SRI LANKA POVERTY REPORT 2003

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Introduction:

The objective of this paper is to provide necessary information and background to understand the situation of poverty in Sri Lanka, analyse the reasons for poverty increase in order to develop a Civil Society Perspective on the strategies for poverty eradication.

This is a contribution towards the initiative of South Asian Alliance for Poverty Eradication (SAAPE) in developing such strategies in the region. Therefore, an attempt is made to look at the impact of the strategies adopted in Sri Lanka over the last few decades by the governments of Sri Lanka under the recommendations of the International Financial Institutions (IFIs) such as the World Bank (WB), International Monitory Fund (IMF), Asian Development Bank (ADB) and other Aid giving agencies such as EU.

Although it is accepted by all these institutions and agencies that any strategy and plan for poverty eradication should be primarily developed and "owned" by the respective countries in consultation with the people (the stakeholders) it is now well known that the global mechanisms and structures now formed have a very strong influence on the decision making processes, particularly in heavily indebted poor countries. Therefore, it is very necessary to analyse the implications of international agreements such as the GATT, WTO, and other international trade agreements.

The World Bank and IMF have developed the possibility of not only providing guidance but also directing the policies of Sri Lanka and most other countries in economic development strategies. Therefore, the impact of WB, IMF guided policies in Sri Lanka is analyzed in depth.

An essential part of this analysis is to look at the possible impact of the new Poverty Reduction Strategy Paper (PRSP) that has been formulated and accepted in June 2002 by the Government of Sri Lanka and the WB. This analysis is particularly important since the government of Sri Lanka is presently engaged in introducing a full package of policies and legislation to establish the necessary legal framework for rapid implementation of the recommendations of the PRSP.

There is growing resistance and criticism from the Civil Society Organizations to most of the recommendations made in the PRSP, particularly from those sections of society who are affected by the processes that are being carried out. The resistance against the policies of Privatization, liberalization of Market, and export orientation in agriculture and industry has existed in Sri Lanka during the last 2 ½ decades, since 1977, when a major policy shift towards structural adjustments was begun.

PRSP in Sri Lanka introduced in June 2002, named "Connecting to Growth: Sri Lanka's Poverty Reduction Strategy" is not in any way a reflection of the experiences of the last 25 years of SAPs in Sri Lanka.
It is merely an attempt to accelerate the processes of adjustments to continue the same strategy, that has failed to achieve the growth in the overall economy as envisaged and the "trickle down" or re-distribution of Growth for reduction of poverty.

Therefore, this paper makes an effort to identify the alternatives for poverty eradication that have been identified by the civil society organizations engaged in resistance and protest over the last two decades.

A major task of a people's initiative such as SAAPE in developing an alternative Poverty Eradication Strategy is to look at the proposals made by the 'poor' themselves to see how these strategies could be developed into national scale and regional scale alternatives. With this it should be possible to demand from the key players at international/global levels, who claim to be concerned about poverty eradication or poverty reduction to seriously look at the proposals made by the poor and their organizations and recognize their legitimate right to be the planners and decision makers in eradication of poverty.]

This paper, therefore, attempts to outline the strategies emerging from organizations of the poor.

SAAPE should then look at ways in which such proposals could be brought together to form effective regional strategies for poverty eradication in the South Asian Region.

Present Situation of Poverty in Sri Lanka.

PRSP presented to the Sri Lanka Development Forum in June 2002 says that the poverty in Sri Lanka has not decreased during the last 10 years. It is said to be around 40% based on the higher poverty line of Rs.950 used by DCS (Department of Census and Statistics). It is admitted that the actual figure for poverty in Sri Lanka would be higher if the conflict areas are taken into consideration.

According to the figures used by the official Poverty Alleviation Programme – the Samurdhi Programme, there are 2.1 million families receiving monthly incomes less than Rs.1500 / family. This is more than half the total population. This figure is accepted by the WB in its acceptance of the Samurdhi Programme, where 2.1 million families are considered to be eligible for Poverty Alleviation Grants. When this figure is compared with the internationally recognized poverty level of 1US $ / day / person the level utilized in Sri Lanka of Rs.1500/month = 15 US $ / month is much lower than the poverty line of 1US $ / day / person.

There are several other indicators that illustrate the degree of poverty in Sri Lanka.

An Island wide survey conducted in 1993 by UNICEF indicated that 60% children below 5 years were malnourished.

Anemia among pregnant and non-pregnant mothers, according to official studies was nearly 50% by year 1994.

Study conducted by IFAD (International Fund for Agricultural Development) of the UN on "State of World Rural Poverty" in 1992 showed that Sri Lanka had the sharpest increase in rural poverty among 114 countries that were studied. Rural poverty in Sri Lanka had increased from 13.5% to about 46% from1965 to 1988.

The PRSP of June 2002 says the following about poverty in Sri Lanka (page 9).

"Absolute poverty is most commonly measured with respect to the ability of a household to afford a minimum set of consumption requirements. In this approach a food poverty line is first derived using the cost of a food bundle that satisfied the food energy requirements, at given tastes and preferences. To this is added an amount equal to the average non-food consumption of those who can just afford to meet their food energy requirements. Twenty percent is added to the lower poverty line to take into consideration the arbitrariness that necessarily exists when a poverty line is defined.

The Department of Consensus and Statistics (DCS) undertook two household consumption surveys during the first half of 1990s covering the entire nation, except the North and East (ie the conflict areas). Both defined the poverty line in terms of the estimated cost (per capita) of a minimum food and non-food consumption bundle.

The comparison of the two surveys suggests that absolute poverty increased significantly between 1990/91 and 1995/96 from 33 to 39 percent according to the higher poverty line of Rs.950/m by DCS and from 20 to 25% according to the lower poverty line of Rs.791/month. Reliable data is not available to determine what happened during the latter half of 1990s. The conclusion made is that chronic poverty affects around 25% of the population and chronic and transitory poverty combined affects around 40% of the Population. If a dollar a day is used as the poverty line, it comes to Rs.96x30 days = Rs. 2880/month, which is much higher than the poverty lines used in DCS and CB surveys. Which would give much higher figures for poverty in Sri Lanka. (Note. The PRSP makes an error in saying that a poverty line of a dollar per day would give only 7% of the population as poor.)

The PRSP further says (on page 100) that poverty in Sri Lanka is distinctly rural phenomenon. According to 1995/96 DCS survey, 88 percent of the total poor (ie. Those falling below the poverty line) resides in the rural areas, compared with 8 percent in the Urban areas and 4 percent in the estate areas.]

If a higher poverty line is used, poverty incidence is the highest in the estate areas.
(Annex 2, Table 6)

Sri Lanka has reached very high figures in terms of suicides. It is said that Sri Lanka had one of the highest rates of suicide in the world and much of these suicides are in the rural areas caused by poverty and indebtness of small farmers.

The PRSP further says (on page 96) that "in countries experiencing steady growth of real per capita incomes, widely shared, the trend is for the absolute poverty level to decrease over time. But in the Sri Lanka case even through per capita GDP growth averaged nearly 4 percent per annum during the 1990s the expected decline in poverty level did not occur. This suggests that growth strategies pursued during the past decade have not been sufficiently broad-based and that the bulk of the poor have failed to enter the mainstream of economic development"

PRSP says the following:

"A major cause of poverty is the slow economic growth. GDP growth averaged 5.1 % while per capita GDP growth averaged 3.9 % during the 1990s. During the same period Gini Coefficient which is an indicator of income distribution declined marginally for income receivers (from 0.52 to 0.50) as well as for spending units (from 0.46 to 0.45). A high economic growth rate (of 8 to 10 % per annum) without significant income redistribution could some times have the same impact on poverty as a lower growth rate with substantial income redistribution. But, neither of these two scenarios appears to fit the Sri Lankan case in the 1990s, where a modest growth rate has been accompanied by little or no income redistribution. It is clear, therefore, that neither the GDP growth rate nor its distributive effects were sufficient to bring about a marked reduction in the poverty level in this country. In other words, the benefits of economic growth have not automatically trickled down to the poor.

(Connecting to Growth: Sri Lanka's Poverty Reduction Strategy, Development Forum, Colombo – June 2002 – page 10)

2. An Essential Debate on Sri Lanka's Poverty Reduction Strategy

The above is a clear admission that the economic strategy adopted in Sri Lanka , of trying to achieve higher growth and reduction of poverty through " trickle down " has not succeeded. The PRSP says this in relation to the decade of 1990s. But, this is even more correct in relation to the previous one and a half decades too.

The "World Development Report "of the WB in 1993 has listed Sri Lanka as the country with the second largest income disparity (only next to Brazil). Sri Lanka prior to the adoption of this strategy of "Faster growth and reduction of poverty through trickle down" in 1977 had much less income disparity. The growth rates during the period prior to 1977 were slightly lower than the period after 1977, but the income disparities were much lower.

At this point it is useful to mention that during the first three decades after independence (in 1948),. Sri Lanka had achieved much in terms of social development, less poverty and less income disparities. Sri Lanka had a high PQLI (Physical Quality of Life Index) of about 82, which compared with some of the developed countries. Sri Lanka was only below Japan in Asia in terms of literacy rate. We had remarkable achievements in terms of other indicators of quality of life. PRSP admits this on page 1.

The present admission of failure in growth led poverty reduction strategy adopted over the last 25 years raises a number of important questions in the poverty reduction strategy debate.

The first and the most fundamental question that needs to be raised is about the simple and the unquestioned assumption made in the PRSP and the process of formulation of strategy for poverty reduction, that connecting to growth is the only way for poverty reduction .

The Sri Lanka's PRSP is titled "**Connect6ing to Growth: Sri Lanka's Poverty Reduction Strategy ".** Thus, at the very beginning of the strategy formulation process, there is a simple, unquestioned assumption that "connecting to growth "is the only available strategy for poverty reduction.

This assumption is further confirmed in the third para of the Introduction (page 1). It says "One of the central objectives of the Government is to restore economic growth and thereby effectively eliminate poverty in Sri Lanka"-----

------ "An average of 4 to 5 % GDP growth since independence has not been sufficient to provide full employment at acceptable income for our people. It is clear that much higher rates of economic growth will be needed to bring about the required improvements in opportunity and living standards. This Government has set a target growth rate of 10 %. This will be necessary, not only to substantially reduce poverty, but also to carry out the necessary reconstruction and rehabilitation to ensure a permanent end to the conflict in the North and East".

PRSP also admits that Sri Lanka has made considerable achievements in social and human development in the past.

It says, "That the achievements that have been realized in social and human development, out comes are on a par with many developed countries and that they have already surpassed almost all of the millennium development goals. For example, life expectancy at birth is 73 years, the adult literacy rate is 93 %, the infant mortality rate is 17 per thousand, and the maternal mortality rate is 23 per 100,000. Moreover, around 90 percent of the poor have completed at least primary education and 81 percent of children under 5 receive full immunization coverage. These successes in improving non income dimensions of poverty have been due to the sustained efforts of successive governments to provide universal education and health care to the population. Some 4 to 5 percent of GDP have been devoted to public health and education for several decades".

Then, the PRSP says "however, increased growth in the economy will be essential if the progress in these areas is to be maintained and the benefits extended throughout the country"

It is therefore, clear that any strategy to increase growth in order to maintain and build upon this progress already made, should have been so designed not to allow any reversal in the social and human development achievements.

The indicators that we have already mentioned such as high and increased rural poverty, large increase in child malnutrition and anemia among mothers and children, increase in suicides due to poverty, social unrest and conflict that resulted from these disparities that led to youth uprising in the South in 1988 to 1990, causing 60,000 disappearances, the Northern war (that caused 65,000 deaths and about one million displacement of people) tell us that the strategies for higher growth adopted during the last 25 years have not built on the social and human development achievements of the past.

It can easily be shown that the strategies adopted since 1977 for faster growth and "trickle down" poverty reduction were not designed to maintain and build upon the past achievements. They necessarily involved sacrificing the above achievements made during the previous period of "relatively slower growth"

An analysis of the past 25 years strategy is necessary to recognize how they necessarily led to a reversal of social and human development , and how they necessarily meant an increase in poverty and disparities. This is very important. This is because the proposed extension of the same strategy for even faster economic growth (of 10 %) in the future would mean a far more accelerated process of sacrificing social and human development and much faster and worse increase in poverty.

In Sri Lanka's case the changes that were introduced in 1977 were largely those that negated the positive factors in the earlier approaches. The admitted failure in achieving any reduction in poverty was due to the conscious reversal of the features in the Sri Lankan economic policies and in the political decision making process that had helped redistribution and social development.

3. Reversal of Poverty reducing policies in the name of achieving higher economic growth.

i**) Reversal of the Political Processes to disempower the people (the poor)**

Sri Lanka obtained universal adult franchise in 1933. It was one of the earliest countries in the Common Wealth to achieve this status. The first Marxist political parties were formed in mid 1930s and the Trade Unions were formed at the beginning of 1930s. These enabled the people to have a high degree of awareness about their rights and those who were elected to power were compelled to adopt measures to ensure that people's rights and their welfare were looked after by the rulers at least to some extent.

The adoption of social welfare policies such as free and universal education, free health services, food subsidies, price controls of essential foods and many other measures were results of this people's pressure on policy makers. This high degree of political consciousness resulted in a situation where Governments were changed at every general elections since 1947 to 1977.

Formation of a strong Trade Union Movement, largely affiliated to the Left Movement resulted in Labour Laws that protected the rights of the workers. Such Labor unions were also formed among the plantation workers, which provided them some protection, although they were deprived of their citizenship in 1947. The Trade Unions and the left political parties played a major role in keeping the cost of living and income disparities low.

Another very important achievement of these forces was a policy adopted by all governments to sustain and support small farmer based, domestic food production. During the Second World War the country faced severe food shortages and even the British government, and then realized the importance of reviving domestic food production. The revitalization of irrigated agriculture in the dry zone, repairing the ancient irrigation systems and resettlement of landless people, those from the wet zone areas, where there was a shortage of land, in the dry zone as paddy farmers was a policy that the British initiated during the war. This policy was continued and further expanded by all governments since Independence.

In the subsequent years, these social welfare policies were further strengthened by the successive governments. People's organized action was a major factor that contributed to these processes that kept poverty and income disparities low. Although none of the Governments in power during these periods could be described as socialist, there was a strong sense of social justice that prevailed among people, which had an influence on the policies and development strategies adopted by the successive Governments since 1948 to 1977.

The Coalition government of 1956 to 1965 and the Coalition of 1970 to 1977 which included some of the Marxist parties in the Cabinet, went further and strengthened the State's control over the economy. This was also seen as a way of protecting people from the unhealthy types of exploitation by private capital. The policies on the whole were not very encouraging to private foreign investment

ii) A Drastic reversal in policies in 1977

In 1977, when the government decided on a totally different approach to rapid economic growth, it also required a drastic change in the political system. Political stability was seen as an essential pre-requisite to encourage private foreign investment. The major factors that were discouraging foreign investment was seen as the pattern of political power changes almost every five years and the existence of a strong Trade Union Movement.

In 1978 a new Constitution was formed which gave all executive powers to a President. The new Constitution also introduced measures that made it almost impossible to change the Constitution. Promotional representation system of elections was intended to prevent any political party from getting a 2 / 3 rds majority which was a requirement for changing the Constitution. The new Constitution provided strong guarantees against any state takeover of private enterprises.

iii) Violence and Suppression of Human Rights instead of Political Stability

In 1980 the Trade Union movement was strongly suppressed when the workers staged a general strike demanding a wage increase to meet the high cost of living. Over 40,000 workers who joined in the strike were expelled from work overnight. Many of them remained jobless for years and around 100 workers who lost employment during this Strike committed suicide, over the years that followed. The Government since 1977 was by far the most suppressive Government that Sri Lanka had ever seen since Independence.

Another requirement to achieve the type of "political stability" that was seen as necessary to attract foreign investment was to have a government that did not change for a considerable period of time. To do this the Government of 1977 adopted all means necessary to ensure that they remained in power. One of the measures adopted was to deprive the leader of the opposition her civic rights for 7 years based on a false accusation of abuse of power. This was to ensure that the new President would not have a strong opponent at the next Presidential elections. A further measure adopted was to postpone the General elections that were due in 5 years time, by conducting a referendum to extend the period of the parliament. It is well known that these were totally undemocratic measures and that the referendum was faked and abused.

As it is well known, in almost all countries where the policies of moving towards rapid economic growth, through attraction of foreign investments were adopted, it required a strong authoritarian regime. In many Asian and Latin American countries such as Singapore, Philippines, Indonesia, South Korea, Thailand and most Latin American countries, these changes were carried out by military dictators, with massive suppression of Human Rights and democracy. In Sri Lanka although an image of democracy was maintained, the political system necessarily became extremely repressive. The UNP Government that introduced these changes remained in power continuously for 17 years, from 1977 to 1994, not because it was popular, but because it was prepared to carry out the most blatant violations of democratic and human rights.

This policy however, did not succeed in establishing the type of political stability that it wanted to achieve. In 1983 the eruption of severe ethnic conflicts and the beginning of the war in the Northern and Eastern Provinces that continued almost for 20 years can not be described entirely as a conflict between the two ethnic communities, the Sinhala and the Tamils. It was also a result of the inability of the economy to provide sufficient opportunities for youth in education and employment. The first instance when the radical Tamil youth took up arms was when they felt that they were discriminated against in opportunities for higher education.

The repeated armed Youth uprising in the rest of the country that took place in the years of 1988 to 1990 resulted in the disappearance of 60,000 youth, according to the report of the UN Committee for Involuntary Disappearances. The first Youth armed uprising in the Southern parts of Sri Lanka was in 1971, which resulted in the death of about 8,000 to 10,000 youth and about 25,000 imprisonments An analysis of the economic factors that led to these youth uprisings , both in the North as well as in the South, would clearly show that one of the major causes of these rebellion was the inability to absorb the increasing population of young people meaningfully into economic activity and to the mainstream social and political life in the country. Sri Lanka never could become a rapidly industrializing country that could absorb the rural youth into employment in the industrial sector. The economic policies adopted since 1977 made the situation worse by accelerating the process of breakdown in the rural agricultural economy. The only way out seen by the youth, both in the South as well as in the North, whether they were Sinhala or Tamil was to look for opportunities in education, hoping to find new employment through higher education in the universities. The Universities could not absorb all those who aspired and qualified for higher education and even those who obtained such education could not be absorbed into meaningful employment.

This pressure and lack of opportunities in the South contributed to the Southern Youth fighting for a radical change in the economic political system, while the same factors in the North contributed to the feeling of being discriminated against as an ethnic community which led to their struggle for a separate state.

In our present analysis what is important to note is that increased economic disparities, suppression of democracy and participation of the poor, removal of social protection and the blatantly visible granting of power and privileges to the rich resulted I a situation of serious political unrest, instead of the "political stability " that was desired by the new economic strategy.

TRADE

As in all countries that adopted the World Bank package of Structural Adjustments Programme (SAPs), liberalization of trade was an essential requirement. Initially it was stated that trade liberalization would lead to competition and it would allow Sri Lanka to bring in new advanced technologies, which was seen as necessary for us to be able to produce high quality goods that could compete in the international market. This was done at a time when Sri Lanka was trying to develop its own domestic industries; most of these were in their early stages. As in all countries that achieved some growth in industry, the young industries needed a certain degree of protection. Since Sri Lanka did not have a powerful industrial capitalist class, most of the industries had been started by the State.

The policies prior to 1977 gave a lot of emphasis to import substitution industrialization. The policy in agriculture was the same. During this period there were strong restrictions against importation of agricultural products that could have been produced locally. The Government not only protected domestic agriculture but also provided certain incentives and benefits to local agricultural producers.

However, the SAP policies, even in these very early stages allowed importation of all goods, including subsidiary food crops in which Sri Lanka could easily become self sufficient. Almost all industries began to suffer losses, unable to compete with cheap industrial goods. In the following years the World Bank and IMF insisted that all loss making state enterprises should either be closed down or privatized.

The impact of trade liberalization on domestic agriculture was even worse. Although import restrictions had created some difficulties and shortages during these years there was considerable growth in domestic agriculture. In Sri Lanka food producing agriculture is done almost entirely by small scale rural farmers. The opportunity provided by import restrictions to small farmers enabled them to earn increasing incomes. This growth in domestic food production also helped in achieving a considerable degree of food security. In addition to rice, some of the food crops where there was growth were onions, chili, potatoes, green gram, cowpea, vegetables and fruits, sugar cane, gingerly, manioc, sweet potatoes etc. This policy was praised by the FAO at that time. Production in all these crops has been dropping continuously.

In 1998 when potatoes imports increased by 7 % the area cultivated with potatoes dropped by 64 %. In 1998 the potato imports were 116,000 metric tons and this was much more than the total production in the country that year.

Another very important sector of production that was seriously affected was milk. Sri Lanka has had considerable domestic milk production. As in India, dairy is an industry that is being carried out by small rural farmers. Under the policies of state supported dairy production, prior to the policies of market liberalization, the Government of Sri Lanka had set up the National Milk Board which collected domestically produced milk and marketed milk largely as fresh milk. This not only enabled the people to have fresh milk at affordable cost, but also provided an incentive to the small dairy farmers.

In early 1980s, under the policy of privatization the National Milk Board and all its operations were stopped and Nestle was invited to undertake a project for development of domestic dairy industry. Nestle has gradually taken over the collection of domestic milk. However, they do not sell fresh milk in the country. Domestic dairy production has weakened ever since and the growth rate has become negative. Today the country depends almost totally on imported milk powders. The near complete monopoly of the milk market in the hands of three companies, Nestle, Anchor and Maliban has created a situation where the prices of milk powders have become so high that most of the poor just cannot feed their children with milk.

A 400 gm packet of milk powder costs about Rs. 119. A child would need such a packet for three days. Therefore, the cost of feeding a child with imported milk would come to Rs. 1190 / month. It is said that there are 2.1 million families in Sri Lanka who receive less than Rs. 1,500 per month as their family income.

DEBT

Sri Lanka had been under pressure from the WB and IMF to introduce economic reforms for quite some time. However, the Governments until 1977 did not agree fully with the economic reforms proposed by them. In order to have the possibility of bargaining with the WB and IMF the governments made a conscious effort to keep foreign debt low. Therefore, the foreign debt had been considerably reduced. However, this approach was completely reversed with the liberalization policies after 1977.

Import liberalization since 1977 has resulted in a considerable increase in foreign debt. Further it was argued that devaluation of the Rupee would help us to expand external trade as our goods would have internationally competitive prices. However, the increase in imports over the years has far exceeded exports. Therefore, the continuous process of devaluation has contributed to a worsening of our balance of trade.

In 1977 the US $ was equivalent to Rs. 8. With the policy changes in 1977 the value of the dollar increased to Rs. 16, with floating of the rupee, today it is Rs. 96.50. This means that all goods in Sri Lanka have increased over 12 fold. This has been one of the major reasons for the unbearable increase in the cost of living in the country. By a severe process of suppression of the trade unions, the government has prevented the possibility of bargaining for fair wages.

There is another major reason for the massive increase in foreign debt. All the major development projects undertaken by the Governments since 1977 were to provide infra structure facilities to attract foreign investment. They included the lead projects of the UNP Government such as

- The Greater Colombo Development Project – to provide facilities to investors who were expected to flow into the country.

- Mahaweli Development Project which was to be completed in 30 years in three stages under the original plans was accelerated and completed in 6 years at an increased cost. This was to provide irrigation and land development to attract export oriented agriculture and agro based industries by foreign investors

- Free trade Zones were constructed to attract foreign investment in export industries

- Very large investments were also made in developing telecommunication; power, roads, air port, habour and other infra structure facilities.

Compared to the very large debts that were taken to provide the facilities to attract foreign investment the type and the level of investment that came to the country over this entire period of 25 years was very low. It is this situation that has been summarized in the PRSP of June 2002.

In July 2002 the present Prime Minister, Ranil Wickramasinghe addressed the nation and admitted the extremely serious situation of indebtedness. He stated that each person in the country was indebted to the extent of Rs. 83,000 and therefore no relief of the economic burdens could be expected in the foreseeable future.

Failure in the Agricultural policies

As mentioned earlier the SAPs envisaged a major change in the agricultural policies in Sri Lanka. In the early 1980s there was an expectation to bring in export oriented agriculture and agro based industries to replace domestic agriculture conducted by the small farmers. Three Districts, Monaragala, Mannar and Vavuniya were declared as Agricultural Promotion Zones, where foreign investors were to be given the same type of tax benefits and incentives given to investors in the Free Trade Zones. Providing land to such foreign investments in Agriculture had been a policy of the Government during the last 25 years.

However, this policy has not succeeded so far. The efforts made to set up several sugar companies in Monaragala District were resisted strongly by the people who were losing their land. These were areas where people were doing their chena (shifting) cultivation, growing a variety of food crops. These farmers were considered to be illegal settlers on Government land. Only one company, the Pelwatte Sugar Company was set up by settling farmers on 24,000 acres. This company came in with an agreement with the Government to sell their sugar to the Government at a price that gave them a profit margin of 14.5 % irrespective of the International price of sugar. As a result the sugar consumers in Sri Lanka have been paying a price that is much higher than the world market prices (when the world market price of sugar was about Rs. 12 / kg the price for consumers in Sri Lanka was around Rs. 30 / kg).

The efforts made to propagate exports such as gherkin, melon, baby corn, did not succeed either. Some of the companies that initiated these in the Mahaweli areas have now closed down and left the country.

Worst impact on agriculture under the SAP policies was due to the systematic withdrawal of protection and support given to domestic agriculture such as paddy farming.

The importance of rice farming in Sri Lanka cannot be under estimated. In 1990, 12 percent of the total land area in the country was cultivated with paddy (rice). 10 % of the total population is engaged in paddy farming. This is 80 % of the rural population. Rice provides 45% of the per capita calorie intake and 45% of the per capita protein intake.
The per capita grain consumption is 100 kg / year. Rice forms 75 % of this quantity. 28% of the average expenditure on food is spent on rice. About 50 % of the population in Sri Lanka depends on poverty alleviation grants (subsidies). 75 % of these grants is spent in buying rice. Most paddy farmers are compelled to sell their produce within a very short time after harvesting, due to debt. Therefore, they too have to depend on rice purchased at market prices. When the income of an average person increases by 10 %, rice consumption increases by 6 %. Dur4ing the last 3 to 4 decades 60 % of the expenditure on agricultural research has been spent on rice research

(Rice Congress of the Department of Agriculture – 1990)

Due to this high importance of rice and rice farming in the life of the people of Sri Lanka much attention has been devoted to it historically. However, the SAP policies looked at it totally differently. The World Bank's policy recommendation of March 1996, the "Non Plantation Sector Policy Alternatives" says that his main cause of lack of growth in the non plantation sector was due to the fact that most of the small farmers in this sector grow low value crops such as rice. It further says that the efforts made over the previous 15 years to get these farmers to shift away from low value crops such as rice to high value crops (meaning export crops) had not succeeded. It further says that as long as these farmers get free irrigation they would not give up rice farming. Therefore, it is recommended that water should not be given free, but it should be marketed by the private sector. For this purpose it recommends the establishment of "water property rights". It also recommends the withdrawal of all services such as agricultural extension services, liberal agricultural credit schemes, supportive marketing interventions and government intervention in producing good quality certified seeds etc. In fact most of these services were reduced gradually.

The Paddy Marketing Board (PMB) which played a crucially important role in not only providing a fairly reasonable price to the paddy producer, but also in providing rice to the average consumer at an affordable price was closed down on the recommendation of the World Bank in 1997. The withdrawal of free agricultural extension services was also a very serious matter. It was with the strong intervention of the World Bank that cultivation of High Yielding Varieties of paddy was initiated in mid 1960s. This type of high input depended agriculture necessitated external guidance and extension services. With this the ancient knowledge and experience of the farmer became no longer valid and dependence on external research and extension became a necessity. But, when the World Bank changed its policies from supporting domestic agriculture to promoting export agriculture and decided to withdraw government services, the farmers were left helpless.

Today as a result of all these policy changes the rice farmers are facing an extremely serious situation. Cost of production has become extremely high. During this Maha Season (September 2002 to March 2003) the cost of production on one acre of paddy was about Rs. 20,000. The average yield is about 70 bushels (= 1540 kg). The market price is between Rs. 9 to 10 / kg. Therefore the income from one acre is about Rs 15400.

Therefore the farmer suffers a loss of about Rs. 4,600 on one acre. In Sri Lanka there are about a million paddy farmers who suffer a fate similar to this. Farmer suicides have been a continuing phenomenon, particularly during the last decade.

Creation of a "Free Land Market"

Another important recommendation in the "Non Plantation Sector Policy Alternatives" Report of the World Bank in March 1996, was that a "free land market" should be created. It says that the existing restrictions that prevent the small farmers from selling their land and moving out of agriculture should all be removed in order to create a free land market. Since 1927, when the Land Development Ordinance was introduced, all Governments had adopted a consistent policy of not permitting sale or transfer of land granted by the State. Land could only be transferred to the next generation. This was a measure adopted to prevent the formation of a large population of landless destitute and to prevent fragmentation of land.

It can be argued that the present form of land ownership where there is a very large number of people living on very small plots of land is not an economically sound arrangement. Therefore, it is said that creation of a freer land market would allow a process of accumulation of land into economically viable units. However, a process of getting these poor small holders to sell their land and move out of their agricultural livelihoods, through heavy indebtedness and desperation would lead to a much worse situation. The experiences in Sri Lanka where thousands of young people who were pushed out of the rural economy without other opportunities rebelled and got killed should be taken seriously. Sri Lanka has already experienced three such rebellions where tens of thousands of young people have been killed.

Analysis of the Sri Lanka's Poverty Reduction Strategy (PRSP)

Sri Lankan Government has now produced its Poverty Reduction Strategy Document which was discussed and agreed upon with the World Bank in June 2002 at the Sri Lanka Development Forum held in June 2002 in Colombo. It is titled "Connecting to

Growth: Sri Lanka's Poverty Reduction Strategy "It is a 175 page document which is still available only on the internet and only in English. It is said that this strategy document was worked out over a period of four years, with wide consultation with all stakeholders.

However, no mention of this document has been made in any of the public media, so far even though several months have passed after its finalization with the World Bank. The implications of this strategy first became known when the Prime Minister Ranil Wickramasinghe addressed the nation on July 5th, 2002, about a month after the meeting with the WB. Even at that time no mention of the agreements with the WB on the PRSP was made. He only said that the country was heavily indebted and rapid economic reforms were needed. Therefore, he said that the Parliament would meet continuously during the month of August and pass 36 Bills.

Very large protest actions began to emerge when it became known that these 36 Bills to be rushed through in Parliament were to,

1. Privatize all remaining State enterprises, such as the State owned Banks, the Sri Lanka Insurance Corporation, Electricity Board, Postal services

2. Introduction of labor law reforms to remove the existing protection of labor rights and to enable the employers to terminate employment with out adhering to the earlier requirements of compensation.

3. Further privatization of health and education and other essential public services

4. Introduce new Land Policies for privatization of land.

5. Construction of a ports network, super highways and expansion of airports etc.

6. Reduction of social welfare benefits and cutting down of the Poverty Alleviation grants.

7 Privatization of water supply, sewage and sanitary services.

8. Plans to hand over the responsibilities of forest conservation to foreign powers to carryout the plans of the Tropical Forest Conservation Act of the United States Government.

9. Laws for privatization and sale of mineral resources in the country

The exact contents of some of the intended laws are not yet known. But the people have now become widely aware that there is going to be a very rapid process of introducing legislation to carry out the full package of policies of privatization and selling away people's assets.

A study of the PRSP document very clearly shows that this is nothing other than the full package of economic reforms that have been pushed by the World Bank and IMF for many years in the past.

The main arguments in the PRSP are the typical arguments put forward by these IFIs for most third world countries. It begins with the assumption that faster economic growth is the only possible strategy for poverty reduction. As mentioned earlier the strategy document accepts the fact that the growth during the last 25 years of application of this same strategy has been much lower than the expected growth rates. Without any sound analysis of the reasons for this failure, it simply says that the Government is now targeting a growth rate of 10 percent.

The PRSP admits that whatever growth that took place in the past two decades has not trickled down to reduce poverty. But it simply avoids making any analysis of the reasons for this lack of redistribution. Therefore, the strategy document completely fails to make any proposal to ensure that redistribution takes place. In spite of the fact that private sector led economy has failed to reduce poverty during these two decades, the PRSP does not make any investigation to find out whether Private sector leadership in the economy is the best way to reduce poverty and to achieve the type of growth necessary for reduction of poverty.

Therefore, it is very clear from the very out set that the use of the phrase "Poverty Reduction Strategy" is simply a means of meeting the World Banks recent requirement that all countries should prepare "Poverty Reduction strategies when they approach the World Bank for its loans. It is also very clear that the World Bank is also not very serious about finding out whether these strategies could really reduce poverty. The WB seems to be far more serious about ensuring that whatever strategy that is worked out should fit in very well with their previous requirements of SAP.

Dishonesty in some of the key arguments in the PRSP

It is simply assumed that if the government does every thing necessary to win the full confidence of the private sector, there would be sufficient private sector investment and growth which would automatically reduce poverty. There is enough evidence in the Sri Lankan experience over the last 25 years, to show that this does not happen automatically**.**

The closing down of the Paddy Marketing Board was a direct recommendation of the World Bank in 1996. It was said that government's interventions in the agricultural marketing, from time to time, either to protect the producers or to protect the consumers was weakening the confidence of the private sector to invest in the agricultural markets. Therefore, it was suggested that all government machinery that enabled such intervention should be dismantled. But, the last few years experience of leaving the paddy marketing entirely in the hands of the private traders could be totally disastrous. There are numerous other examples where allowing the private sector a free hand could be tremendously destructive from the point of view of the poor

The argument put forward in Chapter 5 of the PRSP is that the way to reduce poverty is by connecting the poor regions to the rapidly growing national and international markets. It is argued that the reason for lack of redistribution and poverty reduction was because the poor were not provided sufficient opportunity to participate in the growth process. The governments approach in providing such opportunity for the poor to participate in growth suggested here is by enhancing connectivity.

The main emphasis here is the building of physical infrastructure such as

- Upgrading the port network
- Building a national highway and integrated road network
- Enhancing the performance of the bus system
- Modernizing the railways
- Improving the access to telecommunication facilities
- Upgrading the commercial agricultural marketing infrastructure

In the next section of the same chapter, II. Revitalizing Rural Development, it is said that free hold titles would be issued within this year to 1.2 million, small holders so that they would be able to sell their land easily. It also says that rural to urban migration would be encouraged. It is said that the government estimates that the urban population would reach 50 % of the total population by the year 2010. When one looks at the similarity of these proposals to the proposals that the WB had been making earlier "to create a free land market" etc, the real intentions become clear. In summary the real agenda behind these set of proposals is to get the rural poor population out of their land and from their subsistence agriculture so that land and other natural resources become available for bigger private sector investors, to build the necessary infra structure such as the highways and road networks, air ports and ports networks for their businesses to link up with the national and international markets and also to create a much bigger population of desperately poor land less destitute who could be used as cheaper labour.

The proposed reform of labour Protection Laws such as the Termination of Employment Act is to see that they could replace the present labour that enjoys a certain degree of protection and rights with much cheaper and more subservient labour.

Privatisation of Water ,Sewage and Sanitary Services

On page 62 of the PRSP, it is clearly stated that private sector would be invited to invest in water supply and water related projects. It says that

"The *Draft National Policy on Rural Water Supply and Sanitation Sector* recognizes that water is a basic human need, but also has an economic value. Users should contribute to investments and bear the recurrent costs of drinking water and utilizing sewage and sanitation services.

The provision of clean drinking water, sewage and sanitation services has exceeded Government's institutional and financial capacity. New modes of delivery safe water and primary sanitation facilities are being developed, that will increasingly rely on public – private partnerships. For several years the Water Board and the community water supply programme have both formulated policies and acted as project implementers. Growing competition for water amongst sectors, and the lack of a clear policy, results in substantial water shortages in some parts of the country. This is mainly by the poorer community which depends on natural springs for their drinking water supplies and small scale farmers.

Government estimates that the investment requirements in the water will be as much as Rs. 50 billion over the 2001 to 2010 period. Public investment may be sufficient to meet at most half of this requirement. This underscores the importance of attracting private sector investment into the provision of clean water. A prerequisite to this is the introduction of a water pricing policy that is based on the cost of delivering water and other economic criteria.

Under existing arrangements, domestic water consumers are heavily subsidized by non domestic consumers, since the latter account for only a small share of total sales, heavy cross subsidization is financially unsustainable for the National Water Supply Development Board. Government should rationalize water tariff to ensure that these reflect the economic cost of providing clean water and will phase –out the heavy cross subsidies amongst different classes of water users. Within the acknowledged limits of affordability the Government will seek full cost recovery in its tariff policy. The heavy subsidization of the domestic consumers by the industrial consumers should be substantially reduced. This will make more money available for extending direct connections to the underserved urban poor"

This long extract from the Sri Lanka PRSP (page 62) very clearly explains the government policy of water privatization and water pricing for marketing of water by the private sector. "The National Water Resources Policy and Institutional Arrangements" were formulated by the Government of Sri Lanka with the assistance of other agencies proposing water marketing from about the third quarter of 1996. However, over a long period of four years this was handled with care not to allow any public awareness or debate on the policy of water marketing and privatization.

Public Campaigns Against Water Privatisation

Some People's organizations who had known the World Bank's proposals for water marketing had campaigned against this policy since 1996. But, when the Draft Water Resources policy was exposed by the media in year 2000, there were wide spread protests through out the country. The Government then denied its intension of water privatization.

As shown earlier, the World Bank and the Government has again come to an agreement on pricing and marketing of water through the private sector. The Alliance for Protection of National Resources and Human Rights (ANRHR), one of the largest alliances of people's movements in the recent history of Sri Lanka, has picked up the issue of water marketing as one of the key issues in its protest campaigns against the PRSP.

On 6th March 2003, the Minister of Irrigation and Water Resources Management had planned to introduce the new Revised Water resources Policy to the Parliamentary Advisory Committee before bringing it up for approval in Parliament> However, the Government parliamentary group disagreed with the idea of bringing it up at this time when there was wide spread agitations. The Prime Minister then made a public statement to the press saying that he was completely against this Bill and went on to say that the Government would not accept all dictates of the World Bank. This was merely a dishonest statement to deceive the public, because he had personally agreed with the policy position in the PRSP quoted above.

This is a clear illustration of the fact that the governments do not have any honest dialogue with the people on such important policy matters.

<u>A false argument about the reasons for inviting the private sector for Water</u>

The argument put forward in the PRSP for inviting the private sector and for pricing of water is the inability of the government to meet the very high expenditure needed for infra structure development necessary for water management. But, the projects listed on pages 172 to 175 water, for which the government seeks to obtain external assistance (foreign loans). An examination of this list of projects and the external loans to be obtained, clearly shows that the Government is going to borrow with in the years 2002 to 2005 more money than the estimated total infrastructure expenditure for the full period 2001 to 2010.

These projects and the costs are listed below.

List of Water Related Infrastructure Projects with External Loans

Project name	Expected total disbursement (US $ Mn)			
	2002	2003	2004	2005
Town North of Colombo Water Supply Project	9	25	4	-
Kaluganga Water Supply Project	32	27	25	2
Greater Kandy Water Supply Project	1	10	30	1
3rd Water Supply and Sanitation Sector Project	12	12	12	12
Water Resources Management Project	2	6	6	4
Reduction of Non Revenue Water Project	14	12	4	4
Greater Galle Water Supply Project	25	7	-	-
North East Irrigated Agriculture Project	6	7	4	-
Mahaweli Restructuring and Rehabilitation Project	9	9	-	-

Walawe Left Bank Irrigation, Upgrading and Extension Project (II)	13	9	32	13
Mahaweli System C Upgrading Project	2	1	15	10
Upper Watershed Management Project	6	4	3	-
Secondary Town Water Supply and Sanitation Project		90		
Community Water Supply and Sewerage Project		40		
Greater Colombo Sewerage Project				120
Kandy Sewerage Project			20	
Industrial and Domestic Waste Water Treatment Plants Project		30		
Dry Zone Irrigated Rehabilitation Project				30
Total	131	289	155	196
Total for 2002 to 2005 = US $ Mn 771				

The total cost of water projects for which foreign borrowings are to be made is US $ 771 Mn = Rs. 77,100 Mn = Rs. 77.1 billion.

This is more than the estimated investment on water related projects for the period 2001 to 2010 = Rs 50 billion. Therefore the total required investment for water will already be covered by the loans to be taken, which will be paid back by the people of Sri Lanka, the water consumer citizens. Thus there is no justification for pricing of water and for inviting private sector to sell our water to us, using infrastructure that we have built with the money that we have already borrowed.

ALTERNATIVE APPROACHES FOR POVERTY ERADICATION

With regard to alternative approaches that can be adopted for poverty eradication, we are sending you another paper that we have prepared titled “Hunger is a Shameful Crime in Sri Lanka, When Food can be a free gift of nature”. This paper discusses the situation and reasons for poverty, but also gives some of the alternative approaches that have already been tried out by rural communities. The main emphasis in this paper is on the ecologically sustainable agricultural approaches that are applicable in Sri Lanka and in many other countries in the South Asia region.

We are also sending you another paper that we presented to the Government in April 2002 in response to the Draft National Land Use Policy. This also describes alternative approaches needed in land use and in the use of natural resources in a sustainable manner, in ways that can revitalize the regenerative capacity of land and other resources, that has been destroyed by centuries of destructive land use. These give the main outlines in which there is a tremendous potential for poverty reduction, reduction of hunger, malnutrition and creation of livelihoods in a sustainable manner.

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