Investing in rural people in Sri Lanka

Since the 26-year conflict that ended in 2009, Sri Lanka has made significant economic and social progress: rapid economic growth at 3.6 per cent in 2021 (rebounding from a low base due to the COVID-19 pandemic the previous year), and a drop in poverty, from 22.7 per cent in 2002 to 4.1 per cent in 2016. But an unprecedented economic crisis threatens to undo most of this progress. The US$3.20 poverty rate is estimated to rise to 11.7 per cent in 2022, still above pre-pandemic levels.

Today, more than 81 per cent of the population continues to live in rural areas; four fifths of the country’s poor people are dependent on the rural sector and almost half of the poor rural population consists of small-scale farmers. The challenge of youth unemployment also persists, as young people face an unemployment rate more than three times higher than that of the population as a whole.

Agriculture, including the plantations subsector, remains critical to the economy, employing 25 per cent of the labour force, and with small-scale farmers producing most of the country’s agricultural output. Yet the livelihoods of poor farmers are still limited by sector challenges, including low and declining productivity, fragmented landholdings, inappropriate and/or inefficient use of agricultural
technologies and inputs, inadequate water management, lack of market competitiveness, limited access to extension services and unavailability of pro-poor financial products.

As a developing island nation, Sri Lanka is particularly vulnerable to climate change. The sea level is expected to rise by half a metre over the next two decades. Climate-related impacts, already evident, include more frequent and intense floods and landslides, causing extensive damage to assets and displacement of people, particularly poor people. With predictions of higher temperatures and lower rainfall, output of paddy – which is dominated by small-scale cultivation – is expected to fall by up to 30 per cent over the next 20 to 30 years.

Eradicating rural poverty in Sri Lanka

Together with IFAD and other development partners, the government’s rural development strategies aim to support rural household economies with multi-pronged activities that include provision of rural financial services, building of technical skills, marketing and technology assistance for microenterprises and small businesses in agriculture, fisheries and livestock, and cottage industries. A deeper engagement with the private sector in win-win partnerships is similarly pursued.

IFAD’s strategy in Sri Lanka

IFAD is one of Sri Lanka’s longest-standing development partners. In 1978, the Kirindi Oya Irrigation and Settlement Project was launched as IFAD’s first investment in the country. The goal was to increase food production, provide employment opportunities and raise rural incomes. Altogether, IFAD has implemented 19 projects in Sri Lanka, benefiting 654,832 households at a total cost of US$654.57 million (with IFAD providing US$340.49 million in financing).

Today, as Sri Lanka’s economic crisis unfolds, IFAD remains committed to actively engaging in the country, with investments aimed at contributing to the achievement of the Sustainable Development Goals, specifically in the areas of food security, sustainable agricultural production and productivity, and improved income opportunities for rural households.

Within this policy framework, IFAD’s country programme, articulated through the country strategic opportunities programme (COSOP) for 2015-2020 (extended through 2022), promotes: (i) broad and deep involvement of the private sector through public-private producer partners; (ii) improved and inclusive rural financial products and services; (iii) youth employment opportunities; (iv) modernization of the tea and rubber smallholder plantations sector; and (v) improved integrated water management systems. IFAD’s investments are targeted towards rural people, who continue to be among those most likely to be left behind. Empowering poor rural women and men to effectively connect to markets by way of developing and supporting value chains is central to the COSOP.
Smallholder Tea and Rubber Revitalization Project (STaRR)

The project covers eight neighbouring districts in central and southern Sri Lanka, targeting woman-headed and poor households in particular. Its overall goal is to improve food security, increase incomes and strengthen the resilience of 32,000 poor rural households.

The project’s development objective is to ensure that smallholders’ economic activities in tea and rubber become more productive, profitable and resilient. STaRR promotes better organization among smallholders to effectively and sustainably produce and market tea; supports smallholders in improving rubber production and processing, and linking more effectively to markets; and facilitates smallholders’ access to rural financing for both green tea and rubber production and development.

Adopting a value chain development approach, the project supports smallholders and facilitates them in becoming key decision makers along the commercial chain from production to processing to marketing. The project is also contributing to institutional sustainability by strengthening tea and rubber cooperatives and linking them with private-sector partners. The total cost of the project is US$65.4 million, of which IFAD is providing a US$25.8 million loan.

Smallholder Agribusiness Partnerships Programme (SAPP)

The goal of this nationwide programme is to sustainably increase the income and quality of diet of 57,500 smallholder households by expanding livelihood and business opportunities in the agricultural sector. It will provide a platform for smallholder farmers, particularly women and young people, to access financing and business training and will help them to form partnerships with each other and with the private sector.

Developing the agribusiness value chain – which encompasses agricultural production, processing, distribution and marketing – will help smallholder farmers to increase their incomes and will improve employment opportunities and household nutrition in the programme areas.
The programme will build on the lessons learned and experience of past and ongoing IFAD-financed programmes, including the public-private-producer partnerships (4Ps) model developed under the National Agribusiness Development Programme that ended in 2018. Further emphasis will be given to more farmer-led business proposals. The total cost of the programme is US$105.04 million, of which IFAD is providing a US$54.4 million loan.

Smallholder Agribusiness and Resilience Project (SARP)

The project aims to address the impacts of climate change on about 40,000 smallholder families, building their resilience and promoting agriculture commercialization.

The project will mobilize climate-sensitive investments and work with smallholder producers to build and expand agricultural activities that are climate-resilient and part of inclusive value chains. It will operate in six districts in the country’s dry zone, namely Anuradhapura, Kurenegala, Mannar, Matale, Puttalam and Vavuniya. The project will focus on 260 tanks forming water management cascades in three river basins – the Malwathu Oya, Mi Oya and Deduru Oya – identified jointly with the Department of Agrarian Development as the most ecologically and socially vulnerable.

Producer organizations and watershed associations will learn to manage climate risks. Women, youth, group organizations and social enterprises will also benefit from support in managing enterprises in a financially profitable and sustainable way.

Total funding amounts to US$42.7 million, with IFAD providing a US$41.7 million loan and a US$1 million grant for the project.