

TECHNICAL NOTE — PART II

New Series of National Accounts

The Central Bank of Ceylon launched a comprehensive revision of national accounts computation in 1983 to accommodate the structural changes in the Sri Lanka economy affected by domestic and international economic changes. The results of the first stage of this exercise which were published in the 1983 Annual Report related to (i) Agriculture, (ii) Agro-processing, (iii) Fishing, (iv) Mining and Quarrying, (v) Electricity, Gas, Water and Sanitary Services, (vi) Ownership of Dwellings and (vii) Public Administration. The second stage of the revision relates to :

- (viii) Transport, Storage and Communication,
- (ix) Wholesale and Retail Trade and
- (x) Other Services

Table 1.A gives a comparison of value added in the new series and old series in relation to the sectors involved in the second stage of the revision.

TABLE 1 . A.

Comparison of Value Added in the New (1982) Series and the Old (1970) Series
Rs. Million.

Sector	Old Series	New Series	Change
8. Transport, Storage & Communication	8,536	10,666	+ 2,130
9. Wholesale & Retail Trade	16,059	19,694	+ 3,635
9.1 Imports	4,167	8,812	+ 4,645
9.2 Exports	2,861	2,018	- 843
9.3 Domestic	9,031	8,864	- 167
10. Services (n.e.s.)	8,698	4,604	- 4,094
Total	33,293	34,964	+ 1,671

Part I of this note appeared in the Central Bank of Ceylon Annual Report, 1983.

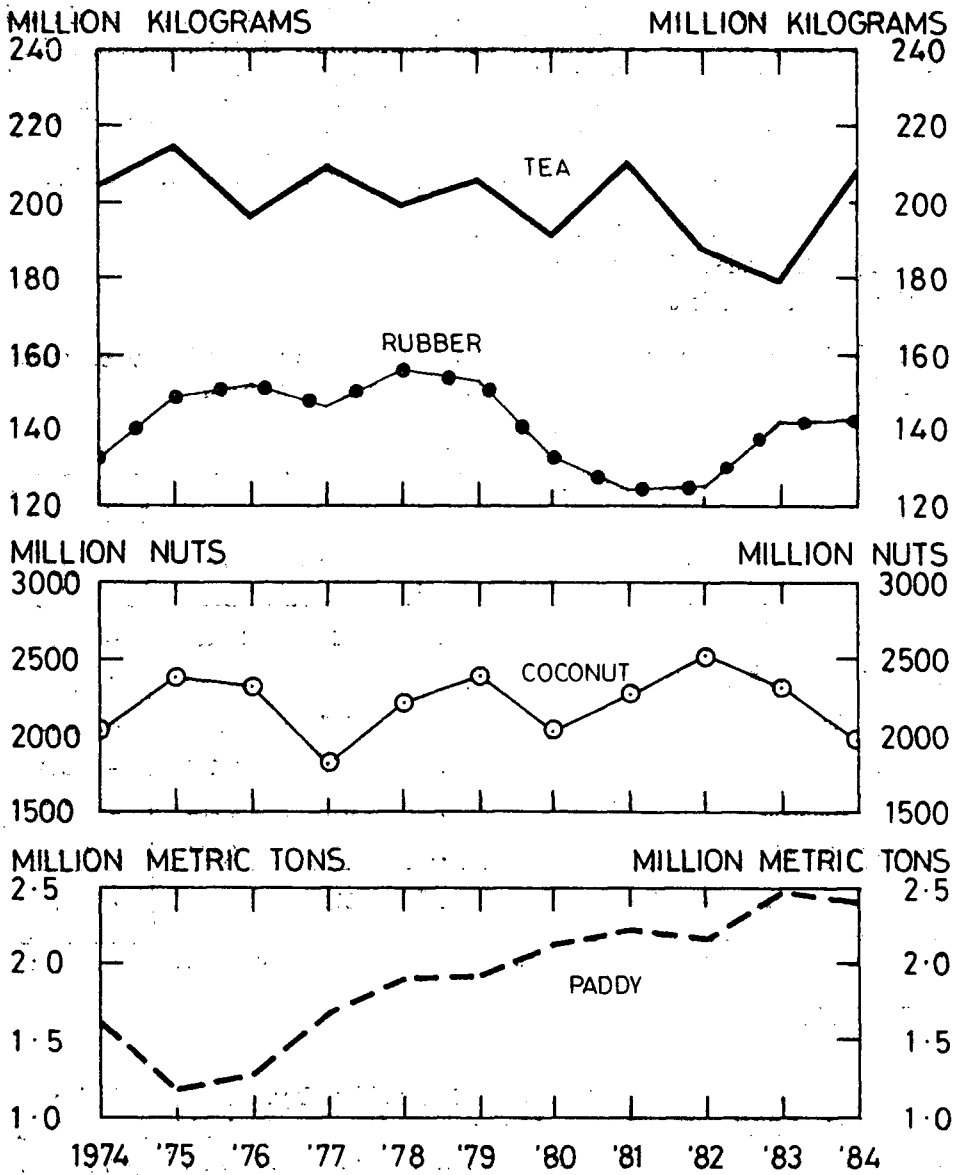
AGRICULTURE

Tea

Tea production in 1984, estimated at 208 million kgs. showed a significant improvement of 28.7 million kgs. or 16 per cent when compared with the previous year due mainly to favourable weather conditions. This improvement in production was shared by all elevational categories. In absolute terms, the highest increase (11.5 million kgs.) was reported by the high-grown areas.

The low-grown and mid-grown areas reported increases of 11.0 million and 6.2 million kgs. respectively. According to provisional data, production (excluding production from bought leaf) on the estates managed by the Janatha Estates Development Boards (JEDBs) rose by 9.9 million kgs. (15.8 per cent), while that on the estates

PRODUCTION OF PRINCIPAL AGRICULTURAL CROPS



Central Bank of Ceylon.

managed by the Sri Lanka State Plantations Corporations (SLSPCs) rose by 3.6 million kgs. (6.7 per cent) when compared with the previous year. Thus, JEDBs accounted for nearly three-fourths of the increase for these two categories of producers. Tea production in privately owned factories increased by 9.8 million kgs. or 25 per cent in 1984 when compared with that of the previous year. However, if the green leaf produced in the private sector and processed in the factories owned by the JEDBs and SLSPCs is included under the private sector, the relative share of this sector to the total increase in production works out to 14.7 million kgs. or 51 per cent.

Fertilizer issues to the tea sector rose by 21,700 metric tons or 19 per cent in 1984, over 1983. This increase, which was largely confined to the first half of the year, was the combined result of better weather conditions and boom in the tea prices. Available data indicate that the private sector's share in the increase in fertilizer issues was greater than that of the public sector estates.

The registered extent under tea cultivation declined by 2,190 hectares in 1984. The extent in the public sector showed an increase, which, however, was not sufficient to compensate for the decline in the extent in the private sector. Complete data on the extent replanted during 1984 are not yet available. However, the data available from the JEDBs and SLSPCs indicate that the extent replanted on the estates managed by them rose by 34 per cent (149 hectares) and 36 per cent (177 hectares), respectively when compared with the previous year. Improved financial position of these institutions coupled with favourable weather conditions explain this improvement in replanting.

TABLE 1.11
Statistics on Tea Sector 1982 - 1984

Item	Unit	1982	1983(a)	1984(b)
1. Production	Mn. Kgs.	187.8	179.3	208.0
1.1 High grown	"	71.7	67.8	79.3
1.2 Medium grown	"	51.6	48.4	54.6
1.3 Low grown	"	64.5	63.1	74.1
2. Registered extent under tea	'000 ha.	242	230	228
3. Fertilizer issues	'000 Mt. tons	102.7	115.5	137.2
4. Replanting	Hectares	2004	1367	n.a.
5. Prices				
5.1 Colombo net	Rs./Kg.	22.52	36.96	46.45
5.2 Export f.o.b.	"	35.03	52.52	77.20
6. Cost of production	"	22.68	26.37	34.00
7. Exports	Mn. Kgs.	181.0	157.8	204.0
8. Export earnings	Rs. Mn. (SDR Mn.)	6,342.0 (276)	8,295.0 (330)	15,764.0 (604)
9. Value added as % of GDP(c)		4.7	4.9	7.0

Sources: Sri Lanka Tea Board;
National Fertilizer Secretariat;
Central Bank of Ceylon.

(a) Revised.

(b) Provisional.

(c) In growing and processing only.

Note: Data on average yield per hectare are not available.

In October, 1984 the subsidy for planting tea on rubber lands was raised from Rs. 11,740 to Rs. 25,000 per hectare. Since the long term investments in state sector plantations can be promoted through government sponsored investment programmes, the subsidy schemes for state sector plantations were abolished in November, 1984. However, the subsidies for the private sector lands continue.

The average cost of production (COP) per kg. of made tea is estimated to have increased by about 29 per cent to Rs. 34.00 per kg. in 1984. The increase in COP on public sector plantations was in the range of 24 - 29 per cent when compared with the previous year, mainly a result of the wage increases granted to estate workers in April, 1984. The average export (f.o.b.) price rose by 47 per cent from Rs. 52.52 to Rs. 77.20 per kg. As a result, the average producer margin is estimated to have risen by 11 per cent, despite the increase in COP. But this varied from a decline of 19 per cent for JEDB estates to a six per cent rise for SLSPC estates with private sector margins being maintained above public sector.

The high tea prices combined with higher production resulted in a significant improvement in the liquidity position of both private and public sector producers. The JEDBs and SLSPCs were able to considerably reduce their liabilities to, and improve their deposits with, the banking system. Also, the improved liquidity enabled them to continue with their capital expenditure programme as scheduled. The private sector producers, including the smallholders, also increased their short-term investments on the tea lands.

When prices improve, the pressure on the management of the public sector to raise wages also increases. However, since the boom in prices is only a temporary phenomenon, more emphasis should be placed on improving labour productivity to enable the management to sustain better wages over a long period of time.

Smallholders have also benefitted from the high prices. The prices paid for green leaf by the factories managed by the Tea Small Holdings Development Authority (TSHDA) rose, on average, by about 20 per cent in 1984.

The TSHDA opened three more new factories in Hiniduma electorate and took over two factories in the Kandy and Badulla districts, respectively. Thus, by the end of the year the TSHDA was operating 14 factories in the country and most of them were located in the low-grown areas. However, the TSHDA would do well by paying more attention to extension, fertilizer distribution, marketing and organization of smallholders into producer associations.

During the year, several changes were made in the tea export taxation system. In January, 1984 a dual regressive rate system, as opposed to the uniform rate system, which hitherto prevailed, was introduced in respect of the ad-valorem tax on tea. Under this new system, the tax rate was 50 per cent of the gross auction price over Rs. 28.00 per kg. on the first taxable slab of Rs. 27.00 and 40 per cent on the balance over Rs. 55.00. These revisions were made to siphon-off a part of the windfall profits accruing to the producer from the booming prices. In November, 1984 the threshold

price of the tax was increased from Rs. 28.00 to Rs. 32.00 per kg. and a uniform rate of 50 per cent was introduced again on the excess over this threshold price. The specific duty on all teas, except that on tea bags, was also reduced in November, 1984 by Rs. 2.00 per kg. whereas the reduction in the case of tea bags was 50 cents per kg. The development cess for the tea industry was raised by 25 cents per kg. from Rs. 1.25 to Rs. 1.50 mainly with a view to providing more funds to finance the subsidy programmes for the private sector tea lands.

The export duty rebate scheme for tea was also revised during the year. In January, 1984 with a view to providing a greater incentive to export of tea in more value added form, the duty rebate on tea packets and tea bags was raised by five percentage points.

The Government's effort to improve the viability of the state-owned tea plantations gathered further momentum during the year. In addition to the continuation of the implementation of the Tea Rehabilitation Project 1, the Integrated Tea Development Project and the Tea Rehabilitation and Diversification Project, the preparation of a Medium-Term Investment Programme (MTIP) was also finalized during the year to cover the state-owned plantations which were not being covered by the on-going development programmes in the sector. This five year programme (1985 - 1989) will be partly funded by the World Bank. The Programme envisages bringing a total of 7,000 hectares under new and replanted tea and accelerating the rate of infilling considerably. Also, it provides for improvements in soil conservation, factory modernization and in the health and welfare services for estate labour.

In view of the uncertainty of tea prices and its potential adverse impact on both short-term and long-term investments in the industry, the government proposed to establish a Stabilization Fund for the tea sector. The Treasury will contribute to the Fund a predetermined amount when the auction price exceeds the long-term average price. The Fund will rebate the producers when the auction price falls to a level at which producers do not get a reasonable rate of return on their investment. This proposed Fund will become effective in 1985.

Rubber

Rubber production in 1984 has been provisionally estimated at 142 million kgs. indicating a marginal increase of 2 million kgs. or about one per cent when compared with that of the previous year. This occurred entirely on the estates managed by the JEDBs and SLSPCs. In contrast to the previous year's favourable record of performance, production in the private sector declined by three per cent (2.5 million kgs.). This decline in the private sector's production was partly a result of the lower extent brought under tapping during the year while the increase in the public sector was a combined result of the increase in the extent under tapping and the improvement in the average yield per hectare.

The extent uprooted increased by six per cent to a total of 6,070 hectares during 1984 and the total extent under tapping decreased by 1,514 hectares or one per cent when compared with the previous year. However, the two per cent improvement in

average yield per hectare from 821 kgs. in 1983 to 840 kgs. in 1984 more than offset the adverse effect of the decline in extent under tapping on total production during the year. Though the average yield appears to indicate an increasing trend since 1982, it continues to remain far below the most recent peak yield of 845 kgs. per hectare reported in 1978.

Fertilizer issues to the rubber sector continued the increasing trend shown from 1982. The total volume issued to the sector during 1984 was 23,500 metric tons, an increase of 26 per cent (4,900 metric tons) over that of the previous year. Data indicate that a substantial increase has occurred in the issues to the private sector. However, as in the past, fertilizer application in the private sector continued to be largely confined to the immature rubber lands. Unless the private sector growers are induced to apply fertilizer on mature rubber lands, it will be almost impossible to achieve a significant improvement in productivity on their lands.

According to provisional data, the total extent replanted during the year rose by 14 per cent to 5,530 hectares. This was mainly due to the marked increase in replanting on private sector lands. The better replanting record under the Rubber Rehabilitation Programme in the three key producing districts-Kegalle, Kalutara and Ratnapura—explains the improvement in the private sector. In contrast, the combined extent replanted on public sector estates declined by six per cent.

TABLE 1.12
Statistics on Rubber Sector 1982—1984

Item	Unit	1982	1983(a)	1984(b)
1. Production	Mn. Kgs.	125	140	142
2. Area				
2.1 Under cultivation	'000 ha.	205.7	205.6	205.6
2.2 Under tapping	"	170.7	170.5	168.9
3. Yield	Kg./ha.	729	818	840
4. Fertilizer issues	'000 Mt. tons	16.5	18.6	23.5
5. Replanting	Hectares	5,866	4,862	5,530
6. Prices				
6.1 Export f. o. b.	Rs./Kg.	17.68	22.77	26.16
6.2 Colombo R.S.S.I	"	10.18	13.95	14.40
7. Cost of production(c)	"	9.66	9.90	11.23
8. Exports	Mn. Kgs.	131.3	125.2	126.2
9. Domestic consumption	"	16.4	16.4	15.1
10. Export earnings	Rs. Mn.	2,323.0	2,852.0	3,301.0
	(SDR Mn.)	(101)	(114)	(127)
11. Value added as % of GDP (d)		2.1	2.1	2.2

(a) Revised.

(b) Provisional.

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

(d) In growing and processing only.

Sources: Rubber Control Department;
National Fertilizer Secretariat;
Central Bank of Ceylon.

New planting suffered a severe setback in 1984 with a decline of 28 per cent or 482 hectares when compared with that of 1983. The highly attractive tea prices appear to have had a bearing on this decline. In fact, in certain areas uprooting of rubber trees for the purpose of converting such lands into tea was reported. The subsidy rates for both replanting and new planting remained unchanged during the year. However, the subsidy rate for planting tea on uneconomic rubber lands was increased from Rs. 11,740 per hectare to Rs. 25,000 per hectare with effect from October, 1984.

Both the public sector estates and the private sector growers experienced an increase in cost of production (COP) of rubber during the year. However, the rate of increase in the case of public sector estates was much higher. This was due to the wage increase and the equalization of wages of males and females on estates, introduced with effect from April, 1984. The introduction of a scheme to guarantee the number of work days offered also contributed to the increase in COP. Private sector estates and smallholdings were able to contain the increase in COP within reasonable limits mainly by keeping wage rates below those on the public sector plantations.

The average export (f.o.b.) price of rubber (all grades) rose by 15 per cent in 1984 and the Colombo auction price of RSS I rose by three per cent. However, this improvement was not sufficient to offset the adverse effects of rising COP on producer margins during the year.

Since the margins were deteriorating, Government reduced the export duty on rubber by Rs. 2 per kg. in July, 1984 with the introduction of a new sliding scale. Again in November, 1984 with a view to improving the margins, Government revised the tax rates and changed the reference price for the sliding scale system of taxation from RSS I to RSS II. This was expected to improve the producer prices by about Rs. 2.25 per kg. The margins accruing to growers did not rise commensurately, apparently due to market imperfections and other factors.

Given the predominant position of the private sector in rubber cultivation and processing, the long term development of the rubber industry depends largely on the private sector's performance which is at present beset with a multitude of problems. It appears that many of the smallholders continue to adopt incorrect tapping methods and improper maintenance practices. The uneven and fluctuating performance of replanting is a major weakness in the private sector. Therefore, the subsidy scheme should be kept under constant review with a view to making appropriate revisions to ensure consistent and systematic replanting in this sector. Also, urgent measures are required to improve the processing facilities in the private sector where bulk of the smallholders continue to adopt crude methods of processing with consequent adverse effects on quality. In this respect, a more systematic expansion of the scheme of Group Processing Centres deserves policy attention. The scheme should be re-designed to integrate assistance for cultivation, processing and marketing.

The public sector estates also have a key role to play in rehabilitating the rubber industry. Although these estates report a substantially higher average yield than the private sector lands their realized yield continued to be much below the potential

levels. This points up the importance of productivity improvements in the sector. It is expected that the implementation of the Medium Term Investment Programme would have a positive effect on productivity on state-owned rubber lands.

Local consumption of rubber declined from 16.4 million kgs. in 1983 to 15.1 million kgs. in 1984 or by eight per cent, partly due to the relatively poor performance of the Tyre Corporation, which is one of the major local consumers of rubber. Rubber based industries in the country have not shown a satisfactory growth over the last few years.

Coconut

Coconut production in 1984 plunged to a very low level of 1,982 million nuts, which is the lowest recorded since 1977. The fall in production in 1984 was 331 million nuts or 14 per cent when compared with the previous year. The production during the first half of 1984 fell by 20 per cent, while that of the second half fell by nine per cent when compared with the same periods of 1983. This fall in production reflects the lagged effect of the drought conditions that prevailed during most of 1983.

Coconut oil and desiccated coconut (DC) production during the year recorded a sharp decline of 56 per cent and 25 per cent respectively, compared with 1983. This decline was in part a result of the low level of production of nuts and the diversion of fresh nuts for household consumption which reduced the availability of nuts for the processing industry.

Fertilizer issues to the coconut sector continued its increasing trend in 1984 and rose by 40 per cent. In the previous year the rate of increase was only 18 per cent. This increase was mainly a combined result of the favourable weather conditions that prevailed since the last quarter of 1983 and continued throughout 1984 and the sharp rise in nut prices in the domestic market during the year.

The Coconut Fertilizer Credit Scheme (CFCS) operated by the two state owned commercial banks—the Bank of Ceylon and the People's Bank—has recorded a large increase in the number of loans granted and the amounts disbursed. The number of loans granted, increased nearly three-fold to 1,614 in 1984 and the amount granted, increased from Rs. 5.2 million in 1983 to Rs. 13.5 million in 1984. This dramatic increase in fertilizer credit was partly a result of the revisions of the scheme in mid - 1984 in such a way that the growers could obtain loans for a maximum of three consecutive years as against a maximum of two consecutive years that prevailed before.

The poor performance shown during the recent past in respect of coconut rehabilitation, replanting, under-planting and new planting continued into the year, 1984. The extent rehabilitated declined by eight per cent from 5,539 hectares in 1983 to 5,092 hectares in 1984. The extent replanted and under-planted also declined by three per cent during the year. The extent brought under new planting which declined by 36 per cent in 1983 recorded a sharp decline of 53 per cent in 1984. With a view

to arresting this declining trend in capital development work in the coconut cultivation sector, the subsidy rates for rehabilitation, replanting and under-planting and new planting were raised substantially with effect from January, 1984. However, these revised rates will have a beneficial though lagged effect on performance if cost escalations of such activities do not offset the benefits of the revised rates of subsidies.

TABLE 1.13
Statistics on Coconut Sector 1982 - 1984

Item	Unit	1982	1983	1984 (a)
1. Production (b)	Mn. nuts	2,521	2,313	1,982
1.1 Desiccated coconut	Mn. nuts (c)	286	295	221
1.2 Coconut oil	Mn. nuts (c)	820	663	289
1.3 Copra (d)	Mn. nuts (c)	19	18	12
1.4 Fresh nut exports	Mn. nuts	9	6	4
1.5 Domestic nut consumption (e)	Mn. nuts	1,367	1,373	1,441
2. Average Price				
2.1 Colombo	Rs./nut	1.60	2.42	4.07
2.2 Export f.o.b.	Rs./nut	3.32	3.66	6.48
3. Fertilizer issues	'000 Mt. tons	30.2	35.7	50.0
4. Cost of production	Rs./nut	0.57	0.60	0.63
5. Replanting/Under planting (f)	Hectares	3,543	2,641	2,553
6. New planting (f)	Hectares	5,291	3,394	1,580
7. Export earnings	Rs. Mn.	1,497	1,921	2,118
	(SDR Mn.)	(65)	(76)	(81)
7.1 Kernel products	Rs. Mn.	1,003	1,409	1,553
	(SDR Mn.)	(44)	(56)	(59)
7.2 Other products	Rs. Mn.	494	512	565
	(SDR Mn.)	(21)	(20)	(22)
8. Value added as % of GDP (g)		4.1	3.8	4.4

Sources: Coconut Cultivation Board;
Coconut Development Authority;
National Fertilizer Secretariat;
Central Bank of Ceylon.

(a) Provisional.

(b) Estimate (breakdown does not add to total production due to adjustment for changes in copra stock).

(c) In nut equivalent converted at 1 Mt. ton DC = 6,800 nuts
1 Mt. ton Oil = 8,000 nuts
1 Mt. ton Copra = 4,925 nuts.

(d) Exports only.

(e) Estimated on the basis of per capita household consumption of 90 nuts for 1982 and 1983 and 92.4 nuts for 1984. Excludes industrial use.

(f) This excludes planting activities undertaken on holdings less than 0.4 hectares in size owing to lack of detailed data.

(g) In producing and processing only.

Inter-cropping in coconut lands under the Government Subsidy Scheme reported mixed performance during the year. Inter-cropping with coffee and cocoa dropped by 15 per cent and 50 per cent respectively, while that with pepper increased by 21 per cent during the year. It appears that growers prefer crops with a shorter gestation period and a relatively higher profitability. Since inter-cropping generates additional revenue to growers and raises employment opportunities together with substantial benefits to the national economy, as pointed out in the previous Annual Report, a more concerted effort is essential in order to promote the adoption of this

practice. However, the subsidy for inter-cropping has remained unchanged during the past few years. As a result, the real benefit of the subsidy has dropped significantly due to cost increases. As noted in the last year's Annual Report the subsidy scheme also needs to be integrated with more effective extension services.

The system of export taxation of coconut was subjected to revisions in November, 1984. The tax free threshold price of coconut oil exports was raised from Rs. 13,100 to Rs. 20,000 per metric ton and a 50 per cent uniform rate was imposed on the excess over the threshold price. At the same time, the minimum duty on exports of DC was raised from Rs. 3,500 to Rs. 5,000 per metric ton and that on fresh nut exports was raised from Rs. 500 to Rs. 1,000 per 1,000 fresh nuts. The minimum duty on copra was not subjected to any revisions. It was expected that these changes would lead to an increase in the farm-gate price by Rs. 600 to Rs. 2,000 per 1,000 nuts.

Given the scarcity of lands for further expansion, the development of the coconut industry lies more in the ability to increase productivity on existing coconut lands than on opening up new lands. Since, replanting has been historically poor, a significant proportion of the plant stock has surpassed the most productive age and therefore does not respond adequately to better cultural practices. This means that unless the old plants are replaced with new high yielding varieties, a breakthrough in productivity is not achievable.

The recent experience re-confirms the important role of pricing policy in the development of the coconut sector. When prices were allowed to rise, their response in terms of adoption of better cultural practices, particularly fertilizer use was encouraging. However, in order to sustain a positive response of this nature, sporadic attempts to improve prices in producers' favour are undoubtedly insufficient. The pricing policy in the sector should be based, as pointed out in the last year's Annual Report, on the fundamental premise that growers receive a reasonable return on their investments. This premise should not be sacrificed in favour of short-term benefits to the consumers. Continuous remunerative returns to the producers would allow consumers to benefit in the long run.

Another area which needs urgent attention is the technology used in the coconut oil industry. The coconut oil milling industry which is characterised by a large number of small mills with obsolete and very old machinery needs reinvestment in new technology. The same holds true for the DC industry as well.

A short term measure which can be adopted to improve the production available for export as well as for domestic consumption is to move away from manual extraction of 'milk' from coconut, which is a highly inefficient method, to mechanical extraction. Since the technological know-how is already available within the country what is needed is a generous package of incentives to attract investors into this area.

Minor Export Crops

Since reliable data on production of minor export crops are not available, monitoring of performance in this sector is through export volume on the assumption that the bulk of their production is exported. The marked increase in the volume of

exports indicates that the production of pepper and coffee increased considerably in 1984. The export volume of pepper nearly doubled, while the volume of coffee exports increased by 18 per cent during 1984. Though the volume of cinnamon exports increased by 59 per cent in 1984, this might have been partially due to drawing down of stocks accumulated during the previous year. In the case of pepper and coffee, the extent under bearing may have increased as a result of the higher rate of intercropping during the 1978-1981 period, with consequent favourable effects on production. The considerable increase in cinnamon exports was the result of Mexico increasing its imports from Sri Lanka. However, the export volume of cloves declined by 45 per cent and that of cardamoms and cocoa declined by 14 per cent and 27 per cent, respectively, indicating a drop in production.

The extent newly planted with cocoa, coffee, pepper and cloves under the Minor Export Crop Assistance Scheme (MECAS) showed a dramatic increase in 1984. The extent planted with cocoa showed a four-fold increase and pepper a 56 per cent increase, while that planted with coffee and cloves each rose by 34 per cent, when compared with the previous year. However, the extent replanted under the MECAS showed a different picture, with the extent planted with cocoa decreasing by 40 per cent and that with cinnamon and cardamoms decreasing by 18 per cent and 20 per cent, respectively.

As noted in the last year's Annual Report too, there is ample room for the expansion of cultivation of a number of minor export crops on coconut and rubber lands and on uneconomic tea lands, particularly in the mid grown areas. Both public and private plantations can play a more dynamic role in improving this sector. The Government has imposed no export duties on these crops, except for cinnamon on which there is a nominal duty. In February, 1984 with a view to providing a greater incentive, the BTT on trading of a number of minor export crops was also removed. Since the costs of production of most of these crops are quite low, producers appear to enjoy comfortable margins. Despite this, the overall performance of this sector has fallen far short of expectations and it has not been able to sustain a reasonable rate of growth. Thus, there appears to be structural factors on the supply side which act as constraints on rapid development of the sector. One such factor may be that most of the plant stock now in bearing may not be varieties that are capable of producing higher yields. Therefore, new investment and reinvestment in this sector will have to be accelerated to achieve better results in the future.

Paddy

Paddy production which increased to a record level by 15 per cent in 1983 suffered a marginal setback in 1984 due to adverse weather conditions that prevailed during the early part of the year. The Department of Census and Statistics has estimated the production at 2.42 million metric tons of paddy (116 million bushels of paddy or 1.69 million metric tons of rice). This indicates a two per cent decline in production when compared with that of the previous year. The annual data, however, distort the picture, because this decline was entirely due to the severe setback suffered by the Maha, 1983/84 crop as a result of excessive rains and floods. The Yala,

1984 production in contrast, reached a record level of 1.06 million metric tons (50.8 million bushels) indicating an increase of 52 per cent over the production reported for the previous Yala season.

The production in Maha, 1983/84 was estimated at 1.36 million metric tons (65 million bushels), a substantial decline of 426,283 metric tons (20.4 million bushels) or 24 per cent when compared with that of the previous Maha season. This was the lowest level of production ever recorded for a Maha season since 1971. This drop contributed to the marked decline of the relative share of Maha production from 72 per cent of the total production in 1983 to 56 per cent in 1984.

TABLE 1.14
Statistics on Paddy Sector 1983 - 1984

Item	Unit	1983			1984(a)		
		Maha	Yala	Total	Maha	Yala	Total
Gross extent sown	'000 Hectares	583	241	824	606	384	990
Fertilizer issues(b)	'000 Mt. tons	118	42	160	112	59	171
Credit granted	Rs. Mn.	124	29	153	136	40	176
Gross extent harvested	'000 Hectares	559	219	778	509	377	886
Yield per hectare(c)	Kgs.	3,638	3,603	3,606	3,031	3,146	3,076
Net extent harvested	'000 Hectares	495	194	689	451	336	787
Production	'000 Mt. tons	1,786	698	2,484	1,360	1,060	2,420
	('000 Bushels)	(85,594)	(33,433)	(119,027)	(65,154)	(50,814)	(115,968)
Purchases under GPS(d)	'000 Mt. tons	313	11	324	115	54	169
Imports (paddy equivalent)	'000 Mt. tons	—	—	123	—	—	26

Sources: Department of Census and Statistics;
Department of Agriculture;
Ministry of Agricultural Development
and Research;
Paddy Marketing Board;
Sri Lanka Fertilizer Corporation;
Food Commissioner's Department.

(a) Provisional

(b) The fertilizer issues during cultivation year and calendar year are invariably different. 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) Maha paddy harvest is purchased during the period from January to July while Yala harvest is purchased during the period from August to December.

However, the production in Yala, 1984 estimated at 1.06 million metric tons was the highest production level ever achieved in a Yala season and, this remarkable improvement compensated for most of the losses in the Maha output. The enhanced production in Yala, 1984 was primarily due to the sharp increase in the extent cultivated in the major paddy producing districts which in turn was due to the adequate availability of water in major and minor tanks. Also farmers appeared to have shown a greater preference for paddy cultivation than other crops in paddy lands since their Maha paddy harvest was extremely poor.

The average yield per hectare is estimated to have declined substantially by 15 per cent to 3,076 kgs. in 1984. The average yield in Maha, 1983/84 was estimated at 3,031 kgs. per hectare. This was a significant decline of 17 per cent when compared with the previous year's Maha season.

The drop in average yield continued into the Yala season as well. The average yield per hectare in Yala, 1984 estimated at 3,146 kgs. was 13 per cent (457 kgs.) lower than the 3,603 kgs. recorded for the same season in 1983. All producing regions (major and minor irrigation and rainfed areas) recorded lower average yields, with major irrigation areas reporting the highest decline of 13 per cent. This poor yield performance in Yala, 1984 was a combined result of the greater incidence of pest and disease, untimely rain in certain regions, use of sub-standard seed materials, extension of cultivation into less suitable lands and a decrease in the application of fertilizer per unit of land.

The total extent sown during 1984 increased substantially by 165,922 hectares or 20 per cent when compared with the previous year. This was primarily the result of the 59 per cent increase in the extent sown during Yala, 1984. The extent sown in Maha increased only by four per cent.

The total extent harvested during 1984 increased by 14 per cent. However, the extent harvested during Maha registered a nine per cent decline. Marked improvement in the extent harvested during Yala, by 72 per cent, more than offset the drop in the extent harvested during Maha, leading to a net increase in the total extent harvested. This increase which occurred in Yala also considerably reduced the adverse impact of the drop in average yield on total production. The difference between sown and harvested extent in 1984 amounted to 104,402 hectares or 11 per cent of the gross extent sown. In the preceding year the corresponding figures were 47,461 hectares or six per cent of the gross extent sown during that year. However, the extent of crop failure was greater during Maha, 1983/84, 16 per cent of the gross extent sown, and very much less during the Yala season, two per cent of the gross extent sown.

Fertilizer issues to the paddy sector during the cultivation year 1984 improved by seven per cent or 11,500 metric tons when compared with the previous cultivation year. The issues during Maha, 1983/84 dropped by five per cent or 6,000 metric tons owing to the adverse weather conditions during the season. The average volume of fertilizer issued per sown hectare during the season also decreased by nine per cent. The issues during Yala, 1984 increased remarkably by 42 per cent or 17,500 metric tons over the previous Yala season. However, the average volume of fertilizer issued per sown hectare dropped substantially by 11 per cent in the Yala season when compared with the same season last year.

Purchases of paddy under the Guaranteed Price Scheme (GPS) by the Paddy Marketing Board (PMB) during 1984 amounted to 169,160 metric tons (8,106 thousand bushels) indicating a substantial decrease of 48 per cent when compared with the purchases made during 1983. As in previous years, the more active role played by the private sector contributed to this reduction in purchases. The decline

in the Maha harvest from which the bulk of the purchases are made was also a contributory factor to this. In addition, the PMB was unable to carry out its normal purchasing operations in certain northern districts due to the unsettled situation in that region. As in previous years, the bulk of the purchases during 1984 (88 per cent) were made in the dry zone surplus districts, particularly in Anuradhapura (30,801 metric tons), Ampara (29,783 metric tons), Batticaloa (25,054 metric tons) and Trincomalee (22,598 metric tons).

The open market price continued to be above the guaranteed price of Rs. 62.50 per bushel (Rs. 2.99 per kg.) throughout 1984 and the monthly average open market price worked out to Rs. 78.00 per bushel (Rs. 3.73 per kg.). However, the spread between the average open market price and the guaranteed price rose from Rs. 15.00 per bushel (Rs. 0.72 per kg.) for the first half of 1984 to Rs. 16.50 per bushel (Rs. 0.79 per kg.) for the second half of 1984. This increasing trend in open market prices of paddy during the year reflected mainly the continuation of the adverse impact of the poor Maha harvest on the supply situation. Though the open market prices improved in 1984, the rise in cost of production, which appears to have exceeded 15 per cent in major producing districts, eroded producer margins. In this context, an upward revision of the guaranteed price which has remained constant at Rs. 62.50 per bushel since March, 1983 deserves consideration.

At present, the PMB depends heavily for its smooth functioning on the operations of the Food Commissioner (FC). However, the FC cannot rely on a source of unstable supply since he has a definite commitment to meet the demand for rice arising out of the Food Stamp Scheme which requires him to maintain a firm trading stock of rice. Thus, it appears that almost perfect co-ordination of their activities is required for the efficient operation of these two institutions. Such co-ordination between paddy procurement and rice marketing may be ensured by amalgamating these functions into one institution. Since PMB relies on refinance facilities of the Central Bank which influence the money supply, rationalization of the activities of these institutions is of considerable importance from a monetary management point of view as well.

Another area which requires urgent policy attention is the need for, and the methods by which, low potential paddy lands can be diversified into other crops as the country moves towards self-sufficiency in paddy. Also as pointed out in the last year's Annual Report, it may be beneficial to encourage progressive substitution of rice flour for wheat flour through appropriate changes in their relative prices and expanding commercial production of rice flour with a view to reducing the heavy reliance on imported wheat.

Minor Food Crops

In 1984, the minor food crops sector was unable to sustain the favourable growth record, achieved during the last few years, due to excessive rains and floods in several major producing areas during the Maha season. The available provisional data indicate a significant drop in extent under several minor food crops with the exception of maize, green gram and black gram. Since the Maha crop was damaged by excessive

rains and floods, production declined considerably during the cultivation year. The failure of the Maha crop had an adverse effect on the Yala cultivation as well. Many farmers were faced with a serious problem of lack of seed materials in time for the Yala cultivation. Another factor which adversely affected the Yala cultivation was the failure of the Maha, 1983/84 paddy harvest. This, coupled with greater availability of water induced many farmers to shift to paddy cultivation reducing the extent under minor food crops during the Yala season.

The Floor Price Scheme (FPS) operated by the PMB for eight minor food crops continued during the year. The prices offered for maize, green gram and black gram were raised with effect from Maha, 1983/84 and others remained at the previous year's level. The purchases of maize under the FPS by the PMB registered a more than two fold increase. However, in contrast to the previous year's substantial increase, the purchases of soyabean dropped from 3,749 metric tons in 1983 to 200 metric tons in 1984.

There appear to be several serious constraints on the rapid development of the minor food crop sector. These constraints include lack of adequate extension services, non-availability of high yielding seed varieties in sufficient quantities, a highly imperfect market structure leading to poor producer margins, and lack of easy access to institutional credit facilities. The combined impact of these factors has been the low productivity and low returns per unit of land. Though there is ample room for expansion of minor food crop production through better yields, this potential can be realized only if these constraints are minimised or removed. This requires the formulation of an integrated development package for this sub-sector. Since the country is moving towards self-sufficiency in paddy, policy and implementation on paddy, needs to be extended in favour of these crops.

Sugar

Sugar production (excluding sweepings purchased from the Food Commissioner) by the Sri Lanka Sugar Corporation in 1984, has been estimated at 18,301 metric tons. This indicates a decline of 15 per cent when compared with the production in the preceding year. The production records of both Hingurana and Kantale factories were unsatisfactory during the year. The Hingurana factory reported a 14 per cent drop in production and the Kantale factory a 16 per cent drop. This poor performance was a result of the shortfall in the supply of cane for processing which in turn was mainly due to the inadequate supply of irrigation water for cane cultivation.

The extent under cultivation (planted plus ratoons) managed by the Hingurana factory declined by 16 per cent in 1984. A greater decrease of 20 per cent was recorded in the extent harvested. Since the average yield improved only marginally by one per cent, as a direct result of the decline in extent harvested, the volume of cane harvested declined by 19 per cent. However, in contrast to the poor performance in the state-owned lands, the volume of cane supplied by the private sector growers rose by 28 per cent. As a result, the private sector accounted for 27 per cent of the total quantity of cane processed at the Hingurana factory in 1984, as against the share of 19 per cent reported in 1983.

Performance at the Kantale factory which almost entirely depends on cane produced on factory managed land was somewhat different. The extent under cane in Kantale declined by 10 per cent, and the extent harvested declined by two per cent. Since the average yield dropped by 11 per cent, the volume of cane harvested declined by 13 per cent. The supply of cane to the Kantale factory by the private growers, though it increased in 1984, continued to be negligible.

Sugar recovery rates at both factories continued to decline in 1984. As in the past, the Hingurana factory reported a lower recovery rate than the Kantale factory owing to the poor quality of cane resulting partly from the serious water logging problems prevailing in the area. Unless a proper drainage system is introduced, the recovery rate at Hingurana factory will continue to be poor.

The country spends a considerable amount of foreign exchange on sugar imports annually. In 1984, the import bill on sugar amounted to Rs. 1,346 million. The local production, at present, meets only about 10 per cent of the total requirements of sugar. There are uncultivated and under-utilized lands in certain parts of the country, particularly in the dry zone district of Moneragala, which are agro-climatically suitable for cane cultivation. Therefore, government has made, and continues to make, a concerted effort to increase investments in this industry. The Asian Development Bank financed, state-owned factory at Sevenagala is scheduled to commence production during the second half of 1985. This project at full development, would bring about 4,500 hectares under cane cultivation and the factory could produce 27,000 metric tons of sugar annually.

In order to attract private investment, the Government offered an attractive package of incentives for this industry. As a result, three international firms agreed to construct three new factories with government collaboration in the Moneragala District. Of these, Pelwatte Sugar Company Limited has made substantial progress in preparation of land for cane cultivation, and in the construction of the factory building.

Since foreign investments in the sugar industry involves transfer of technology, such investments would benefit the country. However, the assurance of a captive local market at predetermined prices, which are likely to be well above the import prices, to attract such investments deserves careful attention of the policy makers. At the same time there is an urgent need to increase the efficiency and productivity of existing state-owned factories at Hingurana and Kantale.

Fish and Livestock

The fisheries sector which showed a favourable growth trend during the past few years suffered a significant setback in 1984. The Ministry of Fisheries has provisionally estimated fish production during 1984 at 169,347 metric tons, indicating a decline of 23 per cent when compared with that of the previous year. This fall in production was evident both in the coastal fishery sector and the inland fishery sector. Though the off-shore and deep sea fishery sector reported a six per cent increase in production, the increase in absolute terms was marginal, being only 44 metric tons.

The production performance of the coastal sector which usually accounts for about 80 per cent of the total catch was very disappointing. Production in this sector declined by 26 per cent when compared with the previous year. However, it is important to note that this decline was almost entirely confined to the Northern and Eastern regions where civil disturbances disrupted fishery activities. The inland fishery sector also recorded a decrease of 12 per cent in production when compared with that of the previous year.

The total amount of subsidy paid under the mechanization programme of the marine fishery sector amounted to Rs. 14 million in 1984. As boat subsidy and pond subsidy, Rs. 2 million and Rs. 1.6 million were granted respectively to the inland fisheries sector. In 1984, the Bank of Ceylon introduced a special credit scheme for the benefit of 'Madel' (Beach Seine) fishermen. Under this scheme, a maximum sum of Rs. 100,000 is provided for a fisherman for the purchase of 'madel' craft and fishing gear while a maximum sum of Rs. 50,000 is also provided for the repair and replacement of craft and fishing gear.

The implementation of several fishery development projects continued during 1984. These included the North West Coast Fishery Development Project, East Coast Fishery Development Project, West Coast Fishery Development Project and the Kirinda Fishery Development Project. The bulk of these development activities are financed from foreign sources. During the year, the Foreign Investment Advisory Committee and the Local Investment Advisory Committee together approved four fishery development projects dealing mostly with prawn fishing.

A five year development plan was also implemented in the fisheries sector during the period from 1979-1983. Despite these efforts, the performance of the sector on average, has fallen short of expectations. The consumer prices of fish have increased continuously over the past few years. The shortfall in supplies in the face of increasing demand appears to have caused this trend. However, it is doubtful whether the benefits of this increasing trend in consumer prices trickled down to the fishermen. The available evidence indicates that most of the people employed in the fishing industry remain in the category of the absolutely poor. Thus, in general, neither the producers nor the consumers have been able to reap the benefits of the investments which went into this sector. It appears that a complete reorganization of the institutional structure and re-orientation of the investment programme and the incentives including subsidy schemes are required. A thorough evaluation of the past public sector investment in the sector appears to be urgently required for the formulation of better policies in the future.

The Department of Census and Statistics has provisionally estimated milk production (including buffalo milk) in 1984 at 327 million litres, an increase of three per cent over the production in 1983. The National Milk Board (NMB) increased the producer price of milk by 50 cents per litre with effect from September, 1984 in order to arrest the erosion of the producer margins, which were adversely affected by the rising prices of cattle feed. The NMB collected 57 million litres of milk in 1984, two per cent more than the amount collected during the previous year.

The efforts to improve the livestock industry through the implementation of special development projects were continued by the Government in 1984. These special projects included the Anuradhapura District Dry Zone Agricultural Project, Sri Lanka/ West German Goat Development Project, the Sri Lanka/Swiss Livestock Development Project and the Sri Lanka/Asian Development Bank Livestock Development Project.

The Department of Census and Statistics has provisionally estimated egg production in 1984 at 561 million, indicating a marginal decline of one per cent when compared with that of the previous year.

Rural Credit

A number of institutions provide credit to the rural sector. These include the Bank of Ceylon, the People's Bank, Co-operative Rural Banks, the Hatton National Bank Ltd. (HNB), the Indian Overseas Bank and the State Bank of India. The two state-owned commercial banks, as in the past, continued to play the most important role in this sphere of activity. A number of institutions are involved in different ways, but this note deals mainly with the loans extended by the People's Bank, the Co-operative Rural Banks, the Bank of Ceylon and the Hatton National Bank under the Comprehensive Rural Credit Scheme (CRCS) for which the Central Bank continued to extend refinance facilities.

The total amount of loans given under the CRCS by all participating banks during the cultivation year, 1984 amounted to Rs. 217 million, which indicates a 20 per cent increase compared with Rs. 181 million provided during the previous cultivation year. This improvement in the quantum of credit was mainly due to the 30 per cent increase (Rs. 22.2 million) reported by the People's Bank in its disbursements under the CRCS. The Bank of Ceylon reported an increase of nine per cent (Rs. 6.2 million) while the Hatton National Bank reported a 21 per cent increase (Rs. 7.5 million) over that of the same period last year. The greater increase recorded by the People's Bank raised its relative share in CRCS credit from 41 per cent in 1983 to 45 per cent in 1984. The relative share of the Bank of Ceylon, however, dropped from 39 per cent in 1983 to 35 per cent in 1984, while the Hatton National Bank was able to retain its relative position.

The total amount of credit given for paddy cultivation during the cultivation year, 1984 at Rs. 176.3 million was 15 per cent higher than the amount given during the previous cultivation year and accounted for 81 per cent of the total amount of credit extended under the CRCS during the year. The corresponding relative share of paddy loans during the previous year was 84 per cent. The People's Bank which increased its paddy loans by Rs. 16.2 million in 1984, accounted for 69 per cent of the total increase of Rs. 23.6 million in paddy loans during the year. The relative share of the People's Bank in total paddy loans under the CRCS rose from 44 per cent in 1983 to 48 per cent in 1984. The improvement reported by the Bank of Ceylon was marginal, both in absolute as well as in relative terms.

TABLE 1.15

Cultivation Loans Granted Under the Comprehensive Rural Credit Scheme

(Position as at 31st December, 1984)

Rs. million

Season/Year	People's Bank			Bank of Ceylon			Hatton National Bank			Total loans		Total loans under CRCS
	Paddy	Minor food crops	Total loans	Paddy	Minor food crops	Total loans	Paddy	Minor food crops	Total loans	Paddy	Minor food crops	
Maha 1982/83	50.8	3.7	54.5	45.1	9.7	54.8	28.3	4.0	32.3	124.2	17.4	141.6
Yala 1983	17.0	3.0	20.0	9.5	6.1	15.6	2.1	1.7	3.8	28.6	10.8	39.4
Cultivation year 1983	67.8	6.7	74.5	54.6	15.8	70.4	30.4	5.7	36.1	152.8	28.2	181.0
Maha 1983/84	66.2	9.1	75.3	43.1	11.7	54.8	26.8	3.5	32.3	136.1	26.3	162.4
Yala 1984	17.8	3.6	21.4	14.3	7.5	21.8	8.1	3.3	11.4	40.2	14.4	54.6
Cultivation year 1984 (a)	84.0	12.7	96.7	57.4	19.2	76.6	34.9	8.8	43.7	176.3	40.7	217.0

(a) Provisional

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

Of the total amount of loans given for paddy cultivation under the CRCS during the cultivation year 1984, Maha paddy loans accounted for Rs. 136.1 million or 77 per cent. The corresponding share during the previous year was 81 per cent. The People's Bank gave Rs. 66.2 million for Maha paddy cultivation, indicating a 30 per cent improvement when compared with that of the same season of the previous year. In contrast, both the Bank of Ceylon and the Hatton National Bank reported a four per cent and five per cent decline respectively. Loans given for paddy cultivation during the Yala season in 1984 under the CRCS amounted to Rs. 40.2 million. This was 41 per cent higher than the corresponding amount for the previous Yala season, a result of the significant increase reported by both the Bank of Ceylon and the Hatton National Bank. Lending by the People's Bank for Yala paddy cultivation remained more or less at the same level as in the previous Yala season.

The total quantum of credit given for minor food crop cultivation during the cultivation year, 1984 rose by 43 per cent to Rs. 40.7 million when compared with that of the previous cultivation year. The People's Bank accounted for nearly 50 per cent of this increase and its relative share in the total amount of loans given for minor food crops, increased from 24 per cent in 1983 to 31 per cent in 1984.

Recovery of cultivation loans given under the CRCS indicated a deterioration in 1984. Of the total amount of paddy loans given for Maha, 1983/84 only 64 per cent had been recovered by the end of the year, whereas a total of 73 per cent of Maha, 1982/83 paddy loans had been recovered by the end of 1983. This deterioration was evident in the case of all participating banks. This relatively poor performance in the recovery of Maha paddy loans may be largely attributed to the greater incidence of crop failure due to floods and excessive rains in many producing areas.

The progress of the re-scheduling scheme of cultivation loans given under the CRCS from 1st January, 1977 to 30th June, 1981 continued to be poor in 1984. In 1984, the Bank of Ceylon took legal action against a large number of willful defaulters and, as a result, was able to recover about Rs. 3 million from such defaulters during the year.

The Rural Credit Advisory Board (RCAB), which is the principal policy formulating body in the area of rural credit, had several meetings during the year.

The draft legislation for the establishment of the Regional Rural Development Banks (RRDBs) was finalised during the year. The two regional offices of the Central Bank at Matara and Anuradhapura continued their special lending programmes with a view to promoting rural development activities.¹

1. Details of the rural credit operations of the Central Bank and the activities of the Bank's two Regional offices at Matara and Anuradhapura are presented in pp XII—XVI, XX—XXXIII of this report.