Welfare cuts hit co-operative jobs in Sri Lanka

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Authorities in Sri Lanka issued a circular to co-operatives in the first week of December asking them to stop recruiting new employees and to find ways to employ “surplus” workers in other sections of their organisations. A few days earlier, authorities advised the co-operatives not to confine themselves to consumer service but to find other fields of business for their survival.

The curtailing of the co-operative movement is bound up with a systematic assault on the social welfare system. The living conditions of the working class, rural and urban poor, and even the middle-income groups, were propped up by the food and other subsidies distributed through co-operatives for about six decades in Sri Lanka.

A seminar held in southern Sri Lanka on September 30 and October 1 to discuss the situation, with the participation of government, co-operatives and bank officials, revealed various aspects of the crisis.

Under the dwindling welfare scheme, governments channelled subsidised food and other essential items to the poor through the co-operatives. The termination of the present scheme, dubbed Samurdhi or prosperity by the Peoples Alliance (PA) government, is a matter of time.

Families with monthly incomes below 750 rupees (about $US10) are eligible for Samurdhi subsidies. A family of five in this category gets stamps worth 500 rupees per month. Even out of this meagre ration, some families are required to deposit 100 rupees as compulsory savings and 25 rupees as an insurance installment in government-nominated institutions. One stamp worth 175 rupees can be cashed and another 200-rupee stamp is allocated to buy food items. Poor families normally use the 175-rupee stamp to buy essentials from co-operatives.

The IMF is now insisting that the program be "targeted to the needy," which means that tens of thousands will lose the subsidy. According to the government's figures, 1.7 million families or 8.5 million people, receive Samurdhi subsidies. The World Bank estimates that about 35.3 percent of the country's population is living below the poverty line. Accordingly, the International Monetary Fund argues that Samurdhi beneficiaries exceed the numbers below the poverty line and the subsidy must be pruned.

A recent government decision to divert the 175-rupee stamp to a bank set up by the Samurdhi ministry has dealt a blow to the poor as well as the co-operatives. It deprives the poor of the money needed to buy essentials and the co-operatives of a source of income.

As 80 percent of the total turnover of co-operatives is from Samurdhi stamps, this step will seriously hamper their business activities. Statistics show the damaging effect on co-operatives in August 1999 after they lost access to the 175-rupee stamps. According to the accounts presented to the above-mentioned seminar, total losses of 17 co-operatives in the Southern Province rose to 3.8 million rupees in August alone. Interest payments for loans in that month amounted to 1.6 million rupees.

This situation is not limited to the Southern Province. Across the country, almost all the fixed and movable assets of the co-operatives have been mortgaged. Paying ever-increasing bank interest, these enterprises face the risk of having the banks seize their assets.

The seminar analysed the performances of the consumer section, the main business section of the co-operatives, for the six-month period from January 1 to June 30, 1999. Fifteen co-operatives in the Southern Province, where 891 workers are employed, suffered losses of 32.9 million rupees.

Nationally, about 30,000 jobs in the co-op sector are at stake. These workers are under-paid and their working conditions are poor. On recruitment a clerk receives a monthly salary of 2,500 rupees (about $US34) and is entitled to an annual increment of just 25 rupees. A manager's salary is 2,600 rupees, with an annual increment of 30 rupees. After 25 or 30 years' service, a worker is entitled to a small retirement allowance of about 50,000 rupees. The bankruptcy of co-operatives means workers are facing not only job cuts but also non-payment of their retirement gratuities.

Consumers' co-ops were established during the austerity period of the Second World War as a means of distributing rationed food items when the British colonial rulers were unable to supply essentials. Through a series of strikes and protests, the working class and other oppressed masses won the right to food at concessionary prices from the British colonial government. The UNP, the main political party of the elite, which came to power after formal independence, had to continue this policy.

Whenever governments tried to withdraw or cut subsidies, they faced resistance from the working class. When the UNP regime tried to eliminate the rice subsidy in 1953, in the aftermath of the Korean War, they confronted a "hartal"—a semi-insurrectionary strike coupled with mass agitation.

At the end of 1950s co-operatives were renamed “multi-purpose co-operative societies,” widening their scope. The change meant that the co-operatives became involved in catering to peasants and other small producers. The People's Bank was established in 1961 with one of its main aims being to provide financial backing to the movement. The main suppliers to the co-operatives were the Food Department and Co-operative Wholesale Establishment (CWE).

During the 1970s, the Bandaranaike coalition government, which included the so-called socialists of the Communist Party and Lanka Sama Samaja Party (LSSP), was compelled to make some minor concessions to the working class. Co-operatives distributed all subsidised goods including rice, wheat flour, dhal and other essentials. In 1971 they were clustered into larger regional multi-purpose unions to function more efficiently.

The UNP returned to power in 1977 and started to implement its open market policies, leading to a decline in co-operatives. Not only was the priority given to the private businesses, but the government also attempted to destroy subsidies for workers and the oppressed.

In the final years of its rule in the 1990s, the UNP attempted to appease the poor by implementing several welfare measures through the co-operatives including the early ration card system and the Janasaviya (Peoples Strength) poverty alleviation stamp cards. But the undermining of the co-operatives continued and deepened when the PA government came to power in 1994.

The People's Bank, established to service the co-op movement, has completely changed its orientation. At another seminar this year, a bank official rebuffed appeals for more facilities saying it had to follow World Bank guidelines. Co-operatives, he said, should mortgage all their remaining fixed assets to obtain more loans. Most societies, however, have nothing left to mortgage.

The Food Department, which was established to supply food items at concessionary rates for the poor, now functions as an agent for recovering loans from the co-operatives. From 1940 to the end of the 1970s, it imported and distributed food items such as rice, sugar and flour at subsidised prices. But in the early 1990s, it closed its import section, forcing co-operatives to purchase food items on the open market.

The distribution of flour, a basic food item for most families, is still in the hands of the Co-operative Wholesale Establishment (CWE). But co-operatives have to buy the flour through the Food Department, which insists that outstanding loans be paid before any flour can be bought. The CWE was set up to distribute essential items cheaply to co-operatives. Now most of the consumer goods it imports are so expensive that the co-operatives are unable to buy and sell them.