

# POVERTY ALLEVIATION: THE OPERATION AND IMPLICATIONS OF THE JANASAVIYA PROGRAM IN SRI LANKA

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*Abstract: The inequality of income distribution and the number of people below the poverty level have increased after the 1977 trade liberalization in Sri Lanka. The 1989 Janasaviya program attempts to reduce the poverty at a massive scale and to integrate the marginalized people into the economic mainstream. This program emerged as a dual solution to the budgetary problem (continuing food subsidy outlays) and to the increasing poverty while the government maintains open economic policies to foster higher economic growth.*

## INTRODUCTION

After the introduction of liberalized trade and open economic policies in 1977, the inequality of income distribution has widened in Sri Lanka (*Economic Review*, 1988). During these years, in spite of higher economic growth, the number of people below the poverty line has also increased (Mendis, 1992: pp. 2-3). Furthermore, Mendis (p. 21) writes that market economic policies have so far failed to prove in practice the socially unacceptable Kuznets curve proposition which describes that the rich must be made richer before the poor can hope to become better off. The post-1977 policies marked a drastic departure from the previous equity-oriented policies pursued by pro-socialist governments.

The re-elected 1989 governments early on recognized the failure of their free market economy and introduced a massive poverty alleviation program, known as "Janasaviya," (which means People's Strengthen in

Sinhalese) in order to integrate the poorer income groups into the mainstream of the production process (Mendis, 1991). The Janasaviya program is an indigenous innovation by its people rather than an imported development package from the West; therefore, unprecedented commitment comes from the highest level of government to empower the poorest of poor. It is one of the highest national priorities as reflected in the 1990-91 budget allocation (Rs. 4.9 billion). This program seeks to achieve a dual objective: growth with equality.

## THE CONCEPT AND OPERATION

Compared to the earlier Food Subsidy Program (1942-1978) and the Food Stamps Program (1979-89), which were implemented merely to sustain the poor, the Janasaviya Program is aimed at providing more than subsidized food. The Janasaviya concept, which evolves around both consumption and investment components, provides a grant of Rs. 2,500 (about US\$ 63) per month per family for two-year period to 1.4 million families (about one-half of the population) who are below the official poverty line. Those who could not meet the criteria of

minimum daily calorie intake of 2,200, established by the Medical Research Institute of Sri Lanka, are considered below the poverty line.

The purpose of providing Rs. 2,500 per month for a family below the poverty line is to empower their economic base and to help them break away from the vicious circle. The consumption allowance, nearly 50 percent of the Janasaviya grant, will be given in a form of food stamps (Janasaviyapaths) to purchase the essential food items, largely locally produced, from the respective Multi-purpose Cooperative Societies (Table 1). The rest is deposited in a savings account in the National Saving Bank branches or local post offices. This investment, which amounts to over Rs. 25,000 at the end of two years, can be used as collateral (individually and/or collectively) to obtain a loan for a micro-enterprise.

The entire program, which includes 272 Assistant Government Agents (AGA) divisions in all 25 districts, is implemented through the existing institutional and administrative system. (Sri Lanka Administrative Service is considered to be sophisticated among developing countries. The present institutional and administrative structure is one of the legacies of the British colonialism). The poorest groups in selected AGA divisions are given the first priority and will continue in 11-rounds to cover all three sectors of the economy: urban, rural, and estate. A network of Post Office Savings Banks and

Table 1

Components of the Janasaviya Program (In Rupees)			
Period	Consumption (Janasaviyapath)	Savings (to be invested)	Total
Monthly	1,458	1,042	2,500
Yearly	17,496	12,504	30,000
Two Years' total	34,992	25,008	60,000



obtained either by reducing capital investment expenditures or by attracting foreign aid. Table 2, example, illustrates that the allocated national budget for the first round is not adequate (Rs. 1.2 billion deficit) so that external financing should be considered. But, the available funds would certainly cover the required consumption component of Rs. 3.3 billion; whereas, the investment component is concerned the budgetary allocation would not be sufficient. One may argue, however, that the required funds for investment would not immediately be necessary because the savings are internally circulated within banks until funds are actually discharged for investment activities at the end of two year period. The actual expenditure for the program would then only be consumption component at least for two years.

- (3) Providing funds to public works so that rural poor can find employment in building and maintaining common amenities, such as roads, bridges, schools, hospitals, parks, and libraries.

The Trust also facilitates organizations from various regions to work as partner-organizations. A partner-organization can be formed with or within governmental, non-governmental, banks or rural groups. The Trust Fund, which is primarily designed to invest in projects and public work programs, only provides three-year budget of Rs. 4 billion but the investment component at the current level would require over Rs. 7 billion for three years. For the entire programme to cover 1.4 million families, a total of Rs. 49 billion at least for the consumption is needed

country since there exists a low level of savings and investment. In addition, the annual growth rate, the interest rate on savings, the rate of inflation, and the political environment would considerably affect the savings and investment component.

The Janasaviya program would increase the per capita income of a family to Rs. 30,000 (\$750) and this would help increase the average per capita income of \$420 (1988 data) to a higher level. The government also needs to increase the minimum public employee salary to a Rs. 2,500 base (there were public employee strikes when the Janasaviya Bill was introduced in the Parliament) in order to maintain the public servants' morale and effectiveness. This measure would increase the salary in the public sector. The financing of the Janasaviya Program has itself created a higher income level with a greater purchasing power which could increase 11 percent inflation rate at the least in the short-run. This is more likely as long as the domestic food production remains low and the liberalized import exists. The country may face more difficulties in the balance of payment as well as in the budget deficit. It is, however, assumed that the domestic production would increase due to the investment component and at the same time the consumption money would create a greater demand for food items.

**Table 2**

The First Year Expenditure and Budget Allocation for the Selected 188,000 Families in 25 Districts			
Expenditure:			
Components		=	(in billion)
Consumption	(Rs. 17,496 × 188,000)	=	3.289
Savings	(Rs. 12,504 × 188,000)	=	2.351
Total		=	5.640
Budgetary allocation:			
1989/90 total PAP allocation		=	4.9
(-) Administration		=	.5
Actual funds for the program		=	4.4
Deficit		=	1.240

Source: Dias, (1989: p. 1)

Note: The amount of Rs. 7.2 billion was approved but only Rs. 4.9 billion will be spent initially for the program.

The funds for investment component have to come from external sources. The Janasaviya Trust, which was established by a world Bank grant of US \$100 million (Rs. 4 billion) for three years, plays an integral financial role in three different areas:

- (1) Providing credit to poor without collateral. Those who productively use the credit are further eligible to more loan without collateral.
- (2) Providing training to individuals and organizations to plan and manage their projects and programs.

(Table 3). The investment allocation, which is estimated over Rs. 35 billion to complete all 11-rounds, cannot be generated within the

### MARKET PROBLEMS AND ENTREPRENEURSHIP

The Janasaviya Program seems to emanate from the Keynesian thinking that the increase of aggregate demand would increase employment and real income; thereby, the economy would take up from its existing level of unemployment towards its full use of resources. The aggregate demand comprises of both consumption and investment so that autonomous increase in both is expected to raise employment opportunities and sources of income. It is anticipated that a multiplier effect would emerge as the economy begins to expand.

**Table 3**

Total Funds Needed for 1.4 million Families (billion Rupees)			
Period	Consumption	Investment	Total
Monthly	2.04	1.46	3.5
Yearly	24.50	17.50	42.0
Two Years' total	48.99	35.01	84.0

The Keynesian solution may be likely to work in developed free market economies but it would unlikely be operating in Sri Lanka. The structural rigidities tend to inhibit the response of productive resources to increase money demand (Indrarathna, 1989: p. 12-13). The government intervention as an agent of facilitating free market conditions at every level is needed. For example, the 1991 Janasaviya Exhibition has demonstrated that small-scale production can be generated but there exists problems of marketing. The potential markets for those products do not adequately prevail in Sri Lanka. More importantly, the domestic food production needs to be a high priority rather than pure income-generating ventures where no sufficient markets exist.

The higher level of income through the increase of Janasaviya allowance may create a new set of consumption needs which can be met by the increase of imports (more likely within open market conditions) or by the increase in domestic production. Since domestic production does not meet the needs of food consumption, at least at the initial stage, the prices of goods and services would rise. It is, however, possible that higher prices would not respond immediately to increase the production. This unresponsive situation had occurred prior to World War II when the government allowed the free market forces to stimulate domestic food production. As the Keynesian model predicts, the money multiplier would work only if the level of production increases. The response of real multiplier on potential production usually takes longer to be operational, especially in agricultural-related sectors. Until the production activities are organized and the domestic production comes on stream to match the increased demand, some price escalation could temporarily be anticipated. In the meantime, the government should monitor price level and re-enforce various channels of marketing and distribution activities as part of price stabilization. When and if the production level on the rise, these measures would no longer be necessary and the government can and should leave the market itself to govern. If this situation takes place, the level of consumer prices would increase at least moderately; if not, the increasing price level would fuel the rate of staggering inflation.

The logical basis for financing a employment opportunity comes from a Central Bank study which indicates that at least Rs. 30,000 (1984 prices) would be needed to create one productive job through a credit scheme. It is anticipated that every Janasaviya

recipient in a family of four or five will be employed by the end of first year. This would amount to at least 150,000 employment opportunities per year (300,000 in two years). The reduction of unemployment is assumed through the involvement of additional income generating activities which could bring a multiplier effect. The unemployment figure, which is more than 12 percent of the labour force (about 1.2 million people) is too high for an anticipated reduction within a few years, given the number of people joining the productive labour force each year (at a rate of two percent). The Keynesian solution may well be worked out in a long-run when labor-intensive small industries in agriculture, livestock, poultry farming, and other "informal" industries (i. e., handloom and handicraft) become possible avenues of sustainable employment.

At present, the country's entire development strategy is centered around the Janasaviya which emphasizes the reform of agricultural, industrial, and service sectors. Numerous facilities in fertilizer, seed, raw material, chemical, and other inputs are organized to target local needs. Extension services for agriculture, cottage industry, and industrial sectors and, training and educational programs on entrepreneurship are put in place. The question may still remain as to whether the educational and training of Janasaviya can not discontinue the program after a two-year period to reduce the poverty. One may strongly argue that the poverty could remain intact (or even increase) even if families have reached a stable income, because of the decreasing purchasing power in the economy. The Janasaviya program does need to focus on re-targeting the peripheralized people on a continual basis because the poverty reduction is itself a process.

#### CONCLUSION

The future success of the Program would derive from the development of the following areas:

- (1) The ability of public financing without distracting other investment programs which provide necessary infrastructure to facilitate the market-friendly business environment and by avoiding inflationary pressure on the economy as a result of internal (i.e., printing money) and external means of financing;
- (2) Further strengthening of the institutional system and promoting the efficacy of administrative mechanism, especially at the lower levels where politically motivated negative forces could obstruct the program;

- (3) Increasing the avenues of developing entrepreneurial and managerial skills in order to increase the industrial and agricultural production, particularly at the micro-level; and
- (4) Developing a marketing process and effective distribution network by strengthening the Multi-purpose Co-operative Societies and other channels.

Despite some initial difficulties as expected, the Janasaviya recipients would lead to an entrepreneurial class by developing technical, organizational, and managerial skills. In the past, Sri Lanka has experienced high social and educational achievements but the people from the lower income groups were not developed with entrepreneurial spirit for two reasons: lack of financial resources for micro-enterprises and unfriendly business environment. The Janasaviya investment component and prevailing market-oriented policies may well be conducive to unleash entrepreneurs from the lethargic past. It is, however, premature to predict the potential outcome of Janasaviya which is less than three years old.

#### SECONDARY SAFETY NET

The Janasaviya Program emerged as a two-facet solution to the budgetary problem and to the increasing poverty. It is expected that the budgetary expenditure on food stamps can systematically be phased out as the Janasaviya program comes to its completion. The fundamental question still remains: What would happen to the beneficiaries who may not sufficiently be integrated into the productive economic force at the end of two-year period?

There is no independent evaluation to justify this but the government data, based on the May 1991 Program review of the first round, asserts that about 57 percent of Janasaviya families in the country had already achieved a stable income level above Rs. 1,500 while 27 percent achieved an income level between Rs. 1,000 - 1,500. The remainder of 17 percent, whose income stayed below Rs. 1,000, is still considered as the vulnerable group (*Growth and Social Progress in Sri Lanka*, 1991: p. 84), for those who are still marginalized in the process do need further safety net to succeed. The government Program has thus far shown several positive changes among the poor. Should the program be successful, it may change the socio-economic landscape by completely removing the Food Subsidy/Stamps Programs, which had for almost five decade been a burden to the economic growth and by changing the perception that people in economic poverty can be as productive and

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talented as those of higher income groups. Poverty is indeed an inconvenience for both the poor and the rich; hence, it must be reduced for mutual advancement.

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