# 1. Introduction

The Sri Lankan economy has grown on average at around 5 per cent per year over the past two decades despite significant constraints imposed by the adverse impacts of an on-going conflict over the same period. However, the country's economic growth has increasingly tended to lag behind those of emerging economies in neighbouring Asia. Thus, despite a promising performance in per capita growth of over 3 per cent per annum in the last two decades, Sri Lanka has managed to see an overall reduction in absolute poverty of only around three percentage points with the national poverty headcount ratio remaining stubbornly high at around 23 per cent. Perhaps even more worryingly, there is increasing evidence to suggest that income inequality in Sri Lanka has also been on the increase, with significant inequities emerging across sectors and provinces of the country.

The continuing high poverty incidence in Sri Lanka can largely be attributed to a failure to achieve a sustained acceleration in economic growth. Economic growth was undoubtedly constrained by an ongoing civil conflict, but the inability to accelerate and sustain a higher growth momentum has also been due in part to policy failures. With the structure of production and employment shifting away from agriculture and towards services - and towards manufacturing to a more limited extent - the rural agricultural economy has lagged considerably behind. Low productivity, lack of adequate rural infrastructure, poor marketability of agricultural produce, etc., have stymied improvements in the sector. By contrast, superior infrastructure and advantages of location spurred the concentration of economic activities in and around the urban centres of the Western Province. As a result, rural incomes have stagnated - with the slow growth in industry also limiting the absorption of excess agricultural labour surplus.

Even though the overall policy framework to achieve the broad based development goals for the country - of sustainable growth, equity and poverty alleviation - has not varied substantially in the last two decades, successive governments have been less than successful in effectively articulating and implementing a consistent policy paradigm. For instance, there have been three separate development frameworks in the last four years alone - i.e., Regaining Sri Lanka, *Rata Perata* and Mahinda Chinthanaya.

While the commitment to a market-oriented economy has not wavered, there have been nuanced changes to policy direction more recently reflecting rising concerns about those left behind by economic progress. The policy direction appears to be an attempt to allay a sense of disenchantment of the country's progressive move towards an increasingly liberal economy where pro-market policies were perceived not to be of benefit to the vast majority of the population. In this context, the government has been working on a national development strategy since early 2006 based on the "Mahinda Chinthanaya" election manifesto. The resulting Ten Year Horizon Development Framework 2006-16[1] based on the economic policy framework "Mahinda Chintana: Vision for a New Sri Lanka" has signalled that the approach to achieving Sri Lanka's fundamental development objectives would differ in tone and focus with a stronger emphasis on the rural economy, agriculture, and small and medium enterprises (SMEs) as vehicles for generating a vision of 'growth with equity'.

1. Hereafter referred to as the Ten Year Plan (TYP).

The TYP is an attempt by the governments to fashion a strategy that suits its political and social objectives. It is said to be entirely home grown, combining market economic policies with the domestic aspirations for the country's overall development. The core of the TYP is to achieve sustainable economic growth through investment and rural development. In order to achieve those prescribed goals, the government has set itself a medium term growth target of 8 per cent. Accelerating economic growth is expected to be accomplished by raising the rate of investment from the current rate of around 30 per cent to around 35 per cent of GDP, in addition to improving efficiency and productivity of the economy and business. The domestic savings rate is expected to increase to 25 per cent of GDP from the current level of 18 per cent while the investment savings gap is to be financed through the external sources. The TYP aims to create an economy largely driven by the private sector, which is more dynamic and regionally integrated.

Based on the overall target set, the TYP proposes several strategies for implementation in key development areas. These comprise agriculture and irrigation, industry, infrastructure, tourism, livelihood and social protection, education, health, sports and culture, labour force, science and technology, environment, public administration, development in the conflict affected areas, and an overall medium-term macroeconomic framework. The policy document consists of a vision statement for each sector, sectoral policy goals and broad strategies.

The development plan for the agriculture sector of the TYP places particular emphasis on food security, small farmer development and livelihood improvement, while overall competitiveness of the sector is expected to be achieved though application of modern technology, improved cultural practices and steering for commercially viable agriculture. The industrial sectoral plan is aimed at diversified and high value added industrialization through SME sector development, FDI promotion, and greater private sector participation in investment and innovation and productivity enhancement. The strategies for key infrastructure sectors and social sectors include development programmes for roads, ports, power, education and health, particularly in rural areas. The government has accorded high priority to accelerate growth in lagging regions under the *Gama Naguma* programme and to develop rural infrastructure under the *Randora* programme in key infrastructure areas. Equal importance has also been placed on human resource development though *Nana Sala* and E-village initiatives.

In the tourism sector - considered a sector with high potential for employment generation and foreign exchange earnings - the policy thrust expected to be developed is to cater to high spending tourists from emerging markets. The livelihood development and social protection framework of the TYP consists of a three-pronged strategy of livelihood development, social protection, and disaster mitigation and risk management with the broad policy objective of empowering the people to develop and sustain their livelihoods and improve their standards of living. The priority theme for the proposed external trade and investment policies under the TYP is to achieve higher export growth while efficient import substitution is also to be promoted. In addition, the TYP also stresses the importance of developing the conflict affected areas where capacity is currently in place but implementation has been hindered due to the ongoing conflict. The overall macroeconomic framework has been designed to strengthen the fiscal framework while the monetary policy framework focuses mainly on mitigating inflation. Critically, the TYP has given emphasis on achieving peace as vital for the overall success of the development strategy.

The government has articulated a clear set of priorities: investing in infrastructure, health and education, and in improving agricultural productivity. These are clearly the right objectives; the problem is how they are to be achieved. In this respect, the TYP has certain weaknesses. While it has covered most of the policy issues currently pertaining to Sri Lanka, it has not adequately addressed the implementation aspect of the overall sectoral goals. In some instances, the identified target policy strategies for the sector need to be strengthened and strategies prioritized. For instance, in the case of agriculture, even though the key underlying thrust of the recommended strategy is to develop a commercially viable agricultural base, this aspect has not been given enough emphasis when allocating resources to the sector. In the infrastructure sector, for instance, while the TYP has correctly identified the key issues in each sector, it lacks specific strategies to implement the proposed policies. Thus, in many instances, the TYP offers a policy direction rather than giving a concrete implementation strategy.

Drawing up a comprehensive implementation strategy is beyond the scope of this paper. What it does aim to do is to offer a detailed examination of some relevant sectors with the objective of examining some of the policy gaps to critically examine the proposed TYP as well as look at issues, constraints and the way forward while suggesting possible policy alternatives where necessary. The present report reviews the overall strength of the development plan and reveals some implementation challenges as well. However, the coverage of the present study is limited to selected areas in order to focus on key sectors that need to be strengthened in order to achieve the target objectives in the coming decade. As such, the areas addressed in this publication are limited to agriculture, industry, infrastructure, education, health, livelihood, environment, labour force, international trade and macroeconomic framework.  It presents an overview of the overall policy framework for each sector followed by an assessment of the proposed strategies with possible prioritized policy options suggested.