

## Contents

### Policy Perspectives and Performance

<b>1. Policy Perspectives</b>	<b>1</b>
<b>2. Economic Outlook</b>	<b>9</b>
2.1 Overview	9
2.2 Economy and Output	10
2.2.1 Growth and Sector Performance	10
2.2.2 Labour Force Trends	12
2.2.3 Investment and Savings	13
2.3 Fiscal Policy Management	15
2.3.1 Deficit Financing and Public Debt	18
2.4 Monetary Policy Management	20
2.5 External Sector Performance	23
2.6 Conclusion	26
<b>3. International Economic Environment</b>	<b>28</b>
3.1 Introduction	28
3.2 Global Economic Performance and Prospects	28
3.2.1 The US Downturn	28
3.2.2 Transmission to Western Europe	30
3.2.3 Decoupling in Emerging Markets	31
3.3 Commodity Price Boom	32
3.4 Upcoming Challenges for the External Sector in Sri Lanka	35
3.4.1 Challenges for the Garment Sector Post-2008	35
3.4.2 Sri Lanka's External Finance Position	39
3.5 Sri Lanka in the WTO	40
3.5.1 NAMA	41
3.5.2 Agriculture	43
3.6 Sri Lanka's Regional Trade Agreements	45
3.6.1 Pakistan-Sri Lanka FTA	46
3.6.2 India-Sri Lanka FTA	47
3.6.3 South Asian Free Trade Agreement	48
3.7 Conclusion	50

### Political Economy Dilemma of Reforms

<b>4. Reforming the State-owned Enterprise Sector: The Political Economy Dilemma</b>	<b>51</b>
4.1 Introduction	51
4.2 Political Economy Dynamics of Change	52
4.2.1 SOE Reforms in Sri Lanka: Evolution, Stagnation or Back-peddalling?	52
4.2.2 SOE Reforms: Looking Back to the Future	53
4.3 Understanding the Conditions for Change: SOE Reforms from a Stakeholder Perspective	60
4.3.1 An Overview of Possible Reform Strategies	61
4.3.2 Reduction of Excess Labour through VRS and/or CRS	65
4.4 SOE Reforms at Crossroads: Where Do We Go from Here?	67

## Leading Issues in the Development Process

<b>5. Effective Service Delivery for the Poor</b>	<b>70</b>
5.1 Introduction	70
5.2 Poverty in Sri Lanka: Trends and Regional Disparities	71
5.3 Inadequate Infrastructure and the Poor	77
5.3.1 Roads	77
5.3.2 Electricity	78
5.3.3 Water and Access to Safe Drinking Water	78
5.3.4 Communication	78
5.4 Quality Education for All	79
5.4.1 Poor Accessibility	80
5.4.2 Problems with Quality for Poorer Schools	81
5.4.3 Issues in Administration	83
5.4.4 Reaching Out to School Drop-outs	83
5.5 Health: Non Communicable Diseases, Service Delivery and the Poor	85
5.5.1 NCDs and the Poor	87
5.5.2 Service Delivery	89
5.5.3 Government Initiatives	91
5.6 Conclusion and Recommendations	92
<b>6. Improving Education Service Delivery: Is There a Role for the Private Sector?</b>	<b>95</b>
6.1 Introduction	95
6.1.1 Defining 'Public' vs. 'Private' Provision of Education	95
6.1.2 Different Ways in which the Private Sector Participates in the Education Sector	96
6.2 Public vs. Private Education	97
6.2.1 Pros and Cons of Public Education	97
6.2.2 Reasons for Private Participation in Education	97
6.3 Education System in Sri Lanka	100
6.3.1 Public and Private Composition of the Education System	100
6.3.2 Challenges to the Education System	101
6.3.3 Sources of Funds for Education	102
6.4 How Can Private Participation Improve Education Service Delivery in Sri Lanka?	103
6.4.1 Improving Access to 'Good Schools'	103
6.4.2 Improving Education Provision in Areas with Teacher Shortages	104
6.4.3 Improving School Performance and Accountability	104
6.4.4 Improving School Level Resources and their Management	105
6.5 Role for the State	105
6.6 Conclusions	106
<b>7. Energy Sector: What Factors Govern Successful Reforms?</b>	<b>108</b>
7.1 Introduction	108
7.2 Role of Power and Energy Sector in the Sri Lankan Economy	108
7.3 Transforming Nature of the Power and Energy Sector	110
7.4 Reform Experience in the Power and Energy Sector	111
7.5 Global Factors that Transform the Power and Energy Sector	114
7.5.1 Growing Concerns Over Global Warming and Climate Change	114
7.5.2 Issues of Resource Scarcity and Rising Demand	115
7.5.3 Trade-off between Global Energy and Food Security Issues	116

7.5.4	Technological Advancements on the Energy Front	116
7.5.5	Emerging Structural Changes in Energy Markets and Institutions	117
7.6	Emerging Opportunities and Constraints in the National Power and Energy Sector	117
7.6.1	Energy Sector Reforms and Oil Exploration: Expectations and Reality	117
7.6.2	Sustainable Energy Authority and Options for Renewable Energy	119
7.6.3	Carbon Trade and Energy Sector	119
7.7	Reality and Challenges of Reforms	120
7.8	Conclusion	121
<b>8.</b>	<b>Does ‘Foodflation’ Call for Agricultural Reforms?</b>	<b>122</b>
8.1	Background	122
8.2	Food Price Movements in General	124
8.3	Three Decades of Agriculture	125
8.4	Present Foodflation	129
8.5	Impact of Foodflation	131
8.6	The Sri Lankan Case	132
8.7	Investment in Agriculture As a Solution	136
8.8	Summary and Conclusion	137
<b>9.</b>	<b>Liberalization of Trade in Services</b>	<b>140</b>
9.1	Introduction	140
9.2	Importance of the Services Sector to the Sri Lankan Economy	140
9.3	Liberalization of the Services Sector to Date	142
9.4	Benefits of Services Liberalization and Concerns in Further Opening the Sector	144
9.4.1	Mode 4	144
9.4.2	Mode 1	145
9.4.3	Specific Sectors	145
9.4.4	Concerns Relating to Services Liberalization	146
9.5	Case Study of Liberalization of the Telecom Sector	148
9.6	Liberalization of the Telecom Sector Under GATS	150
9.7	Conclusion	152
<b>10.</b>	<b>Fiscal Decentralization and the Thirteenth Amendment</b>	<b>154</b>
10.1	Introduction	154
10.2	Main Features of the Thirteenth Amendment	155
10.3	Provincial Revenue	156
10.4	Reasons for the Weak Revenue Performance	158
10.5	Provincial Expenditure and Budgets	159
10.6	Provincial Administration and Services	161
10.7	The Finance Commission	161
10.8	The Grants System	162
10.9	Concluding Remarks	164

## Policy Briefs

<b>11.</b>	<b>Conserving Coconut Lands: The Way Forward</b>	<b>165</b>
11.1	Introduction	165
11.2	Change in Ownership of Coconut Lands	166
11.3	Policy Interventions for Protecting and Improving Coconut Lands	167
11.4	Conclusions and Policy Suggestions	168

<b>12. Co-management for Sustainability of the Coastal Fishery Sector</b>	<b>170</b>
12.1 Introduction	170
12.2 What is Fisheries Co-management?	171
12.3 Fishery Management in Sri Lanka	172
12.4 International Experience of Co-management	172
12.5 Conclusion and Policy Recommendations	174
<b>13. Ecotourism for Sustainable Forest Management in Sri Lanka</b>	<b>176</b>
13.1 Introduction	176
13.2 Prospects and Potential in Forest-based Ecotourism	176
13.3 Changing Focus of Sri Lanka's Tourism Sector	177
13.4 Present Situation of Forest-based Ecotourism in Sri Lanka	177
13.5 Enabling Policy Environment for Forest-based Ecotourism in Sri Lanka	178
13.6 Conclusion and Policy Suggestions	180
<b>14. Money Transfer Systems and the Development Nexus of Migration</b>	<b>182</b>
14.1 Introduction	182
14.2 Money Transfer Systems	183
14.3 Costs and Benefits of Money Transfer Systems	185
14.4 Policy Options for Enhancing Formal Channels	186
14.4.1 Migrant Specific Policies	186
14.4.2 Improving the Conventional Financial Sector	187
14.4.3 Macroeconomic Incentives	188
14.5 Conclusion	189
<b>15. Linkages between Poverty and Alcohol</b>	<b>191</b>
15.1 Introduction	191
15.2 Key Issues of Poverty	191
15.3 Links between Alcohol and Poverty	192
15.4 Availability of Alcohol	192
15.5 Health Issues	193
15.6 Community Level Intervention	194
15.7 Conclusion	194
<b>16. 'Negenahira Udanaya': Reconstruction of the Eastern Province</b>	<b>196</b>
16.1 Introduction	196
16.2 Political Economics of the 'Eastern Revival'	196
16.3 A Brief Profile of the Eastern Province	197
16.3.1 Demography and Population	197
16.3.2 Physical Resources	197
16.3.3 Economy	198
16.4 'Negenahira Udanaya': Programme in Brief	199
16.5 Challenges of Rehabilitation	200

## Prospects

<b>17. Prospects</b>	<b>202</b>
----------------------	------------

## Appendices

<b>Appendix A: Macroeconomic Indicators</b>	<b>i</b>
<b>Appendix B: Capital Market</b>	<b>xxvi</b>