

Joint Initiative for Monitoring Development Trends  
in the Central Province (JIMOD)

**FARMING, INDUSTRY OR MIGRATION ?**

Household Choices  
in Sri Lanka's Central Province

Ramani Gunatilaka  
February 2003

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**Ramani Gunatilaka** has published extensively on the topics of Poverty Alleviation, Labour Markets, Industry and Structural Adjustment and Conditionality. In the area of poverty alleviation she has written on issues of micro-credit, rural development, fiscal decentralisation, poverty alleviation programmes and issues of self-organisation by the poor. The author has a BSc in Economics from University College, University of London, an MSc in Development Economics from the University of Oxford and finalising a PhD from Monash University. Her doctoral research topic is the 'Analysis of Trends in the Distribution of Income in Sri Lanka 1980-2002'.

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## EXECUTIVE SUMMARY

The paper looks at the role of farming, non-farming and migration in the portfolio of households' income-earning activities in Central Province, Sri Lanka, in order to better inform the process of formulating policies to reduce poverty in the region. Methodology rests on analysis of data from a purposive sample survey designed to collect information on actual livelihood choices and from an attitudinal survey that sought to ascertain households' perspectives on the potential choices and options they faced.

The main findings of the analysis are as follows. First, even though agriculture continues to dominate Central Province's economy, and nearly half the workforce is employed in the sector, few households survive on farming alone. The overwhelming majority are dependent on non-farm income. Nevertheless, most such income is inadequate as most non-farm activities involve low returns. Many households look to expand non-farm income by increasing wage employment; some intend starting new businesses; while others would like to expand their small-scale businesses. They are all constrained by the lack of capital and opportunities. Significant numbers of young, relatively skilled workers want to migrate and many have already done so, mainly to Colombo district. Hence, it appears that while households in Central Province have diversified from the farm to the non-farm sector to a great extent, the transition has been driven by households being squeezed out of agriculture due to low productivity levels and non-viable agricultural units, and by their becoming non-specialist agricultural households engaging in the non-farm sector in order to diversify risks. There is little evidence of a sufficiently dynamic industrial and services sector leading the transition.

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*Much will depend on the macroeconomic climate which is beyond the control of Central Province policy makers. "*

The analysis yields the following policy conclusions. First, it emphasises the need for macro-level interventions that concentrate on providing an enabling environment for growth and investment rather than micro-level bottom-up approaches that concentrate on micro-enterprise development and self-employment projects. Secondly, the paper argues that Central Province's economic future depends on how closely it integrates with Western Province and is pulled along in its wake. The extent to which policy makers can protect and develop the region's endowment of environmental resources, and can develop transport and communication links to take advantage of its geographical proximity to Western Province, are also key. The paper argues that while the region's areas of comparative advantage lies in agriculture, agro-processing, tourism and ancillary services, other areas of comparative advantage, for example in the IT sector, may be developed. It outlines some specific interventions targeted at developing these two sectors.

The paper argues that the region needs to attract sufficient levels of investment that would generate the necessary growth dynamic in these sectors to increase productivity, employment and incomes. Much will depend on the macroeconomic climate which is beyond the control of Central Province policy makers. Nevertheless, creating an enabling environment for growth and investment in the province will ensure that it can stake its claim on any economic opportunities that are encouraged by the macroeconomic policy framework at national level. In this regard, the study strongly recommends interventions to reduce the risks and costs of doing business in Central Province. Among them

are enhancing bureaucratic efficiency, transparency, accountability and responsiveness; eliminating partisan political interference in the running of provincial government; and, establishing the rule of law without interference to enhance the public security environment. Finally, the study notes that enhancing the quality of basic education, developing competencies such as communication, strategic decision-making and independent thinking are essential to create the skilled workforce necessary to attract economic investments and make them productive. Most importantly, such investments in human capital are necessary to enable people to move out of the survival level activities that they are currently engaged in and earn incomes that will help them transcend poverty and insecurity.

# 1. INTRODUCTION

Economic progress in developing countries is commonly associated with profound structural changes. First, agriculture's share in total output begins to decline relative to the contribution of manufacturing or services and similar changes occur in the structure of a country's exports. Secondly, and more significantly for people's livelihoods, the share of agriculture in total employment declines relative to the employment shares of manufacturing and services as the process of economic development transfers labour from agricultural to non-agricultural activities.

However, macroeconomic transformations such as these represent the aggregation of households' economic choices at micro-level. Thus, at the level of the typical agricultural household, economic transformation denotes a change in its portfolio of income earning activities by increasing diversification into non-agricultural activities or becoming a specialist non-agricultural household. This may involve a sectoral transformation, but need not involve a spatial transformation. If local rural industry and services are developed, people may be able to remain in rural areas but work increasingly in the non-agricultural sector. However, where rural industry does not generate enough jobs, or generates only jobs that are associated with low pay, migration may be an option. Migration itself can involve different forms of spatial transformation. First, rural households can move to urban areas on a permanent basis. Secondly, rural people can migrate temporarily to urban work while maintaining their rural households. Thirdly, they can remain in their rural homes and commute to urban areas for work if transport services are cheap and efficient.

Such transformations represent the different choices available to rural households. Put quite simply, the dilemma facing a typical household is whether it should remain in farming, whether it should engage in local industry and services, or whether it should migrate to regions where job opportunities are better and wages higher. Which path it chooses is commonly determined by resources such as land, labour, skill, physical and social capital that the individual household is able to command, as well as by external factors such as access to markets, level of demand, infrastructure facilities, and the economic and political climate. The point to note, however, is that while policy makers tend to concentrate on just one path of household economic transformation – the development of local rural industry and services to enable people to remain in rural areas, and, in fact, prevent mass rural-urban migration and urban congestion – rural households have traditionally looked on migration as a way to diversify risk and increase household income.<sup>1</sup> For example, as de Haan (1999) argues, a serious weakness in policies and programmes pursued by governments and donors alike is that they assume sedentary populations and design interventions to keep people that way. In fact, looking at the phenomenon of migration from the macroeconomic perspective, migration of labour from agriculture and rural areas to industrial urban areas may be an inevitable part of economic transformation. This is particularly the case where the resource endowments of the rural areas from which the migrants originate are more suited for agriculture than for industry and services.

As a component of the Joint Initiative for Monitoring Development Trends in the Central Province (JIMOD), which aims to analyse development trends in Sri Lanka's Central Province, the present study examines the above issues in relation to Sri Lanka's Central Province. Specifically, this paper looks at the role played by farming, non-farming and migration in Central Province households' portfolios of income earning choices in order to further inform the process of making poverty-reducing policies. In this regard, the conceptual framework used in this paper draws from Knight and Song's (1998) study of Chinese peasant choices in the context of severely restrictive policies towards migration to urban areas. While we have been aware of the significant differences between the two countries - for example, in terms of size and distances between rural and urban areas, China and Sri Lanka could not be more different - there are, nevertheless, some unexpected similarities. While there are no legal restrictions on rural-urban

<sup>1</sup> Of course, attempts to develop industry in rural areas, if successful, may lead to the urbanisation of those areas. However, this requires much more than mere rural industrial development policies. Those areas need to have certain comparative advantages that support agglomeration forces.



migration in Sri Lanka, successive governments have nevertheless discouraged an influx of people to the metropolitan area by equity-oriented public expenditures on services such as rural access roads and rural electrification projects.

Examining these issues with respect to Central Province is particularly interesting because historically, the region was the first to be transformed by commercial agriculture and capitalist, market-oriented production structures in the colonial period, together with the mountainous regions of Uva. Thus, in Central Province, peasant agriculture has coexisted side by side with a modern agriculture sector with its own workforce, at least since the first half of the 19th Century. While Sri Lanka liberalised its economy in 1977 and the industrial and services sectors grew apace, particularly in Western Province, the same pace of change has not been evident in the mountainous interior which remains largely agricultural as far as its contribution to total output is concerned. Hence, a key question is whether Central Province has experienced a shift in its labour force from the primary sectors to the secondary and tertiary sectors. In other words, to what extent are Central Province households still dependent on agriculture for their main source of livelihood? To what extent have they diversified their economic activities towards the manufacturing and services sectors?

Published data from the Department of Census and Statistics' Quarterly Labour Force Surveys provides certain clues about the trend of these variables. Consider Table 1.1 which sets out the changes in the sectoral share of employment in Central Province between 1992 and 1997. Significant changes appear to have taken place during the relatively short period of five years. Although agriculture continues to employ the greatest numbers, its share in total employment has declined significantly. Manufacturing sector's share has expanded by nearly 60 per cent, and employment in the services sector has grown from 26 per cent of the labour force in 1992, to nearly 35 per cent in 1997. The trends appear encouraging: workers of Central Province are moving from agriculture to the secondary and tertiary sectors of the economy.

**Table 1.1: Industrial Sector of Employment – Central Province**

	1992 %	1997 %	Change %
Agricultural, Hunting, Forestry and Fishing	64.4	49.4	-23.3
Mining and Quarrying	0.3	0.7	162.5
Manufacturing	5.9	9.3	58.5
Electricity, Gas and Water	0.3	0.5	100.0
Construction	3.4	4.8	40.8
Wholesale and Retail Trade and Restaurants and Hotels	8.8	12.6	43.7
Transport, Storage and Communication	2.6	3.6	37.2
Finance, Insurance, Real Estates and Business Services	0.5	1.1	106.3
Community, Social and Personal Services	10.9	14.9	37.4
Activities not defined	3.0	3.0	0.0
Total	100.0	100.0	

*Source: Department of Census and Statistics 1992, 1997.*

A closer look at the underlying forces of this structural transformation confirm these trends (Table 1.2). The occupational distribution of employment shows declines in the employment shares of two categories: senior officers and managers, perhaps due to the effect of privatisation; and skilled agriculture and fisheries workers. In contrast, the employment shares of the categories of technicians and professionals, clerks, sales workers and machine operators and assemblers have expanded.

**Table 1.2: Occupational Distribution of Employment – Central Province**

	1992 %	1997 %	Change %
Senior Officers and Managers	1.0	0.7	-33.3
Professionals	2.7	4.2	54.9
Technicians and Associated Professionals	2.2	4.7	115.4
Clerks	2.1	3.3	55.6
Sales and Service Workers	6.9	12.0	72.6
Skilled Agricultural, Fisheries Workers	35.4	23.1	-34.6
Craft and Related Workers	8.7	11.5	31.7
Machine Operators and Assemblers	2.2	4.2	90.9
Elementary Occupations	37.6	35.0	-6.9
Unidentified	1.2	1.3	11.1
Total	100.0	100.0	

Source: Department of Census and Statistics 1992, 1997.

The present study aims to both supplement and complement existing data sources by delving deeper into the nature of work in Central Province. This involves analysis that need considerably more information on variables that are not collected through the Quarterly Labour Force Surveys. In particular, the study analyses the security and adequacy of work from the perspective of alternative household choices. Hence, the present study is based on the results of a purposive sample survey designed to collect information on actual employment choices, and an attitudinal survey that sought to ascertain households' perspectives on the potential choices and options they faced.<sup>2</sup> The discussion also draws on the findings of two companion studies which analysed real wage trends and labour and agricultural product market integration in Central Province.<sup>3</sup>

In particular, we analyse the following issues:

- (a) The nature of employment in Central Province in terms of status, sector, and occupation;
- (b) The nature of informal sector work in the Province in terms of the farm and non-farm sectors
- (c) in-migration and out-migration relating to the three districts within Central Province and motivating factors;
- (d) household economic choices in relation to remaining in agriculture, diversifying to non-farm activities and migration, and the constraints related to each one of these choices.

The paper is structured as follows. Section 2 analyses the nature of employment in Central Province. Section 3 analyses the extent of agricultural specialisation among households in Central Province and examines how households perceive farming as a viable economic activity in the future. Section 4 looks at employment in the non-farm sector and analyses the role of the sector in the portfolio of household economic choices. Section 5 looks at the third option open to households, that of migration. It examines current in-migration and out-migration patterns and analyses how households perceive migration as an alternative economic choice. Section 6 concludes and suggest policy directions for future development and poverty reduction initiatives in Central Province.

<sup>2</sup>Sample size was 440 households, 240 from Kandy, 120 from Matale and 80 from Nuwara Eliya.

<sup>3</sup>Gunatilaka, Ramani (2001a), Real Wage Trends and Labour Market Integration in the Informal Sector: The Case of Central Province, Sri Lanka, and, Gunatilaka, Ramani (2001b), Trends in Real Producer Prices and Agricultural Market Integration in Central Province, Sri Lanka, unpublished mimeos, Colombo: Poverty Impact Monitoring Unit (PIMU).

## 2. THE NATURE OF WORK IN CENTRAL PROVINCE

Survey results clearly reveal the insecure, precarious nature of work carried out by the majority of men and women in Central Province. At least two thirds of the sample total of nearly 800 workers were either casual workers (29 per cent), were self-employed (22 per cent) or were unpaid family workers (Table 2.1). Only 27 per cent were in regular employment. Proportionately more males than females were casual workers or were self-employed, and proportionately more females were unpaid family workers.

While slightly less than half of those surveyed were in continuous employment, at least a third had irregular work only (Table 2.2). Nearly a fifth were seasonal workers. Proportionately more females than males were in continuous employment: males tended to predominate in seasonal and irregular employment.

**Table 2.1: Employment Status – Central Province**

	Males %	Females %	Both Sexes %
Regular Employee	25.3	29.4	26.81
Casual Employee	31.7	24.1	28.97
Contractual Employee	3.17	1.77	2.67
Employer	5.35	3.55	4.70
Self Employed	24.2	17	21.60
Unpaid Family worker	10.3	24.1	15.25
Total	100.0	100.0	100.0

Source: JIMOD Household Survey 2001

**Table 2.2: Periodicity of Work**

	Male %	Female %	Both Sexes %
Continuous	46.14	51.81	48.16
Seasonal	19.71	16.92	18.42
Irregular	34.14	31.26	33.42
Total	100.0	100.0	100.0

Source: JIMOD Household Survey 2001

As Table 2.3 shows, the sectoral distribution of employment as revealed by the survey closely reflects the pattern suggested by the 1997 data of the Quarterly Labour Force Survey, which we reported in Table 1.1 in the previous section. 47 per cent of workers were in the agriculture, hunting, forestry and fishing sectors. 14 per cent were in manufacturing and 13 per cent were in community, social and personal services sector. In terms of gender, proportionately more females than males were in agriculture as well as in manufacturing.

**Table 2.3: Industrial Sector of Employment – Central Province**

	Males %	Females %	Both Sexes %
Agricultural, Hunting, Forestry and Fishing	46.79	54.97	47.14
Mining and Quarrying	0.87	0.89	0.76
Manufacturing	10.93	17.62	13.85
Electricity, Gas and Water	0.00	0.00	0.00
Construction	4.44	1.20	4.45
Wholesale and Retail Trade and Restaurants and Hotels	10.08	7.31	8.77
Transport, Storage and Communication	5.09	0.95	4.07
Finance, Insurance, Real Estates and Business Services	0.36	1.44	1.02
Community, Social and Personal Services	12.08	11.82	12.71
Activities not defined	9.35	3.79	7.24
Total	100.0	100.0	100.0

Source: JIMOD Household Survey 2001

As far as occupations go, the majority of men and women in Central Province are clustered around the lower skilled (and hence lower wage) end as agricultural, animal husbandry and forest workers (45 per cent) and as production and related workers (32 per cent) (Table 2.4). These patterns are consistent with the trends observed in the Quarterly Labour Force Survey data reported in Table 1.2 above.

A fifth of all workers were in the organised private sector while a little less than two thirds found their livelihoods in the unorganised private sector (Table 2.5). 15 per cent of workers were in the public sector.

**Table 2.4: Occupational Distribution of Employment – Central Province**

	Males %	Females %	Both Sexes %
Professional, Technical and related workers	5.85	9.41	7.62
Administrative & Management workers	0.99	0.25	0.76
Clerical and related workers	3.16	2.58	3.18
Sales workers	9.32	6.15	8.64
Service workers	2.67	3.54	3.18
Agricultural, Animal Husbandry and Forestry workers, Fishing	45.11	52.90	44.98
Production and related workers, Transport, equipment operators and labourers	32.86	25.13	31.64
Total	100.0	100.0	100.0

Source: JIMOD Household Survey 2001

**Table 2.5: Employment Sector – Central Province**

	Males %	Females %	Both Sexes %
Public Sector	14.60	15	14.74
Co-operate Sector	0.12	0.50	0.38
Organized Private Sector	15.57	28.91	20.33
Unorganised Private Sector	69.21	55.64	64.29
Total	100.0	100.0	100.0

Source: JIMOD Household Survey 2001

The unorganised nature of employment is further evident in that 60 per cent of workers, proportionately more men than women, were employed in the informal sector.<sup>4</sup> Only 40 per cent were in the formal sector (Table 2.6). The preponderance of workers in the informal sector is to be expected in developing countries, and the survey questionnaire was designed to obtain more information about the nature of such work. This was motivated by two key observations, first, that most poor found their livelihoods in this sector; and secondly, that few analyses focus on the informal sector.

Of the large majority of workers employed in the informal sector, a little less than half were own-farm workers (44 per cent). Nearly a quarter of informal sector workers were casual labourers, but only 8 per cent were casual farm workers and 5 per cent worked on a casual basis in the plantation sector (Table 2.7). A little less than half the number of casual farm workers (44 per cent) worked most of the year in paddy cultivation. However, proportionately more males (48 per cent) than females (38 per cent) did so. Nearly a fifth worked the highest number of days in the vegetables sector. The tree crops sector provided the highest number of working days for roughly a fourth of all casual farm workers (survey results not shown in tables).

**Table 2.6: Category of Work – Central Province**

Sector	Males %	Females %	Both Sexes %
Formal	33.31	47.37	39.52
Informal	66.68	52.62	60.48
Total	100.0	100.0	100.0

Source: JIMOD Household Survey 2001

**Table 2.7: Informal Sector Employment – Central Province**

	Males %	Females %	Both Sexes %
Casual farm	7.14	11.95	7.77
Estates	5.71	6.31	5.46
Casual non-farm	21.60	7.15	18.07
Own Farm	43.61	39.30	44.12
Fishing	0.00	0.00	0.00
Petty business	27.45	25.45	23.11
Major business	2.02	0.83	1.47
Total	100.0	100.0	100.0

Source: JIMOD Household Survey 2001

18 per cent of workers in the informal sector – proportionately more men than women – were casual non-farm workers. Nearly a fourth were in petty business. Table 2.8 sets out the sectoral distribution of employment of casual non-farm labour. It can be seen that construction and manufacturing provide the highest number of casual non-farm labour days for workers in Central Province.

<sup>4</sup> Informal sector work was defined as work undertaken without a letter of appointment or contract. In the case of business, an informal sector business was defined as that which operated without a license.

**Table 2.8: Sectors with Highest Number of Non-Farm Casual Labour Days Worked – Central Province**

Sector	%
Mining and Quarrying	4.9
Manufacturing	18.5
Construction	25.9
Wholesale and Retail Trade	11.1
Transport, Storage and Communication	6.2
Community, Social and Personal Services	4.9
Activities not adequately defined	28.4
Total	100.0

Source: JIMOD Household Survey 2001

While there is overwhelming evidence that the majority of workers in Central Province are engaged in insecure, low waged employment, unfortunately the rate and quality of responses on income were not adequate to enable us to analyse that crucial aspect of work in Central Province.

Since this section covered a number of points, we briefly sum them before moving on to the issue of farming in the portfolio of household choices. The main point to emerge from the present analysis is that the nature of work in Central Province is by and large precarious and insecure. Two thirds of the sample were either casual workers, self-employed or unpaid family workers, only a third were in regular employment, nearly half were in agriculture and nearly as many were clustered around the lower skilled end of the occupation distribution. Two thirds were in the unorganised private sector and nearly as many were in the informal sector. Thus, while data from the Quarterly Labour Force Survey reported in Tables 1.1 and 1.2 in Section 1 suggest positive trends in the movement away from agriculture-based, low-skill work, the more detailed analysis of the nature of work provided by the JIMOD household survey gives some cause for concern.

### 3. FARMING

What is the role played by farming in households portfolio of income-earning choices? Unsurprisingly, as the economic activity of tradition and choice in a rural environment, a significant majority of workers in Central Province still report farming as their major income-generating activity (see Table 2.3 above). Roughly half of all households interviewed had agricultural holdings and a significant proportion of households (40 per cent) were getting income from farming (Table 3.1 and 3.2). Of all households with agricultural holdings, only 19 per cent did not get any income from farming.

**Table 3.1: Households Having Agricultural Holdings**

	Kandy %	Matale %	Nuwara Eliya %	Central Province %
Having Agricultural Holdings	49.16	54.16	53.75	51.00
Not having Agricultural holdings	50.84	45.84	46.25	49.00
Total	100.0	100.0	100.0	100.0

Source: JIMOD Household Survey 2001

**Table 3.2: Households with Agricultural Holdings Getting Income from Farming**

	Kandy %	Matale %	Nuwara Eliya %	Central Province %
Get income	77.11	87.69	79.06	81.00
Do not get income	22.88	12.30	20.93	19.00
Total	100	100	100	100

Source: JIMOD Household Survey 2001

However, most agricultural households cultivated holdings that were less than 1 hectare in extent (Table 3.3). Thus, survey results confirm Rupasena's (1999) finding of small farm size in Central Province as roughly 60 per cent of holdings are less than 1 hectare in extent, 35 per cent less than half a hectare. Small units predominate in Nuwara Eliya District, where 60 per cent of cultivated holdings were less than half a hectare in extent. In relatively dry Matale District, cultivated holdings were somewhat larger -22 per cent were less than half a hectare in extent, slightly less than half were less than a hectare.

**Table 3.3: Size of Cultivated Holding Size**

	Kandy %	Matale %	Nuwara Eliya %	Central Province %
0.25 – 0.5 ha.	37.17	21.84	59.38	34.5
0.5 – 1 ha.	28.32	26.44	21.88	26.7
1-2 ha.	27.43	47.13	15.63	33.2
Over 2 ha.	7.08	4.59	3.12	5.60
Total	100.0	100.0	100.0	100.0

Source: JIMOD Household Survey 2001

An overwhelming majority of holdings are given exclusively to the cultivation of crops (94 per cent). 7 per cent are given to livestock only, while 4 per cent cultivate crops as well as raise livestock. Of the three districts, raising of livestock is more prevalent in Nuwara Eliya District. Paddy accounts for the main crop grown by nearly a third of farmers in Kandy District, and nearly two thirds of farmers in Matale District (Table 3.5). Note that in Nuwara Eliya, nearly half of all farmers cultivate vegetables as their main crop. A significant minority in the same district cultivate minor export crops. Tea is the main crop grown by nearly a fifth of farmers in Kandy and Matale Districts. In Nuwara Eliya it is considerably less popular.

The questionnaire was also designed to elicit information about the source of seeds, as this variable is a key determinant of farm productivity. Unfortunately, the response rate did not lend itself to meaningful analysis. Nevertheless, for the purpose of this paper, we recall that Menegay et al (1998) note that the up-country vegetable sub-sector is primarily based on traditional seed varieties, a minimal number of locally bred improved varieties and only a few imported varieties. The authors regard this factor as a key determinant of low productivity levels in the vegetable sector.

**Table 3.4: The Main Crop Grown**

Crop Grown	Kandy	Matale	Nuwara Eliya	Central Province
	%	%	%	%
Paddy	32.25	62.69	9.30	36.89
Vegetables	18.75	10.45	46.51	21.84
Subsidiary Crops	4.17	0.0	0.0	1.94
Tea	28.13	16.42	4.65	19.42
Rubber	2.08	0.0	0.0	0.97
Coconut	1.04	1.49	0.0	0.97
Minor Export Crops	5.21	1.49	27.91	8.74
Fruit	5.21	1.49	2.33	3.40
Livestock	2.08	1.49	9.30	3.40
Other	2.08	4.48	0.0	2.43
Total	100.0	100.0	100.0	100.0

Source: JIMOD Household Survey 2001

Nevertheless, survey results suggest that in Central Province as a whole, a significant proportion of farming households are not specialist agricultural households and produce for own consumption, particularly in Kandy and Matale Districts (46 per cent and 44 per cent). However, agricultural specialisation is most evident in Nuwara Eliya District where 98 per cent of owner-farmers sell their surplus.

Moreover, even though farming yielded income for 81 per cent of all households with agricultural holdings, considerably less (53 per cent) wanted to increase their holdings (Table 3.5). A little more than a third did not want to increase their holdings, and a minority (9 per cent) were undecided. Clearly, agricultural households who wanted to increase their holdings viewed farming as a viable income-generating activity and a third of them thought they could increase their holdings. But almost as many (28 per cent), clearly stated that although they would like to increase their holdings, they were unable to do so. 15 per cent thought that it was possible but difficult and nearly a quarter of households who wanted to increase their holdings did not know whether they could.



**Table 3.5: Agricultural Households Who Want to Increase Their Holdings**

	Kandy	Matale	Nuwara Eliya	Central Province
	%	%	%	%
Want to increase holdings	61.86	33.84	58.13	53.00
Don't want to increase	29.66	50.76	32.58	36.00
Cannot say	8.47	15.38	9.30	11.00
Total	100.00	100.00	100.00	100.00

Source: JIMOD Household Survey 2001

36 per cent of households with agricultural holdings did not want to increase holdings, and among the reasons advanced, the most significant was the unavailability of land (76 per cent of such households cited this reason). Only an insignificant minority (3 per cent) thought that there was no profit in farming, and marginally more farming households (8 per cent) thought that returns to agricultural inputs were low (Table 3.6).

**Table 3.6: Reasons why Agricultural Households do not Want to Increase Holdings**

Reason	Kandy	Matale	Nuwara Eliya	Central Province
	%	%	%	%
No profit in farming	5.71	6.06	0.00	4.00
Low returns to inputs	11.42	3.03	28.57	14.34
No land available	77.14	78.78	68.28	74.73
Other	5.71	12.12	7.14	8.3
Total	100.00	100.00	100	100

Source: JIMOD Household Survey 2001

The results of the attitudinal survey largely confirm the findings of Gunatilaka (2001b), Silva et al (1999), and Rupasena (1999): that market gardening is profitable only for the larger farmer. As real producer prices of agricultural products have largely been stable while the cost of inputs have risen, farm viability has become closely tied to farm size. Meanwhile, the absence of a land market acts as a constraint to agricultural expansion and production. The results also reveal that farming households are well aware that agricultural profitability depends on farm size, and that a significant proportion have no desire to increase their holdings and invest more resources in farming. size, and that a significant proportion have no desire to increase their holdings and invest more resources in farming.

## 4. INDUSTRY AND SERVICES

In Section 3 we noted that a significant proportion of all households interviewed derive income from farming (40 per cent) and consider farming their main economic activity. However, as many households have non-farm income as well, clearly signifying that farm income alone is inadequate for their needs. In fact, an overwhelming majority of households have non-farm income (88 per cent), suggesting that large numbers of agricultural households have already diversified their income sources and begun the process of moving out of the agricultural sector (Table 4.1).

**Table 4.1: Households Having Non-Farm Income**

	Kandy	Matale	Nuwara Eliya	Central Province
	%	%	%	%
Households having non-farm income	90.00	85.00	83.75	88.00
Do not have non-farm income	10.00	15.00	16.25	13.00
Total	100.00	100.00	100	100

Source: JIMOD Household Survey 2001

Nevertheless, only 14 per cent of households that have non-farm income consider it adequate for their needs. The vast majority (76 per cent) did not. When asked why their non-farm income is too small, nearly a third cited the lack of capital as the main reason while a similar proportion pointed to the lack of opportunities. However, as many cited a myriad of other reasons not specified in the survey questionnaire (Table 4.2).

**Table 4.2: Reasons Why Non-Farm Income is too Small**

	Kandy	Matale	Nuwara Eliya	Central Province
	%	%	%	%
Lack of capital	32.43	28.40	35.08	32.00
Lack of technology	0.00	2.27	0.00	0.75
Lack of opportunities	31.35	31.81	31.57	32.00
Lack of social contacts	2.70	2.27	1.57	2.00
Other	33.51	35.22	31.57	34.00
Total	100	100	100	100

Source: JIMOD Household Survey 2001

Of the 88 per cent of all households who have non-farm income, a little less than half (43 per cent) planned to increase their non farm income. 37 per cent did not plan to increase non-farm income, while 23 per cent were undecided. Of the households who intend to increase non-farm income, nearly half (48 per cent) intended to seek local wage employment, nearly a quarter planned to start a new business (23 per cent) and nearly a fifth (19 per cent) planned to expand existing businesses (Table 4.3).

**Table 4.3: Methods by which Households Planned to Increase Non-Farm Income**

	Kandy	Matale	Nuwara Eliya	Central Province
	%	%	%	%
Seek local wage employment	50.00	54.83	36.11	48.00
Open new businesses	23.00	22.58	25.00	23.00
Expand existing business	21.00	9.67	22.22	19.00
Other	6.00	12.90	16.66	10.00
Total	100.0	100.0	100.0	100.0

Source: JIMOD Household Survey 2001

The trend towards diversifying income sources towards the non-farm sector is further confirmed by the number of households wanting more sources of income. An overwhelming proportion (93 per cent) wanted more sources of income, and of them, 37 per cent did so for reasons of greater consumption and as many thought that more sources of income would reduce risk. Of the small minority (30 out of 440 households) did not want more income sources, a little less than half (45 per cent) thought that their current income was adequate, and a small minority (9 per cent) thought it too risky. Nearly a third cited reasons not specified in the questionnaire.

As 86 per cent of all households find their non-farm income inadequate, it was interesting to examine the kind of non-farm activity they engage in, particularly those households that had workers in the informal sector (recall from Section 2 that 60 per cent of workers were in the informal sector and of them, a little less than half worked in the non-farm sector). Nearly a fifth of informal sector workers were casual workers in industry or services and as many were running petty business. However, the majority of petty businesses were trade-related (47 per cent), a fifth were in manufacturing, 15 per cent in services excluding transport, and nearly as many in transport (Table 4.4). The preponderance of trading-related petty business is disturbing: the majority of such activities are survival level strategies that yield not profit, but returns to labour.

**Table 4.4: Types of Petty Business**

	Males	Females
	%	%
Manufacturing	24.65	19.44
Trade	42.58	54.44
Services	14.48	15.00
Construction	1.90	11.11
Transport	16.39	0.00
Total	100	100

Source: JIMOD Household Survey 2001

While 63 male-owned petty businesses and 16 female-owned petty businesses constituted the sample. Gender differences in type of business were noticeable only in two sectors. Transport appears a predominantly male activity with 16 per cent of males and no females engaged in it. In construction, only 2 per cent of petty businesses were owned by males and 11 per cent were owned by females. In petty manufacturing, wood and wood based enterprises accounted for a little more than a third of such endeavours, agro-based industries for a fourth and textiles and garments for a fifth.

**Table 4.5: Types of Petty Manufacturing**

	%
Manufacturers of food, beverages and tobacco	26.3
Textiles, wearing apparel and leather industries	21.0
Manufacturers of wood and wood products including furniture	36.9
Basic metal industries	5.3
Manufacturers of metal products and equipments	10.5
Total	100.0

Source: JIMOD Household Survey 2001

To sum up the main points covered in this section, we note that an overwhelming majority of households have non farm income, even while a little less than half of all households have both farm and non-farm income. Clearly, most households in Central Province have already diversified income sources and moved out of agriculture. Nevertheless, relatively few households with non-farm income consider it adequate. Given the information on the structure and distribution of employment and occupations in Central Province, it is evident that although most households derive income from the non-farm sector, such income is probably inadequate, given the preponderance of low skilled employment and survival level activities in this sector. While a little less than half of all households with non-farm income planned to increase it, they aimed to do so mainly through local wage employment. A quarter wished to start a new business, a fifth wished to expand an existing business.

However, key questions relating to the success of these efforts remain. First, can Central Province generate enough of a growth dynamic that would create sufficient job opportunities in the region itself? Secondly, even while households wishing to start or expand an existing business may cite lack of capital and opportunities as their main constraints, there may really be a number of other constraints that operate against them. For one thing, local demand may be inadequate. For another, local producers may have to compete against national or international competitors who may be able to produce higher quality products at lower costs because of their superior technology. Thirdly, local producers may be up against infrastructure constraints such as a reliable supply of electricity, and transport bottlenecks when both accessing inputs and selling output. On the other hand, if local producers were to try to supply a larger market outside their district or province, they may reap economies of scale only if they are able to compete successfully against a larger set of national and international producers. Finally, even if all the above mentioned constraints were to be eased, if the macroeconomic climate is not conducive and even large firms think twice about investing their surpluses in expanding their operations, as has been the case in Sri Lanka during the last decade, it is hardly surprising that small and micro-entrepreneurs are pessimistic about their prospects. In fact, the mini survey of micro, small, medium and large firms carried out as part of the JIMOD initiative confirms these perceptions (Fernando 2002).

The above observations point to two policy issues. First, how may Central Province generate its own growth dynamic in the non-farm sector? Secondly, how may policy-makers create an enabling environment for the growth and expansion of business in Central Province? We take up these issues in Section 6 of this paper, but before that we look at the role played by migration in the portfolio of households' income-earning choices.

## 5. MIGRATION

The third choice open to rural households that do not want to increase their farm holdings and who are unable to find suitable employment in the rural non-farm sector is to migrate to areas where farm or non-farm employment opportunities are more promising. In this section we first look at existing patterns of in-migration and out-migration and their motivating factors. Next, we examine the importance of migration in the portfolio of household economic choices.

### 5.1 In-migration

The first point to note about household movements within Central Province is that while roughly 40 per cent of household heads interviewed had moved to their current place of residence during the last twenty years, at least four fifths of such household heads had moved from within the district (Table 5.1). Nearly a third had moved within the same DS Division, while a fourth had chosen to remain within the same GN Division. Only a fifth had moved in from another district, although there are some district-wise variations, with Kandy experiencing the smallest proportion of in-migrants from other districts. Matale District has experienced an influx from Kandy District (20 per cent) and Nuwara Eliya District a considerably smaller influx from Badulla District (Table 5.2). Thus, if we were to consider in-migration rates only, then it appears that Central Province has a relatively spatially immobile population.

**Table 5.1: Heads of Households Who In-Migrated by Region of Origin**

Region of origin	Kandy %	Matale %	Nuwara Eliya %	Central Province %
Same GN Division	29.67	33.33	10.87	25.82
Same DS Division	32.97	22.22	30.43	29.67
Same District	19.78	15.56	28.26	20.88
Outside the District	16.48	28.89	28.26	22.53
Overseas	1.10	0.00	2.17	1.10
Total	100.00	100.00	100.00	100.00

Source: JIMOD Household Survey 2001

**Table 5.2: Heads of Households Who In-Migrated by District of Origin**

Region of origin	Kandy %	Matale %	Nuwara Eliya %	Central Province %
Colombo	2.22	2.22	2.22	2.22
Gampaha	1.11	0.00	2.22	1.11
Kalutara	3.33	0.00	4.44	2.78
Galle	3.33	2.22	0.00	2.22
Matara	0.00	0.00	4.44	1.11
Puttalam	0.00	0.00	2.22	0.56
Trincomalee	1.11	0.00	0.00	0.56
Kandy	81.11	20.00	8.89	47.78
Matale	0.00	68.89	0.00	17.22
Nuwara-Eliya	5.56	2.22	64.44	19.44
Badulla	0.00	0.00	8.89	2.22
Kegalle	0.00	0.00	2.22	0.56
Kurunegala	2.22	4.44	0.00	2.22
Total	100.00	100.00	100.00	100.00

Source: JIMOD Household Survey 2001

This observation is borne out further by data on the sectoral origin of in-migrant heads of households (Table 5.3). Note that nearly 60 per cent of all household heads who moved to their current place of residence were those who remained within a rural environment. However, this result is driven by the results for Kandy and Matale. Rural to urban migration has been relatively low, averaging around 5 per cent of total in-migration in all three districts. Predictably, Nuwara Eliya District which has a large estate population reports estate to estate migration in far larger proportions (20 per cent) than do either Kandy or Matale Districts (Table 5.3).

**Table 5.3: Heads Of Households Who In-Migrated by Sectors of Origin and Destination**

	Kandy	Matale	Nuwara Eliya	Central Province
	%	%	%	%
Urban to Urban	5.56	6.67	15.56	8.33
Urban to Rural	6.67	4.44	0.00	4.44
Urban to Estate	0.00	0.00	0.00	0.00
Rural to Urban	5.56	4.44	4.44	5.00
Rural to Rural	71.11	73.33	28.89	61.11
Rural to Estate	0.00	0.00	13.33	3.33
Estate to Urban	1.11	0.00	0.00	0.56
Estate to Rural	1.11	0.00	4.44	1.67
Estate to Estate	6.67	6.67	20.00	10.00
Not mentioned	2.22	4.44	13.33	5.56
Total	100.00	100.00	100.00	100.00

Source: JIMOD Household Survey 2001

What were the motivational factors behind in-migration? The main reason in all three districts was marriage (36 per cent), with better facilities coming a respectable second. Employment is not a key motivator, accounting for only 8 per cent of total in-migrations. This is to be expected given the high prevalence of within district migrations and the availability of transport links enabling people to live where they are and travel to work if necessary. Even when disaggregated by ethnicity, marriage continues to be the principal motivator, particularly among Moors and Tamils<sup>5</sup> (Table 5.4). However, employment and parental decisions are more important in encouraging in-migration among Tamils than in any of the other communities. Understandably, civil disturbances have played some role in motivating in-migration among Tamils as well, although not to a significant extent. Settlement schemes have been the second-most important motivating factor for in-migration among the Sinhalese.

**Table 5.4: Heads of Households Who In-Migrated by Reason and Ethnic Group**

Origin and destination	Sinhalese	Tamil	Moor	Burgher	Central Province
	%	%	%	%	%
Seasonal agriculture	2.84	0.00	11.11	0.00	3.30
Employment	4.96	19.05	11.11	100.00	7.69
Marriage	34.04	28.57	66.67	0.00	35.71
Better facilities	29.08	9.52	11.11	0.00	25.27
Settlement schemes	16.31	0.00	0.00	0.00	12.64
Civil disturbances	0.71	4.76	0.00	0.00	1.10
Parent's/Guardian's decision	3.55	23.81	0.00	0.00	5.49
Returned to home country	0.71	4.76	0.00	0.00	1.10
Other	7.80	9.52	0.00	0.00	7.69
Total	100.00	100.00	100.00	100.00	100.00

Source: JIMOD Household Survey 2001

<sup>5</sup>In administering the questionnaire, ethnicity was assigned according to households' own description of their ethnicity, and substantial numbers of Tamils of Indian origin chose to describe themselves as being Sri Lankan Tamil rather than Indian Tamil. The number of actual Sri Lankan Tamils was small. For the purpose of analysis, we consider both groups together, hence in the analysis we make no distinction.

Thus, the basic facts to emerge from in-migration patterns in Central Province is that by and large, most households moved to their current place of residence from within the district, and within the sector. Most movements took place within the rural sector and within the estate sector, mainly for purposes of marriage, but in the case of Tamils, also for purposes of employment.

## 5.2 Out-Migration

While in-migration patterns reveal little spatial mobility or dynamism, out-migration patterns appear considerably more dynamic in terms of destination and purpose.

For the purpose of the survey, out-migration was defined as moving out of the residence of origin over the last six years. Interestingly, overall out-migration rates are exactly equivalent to in-migration rates: 40 per cent of all households interviewed had at least one migrant, with significant variation between the ethnic groups. Nearly 62 per cent of Tamil households had at least one migrant, followed by Moors at 40 per cent, with the Sinhalese bringing up the rear at 38 per cent (Table 5.5). There is little significant difference in the rate of migration between Kandy and Matale Districts, both at roughly 40 per cent, but the rate of migration was somewhat lower in Nuwara Eliya District at 35 per cent.

**Table 5.5: Households with at least One Migrant by District and Ethnicity**

	Kandy	Matale	Nuwara Eliya	Central Province
	%	%	%	%
Sinhalese	39.02	36.67	34.78	37.83
Tamil	55.17	58.82	37.5	61.54
Moor	60.00	38.46	0.00	40.00
Burgher*	100.00	0.00	0.00	100.00
Total	41.67	40.00	35.00	40.00

\*The sample included only one Burgher household

Source: JIMOD Household Survey 2001

An interesting result to emerge from the data analysis is that there is absolutely no difference between overall male and female migration rates, each accounting for exactly half the number of all migrants (Table 5.6). Moreover, married men and women accounted for a larger proportion of migrants (59 per cent and 65 per cent). But unmarried females accounted for a smaller proportion of female migrants (32 per cent) than unmarried males (40 per cent).

**Table 5.6: Out-Migrants in Central Province by Gender and Marital Status**

Marital Status	Males	Females	Both Sexes
	%	%	%
Never married	40.14	31.76	35.93
Married	58.50	64.86	61.69
Widowed	0.68	2.70	1.69
Abandoned*	0.68	0.00	0.34

\* It is unclear whether there has been a legal separation

Source: JIMOD Household Survey 2001

Where marriage was the key determinant of in-migration, employment is the principal motivator of out-migration, with 51 per cent of all migrants doing so for employment purposes (Table 5.7). The ratio is highest among Tamils at nearly 60 per cent and lowest among Sinhalese at 48 per cent. 30 per cent of all households with at least one migrant did so for 'other' reasons, of which marriage is likely to be a significant component. Less than 1 per cent of migrants did so due to civil disturbances.

**Table 5.7: Out-Migrants by Reason and Ethnic Group**

Reason	Sinhalese	Tamil	Moor	Burgher	Central Province
	%	%	%	%	%
Employment	47.96	59.67	54.55	100.00	50.85
Education/training	7.24	96.77	9.09	0.00	7.80
Vacation/pleasure	7.69	0.00	9.09	0.00	6.10
Parent's/Guardian's decision	4.07	64.52	9.09	0.00	4.75
Business	0.90	0.00	0.00	0.00	0.68
Civil disturbances	0.45	0.00	0.00	0.00	0.34
Other	31.67	24.19	18.18	0.00	29.49
Total	100.00	100.00	100.00	100.00	100.00

Source: JIMOD Household Survey 2001

Predictably, the majority of those who migrated for employment purposes were young. Roughly half is in the 20-29 age group, two thirds of such migrants are 20-39 years of age (Table 5.8). Proportionately more women in the 20-24 age group (34 per cent) than men (20 per cent) have moved for employment purposes (Table 5.9). But among older migrants, proportionately more men (28 per cent) than women (23 per cent) have migrated for employment. The preponderance of young women among migrants is most likely due to their finding work in the textiles and garments sector. Migrants are also relatively well educated. A little less than half (43 per cent) have studied up to the GCE O'levels, roughly three fourths have received secondary education.

**Table 5.8: Out-Migrants Seeking Employment by Age and Sex**

Age Group	Males	Females	Both Sexes
	%	%	%
15-19	8.89	12.50	10.27
20-24	20.00	33.93	25.34
25-29	24.44	23.21	23.97
30-39	27.78	23.21	26.03
>40	18.89	7.14	14.38
Total	100.00	100.00	100.00

Source: JIMOD Household Survey 2001



**Table 5.9: Out-Migrants Seeking Employment by Level of Education**

Level of education	Males %	Females %	Both Sexes %
No schooling	0.00	9.30	3.51
Primary	12.68	13.95	13.16
Secondary	26.76	23.26	25.44
GCE O Level	46.48	37.21	42.98
GCE A Level	9.86	16.28	12.28
Graduate	4.23	0.00	2.63
Total	100.00	100.00	100.00

Source: JIMOD Household Survey 2001

Migrants seeking employment also move greater geographic distances than in-migrants. 25 per cent of those who migrated for employment purposes went overseas while roughly 70 per cent moved to another district (Table 5.10). Only 5 per cent moved within the same districts. Of all migrants who moved for employment, an overwhelming 50 per cent moved to Colombo District, 12 per cent moved to Galle District and another 12 per cent chose to remain within Central Province (Table 5.11). Migrants from Nuwara Eliya District showed a marked preference for Colombo (67 per cent) relative to migrants from Kandy and Matale (49 per cent each).

**Table 5.10: Out-Migrants Seeking Employment by Region of Destination**

Region of destination	Percentage of migrants seeking employment
Same DS Division	1.33
Same district	4.67
Outside the district	69.33
Overseas	24.67
Total	100.00

Source: JIMOD Household Survey 2001

**Table 5.11: Out migrants seeking employment by district of destination**

District of Destination	Percentage of migrants seeking employment
Colombo	50.44
Gampaha	1.77
Galle	11.50
Moneragala	0.88
Polonnaruwa	3.54
Anuradhapura	3.54
Puttalam	0.88
Jaffna	6.19
Mannar	2.65
Vavuniya	0.88
Trincomalee	0.88
Batticaloa	0.88
Kandy	5.31
Matale	5.31
Nuwara-Eliya	1.77
Rathnapura	0.88
Kegalle	0.88
Kurunegala	1.77
Total	100.00

Source: JIMOD Household Survey 2001

As may be expected, the direction of out-migration for employment has been largely from the rural to the urban sector (48 per cent – see Table 5.12). The flow was greatest in Kandy District (55 per cent). Migration from the estate sector to the urban sector has been considerably less (21 per cent), and predictably, Nuwara Eliya District had the highest rate (65 per cent). Urban to urban migration accounted for 12 per cent and that from Kandy and Matale Districts only.

**Table 5.12: Out-Migrants Seeking Employment by Sector of Origin and Sector of Destination**

Sector of Origin and Destination	Kandy %	Matale %	Nuwara Eliya %	Central Province %
Urban to Urban	10.94	18.18	0.00	12.04
Urban to Rural	3.13	6.06	0.00	3.70
Urban to Estate	0.00	0.00	0.00	0.00
Rural to Urban	54.69	39.39	36.36	48.15
Rural to Rural	12.50	9.09	0.00	10.19
Rural to Estate	0.00	0.00	0.00	0.00
Estate to Urban	14.06	21.21	63.64	21.30
Estate to Rural	1.56	6.06	0.00	2.78
Estate to Estate	3.13	0.00	0.00	1.85
Total	100.00	100.00	100.00	100.00

Source: JIMOD Household Survey 2001

Among migrants who moved from the rural to the urban sector for employment purposes, Colombo attracted a significant majority (63 per cent) followed by Galle (17 per cent). In terms of urban to urban migrations for employment purposes and estate to urban migration, too, Colombo appears to have exerted a magnetic pull.

To recap the main points made in this section, we note that out-migration patterns in Central Province are considerably more dynamic than in-migration patterns. While a little less than half of all households had at least once migrant, half of all migrants moved for employment purposes, and were mainly young and relatively well-educated. There were no significant gender differences. A quarter of all migrants seeking employment went overseas, nearly three-fourths moved to another district, and half moved to Colombo District. Half of all migrants seeking employment moved from the rural to the urban sector, nearly a fifth moved from the estate sector to the urban sector.

### 5.3 Migration as Household Choice

As discussed in Section 5.2 above, JIMOD household survey data reveals that a significant proportion of Central Province households currently engage in migration as an income enhancing activity. Nevertheless, how do households view migration as an economic option, and what are the main constraints facing such households?

Results from the attitudinal survey reveal that though a significant proportion (43 per cent) of households in Central Province with farm income do wish to migrate, the majority (65 per cent) do not (Table 5.13). The need to migrate is felt most widely in Matale District where 39 per cent want to migrate, perhaps reflecting the lower level of economic activity in the district compared to the rest of Central Province. Households in Nuwara Eliya felt the least need to migrate (61 per cent). Here again, the demand for labour generated by both the plantation and vegetable sectors is likely to be a determining factor.

**Table 5.13: Households Who have Farm Income and Wish to Migrate**

Sector of Origin and Destination	Kandy	Matale	Nuwara Eliya	Central Province
	%	%	%	%
Want to migrate	37.23	42.30	33.33	38.00
Do not want to migrate	51.06	53.84	60.60	54.00
Don't know	11.70	3.84	6.06	8.4
Total	100.00	100.00	100.00	100.00

Source: JIMOD Household Survey 2001

Of Central Province households who state that their non-farm income is inadequate for their needs, roughly 38 per cent wish to migrate (Table 5.14). The proportion is slightly higher in Kandy District (39 per cent). But 53 per cent of all such households in Central Province stated that they do not need to migrate.

**Table 5.14: Households Whose Non-Farm Income is Inadequate and Who Wish to Migrate**

	Kandy	Matale	Nuwara Eliya	Central Province
	%	%	%	%
Want to migrate	39.24	37.77	37.93	39.00
Do not want to migrate	50.53	55.55	55.17	53.00
Don't know	10.21	6.66	6.89	8.7
Total	100.00	100.00	100.00	100.00

Source: JIMOD Household Survey 2001

Overall, 38 per cent of households with both farm and non-farm income felt the need to migrate while 54 per cent felt no such need.

The significant thing to note about these results is that a sizeable proportion of households look on migration as a necessary option in increasing household income. And, even if nearly two thirds of such households do not, their decisions are based on their perceptions of the economic opportunities available in their region which may or may not be realistic.

While many households' non-farm income is inadequate, it does not necessarily follow that they take what action is needed to migrate. Of 334 households who stated that their non-farm income was inadequate for their needs, the response rate on whether they have taken any action to migrate was slightly less than half. Only 9 per cent had taken some action to migrate while 36 per cent had not taken any action at all. Of the 30 households who had taken action to migrate, a little less than half were motivated by better income earning opportunities, 17 per cent were motivated by better facilities elsewhere, while a significant 30 per cent cited reasons not specified on the questionnaire.

Of the 119 households whose non-farm income was inadequate and who had not taken any action to migrate, a little more than a fifth were constrained by lack of information, 14 per cent were constrained by the lack of contacts while roughly as many were constrained by farm work and the need to take care of dependents (Table 5.15). Nearly half cited reasons not specified in the questionnaire. Of the total number of households who did not want to migrate at all, a fifth were mainly constrained by the insecure nature of migration, a little more than a fifth perceived little gain in migration. 12 per cent viewed migrant work as being too hard while 9 per cent cited responsibilities at home. Cost and difficulties of travelling, and cost of housing in destination accounted only for 8 per cent.

**Table 5.15: Reasons Why Households Whose Non-Farm Income is Inadequate Have not Taken any Action to Migrate**

Reason	Central Province %
No contacts	14.3
Lack of information	22.0
Too much farm work	2.5
Need to take care of dependents	10.0
No jobs despite contacts	5.0
Other	46.0
Total	100.0

Source: JIMOD Household Survey 2001

A key finding to emerge from the analysis of farming, non-farming and migration in the portfolio of households' choice in Central Province, is that the vast majority of them have experienced a significant shift in their livelihood strategies. In fact, an overwhelming 67 per cent of households stated that they had changed their source of income during the last ten years. Nevertheless, whatever options they have taken, and whatever options remain, whether farming, rural industry or migration, an overwhelming 86 per cent of households reported that they found it difficult to improve income and employment outcomes. In a region where agriculture plays a dominant role and where agriculture seems to be the most obvious choice for income generation and employment, the main reason advanced for households finding it difficult to improve income and employment was the lack of land and capital (63 per cent of households). 13 per cent cited the lack of infrastructure as the principal reason. However, infrastructure was the most commonly cited second reason why households found it difficult to improve income. Nearly a fifth of households who found it difficult to increase incomes and get jobs cited the lack of jobs as the second reason. Nearly 12 per cent cited the lack of skills. Lack of jobs, lack of infrastructure, and lack of markets were also cited as the third reason why households found it difficult to improve income and employment. Lack of political influence featured as a significant fourth reason.

**Table 5.16: Reasons Why Households Find it Difficult to Improve Employment and Income**

	1st Reason	2nd Reason	3rd Reason
Lack of land and capital	62.50	10.82	6.09
Lack of infrastructure	12.77	27.54	15.74
Lack of demand and markets	4.79	9.51	12.18
Lack of labour	1.06	2.62	6.60
Lack of skills	2.39	12.13	10.66
Lack of jobs	8.24	19.34	18.27
Policy constraints	1.33	1.64	1.52
Lack of information	0.53	2.30	5.08
Lack of social contact	0.0	1.64	6.09
Lack of political influence	0.27	2.95	8.63
Too many enemies	0.27	1.31	3.55
Ill health	1.60	2.95	2.54
Other	4.26	5.25	3.05
Total	100	100	100

Source: JIMOD Household Survey 2001

## 6. CONCLUSIONS AND POLICY DIRECTIONS

It is clear from the preceding analysis that even if agriculture, in terms of tree crop cultivation and market gardening, continues to dominate Central Province's economy, there has been a significant structural shift as far as people's livelihoods are concerned. Nearly half the workforce is employed in the agriculture sector, nearly half of all households reported that they have agricultural holdings, and a little less than that reported that they get income from agriculture. Nevertheless, few households survive on farming alone, as farm profitability is closely tied to farm size. Most have non-farm income: indeed, the overwhelming majority of households report their dependence on non-farm income. Nevertheless, most such non-farm income is inadequate as the activities people engage in involve low returns and many households look to expand non-farm income by increasing wage employment. Some intend starting new businesses, others would like to expand their small-scale businesses. They are all constrained by the lack of capital and opportunities. Significant numbers of young, relatively skilled workers want to migrate and many have already done so, mainly to Colombo district.

Households are largely despondent about their prospects for enhancing income and employment, and the evidence suggests a regional economy lacking the economic dynamism necessary for significant poverty reduction. The rate of economic diversification is relatively low, opportunities are limited. Anecdotal evidence suggests that pockets of dynamism and limited areas where economic diversification has taken place do exist, particularly in the urban areas in Kandy District. However, large areas of the hinterland remain relatively untouched.

Perhaps the most significant finding to emerge from the analysis is that while households in Central Province have diversified from the farm to the non-farm sector to a great extent, the transition has been driven by two factors. First, many households have been squeezed out of agriculture due to low productivity levels and non-viable agricultural units. Secondly, they have become non-specialist agricultural households engaging in the non-farm sector mainly due to their need to diversify risks and survive in an environment where farming no longer offers sufficient means of sustenance. The transition from farming to non-farming which most households have experienced has not been driven by the opening of new opportunities in a dynamic industrial and services sector within the region. Instead it has been accommodated by a proliferation of survival level non-farm income-earning opportunities. Meanwhile, the relatively better educated have sought employment outside the province.

What are the implications of these trends for poverty reduction and development policy in Central Province?

In what follows we adopt a macro perspective on the grounds that income-generating efforts by households need a conducive macro environment that includes investment in physical infrastructure such as electricity and transport in order to be effective. The recent history of development and poverty reduction policies and programmes in Sri Lanka, no less in Central Province, is littered with efforts at assisting the poor to lift themselves up by their bootstraps which have had limited success relative to costs. In this regard, Fernando's (2001) findings on the performance of the micro, small, medium and large sectors in Central Province are telling: he notes that business development slowed during the second half of the 1990s mainly because of the downturn in sales, in turn reflecting the impact of global economic downturn following the East Asian Crisis, and internal shocks relating to political instability and secessionary conflict. Meanwhile, the cutting back on infrastructure expenditure was translated into power cuts and high costs of utilities. And most tellingly, Fernando notes that employee turnover, a key constraint to business development, was at least in part attributable to efforts by the government and the NGO sector to promote self-employment projects and micro-enterprises (2001:15). Such efforts, though well-intentioned, appear to have been somewhat misguided as they required a myriad of other favourable conditions which did not prevail. Moreover, that these inputs were necessary for the success and sustainability of SMI and micro enterprises was not sufficiently recognised by the designers of

such programmes. Hence, in this paper we attempt to provide a counterweight to the bottom-up approaches that have proliferated during the last decade. We do this not because we believe that bottom-up approaches are ineffective, but because bottom-up approaches are ineffective on their own. To be effective, they need strategic, top-down interventions that can be efficiently designed and implemented only by unified, centralised structures rather than decentralised, fragmented decision-making and implementing processes.

We first need to clarify the role of migration in Central Province's economic transformation. Certainly, from the point of view of Central Province itself, the loss of skilled workers to migration is a considerable loss to its productive capacity. On the other hand, if the necessary complementary investment in infrastructure and production in Central Province is not taking place, then it is inevitable that such a leakage of skills from the region will take place. Nevertheless, from the point of view of Sri Lanka as a whole, such movements of workers to regions and activities where they can be most productive, may be looked on as a positive development. This last fact cautions against Central Province policy makers adopting the attitude that the region needs to provide job opportunities for such workers in order to retain them. The strategy should be for Central Province itself, not merely its skilled workers, to integrate more closely with economically dynamic regions in the country. Thus, the task at hand should be to generate investment in productive activities in which Central Province has a comparative advantage, or in those sectors in which comparative advantage may be developed, but keeping in mind the necessity to integrate more strongly with the relatively dynamic economy of Western Province.

There are two reasons for this. One is more obvious than the other. As Western Province grows it will pull those regions that are most integrated with it along in its wake.<sup>6</sup> Hence the more closely Central Province is able to integrate with Western Province, the more easily it will be carried along by its neighbour's growth momentum. The second reason is that given the small size of the country as a whole and, the inevitable urbanisation that is even now taking place in Western Province, provincial boundaries will begin to blur and Central Province will find itself on the immediate periphery of the vast metropolitan hub that centres on Colombo. Therefore, it is in Central Province's interest to integrate with Western Province as soon as possible because that would ensure that it does so on terms that are most advantageous to itself, rather than find itself a provincial backwater because of isolationist policies by which time the region will never be able to catch up.

A first step in Central Province's development strategy must necessarily be a recognition of the region's areas of comparative advantage given its resource endowments. Let us first consider the latter, which in turn determine its areas of comparative advantage. Three factors are key: the province's unique agro-climatic environment; its enviable endowment of scenic beauty and cultural heritage; and, its proximity to dynamic Western Province and the Metropolitan Hub of Colombo. Obviously, stringent policies to protect Central Province's endowment of environmental resources must be prioritised. A necessary second condition is the development of transport and communication links between Central Province and Colombo as well as between Central Province and other second-tier urban centres in other parts of the country. In this regard, Central Province's economic survival may critically depend on how fast the proposed Colombo-Kandy Expressway comes into operation.

Accordingly, Central Province's comparative advantage appears to lie primarily in the areas of agriculture, agro-processing, tourism and ancillary services. Thus, its prospects for economic development greatly depend on the extent to which productivity may be increased in the two sectors. What specific policies may be considered to develop both industries?

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<sup>6</sup> Analogous situations are easy to find in other parts of the world. Note for example how Southern European countries such as Portugal, Spain and Greece have grown rapidly since integrating with their Northern European counterparts since joining the EC. Closer home, the initial economic dynamism of Maharashtra and Gujarat are now pulling in its wake the southern cities and states of Tamil Nadu, Karnataka, Andhra and Kerala, whose superior education systems and investment in physical infrastructure have established conditions for economic takeoff that are lacking in the North and North-East.

In the case of agriculture and agro-business, the following key interventions are recommended: policies and programmes that would enable farmers to access more productive varieties of seeds, agricultural know-how and extension; obtaining expert advice on how the marketing and distribution facilities may be improved and developing the facilities accordingly; and, bringing pressure to bear on the authorities in other provinces, particularly in Western Province to improve their market facilities as these are receiving centres for Central Province produce. Reform in land titling and transferring procedures are needed to ensure that currently uneconomic units may be amalgamated and consolidated as more viable ones. With respect to tourism, policy makers need to develop a comprehensive programme to protect the region's environmental capital by developing the necessary infrastructure services, from preventing unauthorised deforestation and construction, to providing garbage disposal services to maintain the pristine beauty of its scenic and cultural attractions. Lobbying Sri Lanka Railways to improve the quality of railway services for tourists to and from Kandy and Nanu Oya may be another step. Besides, Central Province may be able to further diversify its tourist industry and increasingly take advantage of its proximity to the rapidly growing urban metropolis of Colombo, in order to offer weekend and holiday breaks in scenic surroundings to high-income earners in Western Province.

A second step in formulating Central Province's economic development strategy may be to identify areas where comparative advantage may be developed. For example, Central Province may be able to develop an IT industry if the necessary telecommunication infrastructure and skilled workforce is developed. More research needs to be undertaken to identify other such industries.

However, to catalyse dynamic growth, Central Province needs to attract sufficient levels of investment that would generate the necessary growth dynamic in these sectors to increase productivity, employment and incomes. Certainly, much will depend on the macroeconomic climate which is beyond the control of Central Province policy makers. Nevertheless, creating an enabling environment for growth and investment in the province will ensure that it can stake its claim on any economic opportunities that are encouraged by the macroeconomic policy framework at national level. Related policy interventions include those measures that reduce the risks and costs of doing business in Central Province. Key ingredients of such a strategy would involve: enhancing bureaucratic efficiency, transparency, accountability and responsiveness; eliminating partisan political interference in the running of provincial government; and, establishing the rule of law without interference to enhance the public security environment.

Of course, all such policies must be accompanied by interventions to enhance the human capital of participants of Central Province's workforce. Investing in enhancing the quality of basic education, developing competencies such as communication, strategic decision-making and independent thinking will create the skilled workforce necessary to attract economic investments and make them productive. For example, interventions aimed at improving IT and English education in schools will be key to developing an IT industry in the region. Most importantly, such investments in human capital are necessary to enable people to move out of the survival level activities that they are currently engaged in and earn incomes that will help them transcend poverty and insecurity.

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