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Chapter 4
Poverty Reduction Challenges in Post-conflict
Sri Lanka

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4. Poverty Reduction Challenges in Post-conflict Sri Lanka

4.1 Introduction

Conflicts affect the multifaceted dimensions of poverty through different channels, in both direct and indirect ways. Conflicts lead to loss of public entitlements which has direct effects on poverty. In turn conflicts can potentially affect the economic growth of a country in a number of ways, and thus indirectly fuel poverty. Through the loss of markets and livelihoods, conflicts worsen macroeconomic and household economic conditions, and promote inequality. The breakdown of social entitlements has long lasting irreversible effects on poverty. The emergence of new forms of insecurity by conflicts aggravates poverty, and challenges the social protection system.

The prolonged conflict in Sri Lanka has raised numerous issues in the economic and social front, and challenged the future development efforts of the country. Unless well planned development and poverty alleviation strategies are adopted, Sri Lanka can be in danger of failing to meet its long term development objectives, including high rates of economic growth. The literature on post-conflict development points to the often paradoxical relationship between social protection and economic recovery. While reforms of public expenditure policies demand tight control of social expenditure, investment in the latter is a necessary driver of growth. Some studies, for instance, suggest that key post-con-

flict priorities should be social policies first, followed by sectoral policies while keeping macro policies to the last.¹

The objective of this Chapter is to identify different channels of impact of the conflict on poverty, and to assess the gaps and challenges Sri Lanka is likely to face in its efforts towards post-conflict economic development.

4.2 Conflict and Poverty: Channels of Effect

Conflict and poverty are interlinked and the relationship between the two is complex and much debated. There is no mono-causal explanatory framework. While one school of thought argues that poverty is the cause for conflict (grievance-based analysis), others argue that the reverse holds true (costs of conflict analysis). Thus, the relationship is two way: people can become impoverished as a consequence of conflict, while poverty can be the seed for a conflict. It is evidenced by poor countries having a greater disposition to conflict, while increased poverty becomes an outcome of conflict. A third type of interrelationship has also been identified more recently which suggests that 'resource wealth' is the cause of conflict rather than poverty (greed-based analysis).²

Many theoretical and empirical studies show

¹ Darcy, J., 2004, "Conflict and Social Protection: Social Protection in Situations of Violent Conflict and its Aftermath", a paper produced for DFID and World Bank, *Aid, Policy and Growth in Post-conflict Countries*, World Bank, Washington D.C.

² Goodhand, J., 2003, "Enduring Disorder and Persistent Poverty: A Review of the Linkages between War and Chronic Poverty", *World Development*, Vol. 31, No. 3, pp. 629-646.

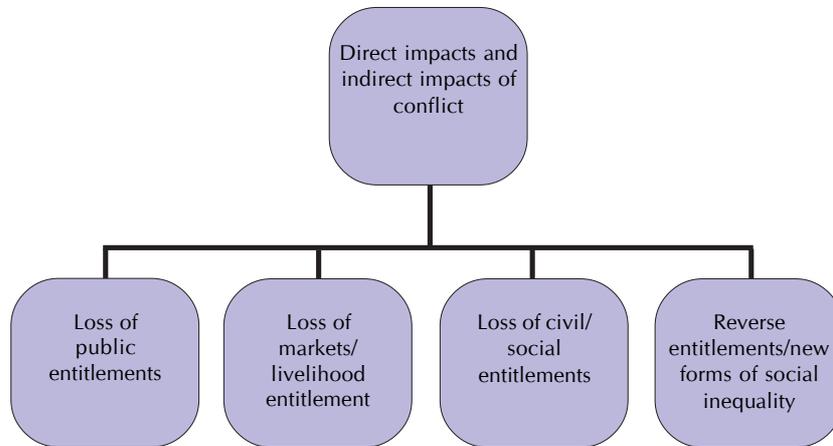
that poverty, inequality, scarcity of resources and external economic forces all combine to have a destabilizing impact on political stability under certain conditions.³ Some studies find that poverty can lead to conflict in direct ways - based on theories of 'frustration-aggression' and 'relative deprivation',⁴ and in indirect ways - based on economic arguments that demonstrate that conflicts in Africa and other developing countries are often fuelled by greed rather than grievance.⁵

Conflict is one out of many external shocks that increases vulnerability. The effects of conflict differ according to the nature, duration and the phase of the conflict and the specific economic and social conditions. The

effects also vary depending on the level of compensatory actions. Conflict can be a 'driver' and 'maintainer' of inter-generational transmitted poverty.⁶

Lower incomes, unavailability of goods and services, and entitlement failures can be identified as the main channels of poverty, whereby entitlement failure can be deemed the most dominant. A conflict tends to have a range of effects on people's entitlements. These can lead to a catastrophic and unrecoverable collapse in livelihoods. Irrespective of being direct or indirect, the impacts lead to loss of public entitlements, loss of market/livelihood entitlements, loss of civil/social entitlements and reverse entitlements

Figure 4.1
Direct and Indirect Effects of Conflict on Poverty:
Through Loss of Entitlements



Source: Adapted from Draman (2003).

³ Draman, R., 2003, "Poverty and Conflict in Africa: Explaining a Complex Relationship", paper prepared for the "Experts Group Meeting on Africa-Canada Parliamentary Strengthening Programme".

⁴ The *frustration-aggression theory* and the *relative deprivation* theory are closely associated and suggest that individuals become aggressive when there are obstacles (perceived and real) to their success in life. This theory stresses that sometimes people perceive themselves to be deprived relative to others. This often happens when conditions improve more slowly for one group than for another (cited in Draman, 2003).

⁵ Collier (1999), cited in Draman (2003). *Ibid.*

⁶ See Goodhand, J., 2003. *Ibid.*

⁷ This section is based on the framework developed by Draman (2003). *Ibid.*

and create new forms of social inequalities.⁷ The focus of the discussion to follow is limited primarily to the effects of conflict on poverty through loss of entitlements.

While the effect of Sri Lanka's conflict was felt across the country, the main theatre of the conflict was in the North and East (N&E). Most of the direct effects were spatially defined and geographically concentrated. As explained in the literature, chronic poverty tends to follow the contours of a conflict and is most severe in 'heart land' areas. Hence, the discussion focuses on the impacts of the conflict on the directly affected regions, rather than on the overall impact of the conflict on all poor groups in Sri Lanka.

4.2.1 Conflict and Loss of Public Entitlements

One channel of effect of conflict on poverty is through the loss of public entitlements, through both direct and indirect means. A breakdown of public order and public infrastructure such as schools, hospitals and clinics are commonly observed direct effects. The conflict situation in Sri Lanka destroyed or damaged such infrastructure in the Northern Province, and to a lesser extent in the Eastern Province. One good example pertaining to Sri Lanka is the destruction of the transportation system of the conflict-affected areas. The main road connecting the Jaffna district to the rest of the country (A9 road) was virtually closed for a long period. The railway line was completely damaged and only air and sea transport facilities were available, which also came under threat from time to time. Schools and hospitals were also damaged during the conflict period. The conflict also diminished the institutional capacity of local administration and the service delivery system, thwarting attempts by the state to deliver essential services.

Indirectly, conflicts lead to loss of public entitlements through growing macro-insecurity of states and regimes. Conflicts decrease the financial capacity of the state to provide public goods and ensure security, with rising military expenditure also diverting investments away from development. Specifically, the capacity for public services provision gets eroded, or even collapses in extreme situations. It also decreases the capacity of the state to collect revenue and thus imposes limits on its functions. As a consequence, the distribution of public goods and services is skewed on a geographical, social and gender basis, which can have negative effects on poverty.

Violence and crime may increase throughout a country as a consequence of conflict and not merely be confined to conflict-affected areas. At a micro level, households have diminished access to public services which is a loss of public entitlements (as an indirect impact of conflict). Hence, they are exposed to diseases, high rates of infant and maternal mortalities, low school enrolment, etc. Examples on health outcomes in Sri Lanka, for instance, show the disparities at national and district levels; at the national level, the maternal mortality rate is 39.3 per 100,000 while for the N&E the rates are much higher. In the Kilinochchi district, it is as high as 102.8, according to 2006 data of the Family Health Bureau.⁸

4.2.2 Conflict and Loss of Livelihood Entitlements

As a direct effect of conflict, the destruction to physical capital, communication infrastructure and withdrawal of land and labour from production leads to loss of markets/livelihood entitlements. Due to inaccessibility of fields and markets, disruption of normal trade patterns, reduced employment oppor-

⁸ IPS/UNDP, 2010, "Millennium Development Goals: Sri Lanka Country Report 2008/2009".

tunities, loss of assets, etc., conflicts prevent households from pursuing their normal livelihoods. For instance, the closure of the A9 road in Sri Lanka isolated the conflict-affected region from the rest of the country, imposing a significant negative impact on livelihoods of households.

Conflicts also lead to a depletion of resource endowments. The loss of productive land, water bodies and livestock is a major adverse effect.⁹ In Sri Lanka, the extent of land under agriculture in the N&E declined by 25 per cent between 1982 and 2002.¹⁰ This is particularly significant in view of the fact that the livelihoods of households in the N&E were mainly agriculture and livestock centred before the conflict. The N&E accounted for two-thirds of total national fish production, involving about 30,000 fishing households in the Northern Province alone before the outbreak of the conflict.¹¹ The total length of the coastal line in the Northern Province is about 480 km, out of which most were underutilized during the conflict due to security and other reasons. As a result, households tend to retreat into subsistence or they may migrate out of the region.

Destruction of assets and livelihoods due to forced displacement and migration are other types of direct effects. As in the case of Sri Lanka, the conflict displaced a large number of households and often limited the access of households to employment opportunities and earnings. Refugees from conflict affected areas and internally displaced persons (IDPs) are amongst the most deprived. Displaced populations may have to struggle to find suitable work in the post-conflict period and their productivity may be low. The very poor are likely to be the worst affected. On the other hand, population movements, espe-

cially migration, may entail some positive effects on livelihoods and economic status of households through remittances. However, refugee migration to adjacent areas and to the urban centres from the conflict-affected areas can create a situation of labour influx that has indirect effects on livelihoods. An influx builds pressure in the labour market and can bring down wage rates as the new entrants may be willing to work for cheaper rates. In turn, this can affect the livelihoods of resident workers.

Direct effects leading to loss of livelihood entitlements also occur through changes in a number of demographic factors. The household composition can change due to death of family members, injuries, abduction, and recruitment of family members by armed groups. Such developments often make women the breadwinners of families. The loss of male labour and abundance of female-headed households are common features of conflict-affected communities, having a direct bearing on livelihoods and holding long term direct effects.

Entitlement failures related to the market/livelihoods are raised indirectly through macroeconomic disequilibria, stagnant or falling GDP, reduced trade flows, budget imbalances, etc. Such macroeconomic instability increases risk and reduces investment, thus worsening economic conditions. Further, economic disparities between the conflict-affected and 'unaffected' regions can be created as investors avoid the former regions. Such market failures are caused by insecurity, lack of trust, and lack of mobility. Significant differences in market prices for products and services also affect the economic status of households of conflict-affected regions, exacerbating disparities between

⁹ See chapter on "Environment and Natural Resource Issues in Post-conflict Development".

¹⁰ Department of Census and Statistics, "Census of Agriculture" for 1982 and 2002.

¹¹ In 1980, the Northern Province was the dominant contributor (49 per cent) to national fish production while the contribution of the Eastern Province was 15 per cent. For more details see the policy brief on "Fishery Sector and Post-conflict Development Challenges".

regions. Market failures that limit access to credit, savings, and investments limit the capacity of households to switch to alternative employments. This reduces household utility and welfare. In extreme cases, the households will resort to subsistence activities, which may hinder their capacity to accumulate assets that help absorb shocks against severe destitution. A study on outreach of financial services in Sri Lanka, for instance, found that while there is a commendable outreach for financial services of savings and credit in the districts of the N&E, households often have access only to one or two financial institutions.¹² In the sample, the households in neither the Northern Province nor the Eastern Province had access to more than two institutions for credit, while for savings a very small percentage had access to multiple financial institutions (8.2 per cent for the Northern Province and 2.1 per cent for the Eastern Province).¹³

As such, violent conflicts are likely to have considerable adverse impacts on the poor and especially the destitute poor, due to loss of assets, loss of income, and also due to disruption/loss of livelihoods.

4.2.3 Conflict and Loss of Civil/ Social Entitlements

As an impact of conflict, people lose civil/ social entitlements, which occur through destruction of social capital such as institutions, values and social networks due to population displacement. Conflict damages the social fabric, creates social fragmentation and tension. This can be compounded by the breakdown of community support and collapse of state-run service provision to conflict-affected regions.

Indirectly, conflicts lead to failure of institutions as they are unable to cope with stresses and dislocations such as a refugee influx. This increases competition for resources and self-help becomes the order of the day. Households suffer from indirect impacts occurring through weakened or destroyed community cohesion. Certain groups of people could also get excluded. The existing safety nets and coping mechanisms break down or become insufficient. In Sri Lanka, the poverty alleviation programmes that are being implemented elsewhere in the country were not implemented in the conflict-affected areas due to the breakdown in the administrative and service delivery systems, which made the situation worse for the poor in such areas. For instance, the major government social welfare programme - Samurdhi - was not operating in the three conflict-affected districts of Mullativu, Mannar and Killinochchi. The conditions worsen with the proliferation of vulnerable groups such as victims of conflict, refugees, IDPs, female-headed households, orphans, disabled, etc.

4.2.4 Conflict and Reverse Entitlements/ New Forms of Inequality

Reverse entitlements result as a direct impact of conflict and creates a new form of social inequality after a conflict. Asset transfer and population displacement are the main causes for this.¹⁴ Often, assets get destroyed or in some cases stolen/subject to direct appropriation during a conflict.

At community and household level, new forms of social inequality occurs as indirect impacts of conflict by heightened insecurity, rent-seeking by those who have power, exploitation of vulnerable groups, emergence of new groups formerly dependent on war,

¹² IPS, 2008, "Outreach of Financial Services in Sri Lanka", report prepared by IPS for GTZ. The study does not cover the districts of Killinochchi, Mannar and Mullativu.

¹³ The Uva Province also shows poor performance with only 1.4 per cent of households having multiple access to credit and 1.4 per cent having multiple access to savings.

¹⁴ Asset transfer refers to direct appropriation of assets from vulnerable groups or disabled groups.

etc. There is a potential risk of insecurity for child soldiers, demobilized combatants and war wounded. Loss of male labour, abundance of female-headed households and orphaned children have a direct effect on a household dependency ratio. Such developments call for enhanced social protection services.

4.3 Gaps and Future Challenges

Sri Lanka's long drawn conflict has left the country with significant challenges on the poverty front. The following sections discuss the various aspects of social policy in the country and how well it is equipped to address issues of poverty reduction, particularly in the N&E of the country.

4.3.1 Addressing New Forms of Inequalities: Social Protection in the Aftermath of Conflict

Conflicts create new forms of inequality and social exclusion. In such circumstances, social protection becomes an essential basic service for the poor, along with health, education, water and sanitation. In the immediate recovery period in Sri Lanka, with a refugee influx to adjoining areas, health, education, water and sanitary facilities were in high demand. The gaps were identified by the government and measures taken to provide such necessities with the support of donor agencies and civil society groups as immediate relief.

In the absence of access to the large areas in the Northern Province and some parts of the Eastern Province, government social protection programmes were restricted to the rest of the country during the conflict period. These areas also hardly had any formal private sector businesses that could provide

any kind of social protection.¹⁵ Nonetheless, loss of livelihoods have made households highly vulnerable in these regions. In this context, social protection is deemed an essential basic service for reducing poverty in conflict-affected areas.

Depending on the type of insecurity, the design of a social protection system has to differ. The main focus in the immediate aftermath of a conflict is to identify the ability of the current social protection system to absorb the new entrants/new types of insecurities, and the ability of the systems to expand/replicate as required. As such, governments can opt for newly designed social protection schemes or can expand/replicate existing schemes to the affected regions, with new features to capture the different types and levels of vulnerabilities.

Both cash and in-kind transfer programmes have become central in post-conflict programming. The former has been the most common choice until recently - such as food-aid, agricultural inputs, and basic necessities.¹⁶ Food-for-work programmes are a way of assistance commonly practised in crisis situations. Providing food in exchange for work makes it possible for the displaced to devote time and energy to take the first steps out of the hunger trap and trauma they are in. By way of providing the displaced opportunities and by getting them involved in the development activities, especially on vital new infrastructure, the affected are provided with food or cash, in exchange for work. Such methods prevent the displaced households being over-dependent, while they learn new skills and increase food security of households in a dignified way. Food-for-work is also a good method for conflict-torn countries as these offer food assistance as an incentive for ex-combatants to abandon weap-

¹⁵ Sri Lanka has several social insurance schemes, which are employment based and managed by the government on behalf of workers, including those of the private sector.

¹⁶ Holmes, R., 2009, "Cash Transfers in Post-conflict Contexts", Project Briefing No. 32. Available at <http://www.odi.org.uk/resources/download/3507.pdf>.

Box 4.1

Cash Transfer Programmes in a Post-conflict Context

Social protection is an essential basic service for poverty reduction in conflict-affected countries. More recently, cash transfer programmes have become central to this concept. Such targeted social protection schemes implemented in conflict-affected countries have both advantages and disadvantages. Targeted programmes reduce the likelihood of conflict through redistributive effects, and re-establish the collapsed state-citizen relationship when resources are transferred from the state to the poor. Yet, in conflict-affected countries, trust in the delivery of benefits of social protection systems and the ability of governments to provide social protection to the neediest people is questionable due to low institutional capacity, limited complementary basic services, unpredictable and fluctuating levels of aid, competing demand for scarce natural resources and financial constraints. Targeting is always costly and, as a result, runs into targeting errors. At the same time, targeting on specific social groups may mean that other poor households are excluded, which may be detrimental to a peace process.

International experience on cash transfer programmes in general, and especially in post-conflict contexts have not been encouraging. They have failed to significantly impact on reducing poverty, where most programmes have not been successful. For example, Nepal implemented a cash transfer programme in the mid-1990s which covered the elderly, disabled and widowed groups. The benefits of the programme have been inadequate and have covered only around 15 per cent of the basic needs of households. It also suffered from implementation issues due to financial constraints and low institutional capacity. Studies have found that the impact of this cash transfer programme on poverty reduction is likely to be limited.

The government of Sierra Leone launched a cash transfer programme named Social Safety Net (SSN) in 2007, targeting the elderly and most vulnerable with no other means of support. With the aim of minimizing the targeting errors, community based beneficiary selection methodology was employed. SSN is criticized for its small value of transfer, low coverage and limited linkages to longer term poverty reduction strategies.

The GAPVU (Cash Payments to War-Displaced Urban Destitute Households Programme) implemented in Mozambique in the 1990s worked well during the first five years. However, it was suspended due to fraud and corruption. The GAPVU illustrates the capacity of a post-conflict state to implement a social transfer programme successfully, but its subsequent failure emphasizes the need for sufficient resources, administrative system and monitoring and evaluation in the scale up of such programmes.

Source: Holmes, R, 2009, "Cash Transfers in Post-conflict Contexts", Project Briefing No 32. Available at <http://www.odi.org.uk/resources/download/3507.pdf>; and Samson et al., 2006 cited in Rebecca Holmes, 2009.

ons and learn new skills, which are vital for reintegration. However, parallel assistance for other poor groups in the country should not be undermined, as targeting on specific social groups creates a feeling of exclusion and could lead to fresh tension.

In the case of Sri Lanka, the government is planning to expand the Samurdhi income transfer programme to the affected areas in the N&E. However, the programme has to be implemented with modifications, along with other social protection schemes.

A major concern regarding Samurdhi is the inadequacy of the cash transfer as a safety net. The value of Samurdhi benefits provided to each poor household is below the level of

sustenance. The benefits received by the recipients, especially the conflict-affected who have been deprived of basic needs over a long time, should be adequate to keep them

Box 4.2

Issues in Targeting Social Protection Assistance

There are fundamental challenges faced in implementing social protection programmes in conflict-affected countries, with the addition of new layers of complexities. In the delivery process of social assistance, the major challenge is targeting. Targeted assistance should focus on different needs of different vulnerable groups. The programmes formulated have to be shaped according to a range of vulnerabilities and risks these groups are faced with.

In the presence of high budgetary demands for reconstruction and rehabilitation after a conflict, the allocation of funding on poverty alleviation efforts have to be used more effectively, by way of correct targeting. Identifying the methodologies for means testing in the war torn areas is a major challenge. Shifting of populations and lack of reliable data worsen the complexity. Often, targeting of programmes in transition or aftermath of a conflict is based on geographically defined criteria. The aims of the programmes would be to ensure food security, nutrition and health.

In Sri Lanka, even leaving aside problems of Samurdhi programme targeting in the conflict-affected regions, targeting in the currently operating areas has been subject to much criticism. The evidence shows a considerable leakage to the non-poor and under-coverage of the deserving poor. In 2002, while only 52.6 per cent of households of the poorest decile, 45.2 per cent of the 2nd decile and 40.7 per cent of the 3rd decile received Samurdhi welfare benefits, 2.4 per cent of the top decile, 7.9 per cent of the 9th decile and 13.4 per cent of the 8th decile also received benefits.¹⁸

In order to correct targeting flaws, the programme intends to follow a community based participatory targeting approach which is more transparent, but country-wide implementation has been slow. However, introducing rigorous community based targeting methods in conflict-affected areas might not be advisable, as social networks are disturbed/weakened or destroyed during conflicts, while some communities are relatively new. In addition, de-linking patronage and creating regular entry and exit mechanisms to the Samurdhi programme is vital for progressive poverty reduction.

There are other issues to be addressed in improving targeting in conflict-affected regions. There are issues related to identity (e. g., loss of identity cards) that generates barriers to accessing services. Further, though it is desirable to use existing government structures to deliver services, the weakening of such structures in conflict-affected areas hinders progressive action. For example, most of the hardest hit areas do not have Grama Niladaris who are responsible for village level administration of government services. These raise issues in targeting too. Inappropriate targeting can also create fresh sources of social tension.

¹⁷ Deductions from the total entitlement reduce the benefits received in-hand. Certain pre-determined amounts of the monthly benefit are deducted as compulsory savings, social insurance and for a housing fund. Out of the rest, a certain pre-determined amount is provided as commodity stamps, and only the rest is provided in cash. For more details see IPS, 2006, "Samurdhi Poverty Alleviation Programme: Recent Developments and Issues", *Sri Lanka: State of the Economy 2006*.

¹⁸ Nanayakkara, A.G.W., 2006, "Poverty in Sri Lanka: Issues and Options", DCS.

above the level of sustenance.¹⁷ There is a need to revise the benefit amount for it to act as a proper safety net, while having the microfinance and insurance components too. Additionally, targeting of social protection programmes after a conflict is a major challenge that needs to be addressed (Box 4.2). A new form of vulnerable groups in Sri Lanka is ex-combatants, with many housed in rehabilitation centres. Their reintegration becomes vital as any perceived marginalization will push them back into conflict. Sri Lanka took early action, drafting a 'National Framework Proposal on Reintegration of Ex-Combatants into Civilian Life in Sri Lanka' with the objective of achieving key goals such as reconciliation and social cohesion, raising the employability of ex-combatants and minimizing the risk of their socio-economic marginalization.¹⁹ A successful reintegration programme targeting ex-combatants goes through various phases of transition from disarmament and demobilization, rehabilitation, reinsertion, and social and economic reintegration. The reintegration programmes have to be combined with the area-based approaches of post-conflict reconstruction, and social and economic development.

Identified ex-combatants have been segmented (by age, sex, etc.) and support services offered according to their stated needs. Ideally, literacy and numeracy training, intensive agricultural skills training, assistance in starting livelihood activities, conflict resolution skills and experience, and assistance in returning to home communities, vocational skill training, and a demobilization allowance will help to keep them out of poverty. Special training for ex-combatants to deal with trauma is critical and is also being offered alongside vocational and

other skills training.

Welfare programmes for families of soldiers of the Sri Lankan armed forces affected by the conflict has also been identified as a policy priority. The government established a Ranaviru Seva Authority (RVSA) to address welfare issues and resolve psychological and social problems faced by family members of more than 27,000 service personnel who have died in combat, are deemed missing or have become disabled. The programmes have focused on building houses and infrastructure, creating alternative livelihoods for the disabled, scholarship programmes for children, psychological and social development projects, etc.²⁰ The programmes also include opening up a defence service school for children of armed forces personnel, welfare centres for the treatment of disabled soldiers, insurance compensation schemes, pension schemes for disabled soldiers and pension revisions, establishing a housing fund and housing schemes. Despite significant improvements, many gaps exist in the form of quality of housing, barriers to accessibility as the locations of houses are in remote areas, lack of access to day-to-day services, etc.

Development activities of the conflict-affected areas also need to deal with the impact of trauma. The traumatic impact of conflicts can often be much higher than physical disabilities - affecting war widows, children, the displaced, refugees, torture victims, and extended family members. Severe psychological trauma requires special care for several years, and thus may need the introduction of special programmes. Government programmes for identified vulnerable groups have incorporated this as one aspect under

¹⁹ Ministry of Disaster Management and Human Rights, 2009, "National Framework Proposal on Reintegration of Ex-Combatants into Civilian Life in Sri Lanka".

²⁰ Ranaviru Seva Authority, 2009, <http://www.ranaviruseva.lk/project.html>.

targeted activities.

Transforming ad hoc programmes of the immediate recovery phase to long term sustainable programmes will be facilitated by having a central administration. Having a focal point increases the efficacy of operations, mainly by improving coordination and cutting down costs. Convergence - and in possible circumstances merging all poverty alleviation, rural development and social protection efforts as an integrated national programme - streamlines activities and provides non-duplicative defined functions for the implementing authorities. This also facilitates identification of missed targets. To a limited but satisfactory extent this is being achieved by current efforts to converge state-led programmes such as Samurdhi, 'Gama Neguma' and 'Gemidiriya' (which share common objectives and share some common features but adopt different approaches and different implementing strategies to achieve the same objectives) housed under one ministry. Further efforts are needed to integrate other social protection programmes too.²¹

4.3.2 Entitlement to Public Services

Investment in infrastructure - both physical and social - is a vital aspect of future poverty reduction efforts. The government has launched large-scale infrastructure projects to bridge the urban-rural infrastructure gap.²² These are implemented both at the national level through the 'Randora' (infrastructure development) and at the regional level under 'Maga Neguma' (road development).

The conflict destroyed vital infrastructure and deprived households of the N&E of their public entitlements. Thus, post-conflict development initiatives have attempted to stream-

line rehabilitation of the infrastructure in the Northern and Eastern Provinces under the 'Negenahira Navodaya' and the 'Uthuru Wasanthaya' programmes, respectively.

The Negenahira Navodaya development programme was launched in 2007 with the aim of improving the economic and social infrastructure in the Eastern Province. Along with the projects related to livelihood development such as restoration of agriculture and irrigation, livelihood support, fisheries and livestock development, the state has initiated projects to establish necessary public goods and services such as roads, power and energy, education, civil administration, health and sanitation.

The expenditure on education and health are mainly limited to infrastructure building and improving sanitation facilities of schools and hospitals. Livelihood development is also identified as a priority area. The government has also placed priority on community development and has invested in manpower and labour development programmes as well. For instance, the Ministry of Vocational Training has already built 6 vocational training centres in the Eastern Province.

The Uthuru Wasanthaya aims to provide public entitlements in infrastructure development - electricity, water supply and sanitation, health, solid waste disposal, education, and transportation - together with livelihood development programmes in agriculture, irrigation, livestock development, and inland fisheries. These are long term strategies for poverty reduction in the area. Targeting the most hard-hit areas by the conflict, specific programmes are identified for Mannar, Vavuniya, Mullativu, Kilinochchi

²¹ IPS, 2010, "Convergence of Samurdhi, Gama Neguma and Gemidiriya" for the Ministry of Nation Building and Infrastructure Development.

²² For more details see policy brief on "Infrastructure Challenges in Post-conflict Development".

²³ The Ministry of Nation Building and Infrastructure Development has divided Sri Lanka into six parts for administrative purposes. The seventh zone includes the mentioned districts.

and Jaffna districts under a separate zone.²³

The 'Maga Neguma' programme concentrates on building regional level infrastructure. Additionally, 'Gama Neguma' (village development), 'Gemidiriya' (village strengthening) and Samurdhi programmes concentrate in part on physical infrastructure building at the village level. Samurdhi also has an infrastructure component which is absorbed into Gama Neguma. These programmes envisage a bottom-up approach through community prioritization of village infrastructure in the village development plan, though in practice there are deviations at times. The programmes are to be extended to the N&E as well. They aim to develop the village as the centre of national development. Though the efforts are praiseworthy, funding has been sufficient only to partially address the priorities of the villages so far. Proportionate allocation of funding depending on the poverty level, population and requirements of the village, would derive more benefits than a fixed budget allocation.

While concentrating on intra-village development, it is important for the villages to have connectivity to markets. To a limited extent, this is attained by the second phase of Gemidiriya which focuses partially on village inter-connectivity. Nonetheless, further improvements in this regard are necessary. Linking the villages with markets and urban centres is a way of ensuring a continuous disposal of village produce and securing livelihoods of village communities. Such connectivity will be critical for sectors such as agriculture in the N&E.

New tools for connectivity are also emerging.²⁴ Gemidiriya brings a good example of

the use of information and communication technology (ICT) at grass roots level, to network the villages and provide access to dynamic markets. This facilitates transactions, offers more choices for buyers and widens the economic activities of the village. Through the Gemidiriya information dissemination system, communities are provided with timely, relevant and reliable information, enabling village community organizations to compete with other private companies. Gemidiriya also allows village organizations to come together to increase the marketability of village companies. The federation of companies enhances their negotiating and bargaining powers, and helps protect livelihoods.

Investment in human capital is critical for long term development. The breakdown of public services provision - both physical infrastructure and service delivery systems in the N&E - remains an impediment to the growth of these regions and can result in inter-generational transmission of poverty. Improving quality and access to education in conflict-affected areas and mitigating regional imbalances is critical.²⁵ Investing in health is another vital aspect of human capital development. The disparities existing at disaggregated levels are largely camouflaged by national level achievements. Additionally, the destruction of infrastructure and health delivery systems in the N&E poses its own problems.²⁶

4.3.3 Restoring Livelihoods

Restoring livelihood activities in the N&E is a challenging task considering the amount of human and physical destruction, and weakened economy of the region. Extending the current state-led livelihood and rural devel-

²⁴ For instance, see policy brief on "Adoption of ICT in Agricultural for Post-conflict Development".

²⁵ Besides the N&E, there are regional imbalances in educational outcomes in the rest of the country as well. For specific issues related to the N&E, see policy brief on "Protecting the Education Rights of Conflict-affected Children".

²⁶ See chapter on "Challenges in Health Financing in a Post-conflict Environment".

opment programmes to the region is an identified policy priority of the government. The two major state-led programmes are the Gama Neguma programme and the Gemidiriya Community Development and Livelihood Improvement Project. Gemidiriya aims to build accountable and self-governing local institutions that can manage sustainable investments, using the Community Driven Development (CDD) approach. The Samurdhi programme also has livelihood improvement and rural development components embedded in it, along with a social protection component.

Several aspects have to be considered with regard to restoring livelihoods in the N&E. Refugees and IDPs are the most vulnerable groups. The government has been able to resettle nearly 250,000 IDP, with only around 25,000 estimated to remain in welfare centres.²⁷ Resettlement needs to be sensitive to livelihood activities which IDPs were familiar with before the displacement. For example, people who were dealing with fisheries should be relocated in the coastal areas instead of resettling them inland. The solution is to resettle the people in close proximity to their original areas. However, other constraints exist, such as lack of legal documents to land titles that could trigger problems in the future.

There is also a tendency for young adults to migrate to urban centres as they are not familiar with agricultural activities after years of non-participation. Internal labour migration can create pressures on local labour markets, bringing down wage rates and affecting the livelihood of households in other areas as well. With the end of the conflict,

the possibility of migrants returning is high. They may possess skills which are valuable to boost economic activity and should be encouraged to access credit facilities (including microfinance), business-aid, and training for self-employment and other livelihood activities.

4.3.4 Compensating the Loss of Social Entitlements

Finding remedies to restore social entitlements is not an easy task, as it is naturally shaped through community characteristics and interactions. As a start, resettling the displaced in environments close/similar to where they have been before - with the same community group - would be beneficial in strengthening social institutions and values. Implementation of programmes such as Gama Neguma, Samurdhi and Gemidiriya with an emphasis on community contribution through CDD approaches would also improve social values.

In the absence of social networks and safety nets, households lack coping mechanisms. For instance, a study on outreach of financial services in Sri Lanka shows that the principal source of credit for households is non-commercial such as friends, relatives and neighbours.²⁸ The situation is made worse for conflict-affected communities. In addition to the social protection mechanisms provided by the state, there is a need to expand insurance services in the N&E, in particular micro-insurance. Studies have indicated micro-insurance to be an effective coping strategy. Of a sample survey of households experiencing a risk, 63 per cent claimed insurance as a result.²⁹ Penetration of microfinance services to the N&E is also

²⁷ Ministry of Finance and Planning, "Budget Speech 2010".

²⁸ IPS, "Outreach of Financial Services in Sri Lanka", 2008, report prepared for the GTZ. The study does not cover the districts of Kilinochchi, Mannar and Mullativu.

²⁹ IPS, 2009, "Combating Multiple and Overlapping Vulnerabilities: Micro-insurance for the Poor", mimeo. The survey was carried out in all the provinces covering 330 households.

important, as the promotion of small deposits and credit for emergencies (not confined to business development credit) have proven to be an effective risk coping mechanism for the poor.³⁰

The Samurdhi programme has a separate component on social security (the insurance programme) to help poor beneficiary households to cope with shocks. While the extension of Samurdhi to the N&E will be beneficial, the programme needs to be improved. At present, it covers only life cycle events (of child birth, marriage, illnesses and death), in spite of a range of vulnerabilities and shocks poor households are exposed to. The statistics show that for 2005, marriages have accounted for the highest share of claims during 2005 (33 per cent), followed by deaths, diseases and births.³¹ Improvements to rapid and effective delivery of insurance services are also critical.

4.4 Conclusion

Sri Lanka has had a long-standing commitment to deliver a high level of social welfare and the country still benefits from the policies of the past. Despite such efforts, however, it has not been sufficient to adequately address the multiple challenges on the poverty front.

Sri Lanka's prolonged conflict added to the burden of poverty alleviation. New vulnerabilities and risks have emerged, calling for modified social protection mechanisms. The *ad hoc* set of programmes put in place to deal with the immediate aftermath of the conflict has to be transformed to provide social protection in the long run.

Restoring the livelihoods of the households have to be supported to sustain peace and development, which necessarily is reinforced by the provision of public entitlements such as infrastructure, health, education, etc. Addressing regional disparities is critical if Sri Lanka is to avoid new sources of conflict. Rural infrastructure and livelihood development initiatives have to be at the centre of poverty alleviation programmes, and integrated with region specific programmes for the N&E. These will be more effective in the long run if they adopt a 'bottom-up' approach that solicits community participation.

Rapid economic development, together with adequate social protection, welfare and poverty reduction measures in the N&E as well as the lagging regions in the rest of the country, will help Sri Lanka in meeting its long term post-conflict development goals.

³⁰ Tilakaratna, et al., 2005, "Microfinance in Sri Lanka: A Household Level Analysis of Outreach and Impact on Poverty", IPS.

³¹ Calculated from data obtained from the Ministry of Samurdhi and Poverty Alleviation (2007 data for areas where Samurdhi is operational).

5. Post-conflict Employment and Skills Development

5.1 Introduction

Sri Lanka has made progress in eradicating poverty. The poverty headcount ratio has come down from 26 per cent in 1990/91 to 15 per cent in 2006/07 according to figures released by the Department of Census and Statistics. Despite this, at the sub-national level, poverty persists in disadvantaged regions and among vulnerable groups. Ensuring access to productive employment opportunities is now recognized to be a key element in alleviating poverty and reducing social unrest. A rapid transition to productive employment from school is especially important to youth, to ensure that they gain the necessary work experience and other life skills that will enable them to maximize returns from their investments in early life on education and health.¹ Sri Lanka has experienced several insurrections, including the insurrections in the early 1970s and the late 1980s as well as the secessionist war that prevailed over thirty years. These were at least partly due to economic disparities and high unemployment amongst youth. As such, it is important to take measures to create productive employment opportunities and improve access to these, from an economic as well as a socio-political point of view.

Over time, there have been some improvements to the labour market conditions in the country. Unemployment trends have come down steadily over the past several years. Despite this, a closer look at employment statistics highlights several areas where the labour market conditions can improve. Although overall, unemployment rates have declined, they continue to be high relative

to regional and global averages, particularly amongst youth, females, and the educated. The proportion of employed persons in the population has stagnated over the years, indicating slow progress in job creation. A large proportion of the Sri Lankan workers are estimated to work in the informal economy, engaged in work that does not fully utilize their productive capacity. At the same time, the country is increasingly relying on foreign employment to solve the problem of lack of jobs. While dealing with these challenges, Sri Lanka is confronted with a new challenge with the ending of the three decade long secessionist conflict - that of finding productive work for individuals in the North and East (N&E) regions of the country.

Globalization and technological change has made it possible for Sri Lankans to take advantage of not only employment opportunities within the country, but also those available across the globe. Foreign employment was a major source of employment for Sri Lankans in recent times. According to the Sri Lanka Bureau of Foreign Employment (SLBFE) data, the gross departures (not corrected for returnee migrants) for foreign employment have increased by 4.5 per cent a year on average over the period 1992-2006 to 201,948 persons. Although successive governments have encouraged migration for employment purposes - largely due to benefits in terms of remittances - it is not yet clear whether there is a net benefit from foreign employment.

Recently, the country has also seen an expansion in the information technology (IT)

¹ World Bank, *World Development Report 2007*.

and information technology enabled services (ITES) related employment in the country. The expansion in this sector has been made possible due to technological advances which have allowed firms to outsource work using the Internet. However, these require skilled workers with IT and English literacy.

The general objective of this Chapter is to examine the trends in labour market indicators over time for Sri Lanka - with international comparisons where appropriate - to analyze the challenges faced in improving labour market outcomes. The Chapter will give particular attention to issues related to creating jobs in the N&E in a post-conflict environment, balancing the costs and benefits of foreign employment, and lastly, discussing the challenge of taking advantage of opportunities opened up by IT and ITES sectors.

5.2 Policy Context

The latest policy document of the government - 'Mahinda Chinthana: Idiri Dekma' - correctly identifies the main challenges faced by the labour market in the country. The two programmes launched by the government to develop the Northern and Eastern Provinces - 'Uthuru Wasanthaya' and the 'Nagenahira Navodaya' - have plans to encourage investments in developing roads, housing, education and health facilities and extending other infrastructure services in the N&E with the intent of accelerating development in these areas. These programmes give special attention to the internally displaced persons (IDPs). The Uthuru Wasanthaya and the Nagenahira Navodaya have provisions for promoting livelihood and other projects for improving employability in the N&E in general, while specially focusing on vulnerable groups such as the IDPs, women, youth, disabled and ex-combatants.

It is estimated that over 300,000 unskilled youth enter the labour market annually, partly

because they have failed O-Levels or because they have failed to enter university for higher education. The government has plans to improve access to tertiary education and vocational training for these youth in a field of their choice by providing financial assistance. What is important is that government policy recognizes the need for training to obtain internationally recognized qualifications for youth, so that they are able to meet the demands of the global labour markets. Special attention is given in government policy documents for training individuals in accountancy, IT, tourism, construction, health and beauty culture.

At the same time, the government policy framework aims to generate employment through promoting investments in business process outsourcing (BPOs). To prepare for such training, children should be provided with a sound education at the secondary level with skills that are relevant for emerging markets. The stated government policy realizes the importance of this. It has plans to extend compulsory education to 16 years, and to equip children with computer and technology literacy and foreign language skills starting from the secondary school level, so that they have the relevant skills to be employed in the BPO sector as they come out of school.

5.3 Overview of Employment Outcomes in Sri Lanka

The most commonly used indicator to assess the labour market is the unemployment rate, which indicates the proportion of the labour force in the economy that is available for work but are not working. In terms of trends in the unemployment rate, the Sri Lankan labour market seems to have done well over the years. According to the labour force survey (LFS) data of the Department of Census and Statistics, the overall unemployment rate for Sri Lanka (excluding the Northern Province) has come down from 8.4 per cent in

2003 to 5.4 per cent in 2008 (Table 5.1). This decrease is reflected across males and females. It is also encouraging that the decline is sharper for youth in the 20-24 age group, and for females with more than an Advanced Level education - two groups that have had historically high unemployment rates.

The unemployment rate alone does not provide a full picture of the labour market conditions of an economy. This is because the

unemployment rate might hide the fact that workers are underemployed or doing unproductive work. Hence, usually along with unemployment rates, other indicators are examined to assess labour market performance. The employment-to-population ratio for Sri Lanka has remained at around 45 from 2003 to 2008, indicating that the ability of the economy to create jobs has stagnated over the years. The proportion of workers participating in the labour market - the labour force participation rate - also had re-

Table 5.1
Selected Labour Market Indicators for Sri Lanka^a

	Labour Force Participation Rate (%)	Employment to Population Ratio (%)	Unemployment Rate (%)		
			Total	G.C.E. O-Level	G.C.E. A-Level and above
2008					
Sri Lanka	49.5	46.9	5.4	7.7	10.5
Western	47.2	45.1	4.4	5.5	5.4
Central	50.7	47.7	5.9	11.4	14.2
Southern	49.5	45.5	8.1	11.9	15.3
Eastern	41.3	38.2	7.7	13.1	19.5
North-Western	50.2	48.0	4.3	6.5	10.6
North-Central	55.7	53.5	3.9	*	13.4
Uva	56.3	53.5	5.0	10.3	*
Sabaragamuwa	52.2	49.4	5.2	4.0	15.3
2003					
Sri Lanka	48.9	44.6	8.4	13.0	16.5
Western	47.0	n.a.	8.5	10.7	11.3
Central	50.7	n.a.	6.7	11.8	19.2
Southern	47.9	n.a.	10.7	17.5	19.7
Eastern	39.5	n.a.	12.8	21.2	29.7
North-Western	50.8	n.a.	6.4	11.3	17.0
North-Central	52.7	n.a.	7.6	13.8	24.0
Uva	57.2	n.a.	6.7	12.2	20.7
Sabaragamuwa	50.2	n.a.	8.9	13.3	21.0
2002					
Sri Lanka	50.3	n.a.	8.8	13.3	16.8
Northern (part)	33.8	n.a.	13.0	n.a.	n.a.
Eastern	40.3	n.a.	15.9	n.a.	n.a.

Note: a. Calculations are for population aged 10 years and over.
* No reliable estimates.
n.a. Not available.

Source: Calculated using DCS, Labour Force Survey data, various years.

mained just below 50 per cent over the same period. According to the LFS data, around 60 per cent of the employed were working in the informal sector in 2008. These included 83 per cent of those in the agricultural sector, and around half (49 per cent) of those in the non-agriculture sector.

The LFS defines informality by looking at the characteristics of the employer (i.e., registration and accounts keeping practices of the organization and the number of employees of the organization). However, according to other definitions, even individuals working for formal organizations can be informal workers. These include casual and contractual workers. The inclusion of these types of workers will increase the proportion of informal workers even further. A main concern regarding the high incidence of informal employment is the lack of social protection available for these workers and their vulnerability to external shocks. Unless either social protection coverage for the informal sector is improved and made more effective, or employment opportunities in the formal sector are expanded, those working in the informal sector would be vulnerable to changes in economic conditions and are at risk of falling into poverty during recessionary periods.

A recent IPS study finds that the employment prospects for youth (those in the 15-24 age group) in Sri Lanka are less favourable than the regional averages for their counterparts across the globe.² This study shows that compared to world regional averages, the youth in Sri Lanka participate less in the labour force, the proportion of youth who are employed are lower, and the unemployment rate amongst youth is higher for Sri Lanka. The same study also shows that the incidence of informal employment is higher

for youth compared to adults. Together, these findings show that the availability of productive work opportunities in the economy is limited, and that they have not improved much over the years. This is especially the case for youth.

According to available data, close to a quarter of workers in 2003 were skilled agricultural or fishery workers, while a similar proportion was in elementary occupations. Although the proportion of workers in these occupations has decreased over time, even by 2008, more than 40 per cent of workers were in these two categories of occupations. In comparison, only around 13 per cent of workers were in the senior managerial, professional or associate professional and technical level occupations. By industry, agriculture, fishery and forestry industries absorbed the highest proportion of workers, followed by manufacturing industry. The structure of the economy has changed away from agriculture over time, largely due to the expansion of the industrial and services sectors. Although, a shift away from agriculture is usually accompanied by the expansion of the formal sector, this has not been the case for Sri Lanka, indicating that the expansion in the industrial and service sectors were largely in the informal sector. Employment by sector of economy (i.e., formal and informal) are available only from 2006. The available data on type of employment suggests that employment in the informal sector has remained constant. The proportion of own account workers and unpaid family workers - the largely informal types of employment categories - have remained at around 40 per cent of the total employed since 1992.

The rest of the discussion will examine specific challenges faced by the labour market of Sri Lanka in terms of creating productive

² Arunatilake, N., and P. Jayawardena, (forthcoming), "Labour Market Trends and Outcomes in Sri Lanka" in R. Gunatilaka, M. Mayer and M. Vodopivec (eds.), *The Challenges of Youth Employment in Sri Lanka*, World Bank, Washington, D. C.

employment opportunities in the N&E, and in making use of global employment opportunities.

5.4 Employment in the N&E

The conflict that lasted for close to three decades left the N&E in economic disarray. Most of the economic infrastructure was destroyed or damaged, and the traditional livelihoods of individuals in these provinces were disrupted due to security, lack of investments, and neglect. Some inhabitants in these regions have been displaced several times, which has disrupted or slowed their education attainments and health. Many have discontinued their education and others have dropped out of school early. Lack of investments in these areas meant that many were unable to obtain training that was available to their counterparts in other areas of the country. Redirection of resources towards conflict related activities deprived generations of inhabitants of practical experiences in traditional livelihoods. The ending of the military conflict in May 2009 paved the way to redress some of these problems. But, the task at hand requires directing new investments to resettle and rehabilitate households and communities. The challenge is not only to plan and find financial and other resources to re-develop these provinces, but to do so equitably and with speed as uneven treatments or delays in rebuilding communities, creating jobs and re-establishing these economies could rekindle new conflicts.

Labour market information for the whole of the Northern Province is not yet available. Labour market information is available for the Eastern Province for 2003 and 2008 and for parts of the N&E for 2002 (see Table 5.1). The available data shows that as for the rest of the country, the total unemployment rate has declined for the Eastern Province - from 12.8 per cent in 2003 to 7.7 per cent in 2008.

Although these rates are higher than the average unemployment rate for the country (excluding the Northern Province), the discrepancy between the Eastern Province and the average for the country has decreased over time, indicating some progress.

Despite the decline in unemployment rates, the other employment indicators for the Eastern Province show that more needs to be done to improve employment conditions in the province. For example, the proportion of workers who are participating in the labour force - the labour force participation rate - is much lower for the Eastern Province (41.3 per cent) compared to the rest of the country (49.5 per cent), and it has not changed much over the years. Further, in the Eastern Province, the unemployment rate amongst females and the educated was much higher than those in the rest of the country. These statistics show that there are limited options for productive work opportunities in the province. The industrial distribution of employed persons suggests that there are obvious under-explored industries, such as transport, hotels and tourism.

For sustaining peace in the newly liberated N&E, there is an urgent need to direct investments that will create jobs (see Box 5.1). What is required is to provide immediate work opportunities, to enable the people in these areas to be independent and rebuild their economic capital base, as well as for directing investments that will result in creating jobs in the long run. The need is not only to replace lost capital, but to help communities invest in new technologies and train them in making effective use of these technologies such that they are able to be competitive in the market place. The conflict resulted in slowing human capital development in the N&E.³ The government has given due attention to developing the N&E in their

³ See the policy brief "Protecting the Education Rights of Conflict-affected Children" for more details on this.

Box 5.1

The Need for and Challenges to Job Creation in a Post-conflict Environment

Any post-conflict development programme must give high priority for job creation projects, and these must start immediately with the ending of the conflict. This is important as employment enables individuals to be economically independent, rebuild their lost capital and gain skills that are necessary for keeping out poverty and maintaining lasting peace.

However, creating employment can be challenging in a post-conflict environment. Long duration conflicts often result in damaging and destroying economic infrastructure, physical assets and markets which facilitate businesses. Lack of confidence in the policy environment and poor financial infrastructure are also deterrents for investments. These conditions together reduce the demand for employment. Even available employment would often pay much less than conflict-related work and the skills that are in demand would be different from the available skill pool that catered to the conflict-related employment.

Conflicts result in creating groups that are vulnerable in different ways. These include ex-combatants (those who were directly involved in the conflict), displaced persons seeking resettlement, widows, orphans, women, youth, and disabled persons. The challenge is to ensure that employment is provided for all these different groups in the post-conflict development process, while not giving special treatment to any one group. Experience shows that differential treatment of different groups can lead to new conflicts. Unlike with improving employability under normal conditions, in a post-conflict environment, improving employability will also need to be concerned with improving the psychosocial condition of individuals. This is necessary as lack of social cohesion will result in mistrust, alienation, disintegration and lack of cooperation that is detrimental for recovery.

In the immediate aftermath of the conflict, the need is to start emergency job creation projects. Engaging individuals in the relief and resettlement process is one means of creating employment while involving inhabitants in the development process. However, as the resettlement process ends, there is also a need to re-develop the business environment to attract jobs and to create long term employment opportunities. These would include reviving pre-conflict livelihoods through rebuilding infrastructure, training and providing necessary capital assets, as well as encouraging new investments that can make use of the comparative advantage of the area. The need is not just to replace what is lost or damaged, but to introduce new infrastructure facilities and technologies that are in use in comparable locations such that individuals can be competitive in the market place.

Source: Kenneth W. Beasley, 2006, 'Job Creation in Post-conflict Societies', http://digitalcommons.ilr.cornell.edu/key_workplace/274; and Government of Indonesia, 2005, 'Disarmament, Demobilization, and Reintegration in Aceh: Guiding Principles', <http://ocha-gwapps1.unog.ch/rw/rwb.nsf/db900sid/KHII-6PQ36M?OpenDocument> [accessed May, 2010].

manifesto through the Uthuru Wasanthaya and the Nagenahira Navodaya programmes. However, the above statistics show that progress needs to be expedited.

5.5 Foreign Employment⁴

With globalization, labour markets across the world have become increasingly integrated. In the initial waves of liberalization, foreign

⁴ This section and the next borrow heavily from, Arunatilake, N., S. Jayaratne, P. Jayawardena, R. Jayaweera, and D. Weerakoon, 2010, 'Impact of Remittances on the Household of the Emigrant and on the Economy of the Migrant's Country: Sri Lanka', IPS, mimeo.

firms invested in Sri Lanka to make use of lower wage workers which mainly resulted in shifting employment from agriculture to manufacturing. Along with that, the number of people leaving the country for economic and political reasons increased significantly

in the early 1980s. According to estimates by the SLBFE, more than 250,000 Sri Lankans migrated (not corrected for returnees) for foreign employment in 2008. This estimated outflow of workers is higher than the number estimated to be entering the labour force

Box 5.2

The Impact of Migration on the Country of Origin

The impact of migrants to the country of origin largely depends on the skill levels of the migrant workers. From an economic point of view, migration of low skilled workers are seen as beneficial to a country, as they are more likely to remit a higher proportion of their earnings as they tend to migrate alone - leaving their families behind - and for temporary periods. At the same time, migration of low skilled workers can ease labour market conditions at home. It will reduce unemployment and underemployment and improve wages and labour force participation rates. The migration of low skilled workers is also found to help households out of poverty. However, over-reliance on foreign employment as a source of employment can reduce incentives for domestic policy reforms to improve job creation, and reduce competitiveness due to currency appreciations caused by remittance inflows. Further, the countries of origin will be vulnerable to external shocks experienced by destination countries. For example, the present global economic crisis has resulted in the return of many migrant workers and reductions in remittance flows to countries of origin.

The impact of migration of high skilled workers on the country of origin depends on the size and the structure of the economy and its performance. High skilled migration may have a negative impact on the living standards of those who are left behind and on growth. This may be due to several reasons. First, social returns to high skilled workers are higher than their private returns. This is because interaction of high skilled workers with peers with similar skill levels can improve productivity. Further, high skilled workers help to train other workers. Second, high skilled workers also help to improve the governance and administrative capacity of the state, making employment conditions better. Third, high skilled workers may increase domestic demand, thereby expanding markets for domestic firms and helping them to improve their services and productivity. Fourth, in countries where education is subsidized, the state will lose the returns to their investments when high skilled workers emigrate. Finally, emigration of high skilled workers will also raise the price of services that require technical skills.

However, high skilled migration can also be beneficial to the countries of origin. High skilled migrations could increase the levels of remittances received by the countries of origin. Further, if the labour markets of the countries of origin are unable to create jobs that provide productive employment to highly skilled workers due to poor investment climates or political instability, the costs of sending them off to work elsewhere would be less for the country of origin. Also, small countries may lack economies of scale to hire large numbers of highly specialized workers. Further, misalignment of a country's education policies with that of its structural changes in the economy will result in mismatches in the labour market. As such, migration of redundant skilled workers will not adversely affect the economy of the country.

Source: World Bank, 2006, "Global Economic Prospects: Economic Implications of Remittances and Migration", World Bank, Washington D.C.

annually by the Department of Census and Statistics. The majority of these migrants are low skilled female workers who migrate to Middle Eastern countries as housemaids. However, according to the SLBFE, the emigration of skilled workers has increased over time.

Sri Lanka has witnessed a steady increase in remittance inflows over the last two decades, rising from US\$ 140 million in 1980 to US\$ 3.3 billion by 2009. Further, compared to overseas development assistance (ODA) and foreign direct investment (FDI), remittances have been the most stable as well as the largest source of foreign capital over the period. Remittances have provided significant balance of payments (BOP) support to the coun-

try by offsetting the adverse impacts of high trade deficits during times of crisis. Further, there are indications that remittance inflows have improved national savings and lifted the rate of investment in the country. Although high levels of remittance inflows have the potential to cause exchange rate appreciation, this does not seem to have been a concern in Sri Lanka. These factors indicate that at least at the macro level, remittances have been beneficial to the country. The effects of worker migration on the labour market and household welfare are less clear.

As indicated earlier, the unemployment rate in Sri Lanka has steadily come down over the years. Part of this improvement can be attributed to foreign employment, others

Table 5.2
Expatriates in OECD Countries by Selected Country of Origin

	Emigrant Population ('000)	Education		Emigration Rate ^a	
		Primary (%)	Tertiary (%)	Total (%)	Tertiary Educated (%)
Sri Lanka	316.9	35.0	28.2	2.1	19.4
India	1,957.2	26.6	53.1	0.3	3.5
Pakistan	672.9	45.6	31.8	0.8	9.8
Nepal	23.9	22.8	41.9	0.2	3.0
Bangladesh	285.7	48.3	28.4	0.4	3.2
Afghanistan	141.2	48.1	20.9	1.1	6.4
Maldives	0.4	26.8	31.1	0.3	..
Bhutan	0.7	41.9	25.4	0.1	..
Philippines	1,932.8	17.7	46.7	3.9	7.4
Malaysia	214.3	19.4	50.2	1.4	11.3
Indonesia	344.5	25.9	34.9	0.2	1.8
Thailand	272.6	37.1	29.1	0.6	1.5

Notes: a: Emigration rates for different education levels are calculated as follows: X_i = number of foreign-born in OECD countries born in country i ; Y_i = 15+ population in country i . Emigration rate = $X_i/(X_i + Y_i)$.

Source: Database on Immigrants in OECD Countries (DIOC); and Barro and Lee (2000), 'International Data on Education Attainment: Updates and Implications', University of Harvard.

being demographic changes and higher participation in education.⁵ However, the effect of migration on labour force participation is less pronounced. Labour force participation rates have remained stagnant, despite large numbers of workers emigrating for work. This is partly due to the fact that many of the low skilled female workers who migrate for work were housewives and are not captured in the labour statistics as economically active. The effect of migration on wages is harder to establish. There is some evidence to suggest that unemployment has influenced wage increases in occupations. The Central Bank of Sri Lanka (CBSL) states that the continued domestic demand for construction sector workers, together with shortages of these workers due to foreign

employment, were contributory factors for the 15-16 per cent increase in nominal wages over the 2007-08 period.⁶

The impact of high skilled migrations on the Sri Lankan economy is extremely difficult to assess in general (see Box 5.2), and particularly for Sri Lanka due to data limitations. However, information available on expatriates in countries of the Organization for Economic Cooperation and Development (OECD) shows that compared to other countries in Asia, Sri Lanka has the highest rate of emigration to OECD countries (19.4 per cent) of tertiary educated individuals (see Table 5.2). Amongst 103 countries for which data is available, only 20 countries had emigration rates higher than that of Sri Lanka.

Table 5.3
Expatriation Rates for Nurses and Doctors in Selected Countries (2000)^a

Country of Birth	Nurses		Doctors	
	Number of Persons Working in OECD Countries	Expatriation Rate	Number of Persons Working in OECD Countries	Expatriation Rate
Sri Lanka	2,032	8.1	4,668	30.8
India	22,786	2.6	55,794	8.0
Pakistan	1,803	3.6	10,505	8.3
Nepal	205	3.5	288	5.1
Bangladesh	651	3.1	2,127	5.2
Afghanistan	613	13.0
Maldives	6	1.9
Philippines	110,774	46.5	15,859	26.4
Malaysia	7,569	19.6	4,679	22.5
Indonesia	3,449	2.7	2,773	8.6
Thailand	3,050	1.7	1,390	5.8

Notes: a: Expatriation rates are computed as follows: X_i = number of foreign-born doctors (nurses) working in OECD countries born in country i ; Y_i = number of doctors (nurses) working in country i (source WHO Global Health Atlas 1995-2004 average); emigration rate = $X_i/(X_i + Y_i)$.

Source: Dumont J. C. and Zurn P, 2007, "Immigrant Health Workers in OECD Countries in the Broader Context of Highly Skilled Migration", International Migration Outlook, SOPEMI, Paris.

⁵ Arunatilake, N., and P. Jayawardena, (forthcoming), "Labour Market Trends and Outcomes in Sri Lanka" in R. Gunatilaka, M. Mayer and M. Vodopivec (eds.), *The Challenges of Youth Employment in Sri Lanka*, World Bank, Washington, D. C.

⁶ Central Bank of Sri Lanka, *Annual Report 2008*.

High skilled migration may adversely affect some sectors. International literature suggests that migration of health service workers is particularly detrimental to the countries of origin (see Box 5.2). These concerns are also true for Sri Lanka. In the health sector, compared to other countries in the region, Sri Lanka has the highest expatriation rate of doctors and the third highest expatriation rate of nurses to OECD countries (see Table 5.3). In a data base of 157 countries, Sri Lanka had the 37th highest expatriation rate of doctors while the corresponding rank for nurses was 66th. These statistics indicate that the brain drain of health sector workers to OECD countries is particularly high for Sri Lanka. This is of further concern given the short supply of several categories of specialist doctors and nurses in the country.

5.6 Employment in the IT and ITES Sectors

Another area in which there has been a recent surge in employment is software development and in ITES - such as business process outsourcing (BPO) and knowledge process outsourcing (KPO) - companies. Earnings from this sector have grown by close to 200 per cent from US\$ 82 million in 2005 to US\$ 245 million by 2009.⁷

The Sri Lanka Information and Communication Technology Association (SLICTA) data shows that the overall IT workforce in Sri Lanka has doubled from 2003 to 2006 and it is estimated to be around 45,000 in 2008. About 22,000 of these workers were demanded by the IT-sector while 20,000 were demanded by the non-IT sector and the rest by government agencies. These are only workers whose primary work output is IT related. In addition to these, a large number of workers have found employment in ITES services - that is services that are enabled by developments in IT. The demand for IT workers has

far exceeded the supply of workers. For example, the SLICTA estimated that 5,755 IT graduates were needed in 2007 to cater to the growth in demand. In addition to this, a further 2000 non-graduate IT experts were in demand. However, less than half that number (2,216 graduates) were being trained in that year. Although an attempt was made to fill in vacancies with graduates in IT related degree courses, the supply still did not meet demand.

A more recent trend in globalization is the developments in ITES. Recent developments in technology have enabled firms to outsource services to developing countries. In this model, workers reside in home countries and work for parent companies in other countries. The types of services that are outsourced include back-office functions - such as data entry, customer support, as well as more technical jobs such as financial analysis, designing, and distance education. Unlike in the creation of jobs with the expansion of the industrial sector, the employment opportunities in the IT and ITES sector offer attractive salaries. A recent graduate with no experience can expect to receive a salary of Rs.15,000 in the IT sector, which is more than the average salary for a teacher with experience. Furthermore, these salary scales increase rapidly with experience.

Information on employment in the ITES industry is not available through traditional sources of information in Sri Lanka. But, anecdotal evidence suggests that it has grown substantially over time. Amba, a company that specializes in providing investment research support, started with 20 employees in Sri Lanka in 2003. At present, it employs more than 400 workers and has branched out to India and Costa Rica. The Honkong and Shanghai Banking Corporation (HSBC) recently invested in a call centre in Sri Lanka

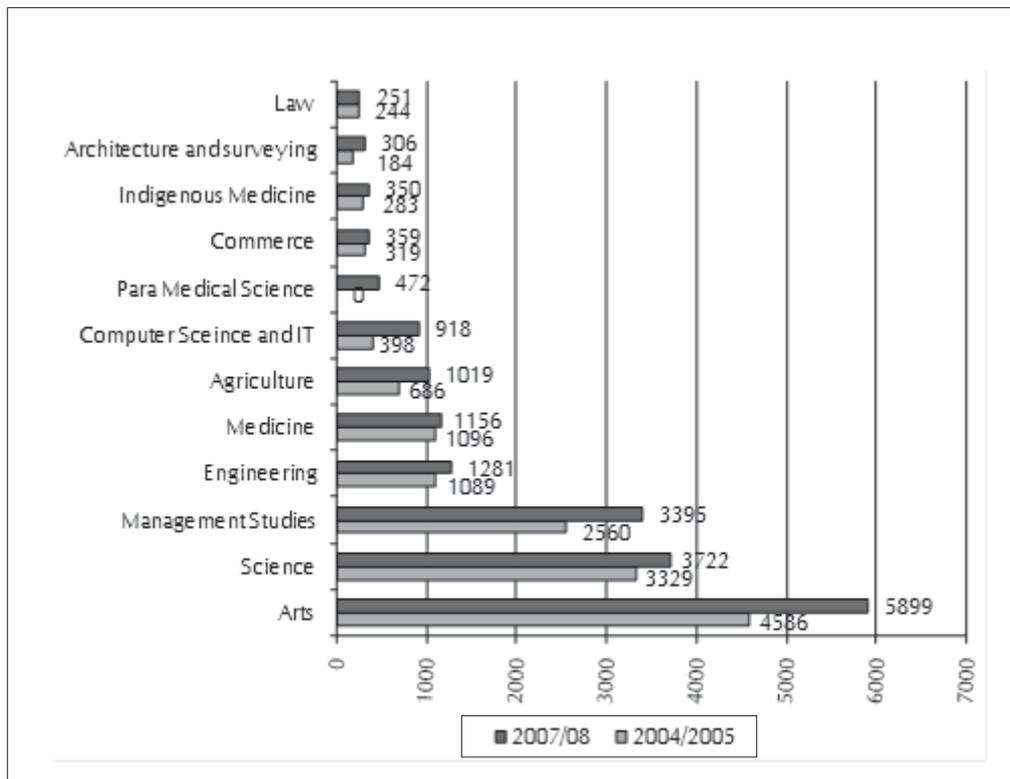
⁷ Central Bank of Sri Lanka, *Annual Report 2009*.

which can employ up to 3,000 workers. This specializes in providing support services to HSBC branches in the UK and the US. These examples highlight the potential for the ITES expansion in the country. Although there is no hard evidence, anecdotal evidence suggests that as in the IT sector, in the ITES sector lack of skilled manpower is a constraint to expansion.

A main set-back faced by IT and ITES sectors is the shortage of qualified workers. Sri Lanka has a comparative advantage in attracting investments in this sector, given its educated workforce, who are IT and foreign language literate. However, the available pool of workers who are willing to work in this sector is not sufficient to meet the demand by this sector. Some companies who sought to ex-

pand within Sri Lanka have chosen to expand their activities abroad due to this reason. An example of one such company is Amba research, which branched out to other countries. At the high end, software and KBO companies look for degree holders competent in IT and English. At the low-end, BPOs look for workers competent in English with a working knowledge in IT. The university and non-university tertiary education sector is unable to cater to this demand due to various reasons. One main constraint faced by IT training institutes is attracting qualified trainers. The government training institutes are particularly handicapped as they are unable to offer salaries demanded by qualified and good trainers. Financial and geographical barriers prevent students from obtaining

Figure 5.1
Number of Undergraduate Entrants by Academic Stream



Source: Calculations based on data from the University Grants Commission.

qualifications in areas that are in demand. Most training programmes offering internationally recognized qualifications are available only in Colombo and a few major cities, and most school leavers are unable to bear the cost of such training.

5.7 Tertiary Education Reforms

Sri Lanka has been faced with the challenge of creating productive jobs for decades. The expansion of the manufacturing sector mainly created jobs for those with a secondary level education. There was some expansion in jobs for more educated workers in the service sector, but this increase was relatively slow. Globalization has increased the potential for creating jobs both within and outside the country for more educated workers, in the IT and ITES sectors as well as in medical, para-medical, engineering, accounting and other sectors internationally. Although opportunities in this regard have increased, the expansion of these sectors has been constrained by lack of skilled human capital. Most of these employment opportunities require IT literacy

or degrees in science and technology related subjects. As seen in Figure 5.1, although the number of university entrants has increased over time, the increase has been mostly in entrants for undergraduate courses in arts subjects. Although there has been some increase in the number of science and technology subjects, the increase is far below what is required by the market.

The limitations in the diversity of education options go beyond the university sector to the secondary education sector. The recently launched 'National Youth Survey 2009' data by the Social Policy Analysis and Research Centre (SPARC) of the University of Colombo reveal that of the 3000 surveyed youth (individuals in the 15-29 age group), 47 per cent had not sat for A-Level exams, while 30 per cent had taken the exam in the arts stream. Those who have taken the A-Level exam in the science stream (mathematics or biology) were limited to 9 per cent of the sample (see Table 5.4). Of the same sample, only 7 per cent were able to speak English well, while

Table 5.4
Youth Education Attainments in Sri Lanka^a

By A-Level subject stream²	
Arts	29.5
Commerce	14.3
Mathematics	4.2
Biology	5.1
Did not do A-Levels	46.9
By ability to speak English	
Very good	7.3
Good	32.1
Poor	43.5
Not at all	17.2
By computer literacy	
Those who have ever used the Internet	33.5
Computer literacy	56.6

Notes: a: Data are based on a survey of 3,000 youth (15-29 year olds) from 22 districts of the country.

Source: Data Presented at the launch of the "National Youth Survey 2009", Social Policy Analysis and Research Centre (SPARC) of the University of Colombo.

only 34 per cent had ever used the Internet.

According to the Department of Examinations data, roughly 210,000 students sat for the A-Levels in 2008 and 130,000 qualified to enter university. The data in Table 5.4 suggest that only 17.5 per cent of those who sit for A-Level exams take subjects in the science stream. This means that only around 22,000 of those who qualify for university are able to get into the degree courses in science and technology. This output of A-Level science qualified students is inadequate given that they have to fulfill employment requirements in an array of science and technology disciplines, including medicine, engineering, IT, paramedical sciences, etc. The present government policy aims to improve access to secondary education by extending the compulsory education age to 16 and to improve computer and foreign language literacy at the secondary level. These are encouraging developments. The need is also for implementing and obtaining results from these initiatives rapidly, and to expand education opportunities in the science stream.

5.8 Conclusions and Policy Direction

The labour market in Sri Lanka has performed well over the past several years when assessed using the unemployment rate. This has come down steadily over the years. However, the performance of the other labour market indicators is not so robust. The proportion of the population that is employed and the proportion of workers participating in the labour market has remained more or less stagnant over time. Although there is a shift away from employment in the agriculture sector, this does not seem to be accompanied by a growth in the more productive and secure formal sector.

The country's labour market is faced with the challenge of improving productive employment. Opportunities in this regard come from two areas. First, the ending of a three

decades long conflict has enabled development potential in the N&E. The government has given due attention to attracting investments in these areas and developing infrastructure to facilitate investments. Along with improving physical infrastructure, there is a need to resettle and rehabilitate individuals in these areas. The main challenge in this regard is identifying, planning, and mobilizing resources with speed, to provide immediate emergency employment while planning for long term employment projects. Lack of comprehensive information on employment trends in these areas makes assessing progress difficult. The available data suggest that the unemployment rates have come down in the Eastern Province. But, relatively low labour force participation rates suggest that more needs to be done to improve employment conditions in the province.

Foreign employment has been a continued source of employment to Sri Lanka. The government actively promotes migration of skilled workers, by promoting high quality tertiary and vocational education targeting global job markets. Given the limited opportunities in the country's tertiary education sector, there is a high demand for training programmes aimed at foreign employment. There is evidence to show that emigration of workers has helped to lower the unemployment rate and improve wages at the lower levels. On the other hand, despite benefits from low skilled migrations, over-reliance on foreign employment can delay reforms needed for improving job creation within the country.

The impact of the migration of high skilled workers on the economy is more complex to assess due to the complexity of ways in which high skilled workers influence economic development, and due to the lack of information on these migrants. Without information on the migrants and the ability of the country to make use of these workers domesti-

cally, the impact of high skilled migrations on the country cannot be assessed in any meaningful fashion. However, what is clear is that compared to other countries in the region, the emigration rate of high skilled workers in Sri Lanka is high. This is especially the case for workers in the health sector - a sector that is experiencing supply shortages at present. However, it must be noted that government promotions are not the only driver of migrants. Exposure to foreign training and closer connections with foreign countries due to existing diasporas in those countries could also lessen the psychological and financial costs of migration and thereby encourage the migration of workers. Making working conditions and health and education facilities available to families in Sri Lanka can provide incentives for retaining skilled workers and for encouraging the return of already emigrant workers.

To safeguard the interests of the country, while reaping the benefits of labour migration, it is necessary to ensure that education policies and training programmes in the country match the needs of the local market

as well as the envisaged global markets. Until a sufficient number of workers to meet these skill demands are trained, the promotion of migrant workers in sectors with labour shortages needs to be streamlined.

To take advantage of employment opportunities in the IT and ITES sectors in the global market, Sri Lanka needs a ready supply of qualified, young workers who are literate in English and IT. The previous discussion highlighted an urgent need to modernize and develop the training potential in the country to cater to the growing demand for skilled workers, both locally and abroad. The need is to develop the tertiary education sector, giving particular attention to developing the university sector and for expanding training in science and technology related subjects. In addition to issues concerning modernizing and upgrading the tertiary education sector, there is a need to improve science education at the secondary school level so that a sufficient pool of school leavers have skills for advanced training in science and technology related courses in the tertiary sector.