

Annual Report 2010



Research. Inform. Impact.

Institute of Policy Studies of Sri Lanka

Contents

Contents	1
Institute of Policy Studies of Sri Lanka	2
Mission & Vision	4
Chairman's Message	5
Executive Director's Report	6
IPS Research	8
Research Programme	
IPS Research Themes	
Macroeconomic Policy	9
International Economic Policy	12
Labour, Employment and Human Resources Development Policy	15
Industry, Public Enterprise Reform and Regulatory Policy	18
Poverty and Social Welfare Policy	20
Agricultural Economic Policy	22
Environmental Economic Policy	25
Health Economic Policy	29
Links	31
IPS Support Services	32
Finance and Administration Unit	32
Library	33
Publications and Communications Unit	36
Information Systems Unit	38
IPS Staff	
Research Staff	40
Administrative and Support Staff	42
IPS Events	43
Seminars, Conferences and Workshops	43
Distinguished Visitors to IPS	48
IPS Representation at Overseas Conferences	50
IPS In-House Seminars	53
IPS Publications	54
Human Resources Training and Development	56
Opening of the New Head Office of the IPS	58
Financial Statements	59
IPS Milestones	84

INSTITUTE OF POLICY STUDIES OF SRI LANKA

Established by an Act of Parliament in December 1988 and formally set up as a legal entity by gazette notification in April 1990, the Institute of Policy Studies of Sri Lanka (IPS) was designed to promote policy-oriented economic research and to strengthen the capacity for medium-term policy analysis in Sri Lanka. Today, the IPS has established itself as the foremost economic research institute in the country and has gained recognition in the South Asian region for its independence and excellence in economic policy research.

Since its inception, the IPS has had considerable autonomy in setting and implementing its research programme. The Institute is managed by a Board of Governors and the Executive Director. Its institutional structure has allowed the IPS to acquire a unique position as an authoritative and independent voice in economic policy analysis enabling it to work closely with a cross section of stakeholders including the government, private sector, academia and civil society.



Mission

The Institute's mission is to contribute to the economic development of a democratic Sri Lanka and enhance the quality of life of its people by providing research based analysis of socio-economic policy making.

Vision

The Institute's vision is to be a leader in conducting timely, independent, high quality research-based analysis of national economic policy issues that inform and influence public policy debates on economic development of a democratic Sri Lanka.

Board of Governors (as at 28 September 2010)

B. Hewavitharana

Chairman

P. B. Jayasundara (Ex-officio)

Secretary, Ministry of Finance & Planning

A. N. L. Cabraal (Ex-officio)

Governor, Central Bank of Sri Lanka

H. M. Gunasekera (Ex-officio)

Director-General, Department of National Planning

W. D. Lakshman

Chairman, Presidential Commission on Taxation and
Former Professor of Economics, University of Colombo

G. Gunatilleke

Chairman, Marga Institute

S. T. Hettige

Professor of Sociology, University of Colombo

Board of Governors (as at end 2010)

W. D. Lakshman

Chairman

P. B. Jayasundara (Ex-officio)

Secretary, Ministry of Finance & Planning

A. N. L. Cabraal (Ex-officio)

Governor, Central Bank of Sri Lanka

B. M. S. Batagoda (Ex-officio)

Director-General, Department of National Planning

S. T. Hettige

Professor of Sociology, University of Colombo

A. Ekanayake

Chairman, Ceylon Chamber of Commerce

L. Gunaruwan

Senior Lecturer in Economics, University of Colombo

Chairman's Message



thinking regarding the overall framework of policy research to be undertaken by the Institute, and also for the introduction of any required reforms in respect of the Institute's governance practices.

The IPS has continued to shine as a policy research institute with an impressive record of publications in its eight thematic areas of research, led by its annual flagship publication on the State of the Economy 2010.

The year 2010 witnessed the detailed working out of the immensely promising consequences of the return of peace to Sri Lanka in mid-2009 in regard to social, economic and political spheres of life in the country. The economy gained further momentum in growth, with improved conditions of stability. The society continued to enjoy the luxury of peace and security during the year under review in this Report. The post-conflict scenario highlighted the significance of, and opened up immense opportunities for, accelerated socio-economic development. Development policy has come to recognize the importance also of sharing, regionally as well as in terms of social classes, the benefits of development. As the premier policy research institute of the country, the IPS has benefited significantly from this environment of peace and development in furthering its mandate for "research-based analysis of national policy issues that inform and influence policy debates on economic development".

One of the most important events in the annals of the IPS since its inception was the completion of construction of its own premises in the Independence Avenue and the shifting of the Institute to these new premises. This happened in 2010. The new building has provided the Institute with the much needed identity symbol, and its personnel a significantly more congenial working environment. There was also in 2010 the restructuring of the Board of Governors of the IPS, thus opening up avenues for some new

Together with these publications, the Institute has organized a series of dissemination seminars and conferences as well as numerous IT-based modes of reaching out to the people. The Institute has built up close links with foreign, particularly Asian, organizations with similar mandates. On behalf of the Board of Governors, I congratulate the research and support staff of the Institute for these achievements and thank them for their hard work, commitment and dedication.

Let me take this opportunity to also record my appreciation of the work of the old as well as the new Board of Governors who guided the work of the Institute well during the period under review. The foresight, commitment and diligence in which the Executive Director has provided the management leadership to the IPS and played the role of representing the Institute to the world external to the IPS, has to be noted with appreciation. The country's policy makers, I am sure, would be able to look towards the IPS with greater confidence in the years to come as a policy research entity equipped with improved and strengthened conditions in terms of the working environment and the human resource base.

Professor (Emeritus) W.D. Lakshman
Chairman

Executive Director's Report

IPS marked two decades of formal operation in 2010. No events to mark the occasion however were organized since the work schedule for the year was very tight during the year. In particular, many uncompleted projects and shifting to the new Head Office of the IPS were major pre-occupations for the IPS staff during mid-2010. Considerable planning on timing and sequencing of the shift was made by the IPS management during the early part of the year. Thus, the shifting was done with minimum disturbance to the ongoing research programme and was completed by the first week of October 2010.

IPS completed 18 projects and attracted 9 projects during the year. A noteworthy project that IPS secured after a competitive process was the 'Baseline Survey of Conflict-Affected Households in the North and East of Sri Lanka' for Oxfam GB, which complemented some of the ongoing research work on the post-conflict economy at the Institute. Overall project income was in par with 2009 amounting to Rs. 30 million. However, due to reduction in allocations by the government of Sri Lanka and low interest income from IPS reserves, the Institute could not balance its expenditures with revenue and consequently could not show a profit.

In my report last year, I briefly referred to IPS qualifying for a grant under the Think Tank Initiative (TTI) of the IDRC. This was indeed an achievement for the Institute since only 16 think tanks qualified out of the 158 applications from South Asia. Moreover, the grant was realized at the time when the IPS was shifting to its new premises with a more ambitious research agenda/work programme to implement. IPS participated in the inaugural meeting of the TTI in late October and participated in the dialogue on improving the performance and outreach of research institutions. Under the TTI, IPS put forward a clear plan to enhance research quality, strengthen organizational performance, and improve policy linkages and communication outreach. The successful implementation of a revised Monitoring and Evaluation System, which is also a requirement under the TTI, can be considered as a major achievement in 2010.

As in past years, the IPS contribution to the government was wide ranging: the IPS released the second MDG Country Report of Sri Lanka jointly with the UNDP Office in Colombo and the Ministry of Finance and Planning on UN day. This report was prepared by the IPS under the guidance of the current Chairman of the Institute and was widely distributed in Sri Lanka. Besides this, the following were noteworthy: preparation of Green Accounting (Ministry of

Environment), Survey on Employable Disabled Persons, and Survey of Informal Sector Enterprises (Ministry of Labour Relations and Manpower), statement for the Academic Group of the Indian Ocean Rim Association for Regional Cooperation (Ministry of Foreign Affairs), Presidential Taxation Commission (Ministry of Finance and Planning), Industry Policy Formulation Committee (Ministry of Trade and Industries), suggestions on 2011 Budgetary proposals prepared as Blog entries, etc. Recognizing IPS research on the economic dimensions of the North/East conflict, the IPS was invited to give evidence to the Lessons Learnt and Reconciliation Commission of Sri Lanka in the latter part of the year.

As during the past five years, IPS contributed to private sector activities via the Panel of Judges/Evaluators for the Ceylon Chamber of Commerce, Corporate Social Responsibility Award and the National Chamber of Exporters' Association, Exporters Awards. IPS made a number of inputs for seminars organized by the SAARC Chamber of Commerce and Industry and also organized a number of joint events with the leading Chambers during the course of the year. IPS work with donors was mainly with the ADB, the UNDP, the World Bank, IDRC, etc. The Institute completed three studies for SACEPS which were funded by the ADB-RETA.

Ten high level conferences and 12 in-house seminars were conducted during the year, details of which are given in this report. IPS was represented in key international conferences organized by the GDN, PEP, ARTNET, WIDER, ADB, etc., during the year while IPS staff also participated and made presentations at the Annual Sessions of the Indian Society of Labour Economics and the Sri Lanka Economic Association. A number of staff members qualified for full scholarships for postgraduate studies during the year. As in past years, IPS encouraged its staff to participate in a number of training courses as outlined in this report.

IPS brought out seven publications in 2010. The flagship publication of the IPS - Sri Lanka: State of the Economy - focused on Post-Conflict Economic Development Challenges. A noteworthy publication was Talking Economics Quarterly - based on 2010 blog entries - which was brought out as an e-bulletin in June 2010. Launched in December 2009, Talking Economics has grown to feature a wide range of articles. Through Talking Economics, IPS carried the expert opinions of its researchers to the broader public, and helped to inform and invigorate the national

debate on contemporary economic matters impacting the country. We introduced a Twitter-feed and Facebook to the blog to make the contents more interactive.

IPS gradually moved towards advocacy and training work in 2010. A conference on Ten Years of India-Sri Lanka Bilateral Free Trade Agreement organized by the IPS in collaboration with the Ceylon Chamber of Commerce and Federation of Chambers of Commerce and Industry of Sri Lanka triggered a debate on the pros and cons of deeper economic integration for a small country like Sri Lanka with a large nation, India. It led to a host of newspaper articles for nearly two months after the event, clearly indicating the influence that the IPS can yield in promoting a policy debate. With the support of the TTI grant, IPS will use its Talking Economics blog to promote an interactive and active debate in the coming years. Further, a Proposal Writing Workshop on Environmental Economics, and another on Globalization and Labour were two workshops that IPS organized with a foreign collaborative partner to induce training among upcoming young researchers. With a new Auditorium in place, IPS intends to move with greater emphasis towards training programmes in the coming years.

A new Chairman and a Board were appointed in late September. Veteran Board Member, who was involved with the initial Dutch assistance to Sri Lanka for economic teaching and research projects, Prof. W.D. Lakshman assumed duties as the new Chairman while Dr. Anura Ekanayake, President, Ceylon Chamber of Commerce, and Dr. Lalithsiri Gunaruwan, Senior Lecturer in Economics, University of Colombo, became new Board members. While welcoming the new Chairman and Board members, I would like to record my special thanks to the outgoing Chairman, Prof. Buddhadasa Hewavitharana and Board member, Dr. Godfrey Gunatilleke for their valuable service rendered to the Institute for two decades.

As we have now settled down in our own head office, IPS is in a strong position to meet the challenges of providing high quality analytical research to the government, private



sector, and donor organizations. Two research staff members and one support staff member will return to the IPS with PhD qualifications in 2011 and this will give a further boost to our ongoing work.

I would like to take this opportunity to thank the IPS Governing Board and staff who have extended their fullest cooperation to me in spearheading the organization to accomplish its goals.

A handwritten signature in black ink, which appears to read 'Saman Kelegama'. The signature is stylized and includes a long horizontal line extending to the right.

Saman Kelegama
Executive Director

Research Programme

The core aim of IPS Research Programme is to contribute constructively to the discussions and debates on medium-term economic policy priorities for Sri Lanka. The Institute's research output over time has addressed many of the development issues that are relevant to the country such as unemployment, regional disparities, and rural poverty. The aim of the current programme of research is to build on the substantive work that has already been carried out, identify gaps in the existing body of research, and formulate an integrated medium-term work programme. This programme addresses strategies to achieve more durable and equitable growth to meet the country's development priorities.

The IPS Research Programme is carried out by Research Units, each headed by a senior staff member. Each Unit works within the medium-term research agenda developed to ensure coherence to the overall direction of the Institute's work. Currently, the IPS Research Programme carries out key topics of study under thematically selected areas of research as follows:

- Macroeconomic Policy
- International Economic Policy
- Labour, Employment and Human Resource Development Policy
- Industry, Public Enterprise Reform and Regulatory Policy
- Poverty and Social Welfare Policy
- Agricultural Economic Policy
- Environmental Economic Policy
- Health Economic Policy

In addition to the above research areas, other specialized areas of research such as governance, gender, political economy, etc., are mainstreamed into the overall work programme of the Institute. The IPS Research Programme is financially supported by the Institute's funds as well as externally funded collaborative projects with both domestic and international partners.

Macroeconomic Policy Unit

Introduction

As Sri Lanka enters into a post-conflict phase of development, a coherent medium-term macroeconomic framework to guide the immediate reconstruction programme is critical for longer term economic recovery. For a low middle-income economy such as Sri Lanka, it calls for establishing policies that are necessary for the return of private investment, and inflows of overseas development assistance (ODA) in the reconstruction process in conflict-affected regions. Prudent monetary and exchange rate management regimes and an appropriate fiscal policy that prioritizes expenditure requirements are critical elements. Keeping such policy concerns in mind, the macroeconomic policy research programme of the IPS focuses on addressing key areas relevant to generating and sustaining macroeconomic stability of the Sri Lankan economy with a view to contributing to topical policy discussions and debates.

Research Highlights

The IPS offers a continuous review and analysis of Sri Lanka's efforts to generate a conducive macroeconomic environment through prudent fiscal and monetary policy management through its publications, participation of staff at seminars and media events. Key research highlights for 2010 are set out below.

Sri Lanka: State of the Economy 2010

The 2010 report is devoted to an assessment of the economic challenges of post-conflict growth and stability in Sri Lanka. Sri Lanka's robust economic growth in 2010 has already signalled that a strong post-conflict economic recovery is underway. However, beyond the immediate recovery efforts must lie clear medium term policy goals that anticipate the transition to long term post-conflict economic development.

A growth boom fuelled by an infrastructure-led investment drive that relies heavily on foreign borrowing can run up against problems. For instance, high economic growth can in turn fuel rapid growth in import expenditure and raise issues of external debt

sustainability in the medium term. Thus, Sri Lanka's expansionary fiscal policy stance in the midst of shrinking aggregate demand in the economy, now needs to be reversed to permit fiscal consolidation. In addition to revenue enhancement, spending adjustments must be made to harness a more effective re-allocation of resources and related productivity gains that will allow economic output to expand rapidly in a sustainable manner.

The most prudent course of action is to strengthen the regulatory environment to attract increased volumes of foreign capital such as foreign direct investment (FDI) to bridge Sri Lanka's savings-investment gap. Regulatory impediments that impact adversely on the country's investment climate need to be addressed. These include reforms to improve public sector service delivery, reforms to improve the flexibility of labour market conditions, education sector reforms to enhance the skills set of the workforce in line with market needs, etc. In effect, this calls for improving the policies, regulations and institutions that can encourage active private sector participation of both local and foreign investors.

Presentations/media interviews included:

- 'Rupees and Sense' business programme on "Global Economic Recovery and its Impact on the Sri Lankan Economy and Prospects for 2010", 5 January.
- 'Problems and Challenges Facing the Development Activities of the North and East' at a conference organized by the Asia Foundation, Colombo, 2 June.
- Benchmark business programme on "State of the Sri Lankan Economy", 15 June.
- 'Mahinda Chinthana Idiri Dakma: Meeting the Challenges Ahead' at a conference on "Achieving Eight Percent Growth under Mahinda Chintana Idiri Dakma", organized by the Pathfinder Foundation, Colombo, 30 June.

Improving Policy Efficiency in South Asia

The broad thrust of the study area is to examine the institutional circumstances affecting the efficiency of

economic policy formation, development and implementation. As a network partner of the South Asia Bureau of Economic Research (SABER) established by the Australian National University (ANU), the IPS is collaborating in a regional study that looks at the process of economic policy reforms in key South Asian economies. It aims to compare the institutions and practices within the region and elsewhere, examine the scope for international support in strengthening institutional capacities, and seeks to formulate recommendations on institutional design. The end objective of the process is to provide inputs to improve policy outcomes in individual economies in South Asia.

A paper on “Economic Reforms in Sri Lanka: Progress, Constraints and Prospects” was presented at a conference on “Advancing Economic Integration in South and East Asia” organized by the South Asia Bureau of Economic Research (SABER) of the Australian National University (ANU), Canberra, Australia, 11-12 February.

Migration and Development: Trends, Impacts and Challenges

Over the years, Sri Lanka has facilitated labour migration to ease employment and foreign exchange shortfalls in the country with the relaxation of regulations on travel and foreign exchange convertibility to facilitate overseas work and remittances. These efforts have resulted in increasing the remittance flows and number of migrants over time. However, migration for employment can have high social costs.

IPS has initiated a thematic research agenda to study the impacts of migration and migrant remittances on the economy. The IPS was awarded a grant under the 10th round of the South Asia Network of Economic Research Institutes (SANEI) call for proposals to undertake a study on “Different Approaches

to Migration and its Impacts: A Sri Lankan Perspective”. In addition, the IPS was successful in putting forward a collaborative bid with the International Office of Migration (IOM) to the European Union (EU) to study “Implementation of the Readmission Agreement in Sri Lanka”.

The IPS organized an international conference on “Institutionalizing Regional Approaches to Migration Management in South Asia”, 19 November at which IPS researchers joined a panel discussion on “Way Forward for the South Asia Migration Commission”. In addition, a paper on “Impact of Remittances on the Household of the Emigrant and on the Economy of the Migrant Country: Sri Lanka” was presented at a conference on “Migration, Health and Development”, organized by the South Asia Network of Economic Research Institutes (SANEI), Dhaka, Bangladesh, 30-31 March.

Taxation Reforms

The persistent decline in Sri Lanka revenue collection as a percentage of GDP has been a source of growing concern. The country’s tax system remains highly complex with over 20 separate taxes imposed at the national level, in addition to those levied at the local level. Numerous exemptions granted for relief purposes as well as through the Board of Investment (BOI) have eroded the tax base further.

As a first step to reverse this trend, a Presidential Commission on Taxation was appointed in 2009 with a mandate to recommend ways and means of improving the efficiency of the tax system through rationalization of taxes, broadening the tax base and improving the efficacy of the tax administrative system in the country. The IPS worked in close collaboration with the Commission, with the Executive Director serving as a member and bearing responsibility for preparation of inputs to the final report.

The IPS was also awarded a grant under the Poverty and Economic Policy (PEP) Network for a study on “Tax Reforms in Sri Lanka: Will a Tax on Public Servants Improve Progressivity?”. In line with the recommendation of the Presidential Commission on Taxation, the Budget for 2011 has proposed to tax the presently tax exempt public servants in the country as a means of broadening the tax base and raising revenue. The proposed study uses household income and expenditure data to assess the progressivity and equity considerations of such a change in tax policy in the country.

The IPS presented two papers on “Political Economy of Taxation in Sri Lanka” and “Recent and Upcoming Fiscal Reforms in Sri Lanka” at a conference on “Fiscal Policy in Asia” organized by the Governance Institute Network International (GINI) and IDRC, Singapore, 8-9 August.

Publications

- IPS, *Sri Lanka: State of the Economy 2010*, Colombo.
- Weerakoon, D., S. Jayasuriya, N. Arunatilake and P. Steele (2010), “Sri Lanka” in Jayasuriya, S., and P. McCawley (eds.), *The Asian Tsunami: Aid and Reconstruction After a Disaster*, Tokyo: Asian Development Bank Institute and Cheltenham: Edward Elgar.
- De Mel, D. and D. Premaratne (2010), “Migration and Remittances in South Asia”, *SAWTEE Briefing Paper*, No. 12.
- S. Kelegama (ed.), *Migration, Remittances and Development in South Asia*, Sage Publications (forthcoming).
- Arunatilake, N., S. Jayaratne, P. Jayawardena, R. Jayaweera, and D. Weerakoon, “Impact of Remittances on the Household of the Emigrant and on the Economy of the Migrant’s Country: Sri Lanka”, in S. Kelegama (ed.),

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- De Mel, D. and S. Jayaratne, “Migration, Remittances and Development Nexus in the Maldives” in S. Kelegama (ed.), *Migration, Remittances and Development in South Asia*, Sage Publications (forthcoming).

Research Personnel: Dushni Weerakoon.

Head of the Unit: Dushni Weerakoon, BSc (Queen’s University of Belfast), MA, PhD (Manchester)

International Economic Policy Unit

Introduction

In 2010, Sri Lanka's external sector performance showed signs of improvement together with the gradual recovery of the global economy. The global economic recovery and the post-conflict development in the country are of significant importance to the research studies of the International Economic Policy Unit. It is crucial to manage the balance of payments at a time of high rise in the import expenditure, due to the large quantities of intermediate and investment imports for reconstruction and resettlement. Thus, effective policy measures need to be put in place as a part of the country's long term development strategy in order to ensure macroeconomic stability. With the intention of prioritizing the country's development strategies and considering the role played by international trade, the international economic policy research programme of the IPS pays attention to policy issues related to improving Sri Lanka's external trade competitiveness and market access for exports of goods and services.

Research Highlights

The International Economic Policy Unit has dealt with core research functions along with topical economic issues. Key research highlights for 2010 are set out below.

Trade Facilitation Issues

IPS has constantly recognized and highlighted the need for policy makers to undertake trade facilitation (TF) reforms in the country in order to develop trade, to be competitive in the international markets, and to attract foreign investments in to the country. Following up on its earlier work, the Unit undertook several studies on TF in 2010.

As part of a regional study carried out by ARTNeT/ UNESCAP on 'Improving Regional Trade Procedures and Processes', a case study on Sri Lanka aimed to get a deeper understanding of the trade processes – identifying administrative and procedural barriers, where they occur, and possible solutions and policy recommendations. The study analyzes the import and export processes of

several key import/export products using the Business Process Analysis method. It attempts to list all the document and procedural requirements from the point of order to shipment, mapping the main steps in the trading process, and estimating the related costs. A related study to identify specific TF issues under the India-Sri Lanka Free Trade Agreement, funded by the UNDP-RCC was also carried out. A third study on 'Trade Facilitation in South Asia', funded by the South Asia Centre for Policy Studies (SACEPS) through the Asian Development Bank was also carried out in 2010. The study draws on a survey carried out in five South Asian countries, as well as experiences of TF measures in other regions.

The IPS, together with the UNDP Asia Pacific Regional Centre, Bangkok, also organized a conference on "Trade Facilitation Issues Related to the India-Sri Lanka FTA" on 1st October, 2010. The objective of the conference was to disseminate research findings and highlight key issues and possible modalities as to how TF measures could be effectively implemented.

The following presentations were also made by research personnel of the Unit at local and international conferences:

- A paper on "Trade Facilitation and Automation of Systems" at a seminar on "Trade Facilitation in South Asia" organized by the SAARC Chamber of Commerce & Industry (SCCI) and the Federation of Pakistan Chamber of Commerce and Industry (FPCCI), Karachi, Pakistan, 3 April.
- A paper on "Trade Facilitation in South Asia" at the 6th ADB RETA 6417 Meeting in Bangkok, 8-9 April.
- A paper on "Trade Facilitation Issues in SAARC" at the "Roundtable on SAFTA: A Precursor to the 16th SAARC Summit", organized by the SAARC Chamber of Commerce and Industry (SCCI), Kathmandu, Nepal, 20-21 April.
- A paper on "Trade Facilitation Issues in the India-Sri Lanka Free Trade Agreement" organized by IPS and UNDP, Colombo, 1 October.

Technical Barriers to Trade and Standards

Over the past two decades there has been a proliferation and an increase in stringency of public and private standards, responding to highly publicized food scares and scandals, as well as consumer and civil society concerns regarding the conditions under which goods are being produced. The increasing complexity of the standards environment has raised concerns amongst developing countries, as standards can potentially become non-tariff barriers to trade especially when tariffs have been reduced over the years through successive trade negotiations. While the emergence of standards poses a challenge for developing countries, it provides at the same time, a number of potential opportunities, including greater market access, higher prices for the certified products, etc. In the context of the growing importance of standards in international trade and production, the Unit undertook a study titled “Implications of Food Standards in Sri Lanka: Case Studies of Tea and Fisheries Export Industries”. It looks at the implications of standards on two agriculture and food exporting sectors in Sri Lanka, and their strategic response. The study was funded by ARTNeT/UNESCAP.

The IPS in collaboration with the International Trade Center (ITC), Geneva, organized a “Stakeholder Consultation Meeting” on “Non-Tariff Measures in Sri Lanka” on 22 November. The objective was to disseminate the results of a survey of NTMs in Sri Lanka in order to discuss and identify concrete actions that have to be taken in key export and import sectors in the country.

Free Trade Agreements

Although a number of studies were conducted to examine the impact and trade policy options under free trade agreements (FTAs), not many have examined the utilization of FTAs by industries in Sri Lanka. Moreover, there is a lack of firm-level evidence on impacts of FTAs on businesses in Sri Lanka. Keeping this in mind, a study aimed at an initial exploration of

the business costs involved in the utilization of FTAs was undertaken using firm-level evidence with the objective of contributing to the debate on FTAs in Sri Lanka. The study explores the extent to which Sri Lankan exporters use the preferences negotiated in various trade agreements, and looks at the benefits and costs of using trade agreements. Furthermore, the impact of multiple rules of origin on industries and the support domestic firms receive to export under trade agreements, was also examined. This study was funded by the ARTNeT/UNESCAP, and will be published as a ARTNeT Working Paper.

Another study on “Implementing Preferential Trade Agreements for Development: A Case Study for Sri Lanka” commissioned by the World Bank, Washington D.C., was also initiated and completed in 2010. The Unit also contributed to a study by the Indian Council for Research on International Economic Relations (ICRIER) to examine the commodities currently in the sensitive lists of SAARC member countries, and to offer an approach and economic rationale for pruning the sensitive lists maintained under SAFTA and bilaterals within the SAARC region. As a part of the study, the International Economic Policy Unit conducted the country study under the topic “Making SAFTA Effective: An Approach to Prune Sensitive Lists in South Asia”.

The IPS also hosted the launch of a book “Promoting Economic Cooperation in South Asia: Beyond SAFTA”, jointly with the World Bank and the UNDP-RCC on 1st March, 2010. The book was a follow up to the “First South Asia Economic Summit” organized by the IPS in 2008. Additionally, a conference on “Ten Years of the Indo-Lanka Free Trade Agreement: The Road Ahead” was also organized by the IPS on 24-25 May, 2010 to assess the progress and constraints, and to map the way forward for Sri Lanka in future negotiations.

Presentations were made on:

- “Bilateral FTAs in South Asia” at a “Pre-SAARC Summit Conference” organized by SAARC Chamber of Commerce and Industry (SCCI), Kathmandu, Nepal, 21 April.

- “Outcomes of the 10 Years of the Indo-Lanka FTA: Sri Lankan Perspectives” at a conference on ‘Ten Years of the India-Sri Lanka Free Trade Agreement: Achievements, Challenges and the Road Ahead’, organized by IPS, Colombo, 24-25 May.
- “Making SAFTA Effective: An Approach to Prune Sensitive Lists in South Asia” organized by ICRIER, New Delhi, India, 13 December.

Liberalization of Air Services in South Asia

The Unit undertook and completed a research study on the “Liberalization of Air Services in South Asia”. The key objective of the study was to identify the factors which inhibit air connectivity in South Asia and to suggest policy measures that could lead to greater air connectivity. This exercise began by examining the extent of restrictiveness of the regulatory apparatus in effect in South Asia – that is, the available information on BASAs in the region and looked at the current degree of connectivity in the region by mapping out the existing flight route operations in South Asia identifying the poorly serviced routes. An important component of the research involved consultations with key airlines that operate in the region to capture their perspectives on the factors inhibiting connectivity in the region - be they regulatory issues or other factors. These consultations derived the conclusion that the lack of connectivity is not driven entirely by major regulatory factors but by commercial factors and minor regulatory impediments. Having identified the short term measures to enhance air connectivity in the region by focusing on a few particular routes, the study looks at longer term options for the region by drawing on lessons from other regions that have embarked on liberalization of air services. The study also identifies key support policies relating to airport infrastructure, support services and so on, which will need to be carried out in parallel to the liberalization of air services. The study concludes with an outline of policy options

that could be adopted at the SAARC level in order to enhance air connectivity in South Asia. The project was funded by the SACEPS through the ADB. A presentation on “Civil Aviation in South Asia” was made at the 6th ADB RETA 6417 Meeting in Bangkok, 8-9 April.

Publications

- Ahmed, S., S. Kelegama and E. Ghani (eds.) (2010), *Promoting Economic Cooperation in South Asia: Beyond SAFTA*, World Bank and Sage Publications, India.
- Weerakoon, D. (2010), “The Political Economy of Trade Integration in South Asia: The Role of India”, *The World Economy*, Vol. 33, No. 7, pp. 851-957.
- Weerakoon, D. (2010), “SAFTA: Current Status and Prospects” in Ahmed, S., S. Kelegama and E. Ghani (eds.), *Promoting Economic Cooperation in South Asia: Beyond SAFTA*, World Bank and Sage Publications, India.
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- Jayaratne, S. (2010), Book Review on Joseph Francois, Pradumna B. Rana and Ganeshan Wignaraja (eds.), *Pan-Asian Integration Linking East and South Asia*, Palgrave Macmillan, 2009, in the *South Asia Economic Journal*, 11: 138-143: March 2010.

Research Personnel: Saman Kelegama, Dushni Weerakoon, Janaka Wijayasiri, Deshal De Mel, Tilani Jayawardhana, Suwendrani Jayaratne and Dharshani Premaratne.

Head of the Unit: Deshal de Mel, BA (Oxon), MSc (LSE) (till 30 September 2010) and **Dushni Weerakoon, BSc (Queen’s University of Belfast), MA, PhD (Manchester)** (with effect from 1 October 2010)

Labour, Employment and Human Resources Development Unit

Introduction

Sri Lanka has made remarkable progress in terms of eradicating poverty. However, at the sub-national level poverty persists in disadvantage 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.

The government estimates 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, so that youth are able to meet the demands of the global labour markets.

At the same time, the new government manifesto aims to generate employment through promoting investments in Business Processing Organizations (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 sixteen 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.

The Labour, Employment and Human Resources Development Unit focuses on the challenges faced by the country in promoting productive employment opportunities.

Research Highlights

Education Service Delivery

Recognizing the importance of education for promoting productive employment, the Unit continued its research activities in the area of education service delivery. The Unit was involved in disseminating the research findings of several studies conducted under this theme. Nisha Arunatilake, presented the findings of the study on the “Equity in the Delivery of Education Services in Sri Lanka” at a regional meeting on the Equity in the Delivery of Public Services in Selected Developing Member Countries, ADB Head Quarters, Manila, 26th April 2010. The research conducted under the title: “Formula Funding and Decentralized Management of Schools in Sri Lanka” received considerable interest from regional development partners in 2010. The results of this study was presented both at ADB Head Quarters in Manila (in April) and at the UNESCO, Bangkok, Thailand (in November).

Labour Market

The Unit conducted several activities to improve research capacity and to create knowledge in the area of labour market policies, including, research, training and dissemination.

Globalization has changed the functioning of the labour market. Unlike before, where production was an integrated process that took place in a unique location, now production takes place in diverse locations. This has changed the relationship between employers and employees, as well as between producers and consumers. A better understanding of these changes is necessary for identifying the challenges faced by the labour market. With this in mind, the Unit co-organized a refresher course on Globalization and Labour, in September 2010, together with the International Institute of Social Studies of Erasmus University Rotterdam (ISS) in the Netherlands. Close to 25 participants from across South and South East Asia participated in the training.

A review of active labour market programmes in Sri Lanka was undertaken by the Unit funded by the World Bank, South Asia Regional Office. The aim of the study was to take stock of the Active Labour Market Programmes conducted by the country, and to assess where possible, their effectiveness in order to identify best practices. The key finding that emerged from the study was that although numerous active labour market programmes, particularly training programmes, are conducted by the country, very little is known about the impacts of these programmes in promoting employment.

A presentation on “Review of Active Labour Market Programmes (ALMPs) in Sri Lanka: Some Lessons and Observations” was made by IPS researchers at the weekly meeting of the Consortium Humanitarian Agencies, 1 October. IPS researchers also attended the “Annual Conference of the Indian Society of Labour Economics (ISLE)”, Dharwad, Karnataka, India, 16 - 19 December.

The Unit also provided technical support to the Department of Labour to analyze primary data collected by the Department on employable disables and on informal sector enterprises.

Research personnel of the Unit also served on several advisory and policy steering committees: They included the following:

- National Advisory Committee on Manpower Planning, Ministry of Labour Relations and Manpower.
- Drafting Committee on Economic, Social and Cultural Rights of the National Action Plan for Promotion and Protection of Human Rights, Ministry of Disaster Management and Human Rights.
- National Data Committee, Ministry of Finance and Planning.
- National Steering Committee for “Employable Disables”, Department of Labour.

Human Resource Development and Training

- Priyanka Jayawardena completed her MA in Economics, at the University of Colombo. The title of her MA thesis was “Socioeconomic Determinants and Inequalities in Childhood and Maternal Malnutrition in Sri Lanka”.
- Nisha Arunatilake attended a training programme on “Distributive Analysis Stata Package and Simulating the Distributive Impacts of Growth Strategies”, organized by the Poverty and Economic Policy Network, 13- 19 June, Dakar, Senegal.
- The Unit organized a Refresher Course on “Globalization and Labour: New Global Strategies to Organize Work, Impact on Labour and the Reactions of Society”, organized by the International Institute of Social Studies of Erasmus University Rotterdam (ISS) and Institute of Policy Studies of Sri Lanka (IPS), 13- 25 September, Browns Beach Hotel, Negombo.

Publications

- Arunatilake, N. and P. Jayawardena (2010), “Why People Choose to Participate in the Informal Sector in Sri Lanka”, *The Indian Journal of Labour Economics*, Vol. 53, No.2, p 225-250.
- Arunatilake, N. and P. Jayawardena (2010), “Explaining Labour Market Imbalance in Sri Lanka – Evidence from Jobsnet Data” in *The Challenges of Youth Employment in Sri Lanka*, Gunatilake, R., M. Mayer, and M. Vodopivec ((eds.), World Bank, Washington, D.C. and International Labour Organization, Geneva.
- Arunatilake, N. and P. Jayawardena (2010), “Labour Market Trends and Outcomes in Sri Lanka” in *The Challenges of Youth Employment in Sri Lanka*, Gunatilake, R., M. Mayer, and M. Vodopivec (eds.), World Bank, Washington, D.C. and International Labour Organization, Geneva.
- Arunatilake, N. (2010), “The Labour Market Institutions, Ageing, and Elderly Welfare in

Sri Lanka" in *Demographics, Employment and Old Age Security*, Moneer Alam and Armando Barrientos (eds.), Macmillan, New Delhi.

- Arunatilake, N. (2010), "Employment in the Knowledge Economy of Sri Lanka", *Economic Review*, Vol. 36, Nos. 5 & 6, People's Bank, Colombo.

Research Personnel: Nisha Arunatilake, Priyanka Jayawardena, Roshini Jayaweera and Anushka Wijesinha.

Head of the Unit: Nisha Arunatilake, *BSc (University of South U.S.A.), MA, PhD (Duke)*

Industry, Public Enterprise Reform and Regulatory Policy Unit

Introduction

The emergence of Sri Lanka's economy from a three-decade long war in May 2009, gave rise to a vast array of new opportunities for growth and development. The country's economy grew at an annual average rate of around 5 per cent even in the context of the North/ East war; and, prospects of robust post-conflict revival are evidenced in the GDP growth numbers of over 7.5 per cent in the first half of 2011.

However, a closer look at the Sri Lankan economy, getting beyond these macro numbers, reveals an entirely different image of lop-sided growth. Economic activity spurred by industrial concentration and access to infrastructure facilities is centred mostly around the Western Province. Regional imbalances have been further aggravated by gaps in institutional linkages between central and local government structures and agents.

These challenges to inclusive and sustainable growth are compounded in the post-conflict context, with the Northern and Eastern provinces emerging as two of the poorest regions in the country following years of exclusion and deprivation. As such, policies aimed at inclusive growth have to address both generic issues of lop-sided growth as well as specific needs of the war-torn regions if sustainable development and the peace dividend are to become a reality.

The research carried out by this Unit in the immediate post-war period - 2009- focused on short term policy responses to issues such as the role of the state, the private sector, and other key stakeholders in post-conflict reform; on facilitating a conducive environment for industrial development in the war-torn regions; and, on bridging gaps in existing regulatory governance structures in order to enhance investment flows to the marginalized provinces. Following from this, the Unit's research in 2010 focused on medium to long term strategic policy direction with respect to the areas highlighted below. As in past years, our research is

tightly situated in the political economy realities of the country; is evidence-based; and, is geared to inform and empower key stakeholders as well as to feed directly into policy implementation.

Research Highlights

Improving Sub-National Business Climate

The private sector in Sri Lanka – in particular the small and medium enterprise (SME) sector that constitutes the bulk of the country's economy – faces significant barriers to growth, including policy and regulatory constraints. The challenges faced by the SME sector are further intensified in the post-war and lagging regions of the country, where the enabling environment for enterprise development is extremely weak. The IPS is a key partner in a research and advocacy project funded by The Asia Foundation aimed at identifying key constraints to enterprise development as well as strategic policy solutions at the local government level. The study is carried out using robust qualitative tools such as private public dialogues and focus group sessions and stakeholder analyses using semi-structured questionnaires and interviews. As set out in the public policy literature pertaining to the facilitation of an enabling environment for enterprise development, interventions that ignore political economy dynamics between central and local layers of government inevitably result in a policy gap. For policies to be implemented in a sustainable manner, buy-in and ownership has to be woven in at all levels of government as well as amongst key stakeholders. The crucial role played by IPS in this research is to serve as a meta-policy actor collecting and collating information from private and public agents in the local government space and presenting these evidence-based findings to policy makers at the national level.

As such, the outputs of this project include tangibles such as blog posts title "Post-Conflict, Sri Lanka's Enterprises Struggle to Grow" at: <http://asiafoundation.org/in-asia/2010/10/13/post-conflict-sri-lankas-enterprises-struggle-to-grow/>), opinion pieces,

policy briefs and presentations at a national round table, policy working papers on two key areas identified as obstacles to enterprise development at the local government level; and, intangibles such as the two-way rich knowledge sharing process between IPS researchers and the stakeholders targeted for this study, facilitating the creation of an informed group of actors who would in turn become champions of reform.

Industrial Development in Post-Conflict Sri Lanka

The promotion of inclusive and sustainable industrial development has been cited as a policy priority by successive political regimes for decades. However, a comprehensive and practicable industrial policy plan that takes the specific institutional context and the dynamics of institutional change into consideration has long been the missing piece in getting to sustainable industrial development. Path dependence in industrial policy indicates that *ad hoc* and short term policy responses to specific issues has been the norm irrespective of the political ideologies of the regime in power. IPS has initiated core research in this area, looking specifically at issues such as, the role of the state in industrial transformation, state-society interactions and what is termed in the socio-economic development literature as “embedded autonomy”; and, at how these concepts map on to the Sri Lankan context.

IPS researchers have also been directly involved in policy efforts over the past year to change the status quo and to design an industrial development policy plan embedded in Sri Lanka’s institutional framework. For instance, a presentation was made on “Strategic Industrial Development in Post-Conflict Sri Lanka” to the Minister of Industry and Commerce and the Minister of Traditional Industries and Small Enterprise Development.

In addition, research staff of the Unit serves as members of key policy development committees. These include serving on the Advisory Committee on Industrial Development set up by the Minister of Industry and Commerce. The IPS was one of the main authors of the

‘Five Year Plan (2011-2015)’ of the Ministry. Additionally, IPS provided inputs for the development of a new SME Policy led by the Ministry of Industry and Commerce and the National Enterprise Development Agency (NEDA).

Research Personnel: Malathy Knight and Anushka Wijesinha.

Head of the Unit: Malathy Knight, BA (Swarthmore), MA (Colombo), PhD Candidate (Manchester)

Poverty and Social Welfare Unit

Introduction

Poverty alleviation and social protection have always been key policy priorities in Sri Lanka but has surfaced prominently recently, mainly due to two major winds of change: the heightened vulnerability fuelled by the recent global economic crisis, and development efforts at the end of three decades of conflict. While at one end, the new forms of vulnerabilities affect a large number of people, at the other end, development efforts bring in benefits in different forms. The continued efforts by the state to reduce poverty through a dual approach of growth generating policy reforms and continued assistance to the deprived via social welfare programmes and poverty alleviating initiatives, show promising signs through the national poverty statistics per se. Nonetheless, rigorous analyses are inadequate in understanding the dynamics and the disaggregated effects of such efforts. There is a strong need to further examine the mechanisms and processes that translate macroeconomic policy reforms to increased welfare, as well as the reasons why certain population segments remain deprived. The Poverty and Social Welfare Unit of the IPS recognizes the need to furnish policy makers with up-to-date evaluations on poverty alleviation efforts and provide medium-term analysis of the relevant issues. The research in the area of poverty and social welfare focuses on understanding the causes and dynamics of poverty and evaluating the effectiveness of various poverty alleviation initiatives by the government, co-operatives and the non-governmental organizations.

Research Highlights

Convergence of Poverty Alleviation Programmes

The government, the donor agencies and numerous actors had made a number of efforts to reduce poverty in the country. This has resulted in having numerous poverty reduction programmes with different methodologies, to achieve the same target. The Samurdhi Programme is the major welfare programme in Sri Lanka aimed at reducing poverty and improving the living standards of its people. Among several programmes on rural development and livelihood improvement, the Gama

Neguma and Gemidiriya Community Development and Livelihood Improvement Project are the major government implemented two programmes. These three programmes were implemented under the same Ministry and have common objectives to be achieved. Bringing these three major programmes under one roof is an initialization of convergence process. In this backdrop, IPS provided consultancy services for the analysis of convergence of the three aforementioned programmes implemented by the Ministry of Nation Building and Estate Infrastructure Development (which is now designated as the Ministry of Economic Development), for the Gemidiriya Foundation, funded by the World Bank. The study reviewed the three programmes, Gemidiriya, Samurdhi and Gama Neguma, to find out how each one is being operationalized on the ground; effective use of funds; strengths and weaknesses of each programme; assessed sustainability and replicability of these programmes; what should be the strategy and road-map for converging these three programmes to achieve the maximum benefits for the rural poor. A combination of desk reviews, Focus Group Discussions, Key Informant Interviews and structured interviews at the grass-root level and at the each implementing level including the political leaders, ensured the inclusion of insights at both ends. Ratnapura, Moneragala and Hambantota were selected for the grass-root level study.

Social Protection

Different forms of vulnerabilities have arisen as a result of the global economic crisis, the conflict and conflict aftermath. These, coupled with the inequitable trickling down effects and slow rate of structural transformation, call for re-thinking the social protection policies of the country.

IPS is carrying out a study to assess the delivery of social policy to poor households and to understand the effect of the global economic crisis on poor households in Sri Lanka, for the Ministry of Social Services, funded by the UNICEF. Identifying the heightened vulnerability fuelled by the recent global economic crisis, the study reviews the social protection for children and women and the effect of the global economic crisis on the poor

households of the country. It also examines the poverty causality in the estate sector. The study focuses on four poorest areas of the country in the districts of Batticaloa, Moneragala and Nuwara-Eliya (estate sector and the non-estate sector) and Colombo (urban poor).

Researchers from the Unit also presented papers and served as resource personnel at various conferences and workshops related to social protection. These included the following:

- Participation at a meeting on “Social Protection as Development Policy in Asia: The Long Term Perspective” organized by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), Social Protection in Asia (SPA) and United Nations Research Institute for Social Development (UNRISD), at United Nations Conference Centre (UNCC), Bangkok, 27- 29 October.
- Participation at the “National Symposium on Social Protection Policies” organized by the National Science Foundation and the UNESCO, Sri Lanka Foundation Institute, Colombo, 30 November- 1 December.
- Presentation on “Farmers’ Pension and Social Security Scheme of Sri Lanka” at a workshop on “Globalization and Labour: New Global Strategies to Organize Work, Impact on Labour, and the Reactions of Society” organized by the Institute of Social Studies (ISS), Hague, Netherlands and Institute of Policy Studies of Sri Lanka (IPS), Negombo, 25 September.

Human Resource Development and Training

- Roshini Jayaweera followed the Post Graduate Diploma Programme on “Universalizing Socio-Economic Security for the Poor” conducted by the Institute of Social Studies (ISS) of Erasmus University, The Hague, Netherlands, January-March, 2010.
- Roshini Jayaweera underwent a training on “Trade and Gender Linkages” conducted by the

ARTNeT/UNDP held in Bangkok, Thailand, 15- 17 September.

- Ayodya Galappattige and Roshini Jayaweera underwent an in-house training on “Distributional Analysis” conducted by Nisha Arunatilaka and Priyanka Jayawardena, July - September.

Publications

- Jayaweera, R. (2010), “Better Targeting of Transfers: Samurdhi Programme”, *The Island*, 5 September 2010.

Research Personnel: Ganga Tilakaratna, Wimal Nanayakkara, Ayodya Galappattige and Roshini Jayaweera.

Head of the Unit: Ganga Tilakaratna, BA (Manchester), MPhil (Cantab), PhD Candidate (Manchester)

Agricultural Economic Policy Unit

Introduction

Agriculture is one of the key sectors of the Sri Lankan economy with significant contributions to GDP, employment and income. Although its contribution to the total GDP has declined over the years to around 12 per cent in 2010, agriculture is still the most important source of employment in rural areas. The sector is employing more than 30 per cent of the labour force. While attaining sustainable agricultural development is the current strategic concern of the country, policy concerns related to agricultural development have been subject to continuous debate as issues change over time, following the transformations that the sector has gone through in the past.

Intensification of agricultural productivity and improved market orientation are the main challenges that have to be faced in order to speed up sectoral development. However, the Sri Lankan agricultural sector, particularly the food crop production sector, has been in a crisis for many decades. The global economic downturn which emerged in the latter part of 2008 and continued in 2009, on the other hand, imposed an additional burden on the agricultural development efforts of the country. The post-conflict effect on the agricultural sector emanates from the end of 30 years of armed conflict and the ensuing restoration of rural livelihood from year 2010 onwards. The impact of this is still too early to predict but it would certainly be beneficial in the long run especially in terms of rising export trade opportunities at regional and global level.

In the above context, the main research focus of the Agricultural Economics Unit was on analyzing value chains of the major agricultural commodities with both the export potential and local dominance like tea, fish, rice, coconut, fruits & vegetables and milk.

Some of the research was mainly focused on fostering Regional Cooperation through value chain development, while some attempted to analyze the

poverty reduction potential of export trade. Further, the possibility of adapting trade policies to promote food security and sustainable agriculture was also inquired in some studies.

Research Highlights

Value Chain Development for Fostering Regional Cooperation in South Asia: Case of Tea Sector in Sri Lanka

Value chain analysis is defined as “analysis of a series of interlinked exchanges through which a commodity and its constituents pass from extraction through production to end use”. It is an explanatory tool that has its origins in the study of global trade relations and impacts of globalization, and has been extensively used to analyze commodities markets. This approach emphasizes not only the actors involved in trade, but also describes the structure of the market and traces the distribution of benefits along the chain as determined by various interests and power relations.

Global and regional value chains, through regional networking in production and trade, have emerged as an alternative approach to advance economic performance. This approach could be an efficient vehicle to achieve high and sustained economic growth at the national, sub-regional and regional levels through a process of regional integration. This study mainly focuses on analyzing the tea sector value chain in Sri Lanka with special emphasis on regional trade and production networks in South Asia. Further, the nature and role of multinational corporations (MNC) in the specific value chain with the support of domestic firms in production and value addition are examined. More importantly, the implications of regional value chains (RVC) for domestic firms in terms of improving production efficiency, acquiring technology and finally moving up in the value adding activities with vertical and horizontal integration are also looked at comprehensively.

Trade Poverty Nexus in the Sri Lankan Fisheries Sector

The fisheries sector plays a key role in Sri Lanka's social and economic life. Fish products are an important source of animal protein for the population and the sector contributes about 1.5 per cent to GDP. The fisheries sector of Sri Lanka consists of three main sub-sectors, namely coastal, offshore and deep sea, and inland and aquaculture. These three sub-sectors employ around 250,000 active fishers and another 100,000 in support services. This workforce represents a population of some one million people. A significant characteristic of the fishing industry in Sri Lanka is that it has always been dominated by the private sector. Except for a handful of boats owned by cooperative societies or the very few companies, the fishing boats and gear deployed in the industry are owned and operated by thousands of individual fishers, family units or informal groups. The Sri Lankan fishery sector serves both the domestic and export markets, with the domestic component attracting a major share of the marine fish production.

In recent years, the fisheries sector has also emerged as an important source of foreign exchange with Sri Lanka gaining the List 01 status for exports to Europe while increasing its market share in the Japanese and US markets. Exports comprise several items of high value fish and fishery products such as chilled and frozen tuna, and other marine products such as shrimp, lobsters, shark fins and sea cucumber.

The major objective of this study was to explore the nature of the nexus between trade and poverty in the fisheries sector in Sri Lanka and identify poverty impact paths to gain a better understanding of how SMTQ (Standards, Metrology, Testing and Quality) interventions can filter down to impact poverty. The major finding of the study is that no demonstrable relationship exists between fish trade and economic growth or poverty alleviation. This is mainly due to

the poor 'trickle-down mechanisms' that fail to redistribute the revenues generated by fish exports to the poorest segments of the population.

Articulating and Mainstreaming Appropriate Agricultural Trade Policies

The process of articulating appropriate trade policies, support measures and mainstreaming it in national development and poverty reduction framework, is considered as an important element for maximizing the contribution of trade to development and poverty reduction. This research study is mainly concerned on the emerging environment within which developing countries will be formulating and implementing agricultural trade policies and development interventions. Experience with this process is that agricultural trade policies and support measures have not been adequately integrated into them. There is a lack of clarity about the term "mainstreaming" and on how best this could be done.

The overall objectives of this study could be identified as, i) introducing innovative approaches to articulate appropriate trade policies, ii) determining required support measures (institutions, markets, infrastructures etc.), and iii) identifying best ways to mainstream these policies and measures by integrating them into national development policy statements. Further, the study attempts to enhance the capability of relevant government ministries and national stakeholders in agricultural trade to identify appropriate trade policies and support measures, mainstream the same in national development frameworks and mobilize resources through investment and technical assistance projects.

Specific outputs of the research study consist of, i) improving the process of articulating appropriate agricultural trade policies, ii) improving the process of identifying support measures for implementing appropriate trade policies (Aid for Trade), iii) identifying approaches and methods for mainstreaming policies

and support measures in the Poverty Reduction Strategy papers (PRSP), and iv) capacity-building of governmental and non-governmental stakeholders in these areas through training and learning-by-doing.

Related presentations made by the research staff of the Unit as resource personnel at various workshops and conferences include the following:

- Presentation on “The TRIPs Agreement and the Agriculture Sector in Sri Lanka”, Annual Research Forum of the Sri Lanka Agriculture Economic Association, University of Peradeniya, 17 December.
- Organization of a Regional Consultation Seminar on “South Asian Positions in the WTO Doha Round” jointly with Consumer Unity and Trust Society [CUTS International], India, at Cinnamon Lakeside Colombo, 18 June.
- Presentations on “A Note on Agricultural Issues of Sri Lanka” in the parallel working sessions on “Shaping Agriculture and Trade Policies in Sub Saharan Africa & South Asia”, and “Impact of the Global Financial Crisis on the Sri Lankan Economy” at the 11th Annual Global Development Conference organized by Global Development Networks (GDN), Prague, Czech Republic, 11-15 January.

Human Resource Development and Training

- The Agricultural Economics Unit organized a workshop jointly with SANDEE on “Proposal Writing on Environmental Economics and Policy”, Tangerine Beach Hotel, Kalutara, 30 March-02 April.
- Parakrama Samaratunga acted as a resource person reviewing submitted proposals and participating in discussion sessions.
- Parakrama Samaratunga served as the head of the Panel of Judges at the Students Research Session 2010 of Rajarata University of Sri Lanka.

- Parakrama Samaratunga served as the head of the Panel of Judges at the technical sessions at the 10th Agricultural Research Symposium (AGRES) -2010, Wayamba University of Sri Lanka.
- Manoj Thibbotuwawa attended the ARTNeT Capacity Building Workshop for “Trade Research: Gravity Modeling”, Bogor, Indonesia, 23-27 August.
- Manoj Thibbotuwawa attended the “South Asian Training Programme on CGE Modeling” organized by South Asia Watch on Trade, Economics & Environment (SAWTEE) and South Asian Network on Economic Modeling (SANEM), Kathmandu, Nepal, 2-6 August.

Publications

- Thibbotuwawa, R.M.M.I. and Dilhani Marawila (2010), “To Develop or To Conserve? The Case of the Diyawanna Oya Wet Lands in Sri Lanka”, *Working Paper*, No. 52-10, South Asia Network for Development and Environmental Economics (SANDEE), Kathmandu, Nepal.
- Printhika, B.L.D.S., R.M.M.I. Thibbotuwawa and U.K.J. Mudalige (2010), “Impact of Samurdhi Poverty Alleviation Programme on Household Welfare in Sri Lanka”, *Proceedings of 10th Agricultural Research Symposium (AGRES)*, Wayamba University of Sri Lanka.
- Thibbotuwawa, R.M.M.I. and Dilhani Marawila (2010), “Develop or Conserve? The Case of the Diyawanna Oya Wet Lands in Sri Lanka”, *Policy Brief*, No. 47-10, South Asia Network for Development and Environmental Economics (SANDEE), Kathmandu, Nepal, September 2010.

Research Personnel: Parakrama Samaratunga, Dilhani Marawila, Manoj Thibbotuwawa and Dilani Hirimuthugoda.

Head of the Unit: Parakrama Samaratunga, BSc (Peradeniya), MSc (Univ. of Philippines), PhD (La Trobe)

Environmental Economic Policy Unit

Introduction

Natural resources play a pivotal role in post-conflict economic development in Sri Lanka. The post-conflict development initiatives which are in place and forthcoming will set pressure on the natural environment and its resources. The environmental sustainability is also a prerequisite for a number of economic activities including tourism which is expected to be one of the main drivers of future economic prosperity in Sri Lanka. Hence, it has become all the more important for balancing economic growth and environmental sustainability. In this line, the anticipated high level of the growth rate should be achieved with sustainable utilization of natural resources and without causing irreversible damages to the natural environment. In addition, the economy will continue to face the challenges caused by global climate change in the coming decades. Being a low emitter of green house gases, Sri Lanka has to pay special attention to take appropriate adaptation measures to face the negative impacts of climate change, by mainstreaming climate change into the national development agenda. In this backdrop, the research agenda of the Environmental Economic Policy Unit of the IPS mainly focuses on the post-conflict environmental challenges and climate change adaptation issues in the country.

Research Highlights

Mainstreaming Climate Change for Sustainable Development in Sri Lanka

As Sri Lanka is expected to experience significant physical and associated socio-economic impacts of global climate change, there is a timely and important need for mainstreaming climate change into the national development agenda of Sri Lanka. With funding support from the UNESCO Participation Programme, the study was undertaken with the objective of developing a framework for a 'national programme' to mainstream climate change in the national development agenda. The study identifies the constraints in mainstreaming climate change into sectoral development agendas of the six broad areas namely, agriculture and irrigation, coastal zone, forests and natural ecosystems, human

settlements and infrastructure, human health, and energy and industry. The existing gaps across all areas include lack of agenda and priorities, information gap, coordination gap and resource mobilization gap. The conceptual framework suggested by the study includes the aspects of a national vision and a policy on climate change, strategic action plan, coordinating mechanism, climate change information system and a mechanism for resource mobilization. The findings of the study have been published as a IPS Working Paper titled "Mainstreaming Climate Change for Sustainable Development in Sri Lanka: Towards a National Agenda for Action".

In addition, the study also has led to develop a virtual network for monitoring and information sharing and experience exchange. It is expected that this will act as a catalyst for coordinated action by relevant stakeholders and a breeding ground for innovative ideas while overseeing that the national agenda set by the project will be adopted and evolved gradually over the process. It will include facilities such as web pages of information and news updated by the stakeholders, e-newsletter, blogging and other e-forum activities that can keep the agenda set by the project alive through a low cost mechanism.

Research personnel of the Unit served in the group of key persons consulted for the formulation of the "National Climate Change Adaptation Strategy for Sri Lanka: 2011 to 2016", by the Ministry of Environment with the support of the ADB.

IPS researchers also participated and acted as resource persons in related areas of study. These included the following:

- Participation at the "Delhi Sustainable Development Summit 2010: Beyond Copenhagen: New Pathways to Sustainable Development", conducted by The Energy Resource Institute (TERI), New Delhi, India, 5- 7 February.
- Participation at a workshop on "Current Climate Change Research Issues", jointly organized by TERI

and SANDEE, Energy Resource Institute (TERI), New Delhi, India, 8-11 February.

- Participation at the International Workshop on the “Role of Education in Reducing Vulnerability to Natural Disasters: Special Focus on Education and Tsunami”, jointly organized by the Asian Meta Centre for Population and Sustainable Development Analysis, Chulalongkorn University and International Institute for Applied Systems Analysis (IIASA), Austria, Phuket, Thailand, 25 February.
- Participation at a conference on “Environment and Development in South Asia”, SANDEE, Kathmandu, Nepal, 6- 7 December.

Economy and Environment Profile in Sri Lanka: An Overview of Physical Resource Situation, Policy and Institutions

The discussions on economic growth and development often refers to production processes, investments, consumption, etc., where the contribution to it from the environment is placed behind. The environment’s provision of life support services for the survival of living beings, the inputs for production by way of raw materials and energy, as well as its role of absorbing waste from the production process are factors that cannot be done without, when the smooth functioning of an economy is concerned. Thus, the environment performs the ‘source’ and ‘sink’ functions to the economic system, thereby establishing a close and mutual input-output linkage between the economy and the environment.

The “Economy and Environment Profile in Sri Lanka” is a macro level analysis that attempts to disclose the linkage between the economic system and the environment in Sri Lanka, an area which has not gained considerable concern to this date. The analysis will initially focus on identifying the existing resource and energy base and its use by way of its distribution among different sectors in the economy, based on the data available with the relevant managing authorities. In addition, the disposal of

waste to the environment by the respective sectors will also be analyzed. This work eventually aims at constructing a model which relates the macro economy to environment in Sri Lanka, thereby trying to make predictions as to the sensitivity of the economy to environmental changes and vice versa.

Financing Sustainable Development in Sri Lanka

The concept of ‘sustainable development’ has gained acceptance among policy makers and scholars during the last few decades. The major advancement involved here is recognition of the role played by the environment for social welfare and realizing the necessity of maintaining the stock of natural capital for the well-being of the future generations. This has opened the way for various environmental policies for sustainable management of natural resources, such as ‘command and control mechanisms’ (laws, standards, regulations, etc.) as well as ‘market based instruments (MBIs)’ (environmental levies, tradable permits/quotas, deposit refund systems, etc.). Despite these achievements, however, it is not clear to what extent public and private financial management systems are transformed to cater to broad goals of sustainable development. This study is an attempt to examine the current situation of financial mechanisms that exist in Sri Lanka to mobilize resources for implementation of sustainable development measures.

The analysis was initially carried out for the forestry and wildlife sector where it was found that the budgetary allocation (local provision) for the sector is mostly consumed by the institutional activities while the resource conservation and development measures are mainly covered by donor funding. However, the raising of local allocation for resource development over the years has been a positive step in the right direction. With the observation of higher revenues generated within the sector, and the drastic decline in donor funds coming to forestry and wildlife, the study recommends rationalizing the financing mechanisms of the relevant institutions giving them the

autonomy to re-invest the revenues in the sector. Thereby investment on resource conservation and development could be given priority, reducing the dependence on donor funds while planning out income generating mechanisms locally, and diversifying income generation through sustainable use of the natural resources.

Assessment of Vidatha Technology Transfer Programme

The study was conducted to assess the successfulness of 'Vidatha', the technology transfer programme initiated by the Ministry of Research and Technology. This programme aimed at reducing unemployment and contributing to poverty alleviation by motivating people to start self-employment, introducing technology to existing production ventures of villagers, providing employment in or around the homes and applying technology in domestic activities, and which has been in operation for nearly five years. The specific objectives of the study were to assess the availability of resources for effective functioning of Vidatha, to find out the contribution of Vidatha in transferring technology and entrepreneurship development, to find out constraints and problems in the proper functioning of Vidatha, and to provide some suggestions for further improvement of Vidatha.

The study finds that Vidatha has covered 77 per cent of Divisional Secretariat divisions in the country. Availability of physical and human resources vary across Vidatha Resource Centres (VRCs). Services offered by Vidatha Resource Centres include technology transfer, computer training and assistance for market access and credit facilities. Vidatha has been able to provide a number of secondary benefits, such as building up of social capital, which often cannot be numerically measured. The study suggests the need for providing improved up-to-date technologies, training on business management skills, better access to markets, enterprise inputs (both raw materials and machinery) at concessionary rates and carrying out national level awareness programmes. This needs to be facilitated through proper provision of

human, physical and financial resources both at VRC and central level.

In addition to working on these projects, the Unit continues to have links with agencies and networks related to environment and natural resource management both at national and regional level, in carrying out policy-oriented environmental economic research. In this context, a "Proposal Writing Workshop on Environmental Economics and Policy" was organized in collaboration with the South Asian Network for Development and Environmental Economics (SANDEE) at Tangerine Beach Hotel, Kalutara, on 30 March - 02 April 2010. The workshop was attended by researchers and academics engaged in environmental economics research in Sri Lanka.

Human Resource Development and Training

- Kanchana Wickramasinghe attended the "Proposal Writing Workshop on Environmental Economics and Policy" organized by IPS in collaboration with the South Asian Network for Development and Environmental Economics (SANDEE) at Tangerine Beach Hotel, Kalutara, 30 March - 02 April.
- Kanchana Wickramasinghe received training at the "WTO/ESCAP Sixth ARTNeT Capacity Building Workshop for Trade Research", Vientiane, Lao PDR, 21 - 25 June.
- Kanchana Wickramasinghe attended the "The Twentieth Research and Training Workshop of South Asian Network for Development and Environmental Economics (SANDEE)", Katunayake, 6 - 10 July.
- Nethmini Perera followed an in-house training on 'Distribution Analysis using STATA', conducted by Priyanka Jayawardena - Research Officer, IPS, July - September.

Publications

- Senaratne, A. and K. Wickramasinghe (2010), "Climate Change, Local Institutions and Adaptation

Experience: The Village Tank Farming Community in Dry Zone Sri Lanka", in Evans, A., Jinapala, K. (eds.), *Proceedings of the National Conference on Water, Food Security and Climate Change in Sri Lanka, BMICH, Colombo, 9-11 June, 2009. Vol 2: Water Quality, Environment and Climate Change*, Colombo, Sri Lanka: International Water Management Institute (IWMI).

- Gunawardena, A. (2010), *Targeting and Distribution of Post Disaster Aid: A Case of the Fishery Sector of Post-Tsunami Sri Lanka*, Research Studies: Environmental Economic Policy Series, Institute of Policy Studies of Sri Lanka, Colombo, Sri Lanka.
- Gunawardena, A., and K. Wickramasinghe (2010), *Targeting and Distribution of Post- Tsunami Aid in Sri Lanka: A Critical Appraisal*, Working Paper, South Asian Network for Development and Environmental Economics, Nepal.
- Gunawardena, A. (2010), *Aid Distribution in Post Disaster Situations: Case of Sri Lankan Fishery Sector*, Programme and Abstracts, Conference on Environment and Development in South Asia, Kathmandu, Nepal.
- Gunawardena, A. (2010), "Was Tsunami Aid Well Targeted? An Examination of Disaster Aid in Sri Lanka", *Policy Brief*, South Asian Network for Development and Environmental Economics, Nepal.

Research Personnel: Athula Seneratne, Asha Gunawardena, Kanchana Wickramasinghe and Nethmini Perera.

Head of the Unit: Athula Senaratne, BSc, MPhil (Peradeniya), PhD Candidate (Deakin)

Health Economic Policy Unit

Introduction

“Medical care policy” or “Medical care” is only one variable in a nation’s health equation of health policy. The main component of health policy should include the political, economic, social, and cultural determinants of health, which are the most important determinants of health of the population.

The lifestyle, social and empowering determinants have been the most visible types of public interventions that should be included in a national health policy. In health policy making, health statistics are at the centre of an increasing demand as inputs to planning and strategic decision making, programme implementation, monitoring progress towards targets, and assessment of what works and what does not. Several factors surfaced between the supply and demand for high quality health information, and the health-related Millennium Development Goals (MDGs) provided a high-profile example in this direction. Among the many indicators recommended only a few measured well and health policy makers need to focus their efforts on improving measurement of a small set of priority areas. The Health Economics Policy Unit discusses the indicators that should be used for each component and for each intervention. Perhaps the most effective method is to encourage better primary data collection and the development of better analytical methods as a strong commitment to provision of an explicit data audit trail, similar to the continuous authentic data trail of National Health Expenditures.

The feasibility of this approach depends to a large degree on the political will of the national authorities and the broad understanding of the actual determinants of health. A good first step is the development of a long lasting National Health Policy and an Action Plan.

Research Highlights

Sri Lanka National Health Accounts

The IPS continued to function as the hub for compiling Sri Lanka National Health Accounts which provides data for the WHO, Ministry of Health Care and Nutrition,

and other agencies. The results of the study contain the estimates of total health expenditure by source, functions and by provider, and also disaggregated by public and private sources.

Preliminary estimates for 2009 indicate that public expenditure reached Rs. 72.9 billion, while private expenditure stood at Rs. 107.6 billion of the total health expenditure. Total health expenditure amounted to 3.7 per cent of GDP, reducing from an average of 4 per cent of GDP during 2005-08. Government health expenditure as a percentage of total government expenditure was at 6.1 per cent, lower than previous estimates during 2005-08. Of the total health spending, public expenditure had reduced to 40.4 per cent in 2009 from 45.9 per cent in 2005. Private sources of spending for national health stood at 59.6 per cent in 2009. Of total private health spending, 82.2 per cent accounted as private out-of-pocket expenditures. In 2009, per capita spending for health stood at Rs.8, 890.

The IPS Health Economic Policy Unit was involved in the revision of System of Health Accounts (SHA 1.0) as a member of the Regional Expert Group on the initiative of OECD and WHO. In addition, IPS researchers participated at the 3rd Regional Consultation Meeting on “The Revision of the System of Health Accounts”, Manila, The Philippines, 21-23 September. The meeting aimed to discuss new standards introduced in the System of Health Accounts Manual 2.0 (SHA 2.0).

Census of Private Hospitals and Nursing Home Survey

IPS routinely carries out private hospital, nursing homes, estate hospital and co-operative hospital surveys annually as a supplement to SLNHA. The “Census of Private Hospital and Nursing Home Survey 2008” was compiled mainly from a range of primary sources. The list of medical institutions regularly updated by the Health Economic Policy Unit identified 133 private hospitals in operation,

including 10 co-operative hospitals and 30 estate hospitals, where 13 are to be taken over by the respective provincial governments. Information regarding the entity's operational facets, revenue and investment were obtained via a questionnaire mailed to institutions in operation which corresponded to a response rate of 60 per cent. Telephone contacts, personal interviews and cross checking with company Annual Reports are some measures developed to ascertain the accuracy of information. The total number of beds (2,209) reported in 2004 is estimated to have increased to 2,990 in 2008. The total number of in-patient admissions in 2008 is reported as 221,000, while the out-patient number reached 5,706,000 patient visits.

Sri Lanka Millennium Development Goals Second Report

MDG second report for Sri Lanka prepared by IPS was launched in September with the initiative of UNDP and NCED. This report reviews the progress on MDGs in Sri Lanka, since 1990, at national level, as well as at sector and regional levels. The first Millennium Development Goals (MDG) Progress Report for Sri Lanka, which was released in 2005, played a very important role in creating awareness on MDGs and promoted a dialog among policy makers, planners and other stakeholders. The executive summary of the report gives a brief overview of the overall progress of the MDGs in the country since 1990.

Liberalizing Health Services under the proposed SAARC Framework Agreement on Trade in Services (SAFAS): Implications for South Asian Countries

The Unit contributed to the study in respect of Sri Lanka's interest in furthering trade in services under the proposed SAFAS. The overall study takes a close look at the characteristics of health systems and possibilities of trade in health services across the South Asian region. The modalities considered are under Cross-Border Supply (Mode 1), Consumption Abroad (Mode 2), Commercial Presence (Mode 3) and Movement of Natural Persons (Mode 4). The study was done in collaboration with the Centre for Policy Development

(CPD), Bangladesh, the South Asian Centre for Policy Studies (SACEPS) and was funded by the ADB.

In addition, the Unit engaged in a hospital survey to ascertain, the trends of liberalization, role of regulatory regime, establishment and functions of foreign hospitals and Sri Lanka's commitments under the General Agreement on Trade in Services (GATS). This study was undertaken on the initiative of the Pakistan Institute of Trade and Development (PITAD).

Publications

- "Sri Lanka National Health Accounts 2005-2009" (forthcoming).
- "Census of Private Hospitals, Nursing Homes, Estate Hospitals and Co-operative Hospitals", Issue No. 4. (forthcoming).
- "Review of the State of the Sri Lankan Alcohol Industry and Governing Policies" (forthcoming).

Research Personnel: G.D.Dayaratne, Sunimalee Madurawela and Nethmini Perera.

Manager of the Unit: G. D. Dayaratne, BA (Peradeniya)

The IPS has placed considerable value in developing research linkages both locally and internationally. In this respect, the Institute has established formal links with a number of research organizations from around the world and developed working relationships with researchers, and research organizations through its collaborative work.

Collaborative Partnerships

The IPS has developed collaborative partnerships with many regional and international partners. Following are some of the institutions that IPS has been and is currently working closely during the years.

- South Asia Network of Economic Research Institutes (SANEI), India
- Research and Information System for Developing Countries (RIS), India
- Indian Council for Research in International Economic Relations (ICRIER), India
- South Asia Watch on Trade, Economics, and Environment (SAWTEE), Nepal
- International Development Research Centre (IDRC), Canada
- Centre on Regulation and Competition (CRC), University of Manchester, U.K.
- Consumer Unity & Trust Society (CUTS), Jaipur, India
- Coalition for Action on South Asian Cooperation (CASAC), India
- Indian Council for South Asian Cooperation (ICSAC), India
- Centre for Policy Dialog (CPD), Bangladesh
- Institute of South Asian Studies (ISAS), National University of Singapore
- Bangladesh Institute of Development Studies (BIDS), Bangladesh
- World Institute of Development Economic Research (WIDER), Finland



Formal Links

- South Asia Centre for Policy Studies (SACEPS), Nepal
- SAARC Network on Global Financial and Economic Issues, Nepal
- Indian Rim Association for Regional Cooperation (IOR-ARC), India
- Poverty and Economic Policy (PEP) Research Network, Canada
- Asia-Pacific Research and Training Network on Trade (ARTNeT), Thailand

Finance and Administration Unit

The Department of Administration and Finance comprising of five units, Administration, Financial Operations, Human Resources, Maintenance Operations, and Procurement Services, provide support internal services to each of the Research Units in IPS.

The Administration and Finance team faced many challenges in the year 2010. The support services required for the construction of the new building continued to be a priority. The timeline as per the original agreement between the State of Netherlands and the IPS, dated 30th May 2006, was extended on a budget neutral basis to 30 June 2009, by way of an amendment to the agreement. This agreement was further extended up to 31 March 2010. The building with the exception of the Auditorium was completed and ready for occupation by the end of August 2010. The soft opening of the new building was held on the 9th of September 2010, with IPS staff participating in various religious and cultural ceremonies. The staff relocated to the new building in stages, to ensure that smooth flow of work was maintained. The staff relocation to the new building was complete by early October 2010.

The trend of reducing interest rates on Government securities was noted through forecasting carried out in 2009; however as a prudential measure the Institute's investments were maintained in Government securities and bank deposits as in 2009¹. Consequent to the further decline on the policy rates, the investment income in 2010 decreased sharply by 48% as compared to 2009. This had a major impact on the Institute's revenue in the year under review. The total allocation of Rs. 14 million from the Ministry of Finance and Planning was not received as the final instalment was taken by the Ministry of Technology and Research for its priority areas (IPS was gazetted under this Ministry with effect from April 2010).

This too contributed to the drop in revenue in the year 2010. Further, in the year 2009, an amount of Rs. 21

million was recorded as miscellaneous income, due to liquidation damages, interest and administration charges recoverable from the contractor for the building construction. The revenue drop from 2009 to 2010 of 36% was due to the above factors. Many steps were taken for reduction of costs in an attempt to keep operating costs to the minimum. However, the depreciation charge on the newly acquired property plant and equipment resulted in an increase of operational costs along with other cost increases due to inflation.

Due to the above factors, the financial performance in the year 2010 was not encouraging, showing a loss of Rs. 26.2 million. Although these results were below the Institute's expectations, under the given circumstances, very little options were available to enhance revenue and cut expenditure. However, the Institute was successful during the latter part of the year in obtaining a four year grant from the International Development Research Centre (IDRC) Think Tank Initiative, to be utilized in support of the Institute's research, outreach and organizational development activities.

Whilst all attempts to control expenditure are made, the Institute is in the process of updating the five year Corporate Plan, compiling a Financial Policy and Procedure manual and implementing the Employee Performance Development Review for staff at all levels.

The Audit Committee was established in the latter part of the year 2010, and a quarterly Internal Audit Review will commence in the year ahead. The Audit Committee's responsibility is to provide assistance to the Board of Governors in fulfilling its legal and financial obligations with respect to matters involving the accounting, auditing, financial reporting, risk assessment, internal control, and financially related legal compliance functions of the Institute.

¹ The collapse of Finance Companies in 2008/2009 and the slow pick up of the share market in 2008/2009 and the first half of 2010 made Government Securities a safer bet in 2010.

Looking ahead, the Institute intends enhancing the Information Technology (IT) in the Administration and Finance Unit, with plans of implementing a fully integrated IT system for financial accounting, budgeting, and management reporting processes.

Personnel: Iloka Wickremasinghe, G. L. B. Pooliyadda, Inoshi Jayathilake, K. A. R. T. Wijekoon, Nirmala Meegama, Sharmini De Silva, Deepika Nawawickrama, Urmila Jayasekera and Rumesh Modarage (contract).

Library

Mission

“To identify, investigate, define and meet the information needs of the Institute’s research staff in support of the research and administrative functions of the Institute and efficiently provide access to quality information resources, irrespective of format and location, and facilitate information transfer using the best of traditional and innovative technologies”.

Introduction

The Library continues to develop its collections, transform facilities and services in response to significant changes in the Institute’s and information environments, and to ensure that the Library contributes to advance the Institute’s research as well as to the achievement of the Institute’s goals as effectively as possible.

Even with the economic downturn, in 2010 the Library continued with its existing subscriptions, and increased acquisitions. Most importantly, the Library was able to transform its infrastructure facilities. Therefore, the Library made important progress during the year 2010 towards achieving both the Library’s as well as the Institute’s goals.

New Building

As stated in previous reports, upgrading the Library’s physical facilities was one of the major concerns and

highest priorities over the past few years. 2010 was a remarkable year for the Library as it moved into the newly constructed IPS headquarters. This move allowed the Library to increase its shelving and seating capacity by nearly three times the old Library. Most importantly, the space between isles of shelves increased in order to facilitate differently-abled patrons such as wheelchair users. Fulfilling a long time need, a separate archival room was also created within the Library. Library catalogue searching area was provided more space to accommodate more terminals. The new Library also has a leisure reading area to cater to the varied needs of its users. The entire Library has been furnished with specially designed furniture with network connection for laptop computers at each reading table. The new Library is full of natural light and provides an appealing environment for its users.

Collection Development

The Library continued to collaborate with its researchers and similar research organizations to build a collection responsive to the Institute’s research programmes. Despite the economic recession and tight budgeting, Library collection grew to a large extent in 2010. A considerable portion of the library budget was spent on electronic databases but at the same time, a large number of items were added to its print collection of books and pamphlets. Library also continued its subscriptions to print journals which cover 69 titles of local and international journals. In addition, Library also obtained a large number of publications as exchanges and gifts through the excellent exchange programme that the Library has developed over the years with various national, regional and international organizations. A considerable amount of publications and documents were also added to the repository, which the Library maintains on Sri Lankan economic and sectoral policy.

Enhancing Services

The Library staff continued their efforts to improve user experience to Library collection and services. The web-based services introduced through the Library’s Intranet,

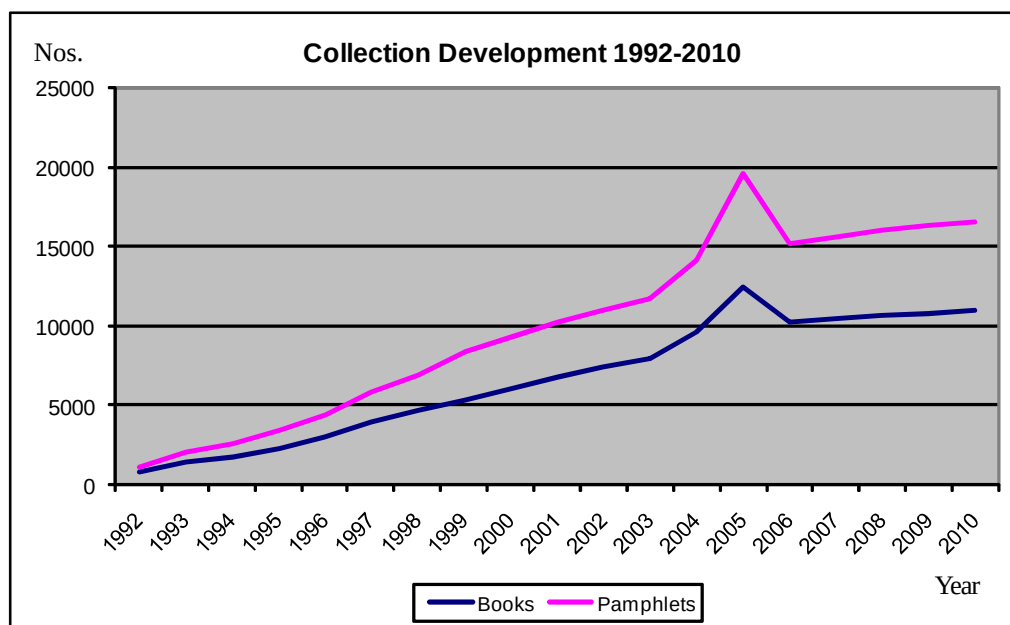
functioned smoothly with continuous updates until end September 2010. Due to the moving into the new IPS building, both Library Intranet and web Online Public Access Catalog (OPAC) were disrupted since October. Re-designing of these services will be the highest priority for the coming year. Once the necessary infrastructure is in place, these services will be introduced in a more user-friendly format.

The demand from external sources to use the Library is increasing annually. Library catered to a large number of local and foreign researchers and university

materials, informs the Librarian of the priority needs of the researchers, and sets the direction for the IPS Library within the context of the Institute's overall goals.

Achievements

Premila Gamage, Librarian was awarded the Honorary Fellowship by the Chartered Institute of Library and Information Professionals (CILIP), UK. Ms Gamage continued to serve in the Regional Standing Committee of Asia and Oceania Section (RSCAO) of International Federation of Library Associations and Institutions (IFLA). She was also appointed as a Trainer to the Building Strong



students who physically visited the Library during 2010. The Library also handled a large number of document delivery and inter-library loan services and responded to an enormous number of queries via telephone, fax, and e-mail.

Library Committee

The Library Committee which plays an advisory role, assists the Librarian in setting overall library policy and in defining broad guidelines for the further development of the IPS Library. The Committee provides an efficient avenue to channel requests for acquisition of new

Library Association (BSLA) Programme of Bill and Melinda Gates Foundation and IFLA.

In an advisory capacity, she participated in a number of international groupings and meetings during 2010.

- Train the Trainer BSLA Workshop, 12-15 July 2010, The Hague, Netherlands.
- World Library and Information Congress and the 76th IFLA General Conference and Council, 10-15 August, Gothenburg, Sweden.

- Members Day and Annual General Meeting of CILIP, 13 October, London, UK.

Both Ms. Ariyaratne and Ms. Yapa attended a workshop on “Moving Towards Digital Libraries” at Industrial Technology Institute, Colombo 7 on 24 March 2010.

Ms. Bentotage completed her B.A. degree at the University of Kelaniya. She also attended the South Asia training programme on ‘Library, Information Management, and Web-based Outreach: Managing Information Resources in the Digital Age’ from 7-10 December, at the Centre for Science and Environment, New Delhi, India and the SAARC workshop on the ‘Digital Libraries Using Open Source Software’ jointly conducted by the SAARC Documentation Centre (New Delhi) and the Centre for Development Information (Sri Lanka) at the Sri Lanka Foundation Institute during 13-17 December.

Priorities for the Coming Year

The main concern of the Library for the coming year will be on enhancement of services. The Library plans to revise and substantially modify its existing systems

and introduce new systems with the purpose of delivering an efficient and effective information services to the Institute’s researchers. With this in mind, the Library has set out the following three main goals and actions for 2011:

Goal 1- Development of a digital library to utilize existing provision of electronic resources to deliver value-added services to users at the desktops.

Action - *Modify and re-start already created digital library.*

Goal 2- Increase users’ interaction with library catalogue, resources and sharing content.

Action - *Introduce new Internet technologies to library (Library 2.0).*

Goal 3- Increase efficiency of circulation.

Action - *Introduce a new Integrated Library Management System (ILMS) to introduce personalized services, increase efficiency of circulation.*

Personnel: Premila Gamage, Dilrukshi Ariyaratna, Chamari Yapa and Gayani Bentotage.



Premila Gamage, Librarian was awarded the Honorary Fellowship by the Chartered Institute of Library and Information Professionals (CILIP), UK. Ms Gamage continued to serve in the Regional Standing Committee of Asia and Oceania Section (RSCAO) of International Federation of Library Associations and Institutions (IFLA).

Publications and Communications Unit

The Publications and Communications Unit (PCU) of IPS is the Centre of its information dissemination. The PCU is overall responsible for dissemination of IPS research through print, web and other media, which includes publications, as well as international and local conferences, workshops, and seminars. The PCU also provides promotional assistance to the research staff to exploit their capabilities and research work in the electronic and print media. Main responsibilities of the PCU include:

- Producing and disseminating IPS publications
- Organizing local and international conferences, seminars, and workshops
- Implementing corporate communication and promotional activities
- Designing and development of content for the Institute's public website.

While 'quality' is a top priority in the Unit's agenda, it also focuses on promotion of the Institute's research publications. Sales activities are carried out mainly at the IPS premises and through selected dealers island-wide. Overall monitoring of the publications at dealers, and necessary follow-ups are also carried out by the PCU staff. The Unit continues to enhance its services to ensure wider accessibility and acceptance of IPS publications, both locally and internationally.

As the local publishing market becomes more competitive, it is important that the Institute constantly improves its publishing and marketing strategy. With this in mind, an overall marketing strategy will be developed to enhance the image of the Institute.

IPS Publications

During the year 2010, the PCU brought out the following publications.

- Promoting Economic Cooperation in South Asia- Beyond SAFTA
- Sri Lanka State of the Economy 2010

- Targeting and Distribution of Post-Disaster Aid: A Case Study of the Fishery Sector in Post-Tsunami Sri Lanka
- IPS Annual Report 2009
- Millennium Development Goals 2008/2009

Publications Sales

Given the prevailing economic conditions, the year 2010 had a total sales turnover of Rs.541, 000/-.

More active outlets were identified which made a significant contribution to sales.

Conferences, Workshops and Book Launches

- IPS organized five major international conferences of which two conferences saw the utilization of Video Conferencing facilities to enable participation from across the world.

In addition to this, national level workshops and two Book Launches were also organized.

- Proposal Writing Workshop on "Environmental Economics and Policy", Tangerine Beach Hotel, Kalutara, 30 March- 2 April.
- Stakeholder Consultation Meeting on "Identification of Potential Supply Chains in Textiles and Clothing Sector in South Asia", Cinnamon Lakeside Colombo, 4 May.
- Regional Consultation Seminar on "South Asian Position in the WTO Doha Round - SAFIT Phase III", Cinnamon Lakeside Colombo, 18 June.
- Conference on "Ten Years of the India - Sri Lanka Free Trade Agreement: Achievements, Challenges and the Road Ahead", Hotel Taj Samudra, Colombo, 24- 25 May.
- International Conference on "Policy Priorities for Foreign Aid Reform in South Asia", Cinnamon Grand Colombo, 29- 30 July.

- Refresher Course 2010 on “Globalization and Labour”, Browns Beach Hotel, Negombo, 13- 25 September.
- Consultation Seminar on “Trade Facilitation Issues Related to the Indo – Lanka FTA”, Galadari Hotel, Colombo, 1 October.
- International Conference on “Institutionalizing Regional Approaches to Migration Management in South Asia”, Hotel Taj Samudra, Colombo, 19 November.
- Stakeholder Consultation Meeting on “Non-Tariff Measures in Sri Lanka”, Hilton Colombo Residence, Colombo, 22 November.
- Book Launch of “Promoting Economic Cooperation in South Asia”, Galadari Hotel, Colombo, 1 March.

Web

The PCU continued to provide content management services for the IPS public web: <www.ips.lk>

“Talking Economics Quarterly” – The first e-bulletin



A collection of articles posted on our blog “Talking Economics” during January to March 2010 was put together as an e-bulletin **Talking Economics Quarterly** for the first time in 2010. The e-bulletin was e-mailed to key stakeholders. The key articles for the entire year were compiled to produce a *Talking Economics Digest* during end-2010 to be released in early 2011.

Moving Forward

The primary medium term goal of the Publications and Communications Unit is to enhance the dissemination of IPS research by engaging a broader audience through;

- Re-packaging IPS academic research into more accessible forms like policy briefs and e-bulletins
- Utilizing alternative forms of media - e.g., IPS blog ‘Talking Economics’

The objective of these measures is to enhance the public image of the Institute and to help the Institute contribute more effectively to public debate on contemporary economic issues.

At present, the primary avenues of communicating IPS research is through the regular publications, conferences, website, newspaper reports, and TV interviews.

It is important to engage audio visual media to a greater extent, and the PCU will explore options such as TV documentaries and regular panel discussions. In order to reach a wider audience, it is essential to engage the media in local languages, and this avenue will also be explored to a greater extent in the medium term.

At present, the IPS communications utilize the Internet in a limited manner through the formal website. In keeping with global and local changes, IPS has begun using modern online social media such as blogs and twitter and has made more effective use of modern communication tools available through the internet such as blogging and other interactive web media. The Internet and other IT tools can also be used to a greater extent to project the Institute’s public image by the dissemination of e-brochures and audio-visual guides to the Institute and its work. The PCU in conjunction with the research staff will explore such options in the short and medium term.

All such activities are forms of re-packaging IPS academic research into more accessible formulations. Through this, the PCU endeavours to more effectively engage the general public, students, international networks, and the diaspora.

The PCU will also explore new ways of engaging the key stakeholders of IPS, including the government, private sector and international development agencies. Regular review meetings to discuss and obtain feedback on contemporary IPS work and more informal round table discussions

with key stakeholders are among the measures that will be looked into by the PCU.

Personnel: Charmaine Wijesinghe, Amesh Thennakoon, D.D.M. Waidyasekera, Asuntha Paul, Veronica Jacob and Sharmini De Silva.

Information Systems Unit

The Information Systems Unit (ISU) of the IPS concentrates its activities on the core areas of: a) Software, Hardware, Networking and IT infrastructure management; b) Web Development, Maintenance and Information Dissemination; and c) Database Development, Maintenance and Management, in supporting the Institute to remain competitive as a regional centre of excellence.

The ISU's core concentration for 2010 was to design and implement the Information Systems Architecture for the new building to which IPS moved in October - 2010. The conceptualization of solutions was carried under the guidance and direction of the Executive Director. The core objective was to have an architecture which provides a robust, redundant platform for the IPS core activities to be carried out in an efficient and a competitive manner.

The Local Area Network

A completely new Local Area Network (LAN) was conceptualized and implemented at IPS, with the objective of meeting the IPS ICT demands for the next 5 years.

Unified Communications

An integrated unified communication network with IP-phones was put in place, in adding many improvements in communication, conferencing and connectivity, and at the same time, reducing the cost of implementation of a separate telephone network.

Virtual Private Networking

Ability for the researchers to securely connect to the IPS network, from various locations outside IPS premises (e.g., Researchers visiting conferences abroad, from the field, or working from other locations such as from home) and access necessary resources, and remotely communicate via soft phones thus enabling researchers to collaborate and engage in virtual team work, within IPS team as well as with other organizations, was introduced.

Audio / Video conferencing

Audio conferencing facilities were also integrated to the network, on Conference rooms for the Staff and for



IPS signs contract with MIT to implement a state-of-the-art infrastructure for its new building premises, 16 April.

the Executive Director. It is planned to integrate video conferencing devices as well, in early 2011.

Power Wiring

The solution also included power wiring for all PC/ Workstations on all floors of the building.

Data Centre

To host central IT equipment and provide efficient data and information dissemination service, and equipped data centre was also incorporated. Redundant un-interrupted power supplies were also introduced, to cope up with any power failures, and till the building generators take over, as a part of this solution.

Web

IPS web operations continued, in maintaining the existing web site, and expanding the IPS blog. Initiatives were also planned to implement and improve the IPS web presence on social networks, including Twitter, Facebook, Youtube, and Flickr.

PCs

New PCs were introduced to staff members with Microsoft Windows 7, the standard operating system, and replacing existing PCs which were around 3 to 7 years old.

Plans

It is also planned to introduce a set of servers which will run the central email facilities, file sharing, and to run the internal corporate web in 2011, replacing the current servers which are around 8 years old.

Introducing new licensed software for vital IPS operations is also planned for 2011.

Personnel: Haren Kodagoda, Nandaka Pothuwewa, Nuwan Kahandawala Arachchi and Nalaka Liyanapathirana.



The Executive Director, IPS, inspecting the IPS building site IT infrastructure.

Research Staff



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IPS Events

Seminars, Conferences, Workshops, and Book Launches

Conference on “Promoting Economic Cooperation in South Asia – Beyond SAFTA”, Galadari Hotel, Colombo, 1 March



The book: “Promoting Economic Cooperation in South Asia – Beyond SAFTA” edited by Sadiq Ahmed, Saman Kelegama, and Ejaz Ghani, and published by Sage, India, was launched by the Foreign Secretary, Romesh Jayasinghe at the Galadari Hotel, Colombo on 1st March 2010 in the presence of a distinguished gathering. Two IPS Researchers, Dushni Weerakoon and Deshal de Mel contributed chapters to the book which contains 17 chapters.

Naoko Ishii, Country Director of the World Bank and Biplove Choudhary, Trade Specialist, Asia Pacific Trade and Investment Initiative, UNDP Regional Centre Colombo, spoke on behalf of the World Bank and the UNDP, respectively. Joint editors, Saman Kelegama and Ejaz Ghani spoke on the contents of the book and argued the case for deeper economic integration in the South Asian region.

Proposal Writing Workshop on “Environmental Economics and Policy”, Tangerine Beach Hotel, Kalutara, 30 March - 02 April



IPS in collaboration with the South Asian Network for Development and Environmental Economics (SANDEE) organized a Proposal Writing Workshop on Environmental Economics and Policy at Tangerine Beach Hotel, Kalutara, during 30 March – 02 April 2010.

The workshop intended to develop proposal writing skills of young, upcoming researchers of environmental economics and other related branches of knowledge, to introduce key current policy concerns and research themes of environmental economics and to encourage original research aimed at strengthening and upgrading efforts for sustainable development in Sri Lanka and South Asia region.

Seminars, Conferences, Workshops, and Book Launches

**Stakeholder Consultation on “Identification of Potential Supply Chains in Textiles and Clothing Sector in South Asia, Queen’s Court”,
Cinnamon Lakeside Colombo, 4 May**



The IPS in collaboration with the UNCTAD India, the Centre for WTO Studies, India, and the Commonwealth Secretariat, UK, organised a Stakeholder Consultation on Production Fragmentation in the Textile and Clothing sector in South Asia. The Consultation took place at the Cinnamon Lakeside Hotel in Colombo on the 4th of May 2010.

**Conference on “Ten Years of the India-Sri Lanka Free Trade Agreement: Achievements, Challenges and the Road Ahead”,
Hotel Taj Samudra, 24- 25 May**



A Conference titled ‘Ten Years of the Indo-Lanka Free Trade Agreement(ILFTA)’ was organized by IPS, the Centre for WTO Studies - Indian Institute of Foreign Trade, the India-Sri Lanka Joint Business Council, and the Indo-Lanka Chamber of Commerce and Industry, and took place on the 24th and 25th of May. The objective of this conference was to review the performance of the ILFTA, assess the benefits that have resulted, and also examine the pitfalls in the agreement where improvement is needed. Expert reviews and informed evaluations of this nature are necessary in order to improve upon existing trade policy measures such as the ILFTA to ensure that they fulfil their role in contributing to national development objectives.

Seminars, Conferences, Workshops, and Book Launches

Regional Consultation Seminar on “South Asian Positions in the WTO Doha Round”, *Earl’s Court, Cinnamon Lakeside Colombo, 18 June*



Regional Consultation Seminar on South Asian Positions in the WTO Doha Round was jointly organized by the IPS and Consumer Unity & Trust Society [CUTS International], India, at Cinnamon Lakeside Colombo, 18 June, 2010. Anwarul Hoda, Chair Professor, Trade Policy & WTO Research Programme, Indian Council for Research on International Economic Relations (ICRIER) was the Chief Guest. Executive Director of the IPS made the inaugural address and Archana Jatkar, Assistant Policy Analyst, CUTS Centre for International Trade, Environment & Economics (CUTS—CITEE) made the Introduction to the Seminar.

International Conference on “Policy Priorities for Foreign Aid Reform in South Asia”, *Cinnamon Grand Hotel, Colombo, 29 - 30 July*



The IPS organized a conference, in collaboration with Friedrich-Ebert Stiftung (FES), on “Policy Priorities for Foreign Aid Reform in South Asia” during 29th-30th July 2010 at the Cinnamon Grand Hotel, Colombo. The IPS was honoured to have Dr. Sarath Amunugama, Deputy Minister of Finance, attend the conference as the Chief Guest. Former Secretary General of SAARC, Ambassador Nihal Rodrigo, participated as the Guest of Honour. The event commenced with a welcome speech delivered by Dr. Dushni Weerakoon, Deputy Director, IPS, which was followed by an address by Dr. Amunugama and Ambassador Nihal Rodrigo before the commencement of the technical sessions.

Seminars, Conferences, Workshops, and Book Launches

Launch: Millennium Development Goals (MDG) 2008-2009: Sri Lanka Country Report, *Cinnamon Grand Hotel, Colombo, 20 September*



The MDG 2008/2009 Sri Lanka Country Report produced by the IPS and UNDP was launched with the participation of Deputy Minister of Finance, Hon. Dr. Sarath Amunugama, as the Chief Guest, UNDP Resident Representative, Neil Buhne, Dr. Saman Kelegama, Executive Director, IPS, Fredric Abeyratna, UNDP – Colombo, and P. Sumanapala, Additional Director General-Department of National Planning, and many distinguished participants at the Cinnamon Grand Hotel, Colombo.

"Globalization and Labour: New Global Strategies to Organize Work, Impact on Labour, and the Reactions of Society", *Browns Beach Hotel, Negombo, 13- 25 September*



The training course was jointly organized by the IPS and the International Institute of Social Sciences of Erasmus University Rotterdam (ISS), the Hague, The Netherlands. Twenty experts in the field of employment and labour studies gathered in Negombo for a two weeks training on the impact of globalization on labour. High on their agenda was the prospect of realizing –in the globalized world—Decent Work for all. Changes in trade regimes, global production systems and trends in manufacturing strategies were reviewed. Responses from the labour movement and civil society –national and international—were analyzed. At the level of the firm, participants compared how the stakeholders view social dialogue and collective bargaining as different means of resolving conflict.

Seminars, Conferences, Workshops, and Book Launches

Conference on “Trade Facilitation Issues Related to the India - Sri Lanka FTA, Salon Orchid”, *Galadari Hotel, Colombo, 1 October*



A conference on Trade Facilitation Issues Related to the India – Sri Lanka FTA was held on 1st October, 2010 at the Salon Orchid, Galadari Hotel, Colombo, and it was jointly organized by IPS and UNDP Asia Pacific Regional Centre, Bangkok. His Excellency, Ashok K. Kantha, High Commissioner of India, was the Chief Guest. Dr. Saman Kelegama, Executive Director of the IPS made the inaugural address and Biplove Choudhary, Trade Specialist of the UNDP Asia Pacific Regional Centre made the opening remarks to the conference. Presentations at the conference were made by Suwendrani Jayaratne and Dharshani Premaratne, Research Assistants at IPS.

International Conference on “Institutionalizing Regional Approaches to Migration Management in South Asia”, *Hotel Taj Samudra, Colombo, 19 November*



The IPS in collaboration with the Friedrich-Ebert Stiftung (FES) organized an International Conference on “Institutionalizing Regional Approaches to Migration Management in South Asia” on 19th November 2010 at the Taj Samudra Hotel, Colombo. Richard Danziger, Chief of Mission of the International Organization for Migration (IOM) Country Office in Sri Lanka was the Chief Guest. Joachim Schluetter, Resident Representative, FES made the welcome address while Dr. Saman Kelegama, Executive Director, IPS made an introduction to the Conference. The Guest of Honour, Farooq Sobhan and the Chief Guest later addressed the audience.

Seminars, Conferences, Workshops, and Book Launches

Stakeholder Consultation Meeting on “Non-Tariff Measures in Sri Lanka”, *Hilton Colombo Residence, Colombo, 22 November*



A Stakeholder Consultation Meeting on 'Non-Tariff Measures in Sri Lanka' was held on 22nd November 2010 at the Hilton Colombo Residence, Colombo. It was jointly organized by the IPS and the International Trade Center (ITC), Geneva. Dr. Saman Kelegama, Executive Director of the IPS and Willem Van der Geest, Officer – in – Charge of Division of Market Development of ITC made the opening remarks at the Meeting.

Distinguished Visitors to IPS

Briefing the IMF Delegation Visiting Sri Lanka, *IPS Conference Room, 24 February*



Executive Director of the IPS briefed the visiting IMF delegation to Sri Lanka on the current state of the Sri Lankan economy and the progress of the Presidential Taxation Commission work on economic incentives. The IMF team included Kalpana Kochhar, Deputy Director, Asia Pacific Department, IMF Economists, Dan Nyberg, Shanaka Peiris, and IMF Resident Representative in Sri Lanka, Koshy Mathai. The meeting took place at the IPS Conference Room, 24 February 2010.

Distinguished Visitors to IPS

**Minister of Technology and Research Visits, *IPS Conference Room*,
18 May**



Hon. Prof. Tissa Vitarana, Minister of Technology & Research, Mrs. Dhara Wijayatilake, Secretary of the Ministry and Prof. Sirimali Fernando, Adviser to the Ministry, visited IPS on 18th May, 2010. As per the new Gazette notification, the IPS has been listed under the Ministry of Technology and Research and the Hon. Minister paid a visit to the IPS to obtain information on IPS research work. Present at this meeting was Chairman, Executive Director and Senior Research staff of the IPS.

Chinese Delegation Visits IPS, 27 July



Li Shaoxian, Vice President, China Institute of Contemporary International Relations (CICIR), Hu Shisheng, Deputy Director, Institute of South and South East Asian Studies (ISSEAS), together with two Research Fellows of ISSEAS

IPS Representation at Overseas Conferences



11 - 15 January

11th Annual Global Development Conference organized by Global Development Networks (GDN), 11-15 January 2010, Prague, Czech Republic. Dr. Parakrama Samarasinghe, Research Fellow and Head of Agricultural Economic Policy Unit, made a presentation on "A Note on Agricultural Issues of Sri Lanka" in the parallel working sessions on "Shaping Agriculture and Trade Policies in Sub Saharan Africa and South Asia" at the 11th Annual Global Development Conference organized by Global Development Networks (GDN), 11-15 January.



13 February

Conference: "Asian Trade: The Way Forward", Trivandrum, India - Anushka Wijesinha, Research Officer, IPS made a presentation on "2010 and Beyond: Asia, South Asia and Sri Lanka" at the conference "Asian Trade: The Way Forward" organized by the Asian Development Dialogue held in association with the Department of Industries and Commerce, Government of Kerala, in Trivandrum, India, 13 February.



3 April

A conference on "Trade Facilitation in South Asia: Prospects and Challenges for Regional Integration" organized by the SAARC Chamber of Commerce and Industry (SCCI) in collaboration with

the Federation of Pakistan Chamber of Commerce and Industry (FPCCI), took place at the FPCCI, Karachi, Pakistan on 3 April. Suwendrani Jayaratne, Research Assistant, IPS, made a presentation on "Trade Facilitation and Automation of Systems", at the Conference.



20 - 21 April

Deshal de Mel and Suwendrani Jayaratne represented the IPS at the "Roundtable on SAFTA: A Precursor to 16th SAARC Summit" organized by SAARC Chamber of Commerce and Industry and Federation of Nepalese Chamber of Commerce and Industry in collaboration with Friedrich Nauman Stiftung, during 20- 21 April, 2010 in Kathmandu. De Mel and Jayaratne made presentations on "The Cost of Non-Cooperation: The Emergence of Bilateral FTAs in SAARC" and "Trade Facilitation Issues in SAARC", respectively.



21 - 26 April

Executive Director, IPS, met the IMF Chief, Dominique Strauss-Khan, when he visited the IMF for the 2010 Spring Meeting during 21-26 April, 2010. The meeting took place with 15 other members from developing countries who were invited for the Spring Meeting. The IMF, External Relations Department Director, Catherine Aikison and some of her team members also participated in this meeting.

IPS Representation at Overseas Conferences



14 - 18 June

8th General Meeting of the Poverty and Economic Policy Research Network, Dakar, Senegal. IPS was awarded a grant by the Poverty and Economic Policy Network (PEP) for a proposal on: "Will a Tax on Public Servants Improve Progressivity?" presented by Nisha Arunatilake at the 8th General Meeting of the Poverty and Economic Policy Research Network in Dakar, Senegal, during 14 - 18 June.



5 - 6 July

WTO Regional Trade Policy Course at the National University of Singapore- Executive Director was invited as a Resource Person for the WTO Regional Trade Policy Course at the National University of Singapore during 5- 6 July 2010. Executive Director spoke on the "Development Dimension of the Doha Development Agenda (DDA)" and "Special & Differential Treatment in the DDA." Shishir Priyadarshi, Director, Development Division, WTO and Margret Liang, former WTO Chief negotiator of Singapore were the other Resource Persons during the sessions.



31 July - 5 August

Tenth Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) Ministerial Meeting, Sana'a, Yemen- Executive Director was a part of the Sri Lankan delegation for the Tenth IOR-ARC Ministerial meeting at Sana'a, Yemen, during 31 July- 5 August,

2010. Executive Director chaired the Sri Lankan delegation at the 16th Meeting of the Indian Ocean Rim Academic Group. Executive Director was nominated to the Editorial Board of the Journal of the Indian Ocean Region (Journal of the Indian Ocean Research Group Inc.) published by Routledge.



8 - 9 August

Executive Director and Deputy Director made presentations at a Workshop on South Asian Tax Systems organized by the Governance Institutes Network International (GINI) with the sponsorship of IDRC. The Workshop took place at Furama City Hotel, Singapore, during 8- 9 August.



16 - 17 Sept

International Conference on "SAARC @ 25", RIS, Delhi, India - Executive Director was a Resource Person to two sessions at the International Conference on 'SAARC @ 25' organized by the India International Centre (IIC) and the Research and Information System for Developing Countries (RIS) with the support of the Ministry of External Affairs, Government of India, and the SAARC Secretariat. The conference took place at the IIC, Delhi, during 16- 17 September 2010. Executive Director was a Resource Person to the sessions on: 'Perspectives on SAARC after 25 Years' and 'Implementation of Steps for the Consolidation and Growth of SAARC'. He chaired a session on 'Trade in Goods: Progress and Implementation'.

Executive Director also reviewed the latest book by Rehman Sobhan on 'Challenging the Injustice of Poverty: Agenda for Inclusive Development in South Asia' published by Sage, Delhi, at a large gathering at the IIC.

IPS Representation at Overseas Conferences



11 - 12 Oct

Conference: 'Reforming Services for Inclusive and Sustainable Development of Asia and the Pacific', Bali, Indonesia. Anushka Wijesinha, Research Officer, IPS, participated in a conference on 'Reforming Services for Inclusive and Sustainable Development of Asia and the Pacific' organized jointly by ARTNeT of UNESCAP and the Asian Development Bank Institute (ADBI), in Bali, Indonesia, during 11-12th October 2010.



11 - 12 Oct

'Education Finance and Decentralization in Asia: Implications for Service Delivery', Bangkok. Nisha Arunatilake presented a paper at the above regional seminar organized by the UNESCO Asia Pacific Regional Bureau for Education in Bangkok, Thailand. Her presentation was on "Formula Funding and Decentralized Management of Schools – Has it Improved Resource Allocation in Schools in Sri Lanka?"



8 - 20 Nov

Advanced Briefing Programme on 'Critical Strategic and Economic Themes for the Future', organized by the Indian Council on

Research on International Economic Relations (ICRIER), New Delhi, India - Anushka Wijesinha, Research Officer, IPS, participated in the 'Advanced Briefing Programme on Critical Strategic and Economic Themes for the Future', organized by the Indian Council on Research on International Economic Relations (ICRIER), held in New Delhi, India, during from 8-20th November 2010.



24 - 26 Nov

International Dialogue on 'Exploring a New Partnership for the LDCs in the Context of the UN LDC IV' Bangladesh - Executive Director chaired the session on 'ODA and Productive Development Capacity' at the 'International Dialogue on Exploring a New Partnership for the LDCs in the Context of the UN LDC IV', Dhaka Sheraton Hotel, Bangladesh, 24-26 November 2010.



14 - 17 Dec

3rd South Asia Economic Summit, Kathmandu, Nepal - Dr. Saman Kelegama, Executive Director, IPS, and Anushka Wijesinha and Suwendrani Jayaratne, Research Officers of IPS were resource persons at the 3rd South Asia Economic Summit (SAES), held in Katmandu, Nepal during 17th -19th December, 2010.

Dr. Kelegama made a presentation on "Emerging Economic Outlook and Policy Challenges for South Asian Economies" and also chaired the session on "Services Trade in South Asia". Anushka Wijesinha presented a paper on "Air Services Liberalization in South Asia" and Suwendrani Jayaratne was a discussant for the session on "Trade Facilitation and Integration in South Asia".

IPS In-House Seminars

Topic	Presenter	Date
The Sri Lankan Economy in the New Decade: A Brainstorming Session of the Challenges and Policy Options for the Future	Deshal De Mel, Research Economist, IPS and Anushka Wijesinha, Research Officer, IPS	3 February
Measuring and Decomposing Socioeconomic Inequalities: Methods and Examples	Priyanka Jayawardena, Research Officer, IPS	26 February
Lessons from Gemidiriya Model for Poverty Alleviation	Ayodya Galappattige, Research Officer, IPS	23 March
Climate Change and Sri Lanka	Asha Gunawardena, Research Officer, IPS and Manoj Thibbotuwawa, Research Officer, IPS	29 April
New and Revised MDG Targets and Indicators - Methods of Computation, Rationale, Practicality and Usefulness	Wimal Nanayakkara, Senior Visiting Fellow, IPS	26 May
Indo-Lanka CEPA: Facts and Misconceptions	Deshal de Mel, Research Economist, IPS	8 June
Political Economy of Monetary Policy	Dr. H.N. Thenuwara, former Assistant Governor, Central Bank of Sri Lanka	29 June
Economic Affairs of Current Interest in SL	Kanchana Wickramasinghe, Research Officer and Nethimini Perera, Research Assistant, IPS	27 July
Evaluation of the World Bank's Lending to the State of Bihar: Lessons for Developing Countries	Shekhar Shah, Regional Economic Advisor - South Asia, World Bank	3 August
Liberalization of Civil Aviation in South Asia	Deshal de Mel, Research Economist, IPS	23 August
Budget 2011	Anushka Wijesinha, Research Officer, IPS Suwendrani Jayaratne, Research Officer, IPS and Dharshani Premeratne, Research Assistant, IPS	25 November
Reading Stiglitz in Sri Lanka: An Interpretive Essay	Sarath Rajapatirana, Visiting Fellow - American Enterprise Institute	7 December

Promoting Economic Cooperation in South Asia - Beyond SAFTA

Publisher, Sage Publications, India, January 2010

Edited by Sadiq Ahmed, Policy Research Institute of Bangladesh, Dhaka; Saman Kelegama, Institute of Policy Studies, Sri Lanka; Ejaz Ghani, South Asia Region, World Bank, Washington D C

Promoting Economic Cooperation in South Asia: Beyond SAFTA examines the distinct development dichotomy that exists in South Asia and tries to find a workable solution to bridge this gap. In spite of rapid economic growth since 1980, there is extensive poverty and inequality in South Asia. This dichotomy has two faces: one is highly urbanized and well-linked to global markets, and the other is rural, isolated from the global economy, and growing very slowly. The large bulk of South Asia's poor live in the latter environment.

The book brings together perspectives from academics, the private sector, civil society and policy makers. Using solid empirical evidence and sound analysis, it stresses that in addition to policy and institutional reforms aimed at removing domestic constraints to growth and job creation, market integration and regional cooperation ought to be key elements of a strategy for removing the dichotomy and eliminating poverty in the longer term. Delving into major political economic issues of the SAARC region, the book analyzes SAFTA, bilateral FTAs, transportation, regional integration, regulatory mechanisms, food prices, labour and employment, and tourism. It also provides an analysis of why past cooperation efforts have not worked and how better cooperation can be achieved in specific areas. It looks at the many policy and institutional constraints that contribute to the present state and have made South Asia one of the least integrated regions of the world.

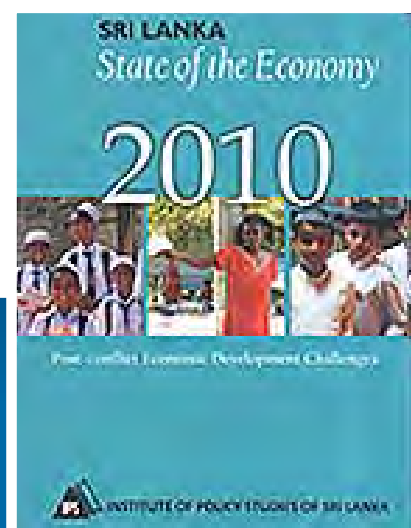
The book will be a very useful reference for researchers, scholars and bilateral and multilateral financial institutions and donor groups interested in South Asia's development. Policy makers and think tanks focusing on economics, political science, and international relations will also find it beneficial.



Targeting and Distribution of Post-Disaster Aid-A Case of the Fishery Sector in Post-Tsunami Sri Lanka by Asha Gunawardena, Environmental Economic Policy Series No.13, April 2010

The study focuses on two types of aid transfers: boats and houses, which were distributed as part of an effort to rehabilitate tsunami-affected fishery household in six district of Sri Lanka. The study attempts to investigate the distributional impacts of these transfers on the affected households. The study also attempts to quantify the factors underlying the allocation of such asset transfers and examines the degree of which the government and donors targeted the right households. The study uses the Census of Tsunami, conducted by the Department of Census and Statistics in 2005, as the baseline survey for pre-Tsunami data.

The study bases its findings on a follow-up survey carried out in 2008 for a sample of fishery households selected from the baseline survey. The results of the study show that there was better targeting of households for the allocation of houses compared to the targeting and allocation of boats. The findings also show that housing transfers have resulted in improved asset equality among the fishery households compared to what existed in the pre-Tsunami period. The boat transfers on the other hand, were not only poorly targeted but have also resulted in an increase in asset inequality. The differences between the two aid transfers may be due to the differences in the nature of the assets transferred, the availability of specific government policies, the availability of systematic information and the dominant mode of aid delivery. The findings of the study also reveal that households who had access to social networks were more likely to receive aid transfers. Apart from household characteristics, regional disparities also played a role in the allocation of aid due to differences in access to infrastructure facilities, political preferences or the presence and absence of political turmoil. The findings also highlight the importance of making special efforts in targeting of such aid to reach certain



sub-sets of people such as very poor marginalized groups and those who lost human capital in disaster situations.

Sri Lanka: State of the Economy 2010 Report, October 2010
Theme: Post-conflict Economic Development Challenges

Harnessing the rapid recovery of Sri Lanka's post-conflict economy with a transformative process of economic reforms holds out the most promising outcome for sustained long term growth. The country has made a positive start and with a prudent management of the economy and related policy reforms, it stands poised to reap the full economic dividends of a post-conflict phase of development.

Millennium Development Goals: Sri Lanka Country Report 2008/2009

(In English, Sinhala & Tamil, jointly produced with NCED and UNDP Office in Colombo)

The "Sri Lanka MDG Country Report 2008/09" is the second Millennium Development Goals (MDG) Progress Report for Sri Lanka, which reviews the progress on MDGs in Sri Lanka, since 1990, at national level, as well as at sector and regional levels. The first Millennium Development Goals (MDG) Progress Report for Sri Lanka, which was released in 2005, played a very important role in creating awareness on MDGs and promoted a dialogue among policy makers, planners and other stakeholders.

South Asia Economic Journal
Vol.11, No. 1 & 2, March and September

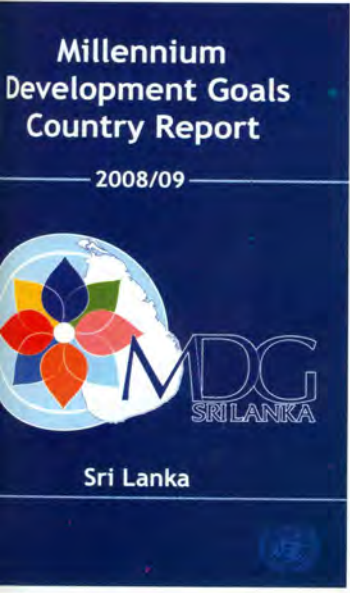
Conservation vs. Conversion: Examining the Case of the Diyawanna Oya Wet Land Area in Sri Lanka, December 2010
by Manoj Thibbotuwawa, Thusitha Dilhani Marawila, Parakrama Samararatunga

Even though the wetlands provide a wide spectrum of

use and non-use values, burgeoning demand for land and inadequacy of resources to manage urban wetlands effectively as a public good has led to the conversion of the wetlands to different uses over the past years. The ad hoc conversion of wetlands into other uses has been subjected to much debate during the recent past. However, no attempt has been made on evaluating the economic aspects of any of the services provided by Sri Lankan wetlands until date. In this initial attempt, this study attempts to evaluate the social welfare that visitors derive by enjoying the recreational benefits, and thereby to provide an economic justification to the long standing conservation conversion debate, taking Diyawanna Oya wetlands as a case study.

This study employs Negative Binomial Model for count data in estimating the welfare gains and change in consumer surplus due to the implementation of development projects under the Individual Travel Cost method. Moreover, the study examines the impact of imposing an entry fee to the site and assesses the present value of non-market benefits of preserving the site. Findings revealed that the Diyawanna Oya wetlands generate an annual consumer surplus of Rs. 3,890 million while the welfare loss per hectare from the conversion of the natural wetland area to development projects is Rs.19.45 million. Further, imposing an entry fee of Rs. 50 is likely to reduce the annual recreational value by Rs. 337 million while increasing the government revenue by Rs. 5.4 million.

The comparatively high present value of benefits of preserving the recreational site justifies the importance of conserving the recreational grounds over the conversion. Results suggest that there is a need for conservation of the wetland through strict enforcement of existing legislation, imposition of new legislation, and appropriate penalties for violation of those laws. It is timely to include the most sensitive areas of the Diyawanna Oya wetlands in the national protected area network. In conclusion, the results of this study demand the attention of all concerning parties in efficient allocation of the wetland among competing uses as well as conservation of the natural recreational area.



Human Resources Training and Development

In order to strengthen the knowledge and skills of research staff, participation at important training programmes/seminars is actively encouraged. In 2010, IPS research staff attended the following programmes:

- Meeting on “Social Protection as Development Policy in Asia: The Long Term Perspective” organized by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), Social Protection in Asia (SPA) and United Nations Research Institute for Social Development (UNRISD), at United Nations Conference Centre (UNCC), Bangkok, 27- 29 October.
- “National Symposium on Social Protection Policies” organized by the National Science Foundation and the UNESCO, Sri Lanka Foundation Institute, Colombo, 30 November - 1 December.
- “Globalization and Labour: New Global Strategies to Organize Work, Impact on Labour and the Reactions of Society”, organized by International Institute of Social Studies of Erasmus University Rotterdam (ISS) and IPS, Browns Beach Hotel, Negombo, 13- 25 September.
- International conference on “Central Banking and Financial Markets in South Asia” organized by the Central Bank of Sri Lanka, Central Bank Building, 22 August.

The Institute at the same time encourages research staff and support staff to participate in important external training programmes and seminars to acquire and strengthen their knowledge and skills. During the year, IPS staff members undertook/attended the following training programmes.

Research Staff

Priyanka Jayawardena

- completed her MA in Economics, at the University of Colombo. The title of her MA thesis was “Socioeconomic Determinants and Inequalities in Childhood and Maternal Malnutrition in Sri Lanka”.

Nisha Arunatilake

- Attended a training programme on “Distributive Analysis Stata Package and Simulating the Distributive Impacts of Growth Strategies”, organized by the Poverty and Economic Policy Network, Dakar, Senegal, June.

Roshini Jayaweera

- Followed the Post Graduate Diploma Programme on “Universalizing Socio-Economic Security for the Poor” conducted by the Institute of Social Studies (ISS) of Erasmus University, The Hague, Netherlands, January - March.
- Underwent a training on “Trade and Gender Linkages” conducted by the ARTNeT/UNDP held in Bangkok, Thailand, 15-17 September.

Ayodya Galappattige and Roshini Jayaweera

- Underwent an in-house training on “Distributional Analysis” conducted by Nisha Arunatilaka and Priyanka Jayawardena, July - September.

Parakrama Samaratunga

- Acted as a resource person reviewing submitted proposals and participating in discussion sessions at the Workshop on “Proposal Writing on Environmental Economics and Policy”, Tangerine Beach Hotel, Kalutara, 30 March- 02 April.
- Served as the head of the panel of judges at the Students Research Session 2010 of Rajarata University of Sri Lanka.
- Served as the head of the panel of judges at the technical sessions at the 10th Agricultural Research Symposium (AGRES) -2010, Wayamba University of Sri Lanka.

Manoj Thibbotuwawa

- Attended the ARTNeT Capacity Building Workshop for Trade Research: Gravity Modeling, Bogor, Indonesia, 23 - 27 August.
- Attended the South Asian Training Programme on CGE Modeling organized by South Asia Watch on Trade, Economics & Environment (SAWTEE)

and South Asian Network on Economic Modeling (SANEM), Kathmandu, Nepal, 2- 6 August.

Kanchana Wickramasinghe

- Attended the “Proposal Writing Workshop on Environmental Economics and Policy” organized by IPS in collaboration with the South Asian Network for Development and Environmental Economics (SANDEE) at Tangerine Beach Hotel, Kalutara, 30 March – 02 April.
- Received training at the “WTO/ESCAP Sixth ARTNeT Capacity Building Workshop for Trade Research”, Vientiane, Lao PDR, 21 – 25 June.
- Attended the “The Twentieth Research and Training Workshop of South Asian Network for Development and Environmental Economics”, Katunayake, 6- 10 July.

Nethmini Perera

- Followed an in-house training on ‘Distribution Analysis using STATA’, conducted by Priyanka Jayawardena – Research Officer, IPS, July – September.

Support Staff

Premila Gamage

- Was awarded the Honorary Fellowship by the Chartered Institute of Library and Information Professionals (CILIP), UK. Ms Gamage continued to serve in the Regional Standing Committee of Asia and Oceania Section (RSCAO) of International Federation of Library Associations and Institutions (IFLA).
- Appointed as a Trainer to the Building Strong Library Association (BSLA) Programme of Bill and Melinda Gates Foundation and IFLA.
- Train the Trainer BSLA Workshop, The Hague, Netherlands, 12- 15 July 2010.
- World Library and Information Congress and the 76th IFLA General Conference and Council, Gothenburg, Sweden, 10-15 August.
- Members Day and Annual General Meeting of CILIP, London, UK, 13 October.

Dilrukshi Ariyaratne and Chamari Yapa

- Attended the workshop on ‘Moving Towards Digital Libraries’ at Industrial Technology Institute on 24 March 2010.

Gayani Bentotage

- Completed her B.A. degree at University of Kelaniya.
- Attended the South Asia training programme on “Library, Information Management, and Web-based Outreach: Managing Information Resources in the Digital Age”, Centre for Science and Environment, New Delhi, India, 7-10 December.
- SAARC workshop on the ‘Digital Libraries Using Open Source Software’ jointly conducted by the SAARC Documentation Centre (New Delhi) and the Centre for Development Information (Sri Lanka) at the Sri Lanka Foundation Institute 13-17 December.

Opening of the New Head Office of IPS



The soft opening of the IPS new building took place on 9th September 2010, with IPS staff participating in various religious and cultural ceremonies. The Chairman and the Executive Director, IPS were present at the occasion. The completion of the new building was supervised and guided by the Administration Officer, G.L.B. Pooliyadda. His leadership and commitment to the completion of the building will always be remembered by the IPS staff.



The first picture shows a front view of the new IPS Head Office.

The second picture shows the Executive Director hoisting the National Flag, while the Deputy Director and the Director Finance and Administration are hoisting the IPS flag. The third picture shows a group of IPS staff members who participated in the religious ceremonies on 9th September.



Financial Statements

31st December 2010

IPS

Auditor General's Report



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No

EL/A/IPS/FA/2010

ඔබේ අංකය
உமது இல
Your No.

දිනය
திகதி
Date

08 July 2011

The Chairman,
Institute of Policy Studies Sri Lanka.

Report of the Auditor General on the Financial Statements of the Institute of Policy Studies Sri Lanka for the year ended 31 December 2010.

The audit of financial statements of the Institute of Policy Studies Sri Lanka for the year ended 31 December 2010 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 18 of the Institute of Policy Studies Sri Lanka Act No. 53 of 1988 as amended by the Act No. 09 of 1999. My comments and observations on these financial statements appear in this report.

1:2 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

නිදහස් වතුරුය,
කොළඹ 07, ශ්‍රී ලංකාව
දුරකථනය
தொலைபேசி
Telephone. } 2691151

சுதந்திர சதுக்கம்,
கொழும்பு 07, இலங்கை
தூணிய அංකය
பக்ஸ் இல
Fax No. } 2697451

INDEPENDENCE SQUARE,
COLOMBO 07, SRI LANKA
අලෙක්වොතින් තැපැල්
අං- ලෙමයில்
E-mail. } oaggov@slt.net.lk

1:3 Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes examining, on a test basis, of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion.

2. Financial Statements

2:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Institute of Policy Studies Sri Lanka had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 2:2 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles give a true and fair view of the state of affairs of the Institute of Policy Studies Sri Lanka as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

- (a) According to the Best Accounting Practices , work in progress relevant to the buildings valued Rs.9,314,164 had not been shown as a separate item below the fixed assets. However, it was added to the value of fixed assets.
- (b) Advance payments amounted to Rs.861,821 paid for chairs need for the auditorium had been accounted under the work –in-progress of buildings.

2.2.2 Accounts Receivable

The balances amounted to Rs.316,434 had to be recoverable from more than two years and Rs.1,494,326 more than one year period within the debit balance amounted to Rs.1,810,760 .

2.2.3 Non-reconciled Accounts

Even though there was a difference of Rs.28,793 in the confirmation of balances of 05 investment accounts amounting to Rs.169,729,449 shown in the financial statements in the year under review ,action had not been taken to identify the difference there of .

2.2.4 Non-compliance with Laws, Rules Regulations and Management Decisions .

The following non-compliances with laws, rules regulations etc. were observed in audit.

Reference to the Laws, Rules, Regulations and Management Decisions	Non compliance
(a) Act No.53 of 1988 and the Revised Amendment of the Institute of Policy Studies No.9 of 1999 – Section 03	Even though the Authority had empowered Auditor General for appointing a qualified auditor for assistance and manipulating him when doing audit , in 3 instances auditing of relevant 3 projects it had been handed over to a private audit firm without being getting permission of the Auditor General.
(b) Public Enterprises Circular No.PED/12 dated 02 June 2003	
i Section 9.2 (B)	Cadre had not been approved.
ii Section 9.3 (i)	The approval of the Ministry and the agreement of the Department of Public Enterprises there on had not been obtained for the procedures of recruitments and promotions of the Institute.
iii. Section 9:14:2	An Establishment Procedure had been prepared and implemented for human resource management, nevertheless the agreement of the Secretary to the Treasury and the Department of Public Enterprises had not been taken there on.

- | | |
|--|---|
| (c) Management Services Circular No.39 of 26 May 2009. | Recruitment procedure had not been approved by the Department of Management Services and Rs.2,248,069 had been paid for the employees as honorarium. |
| (d) Circular No.PF/PE 95 of the Department of Public Enterprises dated 14 June 1994. | An amount of Rs.268,621 had been paid as bonuses for officers in April 2010 ,without taking prior approval. |
| (e) Public Accounting Circular No.30/94 dated 20 April 1998 | Even though all transactions relevant to the foreign grants for the building fund should be done through the Department of External Resources of the General Treasury, grants amounting to Rs.13,214,520 had been received directly to the Institute. |
| (f) Section 5.4.4 of the Procurement Guidelines of 2006 | Advances had been paid exceeding 20 per cent of the value of a contract amounting to Rs.66,358,610 . A surety had not been obtained for it . |

3. Financial and Operating Review

3.1 Financial Review

3.1.1 Financial Results

According to the financial Statements presented, the operation of the Institute for the year under review had resulted in a deficit of Rs.26,294,271 as against the corresponding surplus of Rs. 25,643,254 for the preceding year, thus indicating a deterioration in the financial result by Rs.51,937,525. Decreases in receiving Government Grant, interest income and liquidated damages on contracts by a sum aggregating Rs.40,509,897 and increase in staff expenses, depreciations, seminar and workshop expenses, utility expenses and operating expenses by a sum aggregating Rs.13,781,174 had caused for the deterioration in the financial results.

3.2 Operating Review

3.2.1 Performance

As the targets that should be achieved during the year under review had not been included in the Action Plan, the actual performance could not be compared.

3.2.2 Identified Losses

- (a) An exchange loss of Rs. 2,864,421 had been incurred after adjusting the differences of Rupee value proportionate to the foreign currency by the time of receiving those money that was invoiced for obtaining money for projects.
- (b) Due to non-receipt of Rs. 520,000 that was receivable from a project on utilization of liquor in 2008, the amount had been written off of the revenue as bad debts.

3.2.3 Internal Audit

An internal audit relating to the year under review had not been carried out.

3:2:4 Audit and Management Committees

In terms of the Public Enterprises Circular No. PED/12 of 02 June 2003, an Audit and Management Committee relating to the year under review had not been established.

4. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Loan Files

H.A.S. Samaraweera
Acting Auditor General.

31/.

Management Response for Audit Report

2.2.1 Shortcomings in Accounting

a) Audit Report: Rs. 9,314,164 worth of Buildings construction in progress has been shown together with Fixed Assets instead of showing as a separate item.

Management Response: Buildings Construction in progress has been classified together with the Fixed Assets on the Fixed Asset Schedule. This presentation discrepancy has resulted in the above.

b) Audit Report: Chairs purchased for the Auditorium to the value of Rs. 861,821.00 has been coded to Buildings in Construction Account.

Management Response: As at 31.12.2010 the Auditorium had not been completed, the clearing, unpacking, installation and fixing of the chairs were not complete. Therefore accounted for as work in progress.

2.2.2 Accounts Receivable

Audit Report: Of the Debtors total of Rs. 1,810,760 an amount of Rs. 316,434 is overdue by over an year and Rs. 1,494,326 due within a year.

Management Response: Rs. 316,434 relates to a project debtor and attempts to collect this amount is ongoing. Of the Rs. 1,494,326 project debtor outstanding, Rs. 725,927 has already been collected. The remainder is due to be collected shortly.

2.3.3 Control Accounts not reconciled

An amount of Rs. 28,793 of the total Rs. 169,729,449 Investments, remains unreconciled, as compared to the Investment Confirmations sent by the relevant Investor as at 31.12.2010

Management Response: The minor difference of Rs. 28,673 relates to interest understated, arising due to the Institute calculating the number of days manually as against the investor calculating it using a specialized software. This is a timing discrepancy and will be accounted for in the month of January 2011.

2.2.4 Non Compliance with Laws, Rules, Regulations and Management Discussions.

a) Audit Report: The IPS Act states that a suitable Auditor be appointed by the Auditor General. However on three occasions for 3 projects a private Auditor has been engaged.

Management Response: These Audits relate to projects where the Funding Agency requested for an audit of that particular project. Due to the urgency of the request made by the donor, a private firm was engaged.

i. Audit Report: The Management Committee has not been approved.

Management Response:

Due to the nature of the IPS and the fact that it is self-financing, approval is not obtained.

ii. Audit Report: Recruitments and promotions have not been made with Treasury approval.

Management Response: Due to the nature of the IPS and the fact that it is self-financing, Treasury approval is not obtained. However all promotions are made only after Board approval.

iii. Audit Report: Approval for the IPS Manual of Operations has not been obtained by Treasury.

Management Response: The Manual of Operations is updated at least once in two years and is approved by the Governing Board of the IPS. The IPS Act No: 53 of 1988, Section 6 (a) provides full powers to the IPS Governing Board & management to formulate its own rules and regulations. Accordingly, the Manual of Operations has been designed to govern the code of conduct in the IPS. It should be noted that the Secretary to the Treasury is a Governing Board member of the Institute and has approved the Manual of Operations.

b) Audit Report: Rs. 2,248,069 has been paid, as an Honorarium to employees recruited without following the required procedure in recruiting staff.

Management Response: Staff are recruited as per the requirement of the Institute. Most of the staff have been in employment at the Institute for many years. The procedure followed in recruiting staff is as per the Institute's Manual of Operations.

c) Audit Report: An amount of Rs. 268,621 has been paid as bonus to staff in April 2010 without obtaining required approval.

Management Response:

The amount paid as bonus relates to a payment made mainly as a cost of living allowance to staff drawing less than a specified amount in order to assist them in meeting the increased expenditure during national/ religious festivals. Staff at IPS are not entitled to normal Government allowances such as cost of living allowance,

pensions, and are unable to obtain loans from banks due to being on a one year contract. Therefore comparing these payments to other Government institutions and following the same procedure followed by other Government institutions is not correct. However no payment of this nature was paid thereafter.

d) Audit Report: The foreign currency received for the Buildings project of Rs. 13,214,520 was received direct to the Institute and not via the ERD.

Management Response: The IPS was created as an autonomous research institute, by an Act of Parliament. The IPS was envisaged as a policy "think tank" that would have the operational freedom and resources to engage in socio-economic research requiring long term commitment. Although closely linked to the policy making process, its financial and administrative independence enables it to function with Board Directives. As such, funds have been transmitted directly to the Institute.

e) Audit Report: Rs. 66,358,610 has been paid in relation to the buildings construction where the advance paid has exceeded the required 20%. A guarantee has not been kept on same.

Management Response: It was not always possible to adhere to the required advance percentages and guarantees as the suppliers faced various problems. In order to expedite a project that was far behind schedule and to minimize further losses to the Institute as a result of further delays, certain regulations had to be overlooked.

3. Financial and Performance Review

3.1 Financial Review:

3.1.1 Audit Report: As per the financial statements presented, a loss of Rs. 26,294,271 has been recorded as against a profit of Rs. 25,643,254 of the previous year, resulting in a total decrease of Rs. 51,937,525 in comparison with the year 2009.

Management Response: Explanation for the deficit of Rs. 26,294,271 in the year 2010 as compared to a surplus of Rs. 25,643,254 in 2009.

Revenue:

1. Investment income reduced from the budgeted amount of Rs. 35,000,000 to Rs. 17,775,479 as a result of the reduction of interest rates on Government securities in 2010 (from an average 1 year Treasury Bill rate of 13.39% in 2009 to 8.63% in 2010).
2. The total allocation of Rs. 14 million from the Ministry of Finance and Planning was not received in 2010. The final installment of Rs. 3,206,155 was used by the Ministry of Technology and Research for their priority items and was not recommended for release to the IPS. Therefore the Institute received only Rs. 10,793,845.
3. The income in the year 2009 included a windfall gain due to liquidated damages recovered from the Building Contractor of Rs. 21,074,287.
4. The project income decreased by Rs. 2,917,880 in 2010 as compared to 2009, this is a drop of 9%.

Expense:

1. The depreciation charge on newly acquired assets amounted to an increase of Rs. 3.4 million

Overall

The surplus/(deficit) recorded in a year has fluctuated. Even in Year 2009, as stated in point 3 above, the net surplus would have been only Rs. 4,568,966 if not for the liquidated damages recovered.

Year	2006	2007	2008	2009	2010
Net					
Surplus/(Deficit)	7,770,963.63	37,983,262.77	4,412,640.10	25,643,253.67	(26,294,271)

3.2 Performance Review:

3.2.2 Losses Recognized

a) Audit Report: Exchange Loss is recorded as Rs. 2,864,421

Management Response: This is due to the monies received for the Building project declining due to the depreciation of the LKR against the EURO in the year 2010.

b) Audit Report: Rs. 520,000 relating to an amount receivable on a project on the Alcohol Industry in 2008, has been written off as a bad debt due to it not being received, during a period of two years.

Management Response: The amount was written off as the donor has not paid and this amount could not be collected despite many attempts to do so.

3.2.3 Audit Report: An Internal Audit has not been carried out.

Management Response: An Audit Committee has been established and an Internal Audit has been recommended. This will take place shortly.

3.2.4 Audit Report: An Audit Committee has not been established in the year ended 31st December 2010.

Management Response: An Audit Committee was established towards the end of the year. The Committee met on four occasions in the first quarter of the year 2011. These meetings were held to finalize the financial statements for the year ended 31st December 2010.

INSTITUTE OF POLICY STUDIES OF SRI LANKA
STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31st December

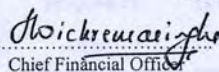
	Note	2010 Rs.	2009 Rs. Restated
Revenue			
Contribution from the Government of Sri Lanka	2	10,793,845	14,080,000
Project Income	3	30,017,784	30,549,947
Income from Seminar/Workshops	4	7,100,539	3,432,006
Interest Income		17,775,479	33,924,934
Income from Amortization of Building		1,504,124	
Income from Liquidated Damages from Building Contractor			21,074,287
Miscellaneous Income	5	1,251,942	863,009
Total Revenue		68,443,714	103,924,183
Expenses			
Employee Cost	6	40,651,046	38,647,498
Depreciation on Property, plant and equipment	13	5,722,590	2,313,648
Research Cost	7	11,755,459	11,187,537
Seminar and Workshop Cost		6,148,813	1,122,918
Utility Expenditure		19,913,582	18,490,294
Travel Expenses		1,926,865	1,258,113
Other Operating Expenses	8	5,755,210	3,835,709
Exchange Loss		2,864,421	1,425,213
Total Expenses		94,737,985	78,280,929
Surplus/(Deficits) Before Taxation		(26,294,271)	25,643,254
Income Tax Expense	9	-	-
Surplus/(Deficits) for the Period		(26,294,271)	25,643,254

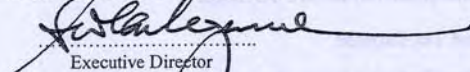
INSTITUTE OF POLICY STUDIES OF SRI LANKA
STATEMENT OF FINANCIAL POSITION

<i>As at 31st December</i>		2010 Rs.	Restated 2009 Rs.
	Note		
ASSETS			
Current Assets			
Cash and Cash Equivalent	10	12,938,296	8,577,926
Trade receivables		2,787,936	5,028,758
Inventories-Publications		1,520,329	1,767,875
Deposits and Prepayments	11	2,892,874	8,026,364
Interest Receivable		1,228,147	8,903,369
Vat Receivable		-	3,358,895
Other Receivables	12	8,959,780	3,174,902
Total Current Assets		30,327,362	38,838,088
Non Current Assets			
Property, Plant and Equipment	13	340,926,955	229,300,930
Investments	14	218,468,324	278,813,876
Total Non Current Assets		559,395,279	508,114,806
Total Assets		589,722,640	546,952,894
LIABILITIES			
Current Liabilities			
Trade and Other Payables	15	8,934,622	4,139,601
Advance Receipts on Projects	16	26,679,276	12,151,689
Total Current Liabilities		35,613,898	16,291,290
Non Current Liabilities			
Employee Benefits	17	7,478,652	4,527,590
Staff Welfare Fund		982,636	902,684
Deferred Income- Capital Grants	18	312,132,649	265,422,253
Total Non Current Liabilities		320,593,937	270,852,527
Total Liabilities		356,207,834	287,143,817
Net Assets		233,514,806	259,809,077
NET ASSETS/EQUITY			
Capital contributed by;			
Accumulated surplus		231,370,662	257,664,933
Initial Transfer of Assets from Government/Grantor		2,144,144	2,144,144
		233,514,806	259,809,077

The Annexed notes to the financial statements are an integral part of these financial statements.

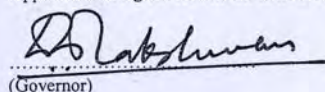
These financial statements have been prepared in accordance with the
Sri Lanka Public Accounting Standards and Sri Lanka Accounting Standards.


Chief Financial Officer


Executive Director

The Board of Governors of the Institute is responsible for the preparation and
presentation of these financial statements.

Approved and signed for and on behalf of the Board of Governors:


(Governor)

28 February 2011

INSTITUTE OF POLICY STUDIES OF SRI LANKA
STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2010

	Transferred Assets	Accumulated Surplus/ (Deficits)	Total
	Rs.	Rs.	Rs.
Balance as at 01 January 2009	2,144,144	230,351,039	232,495,183
Effect on reclassification of lease (Note 19)	-	(3,120,000)	(3,120,000)
Balance as at 01 January 2009 (Restated)	2,144,144	227,231,039	229,375,183
Effect in change in accounting policy (Note 17.1)	-	4,790,640	4,790,640
Surplus of income during the year as restated	-	25,643,254	25,643,254
Balance as at 31 December 2009 (Restated)	2,144,144	257,664,933	259,809,077
Deficit of income during the year	-	(26,294,271)	(26,294,271)
Balance as at 31 December 2010	2,144,144	231,370,662	233,514,806

INSTITUTE OF POLICY STUDIES OF SRI LANKA
STATEMENT OF CASH FLOW

<i>For the year ended 31st December</i>	2010	Restated
	Rs.	2009
		Rs.
Cash Flow From Operating Activities		
Surplus/(Deficits) Before Taxation	(26,294,271)	25,643,254
Adjustments for;		
Contribution from Staff Welfare Fund	79,954	178,726
Depreciation on Property, Plant and Equipment	5,722,590	2,313,648
Income on the Amortization of Building	(1,504,124)	-
Provision for Gratuity	3,363,362	1,815,759
Interest Income	(17,775,479)	(33,924,934)
Gain/(loss) on Disposal of Fixed Assets	(520,873)	-
Net cash inflow/(outflow) Before Working Capital Changes	(36,928,841)	(3,973,547)
Decrease in Trade Receivables	2,240,822	6,987,789
Decrease in Inventories	247,545	(24,918)
Decrease in Deposits and Prepayments	5,133,490	3,276,933
(Increase)/ Decrease in Vat and Other Receivables	(2,425,983)	33,079,931
Increase/(Decrease) in Advance Receipts	14,527,587	(1,304,561)
Increase/(Decrease) in Trade and Other Payables	4,795,021	(1,200,540)
Net cash inflow/(outflow) Generated From Operations	(12,410,359)	36,841,087
Gratuity Paid	(412,300)	(575,340)
Net Cash inflow/(outflow) From Operating Activities	(12,822,659)	36,265,747
Cash Flow From Investing Activities		
Purchase of Property, Plant and Equipment	(117,742,105)	(109,596,924)
Interest Received	25,450,700	26,564,098
Sales Proceeds from Disposal of Property, Plant and Equipment	914,362	-
Purchase of Investments	(93,342,699)	(69,501,097)
Proceeds from Sale Investments	153,688,252	87,548,022
Net cash inflow/(outflow) From Investing Activities	(31,031,491)	(64,985,901)
Cash Flow From Financing Activities		
Grants Received	48,214,520	-
Net cash inflow/(outflow) from Financing Activities	48,214,520	-
Net (Decrease)/Increase in Cash and Cash Equivalents	4,360,370	(28,720,154)
Cash and Cash Equivalents at the beginning of the year (Note 10)	8,577,926	37,298,080
Cash and Cash Equivalents at the end of the year (Note 10)	a) 12,938,296	8,577,926
a) Reconciliation of Cash and Cash Equivalents		
Cash at bank	12,901,296	8,540,926
Cash in Hand	37,000	37,000
	12,938,296	8,577,926

The Institute of Policy Studies of Sri Lanka
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. Domicile and legal form

Institute of Policy Studies was established by an Act of Parliament in December 1988, and was formally set up as a legal entity by gazette notification in April 1990. The Institute of Policy Studies of Sri Lanka (IPS) registered office and the principal place of service is situated at 100/20, Independence Avenue, Colombo 07, Sri Lanka.

1.1 Principal activities and nature of operations

The principal activity of Institute of Policy Studies is to promote policy-oriented economic research and medium term policy analysis in Sri Lanka.

1.2 Basis of Preparation

1.2.1 Statement of Compliance

The financial statements of Institute of Policy Studies comprise of, the statement of financial performance, statement of financial position, statement of changes in equity, statement of cash flow and notes to the financial statements. These statements are prepared in accordance with Sri Lanka Public Sector Accounting Standards (SLPSAS) for public sector entities laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL).

The Company has early adopted Sri Lanka Public Sector Accounting Standards, which will be effective for the financial period beginning on or after 01 January 2011. However, there is no implication on the prior year amounts as result of adoption of the SLPSAS.

1.2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis.

1.2.3 Going Concern

The Board of Governors are satisfied that the Institute has adequate resources to continue its operations in the foreseeable future. Accordingly the Financial Statements are prepared based on the going concept basis.

1.3 Summary of significant accounting policies

The policies have been consistently applied to all the years presented, except in respect of provision for gratuity, which has been stated in Note j, such change in accounting policy that has been adjusted through statement of changes in equity under accumulated surplus/deficits reserves.

(a) Foreign currency transactions

These financial statements are presented in Sri Lankan Rupees, which is the Institute's functional currency.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance. Such balances are translated at the financial year end exchange rates.

(b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent Expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the statement of financial performance as an expense as incurred.

Depreciation is calculated on the straight line method using the following rates per annum; based on the estimated useful economic life of the asset

Computer Equipment	33%
Web Page Design	33%
Motor Cycle	20%
Furniture	20%
Office Equipment/Generator	20%

The Institute of Policy Studies of Sri Lanka
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

Motor Vehicles	20%
Library Books	25%
Buildings	2%

Depreciation of an asset begins when the asset is available for use, where as depreciation of the asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

Impairment

Carrying value of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(c) Leases

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Payments under operating leases are charged to the statement of financial performance on a straight-line basis over the period of lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

(d) Investments

These investments comprise of Fixed Deposits, Treasury Bills, Bonds and Repurchase Agreements.

i. Fixed Deposits

The Investments in Fixed Deposits are accounted at cost. Interest accrued as at the statement of financial position date is shown as interest receivable.

ii. Treasury Bills/Treasury Bonds/Repurchase Agreements

The Investments in Treasury bills and bonds are stated cost plus interest as at the statement of financial position date.

(e) Capital grants

Grants relating to the purchase of property, plant and equipment are included under non-current liabilities as deferred income and credited to the statement of financial performance on a basis consistent with the basis of depreciation of the related assets.

(f) Inventories

Inventory consists of stock of Publications. Publications are stated at cost. Any publications held for more than 10 years have been treated as slow moving and have been written off.

(g) Receivables

Receivables are carried at anticipated realizable value. Debtors are reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. Bad debts are written off during the year in which they are identified.

(h) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank, cash in hand and call deposits held with banks, net of bank overdrafts. In the balance sheet, bank overdrafts are included under current liabilities.

(i) Liability and provisions

Liabilities classified as current liabilities on the statement of financial position are those which fall due for payment on demand or within one year from the statement of financial position date. Non-current liabilities are those balances that

The Institute of Policy Studies of Sri Lanka
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

fall due for payment after one year from the balance sheet date. All known liabilities have been accounted for in preparing these financial statements.

Provision for liabilities is recognized when the group has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation.

(j) Employee Benefits

i. Defined contribution plans

All the employees of the Institute are members of the Employees Provident Fund and Employees Trust Fund to which the Institute contributes 12% and 3% respectively of such employees' basic wage or salary.

ii. Defined benefit plan

The Institute measures the present value of the retirement benefits of gratuity, which is a defined benefit plan with the advice of an actuary using projected unit credit method (PUC). Actuarial gains and losses are recognized as income or expenses over the expected average remaining working lives of the participants of the plan. Previously, the entity has adopted the formula method established by ICASL in computing the provision for retirement benefit plan. This leads to changes in accounting policy as per SLPSAS 3 *Accounting policies, changes in accounting estimates and errors*, requires a retrospective adjustment in early prior periods as possible. Such change has been adjusted in statement of changes in equity.

(k) Revenue recognition

i. Contribution from the Government of Sri Lanka

The contribution from the Government of Sri Lanka is recognized on an accrual basis.

ii. Project Income

Revenue is recognized based on the stage of completion of the projects undertaken. Advance receipts arising from the project is classified as deferred income and presented as current liabilities in the statement of financial position.

iii. Income from Seminars/Workshops

The Income from Seminars and Workshops is recognized once the seminars and workshops have been conducted on an accrual basis.

iv. Interest Income

Interest Income is accounted for on an accrual basis.

(l) Recognition of Capital Expenditure

Expenditure incurred for the purpose of acquiring, extending or improving assets of permanent nature by means of which to carry on the business or for increasing the earning capacity of the business has been treated as capital expenditure.

Classification of Expenditure

For the purpose of presentation of statement of financial performance, the governors are of the opinion that the nature of expenses method presents fairly the elements of the Institute's performance and hence such presentation method adopted.

INSTITUTE OF POLICY STUDIES OF SRI LANKA
NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31st December</i>	2010 Rs.	2009 Rs.
2. Contribution from the Government of Sri Lanka		
Represents the allocation received from the Government of Sri Lanka for the rent and maintenance of the Institute.		
3. Project Income		
Income from projects-Institutions	29,339,789	30,549,947
Income from International Development Research Centre	677,996	-
	<u>30,017,784</u>	<u>30,549,947</u>
4. Income from Seminars and Workshops		
This consists of income generated from seminars and workshops conducted on the request of donors, and, as a form of dissemination of the research work carried out.		
5. Miscellaneous Income		
Sale of Publications	529,388	823,200
Profit on Sale of Fixed Assets	520,873	-
Other Income	201,681	39,809
	<u>1,251,942</u>	<u>863,009</u>
6. Employee Cost		
IPS Staff Salary	27,674,416	27,762,761
EPF	3,295,899	3,322,418
ETF	828,183	830,605
Honorarium (Note 6.1)	2,248,069	2,239,000
Staff Welfare Cost	4,703,250	2,985,680
Other Benefits	2,018,331	1,507,034
Decrease in Provision for gratuity (Note 17)	(117,103)	-
	<u>40,651,046</u>	<u>38,647,498</u>
6.1. Honorarium		
Includes payments made to Board of Governors	387,000	402,000
7. Research Cost		
Printing & Typesetting Publication Cost	2,242,602	946,845
Internet Charges	1,886,115	1,388,419
Consultation Charges	5,856,184	6,951,431
Other Research Costs	1,770,558	1,900,841
	<u>11,755,459</u>	<u>11,187,537</u>
8. Other Operating Expenses		
Bad Debts	520,000	-
Registration and Membership Fees	424,139	436,343
Printing Cost	18,445	33,835
Office Costs	1,458,245	502,968
Consumables	1,089,550	808,955
Professional and Legal Fees	162,003	5,500
Audit Fees	90,000	90,000
Advertisements	459,424	84,224
Bank Charges/Commission	356,849	234,020
Other Admin Related Costs	355,755	817,265
Lease rental	780,000	780,000
Miscellaneous Expenses	40,800	42,600
	<u>5,755,210</u>	<u>3,835,709</u>

INSTITUTE OF POLICY STUDIES OF SRI LANKA
NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31st December</i>	2010 Rs.	Restated 2009 Rs.
9. Income Tax Expense		
Current tax Expense		
The profits and the income of the Institute of Policy Studies are exempt from tax as per section 19(4) of the IPS Sri Lanka Act No. 53 of 1988 and section 2 (3) (LIX) of the Inland Revenue (Amendment) Act of No 42 of 1990.		
10. Cash and Cash Equivalents		
Cash at Bank	1,788,278	1,470,895
Cash at Bank-Foreign Currency (Note 10.1)	11,113,017	7,070,031
Petty Cash	37,000	37,000
	<u>12,938,296</u>	<u>8,577,926</u>
10.1 Cash at Bank-Foreign Currency		
Account in EURO	11,113,017	2,429,160
Account in USD	-	2,255,078
Account in GBP	-	2,385,793
	<u>11,113,017</u>	<u>7,070,031</u>
11. Deposits and Prepayments		
Prepayments (Note 11.1)	1,212,298	948,769
Deposits	696,000	648,000
Advances to new building sub-contractors	937,516	6,431,595
Other Advances	47,060	-
	<u>2,892,874</u>	<u>8,026,364</u>
11.1 Prepayments		
Medical Insurance	809,266	767,436
Other Insurance	385,552	178,932
Other Pre-Payments	17,480	2,400
	<u>1,212,298</u>	<u>948,768</u>
12. Other Receivables		
Other Receivables (Note 12.1)	7,111,030	1,499,474
Staff Debtors	1,792,746	1,675,428
NBT Receivable	56,004	-
	<u>8,959,780</u>	<u>3,174,902</u>
12.1 Other Receivables		
Contribution from the Government of SL allocation for 4th Quarter	5,793,845	-
Air ticket reimbursements for staff travel from Donors	1,084,975	565,143
Other Receivable	232,210	934,331
	<u>7,111,030</u>	<u>1,499,474</u>

INSTITUTE OF POLICY STUDIES OF SRI LANKA
NOTES TO THE FINANCIAL STATEMENTS

As at 31st December

13. Property, Plant and Equipment

Cost	Building on Leasehold Land Rs.	Computer Equipment Rs.	Motor Vehicles Rs.	Furniture & Fittings Rs.	Office Equipment Rs.	Library Books Rs.	Leasehold Improvements Rs.	Building Work in Progress Rs.	Total Rs.
Balance as at 01st January 2010	-	23,588,981	10,604,125	3,544,613	7,338,639	1,234,366	820,091	221,331,284	268,462,098
Additions	300,824,754	7,892,447	-	13,028,075	8,003,221	-	-	88,807,635	418,556,133
Less: Disposal	-	-	-	(3,025,521)	(6,973,987)	-	(820,091)	(300,824,754)	(311,644,354)
Balance as at 31st December 2010	300,824,754	31,481,428	10,604,125	13,547,166	8,367,873	1,234,366	-	9,314,164	375,373,876
Accumulated Depreciation									
Balance as at 01st January 2010	-	20,217,602	6,644,124	3,527,547	6,924,127	1,016,939	820,091	-	39,150,441
Depreciation Charge	1,504,124	1,515,346	1,320,000	698,928	483,926	200,266	-	-	5,722,590
Less: Disposal	-	-	-	(3,012,521)	(6,593,498)	-	(820,091)	-	(10,426,110)
Balance as at 31st December 2010	1,504,124	21,732,949	7,964,124	1,213,954	814,554	1,217,205	-	-	34,446,921
Carrying Value									
As at 31 December 2010	299,320,631	9,748,479	2,640,001	12,333,212	7,553,318	17,161	-	9,314,164	340,926,955
As at 31 December 2009	-	3,371,378	3,960,001	17,066	414,512	206,700	-	221,331,284	229,300,930

13.1 A 1/2 acre of land was given to the IPS by the Land Commissioner in year 2006, on a 30 year operating lease to construct the IPS Head Office building for which the Institute pays the divisional secretariat annual rental of Rs. 780,000. However the building on leasehold land is depreciated considering its useful life on the basis that the operating lease will be renewed. The additions represent the capital work in progress that has been capitalized as the building was occupied from October 2010.

The following installments have been received as at 31.12.2010

First installment	Rs. 47.5M (Eur. 360,000) in June 2006
Second installment	Rs. 65.4M (Eur. 416,000) in December 2007
Third installment	Rs. 121M (Eur. 720,000) in June 2008
Fourth installment	Rs. 31.4M (Eur. 214,000) in October 2008
Final installment	Rs. 13.2 M (Euro 90,000) in November 2010

INSTITUTE OF POLICY STUDIES OF SRI LANKA
NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31st December</i>	2010	2009
	Rs.	Rs.
14. Investments		
Repurchase Agreements	98,475,670	71,743,678
Treasury Bills (Note 14.1)	81,261,878	14,651,170
Treasury Bond (Note 14.1)	19,911,976	109,974,210
Fixed Deposits	18,818,800	82,444,818
	<u>218,468,324</u>	<u>278,813,876</u>
14.1 Market Value of Investments		
Treasury Bills	81,267,450	14,820,213
Treasury Bond	20,942,320	117,885,935
	<u>102,209,769</u>	<u>132,706,148</u>
15. Trade and Other Payables		
Creditors	5,893,135	351,858
Accruals (Note 15.1)	2,100,525	2,105,771
Withholding Tax Payable	771,462	706,955
Cheque Return Control Account	169,500	-
EPF Payable	-	519,966
NBT Payable	-	455,053
	<u>8,934,622</u>	<u>4,139,601</u>
15.1 Accruals		
Research Project Expenses	896,312	874,756
Telephone/Internet Charges	696,993	358,429
Audit Fees	325,000	405,000
Electricity	160,000	348,585
Other Office Costs	22,219	9,000
Fuel	-	110,000
	<u>2,100,525</u>	<u>2,105,771</u>
16. Advance receipt on projects		
Balance as at 01 January	12,151,689	13,456,250
Receipts during the year	51,645,910	32,677,392
Income recognized	(37,118,324)	(33,981,953)
Balance as at 31 December	<u>26,679,276</u>	<u>12,151,689</u>

The income on incomplete projects deferred in the Balance Sheet to be recognized as income over the period of projects. Amount carried forward together with expected future receipts on projects are estimated to be sufficient to meet the future expenses of these projects.

INSTITUTE OF POLICY STUDIES OF SRI LANKA
NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31st December</i>	2010	2009
17. Employee Benefits		Restated
Balance as at 01 January	4,527,590	8,077,811
Expense Recognized During the year (Note 17.1)	3,363,362	1,815,759
Payments made During the year	(412,300)	(575,340)
	<u>7,478,652</u>	<u>9,318,230</u>
Effect on change in accounting policy (Note 17.2)	-	(4,790,640)
Balance as at 31 December	<u>7,478,652</u>	<u>4,527,590</u>

Number of employees of the Organization as at 31 December 2010 is 61 (2009 - 55).

Number of employees of the Organization eligible for Employee Benefits as at 31 December 2010 is 46 (2009-47).

The liability is not externally funded and has been valued by a professional actuarial company.

The following assumptions are used in determining the cost to the institute of providing these benefits:

Discount Rate	10.50% (2009-11%)
Increase in rate of salary	5% (2009-5%)
Rate of Staff Turnover	7%

17.1 Expense recognized during the year	2010
	Rs
Current Service Cost	768,105.00
Interest Cost	498,035.00
Actuarial Gain/Loss	2,097,221.00
	<u>3,363,361.00</u>

17.2 Effect on Change in Accounting Policy

The Institute has changed its accounting policy on measurement of gratuity provision from formula method (introduced by ICASL) to actuarial valuation. Such change in accounting policy requires retrospective adjustment to be made in prior periods. Since it is impracticable to identify the effect specifically for previous year, the retrospective adjustment is made at 31st December 2009.

	2010	2009
	Rs.	Rs.
18. Deferred Income-Capital Grants		
Balance as at 01 January	265,422,253	265,422,253
Grants obtained during the year represents		-
Grant from the State of the Netherlands	13,214,520	
Grant from the Endowment Fund	35,000,000	
Amortized during the year	(1,504,124)	-
Balance as at 31 December	<u>312,132,649</u>	<u>265,422,253</u>

INSTITUTE OF POLICY STUDIES OF SRI LANKA
NOTES TO THE FINANCIAL STATEMENTS

19. Reclassification of Lease

The Institute has classified the leasehold land as a property, plant and equipment with corresponding finance lease liabilities. However considering the terms of lease arrangement, such lease should be classified as operating lease and lease payments is expensed in the income statement. Accordingly, Rs. 3,120,000 is adjusted as of 01st January 2009 as detailed below.

	Effect on 2009 Rs.
Increase in Operating Expense	780,000
Decrease in Profit	<u>(780,000)</u>
Decrease in Asset	(23,400,000)
Decrease in Liability	<u>20,280,000</u>
Decrease in Equity	<u>(3,120,000)</u>

20. Lease Commitment

The Institute has a commitment to make annual repayment of Rs. 780,000 p. a as a rental for the construction of building on land owned by the Land Commissioner on a operating lease arrangement for a period of 30 years. However steps are being taken to obtain the land on an outright grant from the Government of Sri Lanka.

The total of future minimum lease payments under operating leases for each of the following period;

Less than one year	Rs. 780,000
Between 1-5 years	Rs. 3,900,000
More than 5 years	Rs. 14,820,000

21. Capital Commitment

		2010
Capital Commitments contracted	Building Project	13,527,842.00
	Auditorium Project	<u>16,813,728.00</u>
	Total	<u>30,341,570.00</u>
Capital Commitments not contracted	Auditorium Project	<u>5,315,000.00</u>

22. Related Party Transactions

The Institute and the Endowment Fund are governed by the same Board of Governors. During the year the Institute has received Rs. 35,000,000 as a grant for construction of the head office building

The Institute is granted Rs. 14,000,000 from the Government of Sri Lanka for recurrent expenditure. The Secretary to the Treasury is an ex officio member of the Board of the IPS.

23. Contingent Liabilities

There were no contingent liabilities as at the balance sheet date.

24. Events Occurring after the Balance Sheet Date

There were no events occurring after the balance sheet date which require adjustments to or disclosures in the financial statements.

25. Board of Governors' Responsibility

The Board of Governors is responsible for the preparation and presentation of these financial statements in accordance with SLPSAS.

► IPS Project located in the Ministry of Finance and Planning with a Resident Coordinator from the ISS, The Hague, with funding under Phase I of Sri Lanka-Netherlands Technical Cooperation project

1985

► Appointment of the Executive Director and Board of Governors

► Office premises shifted to the DFCC Building, Colombo 3

1988

► IPS established under Act of Parliament No. 53 of 1988

1989

► Appointment of a new Resident Coordinator

1991

► IPS comes into formal operation under the Ministry of Finance and Planning by Gazette Notification in April

► Commencement of IPS Phase II funding

1990

1992

► Initiation of the IPS State of the Economy Report

► Initiation of macro-economic database

Celebrating 25 years...

► Commencement of IPS Phase IV Operation

► Programme and Research Units come into operation

► Creation of new position of Director-Administration and Corporate Affairs and decentralization of administration functions

► IPS placed under Ministry of Policy Development and Implementation by Gazette Notification in December

► IPS public website launched

► IPS library intranet services launched

► Creation of the Information Systems Unit

► Launch of redesigned IPS public website

► Introduction of a Medical Health Insurance Scheme for staff

1999

► Launch of the South Asia Economic Journal, an international journal, jointly with RIS India

► Partner Institution in Sri Lanka for the South Asia Centre for Policy Studies (SACEPS)

2000

► Creation of the Publications and Communications Unit and initiation of in-house desktop publishing

► Production of Sri Lanka National Health Accounts

► Initiation of in-house web development activities

► IPS added on another location and took on rent a building in close proximity to the IPS Head Office, which location was known as the IPS Annex

► Re-engineering the Finance and Administration function and computerizing the manual accounting, budgeting and project management processes

2002

2003

► Initiation of an intranet IPS Corporate Website and increasing the IPS Intranet Bandwidth to 512 kbps

► Implementation of the IPS corporate plan

► IPS appointed to the Chair for the Indian Ocean Rim Academic Group

2004

IPS Milestones

- ▶ Initiation of the IPS Endowment Fund
- ▶ Introduction of the Senior Visiting Fellow and Project Internship programmes

1993

- ▶ Office premises re-located to St. Michael's Road, Colombo 3
- ▶ Appointment of a new Executive Director in December

1994

- ▶ Introduction of a policy input-oriented monthly public seminar programme, and monthly in-house seminar programme
- ▶ Initiation of project work
- ▶ Initiation of IPS Health Policy Programme as an independent pilot project
- ▶ Introduction of a Manual of Operations
- ▶ First contribution to the Endowment Fund of CS 1 million from the Government of Canada

1995

- ▶ First External Evaluation of the IPS
- ▶ MOUs with foreign universities for exchange programmes initiated

1996

- ▶ Commencement of IPS Phase III funding
- ▶ Introduction of the IPS Annual Report
- ▶ Appointed as the focal point of the IOR-ARC academic group in Sri Lanka
- ▶ Appointed as the MIMAP project partner in Sri Lanka

1997

- ▶ Introduction of a monthly Book Review series
- ▶ Initiation of a Professorial Chair
- ▶ Appointed as the focal point of the SAARC Research Network

1998

- ▶ Creation of new position of Deputy Director
- ▶ Initiated translation of IPS publications into Sinhala and Tamil languages
- ▶ Compilation of input-output tables for Sri Lanka
- ▶ IPS placed under the Ministry of Plan Implementation by Gazette Notification in December
- ▶ Organized the first major international conference with more than 150 foreign participants (Poverty and Economic Policy [PEP] General Meeting)

2005

- ▶ Introduction of Employee Performance Development Review Process to staff
- ▶ Laying the foundation stone for the IPS Head Office
- ▶ Calling bids and selecting the contractor for the new Head Office
- ▶ Chairman and Executive Director invited to serve in the National Economic Council under H.E. the President

2006

- ▶ Initiating the IPS Blog
- ▶ Launching of the first Sri Lanka Migration Outlook report
- ▶ Launching of the South Asia Migration Commission
- ▶ Launching the first Sri Lanka Climate Change report and the corresponding website
- ▶ Appointed as the academic focal point for the Asian Cooperation Dialogue

2007

2008

2009

2010

- ▶ IPS signs an agreement with The Netherlands Minister for Development Cooperation for the Dutch contribution for the construction of a New IPS Office Building
- ▶ Vesting order issued for land allocated to the IPS
- ▶ Appointment of a new Chairman, and members to the Board of Governors of the IPS
- ▶ Creation of the centralized Economic Research Databases, and implementation in the institutional corporate web
- ▶ The IPS became self-financing with the ending of Dutch Funding in June 2006
- ▶ Initiation of policy advocacy work (on effective service delivery by Provincial Councils)

- ▶ Initiating the first South Asia Economic Summit
- ▶ Initiating the first India-Sri Lanka Comprehensive Economic Partnership Agreement (IL-CEPA) public dialogue

- ▶ Shifting to IPS new Head Office
- ▶ Appointment of a new Chairman and members to the Board of Governors
- ▶ Formation of an Audit Committee
- ▶ Winner of the Think Tank Initiative (TTI) grant (four year core funding under IDRC)
- ▶ Investing in a new IT Network



IPS Head Office

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