

# Table of Contents

---

<b>Growth and Stability</b>	
<b>1. Policy Perspectives</b>	<b>1</b>
<b>2. Economic Performance</b>	<b>10</b>
2.1 Introduction	10
2.2 Realigning GDP Growth	11
2.3 Public Finance Management	13
2.3.1 Deficit Financing and External Debt	15
2.4 Monetary Policy and Exchange Rate Misalignment	17
2.5 Economic Performance 2015 and Outlook	20
2.6 Conclusion	24
<b>3. International Environment</b>	<b>26</b>
3.1 Introduction	26
3.2 Overview of the Global Economy	27
3.2.1 Economic Prospects for Developed Economies	27
3.2.2 Outlook on Emerging Economies: Will Growth Continue?	31
3.3 Policy Responses and Outlook for Recovery	32
3.4 World Trade, Commodity Prices and Financial Flows	35
3.4.1 World Trade	35
3.4.2 Commodity/Oil Prices	35
3.4.3 Cross Border Capital Flows	37
3.5 International Environment and Implications on Sri Lanka	39
3.5.1 International Trade and Capital Flows	39
3.5.2 Remittances and Tourism	42
3.5.3 Emerging Opportunities for External Engagements	43
3.6 Conclusion	44
<b>Economic Reforms: Political Economy and Institutional Challenges</b>	
<b>4. Economic Reforms in Sri Lanka: Political Economy and Institutional Challenges</b>	<b>45</b>
4.1 Introduction	45
4.2 Demand for Reforms: Present Context	46
4.3 Economic Reforms: Conceptual Elements and Practice	47
4.4 Sri Lanka's Experience with Economic Reforms	50
4.4.1 Reviewing Lessons Learnt	52
4.5 Towards a Realistic Agenda of Economic Reforms in Sri Lanka	57
<b>5. Reforming Sri Lanka's Trade and Investment Policies for Export Growth</b>	<b>62</b>
5.1 Introduction	62
5.2 Trade Tariff Structure	63
5.2.1 Current Status of Tariff Regime	64
5.2.2 Trade Tariff Structure Reforms	68
5.3 Trade and Transport Facilitation	69
5.3.1 Publication and Administration of Policies Related to Trade Issues	70
5.3.2 Rules and Procedures for Imports and Exports	71
5.3.3 Use of ICT for Exports and Imports	72
5.3.4 Trade Related Infrastructure	72
5.3.5 Trade and Transport Facilitation Reforms	72

5.4	Foreign Direct Investment	74
5.4.1	Issues Related to FDI	75
5.4.2	FDI Policy Reforms	76
5.5	Accessing Markets through Trade Agreements	77
5.5.1	Status and Issues of Trade Agreements	78
5.5.2	Reforms to Strengthen PTAs	80
5.6	Conclusion	81
<b>6.</b>	<b>Labour Market Reforms for Growth</b>	<b>83</b>
6.1	Introduction	83
6.2	Age Structure of the Labour Force and its Growth	84
6.2.1	Available Supply of Workers for Development	88
6.3	Worker and Skill Shortages	89
6.3.1	Main Issues Faced by the Demand Side	90
6.4	Reducing Duality of the Labour Market and Increasing Equity	90
6.4.1	Main Issues of Duality in the Labour Market	93
6.5	Issues with Human Resource Development	94
6.5.1	Labour Market Information	94
6.5.2	Labour Market Planning and Governance	95
6.5.3	Training	96
6.5.4	Main Issues of Human Resource Development	97
6.6	Conclusions and Policy Recommendations	97
<b>7.</b>	<b>Migrant Labour Reforms: Tackling the Family Background Report</b>	<b>100</b>
7.1	Introduction	100
7.2	The FBR Requirement	101
7.3	The Debates on the FBR	102
7.4	Implications of the FBR	104
7.5	Way Forward	108
7.5.1	Option 1: Repeal the FBR	108
7.5.2	Option 2: Reform the FBR	141
7.6	Summary	116
<b>8.</b>	<b>Educational Sector Reforms to Bridge Skill Gaps</b>	<b>117</b>
8.1	Introduction	117
8.2	Key Education Policies and Reforms in Sri Lanka	118
8.3	Change from Traditional to Market-oriented Skills Requirement	119
8.4	Access to Quality Education	121
8.5	Limited Opportunities for Tertiary Education	125
8.5.1	Training and Skills Development outside the University Sector	129
8.6	Policy Implications and Recommendations	130
<b>9.</b>	<b>Health Sector Reforms</b>	<b>133</b>
9.1	Introduction	133
9.2	Health Care Financing	133
9.2.1	The Health Transition and Financial Challenges	134
9.3	Public Sector Health Reforms	135
9.3.1	Health Care Delivery	135
9.3.2	Physical and Human Resource Allocation	138
9.3.3	Public Health Sector Management and Monitoring	140
9.4	Private Sector Health Care Reforms	142
9.4.1	Provision of Health Services	142
9.4.2	A Role for Public-Private Partnerships	142
9.4.3	Incorporating Elements of Patient Centred Care	143
9.4.4	Regulation	144
9.5	Drug Policy	146
9.5.1	Evolution of Sri Lanka's Drug Policy	146
9.5.2	Implementing National Medicinal Drug Policy	149
9.6	Conclusion	149

<b>10. Reforming Sri Lanka's Social Protection System</b>	<b>151</b>
10.1 Introduction	151
10.2 Reforming the Current Retirement System	152
10.2.1 Current Status and Coverage of the Retirement System	152
10.2.2 Retirement Income	154
10.2.3 The Need for Reform	156
10.2.4 Reform Options for Sri Lanka's Retirement System	157
10.3 Reforming the Samurdhi/Divineguma Subsidy Programme	160
10.3.1 Current Status of the Samurdhi/Divineguma Subsidy Programme	160
10.3.2 Weaknesses in the Samurdhi/Divineguma Subsidy Programme and Need for Reforms	162
10.3.3 Reform Options for the Samurdhi/Divineguma Subsidy Programme	163
10.4 Integration of the Social Protection System of Sri Lanka	167
10.4.1 Current Status of Sri Lanka's Social Protection System	167
10.4.2 The Need for Integration	167
10.4.3 Reform Options for Social Protection	169
10.5 Summary and Conclusion	169
<b>11. Policy Reforms for a Productive Agriculture Sector</b>	<b>171</b>
11.1 Introduction	171
11.2 Agricultural Sector in Sri Lanka	172
11.2.1 Agriculture Contribution to Output and Employment	172
11.2.2 Agricultural Exports and Food for People	173
11.3 Agrarian Development Issues and Challenges	175
11.3.1 Stagnating Productivity	176
11.3.2 Lack of Agricultural Diversification	177
11.3.3 Agrarian Poverty	178
11.3.4 Food Insecurity	179
11.3.5 Inefficiency in Water Management	180
11.3.6 Climate Change and Agriculture	180
11.3.7 Regoverning Markets	181
11.4 Policy Reforms for Raising Agricultural Growth	182
11.4.1 Land Policy	183
11.4.2 Irrigation Policy	183
11.4.3 Policy on Technology Transformation	184
11.4.4 Marketing Policy	185
11.4.5 Climate Change Policy	186
11.5 Conclusion and Way Forward	187
<b>12. Environmental Reforms for Sustainable Growth</b>	<b>189</b>
12.1 Introduction	189
12.2 Key Environmental Issues in Sri Lanka	189
12.2.1 Degradation of Natural Capital	189
12.2.2 Environmental Pollution	191
12.2.3 Global Environmental Threats	195
12.3 Present Environmental Management System and Gaps	196
12.3.1 Issues in Environmental Governance	196
12.3.2 Gaps in Environmental Planning	198
12.3.3 Weaknesses in Current Approach of Environmental Management	200
12.4 Proposed Environmental Reforms	201
12.4.1 Reforming Environmental Governance	201
12.4.2 Enhancing Environmental Planning	202
12.4.3 Introduction of Market-based Instruments	203
12.5 Conclusion	205

## Appendices

## List of Figures

Figure 2.1 : Growth Decomposition	11
Figure 2.2 : Sectoral Contribution to Growth	11
Figure 2.3 : Consumption, Investment and Savings	12
Figure 2.4 : Treasury Contingent Liabilities	14
Figure 2.5 : Deficit Financing and Government External Debt	15
Figure 2.6 : Monetary Indicators	18
Figure 2.7 : External Sector Indicators	18
Figure 2.8 : Net Credit to Government, Outstanding Liquidity and Interest Rates	21
Figure 2.9 : Movements in Exchange and Inflation Rates	22
Figure 3.1 : Growth of World Output, Advanced and Emerging Economies	27
Figure 3.2 : US Output, Real Personal Consumption Expenditure and Unemployment Rates	29
Figure 3.3 : US Personal Consumption Expenditure	29
Figure 3.4 : Euro Area Real GDP Growth	30
Figure 3.5 : Commodity and Food Price Indices	35
Figure 3.6 : Brent Monthly Prices	36
Figure 3.7 : Annual Global Capital Flows	37
Figure 3.8 : Sri Lanka's Trade Performance	39
Figure 3.9 : Share in World Exports	39
Figure 3.10 : Sri Lanka's Main Export Markets	41
Figure 3.11 : Export Prices and Earnings of Tea and Rubber	41
Figure 3.12 : Remittance Inflows	42
Figure 3.13 : Tourist Arrivals and Earnings	43
Figure 4.1 : High-technology Exports as a Percentage of Merchandise Exports	54
Figure 5.1 : Sri Lanka's Exports Share	63
Figure 5.2 : Comparison of Revenue Composition	65
Figure 5.3 : Time and Cost to Export/Import from Sri Lanka	70
Figure 6.1 : Composition of the Labour Force by Age and Sex	85
Figure 6.2 : Trends in Labour Force Participation Rates	87
Figure 6.3 : Labour Force Participation of Males by Age Group, Selected Countries	87
Figure 6.4 : Labour Force Participation of Females by Age Group, Selected Countries	88
Figure 7.1 : Trends in Monthly Departure Statistics of Females for Housemaid Occupation and for Non-employment	106
Figure 7.2 : Trends in Labour Migration from Sri Lanka	110
Figure 7.3 : Annual Female Labour Migration	110
Figure 8.1 : Number of Schools by the Highest Functional Grade	122
Figure 8.2 : Number of Schools with A-Level Science Stream, by District	123
Figure 8.3 : Proportion of Schools with Teachers for English for Primary Grades and IT	125
Figure 8.4 : Distribution of University Admissions by Subject	126
Figure 9.1 : Health Expenditure as a Percentage of GDP	134
Figure 9.2 : Health Care Expenditure Per Capita, Select Countries	135
Figure 9.3 : Physical and Human Resources in Public Health Care	139
Figure 9.4 : Distribution of Beds per 1,000 Population by RDHS Division	140
Figure 9.5 : Distribution of Key Health Personnel by RDHS Division	141
Figure 10.1 : Number of Beneficiaries of the Samurdhi/Divineguma Subsidy Programme	161
Figure 10.2 : Share of Households Receiving Samurdhi Subsidy by Decile	162
Figure 10.3 : Expenditure of the Samurdhi/Divineguma Subsidy Programme	166
Figure 11.1 : Agriculture Contribution to GDP	172
Figure 11.2 : Agriculture Contribution to Employment	173
Figure 11.3 : Composition of Agricultural Exports in Total Exports	174
Figure 12.1 : Change in Forest Cover	190
Figure 12.2 : Fertilizer Consumption and Paddy Productivity	192
Figure 12.3 : Composition of MSW in Sri Lanka	193
Figure 12.4 : Total CO <sub>2</sub> Emissions	195

## List of Tables

Table 2.1	: Consumption, Investment and Savings	12
Table 2.2	: Select Fiscal Indicators	13
Table 2.3	: Select Expenditure Shares	13
Table 2.4	: Operating Losses of Select SOEs	14
Table 2.5	: Fiscal Outcomes	20
Table 2.6	: Foreign Inflows	21
Table 3.1	: Projected Output for Selected Countries	28
Table 3.2	: Comparison of Quantitative Easing Programmes	33
Table 3.3	: Global Capital Flows	37
Table 3.4	: FDI Inflows, by Major Regions	38
Table 3.5	: Performance of Sri Lanka and Competitors in Main Export Products and Markets	40
Table 4.1	: Comparative Education Outcomes	54
Table 4.2	: Situation in Science, Technology and Innovation	55
Table 4.3	: Poverty Conditions	56
Table 5.1	: Sri Lanka's Tariff Profile	65
Table 5.2	: Custom Duty Rates	66
Table 5.3	: List of Import Taxes in Force	67
Table 6.1	: Annual Average Growth Rates of Key Labour Market Indicators	86
Table 6.2	: Trends in Sector of Employment	92
Table 6.3	: Change in Employment Status of Public and Private Employees	93
Table 9.1	: Health Work Force and Infrastructure	139
Table 9.2	: Private Health Sector Regulatory Characteristics of Select Countries	146
Table 10.1	: Public Service Pension Scheme Coverage	153
Table 10.2	: Coverage of Retirement Schemes	153
Table 10.3	: Expenditure and Average Monthly Pension Values for PSPS	154
Table 10.4	: EPF Members' Balances and Benefit Amounts	155
Table 10.5	: Benefits of the Samurdhi/Divineguma Subsidy Programme	161
Table 10.6	: Changes to Samurdhi/Divineguma Subsidy Programme	164
Table 10.7	: Social Protection Programmes and Implementing Agencies	168
Table 11.1	: Growth Rates of GDP	173
Table 11.2	: Food Availability in Sri Lanka by Major Food Groups	174
Table 11.3	: Food Import Value and its Share of Total Imports and Total Exports	175
Table 11.4	: Production Performance of Major Food Crops in Sri Lanka	177
Table 11.5	: Changing Composition of Sri Lankan Diets	178
Table 12.1	: Number of Motor Vehicles Registered	194
Table 12.2	: Changes in the Ministry Dealing with Environment Subject	197

## List of Boxes

Box	2.1	: Re-basing Sri Lanka's GDP	23
Box	3.1	: The Greek Crisis	34
Box	3.2	: AIIB and BRICS Development Bank: Perceived Benefits for Asia and Developing Countries	38
Box	5.1	: Proposed China-Sri Lanka Free Trade Agreement	82
Box	6.1	: Labour and Skill Shortages Faced by Different Industries	91
Box	6.2	: Shifts in Ministerial Responsibilities for TVET	96
Box	7.1	: Attempts to Restrict Migration of Women Prior to FPR	104
Box	7.2	: The Impact of the FBR Requirement on a Young Mother	108
Box	9.1	: Health Care Reform for the Elderly	147
Box	9.2	: Salient Features of the Bibile Report	148
Box	10.1	: Gender Dimension of Precarious Work: The Case of Women Migrant Workers of Sri Lanka	184
Box	11.1	: Current Policies and Action for Nutrition Security	198
Box	12.1	: Deposit Refund Systems in Sri Lanka	204
Box	12.2	: Market Based Instruments (MBI) in Developing Countries	204