

### ABSTRACT

The tea industry is an important segment of the Sri Lankan economy. Its contribution to foreign exchange earnings is about 14 percent of the total and it provides employment to about 600,000. Within the tea sector, the tea smallholding sector plays a major role by contributing 62 percent of the national output. Majority of the smallholders are concentrated in low grown areas where the productivity is well above that of mid and high grown areas. About 48 percent of the total extent under smallholdings is located in Ratnapura and Matara districts. The average yield of the smallholding sector, in 2004, was 2,267 kg per ha in comparison to 1,399 kg per ha in the estate sector.

Government provides several subsidies annually for the tea smallholders for activities such as replanting, new-planting, infilling, and fertilizer application. A significant amount of money is spent annually on these subsidies since 1978. The total subsidy payment in 2003 was Rs. 160 million. The amount earmarked for year 2007 is 1300 million rupees. Therefore, this study attempted to examine the effectiveness of the government subsidies on the output level of the tea smallholding sector. Here, several factors such as replanting extent, new-planting extent, fertilizer application, average tea prices were checked with the quantity of tea production by the smallholding sector. Data and information of 21 years from 1983 to 2003 was used for the analysis which was done using the correlation and regression techniques of Minitab and SPSS computer packages.

The findings of the study proved that the level of production of tea smallholding sector is highly influenced by the subsidies given by the government. It was found, through the primary analysis, that the smallholder tea production is correlated with five factors. They are new planted extent, re-planted extent, subsidy payment, average tea price, and fertilizer

Application. - According to the regression techniques applied in the analysis, the best model consists of three factors. They are replanted extent, subsidy payment and the fertilizer application. However, according to the best model, the most influential factor was the subsidy payments. When the subsidy payment increases by one unit, the output level is increased by .326 times. Therefore we can conclude that subsidy payments for tea smallholding sector are very effective and therefore it is recommended to continue or increase the subsidies for tea smallholders.