising costs of production resulted in higher negative producer margins when compared with those for the previous year. However, the producer margins of the private sector plantations appear to have been more favourable owing to better prices that they received during the year and also due to the lower unit cost of production.

As repeatedly stressed in the previous Annual Reports, the management of the publicly-owned estates has to be improved considerably through a proper incentive structure for all the employees of the industry. Without such an incentive structure,

the increases in capital investment including borrowed resources from abroad would fall short of desired objectives. It is equally important to strengthen the service institutions catering to the tea small holder sector. As pointed out in previous Annual Reports, the Tea Small Holdings Development Authority, set up to develop the sector, has neither the resources nor adequate authority to deal with problems of small holders. There is a great deal of potential in the small holder sector for rapid growth, particularly in districts such as Galle and Matara. However, the realization of this potential depends upon appropriate policy inducements and provisions for an effective service structure. It must be emphasized that fiscal relief such as export duty reductions often demanded by the plantation management would only result in a loss of revenue to the Government if deficiencies in the institutional structure are not minimized.

Rubber

Rubber production in 1981 has been provisionally estimated at 124 million kgs. indicating a 7 per cent decrease when compared with 1980. The drop in production was primarily a combined outcome of a decrease in area under tapping and a drop in the average yield.

The area uprooted during the year was 6,771 hectares and this significantly outstripped the area which came into bearing during the year. This led to a net reduction of 2 per cent in the area under tapping. It is likely that the area under tapping will continue to decline for several years in the future, both owing to the poor replanting performance in the past and the acceleration of replanting activities in the future.

TABLE 1.9
Rubber Statistics 1979 - 81

Item	Unit	1979	1980	1981(a)
1. Production	Mn. kgs.	153	133	124
2. Area				
2.1 Under cultivation	'000 ha.	226.4	227.3	222.8
2.2 Under tapping	"	186.6	185.6	182.5
3. Yield	Kg./ha.	820	718	678
4. Fertilizer issues	'000 m.t.	23.2	22.0	16.8
5. Replanting	hectares	4,168	5,434	6,442
6. Prices				
6.1 Exports f.o.b.	Rs./kg.	19.44	21.42	21.75
6.2 Colombo RSS 1	"	9.15	10.62	10.11
7. Cost of Production	"	6.86(b)	8.20(b)	8.97(b)
8. Exports	Mn. kgs.	128.2	120.9	120.0
9. Domestic consumption	"	10.6	14.9	16.2
10. Export earnings	Rs. Mn.	2,491.6	2,590.5	2,895.0
	(SDR.Mn.)	(124)	(120)	(128)
11. Value added as % of GDP(c)		4.1	3.1	n.a.

Source: Central Bank of Ceylon.

(a) Provisional.

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

(c) In growing and processing only.

The average yield per hectare dropped by 6 per cent in 1981. A multitude of factors had a bearing on the decline in the average yield. The predominant factors were the growing incidence of senility in rubber trees, the drought that prevailed in early part of 1981 and the marketing problems confronted by small holders. The last two factors led to a reduction in the number of tapping days in 1981 in relation to 1980. In addition, the reduction in the use of fertilizer had a significant adverse impact on the yield. Fertilizer use on rubber lands decreased by 24 per cent during the year to 16,800 metric tons. Adverse weather conditions coupled with higher fertilizer prices were responsible for this drop in the use of fertilizer. Given the likely decrease in area under tapping in the near future, increase in production depends entirely on the increase in the yield per hectare. In this context, the relative drop in fertilizer use and the low level of fertilizer use in absolute terms, warrant the urgent attention of the policy makers.

Rubber production on the plantations owned by the JEDBs and the SLSPCs indicated a marginal drop in 1981 and their area under tapping also dropped by 4 per cent. These institutions jointly accounted for 50.2 million kgs. or 41 per cent of the national production in 1981 as against 50.5 million kgs. or 38 per cent in the previous year. Thus, it appears that the decline (9 million kgs.) in production has occurred entirely on the private sector owned lands, pre-dominated by small holdings of less than 4 hectares in extent.

The replanted area continued to increase significantly during 1981. An extent of 6,442 hectares was replanted during the year recording an increase of 19 per cent when compared with the area replanted in 1980. It appeared that the increase in the replanting subsidy announced in the 1980 Budget has had a favourable impact on replanting. The total area replanted at the end of 1981 amounted to 156,390 hectares or 70 per cent of the total area under cultivation. The replanting subsidy for private estates and small holders was further increased from Rs. 6,500 per acre (Rs. 16,062 per hectare) to Rs. 7,500 per acre (Rs. 18,533 per hectare) in November, 1981 with a view to accelerating replanting activities in the private sector. The increases in the cost of replanting during the year called for an upward revision in the rate of subsidy. Along with this upward revision of the replanting subsidy the replanting cess was raised from Rs. 0.50 to Rs. 0.75 per kg. to augment the replanting subsidy fund.

In 1981, an extent of 1,056 hectares was newly planted. This indicated an increase of 8 per cent over that of the previous year. As the subsidy at the rate of Rs. 2,700 per acre (Rs. 6,672 per hectare) for new planting was highly inadequate to cover the cost of new planting, the Government increased the subsidy to Rs. 6,750 per acre (Rs. 16,679 per hectare) in November, 1981. It is expected that this increase would have a significant favourable impact on new planting during 1982.

Producer margins in the rubber sector deteriorated considerably in 1981. The producer margins for the small holders and other producers in the private sector have been estimated to have declined from Rs. 2.33 and Rs. 2.98 per kg. in 1980 to 21 cents and 92 cents per kg., respectively. The negative margins reported by JEDBs and SLSPCs in 1980 also increased in 1981. The reduction in margins was a

combined result of the slump in the international rubber market and the increases in cost of production. The Government adjusted the sliding scale of export duties on rubber in July, 1981 in order to provide relief to producers affected by low prices. The cut-off point beyond which the duty is payable was increased to Rs. 10 per kg. On account of unfavourable developments in the sheet rubber market, including the reduced scale of purchases of rubber for export to China during the first quarter of 1981, the export of better quality sheet rubber (RSS Nos. 1, 2 and 3) was liberalised in the first half of 1981 by withdrawing the monopoly hitherto enjoyed by the Commissioner of Commodity Purchase over the export of such rubber. Regular sheet rubber auctions were also organised by the Ceylon Chamber of Commerce. The auctions appear to have exerted a favourable impact on sheet rubber prices during the second half of the year.

The local consumption of rubber increased from 14.9 million kgs. in 1980 to 16.2 million kgs. in 1981, an increase of 9 per cent. As stated in last year's Annual Report, there is room for expanding rubber based industries in the country to enhance export earnings.

Coconut

Coconut production in 1981 has been estimated at 2,258 million nuts recording an increase of 11 per cent over that of the previous year. Viewed in the context of last year's decrease of 15 per cent, this is a noteworthy achievement. Nevertheless, a concerted effort must be made to further revitalize the industry in order to achieve the 2,500 million nut average of the early seventies.

Production was low in the early part of 1981 due to the adverse effects of drought experienced in the latter part of the preceding year. The anticipated response from the observed increase in fertilizer use in 1980 was thus curtailed. However, improved weather conditions contributed towards a delayed response to increased fertilizer application and resulted in an increase in production towards the middle of the year.

Fertilizer application on coconut lands continued to be substantially below the recommended levels. The favourable trend in fertilizer application observed in the recent past was reversed during the year as issues fell to 37,654 metric tons, indicating a decrease of 32 per cent when compared with the previous year. This substantial decrease, particularly during the last two quarters of the year, was the immediate result of the increase in fertilizer prices in February and September, 1981 and the disincentive created by delays in reaping returns from increased use of fertilizer due to unfavourable weather conditions.

The number of loans granted under the Coconut Fertilizer Credit Scheme declined substantially in 1981 when compared with the previous year. The total amount disbursed during 1981 was Rs. 4 million when compared with Rs. 7 million disbursed in 1980. If the persistent decline in fertilizer use continues, the development of the industry in the next few years could be seriously affected.

TABLE 1.10
Coconut Statistics 1979 - 1981

Item	Unit	1979	1980	1981(a)
1. Production (b)	Mn. nuts	2,393	2,026	2,258
1.1 Desiccated coconut	Mn. nuts (c)	272	217	276
1.2 Coconut oil	Mn. nuts (c)	803	500	605
1.3 Copra (d)	Mn. nuts (c)	5	1	10
1.4 Fresh nut exports (e)	Mn. nuts	—	—	2
1.5 Domestic consumption (f)	Mn. nuts	1,302	1,326	1,349
2. Average Price				
2.1 Colombo	Rs./nut	1.00	1.48	1.80
2.2 Export f. o. b.	"	2.40	3.13	2.45
3. Fertilizer issues	'000 Mt. tons	49.7	55.8	37.7
4. Cost of production	Rs./nut	0.37	0.40	0.55
5. Export earnings	Rs. Mn.	1,699	1,234	1,438
	(SDR Mn.)	(84)	(57)	(63)
5.1 Kernel products	Rs. Mn.	1,298	754	1,011
	(SDR Mn.)	(64)	(35)	(45)
5.2 Other products	Rs. Mn.	401	480	427
	(SDR Mn.)	(20)	(22)	(19)
6. Value added as % of GDP (g)		4.9	5.1	n. a.

Source: Central Bank of Ceylon.

(a) Provisional.

(b) Estimate (Breakdown does not sum to total production due to adjustment for changes in copra stocks).

(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) Export of fresh nuts resumed in May, 1981 after a long period of restrictions.

(f) Estimated on the basis of per capita consumption of 90 nuts/year.

(g) In producing and processing only.

The total acreage underplanted and replanted amounted to 3,555 hectares, a 30 per cent increase over the previous year. Newly planted area increased sharply from 2,089 hectares in 1980 to 5,259 hectares in 1981. Nearly 15,000 hectares of coconut area were rehabilitated during the year, this being a 17 per cent increase. A substantial extent of coconut land had gone out of production in the recent past due to the acceleration of development activities and also due to unfavourable weather conditions. The increase in planting and rehabilitation activities in the coconut sub-sector during the year is a positive step toward compensating for these losses.

The increase in subsidies during the year was a major stimulus to planting activity in 1981. The subsidies paid for underplanting and replanting, and new planting in 1981 amounted to Rs. 13.7 million and Rs. 13.8 million, respectively. This indicates a substantial increase when compared to Rs. 3.7 million and Rs. 7.7 million, respectively for 1980. The subsidy payments for rehabilitation amounted to Rs. 7.1 million in 1981, a 6 per cent increase when compared with 1980. In November, the subsidy for new planting was raised from Rs. 6,793 per hectare (Rs. 2,750 per acre) to Rs. 8,645 per hectare (Rs. 3,500 per acre) and the subsidy for replanting raised from Rs. 5,558 per hectare (Rs. 2,250 per acre) to Rs. 7,410 per hectare (Rs. 3,000 per acre).

There was a lower level of intercropping of coconut lands in 1981 when compared with the previous year. Only 355 hectares of coconut lands were intercropped in 1981 in comparison with 573 hectares in 1980. This decline was evident in all three categories of subsidiary crops (ie. cocoa, coffee and pepper), but, most pronounced in cocoa which declined by 66 per cent. The deterioration in intercropping resulted from the farmers using the available water to benefit their primary crop, during periods when water was scarce. The subsidies payable for intercropping were raised in November, 1981, in respect of all three categories of subsidiary crops.

Desiccated coconut production increased by 27 per cent in 1981 as a result of the increase in the supply of nuts and the reduction of export duty on desiccated coconut. The liberalisation of exports towards the latter part of the year also helped. Coconut Oil production too increased by 21 per cent. Availability of an exportable surplus of nuts and the removal of the export duty on coconut oil were the primary factors responsible for this increase. Export of fresh nuts was resumed in May, 1981 after a long period of restrictions.

During 1981, the government removed restrictions on the export of coconuts indicating a move towards a more producer-oriented policy than in previous years. The expansion in production ensured that consumer needs could be satisfied without Jeopardising exports. The export of all coconut products (except coir fibre) was decontrolled during the year. The export of coir fibre remained under the minimum indicative price scheme due to its unfavourable position in the World Market. A new sliding scale of export duties for three major products was introduced in November, 1981 assuming a base price of Rs. 1,450 per 1000 nuts. This was designed to ensure that a greater share of the profits from exports would accrue to the producers.

Minor Export Crops

The minor export crop sector is characterised by scattered cultivation units which are either 'mixed gardens' or 'home gardens'. Hence, reliable data on the actual extent in cultivation or of production of different crops are not available. Under the circumstances, it is difficult to analyse clearly the developments in this sector. However, as the bulk of production of these crops is exported, the volume of exports can be used as a proxy for production.

The marked improvements in the volume of exports indicate that the production of pepper, cinnamon, tobacco, cashew nuts and betel leaves has increased significantly in 1981. The more favourable export prices of these products largely explain their better production performance during the year. Production of cloves, nutmeg, mace and cardamoms, however, recorded only a marginal increase. Even though the export volumes of coffee and cocoa declined, it is likely to be due more to an increase in domestic consumption than to a decline in production.

New planting of minor export crops increased in 1981. Pepper and cloves recorded the biggest increases in new planting, while new planting of coffee remained at the previous year's level. The existing subsidy scheme for this purpose appears to have had a bearing on the better performance in new planting. As pointed out in

previous Annual Reports, a significant contribution to Sri Lanka's export-led economic growth, will have to be from this long-neglected sector, by way of increased export earnings and a diversification of the country's export base. Undoubtedly there is ample room for expansion of crops such as coffee and pepper as undercrops in coconut lands. In November, 1981 undercropping subsidies for cultivation of cocoa, coffee and pepper in coconut lands were increased significantly. There are several minor export crops which can be developed on rubber lands as undercrops. This potential should be utilized through the improvement of extension services, marketing and increasing the access to government assistance for a large segment of the farmers. The extension of the assistance schemes for cultivation of minor export crops to include the hitherto neglected small extents (between one-eighth to half an acre) can be considered as a welcome step towards improving access to government assistance schemes for relatively small cultivators.

Paddy

The Department of Census and Statistics has estimated paddy production in 1981 at 2.2 million metric tons (106.8 million bushels of paddy or the equivalent of 1.6 million metric tons of rice). This represented an increase of 4.6 per cent over the production in the previous year. Paddy production in Maha, 1980/81 was estimated at 1.5 million metric tons (73 million bushels), an increase of 4.8 per cent over the production in the previous Maha Season. This was the highest production level ever achieved in a Maha Season. However, production in Yala, 1981 increased by 4 per cent and was estimated at 700,000 metric tons (33 million bushels).

On the whole, the better production performance in 1981 was primarily due to the continuation of attractive open market prices for paddy and an expansion in the area in cultivation, both under major irrigation schemes and rainfed areas. In addition the improvements in adoption of better cultivation practices also had a favourable impact on production. The average yield per hectare increased by 86 kgs. (1.7 bushels per acre) from 2,928 kgs. in 1980 to 3,014 kgs. in 1981. The increase in average yield per hectare in 1980 was 178 kgs. The slower growth of average yield may be partly due to the drought conditions which prevailed in certain districts. There was a substantial decline in yield in the Anuradhapura district, whose share in total production almost halved in 1981. The delayed rains during both Maha and Yala may also have had a bearing on this relatively low growth in the average yield. As mentioned in last year's Annual Report, particularly in the context of the scarcity of arable land in the country, high priority should be given to increasing productivity in the paddy sector. This would also generate a widespread impact on the growth of the national economy.

TABLE 1.11
Paddy Statistics 1980—1981

Item	Unit	1980			1981 (a)		
		Maha	Yala	Total	Maha	Yala	Total
Gross extent sown ..	'000 Hectares	574	271	845	597	280	877
Fertilizer issues (b) ..	'000 mt. tons	92	53	145	111	54	165
Credit granted ..	Rs. Mn.	46	14	60	62	17	79
Extent under improved seeds ..	'000 Hectares	487	196	683	n. a.	n. a.	n. a.
Gross extent harvested ..	'000 Hectares	555	261	816	565	272	837
Yield per hectare (c) ..	Kgs.	2,950	2,885	2,927	3,005	2,933	3,014
Net extent harvested ..	'000 Hectares	496	232	728	501	239	740
Production ..	'000 mt. tons	1,453	680	2,133	1,523	707	2,230
Purchases under GPS ..	„	210.5	0.8	211.3	98.2	0.6	98.8
Purchases under Tender Scheme (d) ..	„	—	—	—	28.3	0.5	28.8
Imports (Paddy equivalent) ..	„	176	134	310	170	55	225

Source : Central Bank of Ceylon.

(a) Provisional.

(b) The fertilizer issues during cultivation year and calendar year are invariably different. Calendar year counts from January to December. Cultivation year comprises Maha (September/October – March/April) and Yala (April/May – August/September).

(c) Yield per hectare for Maha and Yala are calculated using data from the Department of Census and statistics which are based on crop cutting surveys, while, total yield is calculated by dividing total production by the net extent harvested.

(d) The Tender Scheme was started in February, 1981.

The average yield during the Maha season 1980/81 was 3,005 kgs. per hectare (58.3 bushels per acre) which was the highest yield recorded during a Maha season. This is an increase of 2 per cent over the yield recorded during the previous Maha season. The average yield per hectare in the rainfed areas increased substantially by 9 per cent during Maha, while the increase in the area under the major irrigation schemes was only 2.5. per cent. The yield on lands under minor irrigation schemes, however, declined by 8 per cent.

The total sown extent of paddy in 1981 increased by 32,122 hectares or 4 per cent over that of the previous year, largely due to the increase that occurred during Maha 1980/81. The increase was concentrated primarily in the areas under major irrigation schemes. The difference between the sown and harvested extent was 40,121 hectares or 5 per cent of the gross sown extent when compared with 29,000 hectares or 3 per cent in the previous year. Hence, the incidence of crop failures during the year appears to have increased. The unfavourable weather conditions which prevailed in certain districts explain this increase.

Fertilizer issues to the paddy sub-sector during the cultivation year, 1981, increased by 19,675 metric tons, recording an increase of 14 per cent over last year.

Issues during Maha rose by 21 per cent and those during Yala increased marginally by 2 per cent. The price of fertilizer was increased in February and September of 1981. The increase effected in February, 1981 adversely affected the issues for Yala 1981 and as mentioned elsewhere the total issues on a calendar year basis declined by 18 per cent.

The government increased the guaranteed price of a bushel of paddy by Rs. 2.50 in February, 1981 and by a further Rs. 5.00 in September, 1981. This was an attempt to cushion the adverse impact of the increased price of fertilizer. In view of the widespread use of new high yielding seed varieties, which are highly sensitive to the use of fertilizer, the rising costs of fertilizer may have an unfavourable impact on paddy production in the future although the continuation of attractive open market prices should help to mitigate the problem. The cost of other inputs such as agro-chemicals, tractor hire and labour has also risen. Nevertheless, the open market price of paddy which was well above the guaranteed price, (the average open market price ranging from Rs. 65.00 to Rs. 74.00 at various times during the year), enabled the farmers to maintain positive producer margins.

Purchases of paddy by the Paddy Marketing Board (PMB) declined by 53 per cent in 1981, indicating the continuation of the declining trend shown in the previous year. Almost all purchases made by the PMB were confined to the first half of the year. Only 605 metric tons (28,968 bushels) were purchased during the second half. As in previous years, the bulk of its purchases were from the Dry Zone districts of Amparai, Anuradhapura and Polonnaruwa. Paddy purchased from the Wet Zone districts amounted to 14,226 metric tons, or 11 per cent of total purchases. The declining trend in the PMB procurements underlines the dominant role of the private sector in the marketing of paddy. In the early part of the year, the PMB decided to make an attempt at increasing their purchases by the introduction of a Tender Scheme to attract paddy from private trading sources. Furthermore, the PMB was authorised to make direct purchases from the farmers on a competitive basis, at prices above the guaranteed price, as and when necessary. The attempt to increase purchases was explained primarily in terms of a need to keep an adequate buffer stock so that a fairly stable flow of rice to the market could be maintained to avoid rapid seasonal movements in the consumer prices. However, the rice prices in the open market increased despite the release of buffer stocks by the PMB at lower prices toward the latter half of the year. The open market price of rice per kg. increased steadily during the year. The prices of all qualities of rice increased by 12 per cent, on average, from the first half of 1981 to the second half. Given the present high open market price of paddy it is not surprising that the PMB, despite its attempts to compete with the private sector, could not make significant purchases in 1981. Nevertheless, the PMB was able to play its role as a floor-price operator enabling the producers to have some bargaining power in the market due to the guaranteed minimum price. The existence of the GPS ensured that there was no price depression during surplus periods.

In the light of the under-utilization of storage and milling capacity of the PMB and the increasing demand for greater capacity of storage and milling in the private sector due to the recent developments in the market, a rationalization

of resources deployed in this field appears to be necessary. The PMB has already undertaken a scheme for the retrenchment and re-deployment of its staff in view of the changed market conditions. It has also been employed more effectively to support the floor prices for some subsidiary food crops.

Sugar

Sugar production (net of production from sweepings purchased from the Food Commissioner) of the Sri Lanka Sugar Corporation in 1981 has been estimated at 23,717 metric tons, recording a marginal increase of 1 per cent over the production for the previous year. Production at Hingurana factory indicated an increase of 7 per cent while production at Kantalai factory decreased by 5 per cent.

In 1981, the area planted and harvested at Hingurana factory recorded an increase of 5 per cent and 20 per cent, respectively. Despite the marginal drop (1 per cent) in the average yield per hectare, the quantity of cane harvested increased by 19 per cent, more than offsetting the adverse impact on production which resulted from the drop in purchases of cane from the private sector.

In contrast to the improvements at Hingurana, the area planted and harvested at Kantalai factory in 1981 declined by 17 per cent and 6 per cent, respectively. Though the average yield per hectare increased by about 4 per cent, the quantity of cane harvested dropped by 2 per cent. The cane purchased from the private sector, which constituted only about 3 per cent of the total cane purchased, also declined. The production decline at the factory was, thus, mainly a result of the reduced supply of cane for processing.

Sugar recovery rate at both factories deteriorated in 1981; an unhealthy development in view of the fact that recovery rates at both factories are far below those attained in major sugar producing countries. The improvement of land productivity and operational efficiency at these factories would enable the corporation to produce more sugar at a lower unit cost. During the year the BTT on the local manufacture of sugar was reduced from 35 per cent to 25 per cent and again to 15 per cent, to enable the Corporation to finance its capital development programmes.

Minor Food Crops

Production of minor food crops increased significantly in 1981. The area under cultivation in all minor foodcrops, with the exception of potatoes, increased considerably resulting in increased production.

The higher prices of substitutes, the existence of a Floor Price Scheme and better buffer stock management during 1981 contributed to an improvement in producer prices. The improvement in the producer prices was the major factor that affected production in 1981. However, in certain areas inadequate rainfall or late rains induced farmers to shift from paddy to minor food crops. In the Mahaweli 'H' area, a concerted effort was made to persuade farmers to shift to minor food crops with a view to economising on water. However, the effect of the considerable increase in the extent cultivated was not felt fully on production partly owing to a decrease of 37 per cent in fertilizer issues to this sector. The experience of 1981 indicated clearly that the development of the minor food crop sector depended largely

on favourable producer prices. Also, increased availability of institutional credit, significant improvements of extension and marketing facilities are required to achieve sustained growth in this sector.

Fish and Livestock

The Ministry of Fisheries has provisionally estimated the fish production in 1981, at 205,232 Mt. tons, an increase of 9 per cent over the production in the previous year. This increase resulted from the improvements in the coastal and inland fisheries sub-sectors. Production in the coastal sub-sector increased by 6 per cent, while the production in the inland sub-sector increased by 40 per cent. The marked increase in inland fish production is encouraging because of the relatively low energy intensity of inland fishing and also the low unit cost of production. The increase in production in the coastal sub-sector was largely a result of the considerable number of new vessels which were introduced during the preceding years. The mechanization of local crafts and the availability of repair facilities for engines and boats also had a favourable impact on production.

The subsidy payments for issue of new boats and also for mechanization showed a decline from Rs. 59 million in 1980 to Rs. 30 million in 1981. This may be due to the fact that most of the eligible fishermen have already benefitted from the scheme during the previous years.

The Department of Census and Statistics has provisionally estimated milk production (including buffalo milk) in 1981 at 309 million litres, an increase of 9 per cent over the 1980 production. The National Milk Board (NMB) collected 58.3 million litres of milk in 1981, recording a decrease of 6 per cent over the last year.

The Department of Census and Statistics has provisionally estimated the egg production in 1981 at 559 million, a marginal increase of 3 per cent over the previous year.

Fertilizer

Total fertilizer issues during 1981 declined significantly by about 17 per cent. This drop in issues was observed in all major crops. The paddy sub-sector reported the largest decline of 18 per cent on a calendar year basis. Issues to the tea sub-sector decreased by 6 per cent. The issues to the coconut and rubber sub-sectors also declined by 32 per cent and 24 per cent, respectively. The situation in the minor food crop and the minor export crop sub-sectors was also unsatisfactory.

The marked decline in fertilizer issues in 1981 was mainly a result of the price increases effected in February and September, 1981¹. The price increases were necessary to contain the total fertilizer subsidy bill within the Rs. 1,000 million originally allocated in the Budget for the year 1981. Price increases had a more pronounced adverse effect in sub-sectors in which smallholdings were predominant.

A deterioration of profit margins of fertilizer retailers occurred in 1981. In addition, the number of active retailers is estimated to have declined sharply during the year. These developments undoubtedly had an adverse effect on fertilizer

1. It is possible that the drop in fertilizer issues may also have been accounted for by some build up of stocks at retail points towards the end of 1980 in anticipation of price increases.

issues in 1981. The retailers, who are the closest link to the farmers, have neither the resources nor adequate incentives to play an active role in marketing of fertilizer. This deficiency has to be remedied to harness the full benefits from the rationalization of fertilizer distribution at the wholesale level. The availability of fertilizer at the retail stores in sufficient quantities at the correct time has a significant bearing on the application of fertilizer by the farmers. Moreover, in view of the large share of fertilizer in the total import bill, more emphasis should be placed on the efficient use of fertilizer in all crop sectors.

TABLE 1.12
Fertilizer Issues by Crops 1978—1981

		'000 mt. tons			
Crop		1978	1979	1980	1981(a)
1. Paddy	..	136.1	130.4	190.0	155.6
2. Tea	..	115.5	105.2	109.9	103.3
3. Rubber	..	20.9	23.2	22.0	16.8
4. Coconut	..	42.6	49.6	55.8	37.7
5. Minor food crops	..	—	—	—	14.8
6. Minor export crops	..	—	—	—	3.2
7. Other	..	64.9(b)	64.0(b)	62.0(b)	34.9
Total		380.0	372.4	439.7	366.3

Source: Ceylon Fertilizer Corporation;
National Fertilizer Secretariat.

(a) Provisional.

(b) Includes fertilizer issues to the minor food crops and minor export crops sub-sectors.

The Government owned urea factory was in production until the end of September, 1981. However, the factory was confronted with several problems during the year. The price of the main input, i.e. naptha, increased sharply during the year increasing the cost of production and reducing the financial viability of the factory. The production programme also had to be interrupted due to lack of working capital and the factory was closed temporarily in October, 1981. However, production recommenced in late December, 1981. At the end of the year, the financial viability of the factory was being re-examined by the Government.

Accelerated Mahaveli Programme

During the year 1981, considerable progress has been made in the implementation of the Accelerated Mahaveli Programme. The expenditure incurred on the programme, inclusive of the cost of surveys, investigations and planning, up to the end of 1981 amounted to approximately Rs. 7,824 million, of which Rs. 3,636 million (46 per cent) was during 1981.

The Victoria Project consists of a reservoir with a capacity of 730 million cubic meters, a tunnel 5,400 meters in length and a power station with an installed capacity of 210 MW. All contracts for construction have been awarded and it is observed that satisfactory progress has been made in the construction work of the project. Excavation of about 2,400 meters of the tunnel has been completed up to end of 1981. This project once completed, will provide water to 45,000 hectares in System B and C of the Mahaveli Scheme. On the basis of information gathered, it is observed that a sum of

Rs. 969 million (51 per cent) of the total of Rs. 1,889 million spent already on the project had been spent during 1981. This project is expected to be completed in 1984.

The Kotmale project consists of a reservoir and an underground power station of two units, each with a capacity of 67 MW. Preliminary works which consist of access roads and construction camps are nearing completion. The underground power station and tunnel excavation are well under way. Altogether 4,080 meters of tunnel has been excavated up to the end of 1981. Excavation for the Dam foundations and construction of the coffer dam has also commenced, while one diversion tunnel is nearing completion. The total expenditure incurred on the project as at the end of 1981 amounted to Rs. 2,106 million, of which Rs. 974 million (or 46 per cent) was during 1981. This project is expected to be completed by early 1985.

TABLE 1.13
Accelerated Mahaveli Programme: Cost Estimates

Project	Budgeted Expenditure for 1981			Rs. Million	
	Provisions	Supple- mentaries	Total	Actual Expen- diture 1981(a)	Cumula- tive Expendi- ture up to end1981(a)
1. Victoria reservoir ..	1,017	—	1,017	969	1,889
2. Kotmale reservoir ..	389	750	1,139	974	2,106
3. Randenigala reservoir ..	18	—	18	17	76
4. Maduru Oya & link tunnel ..	534	—	534	643	1,079
5. Minipe Anicut Transbasin Canal Complex ..	336	—	336	335	500
6. Irrigation System 'B' ..	90	—	90	90	201
7. Irrigation System 'C' ..	183	—	180	180	316
8. Feasibility studies ..	64	—	64	62	62
9. Stage I ..	13	—	13	12	470
10. Stage II ..	356	—	356	354	1,125
Total ..	3,000	750	3,750	3,636	7,824

(a) Provisional

Source: Mahaveli Authority of Sri Lanka.

Satisfactory progress has also been made in the construction of the Maduru Oya Project. The expenditure incurred up to 1981 amounted to Rs. 1,079 million and a sum of Rs. 643 million (60 per cent) was spent during 1981. This project is expected to be completed by April 1983.

There was considerable progress achieved in the development of the down stream irrigation system of the Mahaveli area. Approximately Rs. 971 million was spent on this project during the year 1981. An extent of approximately 27,586 hectares of paddy and 2,521 hectares of other crops were cultivated in 1981 in the system 'H' area. According to the data available, approximately 22,000 families have been settled in the Kalawewa region ('H' area) up to December, 1981 of which 1,478 families were settled during 1981.

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 Agriculture Service Centres increased by 40 per cent to Rs. 157.4 million in 1981. This increase in the volume of credit disbursed in 1981 compares favourably with the 6 per cent decline experienced in 1980.

The People's Bank, in conjunction with the rural banks, continued to be the major lending institution to the rural sector, by providing Rs. 90.9 million or 58 per cent of the loans granted during the year, compared with Rs. 58.9 million or 52 per cent in 1980. The rural banks accounted for 37 per cent of total loans granted, indicating a marginal increase in its relative share and also an increase of Rs. 18.8 million in absolute terms. Bank of Ceylon sub-offices provided about Rs. 38.6 million or 25 per cent, indicating a decline in absolute as well as in relative terms. The Hatton National Bank contributed Rs. 27.9 million or 18 per cent during 1981. Details of cultivation loans granted under the CRCS are given in the Statistical Appendix.

Lending for activities such as small scale industries, debt redemption, housing, electrification and water supply and trade have increased during the year 1981. Furthermore, loans granted for consumption purposes increased by 94 per cent. However, those granted for animal husbandry and purchase of capital equipment declined by 19 per cent and 63 per cent, respectively.

Despite the notable increase in rural lending by the banking sector in 1981, there has been no corresponding improvement in the recovery of loans during the year. Of the total of Rs. 1,289 million granted for the cultivation of paddy since 1967, under the new Agricultural Credit Scheme and subsequently under the CRCS, up to the end of Yala, 1981, only Rs. 637 million has been recovered. The position of loans granted for the cultivation of other crops is similar, with only Rs. 201 million having been recovered of a total of Rs. 412 million. The default rates for both paddy and other crops are as high as 51 per cent. There is an urgent need, as these figures indicate, to initiate a campaign for improving recoveries.

The newly set up Rural Credit Advisory Board, to which reference has been made elsewhere in the Report, has already initiated a scheme towards the rehabilitation of defaulting farmers and the recovery of past dues from them. The provision of credit assumes an increasing importance in the face of price escalations in the cost of inputs, particularly fertilizer. The extent of defaults and the consequent reduction in the number of farmers eligible to borrow would have meant a serious impediment to sustaining the momentum in increased paddy production witnessed during the last few years. A concerted effort should be made to expand the coverage of the CRCS which meets only a small proportion of the total demand for rural credit, both in terms of the amount granted and the number of smallholdings served, in conjunction with steps to improve declining recovery rates.

TABLE 1.14
Rural Credit(a) 1980—1981

Rs. Million.

Purpose	People's Bank (b)		Rural Banks		Bank of Ceylon Sub-Offices (c)		Hatton National Bank		Total	
	1980	1981(d)	1980	1981(d)	1980	1981(d)	1980	1981(d)	1980(e)	1981(d)
1. Crop cultivation ..	19.6	32.8	4.4	4.1	21.0	22.6	4.7	22.0	49.7	81.5
1.1 Paddy ..	(16.0)	(27.4)	(1.1)	(2.0)	(13.5)	(16.1)	(4.7)	(22.0)	(35.3)	(67.5)
1.2 Minor food crops ..	(3.4)	(5.4)	(3.3)	(2.1)	(7.5)	(6.5)	(—)	(—)	(14.2)	(14.0)
1.3 Sugar cane and cotton ..	(0.2)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(0.2)	(—)
2. Animal husbandry ..			2.1	2.0	0.8	0.2	0.7	0.7	3.6	2.9
3. Small industry ..			2.1	2.4	0.4	0.5	...	0.2	2.5	3.1
4. Purchase of machinery and equipment ..			—	—	10.4	3.9	—	—	10.4	3.9
5. Debt redemption ..			3.9	4.7	—	—	—	—	3.9	4.7
6. Consumption ..			1.1	2.8	0.6	0.3	—	0.2	1.7	3.3
7. Housing, electrification and water supply ..			20.7	30.4	2.7	1.4	—	0.1	23.4	31.9
8. Trade and other ..			5.0	11.7	7.0	9.7	5.1	4.7	17.1	26.1
Total	19.6	32.8	39.3	58.1	42.9	38.6	10.5	27.9	112.3	157.4

(a) Excluding overdrafts and advances under pawn broking.

(b) Under the CRCS only.

(c) Includes loans granted under the CRCS.

(d) Provisional.

(e) Revised.

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