CHAPTER III

EVOLUTION OF POLICIES ON POVERTY ALLEVIATION IN SRI LANKA

3.1 Introduction

Sri Lanka is an Island, situated in the Indian Ocean close to India. It is separated from the Indian sub continent by a very narrow strip of sea called the Polk Strait. The geographical area of Sri Lanka is 65,610 square kilometers and mid-year population in 2002 was estimated to be 19 million, an increase of 1.5 percent (Central Bank 2002). The monsoons bring heavy rain to Sri Lanka. The monsoons come to wet zone in the Southwest and dry zone in the Northeast. The center of the Island has mountains with rivers flowing in all directions to the surrounding coastal plains. The country can be divided into five main geographical regions: central highlands, wet zone lowlands, dry zone lowlands, arid zone lowlands, coastal area lowlands.

The Island has a recorded history over 2500 years. Kings ruled the country in unbroken succession for nearly 2300 years. One of the most important events of Sri Lanka's history occurred in the third century B. C. when Mahinda Thero, who was the son of the great emperor Asoka in India, brought the message of Lord Buddha to Sri Lanka. This event made for speedy progress in all aspects of Sri Lankan society.

However, Sri Lanka is cited as an exemplary case of direct poverty alleviation because of a long history of social welfare and high values in quality of life indices (Kelegama, 2001). Notwithstanding, anti-poverty measures in Sri Lanka founded on the international discourse of poverty and development do not serve the interests of poor people. Poverty exists when people are unable to satisfy their basic needs for food, clothing, shelter and health (Kelegama, 2001). Because, it is widely believed that poverty is caused by economic underdevelopment. Since independence, Sri Lanka has shown impressive progress in reducing the incidence of poverty, reflected in terms of improvements in human development indicators as well as in consumption terms. Two general factors contributed to this progress: (1) a satisfactory long-term growth performance during the last five decades; and (2) satisfactory provision of basic health and education together with either food subsidies or income transfers that enabled higher consumption by the poor. This was partly due to policy mismanagement and the on-going war that has now continued for 20 years (Yapa, 2002). This chapter looks briefly at the history of poverty alleviation programs in Sri Lanka and successes and failures of the different strategies followed. Also seeks to address some of the issues on the causes of persistent poverty in Sri Lanka.

3.2 Poverty Profile of Sri Lanka

Estimates of the extent of poverty in Sri Lanka vary, but there is a consensus that poverty is mainly rural, most of the poor live in rural areas about 70 percent. Moreover, urban poverty is also significant, about 14 percent of the urban population being poor (Gunathilaka, 1992). The poverty level of living on plantation estates is estimated at slightly lower than in other rural areas. More than half of the poor depend on agriculture for their livelihood, while another 30 percent depend on other rural nonagricultural activities. Moreover, as poverty resides mostly in rural areas we must look into the fundamental reasons for the poverty there. The underlying factor for poverty in rural Sri Lanka is the continuing, in fact growing, imbalance in rural productive resources (Sanderatne, 2000).

The massive increases in population in the last fifty years have been a very significant factor in eroding the income generation of the vast majority in the country. The population density in the country has nearly tripled from 103 persons per square kilometer in 1946 to over 300 in 2000. In fact agricultural land availability per capita has declined from around 0.3 hectares in 1946 to a mere 0.01 hectares today (Central Bank, 1998). This statistics would not have mattered if there was a significant diversification in the economy and people had shifted from rural to urban employment. There are significant variations in poverty with the highest incidences of poverty being in Uva, Central, North-western, Sabaragamuwa and North-central Provinces. The North-east province is no doubt suffering the worst deprivations. There is a close correlation between income poverty and human deprivations. With income poverty being both a cause and effect of human deprivations. Conversely, income poverty as well as human deprivation are least in the Western Province, which is the most industrialized and has the best economic and social infrastructure (Sanderatne, 2000).

Within a region, rural poverty is generally higher than urban poverty. In the late 1980s, there was a considerable narrowing of rural–urban poverty differentials within regions. Regional disparity, particularly between the economically dynamic Western province and the rest of the country, and between urban sectors and rural sectors continue to concern policy makers (Gunatilaka, 2000). Thus it is essential to have a broad look at several areas that influence poverty directly as well as indirectly. As stated, Sri Lanka has been experiencing a terrible war in the North-east provinces for the past 20 years, so much so that its defense budget per capita expenditure is now higher than its neighboring countries.

However, the slow progress in consumption-poverty reduction was striking in the backdrop of relatively faster GDP growth (average 2.5) during the first half of the 1990s. Per capita GDP growth was in the order of 3.0 percent annum during the period between 1990 and 1996. However, according to various surveys many of the poor experienced an increase in poverty. Poverty is highest (32 percent) in households that derive their income from agriculture. Nearly 40 percent of the Sri Lankan labor force is still engaged in the agricultural sector. Sanderatne (2000) shows that 75 percent population live in the rural areas and that 40 percent of the work force, they produce only 18 percent of the output. The low productivity per capita accounts for the persistence of rural poverty. Fundamental to the problem of low incomes and poverty are the above mentioned man:land rations (see page 62). Even these ratios do not indicate adequately the intensity of the land scarcity.

Sri Lanka has not had land reform that effectively redistributed land. The land settlement schemes helped a better distribution by giving plots of land to settlers in the dry zone and village expansion schemes gave a marginal extent of land to villagers which were mostly used for housing. The bottom line is that there are inadequate land resources for adequate income generation. The problem of inadequate land is compounded by a skewed distribution of land. Those who have inadequate land are in most cases the poorest (Sanderatne, 2000). In fact, paddy yields are comparatively high compared to the region but several regions of the country have low yields on very small plots. These offer no prospect of adequate incomes for farm households. Also withdrawals of input subsidies and an ineffective market system are impacting farmers. Consequently they cannot earn an adequate income to cover their basic living costs. This has resulted in a significant amount of off-farm activities in rural area (Silva, 2004).

Within this situation, the populations have been shifting for industrial employment. However, the industrial sector also failed to absorb unemployed populations in both rural and urban areas. The industrialization's contribution to reduction in poverty is rather limited. Favorable impacts of economic growth on consumption-poverty may be reduced if there is contemporaneous increase in income inequality. A sharp rise in inequality in the early eighties is thus understandable in the context of rapid economic growth and structural change (Kelegama, 1993). However, the Sri Lankan experience in the backdrop of 5 percent average growth during the 1990s shows little decline in inequality. Sri Lanka has not achieved high growth rates like China to compensate for the increase in income inequality. Also as Ravallion (1997) has argued, initial inequality matters and this could dampen the impact of economic growth on poverty alleviation. To summarize, first, consumption poverty remains high in Sri Lanka and it is primarily a rural phenomenon. Second, there has been slow progress in poverty reduction in the last decade and also greater volatility in poverty levels. Third, there are acute regional disparities in poverty.

3.3 The Measurement of Poverty

Various attempts have been made to define and measure poverty. Traditionally, poverty measurement has been dominated by a quantitative-objective approach. However, this method has been criticized for its apparent neglect on non-income dimensions of poverty. Gunawardena (2005) shows that several alternative approaches to analyzing poverty have been developed in the last few decades in various contexts and in response to various needs, such as "monitory" approach (quantitative measure) and capability approach, the social exclusion approach, and the participatory approach (qualitative measurements).

Although poverty in Sri Lanka has been the subject of debate for many years, there is no clearly defined poverty line. There is no officially designated poverty line, which is applicable across all sectors (Tudawe, 2000). This is a major problem in obtaining information on changes in poverty status in the country (Dutt and Gunawardena 1995). Moreover, between deferent institutions and researchers, their poverty line is different. For example, the Department of Census and Statistics (DCS) and Central Bank of Sri Lanka (CBSL) derive poverty lines in terms of estimated per capita cost of a minimum bundle of food and non-food consumption goods. The incidence of poverty (headcount) is measured using a lower poverty line, Rs. 791 by DCS and Rs. 860 by CBSL, and a higher poverty line, Rs. 950 and Rs. 1,032 by CBSL. The CBSL poverty line is 20 percent higher than DCS poverty line (Table 3.1).

Table 3.1 Poverty Line Measure by DCS and CBSL- 2004

Institute	**Low Poverty Line** (Rs.)	**Higher Poverty Line** (Rs.)
Department of Census and Statistics	791	950
Central Bank of Sri Lanka	860	1,032

Source: Gunawardena (2005)

Nevertheless, a comparison of two studies by Gunewardena and Vidyaratne that analyzed the 1995/96 Household Income and Expenditure Survey, is given in Table 3.2. It shows that food poverty line derived by Gunewardena (2000) is 10 percent higher than that of Vidyaratne and Tilaakaratne (2003).

Table 3.2 Two Cost-of-basic-needs Consumption Poverty lines for 1995/96

	Gunewardena 2000	Vidyaratne and Tilakaratne 2003
Poverty line	Rs. 791.67	Rs. 953
Calorie norm	2500 per adult equivalent per day	2030 per person per day
Price date	Implicit prices (unit values) from HIES	Retail prices collected by DCS
Food poverty line	Rs. 641.82	591

Source: Gunewardena, 2000 and Vidyaratne and Tilakaratne 2003

Therefore, the government has measured and characterized that poor households are based on the World Bank's poverty line. According to this measure, the Island is a middle-income country where 45.5 percent of the population has a per capita consumption of less than $ 2 a day (World Development Report, 2002). These poverty lines are revised every five years keeping in line with the rise in consumer price index. Poverty measurement in Sri Lanka has not taken account of international developments. Unfortunately, the poverty reduction strategy has not proposed any new methods. However, life expectancy at birth (73 years) is almost as high as the average for high-income countries, under-5 mortality is half the average for middle-income countries and adult illiteracy is lower than the average for East Asia or Latin America (Gunewardena, 2005).

According to Dutt & Gunawardena (1995) this proportion is largely invariant over different poverty measures and poverty lines. People fall below the poverty line; according to Kelegama (2001) stocks of productive assets owned by them, given the prevailing returns to the assets and the availability and cost of publicly provided goods and services, are insufficient to enable them to attain a minimum acceptable standard of living.

3.4 Overview of Poverty Alleviation Strategy

3.4.1 Pre-independence

Sri Lanka had a well developed agricultural civilization until the 15 century. But the island, throughout more than four hundred years of colonial rule, was a cracked agriculture-based prosperous society (Herse *et al.*, 1989). In1815, the British established their rule over the whole country and the major economic development events were the opening up of the plantations. They neglected the traditional agriculture based food production sector of the economy; consequently there has been a multi-dimensional nature of poverty in Sri Lanka (Perera, 1998).

The roots of Sri Lanka's modern welfare policies can be traced back to the colonial period, when the country's welfare state was modeled after the British model of social democracy. The early achievements of the welfare state were typically associated with publicly funded programs in health, education and food subsidies covering the entire population of the country (Silva *et al.*, 2004). These programs have evolved since the last years of the British colonial rule as poverty came into focus as a policy issue during the great depression of the 1930s, and as the nation suffered the effects of the severe drought and the malaria epidemic (Wickremasinghe, 2004).

The first attempt at quantifying the problem of poverty and unemployment and prescribing remedial measures took place during the "Donoughmore period" (period of the progressive transfer of power to local ministers from the British rule). Several important laws that are enforced or have largely influenced the nature of today's welfare framework were introduced during this period (Newhan, 1936 and Wedderburn, 1934; cited in Wickremasinghe, 2004).

Independent Sri Lanka retained these measures for over 50 years after independence. Colonization schemes aimed at raising rural income and removing disparities between the urban and rural sectors were first introduced in 1931. They emerged in response to a variety of circumstances, like the devastating malaria epidemic of 1934-35, gradual institutionalization of electoral politics since 1931, populist political demands articulated by a variety of leftist and nationalist politicians and a favorable revenue base of the Ceylonese state at that time. In addition to the universally free services in education, health and rice subsidies there was also a program of poverty relief for the benefit of the destitute dating back to the British period (Wickremasinghe, 2004).

The government continued to provide primary and secondary education to all children of school-going age. According to Ratnayeke (2000), at that time government policy was to place primary schools within 2 km, junior high school within 4 km and senior secondary school within 8 km of all households. Health infrastructure such as medical facilities, hospitals, health centers, medical equipment and supplies have been built up and expanded to ensure extensive coverage of basic health care. The official policy holds that all households should have access to basic health facilities within two kilometers of the house. Health and education services expanded throughout the island resulting in high population growth and a high turnout of educated youth.

Nevertheless both health and education system networks have failed to maintain uniform quality standards throughout the island. Serious gaps exist between the urban-rural and estate sectors, with these gaps widening when moving into the rural interior. Similarly, the food ration and subsidies introduced to assist people from impending food scarcities during the Second World War extended beyond the war years.

3.4.2 Post Independence Period

1948-1977

The development era in Sri Lanka (since independence from the British in 1948 until the present) provides the larger historical context in which global development assistance such as World Bank, ADB, WTO, and IMF etc. has dominated these development policies. Furthermore, as the country's rate of economic growth of 5 percent a year on average over the last two decades, makes the issue of why poverty persists a very pertinent one for concerned citizens.

However, in the post independence period most of the welfare measures introduced during the twilight of the colonial era continued without much change. By 1947, welfare expenditure amounted to over 50 percent of total government revenue. The agro-centric economic structure also continued unabated, under successive government. The food subsidy scheme remained the main tool of welfare until 1977.

In the 1970's, particularly, the rapid growth of population began to have its most serious impact on the unemployment situation thus income and employment generating activities became the major concern of government policy makers (Perera, 1980). The poor became the drivers of the process with a support system consisting of the government, and NGOs, etc. providing the fuel. At the end of 1970s, the poverty alleviation program took on a new dimension with the introduction of the participatory development approaches as an experiment through the Changing Agenda Program[1]. The poor became the "subject" taking on an active role in the poverty alleviation program.

As pointed out by Cornwall (2000), while these 'alternative' approaches to development and to poverty alleviation were popular during this period. The late 1980s and the 1990s saw the incorporation of some of these concepts into elaborations on the meaning of development as well as to the methodologies that developed into poverty alleviation approaches (Cornwall, 2000). At the same time, the analysis of poverty, its meanings, causes and consequence has thrown up more complex aspects of the issue. The consistent attention that has been paid to the issue of poverty over the last several decades clearly indicates that poverty is an issue that refuses to disappear despite different experiments of development.

According to Gunatilaka (1992) until the late 1980's Sri Lanka did not implement any program that was explicitly targeted at alleviating poverty. However, the national development strategy adopted by the country during the post-independent period focused on, massive agricultural investments, development of transport, banking, agricultural credit, agricultural extension and other services.

[1] The "Changing Agenda Program," was elevated to a national scale in 1989 through the Janasaviya Program this was an attempt at making the state pro-poor through nationwide mobilization of the poor, and recognizing their problems as a national problem. This was a landmark shift in Sri Lanka's poverty alleviation perception and an important step in the new direction (Wickremasinghe, 2004)

Moreover, the other coverage is a provision of direct assistance in food production by subsidy schemes and consumer assistance by launching free commodity and food distributions for the poor. One of the main objectives was to increase production, particularly of food in order to achieve self-sufficiency, the realization of which has still eluded the country.

Also, the government invested in a network of accessible and free health care services and well-trained nurses and doctors. Effective use of this network by a well-educated population, notably literate women, helped gain 'good health at low cost in country (Halstead *et al.*, 1985). As is well-known, the Sri Lankan government offers universal free health care, which has made a significant contribution to improving health among the poor.

The overall health environment in the country however, is relatively weak the prevalence of malnutrition, lack of access to safe water, poor sanitary conditions, and disease outbreak are common, although the number of nurses increased from 9,000 in 1991 to 16,699 in 1997 and doctors from 2,900 to 5,300 during the same period. There are problems of quality and there is a shortage of qualified medical specialists and trained nurses. In rural areas where a high proportion of the poor live, the scarcity is felt more. Moreover, there is congestion in government hospitals and standards of hygiene are low and maintenance of facilities is poor. Only 30 percent of government health expenditure reaches the poorest 20 percent. Sri Lanka's health sector needs qualitative improvement. Environmental health also needs develop (Kelegama, 2001).

Primary education is offered for free. Every village in the country has at least a primary school. Total enrollment in education was 4.1 million of whom 50 percent were females. It has been estimated that the poor attain approximately seven years of education (Dutt & Gunawardena, 1995). The government makes special efforts to attract poor children to schools by offering free school textbooks and uniforms (each child is entitled to one set of uniforms a year). The long-term impact of investment on education on poverty reduction depends on its effectiveness on enhancing human capital formation and labor productivity. Overall government expenditure on education has made an important contribution to enhancing welfare. However, the quality of education is questionable.

However, by 1970, several questions were emerging in the national welfare system. The economy was not generating sufficient jobs to absorb the large number of youth that the education system was churning out. The increasing inflation eroded the real value of the food subsidy making it less effective in providing food security to the poor. Unrest among the youth, which led to a youth insurgency in 1971, was a result of these conditions (Wickremasinghe, 2004).

Among the early attempts at social and economic development one of the most significant had been the development of the major land settlement and irrigation schemes. Ending with British Colonial power in 1948, irrigation and land settlement policies may have contributed to poverty alleviation among the rural agrarian poor (Sanderatne, 2000). Due to historical reasons land settlement schemes centered on irrigation schemes were regarded as the best way to restore the country's past prosperity. Various governments have designed policies to make available fresh land for cultivation and to assist farmers to settle in new, cultivable areas because, the poor living in rural agricultural areas face scarcity of land, small size of land holdings, and lack of water.

Consequently, the land: man ratio worsened despite forest cover in the country declining significantly. The agricultural land per family fell to 1.9 acres in 1982. The accelerated Mahaweli Development Program[2] enabled this ratio to be slightly increased to assist the poor. The shortage of new land has had an adverse impact on poverty in the rural sector, with the average land holding falling below commercially viable levels. Roughly 67 percent of land holdings in Sri Lanka are less than 2 hectares. As the size of agriculture plots decrease, rural farmers become more risk and low-yield crops such as paddy (Sanderatne, 2000).

Lately, many rural households have increasingly become more dependent on transfers and remittances from family members working in urban areas or abroad.

[2] Mahweli is the longest river in the Sri Lanka. The massive multi-purpose Mahaweli Development Project involved the largest amount of investment for the construction of reservoirs, provision of physical, economic and social infrastructure, land preparation, for agriculture and settlement and the generation of hydroelectricity.

Land distributed by the government under various protected tenure arrangements such as land settlement schemes, colonization schemes, and village expansion schemes does not contain free-hold rights. Free-hold rights were not granted on thethinking that if granted free-hold, indebted farmers may sell the land and such sales of land could increase landlessness and poverty. This policy encourages rural small-holder agriculture and restricts transfer of cultivable land. The World Bank (1995) argues that lack of free-hold decreases investment efforts by farmers as they do not fully own the properties, and it intensifies uneconomical land fragmentation by preventing farmers from selling their land and moving to other activities. The pros and cons of these arguments are currently being analyzed by the government. Historically the country has been relatively successful in 'making services work for poor people' (Rannan-Eliya, 2001, cited in Russell, 2006), benefiting from the 'long route' to government and providing accountability to the poor.

Post 1977

During the early 1970s, the country was moving towards greater equity in income distribution with the left-wing government in power focusing on distribution policies and import substitution industrialization. But these policies neglected economic growth. It was not sustainable in the long run as economic growth was averaged 2.9 percent from 1971-77. By the mid-1970s growth had slowed down considerably and the economy was facing problems in all quarters. Under these conditions, the people voted in a government in 1977 that promised to pursue growth-oriented policies and to align the Sri Lankan economy with the global economic system (Wickremasinghe, 2004).

These liberalization policies of 1977 greatly reduced the welfare measures of the preceding period. Government spending on welfare fell as the benefits of the new growth strategy were expected to trickle down to the poorer sections of society through the medium of the market. On the one hand, universal free health and education services were retained within the new framework. On the other hand, welfare measures such as the provision of uniform material and mid-day meals for school children and "Mahapola" scholarships for university students were introduced in the post-liberalization period.

However, the export-oriented growth policies that have been pursued since 1977 have not been able to narrow the income disparities in the country, as the benefits of the high levels of growth experienced immediately after the opening up of the economy failed to seep through to the lower income strata. Labor force data reveal that unemployment is greater the higher the level of education. For instance in 2002, the educated population had an unemployment rate of 30.6 percent (Central Bank, 2002). This is also an indication that higher end job creation has been low relative to the increase in the workforce.

At the beginning of the 1980's the poverty alleviation programs took on a new dimension within participatory development, as an experiment through the Changing Agenda Program (CAP), in line with the new economic system. The CAP at the initial stage had a distinctive agenda of involving catalysts to empower the poor through guiding them to understand the causes for their situation in poverty and through this experience, to evolve strategies to challenge and change oppressive economic structure. By the mid 1980s 'social mobilization' and 'empowerment' of the poor was firmly entrenched as an approach to grassroots development by both the NGO and Intergraded Rural Development Program (IRDP) initiated by local level development programs (Karunanayake, 2002). Many of these participatory processes were rather narrowly conceived and concerned with specific activities such as credit mobilization (Shaw, 1999).

The CAP has clearly indicated that the majority of its participants are women who are members of male-headed households. The involvement of women as participants is an important and integral part of the success and continuation of the methodology of the program, such as funds built up by small group members to purchase goods at wholesale prices, which enabled women to save significantly on household expenditure. However, men are in the majority of decision-making positions, some having been Change Agents/catalysts at earlier stages of group formation and animation, but there is little or no discussion of the fact that women are the majority of participants (Kottegoda, 2000).

However, the poverty alleviation and income generation programs in Sri Lanka by the state as well as by the leading NGOs in the field show that overwhelmingly the target of much of these interventions has been on the family based households that are deemed to be poor. In the next sections, I will examine the major state poverty alleviation programs such as the Janasaviya Program and the Samurdhi Program.

3.4.3. Janasaviya Poverty Alleviation Program

The food subsidy program centered on free or concessional rice and applied universally across the population in Sri Lanka until 1977. However, this program suffered from various shortcomings (Herse *et al.*, 1989) and there were indications of poverty increasing and income inequality worsening by the mid-1980s (UNICEF, 1985). The government appointed a High Level Poverty Committee (HLPC[3]) that was appointed in 1988 made several recommendations to arrest the situation. As a Consequence of this report a targeted safety net program called Janasaviya came into operation in 1989. It was an income-transfer program that was designed to supplement the growth process (Lakshman, 1997). The program also had a credit-based entrepreneurial development dimension (World Bank, 1995). There were various add-ons such as the free mid-day meal program, free school textbooks, etc., that complemented the Janasaviya program.

The participatory development paradigm was elevated to a national scale with the introduction of the Janasaviya Program (JP). The Janasaviya (literally "people power") program was a prominent public sector program aimed at total eradication of poverty in country. Mr. R. Premadasa, a popular politician (at that time he was President in Sri Lanka) who had grassroots level connections, gave leadership to this program. The intention of the program was to enable the poor to establish a mode of income, either by becoming micro entrepreneurs or by acquiring relevant skills to obtain better jobs.

[3] Report by the high level committee (8 members including Governor of the CBSL and seven other specially selected secretaries of government) of on poverty alleviation through people-based development, final report on an Action Program, Seasonal Paper in May 1998 (Sirivardana, 2002).

The JP was intended to be phased in throughout the country in a total of 11 rounds; the first round was launched in 1989. Each round lasted for two years. However, the government ended the program after 5^{th} round. The JP introduced numerous other programs, and aimed at poverty alleviation and human development. These programs sought to address the specific problems of the poor such as lack of credit, devolution of power to the community level and the problem of lack of employment opportunity (Wickremasinghe, 2004).

The main tool used was a monthly cash transfer, for a period of two years, during which the households were supposed to obtain the means of exiting poverty. The grant amounted to Rs. 1458 (US $ 29)[4] per household per month, distributed through the local co-operative outlets, and which was basically a basket of food plus essentials for living offered in return for productive work for the self-improvement of the family and their asset base.The second stream of support was provided in the form of a loan, when applied for with a feasible project. The most important features of the program were the intense social mobilization process carried out at the grass roots level to create awareness among the poor regarding their situation and to derive solutions from within their own communities. Through the mobilization process and the regular community meetings, small groups and large organizations also formed that addressed the issues of the poor communities (Sirivardana, 2002).

From the poverty alleviation point of view JP had both positive and negative features. The positive aspect is that it tried to evolve more objective criteria for identifying the poor. The first is that the eligibility criteria was initially set at income below Rs. 700 per month per household and lists of those selected were presented at a public rally at the village level so that those disagreed with the selection process could present their views at this rally. Second, it envisaged ending of dependency of the poor on state handouts. Cash transfers were given only for a period of two years and the beneficiaries were expected to gradually work towards developing their own livelihoods within the stipulated time period. While this may be seen as an unrealistic target, it underscored the necessity on the part of the poor to develop

[4] At 1989 exchange rate Rs. 50 = $ 1

their own livelihoods within the two year period of Janasaviya support (Silva *et al.*, 2004).

Third, JP also sought to build community infrastructure through mobilization of voluntary labor of the beneficiaries and provide incentives to the poor to pursue their comparative advantages within the liberalized economic environment.

However, JP also presented several significant problems from the angle of poverty reduction. According to Silva *et al.* (2004) the program was a heavy burden for the counry's treasury. For the reason that, the beneficiary households were expected to get a lump sum payment of Rs. 25,000 at the end of the two-year period to be used as capital for micro enterprise if necessary, because, at the beginning of the program, the government promised to pay 25,000 for beneficiaries. But it did not pay and this meant that the time limits initially set for the program could not be met in reality. Additionally, the program was heavily politicized, and individual politicians gave leadership to the program. The program did receive much visibility and political clout during the period when president Premadasa was very powerful. He did utilize JP as a means of creating a political base among the under privileged groups with whom he often identified himself.

However, in 1990 the World Bank and government struck an agreement under which the Bank would assist in the design and financing of a new poverty alleviation project as part of a government undertaking to reduce welfare spending and restructure and streamline the welfare sector. The new project, known as the Janasaviya Trust Fund, commenced operations in 1991. In 1994 the new government agreed on a return to the original project objectives; the reference to Janasaviya was dropped and it was renamed the National Development Trust Fund (NDTF), and it was established with World Bank support in 1994 (Shaw, 1999) with the specific objective of involving civil society and NGO actors in poverty alleviation efforts (Gunatilake, 1996). Nevertheless, the JP became another program directly implemented by the government with limited participation of NGOs. Moreover, many independent evaluations show that expected goals were not achieved. Some studies found that many income-generation activities started by beneficiaries of JP were not successful in pushing them out of poverty or ending their dependence on the government (Gunatilake, 1997).

Most of the poor participate with community activities under the JP, such as repairing their village roads, building village community halls, giving labor help to each other, and there are also high rates of attendance for the regular meetings. The program introduced a saving and credit system. Local people save their money in their own account, and also in the group account. At that time the program didn't have its own bank system, so these accounts were opened nearby in other banks. It is very complicated, because most commercial bank less support for the poor. The program activities were operated under the government officer in the village, called Gramaniladary. Other social groups (political and other village leaders) dominated the program at the community level. The village leaders or political party leaders played a significant role in the Janasaviya Program (Gunathilaka, 1997). Within this situation, there was little evidence of grassroots empowerment under the Janasaviya Program in the village level.

Even though JP projected itself as a move away from the typical "top down" approach of government programs, in reality JP was very much characterized by centralized power and authority. In spite of ideologically driven emphasis on social mobilization and empowerment of the poor, JP had limited achievements in articulating common interests among the poor or fostering pro-poor policies in general (Sriwardana, 1998 cited in Silva, 2004).

3.4.4 Samurdhi Program

In the past, various poverty alleviation programs have been carried out by government and NGOs, in order to reduce poverty in Sri Lanka. Most of them targeted the areas where special problems had arisen in connection with poverty or investigations carried out to gain experience. But the government which recognizes, as a policy, to implement an island wide program to alleviate poverty in country, took action to transfer this subject to a separate Ministry which is called the "Ministry of Samurdhi" and to appoint a new minister entrusted with the responsibility of such subjects and who is responsible to the cabinet of ministers and to the Parliament. The Samurdhi Authority was established under terms of the "Samurdhi Authority of Sri Lanka" in 1995 and institutionalizes function made under the authority (Samurdhi Authority Annual Report, 2003). This new policy change focused on developing the poorer nation and making the poor an advantageous group of society by allowing and gets them to contribute to in the process of national development.

Nevertheless, in 1995 a more ambitious program called Samurdhi replaced the Janasaviya program. There were a number of differences between the two programs as to coverage. The program was basically an income transfer to the poor to help them get out of the poverty trap. It covered 55 percent of the population by targeting 2 million households. The allocation for the program in 1998 amounted to 1.3 percent of GDP and 3.6 percent of government expenditure. As can be seen, the poverty-focused programs accounted for nearly 2 percent of GDP in 1997. The SP addressed poverty on many fronts, and sought to address several dimensions of poverty through numerous fragmented programs (Shaw, 1999).

There are three main development approaches clearly visible within the Samurdhi Program. It is welfare, rural development, and Samurdhi Bank movement. These three mechanisms are impact on each other. The first is a welfare grant to purchase essential commodities of poor households that acts both as a consumption subsidy and a nutrition supplement. In 1998 nearly 80 percent of the Samurdhi expenditure was allocated for this grant. The grant amounted to Rs. 100 to 1000 per household per month depending on its level of poverty and demographic composition. The cash transfer is divided among consumption, compulsory savings and social insurance scheme. This program does not specify a time frame for receiving grants. When a household member finds employment or when a household income exceeds Rs. 2,000 and remains so for six months, such households must exit from the Samurdhi program. However, the primary focus was on the income aspect and main tool was the cash transfer.

The Second component is a Community Infrastructure Development Program (CIDP) is undertaken by the community. Samurdhi Authority helps to rehabilitate and develop local community infrastructure such as small-scale projects such as road, bridges etc. The main vision of this program is provision of infrastructure facilities required for the people including of the disadvantaged groups living in all areas of the island in both rural and urban.

The Samurdhi Commissioner's Department fully funds for the CIDP, which are expected to provide off-season employment for Samurdhi recipients. These projects, which are operative on a larger scale, involve improving infrastructure such as roads, irrigation canals, bridges, safe drinking water supply facilities, dams and community centers. These projects are being selected as far as possible according to the needs of the poor community.

The third component is the savings, credit, insurance and social security schemes that improve access to finance for households. The credit is used for microenterprise launch and income generating activities. It is basically intended to expand the productive assets available to the poor. The program is providing infrastructural facilities for the Samurdhi Bank such as building and employees, stationery and other major requirements within two years. After two years the bank should have to maintain itself with its own resources and the government pays only the employee's salary. Most of the banks were already profiting (see Table 3.3), some banks including employee and others excluding employee expenditures.

Table 3.3 Number of Samurdhi Bank Unions Which Have Earned Profits in 2003 Islandwide

Definition	No. of Bank Union	Percentage
Including salaries of the employees	459	46.1
excluding salaries of the employees	489	49.1
Bank Unions sustained losses	48	4.8
Total	**996**	**100**

Source: Samurdhi Authority Annual Report, 2003

The social security scheme operating under the Samurdhi Social Security Trust Fund Provide social security cover to the poor. Because, the all of insurance companies were created to provided security for the rich and not to protect the poor. A sum of Rs. 30 of the cash transfer is withdrawn monthly for the social insurance scheme (Samurdhi Social Security Fund). The social security fund thus accumulated is used to pay social security claims in the case of births (Rs. 5000), deaths (Rs. 10,000), chronic illnesses (Rs. 50 per day hospitalization up to 1,500 for a year) and other disasters etc. These grave situations can push poor families back into debt. When the poor have difficulties, both rural and urban poor rush to the money lender, sell household silver and gold or mortgage property. The social security scheme has diffused this fear and anxiety in families. According to CBSL Annual Report (2002), the Samurdhi Social Security Fund paid out Rs. 128 million as compensation against 84,119 claims.

The Samurdhi program is overlooked at the grassroots level by 23,227 Samurdhi mobilizers working under 1994 Samurdhi managers. These officers have been appointed as full time moderators. They join this process in their respective villages. At the management level, graduates have been appointed as Samurdhi managers. Above these levels, the Divisional Secretary and the District Secretary join the process. There are several Samurdhi Zones in a one region and Samurdhi managers have supervised the Samurdhi development officers.

Many sub programs are implemented under the Samurdhi Program such as agriculture, animal husbandry, industrial development, marketing development and social development programs. The prime objectives of these programs are to identify the efficient, long-term projects for beneficiaries in the program, and provide facilities required to develop and implement such projects in order to ameliorate the living standards of the people with low incomes. Although, various programs have been carried out by government and non-governmental organizations in order to reduce poverty in the country, most of them were targeted in the areas where special problems arose in connection with poverty or investigations carried out to gain experience.

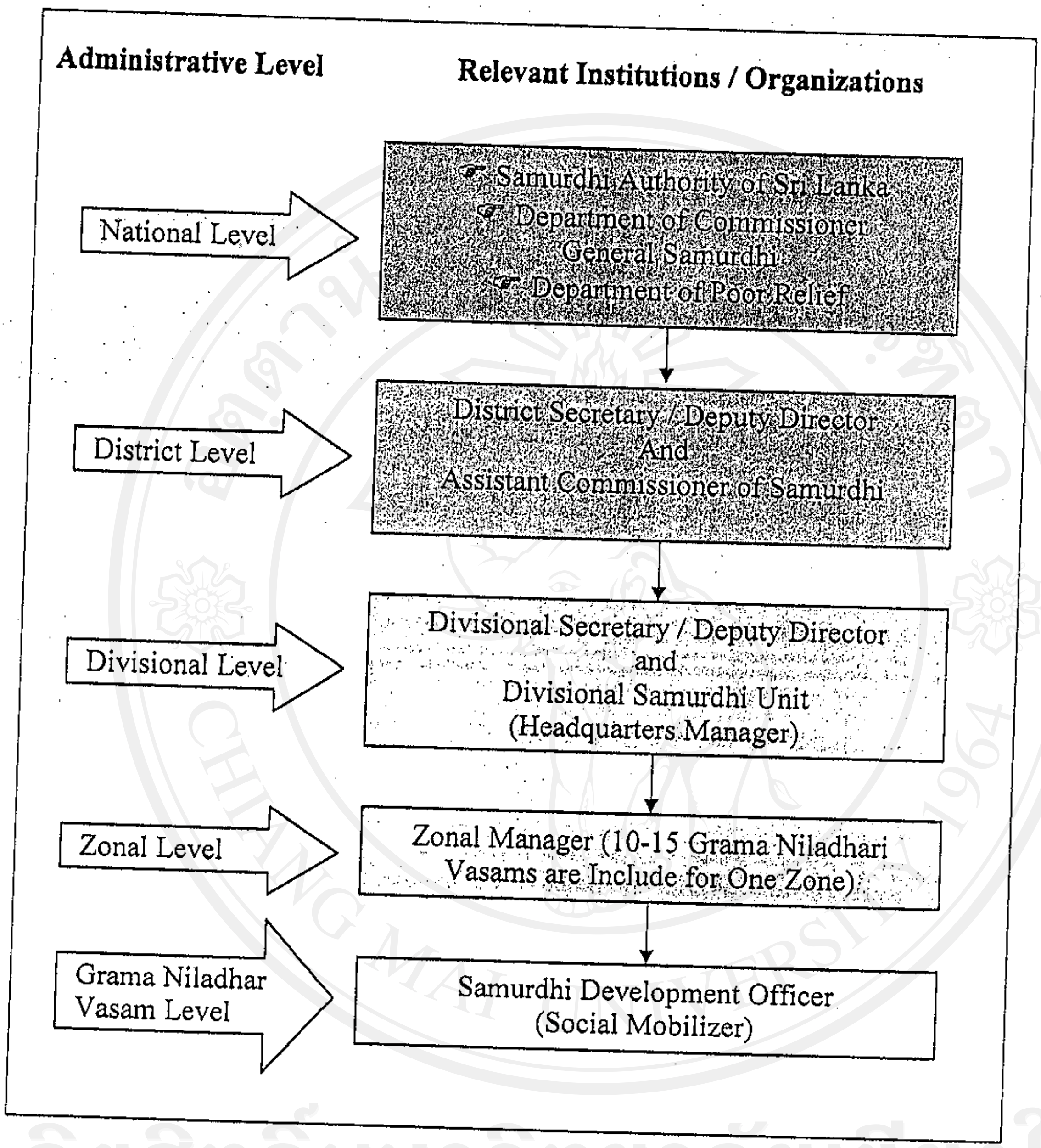

Figure 3. 1 Institutional and Organizational Structure for the Implementation of the Samurhi Program

However, there are several welfare programs that parallel the main poverty alleviation program such as Mid-Day Meal Program, School Text-Book Program, School Uniforms for school children, Thriposha Program (government enhance nutrition program) for women and children, public aid program for support to the chronically sick, disabled or widows and orphans. Despite these programs, people still face so many difficulties and problems, though.

3.4.5 Effectiveness of the Samurdhi Program

The Samurdhi Program can be measured in two ways, such as effectiveness as a safety net for the poor and effectiveness in fostering income generation activities among the poor. As the leading public sector poverty alleviation program on the island since 1995, SP has several positive and negative implications for the economic reform agenda. I will look at these, both aspects and also determine its impact for the poor at the same time.

Some survey noted that the safety net program counts the achievements of SP as less satisfactory (Yapa, 2002). As the SP covered two million families approximately in 2003 (see Table 3.4), total 55 percent of households are beneficiaries, which is about twice the estimated age of poor in the country.

Table 3.4 Samurdhi Welfare in 2003 Number of Beneficiary Families and Value of Grants in Islandwide

Cash Grant Amount (Rs.)	**2001**		
	No. of Families	**%**	**Value** (Rs. Million)
1,000	8,968	0.5	108
700	858,902	43.7	7,215
400	487,991	24.8	2,342
350	363,752	18.5	1,528
250	233,718	11.9	701
140	9,282	0.6	16
Total	**1,962,613**	**100**	**11,910**

Source: Department of Poor Relief, cited in CBSL Annual Report 2002

Nevertheless, Table 3.4 shows that most of the poor beneficiary households receive much less for instance, monthly allowance for 43 percent of families is Rs. 700, 24 percent receive Rs 400, and 18.5 percent Rs 350. While Samurdhi transfers cannot be seen as a major boost to household income even among the poorest groups. There is some evidence that these transfers do constitute an important component of survival strategies employed by the poor.

Table 3.5 Poverty Incidence Versus Samurdhi Coverage

District	Consumption Poverty	Human Poverty	% of Households Receiving Samurdhi
Colombo	19	13	23.27
Gampaha	21	12	47.17
Kalutara	38	16	37.53
Kandy	42	17	47.06
Matale	51	21	57.14
Nuwara Eliya	40	30	30.37
Galle	39	19	48.15
Matara	44	19	54.01
Hambantota	43	23	59.54
Kurunagala	53	22	61.28
Puttalam	51	19	52.29
Anuradhapura	50	21	52.57
Polonnaruwa	40	28	45.82
Badulla	48	27	40.49
Moneragala	66	29	62.33
Ratnapura	52	25	65.43
Kegalle	41	24	53.34
Ampara	NA	NA	57.69

Source: ADB (2001), p. 13. Cited in Silva *et al.*, (2004)

As evident from Table 3.5, there is no consistent relationship between poverty incidence and coverage of SP in various districts. This is clear evidence that there is leakage of benefits to the non-poor sections of the population. Silva *et al.*, (2004) also noted that fiscal burden of SP was heavier than that of JP. Because it is took up one percent of GDP as compared to 0.7 spent on JP at the height of its implementation.

In some respects, SP represented a higher degree of politicization. The program was used as an employment generation scheme for unemployed youth mobilized by the ruling party. A rigid enforcement of eligibility criteria for selection of beneficiaries was made difficult. One cause is that the mobilizers responsible for selecting beneficiaries were expected to sometime favor their own party supporters. But the problem behind this cause is not only mobilizer politician power. Samurdhi mobilizers and beneficiaries were in turn mobilized by national and local politicians as a political machine sometime engaged in election malpractices favorable to the ruling party (Gunatilaka *et al.*, 1997).

But this situation is different in different villages and different areas. Most of the programs have faced difficulties around the selection of beneficiaries. The SP received a lot of criticism during the last regime due to the politicized nature of the program. It is true because new plans were prepared to implement the SP as a more productive, efficient, sustainable and non-political program from 2003 (Samurdhi Authority of Sri Lanka Annual Report, 2003). The evaluations of the Samurdhi program have pointed to main problems, namely leakages and exclusions (Silva *et al.*, 2004). Leakages occur when some non-poor households receive Samurdhi benefits due to political or social contact. Exclusion takes place when deserving poor are excluded from the program due to political victimization or lack of necessary power and contact. There is a clear discrepancy between reported poverty incidences in the country.

A recent study conducted by the Center for Poverty Analysis (CEPA[5]) found that certain poor households depend on unstable casual incomes from wage labor. Samurdhi allowances often constitute the only predictable source of income in an

[5] CEPA is a Non-governmental Organization, professional service provider promoting a better understanding of poverty related issues in Sri Lanka with financial sponsorship by the German Technical Cooperation (GTZ).

otherwise highly insecure pattern of livelihoods. Samurdhi saving and credit programs may also be used to augment survival strategies of the poor. One part of the whole, Samurdhi transfers can have a considerable consumption smoothing impact on poorer households.

However, Gunatilaka and Salih (1999) have argued that Samurdhi's group savings and intragroup credit component and the Samurdhi Bank program are functioning as vital sources of emergency credit for Samurdhi beneficiaries. It is also aimed at promoting self-reliance on the basis of nurturing a saving culture and development of income generating self-employment. However, program sustainability is heavily reliant on the income transfer component. It is a priority as reflected in the fact that 80 percent of the budget is allocated to the income transfer scheme.

They also find that the microenterprise credit component has failed in its objective of promoting the poor to a higher income growth path. Those who assessed the savings and credit component of the program found that while providing some relief to the poor it lacks sustainability and effectiveness. However, on the one hand, Samurdhi's intra-group credit scheme has played a key role in providing a safety net for the poor and reducing their vulnerability.

Even where participation rates are high, the credit safety net is due more to the high rate in savings participation secured by the income transfer program, than the establishment of a dynamic savings and credit culture. The scheme fails to enable the poor to move into higher income brackets. There are several reasons for this as explained in chapter 6 such as very small self-employed projects, the loan size, and some urban areas experience a high default rate. Furthermore, the poorest are the least able in terms of skills, attitude towards risks, and access to additional sources of financing to start viable small businesses that are anything more than survival strategies.

3.5 Summary

The development era in Sri Lanka provides the larger historical context in which global development assistance such as World Bank, ADB, WTO, and IMF, all see economic development, an expansion of production forces and increasing income, as the solution to poverty. It has always been a tradition to put efforts to reduce poverty on top of the government agenda.

In addition to its achievements in social indicators, Sri Lanka managed to completely eradicate starvation and destitution. Estimates of the extent of poverty in Sri Lanka vary, but there is a consensus that poverty is mainly rural but urban poverty is also significant. One reason for the lack of good economic performance was the social welfare programs themselves creating problems for economic management.

The participatory development paradigm was elevated to a national scale with the introduction of the Janasaviya Program (JP) and Samurdhi Program (SP) The conceptual framework of Samurdhi clearly recognizes the complexity of the problem of poverty. The long-term strategies focus on poverty alleviation through social mobilization, empowerment and micro-enterprise development. Samurdhi's group savings and intragroup credit component and the Samurdhi Bank program are functioning as vital sources of emergency credit for the poor, but it has failed in its objective of promoting the poor to a higher income growth path. This program could intervene in socio-economic life and living conditions, especially the low income families living in the village. However, from the poverty alleviation point of view these programs had both positive and negative features. All poverty alleviation programs put into operation by the state since 1989 become highly politicized at the implementation stage. This politicization has resulted in two flaws in the programs that in turn have curbed their effectiveness.