Privatisation of Plantations: Some Comments

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The government has now declared that it intends to divest itself of the plantation system which was taken into state control in the early 1970s. This decision is in accordance with the second phase action plan of the IMF-World Bank Structural Adjustment Programme put into operation during the last three years. Unconfirmed reports and even rumours have it that this action plan is being implemented in two stages: a partial destatization representing the initial stage to be followed later by the complete destatization of the plantations.

To start with, it may be appropriate to define the terms, statization, complete destatization and partial destatization. Statization, or nationalization as it used to be called, was in vogue in the 1960s and the early 1970s. It meant the takeover of ownership and/or control of private enterprises by the state. This term also applies to the formation of new state-owned enterprises (SOEs). In this article, SOEs are taken as 'revenue-generating entities owned or controlled by the state' (van de Walle, 1989: 601). Changes in the world politico-economic climate since the late 70s and particularly in the 80s has led to a rethinking of the policy of state ownership of productive ventures. Two important factors behind this change are dissatisfaction with the pervasively poor performance of SOEs and the resultant fiscal drain involved in maintaining such inefficient state-owned entities. It was argued that the cure for this problem was the destatization/privatization of the SOEs which means 'a transfer of ownership and control from the public to the private sector' (Hemming and Mansoor, 1988: 1). In some cases, the transfer could be partial in the sense that only management and control are given over to the private sector.

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What is suggested, at least in the current phase, is the partial destatization of plantations by the handing over of the management of the state owned plantation sector to private agency houses or management companies. The expectation is that ownership too would be transferred to the private sector at a second stage within a three year time-span.

There is no doubt that the plantation sector in Sri Lanka is in total disarray and therefore, has to be restructured. However, it appears that the present plan for restructuring has stemmed not from a deep analysis of the plantation system and the crisis it is in but from the ideological positions upheld by the World Bank and the IMF. Neither the government nor its policy formulators appear to have done any independent thinking on the economic management of the country's resources; they seem to have accepted in totality the ideologically motivated position of the World Bank - IMF that privatization can cure all the ills of the Sri Lankan economy. They should perhaps heed the Chilean experience in the period 1972-82 : excessive privatization during that period eventually forced the Chilean government to restatize certain sectors of the economy (Diaz-Alejandro: 1985 and Yotopoulos: 1989).

To avoid any misunderstanding, I should state at this point that I do not have any ideological bias towards the statization of the economy. Rather, I would support a weaker, non-interventionist state. Destatization or privatization has to be examined in relation to its concrete results and the contextual situations in which such measures are implemented. As Yotopoulos (1989:698) says, "at its best, privatization unleashes competitive forces which promote efficiency and contribute to growth. At its worst, it substitutes insensitive, privately-owned monopolies and feed corruption."

THE CRISIS OF THE PLANTATION SYSTEM

The IMF-WB and the government appear to think that the crisis in the Sri Lankan plantation system is a crisis of management. Mr. A.C.S. Hameed, a leading cabinet minister, thinks that 'the two corporations had become unwieldy, unmanageable and unreachable'; he has identified three areas which include 'increasing yield, introducing better management and innovative marketing' as being necessary to set the industry on its feet again. A similar view has been expressed in statements coming from the Ceylon Workers' Congress. Before commenting on this mode of analysis, let me first point to the magnitude of the crisis. The World Development Report (World Bank, 1986:73) has referred to the fact that the position of comparative advantage enjoyed by the Sri Lankan tea industry has now shifted in an adverse way. While its contribution to world trade has declined from 34% in 1955 to 19.8% in 1979, Kenya's contribution has increased during the same period from a mere 1% to 11.4%. According to Betz (1989), during the period between 1960-1986, the producer margin in the tea industry has been negative for seven years and rather low for the remaining years. The productivity of labour has been comparatively lower than in Kenya or India, the other two main suppliers to the world tea market. The yields per hectare in tea in 1979 in Sri Lanka and Kenya were 854 kg and 1690 kg respectively. All these data reveal that the comparative advantage in the production of tea has been unfavourable for Sri lanka vis a vis Kenya.

Is this merely a crisis of management? No doubt there has been a near breakdown in the management of tea estates. However this position is not, in fact, a direct result of statization of the plantation system in the early 70s. It derives directly from management practices prior to that. Since the 1960s, partly as a response to falling tea prices in the world market, plantation

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companies had neglected the production aspect of the tea industry, postponing necessary long-term investment on replanting, factory modernization and so on. The companies had even attempted to save on fertilizer in order to maintain dividends and Agency House fees at earlier levels (Government of Sri Lanka: 1974). The situation has worsened after the statization of the plantation system, particularly as the state plantation system became subject to political interventions. As Betz (1989:53) remarks:

The creation of the JEDB has been motivated by personal interests of the then Minister of Agriculture, who thus gained control of at least part of the plantations. From the beginning, the Usawasama suffered from overstaffing, heavy political patronage and transport problems. This applied also to the electoral level co-operatives, conceived as democratically managed plantations but beset by rampant corruption.

In this context, no one can object to the revitalization of the management of the plantation system which does indeed seem to have reached a breaking point. In the words of the Minister of Plantations,'[the] plantation industry [is] faced with a crisis, perhaps the most severe in magnitude, since the coffee-crash over a century ago' (*The Island*, 29 August 1991). But there are two important and inter-linked aspects which need to be considered in any effort at management restructuring. First, it is not possible to go back to the old system of management based on low wages and indentured labour . During the last two decades or so the wages have increased significantly; the daily average wage of a plantation worker has gone up from Rs. 5.06 in 1975 to Rs. 33.97 in February 1988. The index of real wages was 132.9 in 1975 and 218.0 in 1988, with 1952 as the base year. The increased politicization of plantation trade unions, deriving partly from the fact that the plantations are state-owned, has also rendered the old system of labour management quite obsolete. Secondly, management and production are inter-related aspects of the same process. It is quite wrong to think that the relationship between management and production is one-way. The system of management is partly conditioned by the system of production. Any attempt to recreate the nineteenth-century scenario is bound to fail. The Sri Lankan tea industry has to present its product at a given world price over which the country has at present little control. Therefore, prices have to be considered as given. In this context what is required is the adoption of cost-cutting measures which include not only raising the productivity of land by agro-chemical and agrobotanical changes but also raising the productivity of labour. These are not merely problems of management but issues which are directly related to the current structures of production and marketing. Just prior to statization, the agency house system had also failed to evolve any response to the changing situation in the world agricultural price system. This proves that the crisis in the plantation system demands a transformation more radical than the mere destatization of management.

Is Small Beautiful?

Here, I think, it may be appropriate to reiterate the thesis of Dr. S.B.D. de Silva (1982) that the plantation system from its very outset has not displayed the characteristics of a modern, developed sector. The large scale production and the management systems controlled by the agency houses were not the product of the organic requirements of the plantation system, but of the absentee ownership of estates. This system did not tend to economies of scale at the level of cultivation, either in tea or in rubber. Ramachandran (1963) has argued that very few or no economies of scale exist on tea plantations. Mendis (1990:28) states:

> The results of the Cobb-Douglas production function model, which provides statistical evidence to test returns to scale suggest that Sri lanka's tea production, on the average, experiences constant returns to scale ... it [also] suggests that large estates do not necessarily obtain maximum efficiency in production. The results further imply that the smaller estates are operating at a relatively higher efficiency level than larger tea estates.

These conclusions have been supported by experiences in Kenya. Dr. Etherington, referring to Kenyan small producer tea production, has concluded; 'Certainly, wherever else the advantages of scale exist they would not seem to lie in the production of green leaf in the field (quoted in de Silva, 1982: 280). If there are any economies in scale, that would be in the processing stage of production. As Kenyan experience has shown, the production of green leaf and the processing of tea are not necessarily linked. Kenya has been highly successful as a tea producer by basing itself on small scale production of tea leaf.

The experience of the post 1977 period indicates that the small scale tea-grower had responded more positively than others in the sphere of production. Small scale producers of domestic agriculture crops have also shown that they are prepared not only to diversify but also to shift from one crop to another according to changes in relative price advantages and profits. Some villagers in the south have started growing tea on their coconut plots as a means of subsidiary income. And small scale coconut farmers have been more dynamic and economic in utilizing their land resources. Ramachandran (1963:169-70) once argued:

Admittedly, tea is not fitted for cultivation by village agriculturists as a subsidiary crop in small holdings (less than ten acres); to check sub division of tea lands into such small units might be advisable. But in its present form the fragmentation law militates against the development of a new form of estate organization of smaller capitalists, which could prove to be an efficient one.

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PLANTATION .....

This idea will be further supported by a consideration of the very nature of the Sri Lankan moneyed class. When they accumulate some capital, they prefer to invest in land and real estate. As I pointed out, the crisis of the plantations and the shift of comparative advantages are primarily the result of absentee ownership, either of state or of private landlords. The proposed system of partial destatization will not solve this fundamental problem. In Kenya the tea economy is set on competitively firmer ground by a 'revolutionary break-up of the ... plantations,' to borrow Allan Nevin's phrase in another context. De Silva (1982:280) writes:

> The absence of a positive relation between the size of a cultivation unit and the quality of produce is evident in Kenya. Aided by the Kenya Tea Development Authority (KTDA), small holders achieve yields comparable with those on estates and the processing of tea is done in large cooperative factories. KTDA also enforces quality standards for the green leaf purchased from small holders. In Kenya, since the early 1960s, and in Malawi more recently, tea production has been increasingly on small holdings.

This, backed up by a macro plan on land use, is definitely a radical measure which may revolutionize agrarian relationships in the country, possibly leading it on the 'American' path of capitalistic development. It would also contribute to reactivate 'black money' hoarded by the Sri Lankan moneyed class. The production of tea and rubber could be organized in large factories owned by the State Plantations Corporation, private companies or cooperatives. The competition between them will be advantageous to small scale green leaf producers and also promote a more pluralistic ownership structure.

My basic contention is that the issues involved cannot be solved in the sphere of management or of pure economics but in the sphere of political economy. The management of the economy requires creative thinking, not the facile repetition of abstract formulas designed in Washington.

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ICJ ON THE NGO COMMISSION

The International Commission of Jurists (ICJ) is a non-governmental and non-political organisation which has consultative status with the UN Economic and Social Council, UNESCO and the Council of Europe. It draws its support from judges, law teachers, practitioners of law and other members of the legal community and their associations.

The Commission's objective is to promote the understanding and observance of the rule of law throughout the world; it has defined this concept as, among others, " to protect the individual from arbitrary government and to enable him to enjoy the dignity of man". The Commission's work thus focuses on the legal promotion and protection of human rights and freedoms.

In the pursuit of this objective, the ICJ conducts studies or inquiries into particular situations or subjects, publishes reports on them and intervenes with governments concerning violations of the rule of law.

The ICJ commissioned Dr. Stephen Neff, a lecturer in Public International Law at the University of Edinburgh, to visit Sri Lanka and to study the mandate and operation of the Presidential Commission of Inquiry in respect of non-governmental organisations (hereafter the NGO Commission). In the course of his visit in May -June 1991, Dr. Neff met representatives of NGOs, lawyers acting for NGOs as well as government officials and those connected with the NGO Commission.

The ICJ submitted the draft report to the government in July and asked for an opportunity for an ICJ delegation comprising of Sir William Goodhart, QC., and Dr. Neff to discuss its findings with the government and with the members of the NGO Commission; it expressed its willingness to modify any criticism which appeared, on discussion, to have been overstated or unjustified. This request was denied; the ICJ was informed by the Permanent Representative of Sri Lanka to the UN in Geneva that any comment or critique on the operations of the Commission "would be a violation of the principle of non-interference in matters that are deemed to be sub-judice".

The ICJ renewed its request, arguing that the proceedings of the Commission were not 'sub-judice' and asked for a response from the government by 6 September 1991. There has been no response.

The Report was published in Geneva by the ICJ in November with the following comment:

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