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# The Impact of Policy Responses to the Food Price Crisis and Rural Food Security in Sri Lanka

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## Abstract

In Sri Lanka policy responses have direct impacts on rural dwellers. Over 80% of Sri Lanka's population live in rural areas and 90% of them represent low income dwellers. Their production system may be hampered by fragmented landholding, poor economics of scale, low investment levels resulting from poor financial services as well as inappropriate or limited technology. They are vulnerable to price hikes of basic foods and food security issues due to fragmented landholding and poor financial services. Policy measures to reduce the transmission of higher international prices in domestic markets exist to protect the food security of the vulnerable population. This paper will discuss the food policy and strategies implemented by the government and outside to the above facts this paper also describes the effectiveness of the policies forwarded by the government. The objective of this study is to analyse the impact of policy responses to the food price crisis and rural food security in Sri Lanka. Outside of the above facts this study also treats the impact of policies and decisions on the nutritional condition of rural dwellers. Furthermore this study is to analyse the fluctuation of buying power with the price hikes and the relation of above facts with issues like malnutrition. This paper discusses why policy makers should pay greater attention to rural dwellers and describes the multiple pathways through which food price increases have on rural people. It also provides evidence of the impact of this crisis in particular, through hidden hunger, and discusses how current policy responses should adjust and improve to protect the rural dwellers in the short and long term.

**Keywords:** *Policy responses; Food price crisis; Food security; Sri Lanka*

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## Introduction

It took a century (1830-1930) for the world population to grow from one billion to two, thirty years (1930-1960) for the third billion, fifteen years (1960-1975) for the fourth and twelve years (1975-1987) to reach the fifth billion. According to the estimates, the next billion will be added within less than ten years. Currently, over 700 million people do not have access to sufficient food to meet the nutritional needs for a healthy life (Pinstrup-Andresen and

Pandya-Lorch, 1995, P, 17-36); they are food insecure. The traditional well known definition of food security refers to having enough food to maintain growth and health. Food security is access by all people at all times to the food required for a healthy life (von Braun et al. 1992). The USDA too defines food security as having access to enough food at all times for an active, healthy life (Nord, 2002).

The new definition of food security refers to the production, processing and distribution chain being secure from bioterrorists so that food cannot be deliberately contaminated with an agent that would make people ill, cause death or economic chaos. Food insecurity, on the other hand, refers to insufficient access to food and also insufficient food production. Food insecure people are those who do not grow and/or purchase the needed food or gain access to the services needed. This could be related to poor rural community.

Rising food prices are contributing to higher inflation and will at a minimum show the pace of poverty reduction in a country. The rapid increase in prices of rice, wheat, sugar, and other basic foods has sent a shock wave through poor households around the world, as well as through governments and international policy makers. While food prices are always volatile, recent increases are of a magnitude last seen in the 1970s. The impact of the price increases on poverty. The effect on the poor depends on whether they are net sellers or net buyers of food, as well as whether they depend on the agricultural sector for wages or other sources of income.

Several types of domestic policy responses (government and non government organisations) can help to protect and strengthen food security. Policy responses have a direct impact on rural dwellers. Over 80% of Sri Lanka's population lives in rural areas and 90% of them represent low income dwellers.

To sustain food production, Sri Lanka needs to develop holistic and sustainable crop and land management programmes that have been validated in other parts of the world. Research investment must contribute to the development of knowledge on more efficient methods of crop management

and more productive means of crop production. The nation and its policy makers must realise that human carrying capacities of land is not only a national problem but also has a global impact, and an active programme should be developed to monitor and assess land degradation, while implementing national and international policies that facilitate access to food through a fair and equitable market system.

Sri Lanka should develop policies that are compatible with its own environment. Great care should also be taken to set up an interactive co-ordination among the agro food sector institutions and entrepreneurs and to establish policies to address issues related to socio-economic sphere, nutrition and health. A collective effort of governmental and non-governmental organisations, farmer associations and other stakeholders is of primary importance in the implementation of these policies. Accordingly, the following can facilitate improved food security; improvement of agro technology, plant breeding programmes for improved varieties, popularisation of use of alternative crops as substitutes for major food commodities, long term government policies and their efficient implementation mechanisms, promotion extension programmes, development and improvement of systems, processing and storage infrastructure at all levels.

In this paper analyses the factors that affect the rural community due to the price fluctuation or food stuffs. This paper will discuss the food policies & strategies implemented by the government and outside to the above facts this paper also describes the effectiveness of the policies forwarded by government.

## Literature review

Food security means the availability and accessibility of food to all. FAO (1996) The Rome declaration on world food security and the world food summit plan of action lay the foundations for diverse paths to a common objective of food security, at the individual, household, national, regional and global levels. Food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life. The World Bank has modified this formulation to indicate that food security is “access by all people at all times to enough food for an active, healthy life. Its essential elements are the availability of food and the ability to acquire it”. The World Bank has made the distinction between chronic and transitory food insecurities. Chronic food insecurity reflects continuous “inadequate diet caused by the inability to acquire food. It affects households that persistently lack the ability to either buy food or to produce their own”. Transitory food insecurity is defined as “a temporary decline in the household’s access to enough food. It results from instability in food prices, food production and household income – and in its worst forms it produces famine,

It was implied that food security meant arrangements for providing a physical supply of a minimum level of food grains at the national level, during all periods including those having harvest failures. It was subsequently recognised that physical availability alone would not ensure economic access to food for all of a population, especially the poor and vulnerable sections. It was emphasised that satisfactory production levels and stability of supplies should be matched by a reduction in poverty and increase in the effective demand to ensure economic

and physical access for the poor (George 1999:466).

As food security is understood today, the availability of food is a necessary condition for ending hunger but it is not a sufficient one. There is a need to enable people to access food. This enabling route may consist of income generation opportunities like food for work programmes. Bram et al., (1992) suggested that while food security at the national level can be monitored in term of demand and supply indicators, food security at the household level can be measured by direct surveys of dietary intake and food security at the individual level can be gauged from anthropometric information (Braun et al.1992).

The policies and programmes for achieving household food security are based on the identification of the characteristics of food insecure households and individuals. As there is a close link between poverty and household food security, it is relevant for various poverty alleviation macro-economic policies to address issues. Since the majority of the poor live in rural areas and since most of them are small farmers or agricultural labours the policies pursued in relation to agricultural development have a high significance. Apart from macro-economic policies in general and in particular the agricultural policies and poverty alleviation programmes, a number of direct interventions such as public distribution of food grains and feeding programmes are relevant in the context of achieving household food security.

## Theoretical discussion

At the point of preparation for this paper received many suggestions, objections and feedback from the community. In terms of theories. As price increases will positively benefit the

producer it will on the other hand have a negative impact on the consumer. If food production purely depends on the local agricultural system, without any imports of food, rural population could treat it as a positive sign on the economic system of a country. In general the behaviour of the consumers shows some deviations with the income level as well. Most of the rural dwellers were based on the agriculture related economy, and were very sensitive to the fluctuations of external factors like weather conditions. On that ground they were highly depressed with the price hikes and it will also the buying power of a consumer.

The rationale for disaggregating food consumption analysis on this reality, a reality entirely consistent with the economic theory of the consumer. Freedom of consumer choice in the face of a budget constraint is one of several ways commodities can be allocated among consumers. The market orientation implied by such a model of consumer choice has two extremely important policy implications, even before the model is used to understand consumer behaviour when prices and income change.

### **Methodology**

The objective of this study is to analyse the impact of policy responses to food price crises and rural food security in Sri Lanka. Outside to the above facts we also treat the impact of policies and decisions that effect the nutritional condition of rural dwellers. Furthermore this study analysed the fluctuation of buying power with the price hikes and the relation of above facts with issues like malnutrition.

In general most of the Sri Lankans lived in villages and most of them belong to the category of low income earners and

relied on agriculture as a profession. Therefore they were very sensitive to the price fluctuations of food products. This sample is based on the rural dwellers of north, east and the tea cultivation, rural areas in Sri Lanka. In this study used primary and secondary data as resources for the research; also we refer to the central bank reports, department of census and statistics reports and interviews with rural people, as a reference.

### **Rural poverty in Sri Lanka**

Poverty is a major economic problem in Sri Lanka .The agriculture sector is the cornerstone of Sri Lanka's economy with more than 70% of the population living in rural areas depending on agriculture for their livelihoods. This sector contributes to about 12.2% of the Gross Domestic Product (GDP) and 30% of the employment. But the gain is minimal due to the low investment level, poor financial services, and inappropriate or limited technology. (Central Bank report of Sri Lanka, 2011)

Poverty is concentrated in rural areas as well as the north and east provinces. The official poverty rate is 15 percent. That rate is much higher in uva and sabaragamuwa provinces where between a quarter and a third of all people live below the poverty line. Tea cultivation and war and terrorism affected areas are some of the poorest areas of the country. The consequences of widespread poverty can be seen everywhere in Sri Lanka. Malnourishment is a fact of life for millions of people. According to university researchers, out of sample of 330 mothers in the country, 38% of new born babies were not the proper size and 17% of the babies were not the proper weight.

	Real growth. %,			Share of GDP
	2009 Q1	2010Q1	2011Q1	in 2010
Agriculture, forestry and fishing	3.6	9.1	(5.1)	12.2
industry	1.9	6.9	11.1	29.2
services	1.0	6.7	9.5	58.6
Gross Domestic Product	<b>1.6</b>	<b>7.1</b>	<b>7.9</b>	<b>100.0</b>

Figure: 1Gross Domestic Product (GDP) in Sri Lanka (Year on year).

Sources: Department of Census and Statistics and Central Bank report of Sri Lanka (2011)

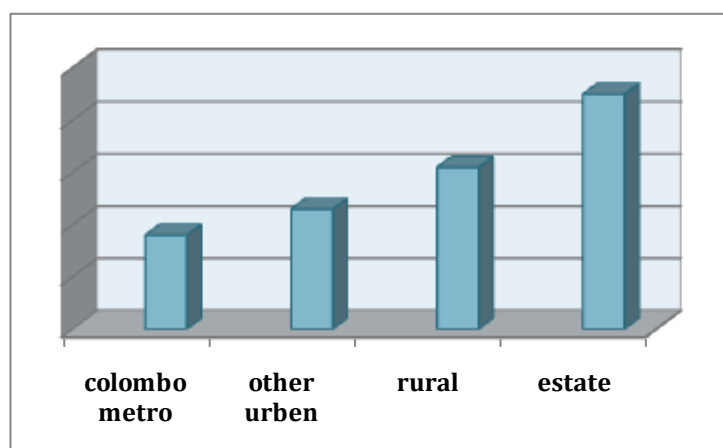


Figure: 2: percentage of underweight children under five years old by sector

Sources: Department of Census and Statistics 2006

That is the situation of poverty in Sri Lanka. Poverty is raising big issues.

According to the United Nations Children's Fund (UNICEF) in Sri Lanka, despite having free health care and no significant food shortages, malnutrition affects nearly one-third of children and one quarter of women. UNICEF says although poverty is a factor, it alone

does not explain the high rate of malnutrition among Sri Lankan children. The organisation blames the inappropriate infant and young child feeding practices and micronutrient deficiencies in the diet. Malnutrition affects children's growth, prevents them from reaching their full potential for growth and development, and impacts their learning ability, UNICEF warns.

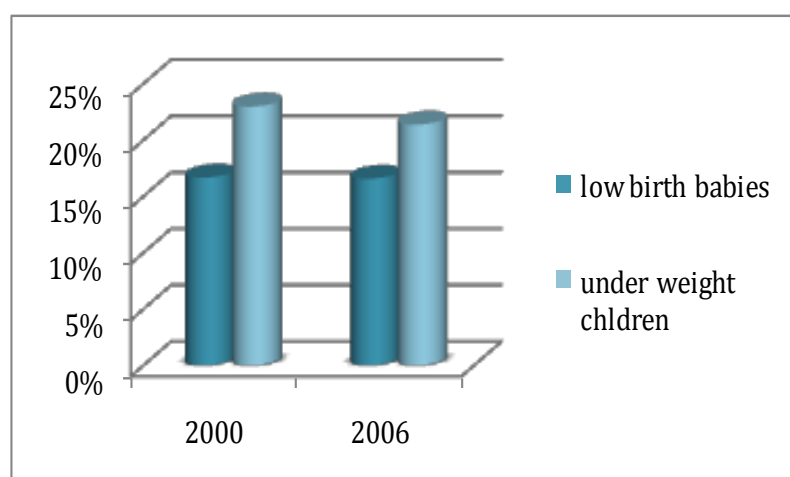


Figure: 3 Little improvement in prevalence of underweight children and low birth weight children under five years old in Sri Lanka

Sources: Construction using DHS 2006/7 survey data : Department of Census and Statistics.2007

Item	Unit	Annual Average		
		2009 Rs.*	2010 Rs*	2011 Rs*
Rice - Samba	1kg	72.66	72.05	68.38
Rice - Kekulu (Red)	1kg	62.53	60.14	57.27
Rice - Kekulu (White)	1kg	61.74	54.26	56.58
Rice - Nadu	1kg	63.53	60.79	59.25
Coconut (medium)	nut	26.01	33.59	41.01
Fish - Kelawalla	1kg	523.43	598.15	632.32
Beans	1kg	114.99	135.26	167.34
Brinjols	1kg	76.75	87.04	90.84
Eggs	each	10.75	13.6	11.64
Sugar	1kg	81.97	93.78	96.11
Milk Powder	400g	251.73	234.35	255.92
Dhal-Red	1kg	199.7	165.4	149.2
Wheat Flour	1kg	70.84	69.61	83.92

Figure: 4 Retail Prices of Key Imported and Domestically Produced Items

Source: Department of Census and Statistics (2011)

Notes: \* Rs. refers to the Sri Lankan currency (Rupees-SLR) (US \$ 1 ≈ SLR 129.4)-Central Bank Sri Lanka

There are large numbers in Sri Lanka without adequate food: persons who are hungry, malnourished or

undernourished. There is growing evidence of increasing malnutrition in Sri Lanka. The rising prices of food are



likely to aggravate this situation, especially in households that do not produce food.

### **Food Price Crisis and food Security in Sri Lanka**

Food price trends have a major impact on food security at both household and country levels. Low income householders spend more than half of their income on food. Price hikes of cereals and other staples can force them to cut –off either quantity or quality of their food. This may lead to food insecurity and malnutrition with tragic implications. Price hikes also limit the ability to meet important non-food expenses, such as education and healthcare of the poor householders. This will badly impact on low income countries, if their main sources of food are imports, this will lead to trade imbalances as well.

A price hike makes a notable imbalance between supply and demand of foods. Specially on cereals and live stocks. In Sri Lanka, the key factors behind the inadequate supply can be identified as low and stagnating productivity, a deteriorating natural resource, weak rural and agricultural infrastructure and the inefficient markets. In the global sense numerous other factors had contributed to the recent price hikes, such as trade restrictions, speculation in financial instruments based on food commodities, and rising oil prices. Increasing oil prices put an upward pressure on domestic prices in many countries, and their affect spread from agricultural to transportation costs.

Food inflation has been one of the most significant sources of headline inflation variation in emerging markets (EM) over the past few years. International prices for agricultural commodities have risen almost 30%, increasing the risk of

fresh, food-related increases to EM headline inflation. The problem of escalating food prices is a central concern today. Sri Lanka's fiscal policy reversed radically in 2004 as the government returned to heavy budget deficits and massive expansion of the public sector with tax-free state jobs, and state enterprises running losses leading to higher budget deficits. Low income groups are particularly sensitive to the price of most basic food items. Such as sugar, milk, wheat. The present economic crisis seriously threatens the food security of rural households.

Sri Lanka is vulnerable to direct price hikes due to dependencies on other countries for many basic food item such as wheat and sugar. Sri Lanka's own drought conditions will further intensify food dependency in the coming months .On the other hand export prices on agricultural products depreciate simultaneously due to quality compliance. The year on year increase of the food sub –index was 2.5 percent as at end 2011.The price increase of fresh vegetable, fruits, fish, bread, cereal, milk powder, and meals bought from outside contributed towards this increase in the food sub index.

Food Security means access by all people at all times to enough food for an active, healthy life. Nutrition is a key element in any strategy to reduce the global burden of disease, hunger, malnutrition, obesity and unsafe food which causes disease and better nutrition will translate into large improvements in health among the population. Rice is one of the main sources of carbohydrate serials, such as finger millet , gram , cowpea, tuberous crops, manioc sweet potato on that ground it is necessary to take immediate actions to increase the production of these crops in the country.

More recently, Sri Lanka's food security has been challenged by the region's financial crisis. Unfortunately for many people, this economic crisis followed an extraordinarily unstable period of weather in some provinces, such as the north and north western provinces. It appears that poor weather including droughts was the main cause for food insecurity, with the region's economic crisis serving as a secondary factor.

During the "Yala" season of last year, there was a severe flood, also during the "Maha" season of this year there was a severe drought. Such an extreme weather pattern leads to uncertainty in food production. In the past couple of months according to statistics taken from The Island newspaper 2011, around 200 000 of paddy and other crops in the north east and north central province were affected by the drought and flood. This will reduce Sri Lanka's total rice production by nearly 400 000 tonnes. Agriculture is extremely vulnerable to climate change. Changes in rainfall patterns increase the likelihood of short-run crop failures and in the long-run production declines.

There are some examples of the solution to food security. Sri Lanka's society use its own traditional rice varieties such as "suwadal", "heenati", "allhaall", etc. Suwadal which has a low glycogenic index suitable for diabetics. By re-emphasising the awareness on traditional foods, it can be used to improve the food security and address the growing global concerns over poor nutrition and its negative health effects

### **Food policy in Sri Lanka**

Food policies are designed to influence the operation of the food and agricultural system. These policies

spread through the area of food production, processing, marketing, availability, accessibility, utilisation and consumption. The structure of a food policy may vary from local to global and by a government agency to business organisation. It also addresses the food assistance programmes, health and safety issues and wealth. It consists with both political and economic factors that contribute to the challenges. Food policy does not completely rely on politics but politics itself has certain impacts on food related issues. If the prices are too high to afford nutritional food products, then it notably reduces the amount individuals' purchase on higher prices and it tends to be have a poorer quality diet for low-income householders.

Such efforts revolved around institutional changes and reforms of policies. The politics of food policy in Sri Lanka was designed to liberalise trade, provide incentives for productive investment, and increase domestic savings. Associated with these reforms were many "lead projects," entailing heavy capital expenditures that were expected to provide the infrastructure for development. There are numerous features of the government's actions, some initiated immediately and others phased in over longer periods of time. For example, the government undertook promotion of institutional change through a variety of initiatives, including the formation of several new government agencies to guide and encourage both domestic and foreign private investment (U.S. Agency for International Development 1982).

There were many periods in Sri Lanka's history in which the removal of food subsidies was greeted by anger and violence. This was not the case in 1978. In determining why, a number of propositions arise. One important fact is the phased process in which food subsidies were reduced. Of equal



prominence is that the transition took place concurrently with a surge of economic growth and optimism. Just as it has long been argued that social programmes are more politically palatable in an expanding economy than in a contracting one, it may well hold that reducing subsidies is more acceptable when the economy is growing and all feel that they will benefit in the not-too distant future from its continued vitality. This is juxtaposed with reducing food subsidies as part of overall austerity measures in periods of economic retrenchment.

Sri Lanka has various types of food policies. Such economic policies as devaluation of the currency to promote exports and encourage free trade come into conflict with the large fiscal and foreign-exchange costs of food-subsidy programmes. Of course, there are arguments that subsidies moderate wage demands and, thus, export goods may prove more competitive. In theory, lower wages due to subsidies may also promote increased demand for labour. There is, however, no empirical evidence that this theory was realised in the import-substitution economic environment of pre-1978 Sri Lanka, where rigid wage laws also existed. Similarly, it is noteworthy that the magnitude of recurrent expenditures on food subsidies and other social investments found in Sri Lanka during the 1970s is often the subject of criticism by economists because of the potential link of the food policy in Sri Lanka and spending with budget deficits and, consequently, inflation. However, there is an irony in that the reduction of these expenditures there followed a period of increased budget deficits, contributing to high levels of inflation. These problems can be attributed to a combination of the government's undertaking other types of investments, especially in the area of infrastructural

development, and international shocks to the economy. Some policy response were to reduce to food grain taxes

The national policy documents called, "*Mahinda Chintana*, Ten Year Horizon, Development Framework, 2006-2016", "*Mahinda Chintana - Vision for the Future*", National Agriculture Policy of 2007, National Livestock Development Policy of 2007, National Fisheries and Aquatic Resources Development Policy of 2006 and the Food and Nutrition Policy for 2004-2010 of Sri Lanka provides the necessary directives to ensure food and nutrition security in Sri Lanka. The "Colombo Statement on Food Security" of 2008 provides the policy guide to all SAARC countries and highlights the need to evolve and implement people-centred short to medium term regional strategy and collaborative projects, which will help in achieving food and nutrition security. The fertiliser subsidy, "*Api Wawamu Rata Nagamu*", The National Program for Food Security (NPFS) of 2009, Samurdhi, Thripasha and the Mid-day meal in schools, and "*Divi Neguma*" are the key programmes implemented in Sri Lanka aiming at improving agricultural productivity leading to food and nutrition security.

During the last 10 years numerous programmes such as *Waga Sangramaya*, *Govi Sevana*, *Gemidiriya*, *Api Wawamu Rata Nagamu*, *Gmaneguma*, attest that those projects had not any considerable impact on the agricultural sector of the country. If Sri Lanka is willing to increase the level of food the government should take necessary action to implement a realistic agricultural development project, by considering the agronomic and socio-economic issues in the agricultural sector.

The present government introduced “*Mahinda Chinthanaya*”. *Mahinda Chinthanaya* envisages an agriculture sector contributing to regionally equitable economic growth, rural livelihood improvement and efficient production of commodities for consumption, agro-based industries. The government’s “*Divi Naguma*” programme introduced under the *Mahinda Chinthanaya* spelled out the issue of food security. According to the proposed policy issued under the development frame work for the island till 2016 poverty was forecasted to drop –down at least by 5.9 percent in 2016. The target for 2009 was 8.7 percent, but the index grew from 7.8 percent in 2010 to 8.9 percent in 2011, indicating that Sri Lanka’s number of poor people keeps on growing.

The policy tools needed to address the current food crisis cover a broad range. They include immediate assistance for the poor and hungry and dramatically increased investment in country agriculture by the international financial institutions, wealthy country development agencies, and governments. Financial regulators should turn their attention to financial markets in agricultural commodities, which show signs of the speculation, mania, and overshooting that have resulted in ongoing crises in global finance and some housing markets. As painful and destructive as those crises have been, they pale by comparison with the threat of serious market failure in the case of food.

Trade policy also has a role to play. Sri Lanka aspires to link their agricultural producers to larger regional and global markets as they gain the capacity to compete against more efficient producers under conditions of volatility. However, trade liberalisation that removes flexibility from the hands of

developing country governments prematurely or leads them to rely on global food markets and not invest in their own agricultural sectors has proven to be short sighted

## Conclusions

Today, food security has become a major issue in the developing world and in Sri Lanka, where the government is trying to provide food for its people in the face of shortages, natural disasters and price increases of food commodities in the world market. The problems become greater in areas where land is being fractured. Land and other resources needed to increase production are scarce. With growing population, more and more land is being used for houses and roads. Further, clearing land for agricultural activities can contribute to global warming. Other option is increasing productivity of food production. Thus, the paradigm shift that nations such as Sri Lanka need to make to sustain food production is to develop holistic and sustainable crop and land management programmes that have been validated in other parts of the world. Research investment must contribute to the development of knowledge on more efficient methods of crop management and more productive means of crop production. The nation and its policy makers must realise that human carrying capacities of land is not only a national problem but also has a global impact, and an active programme should be developed to monitor and assess land degradation, while implementing national and international policies that facilitate access to food through a fair and equitable market system.

This food crisis will affect in Sri Lanka, a majority of the population spend a large proportion of their income on food. With rising prices of food they would not be

able to afford the minimum daily requirements of food. This would push more people into poverty, malnutrition and hunger.

In view of the fact that the agro-food sector is central to economic progress of many developing countries like Sri Lanka, its growth and development should dynamically endeavour to alleviate poverty through employment creation and income generation in rural areas. Great care should also be taken to set up an interactive co-ordination among the agro food sector institutions and entrepreneurs and to establish policies to address issues related to socio-economic sphere, nutrition and health. A collective effort of governmental and non-governmental organisations, farmer associations and other stakeholders is of primary importance in the implementation of these policies. Accordingly, the following can facilitate improved food security;

- Improvement of agro technology.
- Plant breeding programmes for improved varieties.
- Long term government policies and their efficient implementation mechanisms, promotion extension programmes.
- Development and improvement of systems, processing and storage infrastructure at all levels.
- Enhancement of yield-increasing production technology like small- scale irrigation and irrigation management system and techniques such as Integrated Pest Management.
- Introduction and improvement of convincing extension services and technical assistance to farmers at community levels.
- Popularisation of use of alternative crops as substitutes for major food commodities.
- Maximisation of the production of the staple foods and popularization of using other crops as alternative crops.
- Promotion of small and medium scale agricultural and food enterprises.
- Consideration on attitudinal aspects on food habits, food beliefs and myths with a view to establish meaningful strategies in the popularisation programmes of minor food crops.
- Commitment of all stakeholders towards the minimisation of postharvest losses of major and minor food commodities.
- Assessing the impact of changing support to and taxes on food commodities.

Sri Lanka should cut high food taxes which will make vitamins more accessible to the poor and reduce malnutrition and hunger among low income dwellers.

It should be noted that what the food security situation will look like in 10- 20 years time depends on what is being done at present. Therefore, the above issues need to be dealt with by relevant stakeholders in a collective manner. When thinking of the consequences of food price shocks, it is important to bear this heterogeneity in mind. Policies such as export bans that hold down the domestic price of food are a blunt instrument that helps some households while hurting others. Only more targeted policies such as social safety nets and those that assist farmers to increase production and to respond more quickly to changing opportunities are able to take this heterogeneity into

account and ensure that poor households are not disadvantaged by policies intended to help them.

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