

Export Production Village Programme: An Evaluation of Two EPVs; Dambadeniya and Saliya Asokapura

**M.L.M. Ariyabandu
J.K.M.D. Chandrasiri**

Research Study No. 98

November 1999

**Hector Kobbekaduwa
Agrarian Research & Training Institute.
114, Wijerama Mawatha,
Colombo 7.
Sri Lanka.**

21885

3.7 : 382

5L)

HEC

2009/06

06

2010/04

Export Production Village Programme: An Evaluation of Two EPVs; Dambadeniya and Saliya Asokapura

11268

Z
MF

M.L.M. Ariyabandu
J.K.M.D. Chandrasiri



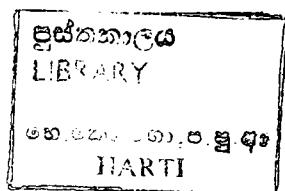
Research Study No. 98

November 1999

Hector Kobbekaduwa
Agrarian Research & Training Institute.
114, Wijerama Mawatha,
Colombo 7.
Sri Lanka.

21885

21885



ISBN 955-612-016-5

FOREWORD

In pursuant to the economic liberalization policies after 1977 many programmes and projects were introduced by the government to develop the country. Export Production Village (EPV) programme is one such innovative action. This programme was initiated in 1980 under the Ministry of Trade. The major objective of the programme was to create employment and enhance the income and standard of living of the rural people in addition to encouraging foreign exchange earning.

The core idea of the major strategy of the EPV programme is to organize production in villages directly for the export market. Under this programme it was expected to start production based on advanced and secure marketing arrangements such as supply contracts for specific products at pre-agreed prices. The products were expected to be directly purchased by export companies. The avoidance of involvement of intermediaries in the process of marketing was expected to bring about higher prices and more benefits for the producers.

The EPV programme was expanded and became more popular by late 1980s. EPV companies functioning in a number of districts were based on a wide range of products, rather than on agricultural products alone.

The Agrarian Research and Training Institute (ARTI)[now Hector Kobbekaduwa Agrarian Research and Training Institute (HARTI)] conducted a research study on this programme in 1990 to evaluate it with the aim of generating information and to highlight important policy guidelines. Due to limited resource availability, the study was conducted on two EPV companies, namely, Dambadeniya and Saliya Asokapura.

The findings of the study reveal that the EPV strategy has not worked in the rural setup as expected. The main reason has been its inability to establish self sustained commercial organizations of village producers with required capacity to involve in the competitive market in the long run.

This publication which is being published now presents data collected in 1990. Nevertheless, the EPV programmes by opening up access to foreign markets has been able to generate a new attitude and enhance knowledge among rural producers on the potentials of high quality output, standards, packaging and timely delivery, which are also necessary ingredients to steer the new agricultural policy of the present government in a globalized context. Thus the EPV programme has left a lasting impact in this respect.

Dr. R.D. Wanigaratne, a former Head of the Agricultural Planning and Evaluation (APE) Division of the HARTI prepared the proposal to conduct this study. Mrs. M.L.M. Ariyabandu, one of the earlier Research and Training Officers of the APE Division, coordinated the field work and Mr. J.K.M.D. Chandrasiri, Research and Training Officer of the same Division worked as the co-researcher. This report is the outcome of their efforts.

Dr. S.G. Samarasinghe
DIRECTOR/HARTI

ACKNOWLEDGMENT

There are many individuals who helped in different ways to make this study a success. The authors wish to acknowledge all of them.

It was Dr. R.D. Wanigaratne, a former Head of the Agricultural Planning and Evaluation (APV) Division of the Agrarian Research and Training Institute (ARTI), who proposed this study. In addition to preparing the study proposal, he also contributed to this study by providing important guidelines for conducting the field work. Mr. G.D.P. Seneviratne, former Director for the ARTI, encouraged us throughout the study until its successful completion. We gratefully acknowledge their contributions.

Mr. Athulathmudali Abeysekera, the Assistant Government Agent of Alawwa and Mr. B. Wanniarachchi, Managing Director of Dambadeniya Export Production Company, provided adequate information about the Dambadeniya EPV company. The office bearers and beneficiary members of both Dambadeniya and Rajangana EPVs provided information about the functional aspects of the each EPV company and related information. Mr. K. Gunaratnam, Chairman, and Mr. K.H.Camillus Fernando, Director General and also Mr. S.P.V. Pieris, Deputy Director, EPV Unit of the Export Development Board assisted us to obtain valuable information about the EPV concept, its evolution and other valuable information in relation to its operation. A number of export firms, including the Stassan Exports Ltd., provided important market information in relation to the EPV programme. We acknowledge the assistance provided by all of them with great pleasure.

Mr. N.N.A. de Silva, Statistical Officer of the Agricultural Planning and Evaluation Division of the HARTI directed data collection and processing. He was assisted by number of casual investigators including Mr. K. Mahanama, Mr. K.M. Bandaranayake and Miss. C.P. Perera. We would like to thank them as well.

The study report was edited by Mr. Malinda Seneviratne, former

Editor of the HARTI. Miss. N.F.D. Miskin, Stenographer of the APE Division, did word processing work and Mr. L.A. Palitha Gunaratne of the Publication Unit prepared the final script for publication. We thank them too.

Finally we would like to thank Dr. S.G. Samarasinghe, present Director of HARTI for taking necessary action to publish this study report.

AUTHORS

Contents

	Page
Foreward	iii
Acknowledgement	v
List of Tables	x

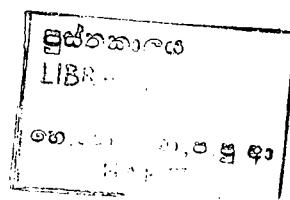
CHAPTER ONE

Introduction

1.1	Export Production Village Concept	1
1.2	The ARTI Study	5
1.2.1	Justification of the Study	5
1.2.2	Objectives of the Study	5
1.2.3	Research Method	6
1.2.4	Selection of EPVs	6
1.2.4.1	Dambadeniya EPV	7
1.2.4.2	Saliya Asokapura (Rajangana) EPV	7

CHAPTER TWO

	Dambadeniya Export Production Village	9
2.1	Introduction	9
2.2	The Management	9
2.3	Organization of Production	10
2.3.1	The Membership	11
2.3.2	Raw Materials	11
2.4	Socio-Economic Characteristics of the Producers	12
2.4.1	Employment Structure	14
2.4.1.1	Land Ownership Pattern	14
2.5	Employment Generation	15
2.6	Marketing Arrangements in Dambadeniya EPV	18
2.7	Producer Remuneration	20
2.8	Expenditure Patterns	23



2.9	Problems and Constraints	24
2.9.1	Sustainability of the Venture	24

CHAPTER THREE

Saliya-Asokapura Export Production Village

3.1	Introduction	27
3.2	The Management	28
3.2.1	Operational Procedure of the S-A EPV	30
3.3	Socio-Economic Characteristics of the EPV Members	30
3.3.1	Introduction	30
3.3.2	Age Structure	31
3.3.3	Educational Levels	31
3.3.4	Economic Activities	32
3.4	Marketing	33
3.4.1	Marketing of Green Chillies in the Rajangana Left Bank	33
3.4.2	The Pricing Mechanism	34
3.4.3	Exporters' View on Pricing	37
3.5	The S-A EPV Performance	39
3.5.1	Green Chillies Supply	39
3.6	Employment Generation	44
3.7	Income and Expenditure	46
3.8	Major Problem Areas Concerning the S-A EPV	47
3.8.1	Malpractices of the Management	47
3.8.2	Other Problems	50
3.9	General Problems Concerning Chillies Cultivation at the RLB	51
3.9.1	Operation and Maintenance of the Lift Irrigation	51
3.9.2	Extension Services	52

CHAPTER FOUR

	The EPV Concept and its Practical Implementation	54
4.1	The Institutional Structure	54
4.2	The Linkages	56

CHAPTER FIVE

Conclusions and Recommendations	57
5.1 Dambadeniya EPV: Conclusions	57
5.2 Recommendations	58
5.3 Saliya-Asokapura EPV: Conclusions	55
5.4 Recommendations	60
5.5 General Conclusions	61
5.6 General Recommendations	63
References	64

List of Tables

Table	Page
1.1 The Number of EPVs in each category	3
1.2 The Progress of EPVs Over Time	5
2.1 Categorization of Producers According to Age Groups	13
2.2 Educational Qualifications of the Producers	13
2.3 Land Ownership Pattern	14
2.4 Land Holding Sizes Belonging to the Producer Families	15
2.5 Dambadeniya EPV Membership (1981-1989)	16
2.6 Producer Remuneration	21
2.7 Cost of Production Estimates	23
3.1 The Irrigation Systems and the Acreage Cultivated in the Rajangana Scheme	28
3.2 The Composition of the Board of Directors of the Saliya-Asokapura EPV	29
3.3 Classification of EPV Members by Their Age and Sex	31
3.4 Classification of EPV Members by Their Education and Sex	32
3.5 Major Economic Activities of the EPV Members	33
3.6 Quantities and Value of Green Chillies Sold for Export from the Saliya-Asokapura EPV	40
3.7 Cost Structure of Chillies Production at the RLB	41
3.8 Track-wise Quantities of Green Chillies Supplied to the EPV (1987)	42
3.9 Marketing Costs and Margins for Green Chillies - Private Traders	44
3.10 Marketing Costs and Margins for Green Chillies - EPV	45
3.11 Average Extent of Chillies Cultivated in the RLB (1987-1990)	46
3.12 Composition of Average Annual Gross Income of the EPV Member Households	47
3.13 Expenditure Patterns of Income Earned by Marketing Through the EPV	48
3.14 Price Increase in Some of the Major Inputs in Chillies Cultivation	52

CHAPTER ONE

Introduction

1.1 Export Production Village Concept

The Export Production Village (EPV) programme as an innovative development strategy was introduced by the Government of Sri Lanka in the 1980s. The United National Party Government which came to power in 1977 gave export-led development activities a prominent place in their economic policies with the intention of solving some of the major economic problems in the country, which include the balance of payments, growing unemployment and low income levels. Thus, the EPV programme is a result of the changed policy environment of the country after 1977.

The basis of the EPV concept is organisation of production at the village level directly for the export market. It was expected that this would bring returns from exports back to the village resulting in increased employment opportunities, higher living standards and an overall growth of economic activities in the rural areas. It was believed that the pre-assurance of the export market for products will remove the reluctance on the part of farmers to produce crops which are more remunerative but risky in terms of marketing. The direct contact of producer with exporter was supposed to remove the intermediary, who syphons off a part of the profit in export marketing. Through the improvements in entrepreneurship and organisation at the village level, to meet a greater demand of products, it was anticipated that a higher level of production efficiency and return to investment would be achieved.

The EPV strategy is based on a number of key assumptions:

1. The EPVs operate on the free play of market forces, with production as a direct response to market demand and production for profit.
2. The pre-existing agrarian structures and distribution of resources and power within village communities are not significant obstacles towards the attainment of needed efficiencies, EPV benefit distribution and their subsequent productive use. Upward development would ensue the investment patterns and production-orientation of village producers incorporated by the EPV strategy. That is, from a pre-existing mode of production based on subsistence, they would move up to a more diversified surplus producing mode.
3. The benefits of export production villages would trickle down to the surrounding areas by way of an increase in the demand for goods and services and increases in commerce.

The operational unit of the EPV programme is the EPV (people's) company, which organises the supply of products to established exporters in Colombo or other major cities. The export-production villages have been established as limited liability companies under the Companies Act No.17 of 1982.

There are three categories of EPVs according to the nature of products supplied by them.

1. Agricultural products:
Vegetables, fruits, yams, black gram, sesame seed, spices, medicinal herbs and flowers.
2. Agro based industries or processed agricultural products:
white fibre yarn, ekels, palmyrah fibre, cashew and papain.

3. Manufactured and/or assembled goods:
Handloom textiles, electronic components, umbrellas, reed packages.

The number of EPVs under each category by 1989 is shown in Table 1.1

Table 1.1
The Number of EPVs in Each Category

EPV Category	Number
Agricultural products	20
Processed agricultural products	12
Manufactured/assembled products	4
Total	36

Source: Export Development Board

The shareholders of these companies are producers or suppliers of export items. The membership of EPV companies is limited to producers. A minimum of 50 share holders is necessary to establish a company. The nominal value of a share was fixed at Rs.10/- and no one is allowed to purchase more than 10% of the shares. The authorized share capital of a company is Rs.1,000,000/-.

The Sri Lanka Export Development Board (EDB) which has been set up under the Ministry of Trade and Shipping functions as the mediator which encourages the establishment of EPVs. The EDB's role in establishing a new EPV is shown in Figure 1. The EDB's substantial role in ensuring the functioning of this programme is presented below:-

1. Identifying the products that could be exported from a certain area, assessing villagers' potential of supplying them to the market.

2. Identifying export firms which market such products.¹
3. Extending help to establish EPVs by arranging local officials and producers or beneficiaries to assemble into one forum.²
4. Linking up the EPV companies with export firms.³
5. Giving incentives to both parties; export firms as well as the EPV (peoples) companies, to encourage export activities.⁴
6. Organizing training to improve the management skills of the producers.

The first EPV (people's) company was established in 1981 in the Dambadeniya electorate. Subsequently, the programme was expanded to other areas of the country (See Table 2.2). At present there are 36 registered EPVs, of which 21 are in operation with 263,532 shares, out of which 150,157 shares have been issued to the shareholders. The total turnover value was over Rs. 39 million in 1988. The estimated turnover value for the year 1989 was Rs. 44 million.

- 1 If there is no established market for a certain product the EDB attempts sending missions to explore possible markets overseas.
- 2 The EDB encourages people to buy shares, and if the inequal capital of a newly established company is not sufficient for its functioning, the EDB invest on shares. If necessary the EDB appoints members to the Director Board of the EPV.
- 3 The EDB intervenes regularly in the discussions between EPVs and export firms held with the purpose of coming into agreements on prices, quality, and quantity of products.
- 4 The EDB gives bonuses to the EPVs equivalent to two percent of their sales value and also to export firms equivalent to 2 percent of their purchasing value. In addition it offers a presidential export award, with a cash prize of Rs.100,000/- and a trophy each year for the best EPV.

Table 1.2
The Progress of EPVs Over Time

Year	No. of EPVs Registered	No. of EPVs Operating	No. of Shares Issued	No. of Shareholders
1984	24	9	163,243	6,224
1988	32	18	170,800	8,100
1990	36	21	263,532	10,383

Source: Export Development Board

NB: Some of the shares issued have been purchased by the EDB.

1.2 The ARTI Study

1.2.1 Justification of the Study

As an innovative development strategy the EPV programme has been expanded during the last few years throughout the country by the Government. The progress of the programme in terms of achieving the envisaged benefits is not clearly known as it has not been evaluated since its inception. After nine years of existence, it is important to examine if the EPV programme has realized the expected high potential in creating employment, increasing income and living standards in the rural areas. If the benefits of the programme are considerable it is pertinent to understand the problems and weaknesses with the intention of correcting them in order to make the programme more effective and beneficial. As an Institute which conducts research with the aim of national development the ARTI places importance on conducting studies of this nature with the purpose of filling information gaps about the EPV programme.

1.2.2 Objectives of the Study

The major objectives of the study were: to assess the perfor-

mance of the EPV programme, identify its problems and drawbacks and provide the programme with the key information required to improve the well-being of the producers. The study is carried out with the view that problem identification at this stage will assist in the implementation and in the future expansion of the programme so that a large share of benefits will accrue to the producers.

More specifically, the study examines the practicability of the EPVs in ensuring a reliable export market for village products, questions as to whether the EPVs bring the benefits of the export market to the villages as expected, and attempts to understand the potential viability of the EPV strategy as a mode of increasing employment, incomes and living standards of rural people.

1.2.3 Research Method

The research is based on two case studies relating to Saliya-Asokapura and Dambadeniya EPVs. The required information has been gathered through (1) questionnaire surveys in each of the selected EPVs (the questionnaires were pre-tested in the survey area); (2) perusal of available literature and official records; and (3) interviewing the EPV management at the village level, other relevant officials, villagers, traders, exporters etc. The sample for the questionnaire surveys was based on the stratified random sampling technique. The sampling procedure is as follows:-

1.2.4 The Selection of EPVs

Due to limitations concerning time and resources, two EPVs located in Dambadeniya and Saliya Asokapura (Rajangana) were selected for study in detail. To obtain an unbiased and realistic picture of the programme, one EPV functioning successfully in a number of respects and a relatively less successful one based on the available information were selected. The selection of the particular EPVs was based on discussions with relevant officials at the EDB and visits to and discussions at a number of EPVs, which included Kalawewa-Mahaweli, Wariyapola, Seeduwa and Balangoda EPVs.

සේවක ප්‍රතිච්ඡල
LIBRARY

ගොඩ මානු මානු මානු
KARTI

1.2.4.1 Dambadeniya EPV

The sample consisted of 36 producers selected on a random basis. All six production divisions (*Kalapaya*) of the EPV were represented in the sample. Primarily two administrative villages (production villages) were selected from each production division, and secondarily three producers from each administrative village were randomly chosen from the list of producers.

The '*palikava*' of each production village and the instructor assigned for each zone (six in number) have also been purposely included in the sample. The entire sample of producers was interviewed using a structured questionnaire. Visits were made to the EPV Research Centre, to the village assembling points, to the head office at Alawwa, where a selected number of producers engage in reed pack making. Further, the institutions engaged in similar activities were also visited by the researchers and detailed discussions were held with the relevant personnel. These institutions include *Wetake* centers in the area, *Awan* center etc.

As there was no group of regular reed pack producers outside the EPV in Dambadeniya area the researchers had to limit the sample only to EPV producers.

1.2.4.2 Saliya Asokapura (Rajangana) EPV

For the purpose of the survey, 36 EPV producers were selected from the six tracks of the Rajangana Left Bank (RLB) based on percentage proportions. The list of registered EPV producers served as the sample frame for the selection. Apart from the EPV producers, a sample of 20 non-EPV members were also selected and interviewed using a separate structured questionnaire in order to serve as a control group.

The necessary information from the respondents was collected through a sample survey conducted in the two study locations. The survey was carried out between March and September 1990.

In addition, discussions were held with important and key members of households, officers of other relevant organizations, members of the Board of Directors of the EPV and key persons in relevant export firms and the EDB. Interview guides were used for this purpose.

CHAPTER TWO

Dambadeniya Export Production Village

2.1 Introduction

The Dambadeniya Export Product Development Co. Ltd. (Dambadeniya EPV) was established in 1981. This was a pilot project set up under the EPV concept. It started with a share capital of Rs.27,500 contributed by the EDB and the producer shareholders of the EPV numbering around 400. The company initiated its activities by exporting betel leaves. It has also been exporting limited quantities of cashew and pineapple. Since it was realized that these were not feasible ventures, the company abandoned them and started making reed packs using raw materials available in the area. At present this is the main activity of the EPV. The company also engages in making mats and matting out of white fibre yarn (coconut) for export, but this is still in its infancy.

The venture of making reed packs has developed successfully since its inception and now over 1500 producers are engaged in production. The EPV supplies the packs to a single buyer, "Stasson Exports", a private company which exports black and green tea to European and Japanese markets.

2.2 The Management

The EPV is managed by a Board of Directors consisting of five shareholder producers and representatives of other involved organizations including the EDB. The Assistant Government Agent, Alawwa, serves as the Executive Director of the company. A partner of the EPV, in charge of

the white fibre yarn component of the EPV, is the Working Director. The EDB assists the project in all developmental and operational activities and closely supervises the financial operations of the company.

Apart from the Board of Directors, there is also an Advisory Committee to the EPV consisting of the former MP for Dambadeniya (Mr. U.B.Wijekoon), the Managing Director of Stasson Exports, Mr. Zaki Alif, the Working Director of the EPV, and the Director (Projects) EDB. The role of the Advisory Committee is not explicitly expressed in the relevant documents.

At the producer level, there are production divisions headed by supervisors. A supervisor is also a producer in the group, selected by the members to carry out the supervisory responsibilities. These include organizing of producers, supply of raw material to producers, encouraging new producers to join the production and solving managerial problems at the producer level. Since the supervisors belong to the category of producers, it is assumed that they have a good understanding of the practical problems arising in the process of production. The supervisors are remunerated for their services in the form of a commission according to the group performance. This system of remuneration is expected to be an incentive for the improved performance of the supervisors.

There are 'instructors' who were/are also producers, selected for outstanding performance as producers and given professional training by the EPV. They perform the role of trainers of the newcomer producers as well as of all producers in introducing new designs. The instructors are allocated production centres (two each) to be taken care of. Their role has been facilitated by the recent provision of motor bicycles on a loan scheme.

2.3 Organization of Production

Production is organized in a fairly simple and flexible manner. No specific level of educational attainment is necessary to join the EPV,

and there is no age limit. There are no restrictions concerning the time or place of work. The initial capital required is relatively small, below Rs. 500. The completed packages are collected at village centres according to a previously agreed time table.

2.3.1 Membership

A specific feature of the Dambadeniya EPV is that almost its entire membership consists of women. This could be due to the nature of the major product manufactured in the EPV. Mat weaving which is an essential part of reed pack making is generally considered a women's task. Not all the producers are shareholders of the company. There are a large number producers who are non-members, but who are involved in supplying the produce through the shareholder members. Being a shareholder has a number of advantages such as occasional profit distribution, loan facilities, contribution to the provident fund, training facilities organized by the EPV etc. In June 1990 there were 1675 official members in the EPV. No estimates are available regarding the non-member producers. Women of older age groups who are not keen on officially joining the EPV contribute to the production by weaving the strips of mats used for the making of packages. Many village women have the know-how of mat weaving, skills transmitted down the generations. Hence, they do not require a special training. The newcomers to production as well as the other producers are trained by an instructor (a trained producer), who visits the village centres. Training includes the techniques of reed pack making as well as introduction to the designs (in accordance with the requirements of the export company).

2.3.2 Raw Materials

The primary raw material required for production is the Talipot (*Thala*) shoot, which is available in the locality. However, with the increasing demand, local supplies seem to be depleting. The EPV management has taken steps to supply the shoots. There is a mobile service, established recently, to distribute material required for production. Lorry loads of shoots from Puttalam and Monaragala areas are brought and dis-

tributed to producers through the supervisors at the weekly collection centres by the EPV mobile service. There are also private traders who bring *Thala* shoots right up to the door step of the producer.

Some reed pack designs require materials other than *Thala* shoots. These include different kinds of reed, which are found in the locality and some which have to be brought from other areas. The EPV also distributes reed to producers through the system described above.

In addition to cardboard, glue and a chemical (MS powder), which is used to preserve the *Thala* shoots, are used in the production process. These items too are distributed by the mobile service at the collecting centres for ready cash.

Even with the facility of the mobile service producers seem to face certain difficulties concerning raw material. Some of the problems identified were: relatively lower quality of *Thala* shoots and reed distributed by the EPV (They were specifically concerned about the smaller size of the shoots distributed, which is both uneconomical and cumbersome in preparation), high cost of *Thala* shoots sold by private traders, and the non-availability of required material in the locality.

2.4 Socio-Economic Characteristics of the Producers

The majority of producers (49%) are in the age group of 20-30 years, and there are 14% who are over 40 years of age (Table 2.1). The percentage of married producers is 57. Fifty seven percent of them have two children each, while 29% have three children and 14% are mothers of a single child. Thirty two percent of producers have children below 7 yrs, 35% have children in the age group of 7-14 years, while only 22% have children over 14 years. These figures indicate that a majority of the producers have the responsibility of caring and bringing up young children.

Table 2.1
Categorization of Producers According to Age Groups

Average Age	% Producers
20 yrs	2.7
20 - 30 yrs.	48.6
30 - 40 yrs.	35.4
> 40 yrs.	13.0
Civil Status	
Married	56.8
Unmarried	43.2

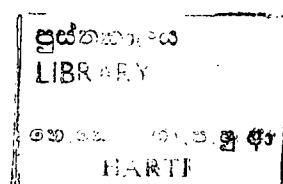
Source: ARTI Survey, 1990

Literacy among producers is relatively high, all producers having received school education. Their educational qualifications show 46% of them at the secondary school level, 30% at the primary and 16% with the GCE (O/L), qualification (Table 2.2). Such education qualifications indicate their ability to receive further training and education. It is observed that producers are quite willing to receive further training not only in tea package making, but in other areas such as general handicrafts and in broad fields of designing. However, it is observed that the opportunities available for such training are of a limited nature.

Table 2.2
Educational Qualifications of the Producers

Educational level	Percentage of Producers
Primary	29.7
Secondary (Grade 8-10)	46
GCE (O/L)	16.2
GCE (A/L)	8.1
Total	100

Source: ARTI Survey, 1990



2.4.1 Employment Structure

The major occupation of the rural people in Dambadeniya electorate is agriculture, mainly lowland paddy, vegetables, betel, ginger cultivation in the highlands. There are large areas of highlands in the area covered with coconut plantations. The survey data reveal that the primary economic activity of over 60% of people is agriculture, while 16% are agricultural labourers. Less than 10% are involved in salaried employment.

2.4.1.1 Land Ownership Pattern

As in most other Wet Zone villages, land is scarce and land parcels are relatively small. Information on land ownership of the EPV producer families is presented in Tables 2.3 and 2.4

**Table 2.3
Land Ownership Pattern**

Ownership	Percentage of Producer Families
Only highlands	8
Only lowlands	24
Highlands and lowlands	27
No highlands or lowlands	40
Homestead only	35
Landless	5

Source: ARTI Survey, 1990

Five percent of the families are landless, while 35% have only the homestead. Only 27% of the producer families own both highlands and lowlands. Land holdings are small (see Table 2.4). For example, 89% of the lowland parcels are below one acre, out of which 63% are below half an acre. Considering the fact that the average producer family

consists of 6 persons, it is clear that cultivation of the available land alone is not sufficient to support them. Application of available family labour to small land holdings results in low economic returns.

There are limited opportunities (mostly seasonal) available for wage labourers in coconut estates, in coir making, etc. Apart from agricultural activities, other avenues of employment are rather limited. These include petty trading, opportunities in construction work, and predominantly male jobs such as carpentry, masonry etc. The majority of people, especially women, are not skilled for jobs in areas other than agriculture. There are a few handicraft centres established by the Department of Small Industries (eg. *Wetake* centres), where mostly young girls are trained and employed.

Table 2.4 :
Land Holding Sizes Belonging to the Producer Families

Type of Land	% of Producer Families Owning Land		
	<0.5 acre	<1 acre	>1 acre
Highlands	38.5	69.2	31
Lowlands	63	89	5

Source: ARTI Survey, 1990

The general economic situation of the producer families is indicated by the fact that a very high percentage of them (73%) are food stamp holders, which implies that only 27% of the producer families have an assured monthly income of over Rs.700. As mentioned earlier, for a majority of producer families the income received from agricultural land is not substantial. The income earned through the EPV too is not regular, it is a variable of the number of packages produced, since the payments are made on piece basis.

2.5 Employment Generation

The activities of the Dambadeniya EPV have generated a considerable amount of employment opportunities. It has contributed to gen-

erate employment both directly and indirectly. The direct employment opportunities of the EPV consist of the producers and the administrative staff of the EPV company. The indirect opportunities are of two types viz. in the field of providing various services necessary in production and in the field of providing services for the employees.

The main beneficiary group of the EPV is women, the majority of whom are young girls. The flexibility of the organisation of the Dambadeniya EPV production gives producers, of whom over 98% are women, the opportunity of combining household work with some form of economic activity. In this venture, there are no restrictions concerning the time or place of work. There are no set working hours. The place of work can be anywhere the producers please such as own house, neighbour's, friend's house etc. Hence, the Dambadeniya EPV has provided a way of overcoming some of the major problems faced by rural women seeking income earning avenues, mobility and the possible conflicts in playing multiple roles as economic producers, wives and mothers.

The exact number of people involved in reed pack making is hard to estimate. The number of registered shareholders of the EPV does not reflect the number employed as producers, since some are involved in production without being shareholders. According to the statistics of the Dambadeniya EPV the number employed at present as producers is 1645. Table 2.5 show the annual increase of producers from the inception of the company.

Table 2.5
Dambadeniya EPV Membership (1981-1989)

Year	No.of Producers	Year	No.of Producers
1981/82	210	1985/86	1996
1982/83	480	1986/87	1,234
1983/84	480	1987/88	1,256
1984/85	650	1988/89	1,345

Source: Dambadeniya Export Production Development Co. Ltd.

Considering the age and educational background of the informants in our sample, (discussed in Section 2.4) we observe that the EPV has created opportunities for a large number of unemployed, young educated women in the Dambadeniya Electorate.

In some households more than one member was involved in making reed packs as their main source of income. In many households elderly as well as young members (school children etc.) were also engaged in various supportive activities.

It is observed that there is an informal system of division of labour according to various activities of production. Sometimes the supply of *Thala* shoots and assembling of various parts of reed packages are done by male members of the household, while weaving and decoration is carried out by females. There are occasions when the division of labour has expanded beyond the household on the basis of skill. Women of older age groups who posses special abilities in weaving strips of mats take part in production by joining with the permanent producers and working for them on contract basis. The division of labour within as well as outside the family unit has expanded labour absorption or employment opportunities created by the EPV. Therefore, the real number of people who are involved in production activities on permanent, semi-permanent or part-time basis is more than what is officially presented.

There is a certain number of employment opportunities created by the EPV on permanent basis in various ranks of the management, which amounts to about 25. This number includes 18 supervisors (*Palikava*) which constitutes the majority employed in a single rank.

The amount of indirect employment opportunities generated in areas surrounding and outside the Dambadeniya EPV seems to be considerable. For example, some are involved in the supply of raw material necessary for making of reed tea packs. *Thala* shoots are supplied from within the Dambadeniya area, where production is already taking place and from Ampara and Moneragala Districts. The EPV has enabled those who have *Thala* trees in their homesteads to obtain a supplementary in-

come. The climbers have been able to hire out their labour for cutting *Thala* shoots. In addition, some are involved in collecting shoots from house to house and transporting them to producer areas. Other items of raw material and necessary instruments for the industry (such as cardboard, gum, dye, chemicals and scissors) are supplied through the shops and boutiques in the area, thus creating more employment opportunities.

The higher demand for consumption and other services in the area has also contributed to the increasing employment opportunities in the area. It was observed that the increase of income levels of EPV beneficiaries has created a considerable demand for consumption goods and a marginal demand for luxury items. Such demands have resulted in the expansion of existing shops and boutiques in the nearby towns and the opening up of new shops selling various items from bread and rice to TVs and jewellery. However, the amount of indirectly generated employment opportunities under the EPV cannot be accounted, since they are spread in a broader area.

Reed pack making has been undertaken in the area even before the establishment of Dambadeniya EPV. Some entrepreneurs in the area have been purchasing reed packs and selling them to various export firms. This may have been the basis to the success of the EPV, since the skills related to reed pack making were already existing. Further, the Dambadeniya area has been historically known for weaved products. After the establishment of the Dambadeniya EPV many such producers joined the EPV. Although employment provided by the EPV is not entirely new, the EPV has been able to regulate the production. After producers joined the EPV not only was there a qualitative change in the nature of employment (from being irregular to a more regular one), but there was also an increase in the income they received. As the informants reveal, the price they receive for their products under the EPV is higher in real terms than what they received earlier.

2.6 Marketing Arrangements in Dambadeniya EPV

Marketing is one of the key factors responsible for successful operation of the EPVs. Establishing regular markets for exportable vil-

lage products and ensuring a fair price to the producer is spelled out as one of the major objectives of the EPV programme.

Producer motivation for production depends largely on the reliability and trustworthiness of the marketing sources. A specific feature of the Dambadeniya EPV marketing arrangement is the absence of market competition. Reed packs produced by the EPV producers are sold to a single export company, Stasson Exports, which is a leading tea export company in Sri Lanka. Stasson Exports has been the sole buyer of the EPV produce since production began.

The production targets and rates of payments are set by the export company, and reed packs are designed to suit the trade requirements of this single exporter. This seems to have resulted in the exporter having a monopolistic control over the EPV and its producers. The reasons for having only one buyer are not explicitly expressed. Stassons has made a condition that products are not marketed anywhere else. However, discussions with EDB officials revealed that Stasson is the only firm which places continuous orders of a large magnitude.

The EPV concept is based on free play of market forces. Being dependent on only one buyer is moving away from market competition and this move imposes certain limitations on EPV production, on production targets, designs and on prices. An open competition with a number of exporters would give producers bargaining power for their products and prices would become more competitive. However, the EDB officials are of the view that it is secure to continue the agreement with the Stassen rather than getting into open competition, because there are not many regular and continuous buyers for large quantities of this product. This situation compels the EPV to depend on this single buyer. Stassen seems to be capitalizing on this situation for their own benefit. This prevents the EPV aiming at higher prices in the open market.

The export company expresses a totally different view point on this issue. Stassens does not consider their involvement with the Dambadeniya EPV as an economic venture, it is considered a charity. According to them, reed packs are not "consumer packs"; it is more con-

venient and economical to use cardboard packages. In their own words it is "tedious" to export tea in reed packs.

This situation raises the following questions:-

1. If it is pure charity and there are no economic returns, why has the magnitude of orders progressively increased over time?
2. Is there any added value gained by the exporter using reed packs for tea exports?

Investigations on tea prices in a local tea selling centre in Colombo revealed that there is a price difference amounting to Rs.127.50 when tea is sold in a hand made clay canister (equal quality and amount of tea). The given price difference brings an added value from the hand made canister amounting to 340%. When tea exports were considered it was observed that price of Rs. 242.21 is paid for a kg of tea exported in mat baskets to Japan, compared to tea wrapped in polytene. This amounts to an added value of 91%. Further, EDB information indicates a very high value added component of over 150% obtained by exporting tea in packages purchased from the Dambadeniya EPV.

These figures indicate that exporters can accrue large amounts of added value to the product by making use of different packaging. Considering these facts, it is hard to believe that Stassen Exports treat their trade transaction with the Dambadeniya EPV as pure charity. Further, it is observed that producers are paid a very low price for the packs. Prices paid barely cover the cost of raw material, and labour is valued at a low rate. The details of producer remuneration are presented below.

2.7 Producer Remuneration

Monthly net income of the producers range between Rs.128 to Rs.2530. However, for a majority of the producers (58%) the monthly net income is less than Rs. 500 (Table 2.6).

Table 2.6
Producer Remuneration

Net Income Earned (Rs.)	Percentage of Producers
<500	57
501-1000	22
1001-1500	11
>1500	11

Source: ARTI Survey, 1990

Detailed information on producer prices and cost of production (COP) is presented in Table 2.7. This Table show that, in calculating producer prices, labour cost was Rs. 25 per day in 1990, when the average price in the labour market in the area was about Rs. 50. Further, for a number of items, the prices paid do not even cover the cost of production. Since the time spent on ground work (which includes time-consuming processes like boiling, drying and ironing of *Thala* shoots), is not included in these estimates. Therefore, the actual amount of labour required for production is even higher than is estimated.

The ARTI survey data on cost of production show that the EPV estimates on COP are lower than actual costs met by the producers. Table 2.7 presents a comparison between cost of production estimates by the EPV and ARTI survey data excluding labour costs.

The EPV estimates of cost of production are less than the producer estimates by 57% and 15% respectively for the two types of packs presented in Table 2.7.

From the producers' point of view, the monetary benefit is meagre, and is hardly sufficient to cover the effort. The background work required for the preparation of raw material is tedious. This process includes boiling and sun-drying of "Thala" shoots, tearing the shoot into strips of appropriate size, ironing the strips, and the preparation of other

required raw material. A case study carried out on the employment structure of Kandegedara (Senakaarachchi,1988), a village in the Dambadeniya electorate, has also shown the low remuneration rates for reed tea package producers.

The average weekly time input for production is 39 hours by married producers and 32 by those who are unmarried. This comes to over five hours per day (excluding the time spent on ground work) for production, on top of the other household work, which also take up about six hours or more. Since earnings are a function of the number of items made, we observed some producers working till very late in order to increase production, thus prolonging their working day.

Cash income derived from the EPV is important and keeps the producer families above the poverty line. But it is vital to consider the ill-effects of prolonged working days and their impact on them and their families. Time available for production is a function of the time required for household activities. The data reveal that 32% of the producers have young children under 7 years to care for, while 38% have children under 12 years. Such women will have relatively less time during the day for production activities.

Production is exclusively for the export market. Therefore, the management of the EPV and the planning of production are carried out primarily according to economic parameters. As discussed earlier, the reed packages give an added value of about 90% to the product.

When considering the long working hours, the tedious nature of the work, and the exporter's profits, the monetary remuneration of the producers is grossly insufficient. Hence, as an employment providing venture, the EPV is limited and the expected ultimate impact is not realised. The increasing number of producers is not an indication of the success of the EPV, but more an indication of the economic difficulties they face. Further, this also shows that however meagre the monetary remuneration is, women are prepared to participate in order to be able to contribute to the family economic unit.

Table 2.7
Cost of Production Estimates

	Survey Estimates	EPV Estimates		
	100g. <i>Thala</i> packs	25 bags with inner lining	100g <i>Thala</i> packs	25 bags with inner lining
No. of items which can be manufactured in a day	6	3.5	6	3.5
Cost of Raw Material (Rs) for 100 packs				
Thala shoots/reed	101.86	184.00	90.00	187.00
Cardboard	40.00	60.00	33.00	67.00
Chemicals	12.50	19.82	10.00	20.00
Gum	30	52.22		
Total	189.66	316.04	133.00	274.00
% difference between the two estimates		56.6		15.3

Sources: ARTI Survey 1990, Dambadeniya EPV Head Office

The EPV as a company has established a welfare component for producers. This is a recent development which includes housing and other loans, payments on occasions such as family funerals etc. However, only a limited number of producers make use of welfare facilities. Many EPV members do not hold membership in the welfare society and are not aware of the facilities available. Survey data indicate that only 9% of the sample were members. Of the rest, 30% were not aware of the benefits of the welfare component. Eight percent of the sample has indicated the difficulty in paying the initial membership fee, which amounts to Rs.100.

2.8 Expenditure Patterns

The expenditure patterns of producers do not show much variation (this discussion is related only to the income derived from EPV production). Income earned from the EPV no doubt contributes to the im-

proved living standards of producers and their families. A large majority (70%) of producers spend the total sum or a part of it on day to day household consumption. Considering that non-agricultural income earning opportunities are practically non-existent in the area, the EPV provides an opportunity to earn cash. This labour otherwise would have been idling. Although cash income is meagre because labour is underpaid, these earnings contribute a substantial proportion in meeting their day to day needs.

The saving habit seems to be promising, indicating the aspect of security brought to the producer families by the EPV. A large majority (84%), manage to save a portion of the income either by formal or informal means. Forty six percent of the producers possess savings accounts. Many of them invest on improving their houses, some on other consumer items such as furniture, jewellery etc. There are also occasional cases where investments have been made on other productive ventures such as boutiques, investment on cultivation etc. The savings may not be entirely derived from EPV earnings. However, it was observed that EPV earnings encourage saving habits.

2.9 Problems and Constraints

2.9.1 Sustainability of the Venture

The EPV production is facing a number of constraints. Firstly, the sustainability of the venture is questionable. There is little information available as to the future demand for reed packages in the export market. No long term predictions can be made, and the export company's views on this issue are not encouraging. According to the company management (although the demand has been increasing over the past few years), the export demand for reed packages is not high, using other forms of packaging such as cardboard, metal boxes being cheaper and more convenient. The management considers investment on reed packages as charity rather than a business investment. However, it is observed that production is manipulated to suit the interests of the export company. Since the EPV deals with a single buyer there is no market competition, and the exporter seem to have monopolistic power over the production

and the producers. In the reed pack venture setting of production targets and selection of designs of reed packs is done by the export company. In this regard Weralupitiya (1990) notes that EPV members are becoming mere processors of material rather than independent producers.

Secondly, the "*Thala*" shoot supply in the area is fast diminishing. At present, large amounts are brought from Ampara and Monaragala Districts to supplement the demand. Establishment of nurseries is not an immediate answer to the current shortage, as "*Thala*" is a long term perennial. (The palm takes about 10-15 years to produce shoots). On these grounds the sustainability of the EPV is questionable.

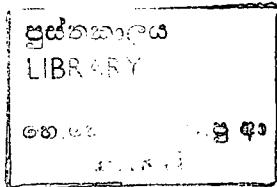
Further, production is not diversified and concentrates only on a few items. Hence, in a competitive export economy, producers are exposed to high risk factors. For example, in case of a market collapse or sudden fluctuation in cost of production, most producers will be left with no income.

For producers, this is temporary employment and therefore carries no security. There may be work throughout the year, but this cannot be guaranteed. Even if work is available, the income depends on whether a producer is able to work within a given period. At present, producer training is concentrated solely on the making of packages. The producer situation is vulnerable, since the venture does not seem to have a long term future. Under the present circumstances, it is vital to explore possibilities of diversification in order to reduce the risk, and to secure a future for the producers. Such items include products out of coir, on which the EPV is already concentrating and processed vegetable products etc.

Discussions with producers reveal that a large majority of them have no knowledge about how the EPV operates in a broader scope. They only concentrate on matters concerning day to day production. It is necessary to educate them, make them aware of the total production procedure in order to make them true partners in the people's company.

Another issue is producer participation in the management of

the EPV. The management of the EPV is of a top-down nature. Although producer members are represented in the Board of Directors, the feeling is that their voices are often overpowered by the high officials in the Board of Directors.



CHAPTER THREE

Saliya-Asokapura Export Production Village

3.1 Introduction

The Saliya-Asokapura Export Production Village, (S-A EPV) registered as "*Seemasahitha Saliya-Asokapura Apanayana Gammama Janatha Sangamaya*", is located in the left bank of the Rajangana Irrigation and Settlement Scheme (RLB) which was established in the mid-1960s. This is the second Export Production Village registered in the island under the Export Development Board as a People's company in 1982. Although the Company has been engaged in supplying various agricultural products for the export market, its main and most important produce is green chillies. At present green chillies are the only produce supplied by the Saliya-Asokapura EPV.

The genesis of S-A EPV is the farmer's organization established at the RLB in 1981. Difficulties faced in marketing chillies individually has forced the farmers to form an organization. Prior to this, farmers did not have any bargaining power in marketing their produce and traders fixed the prices unreasonably low. One of the major objectives of forming a farmer organization was to provide farmers with a stable market and better prices for their produce. With this intention the S-A EPV was formed at the RLB to supply green chillies and other agricultural products to the export market.

The members of the Saliya-Asokapura people's company are the settler farmers of the Rajangana Scheme, from Tracks 1 to 6 of its left bank. The settlers have been allocated highland and lowland plots (two

acres of each category) under the scheme. Out of the highland plot, half an acre is reserved for their homestead and the remainder is cultivated under the lift irrigation system. The necessary pump units for cultivation have been established by the Government. Until recently, the entire operational and maintenance cost of the pump units were borne by the Government. At present farmers bear the operational cost by supplying necessary fuel, but the maintenance cost is still borne by the Government. Table 3.1 presents information on the pump units and the area cultivated in the Rajangana scheme.

Table 3.1
The Irrigation Systems and the Acreage Cultivated
in the Rajangana Scheme

	Right Bank	Left Bank	Total
Canal Irrigated			
Acreage (paddy)	6,965	6,303	13,268
Acreage under Lift			
Irrigation	1,858	2,191	4,049
Total Acreage	8,813	8,494	17,307
No. of Pump Units	10	14	24
No. of Pumps	35	42	77

Source: Export Development Board, Provisional Office - Kurunegala

In the left bank of the scheme there are 14 pump units, stretching from Tracks 1 to 7. In respect of each pump unit there is a separate *Govi Kamituwa*. The leader of each *Govi Kamituwa* is represented on the Board of Directors of the EPV. At present the EPV has 1313 members registered, with 1576 shares sold.

3.2 The Management

As a people's company, the S-A EPV is managed by a Board of Directors which consists of seven producers from the Rajangana Left Bank (leaders of *Govi Kamituwa* representing Tracks 1 to 7) and a number of state officials who represent institutions which provide agricul-

tural supporting services. (See Table 3.2 for details). Although a number of Government organizations are represented on the Board, they have only an advisory role. The posts of the Chairman and the Secretary are essentially filled from among producer members, and all the major management activities are carried out by them.

At the top level of the administrative hierarchy of the EPV there is an advisory committee called "The Board of Advisory Directors". The above-mentioned state officials who are the members of the Board of Directors are also the members of the Board of Advisory Directors, whose major function is advising the Board of Directors concerning long-term development of the EPV.

The management is responsible for co-ordination of the EPV activities. This includes all the transactions with the export agencies and the EDB, price negotiations, correspondence concerning export orders, execution of orders and related financial transactions. According to the constitution of the EPV the Board of Management is supposed to elect its office bearers annually. However, the last annual general meeting had been held after a three year delay, at the end of 1989.

Table 3.2
The Composition of the Board of Directors of the Saliya-Asokapura EPV

Organization	Number Represented
1. Representatives of farmer organizations at pump unit level	7
2. Assistant Commissioner, Agrarian Services	1
3. Deputy Director, Department of Agriculture	1
4. Manager, Agricultural Development Authority	1
5. Divisional Engineer, Irrigation Department	1
6. Manager, Bank of Ceylon	1
Total	12

Source: ARTI Survey, 1990.

3.2.1 Operational Procedure of the S-A EPV

It is the responsibility of the Chairman and the Secretary, to distribute the export orders equitably, ensuring opportunities to all members to market a part of their produce through the EPV. This situation arises as the export agencies requirements of green chillies comprise only a minor percentage, between 20-30% of the RLB production. The rest of the production is sold at local markets or sent to Pettah and other markets without any EPV involvement.

Green chillies of required export quality (quality specifications have been given to the farmers beforehand) are collected at a local centre, but no payments are made at this point. The produce thus collected is transported to the respective export agencies, where it once again goes through a process of quality control. The rejects are sold at the Pettah market by the export agencies at a relatively lower price. All the payments are made by cheque, which are credited to the Bank of Ceylon, Galgamuwa Branch. The dues for the sales are credited to the respective individual bank accounts only after the cheques issued by export agencies are realized. This procedure usually takes about two weeks, but sometimes can take as long as 2-3 months.

3.3 Socio-Economic Characteristics of the EPV Members

3.3.1 Introduction

The members of the Saliya-Asokapura EPV are settlers who have migrated from different areas of the country during the period 1960-1978. A majority of the families (92 percent), have migrated from the Kurunegala District and the rest has come from the Kegalle District.

The family unit, which is usually of nuclear character, consists of an average of 5 members. In 92% of families there is only one registered EPV member and the rest had 2 EPV members per family. It was observed that the EPV members are usually the heads of households. Therefore, the S-A EPV membership is dominated by males who amount to 82% of the membership.

3.3.2 Age Structure

Thirty seven percent of the EPV family members are children below 14 years. About 60 percent of the population who are in age category of 15-64 years constitute the active labour force. The age structure of the EPV members is shown in Table 3.3. Over 70 percent of the EPV members are in the age group of 35-54 years.

3.3.3 Educational Levels

The educational attainment of the EPV family members are as follows:- Nearly 42 percent of the family members have received an education only upto Grade 5 and a further 45 percent are educated upto G.C.E.(O/L). The Percentage of those who have passed the G.C.E. (O/L) and other higher examinations (including one person with a University degree) is 7 percent.

Table 3.3
Classification of EPV Members by Their Age and Sex

Age Group (years)	Male No.	Male %	Female No.	Female %	Total No.	Total %
25 - 34	3	9.4	-	-	3	7.7
35 - 44	12	37.5	4	57.1	16	41.0
45 - 54	9	28.1	3	42.9	12	30.8
55 - 64	3	9.4	-	3	7.7	
> 64	5	15.6	-	5	12.8	
TOTAL	32	100.0	7	100.0	39	100.0

Source: ARTI Survey,1990

The Table 3.4 shows the education levels of the EPV members. According to this Table, the educational attainments of the EPV members and their family members are of a similar level.

Table 3.4
Classification of EPV Members by Their Education and Sex

Level of Education	Male		Female		Total	
	No.	%	No.	%	No.	%
No schooling	-	-	1	14.3	1	2.6
Upto Grade 5	16	50.0	3	42.9	19	48.7
Grade 6 - 8	13	40.6	2	8.6	15	38.5
Grade 9 -G.C.E (O/L)	3	9.4	-	-	3	7.7
Passed G.C.E. (O/L)	-	1	-	14.6	1	2.6
TOTAL	32	100.0	7	100.0	39	100.0

Source:ARTI Survey, 1990

3.3.4 Economic Activities

The members of the Saliya-Asokapura EPV who are also the settler farmers of the Rajangana scheme have been allocated two acres each of lowland and highland plots by the scheme. A major part of the allocated lands are cultivated by the original settlers themselves. It is estimated that about 70% of both lowland and highland area is owner cultivated.

Table 3.5 shows the main economic activities of the EPV members. As can be seen, over 84 percent of the members are cultivators whose major economic activity is cultivation of paddy and other field crops. Paddy cultivation in the lowlands is practised during both seasons. In the highlands, the general practice has been to grow cash crops which include chillies, brinjal, pumpkin, maize, cowpea and greengram. Except for one who was a cultivator, all women EPV members were either farm helpers or agricultural labourers.

There are EPV family members who are involved in various economic activities which supplement the family income. Among those are cultivators, labourers and those who are employed in salaried jobs and self employment ventures as well as those employed in the Middle

East. However, the contribution from supporting activities to the family income seems to be marginal.

Table 3.5
Major Economic Activities of the EPV Members

Main Economic Activity	Male		Female		Total No.	Total %
	No.	%	No.	%		
Cultivator	31	100	1	14.3	32	84.2
Farm helper	-	-	4	57.1	4	10.5
Ag. Labourer	-	-	2	28.6	2	5.3
TOTAL	31	100	7	100.0	38*	100.0

*One member (aged 91) has no occupation.

3.4. Marketing

3.4.1. Marketing of Green Chillies at the Rajangana Left Bank

The marketing arrangement of the S-A EPV can be considered a form of "orderly marketing". The text book explanation of this term is given as "profitable farmer management of commodities over time, form and space". (Kohls, R.L. and Uhl, J.N. 1985). The EPV marketing arrangement is a voluntary action between the producers and the exporters, mediated by the EDB. The agreement is meant to establish and improve producer market power, farm prices, returns and incomes. Further, the agreement should result in transfer of market power from the traders to producers, and greater producer participation in the marketing process. However, this agreement does not set a minimum producer price based on the cost of production, nor does it prohibit unfair trading practices.

In the RLB two channels operate in the marketing of green chillies:-

1. The EPV channel
2. Private marketing channels

The two channels are competitive. This competition helps to keep the prices of green chillies at a relatively higher level. The margin between the private collectors and the farmers is usually in the range of Rs.4 per kg. while the same with the EPV and the farmer is only Rs. 2.25.

The private channels operate irrespective of the EPV. There are local collectors, numbering over 100 from the RLB, and traders who come from other areas (Kandy, Kegalle etc.). A large share of the private collection is transported to the Pettah Manning Market. Prices offered to producers by private traders correspond with the fluctuating Pettah market prices.

3.4.2 The Pricing Mechanism

The EPV marketing is carried out entirely by the EPV management in collaboration with the EDB and a number of export companies. The major share of EPV green chillie collection (except the rejects which do not match export quality) is exported to a number of countries in the Middle East through export companies. The prices offered by export companies are discussed with the EPV representatives and determined in the presence of the EDB personnel. At the beginning of the season a suitable price for both parties (the EPV and the export companies) is agreed upon. Green chillies, as a vegetable commodity is a seasonal product and therefore does not have a fixed price. Within a season prices in the open market show wide variations. For example, in the current season prices have shown the following fluctuations: Rs 17.50 per kg. at the beginning of the season, which subsequently came down to Rs.15.00, Rs.14.00, and then Rs.12.00 by September. Prices were expected to fall further during the glut period. Depending on market fluctuations, prices are negotiated every 2-3 weeks. According to exporters, two factors are considered in determining the prices viz. the foreign buyers price and the open market price. The foreign buyers' price has been constant for the past four years. Therefore, the fluctuations in the prices offered to the EPV producers over the last few years probably are a result of the changes of the open market prices. The prices offered are given below:-

Year	Price Rs*
1984	8.50
1985	9.50
1986	9.12
1987	10.46
1988	11.26
1989	13.37
1990	16.18

The export companies have no obligation towards the EPV other than an unwritten understanding not to purchase from other traders as long as the EPV supplies the pre-agreed quota. They however maintain contacts with the RLB private traders as well as with the Pettah market. S-A EPV chillies is available only during a limited time period, during the Yala season of each year, between the months of July to October. The exporters require the supplies of green chillies off-season too. Hence, apart from the EPV, exporters establish links with other supply sources, and the open market is one of them. One of the export companies mentioned that even during the Rajangana chillies season, once a week purchases are made from the open market to maintain the contacts.

According to exporters there are a number of advantages in purchasing chillies from the EPV:

1. The rates are pre-determined, hence it is easier to quote prices for the buyers abroad within a given period. (with the private traders prices have to be negotiated on a daily basis).
2. The produce is transported to their premises.
3. The exporters can be certain about the orders placed with the EPV. (This is a specific advantage since foreign orders sometimes are placed at very short notice, and the Pettah market supplies cannot be guaranteed when required urgently).

* Calculated weighted average for the green chillies season (Jun-Nov.)

4. The quality is acceptable, the exporters are satisfied with the quality although a certain amount is rejected.

At present prices of chillies are revised every fortnight, every ten days, or sometimes monthly. The frequency of revisions depend on price fluctuations in the open market. In setting prices, the Pettah market price is taken as the ceiling price by exporters.

As the season approaches its peak production, open market prices (in the Colombo Manning Market) fall drastically, reflecting the demand/supply situation. (Green chillies come to Colombo market from the Mahaweli areas, Galgamuwa and from a number of other areas). In such a situation a pre-agreed higher price cannot operate unless it is artificially kept at the same level. From the export company's view, there is no rationale for them to do so as the open market offers them lower prices.

The original agreement concerning prices was to fix a single price at the beginning of the season to be valid throughout the chillies season. This system prevailed from the inception (from 1982) up to 1985 (see Figure 3.1). Since then, export companies have started fixing the price according to open market fluctuations. Apparently, there was a breach of contact from both sides; when open market prices were higher than the EPV-fixed price farmers have sold their produce to private traders.

The EPV producers have made complaints to the EDB about the low prices offered, requesting mediation in negotiating for higher prices. Under pressure from the EPV producers, EDB, and from the MP or the Minister, export companies sometimes agree to pay a higher price than that prevailing in the open market. However, under such circumstances the export companies make use of other mechanisms to overcome this problem. Some of them are as follows: (1) Reducing the quantity bought from the EPV, and obtaining the balance amount required from the open market. (2) Rejecting a part of the produce brought from the EPV on quality grounds and offering a lower price.

Further, it is a common practice of export companies to pur-

chase green chillies from private collectors and traders of the Rajangana Left Bank itself, although this is totally against their agreement (unwritten) with the EPV management. These incidences have been constantly reported to the EDB, the relevant MP and the Minister, to no avail.

Such actions have resulted in producers losing faith in export companies, and becoming reluctant to have sales transactions with them. A case study on the S-A EPV carried out in 1983 has aptly mentioned "these export activities are based on trust between the export agencies and the farmers' organization" (FAO, 1983). Producers have joined the EPV with the major objectives of getting higher and stable prices for their produce. At present they are unable to achieve both objectives. The current pricing mechanism does not allow room for a fixed price to operate for more than two weeks.

The same case study (FAO, 1983) states that Rajangana farmers were assured of higher prices and a stable market when chillies were sold to export agencies. This statement may have been true at the early stages of the EPV, when the demand for green chillies was relatively low, and farmers did not have any bargaining power with private traders. But the situation has gradually changed. Because of the export orders, the general demand for chillies rose, and more and more farmers started to cultivate chillie. The supply at present far exceeds the export demand. This situation has given bargaining powers not only to the farmers, but also to the exporters.

3.4.3 Exporters' View on Pricing

The exporters' explanation for quoting present prices is the tough competition in the international export market. Sri Lanka supplies only a marginal amount of green chillies compared to other countries such as India. The cost of production of chillies in India is comparatively less, due to cheaper labour and fertilizer costs. Therefore, Sri Lanka has no market power to influence prices and is only a "price taker" in the international export market. According to exporters, the profit margin from green chillies does not exceed 10% with recent increases in freight costs. (present freight cost is 0.83 US cents a kg and green chillies are sold at

US \$ 1.15 a kg). Profits from green chillie export are made not on unit basis but on the volume exported. During this season (1990 Yala), the minimum price on which exporters could make a profit was Rs. 12. (When higher prices are paid at the beginning of the season, exporters run at a loss, but they cover the loss with relatively larger margins received from other items exported).

The EPV is unable to supply the exporters' total requirements even during the season. The EPV producers are not willing to sign contracts concerning the supplies at the beginning of the season with exporters, due to their fear of being unable to honour the contract. The orders are placed by export companies on a day to day basis. This is a negative point on the EPV, which demonstrate its unorganized nature and inefficiency in this transaction and it reduces their bargaining power. Another important issue is timeliness of the supplies. If the EPV supplies are not brought before 6 a.m. purchases are made from the Pettah market and the EPV loses the order. Therefore the EPV has to have an efficient delivery system in order to keep up with the demands of export marketing. Unfortunately, after nine years of existence, the EPV has not properly organized its delivery system. It has not purchased a lorry or any other transport facility, and still depends on hired transport, which has turned out to be unreliable on many occasions.

The major objective of the EPV was to achieve stable and higher prices for Saliya-Asokapura producers by supplying the export market. At present none of these objectives are achieved as expected. Some of the major reasons for this are:-

1. In setting prices, export companies take the open market price as the ceiling. Therefore there is no room for the EPV producers to aim at considerably higher prices, though the quality of the produce is higher.
2. There is no written agreement between the EPV and export companies. Export companies have no obligation towards the EPV; for them it is yet another source of supply.

In this transaction, exporters gain the benefit of assured supplies

of good quality produce on pre-determined prices transported to their premises. Chillie producers gain a marginal benefit in terms of prices by selling the produce through the EPV compared to trading with private traders.

However, there may be other benefits for producers in getting organized to market their produce. In this particular situation one of the achievements is strengthening of their bargaining power with private traders. Before the establishment of the EPV, producers had no option but to sell the produce to private traders at a price determined by the traders.

3.5 The S-A EPV Performance

3.5.1 Green Chillies Supply

The quantities of green chillies sold for export and the income received from the inception of the EPV is shown in Table 3.6. The quantity of green chillies sold for export has progressively increased during the first few years of the EPV up to 1986. The drastic drop in the quantity supplied in 1986 is due to a disease which damaged chillie production in the RLB during that year. The peak year was 1985, when highest sales have been achieved. From 1986 onwards sales have gradually decreased. Performance in 1990 was expected to be the worst in the S-A EPV history. This is a result of a process which has been in operation during the past number of years.

Extensive discussions with a large number of green chillie producers in the RLB, office bearers of the EPV and other relevant officials, and careful analysis of the relevant documents revealed some of the most important factors responsible for the deteriorating performance of the S-A EPV.

Major reasons responsible for the present situation of the S-A EPV can be stated as follows:

1. Unsatisfactory marketing arrangement (as discussed earlier).
2. Largely disorganized and corrupt management of the EPV during the past few years.

Table 3.6
Quantities and Value of Green Chillie Sold for Export
from the Saliya-Asokapura EPV

Year	Quantity of Green Chillies Sold for Export (kg)	Value of the Amount Sold (Rs)
1982	85,129	557,238.50
1983	274,127	2,193,016.00
1984	374,757	3,185,434.50
1985	938,055	859,992.75
1986	18,410	148,343.87
1987	165,788	2,083,433.34
1988	138,994	1,742,129.75
1989	70,227	653,621.00
1990	11,854	210,095.00
Total	2,077,341	11,633,304.71

Source: Export Development Board, Kurunegala.

A comparison between Rajangana EPV producers and a sample of green chillie producing non-EPV members on their production performance is made on the basis of the sample survey. The Table 3.7 provides some of the key indicators used in the discussion.

The cost of chillie production of non-EPV members is 38% higher than the EPV members when the family labour component is not included. But when family labour applied is considered in the cost calculation, this difference reduces to 6%. This is because the EPV members have used relatively more family labour in comparison with non-EPV members. However, though production costs are comparatively higher in the non-EPV category, the average yield is higher in the EPV category. This means that EPV members achieve higher production at a comparatively lower cost. One explanation for these results may be the fact that most of the EPV producers are concentrated in Tracks 1 to 2 of RLB where condi-

tions for chillie cultivation are relatively better. According to chillie producers, cultivation is not so successful in other Tracks due to severe weed problems and relatively non-suitability of soils. The resulting situation is demonstrated in Table 3.8.

Table 3.7
Cost Structure of Chillies Production at the RLB

	EPV Members	Non-EPV Members
Cost of Production (without family labour* cost (Rs/acre)	13,121	18,184
Cost of Production (with family labour cost (Rs/acre)	19,924	21,113
Marketing Cost (Rs. for a 4000 kg.lorry load)	4,100	9,850
Labour Application (total) (man days/acre)	222	188
Family Labour (man days/acre)	132	59
Hired Labour man days/acre)	90	129
Yield (kg/acre)	1,200	927
Gross Income (Rs/acre)	14,217	14,810

* Labour cost is calculated using the following figures:-
Man day Rs. 50; Woman day Rs.40; Children Rs. 25.

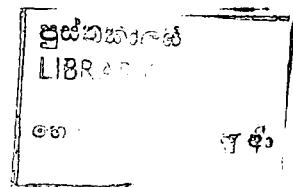


Table 3.8
Track-wise Quantities of Green Chillie Supplied to the EPV (1987)

	Quantity Supplied (Kg)	Percentage of Total
Track 1	72920.5	41
Weerapokuna	28341.5	16
Track 2	34208.5	19
Track 3	6899.5	4
Track 4	21809.5	12
Track 5	13749.5	8
Total	177929	100

Source; Export Promotion Board, Kurunegala.

The profit situation (during Yala 1989) between the two groups shows substantial differences. As much as 40% of the EPV category and 30% of the non-EPV category earned a net profit of over Rs:10,000 per acre. These figures were given by the cultivators. The cost of family labour is not included in this approximate calculation. One of the main reasons behind this situation is the comparatively higher amounts of family labour used in the EPV category. Further, their cost of production too is relatively lower than the non-EPV group. The EPV producers apply relatively more total labour (15%) on chillie production than the other category. However, the hired labour component is 43% higher in the non-EPV category.

In examining the sources of capital for chillie cultivation, we observed that more EPV members rely on institutional sources for credit than the other group. Thirty nine percent of the EPV members have obtained bank loans while for the control group it was only 15%. This is an advantage enjoyed by EPV members. As members of a farmer organization, for which banks also extend support, they have relatively easy access to institutional credit. More non-EPV producers rely on private loans in comparison to the EPV members. However, 70% of the non-EPV pro-

ducers use their own capital compared to a 47% in the case of EPV members.

In examining marketing costs, it is observed that there is a marked difference between the two groups. The marketing costs through private channels are about 44% higher than the EPV channel. This results in producers receiving a comparatively lower price when marketed through private traders. The percentage shares of the farm gate price in trading with the EPVs and private channels, which are 85% and 68% respectively, bear proof to this (Tables 3.9 and 3.10). However, both categories of producers have to make use of the private marketing channels, as exporters do not purchase the entire quantity produced by the EPV members. A detailed break-down of marketing costs is presented in Tables 3.9 and 3.10. The aim of these calculations is to demonstrate the differences in the shares of producer prices when marketed through the two channels.

However, it is not possible to make any firm conclusions on general production performance of the two groups based on the production figures presented, since 1990 *Yala* was not a representative season for a number of reasons:-

1. A large number of chillie plots were affected by pests and diseases, for which normally applied agro-chemicals did not respond. Therefore, over 25% of the farmers abandoned their chillie plots half way. This is one of the reasons for relatively low yields and production reported. During a normal season yields are higher, in the range of 3000-3500 kg/acre (FAO, 1983).
2. The crisis situation in the Middle East has affected export of chillies.

Table 3.9
Marketing Costs and Margins for Green Chillies - Private Traders

Marketing channel: Chillie grower -> Collectors in the area -> Wholesale Trader (Colombo Market) -> Retail Trader (Colombo market) -> Retail Trader (Colombo market) -> Consumer.

	Unit	Cost Rs.	% of items
1. Transport to the collecting centre	100 kg	25.00	
2. Farmers selling price to collectors in the area		860.00	68
- Transport to Colombo		80.00	
- Unloading		10.00	
- Packing charges		7.50	
- Subsistence		3.75	
- Commission		126.00	
- Deduction for gunny bags and water content		25.80	
Sub-Total		253.05	20
3. Collectors' selling price to wholesale Traders in the Colombo market		1134.00	
4. Wholesale Traders' selling price to retailers		1260.00	
Profit margin to the wholesale trader		126.00	

3.6 Employment Generation

The S-A EPV has created employment opportunities of a varied nature. Before the establishment of the EPV, the chillie cultivation was done on a minor scale and the RLB lift irrigation facilities were used for irrigating a mixture of other field crops. With the export drive, chillies became one of the major crops grown in highlands pushing aside most of other field crops. Compared to many other field crops, chillies require relatively more labour at various stages of cultivation. Land preparation, water supply, weeding and plucking are some activities for which large

amounts of manual labour is essential. Therefore, an increased extent under chillies has resulted in a higher demand for hired labour, both male and female.

Table 3.10
Marketing Costs and Margins for Green Chillie - EPV

(Marketing Channel:- Chillies Growers -> Export Productivity Village -> Exporters -> Middle East Countries).

	Unit	Cost Rs:	% of item
1. Transport to the collecting centre	100 kg	25.00	
2. Farmer's selling price to export productivity company		1275.00	85
- Transport to Export Companies		62.50	
- Packing		32.00	
- Unloading		1.13	
- Subsistence		6.88	
- Deduction for water content		63.75	
- Bank commission on cashing cheques		1.63	
Sub-Total		167.89	11
3. EPV selling price to exporters		1500.00	
- Profit Margin to the EPV		57.11	
- Air freight, transport, sorting and packeting		3000.00	
Profit margin		100.00	
4. Exporters selling price to the Middle-East countries		4600.00	

Further, large scale chillie cultivation has generally expanded the market activities in the area. The number of private traders who supply chillies to the Colombo wholesale markets have increased. Higher demands for agricultural inputs and the consumption requirements of the farmers, wage labourers and other beneficiaries of the EPV have also

increased the general volume of trade in the area contributing to creation of new employment opportunities.

3.7 Income and Expenditure

Although Saliya-Asokapura EPV demonstrates a deteriorating performance, to a certain extent it has contributed towards increased incomes and the living standards of the EPV members as well as of a few other categories of people. The major beneficiary group of the EPV is chillie producing farmers who have been cultivating chillies since 1981. According to Table 3.11, 84 percent of farmers in the survey sample have cultivated chillies in every *Yala* season during the last four years.

Table 3.11
Average Extent of Chillies Cultivated in the RLB (1987-1990)

Year/season	No.of Farmers	Percentage of Farmers	Average Extent Cultivated
1987 <i>yala</i>	30	83	0.79
1988 <i>yala</i>	31	86	0.90
1989 <i>yala</i>	27	75	0.81
1990 <i>yala</i>	33	92	0.81

Source: ARTI Survey, 1990

The EPV has provided an opportunity for the RLB farmers to earn a relatively higher income from chillie cultivation compared to the income received from other field crops such as green gram, cowpea and pumpkin. As mentioned before, in 1989 it was possible to receive a profit of over Rs. 10,000 from an acre of chillies cultivated (ARTI sample survey, 1990). Around 53 percent of the EPV members interviewed admitted that their income levels increased by marketing through the EPV.

Income from chillies constitutes a substantial part of household earnings. However, the survey data do not indicate the general picture on

this aspect as 1990 was not a typical year. In 1990, income from chillies constitutes nearly 17 percent of their total household income, which is second only to the income from paddy (see Table 3.12).

Table 3.12
Composition of Average Annual Gross Income of the EPV
Member Households

Source of Income	Amount (Rs)	Percentage
Paddy	22,626	55.5
Green chillies	2,754	6.8
Dry chillies	3,958	9.7
Other Field Crops	3,169	7.8
Livestock	665	1.6
Salaried jobs	2,267	5.6
Other employment avenues	4,128	10.1
Food stamps	770	1.9
Others sources	405	1.0
Total	40,742	100.0

Source:ARTI Survey,1990

The EPV beneficiaries have spent income earned from chillies in varying manners to improve their living standards. Table 3.13 indicates purposes for which money was spent by 53 percent of the EPV members who accepted that their income level increased by marketing through the EPV. According to this Table a majority of them (63%) have invested on improvements of housing conditions. A further 47% have purchased household items, while 21%, spent on children's education.

3.8 Major Problem Areas Concerning the S-A EPV

3.8.1 Malpractices of the Management

The interviews carried out for the purpose of the survey and the numerous discussions with relevant Government officials suggested that corruption on the part of office bearers are largely responsible for the

deteriorating performance of the S-A EPV. At the time of the survey, the S-A EPV was at a point of disintegration. The producer members have lost faith in the organization and at present most of them are reluctant to sell their produce through the EPV.

Table 3.13
Expenditure Patterns of Income Earned by Marketing
Through the EPV

Purpose Spent	No.of Farmers	Percentage
1. Improvements of housing conditions	12	63.2
2. On household items	9	47.4
3. Investment on land	3	8
4. Household consumption	12	63.2
5. Next chillie cultivation season	10	52.6
6. Children's education	4	21.1
7. Other field crops	1	5.3
8. On agriculture equipment	2	10.5

Source: ARTI Survey,1990

Most of the allegations against the management were referred to a particular set of office bearers, who were in office for an extended period, from 1984 to 1989 (over 4 years). A brief account of their activities (as mentioned by the EPV members and other relevant officials) which have affected the EPV adversely is presented below.

The main office bearers are alleged to have misused their power and their personal contact with the export agencies and the EDB officers (established through the EPV transactions) to the disadvantage of the EPV organization and its producer members. These include:-

- (a) Members are not informed of the real quantities ordered and amounts sold to export agencies.

- (b) Use of discretionary powers in distributing orders to personal advantage. For example, for the year 1987, the then Chairman of the EPV has supplied 7525 kgs of green chillies worth Rs. 60,000. This quantity amounts to 22% of the total quantity of green chillies supplied from the entire Track 2 where he is registered. The rest has been divided between 66 members. Further, this is the largest amount supplied by an individual for the year 1987, which amounts to 4.2% of the entire amount supplied by the EPV.
- (c) Supply of EPV orders on a private basis i.e. supplying the total or a part of the orders without informing the members.
- (d) Misuse of EPV finances, non-payment and delayed payment of producers dues (for example, a large number of members complained that they have not yet received the money for orders delivered in 1989). The respective authorities (then Chairman and the Secretary) do not have any valid explanation for the shortcoming.
- (e) Adulteration of fertilizer bought on the EPV account and selling with a profit.
- (f) Purchase of green chillies from areas other than Saliya Asokapura, i.e. Kalawewa Meegalewa and selling them to export agencies on EPV account.

According to the respondents, the EPV members have attempted to remove this particular management from office a number of times which was unsuccessful. Their removal has been difficult since the EDB official present at the annual general meeting has supported the said management during the election. Finally they have been ousted in 1989 after four years in office.

There is a widespread belief among the EPV members and the State officials of the Board of Management, that the EDB officials in charge of the S-AEPV are also aware of the corruption mechanisms which have been in operation for the past several years.

Further, the management has not maintained a proper system of accounting or book-keeping, except for a short period (during the early years of the EPV) when there were two qualified people employed by the EPV for this purpose. A subsequently elected management has dismissed them. The current book-keeping procedure (which is carried out by the Chairman and the Secretary of the EPV) is unsatisfactory. Audit reports have pointed out this weakness. A report issued by the Deputy Director (Projects) of the EDB in 1985 specifically pointed out the following:-

1. No records have been maintained according to accepted accounting principles.
2. About 90% of payment vouchers issued by the EPV have no validity. Many of them do not bear names, hence there is room for misuse.
3. As no documents reporting income, expenditure and costs are maintained it is not possible to prepare the annual accounts giving the true picture of financial transactions of the EPV. However, no measures have been taken to correct the situation till to date. Shortcomings of this nature have aroused feelings of distrust among a large majority of the members resulting in their moving away from the organization.

3.8.2 Other Problems

Apart from the above-mentioned, there are problems of varied nature faced by the S-A EPV. As a relatively new commercial organization managed by inexperienced personnel, the members find it difficult to deal with the well established and experienced export companies. A major problem is the dealings concerning cheque transactions. Some companies delay the payments and/or issue forward dated cheques. Often when the cheques are returned, the EPV management has to face inconveniences. The end result is long delays in producers receiving their dues. The producers prefer ready cash for their produce, as a majority of them operate with a small capital. Chillies are a crop which requires constant care in terms of water, fertilizer and pesticide application. Immediately

after each harvest (usually green chillies are harvested every fortnight) plants require these inputs. On an average, Rs. 2740, Rs.2400, and 2700 are spent on an acre of green chillies for fertilizer, pesticides and water supply (diesel and maintenance cost) respectively. The delays in payments discourage the producers, particularly who are in need of day to day cash, from selling their produce through the EPV.

A major grievance of the producers is inadequacy of the prices paid for their produce. Although export companies subject the EPV produce to strict quality control measures rejecting substantial amounts, the prices offered are low. The producers' opinion is that if the input costs of green chillies production are to be covered, the price per kg should have been not less than Rs.18.00 (during 1990 yala season). There have been drastic price increases of fertilizers and pesticides during the last two years, but the increase in output prices is marginal. Table 3.14 demonstrates the percentage increases of some of the major inputs required for chillie cultivation over the past few years.

3.9 General Problems Concerning Chillies Cultivation at the RLB

3.9.1 Operation and Maintenance of the Lift Irrigation Machinery

Of late the responsibility of maintenance of the RLB machinery has been relegated to farmers. Most of the machinery require frequent repairs which cost farmers substantial amounts. The EPV members have requested the Irrigation Department for new machinery through their organization.

A new scheme proposed by the Irrigation Department is in the process of implementation. Under this scheme, some of the old machines will be replaced by new ones, but fuel and maintenance costs have to be borne by the farmers. This includes the payment of the operator's salary as well. The producers are not happy about the new scheme as they fear fuel and maintenance costs will far exceed their income. According to

producers, an ideal solution for them will be to convert the machinery to electric power. They have put forward this proposal to the relevant authorities a number of times, but it has not been entertained.

Table 3.14
Price Increase in Some of the Major Inputs in Chillie Cultivation

Pesticides	Percentage increase in price 1988-1990		
	1988-1989	1989-1990	1988-1990
Harcros Monitor			
600 (400 m.l.)	35.7	35.7	71.4
Super six liquid sulfer (500 m.l.)	72.3	14.5	97.3
Pyrinex 400 (400m.l.)	NA	NA	192.1
Monocrotophos 60 (400 m.l.)	4.6	61.7	69.2
Fertilizer			
TDM			58.1
Chillies mixture			31.6
Urea			40.0
V.mixture			22.5
Producer prices (green chillies)	9.2	-0.8	8.3

Sources: MFP Division, ARTI, Rajangana Agro-chemical Store; Cost of Cultivation of Agricultural Crops, *Maha* 1989/90,
 Department of Agriculture, Peradeniya.

3.9.2 Extension Services

Chillie producers have expressed their dissatisfaction on the inadequacy of extension facilities at the RLB. Chillie cultivation is increasingly getting affected by new pests and diseases unknown to farmers. But no proper advice has been given as to how to overcome such problems. This has resulted in farmers turning to the closest possible source of advice, the pesticide traders. Pesticide traders are apparently advised by

pesticide companies. This situation has resulted in producers applying pesticides of varied nature, spending large amounts of money without realizing any benefit.

According to the Agricultural Instructor (AI) of the RLB, as the KVS system has been abolished, the AI has to cover over 6000 farmers. Therefore, he is unable to attend to their problems properly. Although the *Gram Sevakas* had been delegated the tasks carried out by the KVSs, they apparently are not competent to carry out extension tasks having not received a proper training. Further, they also have their duties at the *Gram Sevaka* office, which do not leave them much time to attend to agricultural problems.

CHAPTER FOUR

The EPV Concept and its Practical Implementation

The EPV concept is a rural development strategy with substantial potential. It represents a means by which village production is linked to the export market. The concept offers an assured market for the village products thereby minimizing production risks and at the same time contributing to the total volume of exports. EPVs are not entirely a new idea as export-led development has been in the agenda from the time of independence in Sri Lanka. However, the method of implementation is novel. The salient feature of the concept lies with small scale village production. On the basis of the findings of this study, the major problems identified with the EPV programme lie in the implementation of the concept.

4.1 The Institutional Structure

The operational unit of the programme is the EPV (peoples) company, which is an organized body of village producers. However, evidence from the two case studies shows that the administrative structure of the people's companies allow the rural elite to have more power and representation in EPVs. Further, the organizational structure does not bridge the social gap between the officials and the rural producers who are in the management.

In the S-A EPV it was clearly observed how the village elite dominate the management of the EPV. Other groups, though in the majority, had no power to change the situation over the years. The powerful committee members were reaping most of the benefits accruing to the EPV. Moreover, the organization has been used for their personal advantage. Most of the rules seem to be flexible in practice. For example, the EPV constitution does not allow any single person to purchase more than

10% of the share capital. However, in Dambadeniya EPV it was observed that some Advisory Board members have bypassed this rule and invested on a larger number of shares. Meanwhile, the average number of shares producer members have purchased is limited to 2-3.

In both EPVs it was observed that very often producers represented in the Board of Directors were reluctant to express their opinions in front of other Board members such as exporters, EDB officials, AGA, etc. This is both due to the social gap and the officials' negative attitudes towards producers. This has resulted in non-representation of producer interests.

Chambers (1983:104) identifies powerlessness as one of the major factors which trap the rural poor in deprivation. "Powerlessness" is reflected in the ease with which rural elites act as a net to intercept benefits intended for the poor, in the way the poor are robbed and cheated, and in the inability of poorer people to bargain". The S-A EPV is an example of what Chambers describes above. In such situations it is important that necessary support is given by government organizations, such as the EDB, to strengthen the producers' position in the management of the EPV. Power must be transferred to the poorer sections within the existing institutional structure so that they could participate in decision making, and in the distribution of benefits.

The attitudes of officials towards rural producers deserve a special note. Producers are often considered as a group of uneducated and helpless people. The researchers observed that the producers/farmers are looked down upon by some officials as ignorant and stupid. The general attitude of officials was that the programme is an act of charity performed by the government and other institutions. This amounts to moving further away from the objectives of rural development.

In the two EPVs studied, there were groups of people who are hard working and enthusiastic and were willing to develop their organizations into independent bodies. In this situation what is required is to

extend the necessary support to achieve their goals. Substantial disparities between officials, exporters and producers and between the relatively more powerful producers and others have to be taken into consideration in this regard. It is crucial to understand that they are not a helpless group of people who require charity from exporters or other organizations.

4.2 The Linkages

The implementation of the EPV programme cannot be discussed in isolation. The macro-structure within which the programme operates, the pricing policies, functioning of the support services are all linked to the success of the EPV programme. The concept involves a long process which starts at the production level in villages and ends in foreign markets. For the EPV concept to be successfully implemented, coordination of all the links is a necessary condition. The role of support services deserves a special note in this regard. The required support services vary depending on the individual products produced in the EPVs. In producing agricultural products for export, support services are of a crucial importance. For example, the case study on S-A EPV demonstrated the importance of agricultural support services for the functioning of EPVs. There was a total breakdown of the agricultural extension services due to restructuring, and the effect of this breakdown was devastating for the S-A EPV. Pest and disease outbreaks were not looked into and large areas of chillies were destroyed all of which has resulted in the virtual collapse of the EPV.

Experience gained through a decade indicates that the realization of the full potential of the EPV concept has been marred by the factors discussed above. In our view, in future developments of the programme attention should be paid to minimize the effects of the adverse factors.

CHAPTER FIVE

Conclusions and Recommendations

5.1 Dambadeniya EPV : Conclusions

In essence, Dambadeniya EPV has organized a group of otherwise unorganized women producers into an organized commercial activity. Family economic needs faced by producers have positively contributed to the expansion of the EPV, which now has over 1500 producers. It has effectively overcome a number of problems faced by rural women seeking remunerative employment. The most remarkable strength of Dambadeniya EPV is that it offers rural women an opportunity to combine their family role with an economic activity. The EPV earnings contribute to the family budgets and to raise living standards of producer families. In this regard, the recently introduced welfare component is also worthy mention.

However, in this process producers have become a part of the export market. One of the major aims of establishing the EPVs was to "bring the benefits of the export development to the villages". The EPV producers do not seem to receive their fair share in the export transaction. Dambadeniya experience questions this based on the following reasons:-

1. A single export company has monopolized the EPV production; thus there is no market competition for the product.
2. Monetary remuneration of producers is low, considering the time spent and the tedious efforts put into the production. Monthly net income is meagre (less than Rs. 500) for a majority of the producers.

3. A majority of producers have joined production out of sheer necessity for a cash income. Therefore, aiming at a maximum possible number of packages their working day becomes extra long.
4. Production does not bring an assured income.
5. Employment with the EPV is not secure.

Because of the above reasons, the ultimate impact of the EPV as an income generating venture for the rural population is not fully realized.

Further, considering these substantial education standards of the producers, training provided by the EPV management is inadequate. It should be of a wider nature and be made available to a larger number of producers.

5.2 Recommendations

The EPV should have more than one marketing channel which will enable producers to gain bargaining power over their product. The production should be of a more independent nature responding to the true market demand.

Product diversification is an essential element for a sustainable future of Dambadeniya EPV.

A better system of remuneration is required for producers considering the imbalanced nature of profits received by exporters in comparison to producers.

5.3 Saliya-Asokapura EPV : Conclusion

The establishment of the S-A EPV has resulted in farmers gaining bargaining power with the traders. This can be seen as the greatest advantage the EPV has brought. The EPV has inspired the RLB farmers to intensify chillie cultivation making maximum use of the lift irrigation scheme. Over time, chillie cultivation has virtually overtaken all the other field crops grown in the RLB.

Concerning the supporting services, the EPV member farmers have gained easier access to credit facilities through the Bank of Ceylon. The EPV has created new employment opportunities to a limited extent and has increased the demand for labour. Income levels though unsteady have raised the living standards of some of the producers.

The market competition created by the EPV has somewhat stabilized the local market prices which is an advantage for all chillie producers at the RLB.

However, there is no steady and self-sustainable growth in the functioning of the EPV as a people's company. The producers are dependent on export companies and they expect political leaders to intervene when problems crop up between the two parties. The element of self-reliance as a people's company and as a farmers organization is missing.

The farmers do not trust the management nor the Board of Directors of the S-A EPV. Their view is that the rich and powerful get elected to the BD and use the EPV to their personal advantage. The Board of Directors from the inception has been inefficient in managing the EPV. No proper accounting or auditing has been done on the EPV transactions thus creating feelings of distrust among the members.

The SA-EPV has not established a proper office premises after nearly 10 years of existence and the company does not even possess basic equipment such as scales and still depends on ad-hoc modes of transport to deliver the orders.

The BD and the membership have very limited knowledge on managing a commercial enterprise. This precludes them from working on par with the established export companies.

Concentration on a single product has resulted in extensive cultivation of chillies at the RLB. There was no systematic plan to the way chillies were incorporated into the system of other field crops. One negative outcome of this situation is the spread of pests and diseases. After the chillie crop failure in 1990 *yala* season, it was doubtful whether the RLB can cultivate chillies for few more seasons to come due to the severe attacks of pests and diseases. This situation will result in the total collapse of the S-A EPV, unless product diversification for export is not introduced.

5.4 Recommendations

The EPV administration should be systematised in order to maintain the accounts and other documents properly so as to build up the confidence of producers. For this, it is essential that farmers are given training in management and in marketing to make them equal partners in dealing with exporters. At present this aspect is totally lacking and the EPV members feel that they are at a disadvantageous position. There is potential in the RLB by young people with adequate educational background to be trained in this respect.

The management functions should be decentralized to the Track level and the committee members from each Track should be given opportunities to take part in the delivery of goods. Further, the audit procedures should be streamlined, and necessary action be taken in cases of fraud. The progress of the S-A EPV seems to have suffered a lot because of inadequacies in accounting and audit.

It is important that the EPV capital fund is strengthened and invested in a profitable manner. Lack of its own transport is a drawback the EPV is facing in executing supplying the orders. Purchase of a lorry or a suitable item of transport will be a valuable investment for the future development of the EPV.

Product diversification is a pertinent element in order to survive the market shocks (1990 *Yala* season was an example).

It is essential that the farmers receive ready cash for their produce in marketing with the EPV, as majority operate with a small capital.

Knowledge in chemical application is not up to date. There is no systematic way. Hence the capital expenditure increases without fruitful results. Current advice on pests and diseases is a must during every season. This will save farmers from taking advice from pesticide dealers.

5.5 General Conclusions

The EPV programme was introduced as a rural development strategy which aimed at creating new employment and income generating opportunities in villages, improving living standards of rural villagers and carrying the benefits of exports directly to the village. These objectives were sought to be achieved by mobilizing rural resources for production for export.

The EPV programme has brought a certain amount of social benefits to the country. Generation of some employment opportunities in villages, contribution to the country's exports and input into the national economy through increased production are some of its major contributions.

Depending on the success of operation the magnitude of the contribution from individual EPVs vary. On the whole, contribution of the programme has been marginal. The potential of the EPV strategy is not realized and its major objectives are only partially achieved.

As a rural development strategy, the programme has created employment and income generating opportunities. However, both direct and indirect employment created are of a temporary and a casual nature. The individual EPVs have not been able to develop themselves into self-sustaining ventures.

A large majority of producers utilize cash generated from EPV production to purchase basic food items. This has no doubt contributed towards uplifting the living standards of producers. Unfortunately income received is seasonal and highly unstable, which puts producers in a vulnerable position.

Correct marketing strategies are very important to the success of the EPVs. Our observation is that the marketing contract between the EPV producers and exporters is of a largely imbalanced nature. In many ways export companies are in an advantageous position. However, both EPVs have established assured markets for the products.

The EPVs are heavily dependent on export companies and on export markets which are highly volatile. These factors affect the sustainability of the EPVs and the income generating opportunities created by them. The EPVs do not seem to mature as independent commercial bodies, which are capable of dealing on par as equal partners with established export companies.

In both Dambadeniya and Saliya-Asokapura it was observed that production is concentrated on one major product. This exposes the EPVs to high risk situations in case of market failure for the particular product produced. Therefore, product and market diversification strategies need to be built into the EPV management. The production procedures of the EPVs are not strong enough to withstand the shocks of market fluctuations. This was evident in the S-A EPV example, when the chillies market collapsed with the recent Gulf crisis.

The management of EPVs is a top-down approach, producer participation in decision making of the EPV is insufficient. The officials seem to dominate decision making at the Board of Directors. At the village level, rich and relatively more powerful sections represent producers at the Board of Directors. The poorer and not so powerful sections of the producers have little opportunities to participate in decision making resulting their ideas being not represented in the management of the EPVs.

The producer remuneration is marginal and in the case of Dambadeniya EPV, village human resources are exploited for the benefit of the export economy. As a result, the benefits of exports are not carried directly to the village as stated in the EPV objectives. Instead, a larger share of benefits are accrued to the export companies involved with the EPVs.

5.6 General Recommendations

For the EPVs to thrive successfully in a market economy, they must be developed into independent commercial enterprises. The EPVs must be made equal partners in export marketing. Dependency on export companies must be minimized and marketing channels should be of a varied nature for producers to realize the full benefits of market transactions. The EDB's role as the mediator between village producers and exporters becomes crucial in this regard.

To realize above-mentioned goals, training producers on accounting, marketing and in management becomes essential. Village youth with adequate educational qualifications are an appropriate target group in this regard.

Considering the high risk nature of export markets, product diversification should be considered as an essential management strategy for the long term survival of EPVs.

In EPVs dealing with direct agricultural products, attention also should be paid to the production aspect without concentrating on marketing aspect alone. Technical advice and efficient supporting services are of prime importance in this regard.

Institutional structures formed for the implementation of people's companies require suitable modifications with minimized bureaucracy in operation.

The EPVs to some extent have succeeded in doing away with the middlemen. However, it is observed that producers still do not re-

ceive their dues on marketing through export companies. A suggestion is made for the Government organizations (i.e. the CWE) to arrange exporting and/or to organize the EPVs to directly handle export marketing.

REFERENCES

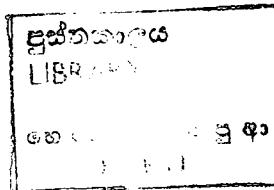
Chambers, R. (1983). *Rural Development: Putting the Last First*. Longman, U.K.

Kohls, R.L. and Uh, J.N. (1985). *Marketing of Agricultural Products*. Macmillan, USA.

Muthalif, Z. and Siriwardena, W.G. (1984). "A case study of Rajangana Chillie Producer's Association; Workshop on Small Farmer Marketing. FAO.

Ministry of Trade & Shipping. (1985). *Export Production Villages*. Department of Information, Sri Lanka.

Weralupitiya N.W. (1990). *Effectiveness of EPV Approach in Securing Participation of the Poor in the Development Process; Two Case Studies of the EPV*. Post Graduate Institute of Management, Sri Jayawardenapura University.



21885

- 64 -