## Contents

### Policy Perspectives and Performance

1. **Policy Perspectives**

2. **Economic Performance**
   - 2.1 Introduction
   - 2.2 Output Growth
   - 2.3 Trends in Employment
   - 2.4 Investment and Savings
   - 2.5 Government Finances and Public Debt
     - 2.5.1 Government Finances
     - 2.5.2 Public Debt and Service Payments
   - 2.6 Price, Monetary and Capital Market Developments
     - 2.6.1 Price Developments
     - 2.6.2 Monetary Developments
     - 2.6.3 Capital Market Developments
   - 2.7 The External Sector
     - 2.7.1 Trade and Current Accounts
     - 2.7.2 Capital and Financial Account
     - 2.7.3 External Debt and Debt Service
   - 2.8 Sri Lanka’s Relative Economic Performance
   - 2.9 Conclusions

3. **International Environment**
   - 3.1 Introduction
   - 3.2 Trends in the Global Economy
     - 3.2.1 Advanced Economies
     - 3.2.2 Emerging Economies
     - 3.2.3 World Trade and Commodity Prices
     - 3.2.4 Financial Markets and Aid Flows
   - 3.3 WTO and the Doha Development Round
   - 3.4 Sri Lanka and Global Economic Developments
   - 3.5 Conclusion

### Agriculture Reforms: Irrigation Water Charges and Land Policy

4. **Agriculture Reforms: Irrigation Water Charges and Land Policy**
   - 4.1 Introduction
   - 4.2 Inefficiency of Irrigation Water Use in Sri Lanka
     - 4.2.1 Cost of Irrigation
   - 4.3 Rationale for Irrigation Water Charging and Pricing
     - 4.3.1 Principles and Methods of Water Pricing
   - 4.4 An Alternative: Participatory Irrigation Management (PIM)
   - 4.5 Land Development Ordinance and Land Grant (Special Provisions)
   - 4.6 Current Situation with LDO and LG(SP) Land
     - 4.6.1 LDO Land Inheritance, Price and Sale
     - 4.6.2 Credit and Mortgage Link to LDO Tenure
     - 4.6.3 LDO Land Size: Consolidation, Productivity and Poverty
Leading Issues in the Development Process

5. Extending Social Security to Informal Sector Workers 61
   5.1 Introduction 61
   5.2 Characteristics of the Informal Sector Workers 61
      5.2.1 Own Account Workers 62
      5.2.2 Informal Sector Employees 63
      5.2.3 Unpaid Family Workers 65
   5.3 Topology of Risks 65
   5.4 Effective Risk Management 65
      5.4.1 Favourable Macro Environment and Business Climate 66
      5.4.2 Human Resources Development 66
      5.4.3 Social Insurance 66
      5.4.4 Social Protection 67
      5.4.5 Institutional Reforms 68
      5.4.6 Pro-poor Regulation 68
      5.4.7 Informal Social Networks and Informal Sector Organizations 68
      5.4.8 Social and Gender Aspects 69
   5.5 Conclusions and Policy Recommendations 69

6. State-Owned Enterprises and Pro-Poor Growth: Policy Perspectives and Options 71
   6.1 Introduction 71
   6.2 Empirical Evidence on SOE Reforms 72
   6.3 Analyzing Policy Options 75
      6.3.1 Corporatization without Privatization 75
      6.3.2 Performance Contracts 76
      6.3.3 Management Contracts 77
      6.3.4 Liberalization and Private Participation 77
   6.4 Conclusions: Necessary and Sufficient Conditions for Successful Reforms 78

7. Samurdhi Poverty Alleviation Programme: Recent Developments and Issues 80
   7.1 Introduction 80
   7.2 Structure of the Samurdhi Programme 81
   7.3 Recent Developments and Changes 81
      7.3.1 Samurdhi Subsidy Programme 81
      7.3.2 Samurdhi Social Security Programme 82
      7.3.3 Nutrition Allowance Programme 86
      7.3.4 Other Social Welfare Programmes 86
      7.3.5 Samurdhi Banking Sector Programmes 86
      7.3.6 Samurdhi Rural Development Programmes 87
      7.3.7 Samurdhi Housing Development Programme 89
   7.4 Conclusions 89
8. **Effective Governance as a Pre-condition for Development**  
   8.1 Introduction  
   8.2 Efforts at Poverty Reduction and Search for Growth with Equity  
   8.3 State Owned Enterprises  
   8.4 Natural Disaster Management  
   8.5 Public Policy Management  
   8.5.1 Sector Related Policies  
   8.5.2 Macro Policies  
   8.6 Corruption in Governance  
   8.7 Conclusions: The Task Ahead

**Policy Briefs**

9. **Liberalization of Services Sector under the India-Sri Lanka CEPA**  
   9.1 Introduction  
   9.2 Why Services Liberalization?  
   9.3 Services Profiles of Sri Lanka and India  
   9.4 The Liberalization of Services under CEPA  
   9.5 Conclusion

10. **Fertilizer Subsidy Programme in Sri Lanka**  
    10.1 Introduction  
    10.2 Fertilizer Subsidy as a Policy Tool  
    10.3 Empirical Implications  
    10.4 Conclusion

11. **Equity and Millenium Development Goals for Sri Lanka**  
    11.1 Introduction  
    11.2 Present Status of MDGs in Sri Lanka  
    11.3 Policy Environment towards Equitable Growth in Achieving MDGs  
    11.4 Conclusion

12. **Towards an Essential Medicinal Drug Policy**  
    12.1 Introduction  
    12.2 The Global Pharmaceutical Industry and Drug Marketing  
    12.2.1 Harmful and Unnecessary Drugs for the Developing Countries  
    12.2.2 Patents and Generic Drugs  
    12.3 Improving Access to Affordable Essential Drugs in Sri Lanka  
    12.3.1 TRIPS, Parallel Imports and Licensing  
    12.3.2 Emergence of a National Essential Drug Policy  
    12.4 Conclusion

**Prospects**

13. **Prospects**
Appendices

Diary of Events  August 2005 - August 2006
Appendix A: Macroeconomic Indicators
Appendix B: Capital Market (Statistical Base)