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Investing in rural people in Sri Lanka

Since its 26-year conflict ended in 2009, Sri Lanka has made significant economic and social progress, reporting rapid economic growth and a drop in poverty from 22.7 per cent in 2002 to 4.1 per cent in 2016. However, an unprecedented economic crisis threatens to undo most of this progress. Between 2021 and 2022, Sri Lanka's estimated poverty rate nearly doubled from 13.1 per cent to 25 per cent – an addition of 2.5 million poor people.

Today, more than 81 per cent of Sri Lanka's population lives 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 are small-scale farmers. 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 due to the impacts of climate change and other external shocks, 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. Youth unemployment is also persistent; young people face an unemployment rate more than three times higher than that of the population as a whole.

IFAD

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, evident from more frequent and intense floods and landslides, loss of forest cover and soil erosion, are displacing poor people and causing extensive damage to assets. With predictions of higher temperatures and lower rainfall, crop production – particularly small-scale cultivation – is expected to decline.

Eradicating rural poverty in Sri Lanka

Since 2022, the country has been facing a severe economic crisis caused by high trade deficits, low foreign exchange reserves and reduced government earnings. GDP contracted by a record 8.7 per cent in 2022, and inflation, while down from its peak, remains high. National agricultural production has been affected by high input prices, leading to soaring production costs and unavailability of certain types of fertilizers. Together with IFAD and other development partners, the Government of Sri Lanka aims to support rural families to navigate the crisis through emergency aid, provision of agricultural inputs (particularly fertilizer), and multi-pronged activities, such as increasing access to financial services, building technical skills, and improving resilience to climate and economic shocks.

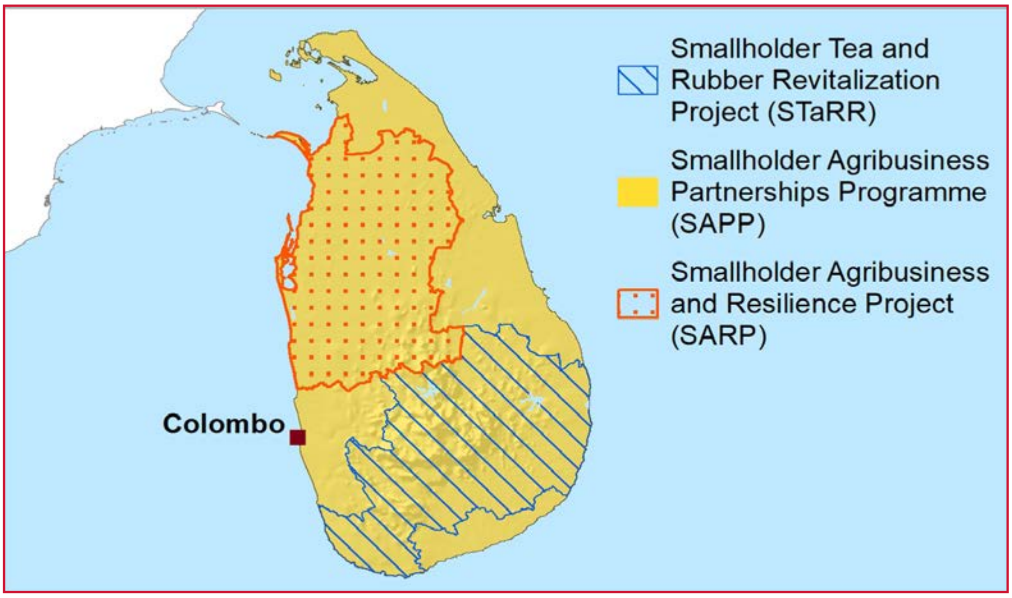
IFAD's strategy in Sri Lanka

IFAD is one of Sri Lanka's longest-standing development partners. Since its first investment in the country in 1978, 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). These investments have supported government policies to achieve food security, ensure higher and sustainable incomes for farmers, improve production and productivity, and sustainably manage the environment.

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 (SDGs), especially SDGs 1 (No Poverty), 2 (Zero Hunger), 8 (Decent Work and Economic Growth), 9 (Industry, Innovation and Infrastructure) and 13 (Climate Action). IFAD's focus remains on improving food security, increasing sustainable agricultural production and productivity, and supporting income-generating opportunities for rural households. Within this policy framework, IFAD's country programme, articulated through the country strategy note (2023–2024), has the following objectives: (1) rural communities gain greater resilience to shocks and longer-term changes in the climate and economy as they recover from the current economic crisis; and (2) smallholder farmers benefit from sustainable productivity enhancement in more resilient livelihood systems that are effectively connected to markets.

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 country strategy.

Ongoing operations



Smallholder Tea and Rubber Revitalization Project (STaRR)

STaRR covers eight districts in central and southern Sri Lanka, with the overall goal of improving food security, increasing incomes and strengthening the resilience of 32,000 poor rural households.

The project has worked to ensure that small-scale tea and rubber farms become more productive, profitable and resilient. It encourages better organization among small-scale farmers to effectively and sustainably produce and market tea. It supports small-scale rubber farmers to improve rubber production and processing and links them more effectively to markets. Both tea and rubber farmers also have easier access to rural financing for climate-smart tea and rubber production and development.

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 improve the incomes and diets of 57,500 smallholder households by expanding livelihood and business opportunities in the agricultural sector. It provides a platform for smallholder farmers, particularly women and young people, to access financing and business training and helps them to form partnerships with each other and with the private sector.

SAPP builds on the public-private-producer partnerships (4Ps) model developed under the National Agribusiness Development Programme that ended in 2018. The 4Ps model has proven successful in developing the agribusiness value chain and enabling small-scale farmers to increase their incomes, employment opportunities and household nutrition. The programme also focuses on 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.

SARP mobilizes climate-sensitive investments and works with smallholder producers to build and expand agricultural activities that are climate-resilient and part of inclusive value chains. It operates in six districts in the country's dry zone, namely Anuradhapura, Kurenegala, Mannar, Matale, Puttalam and Vavuniya. The project focuses on 260 tank cascade systems for water management 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.

Through SARP, producer organizations and watershed associations are learning to manage climate risks. Women, youth, group organizations and social enterprises are also benefiting from support in managing enterprises profitably and sustainably.

The total project size is US$82.05 million, with IFAD providing a US$41.7 million loan and a US$1 million grant.

IFAD is an international financial institution and a United Nations specialized agency. Based in Rome – the United Nations food and agriculture hub – IFAD invests in rural people, empowering them to reduce poverty, increase food security, improve nutrition and strengthen resilience. Since 1978, we have provided more than US$24 billion in grants and low-interest loans to fund projects in developing countries.

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