# SRI LANKA STATE OF THE ECONOMY 2015

## Economic Reforms: Political Economy and Institutional Challenges

INSTITUTE OF POLICY STUDIES OF SRI LANKA

# SRI LANKA
# STATE OF THE
# ECONOMY
# 2015

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## Acronyms

| | |
|---|---|
| AAIB | Agriculture and Agrarian Insurance Board |
| ADB | Asian Development Bank |
| AIIB | Asian Infrastructure Investment Bank |
| AOA | Agreement on Agriculture |
| APTA | Asia-Pacific Trade Agreement |
| ASEAN | Association of South East Asian Nations |
| BIA | Bandaranaike International Airport |
| BOI | Board of Investment |
| BOP | Balance of Payments |
| BPO | Business Process Outsourcing |
| BRICS | Brazil-Russia-India-China-South Africa |
| CBSL | Central Bank of Sri Lanka |
| CCPI | Colombo Consumers' Price Index |
| CCS | Climate Change Secretariat |
| CEA | Central Environment Authority |
| CEB | Ceylon Electricity Board |
| CEPA | Comprehensive Economic Partnership Agreement |
| CESS | Commodity Export Subsidy Scheme |
| CHA | Custom House Agent |
| CPC | Ceylon Petroleum Corporation |
| CRC | Convention on the Rights of the Child |
| DCS | Department of Census and Statistics |
| DHS | Demographic and Health Survey |
| DIE | Department of Immigration and Emigration |
| DO | Development Officer |
| DTET | Department of Technical Education and Training |
| DWC | Department of Wildlife Conservation |
| ECB | European Central Bank |
| EDB | Export Development Board |
| EGS | Ecosystem Goods and Services |
| EIA | Environment Impact Assessment |
| EPF | Employees' Provident Fund |
| EPL | Environment Protection Licence |
| EPZ | Export Processing Zone |
| EU | European Union |
| FBR | Family Background Report |
| FDI | Foreign Direct Investment |
| FLFP | Female Labour Force Participation |
| FTA | Free Trade Agreement |
| FTZ | Free Trade Zone |
| FUTA | Federation of University Teachers' Association |
| GCC | Gulf Cooperation Council |
| GDP | Gross Domestic Product |
| GFC | Global Financial Crisis |
| GM | Genetically Modified |
| GSP | Generalized System of Preferences |

| | |
|---|---|
| HCR | Head Count Ratio |
| HDI | Human Development Index |
| HMP | Health Master Plan |
| HIES | Household Income and Expenditure Survey |
| ICT | Information Communication Technology |
| IEE | Initial Environmental Examination |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| IPR | Intellectual Property Right |
| ISFTA | India Sri Lanka Free Trade Agreement |
| IT | Information Technology |
| JVP | Janatha Vimukthi Peramuna |
| MBI | Market Based Instrument |
| MDG | Millennium Development Goal |
| MFE | Ministry of Foreign Employment |
| MFEPW | Ministry of Foreign Employment Promotion and Welfare |
| MFN | Most Favoured Nation |
| MIS | Management Information System |
| MNC | Multi-National Corporation |
| MNE | Multi-National Enterprise |
| MO | Medical Officer |
| MOE | Ministry of Education |
| MOH | Ministry of Health |
| MRA | Mutual Recognition Agreement |
| MSW | Municipal Solid Waste |
| NAITA | National Apprenticeship and Industrial Training Authority |
| NBT | Nation Building Tax |
| NCD | Non Communicable Disease |
| NDQAL | National Drug Quality Assurance Laboratory |
| NEC | National Education Commission |
| NGO | Non-Government Organization |
| NIE | National Institute of Education |
| NPP | National Physical Plan |
| NTB | Non-Tariff Barrier |
| NTM | Non-Tariff Measure |
| NVQ | National Vocational Qualification |
| NYSC | National Youth Services Council |
| OECD | Organization for Economic Cooperation and Development |
| OPEC | Organization of Petroleum Exporting Countries |
| OPL | Official Poverty Line |
| PAL | Port and Airport Levy |
| PAMA | Public Assistance Monthly Allowance |
| PDHS | Provincial Director of Health Services |
| PHSRC | Private Health Services Regulatory Council |
| PIM | Participatory Irrigation Management |
| PISA | Programme for International Student Assessment |
| PPP | Public Private Partnership |
| PSPS | Public Service Pension Scheme |

| | |
|---|---|
| PSPF | Public Service Provident Fund |
| PSFTA | Pakistan Sri Lanka Free Trade Agreement |
| PTA | Preferential Trade Agreement |
| PUCSL | Public Utilities Commission of Sri Lanka |
| QE | Quantitative Easing |
| RBI | Reserve Bank of India |
| RCEP | Regional Comprehensive Economic Partnership |
| R&D | Research and Development |
| REER | Real Effective Exchange Rate |
| RIDL | Regional Infrastructure Development Levy |
| ROO | Rules of Origin |
| SAARC | South Asian Association for Regional Cooperation |
| SAFTA | South Asian Free Trade Agreement |
| SATIS | SAARC Agreement on Trade in Services |
| SCL | Special Commodity Levy |
| SDT | Special and Differential Treatment |
| SEA | Strategic Environment Assessment |
| SLBFE | Sri Lanka Bureau of Foreign Employment |
| SLC | Sri Lanka Customs |
| SLFP | Sri Lanka Freedom Party |
| SLIATE | Sri Lanka Institute of Advanced Technological Education |
| SLSI | Sri Lanka Standards Institution |
| SME | Small and Medium Enterprise |
| SOE | State Owned Enterprise |
| SPC | State Pharmaceutical Corporation |
| SPS | Sanitary and Phytosanitary |
| SRL | Social Responsibility Levy |
| SSB | Social Security Board |
| STEP | Skills Toward Employment and Productivity |
| T&G | Textiles and Garments |
| TBT | Technical Barriers to Trade |
| TPP | Trans-Pacific Partnership |
| TRQ | Tariff Rate Quota |
| TVEC | Tertiary and Vocational Training Commission |
| TVET | Technical Vocational Education and Training |
| UGC | University Grants Commission |
| UNCTAD | United Nations Commission on Trade and Development |
| UNHCHR | United Nations High Commissioner for Human Rights |
| UNIVOTEC | University of Vocational Technology |
| UNP | United National Party |
| UPFA | United People's Freedom Alliance |
| US | United States |
| VAT | Value Added Tax |
| VTA | Vocational Training Authority |
| WEF | World Economic Forum |
| WHO | World Health Organization |
| W&OP | Widows/Widowers and Orphans Pension Scheme |
| WTO | World Trade Organization |

# GROWTH AND STABILITY

# 1. Policy Perspectives

The direction of Sri Lanka's post-war socio-political and economic development took a decisive turn in January 2015 with the election of Maithripala Sirisena as Sri Lanka's sixth Executive President, ending a tumultuous 10 year rule by former President Mahinda Rajapaksa. In those 10 years, Sri Lanka overcame the most visible challenge to its statehood since Independence by finally claiming victory over a 30-year armed separatist conflict in May 2009. Credited with overseeing the war, it also marked the peak of popularity of the incumbent - winning a second term handsomely in 2010 and presiding over an unassailable two-third majority in Parliament. The unprecedented concentration of political power, however, had a downside; a slide towards steps deemed undemocratic, embodied by the lifting of Presidential term limits through a constitutional amendment. Thus, despite an ambitious economic development drive that delivered high growth, charges of corruption, nepotism and hubris were sufficient for an eclectic mix of political opponents to line-up behind a 'common opposition candidate' and bring about a 'regime change' at the polls.

The coalition of parties behind the common opposition Presidential candidate - sprung from the ruling Sri Lanka Freedom Party (SLFP) led United People's Freedom Alliance (UPFA) - was steered primarily by the SLFP's arch rival, the United National Party (UNP). Together, proclaiming the campaign to be a harbinger of change, a common policy platform - 100-day programme - promised to present the new Parliament with a series of constitutional reforms aimed to abolish or curb the powers provided for a strong executive head of state. For good measure, the 100-day programme also threw in some populist spending promises such as public sector salary increases and administered price reductions on select items such as fuel.

The electoral victory for Maithripala Sirisena - and subsequent appointment of UNP's Ranil Wickramasinghe to lead a minority government - suggests that the 100-day programme appealed to a majority of Sri Lankans disillusioned with the workings of their political system. A broad cross-party consensus held together to pass the 19th Amendment to the Constitution that eroded some powers of the Executive Presidency; most notably, it reintroduced a two-term presidential limit and reinstated a Constitutional Council to oversee appointments to independent Commissions. Whilst it is a far cry from the more ambitious promises to abolish an all-powerful Presidential-style of government and re-establish a Westminster-style parliament- led government, the 19th Amendment is nonetheless a significant step forward in strengthening institutional and governance structures in Sri Lanka.

The 19th Amendment was passed on 28 April 2015, but a proposed 20th Amendment to the Constitution to change Sri Lanka's electoral system got mired in cross-party wrangling. Therein lay the dilemma for the new administration and for Sri Lanka; a troubling pattern of delays and uncertainty began creeping in to take the gloss off the initial exhilaration generated by the 'regime change'.

The main drawback was the interminable delay in dissolving Parliament at the end of the 100 days to allow political parties to seek a fresh mandate. The UNP was clearly in favour of an early election to capitalize on a perceived swing in voter sentiment. The SLFP, on the other hand, was in some disarray,

with party loyalties divided between President Sirisena and former President Rajapaksa in the face of moves to secure a nomination for the latter to re-enter politics as a parliamentarian, and possibly be elected as Prime Minister. Having secured 47.6 per cent of the popular vote in January 2015, the beleaguered UPFA considered him as their best bet to retain those votes.

In the event, the much delayed August 2015 general elections produced a hung Parliament, with the UNP securing the highest number of seats (106), but short of the required 113 for a majority in Sri Lanka's 225 seat legislature. Nonetheless, the UNP is able to command a working majority with the support of a section of SLFP parliamentarians drawn from the UPFA's 95 seats. The arrangement offers Sri Lanka a measure of political stability in the near term. The more difficult task will be to ensure it holds for the full five year parliamentary term whilst setting and implementing policies on both political and economic fronts.

The most pressing of these relate to the economy. The state of Sri Lanka's economy received little attention in the run-up to the Presidential elections. This was for two reasons; economic issues matter to voters if there is a deep and widespread sense of crisis to tap into. By headline numbers alone, the Sri Lankan economy appeared in good shape. At end-2014, GDP growth was averaging in excess of 7 per cent in an environment of moderate inflation, unemployment was at a low 4 per cent, and head count poverty was down to less than 7 per cent. There were also visible signs of infrastructure development of roads, expressways, ports and airports. These masked some inherent structural weaknesses in Sri Lanka's public investment-led and external debt-financed growth. As noted in *Sri Lanka: State of the Economy 2014* report "beyond the immediate headline macroeconomic numbers, the Sri Lankan economy continues to show skewed growth, high levels of external indebtedness, modest export earnings growth and limited private investor appetite to expand production capacity." Stacked against headlines statistics, structural weaknesses in the economy, however, are not as readily explainable on election platforms.

A second reason why the economy received little attention is because the loose coalition of political parties that lined up behind the common opposition candidate, subscribe to very different policies. Indeed, it differs widely from the market-friendly UNP to the Marxist-leaning Janatha Vimukthi Peramuna (JVP). Thus, any economics in the 100-day programme was confined to addressing 'cost of living' issues, through price reductions and state salary and pension increases which all parties could agree on. The new budget proposals presented in January 2015 upheld these promises, delivering a mix of populist measures and slapping taxes on business profits as a one-off exercise to cover additional expenses incurred as a result.

The economy was a casualty of political intransigence in the months to follow. A Bill to raise government borrowing limits was defeated in April 2015, after which Bills to pass new tax measures announced in budget proposals appeared to have been put on hold indefinitely. With delays also in tapping foreign borrowing via a planned Sovereign bond, the government resorted to heavy domestic borrowing instead. In fact, net domestic financing of the fiscal deficit of Rs. 444 billion up to June 2015 exceeded the total net domestic financing for the entire year in 2014. Not surprisingly, interest rates began to edge up as a result.

The currency too has been under pressure. Inflows of development loans slowed with stalled infrastructure projects and efforts to issue a Sovereign bond took longer than anticipated, even as the Central Bank of Sri Lanka (CBSL) used its official reserves to service debt repayments and prop up the currency. As of mid-2015, the outlook stabilized somewhat with official reserves at US$ 7.5 billion, sufficient for 4.5 months of imports, helped

by swap agreements with the Reserve Bank of India (RBI) and capital inflows of US$ 650 million from a Sovereign bond issued in May 2015. At the same time, however, Sri Lanka's foreign earnings growth is stagnant with a likely weakening of the current account. In the first six months of 2015, export earnings contracted by 0.6 per cent, with a 15 per cent expansion in the trade deficit; earnings from worker remittances also slowed to a low 2.2 per cent.

First quarter 2015 GDP estimates indicate that Sri Lanka's above 7 per cent stable growth of recent years - annualized at 7.4 per cent in 2014 - is moderating.[1] Quarterly growth fell to 6.4 per cent for the second consecutive quarter, and marked a drop from 7.6 per cent growth in the first quarter of 2014. Even as growth appears to be slowing, fiscal conditions are weakening. Fiscal adjustments will likely take the form of cuts to public investment, already slashed substantively to 4.4 per cent of GDP in 2015; in an economy that has relied massively on such investment for growth, the impact will be all the more immediate.

Interest rates too are rising as domestic market liquidity is absorbed by the state. It can be expected that the very modest private sector appetite for credit of the last 18 months will begin to reverse soon with electoral related uncertainties largely out of the way. Private sector investment that can support higher growth will begin to get crowded out if government fiscal laxity is not restrained.

Thus, the economic policy challenges for the new government are many. Of first and immediate priority is fiscal consolidation. A stronger fiscal position is necessary to stabilize macroeconomic fundamentals and lay a platform from which broad-based productivity-enhancing reforms can begin.

While public infrastructure investment boosted growth, Sri Lanka's export share of GDP has shrunk

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to less than 15 per cent. The economy remains overwhelmingly consumption driven, with consumption fuelled by capital inflows in the context of low private investment demand. Capital inflows also feed into an appreciating exchange rate which further aggravates scarcity of investment. As a result, the profitability of tradeable industries declines. In addition, Sri Lanka's modest skills base, institutional weaknesses and inadequate infrastructure hamper the competitiveness and efficiency of its export industries.

Fiscal constraints, the demographics of a contracting labour force, and skill deficiencies suggest that the new government will have to confront difficult trade-offs that have been avoided during years of steady economic growth. Overhauling Sri Lanka's tax system, tackling loss making state-owned-enterprises (SOEs), improving labour market efficiency, filling skill gaps in the workforce, improving productivity of agriculture, delivering a better safety net to the poor and vulnerable, to name a few, are amongst a raft of reforms that need attention. Such

[1] The Department of Census and Statistics (DCS) is currently engaged in re-basing the country's national accounts. Initial estimates suggest that real growth rates as a result will be reset at much lower rates than under the old series (see Box 2.1 of this report).

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reforms are politically difficult to deliver through the legislative phase, and are often even more difficult to implement. Reforms generate distributional impacts that create 'losers' and 'winners', entailing short-term adjustment costs, but with potential for long term benefits. Losers can easily identify themselves; although many more may benefit from reforms, there is less likelihood of an organized platform emerging in support of reform as opposed to those who may organize on an anti-reform platform.

Reforms are more likely to get off the ground and succeed in the presence of certain catalysts: a widespread sense of economic crisis and an electorate that accepts there is no alternative to change; a break from interest groups with vested interests in the prevailing economic system; strong political leadership and an electoral mandate to push reforms through; and ownership of a reform process rather than a perception that it is being forced on them from outside.

Many of the above can often times converge. For instance, an economic crisis can provide a window of opportunity for reform - allowing governments to overcome rent seeking interest groups who have a stake in maintaining past systems of state patronage. It may also be that domestic economic difficulties precede a change of political leadership, facilitating the shift of powerful vested interests that have developed around certain policies. Economic difficulties can also build broad support amongst the public for a change, whilst international lending agencies may step in to offer 'conditional' soft loans that can ease fiscal constraints, allowing governments to offer 'sweeteners' to make reforms more palatable.

However, an economic crisis is neither a necessary nor a sufficient condition to drive a successful reform process. A newly elected and popular government with a strong mandate can as easily initiate reforms during its early 'honeymoon' period in office. Indeed, strong political leadership can be a key determinant in driving a reform process through even in the absence of significant political control. Here, support from competent technocrats in the public sector will be a key determinant.

Sri Lanka's past experience of relatively successful reform efforts - in 1977/78 and 1990/91, both times under the UNP - contain a mix of these elements. Widespread disenchantment with the country's economic progress saw the UNP obtain an overwhelming political mandate in 1977 to bring about sweeping reforms. In the late 1980s, in spite of a much reduced political space for a broad based reform effort, strong political leadership in the midst of a weakened economy provided the impetus for change.[2]

[2] Dunham, D., and S. Kelegama (1997), "Does Leadership Matter in the Economic Reform Process? Liberalization and Governance in Sri Lanka, 1989-93", *World Development*, 25(2):170-190.

By contrast, Sri Lanka has also witnessed reform initiatives that barely made it beyond the drawing board. In 1994, a change of political leadership saw an initial burst of privatization initiatives, but the enthusiasm for reforms petered out towards the latter part of the 1990s under the pressure of coalition governments and thin parliamentary majorities. A brief hiatus in 2002-04 by a UNP parliamentary-led government foretold an unsuccessful reform effort under the weight of electorally unpopular measures such as a freeze on public sector wages and withdrawal of subsidies. On the other hand, potential catalysts for reforms of political leadership and a strong electoral mandate prevailed during 2010-14, but there was no real belief in the necessity for them.

Overall, Sri Lanka's reform efforts delivered partial benefits; they were also frequently delayed, compromised, or failed altogether. Delays and compromise are to be expected in the context of political economy risks associated with reforms. The reform efforts that did prevail offered compensating mechanisms to potential losers; in the 1977/78 episode, it entailed the promise of new employment, livelihood, and housing opportunities through public investment. The packaging to garner popular support was more direct in the 1990/91 episode - an ambitious national poverty alleviation programme, incentivizing industries to generate rural youth employment, a village reawakening programme, etc. - to ease perceptions of inequity in access to the benefits of market-driven policies following the 1987-89 JVP-led youth uprising.[3]

Some of the important catalysts that triggered Sri Lanka's past economic reform initiatives - a strong political majority and a widespread economic crisis - are less apparent today. That makes the task of building consensus on an economic reform agenda and persuading entrenched interests to accept it more difficult. Reforms need to be ambitious in scope; but ambition may have to be tempered by political economy realities. An agenda setting for reforms thus must begin with attempts to strengthen interactions between institutions, policy processes, and policy outcomes. The environment in which many of these sorts of transitions take place is strongly influenced by broader factors such as the quality of institutions and governance in a country.

This year's *Sri Lanka: State of the Economy* report centres around the theme of "Economic Reforms in Sri Lanka: Political Economy and Institutional Challenges". The conditions for introducing, implementing and sustaining an economic reform effort are weaker today than during past successful efforts; a failure to strengthen institutions and governance structures lies at the heart of it. Incentives built into institutional structures determine whether they act more as rent seeking entities, influencing the allocation of resources. Weak institutional structures lead to administrative confusion and entrench privileges of the political elite over time.

The typical rent-seeking activities under a licence-regime have been replaced by stronger patron-client relationships between politicians and other key actors in the policy making process. Posts and privileges are dispensed freely, encouraging the practice of 'competitive populism' to the detriment of sound policy making. The concentration of state power has intensified, with political parties dominated by a handful of individuals, stifling democratic practice within parties, and centralizing decision-making. The bureaucracy has also become more politicized and powerful, performing both administrative and political functions as politicians rely on a few hand-picked technocrats to formulate and implement policy. The dual role and discretionary powers they enjoy mean a greater blurring of transparency and accountability in policy decisions, and a distancing of policy makers and elected politicians from their constituencies.

[3] Weerakoon, D., (2012), "Sri Lanka's Economic Reform Process: Progress and Constraints" in Dee, P., (ed.), *Economic Reform Processes in South Asia: Towards Policy Efficiency,* Routledge, Oxford, U.K.

The quality of a country's institutions therefore matters in shaping opportunities for reform and their outcomes. In this context, Sri Lanka's current focus on re-invigourating its politico-institutional structures to institute norms and rules that will restrain the drift towards arbitrary action and corruption is promising. Institutions based on transparent rules and governance structures will help instil confidence in investors and businesses to undertake productive investments rather than rent-seek.

Productive investments are needed to build a competitive export sector. For a small developing economy such as Sri Lanka, external demand is critical as an enabler of sustained high growth, generating demand, absorbing surplus labour and raising productivity. Sri Lanka's shrinking export share of GDP and global market share for exports must be reversed. Reform efforts to improve export competitiveness will require addressing constraints on multiple fronts. These include tackling supply-side capacities, addressing weaknesses in the business environment, and strengthening demand-side conditions. Improvements on these fronts will help attract the right kind of foreign direct investment (FDI) that brings technology and knowledge transfer to instil competitiveness across the economy. Governments must facilitate this by providing a consistent and predictable policy environment. Opaque and discretionary tariff setting must be rationalized and streamlined to promote exports, and efforts made to penetrate new export markets through strategic trade partnerships.

A competitive export-led economy will depend, among other factors, on the availability of a highly skilled and trained workforce that can enjoy better quality employment. Sri Lanka's demographic transition means that its population is ageing and the working age population is on the decline. Already, many industries are impeded by human resource constraints, forcing them to contemplate importing workers and/or resort to automation. How to source the required workers and utilize existing labour resources more effectively are high on the priority

**The quality of a country's institutions matters in shaping opportunities for reform and their outcomes.**

of labour market challenges. Reforms need to address gaps in coordination and information gathering amongst different labour market institutions, bridge weaknesses in the traditional modes of vocational and technical training, address impediments that deter women from entering the labour force, as well as regulatory barriers that constrain job creation in the formal sector of the economy.

Low levels of female labour force participation and high levels of migration of workers are exacerbating the labour shortage problem. The lack of access to good jobs in Sri Lanka - i.e., those with adequate remuneration and social protection - makes migration for domestic work a popular employment choice among women. While it is recognized that migration is a double-edged sword that on the one hand helps women, it also holds significant social costs. One mitigating legislative reform is the recently introduced Family Background Report (FBR) aimed at discouraging females with children under the age of five years from seeking foreign employment. However, the FBR in its current form discriminates against women, curtailing their livelihood options further. Regulatory strictures on migration must remain open to policy revision.

The fact of Sri Lanka's female migrants seeking employment abroad owing to lack of access to good jobs at home is reflective of mismatches in the labour market at large. High numbers of unemployed educated youth suggests that people enter work not equipped with the skills demanded by firms. Indeed, a shortage of manpower with required skills has become the most severe constraint encountered by the business community in the country. Sri Lanka's education sector suffers from poor responsiveness to drive innovation and technological transformation, an inability to provide equitable access to quality education, and lacks capacity in the tertiary education system. Reforms must focus on allocating sufficient funds for education, enhance the quality and relevance of the curriculum, address deficiencies in human resources in recruiting and training, and ensure consistent implementation of proposed education sector reforms.

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Closely aligned to better education outcomes is the provision of adequate health care. While Sri Lanka has achieved noteworthy health outcomes, the country needs to strengthen its existing health system, both public and private, in view of changes brought on by demographic and epidemiological transitions. The demand for health care increases and changes shape with an ageing population; the rise of non-communicable diseases (NCDs) that require long-term intervention pushes up the cost of health care provision; moreover, countries are increasingly more vulnerable to global health epidemics. Reforms to strengthen health care financing, and regulatory changes to improve public and private health care delivery systems are essential to continually improve on Sri Lanka's socio-economic outcomes in a cost-effective and efficient way.

Sri Lanka's labour market conditions and changing demographics - with 60 per cent currently finding employment in the informal sector and a quarter of the population set to be over 60 years by 2031 - call for a revamping of the existing social protection system in the country. Despite a multitude of programmes, low coverage, poor targeting, inadequacy of benefits, lack of coordination among programmes, budgetary constraints, and inequitable resource allocation mean that a large proportion of the vulnerable population are inadequately covered. Reforms are needed to Sri Lanka's retirement benefit schemes, cash transfer/subsidy programmes, and the social protection system as a whole, to mitigate inequities and provide adequate safety nets in pursuit of broader poverty alleviation goals.

The most vulnerable to high incidences of poverty is the rural agriculture-reliant population in Sri Lanka. Despite the shrinking share of agriculture in GDP, it continues to be an important source of income, employment, food security, alleviating agrarian poverty and improving export earnings. The agriculture sector however, suffers from stagnant productivity, limited diversification and inefficient resource management. A broad based shift from




traditional low value to modern high value agriculture, accompanied by sustained improvements in productivity and competitiveness through policy reforms, is critical to support a broader structural transformation of the Sri Lankan economy. The priority areas for reform include land, irrigation and technology development policies, as well as in processing, marketing and down-streaming activities to increase value addition to agricultural products.

The agriculture sector is also particularly vulnerable to climate change impacts such as rainfall patterns. At the same time, exploitative land and forest usage is leading to natural resource degradation in Sri Lanka. Deforestation and land degradation is worsening; environment pollution is rising from excessive application of chemicals, poor waste management and air pollution. The country's response to global environment threats such as climate change has many gaps in policy coordination, information, and resource mobilization. To mitigate adverse environmental impacts, an effective environment management system must be in place. It requires reforms to governance structures to better coordinate policy, strengthen planning and monitoring to include strategic environmental assessments, and in approaches to environmental management such as the adoption of market based instruments.

The above policy areas, while not exhaustive, are some of the many issues that the *Sri Lanka: State of the Economy 2015* report examines in some detail in the chapters to follow. In recent years, rapid infrastructure development was viewed as Sri Lanka's opportunity to unlock growth; it paid dividends in the medium term in reviving a war ravaged economy. However, external debt financed, consumption driven growth without complementary reform initiatives to raise export competitiveness is

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not a sustainable long-term option for a small open economy such as Sri Lanka.

As the infrastructure boost to growth of recent years begins to deplete, a new direction for sustained long-term growth needs to be set. The economic policy choices for Sri Lanka are dwindling swiftly; growth is moderating amidst weakening fiscal conditions and external current account, interest rates are on the rise while the currency is under depreciating pressure. While Sri Lankan voters have not delivered a sweeping election win to any one party, the UNP's electoral mandate to form a government is sufficiently decisive to set and pursue a transformational economic reform agenda. The formation of a national unity government with the support of a section of the SLFP can provide the necessary political stability. It leaves sufficient room for the government to adopt a pragmatic approach on the economic front - to weigh its options and decide what is feasible, picking on what is more easily doable and building on the reform process in the medium term. What Sri Lanka must avoid is fractious horse-trading that at times typifies loose coalition arrangements; such outcomes can lead to policy gridlock, and undermine the very same checks and balances of good governance that is sought to be strengthened.

# 1. ප්‍රතිපත්ති දැක්ම

හිටපු ජනාධිපති මහින්ද රාජපක්ෂගේ දස අවුරුදු හැලහැප්පීම් සහිත පාලනය අවසන් කරමින් 2015 ජනවාරියේ දී මෛත්‍රිපාල සිරිසේන ශ්‍රී ලංකාවේ හය වැනි විධායක ජනාධිපති ලෙස තේරී පත්වීම ශ්‍රී ලංකාවේ පශ්චාත් යුද කාලීන සමාජ-දේශපාලන සහ ආර්ථික සංවර්ධනයේ ගමන් මග කැපී පෙනෙන ලෙස වෙනස්වීමකි. එම දස අවුරුදු පාලන සීමාව ඇතුළත, නිදහසින් පසු ශ්‍රී ලංකාවේ රාජ්‍යයට එල්ල වූ ප්‍රබලතම අභියෝගය වූ වසර 30 ක් තිස්සේ මෙරට පැවති බෙදුම්වාදී සන්නද්ධ ගැටුම 2009 මැයි මාසයේ දී පරාජය කෙරීණ. යුද්ධය මෙහෙයවීමේ ගෞරවය දිනා ගැනීමෙන් ජනප්‍රියත්වයේ මුදුන් පෙත්තට ම නැගි හෙතෙම 2010 දී දෙවැනි වරටත් පහසු ජයග්‍රහණයක් ලබා ගැනීමට අමතර ව පාර්ලිමේන්තුවේ තුනෙන් දෙකක අසහාය බලයක් තහවුරු කර ගැනීමට ද සමත් වූයේ ය. කෙසේ වුව ද, මේ පෙර නොවූවිරූ දේශපාලන බලය ඒකරාශීවීම අව පක්ෂයකින් ද යුක්ත විය. ජනාධිපති ධුර වාර ගණන පිළිබඳ සීමා ව්‍යවස්ථා සංශෝධනයකින් ඉවත් කිරීමෙන් පෙන්වන ප්‍රජාතන්ත්‍රීය නොවන්නේ යැයි කිව හැකි පියවර ගැනීමට යොමු වීම එහි ප්‍රතිඵලයකි. ඒ අනුව ඉහළ වර්ධන අනුපාතයක් අත් කර ගත් ආර්ථික වර්ධන වේගයක් පවත්වා ගත හැකි වුව ද, දූෂණය, ඥාති මිත්‍ර සංග්‍රහය සහ උද්දච්ච භාවය, විවිධ අදහස් ඇති දේශපාලන විරුද්ධවාදීන්, ඡන්ද විමසීමේ දී පාලන තන්ත්‍රයේ වෙනසක් පතා 'පොදු විරුද්ධ පාක්ෂික අපේක්ෂකයෙකු' වටා පෙළගැස්වීමට ප්‍රමාණවත් විය.

ශ්‍රී ලංකා නිදහස් පක්ෂයේ නායකත්වයෙන් යුත් එක්සත් ජනතා නිදහස් සන්ධානයෙන් මතු වූ විපක්ෂයේ පොදු ජනාධිපති අපේක්ෂකයා පසුපස වූ පක්ෂ සහාගය ප්‍රධාන වශයෙන් මෙහෙයවන ලද්දේ ශ්‍රීලනිපයේ ප්‍රධාන විරුද්ධවාදියා වන එක්සත් ජාතික පක්ෂය විසිනි. වෙනසක් ඇති කිරීමේ උද්ඝෝෂණ ව්‍යාපාරයක් ප්‍රකාශයට පත් කළ පොදු ප්‍රතිපත්ති වේදිකාව, දින සියයේ වැඩසටහනෙන් ප්‍රබල විධායක බලතල සහිත රාජ්‍ය නායක බලතල ඉවත් කිරීම හෝ සීමා කිරීම අරමුණු කර ගත් ව්‍යවස්ථා සංශෝධන ගණනාවක් නව පාර්ලිමේන්තුවට ඉදිරිපත් කිරීමට පොරොන්දු විය. ඊට අමතර ව රජයේ සේවකයන්ගේ වැටුප් වැඩි කිරීම සහ ඉන්ධන වැනි තෝරා ගත් භාණ්ඩ මිල ක්‍රමානුකූල ව අඩු කිරීම වැනි ජනප්‍රිය පියවර ගණනාවක් ද ඇතුළත් විය.

මෛත්‍රිපාල සිරිසේනගේ මැතිවරණ ජයග්‍රහණයත් ඉන් පසුව එ ජා පයේ රනිල් වික්‍රමසිංහගේ නායකත්වයෙන් සුළුතරයේ රජයක් පත් කිරීමත් පෙන්නුම් කෙරෙනුයේ දින සියයේ වැඩසටහන, තම දේශපාලන ක්‍රමය ගැන කලකිරීමට පත් ව සිටි ශ්‍රී ලාංකික බහුතරයට ආමන්ත්‍රණය කළ බවයි. විධායක ජනාධිපති ක්‍රමයේ සමහර බලතල අඩු කෙරෙන 19 වැනි ආණ්ඩුක්‍රම ව්‍යවස්ථා සංශෝධනය සම්මත කිරීමට සියලු පක්ෂවල පුළුල් සහායක් ලැබිණ. එම සංශෝධනවලින් වඩාත් කැපී පෙනෙන්නේ ජනාධිපති ධුර වාර ගණන නැවත හඳුන්වා දීම සහ ස්වාධීන කොමිෂන් සභාවලට කෙරෙන පත්වීම් නිරීක්ෂණය සඳහා ව්‍යවස්ථා සභාවක් නැවත ස්ථාපනය කිරීම ය. ඉටු කරන ලද කටයුතු සියලු බලතල ජනාධිපතිට පැවරෙන ආණ්ඩුක්‍රමය අහෝසි කොට පාර්ලිමේන්තුවට වගකියන වෙස්ට්මිනිස්ටර් ක්‍රමයේ ආණ්ඩුවක් නැවත පිහිටුවීමේ වඩාත් ප්‍රබල පොරොන්දුවෙන් දුරස්ථ නමුත් එය ශ්‍රී ලංකාවේ ආයතනික සහ පාලන ව්‍යූහයන් ශක්තිමත් කිරීම සඳහා වූ කැපී පෙනෙන පියවරකි.

19 වැනි ආණ්ඩුක්‍රම ව්‍යවස්ථාව 2015 අප්‍රේල් 28 වැනිදා සම්මත කර ගත් නමුත් ශ්‍රී ලංකාවේ මැතිවරණ ක්‍රමය වෙනස් කිරීම සඳහා වූ 20 වැනි ආණ්ඩුක්‍රම ව්‍යවස්ථා සංශෝධනය දේශපාලන පක්ෂ අතර පැවති මත භේද නිසා යටපත් විය. ඉන් නව පාලනයට සහ ශ්‍රී ලංකාවට මුහුණ දීමට සිදු වූයේ උභතෝකෝටිකයකට ය. මේ නිසා ඇති වූ ප්‍රමාදවී මේ සහ අවිනිශ්චිතතාවලින් යුත් අවුල් සහගත රටාව, පාලනයේ වෙනසකින් ඇති වූ උද්වේගයේ ඔපය මකා දැමී ය.

එහි මූලික අඩුපාඩුව වූයේ දින සියයට පසුව දේශපාලන පක්ෂවලට නව ජනතා වරමක් ලබා ගැනීම සඳහා පාර්ලිමේන්තුව විසුරුවා හැරීම කෙළවරක් නොමැතිව කල්දැමීම ය. ඡන්ද දායකයන් තුළ සිදු ව ඇතැයි සිතූ වෙනස්වීමෙන් වාසියක් ලබා ගැනීමට අපේක්ෂා කළ එජාපය ඉක්මනින්ම පාර්ලිමේන්තුව විසුරුවා හැරීමට පැහැදිලිව ම කැමති විය. අනෙක් අතට ශ්‍රීලනිපය තිබුණේ අවුල් සහගත තත්ත්වයක ය. ඒ හිටපු ජනාධිපති පාර්ලිමේන්තු අසුනකට නැවත තරග කිරීමට හා එමගින් අගමැති අපේක්ෂකයෙකු ලෙස ඉදිරිපත්වීමට නාමයෝජනා ලබා ගැනීමට තිබූ උත්සාහය නිසා පාක්ෂිකයින්ගේ පක්ෂාතිභාවය ජනාධිපති සිරිසේන හා

හිටපු ජනාධිපති රාජපක්ෂ අතර බෙදී යෑම හේතුවෙනි. 2015 ජනවාරියේ දී ප්‍රකාශිත ඡන්ද ප්‍රමාණයෙන් සියයට 47.6ක් ලබා ගත් රාජපක්ෂ එම ඡන්ද ප්‍රමාණය නැවත ලබා ගැනීමේ හොඳම උපකරණය බව ගලගුහයට ලක් වූ ශ්‍රීලනිපය සිතන්නට ඇත.

කෙසේ වුවත් බෙහෙවින් ප්‍රමාද වී 2015 අගෝස්තු මස පැවැත් වූ මහා මැතිවරණයෙන් කිසිදු පක්ෂයකට පැහැදිලි බහුතරයක් ලබා ගත නොහැකි විය. එජාපයට වැඩි ම ආසන සංඛ්‍යාවක් (106) හිමි වුව ද, ආසන 225කින් යුත් පාර්ලිමේන්තුවේ බහුතරය වන ආසන 113 හිමි වූයේ නැත. එසේ වුවත් එජාපයට ආසන 95ක් දිනා ගත් එජනිසයේ සිටි ශ්‍රීලනිපයේ කොටසකගේ සහායෙන් පාර්ලිමේන්තුවේ බහුතරයක් පවත්වා ගැනීමට එජාපයට හැකි වී ඇත. මෙය ශ්‍රී ලංකාවට කෙටි කාලීන දේශපාලන ස්ථාවරත්වයක් පවත්වා ගැනීමට යෝග්‍ය පිළිවෙතක් වෙයි. වඩාත් දුෂ්කර කාර්යය වන්නේ දේශපාලන සහ ආර්ථික යන පෙරමුණු දෙකේ ම ප්‍රතිපත්ති සකස් කිරීම සහ ක්‍රියාත්මක කිරීම සිදු කරන අතරතුර වසර පහක් වූ පාර්ලිමේන්තු වාරය ස්ථාවරව පවත්වා ගැනීම ය.

මින් වැඩි පීඩනයක් ඇති වන්නේ ආර්ථිකයටයි. ජනාධිපතිවරණයට ආසන්න කාලයේ දී ශ්‍රී ලංකාවේ ආර්ථික තත්ත්වය කෙරේ යොමු වූයේ අඩු සැලකිල්ලකි. ඒ හේතු දෙකක් නිසා යඃජන්ද දායකයාට ආර්ථික කරුණු වැදගත් වන්නේ අර්බූදයක් පිළිබඳ ගැඹුරට කාවැදුණු, පුළුල්ව ව්‍යාප්තවූ හැඟීමක් ඔවුන් සතු වන විටය. ශිර්ෂ පාඨවලින් හුවා දක්වන ලද සංඛ්‍යා අනුව නම් ශ්‍රී ලංකාවේ ආර්ථිකය පවතින්නේ යහපත් තත්ත්වයක. 2014 අවසන් වන විට දළ දේශීය නිෂ්පාදිතය, මධ්‍යම ප්‍රමාණයේ උද්ධමනකාරී තත්ත්වයක් යටතේ සියයට 7කට වඩා වැඩි සාමාන්‍යයකින් වර්ධනය විය. විරැකියාව සියයට 4ක තරම් පහත් මට්ටමක තිබිණ. ඒක පුද්ගල දරිද්‍රතාව සියයට 7කට වඩා අඩුය. මාර්ග, අධිවේගි මාර්ග, වරාය සහ ගුවන් තොටුපළ වැනි යටිතල පහසුකම්වල සංවර්ධනයේ දෘශ්‍යාමාන ලක්ෂණ පෙනෙන්නට තිබිණ. එහෙත් මින් ශ්‍රී ලංකාවේ රාජ්‍ය ආයෝජන සහ විදේශ ණය මුදල් යොදවා සිදු කෙරෙන වර්ධනයේ ශ්‍රී ලංකාවට ආවේනික වූ යම් යම් ව්‍යුහාත්ත දුර්වලතා ආවරණය කෙරිණ. ශ්‍රී ලංකාව: 2014 ආර්ථික තත්ත්වය වාර්තාවේ සඳහන් වන අකාරයට, නිරන්තරයෙන් ශීර්ෂ පාඨ ඔස්සේ පළ කෙරෙන මහා ආර්ථික ඉලක්කම් හරඹවලින් බැහැර වූ කල, ශ්‍රී ලංකාවේ ආර්ථිකය නොකඩවා පෙන්වා ඇත්තේ කුටික වර්ධනයකි. රටේ විදේශ ණයගැති බව ඇත්තේ ඉහළ මට්ටමකය. අපනයන ආදායම් වර්ධනය අල්පය. පෞද්ගලික ආයෝජකයන් තුළ නිෂ්පාදන ධාරිතාව පුළුල් කිරීමට රුචියක් නැත. ප්‍රදර්ශිත ඉලක්කම් මෙන් නොව, ආර්ථිකයේ ව්‍යුහාත්මක දුර්වලතා මැතිවරණ වේදිකාවේ පහසුවෙන් පැහැදිලි කළ නො හැකි ය.

ආර්ථිකයට අඩු අවධානයක් යොමු වීමේ දෙ වැනි හේතුව වන්නේ විපක්ෂයේ පොදු අපේක්ෂකයා සමග එක් වූ දේශපාලන පක්ෂවල අස්ථීර සහාගය එකිනෙකාට වෙනස් වූ ප්‍රතිපත්තිවලට කැපවී සිටීම ය. එය වෙළඳ පොළ හිතවාදී එජාපයේ සිට මාක්ස්වාදී නැඹුරුවක් ඇති ජනතා විමුක්ති පෙරමුණ දක්වා විවිධ පක්ෂවලින් සමන්විත විය. එමනිසා දින 100 වැඩ සටහන තුළ කිසියම් ආර්ථික ප්‍රතිපත්තියක් වූයේ නම් එය සියලු පක්ෂවලට එකඟ විය හැකි භාණ්ඩ මිල අඩු කිරීමෙන් ජීවන වියදම් ප්‍රශ්න වලට විසඳුම් සෙවීමටත් රජයේ සේවකයන්ගේ වැටුප් වැඩි කිරීමට සහ විශ්‍රාම වැටුප් කිරීමටත් සීමා විය. මෙම පොරොන්දු 2015 ජනවාරි ඉදිරිපත් කළ නව අයවැය යෝජනාවලින් ක්‍රියාත්මක කළ අතර එහි ප්‍රතිඵලයක් වශයෙන් දැරීමට සිදු වූ අතිරේක වියදම් ව්‍යාපාරික ලාභ මත වරකට පමණක් අය කර ගන්නා බද්දක් පැනවීමෙන් ආවරණය කිරීමට පියවර ගැනිණ.

ගත වූ කාලය තුළ ආර්ථිකය මෙම දේශපාලන හිතුවක්කාරකමේ වින්දිතයෙක් විය. රජයේ ණය ගැනීමේ සීමා වැඩි කිරීමට ඉදිරිපත් කළ පනත 2015 අප්‍රේල් මාසයේ දි පරාජය විය. ඉන් පසුව අයවැයෙන් ඉදිරිපත් කළ නව බදු යෝජනා සම්මත කිරීමේ පනත් දින නියමයක් නැත ව පසු පසට දමා ඇති බවක් පෙනිණ. සැලසුම් කළ ආකාරයට රාජ්‍ය බැදුම්කර මගින් විදෙස් ණය ලබා ගැනීම ප්‍රමාද වන නිසා රජයට ඒ වෙනුවට දේශීය වෙළඳ පොළෙන් විශාල වශයෙන් ණය ගැනීමට සිදු විය. ඇත්තෙන් ම 2015 මැයි මාසය දක්වා වූ රු. බිලියන 367ක බදු ආදායම් හිඟයේ මුළු ශුද්ධ දේශීය මූල්‍යනය 2014 සම්පූර්ණ වසරේ මුළු ශුද්ධ දේශීය මූල්‍යනය ඉක්මවීය. මේ නිසා පොලි අනුපාතවල ඉහළ නැගීමක් දක්නට ලැබීම පුදුමයක් නො වේ.

මුදල් ඒකකය ද පීඩනයට ලක් ව ඇත. යටිතල පහසුකම් ව්‍යාපෘති ඇණහිටීම නිසා සංවර්ධන ණය ගලා ඒම ප්‍රමාද විය. රාජ්‍ය බැදුම්කර නිකුතුව සඳහා අපේක්ෂා කළ ප්‍රමාණයට වඩා වැඩි කලක් ගත විය. ණය ආපසු ගෙවීමට සහ මුදල් ඒකකය පවත්වා ගැනීමට ශ්‍රී ලංකා මහ බැංකුවට තම නිල සංචිත යොදා ගැනීමට සිදු විය. 2015 මැද භාගය වන විට නිල විදේශ සංචිත මාස 4.5 ක ආනයන සඳහා ප්‍රමාණවත් වන එ.ජ. ඩොලර් බිලියන 7.5ක මට්ටමේ පැවතීමෙන් තත්ත්වය ස්ථාවර බවක් පෙන්විය. මෙම තත්වය ඇති වූයේ ඉන්දියානු සංචිත බැංකුව සමග ඇති කරගත් මුදල් හුවමාරු එකඟතා සහ 2015 මැයි මාසයේ දී රාජ්‍ය ණය බැදුම්කර නිකුත් කිරීමෙන් එ. ජ. ඩොලර් මිලියන 650ක ප්‍රාග්ධනයක් රට තුළට ගලා ඒම නිසා ය. කෙසේ වුවත් ශ්‍රී ලංකාවේ විදේශ ආදායම් වර්ධනය වර්තන ගිණුමේ ඇතිවිය හැකි දුර්වලතා නිසා එකතැන නොවෙනස් ව පවතී. 2015 වසරේ මුල් මාසය හය තුළ අපනයන ආදායම් සියයට

0.6කින් පහත වැටී වෙළඳ හිඟය සියයට 15කින් වැඩි විය. විදේශ සේවක ප්‍රේෂණ ද සියයට 2.2ක් දක්වා පහත වැටිණ.

2015 මුල් කාර්තුවේ ද.දේ.නි. ගණනය කිරීම් අනුව ශ්‍රී ලංකාව මෑත වසරවල සියයට 7කට ඉහළින් පවත්වා ගත් ස්ථාවර වර්ධනය - එනම්, 2014 එනවර්ෂය සඳහා සියයට 7.4 සේ ගණනය කළ වර්ධනය - පහත වැටෙමින් පවතී.1 කාර්තු වශයෙන් වූ වර්ධනය දෙ වැනි කාර්තුවේ දී සියයට 6.4 දක්වා පහත වැටිණ. එය 2014 මුල් කාර්තුවේ පැවති සියයට 7.6ක මට්ටම හා සසඳන විට කැපී පෙනෙන පහත වැටීමකි. වර්ධනය මන්දගාමී වෙත්ම මූල්‍ය තත්ත්වය ද දුර්වල වන බවක් පෙනේ. 2015 ද දේ නිෂ්පාදිතයෙන් සියයට 4.4 දක්වා දැනටමත් විශාල වශයෙන් කපා හැර ඇති මූල්‍ය ගැලපිම් රාජ්‍ය ආයෝජන තව දුරටත් කපා හැරීමේ ස්වරූපයක් ගැනීමට ඉඩ තිබේ. වර්ධනය සඳහා එවැනි ආයෝජන කෙරේ වැඩි වශයෙන් රැඳී ඇති ආර්ථිකයට එහි බලපෑම ඉක්මනින් දැනෙනු ඇත.

දේශීය වෙළඳ පොළ ද්‍රවශීලතාව රජය විසින් බාර ගැනීම නිසා පොලී අනුපාත ඉහළ යමින් පවතී. මැතිවරණය සම්බන්ධයෙන් පැවති අවිනිශ්චිත භාවය ඉවත්වීමත් සමග පසුගිය මාස 18ක් තිස්සේ ණය ලබා ගැනීම සඳහා පෞද්ගලික අංශයේ පැවති අඩු ඉල්ලුම ඉවත් වනු ඇතැයි අපේක්ෂා කෙරේ. රාජ්‍ය මූල්‍ය ලිහිල් භාවය පාලනය නොකළ හොත්, ඉහළ වර්ධන අනුපාතයක් පවත්වා ගත හැකි පෞද්ගලික අංශයේ ආයෝජන සීමාවනු ඇත.

ඒ අනුව නව රජයට මුහුණ දීමට ඇති ආර්ථික ප්‍රතිපත්ති අභියෝග බොහෝ ය. පළමු සහ කඩිනම් ප්‍රමුඛතාව වන්නේ මූල්‍ය ස්ථාවරත්වයයි. සාර්ව ආර්ථික පදනම් ස්ථාවර කිරීමට සහ පුළුල් පදනමකින් යුක්තව ඵලදායිතාවය නගා සිටුවීම ආරම්භ කළ හැකි වේදිකාවක් ඇති කිරීමට ප්‍රබල මූල්‍ය තත්ත්වයක් අවශ්‍ය ය.

රාජ්‍ය යටිතල පහසුකම් ආයෝජනයෙන් වර්ධනය ඉහළ ගිය නමුත් ශ්‍රී ලංකාවේ ද දේ නිෂ්පාදිතයේ අපනයන ප්‍රමාණය සියයට 15කටත් වඩා අඩ විය. ආර්ථිකය සුවිශාල වශයෙන් පරිභෝජනය මත රඳා පවතින අතර පරිභෝජනය රඳා පවතින්නේ පුද්ගලික අංශයේ අඩු ආයෝජන ඉල්ලුමක් තුළ ප්‍රාග්ධනය ගලා ඒම මත ය. ප්‍රාග්ධන ගලා ඒම විනිමය අනුපාතයේ ඉහළ යෑමට තුඩු දීමෙන් ආයෝජන ඌනතාව වඩාත් උග්‍ර කරවයි. එහි ප්‍රතිඵලයක් වශයෙන් වෙළඳාම් - දිගානත කර්මාන්තවල ලාභදායී බව පහත වැටේ. ඊට අමතර ව ශ්‍රී ලංකාවේ නිපුණතා පදනම පහත් මට්ටමක පැවතීම, ආයතනික දුර්වලතා සහ ප්‍රමාණවත් නොවන යටිතල පහසුකම් එහි අපනයන කර්මාන්තවල තරගකාරිත්වයට සහ කාර්යක්ෂමතාවට බාධා පමුණුවයි.

මූල්‍ය සීමා, හැකිළෙන ශ්‍රම බලකායේ ජන විද්‍යාත්මක තත්ත්ව සහ නිපුණතා ඌනතාව විසින් පෙන්වා දෙනු ලබන්නේ ස්ථාවර ආර්ථික වර්ධනයක් පැවති කාල සීමාවේ දී නොසලකා හරින ලද අසීරු ගනුදෙනු නව රජයට අභිමුඛ කරවයි. ශ්‍රී ලංකාවේ බදු ක්‍රමය සංශෝධනය කිරීම, පාඩු ලබන රාජ්‍ය ආයතන ගැටලුවට විසඳුම් ලබා දීම, ශ්‍රම වෙළඳ පොළ කාර්යක්ෂමතාව වැඩි දියුණු කිරීම, ශ්‍රම බලකායේ නිපුණතා හිඩැස් පිරවීම, කෘෂිකර්මයේ ඵලදායිතාව වැඩි කිරීම සහ දුප්පතුන්ට හා අවදානමට ලක්විය හැකි අයට වඩාත් හොඳ ආරක්ෂණ ජාලයක් ලබා දීම අවධානය යොමු විය යුතු ප්‍රතිසංස්කරණ රාශියකින් කිපයකි. එවැනි සංශෝධන ව්‍යවස්ථා පනත් මගින් ලබාදීම දේශපාලන වශයෙන් අසිරු ය. එමෙන් ම ඒවා ක්‍රියාත්මක කිරීම ඊටත් වඩා දුෂ්කර ය. පරාජිතයන් හා ජයග්‍රාහකයන් බිහි කරන ව්‍යාදී බලපෑම් උපදවන්නා වූ ප්‍රතිසංස්කරණ කෙටි කාලීන ගැලපුම් පිරිවැයට හේතුවන නමුත් ඒවා දීර්ඝ කාලීන ප්‍රතිලාභ ලබාදීමේ විභවයෙන් යුක්ත ය. පරාජිතයන් පහසුවෙන් හඳුනා ගත හැකි ය. ප්‍රතිසංස්කරණවලින් තවත් බොහෝ දෙනකුට ප්‍රතිලාභ අත් විය හැකි නමුත් ප්‍රතිසංස්කරණවලට විරුද්ධ වේදිකාවක් සංවිධානය වීම මෙන් නොව ප්‍රතිසංස්කරණවලට සහාය දක්වන වේදිකාවක් සංවිධානය වීමට ඇත්තේ සුළු ඉඩකඩකි.

ප්‍රතිසංස්කරණ බිම් මට්ටමෙන් ක්‍රියාත්මක තලයට පැමිණෙන්නේ ඇතැම් විපර්යාකාරකයන්ගේ සහභාගිත්වය නිසා ය. ආර්ථික අර්බුදය පිළිබඳ පුළුල් හැඟීමක් පැවතීම සහ වෙනස්වීම හැර වෙනත් විකල්පයක් නැති බව පිළිගත් ජනතාවක් සිටීම, පවතින ආර්ථික ක්‍රමය හා බැඳුණු වුවමනාවන් ඇති කණ්ඩායම්වලින් ඉවත් වීම, ප්‍රබල දේශපාලන නායකත්වයක් සහ ප්‍රතිසංස්කරණ ඉදිරියට ගෙන යෑම සඳහා ජනවරමක් තිබීම, බැහැරින් පටවනු ලැබුවේ ය යන හැඟීමට වඩා ප්‍රතිසංස්කරණ ක්‍රියාවලියේ හිමිකාරිත්වය දැරීම යනාදිය මීට නිදසුන් වේ.

ඉහතින් දැක්වූ කරුණු බොහොමයක් බොහෝ විට එකට එක් කළ හැකි ය. නිදසුනක් වශයෙන් ආර්ථික අර්බුදයක දී රාජ්‍ය අනුග්‍රහය ලබන පැරණි ක්‍රමය පවත්වා ගැනීමේ වුවමනාවක් ඇති කුලී ආදායම් ලබන කණ්ඩායම් නොසලකා හරිමින් රජයට ප්‍රතිසංස්කරණ ක්‍රියාත්මක කිරීමේ අවස්ථාවක් සැලසේ. දේශීය ආර්ථික දුෂ්කරතා නිසා දේශපාලන නායකත්වයේ වෙනසක් ඇති කිරීම, සමහර ප්‍රතිපත්ති වටා ගොනු වූ වුවමනාවන් ඇති බලවත් කණ්ඩායම් ඉවත් කිරීම පහසු කරවයි. ආර්ථික

දුෂ්කරතාවලට වෙනසක් සඳහා ජනතාව අතර පුළුල් සහායක් ගොඩ නැගීමේ හැකියාවක් ඇත. මෙහිදී මූල්‍ය දුෂ්කරතාවලින් ගොඩ ඒමට කොන්දේසි සහිත ව ණය ලබා දීමට අන්තර්ජාතික ණය දෙන ආයතනවලට ඉදිරිපත්වීමට අවස්ථාවක් හිමි වේ. එවිට රාජ්‍යයන්ට සංශෝධන පිළිගත හැකි තත්ත්වයට පත් කිරීමට සහන ලබා දීමට ද හැකි වනු ඇත.

කෙසේ වුවත් ආර්ථික අර්බුදයක් සංශෝධන ක්‍රියාවලියක් පවත්වා ගැනීමට අවශ්‍ය හෝ ප්‍රමාණවත් කොන්දේසියක් නො වේ. ප්‍රබල ජනවරමක් සහිත ව අලුතින් තේරී පත්වන ජනප්‍රිය රජයකට එහි නිල කාලයේ මුල් මධ්‍ය සමයේ දී සංශෝධන පහසුවෙන් ක්‍රියාත්මක කළ හැකි ය. ඇත්තෙන් ම ප්‍රබල දේශපාලන නායකත්වයකට කැපී පෙනෙන දේශපාලන බලයක් නැති වුව ද සංශෝධන ක්‍රියාවලිය ඉදිරියට ගෙන යෑමේ නිශ්චිත සාධකයක් විය හැකිය. මෙහිදී රාජ්‍ය අංශයේ ප්‍රවීණ තාක්ෂණ තාන්ත්‍රිකයන්ගේ සහාය ද ප්‍රධාන නිර්නායකයක් වේ.

ශ්‍රී ලංකාවේ ප්‍රතිසංස්කරණ ප්‍රයත්නයේ සාර්ථක වූ අත්දැකීම් වන එජාප පාලනය යටතේ පැවති 1977/78 සහ 1990/91 කාලපරිච්ඡේද මෙම ලක්ෂණවල සම්මිශ්‍රණයකි. රටේ ආර්ථික ප්‍රගතිය පිළිබඳ ව රට පුරා පැවති කලකිරීම පුළුල් සංශෝධන ගෙන ඒමට හැකි වන පරිදි 1977 දී එජාපයට අති විශාල දේශපාලන ජනවරමක් ලැබීමට හේතුවක් විය. 1980 ගණන්වල අග භාගයේ දී පුළුල් පදනමකින් යුත් ප්‍රතිසංස්කරණ ප්‍රයත්න සඳහා වූ දේශපාලන අවකාශය බෙහෙවින් අඩු වුව ද, දුර්වල ආර්ථික තත්වයක් මධ්‍යයේ පැවති ප්‍රබල දේශපාලන නායකත්වයට වෙනසක් ඇති කිරීමට ශක්තියක් විය.2

ඊට වෙනස් ව සංශෝධන මුලපිරීම් සැලසුම් මට්ටමෙන් ඉදිරියට ගෙන යෑමට නොහැකි වීමේ අත්දැකීම්ද ශ්‍රී ලංකාවේ පවතී. 1994 දී ඇති වූ දේශපාලන නායකත්වයේ වෙනසත් සමග පෞද්ගලීකරණ මුලපිරුම්වල පිබිදීමක් දක්නට ලැබුණ ද 1990 අග භාගයේ දී සභාග ආණ්ඩුවල බලපෑම සහ පාර්ලිමේන්තුවේ බහුතරය තුනී වීම නිසා ප්‍රතිසංස්කරණ සඳහා පැවති උනන්දුව වියැකි ගියේය. 2002 - 04 එජාප රජය යටතේ ප්‍රතිසංස්කරණ ප්‍රයත්න අසාර්ථක වූයේ ඡන්ද දායකයන් අතර ජනප්‍රිය නොවූ රාජ්‍ය අංශයේ වැටුප් වැඩිවීම නතර කිරීම හා සහනාධාර ඉවත් කිරීම වැනි පියවර අතහැරීමට සිදු වූ නිසා ය. අනෙක් අතට 2010 - 14 කාල පරිච්ඡේදයේ සංශෝධන සඳහා විපර්යකාරකයකු වීමේ හැකියාව ඇති දේශපාලන නායකත්වයක් සහ ප්‍රබල ජනවරමක් තිබුණ නමුත් ඒවායේ අවශ්‍යතාව ගැන සැබෑ විශ්වාසයක් නො තිබිණ. සමස්තයක් වශයෙන් ශ්‍රී ලංකාවේ ප්‍රතිසංස්කරණ ප්‍රයත්නයෙන් ප්‍රතිලාභ හිමි වූයේ අඩ වශයෙනි. බොහෝවිට ඒවා ප්‍රමාද විය; වෙනස් කෙරිණ; නැති නම් සම්පූර්ණයෙන්ම අසාර්ථක විය. ප්‍රතිසංස්කරණ හා බැඳුණ දේශපාලන ආර්ථික අවදානම පවතින තත්ත්වයක් තුළ ප්‍රමාදවීම් සහ වෙනස් කිරීම් අපේක්ෂා කළ හැකි ය. ක්‍රියාත්මක වූ සංශෝධන ප්‍රයත්නයන්හි දී හානියක් විය හැකි අයට වන්දි ලබා දීමේ යන්ත්‍රණ විය. 1977/78 සමයේ දී රාජ්‍ය ආයෝජන හරහා නව රැකියා, ජීවන මාර්ග හා නිවාස සපයාදීමේ පොරොන්දු විය. 1990/91 සමයේ දී ජනතා සහාය ලබා ගැනීමේ යෝජනාවලිය වඩාත් සෘජු ආකාරයක් ගත්තේය. දරිද්‍රතාව අඩු කිරීමේ අපේක්ෂා සහගත ජාතික වැඩසටහනක්, ග්‍රාමීය තරුණ සේවා නියුක්තිය පතා කර්මාන්තවලට දිරි ගැන්වීම්, ගම් උදා වැඩ සටහන යනාදිය 1987/89 ජවිපෙ තරුණ කැරැල්ලෙන් පසු ව වෙළඳ පොළ මගින් මෙහෙයවන ප්‍රතිපත්තිවල ප්‍රතිලාභ ලබා ගැනීමේ අසමානතාව ලිහිල් කිරීමේ දැක්මෙන් සකස් කෙරිණ.3

ශ්‍රී ලංකාවේ අතීත ආර්ථික ප්‍රතිසංස්කරණ මුලපිරුම්වලට හේතු වූ සමහර වැදගත් විපර්යකාරක වන ප්‍රබල දේශපාලන බහුතරය සහ පුළුල් ව පැතිරි ආර්ථික අර්බුද - අද එතරම් කැපී පෙනෙන්නේ නැත. එය ආර්ථික ප්‍රතිසංස්කරණ න්‍යාය පත්‍රය පිළිබඳ ව එකඟතාවක් ඇති කර ගැනීම සහ මුල් බැස ගත් වුවමනාවන් ඇති අයට ඒත්තු ගැන්වීම වඩාත් අසීරු කරවයි. ප්‍රතිසංස්කරණ විෂය පථයෙන් උන්නතිකාමී විය යුතු ය. එහෙත් උන්නතිකාමය දේශපාලන ආර්ථික යථාර්ථයෙන් පදම් විය යුතු ය. ඒ අනුව ප්‍රතිසංස්කරණ සඳහා න්‍යාය පත්‍රයක් ආරම්භ විය යුත්තේ ආයතන, ප්‍රතිපත්ති ක්‍රියාවලි හා ප්‍රතිපත්ති නිමවුම් අතර අන්තර්ක්‍රියාකාරිත්වය ශක්තිමත් කිරීමේ ප්‍රයත්නයන්ගෙනි. මෙවැනි පරිවර්තන බොහොමයක් සිදු වන පරිසරය, රටක පවතින ආයතනවල ගුණාත්මකභාවය සහ පාලනය වැනි පුළුල් සාධකවල දැඩි බලපෑමට හසු වේ.

මේ වසරෙහි 'ශ්‍රී ලංකාව: ආර්ථික තත්වය' වාර්තාව 'ශ්‍රී ලංකාවේ ආර්ථික ප්‍රතිසංස්කරණ: දේශපාලන ආර්ථිකය හා ආයතනික අභියෝග' යන තේමාව වටා ගොනු වී ඇත. අද ආර්ථික ප්‍රතිපත්ති ප්‍රතිසංස්කරණයක් හඳුන්වාදීම, ක්‍රියාත්මක කිරීම සහ පවත්වා ගැනීම සඳහා වූ තත්ත්ව, පසුගිය සාර්ථක ප්‍රයත්නවලට වඩා දුර්වල ය. ඊට කේන්ද්‍රීය වන්නේ ආයතනික සහ පාලන ව්‍යුහයන් ශක්තිමත් කිරීමට අපොහොසත් වීම ය. ආයතනික ව්‍යුහයන් තුළ ඇති දිරිගැන්වීම් කුලී බදු අපේක්ෂා කරන ඒකකයන් ලෙස ක්‍රියා කරන්නේ ද යන්න තීරණය කරන නිසා සම්පත් වෙන් කිරීමට බලපායි. දුර්වල ආයතනික

ව්‍යුහ පරිපාලන ව්‍යාකුලත්වයට හේතු වන අතර කාලයත් සමග දේශපාලන බලවතුන්ගේ වරප්‍රසාද තහවුරු කරයි.

බලපත්‍ර පාලනයක් යටතේ වූ සුපුරුදු කුලී බදු අපේක්ෂා කරන ක්‍රියාකාරකම්, දේශපාලනඥයන් සහ ප්‍රතිපත්ති සම්පාදන ක්‍රියාවලියේ වෙනත් මූලික ක්‍රියාකාරිකයන් අතර ප්‍රබල අනුග්‍රාහක - සේවාදායක සම්බන්ධතා විසින් ප්‍රතිස්ථාපනය කරනු ලැබ ඇත. තනතුරු සහ වරප්‍රසාද නිදහසේ ලබා දීම නිසා වඩාත් හොඳ ප්‍රතිපත්ති සම්පාදනයට හානිකර ලෙස 'තරගකාරී ජනප්‍රියතාවේ' භාවිතය දිරිමත් කෙරේ. රාජ්‍ය බලය ඒකරාශී වීමෙන් දේශපාලන පක්ෂ පුද්ගලයන් කිප දෙනෙකුගේ ආධිපත්‍යයට යට ව ඇති අතර, පක්ෂ තුළ ප්‍රජාතන්ත්‍රවාදී භාවිතය යටපත් ව තීරණ ගැනීම මධ්‍යගත ව ඇත. නිලධාරිතන්ත්‍රය වඩාත් දේශපාලනීකරණය වී බලවත් ව ඇති අතර පරිපාලන සහ දේශපාලන යන කාර්ය දෙක ම ඉටු කරයි. ප්‍රතිපත්ති සම්පාදනයේ දී හා ක්‍රියාත්මක කිරීමේදී දේශපාලනඥයන් විශ්වාසය රඳවා ඇත්තේ අහුලා ගත් තාක්ෂණඥයන් කිහිප දෙනෙකු කෙරෙහිය. ඔවුන් සතු ද්විත්ව භූමිකාව සහ අභිමත බලතල නිසා ප්‍රතිපත්ති තීරණවල පාරදෘශ්‍යභාවය සහ වගවීම වඩාත් අපහැදිලි වී ඇති අතර මෙය ප්‍රතිපත්ති සම්පාදකයන් සහ තේරී පත් වූ දේශපාලනඥයන් ඔවුන්ගේ ඡන්ද පදනමෙන් ඈත් කිරීමට හේතු වී ඇත.

එමනිසා රටේ ආයතනවල ගුණාත්මක ප්‍රතිසංස්කරණ සහ ඒවායේ නිමවුම් සඳහා වූ අවස්ථා හැඩගැස්වීමේ දී වැදගත් ය. මෙවැනි සන්දර්භයක, ශ්‍රී ලංකාව අත්තනෝමතික ක්‍රියා සහ දූෂණ කෙරේ රට තල්ලුවීම වළක්වන ප්‍රතිමාණ නීති ස්ථාපනය කිරීමට දේශපාලන හා ආයතනික ව්‍යුහ ප්‍රාණවත් කිරීම කෙරේ යොමුව තිබීම දිරි ගන්වන සුලු ය. පාරදෘශ්‍ය නියම හා පාලන ව්‍යුහ පදනම් කරගත් ආයතන, කුලී බදු අපේක්ෂා කිරීමට වඩා ඵලදායී ආයෝජන සිදු කිරීමට සමත් ආයෝජකයන් හා ව්‍යාපාරිකයන් තුළ විශ්වාසය ඇති කිරීමට ඉවහල් වේ.

තරගකාරී අපනයන අංශයක් ගොඩ නැගීමට ඵලදායී ආයෝජන අවශ්‍ය ය. ශ්‍රී ලංකාව වැනි සංවර්ධනය වන කුඩා ආර්ථිකයකට තිරසාර ඉහළ වර්ධනය, ඉල්ලුම ජනනය කිරීම, අතිරික්ත ශ්‍රමය ඇතුළත් කර ගැනීම සහ ඵලදායිතාව නංවාලීම නොකඩවා පවත්වා ගැනීමට හේතුකාරක වන බාහිර ඉල්ලුම තිරණාත්මක වේ. ශ්‍රී ලංකාවේ ද. දේ. නිෂ්පාදිතයේ අපනයන ප්‍රමාණය අඩුවීම සහ ගෝලීය වෙළඳ පොළ අපනයන ප්‍රමාණයේ හැකිළීම ආපසු හැරවිය යුතු ය. අපනයන වැඩි දියුණු කිරීම සඳහා වූ සංශෝධනාත්මක ප්‍රයත්න පැහි කීපයක ඇති සීමා ඉවත් කිරීමට යොමු විය යුතු ය. ඊට සැපයුම් ශක්‍යතා ප්‍රවර්ධනය, ව්‍යාපාරික පරිසරයේ පවතින දුර්වලතා විසඳීම හා ඉල්ලුම පැත්තේ තත්ත්වයන් ශක්තිමත් කිරීම ඇතුළත් ය. මෙම පෙරමුණුවල වැඩි දියුණු කිරීම් ආර්ථිකය පුරා තරගකාරිත්වය ඇති කරවන, තාක්ෂණය සහ දැනුම පවරා දීමට හේතු වන නිවැරදි ආකාරයේ විදේශ සෘජු ආයෝජන (ෆෂ) ආකර්ෂණය කිරීමට ඉවහල් වේ. රාජ්‍ය සංගත වූත්, පුරෝකතනය කළ හැකි වූත් ප්‍රතිපත්ති පරිසරයක් සම්පාදනය කිරීමෙන් මෙය පහසු කරවිය යුතු අපනයන ප්‍රවර්ධනය සඳහා අපැහැදිලි සහ හිතුවක්කාර තීරු බදු නියම කිරීම හේතුයුක්ති කොට සුමටනය කළ යුතු ය. උපාය මාර්ගික වෙළඳ හවුල්කාරිත්වය හරහා නව අපනයන වෙළඳ පොළට පිවිසීමට ප්‍රයත්න දැරිය යුතු ය.

තරගකාරී අපනයන ආර්ථිකයක් රඳා පවත්නේ වෙනත් සාධකවලට අමතරව වඩාත් ගුණාත්මක සේවා නියුක්තියක් ලැබිය හැකි උසස් නිපුණතාවෙන් හා පුහුණුවෙන් යුත් ශ්‍රම බලකායක් පැවතීම මත ය. ශ්‍රී ලංකාවේ ජන විද්‍යාත්මක පරිණාමයෙන් පෙනී යන්නේ ජනගහනයේ වයස්ගතවීම සහ වැඩ කරන වයසේ ජන සංඛ්‍යාවේ පහත වැටීමයි. දැනටමත් බොහෝ කර්මාන්ත මානව සම්පත් සීමාවන්ට මුහුණ දී ඇති නිසා ඔවුන් සේවකයන් ආනයනය කිරීමට සහ/හෝ ස්වයංක්‍රීය කිරීම ගැන සිත් යොමු කර ඇත. ශ්‍රම වෙළඳ පොළ ඉහළ ම ප්‍රමුඛතාව වන්නේ අවශ්‍ය සේවකයන් සොයා ගන්නේ කෙසේයන්න ද හා දැනට සිටින ශ්‍රම සම්පත් වඩාත් කාර්යක්ෂම ව යොදා ගන්නේ කෙසේ ද යන්නයි. ශ්‍රම වෙළඳ පොළ විවිධ ආයතන අතර සම්බන්ධීකරණය සහ තොරතුරු රැස්කිරීම පිළිබඳ හිඩැස් ඉවත් කිරීම, ෘත්තීය සහ තාක්ෂණ පුහුණුවේ සම්ප්‍රදායික ක්‍රමවල පවතින දුර්වලතා පියවීම, ස්ත්‍රීන් ශ්‍රම බලකායට ඇතුළුවීම සීමා කෙරෙන බාධක විසඳීම මෙන්ම ආර්ථිකයේ විධිමත් අංශයේ රැකියා නිර්මාණය සීමා කෙරෙන නියාමන බාධක ඉවත් කිරීම යන ප්‍රස්තුත ප්‍රතිසංස්කරණ විසින් ආමන්ත්‍රණය විය යුතුය.

ස්ත්‍රීන් ශ්‍රම බලකායට සහභාගිවීමේ පහත් මට්ටම හා ශ්‍රමික සංක්‍රමණයේ ඉහළ යෑම ශ්‍රම ඌනතා ප්‍රශ්නය වඩාත් උග්‍ර කරවයි. ශ්‍රී ලංකාව තුළ හොඳ රැකියා අවස්ථා- එනම් ප්‍රමාණවත් වැටුපක් සහ සමාජ රක්ෂණයක් සහිත රැකියා - නොමැතිවීම නිසා ගෘහ සේවය සඳහා සංක්‍රමණය වීම ස්ත්‍රීන්ගේ ජනප්‍රිය රැකියා අවස්ථාවකි. සංක්‍රමණය දෙපැත්ත කැපෙන අවියක්යැයි පිළිගැනිමක් ද පවතී. එක අතකින් එය ස්ත්‍රීන්ට ශක්තියක් වන අතර එහි සැලකිය යුතු සමාජ පිරිවැයක් ද පවතී. එක් සහනශීලී නීති සංශෝධනයක් වන්නේ මෑතක දී වයස අවුරුදු පහට වඩා අඩු ළමයින් සිටින ස්ත්‍රීන් විදේශ රැකියාවලට යෑම අධෛර්ය කිරීම අරමුණු කර ගත් පවුල් පසුබිම් වාර්තාව (තඊඍ) හඳුන්වා දීම ය. කෙසේ වුවත් එම වාර්තාව දැනට පවතින ආකාරයෙන් ස්ත්‍රීන්ගේ රැකියා අවස්ථා තෝරා ගැනීම තව දුරටත් සීමා කෙරෙන,

ස්ත්‍රීන්ට එරෙහි වෙනස් කොට සැලකීමකි. සංක්‍රමණය පිළිබඳ නියාමන සීමා ප්‍රතිපත්ති සංශෝධනයට විවෘත විය යුතු ය.

ශ්‍රී ලංකාවේ සුදුසු රැකියා අවස්ථා නොමැතිවීම නිසා ස්ත්‍රීන් රැකියා සොයා විදෙස් රටවලට සංක්‍රමණයවීම සමස්තයක් වශයෙන් ශ්‍රම වෙළඳ පොළ පවතින නොගැලපීම පිළිබිඹු කරයි. උගත් තරුණයන් විශාල සංඛ්‍යාවක් රැකියා නොමැතිව සිටීමෙන් පෙනී යන්නේ ඔවුන් සමාගම්වලට අවශ්‍ය කුසලතා ලබා නොගෙන වෙළඳ පොළට පිවිසිම ය. අවශ්‍ය නිපුණතාවලින් යුත් ශ්‍රම බලකායේ හිඟය ඇත්තෙන් ම මෙරට ව්‍යාපාරික ප්‍රජාව මුහුණ දෙන බරපතල ම බාධකයයි. ශ්‍රී ලංකාවේ අධ්‍යාපන අංශය නව්‍යකරණයට සහ තාක්ෂණික පරිවර්තනයට දක්වන්නේ දුර්වල ප්‍රතිචාරයකි. එය ගුණාත්මක අධ්‍යාපනයට සමාන ප්‍රවේශය ලබා දීමට නොහැකිවීම සහ තෘතීයික අධ්‍යාපන පද්ධතියේ ධාරිතාව ප්‍රමාණවත් නොවීම යන තත්ත්වයන්ට මුහුණ දී ඇත. අධ්‍යාපනයට ප්‍රමාණවත් අරමුදල් වෙන් කිරීම, විෂයමාලාවල ගුණාත්මක භාවය සහ අදාළත්වය වැඩි දියුණු කිරීම, බදවා ගැනීමේදී හා පුහුණුවේදී මුහුණ දෙන මානව සම්පත් ඌනතා හා අධ්‍යාපන අංශයේ යෝජිත ප්‍රතිසංස්කරණ නොකඩවා ක්‍රියාත්මක කිරීම තහවුරු කිරීම කෙරේ අධ්‍යාපන ප්‍රතිසංස්කරණ ක්‍රියාවලිය අවධානය යොමු කළ යුතු ය.

වඩාත් හොඳ අධ්‍යාපන ප්‍රතිඵල ප්‍රමාණවත් සෞඛ්‍ය රැකවරණයක් දීම හා සමීප ව බැඳී සිටී. ශ්‍රී ලංකාව සෞඛ්‍ය ප්‍රතිඵල අතින් සැලකිය යුතු තත්වයක් අත් කර ගෙන ඇති නමුත්, ජන විද්‍යාත්මක සහ රෝග නිවාරණ අංශවල ඇති කරන ලද වෙනස්කම් අනුව, රාජ්‍ය සහ පෞද්ගලික යන අංශ දෙකේ ම සෞඛ්‍ය පද්ධතිය ශක්තිමත් කිරීමේ අවශ්‍යතාවක් පවතී. ජන ගහනයේ වයස්ගතවීමත් සමග සෞඛ්‍ය රැකවරණය වෙනුවෙන් ඇති පිරිවැය වැඩිකෙරෙන දීර්ඝ කාලීන ප්‍රතිකාර අවශ්‍ය බෝනොවන රෝග වැඩිවීම, ගෝලීය වසංගත රෝගවලට ලක්වීමේ අවදානම වැඩිවීම යනාදිය නිසා සෞඛ්‍ය රැකවරණය සඳහා ඇති ඉල්ලුම වැඩි වන අතර එහි හැඩයද වෙනස් වෙයි. දීර්ඝ කාලීන මැදිහත්වීම් අවශ්‍ය වන බෝ නොවන රෝගවල වැඩි වීම සෞඛ්‍ය රැකවරණ සැපයීමේ පිරිවැය ඉහළ නංවයි. මේ අතර ගෝලීය වසංගතවලට රටවල් පාත්‍රවීමේ අවදානමද වැඩි වෙමින් පවතී. ශ්‍රී ලංකාවේ සමාජ-ආර්ථික ප්‍රතිඵල පිරිවැය ඵලදායි සහ කාර්යක්ෂම ආකාරයෙන් නොකඩවා වැඩි දියුණු කිරීම සඳහා සෞඛ්‍ය රැකවරණ මූල්‍යනය ශක්තිමත් කිරීමටත් රාජ්‍ය සහ පෞද්ගලික අංශවල සෞඛ්‍ය රැකවරණය ලබා දීමේ පද්ධති වැඩි දියුණු කිරීම සඳහා නියාමන වෙනස්කම් සිදු කිරීමටත් ප්‍රතිසංස්කරණ අවශ්‍යය.

ශ්‍රී ලංකාවේ වෙළඳ පොළ තත්ත්වයන් සහ ජන විද්‍යාත්මක වෙනස්වීම් නිසා පවතින සමාජ ආරක්ෂණ පද්ධතියේ ප්‍රතිසංස්කරණ අවශ්‍ය කෙරේ. දැනට සියයට 60ක් නොවිධිමත් අංශයේ සේවා නියුක්තියේ සිටින අතර 2031 වන විට ජන සංඛ්‍යාවෙන් හතරෙන් එකක් වයස අවුරුදු 60ට වඩා වැඩි වනු ඇත. වැඩසටහන් විශාල ප්‍රමාණයක් තිබුණත් අඩු ආවරණය, ඉලක්ක හඳුනා ගැනීමේ දුර්වලතා, ප්‍රතිලාභ ප්‍රමාණවත් නොවීම, වැඩසටහන් අතර සම්බන්ධීකරණයක් නොමැතිවීම, අයවැය ප්‍රතිපාදන සීමා හා සම්පත් වෙන් කිරීමේ අසමානතා නිසා අවදානමට ලක් වෙන ජන සංඛ්‍යාවෙන් විශාල කොටසකට ප්‍රමාණවත් ආවරණයක් ලැබෙන්නේ නැත. අසමානතා සමනය කිරීමේ දී සහ දරිද්‍රතාව සමනය කිරීමේ පුළුල් ඉලක්ක සපුරා ගැනීමේ දී ප්‍රමාණවත් රැකවරණ ජාලයක් සැපයීමට ශ්‍රී ලංකාවේ විශ්‍රාම ප්‍රතිලාභ යෝජනා ක්‍රම, මුදල් පැවරීම්/සහනාධාර වැඩ සටහන් සහ සමස්තයක් වශයෙන් සමාජ රැකවරණ පද්ධතිය වෙනුවෙන් ප්‍රතිශෝධන අවශ්‍ය ය.

දරිද්‍රතාවට ලක්වීමේ වඩාත් වැඩි අවදානමක් පවතින්නේ ශ්‍රී ලංකාවේ ග්‍රාමීය කෘෂිකර්මය මත යැපෙන ජනගහනයටය. කෘෂිකර්මය ද දේ නිෂ්පාදිතයේ කොටසක් වශයෙන් පහත වැටෙමින් තිබෙන නමුත් එය ආදයම්, සේවා නියුක්තිය, ආහාර සුරක්ෂිතතාව, ගොවි දරිද්‍රතාව සමනය කිරීම සහ අපනයන ඉපැයීම් වැඩිදියුණු කිරීම සම්බන්ධ වැදගත් මූලාශ්‍රයක් ව පවතී. එහෙත් එක තැන රැඳුණු ඵලදායිතාව, සීමිත විවිධාංගකරණය සහ සම්පත් කළමනාකරණයේ අකාර්යක්ෂමතාව නිසා කෘෂිකර්මය තර්ජනයට ලක් වී ඇත. ප්‍රතිපත්තමය ප්‍රතිසංස්කරණ ඔස්සේ සිදු කෙරෙන, ඵලදායිතාවේ හා තරගකාරිත්වයේ තිරසාර ප්‍රවර්ධනය හා බැඳුණු, සාම්ප්‍රදායික, අගයෙන් අඩු කෘෂිකර්මයේ සිට නවීන, අගයෙන් වැඩි කෘෂිකර්මය දක්වා වූ පුළුල් පදනමකින් යුත් විතැන් වීමක් ශ්‍රී ලාංකික ආර්ථිකයේ පුළුල් ව්‍යුහාත්මක පරිවර්තනයක් උදෙසා අත්‍යවශ්‍ය ය. ප්‍රතිශෝධන සඳහා ප්‍රමුඛතා ක්ෂේත්‍ර වන්නේ ඉඩම්, වාරිමාර්ග සහ තාක්ෂණ ප්‍රතිපත්ති සංවර්ධනය මෙන් ම පැසුරුම, අලෙවි කිරීම සහ කෘෂිකර්මික නිෂ්පාදකවලට අගය එකතු කිරීම වැඩි දියුණු කිරීමේ ක්‍රියාකාරකම් ය.

කෘෂිකාර්මික අංශය වර්ෂාපතන රටාව වැනි දේශගුණික වෙනස්වීම්වලට ලක් වීමේ අවදානමක් පවතී. ඒ සමගම ශ්‍රී ලංකාවේ ඉඩම් සහ වනාන්තර භාවිතය අධික වශයෙන් සිදු කිරීම නිසා ස්වභාවික සම්පත් පරිහානියට ලක් වෙමින් පවතී. වන විනාශය සහ ඉඩම් සෝදා පාළුව වඩාත් වැඩි වේ. අසීමිත රසායන ද්‍රව්‍ය භාවිතය, දුර්වල අපද්‍රව්‍ය කළමනාකරණය හා වායු දූෂණයෙන් පරිසර දූෂණ කරණකොට ඉහළ යමින් ඇත. දේශගුණික වෙනස්වීම් වැනි ගෝලීය පරිසර තර්ජනවලට ප්‍රතිචාර

දැක්වීමේ දී ප්‍රතිපත්ති සම්බන්ධීකරණය හා තොරතුරු සහ සම්පත් මෙහෙයවීම සම්බන්ධව බොහෝ හිඩැස් පවතී. පාරිසරික අහිතකර බලපෑම් සමනය කිරීම සඳහා කාර්යක්ෂම පරිසර කළමනාකරණ පද්ධතියක් සැකසිය යුතුය. ඒ සඳහා වඩාත් හොඳ ප්‍රතිපත්ති සම්බන්ධීකරණය, උපාය මාර්ගික තක්සේරු ඇතුළත් කිරීම වෙනුවෙන් සැලසුම්කරණය හා නියාමනය ශක්තිමත් කිරීම සහ වෙළඳ පොළ පදනම් නිති රීති සම්මත කර ගැනිම වැනි පාරිසරික කළමනාකරණයේ පිවිසුම් සඳහා පාලන ව්‍යුහවල ප්‍රතිශෝධන අවශ්‍ය ය.

ඉහත සඳහන් ප්‍රතිපත්ති ක්ෂේත්‍ර සම්පූර්ණයෙන් ම නොවන නමුත් 'ශ්‍රී ලංකාව: 2015 ආර්ථික තත්ත්වය' හි ඉදිරි පරිච්ඡේදවලින් කිසියම් දුරකට සවිස්තරාත්මක ව පරීක්ෂාවට ලක් වන බොහෝ ප්‍රස්තුතවලින් සමහරකි. මෑත වසරවල යටිතල පහසුකම්වල ශීඝ්‍ර සංවර්ධනය ශ්‍රී ලංකාවේ ආර්ථික වර්ධනය විවෘත කිරීමේ අවස්ථාවක් ලෙස සැලකිණ. ඉන් යුද්ධයෙන් විනාශ වූ ආර්ථිකය පණ ගැන්වීමේ දී මධ්‍ය කාලීන ව ප්‍රතිලාභයක් අත් විය. කෙසේ වුවත් විදෙස් ණයෙන් මූල්‍යනය වූ, පරිභෝජනය මත රැඳුණු, අපනයන තරගකාරිත්වය නැංවීමේ ඌනපූරක ප්‍රතිශෝධන මූලපිරුම්වලින් තොර වර්ධනය, ශ්‍රී ලංකාව වැනි කුඩා විවෘත ආර්ථිකයකට දීර්ඝ කාලීන චිරස්ථායි විකල්පයක් නො වේ.

යටිතල පහසුකම්වලින් වර්ධනය නගා සිටුවීම මෑත වසරවල ක්‍රමයෙන් හීන වේගන යන බැවින්, දීර්ඝ කාලීන චිරස්ථායි වර්ධනය සඳහා නව දිශාවක් සලකුණු කිරීමේ අවශ්‍යතාවක් ඇත. ශ්‍රී ලංකාවේ ආර්ථික ප්‍රතිපත්ති තෝරා ගැනීමේ ඉඩකඩ වේගයෙන් අඩුවෙමින් පවතී. මූල්‍ය තත්ත්වය සහ බාහිර වර්තන ගිණුම දුර්වලවීම නිසා වර්ධනය පහත වැටෙමින් පවතී. මුදල් ඒකකය අවප්‍රමාණයට ලක්වීමේ පීඩනයට හසු ව ඇති අතර පොලි අනුපාත ඉහළට ගමන් කරයි. ශ්‍රී ලංකාවේ ඡන්ද දායකයන් කිසිදු තනි පක්ෂයට විශාල ජයග්‍රහණයක් ලබා නොදුන් නමුත් එජාපයට රජයක් පිහිටුවීමට ලැබුණු ජනතා වරම පරිවර්තනීය ආර්ථික ප්‍රතිශෝධන න්‍යාය පත්‍රයක් සකස් කොට ඉදිරියට ගෙන යෑම සඳහා ප්‍රමාණවත් ය. විපක්ෂය වන ශ්‍රීලනිපයේ සහාය ඇති ව ජාතික එකමුතු රජයක් පිහිටුවීමෙන් අවශ්‍ය කරන දේශපාලන ස්ථාවරත්වය ලබා ගත හැකි ය. ඉන් රජයට ආර්ථික පෙරමුණේ ප්‍රායෝගික පිවිසුමක් පවත්වා ගැනීමටත්, එහි විකල්ප කිරා මැන බැලීමට හා කළ හැකි වන්නේ කුමක් ද යන්න තීරණය කිරීමටත් පහසුවෙන් කළ හැකි දේ කිරීමට සහ මධ්‍ය කාලීන ව ප්‍රතිශෝධන ක්‍රියාවලිය ගොඩ නැගීමටත් ප්‍රමාණවත් ඉඩ ප්‍රස්ථාවක් සැලසේ. ශ්‍රී ලංකාව අත්හැරිය යුත්තේ මෙවැනි ලිහිල් සභාග වැඩ පිළිවෙළ වල ලක්ෂණයක් වන භේද භින්නවීම් ය. එවැනි තත්ත්වයක් නිසා ප්‍රතිපත්ති අවුල්විය හැකි අතර ශක්තිමත් කිරීමට අපේක්ෂා කරන යහපාලනයේ ශික්ෂණය හා සමතුලනය යටපත් වනු ඇත.

සටහන්:

1. ජන සහ සංඛ්‍යා ලේඛන දෙපාර්තමේන්තුව දැනට ජාතික ගිණුම් ප්‍රති පදනම් කරමින් සිටී. මූලික ගණනය කිරීම් අනුව පෙනී යන්නේ ප්‍රති පදනම් කිරීමේ ප්‍රතිඵලයක් වශයෙන් ලැබෙන තත්‍ය වර්ධන අනුපාත, කලින් පැවති ප්‍රමාණයට වඩා බෙහෙවින් අඩු බවයි. (මෙම වාර්තාවේ 2.1 කොටුව බලන්න.)

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# 1. கொள்கை எதிர்பார்ப்புக்கள்

முன்னைய சனாதிபதி மஹிந்த ராஜபக்ஷவின் 10 வருட திட்டமிடலற்ற தான்றோன்றித்தனமான ஆட்சியை முடிவுறுத்தி இலங்கையின் ஆறாவது நிறைவேற்று அதிகாரம் கொண்ட சனாதிபதி அதிமேதகு மைத்திரிபால சிறிசேன அவர்கள் இலங்கையின் ஆறாவது நிறைவேற்று அதிகாரம் கொண்ட சனாதிபதியாக 2015 சனவரியில் தெரிவு செய்யப்பட்டதைத் தொடர்ந்து இலங்கையில் யுத்தத்தின் பின்னரான பொருளாதாரம் மற்றும் சமூக பொருளாதார அபிவிருத்தியில் தீர்க்கமாதொரு மாற்றம் ஏற்பட்டுள்ளது. 30 வருடங்களுக்கு மேற்பட்ட பிரிவினைவாத ஆயுததாரிகளுக்கு எதிரான இறுதி வெற்றியானது 2009 மே மாதத்தில் அடையப்பெற்றதுடன் அதனைத் தொடர்ந்து நாட்டில் வெளிப்படையாகக் காணக் கூடிய சவால்களிலிருந்து வெளியேறுவதற்காக கடந்த 10 வருடங்களில் வெற்றியடைந்துள்ளது.

யுத்த வெற்றியினை சாதமாக்கிக் கொண்டு தனது இரண்டாவது தவணையினை 2010 ஆம் ஆண்டு மிக இலகுவாக வென்று தற்பொழுதைய சனாதிபதி பிரபல்யத்தின் உச்ச நிலையினை அடைந்து கொண்டதுடன் பாராறுமன்றத்தில் அடைந்து கொள்ள முடியாத மூன்றில் இரண்டு பெரும்பான்மை பலத்துடன் பதவியில் இருக்கின்றார். அரசியல் அதிகாரத்தினை அபரிமிதமாக பயன்படுத்தியதுடன் எவ்வாறாயினும், இந் நிலைமையானது சனநாயக ரீதியற்ற ஒரு போக்குக்கு வழிவகுத்ததுடன் அதன் ஊடாக அரசியலமைப்பு மாற்றமொன்றின் ஊடாக சனாதிபதி ஒருவர் பதவி வகிக்கக் கூடிய தடவைகளின் வரையறையினை நீக்கிக் கொண்டார். இருந்த போதும், உயர் பொருளாதார வளர்ச்சி, ஊழல் மோசடிகள், பக்கச் சார்பான ஆதரவளிப்புக்கள் மற்றும் தான்றோன்றித்தனமான முடிவெடுப்புக்களின் ஊடாக உயர் பொருளாதார அபிவிருத்தியை இலக்கு வைத்து செயற்பட்ட போதும் இவ்வாறான செயற்பாடுகள் பொதுவான எதிர்கட்சி வேட்பாளர் என்ற அரசியல் எதிர்ப்புக்கு வழிவகுத்ததுடன் தேர்தலின் போது ஆட்சி மாற்றமொன்றுக்கும் வழிவகை செய்தது.

பொது எதிர்க்கட்சி சனாதிபதி வேட்பாளரின் கீழ் கட்சிகள் கூட்டுச் சேர்ந்து கொண்டமையாது ஐக்கிய மக்கள் சுதந்திர முன்னணியினால் (UPFA) வழிநடாத்தப்பட்ட ஆட்சியிலிருந்த இலங்கை சுதந்திரக் கட்சி (SLFP) வெளியேற்றப்பட்டது. இந்த நிலைமைக்கு இலங்கை சுதந்திரக் கட்சிக்கான எதிரியான ஐக்கிய தேசிய கட்சி பிரதானமாக செயற்பட்டது. ஒன்றாக, நாட்டின் அபரிமிதமான நிறைவேற்று அதிகாரம் கொண்ட சனாதிபதி முறைமையினை இல்லாதொழிப்பது அல்லது அதன் அதிகாரங்களைக் குறைப்பது என்ற இலக்கினை முன்வைத்து பல்வேறுபட்ட அரசியலமைப்பு மாற்றங்களை செய்து பாராளுமன்றத்திற்கு அதிகாரங்களை வழங்கும் வகையிலான வாக்குறுதிகளை வழங்கி 100 நாள் வேலைத் திட்டத்திற்கான பொதுவான கொள்கை அடித்தளம் இடப்பட்டு மாற்றமொன்றை கொண்டுவருவதற்கான செயற்பாடுகள் முன்னெடுக்கப்பட்டன. நல்லெண்ண முன்னெடுப்பாக, 100 நாள் வேலைத்திட்டத்தின் கீழ், அரச துறை ஊழியர்களுக்கான மக்கள் நல செலவீனங்களைச் செய்தல் என்ற அடிப்படையில் சம்பள அதிகரிப்பு மற்றும் எரிபொருள் போன்ற தெரிவு செய்யப்பட்ட பொருட்களின் விலைக் குறைப்பு போன்றன நடைமுறைப்படுத்தப்பட்டன.

மைத்திரிபால சிரிசேன அவர்களின் தேர்தல் வெற்றி மற்றும் சிறுபான்மை அரசாங்கத்தை வழிநடத்தும் பொருட்டும் அதனைத் தொடர்ந்து ஐ.தே. கட்சியின் தலைவர் ரணில் விக்கிரமசிங்கவின் நியமனம் போன்றன அவர்களுடைய அரசியல் முறைமையினை செயற்படுத்துவதில் சிக்கல்களை ஏற்படுத்தும் என பெரும்பான்மையான இலங்கை மக்கள் கருதிய போதும் 100 நாள் வேலைத்திட்டம் மாற்றங்களை கோரியது. சுயாதீன ஆணைக்குழுக்களின் நியமனங்களை மேற்பார்வை செய்வதற்கான அரசியலமைப்புச் சபையினை மீள தாபிப்பதற்கும் நிறைவேற்று அதிகாரம் கொண்ட சனாதிபதயின் அதிகாரங்களை மிக முக்கியமாக பதவிக் காலத்தினை இரண்டு தவணைகளுக்கு மட்டுப்படுத்துவதற்கும் மீள அறிமுகம் செய்வதற்குமான அரசியலமைப்பு மாற்றங்களை செய்வதற்கு அரசியலமைப்பின் 19 ஆம் திருத்தத்தினை நிறைவேற்றிக் கொள்வதற்கு பல்வேறு பட்ட அரசியல் கட்சிகள் பரந்த அளவில் தங்களுடைய கட்சி ஆதரவினை வழங்கியது. சகல நிறைவேற்று அதிகாரங்களைக் கொண்ட சனாதிபதி ஆட்சி முறைமையினை இல்லாதொழிப்பதற்கும் வெஸ்மினிஸ்டர் முறைமையான பாராளுமன்றத்திற்கு அதிகாரங்களை ஒப்படைத்து பாராளுமன்றத்தினால் அரசாங்கத்தினை வழிநடத்தும் முறைமையினை ஏற்படுத்துவோம் என எதிர்பார்ப்புக்களை

உருவாக்கியிருந்த போதும் நிறுவனங்களை உறுதிப்படுத்தல் மற்றும் இலங்கையில் ஆட்சியமைப்பு கட்டமைப்பில் கருதத்தகு முன்னெடுப்புக்களை 19 ஆம் திருத்தம் கொண்டிருக்கிவில்லை. 2015 ஏப்ரல் 28 ஆம் திகதி 19 ஆம் திருத்தம் நிறைவேற்றப்பட்டதுடன், ஆனால் முன்மொழியப்பட்ட இலங்கையின் தேர்தல் முறைமையினை மாற்றுவதற்கான 20 ஆவது அரசியலமைப்புத் திருத்தம் கட்சிகளின் உட்பூசல்கள் மற்றும் இழுத்தடிப்புக்களினால் தடைப்பட்டுள்ளது. ஆட்சி மாற்றம் என்ற கோசத்தின் ஊடாக பிரதானமாக எதிர்பார்த்த புதிய நிறுவாக முறைமை தொடர்பான நன்மைகளை அடைந்து கொள்வதில் நிச்சியமற்ற தன்மை உருவாகி வருவதுடன் அதனை அமுல்படுத்துவதில் தாமதங்களினை உருவாக்கும் சிக்கலொன்றும் உருவாகியுள்ளது.

அரசியல் கட்சிகள் புதிதாக மக்கள் ஆணையொன்றைப் பெற்றுக் கொள்வதற்கு அனுமதி வழங்கும் வகையில் 100 நாள் வேலைத்திட்டம் முடிவடைந்ததைத் தொடர்ந்து பாராளுமன்றத்தை கலைப்பதில் பிரதானமாக உள்ள தாமதங்கள் காணப்பட்டன. வாக்காளர்களின் ஆதரவினை தமக்கு சாதகமாக்கிக் கொள்ளும் பொருட்டு விரைவான தேர்தல் ஒன்றை ஐக்கிய தேசியக் கட்சி தெளிவாக எதிர்பார்த்திருந்தது. இங்கை சுதந்திரக் கட்சி, மறு புறமாக, முன்னாள் சனாதிபதி மஹிந்த ராஜபக்ஸவின் மீள் வருகை மற்றும் பிரதம அமைச்சராக தெரிவு செய்யப்படுதவற்கான சாத்தியங்கள் தொடர்பில் வேட்ப்பு மனுக்களை வழங்குவது தொடர்பில் சனாதிபதி மைத்திரிபால சிறிசேன மற்றும் மஹிந்த ராஜபக் ஆகியோருக்கு இடையில் முறுகல் நிலையின் காரணமாக கட்சியின் நம்பத்தன்மை குலைந்திருந்த காரணத்தினால் தேர்தலுக்கு செல்வதற்கான சந்தேக நிலைமை காணப்பட்டது. 2015 ஆம் ஆண்டு சனவரி மாதத்தில் நடைபெற்ற தேர்தலின் போது 47.6 சதவீத வாக்குகளைப் பெற்றிருந்தமையினால் அவ்வாறு பெற்றுக் கொண்ட வாக்கு ஆதரவினை தக்கவைத்துக் கொள்வதற்கு மஹிந்த ராஜபக்சவே சிறந்த வேட்ப்பாளர் என ஐக்கிய மக்கள் சுதந்திர முன்னணி கருதியது.

இந்த நிகழ்வில், அதி கூடிய ஆசங்களாக 106 ஆசனங்களை ஐக்கிய தேசியக் கட்சியும், ஆனால் இலங்கையின் 225 ஆசனங்களைக் கொண்ட பாராளுமன்றத்தின் பெரும்பான்மையினை பெற்றுக் கொள்வதற்குத் தேவையான 113 அடைந்து கொள்வதற்கு சிறுது குறைவடைந்த நிலையில் மிகவும் தாமதமாக நடைபெற்ற தேர்தலானது தொங்கு பாராளுமன்றமொன்றை உருவாக்கியது. இருந்த போதும், ஐக்கிய மக்கள் சுதந்திர முன்னணியின் 95 உறுப்பினர்களிலிருந்து ஒரு தொகுதி உறுப்பினர்களின் ஆதரவினைப் பெற்று ஆட்சியமைக்கும் பெரும்பான்மை ஆதரவினை ஐக்கிய தேசியக் கட்சி பெற்றுக் கொள்ளும் இயலுமையை கொண்டிருக்கின்றது. இந்த முன்னெடுப்பானது அண்மிய காலத்தில் இலங்கையின் அரசியலின் நிலைத்த தன்மையில் ஒரு ஏற்பாட்டை வழங்கியது. இருந்த போதும் இரு கட்சிகளினதும் அரசியல் மற்றும் பொருளாதார முன்னெடுப்புக்களின் ஊடாக கொள்கைகளை உருவாக்குதல் மற்றும் அமுல்படுத்தல் ஊடாக பூரணமான ஐந்து வருடங்களுக்கு இந்த ஆட்சியை நிலை நிறுத்திக் கொள்வது மிகவும் சிக்கலான இலக்கு என்பது தெளிவாகின்றது.

இதில் மிகவும் பாதிப்புக்குள்ளானது பொருளாதாரமாகும். ஜனாதிபதித் தேர்தலுக்கு அண்மித்த காலத்தின் போது இலங்கையில் பொருளாதார நிலைமை தொடர்பாக குறைந்தளவான கவனமே செலுத்தப்பட்டது. இது இரண்டாவது காரணமாகும் தமது நலனுக்காக பயன்படுத்திக்கொள்ளக்கூடிய ஆழமான மற்றும் பரந்தளவிலான சர்ச்சைக்குரிய நிலைமைகள் பற்றிய அச்சம் ஒன்று நிலவியிருப்பின் வாக்காளர்களுக்கு பொருளாதார பிரச்சினை முக்கியத்துவமாகும். மொத்த புள்ளிவிபரங்களுக்கேற்ப இலங்கையின் பொருளாதாரம் வலுவானதாகும். 2014 ஐ அண்மித்தபோது மொத்த தேசிய உற்பத்தியானது மத்திய அளவிலான் பணவீக்க நிலைமையின் கீழ் 7மூ வீதமான கூடிய சராசரி வளர்ச்சி யொன்றினை பெற்றிருந்தது. தொழிலின்மை 4மூ வீதம் வரை வீழ்ச்சியடைந்திருந்தது. மொத்த வறுமை நிலைமையானது 7மூ வீதம் வரை குறைந்திருந்தது. வீதிகள், அதிவேக வீதி, துறைமுகம் மற்றும் விமானநிலையம் போன்ற உட்கட்டமைப்பு வசதிகளின் அபிவிருத்தியில் குறிப்பிடத்தக்க முன்னேற்றம் ஒன்று காணப்பட்டது. இவை இலங்கையின் அரசாங்க முதலீடு மற்றும் வெளிநாட்டுக்கடன்களின் ஊடாகவே மேற்கொள்ளப்பட்டன.

பொருளாதாரத்திற்கு குறைந்தளவான கவனம் செலுத்துதல் இரண்டாவது காரணமாக இருப்பது எதிர்க்கட்சியின் பொது வேட்பாளருடன் இணைந்த அரசியல் கட்சிகள் பொதுவான ஒத்துழைப்பானது ஒருவருக்கொருவர் வேறுபட்ட கொள்கைகளாக பிரிந்திருந்தமை தெளிவாக வெளிப்பட்டது. இது சந்தை பொருளாதாரத்தை விரும்புகின்ற ஐக்கிய தேசியக் கட்சியில் இருந்து சமவுடமை பொருளாதார ஆழமான நம்பிக்கையுள்ள மக்கள் விடுதலை முன்னணி வரை பல்வேறுபட்ட கட்சிகளினை உள்ளடக்கியிருந்தது. இதன் காரணமாக நூறு நாள் நிகழ்ச்சித் திட்டத்தில் எந்தவொரு பொருளாதாரக் கொள்கையினையும் செல்வதென்றால்

அது சகல கட்சிகளும் உடன்படக்கூடிய ஒரு விடயமாக பொருட்களின் விலைகளை குறைத்தல், வாழ்க்கைச்செலவு பிரச்சினைக்கு தீர்வொன்றினை தேடுதல், அரச ஊழியர்களின் சம்பளத்தை அதிகரித்தல், மற்றும் ஓவ்வூதியச் சம்பளத்தை அதிகரித்தல் என்பனவற்றுடன் மட்டுப்பட்டன. இந்த வாக்குறுதிகள் 2015 ஜனவரியில் சமர்ப்பிக்கப்பட்ட புதிய வரவுசெலவுத்திட்ட முன்மொழிவில் செயல்முறைப்படுத்தப் பட்டதுடன் அதன் பெறுபேறாக இவ்வாறான வாக்குறுதிகளை நிறைவேற்றுவதற்கு ஏற்பட்டதுடன் இதனூடாக மேலதிக செலவினங்கள் தொழில்முயற்சி இலாபத்தின் படி ஒருமுறை மாத்திரம் அறவிட்டுக்கொள்வதற்கு வரி ஒன்றினை விதிப்பதற்கும் ஈடுசெய்வதற்கும் நடவடிக்கை எடுக்கப்பட்டது.

கடந்து சென்ற காலத்தின் போது பொருளாதாரம் இந்த அரசியல் எதேச்சையான செயற்பாடுகள் காரணமாக நிலையற்றிருந்தது. அரசின் கடன் பெறும் எல்லையினை அதிகரிப்பதற்காக சமர்ப்பிக்கப்பட்ட சட்டமூலமானது 2015 ஏப்ரல் மாதத்தில் தோல்வியடைந்தது. அதன் பின்னர் வரவுசெலவுத்திட்டத்தின் மூலம் சமர்ப்பிக்கப்பட்ட புதிய வரித்திட்டத்தினை நிறைவேற்றிக்கொள்ளும் சட்டமூலம் திகதி குறிப்பிடப்படாது காலம் தாழ்த்தப்பட்டமை தெளிவாகின்றது. திட்டமிடப்பட்ட பிரகாரம் அரசாங்கத்தின் கடன்முறிகள் ஊடாக வெளிநாட்டுக்கடன்களை பெற்றுக்கொள்வதற்கு தாமதம் ஏற்பட்டதன் காரணமாக அரசாங்கம் அது தொடர்பாக உள்நாட்டுச் சந்தையில் பாரிய அளவில் கடன்களை பெறுவதற்கு ஏற்பட்டது. உண்மையாக 2015 மே மாதம் வரை வரிவருமானப் பற்றாக்குறை மொத்த நிகர தேசிய நிதியீட்டம் 2014 ஆம் ஆண்டு முழுமையான ஆண்டின் மொத்த நிகர தேசிய நிதியீட்டத்தினை விஞ்சியிருந்தது. இதன் காரணமாக வட்டிவீதத்தில் அதிகரிப்பொன்றினை காணக்கூடியதாக இருந்தமை கவனிக்கத்தக விடயமாகும்.

நாணய அலகும் அழுத்தத்திற்குள்ளாக்கப்பட்டுள்ளது. உட்கட்டமைப்பு வசதிகள் அபிவிருத்தி செயற்றிட்டங்கள் தடைப்பட்டதன் காரணமாக அபிவிருத்திக் கடன்களின் உள்வருகை தாமதமடைந்தது. அரசாங்கத்தின் கடன்முறி விநியோகம் தொடர்பாக எதிர்பார்க்கப்பட்ட அளவிலும் பார்க்க கூடியகாலம் ஏற்பட்டது. கடனினை மீளச்செலுத்துவதற்கும் நாணய அலகினை பேணிச்செல்வதற்குமாக இலங்கை மத்திய வங்கியுடன் மத்திய வங்கியின் உத்தியோகபூர்வ ஒதுக்கத்தினை பயன்படுத்திக்கொள்ளவேண்டிய நிலையேற்பட்டது. 2015ம் ஆண்டின் நடுப்பகுதியாகும் போது உத்தியோகபூர்வ வெளிநாட்டு ஒதுக்கமானது நாலரை மாதங்களுக்கு இறக்குமதி செய்யக்கூடிய அளவிலான ஐக்கிய அமெரிக்க டொலர் 7.5 பில்லியன் அளவிற்கு பேணிச்செல்லக்கூடிய நிலைமையில் ஸ்திரத்தன்மை காணப்பட்டது. இந்த நிலைமை ஏற்பட்டது இந்தியாவின் ஒதுக்கீட்டு வங்கியுடன் ஏற்படுத்திக்கொண்ட கொடுக்கல் வாங்கல் உடன்பாடு மற்றும் 2015 ஆம் ஆண்டு மே மாதத்தில் அரசகடன்முறிகள் வெளியீடு செய்தமை ஐக்கிய அமெரிக்க டொலர் 650 மில்லியன் மூலதனம் நாட்டினுள் உட்பாய்ச்சிய காரணத்தினாலாகும். எவ்வாறாயினும் இலங்கையின் வெளிநாட்டு வருமான வளர்ச்சி நடைமுறைக் கணக்கில் ஏற்படுத்தக்கூடிய மோசமான நிலைமைகள் காரணமாக மாற்றமடையாது காணப்பட்டது. 2015ஆம் ஆண்டின் ஆரம்ப அரையாண்டின் போது ஏற்றுமதி வருமானம் 0.6மூ னால் வீழ்ச்சியடைந்து சென்மதி நிலுவை பற்றாக்குறை 15மூ னால் அதிகரித்தது. வெளிநாட்டு ஊழியர்களின் ஒரு பக்க கிடைப்பனவுகள் 2.2மூ வரை வீழ்ச்சியடைந்தது.

2015ம் ஆண்டின் முதலாவது காலாண்டில் மொத்த தேசிய உற்பத்தியின் கணக்கெடுப்பிற்கேற்ப இலங்கை அண்மிய ஆண்டுகளில் 7மூ இலும் அதிகமான வளர்ச்சி நிலைமையினை பேணியுள்ளதுடன் 2014ம் ஆண்டு தொடர்பாக 7.4மூ னால் கணக்கிடப்பட்ட வளர்ச்சியானது வீழ்ச்சி மட்டத்தில் காணப்படுகின்றது. காலாண்டு அடிப்படையிலான வளர்ச்சியானது தொடர்ச்சியாக இரண்டாவது காலாண்டில் 6.4மூ வரை வீழ்ச்சியடைந்துள்ளது. இது 2014ம் ஆண்டின் ஆரம்ப காலாண்டில் நிலவிய 7.6மூ மட்டத்துடன் ஒப்பீடு செய்யும் போது தெளிவான வீழ்ச்சி ஒன்றினைக் காட்டுகின்றது. வளர்ச்சியானது மோசமான நிதி நிலைமையினை இந்நிலைமை வெளிக்காட்டுகின்றது. நிதிச் சீராக்கம் 2015 இல் மொத்த தேசிய உற்பத்தியில் 4.4மூ வரை இப்பாரிய அளவில் குறைக்கப்பட்டுள்ளதுடன் அரச முதலீடுகள் மேலும் குறைக்கப்பட்டுள்ளது. வளர்ச்சி தொடர்பாக இவ்வாறான முதலீடுகளின் பால் அதிகளவு தங்கியுள்ள பொருளாதாரம் இதன் காரணமாக பாரிய அச்சுறுத்தலுக்கு விரைவாக முகம் கொடுக்கின்றமை தெளிவாகின்றது.

உள்நாட்டுச் சந்தையின் திரவநிலைமை அரசினால் பெறப்படுகின்ற கடன்களின் காரணமாக வட்டிச் சதவீதம் உயர்வடைந்து செல்கின்றது. தேர்தல் தொடர்பில் நிச்சயமற்ற நிலைமை முடிவடைந்ததுடன் கடந்த மாதத்தில் கடந்த 18 மாதம் பூராகவும் கடன் பெறுதல் தொடர்பாக தனியார்துறையில் காணப்பட்ட குறைந்தளவிலான கேள்வி நீங்கியுள்ளது என எதிர்பார்க்கப்படுகின்றது. அரச நிதிக் கட்டுப்பாடுகளின் இலகுபடுத்தப்பட்ட தன்மை செய்யாதிருப்பதனால் உயர் வளர்ச்சியொன்றினை பேணிக்கொள்ள கூடிய தனியார்துறையினர் தமது முதலீடுகளை நீக்கிக்கொண்டுள்ளனர்.

அதன் பிரகாரம் புதிய அரசாங்கம் முகம்கொடுப்பதற்குள்ள பொருளாதார கொள்கை ரீதியான சவால்கள் அதிகமாகும். முதலாவது மற்றும் துரிதமான முன்னுரிமையாக இருப்பது நிதிநிலைமையினை உறுதிப்படுத்துவதே ஆகும். மொத்த பொருளாதாரத்தினை அடிப்படையாகக் கொண்டு பொருளாதாரத்தை ஸ்திரப்படுத்துவதற்கும் பரந்த அளவில் வினைத்திறனினை கட்டியெழுப்புவதற்கும் ஆரம்பிக்கப்படவேண்டிய நிலைமையினை உருவாக்குவதற்கு பாரிய நிதி நிலைமை தேவையாகும்.

அரசாங்கத்தின் உட்கட்டமைப்பு வசதிகள் முதலீடுகளின் வளர்ச்சி உற்பத்தியின் அளவு ஏற்றுமதியின் 15மூ இலும் குறைவாகும். பொருளாதாரம் ஆனது பாரியளவில் நுகர்வில் தங்கியிருப்பதுடன் நுகர்வானது தனியார்துறையின் குறைந்தளவிலான முதலீட்டு கேள்விகள் மற்றும் மூலதன உட்பாய்ச்சல் ஆகிய இரண்டின் படியாகும். மூலதன செலாவணிச் செலவின சதவீதத்தை அதிகரித்துக் கொள்வதற்கான காரணியாக இருக்கின்ற முதலீட்டு குறைபாடுகள் மேலும் உக்கிரமடைந்துள்ளது. அதனொரு பெறுபேறாக வியாபாரம் செய்யக்கூடிய கைத்தொழிற்சாலைகளின் இலாபத்தன்மை வீழ்ச்சியடைந்துள்ளது மேலும், இலங்கையின் வினைத்திறன் குறைந்த மட்டத்தில் காணப்படுவதுடன் நிருவன ரீதியான குறைபாடுகள் மற்றும் போதியளவற்ற உட்கட்டமைப்பு வசதிகள் அதன் ஏற்றுமதிக் கைத்தொழில்களின் போட்டித்தன்மைக்கும் வினைத்திறனுக்கும் தடையாக உள்ளன.

நிதிவரையறைகள் ஸ்தீரமற்ற ஊழியப்படையின் குடியியல் ரீதியான நிலைமைகள் மற்றும் தேர்ச்சி பற்றாக்குறை துரிதமான பொருளாதார வளர்ச்சி ஒன்று நிலவுகின்ற கால எல்லையில் மீட்கப்பட்ட மிகக் கடினமான கொடுக்கல் வாங்கல்கள் புதிய அரசிற்கு சவால்களாக உள்ளன. இலங்கையின் வரி விதிப்பு முறைமையினை திருத்தம் செய்தல் நட்டத்தினை அனுபவிக்கின்ற அரச நிறுவனங்களின் பிரச்சினைகளை தீர்த்தல், ஊழியச்சந்தையின் வினைத்திறமையினை அதிகரித்தல் ஊழியப்படையின் திறமையை சீராக்குதல் வறியவர்கள் மற்றும் இடர்களுக்கு உள்ளாகக்கூடியவர்களுக்கு மிகவும் சிறந்த பாதுகாப்பு சுகாதாரமான குடிநீர் வழங்குதல் தொடர்பாக கவனம் செலுத்த வேண்டியுள்ளதுடன் இவ்வாறான திருத்தங்கள் பல செய்யப்படவேண்டியுள்ளன. அவ்வாறான திருத்தங்கள் அரசியல் அமைப்பு சட்டங்களின் ஊடாக வழங்குதல் அரசியல் ரீதியாக கடினமாகும். இருந்தபோதும் அவற்றினை அமுல்படுத்தல் அவற்றைவிடக் கடினமாகும். திருத்தங்களின் ஊடாக உருவாகுகின்ற விநியோகங்களுக்கான அச்சுறுத்தல் இடையில் தோல்வியடைந்தவர்கள் மற்றும் வெற்றியடைந்தவர்கள் உருவாக்குவதன் ஊடாக குறுங்கால சீராக்க கிரயம் ஒன்றாக இருப்பதுடன் நீண்டகால பெறுபேறுகளை பெற்றுக்கொள்ளும் இயலுமையும் காணப்படுகின்றது. தோல்வி அடைந்தவர்களை இலகுவாக இனங்கண்டு கொள்ள முடியும் திருத்தங்களின் ஊடாக அனேகமானவர்களுக்கு பயன்களை அனுபவிக்க முடியுமாகவிருந்த போதும் திருத்தங்களுக்கு எதிரான கோசங்கள் தொடர்பாக ஆதரவு ஒன்றுதிரட்டப்படாது திருத்தங்களுக்கு ஒத்துழைப்பு நல்குகின்ற கூட்டங்களும் கலந்துரையாடல்களும் ஒழுங்கமைப்பு செய்யப்படுதல் மிக முக்கியமாகும்.

திருத்தங்கள் தயாரிக்கப்பட்டு வெற்றியடைவது சில ஊக்கங்களும் முயற்சிகளும் நிகழ்கின்றபோது மாத்திரமாகும். பொருளாதார சச்சரவு பற்றிய பரந்த உணர்வு காணப்படுதல் மற்றும் மாற்றமடைத்தல் தவிர்ந்த பிற மாற்றுவழிகள் இல்லையென்பதை ஏற்றுக்கொண்ட மக்களைக் கொண்ட பொருளாதார முறைமை மற்றும் பிரிவடைந்துள்ள தேவைகள் உள்ள குழுக்களில் இருந்து நீங்கிச்செல்லல் பிரபல்யமான அரசியல் தலைமைத்துவம் மற்றும் திருத்தங்களை முன்னெடுத்தல் தொடர்பாக மக்கள் ஆணை காணப்படுதல் வெளியக அழுத்தங்களினால் சுமத்தப்படுகின்ற பொறுப்புக்கள் என்ற உணர்வுத் திருத்தச்செயற்பாட்டின் போது உரிமையினைப் பெறுகின்ற விடயம் தொடர்பாக கவனம் செலுத்தப்படுதல் வேண்டும்.

மேலே குறிப்பிட்ட விடயங்கள் பெரும்பாலானவை ஒன்றாக இணைக்கக்கூடியவை. உதாரணமாக பொருளாதார சச்சரவின் போது அரச அனுசரனையை பெறுகின்ற பழைய முறைமையினை பேணிச்செல்கின்ற தேவையொன்று உள்ள வாடகை வருமானம் பெறுகின்ற குழுக்களினை கவனத்திற் கொள்ளாது விடுதல் அரசிற்கு திருத்தங்களை அமுல்படுத்துகின்ற போது சந்தர்ப்பமொன்று அமைகின்றது. புதிய பொருளாதார இடர்பாடுகள் காரணமாக அரசியல் தலைமைத்துவத்தில் மாற்றமொன்றினை ஏற்படுத்தி சில கொள்கைகளினை சூழ்ந்துள்ள தேவைகளினை பலமான குழுவொன்றினை நீக்குவதற்கு இலகுவாக அமைகின்றது பொருளாதார கடினங்களின் காரணமாக மாற்றம் ஒன்று தொடர்பாக மக்களுக்கு மத்தியில் பாரிய ஒத்துழைப்பினை கட்டியெழுப்புவதற்கு இயலுமையை ஏற்படுத்தி நிதி கட்டுப்பாடுகளிலிருந்து விடுபடுவதற்கு குறைந்த நிபந்தனைகளுடன் கூடிய கடன்களினை வழங்குவதற்கு சர்வதேச ரீதியான கடன்வழங்குகின்ற நிறுவனங்களுக்கு சமர்ப்பிப்பதற்கான சந்தர்ப்பம் கிடைக்கின்றது. அதன்போது அரசுகளுக்கு திருத்தங்களினை ஏற்றுக்கொள்ள வேண்டிய நிலைமைக்கு ஆளாவதற்கு ஒத்துழைப்பு வழங்குவதற்கு இயலுமை கிடைக்கின்றது.

எவ்வாறாயினும், பொருளாதார பிணக்கொன்றின் போது திருத்தச் செயல்பாடுகளை பேணிச் செல்வதற்கு தேவையான அல்லது போதியளவிலான நிபந்தனைகளன்று பிரபல்யமான மக்கள் ஆணையுடன் புதிதாக தெரிவுசெய்யப்படுகின்ற பிரபல்யமான அரசிற்கு எதிராக உத்தியோகபூர்வ காலத்தில் ஆரம்பமாக எழுச்சிபெறும் காலகட்டத்தில் திருத்தங்களை இலகுவாக செயற்படுத்த முடியும். உண்மையாக பிரபல்யமான அரசியல் தலைமைத்துவத்திற்கு சிறப்பாக விளங்குகின்ற அரசியல் அதிகாரம் ஒன்று இல்லாத போதும் திருத்தச்செயற்பாடுகளை முன்னெடுத்துச் செல்வதற்கு நிச்சயமான காரணிகளாக அமைய முடியும். இங்கு அரசதுறையின் நவீன தொழில்நுட்ப நிபுணர்களின் ஒத்துழைப்பும் முக்கியமான காரணியாகும்.

இலங்கையின் திருத்த முயற்சியில் வெற்றிகரமான அனுபவமாக இருப்பது ஐக்கிய தேசியக் கட்சியின் நிர்வாகத்திற்குள் நடைபெற்ற 1977 - 1978 மற்றும் 1990 - 91ம் காலப்பகுதியில் இந்த பண்புகள் இரண்டறக் கலந்துள்ளன. நாட்டின் பொருளாதார முன்னேற்றம் பற்றி நாடு பூராகவும் காணப்பட்ட கவலை பாரிய திருத்தங்களை கொண்டுவருவதற்கு 1977ம் ஆண்டில் ஐக்கிய தேசிய கட்சிக்கு அதிவிசாலமான அரசியல் மக்கள்ஆணை கிடைப்பதற்கு காரணமாக அமைந்தது. 1980ம் ஆண்டுக் காலப்பகுதியின் நடுப்பகுதியில் பரந்த அளவில் அடிப்படையாக இருந்த திருத்தங்கள் தொடர்பாக அரசியல் அவகாசம் போதியளவு குறைவாக இருந்தபோதும் மோசமான பொருளாதார நிலைமையொன்று நிலவிய பிரபல்யமான அரசியல் தலைமைத்துவத்திற்கு மாற்றமொன்றை ஏற்படுத்துவதற்கு வலுவாக அமைந்தது.

இதற்கு மாற்றமாக திருத்தங்களுக்கு வழிகோருகின்ற திட்டமிடல் மட்டங்களில் முன்னெடுத்துச் செல்வதற்கு இயலாது போகின்ற அனுபவங்களும் இலங்கையில் காணப்பட்டன. 1994ம் ஆண்டில் ஏற்பட்ட அரசியல் தலைமைத்துவ மாற்றத்துடன் தனியார் மயப்படுத்தலினை பிரதானமாகக் கொண்டு எழுச்சியொன்றினை காணமுடிந்தபோதும் 1990ம் ஆண்டின் நடுப்பகுதியின் போது கூட்டணி அரசாங்கங்களின் அழுத்தங்கள் மற்றும் பாராளுமன்றத்தில் பெரும்பான்மை குறைவடைந்து சென்றமையின் காரணமாக திருத்தங்கள் தொடர்பாக காணப்பட்ட ஆர்வம் செயலிழந்து போனது 2002 தொடக்கம் 2004 ம் ஆண்டுக் காலப்பகுதியில் ஐக்கிய தேசியக்கட்சி அரசாங்கத்தின் கீழ் திருத்தமுயற்சிகள் தோல்வியடைந்தமைக்கான காரணங்கள் வாக்காளர்கள் மத்தியில் பிரபல்யமற்ற அரசதுறையின் சம்பள அதிகரிப்பினை நிறுத்துதல் மற்றும் நலனோம்புகை செயல்பாடுகளுக்கான பங்களிப்பினை விலக்கிக்கொள்ளுதல் போன்ற நடவடிக்கையை கைவிட்டமையே காரணமாகும். மறுபுறமாக 2010 தொடக்கம் 2014 காலவரையில் திருத்தங்கள் தொடர்பாக முன்னெடுப்பதற்கான இயலுமைகள் இருந்த அரசியல் தலைமைத்துவம் மற்றும் பிரபல்யமான மக்கள்ஆணை இருந்தபோதும் அவற்றின் ஊடாக தேவைகளினை அடைந்து கொள்வதற்கான அபிலாசைகளும் தேவைகளும் காணப்படவில்லை.

முடிவாக இலங்கையில் திருத்த முயற்சிகளின் ஊடாக பயன்கள் கிடைக்கப்பெற்றது குறைந்தளவிலாகும். அனேகமாக அவை தாமதமடைந்தன, மாற்றமடைந்தன இல்லையென்றால் முழுமையாக கைவிடப்பட்டன திருத்தங்கள் மற்றும் அத்தோடு இணைந்த அரசியல் பொருளாதார விபத்துக்கள் காணப்பட்ட நிலைமைகளினுள் தடையான மற்றும் மாற்றம் செய்யும் எண்ணங்கள் எதிர்பார்க்கப்பட்டன. அமுல்படுத்தப்பட்ட திருத்த முயற்சிகளின் போது ஆபத்தாக ஏற்படக்கூடியதான பாதிப்புகள் ஏற்பட்டவர்களுக்கு நட்டஈடுகளை வழங்கும் போது முறைமையொன்றாக இருந்தது. 1977-78 ஆம் ஆண்டுக்காலப் பகுதியில் அரச முதலீடுகளின் ஊடாக புதிய தொழில்வாய்ப்பு வாழ்வாதார வழிகள் மற்றும் வீடுகளினை கையளிப்பு செய்தல் போன்ற சந்தர்ப்பங்கள் வழங்கப்பட்டன. 1990 மற்றும் 1991 ஆம் ஆண்டுக் காலப்பகுதியில் மக்கள் ஒத்துழைப்பினை ஆதரவினை பெற்றுக் கொள்ளும் திட்டங்கள் மிகவும் நேரடியாக முதல்நிலை பெறப்பட்டன. தேசிய வறுமையினை குறைக்கின்ற துரிதமான நிகழ்ச்சித்திட்டங்கள் கிராமிய இளைஞர்கள் தொழில் இன்மையினை குறைக்கின்ற செயற்பாடுகள் தொடர்பாக கைத்தொழில்சாலைகளுக்கு ஊக்கமளித்தல் கிராம எழுச்சி நிகழ்ச்சித்திட்டங்கள் போன்றன 1987-89 ஆம் ஆண்டுக் காலப்பகுதியில் மக்கள் விடுதலை முன்னணி இளைஞர் போராட்டங்களின் பின்னர் சந்தைகளின் ஊடாக நிறுவகிக்கப்படுகின்ற கொள்கைகளின் ஊடாக பயன்களினை பெற்றுக்கொள்ளும் சமநிலையற்ற இலகுபடுத்தப்பட்ட நோக்கொன்று உருவாக்கப்பட்டது.

கடந்தகாலப் பொருளாதார முன்னெடுப்புகளுக்கு காரணமாக அமைந்தது சில முக்கிய விடயங்களாகும். அதாவது பிரபல்யமான அரசியல் பெரும்பான்மை ஒன்று மட்டும் பரந்து காணப்பட்ட பொருளாதார சிக்கல்கள் அதாவது இன்று அவ்வாறாக காணப்படுகின்ற விடயங்கள் இப்போது காணப்படுவது குறைவு. இது பொருளாதார மறுசீரமைப்பு நிகழ்ச்சித்திட்டம் பற்றி உடன்பாடொன்றினை எட்டிக்கொள்வதற்கு பிரதானமாக கருதப்பட்ட தேவையொன்றாக இருந்தவர்களுக்கு காரணம் காட்டுவதற்கு மிகவும் கடினமாக இருந்தது. கொள்கை விடயப்பரப்பில் தூரநோக்கு காணப்படுதல் வேண்டும். இருந்தபோதும் அவ்வாறான ஈடுபாடுடன் கூடிய ஆர்வம்

அரசியல் பொருளாதார யதார்த்தத்தில் பரவியிருத்தல் வேண்டும். அதன் பிரகாரம் திருத்தங்கள் தொடர்பாக நிகழ்ச்சித்திட்டமொன்றினை தயார் செய்ய வேண்டியது நிறுவன கொள்கை செயற்பாடுகள் மற்றும் கொள்கை அமுல் படுத்தல் என் பவற் றுக் கிடையிலான இடைச் செயற் பாடுகளை வலுப் படுத் துவதற் கான முயற்சிகளிலே ஆகும். இவ்வாறான நிலைமாற்றம் பல நிகழ்கின்ற சூழல் நாட்டில் காணப்படுகின்ற போது நிறுவனங்களின் பண்புசார் தன்மை மற்றும் நிறுவாகம் போன்ற பரந்தவிடயங்கள் பாரிய அழுத்தத்துக்கு உள்ளாகுகின்றன.

இம்முறை (இலங்கை "பொருளாதார நிலைமை" அறிக்கை "இலங்கையில் பொருளாதார திருத்தம் · அரசியல் பொருளாதார மற்றும் நிறுவன ரீதியான சவால்கள்" என்ற தலைப் பினை அடிப் படையாகக் கொண் டு உருவாக்கப்பட்டிருக்கின்றன. இன்று பொருளாதாரக் கொள்கைத் திருத்தங்களினை அமுல்படுத்தல் மற்றும் பேணிச்செல்லுதல் என்ற வகையில் கடந்த கால வெற் றிகரமான முயற் சிகளிலும் பார் க் க நலிவடைந்துள்ளது. இதற்கு காரணமாக இருப்பது நிறுவன ரீதியான மற்றும் நிருவாக கட்டமைப்பினை வலுப்படுத்த இயலாமல் போனமையாகும். நிறுவன கட்டமைப்புக்குள் உள்ள ஊக்கப்படுத்தல் வாடகை, வரி எதிர்பார்க்கின்ற அலகுகளாக செயல்படுகின்றதா என தீர்மானிக்கின்ற காரணத்தினால் வளங்களினை ஒதுக்குவதற்கு செல்வாக்கு செலுத்துகின்ற மோசமான நிறுவன கட்டமைப்புகள் நிறுவாக ரீதியாக சிக்கல் தன்மைகளுக்கு வழிவகை செய்வதுடன் காலஓட்டத்தில் அரசியல் அதிகாரம் பெற்றவர்களின் வரப்பிரசாதங்களை உறுதிப்படுத்தும் நிலைமையினையும் ஏற்படுத்துகின்றது.

அனுமதிப்பத்திரக் கட்டுப்பாட்டின் கீழ் இருக்கின்ற வழமையான வாடகை எதிர்பார்க்கின்ற செயல்பாடுகளுக்கு பதிலாக அரசியல்வாதிகள் மற்றும் கொள்கைகளை உருவாக் குகின் ற செயற் பாட் டில் பிரதான செயற்பாடுகளுக்குமிடையில் பரந்த அனுசரணை சேவைத் தொடர்பொன்றாக உருவெடுத்துள்ளது. பதவிகள் மற்றும் வரப்பிரசாதங்கள் வெறுமனே வழங் கப் படுகின் ற காரணத் தினால் மிகவும் சிறந்த கொள் கை உருவாக் குநர் களுக் கு பாதகமான விதத் தில் போட்டித்தன்மையுடன் கூடிய மக்கள் விருப்பத்துடன் கூடிய பயன்பாடுகளினை ஊக்கப்படுத்துகின்றது. அரச அதிகாரம் ஒன்றுசேர்க்கப்படுவதன் ஊடாக அரசியல் கட்சிகளின் குழுக்கள் பல சிலரின் கட்டுப்பாட்டுக்கும் ஆதிபத்தியத்திற்கும் கட்டுப்பட்டு கட்சியினுள் ஜனநாயக நிலைமை குழிதோண்டி புதைக்கப்படும் வகையிலான தீர்மானமெடுத்தல்கள் மேற்கொள்ளப்படுகின்றன. அதிகாரம் செலுத்துகின்ற நிலைமையானது அரசியல்மயப்-படுத்தப்பட்டுள்ளமையால் வலுவான நிறுவாகம் மற்றும் அரசியல் செயற்பாடுகள் என்பன ஒன்றுக்கொன்று முரண்பட்டு காணப்படுகின்றன. அரசியல்வாதிகள் கொள்கை உருவாக்கம் மற்றும் அமுல்படுத்தல் தொடர்பாக தெரிவுசெய்யப்பட்ட தொழில்நுட்ப முறைகள்பால் நம்பிக்கை வைக்கின்றன. அவர்கள் அவர்களிடமுள்ள இரண்டு மாறுபட்ட நடத்தைகள் மற்றும் நோக்கங்களுடன் கூடிய அதிகாரத்தின் காரணமாக கொள்கை ரீதியான தீர்மானங்களின் போது தூரநோக்கு மற்றும் வகைகூறல் தொடர்பாக தெளிவற்றதாக இருப்பதுடன் கொள்கை மற்றும் தெரிவுசெய்யப்படுகின்ற அரசியல்வாதிகள் அவர்களுடைய வாக்கடிப்படையில் இருந்து விலக்குப்பெற வழிவகை செய்கின்றது.

அதன் காரணமாக நாட்டில் நிறுவன ரீதியான திருத்தங்கள் மற்றும் அவற்றின் நிறைவேற்றம் தொடர்பான சந்தர்ப்பங்களை உருவாக்கிக் கொள்ளுதல் மிக முக்கியம். இவ்வாறான நிலைகளில் இலங்கை தான்தோன்றித்தனமாக மற்றும் ஊழல்களின்பால் இட்டுச்செல்லப் படுவதனை தவிர்த்துக்கொள்வது தொடர்பில் மற்றும் ஒழுங்குவிதிகளை உருவாக்குதல் அரசியல் மற்றும் நிறுவன கட்டமைப்பு ஊடாக மேற்கொள்ள வேண்டிய ஊக்கப்படுத்தல்கள் மிக முக்கியமாகும். தூரநோக்குடன் கூடிய முடிவெடுப்புகள் மற்றும் நிருவாக கட்டமைப்பினை அடிப்படையாகக் கொண்ட நிருவன குத்தகையினை எதிர்பார்ப்பதனை பார்க்க வினைத்திறனான முதலீடுகளை மேற்கொள்வதற்கு முதலீட்டாளர்கள் மற்றும் வியாபார சமூகத்துக்கு மத்தியில் நம்பிக்கையினை ஏற்படுத்துதல் பயனினை வழங்கும்.

போட்டித்தன்மையான ஏற்றுமதிப் பிரிவொன்றினை கட்டியெழுப்புவதற்கு வினைத்திறனான முதலீடுகள் தேவையாகும். இலங் கை போன் ற அபிவிருத் தியடைந் துவருகின் ற சிறிய பொருளாதாரங்களுக்கு உயர் வளர்ச்சி, கேள்வி உருவாக்கம், மேலதிக உழைப்பு போன்றவற்றினை உள்ளடக்கி கொள்ளுதல் மற்றும் வினைத்திறனினை கட் டியெழுப் புதல் மற் றும் தொடர் ச் சியாக பேணிச்செல்வதற்கு ஊக்கமளிப்பவர்களாக வெளியக கேள்வி தீர்க்கமானதொன்றாகும். இலங்கையில் மொத்த தேசிய உற்பத்தியில் ஏற்றுமதியின் அளவு குறைவடைதல் மற்றும் சந்தையில் ஏற்றுமதி அளவு குறைவதனை இல்லாது செய்தல் வேண்டும். ஏற்றுமதியை அதிகரித்தல் தொடர்பான முயற்சிகள் தொடர்பாக திருத்தங்களுக்கான முயற்சிகள் தொடர்பாக பரவலாகக் காணப்படுகின்ற வரையறைகளை நீக்குவதற்கு முன்வருதல் வேண்டும். அதற்கு விதிவிலக்காகப் பக்கத்தில் காணப்படுகின்ற தடைகளுக்கான தீர்வுகள் தொழில்முயற்சி சூழலில்

காணப்படுகின்ற குறைபாடுகளினை தீர்த்தல் மற்றும் கேள்விப் பக்கத்தின் நிலைமையினை உறுதிப்படுத்தல் என்பன உள்ளடக்குகின்றன. இந்த இரண்டு முன்னெடுப்புகளையும் மேம்படுத்துதல் பொருளாதாரம் பூராகவும் போட்டித்தன்மையினை ஏற்படுத்துகின்ற தொழில்நுட்பம் மற்றும் அறிவினை வழங்குகின்ற சரியான விதம் தொடர்பாக விசேட கவனம் செலுத்துதல் வேண்டும்.

தொழில்நுட்பம் மற்றும் அறிவினை வழங்குகின்ற சரியான விதத்தில் வெளிநாட்டு நேரடி முதலீட்டினை (குனுஐ) முதலீடுகளை கவர்ந்திழுப்பதற்கு உதவி புரிகின்றன. அரசுகள் மற்றும் அவற்றின் நிலைத்த தன்மை மற்றும் எதிர்பார்க்கின்ற கொள்கை சூழலொன்றினை உருவாக்குவதன் ஊடாக இவற்றினை இலகுபடுத்துதல் வேண்டும். ஏற்றுமதி மேம்பாடு தொடர்பாக தெளிவுபடுத்தல் மற்றும் தீர்வைகளை விதித்தல் போன்ற காரணகாரியங்களுடன் அவற்றின் திருத்தங்களை கொண்டுவருதல் வேண்டும். உபாய ரீதியான சந்தை பங்கான்மைகளுடாக புதிய ஏற்றுமதி சந்தைக்கு நுழைவதற்கான முயற்சிகளில் ஈடுபடுதல் வேண்டும்.

போட்டித்தன்மையான ஏற்றுமதிப் பொருளாதாரம் ஒன்று தங்கியிருப்பது ஏனைய காரணிகளுக்கு புறப்பான மிகவும் சிறந்த பண்புரீதியான சேவையினைப் பெற்றுக்கொள்ளக் கூடிய உயர் வினைத்திறன் மற்றும் பயிற்சியுடன் கூடிய ஊழியப்படை ஒன்றின் அடிப்படையிலாகும். இலங்கையில் குடியியல் பரம்பலின் ஊடாக தெரியவருவதானது இலங்கையின் சனத்தொகையின் வயோதிபம் அடைகின்ற அளவும் மற்றும் தொழில்புரிவதற்கு இயலுமான வயதினை கொண்ட சனத்தொகையின் அளவு வீழ்ச்சியடைகின்றமை தற்காலத்தில் அனேகமான கைத்தொழில்கள் கைத்தொழிற்சாலைகளில் மனிதவள பற்றாக்குறைக்கு முகம்கொடுத்திருப்பதுடன் அவர்கள் ஊழியர்களினை வெளிநாடுகளில் இருந்து தருவித்துக் கொள்வதற்கு மற்றும் சுயமாக இயந்திரங்களின் ஊடாக இவ்வாறான பணிகளை மேற்கொள்வதற்கும் கவனம் செலுத்தப்பட்டுள்ளது. ஊழியச் சந்தை உயர் முக்கியத்துவம் பெறுவது எவ்வாறு, ஊழியர்களை பெற்றுக்கொள்வது மற்றும் தற்போது இருக்கின்ற ஊழியவளத்தினை மிகவும் வினைத்திறனாக பயன்படுத்திக் கொள்வது எவ்வாறு என்ற இருவிடயங்களிலும் தங்கியுள்ளது. ஊழியப்படை சந்தையானது பல்வகைப்பட்ட நிறுவனங்களுக்கிடையில் ஒருங்கிணைப்பு மற்றும் தகவல் சேகரிப்பு பற்றிய தடைகளினை நீக்குதல் தொழிற்சங்கம் மற்றும் தொழில்நுட்ப பயிற்சி மரபுரீதியான முறைகளில் காணப்படுகின்ற குறைபாடுகளை நிவர்த்தி செய்தல், பெண்கள் ஊழியப்படைக்கு பிரவேசிப்பதை வரையறை செய்கின்ற தடைகளை நீக்குதல் மட்டுமல்லாது பொருளாதாரத்தின் முறை சார்ந்த துறைகளில் தொழில் உருவாக்க வரையறைகள் மேற்கொள்ளப்படுகின்ற ஒழுங்குவிதித் தடைகளினை நீக்குவதற்கு திருத்தங்கள் இன்றியமையாததாகும்.

பெண்கள் ஊழியப்படைக்கு பங்களிப்பு செய்தல் எந்த அளவிற்கு காணப்படுதல் ஊழியப்படை நாட்டிலிருந்து குடிபெயர்தல் உயர்மட்டத்தில் காணப்படுதல் ஊழியர் பற்றாக்குறை பிரச்சினை மேலும் உக்கிரமடைவதற்கு காரணமாக அமைகின்றன. இலங்கையில் சிறந்த தொழில்வாய்ப்புகள் அதாவது போதியளவான சம்பளம் மற்றும் சமூக பாதுகாப்புடன் கூடிய தொழிலின்மையின் காரணமாக வீட்டு பணிச்சேவைக்காக பெண்கள் குடிபெயர்வது பிரபல்யமான தொழில்சந்தர்ப்பம் ஒன்றாக குடிபெயர்வானது இரண்டு பக்கங்களாலும் வெட்டப்படுகின்ற ஆயுதமாக ஏற்றுக்கொள்ளப்பட்டும் உள்ளது. ஒரு புறமாக அது பெண்களுக்கு வலுவாக இருப்பதுடன் மறுபுறமாக கருதத்தகு சமூக இழப்பினை ஏற்படுத்துக்கின்றது. ஒரு நிவாரணமளிக்கின்ற சட்டதிருத்தமொன்றாக இருப்பது அண்மையில் 5 வயதிற்கு குறைந்த பிள்ளைகளைக் கொண்டிருக்கும் தாய்மார் வெளிநாட்டுத் தொழில்களுக்கு செல்வதனை அதைரியப்படுத்துவதற்கு இலக்கு வைத்த குடும்பப் பின்னணி அறிக்கை (குடீசு) அறிமுகம் செய்யப்பட்டதாகும். எனினும் அந்த அறிக்கை தற்பொழுது நிலவுகின்ற விதத்தில் பெண்களின் தொழில்வாய்ப்பினை தெரிவுசெய்யும் மேலும் வரையறை செய்கின்ற பெண்களுக்கு எதிரான மாறுபட்ட கவனிப்பாகவும் கருதப்படுகின்றது. குடிபெயர்வு பற்றிய ஒழுங்குவிதி வரையறை கொள்கைகள் பற்றிய தொடர்பிலான மறுசீரமைப்பிற்கான வழிகள் திறந்துவிடப்பட வேண்டும்.

இலங்கையில் பொருத்தமான தொழில்வாய்ப்பு இன்மை காரணமாக பெண்கள் தொழில்களை தேடி வெளிநாடுகளுக்கு குடிபெயர்கின்றமை அண்ணளவாக ஊழியர் சந்தையில் காணப்படுகின்ற பொறுத்தப்பாடின்மையை வெளிப்படுத்துகின்றது. இளைஞர்கள் பாரியளவில் வேலையின்றி இருக்கின்ற நிலைமை காணப்படுவது அவர்கள் கம்பனிகளுக்கு தேவையான திறன்களை பெற்றில்லாமல் ஊழியச் சந்தைக்கு பிரவேசிக்கின்றமையாகும். தேவையான திறன்களுடன் கூடிய ஊழியப் படையின் பற்றாக்குறை உண்மையாகவே இந்நாட்டு தொழில்முயற்சிச் சமூகம் முகம்கொடுக்கின்ற பாரிய தடையொன்றாக இருக்கின்றது. இலங்கையின் கல்விப் பிரிவு நவீனமயப்படுத்தல் மற்றும் தொழில்நுட்ப பரிமாணத்துக்கு காட்டுகின்ற மோசமான பிரதிபலிப்பு பண்புசார் கல்வியினை சமமாக வழங்குவதற்கு இயலாது போதல் மற்றும் மூன்றாம் நிலை கல்வி

கட்டமைப்பின் இயலளவு போதியதற்றதாக இருத்தல் போன்ற நிலமைகளுக்கு முகம்கொடுத்துள்ளது கல்விக்கான போதியளவான நிதி ஒதுக்கீடு பாடத்திட்டத்தில் பண்புசார் மற்றும் தொடர்புத்தன்மையினை மேம்படுத்துதல் மற்றும் கல்வித்துறையில் உத்தேச மறுசீரமைப்புகள் தொடர்ச்சியாக மேற்கொள்வதன் ஊடாக திருத்தச் செயற்பாடுகள் ஊடாக கவனம் செலுத்தப்படுகின்றது.

மிகவும் சிறந்த கல்விப்பெறுபேறுகள் போதியளவிலான சுகாதார பாதுகாப்பினை வழங்குதல் என்பன மிக நெருக்கமாக செல்வாக்கு செலுத்துகின்றன. இலங்கை சுகாதார பெறுபேறுகளின் அடிப்படையில் கருதத்தகு நிலைமையினை அடைந்துள்ள போதும் குடியியல் மற்றும் நோய் நிவாரணம் தொடர்பில் மேற்கொள்ளப்பட்டுள்ள மாற்றங்களுக்கேற்ப அரச மற்றும் தனியார் ஆகிய துறைகள் இரண்டிலும் சுகாதார கட்டமைப்பு வலுப்படுத்தப்பட வேண்டிய நிலைமை காணப்படுகின்றது. சனத்தொகை பெருகுதல் சுகாதாரத்திற்கான செலவினம் அதிகரிக்கின்ற நீண்டகால ரீதியான சிகிச்சை தேவையான பரவுகின்ற நோய்கள் அதிகரித்தல் பூகோள ரீதியான தோற்று நோய்களுக்கு உள்ளாகின்ற அவதானம் அதிகரித்தல் போன்றன காரணமாக சுகாதார பாதுகாப்பு தொடர்பாக காணப்படுகின்ற கேள்வி அதிகரிப்பதுடன் அதன் போக்கும் மாற்றமடைகின்றது. இலங்கையில் சமூக பொருளாதார பெறுபேறுகளின் பயனளிக்கின்ற மற்றும் வினைத்திறனான மற்றும் தொடர்ச்சியாக மேம்படுத்தல் செய்தல் தொடர்பான நிதியளிப்பினை வலுப்படுத்தலுக்கான மறுசீரமைப்பு அரச மற்றும் தனியார் துறைகளில் சுகாதாரப் பாதுகாப்பினை வழங்கும் கட்டமைப்பொன்றினை மேம்படுத்துவதற்கு ஒழுங்குவிதிகளில் மாற்றங்களை வேண்டுகின்றன.

இலங்கையில் சந்தை நிலைமை மற்றும் குடியியல் மாற்றங்களின் காரணமாக நிலவுகின்ற சமூகப் பாதுகாப்பு கட்டமைப்பின் மறுசீரமைப்பு தேவையாக உள்ளது. தற்பொழுது 60மூ முறைசாரா துறைகளில் வேலைவாய்ப்பில் இருப்பதுடன் 2031 ஆண்டாகும் போது சனத்தொகையில் 1.4 பங்கினர் 60 வயதிலும் பார்க்க கூடுதலாக இருப்பார்கள். நிகழ்ச்சித்திட்டங்கள் போதியளவில் இருந்தபோதும் குறைவான உள்வாங்கல் இலக்கினை இனங்கண்டுகொள்வதில் காணப்படுகின்ற குறைபாடுகள் பயன்களின் போதியதற்ற தன்மை நிகழ்ச்சித்திட்டங்களுக்கிடையிலான ஒருங்கிணைப்பின்மை வரவுசெலவுத்திட்ட ஒதுக்கீட்டு வரையறை மற்றும் வளங்களை ஒதுக்கீடு செய்வதில் சமநிலையற்ற தன்மை காரணமாக கவனத்துக்கு உள்ளாகின்ற சனத்தொகையின் பாரிய பங்கினருக்கு போதியளவான அரவணைப்பு கிடைப்பதில்லை சமநிலையற்ற தன்மையினை நீக்கிக்கொள்வதற்கும் வறுமையினை இல்லாதொழிப்பதற்கும் பாரிய இலக்குகளை அடைந்து கொள்வதற்கும் போதியளவான வலைப்பின்னலொன்றை வழங்குவதற்கு இலங்கையில் ஒய்வூதிய நலன் திட்டமொன்று நிதியினை கையளித்தல் நிவாரண திட்டங்கள் மற்றும் பொதுவான வகையில் சமூக பாதுகாப்பு கட்டமைப்பில் மறுசீரமைப்பினை செய்ய வேண்டிய தேவை காணப்படுகின்றது.

வறுமைக்கு உள்ளாகின்ற மிகவும் அதிக ஆபத்துக்கு முகம்கொடுக்கின்ற இலங்கையில் கிராமிய விவசாயத்தில் தங்கியிருக்கின்ற சனத்தொகையாகும். விவசாயம் மொத்த தேசிய உற்பத்தியில் பங்கொன்றாக அதன் பங்களிப்பு வீழ்ச்சியடைந்த வண்ணம் இருப்பதுடன் வருமானம், வேலைவாய்ப்பு உணவுப் பாதுகாப்பு விவசாயம் வறுமை இல்லாதொழித்தல் மற்றும் ஏற்றுமதி உழைப்பினை மேம்படுத்துதல் என்பன முக்கிய மூலமாக காணப்படுகின்றன. எனினும் விவசாயத்தில் வினைத்திறனினை மாற்றமின்றி பேணிச்செல்லல் வரையறுத்த பல்வகைப்படுத்தப்பட்ட மற்றும் வளமுகாமைத்துவத்தினை கவர்ந்திழுத்தல் போன்றன தற்பொழுதும் காணப்படுகின்றன. கொள்கை மறுசீரமைப்பின் ஊடாக வினைத்திறன் மற்றும் போட்டித்தன்மையினை தொடர்ச்சியாக மேம்படுத்தல் மற்றும் தொடர்புடைய மரபுரீதியான குறைந்த பெறுமதியிலிருந்து நவீன உயர் பெறுமதியுள்ள விவசாயங்கள் தொடர்பாக பரந்த அடிப்படையில் மாற்றமடைதல் இலங்கையில் பொருளாதாரத்தில் பரந்த கட்டமைப்பு ரீதியான பரிமாணத்திற்கான தேவை இன்றியமையாதது. மறுசீரமைப்பு தொடர்பாக முன்னுரிமை துறைகளாக இருப்பது காணி, நீர்ப்பாசனம் மற்றும் தொழில்நுட்பக் கொள்கை அபிவிருத்தி மற்றுமல்லாது விவசாய உற்பத்தியினை ஒப்பீடு செய்தல் விவசாய உற்பத்தியினை தயார் செய்தல் சந்தைப்படுத்தல் மற்றும் பெறுமதி சேர்த்தல் போன்ற செயற்பாடுகள் ஆகும்.

விவசாயப் பிரிவு மழைவீழ்ச்சி போன்ற காலநிலை மாற்றங்களுக்கு உள்ளாகும் தன்மை காணப்படுகின்றது. அத்துடன் இலங்கையில் காணி மற்றும் வனப் பயன்பாடு பாரியளவில் மேற்கொள்ளப்படுவதன் காரணமாக இயற்கை வளங்கள் அழிவுக்குள்ளாகி வருகின்றது. காடழிப்பு, மற்றும் மண்ணறிமானம் அதிகரித்து வருகின்றது. வரையறையற்ற இரசாயன பயன்பாடு மோசமான கழிவுமுகாமைத்துவம் மற்றும் வாயு மாசடைதல் சுற்றாடல் மாசடைவதை அதிகரிப்பதற்கு ஏதுவாக அமைகின்றன. காலநிலை மாற்றம் போன்ற பூகோள ரீதியான சுற்றாடல் அச்சுறுத்தல்களுக்கு பிரதிபலிப்பு வழங்கும்போது கொள்கை ஒருங்கிணைப்பு தகவல் மற்றும் வளநெறிப்படுத்தல் தொடர்பாக பாரிய இடைவெளி

காணப்படுகின்றது. சுற்றாடல் ரீதியாக ஊறுவிளைவிக்கின்ற தாக்கங்களை குறைத்தல் தொடர்பான வினைத்திறனான சுற்றாடல் முகாமைத்துவ கட்டமைப்பொன்றினை உருவாக்குதல் வேண்டும். அது தொடர்பாக மிகவும் சிறந்த கொள்கை ஒருங்கிணைப்பு திட்டமிடலினை வலுப்படுத்துதல் மற்றும் உபாய வழிகளினை மதப்பீடு செய்தல் உள்ளடங்கலான மேற்பார்வை மற்றும் சந்தையினை அடிப்படையாகக் கொண்ட சட்டதிட்டங்களை நிறைவேற்றிக்கொள்வதற்கு சுற்றாடல் முகாமைத்துவத்தில் பிரவேசங்கள் தொடர்பாக நிருவாகக் கட்டமைப்பொன்றை மறுசீரமைப்பு செய்தல் இன்றியமையாததாகும்.

மேலே குறிப்பிட்ட கொள்கை துறைகள் முழுமையாக இல்லையென்றாலும் "இலங்கை : 2015 பொருளாதார நிலைமை : இல் எஞ்சிய அத்தியாயங்களில் ஏதேனும் அளவுக்கு விளக்கமாக பரீச்சிப்புக்கு உள்ளாகின்ற அனேகமான வினாக்களில் உள்ளாகின்ற பல விடயங்களில் இவையும் சிலவாகும். அண்மைய ஆண்டுகளில் உட்கட்டமைப்பு வசதிகள் துரிதமான அபிவிருத்தி இலங்கையில் பொருளாதார வளர்ச்சியினை திறந்து விட ஒரு சந்தர்ப்பமாக கருத முடியும். இது யுத்தத்தின் மூலம் அழிவடைந்த பொருளாதாரத்திற்கு வலுச்சேர்க்கின்ற நடுத்தரக்கால பயனொன்று கிடைக்கின்றது. எவ்வாறாயினும் வெளிநாட்டு கடன்களினூடாக நிதியளிப்பு நுகர்வு நுகர்வில் தங்கியிருக்கின்றமை ஏற்றுமதி போட்டித்தன்மையினை எழுச்சி பெறச் செய்வதிலுள்ள குறைபாடுகளுக்கு மறுசீரமைப்பு முன்மொழிவுகளை தெரிவுசெய்து மேம்படுத்தல் இலங்கை போன்ற சிறிய திறந்த பொருளாதாரத்தை கொண்ட நாடுகளுக்கு நீண்டகால ரீதியான மாற்றுவழித் திட்டங்களாகும்.

உட்கட்டமைப்பு வசதிகளில் வளர்ச்சியினை ஏற்படுத்துதல் அண்மைய ஆண்டுகளில் படிப்படியாக குறைவடைந்துள்ளதுடன் நீண்டகால ரீதியான கிடையான வளர்ச்சி தொடர்பான புதிய திசையில் காலடியெடுத்து வைக்கும் தேவையொன்று உள்ளது. இலங்கையில் பொருளாதார கொள்கை தெரிவுகள் குறைவடைந்து காணப்படுகின்றது. நிதிநிலைமை மற்றும் வெளியக நடைமுறைக்கணக்கு வலுவிழத்தல் காரணமாக வளர்ச்சியானது வீழ்ச்சியடைந்து காணப்படுகின்றது. நாணய அலகின் பெறுமதி குறைப்பிற்கு உள்ளாகும் அழுத்தத்திற்கு உட்பட்டிருப்பதுடன் வட்டிச் சதவீதம் அதிகரித்துக்கொண்டிருக்கின்றது. இலங்கையின் வாக்காளர்கள் எந்தவொரு தனிகட்சிக்கும் பாரிய வெற்றியினை வழங்காத போதிலும் ஐக்கிய தேசிய கட்சிக்கு அரசொன்றினை அமைப்பதற்கு கிடைத்த மக்கள் ஆணை பரிணாம ரீதியான பொருளாதார மறுசீரமைப்பு நிகழ்ச்சித்திட்டத்தினை தயார்செய்து முன்னெடுத்துச் செல்வதற்கு போதுமானதாகும். எதிர்க்கட்சியான இலங்கை சுதந்திரக் கட்சியின் ஒத்துழைப்புடன் தேசிய ஒருங்கிணைப்பு அரசொன்றினை அமைப்பதற்கு தேவையான அரசியல் நிலைத்த தன்மையினை பெற்றுக்கொள்ள முடியும். இதனூடாக அரசிற்கு பொருளாதார முன்னணியில் செயற்பாட்டு ரீதியான பிரதேசமொன்றை பேணிக்கொள்வதற்கும் அதன் மாற்றுவழியினை சீர்தூக்கி பார்ப்பதற்கும் செய்யக் கூடிய பணிகள் யாதென தீர்மானித்துக் கொள்வதற்கும் இலகுவான விடயங்கள் யாதென அறிந்து கொள்வதற்கும் நடுத்தரகால மறுசீரமைப்பு செயற்பாடுகளை கட்டியெழுப்புவதற்கும் போதியளவான வாய்ப்புகள் வழங்கப்பட்டுள்ளன. இலங்கை கைவிட வேண்டியதாக இருப்பது இவ்வாறான இலகுபடுத்தப்பட்ட நிவாரண நிகழ்ச்சித்திட்டங்களின் பண்புகளாக இருப்பதுடன் இவை குறைவடைந்தும் செல்கின்றது. அவ்வாறான நிலைமையின் காரணமாக கொள்கை ரீதியான சிக்கல்கள் வலுப்படுத்தல்களுக்கான எதிர்பார்க்கின்ற நிர்வாகத்தின் அபிவிருத்தி மற்றும் சமநிலை குழிதோண்டி புதைக்கப்பட்டுள்ளது.

குறிப்பு:

1. தொகைமதிப்பு மற்றும் புள்ளிவிபரவியல் திணைக்களம்: தற்பொழுது தேசிய கணக்குகளை மீண்டும் அடிப்படையாகக் கொண்டுள்ளது. ஆரம்ப மதிப்பீடுகளுக்கு ஏற்ப மறுபடி அடிப்படையாகக் கொண்டிருக்கின்ற பெறுபேறொன்றாக உண்மையான அபிவிருத்திச் சதவீதம் ஏற்கனவே நிலவிய பெறுமதியின் அளவினை பார்க்க பெரும்பாலும் வீழ்ச்சியொன்றினை காட்டுகின்றது.

(இந்த அறிக்கை 2.1 வரைபடத்தினை பார்க்க)

# 2. Economic Performance

## 2.1 Introduction

The Sri Lankan economy is estimated to have grown by 7.4 per cent in 2014, in line with annual average growth registered since 2010.[1] GDP growth in 2015 was a marginal improvement on the 7.2 per cent recorded in the previous year, but below the 7.8 per cent target set for the year. Inclement weather conditions that had adverse impacts on agricultural output pulled overall growth down despite faster growth in industry, especially from construction.

Other macroeconomic indicators were benign with annual inflation down to 3.3 per cent, prime lending rates at a low 6 per cent and a near steady exchange rate. Sri Lanka's external current account deficit fell to 2.7 per cent of GDP from a peak of 7.8 per cent in 2011, helped by a higher earnings from tourism as the trade deficit continued to remain a high 11 per cent of GDP and remittances stagnated at 9 per cent of GDP.

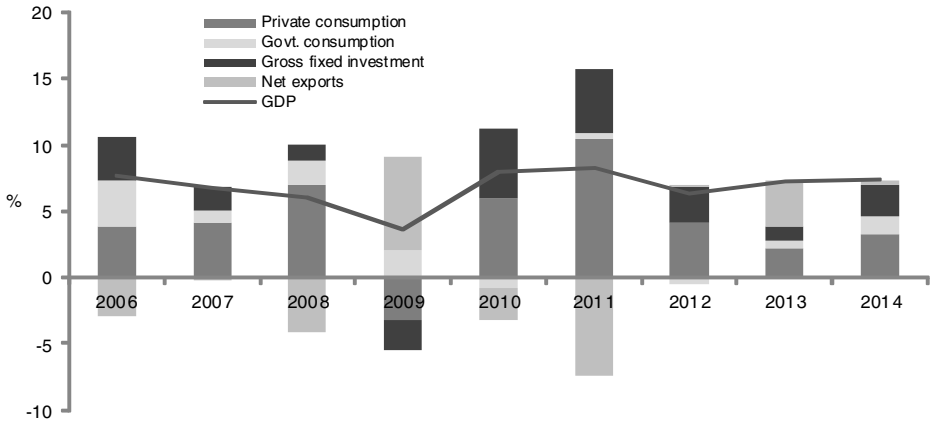
Amongst the positive economic numbers, a troubling sign of continued stress on macroeconomic stability is to be found on the fiscal front. The overall deficit was contained to 6 per cent of GDP, same as in 2013, but fell significantly short of the 5.2 per cent target. In the years that Sri Lanka's overall fiscal deficit continued to fall from a high 9.9 per cent of GDP in 2009, revenues have continued to shrink with tax revenue falling to an all-time low of 10.7 per cent in 2014. The fiscal numbers indicate the long-term fragility of sustaining Sri Lanka's debt-funded, and overwhelmingly infrastructure-investment driven, growth. Already in 2014, public investment was cut to 5 per cent of GDP from its peak of 6.8 per cent of GDP in 2009.

The overall economic outlook for 2014 was perceived to be sufficiently positive for the government to face early elections in 2015. In the event, the electoral defeat at presidential polls in January 2015 had little to do with economics and more to do with perceived problems on governance and corruption. In the first six months of the year, the economy continued to function in a near policy vacuum as political parties fought over constitutional and electoral reforms, well beyond the 100-day limit that was to end on 23 April 2015 with the dissolution of Parliament. In the interim, cracks are appearing in the Sri Lankan economy with fiscal policy consolidation under threat, pressure on the exchange rate and a moderation in GDP growth.

The Central Bank of Sri Lanka (CBSL) set a revised growth target of 7 per cent for 2015, the first time that the growth forecast has been revised downwards since 2011. Then, it was a deliberate policy decision to allow growth to slow in the wake of high growth (8.2 per cent) and signs of overheating. The decision to lower Sri Lanka's growth outlook for 2015 is for different reasons, primarily to allow for a political transition that could well impact on economic policy direction. The revised estimate set in April 2015 is beginning to look ambitious, with growth moderating to 6.4 per cent in the first quarter of 2015 and the country's policy deadlock continuing well beyond the 100-days and into the second half of the year.

[1] See Box 2.1 on preliminary revised GDP estimates released by the DCS after re-basing Sri Lanka's national accounts.

**Figure 2.1**
**Growth Decomposition**



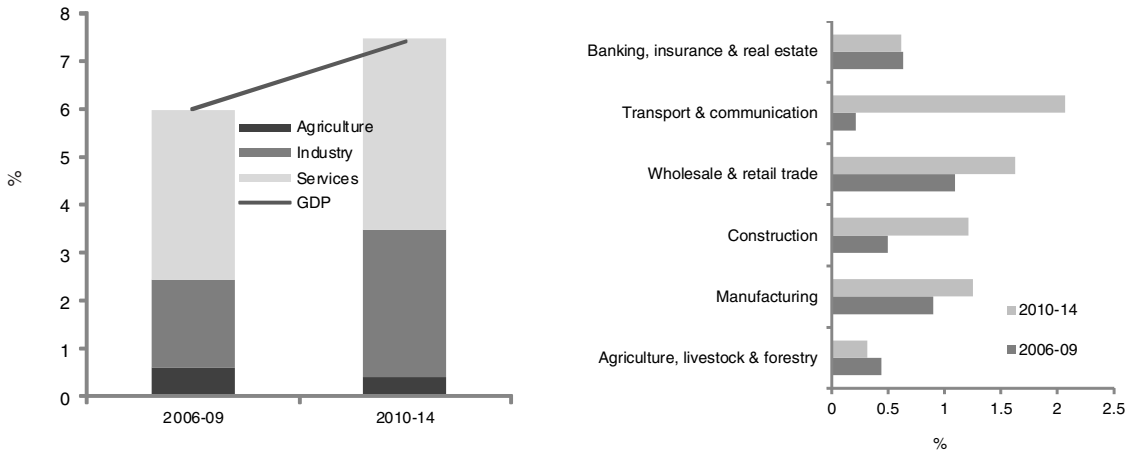

Source: CBSL, *Annual Report*, various years.

# 2.2 Realigning GDP Growth

The most telling feature of Sri Lanka's impressive GDP growth averaging a near 7.5 per cent per annum since 2010 is the weak contribution of net trade, in an economy driven by private consumption and public investment (Figure 2.1). From 2006 onwards, the country's development programme relied massively on an infrastructure drive, with public investment jumping to over 6 per cent of GDP from a more modest 4 per cent previously. Infrastructure projects were rolled out more strongly from 2010 after the conclusion of the war.

Not surprisingly, the infrastructure-led economic expansion is echoed in the breakdown of GDP growth. The contribution to growth from the industry sector increased markedly post-2010 as a result primarily of construction related activities (Figure 2.2). The services sector contribution also expanded post-2010, driven by transport and communication and retail trade. Indeed, the government has viewed

**Figure 2.2**
**Sectoral Contribution to Growth**



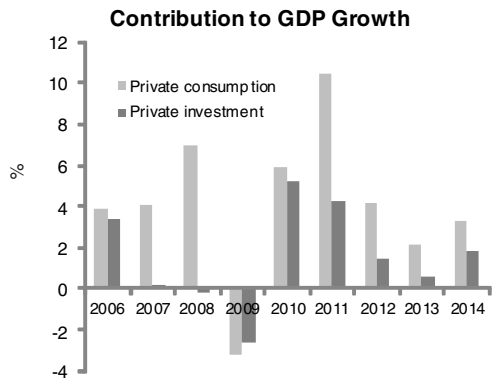

Source: CBSL, *Annual Report*, various years.

infrastructure as Sri Lanka's opportunity to unlock growth. Many of the big road infrastructure projects offering better internal connectivity do meet growing demand for public goods. At the same time, however, these and other high cost public infrastructure investments in ports, airports and such that have been powering the Sri Lankan economy cannot continue indefinitely without greater private sector investment in the economy.

Modest private investment, hovering around 23 per cent of GDP, is a continuing source of concern (Table 2.1 and Figure 2.3). Sri Lanka's narrow growth base and a more visible and heavy-handed state presence in these expanding economic sectors served to deter private investment from taking off. As previously noted, as a corollary, Sri Lanka's economic growth is led by consumption, accounting on average for 80-85 per cent of GDP. This is in contrast to many fast growing emerging market economies in Asia that raised their investment and boosted the supply of goods to the rest of the world at the cost of consumption in their own economies. In Sri Lanka, current levels of consumption are associated with over-extended government fiscal positions, high debt levels, and current account deficits.

**In Sri Lanka, current levels of consumption are associated with over-extended government fiscal positions, high debt levels, and current account deficits.**

**Figure 2.3**
**Consumption, Investment and Savings**




Source: CBSL, *Annual Report*, various years.

**Table 2.1**
**Consumption, Investment and Savings**

| *% of GDP* | 2012 | 2013 | 2014 |
|---|---|---|---|
| Private consumption | 69.6 | 66.9 | 65.4 |
| Total consumption | 83.1 | 80.0 | 78.9 |
| Private investment | 23.7 | 22.7 | 22.9 |
| Total investment | 30.6 | 29.5 | 29.7 |
| Domestic savings | 16.9 | 20.0 | 21.1 |
| National savings | 24.0 | 25.8 | 27.0 |

# 2.3 Public Finance Management

For many decades, the perilous state of Sri Lanka's public finances acted as a drag on economic growth and broader development objectives, hindering the delivery of efficient and effective public services. Fiscal deficits averaging 10 per cent of GDP was not uncommon, with knock-on effects on other critical areas of macroeconomic policy management, most notably in the conduct of monetary policy. The most visible manifestation of the resultant instability was high and volatile rates of inflation in the Sri Lankan economy, deterring private investments and savings. With rising fiscal imbalances, the country's indebtedness also rose - peaking most recently at 102 per cent of GDP in 2004 - narrowing the options for policy manoeuverability and limiting the ability to respond appropriately to domestic and external shocks.

Since 2009, however, when the deficit peaked at 9.9 per cent of GDP, Sri Lanka appears to have made significant headway in reversing fiscal fortunes with the deficit down to 6 per cent of GDP in 2014. The contraction has come with a better mix of fiscal retrenchment, focused on restraining current spending whilst accelerating capital investment. Over the same period, the public debt-to-GDP ratio has climbed down steadily from 86.2 per cent to 75.5 per cent (Table 2.2).

Despite these improvements in overall macroeconomic indicators, Sri Lanka's fiscal situation remains fragile. This stems largely from lack of progress on two fronts; rationalizing and streamlining government expenditure at all levels, and reversing Sri Lanka's deteriorating government revenue collection.

Current expenditures stand at well over 110 per cent of GDP and its composition - primarily made up of salaries and wages, interest payments on public debt, and transfers and subsidies - has hardly changed over time, underlining the lack of meaningful reform efforts in public finance management (Table 2.3). These relate especially to public sector reform initiatives and welfare measures. Sri Lanka has a large and growing cadre of public sector employees, estimated to account for 15.3 per cent of the total employed in 2014. In addition, Sri Lanka continues to implement a host of subsidies and transfers where issues of targeting and the effectiveness of outcomes in welfare programmes (e.g., Samurdhi) or subsidies (e.g., fertilizer) have been subject to considerable debate. In addition, public finances are heavily burdened by a non-contributory pension scheme, whilst at the same time leaving a large share of Sri Lanka's elderly and vulnerable population without adequate means of social protection. Without rationalizing current spending patterns, the country will be hard pressed

**Table 2.2**
**Select Fiscal Indicators**

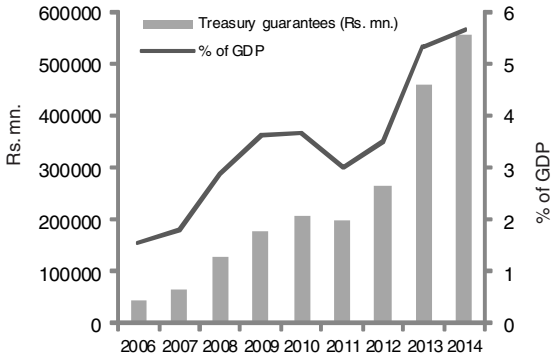
| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Total revenue | 13.9 | 13.1 | 12.2 |
| Tax revenue | 12.0 | 11.6 | 10.7 |
| Total expenditure | 20.5 | 19.2 | 18.3 |
| Recurrent | 14.9 | 13.9 | 13.5 |
| Public investment | 5.9 | 5.5 | 5.0 |
| Fiscal deficit | 6.5 | 5.9 | 6.0 |
| Public debt | 79.2 | 78.3 | 75.5 |

Source: CBSL, *Annual Report*, various years.

**Table 2.3**
**Select Expenditure Shares**

| | 2006 | 2010 | 2014 |
|---|---|---|---|
| % of current exp. (%) | | | |
| Salaries and wages | 32.0 | 32.0 | 33.3 |
| Interest payments | 27.4 | 37.6 | 33.0 |
| Subsidies & transfers | 26.3 | 20.9 | 21.3 |
| % of GDP | | | |
| Education exp. | 2.7 | 1.9 | 1.9 |
| Health exp. | 2.0 | 1.3 | 1.4 |

**Figure 2.4**
**Treasury Contingent Liabilities**




Source: CBSL, *Annual Report*, various years; and Ministry of Finance, *Annual Report*, various years.

to focus on areas such as education and health, where spending as a share of GDP has declined.

There has also been no progress in halting losses incurred by state-owned enterprises (SOEs) in Sri Lanka. Since 2005, there has been a clear policy reversal with further privatization efforts ruled out in favour of 'restructuring' SOEs. However, SOEs continue to makes huge losses, especially the larger corporations such as the Ceylon Electricity Board (CEB), Ceylon Petroleum Corporation (CPC) and Sri Lankan Airlines (Table 2.4).

Sri Lanka's Fiscal Management Responsibility Act of 2003 capped direct borrowing by state entities with Treasury guarantees - treated as a contingent liability - to 4.5 per cent of GDP. This was subsequently amended in the Budget 2013 and raised to 7 per cent. The move to encourage state enterprises to resort to direct borrowing is mooted on the grounds that government guarantees will ensure better terms and conditions, and enable the government to ensure that they fulfill prudential requirements if they wish to obtain such guarantees. However, there are significant downside risks in view of the poor financial performance of most SOEs. It is likely that on their own balance sheet and financial rating, without the unfettered support of government

**Table 2.4**
**Operating Losses of Select SOEs**

| Rs. billion | 2012 | 2013 | 2014 |
|---|---|---|---|
| CEB | -62.1 | 24.6 | -11.7 |
| CPC | -89.6 | -7.9 | 1.7 |
| SriLankan Airlines | -27.0 | -28.6 | -29.0 |

guarantees, many would not be able to raise the volumes of funding needed. In addition, the risks multiply when such funding is obtained from other state-entities such as state-owned financial institutions. As seen in Figure 2.4 contingent liabilities have increased sharply from 1.6 per cent of GDP in 2006 to 5.7 per cent of GDP in 2014 heightening systemic risks for overall fiscal stability.

If performance of public finance management on the expenditure front has been mixed, fiscal performance on the revenue front has clearly failed. Revenue as a share of GDP has declined persistently despite rising per capita income. A part of the reason for low tax revenue generation is perhaps to do with the changing structure of the Sri Lankan economy, where many of the country's large services sector tends to be informal and cash-based. Unless tax administrative structures are efficient and effective, collection of tax revenues becomes harder.



The inability to reverse a weakening revenue base comes despite a number of recommendations to address tax administration and policy issues as per the Presidential Taxation Commission report of 2010. The implementation of reforms at best has been ad hoc and incomplete.

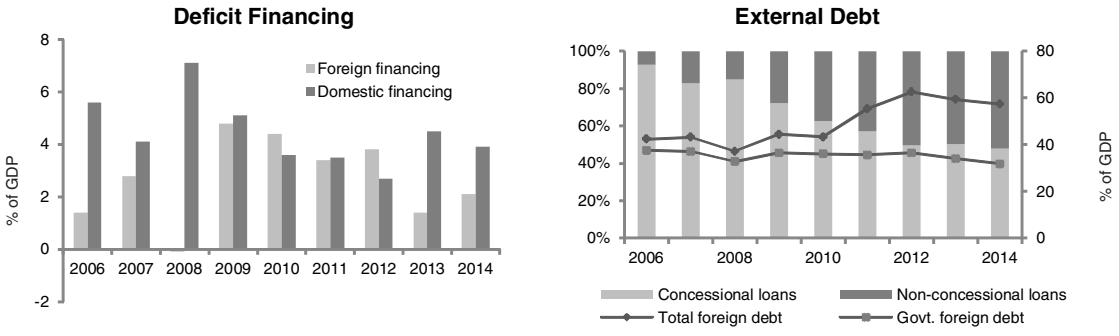
Rising expenditures and declining revenues have seen Sri Lanka rely increasingly on foreign borrowing for budgetary support. Where domestic borrowing implies a higher interest rate as the government competes with firms for limited investment funds, the effect is muted when a country accesses foreign capital, because the budget deficit can be financed from abroad.

## 2.3.1 Deficit Financing and External Debt

Sri Lanka obtained a sovereign credit rating in December 2005 with the express purpose of tapping international financial markets. Between 2007 and 2014, the country issued seven sovereign bonds to the tune of US$ 5.5 billion. This was accompanied by an incremental opening up of the government securities market to foreign investors. The threshold limit of 5 per cent of Treasury bonds outstanding introduced in 2006 was relaxed to 10 per cent in 2007. In 2008, Sri Lanka opened its Treasury bill market to foreign investors with a threshold limit of 10 per cent. In December 2011, the threshold limit was further expanded to 12.5 per cent of outstanding Treasury bills and Treasury bonds stock. Sri Lanka also tapped bilateral loans, particularly from the Export-Import (EXIM) Bank of China to fund large infrastructure projects including roads and transportation, power and energy, and ports.

**Treasury contingent liabilities have increased sharply from 1.6 per cent of GDP in 2006 to 5.7 per cent of GDP in 2014 heightening systemic risks for overall fiscal stability.**

**Figure 2.5**
**Deficit Financing and Government External Debt**




Source: CBSL, *Annual Report*, various years.

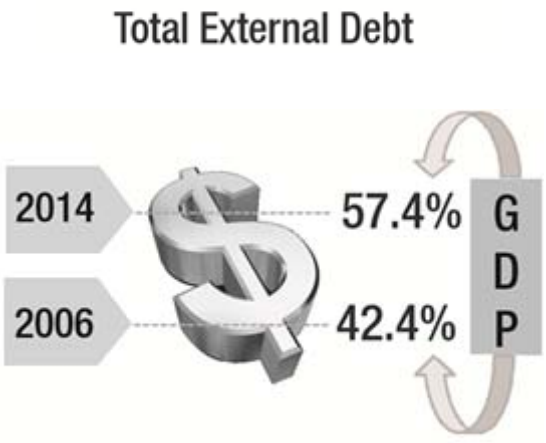
Regulations governing foreign borrowing by Sri Lanka's private sector have also been eased to encourage private firms and commercial banks to tap foreign sources for funding.[2] In addition, two development banks (DFCC and NDB) were given special dispensation to raise foreign loans without having to bear the related exchange rate swap costs. These sources provide the government with an indirect source of foreign borrowing through on-lending activities of the financial institutions. In effect, however, such borrowing amount to proxy borrowing by the government, with added risks of multiple parties exposing their balance sheets to international capital markets.

Thus, Sri Lanka has increasingly come to rely on foreign financing to bridge its fiscal deficit (Figure 2.5). This has brought about two significant changes to the country's external debt profile. In the first instance, while total government external debt has remained relatively flat, the country's total external debt-to-GDP ratio has risen sharply (Figure 2.5). A part of this debt is non-sovereign backed debt incurred by private corporates and banks relying on corporate balance sheets, and is not under the purview of the government.

A second notable feature is that even though the government external debt-to-GDP ratio has declined, the composition of that debt has changed dramatically with the shift to more costly non-concessional and commercial sources of borrowing. Where these accounted for just 7 per cent of total outstanding government external debt in 2006, by 2012 it had come to account for more than 50 per cent. Thus, Sri Lanka's external debt servicing obligations are set to rise significantly in the foreseeable future as a result of high cost external borrowing.

In principle, governments can justify borrowing for capital investment on the grounds that better infrastructure holds the potential to raise a country's medium to long-term growth prospects, enabling higher volumes of revenue to be generated that will allow debt obligations to be met comfortably. The key to such a strategy of course is that investment decisions are taken after a careful assessment of the returns on such investments - i.e., to use debt financing only for projects that generate returns higher than the interest to be paid on related debt. It must also be kept in mind that capital investments with high operational and maintenance costs generate additional fiscal burdens down the road.

Thus, the return on investments financed by debt matters, particularly when it is foreign denominated debt. Much of Sri Lanka's public investment is being channelled to infrastructure such as roads, ports, airports, etc., where such investments may not generate the necessary foreign earnings flows to service the debt in the short to medium term. The most prudent course is to ensure that foreign currency denominated debt is confined as much as possible to projects that can, either directly or indirectly, generate the foreign exchange needed to service the debt, whilst all possible efforts are made to mobilize domestic resources.




[2] The Budget 2013 proposals permit LCBs and corporate entities to borrow up to US$ 50 million and US$ 10 million, respectively, each year for three years without the approval from the Department of Exchange Control.

Clearly, the means through which the fiscal deficit is financed today has implications on debt management and economic stability in the medium to longer term. The direction of overall trends on the fiscal policy front in conjunction with other key indicators suggests strongly that significant changes are required. High cost external debt is being accumulated while government revenues continue to decline; higher GDP growth through externally debt financed public investment spending is not coming via an export surge, requiring debt to be rolled over continually. Cost-effective debt rollover hinges on two critical factors - i.e., prevailing domestic macroeconomic stability and global financial conditions. If either or both of these are unattractive, costs of rolling over external debt can rise substantially.

## 2.4 Monetary Policy and Exchange Rate Misalignment

In the presence of a growing foreign currency denominated debt portfolio, a depreciating currency leads to a growing public debt to GDP ratio. Conversely, an appreciating currency can lead to a lowering of the ratio, as Sri Lanka has witnessed to some extent in recent years. However, a real appreciation of the exchange rate can lead to a deterioration in the current account, whereby any gains on fiscal indicators becomes a temporary phenomenon. That is, in order to restore external sustainability, a country may have to undertake a real devaluation that once again leads to a sudden jump in the public debt-to-GDP ratio. Indeed, when countries resort to external borrowing, the trade-off between fiscal conditions (debt) and exchange rate management can constrict macroeconomic policy space considerably.

Inflows of foreign capital associated with higher volumes of borrowing then spills over into the conduct of a monetary and exchange rate policy management. Sri Lanka has witnessed the above

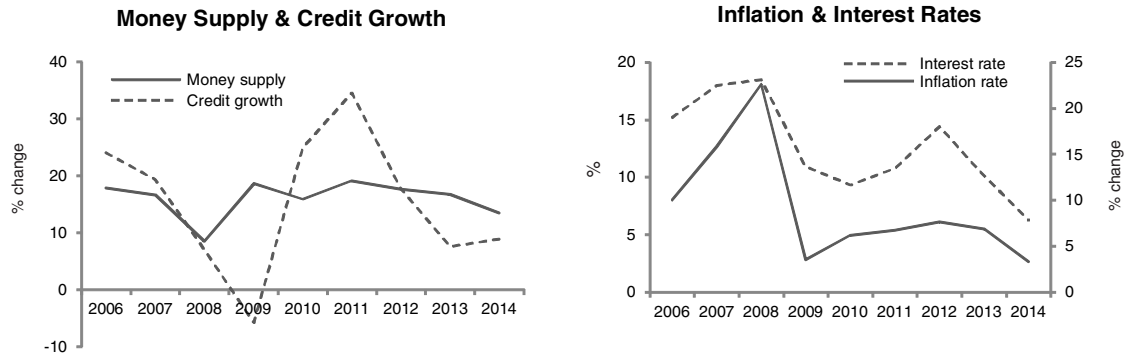
**When countries resort to external borrowing, the trade-off between fiscal conditions (debt) and exchange rate management can constrict macroeconomic policy space considerably.**

tensions in coordinating macroeconomic policy, the failure of which brought about significant instability.

Inflows of capital typically prompt central banks to intervene in the foreign exchange market. This may be to avoid volatility in exchange rate movements, and to prevent an undue appreciation that hurts export competitiveness. In 2010, for example, as capital inflows were mopped up in order to target the exchange rate, the build-up of foreign exchange reserves saw the domestic monetary base expand (Figure 2.6). An expansion in the monetary base without a corresponding increase in production holds potential inflationary consequences.

To compound matters, the CBSL used both regulatory tools and moral suasion to persuade banks to lower interest rates from mid-2010 in order to boost Sri Lanka's immediate post-war economic recovery. A sharp increase in credit growth,

**Figure 2.6**
**Monetary Indicators**

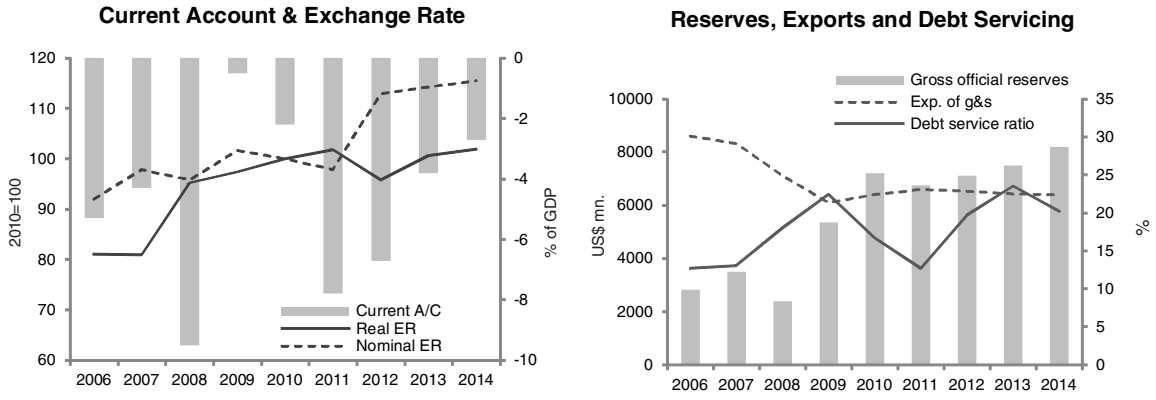



Source: CBSL, *Annual Report*, various years.

particularly in sectors such as consumption, began to fuel inflation and precipitated the imposition of a mandatory ceiling on commercial bank credit growth in January 2012.

Cheap credit stimulated an import surge that was to be even more damaging. As the trade deficit expanded and the current account deficit increased to 7.8 per cent of GDP in 2011, the CBSL opted to draw down official reserves in defence of the currency at a pre-determined 'fixed' rate. By February 2012, the country was teetering on a balance of payments crisis, exactly three years to the date that it last approached the IMF for a bailout package after a similar untenable defence of the currency. A BOP crisis was averted only after a series of policy reversals in March 2012, the most important of which was a sharp devaluation of the rupee.

**Figure 2.7**
**External Sector Indicators**




Source: CBSL, *Annual Report*, various years.

The relatively inflexible exchange rate policy stance is hurting exports - the very sector that needs to generate foreign exchange earnings if Sri Lanka is to service its growing external debt comfortably. Instead, capital inflows have distorted the exchange rate artificially - where a real appreciation is occurring against the fundamentals of a weak external current account position - leading to an appreciating real effective exchange rate (REER) and hurting export competitiveness.

Thus, Sri Lanka is more exposed today to external shocks as its external debt and related indicators such as the external debt service ratio rises (Figure 2.7). Where a sizeable volume of official foreign reserves might have provided comfort as a buffer, the fact that the bulk of reserves is also made up of foreign borrowings is a downside. The purchase of government debt by non-residents and purchase of international reserves by governments are both pro-cyclical. During good times with lower default risk, governments may be tempted to borrow more. In the event of any shock to the economy, governments will be forced to cut down on borrowing and use available reserves to smooth out consumption. These conditions can result in a collapse of both the purchase of government debt by foreign investors, as well as the ability of governments to raise foreign borrowings, leading to external crises.

Having restored exchange rate stability after a devaluation of over 17 per cent in the first half of 2012, the CBSL turned its attention to aggressively ease monetary policy once more from end- 2012. The measures adopted include cuts to policy rates, slashing of Statutory Reserve Requirement (SRR) of Licensed Commercial Banks (LCBs), reductions to penal rates of interest charged on all loans and advances by LCBs, etc. However, as evident from Figure 2.6, despite the steady drop in interest rates, credit growth to the private sector remained stubbornly low.

The reasons for the overdue credit pick-up are perhaps partly explained by the doubling of credit growth to the private sector during 2009-12. It is not surprising that the credit overload of the past takes time to work its way through the economy, deterring fresh uptake in the interim. A second reason is perhaps related to Sri Lanka's recent growth pattern, dominated by non-tradable services sectors and other industry sectors such as construction and utilities. Many of these also have large state involvement. Booming sectors where businesses can plug-in investments is more limited than the overall high GDP growth numbers would suggest, as highlighted in the past by high credit uptake for consumption. Thus, Sri Lanka's most recent episode of monetary easing to stimulate growth, underscores

**Capital inflows have distorted the exchange rate artificially - where a real appreciation is occurring against the fundamentals of a weak external current account position - leading to an appreciating real effective exchange rate (REER) and hurting export competitiveness.**

the reality that such a policy stance helps only if the economy is constrained by the money supply, and is failing to follow growth in economic efficiency and value added.

## 2.5 Economic Performance 2015 and Outlook

The electoral outcome of January 2015 signalled a change of course for the Sri Lankan economy on several fronts. The most immediate was a slowdown of some of the infrastructure development initiatives of the previous regime, the implementation of electoral pledges through a revised budget for 2015, and enunciating a new economic policy direction for the country.

That any new government would revisit Sri Lanka's ambitious publicly funded infrastructure projects to assess their economic viability and funding is to be expected. Some key initiatives, such as the Colombo Port City Expansion project undertaken by China, were suspended as a result. There was also, however, a more general slowdown in infrastructure spending as fresh fiscal estimates were worked out. The budget presented in end January 2015 delivered on many of the pre-election promises such as a reduction in fuel prices and an increase in public sector salaries and pension payments, whilst attempting to introduce new revenue generating measures by way of one-off taxes on private businesses, imposition of a 'mansion tax' on housing, etc., to meet additional expenditure commitments.

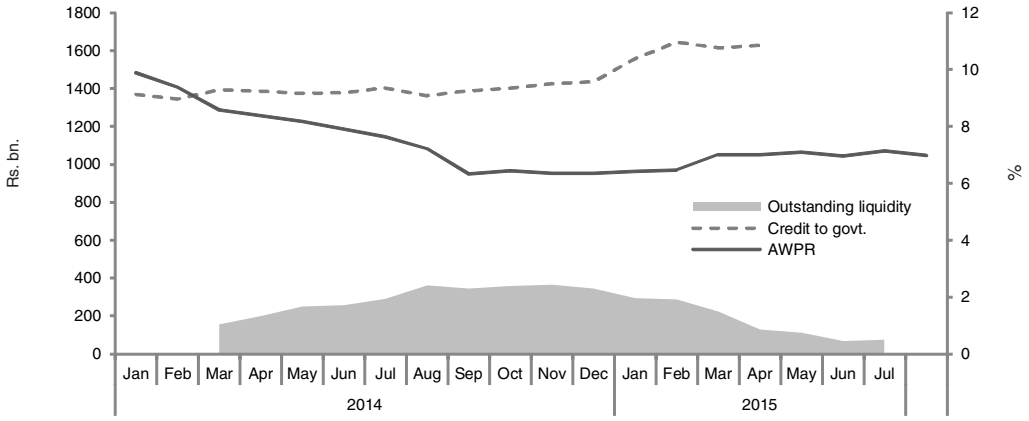
Fiscal policy management has run into difficulties as proposed new revenue measures failed to be placed before Parliament after the defeat of a government move in April 2015 to raise Treasury bill borrowing limits. With current expenditures rising, capital spending has borne the brunt of cuts (Table 2.5). Financing of the deficit has also changed in the interim, with net domestic financing of Rs. 444 billion during January-June 2015 exceeding the Rs. 341 billion total net domestic financing for the entire year in 2014. As the government tapped the domestic market for funds, net credit to the government expanded, outstanding liquidity shrank and interest rates began to nudge upwards (Figure 2.8). The impact on interest rates was partly subdued owing to the low demand for credit by the private sector in view of anticipated Parliamentary elections and associated uncertainties.

**Table 2.5**
**Fiscal Outcomes (Jan-June 2015)**

| | Budget Estimates (% of GDP) | | | Fiscal Outcomes (Rs. bn.) | |
|---|---|---|---|---|---|
| | 2014 | 2015[a] | 2015[b] | Jan-Jun 2014 | Jan-Jun 2015 |
| Revenue | 12.2 | 14.6 | 14.1 | 536 | 605 |
| Current exp. | 13.5 | 13.5 | 14.2 | 637 | 769 |
| Public investment | 5.0 | 6.2 | 4.6 | 278 | 223 |
| Overall deficit | 6.0 | 4.6 | 4.4 | 371 | 401 |
| Financing | | | | | |
| Foreign | 2.1 | 2.2 | 2.2 | 129 | -41 |
| Domestic | 3.9 | 2.4 | 2.2 | 242 | 444 |

Notes: a: Estimates presented in Oct. 2014; b: Revised estimates presented in Jan. 2015.
Source: CBSL, *Annual Report*, various years; Ministry of Finance.

**Figure 2.8**
**Net Credit to Government, Outstanding Liquidity and Interest Rates**




Source: CBSL, "Weekly Economic Indicators", various issues.

The government was forced to tap domestic financing not only because of the failure to implement new revenue measures, but also as a result of slowdowns and delays in accessing foreign financing. The rolling back of the infrastructure push meant that the inflow of funds by way of long-term loans declined quite sharply in the first five months of 2015 (Table 2.6). In addition, the country experienced some delay in issuing an announced Sovereign bond placement. This finally materialized in end May 2015 for US$ 650 million at a yield rate of 6.125 per cent with a 10 year maturity, slightly above the last 10 year Sovereign bond yield rate of 5.875 obtained in July 2012.

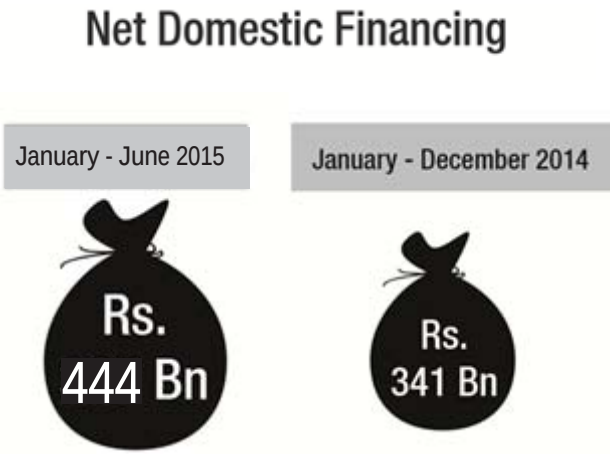



**Table 2.6**
**Foreign Inflows (January-June)**

| Inflows to govt. (US$ mn.) | 2014 | 2015 | External Current Account (US$ mn.) | 2014 | 2015 |
|---|---|---|---|---|---|
| Treasury bills & bonds | 941.9 | 547.4 | Trade balance | -3,535.2 | -4,085.8 |
| Sovereign bonds | 1,500.0 | 650.0 | Remittances | 3,360.0 | 3,432.7 |
| Long-term loans | 1,002.2 | 490.8 | Tourism | 1,157.9 | 1,321.4 |

Source: CBSL, "External Sector Performance", various issues.

In the first half of 2015, there has been a significant slowdown of foreign capital inflows overall, as well as a deterioration in the trade deficit (Table 2.6). Inflows from foreign investment in Treasury bills and bonds and long-term loans to the government declined sharply. The trade deficit in the first half of 2015 weakened by over 15 per cent; the more serious is the slow contraction in export earnings of 0.6 per cent over the same period. Earnings from worker remittances have also slowed to a low 2.2 per cent in the first half of 2015 compared to 10.5 per cent growth in the first half of 2014. Thus, Sri Lanka's current account is also under pressure.

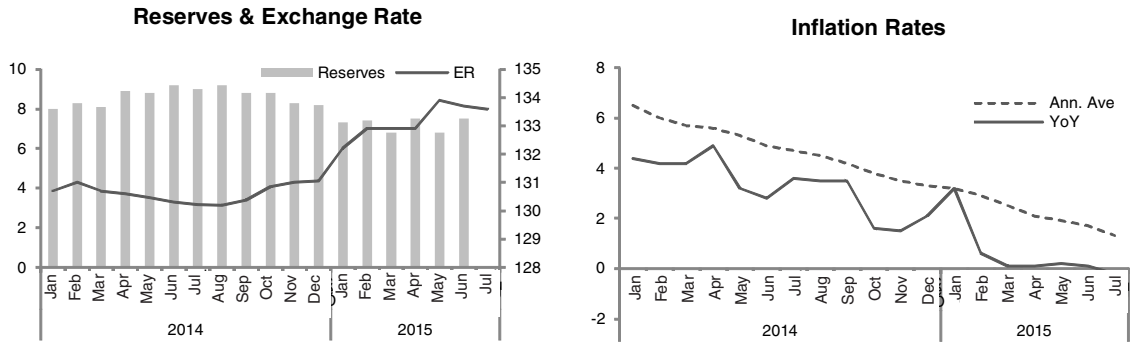
External sector developments have had an inevitable impact on the exchange rate. However, the currency has been allowed to depreciate by only around 2 per cent, with CBSL intervention in the foreign exchange market through a drawdown of official reserves. By March 2015, reserves were recorded at US$ 6.8 billion, sufficient for 4.2 months of imports, relative to holdings of US$ 8.2 billion at end 2014 (5.1 months of imports). In addition to supporting the currency, reserves were also used for immediate foreign debt settlements. Official reserves were augmented with a US$ 400 million swap arrangement with the Reserve Bank of India (RBI) in April 2015, a Sovereign bond issue in May 2015 and a further swap agreement with RBI for US$ 1.1 billion in July 2015. At end June 2015, official reserves stood at US$ 7.5 billion, sufficient for 4.5 months of imports.

In contrast to higher domestic borrowing by the government, upward pressure on interest rates and depreciating pressure on the exchange rate, Sri Lanka's consumer price inflation captured by the Colombo Consumer Price Index (CCPI) has been on a sharp downward trend, with the annual inflation rate edging to a low 1.3 per cent by July 2015 (Figure 2.9). However, Sri Lanka's low inflationary environment is unlikely to persist if the current subdued economic activity reverses in the fourth quarter of 2015 pursuant to a stronger political outlook following Parliamentary elections.

In the first half of 2015, the lack of a clear policy direction on the economic front is taking a toll on Sri Lanka's economic growth prospects for 2015. First quarter 2015 GDP estimates suggest that economic growth slowed to 6.4 per cent relative to a growth rate of 7.6 per cent in the first quarter of 2014. The sharp deceleration in construction sector growth was to be expected; what appears to be a more general slowdown in productive economic sectors such as manufacturing, and transport and communications is, however, of concern.

Sri Lanka's growth outlook for 2015 is thus set to moderate. At the same time, the Department of Census and Statistics (DCS) has undertaken a re-basing of national account estimates that is likely to re-set the country's medium to long-term growth projections once the revised methodology is finalized (Box 2.1).

**Figure 2.9**
**Movements in Exchange and Inflation Rates**




Source: CBSL, "External Sector Performance" and "Monetary Policy Review", various issues.

## Box 2.1
## Re-basing Sri Lanka's GDP

Sri Lanka's Department of Census and Statistics has undertaken a re-basing of its national account estimates. The most current approximations are based on 2002 production and consumption patterns. Over time, this one-year snapshot of the economy becomes less accurate and can lead to overestimation of traditionally dominant sectors such as agriculture and underestimation of newer sectors, especially those in the services sectors. The IMF statistical division recommends a change of base year every fifth year. Sri Lanka has not done so since 2002 suggesting that the previous GDP framework underestimated economic activity. The re-basing uses 2010 as the new base year, and includes expanded coverage of economic activities through information collected by various censuses. This, together with other changes such as the adoption of the 2008 System of National Accounts, re-classification of economic activities as per the International Standard of Industry Classification (ISIC), etc., will also mean changes in the sectoral composition of GDP. In total, the old and new national accounts will not be comparable.

While data challenges remain in any attempt to compile national accounts, additional complexities exist to accurately estimate the size of Sri Lanka's significant informal economy. Notwithstanding such weaknesses, a regular re-basing exercise is extremely useful to provide a clearer picture of an economy's size and structure and allow a better planning of longer term growth and development options.

**Absolute GDP Estimates**

| | GDP at Market Prices (Rs. mn.) | | GDP at Constant Prices (Rs.mn.) |
|---|---|---|---|
| | 2002 Base | 2010 Base | 2010 Base |
| 2010 | 5,604,104 | 6,413,668 | 6,413,668 |
| 2011 | 6,543,258 | 7,219,106 | 6,952,720 |
| 2012 | 7,578,555 | 8,732,463 | 7,588,517 |
| 2013 | 8,674,228 | 9,592,125 | 7,846,202 |
| 2014 | 9,742,240 | 10,291,581 | 8,195,979 |

Source: DCS.

The DCS' statistical exercise has produced revised nominal and real GDP estimates for Sri Lanka for the period 2010-14. At the aggregate level, the re-basing exercise suggests that share of agriculture in GDP is smaller and that of industry is larger than previously estimated, and that the Sri Lankan economy continues to be a services sector dominated one. This is not surprising in view of expanded activities involving sectors such as telecom, information technology, etc., that is better captured with fresh sources of data.

The re-basing also shows that the absolute size of the Sri Lankan economy in 2010 was larger by over 14 per cent than previously estimated. Nominal GDP re-basing produces cosmetic changes, with some changes in key indicators; for example, Sri Lanka's per capita GDP has risen to US$ 3,795 in 2014 from the previously estimated US$ 3,625 as a result of the re-basing. At the same time, the increase has not been sufficiently large to significantly impact fiscal deficit-to-GDP or public debt-to-GDP ratios, and as such, holds limited broader economic consequences.

**GDP Growth Estimates**

| | GDP Growth (%) | | | Price Change (%) | |
|---|---|---|---|---|---|
| | 2002 Base | 2010 Base | CCPI | Old GDP Deflator | New GDP Deflator |
| 2011 | 8.2 | 8.4 | 6.7 | 7.9 | 3.8 |
| 2012 | 6.3 | 9.1 | 7.6 | 8.9 | 10.8 |
| 2013 | 7.2 | 3.4 | 6.9 | 6.7 | 6.2 |
| 2014 | 7.4 | 4.5 | 3.3 | 5.1 | 2.7 |

Source: DCS.

The new estimates matter if GDP growth rates are an important consideration for governments. Slower real growth after a re-basing exercise is a fairly common and accepted occurrence as witnessed in many of the African countries that have done similar exercises. This is because with economic growth, changes in relative prices are to be expected; in effect, re-basing of real GDP means adopting a new set of reference prices to value output in each year. If there has been fairly strong economic growth and relative prices have changed, then almost certainly the first year will have a higher measured real GDP when national accounts are re-based. With a higher initial level of GDP, the growth rate can turn out to be smaller.

What is puzzling in Sri Lanka's re-based real GDP growth is that even as output moves to a higher base in 2010, significantly high growth rates are recorded for 2011-12, followed by a sharp decline; indeed, growth appears to have shrunk from 9.1 per cent to 3.4 per cent year-on-year during 2012/13. Thus, Sri Lanka's real GDP growth after re-basing – measured by reference to the prices and structure of the economy in 2010 – appears to have grown at sharply varying rates in subsequent years.

The DCS has devised a GDP implicit price deflator with a revised base year of 2010 – with weights assigned to capture price changes and derive constant value added. The new GDP deflator shows significant volatility against not only the old GDP deflator, but also against the consumer price index, CCPI. Clearly, the data and methodology employed in re-basing Sri Lanka's GDP estimates need further study and clarification, but going forward, what the preliminary data seem to suggest is that the country is set to experience a slower rate of economic growth because of the revision, and resultant larger GDP base.

## 2.6 Conclusion

Just as today's policy focus on taxation, spending, deficits, and debt affect current economic growth, they will also have an equally, if not more important bearing on economic growth and stability in the long-term. Sri Lanka's unabated practice of competitive populism ensures that political parties routinely discount the economic costs of electoral promises and handouts. The fiscal costs, and the related broader consequences on macroeconomic stability, are ignored.

With two closely contested elections in one year – seven months apart – the impact of such profligacy can be high. Sri Lanka's fiscal situation is already straining under additional expenditure commitments undertaken following presidential elections in January 2015. Similarly, in parliamentary polls, election handouts are being offered as inducements such as cost of living allowances to the public sector workers, payments to school leavers, public sector jobs for unemployed youth, etc. Even as the full cost of such electoral pledges are realized, leading to further weakening of fiscal consolidation efforts, Sri Lanka will be called on to implement some tough economic reforms for long-term macroeconomic stability and sustainable growth.

The most pressing of these relate to tax and SOE reforms. Sri Lanka has to focus on reversing declining government revenues as a matter of urgency. Recommendations to rationalize and streamline tariffs, broaden the tax base and improve administrative capacity of agencies involved in revenue collection have already been studied and proposed by the Presidential Taxation Commission in its 2010 report. So far, the recommendations have been implemented and applied in an ad hoc manner, and may need to be revisited once again in view of the considerable time that has lapsed since the report was finalized and submitted.

Similarly, Sri Lanka's loss making SOEs need to be restructured and better managed as a key priority. Governments will fight shy of outright privatization of SOEs in the face of considerable popular and political opposition. The opposition stems in part from past mishandling of privatization initiatives that have often been tainted by allegations of corruption, and/or proven by the judiciary to have by-passed laid down procedures and therefore nullified. Better management of SOEs need not necessarily go down the route of privatization; the options are many through a spectrum of ownership structures that can bring the public and private sectors together.

**Sri Lanka's unabated practice of 'competitive populism' ensures that political parties routinely discount the economic costs of electoral promises and handouts.**

Aside from these two critical areas, there are other outstanding public finance related issues that need policy attention. These include rationalizing Sri Lanka's many transfer and subsidy schemes, reforming the existing non-funded public sector pension system, improving debt management, etc. It is only from a thorough review that Sri Lanka can reconsider how it taxes and spends in order to support long-term development objectives. Fiscal and monetary expansion is not interchangeable; stronger public finances will allow fiscal and

monetary policy to play independent roles to provide an economic stimulus as and when needed.

A strong fiscal foundation can also have an important bearing on a successful broader structural reform effort. Sri Lanka has a long to-do list of reforms which has been around for years without making much headway. Fiscal consolidation will help compensate potential losers of a reform initiative; by the same token, it is more difficult to implement structural reforms at the same time as tightening fiscal budgets. Sri Lanka is already faced with the likely prospect of slower economic growth and narrower fiscal space in the near term; fiscal reforms should start early before the situation becomes sufficiently fraught to make reforms unavoidable.

# 3. International Environment

## 3.1 Introduction

Nearly eight years after the onset of the global financial crisis (GFC), the world economy continues to expand at a fairly modest pace, with ramifications of the financial crisis still visible in many countries. The recovery has been slow and prolonged, with many advanced economies still relying heavily on post-crisis adjustments, and plagued by sluggish unemployment levels, below target inflation rates and geopolitical uncertainties. Among the developed countries, US economic growth is expected to be robust, with factors such as low energy prices, strengthened balance sheets and recovering housing markets expected to sustain growth in 2015 and 2016.[1] The Euro area on the other hand has more problems to contend with in the form of economic and political turmoil within the region, whilst Japan too has seen an uneven recovery, with consumption yet to show sustained growth.

Among emerging and developing economies, China's growth trajectory has changed as a result of a managed slow down, targeting a more sustainable rate of expansion. This has varying impacts on other economies in the Asia-Pacific; Australia, already impacted from falling commodity prices, is likely to be hit further as China's growth slows to a forecast 6.8 per cent in 2015 and further to 6.3 per cent in 2016. On the other hand, India is expected to out-perform China for the first time in 2015 with growth boosted by policy reforms following electoral changes in 2014, rising investments and lower oil prices. Another casualty of falling commodity prices is Russia, already hit by international sanctions. Overall, the global economic outlook for 2015 is centred around changing oil and commodity prices, geo-political uncertainties, and stagnating and low inflation in developed countries.

International trade performance since the GFC has been positive, but weak, attributed mostly to the weak economic growth of advanced economies. Overall capital flows too have been subdued with weak macroeconomic and financial conditions of many economies, slow growth of world trade and deleveraging by banks affecting both demand and supply of capital. While falling oil prices can be

**India is expected to outperform China for the first time in 2015 with growth boosted by policy reforms following electoral changes in 2014, rising investments and lower oil prices.**

[1] IMF (2015), "World Economic Outlook – April 2015", IMF, Washington D.C.

**The global economic outlook for 2015 is centred around changing oil and commodity prices, geo-political uncertainties, and stagnating and low inflation in developed countries.**

expected to increase the purchasing power of oil-importing countries boosting trade on the one hand, it can also have implications on the buying power of oil exporting countries, though many of the oil exporting Middle Eastern countries are cushioned by high reserves. Countries exporting substitutes of oil-based products too can be affected to an extent with oil-based products becoming relatively cheaper in the world market.

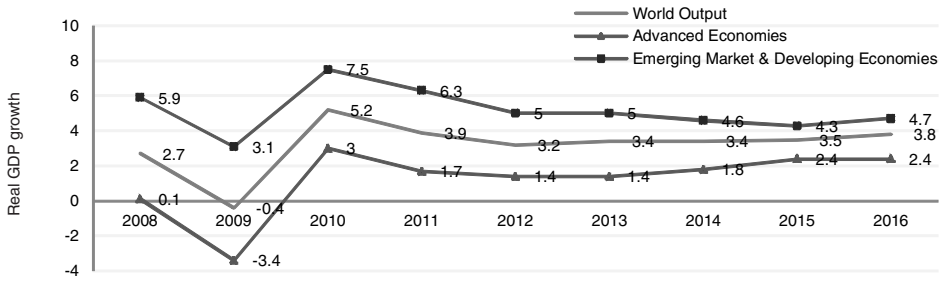
For Sri Lanka, the impacts of the current global economic environment will be channelled mainly through trade, capital, remittances and tourism. The outlook for Sri Lanka's exports is not very positive, given the challenges facing the country's main export markets such as Europe, the Middle East and Russia. On the import side, lower oil prices will ease Sri Lanka's current account deficit, reduce pressure on fiscal accounts and inflation. Remittances and tourism too are expected to grow with no major diversions expected for 2015. The world economic environment and implications for Sri Lanka are examined in detail in the subsequent sections of this chapter.

# 3.2 Overview of the Global Economy

## 3.2.1 Economic Prospects for Developed Economies

The world economy grew by 3.4 per cent in 2014 and is expected to grow by 3.3 per cent in 2015. Although emerging and developing economies have been driving world output since the GFC, advanced economies are expected to grow more strongly in 2015 while growth in emerging and developing economies are expected to be weaker (Figure 3.1)

**Figure 3.1**
**Growth of World Output, Advanced and Emerging Economies (2008-2016)**




Note: 2015 and 2016 figures are projections.
Source: IMF (2015), "World Economic Outlook (July 2015)", International Monetary Fund, Washington, D.C.

[2] *Ibid.*

**Table 3.1**
**Projected Output for Selected Countries (2013-2016)**

| | 2013 | 2014 | Projections 2015 | 2016 |
|---|---|---|---|---|
| Advanced Economies | 1.4 | 1.8 | 2.1 | 2.4 |
| US | 2.2 | 2.4 | 2.5 | 3.0 |
| Euro area | -0.4 | 0.8 | 1.5 | 1.7 |
| Japan | 1.6 | -0.1 | 0.8 | 1.2 |
| Canada | 2.0 | 2.4 | 1.5 | 2.1 |
| Emerging and Developing Economies | 5.0 | 4.6 | 4.2 | 4.7 |
| China | 7.7 | 7.4 | 6.8 | 6.3 |
| India | 6.9 | 7.3 | 7.5 | 7.5 |
| Russia | 1.3 | 0.6 | -3.4 | 0.2 |
| Brazil | 2.7 | 0.1 | -1.5 | 0.7 |

Source: IMF (2015), "World Economic Outlook (July 2015)", International Monetary Fund, Washington, D.C.

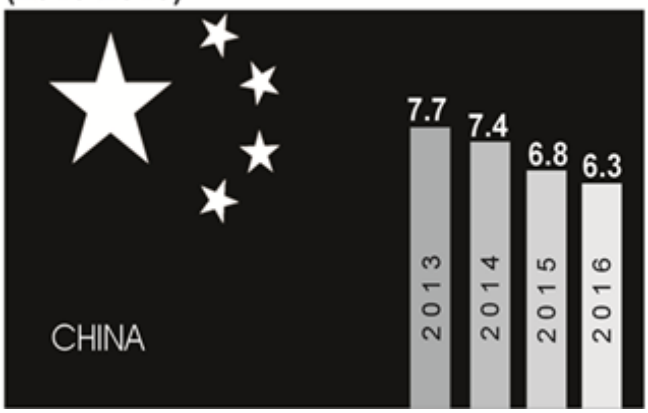
**The outlook for Sri Lanka's exports is not very positive, given the challenges facing the country's main export markets such as Europe, the Middle East and Russia.**

These developments however, are not the same across-the-board; a striking feature among advanced economies has been the growing divergence between US and that of Japan and the Euro area (Table 3.1).

In the US, growth was initially mediocre after the financial crisis but its recent growth momentum has been healthy, supported by positive shale and energy developments and restructuring. The US economy grew by over 2 per cent annually over the past three years (see Figure 3.2). A concern however, has been the slow rate of employment creation, wages and low inflation. The US unemployment rate which was over 8 per cent in 2012 declined steadily to 5.6 per cent by March 2015. Nevertheless, the job creation has been poor in the first quarter of 2015, raising questions about the recovery. Furthermore, the appreciation of the dollar is expected to restrain growth in US exports in 2015 and 2016. However, its impact on exports would depend on the rate at which the dollar stabilizes and the situation among trading partners.[3]

Consumer spending in the US is rising albeit at a very slow rate. The growth in spending is supported by continued job creation and increases in disposable income but it has been sluggish due to consumers opting to save more rather than spending it. However, further analysis of personal consumption expenditure patterns show that spending on

**Projected GDP Growth for China (2013-2016)**



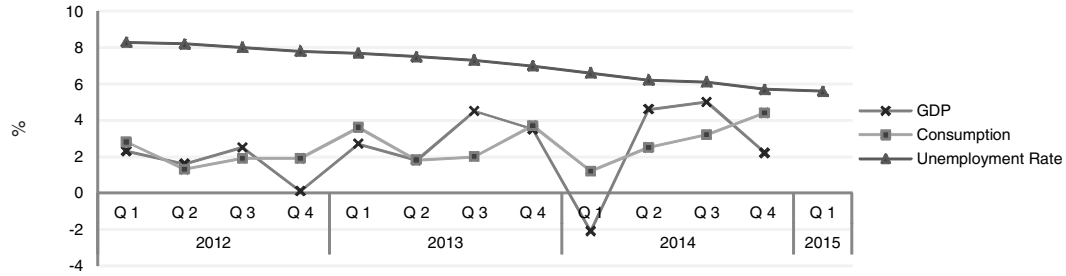

[3] UN (2015), "World Economic Situation and Prospects 2015", United Nations, New York.

durables has gone up while expenditure on non-durables has fallen over the 2013-15 period (first quarter). However, consumption expenditure on clothing and footwear has generally been increasing during this period (see Figure 3.3).

All in all, despite growth moderating in recent times, the US economy is expected to remain robust. And it is likely that this positive outlook would drive the US to normalize its monetary policy which in turn would have implications for the rest of the world.[4] As such, interest rates are expected to increase during the latter half of 2015; this would have notable repercussions on emerging economies that have been the recipients of large capital inflows in recent times. Nonetheless, emerging economies are better equipped to handle a tapering of quantitative easing (QE) with better reforms in place, larger reserves to cushion the impacts and with experience learnt from the past. On the negative side, capital outflow and an increase in interest rate will raise borrowing costs for both governments and the private sector.

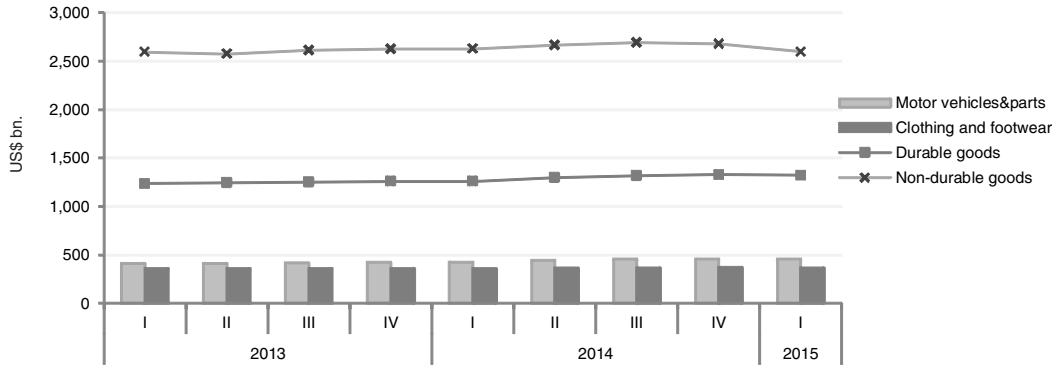
Uncertainty on Greece's long-term place in the Euro area, tensions between Russia and the West over Ukraine, and deflationary pressures in some of the European countries has created concerns over the impact it might have on EU growth. Recovery of the Euro area has been weak and faltering with risks of prolonged low growth and low inflation still present.

**Figure 3.2**
**US Output, Real Personal Consumption Expenditure and Unemployment Rates**




Source: US Bureau of Economic Analysis (2015), "National Data"; and US Bureau of Labour Statistics(2015), "Labour Force Statistics".

**Figure 3.3**
**US Personal Consumption Expenditure**




Source: US Bureau of Economic Analysis (2015), "National Data".

[4] Monetary policy normalization refers to steps undertaken to raise federal fund rates and other short-term rates to more normal levels and to reduce the size of the Federal Reserve's securities holdings.

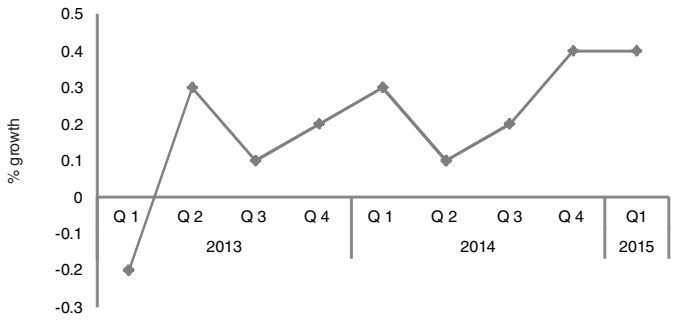
**The strongest growth in the EU in any quarter over the past 2 years has been 0.3 per cent and an annualized growth of 1.1 per cent.**



The strongest growth in any quarter over the past two years has been 0.4 per cent and an annualized growth of 1.1 per cent (Figure 3.4). While the economic recovery of the EU is going to be bumpy, the Euro area is predicted to grow at 1.5 per cent in 2015, driven by countries in the core such as in Germany where domestic demand picked up as a result of supportive monetary conditions, good labour conditions and improved confidence. Stronger exports stemming from a weaker Euro and quantitative easing in the region are also expected to support growth in the region.

The growth trajectory of the world's third largest economy, Japan, is of continuing concern. The country was in recession for two quarters in 2014, attributed to an increase in consumption taxes in the country. While it came out of the recession in the last quarter of 2014, the growth was lower than expected, the main reason being the rather mundane increase in household spending (0.3 per cent).[5] Whether Japan can maintain its growth rate is largely dependent on consumption growth; there was positive growth in the last two quarters, possibly indicating that consumers are finally shaking off the effects of the tax increase.[6]

**Figure 3.4**
**Euro Area Real GDP Growth (2013-15)**




Source: Statistics Portal (2015), "Growth of Real GDP in the Euro Area from 1st quarter 2013 to 1st quarter 2015", www.statista.com/statistics/226122/gdp-growth-in-the-eu-and-the-euro-area-compared-to-same-quarter-previous-year/.

**China is seen to be embracing what is termed the 'new normal' - slower but higher quality growth.**

[5] WSJ (2015), "Japan Escapes Recession but Growth Misses Forecasts: Weak Consumption Points to Challenges for Abenomics", *Wall Street Journal* http://www.wsj.com/articles/japan-q4-gdp-worse-than-expected-at-22-1424044641.

[6] *Ibid.*

## 3.2.2 Outlook on Emerging Economies: Will Growth Continue?

Despite a fall in growth rates over the past six years, Asia has managed to maintain a growth momentum of over 6 per cent during 2008-14. The most striking feature is the slowdown of the Chinese economy, driven by structural reforms, withdrawal of fiscal stimulus and limitation of non-bank credit expansion. China's growth rate of 7.4 per cent in 2014 is its weakest in 24 years, with forecasts suggesting it will fall to 6.8 per cent in 2015 - the first time in a decade where the IMF forecast for the Chinese economy is below 7 per cent.

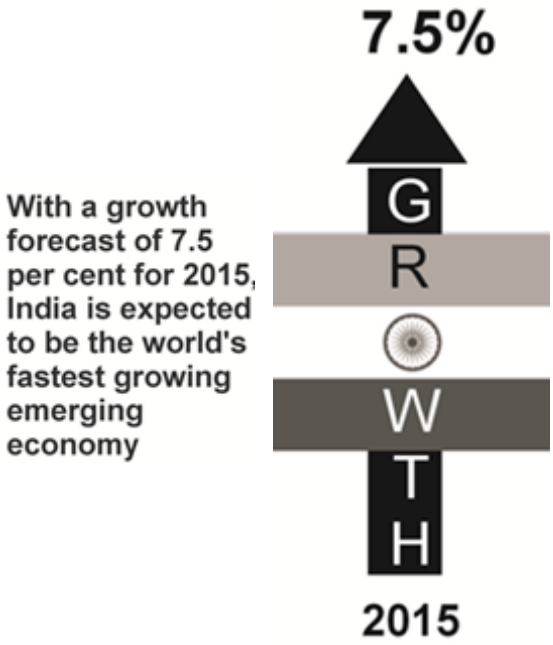
The slowdown of the Chines economy is, however, deemed to be a desirable and a healthy adjustment, suggesting a more sustainable growth path. China is seen to be embracing what is termed the 'new normal' - slower but higher quality growth. There are nevertheless concerns on how the slowdown would affect other economies. ASEAN countries are likely to experience spillover effects via integrated supply chains; the slowdown will be a further downside risk factor for crude and copper prices; economic activity in Latin America and Africa will weaken from low demand for metal. However, it is noteworthy that the slowdown comes from a big base; in 2014, China's economic output was over US$ 10 trillion, making it the only country to reach this feat after the US. Factors such as a boost in consumption due to healthy rise in wage rates - income in China increased by 8 per cent in 2014 after adjusting for inflation - is not expected to result in deep contagion effects although they would be felt.

India on the other hand, is expected to maintain or improve on its 2014 growth, backed by structural reforms and an improved investment climate. With a change of government, economic growth is high on the priority list. Indeed, with forecast growth of 7.5 per cent in 2015, it is expected to be the world's fastest growing emerging economy. With a half of the country's population under the age of 25 years, and with 12 million entering the labour force each year, India is well positioned to reap the benefits of a demographic dividend. It is poised to have the world's youngest population by 2020 with an average age of 29 years.[7] Whilst India is indeed a 'bright spot' in the region, India is still far from the economic power of China; India's economic output is around US$ 2 trillion compared to China's US$ 10 trillion output.

Other emerging economies are expected to grow at a much slower pace, with Russia expected to grow

**With a half of the country's population under the age of 25 years, and with 12 million entering the labour force each year, India is well positioned to reap the benefits of a demographic dividend. It is poised to have the world's youngest population by 2020 with an average age of 29 years.**

[7] Ernst & Young (2014), "Reaping India's Promised Demographic Dividend", Ernst & Young and Federation of Indian Chambers of Commerce and Industry, New Delhi.




at a negative 3.8 per cent. Toward the end of 2014, the Russian economy contracted due to a decline in oil prices, depreciation of the ruble, high interest rates and the impact of Western sanctions. In order to protect key sectors of the economy and to provide a cushion against a potential economic collapse, the government announced an 'anti-crisis' plan in January 2015. Both Standard & Poor's and Moody's cut Russia's sovereign credit rating to junk status citing the conflict in Ukraine, low oil prices and the slide of the ruble. There is the possibility of further sanctions as well from the US and EU member states.

## 3.3 Policy Responses and Outlook for Recovery

Although many central banks reduced interest rates to encourage investment and boost economic activity, the measures failed to spark a sustained recovery. With near zero interest rates, conventional monetary policy was ineffective, prompting central banks and governments to adopt unprecedented steps in the form of quantitative easing (QE). This is an unconventional form of monetary policy employed by central banks to pump money directly to the economy, where new money is created electronically to buy financial assets like government bonds. The expanded bank reserves in turn is expected to encourage more loan growth to businesses and people, boosting consumption and employment growth over time.

The US Federal Reserve, the Bank of England and the Bank of Japan pursued QE from early on, achieving varying levels of success. In the US, QE which started in November 2008 came to an end in October 2014 after adding about US$ 4 trillion to the Fed's balance sheet in four rounds of QE (see Table 3.2). It was the largest economic stimulus programme in world history. The UK started its QE programme in early 2009 together with a reduction in interest rates to as low as 0.5 per cent. It has added a total of £375 billion to the economy since the programme was initiated. The effectiveness of QE is inconclusive, yet it does appear to have had at least some modest success, particularly in the US and UK which were early adopters of QE and are currently doing better than most other advanced economies.

Japan on the other hand - the first country to use QE way back in 2001- started its recent QE programme in April 2013 as part of a set of policies popularly termed 'Abenomics'. The country initially planned to add US$ 1.4 trillion, spending US$ 70 billion a month and doubling the country's money supply. Japan's QE programme is large in scale, considering the US$ 85 billion a month pumped by the US Federal Reserve in an economy that is three times as large as that of Japan. In 2014, with recovery faltering, Japan expanded its QE programme substantively in a bid to keep deflation at bay. There are concerns regarding Japan's high debt levels and the IMF has warned of potential risks of postponing structural reforms.

More recently in March 2015, the European Central Bank (ECB) embarked on QE, which will inject 1 trillion euro as a stimulus. The ECB will inject •60 billion a month by purchasing national government

**Table 3.2**
**Comparison of Quantitative Easing Programmes**

| | UK[a] | Japan | US | Eurozone |
|---|---|---|---|---|
| Amount | £ 375 billion | ¥ 125 trillion | $ 2 trillion ($ 4 trillion)[b] | € 836 billion (€ 1140 billion)[c] |
| % of GDP | 21% | 26% | 12% (25%) | 9% (12%) |
| % of bond market | 27% | 16% | 18% | 14% |
| % of annual gross issuance | 91% | 69% | 26% | 54% |

Notes: a: Amount refer to cash amount/market value rather than the nominal value of bonds bought; b: Including mortgage-backed securities purchases; c: Including covered bonds, asset-backed securities, and European Institution debt. Amount refers to cash amount/market value rather than the nominal value of bonds bought.

Source: https://www.stratfor.com/analysis/how-quantitative-easing-differs-japan-and-europe

bonds from member states. There have been debates on the channels via which QE stimulates economies and one possible channel is 'confidence'. Some economic signals in the first quarter of 2015 following the QE has been positive. Share prices have risen since the announcement of QE and bond yields have fallen sharply. There has been a steep fall in the euro against the US dollar hence, with the appreciating dollar affecting company earnings and making the EU more attractive to US investors. Furthermore, the weaker euro can stimulate exports, thereby driving the region's GDP; it will also raise the import bill and help raise inflation.

However, QE alone will not be enough to sustain recovery in the EU. Structural reforms that can change labour and product markets and enhance productivity and competitiveness in the region are vital. For the EU, political hurdles in implementing reforms across the member states are an ongoing problem. Stringent fiscal austerity measures – involving policies to reduce government spending and/or introduce higher taxes with the objective of reducing government budget deficits – have created a 'north-south' conflict within the EU, most evident from the sharp divisions and tensions in dealing with Greece, Portugal and Spain. Greek debt rescheduling and a possible exit from the euro are adding to the uncertainty surrounding sustained recovery in the Euro area (Box 3.1).

**QE alone will not be enough to sustain recovery in the EU. Structural reforms that can change labour and product markets and enhance productivity and competitiveness in the region are vital.**

## Box 3.1
## The Greek Crisis

Greece has approached the climax of its debt crisis - it defaulted on IMF payments, the first developed country to do so; banks were closed for weeks to prevent bank runs; the Greek government went for a referendum where the public strongly rejected the terms of a new bailout; and EU countries had to take extensive measures to keep Greece from collapsing. Despite the outcome of the referendum, on 16 July 2015, the Greek government had to accept the reforms put forward by the other Euro zone countries to receive further bailout funds. IMF estimates the financing needs through end- 2018 to be • 85 billion and debt in the next two years to reach close to 200 per cent of GDP.

Greece became the center of the Euro area debt crisis following the 2008 financial crisis. In October 2009, Greece announced that it had been understating its deficit figures for years which shut them out from financial market borrowings and led them to near bankruptcy. In order to avoid a financial meltdown, Greece was bailed out by the IMF, ECB and the European Commission. These of course came with harsh conditions and resulted in steep tax increases and budget cuts. Despite the funds, the Greek economy did not pick up with most of the funds spent on repaying loans rather than being directed to the economy. The economy shrunk by a quarter and unemployment rates spiraled to over 25 per cent. On the one side, as a country party to the euro, Greece was not able to undertake certain measures to boost the economy like any other country would - i.e., by depreciating the currency. On the other, creditors like Germany maintain that Greece has not undertaken the required economic reforms. Nevertheless, in exchange for a new bail out, Greece has agreed to what many consider to be 'tough economic reforms': changes to the tax system and public pensions, overhaul of the civil justice system, labour market reforms, etc.

The exposure of the global financial system to the crisis in Greece is expected to be contained given that most investors and banks retracted their investments at the initial stages of the crisis. Additionally, the situation in Greece has prompted other vulnerable economies like Spain, Portugal and Ireland to overhaul their economies. Even if there is an exit from the currency union, it is not expected to have contagion effects, given the safeguards put in place by Europe.

For Sri Lanka, the euro zone crisis will be felt mostly through trade as Europe is Sri Lanka's largest export destination. The crisis will be felt largely in terms of the depreciation of the euro. Partly attributed to the Greek crisis, euro's nominal effective exchange rate has depreciated by 10 per cent in the 12 months leading up to May 2015. A depreciation of the euro can translate into lower export earnings for Sri Lanka, especially for the main export items like T&G and seafood. Further depreciation can also affect the profit margins of Sri Lankan exporters to the EU. The exposure of the Sri Lankan economy to the EU through other channels will be limited with dependence of Sri Lanka on the EU for remittances assessed to be medium, low for FDI, and low for aid dependence.

Source: ECB (2015), "The International Role of the Euro", European Central Bank, Germany; IMF (2015), "Greece: An Update of IMF Staff's Preliminary Public Debt Sustainability Analysis", IMF Country Report No. 15/186; Massa, I., et. al., (2012), "The Euro Zone Crisis and Developing Countries', Overseas Development Institute, London.

# 3.4 World Trade, Commodity Prices and Financial Flows

## 3.4.1 World Trade

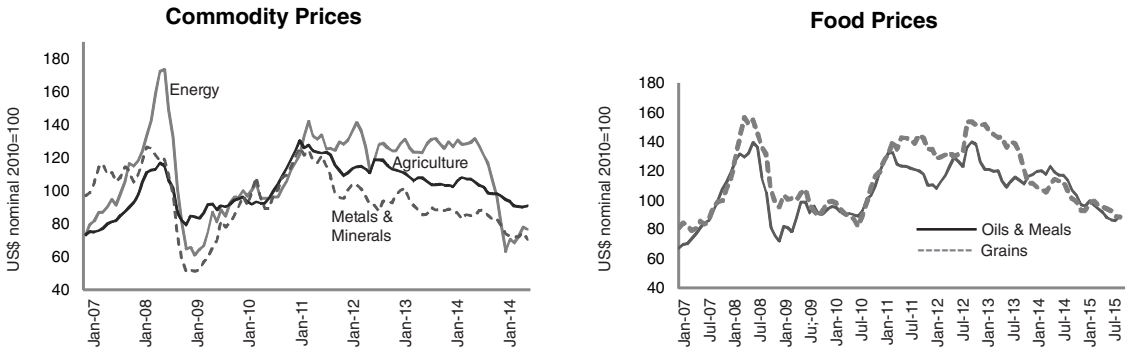
Growth of world trade has been weak in recent times, growing at an annual average of 3.4 per cent in the 2012-2014 period,[8] which is lower than average growth of trade in the past 20 years (5.2 per cent in the 1993-2013 period).[9] World trade growth slowed to 3.4 per cent in 2014, pulled back by weakened import demand and a stagnant Europe. The slowdown is also attributed to structural factors where slower expansions of global supply chains and shift in demand to less-import intensive items have made trade become less responsive to global income changes.[10] Further, growth in import demand from developing countries was the lowest since 2008. In 2015, trade is expected to pick up to 4 per cent but with high possibility of downside risks arising from developing geo-political tensions, and faltering economic recovery.

## 3.4.2 Commodity/Oil Prices

The fall in commodity prices has been broad-based with prices of energy, metal, minerals and agricultural raw materials declining from the second half of 2014. The drop in prices is due to ample supplies, weak global growth prospects and an appreciating dollar. The weakening in commodity prices is expected to continue through 2015 before a modest turn around in 2016. Oil prices saw the most dramatic decline, while prices of other commodities such as food also saw a fall (Figure 3.5).

Oil prices began to fall from the second half of 2014, bringing to an end a four year period of stability. The price of a barrel which was around US$ 105 over the past four years plummeted by more than 50 per cent, reaching below US$ 50 a barrel for the first time since May 2009 (Figure 3.6).[11] This fall is

**Figure 3.5**
**Commodity and Food Price Indices**




Source: World Bank (2015), "World Bank Commodity Price Data".

[8] World Bank (2015), "Global Economic Prospects", World Bank, Washington, D.C.

[9] WTO (2014), "WTO Lowers Forecast after Sub-par Trade Growth in First Half of 2014", https://www.wto.org/english /news_e/pres14_e/pr722_e.htm.

[10] World Bank (2015).

[11] Devarajan, S., and L. Mottaghi (2015), "Plunging Oil Prices", Middle East and North Africa Quarterly Economic Brief, World Bank, Washington, D.C.

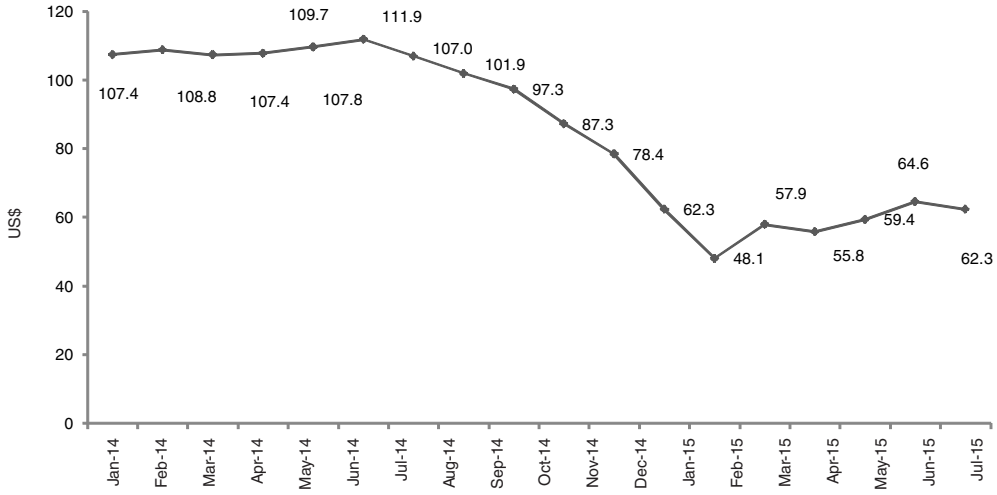
largely attributed to demand and supply factors - domestic production of oil in the US has nearly doubled in the past six years, recording the highest oil supplies in 80 years in March 2015. Consequently, countries such as Saudi Arabia, Nigeria and Algeria which once sold oil to the US are now competing for markets in Asia, pushing prices down. Furthermore, oil production in countries like Canada and Iraq has increased, adding to the supply glut. The refusal of the Organization of Oil Producing Countries (OPEC) to cut down on supply has also been a vital factor in the sharp drop in prices. While some OPEC countries have expressed their unwillingness to reduce production citing fears of losing market share, others argue that OPECs decision is an effort to squeeze American shale producers.

Weak global demand from the European, Asian and Latin American markets, and the increasing use of energy efficient and less oil intensive energy consumption which has resulted in reduced oil-intensity of global GDP are some of the demand factors which have contributed to low oil prices. However, unlike in the 2008 oil price crash, this time around, prices have been pushed down mainly by supply factors.

The impact of lower oil prices will be mixed with wide-ranging direct and indirect impacts on oil producing and oil importing countries. Understandably, oil producing economies will face financial and other economic challenges such as higher job cuts. On the other hand, oil importing economies will benefit from improvements in their current accounts through lower oil bills and fiscal accounts via lower fuel subsidies. However, the implications are likely to be more complex; some oil producing countries are also important export markets for many other countries, and see lower demand for their goods and services as a result. Lower oil prices may also lead to lower prices of substitutes (e.g., synthetic rubber will be cheaper than natural rubber and exporters of the latter can be negatively affected). Some oil producing nations such as those of the Gulf Cooperation Council (GCC) are also important sources of finance in the form of aid, investment, remittances and tourism revenue. On the other hand, they have ample reserves and are in a much better position to cushion any adverse impacts.

Predicting the oil market is not straightforward given the supply/demand, geo-political and other factors that could affect prices. However, prices are

**Figure 3.6**
**Brent Monthly Prices (dollars per barrel)**



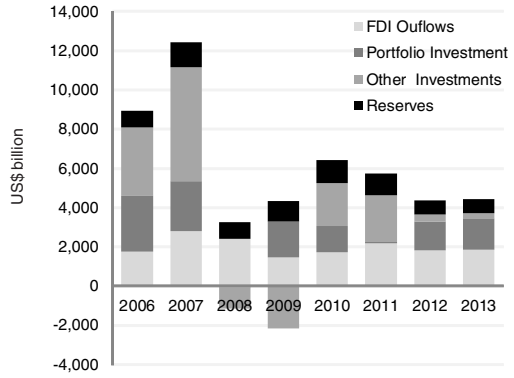

Source: World Bank Commodity Price Data (2015).

expected to rise in the latter half of 2015; the World Bank predicts oil prices to average at US$ 53 per barrel in 2015, with prices expected to rise only modestly in 2016 by about US$ 4 per barrel.[12]

## 3.4.3 Cross Border Capital Flows

Global cross border capital flows, especially from the banking sector which increased markedly in the decade before the financial crisis, have declined to about one-third their size in 2007.[13] Capital flows from all channels, except that from FDI, have reduced compared to pre-crisis levels (Figure 3.7). The reduction has come mainly from lower lending by banks and a marked reduction in portfolio investment in debt and equity securities (Table 3.3). These reductions are attributed to weak macroeconomic and financial conditions of many economies which has affected both demand and supply of capital, slow growth of world trade, and deleveraging by banks.[14] Direct investment flows on the other hand, have remained relatively stable, suggesting that it has been less volatile than other sources of inflows in the aftermath of the crisis. In terms of geographical distribution of capital flows, almost the entire decline in capital flows is due to a decreased lending among advanced economies, especially within Europe.[15] Capital flows to emerging economies have on the other hand, increased.

**Figure 3.7**
**Annual Global Capital Flows (2006-2013)[a]**




Notes: a: Gross capital outflows, excludes financial derivatives and 'other investments' includes flows related to international banking transactions.

Source: Compiled from IMF (2015), "Summary of International Transactions", http://elibrary-data.imf.org/DataReport.aspx?c=23964394&d=33061&e=170784

**Table 3.3**
**Global Capital Flows[a]**

| % of GDP | Yearly Average | | | |
|---|---|---|---|---|
| | 1980-1989 | 1990-1999 | 2000-2007 | 2008-2012 |
| FDI | 1.0 | 1.5 | 2.9 | 2.9 |
| Portfolio investment | 1.2 | 2.3 | 4.2 | 1.4 |
| Other investment[b] | 2.7 | 1.9 | 5.0 | 0.4 |
| Reserves | 0.8 | 0.5 | 1.2 | 1.5 |
| Total | 5.7 | 6.2 | 13.3 | 6.2 |

Notes: a: Gross capital outflows; excluding financial derivatives; b: Includes flows related to international banking transactions.

Source: James, E., *et al.* (2014).

In terms of FDI flows, recent data indicate that 56 per cent of the global inflows were to developing economies recording a new high of around US$ 700 billion (Table 3.4). A regional breakdown shows that the increase was driven by developing Asia while flows into Africa remained flat and flows to Latin America and the Caribbean declined. Interestingly, four of the five top FDI recipients in 2014 were developing countries - China (US$ 128 bn.), Hong Kong, China (US$ 111 bn.), Singapore (US$ 81 bn.) and Brazil (US$ 62 bn.). Notably, FDI flows to transition economies fell by over 50 per cent mainly due to the conflicts and sanctions. India continues to attract sizeable investments, the only South Asian country among the top 20 host countries.

[12] World Bank (2015), "Commodity Markets Outlook – January", World Bank, Washington, D.C.

[13] Broner, F. *et al.*, (2013), "Gross Capital Flows: Dynamics and Rises", *Journal of Monetary Economics*, 60(1): 113–133.

[14] James, E., *et al.*, (2014), "Cross-border Capital Flows since the Global Financial Crisis", RBA Bulletin, Reserve Bank of Australia.

[15] *Ibid.*

**Table 3.4**
**FDI Inflows, by Major Regions (2012-14)**

| US$ bn. | 2012 | 2013 | 2014 | Growth Rate 2013-14 (%) |
|---|---|---|---|---|
| World | 1324 | 1363 | 1260 | -8 |
| Developed Economies | 590 | 594 | 511 | -14 |
| Europe | 310 | 225 | 305 | 36 |
| European Union | 282 | 235 | 267 | 13 |
| North America | 213 | 302 | 139 | -54 |
| Developing Economies | 650 | 677 | 704 | 4 |
| Africa | 55 | 56 | 55 | -3 |
| Latin America & the Caribbean | 178 | 190 | 153 | -19 |
| Developing Asia | 414 | 427 | 492 | 15 |
| West Asia | 48 | 46 | 44 | -4 |
| East Asia | 217 | 220 | 254 | 16 |
| South Asia | 32 | 35 | 43 | 23 |
| South East Asia | 116 | 127 | 151 | 19 |
| Transition Economies | 84 | 92 | 45 | -51 |

Source: Adopted from UNCTAD (2015), "Global Investment Trends Monitor", UNCTAD, Geneva.

## Box 3.2
## AIIB and BRICS Development Bank: Perceived Benefits for Asia and Developing Countries

The last two years have seen the advent of two new multilateral lending agencies, the Asian Infrastructure Investment Bank (AIIB) and the BRICS Development Bank. In October 2014, the Memorandum of Understanding on establishing the AIIB was signed among 21 countries including Sri Lanka who will now be a founder member of the AIIB. Initiated by China, 57 countries have applied to be founding countries of the AIIB (including UK, Australia, India, France and Germany). There has been however, a notable absence of support from US and Japan, who have flagged concerns of standards and governance of the bank, but are probably more concerned with US' strategic rivalry with China. The AIIB will nonetheless open up new channels of credit to finance Asia's increasing infrastructure needs which an ADB study estimates to be US$ 800 million annually. The statutory capital of the AIIB is US$ 100 billion. The bank's Articles of Agreement are expected to be completed by end 2015.

In March 2013, the BRICS leaders (from Brazil, the Russian Federation, India, China and South Africa) also approved the creation of a new development bank. The BRICS Development Bank is expected to commence operations in 2016 with its head office in Shanghai. The focus of the BRICS Development Bank is largely to mobilize funds for infrastructure and sustainable development projects in BRICS and other emerging and developing countries.

The creation of these institutions can be expected to be a win-win situation. They will provide more access and choice of additional resources for developing countries while exerting competitive pressure on other multilateral agencies to improve their operations and governance. It would also provide more space for other multilateral agencies to focus on development areas such as health and education while the new banks could focus on infrastructure. Furthermore, there is a large accumulation of reserves in Asia and the creation of AIIB would provide a platform for these funds to be directed to infrastructure projects. It is hoped that such an institution would streamline loans and grants already given by countries like China to developing countries, which are sometimes critiqued as being opaque. It is vital that development finance from these organizations come with terms and conditions which ensure transparency and proper utilization of funds.

It is argued that the concerns of the US and Japan are the very reasons they should be part of the AIIB - to ensure a strong foundation is laid for a healthy and professional regional bank; it might be particularly important for Japan given the influence the AIIB is going to have in the region's future economic architecture and security. It is only hoped that these multilateral agencies would be complementary and cooperative rather than being a substitute to the existing multilateral lending agencies.

# 3. 5 International Environment and Implications on Sri Lanka

## 3.5.1 International Trade and Capital Flows

Given the dependency of the Sri Lankan economy on external trade, the future of the country's economic growth and development hinges to a great extent on its ability to strengthen its export performance. In 2014, Sri Lanka's exports were just above US$ 11 billion, growing at an annual average of about 7 per cent over the past decade. However, Sri Lanka's export performance since 2000 has not been satisfactory with a sharply declining export-to-GDP ratio - from 28 per cent in 2004 to a low of 14.8 per cent in 2014 - and falling shares in world exports, indicative of its failure to keep up with competitors (Figure 3.8).

Sri Lankan exports have also been gradually losing out on the world market. Exports of Sri Lanka's competitors like Vietnam and Bangladesh who were respectively, on par and behind Sri Lanka exporting just US$ 2 billion and US$ 1.6 billion, respectively in 1990,[16] exported US$ 120 billion and US$ 30 billion worth of products respectively in 2013 (compared to Sri Lanka's US$ 10 billion exports in 2013). Vietnam in particular has made significant strides in increasing their export share in the world

Exports of Sri Lanka's competitors like Vietnam and Bangladesh who were respectively, on par and behind Sri Lanka exporting just US$ 2 billion and US$ 1.6 billion, respectively in 1990, exported US$ 120 billion and US$ 30 billion worth products respectively in 2013 (compared to Sri Lanka's US$ 10 billion exports in 2013)

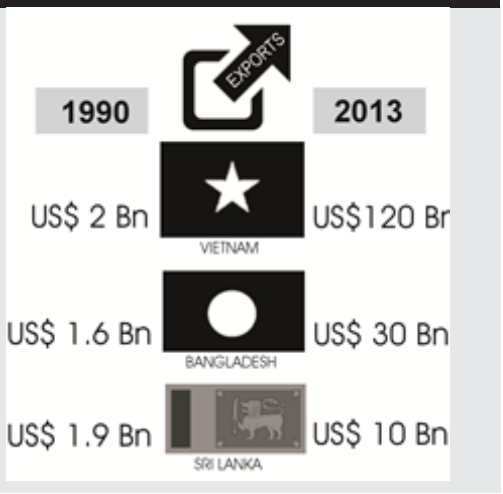
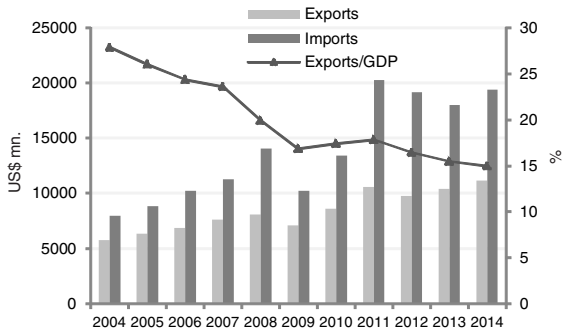
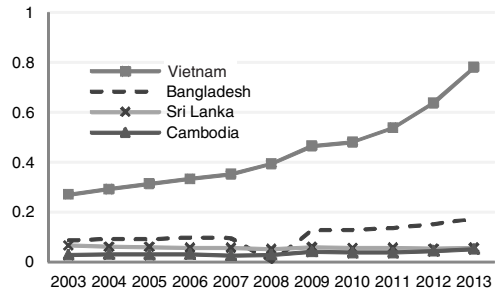



**Figure 3.8**
**Sri Lanka's Trade Performance (2004-2014)**




Source: CBSL, *Annual Report*, Central Bank of Sri Lanka, Colombo, various years.

**Figure 3.9**
**Share in World Exports (2003-2013)**




Source: Based on ITC, "Trade Map" data, International Trade Centre, Geneva.

[16] Kelegama, S., (2014), "What Will It Take Sri Lanka to Build a World Class Export Economy", presentation made at the CMA Annual Conference, 19 June 2014, http://www.ips.lk/staff/ed/news/2014/18_06_2014_beyond_fast_tracking_ips/world_class_export_kelegama. pdf.

market - from 0.27 in 2003 to 0.78 in 2013 compared to a fall in Sri Lanka's world market share from 0.06 to 0.05 in the same period (Figure 3.9). In terms of Sri Lanka's main export product of T&G, competitors like Vietnam and Bangladesh have been able to improve their market shares more strongly than Sri Lanka in both the US and EU (Table 3.5). Similarly in the case of tea, Kenya seems to be increasingly penetrating Sri Lanka's key tea markets such as Russia and Turkey.

Sri Lanka's lacklustre performance in exports cannot be attributed to world market conditions, but appears to be fundamentally homegrown. The export structure which changed from a predominantly agriculture base in the 1960s to a light manufacturing base (exporting garments and rubber products) has not seen any strong growth in other industrial sectors. Furthermore, despite the long identified need to diversify markets, this too has not changed significantly over time - over 50 per cent of exports go to the EU and US, although over the past decade reliance on the US has reduced (Figure 3.10).[17]

In analyzing the implications of the international environment on Sri Lanka's trade, the positive outlook for the US economy is encouraging given that it is the second most important destination for Sri Lankan exports - with T&G and rubber articles being the main export products. On the other hand, a still weak Euro zone is not heartening for Sri Lanka's main exports to the region of T&G (46 per cent of T&G exports), rubber (30 per cent) and fish and crustacean exports (40 per cent).

The current economic environment of Russia and the Middle East are also likely to have adverse effects on Sri Lanka's exports. Around 75 per cent of Sri Lanka's tea exports go to the Middle East, North Africa, Russia and CIS countries. Economic and political uncertainty in Sri Lanka's key tea export markets like Russia, Iran and Syria, and sharp currency depreciations such as that of the ruble have already affected the country's tea export prices and earnings (see Figure 3.11). Notably, tea is also the country's fourth largest foreign exchange earner after remittances, garments and tourism. Furthermore, it is likely that the export price and

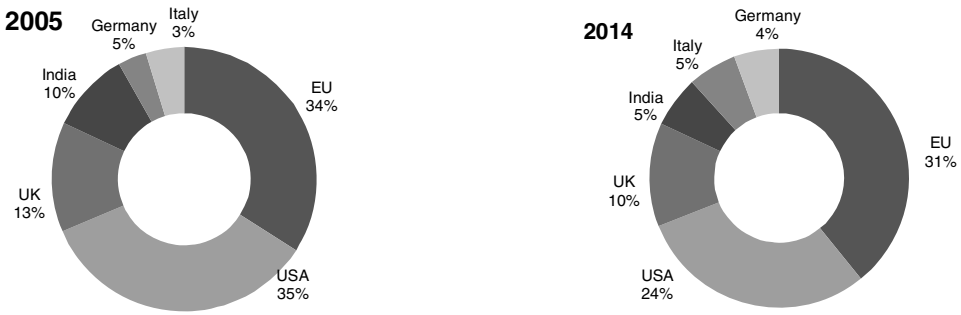
**Table 3.5**
**Performance of Sri Lanka and Competitors in Main Export Products and Markets**

| Product | Export Market | Market Share | Year 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|
| Garments | USA | Sri Lanka | 1.8 | 1.9 | 1.9 | 2.1 | 2.3 |
| | | Vietnam | 8.0 | 8.3 | 9.0 | 10.0 | 11.1 |
| | | Bangladesh | 5.4 | 5.6 | 5.6 | 6.0 | 5.7 |
| | EU | Sri Lanka | 1.2 | 1.2 | 1.3 | 1.3 | 1.2 |
| | | Vietnam | 1.5 | 1.7 | 1.9 | 2.0 | 1.7 |
| | | Bangladesh | 6.5 | 7.8 | 8.7 | 9.6 | 8.4 |
| Tea | Russia | Sri Lanka | 42.6 | 45.1 | 40.0 | 38.2 | 37.9 |
| | | Vietnam | 5.3 | 4.2 | 3.6 | 3.3 | 3.3 |
| | | Kenya | 18.7 | 21.0 | 25.8 | 26.8 | 34.4 |
| | Turkey | Sri Lanka | 55.6 | 39.4 | 33.8 | 44.7 | 40.8 |
| | | Vietnam | 4.5 | 17.0 | 3.5 | 3.5 | 4.8 |
| | | Kenya | 13.2 | 18.9 | 36.9 | 30.2 | 24.8 |

Source: Calculated using ITC, "Trade Map" data, International Trade Centre, Geneva.

[17] See Chapter 5 of this report on "Reforming Sri Lanka's Trade and Investment Policies for Export Growth".

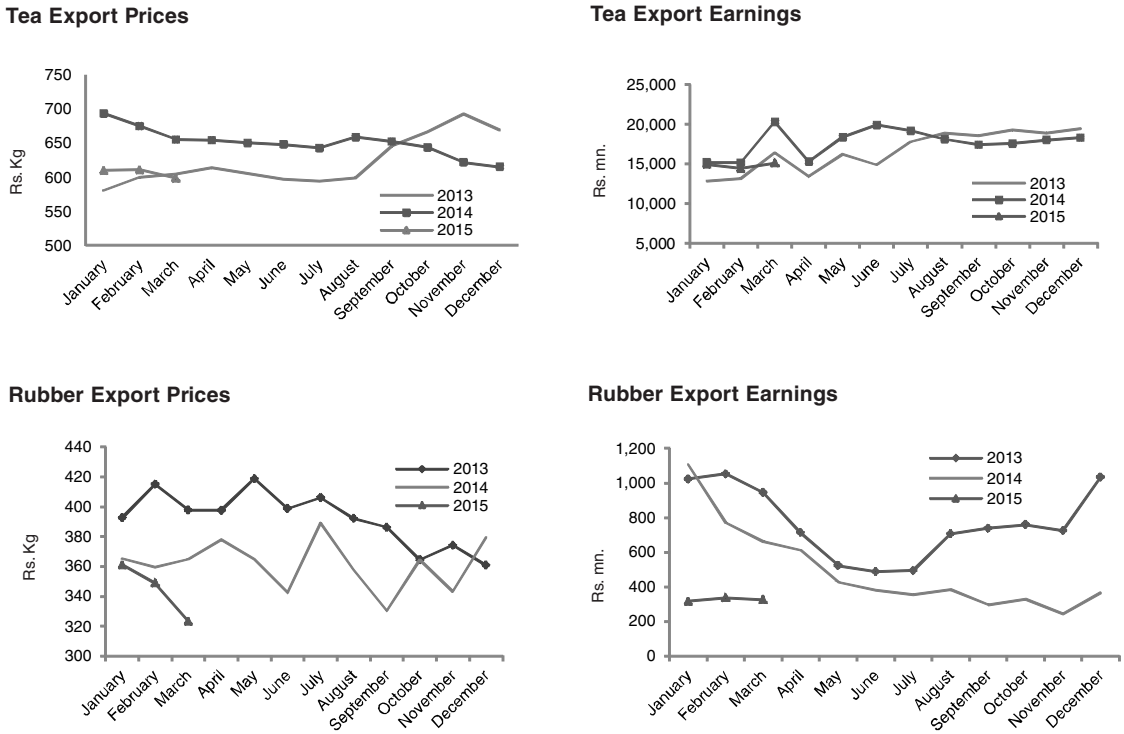
**Figure 3.10**
**Sri Lanka's Main Export Markets (2005 and 2014)**




Notes: Percentage of total exports.
Source: CBSL, *Annual Report*, Central Bank of Sri Lanka, Colombo, various years.

volume of natural rubber and related products would see some decline in 2015 as synthetic rubber/ products would become cheaper as a result of low oil prices. Earnings from tea have fallen in the latter half of 2014 as well as in 2015. The fall in rubber earnings has however, been more pronounced, declining by 36.5 per cent in 2014 due to reduced demand for natural rubber and higher global supply.[18]

**Figure 3.11**
**Export Prices and Earnings of Tea and Rubber (2013-15)**




Source: CBSL, "Monthly Economic Indicators", Central Bank of Sri Lanka, Colombo, various issues.

[18] CBSL, *Annual Report 2014*, Central Bank of Sri Lanka, Colombo.

In terms of capital flows, the effects of a normalization of US monetary policy on Sri lanka is expected to be limited, given the country's rather limited exposure to global financial flows via portfolio investments and government debt securities. However, Sri Lanka may be affected through higher borrowing rates if it pursues with Sovereign bond issues. The dispersion of investors for these suggests that a majority are from the US; for example, Sri Lanka's last US$ 1 billion Sovereign bond issue in 2014 saw the US take 62 per cent, Europe 26 per cent and Asia 12 per cent.

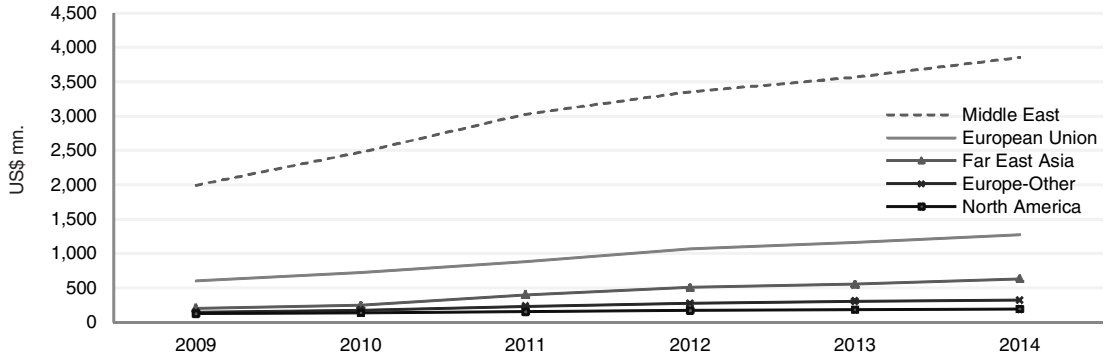
## 3.5.2 Remittances and Tourism

Remittances help reduce the deficit in the current account and along with investments help increase national savings. Remittances are Sri Lanka's largest source of foreign exchange and continue to help the country manage its current account deficit. Remittance inflows have been increasing over the years and amounted to US$ 7 billion in 2014 or 9.4 per cent of GDP. However, it must be noted that remittance growth has slowed to an annual average of around 9 during 2013-14 compared to 22 per cent annual average growth during 2010-12. With numbers of migrants and their skills composition remaining relatively unchanged, increased inflows to former conflict-affected households in the immediate post-war period is perhaps a key reason for the recorded higher inflows.

Global remittance flows to developing countries are expected to moderate in 2015 owing to conditions in Russia and tighter immigration controls in Europe. However, there are no immediate risks to Sri Lanka given that the Middle East continues to be the predominant source of remittances, accounting for over 55 per cent. The drop in oil prices is not expected to dampen demand for migrant workers in lower skill services sectors such as housemaids and construction workers - the predominant sourcing of workers from Sri Lanka.

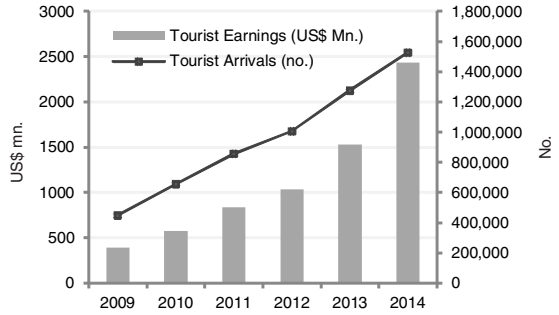
Like remittance earnings, Sri Lanka's tourism earnings have also shown strong growth in the post-war period, with substantive investments in the leisure industry and supportive infrastructure development. Tourist arrivals increased to over 1.5 million in 2014, with earnings of US$ 2,431 million (Figure 3.13). The largest tourist sending countries for Sri Lanka at present are India, UK, Germany, France and China. A notable feature has been the sharp increase recorded in number of tourist arrivals from China during 2013-14, claiming the third highest source of arrivals after India and the UK.

**Figure 3.12**
**Remittance Inflows (2005-2014)**




Source: CBSL, *Annual Report,* Central Bank of Sri Lanka, various years.

**Figure 3.13**
**Tourist Arrivals and Earnings (2009-2014)**




Source: CBSL, *Annual Report*, Central Bank of Sri Lanka, various years.

## 3.5.3 Emerging Opportunities for External Engagements

A change of government following the Presidential election of January 2015 has signalled a shift in approach to Sri Lanka's external engagements that can hold implications for its strategic trade, finance and investment initiatives. The signalling indicates an effort to 'rebalance' Sri Lanka's relationship vis-à-vis India and China, both in political and economic spheres. On the economic front, where Sri Lanka's economic relations with China have progressed considerably in the recent past - from becoming the largest source of development finance and funding many large scale infrastructure projects to beginning negotiations on a possible trade deal - Sri Lanka's economic relations with India suffered a set-back with the sidelining of the Comprehensive Economic Partnership Agreement (CEPA) in 2008. While Sri Lanka's political relations with China continued to strengthen, relations with India became more contentious as the latter voted for a US resolution against Sri Lanka in 2012 and 2013 at the UN Human Rights Council.

Re-affirming Sri Lanka's close political and economic relations with India whilst maintaining friendly ties with China seems to be the new approach - signalled by a visit of an Indian Prime Minister in March 2015 to Sri Lanka, the first in 28 years. At the same time, Sri Lanka has halted work on some large Chinese investment projects - e.g., the Colombo Port City project worth US$ 1.4 billion - and put other Chinese funded infrastructure projects under close scrutiny. As the country aims to strike a delicate balance between the two regional powers, there are positive signals that proposed trade deals with both countries will get renewed policy attention.

Another signal in change of approach has been a renewal of interest on the part of Sri Lanka to re-apply for the EUs Generalized System of Preferences (GSP-plus) trade concessions that were withdrawn in 2010. In February 2010, the EU Council of Ministers took the decision to withdraw GSP-plus concession from Sri Lanka, citing shortcomings with respect to the country's human rights conditions stemming from the final stages of the war in 2009. The EU offered to delay the withdrawal by a further 6 months in which it sought "tangible and sustainable progress on a number of outstanding issues" including a firm commitment to address 15 principal outstanding issues. The Sri Lankan government position was that the 'conditions' infringed on the country's internal affairs and failed to respond to the deadline, as a result of which Sri Lanka lost access to the EU under GSP-plus concessions in August 2010.

Whilst Sri Lanka's exports to the EU continued to grow even after the loss of GSP-plus, a resumption of concessions which provide duty free access to the EU will no doubt provide a boost to exporters and assist the country in its development process. In March 2015, an EU delegation visited Sri Lanka to re-evaluate the country's eligibility, widely considered to be dependent on a high degree of commitment to improve on issues of governance, rule of law and human rights. Even as Sri Lanka gets ready for a sign-on, the country must not view trade preferences - particularly preferences such as GSP-plus that can be withdrawn unilaterally - as a panacea for its export ills. Rather, should the country regain preferential access to the EU, it should be

used as a stepping stone to enter the market whilst ensuring that exports will remain competitive with or without preferential tariff treatment in the medium to long run.

## 3.6 Conclusion

Baseline forecasts of international organizations suggest that the advanced economies would perform better than emerging economies with growth in the latter slowing down. Nonetheless, there are a number of complex forces that shape the world economy. Macroeconomic risks seem to have reduced, especially with the risks of a recession in the Euro zone decreasing. However, financial and geo-political risks seem to have risen, with large movements in relative prices (i.e., commodities, exchange rates) creating winners and losers; and a possible crisis in Greece and turmoil in Ukraine and the Middle East. With the Euro zone embarking on QE, following other developed economies, monetary policy is been exploited widely while there seems to be limited space for fiscal policy.

Developments of the world economy on Sri Lanka's external trade will be mixed. As an oil importing country, it will benefit from the fall in oil prices with improvements in the current and fiscal accounts. The improved economic outlook for the US and EU is positive - albeit with slow recovery in consumption - and will help Sri Lanka's major export industries. However, this will be balanced by falling prices and demand for some of the country's key exports such as tea and natural rubber.

In recent years, Sri Lanka has been losing its share in global exports and in some of its key export markets. Given the country's small market size and dependence on international trade for economic development, it is only prudent that Sri Lanka undertakes measure to boost its export competitiveness and exportable products. This will require a strategic and focused national export development plan that identifies and addresses both demand and supply side constraints, as well as institutional and regulatory obstacles in the way of an attractive business environment for private investors.

# ECONOMIC REFORMS:
## POLITICAL ECONOMY AND INSTITUTIONAL CHALLENGES

# 4. Economic Reforms in Sri Lanka: Political Economy and Institutional Challenges

## 4.1 Introduction

The run up to Sri Lanka's January 2015 Presidential elections saw an unprecedented wave of demand for political and constitutional reforms. In the end, it was contested and won over a mandate for reforms, encompassed in a 100-day programme with the abolition or scaling-down of executive powers of the President under the country's Second Republican Constitution of 1978 as the central focus of the reform efforts. The passage of the 19th Amendment to the Constitution in April 2015 with an overwhelming majority - albeit on a less ambitious scope than originally envisaged - was the first significant milestone of the reform initiatives.

It is clear that constitutional and political reforms, such as the 19th Amendment and the proposed 20th Amendment to the Constitution to change the country's electoral system, are the main pre-occupations of policy makers at present. However, social systems are complex and interconnected. Therefore, reforms in one sphere cannot usually generate desired outcomes without reforms in other spheres. For instance, reformed political structures require matching adjustments in economic systems to generate efficient outcomes. In the long run, not only political and economic reforms, but reforms in other frontiers such as the social and environmental will need to go hand-in-hand to achieve socially desirable outcomes.

This chapter makes an attempt to examine the quest for reforms that Sri Lanka appears to be engaged in at present so that a better idea of the desired direction of change can be gained. While it attempts to touch the broader issues of reform covering political, economic, social, and environmental dimensions, the main focus is on economic reforms - the directions of which are less certain at the moment. It asserts that besides adjusting to match reforms in the political system, there are also longstanding calls for reform in the economic system itself. Hence, the chapter has a more ambitious goal that extends beyond examining the economic implications of ongoing political reforms. The chapter begins by highlighting the direction of ongoing reforms in the political frontier. Subsequent sections focus attention on the conceptual elements underlying the dominant views on economic reforms, and past experience of economic reform efforts in Sri Lanka. Finally, it makes an attempt to

**The ongoing popular demand and debate over reforms in Sri Lanka are most intense in the political arena.**

demarcate the desired direction for reforms in the economic system and complementary changes in other frontiers.

## 4.2 Demand for Reforms: Present Context

The ongoing popular demand and debate over reforms in Sri Lanka are most intense in the political arena. These have been inevitably captured under the popular slogan of 'good governance'. The reformist agenda appears to be driven by five major demands:

***Strengthening the democratic structures of government:*** Sri Lanka's Second Republican Constitution of 1978 allows for a concentration of power in the executive arm of the government, paving the way for autocratic forms of governance. Hence, reforms to reduce powers of the executive arm by strengthening the other arms of government, namely, the legislative and judiciary, and thereby instigating checks and balances on the powers of the executive arm has been a longstanding demand of the Sri Lankan polity. The 19th Amendment passed in the Parliament in April 2015 is primarily intended to serve this purpose, by curbing the term limit of the President to two, and allowing for the establishment of a Constitutional Council to oversee appointments to independent Commissions.

***Promotion of human rights:*** The concentration of executive power that lends itself to autocratic forms of governance also erodes the safeguarding of human rights. Hence, strengthening the rights of citizens becomes an indispensable part of democratization of government. The current demand for reforms to strengthen human rights guaranteed by the Constitution is a major pillar of the reformist agenda.

***Combating corruption:*** Corruption impedes the social and economic progress. It affects all spheres of governance, while the economic system suffers. It is argued that autocratic tendencies in political structures of government allow corruption and cronyism to creep in. Hence, the current demand for combating corruption is closely connected to democratic reforms. This demand is to be served by setting up and strengthening institutional structures to combat corruption and by reducing political pressure and influence over them.

***Ensuring rule of law:*** The concentration of power within the executive arm has been instrumental in reducing the independence of judiciary and law enforcement agencies thereby leading to weakening of the rule of law in the country. Hence, enhancing the rule of law by introducing reforms that strengthen the judiciary and law enforcement agencies is a major focus in the current quest for political reforms.

***Enhancing transparency and accountability:*** Curbing the autocratic tendencies and corruption on one hand, and enhancing human rights and the rule of law on the other, are essentially dependent on how transparent the governance process is and how accountable are those vested with authority. Hence, enhancing transparency and accountability in governance structures are perceived as essential components of reforms demanded.

Political forces mobilized by the above demands for reform have recently passed the 19th Amendment to the Constitution, aimed to serve many of the above demands by altering the power structure of the political system by reducing the powers of the executive arm. Other legislative reforms that are considered complementary to the 19th Amendment, namely, the Right to Information Act (RTIA) and the 20th Amendment to reform the electoral system are being pursued. The path to reforms is not smooth and is being intensely contested by parties with diverse interests. The experience of other countries suggests that desired outcomes of political reforms cannot be achieved through legislative enactments alone, but depend largely on the steadfast commitment of diverse sections of the polity to make them practical realities.

Sri Lanka's drive towards reforms, currently spearheaded by demands for political reforms, does not necessarily imply a positive momentum for change in the economic sphere. Interestingly, some economies that successfully transformed themselves into centres of growth did so under autocratic regimes backed by military, communist parties or even monarchical systems at least in their early phases of transformation. Some of them have gradually adopted democratic systems later, but a few are still under autocratic regimes. Low levels of corruption, rule of law, transparency and accountability are generally viewed as drivers of economic growth, but in many countries, they were also later achievements of transformed economies. Overall, global experience suggests that democratic political reforms do not necessarily provide an automatic push for transforming countries into economic growth centres. They could act as catalysts for growth, but economies have to undergo their own paths of reform which are not fully independent of political reforms.

Today, economic reforms have to be enacted against the backdrop of rapidly advancing information technology (IT) and globalization that sets the pace of economic, social and political relations around the world. The conditions can be further complicated by a declining quality of the environment around the world and global threats, with potential for far reaching consequences. Climate change, the greatest of all externalities that humanity is experiencing is showing its capacity for unleashing damage on economies around the world. Hence, complementary reforms in the social and environmental also are necessary for social progress in the current context.

Despite the fact that reform processes have already gained a momentum in the political frontier in Sri Lanka, in other spheres - economic, social and environmental - public perceptions about desired reforms appear to be vague. The aim of this chapter is to explore the prospects for reform in these other spheres, especially in the economic frontier, although not in isolation from reforms in others. In the next section, attention is focused on conceptual elements of economic reforms. Considering the relatively narrow meaning that reforms have assumed under a neo-liberal discourse, a broader definition of reforms is adopted later, accommodating multiple dimensions of social, political and environmental elements as a social process.

## 4.3 Economic Reforms: Conceptual Elements and Practice

The term 'reform' implies amending a system which is not performing satisfactorily. Hence, reforms are demanded due to unsatisfactory performance of a social system. The key objective of reform is changing the system from poor to better performance. Therefore, reforms are invariably

**Sri Lanka's drive towards reforms, currently spearheaded by demands for political reforms, does not necessarily imply a positive momentum for change in the economic sphere.**

associated with change. However, reforms are distinguished from 'revolutions' that also brings in change to social systems in terms of nature, scale and intensity of change. Revolutions imply radical changes that alter the fundamentals of a system. In contrast, reforms are less dramatic, and involve adjusting, fine tuning or addressing partial imperfections of the existing system without radically overturning it. At the same time, reforms imply something far deeper than an isolated policy change targeted at a limited segment of an economic or political system. Thus, a package of streamlined policies aimed at creating deep-rooted changes in a system can amount to reforms.

In spite of broader conceptual implications of reforms as a social process, the term has been used in recent economic literature mostly to identify a set of policy changes that have been advocated to remove certain distortions - presumably introduced by government involvement in economic activities - and open up economies to free trade and capital flows. Driven largely by what is coined as the 'Washington Consensus', this formula inspired a wave of reforms during the 1980s and 1990s across Latin America, Asia and Sub-Saharan Africa which altered the economic policy landscape in the developing world. The collapse of the Soviet Union and the socialist economic bloc further invigorated this process by absorbing Eastern Europe and the former Soviet Republics (the so-called second world) also as 'economies-in-transition'. The message advocated by orthodox economists, technocrats and political leaders who championed this line of reforms is 'stabilize, liberalize and privatize'.[1] The said course of reforms was largely encouraged by the growing recognition in the 1970s of failures associated with heavy state involvement in the economies of developing countries, contributing to the belief that the cost of government failures could be considerably larger than the cost of market failures.

The reforms of the 1980s and 1990s were largely concerned with enhancing the efficiency of resource allocation by reducing the role of the state in the economy. Most economists in the neo-liberal camp and policy makers shared a common conviction that growth requires macroeconomic prudence, domestic liberalization, and outward-orientation. Thus, the core set of reforms revolved around fiscal deficit reduction, realignment of exchange rates, lifting controls on prices, deregulation of interest rates, liberalization of financial sectors, reduction of tariffs and other restrictions on imports. A reduction in the role of the state also was viewed as essential for achieving greater efficiency through reducing state discretion, downsizing governments and encouraging a greater role for the private sector. Hence, reforms aimed at privatization, deregulation, elimination of quantitative restrictions and licensing requirements, dismantling agricultural marketing boards and other forms of state monopoly became central to the reform agendas of the 1980s and 1990s.[2]

Since the early 2000s, there has been a growing emphasis on 'second generation reforms' which have been advocated strongly by the Bretton Woods Institutions. The second generation reforms aim at creating a level playing field for all sectors and implementing policies for the common good, particularly social policies that will help to alleviate poverty and provide more equal opportunities. These reforms focus on four major areas:

- The financial system - paying greater attention to the soundness of banking systems and encouraging greater transparency, better data dissemination and the liberalization of capital accounts;
- Good governance - by reducing corruption, encouraging transparency of public accounts, improving public resource management and the stability and transparency of the economic and regulatory environment for private sector activity;

[1] Rodrik, D., (2006), "Rethinking Growth Policies in the Developing World," the Luca d'Agliano Lecture in Development Economics, October 8,2004, Torino, Italy.

[2] World Bank (2005), *Economic Growth in the1990s: Learning from a Decade of Reform,* World Bank, Washington D.C.

- Composition of fiscal adjustment - reducing unproductive expenditures such as military spending and focusing spending on social sectors; and
- Deeper structural reform - including civil service reform, labour market reform, trade and regulatory reform, and agrarian reform.

In spite of positive expectations by the proponents, the experience over nearly three decades of neo-liberal economic reforms does not fully uphold their faith. In practice, these reforms amounted to 'shock therapy' in many countries, often resulting in heavy public dissent which could not be completely ignored by political authorities. Paradoxically, despite pro-democracy claims of the proponents of neo-liberal reforms, more autocratic regimes in developing countries appeared to be better equipped to pursue these reforms than their democratic counterparts that count more on popular will. As a result, regardless of the support of influential sections of academics, policy makers and technocrats, the outcomes of neo-liberal reforms have attracted strong criticism and is still being debated passionately by its proponents and opponents.

Criticisms have originated from within the economics discipline as well as from outside. Many vocal critics outside the economics discipline involve left-wing political groups and thinkers and activists on social and environmental issues. Within the economics discipline, besides ever evolving debates for-and-against government involvement in economic management between various schools of thought (e.g., new-Keynesian and new-classical), there are well established theories concerning market failures and market imperfections that justify government involvement in economies.[3] Recent developments in new institutional economics (NIE) offer arguments that justify institutional interventions for establishing and functioning viable markets, the very same objective the neo-liberals have been striving to achieve through their prescribed set of reforms. New institutional economics shows that efficient markets presumed by the neo-liberal camp can only be achieved when it is costless to transact. However, when transaction costs are positive as observed in the real world, institutions do matter. Institutions are not merely government organizations as perceived by many. Broadly defined, 'institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs,

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[3] In fact, some criticisms from outside economics, e.g., on environmental issues, are supported by accepted economic theories concerning public goods, externalities, common property and market failures.

traditions, and codes of conduct), and formal rules (constitutions, laws, property rights)'.[4] Institutions provide incentives and disincentives for people to behave in certain ways and to structure economic, political and social relations accordingly.

Institutions can be designed to serve markets in several ways. Transaction costs of acquiring information, enforcing property rights and inducing competition can prevent the emergence of markets. But effective institutions can reduce those transaction costs. Properly designed institutions channel information about market conditions that help businesses, while facilitating governments to regulate them effectively. Institutions define and enforce property rights and contracts, determining who gets what and when. Knowing one's rights to assets and income and being able to protect those rights are critical for market development. Institutions can reduce the potential for disputes and help enforce contracts. Institutions can also work to increase and control competition in markets. On the other hand, markets could fail when participants engage in fraudulent or anti-competitive behaviour and when transaction costs prevent the internalizing of technological and other non-pecuniary externalities. And they fail when incomplete information results in moral hazard and adverse selection.[5] Recognition of the wider role played by institutions to ensure viable markets has led to a broad understanding among economists today that institutions do indeed matter.

Notwithstanding failures of and criticism over a neo-liberal agenda of economic reforms, it has shaped the policy thinking in economics significantly during the last few decades. Among others, it established the primacy of markets and private sector as the engine of economic growth, replacing formerly held views about government as the prime mover of economic progress that had given rise to many nationalization movements around the developing world. It successfully supplanted inward looking thinking held by nationalist political movements and academic circles with outward-oriented views. The practical experiences of East and Southeast Asian countries that transformed themselves from agrarian societies to modern industrial economies in a relatively short period of time also invigorated the support for market-friendly reforms around the world. In practice, it encouraged the promotion of exports and opening local markets for outside competition, replacing protectionist import substitution strategies with pro-capitalist views of growth as the mainstream development thinking around the world practiced earlier by many developing countries. Overall, the neo-liberal economic reforms was largely instrumental in replacing nationalist and egalitarian views of social and economic progress backed by nationalist and Marxist movements with pro-capitalist views of growth as the mainstream development thinking around the world. Unlike in the 1970s when the first wave of liberal reforms was introduced in the midst of the Cold War, there is no prominent politically backed alternative to market-friendly reforms at present. The entire world is moving in the same direction, where the main ideological battles are waged amongst various schools of thought within the capitalist camp.

## 4.4 Sri Lanka's Experience with Economic Reforms

In 1977, Sri Lanka was the first country to adopt liberal economic reforms in South Asia, led by the new United National Party (UNP) regime that came into power after defeating the centre-left United Front government headed by the Sri Lanka Freedom Party (SLFP). By then, Sri Lanka had a nearly two decades' experience of a strong nationalization movement overseen by SLFP led coalition governments. In many ways, 1977 was a watershed year in Sri Lanka's political and economic history. In the political frontier, the UNP regime introduced

[4] North, D., (1991)," Institutions", *The Journal of Economic Perspectives*, 5(1): 97-112.

[5] World Bank (2002), *World Development Report: Building Institutions for Markets*, World Bank, Washington D.C.

the Second Republican Constitution in 1978 - with the declared objective of ensuring political stability for accelerated growth - which the current wave of political reforms aims to amend. In the economic frontier, after more than two decades of dismal economic outcomes under a protectionist inward looking policy, the new government embarked on an extensive market-oriented economic liberalization process. The main strategy envisioned by liberal economic reforms in Sri Lanka was achieving an export driven growth supported by foreign direct investments attracted by a cheap and relatively skilled labour force.

Since the overall strategy aimed at export-led growth, the first rounds of reforms carried out during 1977-78 entailed significant trade reforms: quantitative restrictions were supplanted with tariffs and the tariff structure underwent significant revisions to achieve a greater level of uniformity; Export Processing Zones (EPZs) were set up to attract FDI, with tax holidays and other concessions granted to foreign investors.[6] These measures were complemented with reforms in the exchange rate regime and financial sector. Fiscal policy reforms came by way of cutting back on subsidies, and deregulation of administered prices. Whilst the reforms of the late 1970s were bold and swift, the momentum of reforms was however short lived. A massive public investment programme - weakening both the fiscal and external accounts - saw the country grappling with macroeconomic imbalances by the early 1980s, compounded by an escalating separatist conflict from 1983. Political uncertainty continued to dog the economy, including a Marxist party led uprising in the latter half of the 1980s that together dried out FDI and Sri Lanka's hopes for an export-driven high growth strategy.

In the late 1980s, with a change of President, Sri Lanka once again embarked upon a 'second wave' of liberalizing reforms, clustered around three broad areas, (1) a stabilization programme; (2) unfinished reforms; and (3) a select few high profile projects.[7] The stabilization programme essentially entailed the reduction in the fiscal deficit. Unfinished reforms included several low profile adjustments such as further reduction in tariffs and rationalization of the tariff structure, devaluation of the rupee, tax system reforms, further liberalization of commodity and financial markets, and, liberalization of exchange controls. These reforms were designed to stimulate the economy and create a climate that was favourable for higher levels of private investments.

The third group of measures was far more ambitious, encompassing broadly privatization, export promotion and poverty alleviation. Institutional mechanisms were put in place to facilitate the process of privatization in sectors such as telecommunications, public transport, shipping and plantation management. On the export promotion front, various restrictions on ownership structure of joint venture projects outside EPZs were abolished, providing EPZ status to export-oriented ventures operating outside EPZs. Existing FDI regulatory institutions were amalgamated under a Board of Investment with the aim of creating a one-stop-shop to facilitate and speed up investment approvals.

Significantly, transfer of political power to an SLFP-led coalition government in 1994 did not mark a change of course in reform efforts. The privatization initiatives gathered momentum, but by the late 1990s, reforms initiatives petered out under the strain of coalition politics. A short lived UNP government attempted to roll out deregulatory economic policy reforms during 2002-04, but failed to capture popular support for its reforms including expenditure cuts via a public sector hiring freeze, easing foreign ownership of land, privatization initiatives (such as the insurance sector), or efforts

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[6] Athukorala, P., and S. Rajapathirana (2000), *Liberalization and Industrial Transformation: Sri Lanka in an International Perspective*, Oxford University Press, New Delhi.

[7] Dunham, D., and S. Kelegama (1995), "Economic Reform and Governance: Second Wave of Liberalization in Sri Lanka, 1989-93", Institute of Policy Studies of Sri Lanka, Colombo.

to strengthen the regulatory environment through the establishment of a multi-sector regulatory agency such as the Public Utilities Commission of Sri Lanka (PUCSL).

Whilst there was no stated departure from an open economic policy regime with a change of President in December 2005, there was nonetheless some change in policies and backtracking of certain reforms. A change of policy with regard to the privatization programme was clearly enunciated, replacing privatization with a policy of restructuring and improving the performance of state owned enterprises (SOEs). In fact, there was an expansion in the role of SOEs in the economy by re-nationalizing some previously privatized ventures, revitalizing closed-down SOEs, fresh nationalization and setting up of new government ventures. Notably in November 2011, the government passed an expropriation Bill entitled 'Revival of Underperforming Enterprises and Underutilized Assets Act' to take ownership of 37 private enterprises, including a number of foreign-invested enterprises. Sri Lanka's import tariff regime also became more protectionist over time with an escalation in the use of para-tariffs and other taxes.[8]

Despite backtracking in certain liberalization reforms, however, the Sri Lankan economy saw significantly higher GDP growth, averaging over 7 per cent per annum. Higher growth was delivered on a development policy framework that relied exhaustively on an externally debt funded public investment drive. The strategy helped the economy to take-off at the end of a costly separatist conflict in 2009, withstand unfavourable global economic developments, and international pressure on human rights violations that saw economic assistance being scaled back by US/EU, including withdrawal of GSP-plus concessions by the EU. Notwithstanding the above, the long-term viability of sustaining high growth on an infrastructure-led drive, without addressing economy-wide productivity enhancing reforms was questionable.

## 4.4.1 Reviewing Lessons Learnt

Reviewing lessons from Sri Lanka's experience in reforms could offer useful insights to steer the current wave of reforms in the right direction. Regrettably, some are negative lessons.

***Political issues had an overriding influence over the outcome of economic reforms:*** The overall outcome of reforms was significantly affected by negative developments in the political frontier. These were not connected to government interventions in economic affairs, but the results of poor management of political affairs. From the late 1970s, Sri Lanka experienced a protracted separatist conflict, a Marxist insurrection and frequent political uncertainties caused by competitive party politics. These came as a result of poor political management of domestic affairs and international relations. The resultant political violence discouraged investors, shattering the hopes for export driven growth and employment generation.

Besides political violence, the resultant deformities in the political system can be considered inimical to a healthy functioning of the economy. Achieving a stable political environment conducive for accelerated growth was a major objective for introducing the Presidential-style Constitution of 1978. However, the overwhelming powers vested with the executive arm were exploited from the outset - e.g., the decision to extend the six-year Parliamentary term in 1982 through a referendum and not a general election - with successive Presidents holding on to Constitutional guaranteed powers in spite of promises to curtail them at election times. Thus, the promised political stability of the 1978 system was to become illusory, with political manoeuvres often leading to frivolous and chaotic circumstances such as mammoth Cabinets, party

[8] Athukorala, P., (2012), 'Sri Lanka's Trade Policy: Reverting to Dirigisme?', *The World Economy*, 35(12):1662-1686.

defections, rampant corruption and cronyism, and a breakdown of public trust in the political system. All these factors deterred efforts to redirect the economy on to the right track.

***Reforms failed to attract a healthy flow of foreign investments:*** Sri Lanka has been far from successful in attracting sufficient volumes of FDI to support its export expansion; it recorded inflows of approximately 1.4 per cent of GDP in 2014, well below par when compared to a country such as Vietnam (5.2 per cent of GDP) that opened up its economy much later.[9]

After an initial wave of investments, especially in the T&G industry, the flow of FDI dried up and the economy drifted into a course away from export driven growth. Increased political violence and associated uncertainties was responsible for this more than anything else. In the absence of capital to recruit cheap labour, Sri Lanka has witnessed high levels of labour migration overseas, helping to keep the economy afloat with inflows of worker remittances.

***Reforms failed to achieve an export driven growth:*** In the immediate aftermath of liberalization, Sri Lanka underwent a dynamic structural change from exporting primary agricultural commodities to more value added light industrial products such as T&G. Despite this initial momentum, export performance, especially when compared against peers, has been rather lacklustre.[10] Exports have grown in absolute terms but alarmingly, exports growth since the mid-1990s has actually been slowing down, and declining as a share of GDP. Countries such as Vietnam and Bangladesh, which opened up later than Sri Lanka have faster rates of export growth. As a consequence, Sri Lanka has also lost its global export market share.

***Reforms failed to capitalize on initial advantages:*** Relative good achievements in human capital development supported by free education and an efficient network of health services used to be a major competitive advantage for Sri Lanka. They helped the country to rank significantly high in indices such as UNDPs Human Development Index (HDI) in spite of a lower position in terms of per capita income compared with many other developing countries. In the global competition for investments, this was a major advantage Sri Lanka could count on together with a strategic geographical location. Nevertheless, Sri Lanka's education system has not evolved adequately to meet the changing demand, resulting in a large skills gap and mismatch in the labour force. A recent World Bank survey suggests that more than 50 per cent of surveyed Sri Lankan firms believe that the prevailing education and training system does not produce skills that are relevant for their needs. Moreover, about 33 per cent consider the lack of adequate skills as one of the major constraints on operating and growing their businesses.[11] Sri Lanka's government expenditure on education is lower in comparison to countries such as Bangladesh and Vietnam, with low enrolment in tertiary education (Table 4.1).[12]

***Gains in technology transfer and innovation is negligible:*** Sri Lanka's export basket is heavily concentrated in a few low value added products; T&G and a few manufactured items account for 62 per cent of total exports. Despite having pursued an export-oriented strategy for a period close to four decades, Sri Lanka has not been able to successfully penetrate into exporting high-technology products. Vietnam which opened up its economy years after Sri Lanka has been far more successful (Figure 4.1).

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[9] World Bank (2015), "World Development Indicators 2015", World Bank, Washington, D.C.

[10] See Chapter 3 of this report on "International Environment".

[11] Dundar, H., *et al.*, (2014), "Building the Skills for Economic Growth and Competitiveness in Sri Lanka", World Bank, Washington D.C.

[12] See Chapter 8 of this report on "Educational Sector Reforms to Bridge Skill Gaps".

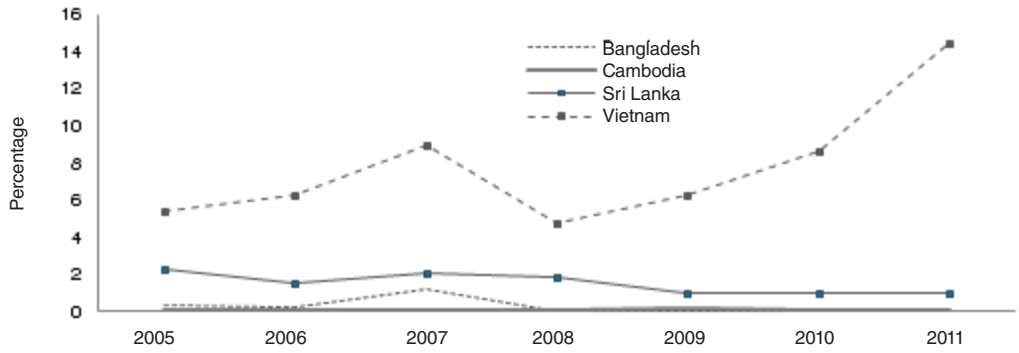
**Table 4.1**
**Comparative Education Outcomes**

| Indicators | Bangladesh | India | Sri Lanka | Vietnam | Thailand | Malaysia |
|---|---|---|---|---|---|---|
| Government expenditure on education, total (% GDP) | 2.2 (2009) | 3.8 (2012) | 1.7 (2012) | 6.3 (2012) | 7.6 (2012) | 5.9 (2011) |
| Government expenditure per student, tertiary (% GDP per capita) | 28.2 (2009) | 53.8 (2012) | 24.2 (2012) | 41.2 (2012) | 19.5 (2012) | 61.0 (2011) |
| School enrolment, tertiary (% gross) | 10.5 (2009) | 24.8 (2012) | 17.0 (2012) | 24.6 (2012) | 51.4 (2012) | 36.0 (2011) |
| Labour force with tertiary education (% total) | - | 9.8 (2010) | 16.8 (2008) | - | 17.1 (2012) | 24.4 (2011) |
| Unemployment with tertiary education (% total unemployment) | 15. 9 (2005) | 23.1 (2010) | 31.8 (2008) | - | 36.1 (2012) | 27.3 (2011) |

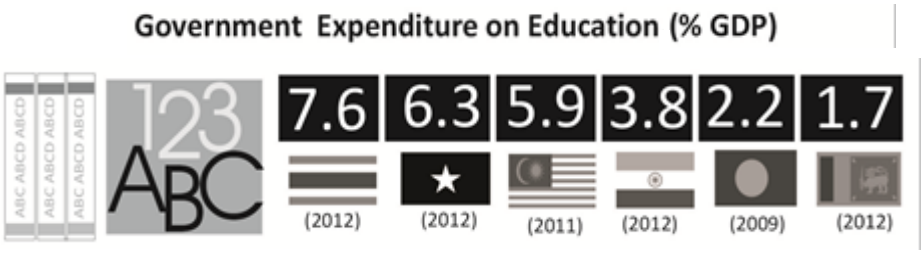
Source: World Bank (2015), "World Development Indicators Database", World Bank, Washington, D.C.

The failure on the part of Sri Lanka to penetrate higher value-added product markets can be partly attributed to the country's lack of innovation capabilities. Besides technology transfer associated with FDI flows, in all Asian growth centres, waves of innovation emerged within national academic and commercial establishments and helped the growth of local enterprises. Some of them have become MNCs and compete vigorously in global markets in high-tech value added products. Sri Lanka ranks a backward 102 out of 143 countries in the Global Innovation Index. Government expenditure on research and development (R&D) is low compared to other countries and human capital in R&D is also poor (Table 4.2). This is rather disappointing as Sri Lanka had relatively well established research facilities that had already generated some tangible outputs such as high-yielding varieties of agricultural

**Figure 4.1**
**High-technology Exports as a Percentage of Merchandise Exports**




Source: UNCTAD (2015), "Statistics Database", UNCTAD, Geneva.




crops even by the late 1970s. The country failed to capitalize on this base and subsequent developments saw limited intellectual resources drained out from the country weakening the existing capabilities even further. The only notable development in this direction was the significant growth in the IT sector led by software developers in the recent past.

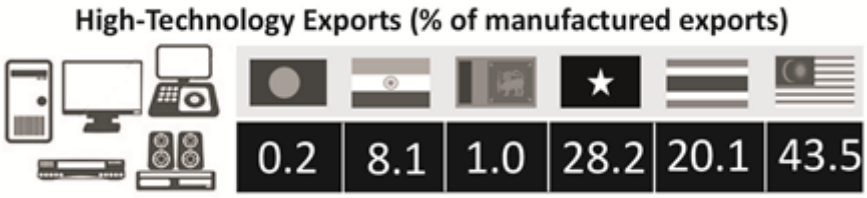
***Stiff public resistance to some aspects of liberalization:*** Reforms in Sri Lanka encountered stiff public resistance in some areas. The highest resistance was observed in privatization and restructuring of SOEs and getting private sector involvement in education. More than a society-wide resistance, these came from immediate stakeholders such as left-wing student federations and employees of state monopolies. This resistance has prevented reforms in certain cases (e.g., state monopolies) and in some others failed to reach the expected targets (e.g., private schools and universities). In some others, more than the reforms, non-transparent and dubious methods adopted in implementing them attracted public dissent. Poorly executed reforms under scandalous circumstances of corruption and cronyism increased public discontent against reforms in general.

***Poor attention to environmental threats:*** Another area where Sri Lanka's reforms failed to direct sufficient attention was deteriorating environmental conditions. In fact, Sri Lanka took some right steps initially by adopting the Environment Act, establishing the Central Environmental Authority and introducing environmental impact assessment (EIA) procedures by the early 1980s. Even some donor funded projects were implemented in areas such as watershed management, forest conservation and land use planning. Despite these early developments, however, there were failures to improve the system sufficiently thereafter, and

**Table 4.2**
**Situation in Science, Technology and Innovation**

| Indicators | Bangladesh | India | Sri Lanka | Vietnam | Thailand | Malaysia |
|---|---|---|---|---|---|---|
| Innovation Index (rank out 143) | 128 | 76 | 102 | 71 | 48 | 33 |
| High-technology exports (% of manufactured exports) | 0.2(2011) | 8.1 | 1.0 | 28.2 | 20.1 | 43.5 |
| Researchers in R&D (per million people) | - | 159.9 (2010) | 103.1 (2010) | 113.0 (2002) | 331.9 (2010) | 1642.7(2010) |
| R&D expenditure (% of GDP) | - | 0.79 (2010) | 0.15 (2010) | 0.17 (2002) | 0.25(2010) | 1.06(2010) |
| Technicians in R&D (per million people) | - | 103.0 (2010) | 89.2 (2010) | - | 226.9 (2010) | 158.2(2010) |

Source: World Bank (2015), "World Development Indicators Database", World Bank, Washington, D.C.




environmental problems have been accumulating. Observations of environmental problems in Asia suggest that there are two major types; poverty driven problems and growth driven problems. Poverty driven environment problems in Sri Lanka - especially in rural areas - is as bad as in any other Asian country, whereas growth driven problems - concentrated in urban areas - is less severe compared with certain Asian mega cities. The latter can be considered more a result of Sri Lanka's failure to achieve growth in industries, and relatively slow urbanization, than the effectiveness of an environmental management system.

There are also few positive points of Sri Lanka's experience that could offer some insights into crafting future reform efforts.

***Achievements in reducing poverty:*** Notwithstanding the underachievement in attaining reform objectives, Sri Lanka's success in addressing poverty has been impressive (Table 4.3). In spite of some early efforts to rationalize the direct food subsidies and income support measures, government sponsored welfare packages as a safety net parallel to liberalization policies has been in place since the late 1980s. This is in addition to free education and health services enjoyed by Sri Lankans since the pre-independence era. Sri Lanka achieved the Millennium Development Goal (MDG) of halving the incidence of income poverty before the target year (2015), a significant accomplishment amidst a protracted violent conflict.

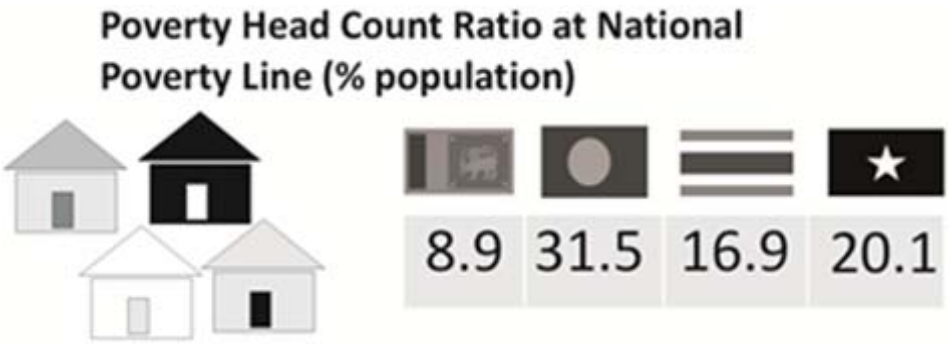
***Resilience displayed by the economy and adaptability of labour force:*** Despite the poor performance on the export front, the Sri Lankan economy has remained resilient to external shocks, helped by its relative openness since the late 1970s. This made the country less vulnerable to sporadic shocks such as oil price adjustments, regional and global financial shocks, etc., where adjustment would have been more difficult under inward looking policies of the past. The openness of the economy facilitated outward movement of labour even when inward movement of capital declined, helping to keep the economy afloat. It has also demonstrated the adaptability of Sri Lanka's labour force. As a result of this resilience, Sri Lanka still enjoys the highest living standards among its South Asian neighbours even after a costly thirty year war.

***Public adaptation to reforms:*** Sri Lankan society overall appears to have adapted to reforms

**Table 4.3**
**Poverty Conditions**

| Indicators | Sri Lanka | Bangladesh | Thailand | Vietnam |
|---|---|---|---|---|
| Poverty head count ratio at US$ 1.25 per day - PPP(% population) | 4.1 | 43.2 | 0.3 | 3.9 |
| Poverty head count ratio at national poverty line(% population) | 8.9 | 31.5 | 16.9 | 20.1 |

Source: World Bank (2015), "World Development Indicators Database", World Bank, Washington, D.C.




over time. Despite criticisms on certain aspects, the perceived advantages of being connected to the global economy and market-friendly policies have taken root in the minds of policy makers and the general public to a large extent. In the early phase, consumers benefited when import restrictions were lifted after enduring scarcities for several years under the import substitution protectionist policies. Even though reforms faced some resistance - e.g., against privatization and restructuring of SOEs - they were also well received in some instances when clear benefits in term of improved services were evident as in the case of telecom privatization. As a result, even though discontent over economic hardships remains a perennial issue, there is no broad-based political opposition to market friendly reforms. Much of the criticism is often directed at irregularities associated with implementation of reforms more so than their objectives, where the demand is for benign and clean (corruption free) implementation of reforms.

## 4.5 Towards a Realistic Agenda of Economic Reforms in Sri Lanka

The review of reform experiences in Sri Lanka suggests that liberal economic reforms that transformed the economy have failed to realize the professed objective of placing the country firmly on a path of export-oriented growth. It further highlights that unfavourable developments in the political frontier were largely responsible for this failure. Indeed, the current wave of reforms is driven by demands for overturning the legacy of political reforms that accompanied the launch of liberal economic reforms nearly four decades ago. The review of economic reforms underlined some implications of those political reforms on the economic system too. The whole exercise underscores the dependence of the political and economic systems on each other, and the sensitivity of one sphere of activity to changes in the other. In view of past experience and ongoing demands for political reforms, a broader view of reforms that transcends a typical neo-liberal agenda that largely guided past reforms processes, needs to be considered in setting the direction of future reforms to the economic system.

In a broader sense, reforms in modern societies are a continuous process intended to ensure the freedom, wealth and prosperity of nations and their citizens. As a complex social process, it has multiple dimensions encompassing the political, economic, social and environmental. Reforms in the political sphere are primarily intended to enhance the freedom of citizens. However, political reforms alone cannot be expected to guarantee freedom without appropriate reforms in the social sphere. Social reforms should aim at safeguarding the rights of diverse social groups and promoting social harmony to ensure the freedom of all. Neither political reforms nor social reforms, however, automatically guarantee wealth and prosperity of nations and their citizens. A set of economic reforms are necessary for this purpose. The outcomes of economic reforms,

**The review of reform experiences in Sri Lanka suggests that liberal economic reforms that transformed the economy have failed to realize the professed objective of placing the country firmly on a path of export-oriented growth.**

nevertheless, are not independent and need to be complemented by matching reforms in political and social spheres.

The final aim of enhancing wealth and prosperity is achieving 'sustainable development'. The idea of sustainable development brings in additional dimensions; natural capital as a part of a nation's wealth, and environmental quality as an essential component of prosperity and economic welfare. Recent developments in environmental and ecological economics suggest that economic reforms alone are unable to ensure the sustainability of wealth and prosperity. Hence, appropriate reforms that ensure the quality of environment also are necessary for sustainable development that can be called as 'environmental reforms'. Growing understanding on sustainable development suggests that economic and environmental reforms should complement each other to generate desired overall outcomes.

Besides capturing multiple dimensions of reforms, countries need to be mindful about transformations brought on by globalization and constant changes in IT, in rapid succession. Globalization facilitates free movement of people, goods, services and capital across boundaries of nations. Information technology expands the horizons of human connectivity breaking down all conventional barriers. Together, they change the ways in which humans interact with each other economically, politically, socially and environmentally. As a result, many ideological positions as well as practical tools of reforms are fast becoming obsolete, requiring a pragmatic approach to deal with the rapid change. For instance, globalization and IT propel changes in ways unimagined a few years ago, making it ever more difficult for national governments to exert control over economies in traditional ways. Simultaneously, it also offers new tools of e-governance to deal with the changes, perhaps more efficiently than in the past. Similarly, e-commerce and other digital tools of business and communication, swiftly transforms the ways in which economic activities are undertaken. They open up new opportunities, break down traditional barriers and bring people and resources ever more closely, making the world flatter.[13] Moreover, they increase competition, allowing only the most innovative to thrive. Hence, innovation has become the key factor of economic success in the modern world.

[13] Friedman, T.L., (2007), *The World is Flat*, Picador, New York.

The discussion to follow outlines some broad directions on future economic reforms for Sri Lanka. It draws on a broad understanding of reforms as a multi-dimensional process, taking the realities of the global context in which they will occur together with lessons from past reform experiences.

***Astute management of affairs on the political front is critical:*** Sri Lanka's past experience of reforms provide examples of how economic reforms can lose momentum owing to poor management of political affairs. From the point of economic reforms, two aspects of political management matters: (a) maintaining a relatively violence-free political environment and culture, and; (b) prudent management of politically sensitive economic reforms. Sri Lanka appears to have failed on both counts, and more so in the former. The country grappled with both secessionist and anti-state violence. Since 2009, there has been a cessation of violence, but the country has seen a polarization of polity over matters concerning democracy and governance. Hence, successful accomplishment of ongoing reforms to achieve a democratic balance in the political system has significant implications towards the success of reforms on the economic frontier too. It has to be complemented with political and social moves to reduce tensions between ethnic communities, creating conditions necessary for a durable peace.

***Reforms are as good as how they are implemented:*** Reforms are a continuous process in which outcomes cannot be separated from means employed to achieve them. Hence, the ways in which reforms are implemented also matters greatly in determining their success. On many occasions, Sri Lanka's reform efforts suffered due to allegations of corruption, lack of transparency, cronyism, poor accountability and authoritarian manner of execution. As a result, more than the outcomes, the means employed to achieve them has led to politically sensitive issues, jeopardizing the reform process overall. Hence, the current demands for reforms to combat corruption, ensure the rule of law, enhance transparency and accountability are as equally important for a successful economic reform process as they are for ushering in a healthy political system.

***Let practical realties determine the priorities than ideological stands:*** Given the primacy assumed by capitalist economic thought around the world, there is no strong ideological contender against market-friendly economy reforms. However, there are competing schools of thought within the capitalist camp. Many of them have pro-market, externally-oriented views, and mostly differ from each other on the policy mix advocated to achieve the final goals. Their competing claims for success are largely connected to conservative, liberal and social-democratic political rivalries in industrial countries, which often have limited relevance to practical realties faced by developing countries like Sri Lanka. Hence, rather than ideological concerns, practical realties on the ground should determine the priorities of any reform agenda. Attempts to blindly imitate and/or rhetorical championing of ideological stands can have counterproductive results.

***Reforms should focus on areas where they are needed and capitalize on existing strengths:*** Reforms are not new to Sri Lanka and future reforms should be built upon the experiences of the past. Hence, this can be considered as a mid-term course correction in an ongoing process. It implies two things: (a) building upon existing strengths and, (b) identifying priority areas that need reforms the most. While the chapters to follow in this report address in-depth aspects of reforms in selected areas, three areas of strengths that should provide the foundation for further economic progress are:

- Building on Sri Lanka's human capital development, which despite modest achievements in recent decades is still the key strength of the country. A relatively well-educated and healthy workforce provides a definite advantage and reforms should focus

on transforming this resource from a pool of cheap labour to a pool of talents (i.e., of knowledge and skills).

- Strengthening Sri Lanka's socio-economic achievements, evident in significant achievements in poverty alleviation. While tackling absolute poverty was the key challenge in the past, the country should now try to build on significant reductions in numbers of poor, focussing on multi-dimensional aspects of poverty and directing attention to other vulnerable sections such as the elderly and vulnerable.

- Protecting the interests of Sri Lanka's migrant labour force that has served the country well and continue to do so. However, their contribution has come at some social cost and reforms should aim at addressing them. Reforms should also aim at transforming them from an unskilled to a skilled labour force.

While building upon the strengths in the above mentioned areas, reforms should focus on addressing gaps in the following areas as priorities:

- Economic reforms should aim at getting the fundamentals of macroeconomic management right. Developments in recent years have seen the necessity of several course corrections in both fiscal and monetary policy. Ensuring a sustainable macroeconomic outlook for the country is critical for success in all other areas of reform.

- Sri Lanka's path to prosperity essentially lies in the success of achieving sustained growth in exports of goods and services. Hence, reforms in the trade sector are critically important. Despite some initial successes in the early phase of reforms, growth of exports has slowed down, and the trade regime in recent years has drifted towards a more protectionist stance. Revitalizing exports needs reforms in tariffs and taxes, procedural improvements as well as attracting FDI in export industries.

- The Sri Lankan tax system is not delivering potential revenue as expected with rising income. The Presidential Tax Commission report of 2010 provided a comprehensive list of recommendations to address these concerns. However, only a handful of recommendations have been implemented so far. Full implementation of recommendations are necessary to ensure a more stable macroeconomic outlook.

- Agriculture, despite its declining contribution to the GDP, is still the main source of employment. Past attempts at liberalization created both winners and losers, while heavy public investments helped to achieve self-sufficiency in rice. Despite this, Sri Lanka's food security conditions are not satisfactory even by South Asian standards and agriculture productivity is stagnating. The sector needs multifaceted reforms to address core challenges.

***Complementary reforms in supportive areas:*** Besides the key sectors earmarked above for reforms, there are cross-cutting areas that need special attention in the context of future economic reforms. Four such critical areas are institutions, innovation, e-government and environment. They are not economic sectors by themselves, but reforms in these areas are obligatory for success in economic reforms.

- Institutional governance is a missing link in Sri Lanka's liberal economic reforms. Institutions are not government organizations but a broad range of formal and informal arrangements (rules, laws, procedures) that influence the behaviour of economic agents. The need for institutional reforms is felt in many sectors; for example, two cross-cutting areas that need institutional reforms are market competition and land and property rights. Institutional reforms should be addressed with sectoral reforms as they arise.

- Innovation is the most critical factor that determines economic success in a rapidly globalizing world. Innovation is a result of a combination of factors; among others, R&D capacity, and skills/knowledge on science, technology, engineering and mathematics (STEM) are critical. The capacity for innovation has to be developed through external transfer of knowledge/technology and development of

domestic R&D capacity. Sri Lanka's economic reforms have never focussed seriously on innovation, even as it is recognized that innovation capability cannot be developed over night. Hence, it is an area that should be accorded priority as a long-term reform initiative.

- The quality and efficacy of public sector service delivery is an essential pre-condition for the success of economic reforms, despite neo-liberal emphasis on lean governments. This is an area where Sri Lanka has limited success. Modern tools of e-government offer the opportunity to improve the quality and efficiency of public services with lean organizational structures. Sri Lanka has made strides in this direction in certain areas of public service - e.g., E-Sri Lanka programme - and their implementation should be accelerated.

- All economic activities have impacts on the environment, with growing populations leading to overexploitation of natural assets. Hence, growth-oriented economic reforms should be accompanied by environmental safeguards. Despite early preparations, environmental governance is a poorly developed area, receiving limited attention in economic policy circles. As a result, environmental issues often lead to confrontations between authorities and public/activists. This is not helpful to sustain a long-term reform process, and corrective action should be taken to ensure a more holistic approach to development.

Experiences worldwide suggest that improving the business climate by creating a conducive environment for private sector investments is the best way forward for emerging economies to sustain growth. Some sensitive economic reforms may bring about losers as well as winners in the short run. Hence, the prudent approach is to implement reforms during the early days of a new government that has secured a fresh mandate by the people.

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# 5. Reforming Sri Lanka's Trade and Investment Policies for Export Growth

## 5.1 Introduction

Sri Lanka's recent trade performance hasbeen far from satisfactory especially since 2000, marked by a decline as share of the country's GDP as well as of world trade. While the negative external environment has been blamed for the poor performance, many competing countries have achieved higher rates of growth, pointing to Sri Lanka's lacklustre performance being fundamentally 'homegrown'.[1] Lack of diversification of exports and markets remain a cause of concern. Sri Lanka's exports have been concentrated in few sectors, with textile and garments (T&G) alone accounting for a substantial share of total exports. The problem of product concentration has been compounded by market concentration, with US and EU together accounting for over 50 per cent of exports to date, despite attempts to diversify through the use of export incentives and signing of preferential trade agreements within the region.

Improving the competitiveness of exports to deepen integration with the world economy, attract the right kind of FDI and create a more enabling environment for trade is a must to broaden the sources of Sri Lanka's growth from its more recent reliance on non-tradeables for high growth. Reform efforts to improve export competitiveness will require addressing constraints on multiple fronts. These include: (i) tackling supply-side capacities - diversifying the country's export base, whilst ensuring that adequate skilled human resources are available; (ii) addressing weaknesses in the business environment - reducing transaction costs, red tape and gaps in the regulatory environment; and (iii) strengthening demand-side conditions - better market penetration through preferential trade agreements and broader export promotion efforts.

Thus, the gamut of reforms issues include reducing policy barriers, expanding infrastructure, improving

**While external environment has been blamed for poor performance, competing countries have achieved higher rates of growth, pointing to Sri Lanka's lacklustre performance being fundamentally 'homegrown'.**

[1] Kelegama, S. (2014), "What Will It Take for Sri Lanka to Build a World Class Export Economy", presentation made at the CMA Annual Conference, Colombo, 19 June 2014.

the business climate, reforming the trade tariff structure, and maintaining a flexible exchange rate, among others. This chapter will focus on four key reforms relating to the trade tariff structure, trade and transport facilitation, FDI promotion and existing trade agreements towards increasing and diversifying Sri Lanka's external trade. The chapter will discuss their current status, identify specific issues and recommend how these could be reformed.

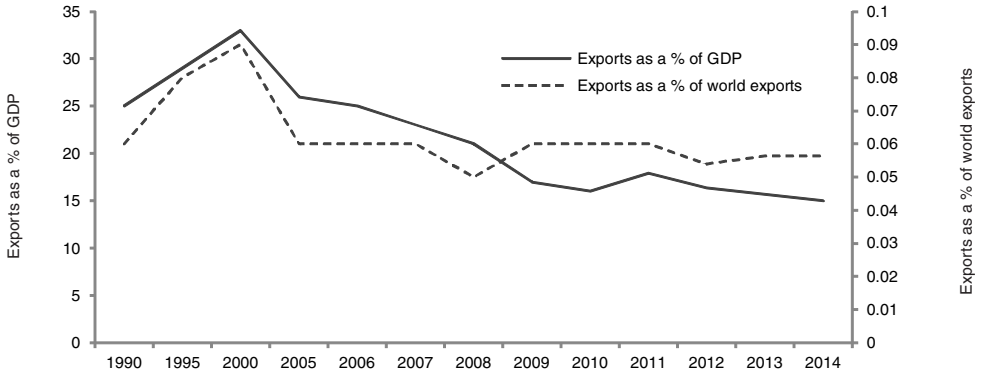
# 5.2 Trade Tariff Structure

Sri Lanka's unilateral trade liberalization process was initiated in 1977, ahead of her neighbours, in response to poor economic outcomes due to protectionist, import-substitution trade policies. Despite the onset of separatist violence from the mid-1980s and changes in political regimes, trade policy reforms were broadened and extended over the next two decades, albeit with some backtracking. In fact, Sri Lanka had become one of the most open economies in the developing world by the mid-1990s.[2] Although the country remained 'committed' towards greater integration into the world economy, the pace of trade reforms proceeded at a 'mixed pace'.[3] Indeed, the policy stance appears to have reversed in the last decade in terms of its tariff policy regime, with the introduction of a number of border charges in addition to customs duty, increasing levels of protection and insulating domestic producers from import competition.

As seen from Figure 5.1, Sri Lanka's openness to international trade has drastically declined since 2000, with a level of openness close to that seen during the import-substitution era. This was not due to poor GDP growth, which has been quite decent, but largely due to slow growth of trade, consistent with a return of more activist forms of import substitution and increased protectionism, especially after 2004.[4] Sri Lanka compares poorly to other countries, as evident from its declining global market share.

Sri Lanka's present protectionist import tax structure undermines preferential/free trade agreements which Sri Lanka is a signatory to, and breaches

**Figure 5.1**
**Sri Lanka's Exports Share (1990-2014)**




Source: CBSL, *Annual Report*, various years; and IMF, *Direction of Trade Statistics*, various years.

[2] Athukorala, P. (2011), "Growing with Global Production Sharing: The Tale of Penang Export Hub", paper presented at the International Conference on "Trade, Investment and Production Networks in Asia", Leverhulme Centre for Research on Globalization and Economic Policy, University of Nottingham, 16-16 February 2012, Kuala Lumpur.

[3] WTO (2010), "Trade Policy Review: Report by the Secretariat - Sri Lanka", World Trade Organization, Geneva.

[4] Kaminski, B. and F. Ng (2013), "Increase in Protectionism and Its Impact on Sri Lanka's Performance in Global Markets", Policy Research Working Paper 6512, World Bank, Washington D.C.




**While measures have been undertaken to increase transparency, these have been overshadowed by increase in tariffs and introduction/ increase in rates of other charges on imports.**

WTO commitments.[5] Moreover, it has serious implications also for consumer welfare. In this context, the following section examines recent trends and current position of trade measures in Sri Lanka which have affected both imports and exports, and suggest recommendations for reform.

## 5.2.1 Current Status of Tariff Regime

While a number of measures (i.e., implementation of WTO Customs Valuation Agreement in 2003, publication of tariffs online, etc.) and practices (i.e., reliance on price-based measures and scant use of non-tariff measures) have been undertaken to date to increase transparency, these have been overshadowed by a general increase in tariffs and introduction/increase in rates of other charges on imports. These measures have been taken for both revenue and protectionist purposes.

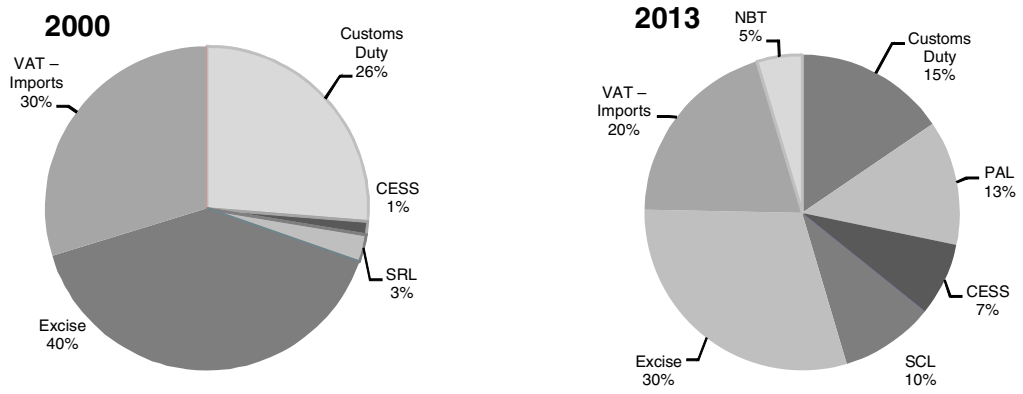
Sri Lanka Customs (SLC) collected about 40 per cent of total government revenue and 55 per cent of national tax revenue.[6] Over time, the contribution of various border taxes has changed (Figure 5.2). The relative decline in revenue from Customs duties was offset by increase in revenues from other charges like the Port and Airport Development Levy (PAL), Commodity Export Subsidy Scheme (CESS), Special Commodity Levy (SCL), Excise, VAT (on imports), Regional Infrastructure Development Levy (RIDL) and Nation Building Tax (NBT).

Customs duty tariff rates in Sri Lanka suggest a downward trend. The simple average applied MFN tariff was 9.9 per cent in 2012, down from 11.5 per cent in 2010 (Table 5.1). However, while the MFN rate has been fairly stable, there have been frequent and ad hoc changes to the tariff rates over the last decade, both in terms of the number of tariff bands and maximum rates of tariffs (Table 5.2). Aside from these frequent changes, the average MFN figures are also misleading as they exclude para-tariffs. When Customs duty and other charges are taken together, the average total protection rate was 31

[5] Pursell, G., and Z. Ahsan (2011), "Sri Lanka's Trade Policies: Back to Protectionism". ASARC Working Paper 2011/03.

[6] CBSL, *Annual Report 2014*, Central Bank of Sri Lanka, Colombo.

**Figure 5.2**
**Comparison of Revenue Composition (2000 and 2013)**




Source: Sri Lanka Customs, *Annual Report 2013;* and "Report of the Presidential Commission on Taxation 2010".

per cent as opposed to a MFN rate of 12 per cent in 2012.[7]

While the number of tariff bands has been brought down over the years, tariff simplification has not proceeded as planned - i.e., a movement towards a single or two-tariff band. The predictability of the tariff regime and its transparency is weak. While each band was applied to a given product category, ad-hoc changes have been introduced over time, in addition to which complications also arise due to a large number of duty exemptions.[8]

**Table 5.1**
**Sri Lanka's Tariff Profile**

| | 2003 | 2009 | 2010 | 2012 |
|---|---|---|---|---|
| Bound tariff lines (% of all tariff lines) | 37.8 | 35.8 | 36.4 | 38.1 |
| Duty-free MFN applied tariff lines (% of all tariff lines) | 10.0 | 11.7 | 44.4 | 51.3 |
| Simple average MFN tariff rate (%) | 9.8 | 12.0 | 11.5 | 9.9 |
| Simple average final bound rate (%) | 30.3 | 30.2 | 30.2 | 30.2 |
| a. Agriculture tariff lines | 50.1 | 50.1 | 50.0 | 50.0 |
| b. Non-agriculture tariff lines | 19.6 | 19.6 | 19.7 | 19.7 |
| Simple average MFN applied (%) | 11.2 | 11.2 | 10.2 | 9.9 |
| a. Agriculture tariff lines | 23.8 | 24.8 | 26.3 | 25.7 |
| b. Non-agriculture tariff lines | 9.2 | 9.2 | 7.8 | 7.5 |

Source: WTO, "World Tariff Profile", various years.

[7] Athukorala, P., (2012), "Sri Lanka's Trade Policy: Reverting to Dirigisme?", Working Paper No. 2012/14, Crawford School of Public Policy, Australian National University, Canberra.

[8] Presidential Tax Commission (2010).

**Table 5.2**
**Custom Duty Rates (1995-2015)**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **1995** | 0 | 10 | 20 | 35 | | | |
| **1999** | 0 | 5 | 10 | 15 | 20 | 25 | |
| **2002** | 0 | 2.5 | 5 | 10 | 15 | 20 | 25 |
| **2004** | 0 | 6 | 12 | 27.5 | | | |
| **2009** | 0 | 2.5 | 6 | 15 | 28 | | |
| **2010** | 0 | 5 | 15 | 30 | | | |
| **2015** | 0 | 7.5 | 15 | 25 | | | |

Source: Pursell and Ahsan (2011); SLC (2015), "Tariff Guide", Sri Lanka Customs, Colombo.

Generally speaking, Sri Lanka has an escalating tariff structure – most basic raw materials and essential items are duty free, or enjoy low duties in the case of semi-processed products, while many processed goods or finished products including goods that the government wishes to protect are taxed at a higher rate. The degree of tariff escalation appears to have increased consequent to the number of duty free lines increasing from 10 per cent in 2003 to 44.4 per cent in 2010,[9] (and further to 51 per cent with the abolition of the 2.5 per cent rate in 2010). The simple average tariffs for agricultural products have increased and remain higher than for manufactured goods (see Table 5.1).

The general practice has been to impose tariffs on an ad valorem basis. However, some goods (for example agricultural products) attract specific duties. Over 97 per cent of the tariff lines are ad valorem while specific duties apply to 3 per cent of all tariff lines.[10] Specific duties, which are computed on the physical quantity of the good being imported, are less transparent and more distorting than ad valorem. While the bulk of tariff lines remain ad valorem, tariffs which are subject to specific duties have increased between 2004 and 2009 from 1.3 per cent to nearly 4 per cent of tariff lines.[11]

According to the WTO, 38.1 per cent of Sri Lanka's total tariff lines are bound,[12] allowing the country to adjust its border tariffs upwards from time to time for revenue and protection purpose. However, it is observed that bound rates have remained unchanged since 2004, while the rates greatly exceed the applied rates.[13] For instance, the average bound rate is 30.2 per cent in 2012 compared to an average MFN applied rate of 9.9 per cent (see Table 5.1). When bound rates greatly exceed the applied rates, it provides authorities the scope to raise the latter. For a number of tariff lines, however, the applied rates exceed the bound rates. In fact, if para-tariffs are taken into account, Sri Lanka exceeds its bound levels for many industrial and agricultural goods.[14] For example, it is estimated that a half of the agricultural tariff lines exceed the 50 per cent bound rate.[15]

In addition to Customs duty, imports into Sri Lanka are subject to a number of other charges or para-tariffs, which have proliferated in the last decade (Table 5.3). The PAL, Surcharge, and CESS are only applied on imports while the others have domestic equivalent taxes. Each para-tariff has its own product coverage and rates, with frequent changes in the product coverage of the para-tariffs as well as rates over time. For example, PAL was introduced in 2002 at 1 per cent of the CIF value but was subsequently increased to 1.5, 2.5, 3 and 5 per cent in 2004, 2006, 2007 and 2009, respectively. These changes increase uncertainty amongst traders and investors.

[9] WTO (2010).
[10] WTO (2014), "Sri Lanka – Profile", http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=LK
[11] Athukorala (2012).
[12] WTO (2014).
[13] Athukorala (2012).
[14] Presidential Tax Commission (2010); Pursell and Ahsan (2011); WTO (2010).
[15] Pursell and Ahsan (2011).

**Table 5.3**
**List of Import Taxes in Force (2010 and 2015)**

| | 2010 | 2015 |
|---|---|---|
| ***Protective Taxes*** | | |
| Customs Duty | 0, 2.5, 6, 15 or 28 | 0, 7.5, 15, 25 |
| Ports and Airport Development Levy | 2 or 5 | 5 |
| Surcharge | 15 | - |
| Commodity Export Subsidy Scheme | Varies | Varies |
| Regional Infrastructure Development Levy | 5, 7.5 or 10 | - |
| ***Non-Protective Taxes*** | | |
| Value Added Tax | 12 or 20 | 11 |
| Social Responsibility Levy | 2 | - |
| Nation Building Tax | 3 | 2 |
| Excise Duty | Varies | Varies |
| Special Commodity Levy | Varies | Varies |

Source: Pursell and Ahsan (2011); SLC (2015), "Tariff Guide", Sri Lanka Customs, Colombo.

Sri Lanka has used para-tariffs rather than Customs duties to increase or at least maintain existing protection levels as well as to overcome tariff reduction/elimination under the PTAs/FTAs, breaching the spirit of these agreements. For example, while the top Customs duty was reduced from 35 per cent to 25 per cent in 2000, this was off-set by the introduction of a surcharge on Customs duty in 2001. Though it was intended to be temporary, it existed for more than a decade, with rate changes over the years. It continued to be applied on imports of non-essential goods until June 2010, when it was abolished and amalgamated with the Customs duty. At the time of its abolition, there were 5,598 tariff lines which were subjected to a surcharge of 15 per cent of Customs duty.

Para-tariffs were more extensively used after 2004, with their contribution to total revenue from international trade increasing and raising government reliance on them for revenue generation. Under the Export Development Board (EDB) Act, a CESS is imposed on a large number of products such as fruits, vegetables, processed and unprocessed food, shoes, bags, rubber and plastic goods, textiles, etc., applied on an ad valorem, specific basis or a combination of both. The CESS is supposedly collected for the purpose of promoting exports through the EDB, but it is used primarily as a revenue generating measure. It is also claimed to be used against unfair trade practices such as under-invoicing, dumping, subsidization by foreign countries, non-adherence to standards, etc.

Other taxes imposed at the point of importation include levies such as the SRL, the PAL, RIDL, and the NBT. These were introduced in 1995, 2002, 2005 and 2009, respectively, with funds collected supposed to be directed towards meeting development needs. These taxes are collected on different tax bases, which make their computations complicated. Some rationalization was achieved with the removal of SRL and RIDL in 2011. The SCL was introduced in 2008 to counter administrative costs associated with multiple taxes on essential food items. It is currently imposed on imports of selected essential commodities (e.g., milk powder, dhal, sugar, potatoes, onions, etc.) with rates varying from product to product.

Aside from import duties, Sri Lanka also imposes certain export duties on its traded goods. Taxation of traditional exports, which was a major source of government revenue prior to liberalization in 1977, was virtually removed by the early 1990s. Currently, Sri Lanka imposes border charges on certain exports (vein quartz) as well as an export CESS on some raw materials (cashew nuts with shells, raw hides and skins, metal scraps, natural rubber, coconut products and tea) for various reasons such as discouraging export in raw form, ensuring local supplies, and generating funds for cultivation. CESS rates vary across the products and ad hoc changes have been made to the rates over the years eroding predictability and transparency. Moreover, such taxes on exports distort allocation of resources, and

prevent the emergence of production patterns in line with the country's comparative advantage by suppressing exports.

## 5.2.2 Trade Tariff Structure Reforms

Despite the simplification after 2010, Sri Lanka's import tax regime is beset with non-transparency, and complexity with little predictability in view of constant ad hoc changes. The system appears to be highly discretionary, with research and anecdotal evidence suggesting that it favours individuals and groups with lobbying skills and access to bureaucrats and politicians.[16] In this context, significant reforms are required to redress the current situation. Many of these have already been put forward in the Presidential Tax Commission (2010) report.

**Sri Lanka's import tax regime is beset with non-transparency, complexity with little predictability in view of constant ad hoc changes.**

***Simplification of tariffs***: Simplification and rationalization of the tariff regime is a must. A customs tariff with limited rates and only few exemptions will not only facilitate cargo clearance, reducing time and costs but also improve revenue collection and administration. Simplification will also minimize opportunities for malpractice and increase compliance.

***Tariff bindings***: As part of a strategy to liberalize trade and tariffs and other charges on imports, enhancing the scope and level of their bindings would increase predictability to the trade regime and would help to improve the business environment. Nevertheless, Sri Lanka should make use of the flexibilities provided by the WTO for developing countries in terms of binding and tariff levels taking into consideration some degree of protection for domestic industries, namely small and medium enterprises (SMEs), which contribute significantly to total output and employment in the country. Where tariff bindings on some agricultural products are insufficient to provide protection to the agricultural sector, Sri Lanka should on a selective basis initiate negotiations at the WTO to raise tariffs on these products to provide adequate protection while specific duties should be converted to ad-valorem and adjusted upwards.

***Para-tariffs***: Amalgamation of Customs surcharge with Customs duty has led to simplification in computing border taxes but the numerous development taxes and other charges still add to transaction costs and complicate computation at the point of import. The possibilities include their amalgamation into one tax. In fact, the Presidential Tax Commission (2010) recommends the imposition of a single tax - the National Development Levy (NDL) - with possibly four rates ranging from 5 to 20 per cent. In addition, Sri Lanka should consider WTO-consistent trade remedial measures such as anti-dumping, countervailing and safeguard measures as trade policy instruments to address unfair practices, instead of using import tariffs combined with a CESS.

More generally, the computation of border taxes on different tax bases must be streamlined in order to improve clarity and lower transaction costs. Sri

[16] Pursell and Ahsan (2010); and interviews with stakeholders.

Lanka must also increase overall transparency in its trade policy regime. While there have been measures to enhance transparency through publication of applied tariff lines and all import charges online, the frequent changes create confusion amongst importers. Therefore, there is a need to limit the number of changes and convert specific duties into ad valorem charges.

***CESS***: The CESS collected from imports and exports under the various Acts should be transferred to the relevant institutions to meet the objectives for which the CESS is collected. Currently, the money goes to the Consolidated Fund of the Treasury, and funds that do get transferred to the relevant institutions are often spent on meeting recurrent expenditure, and not much on research and development activities. Moreover, the CESS should not be imposed on value added exports, but should be limited to bulk exports to encourage export value addition in the economy.

## 5.3 Trade and Transport Facilitation[17]

Moving goods internationally involves going through at least two customs processes - one in the country of origin and the other in the country of destination. Clear procedures and efficient processes are important for speedy movement of goods in international trade. Trade facilitation focuses on improving the efficiency of trading across borders by reducing transactional costs, increasing transparency and predictability.

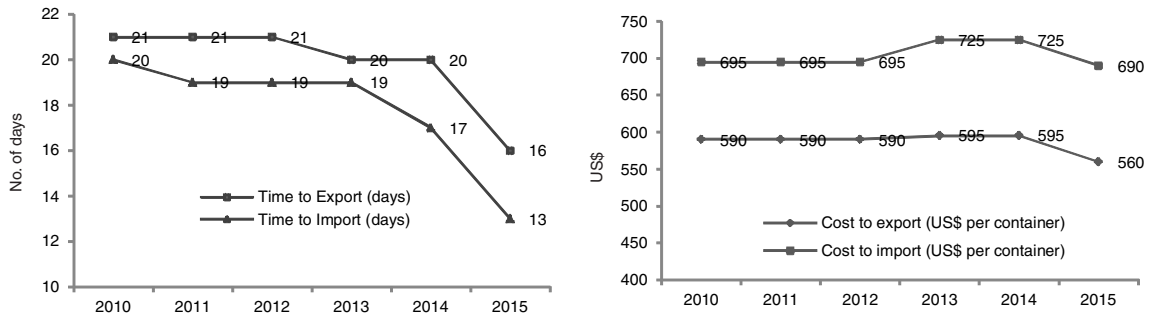
With progressive reduction of tariffs at the multilateral level, there is increasing attention being paid to reducing constraints and costs that affect transactions at border points and increasing efficiency of supply chains. Inefficiencies in placing orders, delivering goods and making payments for internationally traded goods can have an adverse effect on the competitiveness of businesses, industries and economies. Delays at the border caused by cumbersome procedures and excessive paperwork further add to the burden of doing business. This is a cause of concern given the global trends towards fragmentation of production across countries and increased importance placed on lead times. In recognition of the significant benefits to businesses and countries, particularly developing countries around the world and the capacity to boost global economic growth, at the 9th WTO Ministerial Conference held in Bali in December 2013, all WTO members reached an agreement on trade facilitation. The full implementation of the Agreement is expected to reduce 15 per cent of total trade costs for lower middle income countries like Sri Lanka.[18]

Sri Lanka's performance is commendable in comparison to other South Asian countries, outperforming its neighbours in several logistics performance indicators. According to World Bank's "Trading across Borders" indicators, which capture the time and cost associated with exporting and importing a standardized cargo of goods by sea transport, Sri Lanka's ranking has improved with reductions in time associated with exporting and importing (Figure 5.3). It now takes 16 days to export from Sri Lanka, compared to an average of 33.4 days in South Asia, and 13 days to import compared to 34.4 days in South Asia. Cost to export is US$ 560 per container as opposed to South Asia's US$ 1922.9; import cost is US$ 690 compared to US$ 2117.8 in South Asia. While acknowledging the progress made by Sri Lanka to facilitate trade, the country still has a lot to do to reach the trade facilitation levels of Singapore which is often cited by policy makers and the private sector, to be Sri Lanka's benchmark. The following section examines

[17] This section draws heavily on Jayaratne, S., D. Premaratne, and J. Wijayasiri (forthcoming), "Trade and Transportation Facilitation Audit: Sri Lanka", Institute of Policy Studies of Sri Lanka, Colombo. The study includes 120 stakeholder interviews with relevant organizations/ individuals.

[18] OECD (2014),"'The WTO Trade Facilitation Agreement – Potential Impact on Trade Costs", OECD, Paris.

**Figure 5.3**
**Time and Cost to Export/Import from Sri Lanka (2010-15)**




Source: World Bank (2015), 'Trading Across Borders", World Bank, Washington, D.C.

issues related to trade and transport facilitation in the country.

## 5.3.1 Publication and Administra-tion of Policies Related to Trade Issues

Although the publication of trade related rules and regulations are carried out to some extent, it is not comprehensive, adequate or effective. Available online information is limited with regard to Customs duties, fees and export import procedures in Sri Lanka. In this context, traders rely on their Custom House Agents (CHAs) and freight forwarders for clearance, and do not actively seek information from the SLC website. Furthermore, if there are any major changes in regulation or procedures, exporters/ importers are notified through the relevant chambers and industry sources. While the SLC website contains information on import export procedures, changes in regulations, clearance procedures, applicable duties, fees and charges, it does not contain information on average release and clearance times. Moreover, information available on the website is not accurate because it is not regularly updated.

There is an inquiry point at the SLC which traders can contact with regard to queries on import/export procedures and formalities. However, traders have difficulties in accessing the inquiry point (i.e., the calls not being answered), or obtaining responses to their queries while some are unaware of such a facility. Moreover, there is no inquiry point at the national level which acts as a coordinating body between all trade related agencies and the trading community.

**While acknowledging progress made by Sri Lanka to facilitate trade, the country still has a lot to do to reach the trade facilitation levels of Singapore.**

## 5.3.2 Rules and Procedures for Imports and Exports

There is a need to improve on time taken to clear goods, to reduce irregular payments/bribes, to increase coordination between border management agencies, to decrease the number of documents/ time required for export/import, and to establish a pre-arrival processing of import documents.

The average time to clear export consignments in Sri Lanka is one day at both the Bandaranaike International Airport (BIA) and the Colombo port, while the average time taken to clear import consignments is one day at the airport and three days at the port. Clearance of import cargo takes more time than export cargo; between 1-3 days are needed for clearance at the port. However, a key problem faced by traders is the necessity to frequently pay bribes or make irregular payments at the time of documentation processing or clearance of cargo.

There is considerable coordination of border management agencies - handling revenue, customs, health, quarantine inspections, food standards, etc. - at both the port and airport. Customs operational at the port and airport is considered efficient while the overall coordination between the border management agencies at both the Colombo port and BIA is deemed satisfactory.

In terms of trade documentation and signature requirements, exporters need five basic documents, while importers require six.[19] A Certificate of Origin is also required by those using preferential agreements to export. Apart from these, there may be product specific documentation requirements for both exporters and importers such as Certificate of Analysis, phytosanitary certificate and load-port certificate, etc. The number of days required to prepare export documents range from 1-7 days. However, evidence suggests that for a majority of exporters, it takes only one day, with only one signature required to export; but a considerable number of exporters still require 2-3 signatures. The number of signatures required to import appears to be 1-5 signatures for a majority of importers.

It is possible to obtain advance ruling of classification for commodities from the Commodity Classification




[19] These include the CUSDEC, commercial invoice, packing list, bill of lading/airway bill and the cargo dispatch note for exports, and additionally a delivery order for imports.

Division of SLC, prior to the importation or exportation of the commodity. However, very few use the service despite the details and the application being freely available online. Some importers do not use the facility due to the difficulties of providing SLC with some of the required information about products (i.e., difficulties in receiving certain product information from sellers). Others are unaware of the availability of such a service, underlining the lack of awareness of the advance ruling facility. Currently, pre-arrival processing is available only for perishable products and a few selected items such as rice.

The SLC has undertaken measures to improve the risk/threat assessment techniques in order to facilitate trade. The SLC classifies goods under three channels - Green, Yellow and Red Channels. The Green Channel is for low-risk declarations, where goods are released without calling for documents and cargo examination while the Yellow Channel is for medium-risk consignments where consignments are cleared upon examining the required documents without cargo examination. However, random cargo examinations are also carried out in the Yellow Channel. High-risk declarations are cleared through the Red Channel with both documents and cargo being examined. The SLC recommenced the Green Channel facility in September 2013, and as of January 2015, this facility was available for 240 of the most trusted importers with good trading histories.

In terms of physical inspection, almost a half the consignments are subject to physical inspection. Post- clearance audits are carried out by the SLC as part of its risk management strategy. These are done not as a regular practice, but when there are suspicions/complaints on a customer's documentation/activities.

## 5.3.3 Use of ICT for Exports and Imports

Sri Lanka urgently needs a 'single window' to minimize human intervention in the trading process. This is yet to be established. While the export process is almost entirely automated, the import process is yet to be completely automated. The CUSDEC for both imports and exports can be submitted online, with the online submission of exports being mandatory. Nevertheless, the process is not wholly automated with segments such as the selection of consignments for physical examination being done by customs officials. While it is possible to submit and process the CUSDEC online, it is not possible to similarly submit and process the supporting documents. Except for the Board of Investment, Tea Board, Registrar of Motor Vehicles, Ministry of Finance and the Import/Export Control Department, other relevant organizations are not linked to the ASYCUDA World system.

## 5.3.4 Trade Related Infrastructure

The need to improve quality/efficiency of ports, roads, the quality of warehouses, and the need to reduce loss/damage of cargo and the cost of using logistics services are some of the high priority areas with regard to trade related infrastructure. Research evidence suggests that poor quality of warehouses at the Colombo port, lack of equipment to handle cargo and the congestion within the port are some of the primary reasons why the quality of infrastructure at the Colombo port is deemed 'average'. For example, of the nine gates in the port, only two are opened for container traffic - one for empty containers and the other for full containers - and attributed as a reason for congestion within the port. While acknowledging the recent developments of roads in the country, the congestion on roads also remains a major drawback.

## 5.3.5 Trade and Transport Facilitation Reforms

***Setting up/strengthening inquiry points***: Setting up a single reference point that provides all trade related information including laws, regulations, procedures, tariffs and other useful information for traders involved in the import, export and transit,

would be highly beneficial. Such a website can give traders access to tariffs, procedures, measures, and laws by entering the HS code of any product, and would integrate all trade-related information available on individual ministries and agency websites, into an easily accessible and user-friendly resource. However, Sri Lankan traders currently do not have access to such an information portal. Furthermore, a national enquiry point which can function as a coordinating body between the trading community and the relevant regulatory bodies is key, where it can collect requests, direct them to relevant regulatory bodies, compile their responses and inform the requesting party of the responses as inquiries are often directed at the wrong agency as traders are unaware of the relevant agency.

***Eliminating the need to pay irregular payments and bribes***: An IPS (2012) study shows that in some instances, irregular payments/bribes can add up to 50 per cent of the trade costs.[20] This is a major concern of the trading community, creating a burden on genuine traders. Automating the trading processes, proper remuneration of officials and effective monitoring mechanisms will need to be in place to reduce this practice.

***Single window***: It is necessary for the trade related agencies in Sri Lanka to adopt modern technology and come to a common platform in order to fully automate the trading system. Sri Lanka has partially automated its trading system, and working towards a single-window would no doubt reap the benefits of lower costs of trading, lower clearance times, increased transparency, lower rent seeking, better coordination between different agencies and reduce bureaucracy (i.e., documentation and signature requirements). Whilst SLC is championing the cause, it needs a concerted commitment by the government at large.

***Extending pre-arrival processing to more products:*** Pre-arrival processing is currently available for only a limited number of products, including perishables. Extending this to other products would facilitate traders. However, this requires legal amendments to the Customs Ordinance which is over 200 years old. Certain provisions need to be amended to improve trade facilitation measures.

***Improving infrastructure facilities:*** While acknowledging the progress in infrastructure to Colombo port, there is room for improvement. Some of the equipment currently at the port is outdated; importantly, congestion at the port can be reduced if more gates are opened, where currently only 2-3 gates of the 9 gates are open for container traffic at any given time; more than the inadequacy of warehouse in terms of numbers, the lack of adequate facilities available at warehouses is a problem - i.e., proper storage racking systems, poor conditions within them, poor handling and inadequate security are some of the main issues. Improvements will mitigate losses and damages to traders due to the mishandling of cargo, mainly at the port and the warehouses (i.e., due to the lack of proper equipment).

The current railway network and the services offered by the Sri Lanka Railways (SLR) are not sufficient for freight transport. SLR services only provide for transportation, with little loading and unloading facilities available where labour for cargo handling has to be provided by the customer. As a result, despite railway transport charges being low, when all other relevant charges are added, it becomes more costly than road transport. Therefore, if transportation of cargo via rail is to be improved, which is important in reducing road congestion, it is imperative that the rail network and services are developed, along the lines of an integrated multi-modal transportations system.

Scanning facilities at the port/airport are minimal in Sri Lanka which results in containers having to be

[20] de Mel, D., S. Jayaratne and D. Premaratne (2012), "Trade Facilitation Issues in South Asia" in S. H. Rahman *et al.*, (eds.), *Regional Integration and Economic Development in South Asia,* Edward Elgar Publishing.

opened up manually for checking. This results in delays and additional costs with traders having to send their own staff members to unload and load goods, and also quality drops especially that of perishables. For example, airport security at the BIA sometimes carry out random checks of products before they are allowed to enter the airport premises for security purposes, requiring exporters to unload products for checks. Hence, there is a need to acquire necessary scanning devices which will not only facilitate traders but also the country as a whole in promoting the trade of legitimate products and security.

Local laboratories are not equipped to issue certain international certifications demanded by buyers for certain products (e.g., coir) and lack the capacity to handle a large number of requests, resulting in undue delays. Hence, the capacities of testing laboratories such as the Sri Lanka Standards Institute (SLSI) which is the national standards body need to be strengthened so that (i) test reports can be given without undue delays, and (ii) the labs are equipped to issue international certifications. This will reduce the costs incurred by importers such as demurrage costs and opportunity costs of holding idle products.

## 5.4 Foreign Direct Investment

The general business environment of a country is critical to attract investment and support export competitiveness and growth. Here, FDI plays a vital role, bringing not only investment finance, but technology and managerial know-how to developing country export sectors. The ending of the armed separatist conflict removed one of the biggest impediments to FDI. However, Sri Lanka failed to capitalize on this, evident from the relatively poor performance of FDI inflows post-2009 averaging around 1.5 per cent of GDP. Indeed, various policy

**The ending of the armed separatist conflict removed one of the biggest impediments to FDI. However, Sri Lanka failed to capitalize on this.**

measures have sent mixed signals to both local and foreign investors, deterring investments into manufacturing and high value added services industries. No major Multinational enterprise (MNE) has set up operations in Sri Lanka's manufacturing sector over the last decade.[21] More recent FDI flows into the country have been heavily concentrated in infrastructure development, tourism and mixed development projects - not the kind of FDI that the country requires to boost exports and link Sri Lanka to markets abroad.

Sri Lanka has tended to rely on the provision of incentives for FDI promotion. However, many argue they have little impact on foreign investors' decision to locate and are instead a drain on government revenues. The approximate cost of BOI incentives in terms of revenue loss was estimated to be close to 1 per cent of GDP.[22] However, any dramatic reduction in tax incentives could have an adverse impact on FDI given that Sri Lanka is competing with other FDI destinations in the South and Southeast Asian regions. Moreover, a clear

[21] Athukorala (2012).

[22] Presidential Tax Commission (2010).




distinction between 'market-seeking' (tariff hopping) and 'efficiency seeking' (export-oriented) investments need to be made in assessing the effectiveness of incentives. Accordingly, incentives can matter in attracting the latter type of investment, providing that other determinants like political stability, skills, and infrastructure are favourable.

Although Sri Lanka has regained political stability and seen infrastructure developments, the country lags behind many indicators which describe 'the ease of doing business' and 'investment attractiveness'. In the World Bank's 'Global Competitiveness Index', it is behind competing countries like India, Indonesia, Thailand, the Philippines and Vietnam and only ahead of some regional neighbours like Pakistan and Bangladesh. Similarly, in the World Bank's 'Doing Business' indicators, Sri Lanka continues to perform poorly regarding ease of doing business and investment climate in the country.

Restrictive labour laws, high cost of energy and corruption are often cited by local and foreign investors as other deterrents. Rigid and archaic employment laws in the country are a disincentive to attracting investment into the country - for example, Sri Lanka has one of the highest rates of severance pay in the world. With regard to energy costs, Sri Lanka stands at a disadvantage against many competitor destinations in the Asian region, with the highest electricity tariffs at US$0.18/KWh compared to Singapore (0.09), Thailand (0.08), Bangladesh (0.05), Indonesia (0.06) and Vietnam (0.09). Corruption including bribery is a significant challenge for firms operating in the country. The problem is not so much adequate laws and regulations as weak and ineffective enforcement.

## 5.4.1 Issues Related to FDI

There is a need to provide clear policy direction with regard to FDI, within the context of an overarching industrial policy and a national export strategy. Such a framework sends powerful signals to enterprises, including foreign investors, about the focus and direction of government policy. Successful economies such as Singapore did not simply provide incentives to increase overall FDI into the country, but aimed to attract FDI to specific sectors which positively affected the structure of the economy in line with broader industry policy and vision of the country.

There are also weaknesses in existing institutional structures. The BOI was established to function as a central facilitation point for foreign investors, intended to perform the role of a 'one-stop shop'. However, this has weakened where investment in certain sectors requires the approval of several government agencies. While it is deemed to be relatively effective in provision of services to investors to establish operations within FTZs, it is considered less effective in facilitating and servicing large investments outside the FTZs. In addition, Sri Lanka currently lacks an effective investment promotion programme. Existing promotional activities lack focus and clarity and only have a fixed template for all types of investors/investments. More targeted and customized promotion campaigns have

been behind the success of countries with high FDI inflows such as Malaysia where FDI promotions emphasise what their industrial hubs have to offer, including skills and adaptability of people that can complement the high-tech industries.[23] Malaysia has also recognized the importance of 'after sales services' to existing investors and promotes such services separately.

In addition to the above weaknesses, there is significant discretionary policy in guiding FDI. In 2008, Sri Lanka passed the Strategic Development Projects (SDP) Act, which gave the minister in charge of investment the power to grant tax exemptions to strategic development projects for a period of 25 years.[24] However, the definition of what constitutes a 'strategic development project' is broad, allowing ample room for discretion in the investment approval process, as well as making the process cumbersome and lengthy.

Sri Lanka also passed an expropriation law under the Revival of Underperforming Enterprises and Underutilized Assets Act of 2011. This law empowered the government to acquire and manage 37 'underperforming' or 'underutilized' private enterprises, including seven enterprises with foreign capital input. It is argued to violate existing Constitutional guarantees against expropriation of foreign owned assets and eroded investor confidence regarding property rights in Sri Lanka.[25] While the measure was considered to be one-off, the government subsequently announced plans to retake 25,000 hectares of tea plantation leased land that was not being fully utilized and acquire abandoned private paddy land. Such policy enactments and pronouncements create an atmosphere of uncertainty and unpredictability in the business environment.

Another legislative enactment to send mixed signals to investors is related to banning of land sales to non-nationals under the Land (Restrictions on Alienation) Act of 2014. Since 2004 foreign individuals had been able to buy land by paying a 100 per cent transfer tax, and locally incorporated firms with over 25 per cent foreign ownership were also subject to the levy. The new Act prohibits foreign individuals, companies and locally incorporated firms with over 50 per cent foreign ownership from buying land in Sri Lanka; it will allow foreigners to acquire land only on a lease basis of up to 99 years with an annual 15 per cent tax on the total rental paid up front. The argument put forward to support its enactment was to curb tax evasion where non-nationals with a minority stake in a company side-step the existing provisions. However, critics also argued that while it is not unprecedented to restrict foreign ownership of land, it could dampen FDI and investor sentiment.

## 5.4.2 FDI Policy Reforms

It is critical at this juncture of Sri Lanka's economic development to attract efficiency-seeking FDI and enter the fast-growing markets for made-to-order manufactured goods, and component production and assembly within vertically integrated production systems. Towards this, the following reforms require attention:

***Fitting FDI into a broader industrial strategy:*** FDI promotion in the country cannot be isolated from other policies relating to trade and industry. In this context, there is a need for a national trade and industrial policy which would spell out the role of FDI. Such a strategic framework will provide investors a credible and coherent indication of future policy direction.

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[23] Athukorala (2011).

[24] Under the Act, a strategic development project is defined as a "project which is in the national interest and which is likely to bring economic and social benefits to the country and which is also likely to change the landscape of the country, primarily through provision of goods and services which will be of benefit to the public, substantial inflow of foreign exchange, substantial employment and technology transfer".

[25] Athukorala (2012).

***Institutional reforms:*** The BOI needs to enhance its effectiveness as a 'one-stop shop' for foreign investors and offer a range of services, including better 'after-sales services'. It is encouraging to note that the government is to set up a one-stop-shop facility within the BOI, by gathering together all agencies which provides approvals in setting up a business, to ease the process.

***Reviewing incentives structure:*** Given that the effectiveness of tax holidays is debatable and a constant drain on government revenue, the Presidential Tax Commission (2010) recommends their gradual phasing-out with simultaneous reduction in corporate income tax as a means of attracting investments. In addition, it recommends switching to other forms of incentives like approved investment relief, investment tax credits/allowances, accelerated depreciation and non-tax incentives (i.e., concessionary land).

***Review Acts affecting FDI:*** In order to improve the attractiveness of Sri Lanka to FDI, there is a need to review existing laws affecting FDI, and ensure that there is policy coherence to signal consistency in FDI and related policies. Without the latter, Sri Lanka will continue to struggle to attract 'good' FDI. For example, the Strategic Development Projects Act needs to be revisited to bring greater clarity - the economic sectors and types of economic activity have to be specifically defined while the approval procedures need to be streamlined.

***Create a favourable business climate:*** In the medium to long-term, Sri Lanka needs to streamline business procedures and undertake reforms to improve the overall business climate and the country's attractiveness as an FDI destination. Sri Lanka lags behind in many of the globally published business climate surveys, particularly with regulatory and licensing bottlenecks, restrictive labour laws, etc. For years, Sri Lanka has granted tax holidays as a means of countering disincentives caused by the war and unfavourable business climate. With the end of the war, if weaknesses in the business climate can be improved, incentives such as tax holidays can be scaled back to support government fiscal consolidation efforts.

## 5.5 Accessing Markets through Trade Agreements

Preferential trading arrangements (PTAs) between countries form an important component of the incentive framework in place to promote exports. This works primarily through tariff concessions or duty free entry provided into export markets under these agreements. Such tariff preferences serve to provide a competitive edge in exporting products compared to other competitors, and also motivate exporters to aggressively explore and exploit export opportunities in such markets.

Sri Lanka has lagged behind in pursuing PTAs in recent years, especially in relation to neighbouring countries in South and Southeast Asia. Sri Lanka has only four PTAs in force, compared to India (13), Malaysia (13), Thailand (12), Pakistan (8) and Vietnam (8) to name a few.[26] Of the PTAs that are currently in force - the India-Sri Lanka Free Trade Agreement (ISFTA), the Pakistan-Sri Lanka Free Trade Agreement (PSFTA), the South Asian Free Trade Agreement (SAFTA) and the Asia-Pacific Trade Agreement (APTA) - the last to begin implementation was SAFTA in 2006. Since then, Sri Lanka has only signed on to the SAARC Framework Agreement on Trade in Services (SATIS) in 2010.

Whilst the provisions made under the bilateral agreements are much more liberal and favourable to Sri Lanka, only the ISFTA can be said to have had some economic gains. This is largely owing to the fact that Sri Lanka's trade with other bilateral partners in these PTAs is comparatively low. These

[26] ADB (2015), "FTA Status by Country/Economy", http://aric.adb.org/fta.

**Sri Lanka has lagged behind in pursuing PTAs in recent years, especially in relation to neighbouring countries in South and Southeast Asia.**

agreements have been negotiated on a negative list, 'offer-and-request' approach, allowing substantive areas to be 'protected', especially in agriculture. Thus, negative lists, often restrictive rules of origin (ROO) criteria and non-tariff measures (NTMs) together with supply inadequacies have been limiting factors in promoting trade, resulting in low utilization of concessions granted under the agreements. For instance, the ISFTA utilization rate for Sri Lanka's exports, which peaked to 99 per cent in 2003, has since witnessed a steady decline to 65 per cent by 2013. Further, ISFTA utilization for imports has been only 14 per cent in 2013.[27]

## 5.5.1 Status and Issues of Trade Agreements

The pace of liberalization under SAFTA since its implementation in 2006 has been slow due to the large size of sensitive lists, prevalence of non-tariff barriers (NTBs), exclusion of services and investments, high transaction costs and the political uncertainties between countries, especially between India and Pakistan.[28] Intra-regional trade in South Asia was as low as 5 per cent in 2006 at the time of SAFTA coming into effect. The much expected growth in intra-regional trade has not materialized to date, despite the operationalization of the agreement.

By contrast, Sri Lanka's trade with India has gradually changed in terms of value and composition after the implementation of the ISFTA in 2000. Immediately preceding the agreement, Sri Lanka's exports to India was a mere 1 per cent of its total exports, with imports close to 10 per cent. A decade later, India accounted for 5.5 per cent of total exports, with greater export product coverage, rising from approximately 500 products to 2,000 by 2010. Whilst imports from India to Sri Lanka also rose substantially, the bulk of such imports (petroleum, vehicles, sugar, cotton, iron and steel, and pharmaceutical products) did not receive preferential access under the ISFTA. In fact, over 70 per cent of Sri Lanka's imports from India have been from products that are either in the negative list or are at zero MFN duty rates.[29]

There has been no discernible change in the pattern of trade following the implementation of the PSFTA in 2005. The share of Sri Lanka's exports to Pakistan has remained the same at 0.7 per cent. Nonetheless, Sri Lanka has diversified its export basket to Pakistan over time. With Pakistan's negative list consisting of many of Sri Lanka's main export interests to that country (tea, rubber products, certain ceramics, paper products and several T&G products), a range of new exports have penetrated Pakistan's market (e.g., fresh pineapple, sports goods, edible oil, porcelain tableware and kitchenware, ceramic tiles, etc.).

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[27] Department of Commerce (2014), "ISFTA Utilization Rates 2013", Department of Commerce, Colombo.

[28] Weerakoon, D. (2010), "SAFTA: Current Status and Prospects" in S. Ahmed, S. Kelegama and E. Ghani (eds.), *Promoting Economic Cooperation in South Asia: Beyond SAFTA,* Sage Publications, New Delhi.

[29] Kelegama, S. and C. Karunaratne (2013), "Experiences of Sri Lanka in the Sri Lanka-India FTA and the Sri Lanka-Pakistan FTA", Background Paper on Regional Value Chains, UNCTAD, Geneva.

Asia's first plurilateral preferential trade agreement (Bangkok Agreement signed in 1975) was renamed as the Asia-Pacific Trade Agreement (APTA) in 2005 and came into effect a year later. APTA has adopted modalities for extending negotiations into other areas such as NTMs and entering into a Framework Agreement on Trade Facilitation, Trade in Services and Investments. Sri Lanka has ratified the Framework Agreements on Trade Facilitation and Investment. APTA is the only trading arrangement that allows Sri Lanka preferential access to China and South Korea. Under APTA, Sri Lanka receives tariff concessions for over 1,858 products to China, and goods exported under these tariff lines are estimated to account for around 50 per cent of Sri Lanka's total exports to China.[30] However, overall utilization of concessions under APTA remains low.

Overall, several issues have cropped up with regard to the negotiations and implementation of Sri Lanka's PTAs. Due to the negative list approach of negotiations, the existing FTAs have not been able to garner the potential benefits. In other instances, although tariff schedules have been liberalized to a certain extent, Sri Lanka's trade expansion has been impeded by the imposition of tariff-rate quotas (TRQs). For example, India has maintained tariff-rate quotas for tea, and T&G, while Pakistan also maintains TRQs for tea, T&G and betel. Hence, the bulk of tea exports from Sri Lanka to India and Pakistan have been outside the FTAs.

Varying and overlapping ROO criteria under different agreements have caused confusion among traders. For instance, SAFTA and ISFTA require a change of tariff classification at 4-digit level and PSFTA at 6-digit; SAFTA also has product-specific ROO. At the same time, stringent ROO criteria have also hampered utilization of concessions. For example, there is a detrimental effect on Sri Lanka's blended tea exports where a change in tariff classification at the 4-digit level is difficult to achieve even when blended with Indian tea.

Lack of Mutual Recognition Agreements (MRAs) for standards and HS codes between Sri Lanka and its FTA partners has resulted in various additional checks/certifications on the goods at the importing country although they have been previously tested and certified by the relevant, approved authorities in Sri Lanka. Some of the issues faced by traders include intergovernmental non-acceptance of testing methods and standards; packaging, labelling and markings; and duplication of health and safety checks in India and Sri Lanka. This has resulted in delays and additional costs for traders.

Lack of knowledge/awareness among traders of the concessions offered by the FTAs has also been an impediment to garner benefits from them. Although a majority of exporters/importers are aware of the FTAs, there are SMEs who lack awareness of specific information on the duty concessions offered and the processes attached to acquiring the preference (ROO, TRQs, etc.). Past experiences also reveal that the public consultations during trade negotiations have been mostly restricted to government institutions and the commerce and trade departments, where other stakeholders like traders and service trade-related providers were not adequately represented.

The absence of a fixed body to address problems arising when trading under the agreement is an impediment in using the FTAs. When problems arise regarding a shipment (i.e., documentation) there is no formal body or authority to take up complaints and address them quickly. While officers from the Department of Commerce of Sri Lanka are stationed at New Delhi, Mumbai and Chennai to take up issues with the Indian counterparts, a more institutionalized framework is required to sort out these problems in an efficient manner. Quick responses are essential due to high costs of delays, and if the cost benefit under the FTA is negated, then the traders will not be encouraged to export/importer further. Hence,

[30] Kelegama, S., (2009), "China-Sri Lanka Economic Relations: An Overview", presentation made at "Sri Lanka-China Business Forum", 25 September 2009, Ceylon Chamber of Commerce, Colombo.

there is a need for an inquiry point. Furthermore, customs cooperation on HS code classification is also important, as disagreements act as a bottleneck for traders. Government facilitation (for companies/ businesses) is also essential to overcome bureaucratic issues in countries with which Sri Lanka has bilateral and regional trading arrangements, especially with regard to investing in the partner country.

Partly as a result of implementation issues, efforts to deepen and broaden the ISFTA into a Comprehensive Economic Partnership Agreement (CEPA) have not been successful to date, owing to reservation on the part of Sri Lanka, arising from interest group lobbying. The concerns expressed were broadly centred on the nature of CEPA itself, and the need to address drawbacks in the ISFTA first.

## 5.5.2 Reforms to Strengthen PTAs

***Addressing NTMs:*** Sri Lanka should be mindful in its approach to future trade negotiations considering the lessons learnt from the existing FTAs and PTAs. Therefore, it is important to strike a balance between domestic sensitivities and reciprocity in provisions offered under agreements in future. NTMs should be identified at the onset and addressed along with tariff reductions/ eliminations. With regard to TRQs, there should be binding commitments. It is also important to relax and simplify the ROO so that they are easy for traders to understand and to comply with, while ensuring that necessary controls are in place to prevent fraud.

***Signing MRAs:*** MRAs between countries, especially between key agencies such as Standards Institutes and Industrial Technology Institutes, can assist in reducing the necessity to carry out additional checks. If negotiating governments can agree on testing/certifying bodies in each country, then extra money and time would not have to be spent on demands for additional certificates. For this reason, an MRA should be signed together with the trade agreement specifying the mutually recognized or agreed standards and HS codes by both parties.

***Promoting national awareness and consultation:*** In order to bridge the information gap, widespread awareness campaigns are a vital necessity to disseminate information effectively, especially among SMEs. Trading procedures need to be laid down to reduce ambiguity on the procedures which can lead to complexities and rent seeking. Moreover, although a majority of exporters/ importers are generally aware of the process that needs to be followed to receive trade concessions, SMEs require specific information on the concessions offered and the processes attached to acquiring the preferences.

Consultations should not be reserved purely to the governments and the commerce and trade departments but rather with stakeholders at large. This can ease exporter-importer concerns, demonstrate that challenges in the agreements can be addressed in a participatory manner, and help create broader public awareness of, and confidence in, the opportunities and benefits of the agreements. The experience with the India-Sri Lanka CEPA highlights the need for greater private-public dialogue in Sri Lanka, on an on-going and regular basis.

***Revisiting CEPA***: As a priority, the CEPA with India needs to be revisited. Closer cooperation with India on services and investment holds clear economic benefits to Sri Lanka. Despite the arguments against it, the negotiating draft framework arrived at in 2008 recognizes the economic asymmetry between the two countries, and has accorded special and differential treatment (SDT) to Sri Lanka. Sri Lanka is not expected to fully reciprocate India's commitments; moreover, the positive list approach in services negotiations allows each country to make an offer which is in line with their comfort levels and developmental interests.

***Negotiating new PTAs***: Going forward, Sri Lanka has experience from past PTAs to ensure that its

strategic economic interests are safeguarded. The country must first of all be selective in identifying potential PTA partners, given the significant time and resources required to negotiate and implement these agreements. At the moment, Sri Lanka has shown an interest in exploring a bilateral trade agreement with China (Box 5.1). Both countries have agreed in principle that they would embark on an FTA, which is hoped to open up the vast Chinese market to Sri Lanka's producers and manufacturers, especially the T&G and tea sectors. This would not only boost bilateral trade, but help diverse Sri Lanka's heavy reliance on traditional markets in the EU and US. In this regard, it is imperative that the agreement covers a substantial number of tariff lines and trade to ensure its utility to exporters, as well as address NTMs that might hinder export expansion.[31] Considering the reservations amongst some sections of the business community about adverse effects of an FTA with China, the agreement needs to be prepared carefully taking into account the asymmetric relationship between the two economies, with a rational negative list and a longer phase-out liberalization schedule to protect local producers and manufacturers.

# 5.6 Conclusion

Given its small domestic market, Sri Lanka will not be able to achieve and sustain high economic growth rates without boosting its exports and integrating into the world economy. This can happen through larger inflow of FDI to export-oriented sectors by putting in place an attractive trade regime, combined with better market access through trade agreements, lower trade costs and improved physical infrastructure.

Despite recent simplifications, the trade regime remains non-transparent, complex and unpredictable. This calls for simplification and rationalization of the tariff regime by limiting the number of rates and allowing for few exceptions; amalgamation of para-tariffs into one overall tax with fewer rates; streamlining computation of various border taxes; conversion of specific duties into ad valorem to enhance transparency; and passing WTO consistent trade remedial measures such as anti-dumping, countervailing and safeguard measures without resorting to use of para-tariffs. Several of these recommendations have been made by the Presidential Tax Commission, but remain to be implemented.

While acknowledging the progress made by Sri Lanka to facilitate trade, improvements to publication and administration of policies related to trade; streamlining rules and procedures for imports and exports; more usage of ICT for trade; and strengthening trade related infrastructure need to be undertaken. Reforms to facilitate trade are unlikely to be contentious and easier than reforming the tariff regime given that there is general consensus on the matter.

Sri Lanka must also create a conducive environment to attract FDI for export-oriented industries. The investment climate does not appear to be particularly friendly to investors. In this context, there is an urgent need for coherency and consistency in policy direction with regard to FDI, spelt out in a national trade and industrial policy. The role of BOI as a one-stop shop needs to be enhanced from promotion to after-sales services, while existing laws affecting FDI which are inimical to foreign investment need to be revisited.

Sri Lanka must take a more strategic approach in future trade agreements, whilst addressing shortcomings in existing PTAs. The new PTA architecture is shifting to mega-regional blocs, led by one or more major powers such as the American-led Trans-Pacific Partnership (TPP) and the ASEAN-led Regional Comprehensive Economic Partnership (RCEP). These agreements seek market access commitments covering a gamut of issues ranging

[31] Perera, N., (2015). "Entering and Conquering China: Beyond the Free Trade Agreement", http://www.ips.lk/talkingeconomics/2015/07/09/entering-and-conquering-china-beyond-the-free-trade-agreement/.

from tariffs to government procurement. Small, developing economies like Sri Lanka hardly feature in these mega-trading blocs. However, they too will need to strategically examine entry points via closer integration with regional partners with a view to linking to regional and/or global value chains. Strengthening trade related infrastructure, implementing trade facilitation measures, reforming tariffs (to obtain cheap primary and intermediate inputs for further processing and re-export, and integrate into value chains), conforming to international quality standards, and ratifying global Intellectual Property Rights (IPRs), labour and environmental treaties are means to head forward.

## Box 5.1
## Proposed China-Sri Lanka Free Trade Agreement

The proposed China-Sri Lanka Free Trade Agreement (FTA) will offer Sri Lanka preferential access to the second largest economy and the fastest growing market in the world. Two rounds of negotiations have already been completed. However, if Sri Lanka is to harness the full potential of the proposed FTA it is crucial that some of the key areas discussed below are taken into consideration in the course of negotiations.

***Special and Differential Treatment (SDT) for Sri Lanka*:** In recognition of the asymmetries between countries, Sri Lanka has so far received SDT under all existing FTAs. As such, Sri Lanka has been allowed to maintain a higher number of products in the negative list, a longer tariff phase-out period, and more favourable rules of origin. However, China's existing FTAs have been based on the principle of reciprocity. Despite maintaining negatives lists with all FTA partners (with the exception of Singapore), tariffs are not substantially reduced unless the partner country reciprocates. This is evident in the case of China's FTA with Pakistan, where duties of only 35.4 per cent were eliminated by China corresponding to 36 per cent by Pakistan. On the other hand, tariff liberalization has been high where partner countries too have opened up substantially, albeit progressively – e.g., 96 per cent tariff liberalization by China and almost 100 per cent by New Zealand. In this background, it is important to find out how the asymmetries of the countries can be accommodated in the negotiations.

***Improving market access by addressing non-tariff barriers (NTBs)*:** The prevalence of NTBs is already a concern for some of the current Sri Lankan exporters to China. High costs and excessive time taken for registration and obtaining mandatory licenses (e.g., cosmetics); multiple testing (e.g., garments); technical trade barriers (e.g., rare earth testing of Ceylon tea) are some of these concerns. Hence, there is a need for negotiations to go beyond tariff liberalization to address mutual recognition agreements for standards and to make the removal of NTBs binding.

***Including a strong dispute settlement mechanism in the FTA*:** A strong dispute settlement mechanism in trade agreements is essential to provide the assurance of fair trade/compliance. This will also prevent countries from taking unilateral action, breaking the spirit of the agreement and ensuing complications.

***Developing Sri Lanka's supply capacity:*** If Sri Lanka is to effectively utilize concessions offered by China, it is vital to improve supply capacity in terms of volume as well the range of exportable products. One way of addressing this would be to promote joint investment ventures with Chinese companies. CEAT-Kelani, a joint-venture between India and Sri Lanka, is an example that benefits from the Indo-Lanka FTA. Such joint investments can be promoted through the protection and promotion of FDI through a framework of legally-binding rights and obligations.

Sources: Wijayasiri, J., *et al.*, (2015), "Study on China-Sri Lanka Free Trade Agreement", Institute of Policy Studies, unpublished; Kelegama, S., (2014), "Challenges Remain for China-Sri Lanka FTA", East Asia Forum, http://www.eastasiaforum.org/2014/03/28/challenges-remain-for-china-sri-lanka-fta/.

# 6. Labour Market Reforms for Growth

## 6.1 Introduction

Following the global financial crisis that depressed growth, the call for reforms to create more and better jobs resonated across the world.[1] The importance of better jobs has received attention for several reasons. From a macro perspective, both job growth and productivity progress can drive economic growth by building consumer confidence and expanding consumer demand. It is now a recognized fact that the access to productive jobs is the best means of pulling households out of poverty. Access to good jobs - those with adequate remuneration and social protection - can reduce inequality and vulnerability.[2] There is ample evidence, including in Sri Lanka, that unemployment and lack of access to good jobs is a driver of social unrest.

Improving access to better quality employment needs to happen within the development framework for Sri Lanka. The current strategies envisage developing the country by improving agricultural and industrial sectors through modernization and the adoption of new technologies.[3] Such a development strategy requires a highly skilled and trained workforce that is able to identify, adopt and use appropriate technologies for modernizing and improving production processes. The planning for developing such a workforce should precede the launching of development plans. Unlike in the 1980s and the 1990s when short-term training programmes could train large numbers of workers for employment in the manufacturing sector, the current development plans require highly trained workers with experience who take longer to train. Unless proper planning is in place, the envisaged development in the country will be impeded by human resource constraints.

This chapter will concentrate on four main issues faced by the labour market. First, the immediate challenge faced by the labour market is to source the workers needed to operate envisioned development plans of the country. However, already the country is faced with skill shortages. Many industries are contemplating importing workers to sustain operations, while others are contemplating automation.

Second, demographic transitions are changing the structure of the population and slowing its growth. The population ageing and the working age population is declining. These demographic effects on the economy can be mitigated through better utilization of existing labour resources. Medium term plans should be put in place to enhance labour market activity and draw non-participating workers to the market.

Third, effective human resource planning is hindered due to lack of information, limited coordination

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[1] World Bank. (2011), *More and Better Jobs in Asia*, World Bank, Washington DC.

[2] Torres, R., and M.E. López (2014), "Development and Employment in Latin America and the Caribbean: A Look Ahead", International Labour Organization, Geneva.

[3] Sirisena, M., (2015), "President Maithripala Sirisena's Address to the Nation at the 67th Independence Day Celebrations", News.lk: http://news.lk/fetures/item/6044-president-maithripala-sirisena-s-address-to-the-nation-at-the-67th-independence-day-celebrations [accessed May 13, 2015].

between different labour market institutions, and the changing structure and affiliations of the labour market institutions and the conflicting objectives of the different labour market institutions.

Fourth, the creation of jobs in the formal sector has been hindered due to lack of skilled people to take up available vacancies in the formal sector, and the high cost of providing social protection and employment in the formal sector. A high level of job protection and social security is enjoyed by those in the formal sector while those outside are left vulnerable to fluctuations in the economy, creating inequities and inefficiencies in the economy. Also, opportunities for on-the-job training are limited for those in the informal sector and for casual and temporary workers. As such, they have little opportunities for upgrading their skills.

The Sri Lankan labour market faces challenges on many fronts. To face these, the country needs to find the means to increase labour force participation, improve training and reduce mismatches in the labour market. Better information and a well-coordinated programme for developing human resources are needed to meet the challenge of worker and skill demands of the country in the coming years. In the following sections, this chapter details challenges faced by the labour market in Sri Lanka and the critical reforms needed to produce an uninterrupted flow of skilled workers to support the envisaged development in the country.

## 6.2 Age Structure of the Labour Force and its Growth

The changing age structure of the labour force and declining size can potentially slow economic growth. Bloom, Canning, and Fink (2011) find that ageing has mixed effects on economic growth.[4] They find that in OECD countries, ageing will lower participation in the labour force and the proportion of the population who are economically active. These in turn will have a modest declining effect on economic growth. The magnitude of the impact of population ageing on economic growth will depend on the remedial action taken by different countries to mitigate the effects of ageing on the economy, such as policies that increase the labour force participation of females, and encourage more savings for retirement. However, in non-OECD countries, the same study finds that an ageing population may not necessarily decrease labour force participation rates and labour-force to population raios, as the reducing size of the younger populations will offset the older persons in the population. Also, in countries like China, labour shortages may be mitigated by making use of the rural and urban unemployed or underemployed workers.

Declining fertility rates and increasing life expectancy is slowing population growth and increasing the average age of the population of Sri Lanka. The total fertility rate in the country was 3.4 births per woman in 1981.[5] This declined to 1.9 births per woman in 1998. Although it has increased since then to 2.4 births per woman in 2011, the effects of the initial decline in the fertility rate has slowed population growth. For example, the under 15 proportion of the population has declined from 35.2 per cent of the total population in 1981 to 25.2 per cent by 2012.[6] These trends indicate that fewer numbers of individuals will be entering the labour market in the coming years.

Sri Lanka's labour force is ageing. The proportion of male workers aged 40 years and above has

[4] Bloom, D. E., D. Canning and G. Fink (2011), "Implications of Population Ageing for Economic Growth. Program on the Global Demography of Ageing", Harvard Initiative for Global Health, Cambridge, MA.

[5] DCS (2013), *Sri Lanka Labour Force Survey - Annual Report 2013*, Department of Census and Statistics, Colombo.

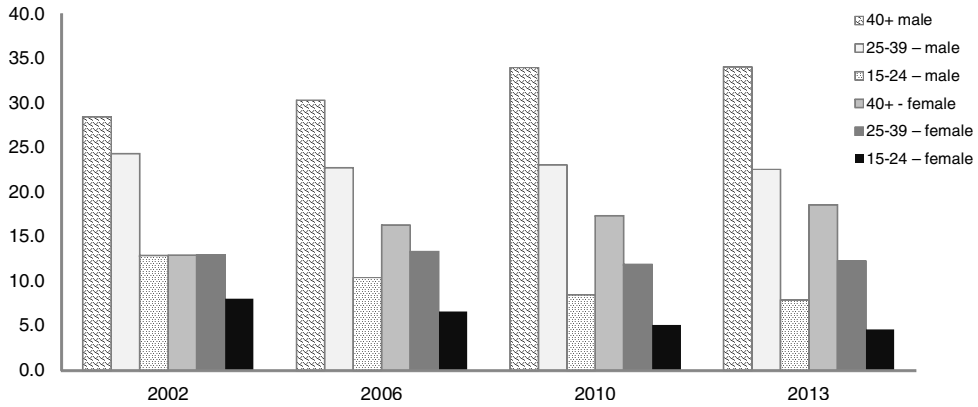
[6] *Ibid*.

increased from 28.4 per cent in 2002 to 34.1 per cent in 2013, while the proportion of female workers aged 40 years and above has also increased from 12.9 per cent in 2002 to 18.6 per cent in 2013. By contrast, the proportion of both male and female youth (15-24 year olds) has declined (female youth from 8.1 per cent in 2002 to 4.6 per cent in 2013 and male youth from 12.9 per cent in 2002 to 7.9 in 2013) in the labour force (Figure 6.1). This is partly due to the earlier mentioned declining fertility rates and increasing life expectancy. With fewer babies being born, the younger age cohorts are becoming smaller in size. As a result of these changes, the proportion of Sri Lanka's population aged under 15 years has declined from 35 per cent in 1981 to 25 per cent in 2012,[7] while the proportion of 60 years and above has increased from 7 per cent to 12 per cent over the same period.

Vodopivec and Arunatilake (2011) find that many older workers are engaged in the informal sector, work longer hours and are paid less than younger workers.[8] They further find that older previous formal sector workers leave the labour force due to mandatory retirement, while previous informal sector workers continue to work in the informal sector into very old ages until health prevent them from working due to lack of social security and other sources of income. Many workers who retire from their regular forms of employment find it difficult to get re-employed in the formal sector due to lack of opportunities and lack of skills. Such workers leave the labour market, while they are still able and willing to contribute to the labour market.

The reducing fertility rates have slowed working age population growth in Sri Lanka. For example, according to the population projections, the proportion of the prime working age population (i.e., individuals aged 15-59 years) is projected to decline marginally from 62 per cent in 2015 to 59 per cent in 2030.[9] The average annual growth of the working age population has already come down from 1.8 per cent in the 1992 to 2002 period, to 1.1 per cent in

**Figure 6.1**
**Composition of the Labour Force by Age and Sex**

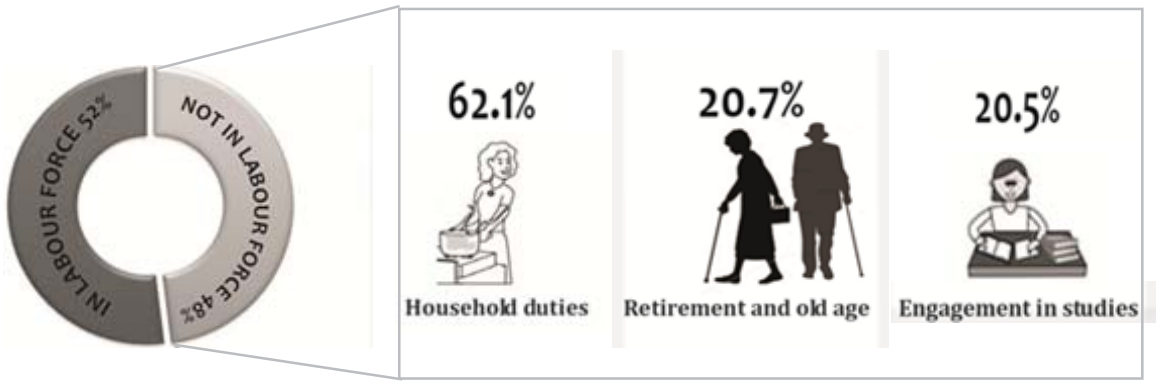



Source: Calculated based on DCS, *Labour Force Survey Annual Report 2013*, Department of Census and Statistics, Colombo.

[7] *Ibid*.

[8] Vodopivec, M., and N. Arunatilake (2011), "Population Ageing and Labour Market Participation of Old Workers in Sri Lanka", *Journal of Population Ageing,* 4(3), pp.141-163.

[9] United Nations (2012), "World Population Prospects: The 2012 Revision: Excel Tables - Population Data", http://esa.un.org/unpd/wpp/Excel-Data/population.htm [accessed 30 March 2015].




the 2002 to 2012 period (see Table 6.1). On average, the working age population and the labour force have grown at the same average rate from 1992 to 2012 (see Table 6.1). But, when the annual average growth rate is separated to the 1992-2002 and 2002-2012 periods, it is clear that the labour force growth has slowed down in the 2002-2012 period, both relative to the working age population growth as well as its own growth in the 1992-2002 period (Table 6.1). This lower growth in the labour force in the latter period is due to lower labour force participation rates.

The emigration of large numbers of workers for employment abroad exacerbate the issues of slowing working age population, by further reducing the supply of workers. The number of workers leaving Sri Lanka for foreign employment increased from 203,773 in 2002 to 282,331 in 2012.[10] Moreover, the proportion of professionals, middle level, clerical and skilled workers leaving the country for foreign employment has increased from 29 per cent in 2002 to 34 per cent in 2012, while the proportions of low skilled, unskilled and housemaid categories of workers have declined over the same period.[11] The low employment growth in the country is at least partly responsible for the promotion of foreign employment at the expense of promoting better quality employment in the country.

Labour force participation rates have declined over time in Sri Lanka (Figure 6.2). This is particularly the case for youth and females. The slopes for the labour force participation for different population

**Table 6.1**
**Annual Average Growth Rates of Key Labour Market Indicators (1992-2012)**

| Annual average annual growth rates (%) | Working Age Population | Labour Force | Employed | Unemployed | Not in Labour Force |
|---|---|---|---|---|---|
| 1992-2002 | 1.8 | 2.3 | 3.1 | -2.6 | 1.3 |
| 2002-2012 | 1.1 | 0.7 | 1.3 | -5.3 | 1.6 |
| 1992-2012 | 1.6 | 1.6 | 2.4 | -3.3 | 1.6 |

Note: Time series data is not available beyond 2006 in the latest Labour Force Survey Annual Reports.

Source: Calculated based on data from DCS, *Labour Force Survey Annual Report 2012*, Department of Census and Statistics, Colombo.

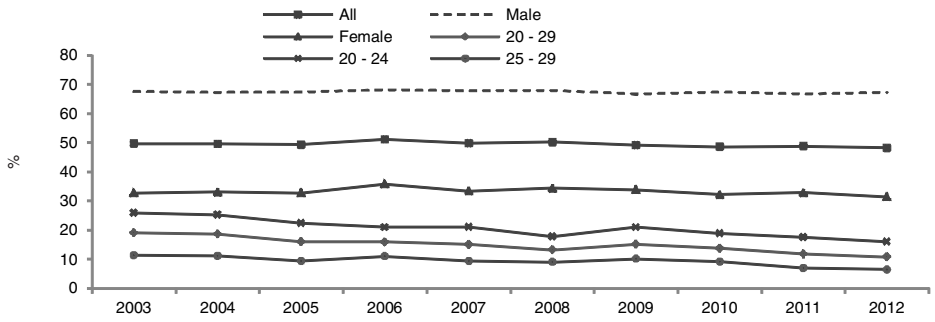
[10] SLBFE (2012), "Annual Statistical Report of Foreign Employment – 2012", Sri Lanka Bureau of Foreign Employment, Battaramulla.

[11] *Ibid.*

groups show that the sharpest decline in labour force participation is for youth followed by females. As seen from Figures 6.3 and 6.4, labour force participation is low in Sri Lanka compared to many countries in South Asia (i.e., India, Pakistan and Bangladesh), and South East Asia (i.e., Singapore, Thailand, Philippines, Indonesia and Vietnam). The labour force participation of females is especially low compared to that of other countries, except that of India and Pakistan.

**Labour force participation rates have declined over time in Sri Lanka (Figure 6.2). This is particularly the case for youth and females.**

**Figure 6.2**
**Trends in Labour Force Participation Rates**




Note: Data excludes Northern and Eastern Provinces. Data is for 15 years and above population. The earliest year for which data is available in the "Labour Force Survey 2013" is 2006.

Source: Estimated based on data from DCS (2013), *Labour Force Survey Annual Report 2013*, Department of Census and Statistics, Colombo.

**Figure 6.3**
**Labour Force Participation of Males by Age Group, Selected Countries**

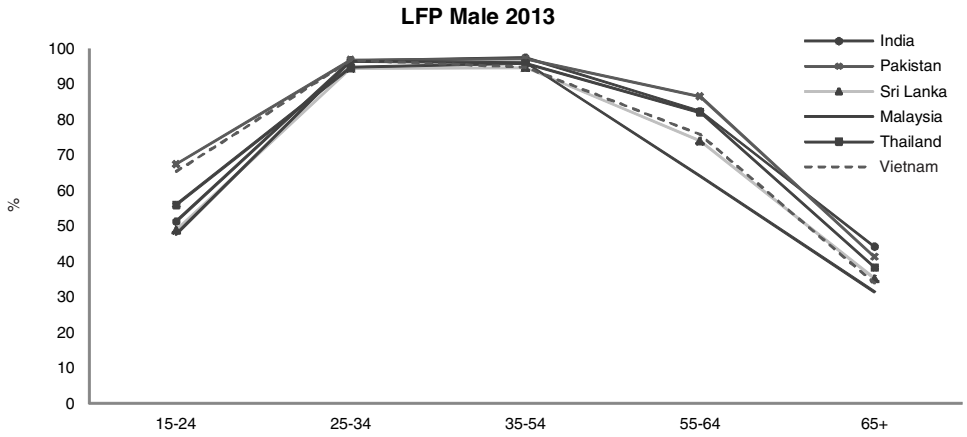
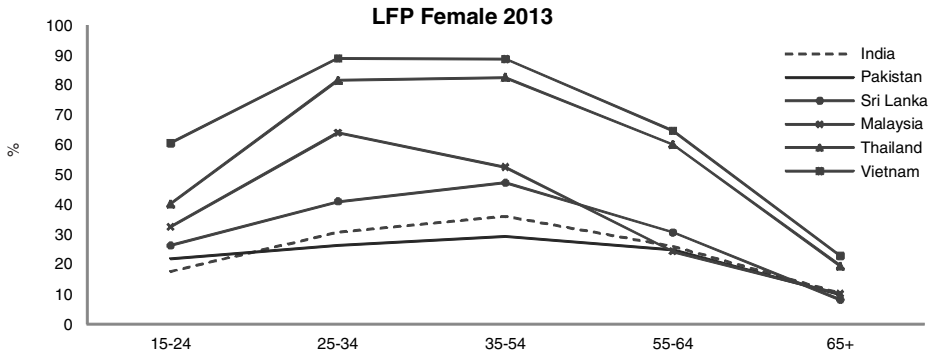


**Figure 6.4**
**Labour Force Participation of Females by Age Group, Selected Countries**




Source: Calculated based on ILO (2015), "Key Indicators of the Labour Market", International Labour Organization, Geneva.

According to labour force survey data, the number one reason (affecting 48 per cent of the working age population) for non-participation in the labour force is household duties.[12] This is mainly due to 62.1 per cent of females not in the labour force engaging in household duties. About 20.7 per cent are not in the labour force due to retirement and old age, while 20.5 per cent are not in the labour force due to engagement in studies.

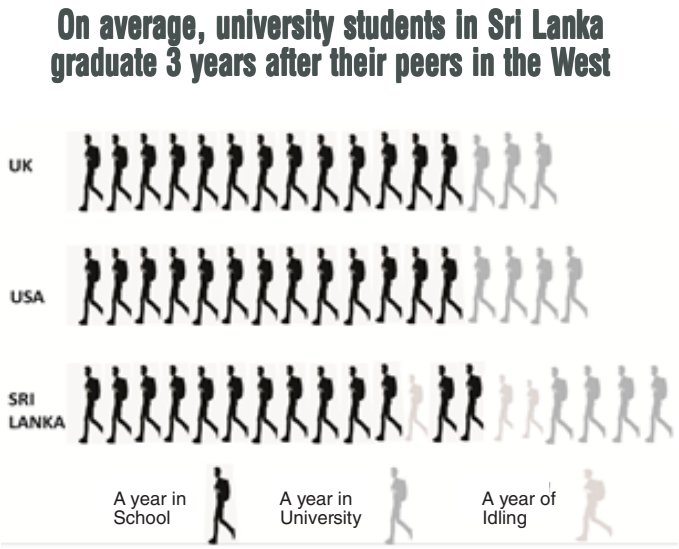
Longer time taken in education - to bridge skills gaps and due to the inefficiencies in Sri Lanka's education system - has increased the time in education for youth, delaying their participation in the labour force. Relative to other countries, young people in Sri Lanka spend a longer time to obtain a degree due to inefficiencies in the education system. Accordingly, Sri Lankan students are more than 24 years old when they get their first degree, while students in most countries get university degrees at younger ages. The main reason for delayed graduation is not longer study courses, but inefficiencies in transition from one level of education to the next, and disruptions to university education due to university closures. On average, a Sri Lankan student wastes about half a year waiting for O-Level results before commencing A-Level course work, and up to a year after finishing A-Levels to enter university because of delays in the release of A-Level results and admissions to universities. A recent study by the World Bank finds that the low education competencies of students entering Technical Vocational Education and Training (TVET) courses lengthen the time taken by TVET students to complete training.[13] Further, it finds that some students require bridging courses to upgrade their skills before being able to complete TVET courses.

## 6.2.1 Available Supply of Workers for Development

The available supply of workers is growing at increasingly slower rates due to many reasons. Demographic transitions have reduced the size of the younger age groups, reducing the number of young people entering the working age population. Large numbers of working age population is not engaging in the labour force due to household work (mainly females), retirement and old age and engagement in studies (mainly youth). In the absence of good jobs within the country, many workers are leaving the country for employment abroad. The emigration of skilled workers has increased in recent times. At the same time, the

[12] DCS (2013), *The Labour Force Survey Annual Report-2013*, Department of Census and Statistics, Colombo.

[13] Dundar, H., *et al.*, (2014), "Building the Skills for Economic Growth and Competitiveness in Sri Lanka", World Bank, Washington, D.C.




**Longer time taken in education has increased the time in education for youth, delaying their participation in the labour force.**

labour force is ageing. These demographic transitions are likely to create labour shortages, unless mitigated by introducing polices to improve labour force participation and better productivity.

In order to sustain a ready supply of workers, Sri Lanka will need to restructure the labour market through encouraging population groups with low participation rates, such as youth, females and older persons, to engage more in the labour market. Given lower availability of workers, attention will need to be made to improve the productivity of existing workers through well thought-out human resource development plans that take into account the changing structure of the population, and the fast changing shifting demands of the labour market.

## 6.3 Worker and Skill Shortages

Despite economic growth, the proportion of formal employment in Sri Lanka has improved only marginally. Labour force survey data show that employment grew at 2.4 per cent per annum on average from 2006 to 2012.[14] This growth is mostly explained by growth in public sector employment. During this period, public sector and semi-public sector employment grew at 4.8 and 2.8 per cent per annum on average, respectively, while formal private sector employment grew only by 1.4 per cent per annum on average. This suggests that although unemployment rates have been coming down, the employment rates have not increased in tandem.

The lack of skills offered by individuals for the available vacancies is partly responsible for the slow increase in employment numbers. According to the World Bank's Skills Toward Employment and Productivity (STEP) survey 2012, the main obstacle faced by firms when recruiting is the lack of skills.[15] This was especially a concern when recruiting for higher skilled occupation categories, such as managers, professionals, technicians, clerks, service, sales workers, and plant and machine operators. Only for elementary occupations was the lack of applications, skilled or otherwise, the main problem in recruiting workers.

Many industries in Sri Lanka are facing a problem of skills shortages. In 2011, an inadequately educated workforce was found to be a "severe" (9

[14] Labour force survey data as analyzed in Byiers, B., (2015), "Manufacturing Progress? Employment Creation in Sri Lanka", Overseas Development Institute, London.

[15] Dundar, M., *et al.*, (2014), "Building the Skills for Economic Growth and Competitiveness in Sri Lanka", World Bank, Washington, D.C.

**Despite economic growth, the proportion of formal employment in Sri Lanka has improved only marginally.**

per cent) or a "major or severe" (27 per cent) constraint for current operations by 36 per cent of firms.[16] The issue of lack of skilled workers is increasing; in 2004, an inadequately educated work force was found to be a "severe" (7 per cent) or "major or severe" (21 per cent) constraint for current operations by only 28 per cent of firms.[17] The third biggest perceived obstacle in the business environment faced by firms is the inadequately educated workforce, preceded by access to finance and practices of competitors in the informal sector.[18]

The type of demand for skills varies according to the skill category of workers. According to the STEP survey, the most important reason for retaining workers after the probation period was job specific skills for both low-skill and highly-skilled workers.[19] The job specific skills for retaining workers was ranked as important for retaining low-skilled workers by a larger share (33.8 per cent compared to 24 per cent) of firms. Sinhala or Tamil literacy was ranked as the second most important skill for retaining workers by firms for both low-skilled and highly-skilled workers. In the order of importance, the other skills deemed important for the retention of highly-skilled workers after the probation period are English literacy, leadership skills and numeracy. For lower skilled workers these were, English literacy and team working skills.

### 6.3.1 Main Issues Faced by the Demand Side

Employment creation in the formal sector in the 2006 to 2012 period was mostly in the public sector. The creation of formal private sector employment was much slower. This is more due to the lack of skills offered by job seekers, rather than due to the lack of opportunities for work. In fact, anecdotal evidence suggests that almost all main industrial sectors are facing labour shortages. A well-coordinated effort to identify skill needs of different industries, and develop human resources to cater to that need is essential to reduce the issue of labour shortages in the economy.

## 6.4 Reducing Duality of the Labour Market and Increasing Equity

Most labour markets which have regulations protecting employment, by making it harder and costlier to fire workers and where costs of hiring workers are high due to employment based social protection, observe dual labour markets.[20] On the one hand, there are workers in the formal sector enjoying the benefits of employment protection and associated social protection, and there are workers outside the formal sector who do not have access to either. Labour markets with high job protections do not adjust to economic fluctuations, as those in permanent positions resist adjustments to the

[16] A constraint labeled as “severe” depicts large impediments for operations while a constraint labeled as “severe or major” depicts moderate impediments for operations.

[17] *Ibid.*

[18] *Ibid.*

[19] *Ibid.*

[20] The Economist (2015), “France and Labour Market Reforms - François Hollande’s Rhine Journey”, http://www.economist. com/news/europe/21649471-french-president-tries-belatedly-catch-up-other-more-competitive-countries-his [accessed 13 May 2015].

## Box 6.1
## Labour and Skill Shortages Faced by Different Industries

Labour shortages in the plantation sector have been an ongoing issue for decades. Estate youth who are now more educated, prefer to work in urban centres rather than find employment in the estates.

The garment industry, the second highest foreign exchange earner for the country, has also been experiencing labour shortages for years. According to the Chairman of the Apparel Exporters Association, the industry is contemplating automation given difficulties in finding workers, with an estimated 15,000 vacancies in the industry in November 2014.

A recent report by the Institute of Construction Training and Development (ICTAD) indicates that the construction sector is experiencing a severe shortage of skilled workers. This situation is aggravated by the migration of skilled construction workers for work abroad.

According to the President of the Tourist Hotels Association of Sri Lanka, the hospitality sector is facing a severe shortage of workers, especially skilled workers. With the ending of the 30 year separatist conflict in 2009, the hospitality sector is expected to grow in the immediate term. This growth can only be sustained with the supply of skilled workers for the sector. These are only some examples of sectors facing labour shortages.

According to the ICT Work Force Survey conducted in 2013, Sri Lanka needs about 6,246 ICT graduates a year. This includes the demand for ICT graduates amongst ICT companies, non-ICT companies, government, and Business Process Outsourcing (BPO) companies. There is a shortfall of about 458 graduates per year due to the shortage of graduates with required skills in technical as well as soft skills.

Sources: Lanka Business Online (2013), "Sri Lanka Plantations Facing Labour Shortages", http://www.lankabusinessonline.com/news/sri-lanka-plantations-facing-labour-shortages/2035551014; Mirror Business (2014), "Apparel Industry in Sri Lanka Mulls Automation to Overcome Labour Woes", http://www.dailymirror.lk/57033/apparel-industry-in-sri-lanka-mulls-automation-to-overcome-labour-woes#sthash.bbpyL9Ph.dpuf; Balachandra, H. K. (2014), "The 20th Asia Construct Conference - Sri Lanka Country Report", Institute for Construction Training and Development, Colombo; Lanka Business Online (2013), "Sri Lanka Hotels Profits May be Squeezed by Rising Labour Costs", http://www.lankabusinessonline.com/news/sri-lanka-hotels-profits-may-be-squeezed-by-rising-labour-costs/1592368372; ICTA (2013), "National ICT Work Force Survey", Information and Communications Technology Agency of Sri Lanka, Colombo.

benefits enjoyed by them. On the other hand, in countries with more flexible labour markets, firms are not reluctant to hire workers as they can adjust their workforce with ease if necessary.[21]

There are clear indications of a dual labour market in Sri Lanka. Despite economic development, the structure of the labour market has not changed much over time. Around 60 per cent of employment in Sri Lanka is in the informal sector (Table 6.2). About 40 per cent of workers are self-employed or contributing family workers - workers described as vulnerable workers by the ILO.[22]

Formal sector workers are legally entitled to receive a host of benefits. They receive better social protection. For example, those in the public service are eligible for a pension upon retirement through

[21] *Ibid*.

[22] DCS (2013), *Sri Lanka Labour Force Survey - Annual Report 2013*, Department of Census and Statistics, Colombo.

**Employment creation in the formal sector in the 2006 to 2012 period was mostly in the public sector. The creation of formal private sector employment was much slower.**

the Public Service Pension Scheme (PSPS). It is a non-contributory pension scheme that is financed by government revenue. The PSPS is the only comprehensive pension scheme in the country which allows beneficiaries to continue their usual consumption patterns to their old age. It is also the only pension scheme which provides an annuity. Employees in the private sector contribute to the Employees' Provident Fund (EPF) to which they are eligible upon retirement. Unlike in the PSPS, formal private sector workers receive a lump sum payment at retirement rather than a monthly pension. This was established under the Employees' Provident Fund Act No. 15 of 1958. Companies can also set up their own Provident Fund, under approval from the Commissioner of Labour.

Those in the formal sector also receive paid holidays and paid sick leave and maternity leave. For example, the public sector workers are eligible for maternity leave under the Establishment Code and formal sector workers are granted maternity leave under the Shop and Office Employees Act of 1954.[23] They are eligible for a severance pay if their work is terminated. In addition, workers in the formal sector receive training funded by their employers, which helps them to keep abreast of new developments.

**Table 6.2**
**Trends in Sector of Employment**

| | 2006 | | 2012 | |
|---|---|---|---|---|
| | No. | % of Total | No. | % of Total |
| Total | 7,105,322 | 100.0 | 8,128,704 | 100.0 |
| **By employment status** | | | | |
| Employees | 3,949,758 | 55.6 | 4,586,066 | 56.4 |
| Public | 954,886 | 13.4 | 1,230,398 | 15.1 |
| Private | 2,994,872 | 42.1 | 3,355,668 | 41.3 |
| Employer | 221,512 | 3.1 | 231,087 | 2.8 |
| Own account worker | 2,189,566 | 30.8 | 2,591,580 | 31.9 |
| Contributing family worker | 744,486 | 10.5 | 719,970 | 8.9 |
| **By economic sector** | | | | |
| Informal sector | 4,378,645 | 61.6 | 4,964,358 | 61.1 |
| Formal sector | 2,726,677 | 38.4 | 3,164,345 | 38.9 |

Source: Calculated based on DCS, Labour Force Survey *Annual Report 2006* and 2012, Department of Census and Statistics, Colombo.

[23] Ministry of Labour Relations and Productivity Promotion (2010), "Labour Code of Sri Lanka," Ministry of Labour Relations and Productivity Promotion, Colombo; Ministry of Public Administration and Home Affairs (2004), "Public Administration Circular No. 3/2004 - Maternity Leave - Chapter XII of the Establishment Code", Government of Sri Lanka, Colombo.

**Table 6.3**
**Change in Employment Status of Public and Private Employees (2006 to 2012)**

| | 2006 | 2012 | Change 2006 to 2012 |
|---|---|---|---|
| Permanent | 1,825,284 | 2,096,870 | 14.9 |
| Temporary | 931,031 | 1,345,081 | 44.5 |
| Casual | 492,611 | 410,629 | -16.6 |
| Not permanent | 698,844 | 731,532 | 4.7 |
| Total | 3,947,770 | 4,584,112 | 16.1 |

Source: Jayawardena, P., (2014), "Sri Lanka Employment Case Study", Background Paper, Institute of Policy Studies of Sri Lanka, Colombo.

The need to extend social protection coverage to the informal sector is now well recognized.[24] But, attempts to establish contributory pension schemes for the informal sector has not met with much success due to low coverage of the target populations, inadequacy of the benefit amounts, and administrative issues.

Another characteristic of a dual labour market is the increase in the proportion of precarious workers - i.e., workers on short-term contracts or temporary work arrangement. As can be seen in Table 6.3, the proportion of temporary workers in the labour force has increased at a much higher rate than the proportion of permanent workers. Further, data indicate that of the 1.8 million temporary and casual workers in the country, 92 per cent work outside the public sector.

Recent examples illustrate that countries with dual labour markets can result in high unemployment rates (when the unemployed are provided with an allowance by the state) or high levels of informality (as with the case of Asian countries). A dual labour market can reduce labour market flexibility and lower productivity and increase inefficiencies, such as unemployment and underemployment. For example, France's high unemployment rates are largely attributed to the low creation of formal sector jobs. High costs of creating employment due to high levels of job protection and higher wages are contributing to low job creation.[25] In 2012, Mexico brought forward a Bill before Congress to modernize their outdated labour code with the intention of relaxing labour regulations with the hope of expanding job creation.[26] Some reforms that were contemplated include, the introduction of hourly pay, allowing companies to hire workers on trial basis for up to six months, and a cap on severance pay so that it is less costly for companies to restructure their workforce. The proposed reforms also introduced clear rules on outsourcing and improved the rights of females in the workplace. These reforms are expected to create an additional 400,000 jobs yearly, reduce informality and increase economic growth by 0.3 per cent. The Bill also aims to improve the governance of labour unions by requiring them to elect officials through secret ballot and submit their accounts for auditing.

## 6.4.1 Main Issues of Duality in the Labour Market

Sri Lanka has a dual labour market. Those working in the formal sector receive employment protection as legislated by law. They also enjoy paid holidays, maternity leave benefits and superannuation benefits. Despite attempts to improve social protection for those in the informal sector, these have not improved over time. Evidence for other countries shows that dual employment markets reduce job creation and leave large segments of the population economically and socially vulnerable. Investments on training by firms on informal, casual and temporary workers are also lower. As such, skills of workers who remain as temporary or casual workers

[24] See Chapter 10 of this report on "Reforming Sri Lanka's Social Protection System".

[25] The Economist (2015), "France and Labour Market Reforms - François Hollande's Rhine Journey", http://www.economist.com/ news/europe/21649471-french-president-tries-belatedly-catch-up-other-more-competitive-countries-his [accessed 17 May 2015].

[26] The Economist (2012), "Reforms in Mexico - Labour Pains", http://www.economist.com/news/americas/21565607-travails-bill-modernise-labour-markets-and-unions-highlight-difficulties-facing [accessed 7 May 2015].

over a longer period will get outdated and their productivity will decrease over time. Further, informal, casual and temporary workers are more likely to fall into poverty as they are not covered by social protection provisions enjoyed by the formal sector workers.

## 6.5 Issues with Human Resource Development

Many of the demand and supply mismatches discussed above could have been avoided with proper planning. A clear understanding of the trends in the supply of workers, their skill competencies and the demand for workers and skills by the industries can better prepare planners to make structural adjustment to minimize the gaps. Better labour market information, better capacity in the labour market institutions to analyze available information for advising policy makers, and better coordination between different labour market institutions can facilitate the generation of a skilled workforce to meet the demands of industries.

### 6.5.1 Labour Market Information

A prerequisite for proper analysis of labour market trends and restructuring of training to match demand is information. Comprehensive, reliable and up-to-date information is essential for identifying demand and supply mismatches in the labour market and for taking action to fill gaps. In the absence of such analysis, the envisaged economic development plans will not be able to be carried out according to plan.

The main source of information on the labour markets is provided by Labour Force Surveys conducted by the DCS. Although these provide fairly comprehensive information on the supply of workers, they do not provide information on training, labour demand and labour migration.

The Labour Force Survey only collects information on education attainment at school level and university education. Information on TVET is only collected from the unemployed. Better information on the TVET sector could provide information on the skills mismatches in the market. Information available from the TVET sector can also be improved. The present available information is limited to enrolments and completions. Although some studies have been done to collect information on the labour market outcomes of those who have completed TVET training, these studies are done on an ad hoc basis. Regular information on labour market outcomes of TVET graduates can provide valuable information on the quality and relevance of the training, and the need to adjust training requirements to match demand.

**A prerequisite for proper analysis of labour market trends and restructuring of training to match demand is information.**

Most available information on the labour market is from the supply side. However, regular surveys need to be conducted to assess the vacancies and skill shortages in the economy, and circulate these results for new entrants to the market. This will allow students to choose their training programmes more rationally, and allow training providers to adjust their training programmes to better meet the market demands.

Given that large numbers of workers are leaving the country for employment, better information on the migrant workers are also necessary for improved human resource planning. The Sri Lanka Bureau of Foreign Employment (SLBFE) collects information on labour migrants and makes them available on the web with regular updates. It is a first step towards improving information on migrant workers. The information available at present are limited to those who register with the SLBFE and for those leaving the country for work. Information should also be collected on those returning to the country after work abroad, and those leaving the country without registering at the SLBFE. Discussions with the SLBFE reveal that there are already attempts to link SLBFE data with that of customs data so that more comprehensive information on both arrivals and departures for foreign employment can be collected. Further, to facilitate analysis of available information, classification of migrant workers should also be done using international standard classifications, as done by the DCS for the classification of workers in Sri Lanka.

## 6.5.2 Labour Market Planning and Governance

There is ample evidence that timely, reliable and comprehensive information on various aspects of the labour market is essential for the proper planning of labour markets. Human resource planning is interlinked with economic planning. The strategies adopted by different governments to develop the country will determine the human resource needs of the country. Human resource planners should ideally forecast the skills and employment needs according to the development objectives of the country, examine the present demographic trends, and institutional environment for human resource development. If there are identifiable gaps in the supply and demand of labour according to different skill levels, corrective action should be taken to restructure the labour supply and training practices so as to ensure proper supply of workers.

Institutions responsible for planning and implementation of labour related policies is scattered across different ministries in Sri Lanka. Further, their distribution amongst different ministries changes from time to time. Some labour market institutions have even come under non-labour related ministries (Box 6.2). Such changes have complicated the proper planning of labour and employment.

At present, labour market planning is done by different ministries with different objectives in mind. For example, the stated functions of the Ministry of Foreign Employment are broadly, promotion of foreign employment, welfare of migrant workers, regulation and supervision of employment agencies and other institutions coming under the ministry, career guidance of foreign employment job seekers, and the welfare of expatriate workers. The Tertiary and Vocational Training Commission (TVEC) identifies improving the quality and relevance of TVET programmes, increasing enrolments in TVET institutions, and improving the operational and managerial efficiency of TVET institutions as their objectives. The mission of the Ministry of Labour and Labour Relations is to contribute towards the socio-economic development through the promotion of industrial peace and harmony, social protection, rights at work and productivity. However, no ministry is in charge of coordinating the actions of these different ministries, so that there is a clear strategy for developing human resources in the country to cater to local and foreign employment skill demands of the country. The present skills mismatch experienced in the country is partly arising from this lack of coordination. For example, on the one side, when Sri Lanka is facing a shortage of labour in the construction sector, the country has been promoting migration of construction workers with the objective of bringing foreign exchange earnings.

## Box 6.2
## Shifts in Ministerial Responsibilities for TVET

The main ministry responsible for the TVET sector changed several times from 2007 to 2015. Even when it remained the same, changing policy priorities was a challenge for development of the TVET sector.

Segregation of training agencies into different ministries was identified as a weakness of the TVET sector in the Corporate Plan of the Tertiary and Vocational Education Commission (TVEC) in 2007. For example, the Ministry of Vocational and Technical Training, the main ministry responsible for the TVET sector in 2007, had only some of the important vocational and technical training institutions (such as the Department of Technical Education and Training (DTET), Vocational Training Authority of Sri Lanka (VTA), and the National Apprenticeship and Industrial Training Authority (NAITA)) coming under its purview. Several other important training institutions came under different ministries in this year. For example, the National Institute of Fisheries and Nautical Engineering (Ocean University) came under the Ministry of Fisheries and Aquatic Resources, and the Ceylon German Technical Training Institute (CGTTI) came under the Ministry of Skills Development and Public Enterprise Reforms.

In the post-2010 period, a main challenge for the sector was not the distribution of TVET institutions amongst different ministries, but the frequent change of government priorities. In 2010, the government showed a renewed interest in youth affairs. Along with this new interest, the most important technical and vocational training institutions mentioned above (i.e., DTET, VTA, NAITA, Ocean University and CGTTI) were brought under the Ministry of Youth Affairs. In 2012, this ministry was renamed as the Ministry of Youth Affairs and Skill Development. In the new government formed in 2015, again the above institutions were kept together; the new ministry responsible for those is the State Ministry of Youth Affairs, which is a non-cabinet level ministry.

Sources: TVEC (2007), "Corporate Plan 2008-2012", Ministry of Vocational and Technical Training, Colombo; TVEC (2011), "Corporate Plan 2012-2016", Tertiary and Vocational Education Commission, Colombo.

### 6.5.3 Training

Sri Lanka has several networks of well-established vocational and technical training institutions that are spread throughout the country. The oldest of these is the Department of Technical Education and Training (DTET) which established its first technical college in 1893 in Colombo.[27] In recent times, from 1968 to 1995, four more networks have been established for the purpose of technical and vocational education and training. These are the National Apprentice and Industrial Training Authority (NAITA), the National Youth Services Council (NYSC), the Vocational Training Authority (VTA), and the Sri Lanka Institute of Advanced Technological Education (SLIATE). In 2009, 63,323 students (DTET - 12,175; NAITA - 11,500; VTA - 25,534; SLIATE - 5,341) were admitted for training to these institutions. These institutions are mainly concerned with training crafts persons for the industrial sector, but in recent times they have also started offering courses in computing, information technology, health and elderly care, etc. In addition to the above institutions responsible for TVET, individual line ministries, and provincial councils are also conducting TVET programmes using public funds. Several private sector institutions are also engaged in providing TVET education.

[27] The paragraph draws from ADB (2011), "The National Qualification Framework for Skills Training in Sri Lanka", Asian Development Bank, Manila.

The need for a national level qualification system to assess skills of workers has been a pressing need. In response to this, the National Vocational Qualification (NVQ) system was developed to standardize the assessment of qualifications within the country. The NVQ system provides certificates confirming competencies in seven levels according to industry identified competency standards. For example, NVQ 1 certifies the acquisition of entry level competencies, levels 2, 3, 4 certifies competencies in full craftsmanship, levels 5 and 6 recognizes competency levels for managers and supervisors, while level 7 recognizes degree level competencies in TVET. Unlike with university education, individuals can obtain certification in different levels of NVQ at different times. There is also provision for those who have obtained competencies through experience, rather than through class room work, to obtain certification after an assessment. In 2008, the University of Vocational Technology (UNIVOTEC) was established for the purpose of training individuals to obtain level 7 competencies in TVET and for developing curricula, teacher guides and learner guides. The TVEC is responsible for the administration of NVQ with the assistance of NAITA and UNIVOTEC.

Currently, competency standards are developed for 96 occupations for NVQ levels 1 to 4, 14 fields for those at NVQ levels 5 and 6. The TVEC conducts labour market analysis to identify occupations and fields needing development of competency standards and instructs the NAITA to develop them. The process of developing the NVQ system was long. It was initiated in 1997 with a report by a Presidential Task Force, the development of the NVQ framework started in 2003, and it was formally launched in 2004 and the first set of individuals received NVQ certificates in 2007.

### 6.5.4 Main Issues of Human Resource Development

The limited demand side information available indicates that there are serious skills gaps in almost all industrial sectors of the country. This skills gap is more acute for highly skilled workers. Further, as the number of skilled workers going abroad for work is increasing, the training institutions in the country need to take into account the needs of the market for migrant workers as well as the domestic market.

Up-to-date reliable information on all aspects of the labour market needs to be systematically collected, and analyzed to identify mismatches in the supply and demand of workers and skills. Such information should be freely accessible and should be used to help students make career decisions, help training providers design courses, and help development planners to assess availability of labour resources for anticipated development plans for the country.

Once skills gaps are identified, programmes should be put in place to guide training providers develop courses to train individuals to fill skills gaps. In the immediate term, an accelerated programme of action is necessary to develop human resources to fill anticipated vacancies in different industries.

## 6.6 Conclusions and Policy Recommendations

Most industrial sectors are experiencing labour and skill shortages in the country. At the same time, demographic changes and related ageing of the population is slowing down the available supply of workers. Lower labour force participation and high levels of migration of workers are exacerbating the labour shortage problem. To meet the increasing demand for skilled workers, the education and training sector in the country needs to improve. The country is endowed with a well-established network of training institutions. However, these need to be modernized and improved so that the graduates who come out of these institutions are properly trained and ready for employment. Developing high skilled workers take time. Planning for human resource development for the envisaged development plans needs to happen immediately.

However, human resource development is hindered by several factors in the country. Comprehensive, reliable and timely information on all aspects of the labour market are not available to guide planning. Policies relating to human resources in the country are done by several institutions spread across different ministries. This has made holistic planning difficult. Therefore, the following policy reforms are envisaged on a priority basis to ensure unhindered development.

### *Policy Priority 1: Better information and better coordination, better planning and effective career guidance*

Better information on worker and skill demands of the country and analysis of this information for better planning to develop human resources for the different demands of the country is essential to minimize growth constraints associated with labour and skill shortages. The knowledge created through information thus collected must be publicly available, for policy makers, for students for career planning, for training institutions for designing courses, and for industries for development planning.

Collected information should also be used for monitoring and evaluating the effectiveness of different labour market institutions. Adequacy and relevance of different types of workers coming out of training institutions to cater to the needs of different industries should be assessed. If there are deficiencies, plans must be put in place to address the gaps in human resources.

A multitude of public and private training providers is in operation in the TVET sector in the country. Information on the quality and relevance of courses offered by these different institutions, and the relevance of courses offered must be made available to job seekers so that they can make informed decisions on their careers and training providers.

A central body should be in charge of drafting policies for the development of labour resources. The present labour market policies are developed by a variety of institutions with different, and sometimes conflicting, objectives. Better coordination amongst labour market institutions is essential for strategic human resource planning in the country.

### *Policy Priority 2: Improving skills and productivity of workers*

Productivity increases is another means of mitigating the adverse effects of reducing labour resources. Training is central to improve labour productivity. With the changing structure of the population and fast changing technology and global integration, the traditional modes of vocational and technical training models are unable to supply adequate numbers of skilled workers. Depending on the level of skills and experience needed, the planning will have to be done in advance, as skilled workers take longer to train. As such, in future, the training institutions will need to train workers for globally recognized certificates.

The present training programmes in the country are aimed at training young workers who come out of school. Technological change will require that presently employed workers also get on-the-job training so that they keep abreast of changes in technology. Training institutions will also need to cater to the needs of the adult students so they can productively engage in the labour market

### *Policy Priority 3: Improving labour force participation of females, youth and elderly*

To make up the reducing numbers, those outside the labour market - namely, youth, females and older persons - will need to be encouraged to participate in the labour force.

Females are the prime caregivers for young children and the elderly, and they play a major role in household activities such as cooking and cleaning. These different roles played by females will need to be taken into account when designing policies for encouraging female labour force participation. Policy

recommendations for improving female labour force participation adopted by other countries include,[28] improving public assistance for child care and child care benefits, improving flexibility of employment by facilitating part-time work, reducing the discrimination of females in the labour market, and providing tax benefits for second earners.

Deficiencies in the school education system for preparing children for the world of work and time taken in improving skills to match the demands of the market increase the time taken by youth to acquire skills demanded by the market. Improving relevance and quality of education and managing their transitions to different levels of education more efficiently can reduce the time spent in education and improve labour force participation of youth.

Upgrading and modernizing school education to match demands of the market, and improving the vocational and technical training sector can make general and TVET education more efficient and relevant, so that less time is spent in education. Better information on the skill demands of the market can help young people choose their study courses wisely, facilitate course planning for technical and vocational training institutes, and reduce time taken for job search.

Lifelong training that reduce the skills mismatches for older workers and more flexible work arrangements can improve the labour force participation of older workers.

### *Policy Priority 4: Reducing the duality of the labour market and improving equity*

Reducing the cost of firing workers, shifting the responsibility of social protection from the firm to the public domain and improving the governance of unions so that union decisions truly reflect the interests of the workers are some policy options adopted by countries to reduce the gap between the 'insiders' and 'outsiders'.

At present, the cost of providing social protection for workers is borne by the firms. For example, when a young mother goes on maternity leave, it is the responsibility of the firm to give the mother paid leave for the duration of the legally stipulated maternity leave. Although this may not be a problem for large firms with many workers, firms operating with a handful of workers will find the costs of providing for paid leave for several months difficult. Some countries have funds to assist smaller firms deal with such costs of social protection. Lowering the costs of social protection will also encourage smaller firms to enter the formal sector and provide formal employment to workers.

Lobby groups consisting of employees already in the formal sector have prevented planned reforms in many instances in the country. Such trade union actions help to protect the interests of the workers, who have already gained formal sector employment and prevent workers from outside from entering the system. Trade union actions should be restricted to fighting for the interests of the workers. Ensuring democratic election of trade union leaders is necessary to ensure that unions are functioning democratically with the interest of the workers in mind.

[28] Dao, M., *et al*, (2014), "Strategies for Reforming Korea's Labour Market to Foster Growth", International Monetary Fund, Washington D.C.

# 7. Migrant Labour Reforms: Tackling the Family Background Report

## 7.1 Introduction

Labour migration related remittances account for the largest share of foreign exchange earnings in Sri Lanka. In 2014, remittances accounted for nearly 10 per cent of GDP, reaching over US$ 7 billion. The importance of labour migration and remittances in the country's economic growth and development is expected to continue, and indeed to grow in the near future.

The factors driving migration are many; some migrate in search of better economic opportunities, whilst others are forced to migrate owing to conflicts, natural disasters, etc. In the case of Sri Lanka, temporary labour migration of workers in search of greater opportunities and a better life continues unabated, with over 300,000 leaving the country each year in search of employment abroad. Of these, nearly 40 per cent are females, with the vast majority (approximately 80 per cent) being domestic workers, of whom nearly 98 per cent secure employment in the Middle East.

As discussed in chapter 6, low and declining levels of female labour force participation (FLFP) are a concern for Sri Lanka's development goals. The latest estimates from the Labour Force Survey reveals that 62.1 per cent of females who are not in the labour force are engaged in household duties.[1] This is an indication of the unequal gender relations within the family and the inequitable division of household labour, which leads to limiting the time available for women to fulfill their multiple roles and tasks in society. Such a high incidence of females engaging in household duties, and push factors - such as the availability of a large pool of females with no marketable skills other than household skills, issues related to poverty and limited livelihood opportunities within Sri Lanka - and pull factors - such as near zero migration fees and upfront financial incentives for migration - makes migration for domestic work a popular employment choice among Sri Lankan women, and especially among those not in the labour force.[2]

Female migration for foreign employment makes a significant contribution to the gender dimension of Sri Lanka's development process. Along with migration, females become more economically empowered and more involved in decision making - be it at the household or labour market level, leading towards reducing gender inequality in the development process. Nonetheless, migration is a double-edged sword that on the one hand helps women overcome gender based violence/abuse, while on the other hand also makes them vulnerable to related violence or abuse at destination. Similarly, migration for foreign employment alleviates some aspects of gender based discrimination seen in the local labour market while introducing other forms of discrimination in the recruitment process for foreign employment.

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[1] SLBFE (2012), "Annual Statistical Report of Foreign Employment – 2012", Sri Lanka Bureau of Foreign Employment, Colombo.

[2] Despite the fact that migration attracts females who are not in the labour force, the departure of females for foreign employment does not contribute to increase the labour force participation rate in Sri Lanka, because the definition of 'labour force' only considers those who are usually residing in Sri Lanka. However, their departure does contribute to decrease the economically inactive population in Sri Lanka.

Whilst Sri Lanka, like many other labour sending developing countries, facilitates migration, the social costs can be high. Increased levels of alcoholism, sexual abuse and family dislocation are some of the social costs of migration on the families left behind. Aside from such adverse socio-economic consequences, migrants also face considerable risks and are vulnerable to exploitation and abuse. Thus, policy makers are often faced with the trade-off between promoting migration and protecting the welfare of migrants and their families.

As such, states, regional organizations, and institutions at international level are focused on how best to 'manage migration', adopting a range of practices and tools. For Sri Lanka too, to facilitate the growing importance and changing scope of migration, the processes and legislative framework for overseas migration needs to be reviewed and reformed. Among the many such migration related processes and legislative framework for reforms, this chapter focuses on the Family Background Report (FBR) requirement due to its cross cutting nature in the field of migration. The FBR is a directive aimed at reducing the adverse psycho-social implications of children left behind in migrant households. In the process of its implementation, the FBR requirement has had implications on migrants, their children and families, recruitment agents, and government personnel, resulting in challenging their freedom, rights, cultural beliefs and even basic survival.

The remainder of this chapter is organized as follows. Section 7.2 introduces the FBR requirement. Section 7.3 presents the arguments made by the proponents and the opponents about the FBR requirement, while Section 7.4 presents new evidence and discusses the implications of the initiative. Section 7.5 provides suggestions for a way forward by reforming the FBR requirement, and Section 7.6 concludes with a summary.

# 7.2 The FBR Requirement

In recent years, there has been extensive focus in Sri Lanka to minimize the social cost of migration, especially in terms of the welfare of the children left behind. One directive aimed at reducing the adverse psycho-social implications of children left behind is the Circular 13/2013 of June 2013 and its revisions in January 2014 and June 2015 regarding the FBR, which was issued by the Ministry of Foreign Employment Promotion and Welfare (MFEPW) - and its successor, the Ministry of Foreign Employment (MFE) - and implemented by the Sri Lanka Bureau of Foreign Employment (SLBFE).

As per this requirement, initially all licensed foreign employment agencies were to obtain an assurance in the form of an FBR from female domestic migrant workers in order to issue a clearance for foreign employment. The latest revision extends this requirement across-the-board for all females, regardless of occupation.[3] According to the FBR, females with children under the age of five years are not "recommended" for foreign employment, while females with children above five years will only be recommended for migration if satisfactory alternative care arrangements are in place to ensure the protection of children. The initial circular stipulated a maximum age of migration for female domestic work as 55 years, and the minimum age as 25 for Saudi Arabia, 23 years for other Middle Eastern countries and 21 years for the remaining countries. The FBR is prepared by the Development Officers (DOs) of the MFE subsequent to visiting the household of the potential female migrant to ascertain the true status of family relations and arrangement for alternative care. The civil status of the applicant and ages of children are certified by the Grama Niladhari and Public Health Midwife, respectively. In cases where a recommendation cannot be made, the reasons for refusal are provided, and such potential migrants can appeal

[3] Except for women over 50 years and those who have returned to Sri Lanka with a processed 're-entry' visa.

to the Divisional Secretary or directly to the SLBFE. In the near future, this directive is expected to be expanded to be applicable to all female migrant workers.

## 7.3 The Debates on the FBR

The introduction of the FBR requirement has resulted in a debate about its implications on two groups; namely, mothers aspiring to seek foreign employment and their children. Up until the introduction of the FBR, females have had the power to make their own migration decisions, while on the other hand, their children have often remained voiceless in the mother's migration decision. With the FBR requirement, the state has gained control over females' decision to migrate for domestic employment with the intention of maintaining the best interest of the children who would be left behind. This trade-off between the freedom to migrate for female domestic employment and the well-being of left behind children has resulted in a debate about the FBR. The key proponent of the FBR requirement in this debate is the MFEPW and its successor MFE, while the United Nations Special Rapporteur and United Nations High Commissioner for Human Rights (UN-HCHR) are critical about the intervention.[4]

The criticisms levelled by the UN-HCHR against the FBR are from the point of view of the rights of females. Some of the arguments include Article 12(1) of the Sri Lankan Constitution which specifies that "all persons are equal before the law and are entitled to the equal protection of the law"; Article 12(2) which states that "no citizen shall be discriminated against on the grounds of race, religion, language, caste, sex, political opinion, place of birth or any one of such grounds"; and Article 14(1)(h) which guarantees the entitlement of every citizen of Sri Lanka to "freedom of movement." The UN-HCHR has also quoted the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) of which General Recommendation 21 on Equality in Marriage notes that the responsibilities with regard to children should not impose inequitable burdens of work on women and that both parents should share equal responsibilities for their children. Moreover, Recommendation No. 26 on Women Migrant Workers recommends that countries of origin should lift restrictions where women are required to get permission from their spouse or male guardian for travel. The joint allegation letter also quotes the rights of children - such as Article 18(1) of the Convention on the Rights of Child, which refers to the principle that both parents have common responsibilities for the upbringing and development of the child, and the 2013 Agreed Conclusions of the Commission on the Status of Women which highlights that women and men should share equal responsibilities and chores in caregiving as well as child-rearing, parenting and domestic work.

In response to the rights based criticism levelled by UN-HCHR, the MFEPW highlights that "a rights based approach does not provide an escape route from the complexities of life and transport a person into an abstract state of freedom. Social and emotional realities of individuals and families must be engaged and grappled with to reap the rewards of freedom and actualize selfhood and rights. Rights without relationships are as illusionary as *relationships* without *rights*". Referring to Article 1 of the Universal Declaration of Human Rights 1948, the MFEPW notes that "freedoms, rights, duties and powers are not rational and static concepts but inherently dynamic, human and emotionally shaped

[4] See MFEPW (2014), "Response by the Government of Sri Lanka on 27 May 2014 [to the Joint Allegation Letter dated 28 January 2014 issued by Office of the High Commissioner for Human Rights] No. 207/2014, HR50. p. 1-2, 1-10, Ministry of Foreign Employment Promotion and Welfare, Colombo; UN Special Rapporteur (2014), "UN Special Rapporteur on the Human Rights of Migrants Concludes Country Visit to Sri Lanka", 26 May 2014, Office of the High Commissioner for Human Rights, UN, Geneva. http://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=14645&LangID=E [visited on April 24, 2015]; UN-HCHR (2014), "Mandates of the Working Group on the Issue of Discrimination Against Women in Law and in Practice and the Special Rapporteur on the Human Rights of Migrants." ALG/SO 214 (106-10) LKA 1/2014, 28 January 2014, Special Procedures of the Human Rights Council, High Commissioner for Human Rights.

forms of action". The multiple identities of individuals (mother versus labour force participant in this case) challenge the ability for human beings to have discrete entities with equally discrete and separate rights.

The MFEPW also upheld the FBR on the grounds of vulnerability of female migrant workers, and the impact of migration and related vulnerability on family and children left behind. The MFEPW maintains that the FBR requirement aims to "balance and harmonize several interests and rights involved in the decision of a mother to migrate abroad for employment", while being consistent with relevant norms and international laws. The MFEPW states that from the late 1980s, over a million of mothers migrated as domestic workers to the Middle East and the reactive nature of state regulation have struggled to mitigate the social cost of female migration. Up till June of 2013, the state approach had been a passive approach of providing information at pre-departure training rather than introducing proactive family support mechanisms. Quoting two studies,[5] the MFEPW justifies that the FBR requirement is a much needed proactive approach to facilitate a calculated migration decision. Central to this stance of MFEPW is Article 19 of the Convention on the Rights of the Child (CRC) which identifies the need for family support mechanisms as well as child protection mechanisms. Quoting the CRC, the MFEPW indicates that its thinking and policies is to provide measures that promote 'safe and planned migration of workers', for which as a minimum measure, the FBR requirement 'assesses a family and develops a plan to help them'.

The MFEPW point of view also places a significant emphasis on the cultural dimension of this issue, as "compared to maternal absence, paternal absences are not unusual or rare in the life of Sri Lankan children and they are comparatively less disruptive" (pp. 10). This was further evident in a reported court case where a potential female migrant who challenged the circular on the grounds of gender bias and violation of equality enshrined in the Sri Lankan Constitution, was reportedly refused 'leave to proceed' by the Court, pointing out that the Sri Lankan culture and tradition view women as the force that binds the family.[6]

Against this backdrop, the MFEPW justifies that the "[FBR] is neither an act of discrimination against women, nor a restriction of their freedom of movement and the right to work, but a reasonable classification to promote a more balanced view of all rights involved in the decision to migrate, taking into account the need to safeguard the family unit as the fundamental unit of society. It is to be considered as one of the most proactive interventions made to safeguard the rights of children in a most vulnerable social stratum."[7]

Apart from the battle between the rights of migrant women and their children, other areas of criticism against the FBR include the applicability of the restriction only for those seeking employment through a foreign employment agent and the availability of avenues for corruption. The MFEPW stance in this regard is that "in Sri Lanka, it is a criminal offence for anyone other than a person with a valid licence issued by the SLBFE", to facilitate recruitment for foreign employment. This implicates informal agents who are not registered with the SLBFE. Despite these facts, in addition to such unregistered agents, there exists a legitimate avenue of securing employment on own efforts, which involve neither a licensed agent nor an informal agent, but through personal contacts with friends and relatives working abroad. Departures for foreign employment through own contacts are not covered under the FBR requirement.

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5 Save the Children Sri Lanka (2006), "Left Behind, Left Out: The Impact of Children and Families of Mothers Migrating for Work Abroad – Summary Report"; and CENWOR (2011), "Gender Roles and Support Networks of Spouses of Migrant Workers" as quoted in MFEPW (2014).

6 See UN-HCHR (2014), pp.2.

7 See MFEPW (2014), pp. 10.

## 7.4 Implications of the FBR

One of the main intentions of introducing the FBR is to limit the number of females migrating for domestic work. Based on a rigorous difference-in-difference analysis performed using monthly female foreign employment departure statistics from SLBFE for the period from January 2012 to December 2014, it is evident that the FBR has had a causal effect on decreasing the number of females with young children departing for domestic work.[8] The Difference-in-difference methodology allows an investigation of the change in female migration due to the introduction of the FBR net of the other trends in female departures. Specifically, the decline in female migration due to the overall downward trend in female migration is subtracted from the decline in migration that is evident right after the introduction of the FBR in June of 2013. The overall downward trend is represented by females in the age groups (over 45 years), that are unlikely to have children under 5 years of age.[9] Those most likely to be affected by the FBR are represented by the females in age groups (25-34 years) that have the highest number of children under five. As per this analysis, the impact of the FBR in decreasing the departure of females for domestic work is in the range of 450-550 per month.

The introduction of the FBR requirement has resulted in changing the procedure for migration of females for employment. Specifically, until the introduction of the FBR, the SLBFE was the sole legal entity in approving migration for employment. With the introduction of the FBR, a key element of

### Box 7.1
### Attempts to Restrict Migration of Women Prior to FPR

The previous attempt to impose a restriction on migration of females with children was made in March 2007. Migration of mothers with children under the age of five was proposed to be prohibited, while mothers with children over five years of age were required to provide proof of appropriate childcare arrangements. The argument for and against the then proposed ban were similar to the current rhetoric, where the lead advocate for the proposed ban at that time - the Human Rights Commission of Sri Lanka (HRC) - emphasizing that "remittances received by the country or the family have not contributed to the welfare of the children left behind and that social costs have outweighed the gains, if any" [Jayaweera and Dias (2009), pp.57], while the Human Rights Watch (HRW) argued that a ban on overseas travel would be tantamount to a gross violation of the migrants' human rights and disregarding of the contribution made by female migrants to family survival and betterment.

Ironically, the substantial part of the justification for the current FBR requirement provided by MFEPW is based on the study by Jayaweera and Dias (2009), which also documents the previous effort for restricting migration of women with children and presents arguments for and against that attempt. However, none of the arguments against this previous attempt were addressed in the introduction of the FBR in 2013.

Sources: Jayaweera, S. and M. Dias (2009), "Sri Lanka Country Study: Gender Roles and Support Networks of Spouses of Migrant Workers" in Gender and Labour Migration in Asia, International Organization for Migration, Geneva; HRW (2007), "Exported and Exposed Abuse against Sri Lankan Domestic Workers in Saudi Arabia, Kuwait, Lebanon and the United Arab Emirates", Human Rights Watch, New York.

[8] For details refer Weeraratne, B., "Protecting the Welfare of Children and its Causal Effect on Mother's Labour Migration" (IPS, Unpublished).

[9] These age groups are determined based on demographic statistics in Sri Lanka.

approval for migration has been transferred to Development Officers (DOs) - a mechanism outside the preview of SLBFE but associated with the MFE. As such, this change in the process of migration has resulted in some issues such as corruption and forgery in issuance of FBRs and migration through other channels to avoid the FBR requirement, etc. Experts in the field are of the view that more than potential migrants, recruitment agents tend to bribe DOs to provide false recommendations for their potential migrant women. Despite lack of clarity whether the potential migrant or recruitment agent initiates the corrupt process, there have been instances where DOs have been expelled from service on grounds of providing false/inaccurate FBRs. Similarly, reliable sources indicate that agents and potential female migrants are willing to pay up to Rs. 25,000 for a forged FBR.

The difficulty in obtaining a FBR recommendation and the persistent desire of some women to migrate "could [also] contribute to irregular migration practices, forcing women into difficult situations potentially leaving them vulnerable to exploitation, including becoming victims of trafficking and abuse" (UN Special Rapporteur, 2014). This is quite plausible given that a large share of migrant workers from Sri Lanka secure their jobs by channels other than licensed recruitment agents. For instance, in 2014, the share of total foreign employment departures (men and women of all categories) secured by means other than licensed recruitment agents increased to 41.1 per cent from 38.4 per cent in 2013, while the average share of females securing employment on own for the period of 1994-2012 was 22 per cent. Given the significant proportion of housemaids among female migrants (see Figure 7.3), this indicates that nearly a quarter of domestic workers are securing employment outside the licensed recruitment agents and the FBR requirement.

Figure 7.1 depicts monthly female departures based on data from the Department of Immigration and Emigration (DIE) and the SLBFE. The points in square correspond to monthly female departures for non-employment category. Non-employment statistics are arrived by subtracting the total female departures registered under SLBFE from the total female departures recorded by the DIE. The round points correspond to female domestic worker statistics recorded by the SLBFE. As seen in the trend line of square markers, there has been a change in the trend in monthly departures for foreign employment outside the jurisdiction of the SLBFE. The trend line for non-employment related departures shows a jump in the trend line as well as a noticeable reversal of the downward trend in the post-June 2013 period. The pre-June 2013 period marks a downward trend in non-employment departures, which are outside the jurisdiction of the SLBFE, while the post-June 2013 period registers an upward trend for the same series. Whilst there is no conclusive evidence on by-passing SLBFE to avoid the FBR requirement, this data provides some initial evidence that hints at the possibility of an increase in departure of females outside the SLBFE for this reason. This initial evidence is further

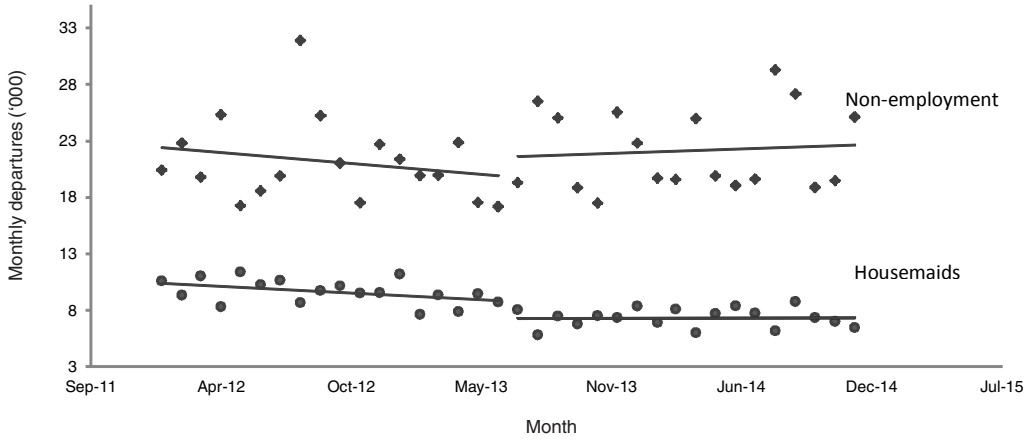





substantiated by the increase in departure of females for unskilled jobs in Saudi Arabia.[10]

Additionally, the FBR is often considered as discrimination against women.[11] Despite its noble intentions of minimizing the psycho-social cost on children of female migrants, the very same FBR requirement ironically triggers similar issues in rejected potential female migrants. As highlighted by some studies, special programmes and targeted interventions can generate important discriminatory issues, which would likely make them counterproductive.[12] This undermines the plausibility and desirability of the idea of devising social protection policies that are solely focused on the children left behind. In this context, the discrimination of migrant mothers and related psycho-social cost is one of the main issues of the FBR.

**Figure 7.1**
**Trends in Monthly Departure Statistics of Females for Housemaid Occupation and for Non-employment**




Source: Estimated using data from Department of Immigration and Emigration and SLBFE.

[10] CBSL (2015), *Annual Report 2014*, Central Bank of Sri Lanka, Colombo.

[11] See UN Special Rapporteur (2014); and Weeraratne, B., "Protecting the Welfare of Children and its Causal Effect on Mother's Labour Migration", Institute of Policy Studies of Sri Lanka, (unpublished).

[12] de la Garza, Rodolfo (2010), "Migration, Development and Children Left Behind: A Multidimensional Perspective", Social and Economic Policy Working Paper, UNICEF, New York.

The FBR discriminates potential migrant mothers at many levels. First, mothers of younger children are discriminated against mothers of older children, as mothers of older children can migrate for foreign employment with relative ease by indicating child care arrangements in her absence. Second, female parents are discriminated against male parents of young children, which implicitly imposes the responsibility of raising young children only on mothers, as fathers of young children can migrate for foreign employment without restrictions. Third, the FBR requirement is applicable only to those who seek foreign employment through registered agents, and thus discriminates female migrants based on their choice of recruitment channel. All these issues can boil down to elimination of available livelihood options and the resulting perpetuation of difficult family/household circumstances such as abusive spouses and inadequate income for survival. These concerns among rejected potential migrant mothers may lead to a stressed and helpless mother with possibly insufficient funds to provide vital inputs in terms of food, shelter, clothing, education, health care, etc. In such situations, it is difficult to determine if restriction imposed by the FBR serves its purpose.

The current system of FBR involves the filling of an application by the prospective migrant workers, which is reviewed by a DO visiting the household of the applicant after which information about recommended cases are directly communicated to the SLBFE. Those not recommended are provided with a written report stating reasons for not recommendation. As such, the SLBFE is only aware of the recommended cases. A crude estimate based on the previously mentioned difference-in-difference analysis indicates that about 6,000 women per year would be deterred from migrating for female domestic work. With the recent expansion of the FBR requirement to all female migrants, this number could be higher. Despite the fact that these female applicants are rejected, they remain potential migrants, and might be drawn towards irregular channels of migration into foreign employment. Hence, there has to be a follow up mechanism to ensure that the prohibition of migration through the proper channel does not promote migration through other channels.

Such an abrupt end in follow up of rejected applicants is a critical limitation of the existing practice of the FBR mechanism. In fact, abruptly dropping rejected cases is counter to the very arguments that support the initiative. For instance, as discussed above, the MFEPW notes that as a minimum measure there has to be a plan that assess a family and develop a plan to help them.[13] However, the FBR fails to provide a plan for the population who are deterred from migrating due to the FBR. This directive makes a huge assumption that the presence of the mother in the country solves all issues related to the development of a child. Subsequent to not recommending for foreign employment, the family is not normally followed up by the DOs of the MFE. Therefore, there could be instances where the mother has left the child and migrated internally for employment, or where the absence of sufficient income has had a negative impact on the child despite the mother's presence.

Moreover, it is not clear if the ultimate objective of this directive - improving the welfare of children - is achieved. The introduction of the FBR would be successful if it has been able to improve the well-being of the children who have been, and would have been, left behind by their migrant/potential migrant mothers. Such an impact cannot be evaluated yet, on the one hand, due to the insufficient time that has elapsed to have a long-term impact on child well-being, and on the other, due to the absence of relevant data on children to perform even a short-term analysis.

[13] MFEPW (2014), pp. 55.

**An abrupt end in follow up of rejected applicants is a critical limitation of the existing practice of the FBR mechanism. In fact, abruptly dropping rejected cases is counter to the very arguments that support the initiative.**

## 7.5 Way Forward

In this setting, either the presence or the absence of the FBR requirement will have its fair share of related implications concerning either affected group. Given that a "perfect administrative mechanism, which is tamper proof and closed to abuse by corrupt public officers and corrupt employment agents has not been devised yet, and critical and constructive feedback on implementation would improve the objectives of safe, planned and family friendly migration",[14] this section explores how the FBR requirement can be reformed.

### 7.5.1 Option 1: Repeal the FBR

On the one extreme, one reform could be to repeal the FBR requirement as recommended by the UN Special Rapporteur. A closer examination of the possibility of repealing the FBR requirement in fact is not as outrageous as it sounds. For one thing, until June 2013, it was the status quo where there was no system of recommending/not recommending females for migration, except for the failed attempt in 2007.

**Box 7.2**
**The Impact of the FBR Requirement on a Young Mother**

A 22 year old woman with a child has attempted to migrate to get away from her drug addict husband who has forced her into prostitution. This decision was a joint decision made by the woman, her parents and parents-in-law, who have offered to take care of the child in her absence. However, due to the FBR requirements, this woman is not recommended for migration and the misery experienced by the woman, her child and her parents and parents-in-law continues. The FBR has not provided her with an alternative income earning opportunity, child care arrangement, nor the rehabilitation of her husband to improve their family life. It only has been successful in eliminating her only chance of improving her welfare. There are many such cases, which deserve a waiver of the FBR requirement.

Sources: Stakeholder consultation interviews.

[14] MFEPW (2014), pp. 8.

While acknowledging the validity of the facts on the negative impact of the absence of a mother on child development and the vulnerability of female domestic workers, there have also been positive effects of migration and remittances on children's outcomes. For instance, De and Ratha (2012), find "remittance income has positive and significant effect on children['s] health and education" in Sri Lanka,[15] while Arunatilake *et al.* (2012), find that on average, investments on health and education are higher for migrant households in Sri Lanka.[16] Together, these facts show that migration has mixed effects, which depends on both the characteristics of the migrant and their household.[17] The existing data and information structure in Sri Lanka does not facilitate a comprehensive analysis to determine the overall effect of migration.[18] In this context, the validity of the introduction of the FBR requirement on the grounds of negative implications on the welfare of female migrant workers and their children is debatable.

Moreover, in none of the other sending countries of female migrant workers is there such a system where the micro level decision making (at household level) on migration is vetoed by macro level policies. The model where migration decision making is done at the micro level is based on the premise that household members are better aware of their actual socio-economic situation than a macro level decision maker, and are capable of making decisions to address their needs and issues. Additionally, this micro level migration decision making model converges the decision and its consequences to the household level.

A closer look at data just prior to the introduction of the FBR reveal that male and female numbers in labour migration was very similar in 2012 (Figure 7.2). In fact, males accounted for a slightly larger proportion of 51 per cent against 49 per cent of female migrants. Additionally, the examination of overall trends of male and female migration depicted in the dotted lines in Figure 7.2 show an upward trend in male migration and a downward trend in that of females. As such, it is reasonable to assume that even in the absence of the FBR requirement, there would have been a drop in female migration.[19]

As per MFEPW, "mothers constitute a high percentage of migrating domestic workers".[20] However, the regular data on migration published by the SLBFE and the MFE does not provide information about maternal status of migrants. Moreover, as evident in recent data, the share of female migrants as well as female domestic workers has been declining since 2012 (Figure 7.3). In this context, it is reasonable to assume that in each year, the number of children left behind is also decreasing. Overall, it is therefore not clear if the continuation of the FBR requirement is justifiable.

## 7.5.2 Option 2: Reform the FBR

As opposed to repealing the FBR, another viable solution is to reform the FBR requirement to improve its merits and limit its demerits. The task of reforming the FBR requirement should revolve around the short and long-term objectives of this directive and the issues resulting from its introduction. The FBR was

[15] De, Prabal K., and D. Ratha (2012), "Impact of Remittances on Household Income, Asset and Human Capital: Evidence from Sri Lanka", *Migration and Development,* 1(1), pp. 163.

[16] Arunatilake, N., P. Jayawardena, and D. Weerakoon (2011), "Sri Lanka" in Kelegama, S., (ed.), *Migration, Remittances and Development in South Asia*, Sage, New Delhi.

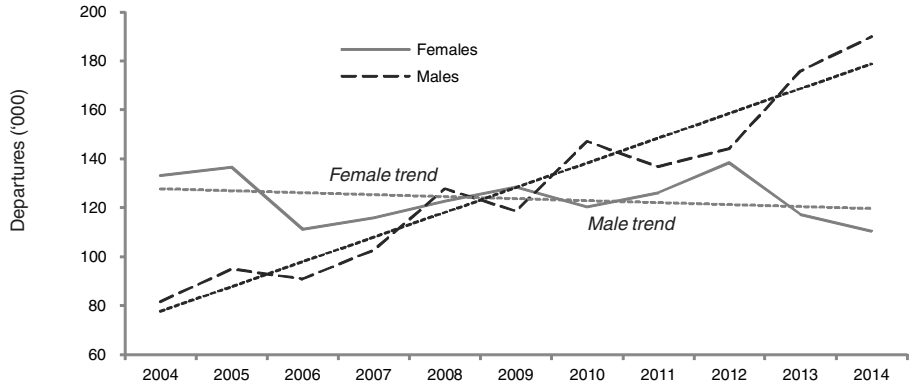
[17] *Ibid*; and ILO (2013), "Reintegration with Home Community Perspectives of Returnee Migrant Workers in Sri Lanka", International Labour Organization, Geneva.

[18] Wickramasekara, P. (2014), "International Migration and Development: Myths and Facts", Professor H.A. De S. Gunasekara Memorial Oration 2014, University of Peradeniya, Sri Lanka; MFEPW (2008), "National Labour Migration Policy for Sri Lanka", Ministry for Foreign Employment Promotion and Welfare, Colombo.

[19] The difference-in-difference methodology adopted allows investigating decrease in female migration due to the introduction of the FBR despite the already prevalent downward trend in female departures.

[20] MFEPW (2014), pp. 9.

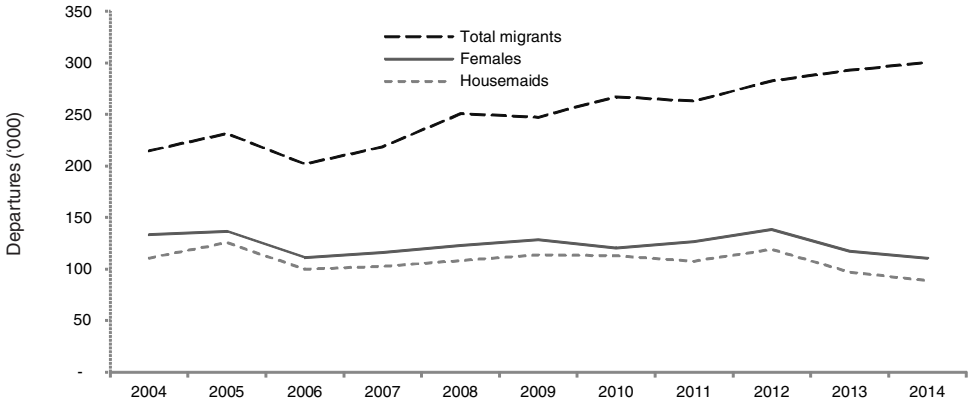
**Figure 7.2**
**Trends in Labour Migration from Sri Lanka (2004-2014)**




Source: CBSL, *Annual Report*, various years.

implemented with the short-term intention of limiting the departure of females with children, with the ultimate objective of improving the well-being of these women and their children. As indicated earlier, the initial FBR requirement (that was applicable to female domestic workers) has been successful in achieving its immediate goal of reducing the number of mothers of young children departing for domestic work, while the welfare implications of this directive still remains unknown.[21] Meanwhile,

**Figure 7.3**
**Annual Female Labour Migration (2004-2014)**




Source: CBSL, *Annual Report*, various years.

[21] It is too early as yet to evaluate the impact of the latest version of the FBR that is applicable for all females.

its implementation has highlighted three broad issues, namely, the predicament of those deterred from foreign employment, the discriminatory nature of the directive, and the corruption associated with the FBR. Hence, the recommendations for reforming the FBR are presented under these four broad headings, with reference to the objectives of the directive.

***Transform FBR into a 'plan to help families'***

The FBR requirement is aimed at providing a family support mechanism and child protection mechanism. Within this context, the FBR serves as a 'service that can assess a family and develop a plan to help them'. The first component of this service - assessing families, is being accomplished with the FBR, while the second component - a plan to help them, is noticeably absent.

In order to develop the FBR requirement into 'a plan to help', it should evolve beyond the maternal relationship within a family and capture spousal and other relationships as well. As established in the literature, migration of females from Sri Lanka is not only motivated by income differentials at home and abroad, but also involves non-financial and non-labour market reasons such as patriarchal practices (i.e., restricted mobility outside the family), pressure of providing dowry, house construction, escapism from domestic violence, abusive relationships, etc.[22] When the underlying reason for migration is unfavourable living conditions, migration is sought as an escape mechanism. However, the FBR does not consider these reasons behind migration. Currently, the FBR is based on personal information such as marital status, name of applicant's husband, name and date of birth of children, and information on caretakers in the absence of the mother. The information upon which the FBR is based on should expand to include reasons for migration, the quality/ nature of the relationship between the spouses and financial/livelihood circumstances of the family. The inclusion of such information in the FBR application and the report itself would help highlight cases where reasons for migration are non-economic. Such identification will enable to develop a better suited plan to help relevant families.

Under the current system, not-recommended mothers with children younger than five years are inevitably left to plan for themselves. Mothers with children over five years are recommended if they have made satisfactory alternative care arrangements - or in other words they have already planned for themselves, on their own. Those who have not developed a plan for themselves are once again left alone. Meanwhile, subsequent to the review process, the FBR mechanism only focuses on those recommended for foreign employment. Such abrupt cessation of focus of those not-recommended is contrary to its objective of promoting the welfare of these vulnerable women and children. As such, there has to be a proper monitoring and follow up mechanism to focus on the progression of those not recommended.

The first step to rectify this situation is for SLBFE or MFE to maintain records and follow up on all FBR applicants - both recommended and not. In such a set up, not recommended mothers and children - some who may be left behind through alternative migration channels as well as those who would have been left behind - can be followed up. The sources of information to follow up on the welfare of these families can be expanded to improve the validity/ accuracy of information gathered. Such sources may include family members, neighbours, teachers, and religious and community leaders. Similarly, the plan to help these families can link them, where applicable, with resources/personnel of other ministries/institutions such as the ministries of Child Development and Women's Affairs, Economic Development, Social Services, Education, Health, Labour Relations and Productivity Improvement,

[22] Jayaweera, S. and M. Dias (2009); and Caritas (2012), "Migration of Sri Lankan Women: Analysis of Causes and Post-Arrival Assistance", Caritas Sri Lanka, Colombo.

**Migration of females from Sri Lanka is not only motivated by income differentials at home and abroad, but also involves non-financial and non-labour market reasons.**

Traditional Industries and Small Enterprises Development, Livestock and Rural Community Development, Youth Affairs and Skills Development, Foreign Employment, etc. With the inputs from such relevant institutions, a plan should be developed to help these vulnerable individuals. Thus, the FBR requirement should be reformed to involve a two part process which involves an assessment and a customized plan to help each applicant.

***Reforms to provide alternatives***

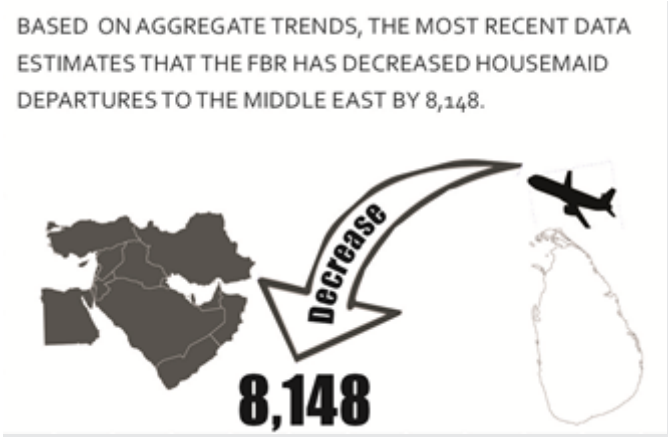
The immediate outcome of the FBR requirement experienced by potential migrant women is either recommendation or not, for migration. Based on rigorous estimates, the FBR deters about 6,000 women per year from migrating as housemaids. Similarly, based on aggregate trends, the most recent data estimates that the FBR has decreased housemaid departures to the Middle East by 8,148.[23]

It can be argued that if a country decides to restrict an individual's desire to be employed and earn a living due to the trade-off in child care, it has also a responsibility to provide them with an alternative income source or an alternative child care option.

If foreign employment is associated with an anticipated additional income for the household, the restriction by the FBR eliminates this potential income source to the family. The adverse implications of financial difficulties will often deteriorate the welfare of the members of this household. To address this, the government could consider rejection under FBR as a component of inclusion criteria for social protection schemes such as Divi Naguma/Samurdhi. Through such social protection mechanisms those who are not recommended for migration can benefit from opportunities such as seed funds for self-employment, micro-finance opportunities, and skills development support for self-employment.

Often, these females that seek domestic employment in other countries do not have labour market experience in Sri Lanka. Such lack of local experience results in these women not being able to evaluate their alternatives in the country, in addition to being more susceptible to vulnerabilities at destination. As such, it would help to introduce a precondition for women with children less than 5 years that requires them to have worked in an income earning occupation in Sri Lanka prior to labour migration. During this time, counselling can be provided by relevant ministries (e.g., Ministry of Economic Development and Ministry of Child Development and Women's Affairs) to help them compare the outcomes that would have accrued under the alternative scenario of foreign employment and the impact of the mother's presence on the young child. Grass root level civil society organizations could be enlisted to find domestic employment opportunities.

[23] CBSL (2015), *Annual Report 2014*, Central Bank of Sri Lanka, Colombo.




Similarly, as highlighted by de la Garza (2010) "states of origin should develop comprehensive policies to support the families and caregivers of children of migrant workers in their child-rearing responsibilities. Policies should be oriented at mitigating the psycho-social impacts of migration on children by providing programmes to caregivers on parenting skills, gender sensitivity, and management of peer relationships. These programs must be sensitive to migrant communities' own cultural values and morals, especially regarding gender roles, youth participation and the mitigation of risky behaviours."[24] In this context, perhaps a state supported network of childcare centres could be established, which would benefit many working females already struggling with childcare issues as well as those hesitant to enter the labour force due to same issues. As a means of providing employment opportunities for women who were rejected for foreign employment under the FBR, they can be employed in these facilities, where they could also have their child enlisted to receive care. Such an arrangement would ensure that the mother is employed, while being close to her child.

Currently, the FBR requirement is applied across-the-board. This blanket nature of the FBR requirement for mothers of children under 5 years negates any other family circumstances. The FBR requirement may be reformed to consider recommendation for mothers of young children when other family circumstances out-weigh the welfare of the children. For instance, in some situations, restrictions on the mother's attempt to seek foreign employment may lead to a trade-off in funds needed to access vital inputs for a child's well-being such as food, shelter, clothing, education and health care. Such situations may also lead to a mother being stressed and helpless, which might also negatively contribute towards the child's well-being. In such circumstances, perhaps the guidelines/ procedures for children over 5 years of age should be adopted, where a mother is recommended for migration when an assigned caregiver amongst extended family is identified.

### *Reforms to address discrimination and corruption*

As discussed earlier, the FBR requirement has elements of discrimination. The discrimination of housemaids against other types of female employees is already addressed with the new revisions of June 2015, which expanded the FBR coverage to all female foreign employees. The issue of discrimination of a female parent against a male parent has to be analyzed in the cultural context of parenting in Sri Lanka. As Jayaweera and Dias (2009) highlight "women have been culturally assigned a disproportionate share of contribution to the reproduction of society through childbearing and rearing and the inequitable distribution of household labour", while "the assumption is that men/fathers are generally inapt to manage the household and attend to childcare without the help of the wife/mother".[25] In this setting, the larger role

[24] de la Garza (2010), pp. 29.

[25] Jayaweera and Dias (2009), pp. 44 and pp. 57.

in parenting played by the mother is hardly considered discrimination. Moreover, "as compared to maternal absence, paternal absences are not unusual or rare in the life of Sri Lankan children and they are comparatively less disruptive" (MFEPW, 2014, pp. 10).[26] In this context, criticisms of the FBR on gender based discrimination are of limited applicability in the Sri Lankan context. Nonetheless, such discrimination against female parents would be minimized if the FBR is expanded to cover migrants of both genders.

In fact, considering the current trend and expected demand for migrant labour from Sri Lanka, the focus should start shifting towards male migration. As extensively discussed, the share of females is on a declining trend, while the share of male migrants is increasing. This trend will be further fuelled by the growing international demand for male oriented jobs such as construction workers for the upcoming 2022 FIFA World Cup in Qatar and the 2020 Olympics in Japan. With such changing trends, the FBR requirement will have to be revised. The cultural argument presented above with relation to greater involvement of a mother would still be valid - but in a different way, when male migration surpasses female migration. Given the culture of lesser involvement of fathers in the upbringing of children, and their more distant relationship with children, there is a high chance of lower remittances to the family compared to when the migrant is the mother. It is noted in literature that fathers remit less frequently and are less reliable remitters.[27] In this context, the FBR requirement should be changed to build in a mechanism to ensure reliable and consistent remittances to the family and children left behind. Such mechanisms may include a clause in the employment contract with a pre-commitment towards remittances and a way to investigate and revoke a contract if necessary. Similarly, by expanding the FBR coverage to include males, and the continuous focus on all FBR applicants suggested above, could help monitor the well-being of the wife and children left behind - especially how the mother is coping with the culturally accepted larger role in parenting and the new dual role of being mother and head of household and its impact on children.

Coverage discrimination in the FBR paves the way for corruption. As stated before, the FBR is applicable to only those who migrate for female domestic work through an agent, while it is a criminal offence to seek foreign employment from an entity not registered with the SLBFE as a recruitment agent. Ideally, there should be no females departing for domestic work abroad outside the purview of SLBFE and not fulfilling the FBR requirement. However, as discussed before, migration for foreign employment does take place outside this restriction. In order to address this issue, the FBR has to be de-coupled from licensed recruitment agents and made applicable to either means of securing a job abroad. A possible way to reform the FBR in this connection is to involve the personnel of the DIE at border crossing points to check for FBR fulfillment of those outside the preview of SLBFE. Such a move would require the DOs through the MFE, to communicate the FBR recommendations of those outside the SLBFE, directly to the DIE.

To address corruption related to providing FBRs, the close and continuous monitoring by the recently established DO monitoring unit of the MFE would be valuable. Additionally, a mechanism to perform random cross checks, such as obtaining information from schools or midwives about children with migrant mothers would also be beneficial. Discrepancies between the FBR report and information obtained from other sources should be investigated and cases

[26] MFEPW (2014), pp. 10.

[27] Osaki, K., (1999), "Economic Interactions of Migrants and their Households of Origin: Are Women More Reliable Supporters?", *Asian and Pacific Migration Journal,* 8(4):447–471; Abrego, L., (2009), "Economic Well-Being in Salvadoran Transnational Families: How Gender Affects Remittance Practices", *Journal of Marriage and Family* 71: 1070-85; and Niimi, Y. and B. Reilly (2008), "Gender Differences in Remittance Behaviour: Evidence from Vietnam", Asian Development Bank (ADB).

of corruption should be dealt with. However, rather than such a reactive mechanism of punishing corruption, the ideal is to make honest behaviour more rewarding than gains from corruption. Such rewards could include capacity building and career development opportunities.

In addition to curbing corruption, capacity building and career development opportunities for DOs would also strengthen the FBR mechanism. Specifically, despite having the entire FBR mechanism built around the decisions made by the DOs, they are recent graduates with no special training on labour migration or human welfare. When the DOs are assigned to make a crucial decisions that affects the lives and livelihoods of the applicants and their families, it is important to equip them with a broad knowledge about the entire mechanism, its long-term objectives, as well as a strong grasp of social welfare needs of applicants and options available for rejected cases. Hence, the DOs should be regularly offered training opportunities to hone these capacities.

### *Reform FBR into a long-term mechanism*

Despite being a directive with a long-term vision, the activities under the FBR requirement are myopic. The FBR should be developed into a comprehensive long-term mechanism that improves the social welfare deficits that trigger migration. As recommended during the 2007 attempt to ban migration of females with children "the government should instead enhance economic and educational opportunities for women in Sri Lanka so that domestic workers can migrate based on choice rather than desperation".[28] Despite the elapse of eight years, one of the justifications of the FBR is that the "time, communication and social investment in terms of this procedure prevents ill-considered decisions that will rebound on the child and all family members including the migrant".[29] This indicates that mechanisms that prevailed through this time

**The FBR has to be de-coupled from licensed recruitment agents and made applicable to either means of securing a job abroad.**

have not eliminated rash decision making common to migration. It is only "when regulations fail to achieve intended results, government authorities feel justified to impose bans or legal enactments to safeguard the interests of an individual[s] assumed to be in need of protection".[30]

As such, the FBR should be developed into a comprehensive long-term mechanism that is capable of serving its intended purposes. The information gathered in the FBR process and the decisions arrived at provide valuable data about migrant families. Using this data, the relevant authorities can proactively identify higher risk female migrant workers with high social costs. The prevalence of migrant women and those anticipated migration varies by locations. As such, the state should proactively identify such areas with pockets of women who are at a higher risk of migration despite large social costs, and deploy campaigns to educate these women about alternative income earning opportunities and alternative means to address their underlying reasons for migration, and enable them to evaluate the pros and cons of leaving

[28] HRW (2007), pp.101.

[29] MFEPW (2014), pp. 7.

[30] Jayaweera and Dias (2009), pp.56.

their children for foreign employment. Such proactive identification of pockets will also help address the welfare needs of these women and their children. Similarly, programmes should be introduced to educate males about due freedom of women, rehabilitation programmes for alcoholism, violence, etc., and to develop alternative living options for women who are trying to escape from spousal abuse through migration.

Finally, the labour migration industry is dynamic due to the changing nature of underlying reasons that create a demand for migrant workers. Thus, the FBR requirement should evolve around the current and expected trends, by regularly evaluating the need and applicability of the FBR, and revising accordingly. Such evaluation should examine the appropriateness of the process, availability and adequacy of resources to carry out the FBR requirement, and the implications of carrying it out. Having implemented the circular for nearly two years, the FBR requirement would highly benefit from such a fine tuning exercise.

## 7.6 Summary

The FBR requirement is a recent directive introduced by the MFEPW and its successor MFE, and implemented by the SLBFE with the intention of reducing the adverse psycho-social implications of children left behind by the migration of mothers for domestic work abroad. As per this requirement, females with children under the age of five years are not "recommended" for foreign employment, while females with children above five years will only be recommended for migration if satisfactory alternative care arrangements are in place to ensure the protection of children. The objective of this chapter has been to analyze the issues concerning the FBR requirement and to provide recommendations for its reform.

The debate about this initiative revolves around its influence on irregular migration practices and reinforcing of gender stereotypes. This directive has resulted in a decrease in the monthly departure of females as domestic workers, while there is some initial evidence that the FBR can be associated with an increase in departure of females outside the purview of the SLBFE. The process of the FBR requirement deters some women from migration, but fails to either address their needs for migration or in providing alternatives. Hence, as an extreme measure this requirement could be repealed, while on the other hand, it could be continued after reforming it to limit its weaknesses. The primary recommendations relate to reforming the FBR into a 'plan to help families', provision of alternative livelihood options to migrant females, addressing discrimination and corruption that can arise from the implementation of the FBR, and transforming it into a long-term mechanism to serve its intended purpose of improving the social welfare of migrant and their families.

**Despite being a directive with a long-term vision, the activities under the FBR requirement are myopic. The FBR should be developed into a comprehensive long-term mechanism that improves the social welfare deficits that trigger migration.**

# 8. Educational Sector Reforms to Bridge Skill Gaps

## 8.1 Introduction

In an increasingly more globalized world, higher skills and higher order-competencies are extremely important to make it possible to use new technologies and perform difficult tasks more efficiently. The demand for job specific skills accompany structural changes in an economy - a transformation from agricultural into manufacturing and services, a shift from labour intensive to more knowledge intensive industries, an expansion of information and communications technology (ICT) sectors, are all elements of this transition. This calls for continuous improvements in skill requirements where skill development and training plays a critical role.

Thus, capacity building in science, technology and innovation are more crucial today than ever before. A country's ability to pick-up new technologies and turn them to economic advantage will depend on the availability of its human capital to cater to these demands in adequate numbers and quality. Most countries recognize the importance of scientific and technological progress for economic growth and greater social well-being. For example, patent data show a wave of innovation in all Organization for Economic Co-operation and Development (OECD) countries across many technology fields, in particular in ICT and bio-technology.[1] Identifying the importance of science literacy, the OECD's Programme for International Student Assessment (PISA) has selected scientific literacy which refers both to a knowledge of science and science-based technology, as the major domain for the 2015 PISA assessment.[2]

Sri Lanka has to transform itself to a competitive and efficiency driven economy - where innovation and technological transformation will be important drivers of economic growth - if the country is to progress up the middle income ladder. For this, an educated workforce with market-oriented skills is a must; today, ICT skills have become a fundamental requirement for services and industry sectors of the economy. According to the World Bank's Skills Toward Employment and Productivity (STEP) survey 2012, there are substantial mismatches between skills supply and demand for higher educated and high-skilled workers in Sri Lanka.[3] Further, similar mismatches are observed in the country's Technical Education and Vocational Training (TEVT) sector, where skill mismatches are more pronounced for firms that are internationally based and innovative. According to the Business Outlook Surveys carried out in 2012 and 2013, a shortage of manpower with required skills has become the most severe constraint encountered by the business community

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[1] OECD (2000), "Science, Technology and Innovation in the New Economy", OECD Policy Brief, OECD, Paris.

[2] OECD (2013), "PISA 2015 Draft Science Framework", OECD, Paris. The PISA is an international survey which aims to evaluate education systems worldwide by testing the skills and knowledge of 15-year-old students.

[3] Dundar, H., *et al.*, (2014). "Building the Skills for Economic Growth and Competitiveness in Sri Lanka", World Bank, Washington, D.C.

in Sri Lanka.[4] This can lead to slow growth in investment and job creation in the country. To compete globally, Sri Lanka needs to go beyond standard measures of skills in terms of enrolment and completion rates by looking at job specific skills in cognitive, technical and soft skills.

To cater to this demand, Sri Lanka needs good-quality formal education, complemented by relevant skills development opportunities. Good quality education prepares future generations to meet skill needs of the economy, smooth the transition from education to the world of work, enables adjustments to changes in technology, and also fuels lifelong learning. However, Sri Lanka's education system is inadequate to meet the evolving demands of a globalizing world. The education system is not modern, and has limited scope and relevance to meet market needs.[5] There is a mismatch in the courses offered by the education system and competencies needed by the private sector. This situation leads to high youth unemployment and low productivity which in turn lowers economic output.

Sri Lanka's education system has also not been able to provide equitable access to quality education. There are large disparities in the quality of education provided across districts. In particular, there are resource disparities for more demanding subjects such as science, mathematics, English and IT. This leads to a shortage of qualified employees, especially in knowledge-intensive occupations. Thus, lack of relevant skills will turn out to be a bottleneck on the country's economic growth prospects.

Higher education and technical training enables a country to cater for the skill needs of the labour markets, adjust to changes in technology, fuel innovation, and thus create a more productive workforce. In turn, these developments form the basis for faster and sustained economic growth and rising living standards. However, Sri Lanka's tertiary education system caters to only a very small proportion of the population. As the pace of change is faster in emerging economies, a lack of opportunity for skills training could substantially hinder development of the country through low investment, lack of innovation and slow growth of business start-ups and entrepreneurs, etc.

Given this backdrop on how supply side inadequacies affect Sri Lanka's human capital, it is timely to focus on reforms that will enable every student to make the best use of the country's free education system and be a part of a dynamic and skilled labour force. The following discussion attempts to assess the required reforms in the education sector to address the major challenges ahead, including ways and means of enhancing the responsiveness of the education system, better provision of equitable access to quality education, and building capacity in the tertiary education system.

## 8.2 Key Education Policies and Reforms in Sri Lanka

The Sri Lankan state continues to provide free education since its introduction in 1945. Over the years, several measures have enabled the country's general education system to improve on equity in the provision of education for all persons, irrespective of socio-economic and regional disparities. The Education Ordinance of 1939 and the principle of free education `embraced in 1945 were among the earliest policies aimed at achieving universal and equal access to education at all levels. Sri Lanka is committed to supporting "Education for All," adhering to ethics and standards as proclaimed by provisions in international conventions. A National Education Commission (NEC) was established under the NEC Act of 1991, vested with the

[4] Ceylon Chamber of Commerce (2013), "Business Outlook - June 2013", http://chamberblog.chamber.lk/wp-content/uploads/2013/08/BOS-survey-Jun-2013.pdf [accessed, 27th April, 2015].

[5] NEC (2003), "Proposal for a National Policy Framework on General Education in Sri Lanka", National Education Commission, Sri Lanka.

responsibility for formulating national policies on education to enable the system to respond to changing needs. The NEC recommends education policy reforms every 10 years. A National Institute of Education (NIE) was established in 1985 as a corporate body functioning under the Ministry of Education (MOE) to formulate the school curricula. According to set policy, the curriculum is revised every eight years.

In this context, Sri Lanka has almost achieved the Millennium Development Goal (MDG) relating to universal primary education (Goal 2). In 2012, its primary net enrolment rate was 99.7 per cent; survival to grade 5 was 100 per cent; and the country exhibited a high literacy level of 97.8 per cent among 15-24 year olds.[6] While Sri Lanka has long been recognized for its achievements in access to education, it faces new challenges in providing quality education services that are relevant to the changing demands of a rapidly growing economy and aspirations of the younger generation.

In recent decades, government and public attention has begun to focus on learning achievements beyond basic literacy. Following NEC recommendations in 1995 and proposed reforms under the Presidential Task Force on General Education in 1997, educational reforms were implemented in 1997 with the aim of improving access and equity, while also improving the quality of education. Accordingly, the 1997 reforms included the enactment of compulsory education regulations for children aged 5-14 years, curriculum reforms, school rationalization, etc. Subsequent NEC recommendations followed in 2003, while there are also reforms being formulated currently, expected to be put forward in 2015.

Parallel to the general education reforms, two Presidential Task Forces on university education, and technical education and vocational training were formed with the aim of strengthening the higher education sector. Their recommendations were presented in 1998. The recommended reforms included improving quality and relevance of the higher education sector programmes, involvement of private sector in training, etc. Subsequently, the NEC presented a comprehensive National Policy Framework on Higher Education and Technical and Vocational Education in 2010, covering all areas of tertiary education in Sri Lanka.[7] The successes, failures and gaps in these reform efforts and other subsequent reforms are discussed in-depth in the following sections with regard to developing market-oriented skills, improving access to quality education, and expanding opportunities in tertiary education.

## 8.3 Change from Traditional to Market-oriented Skills Requirement

As previously noted, developing a high quality human resource base enables a country to strive for higher growth through economic diversification and improved competitiveness. It also provides occupational mobility within the labour force, which leads to more productive and rewarding jobs. Recognizing the skill needs and implications of skills constraints for a country's economic growth is more crucial today than ever before.

As an emerging knowledge economy, Sri Lanka faces considerable challenges in providing its labour force with necessary skills in ICT, English, technology, research and development, etc., to create an educated workforce with market-oriented skills. The primary reason behind this skill mismatch is that the quality of the general and higher education systems, mainly provided by the public sector, does

[6] UNDP (2015), *Millennium Development Goals Country Report 2014 - Sri Lanka*, United Nations Development Programme, Colombo.

[7] NEC (2009), "National Policy Framework on Higher Education and Technical and Vocational Education", National Education Commission, Sri Lanka.

**As an emerging knowledge economy, Sri Lanka faces considerable challenges in providing its labour force with necessary skills in ICT, English, technology, research and development.**

not transmit much productive skills to students. This has resulted in mismatches between the demands of the market, and the skills of school and university graduates. In recent years, governments have recognized the need to break from the traditional track and to create an activity based curriculum relevant to the world of work. Although attempts were made to improve the quality of education through the 1997 and 2007 curriculum reforms, there are shortcomings in curricula designing, development and implementation.[8]

The education reforms initiated in 1997 aimed to modernize and improve competencies in science, mathematics, IT and English, deemed to be of high demand in the employment market. Measures were taken to move towards a competency based curriculum from an examination based curriculum, promoting English and IT in education and providing opportunities for children to gain life skills. The reforms introduced IT as a common subject for all A-Level students. Also, as part of the reforms, English medium instruction was introduced for A-Level science streams and for selected subjects at the secondary level in 2001.

In 2003, the NEC evaluated the 1997 curriculum and a set of proposals for a National Policy Framework on General Education were recommended. Accordingly, the curriculum developed in 1997 for primary education (Grades 1-5) was to be retained, but further reforms were recommended for the Grade 6-11 curriculum as it was considered to be weak from the perspectives of both conceptualization and implementation.[9] Some recommendations for secondary grades curriculum were to introduce compulsory activity based projects and practical work in all subjects, modern learning-teaching techniques, use of IT as a tool for learning teaching process, etc. Also, the NEC in its proposals recommended making provision for the teaching of mathematics and science in all schools with GCE A-Level grades.[10]

Following these recommendations, the NIE introduced the curriculum reforms for Grade 6-11 in 2007, on the basis of a competency based learning-teaching assessment model. It aimed to improve the capacity of students to apply their learning to everyday situations. To facilitate this approach, NIE prepared teacher instruction manuals that explain the new student centred learning-teaching process, expected to be followed by all teachers. Furthermore, the reforms strengthened more demanding subjects - expanding the science syllabus, introducing computer literacy under a 'practical and technical skills' subject of the secondary curriculum, etc.

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[8] NIE (2009),"An Evaluation of the Process of Development and Implementation of the New Curriculum in Grades 7 and 11", National Institute of Education, Sri Lanka.

[9] NEC (2003).

[10] *Ibid*.

Studies have found that despite these reform efforts, there has been little change in the quality of education provided.[11] Moreover, these studies reveal that there has not been much improvement in relation to the overloaded curriculum, outdated teaching methods, and a traditional examination system which require only memorizing information. Some teacher training programmes have also been found to be unsuccessful as resource persons of these training programmes were university academic staff who were not involved in curriculum development or paper setting and marking.[12] Research carried out by the NIE itself to evaluate the 2007 curricula reforms points to several shortcomings such as curriculum reforms not being based on identified weaknesses in the preceding curriculum; lack of proper pre-testing carried out with regard to its appropriateness; shortcomings in the content, teaching methodology and curricular materials (textbooks, teacher instructional manuals); inadequate knowledge on the part of teachers about the new curriculum; and lack of a proper monitoring and evaluation system.[13]

Based on findings of NIE curriculum evaluations, curriculum reforms are currently ongoing once again for Grade 6-11 in stages from 2015. According to NIE officials, the changes are to introduce a more practical-oriented curriculum. Also, as a remedy for gaps in teacher training, teacher trainers are coached at provincial level with new course manuals. Further, for the first time, NIE has started monitoring and evaluating the curriculum reforms at school level.[14]

A major reason for the slow progress of curriculum reforms is due to issues encountered at the implementation stage. Available data show large disparities in the quality of education provided due to unequal distribution of resources, both human and physical, and also differences in personal circumstances to afford required materials, identified as the major constraint at the ground level. For example, although English medium instruction was introduced, the lack of sufficiently competent and English-trained teachers to sustain the reforms was recognized only later.[15] Further, although the necessity of school activity rooms was identified under the 1997 reforms, it could not be properly implemented due to financial constraints.[16]

A key reason for implementation problems is lack of required funds to sustain changes. In fact, the NIE argues that Sri Lanka's educational policies are formulated and put into practice without allocating required funds.[17] This inevitably means that implementation gets stuck halfway without the necessary funds to support the reforms. These practical issues hinder the expected outcomes of attempted educational reforms. Thus, it is clear that although there were attempts to change the curriculum to a more market-oriented competency based curriculum, there are many shortcomings and implementation issues at the ground level which needs urgent attention.

## 8.4 Access to Quality Education

All children should have equal opportunity to successfully complete a basic education. The compulsory education regulations of 1997 addresses the issue of the inability of the economically disadvantaged to utilize free education

[11] Liyanage, I.M.K (2014), "Education System of Sri Lanka: Strengths and Weaknesses" http://www.ide.go.jp/Japanese/Publish/ Download/ Report/2013/pdf/C02_ch7.pdf.

[12] World Bank (2011), "Strengthening Mathematics Education in Sri Lanka", Report No. 43, World Bank, Washington, D.C.

[13] NIE (2008),"An Evaluation of the Process of Development and Implementation of the New Curriculum in Grades 6 and 10", National Institute of Education, Sri Lanka.

[14] Based on interview with officials of the NIE.

[15] De Silva. E. J. (2013), *Politics of Education and other Reforms*, Sarasavi Publishers, Colombo.

[16] *Ibid*.

[17] NIE (2008).

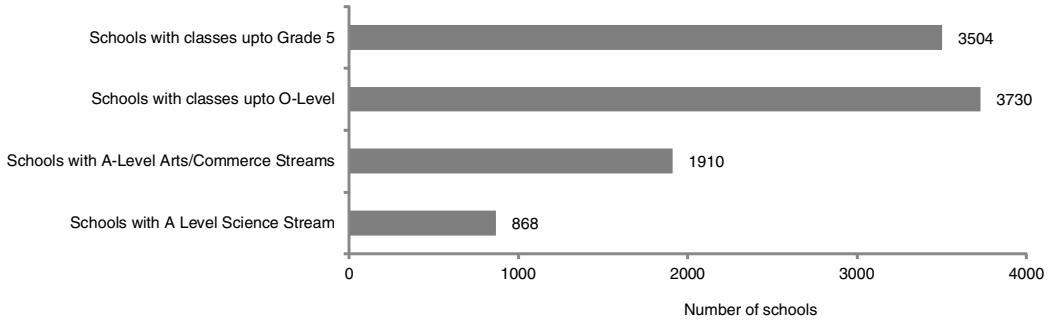
**Sri Lanka's educational policies are formulated and put into practice without allocating required funds.**

made available by the state. However, these regulations do not go far enough to address the quality of the compulsory education received. Sri Lanka's education sector suffers from human and physical resource disparities for more demanding subjects such as science, English and IT.

There are large disparities in the quality of education provided by schools due to limited facilities. Many of the schools have only the very basic facilities and lack required resources to suit modern learning needs such as science labs, activity rooms, etc. In particular, there are resource disparities for more demanding subjects such as science and mathematics. For example, as of 2013, less than10 per cent of schools have facilities to teach A-Level science streams (Figure 8.1).[18] There are 1,900 schools with A-Level arts and commerce streams, but do not have a science stream. Due to the lack of other options, many students are thus compelled to follow arts or commerce streams for A-Levels. For example, of total A-Level student enrolment in 2013 (471,000), almost a half are studying in the arts stream, while 24 per cent and 27 per cent were studying in science and commerce streams, respectively. These constraints have knock-on effects; for example, although there were plans to train 3,000 nurses a year, lack of A-L science graduates was a constraint in achieving this.

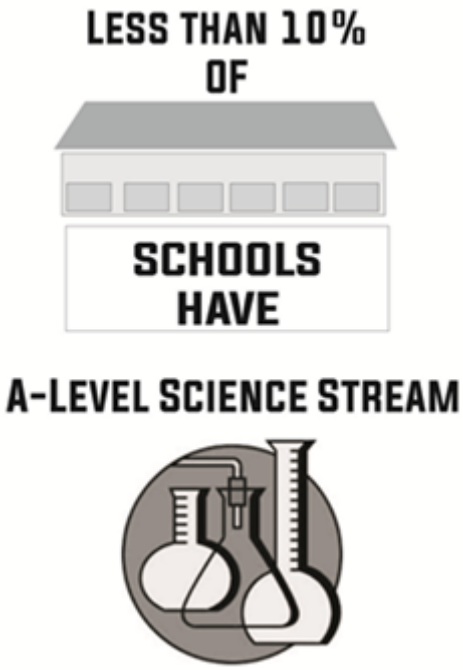
Despite the NEC 2003 recommendations to make provision for the teaching of mathematics and science in all schools with GCE A-Level grades, during 2003-2013, only 262 schools have been added on to provide A-Level science streams. Furthermore, schools offering science subjects in A-Levels are not rationally located, with a majority of these to be found in urban areas, with almost one-fifth of such schools located in the Western Province alone (Figure 8.2). Lack of geographical access to science education has also limited access to more technical education at higher levels.

**Figure 8.1**
**Number of Schools by the Highest Functional Grade (2013)**



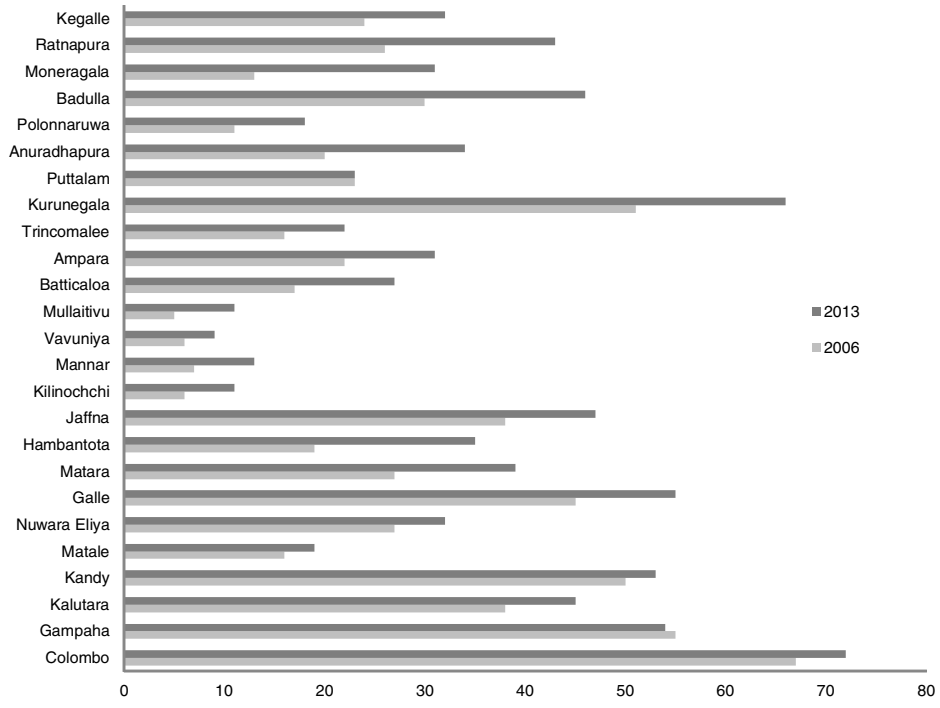

Source: Ministry of Education (2013), "Sri Lanka Education Information 2013", Ministry of Education, Battaramulla.

[18] Ministry of Education (2013), "Sri Lanka Education Information 2013", http://www.moe.gov.lk/english/images/Statistics/sri_lanka_education_information_2013.pdf.




Even with the limited physical resources, if there is good leadership by principals - backed by an efficient teaching staff - schools can provide quality education. Thus, teachers are the most crucial and valuable resource for delivering quality education within the system. However, Sri Lanka's recruitment process to attract the best teachers, providing them with constant training and development, and incentivizing performance is poor.[19] The current practice is for the central government to recruit teachers through the National Colleges of Education and universities. However, graduate teachers are often recruited outside these procedures under frequent government initiatives to absorb unemployed graduates into the public sector. Their quality is questionable as they mostly join as teachers in the absence of any other alternative, as a result of which their commitment to the profession can also be low. Such recruits have also not

**Figure 8.2**
**Number of Schools with A-Level Science Stream, by District (2013)**




Source: Ministry of Education (2013), "Sri Lanka Education Information 2013", Ministry of Education, Battaramulla.

[19] IPS (2014), "Learning from Asian Best Practices in School Education" in *Sri Lanka: State of the Economy 2014*, Institute of Policy Studies of Sri Lanka, Colombo.

undergone the 2-3 years initial pedagogy training which is given for other trained teachers.

Even after recruitment, teachers are not continuously trained, aside from ad-hoc training such as those targeting curriculum reforms. Further, under the current system teachers are not motivated as there is no proper process to monitor and evaluate performance. Teacher competencies - in communication, creativity, leadership skills, etc. - are not evaluated at all and promotions are just based on exam qualifications and experience. Overall, therefore, teacher recruitment policies and processes should be strictly adhered to, whilst proper teacher training and teacher evaluation procedures should be implemented to ensure good quality teachers, and thus a better general education sector.

There is currently a mismatch between demand and supply of teachers, with subject specific teacher shortages. Teacher deficits are found in almost all districts for IT and English. In rural schools, it is often the case that there is a deficit of teachers for more demanding subjects such as English, science and IT (Figure 8.3). There is an excess of teachers in urban popular schools and a shortage in rural difficult area schools.[20] In particular, a deficit of Tamil medium teachers in former conflict-affected areas could be observed. For instance, according to the School Census 2013, out of 62 schools with one teacher, 38 such schools are in the Northern Province. Lack of qualified teachers and disparities in teacher deployment mean that schools which cater to the vulnerable are faced with shortages of teachers.[21] These figures, bad as they are, do not show the true picture of educational problems - i.e., the internal disparities within a district - which in reality is even more disturbing. Within such districts, facilities are concentrated in the urban and suburban centres, leaving out the rural areas. As such, parents who are the best judges struggle to get their children into urban schools. It is the economically disadvantaged people who have been forced to send their children unwillingly to village schools.

Several initiatives are in the process of being implemented with the aim of improving teacher deployment. Some of these measures include providing special incentives for teachers as well as principals who serve in remote areas; giving preferences to the applicants in the districts which experience teacher shortages; appointing newly trained teachers to remote areas when selecting candidates for teacher training; inter-provincial teacher transfers to get rid of teacher surpluses and deficits; and living accommodation for teachers who serve in disadvantaged remote schools.

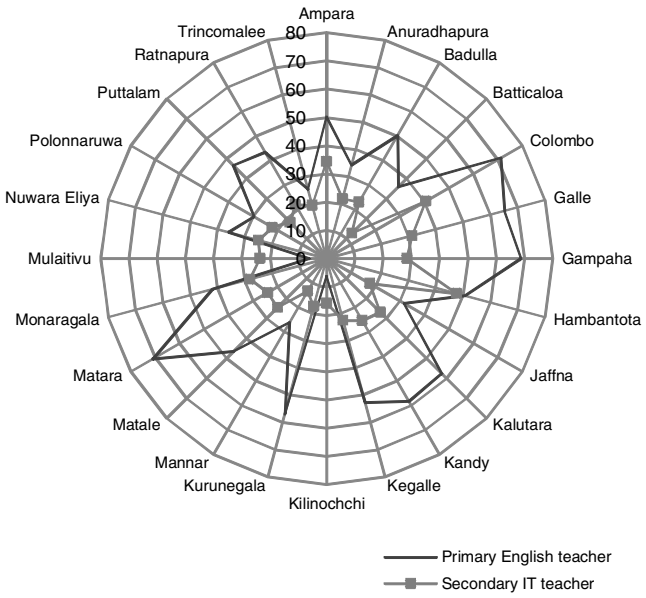
There have been many initiatives which focus on improving the quality of education available to children, including expanding and enhancing the quality of human and physical resources, with particular emphasis on disadvantaged and remote regions. Since 2000, a 'school rationalization programme' has been implemented which aims to absorb smaller schools into nearby bigger schools. The official policy and programme of closing small schools with low student enrolment was to rationalize the distribution of schools and to eliminate wastage of resources.

Under the school rationalization programme, the MOE has used geographical positioning of schools in a rational manner to avoid exclusion. With the use of mapping exercises, school networks are established where each group proposed, consists of about 5-10 schools, with access to primary, junior secondary and at least one school providing A-Level science and technology classes. However, a major shortcoming of this system is that when looked at from an ariel view, the schools are located at an accessible distance, but some of these schools have limited access due to poor roads and transport

[20] Balasooriya, B. M. J. (2013). "Teacher Recruitment and Teacher Mobility in Sri Lanka", Commonwealth Education Partnership.

[21] World Bank (2011), "Transforming School Education in Sri Lanka", World Bank, Colombo.

**Figure 8.3**
**Proportion of Schools with Teachers for English for Primary Grades and IT (2011)**




**The state higher education system is not changing sufficiently to meet the evolving labour market demands of a globalizing world.**

systems in remote areas. Thus, the closure of such small schools will deprive the children of poor families in these villages of the only opportunity they have for education, even with limited facilities.

An Education Sector Development Framework and Programme (ESDFP) formulated by the MOE with the support of the World Bank was put forward in 2005 to maintain the basic principles of quality, equality and equity in education. The first phase of this programme covered 2006-10, with a second phase planned for 2012-16. The major policy themes of the ESDFP were: (i) increasing equitable access to basic and secondary education; (ii) improving the quality of basic and secondary education; (iii) enhancing economic efficiency and equity of resource allocation; and (iv) strengthening the educational governance and service delivery, and monitoring and evaluation. Key achievements of the ESDFP under the first phase includes promoting child-centred pedagogical methods; revision of curricula and teacher instructional manuals for all grades; training the in-service advisors to help teachers by providing practical guidance on pedagogy; a medium term budget framework being developed for basic and secondary education, etc.

## 8.5 Limited Opportunities for Tertiary Education

Sri Lanka needs a higher education system which produces graduates who are able to carry out the complex tasks required by the market and learn new things easily. Workers with advanced skills are needed, where a dynamic tertiary education sector plays a key role in catering to changing demand in the labour market.

The government plays a prominent role in the provision of higher education services in Sri Lanka, but the capacity of the state university system is limited. It comprises of 15 universities, eight postgraduate institutes and 10 other higher educational institutions functioning under the purview of the University Grants Commission (UGC). With the aim of increasing opportunities and

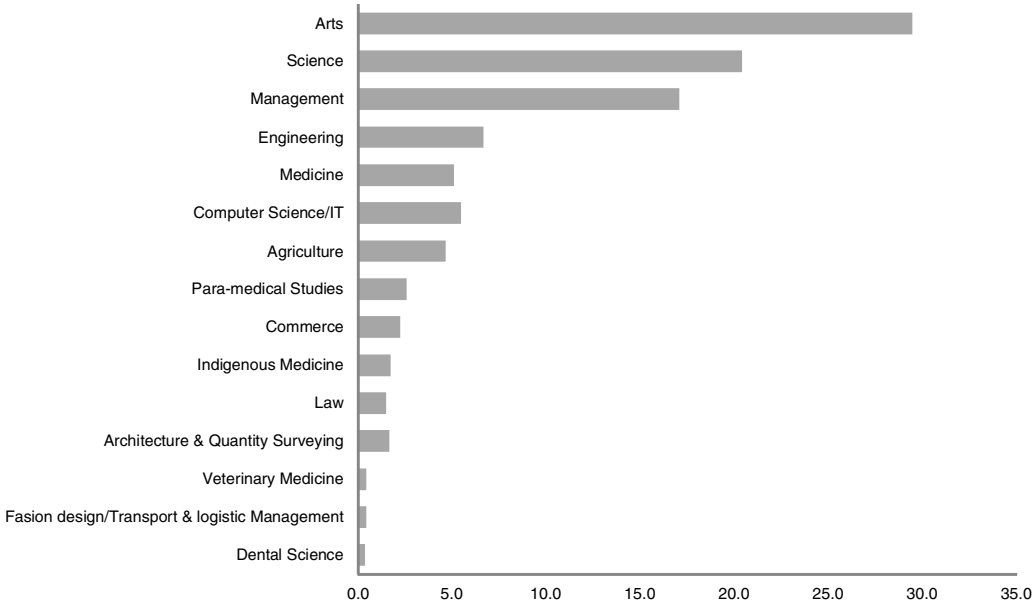
diversifying higher education options, new higher education institutes have been established while expanding the existing universities with new faculties. As a result of these developments, the university intake which was confined to about 12,000 students in 2002 increased up to about 24,000 in 2013.[22] Yet, even as of 2013, more than 120,000 (around 83 per cent of the students who qualified for university education) were forced to abandon their ambitions to enter a university due to the limited number of placements in the state funded universities.[23]

Making matters worse from the supply side is that the curriculum is not modern and has limited scope and relevance to market needs. Indeed, the state higher education system is not changing sufficiently to meet the evolving labour market demands of a globalizing world, reflected in recurring high unemployment rates among graduates in Sri Lanka. There is a mismatch in the courses offered by higher




education institutes and competencies needed by the private sector. Lack of relevant skills can also act as bottlenecks for business start-ups and entrepreneurs, stifling growth prospects for the

**Figure 8.4**
**Distribution of University Admissions by Subject (2012/13)**




Source: DCS, "Statistical Pocket Book 2014", Department of Census and Statistics, Colombo.

[22] UGC (2013), "University Admission", http://www.ugc.ac.lk/downloads/statistics/stat_2013/chapter2.pdf [accessed, 27 April, 2015].
[23] *Ibid.*

country. A major reason for the skill mismatch is the outdated curricula, aggravated by the lack of interaction with the private sector when designing degree programmes.[24] As seen in Figure 8.4, even of those who do attend a university, one-third are studying in the arts stream. As discussed before, this is mainly due to the fact that only a small proportion of students pursue A-Levels in science and mathematics subjects at the school level.

Lack of avenues for higher education hamper the higher education system in Sri Lanka. Although there is no explicit legal barrier, the political economy context of the country makes it impossible to invest in private universities.[25] Those who cannot enter public universities have limited options for pursuing higher education. Only those from highly affluent families are able to obtain university education outside the country. Annually, around 12,000 Sri Lankan students are estimated to go overseas for higher education opportunities.[26] Others are able to obtain external degrees from degree awarding institutions in Sri Lanka that are affiliated to private universities outside the country. However, these institutions have gained the attention of policy makers for at least two reasons recently: a) the high cost of these degree programmes, and b) the quality of education offered by these institutions.

The absence of an accreditation system for private sector higher education providers makes it difficult to regulate the quality of programmes on offer. There are around 59 private universities functioning in the country.[27] However, there is no proper quality assurance, quality control and monitoring mechanism to measure the quality of the programmes which are being offered by these institutes.

Proposed reforms spelt out in the National Policy Framework on Higher Education and Technical and Vocational Education by the NEC in 2009 aimed broadly at restructuring the governance and institutional framework of higher education in order to facilitate expansion in access, as well as improving the quality and relevance of higher education.[28] To optimize higher education opportunities, it called for increasing the number of places in the existing higher education institutes by providing human and physical resources, as well as introducing new methods of teaching, such as distance learning. It strongly recommended the need to expand higher education through different means, including the establishment of affiliated institutions to universities, establishment of degree awarding institutions outside the purview of the UGC, and for cross-border higher education. It also called for 1) a quality assurance, assessment and accreditation system; 2) coordination with the industry sector in designing courses; and 3) promoting research and creative activity in higher education institutes.

One of the key strategies for expanding access to higher education is the expansion of the private higher education sector. Encouraging private investment in university education could provide benefits, improving the quality of education through competition and enhance access to university education. In 2011, the government attempted to introduce new legislation under the Act on Quality Assurance, Equalization, Qualification and Framework with the aim of uplifting the quality of the diplomas and degrees which are being offered by the private sector degree awarding bodies. Under the proposed framework, degrees and diplomas awarded by the non-state sector were to be regulated to ensure quality. However, the government had to

[24] NEC (2009).

[25] ADB (2005), "Technical Assistance to the Democratic Socialist Republic of Sri Lanka: Preparing the Education Sector Development Programme", Asian Development Bank, Manila.

[26] De Alwis. D., ( 2013), "More Foreign Students, Scholarships in Pursuit of Hub Status", http://www.universityworldnews.com/article.php?story=20130524094742394.

[27] De Alwis. D. ( 2012), "Private Universities Bill Halted for Now", http://www.universityworldnews.com/article.php? story= 20120118 171 12 62.

[28] See NEC (2009).

withdraw the proposed Bill owing to escalating confrontation from student groups and lecturers.[29] Student groups argued that the Bill would destroy the free education provisions currently enjoyed; the Federation of University Teachers' Associations (FUTA) also opposed the Bill, especially the manner in which it was processed, arguing that the Bill should be discussed with all stakeholders including students, before being presented to Parliament. It should be noted however, that the NEC 2009 recommendations included the establishment of a National Quality Assurance, Accreditation Council by an Act of Parliament, as an independent body appointed by the President, to cover all areas of higher education and technical and vocational education in Sri Lanka.

In these circumstance, with the aim of bringing private universities into operation while avoiding escalating conflicts, the government took measures to attract foreign universities to set up campuses and research centres in 'free investment zones' as BOI approved projects. Under this scheme, foreign investors will be offered land and tax breaks. The aim is to create a higher education hub in Sri Lanka which is cost effective for foreign students. Also, the establishment of foreign branch universities in the country is expected to encourage local students to study at international universities at home and lessen the drain of foreign exchange from the country. In September 2013, an Extraordinary Gazette was tabled in Parliament to grant a 15-year tax break to a British university that was planning to establish a branch campus in Sri Lanka. Plans to allow 10 private universities to operate locally by 2020 in six such education zones were announced in 2014.[30] However, the absence of a Quality Assurance, Equalization, Qualification and Framework for higher education that will regulate such 'free zone universities' is a continuing cause of concern.

Existing regulations governing quality of higher education is inadequate. Under the recommendations for 'Reforms in University Education' by the Presidential Task Force of 1998, several measures were initiated to improve the quality and relevance of university education in Sri Lanka, with ongoing reforms targeting quality improvements as well as expanding the availability of opportunities for university education. A Quality Assurance and Accreditation Council (QAAC) of the UGC was set up in 2005 under the 'Improving the Relevance and Quality of Undergraduate Education (IRQUE)' project (2003-2010) with World Bank funding, to monitor the quality of academic programmes offered by public universities and higher education institutions. Under the same IRQUE project, initiatives have been made to establish a common National Higher Education Management Information System (N-HEMIS), to generate information for planning, monitoring and evaluating the higher education sector. With the aim of increasing opportunities for higher education, the

**Absence of a Quality Assurance, Equalization, Qualification and Framework for higher education that will regulate 'free zone universities' is a continuing cause of concern.**

[29] It should be noted that although the draft Bill had been approved by the Cabinet in 2011, its provisions have never been made fully public.

[30] Business Standard, (2014), "10 International Universities to Open Campuses in Sri Lanka", http://www.business-standard. com/article/news-ians/10-international-universities-to-open-campuses-in-sri-lanka-114042300988_1.html.

UGC has granted degree awarding status for several institutes in specific disciplinary areas to meet the needs of a knowledge society. With the recognition of the Institute of Technological Studies (ITS) as a degree awarding institute in 1988, several other institutes such as the National Institute of Business Management (NIBM), Sri Lanka Institute of Information Technology (SLIIT), the Institute of Chartered Accountants of Sri Lanka (ICASL) were recognized as degree awarding institutes under Section 25 A of the Universities Act No. 16 of 1978.

## 8.5.1 Training and Skills Development outside the University Sector

The intensive application of technology and pace of innovation is an integral part of the modern economy. New occupations are emerging and replacing others. Required skill levels and competencies are rising with the changing demands of the globalized labour market. To enhance the responsiveness of Sri Lanka's education and training system to these changes is a major challenge.

The Technical Education and Vocational Training (TEVT) in Sri Lanka is characterized by a multitude of agencies, including public and private sector training providers and a regulatory body - the Tertiary and Vocational Education Commission (TVEC). Since 1990 the TVEC has been mandated to formulate policy, plan and coordinate, as well as set standards and regulate the TEVT sector for relevance and quality of training.

Private and non-governmental organization (NGO) sector training institutions also play a key role in providing TVET in the country. There are a large number of TVET institutions operating on a fee-levying basis, while a widespread network of non-fee levying institutions supported by national and international charities are also in operation. As of 2012, there were 2,421 registered institutes under government (337), statutory bodies (766), private (1,051) and NGO (267).[31] The TVEC has put in place a system for registration of training institutions and accreditation of courses to establish and maintain a credible system for quality assurance for the TVET sector. As of 2012, 1,148 courses have been accredited and recognized by the National Vocational Qualifications (NVQ) as one of recruitment criteria in the public sector. According to TVEC registered institutes, the student intake in the public sector was 112,569, with another 43,693 intake in the private sector.[32]

Clearly, Sri Lanka's tertiary education and training systems are failing the country's youth. Whilst the national unemployment rate is low at around 4 per cent, youth unemployment is significantly higher, estimated at 21.5 per cent (15-19 years) and 13.7 per cent (20-29 years) in 2014.[33]

The majority of school leavers leave the education system after O-Levels. Each year about 140,000 and 80,000 students leave the school system without succeeding at the O-Level and A-Level examinations, respectively.[34] These children are the prime target for specific training and skills development programmes in meeting skills demand of the country. However, the general acceptance of the country's TEVT sector is poor due to low recognition of the qualifications, low employability of graduates and the poor effectiveness of the course in catering to the demands of the market. Thus, the transition from school to the world of work is not smooth.

This is compounded by an inadequate flow of information between youth and the labour market.

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31 TVEC (2012), "Corporate Plan 2013-2017", Tertiary and Vocational Education Commission, Sri Lanka.

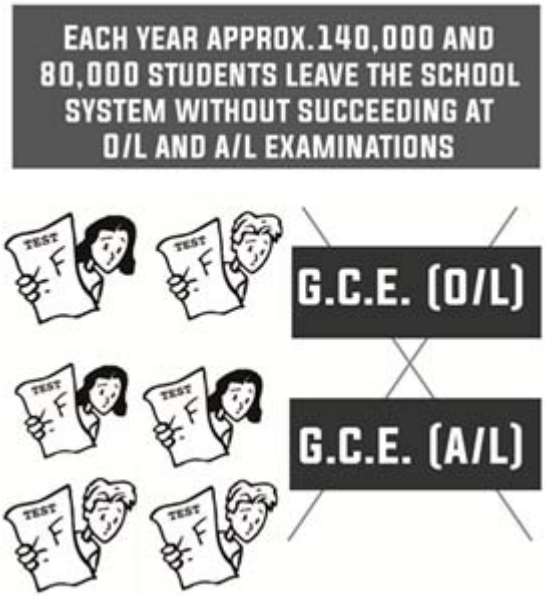
32 TVEC (2013), "Labour Market Bulletin – 2013", Tertiary and Vocational Education Commission, Sri Lanka.

33 CBSL, *Annual Report 2014*, Central Bank of Sri Lanka, Colombo.

34 DCS, "Statistical Pocket Book 2014", http://www.statistics.gov.lk/Pocket%20Book/chap13.pdf.

Inadequate information flows such as on the types of job opportunities in the labour market, limit the aspirations and life goals of youth. Most of the young students are not aware of skill needs when selecting a subject stream at the A-Levels. There is no proper career guidance system to advise these school leavers. Therefore, most usually find unskilled or casual jobs. This is partly due to the lack of a systematic link between the TEVT and secondary education, leaving a majority of school leavers with no access to skills development programmes.[35]

In the past, the TEVT sector expanded without adequate focus on quality of the programmes. From the 1990s, there were attempts to improve the TEVT sector - establishment of TVEC and the Ministry of Vocational Training in 1994, etc. Following the recommendations of a Presidentatial Task Force on TEVT sector reforms in 1998, major reforms were initiated to restructure the TEVT system. These include, improving the quality and relevance of programmes by introducing national skill standards, and registration and accreditation of courses of all vocational institutions. The Tertiary and Vocational Education Commission, in association with the Skills Development Project (SDP) of 2000-07 introduced the national certification system for the TVET sector - the National Vocational Qualifications (NVQ) framework. The Technical Education Development Project (TEDP) of 2007-2011, the successor to the Skills Development Project, mainly concentrated on NVQ diploma level courses and the setting up of the University of Vocational Technology (UNIVOTEC) to award NVQ degree equivalent qualifications. UNIVOTEC was established in 2008. Along with that, nine Technical Colleges in nine provinces were upgraded to Colleges of Technology to offer national diplomas, starting from 2010.[36] The TVEC is responsible for monitoring the consistency and quality of training delivery, its validity and reliability. However, the TEDP validation report by the ADB




reveals that there were many shortcomings.[37] These include lack of teachers to reach the expected outcome of the programmes; staff training not being successful due to short period of training, late scheduling, and also some irrelevant training; existing technical colleges being only marginally improved in order to upgrade to the level of a College of Technology, etc.

## 8.6 Policy Implications and Recommendations

For Sri Lanka to continue its transition as a middle-income emerging economy, it will have to rely on efficiency driven productivity growth. For this, the country needs a skilled workforce that is able to create and adapt to new technologies, and has the necessary general skills to be competitive in the global market. However, the ability of the present education system to cater to these emerging demands and train the country's human capital is

[35] ADB (2005).
[36] TVEC (2010), "Corporate Plan 2011-2015", Tertiary and Vocational Education Commission, Sri Lanka.
[37] ADB (2014), http://www.adb.org/sites/default/files/PVR-375.pdf.

**Lack of a systematic link between the TEVT and secondary education, leave a majority of school leavers with no access to skills development programmes.**

highly questionable. Some of the critical issues in the education system which need urgent attention include allocation of sufficient funds, reforms to enhance the quality and relevance of the curriculum, address deficiencies in human resources in recruiting and training; and consistent implementation of reforms issues. Required reforms in addressing the above critical issues are discussed below.

***Fund allocation***: The allocation of funds is often identified as a major reason for slow progress of recommended reform efforts. Therefore, adequate funding should be allocated on time to meet necessary ground level resources and to sustain the reforms. Sri Lanka has proposed to increase government spending on education from the current 1.9 per cent of GDP to 6 per cent over five years. If proposed higher budgetary allocations materialize, priority areas where additional spending is needed should address resource disparities in school education, expanding science education and capacity building, teacher recruitment and training, including in higher and tertiary education sectors.

***Reforms to address skill gaps to improve quality and relevance of programmes***: Addressing the mismatch between the skills acquired through the education system and the requirements of the labour market is a key concern of the current higher education system. State universities should change to become dynamic centres of teaching and learning that will react to changes in the market in a timely manner. Curriculum should be reformed to match the skills demands of the globalized labour market with sufficient practical applications. Linkages should be developed between universities and the private sector when designing the courses, securing the relevance of training to the changing needs of enterprises and labour markets.

A minimum of two years training should be initiated for students after sitting for O-Levels to address the skill gaps of school leavers. Training programmes should be more work-oriented technical training programmes in different fields - such as hotel, construction, T&G sectors, etc. Vocational education systems should be linked with industries that can absorb these students. Therefore, training programmes should be developed with the involvement of private sector companies while the programmes should more relevant to regional development priorities. Public-private partnerships, and schemes of recruitment through vocational education and training institutes directly to the industry, are essential.

***Reforms to strengthen human resources***: Qualified teachers should be recruited for more demanding subjects such as science, mathematics, IT and English according to a proper procedure - i.e., through Colleges of Education. Also, teacher education programmes should be strengthened. More specifically, initial 2-3 years pedagogy training should be given to all newly appointed teachers including university graduates. Also, continuous

short period training (2-3 weeks) should be given to all teachers during the school vacations at the district level training centres. This continuous training should be considered for salary increments, promotions, etc., based on proper performance criteria.

To address the teacher disparities, teacher incentives should be provided to teachers to work in rural areas to ensure a more equitable distribution of qualified teachers. To attract qualified teachers and increase retention, measures to motivate them such as better salaries and working conditions should be provided. Payment of a substantial monthly allowance as practised in some OECD countries and fully decentralized school based teacher recruitment also could be incentives to persuade teachers to take up appointments in schools in difficult locations.[38] In the TEVT sector, academic staff should be well qualified and remunerated accordingly. In the absence of qualified staff and local trainers, foreign trainers should be considered drawing on best practices from other relevant countries.

***Reforms to strengthen implementation by giving appropriate powers to authorities, with adequate monitoring and evaluation of implemented programmes to ensure proper coordination with different groups:*** Although reforms are recommended, there have been many implementation issues at the ground level due to resource disparities. Therefore, reforms should be done in a holistic manner with responsible authorities, identifying required resources, budget estimates, etc. It could be observed that although policy recommendations are done by authorities such as NEC, at the implementation stage, their involvement is very low. Due to this, many of the recommended reforms are slow to take-off and progress. Therefore, more powers can be given to the NEC on implementation, allowing for monitoring and evaluation systems to provide feedback to policy makers.

Under the proposed 'free investment zone' concept, private universities are entering the system, without proper regulatory mechanisms. Therefore, urgent attention should be given to regulating these private higher education institutes. Although the proposed Quality Assurance, Equalization, Qualification and Framework Bill failed, registering these institutes under the UGC Act, similar to some other registered higher education institutes such as SLIIT, NIBM, can be considered. Also, it is necessary to strengthen the regulatory mechanism of these institutes by incorporating new rules and regulations, especially with regard to standards of the curricula, etc.

To address the labour market information gap among school leavers, awareness and absorptive capacities of industries, as well as education and training institutes need to be developed. Therefore, it is important to identify innovative, rapid, effective, and feasible strategies to reach school leavers for vocational training. Most students do not have adequate awareness of these opportunities presented by the institutes of vocational education and training. Therefore, raising awareness should be done at the school level after sitting for O-Levels. Through such efforts, students will be better prepared to choose between vocational training and following more academic training for A-Levels. Particular attention should be given to school leavers who do not succeed at their O-Levels. This awareness campaign should be done in a well-planned manner, with the involvement of vocational training authorities, private sector institutes, etc. In addition, the institutional capacities for delivering vocational training programmes should be upgraded in areas such as training material and equipment. At district level, there is an identified need for well-equipped training centres with residential facilities.

[38] World Bank (2011), "Transforming School Education in Sri Lanka", World Bank, Colombo.

# 9. Health Sector Reforms

## 9.1 Introduction

With universal health care and a robust public health network across the country, Sri Lanka has made noteworthy achievements in health outcomes compared to other developing countries. Sri Lanka is characteristic of increased life expectancy, reduced maternal and child mortality and decreasing levels of communicable diseases, etc. While this success is laudable, the country needs to strengthen its existing health system (both public and private) in order to face changes brought on by demographic and epidemiological transitions. Due to the decline in overall population growth, the percentage of individuals over 60 years in the country is expected to grow at an unprecedented rate to reach 24.8 per cent by 2031.[1] Moreover, there is a shift in the disease burden towards non-communicable diseases (NCDs) such as heart disease, cancer, asthma and diabetes, mirroring that of high GDP countries. In fact, the leading cause of death in Sri Lanka is cardiovascular heart disease. Similarly, due to the increase in per capita income over the years, there is also greater demand for better treatment procedures.

These changes bring a variety of challenges. With regard to health care financing, the system will need to take into consideration the higher cost of providing health services for NCDs that require long-term interventions. As the population ages, demand for health care will increase and change shape. Also, greater globalization will make Sri Lanka more vulnerable to health epidemics. The health sector needs to strengthen its health care organization, provision and regulation not only to deliver services effectively and efficiently, but also to provide quality care and guarantee patient satisfaction.

In this context, this chapter discusses possible health care reforms to be undertaken in order to cater to population demands successfully. The chapter proceeds as follows: Section 9.2 outlines health care financing. Public sector reforms and private sector reforms are discussed in Sections 9.3 and 9.4, respectively. Section 9.5 discusses drug policy and Section 9.6 concludes.

## 9.2 Health Care Financing

Currently, health care in Sri Lanka is financed through a combination of tax-financed government expenditure and private payments for care. Public sector funds are channelled through a combination of contributions from the Ministry of Health (MOH), provincial and local governments, other ministries and government entities, the President's Fund and the Employee's Trust Fund.[2] The majority of private sector financing sources consists of out-of-pocket expenditure, insurance, NGOs and private employers' arrangements for health expenditure.

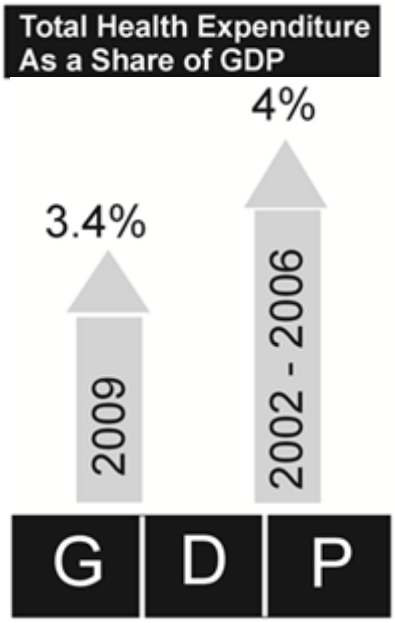
Total health expenditure as a share of GDP stood at 3.4 per cent in 2009, having peaked at around 4 per cent during 2002-06.[3] It is evident that the private sector has increasingly become prominent in health care expenditure. Between 2005 and 2012, the

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1 De Silva, I., (2012), "The Age Structure Transition and the Demographic Dividend: An Opportunity for Rapid Economic Take-off in Sri Lanka", Sri *Lanka Journal of Advanced Social Studies,* 2(1).

2 IPS (2012), "Sri Lanka National Health Accounts 2005-2009", Institute of Policy Studies of Sri Lanka, Colombo.

3 *Ibid*.

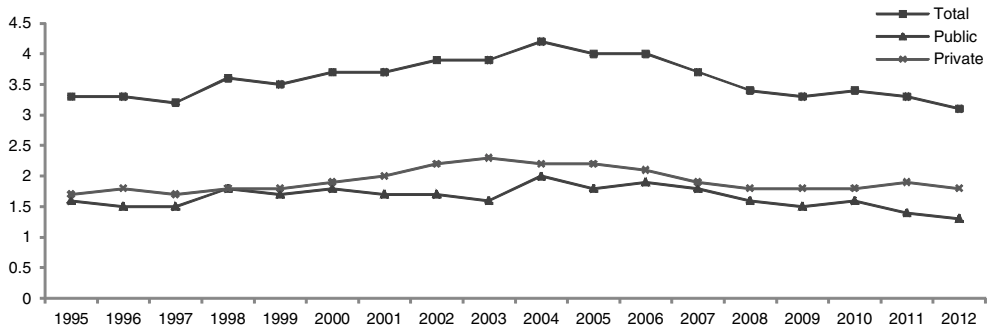



proportion of private health care expenditure increased from 54 per cent to 60 per cent; the government contribution to total health expenditure in 2012 was 40 per cent.[4]

## 9.2.1 The Health Transition and Financial Challenges

The changing demographic and epidemiological transitions as well as higher demand for better treatment procedures bring with it the need to improve Sri Lanka's health financing system. Health care expenditure is likely to increase in the future because: a) the increase in NCDs and the proportion of the elderly requires long-term care and monitoring; b) the country needs to fill gaps in service delivery of geriatric care and long-term care; and c) it is imperative to respond to the increase in demand for more expensive treatments. Even though Sri Lanka's disease pattern is moving towards mirroring that of high GDP countries, its health care expenditure does not follow suit. In recent years, the rate of growth in GDP has been above the rate of increase in public and private health expenditure.[5] As a result, when expressed as a percentage of GDP, the country's total health expenditure shows a declining trend (Figure 9.1). In 2006, total health expenditure was 4 per cent of GDP, but reduced to 3.1 per cent in 2012. Furthermore, compared to other countries with similar health indicators, Sri Lanka's public health financing per capita is low (Figure 9.2).

**Figure 9.1**
**Health Expenditure as a Percentage of GDP**




Source: World Bank, "World Development Indicators", World Bank, Washington, D.C.

[4] World Bank, "World Development Indicators" http://data.worldbank.org/indicator.
[5] IPS (2012).

It is estimated that when life expectancy at birth is less than 68 years, total health expenditure in Sri Lanka needs to be 4.87 per cent of GDP; when life expectancy is greater than 68 years (as it is currently), it needs to be 5.84 per cent of GDP.[6] The current expenditure figure (3.1 per cent) is lower than both estimations. This indicates that Sri Lanka would need to bear a larger burden financially if it is to provide health care services that would adequately cater to the changing demographic and disease patterns.

The critical question is how Sri Lanka can fund an increase in financing. One alternative is to consider increasing taxes on harmful products such as alcohol and tobacco. For example, the country imposes a Rs. 7,000 per kg excise duty on cigars, cheroots, cigarillos and cigarettes containing tobacco. Excise duties that range from Rs. 4,612-18,500 depending on the length of the cigarette are also imposed.[7] When the percentage of tax in retail price is considered, the various lengths of cigarettes have no consistent rate of tax. If the government imposed a standard rate of 60 per cent of excise duty on retail price for all cigarette categories, it would have gained an additional Rs. 8 billion in revenue in 2013.[8] New forms of taxes, such as taxes on fast food, could also be considered.

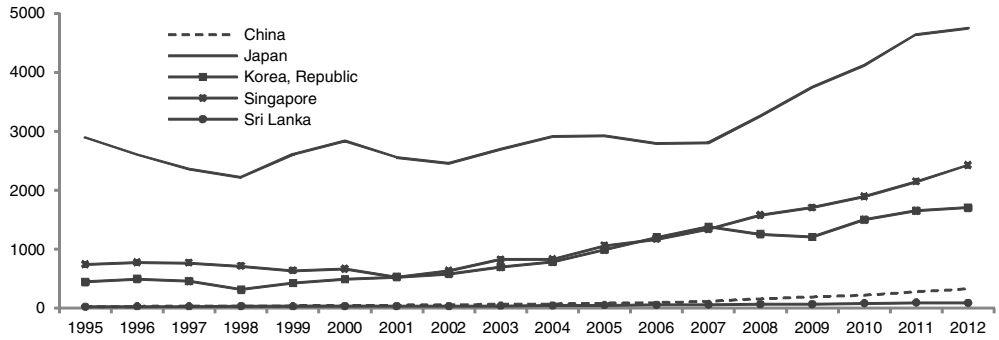
A second strategy is to implement a social health insurance system. The viability of this option, however, is questionable because a large proportion of employment in the country is within the informal sector, making it difficult to collect premiums. Administrative challenges of social health insurance should also be given considerable attention as Sri Lanka does not have prior experience on the matter. With an ageing population and an increase in NCDs, Sri Lankans will require different types of insurance; especially to cover hospital expenses and long-term care which is more expensive. The country should also have a more proactive stance on donations as a third financing strategy. Currently, donations operate on an ad hoc basis, leaving room for untapped potential to be explored.

# 9.3 Public Sector Health Reforms

## 9.3.1 Health Care Delivery

Sri Lanka is one of the few countries in the world providing free universal health care as a national

**Figure 9.2**
**Health Care Expenditure Per Capita, Select Countries (US$)**




Source: World Bank, "World Development Indicators", World Bank, Washington, D.C.

[6] Ministry of Healthcare and Nutrition (2007), "Health Master Plan – Healthy and Shining Island in the 21st Century", Ministry of Healthcare and Nutrition, Colombo.

[7] Sri Lanka Customs (2013), "Budget Updates – Excise Duty", http://www.customs.gov.lk/tariff/ExciseBudget2013.pdf [accessed May 21, 2015].

[8] ADIC (2014), "Raise Taxes on Tobacco", http://www.adicsrilanka.org/wp-content/uploads/2014/05/No-tobacco-2014-Report-12.pdf, Alcohol and Drug Information Centre, Sri Lanka.

priority for decades, with the state bearing the main responsibility for providing health care services to the people. A majority of the population has easy access to a reasonable level of health care facilities provided by both the state and private sector through the extension of services to every corner of the country. Sri Lanka's health system consists of a well-established network of health institutions providing primary, secondary and tertiary health care services. Whilst the health system consists of public and private health care services, the government plays the major role as the key health care provider serving nearly 60 per cent of the country's population.[9]

The present structure of the government health care system is a result of the Health Services Act of 1953 and the Provincial Council Act of 1988. The government sector covers the entire range of preventive, curative and rehabilitative health care provision. From 1950s until the 1980s a central health department or a ministry was responsible for managing the government health service. In 1987, the responsibility of managing the government health service was devolved to Provincial Councils by the 13th Amendment to the Constitution. Management of national health facilities, medical education, formulation of health policy and bulk purchase of drugs and medical supplies are done by the central ministry.[10] The state health services function under an appointed government minister with nine Provincial Directors of Health Services (PDHS) responsible for management and effective implementation of health services in the respective provinces. The PDHS is responsible for the management of hospitals (Provincial, Base and District Hospitals, Peripheral units, Rural Hospitals and Maternity Homes) and out-patient facilities such as Central Dispensaries and visiting stations.

The public sector runs an extensive network of facilities throughout the country. These are organized into a multi-tiered referral system of facilities ranging from maternity homes and dispensaries upward to teaching hospitals and other national hospitals. By the end of 2012, there were 616 government hospitals with 76,087 patient beds. Further, the public health service had 15,910 Medical Officers (MOs) and 36,486 nurses in 2012. The number of MOs and nurses per 100,000 population was 78.6 and 180.3 respectively, in 2012.[11]

In 2007, the Ministry of Healthcare and Nutrition launched a 10-year Health Master Plan (HMP) with the mission of achieving the highest attainable health status by responding to people's needs and working in partnership to ensure access to comprehensive high quality, equitable, cost-effective and sustainable health services.[12]

Rationalizing and strengthening health network of facilities and services; reducing priority diseases/ conditions through strategic interventions; enhancing quality of service delivery; improving health status of vulnerable populations; increasing public confidence and patient/client satisfaction in the health services; accessing new technologies; strengthening public-private partnerships in order to enhance efficient health service delivery; and ensuring adequate drugs, material and equipment for service delivery, are the eight immediate objectives proposed to be achieved. Moreover, the HMP aims to develop the primary health care system to provide appropriate care and services to deal with new challenges, such as NCDs and care of the elderly. In addition, an appropriate referral strategy (including admission and discharge policies) is proposed to be introduced to ensure that patients receive treatment at the most appropriate level, including home-based care, when and where appropriate.

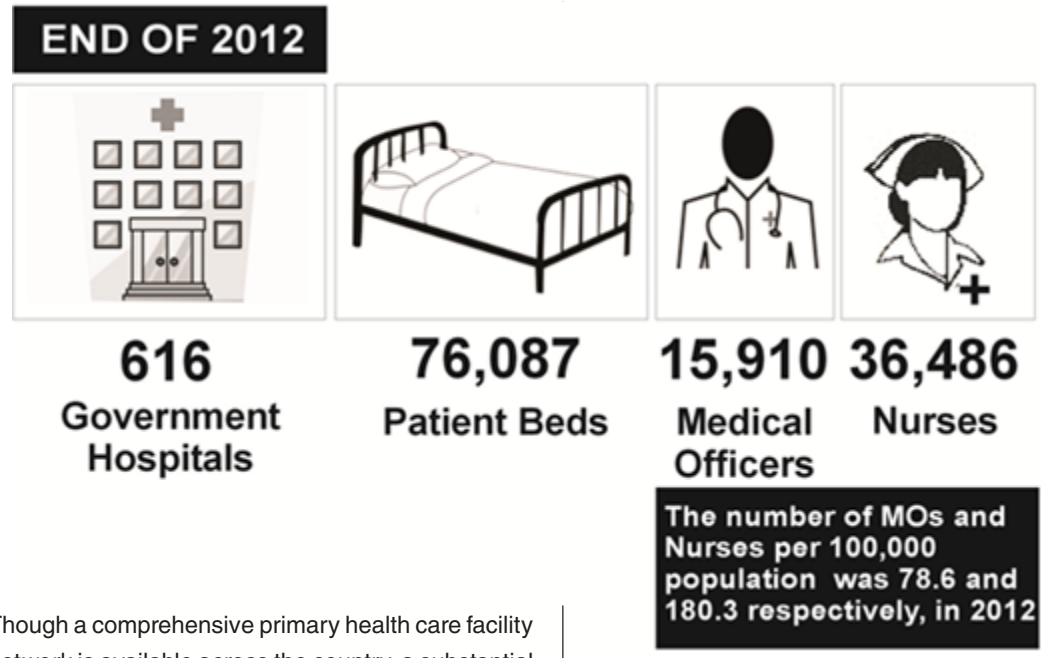
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9 Ministry of Health (2008), "Annual Health Bulletin 2008", Ministry of Health, Colombo.

10 Hsiao, W., (2000), "A Preliminary Assessment of Sri Lanka's Health Sector and Steps Forward", Institute of Policy Studies of Sri Lanka, Colombo.

11 *Ibid.*

12 Ministry of Healthcare and Nutrition (2007).




Though a comprehensive primary health care facility network is available across the country, a substantial number of patients bypass these and seek treatment at secondary and tertiary health care institutions, even though they have to travel considerable distances at great expense and inconvenience. Bypassing of primary health care institutions is mostly done because of the erroneous belief that the outpatient treatment in the secondary and tertiary institutions is superior to those in the periphery.[13] Some deficiencies in facilities and services in the primary health care institutions is another reason. Noticeable disparities in facilities in terms of infrastructure, equipment, human resource, etc., make the level of care vary, attracting patients towards the tertiary facilities at the expense of under-utilization of primary health care services.[14] Overcrowding of secondary and tertiary health care institutions, a problem which the public health system currently faces, is exacerbated when primary health care institutions are bypassed, creating an unnecessary burden on higher level facilities.

Provision of quality public health service has become a priority need, especially in the context of an increasing tendency to invest in quality assurance mechanisms by the private sector.[15] The poor state of infrastructure and equipment, unreliable supply and quality of drugs, shortcomings in waste management and infection control, poor performance of personnel because of low motivation or insufficient technical skills, and severe underfinancing of essential operating costs of health services are seen as the main contributory factors for the poor quality of the health care.[16]

Further, continuous upgrading of the health care delivery system is needed in order to face emerging health challenges (such as NCDs, accidents and injuries, long-term care, suicides, homicides and other violence) as well as emergency situations (such as outbreaks of diseases/viruses like Dengue,

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[13] Fernando, J., (2011), "The Urgent Need for a Well-planned Referral System for Health Care Delivery in Sri Lanka", *Sri Lanka Journal of Medical Administration*, Vol. 13.

[14] IPS (2007), "Access to Health Care" in *Sri Lanka: State of the Economy 2007*, Institute of Policy Studies of Sri Lanka, Colombo.

[15] Rishad, M.H.M. and S.S. Kodithuwakku (2008), "An Assessment of Health Service Quality: A Case Study of a Teaching Hospital in Central Province of Sri Lanka", *Tropical Agricultural Research*, Vol. 2, pp. 251-259.

[16] *Ibid*.

Ebola and Avian influenza A(H7N9) and disasters like floods, tsunami, etc.).

The macro-organizational structure of the health care system affects the efficiency and quality of health services. Restructuring of the macro-organizational framework to improve efficiency and equity by splitting outpatient and inpatient services, reclassification of existing health care institutions, and reallocation of resources in order to enhance equal facilities at outpatient services throughout the country are some of the recommendations to enhance the health care service delivery.[17] Strengthening the primary health care delivery institutions and mechanisms is one of the priority areas that should be addressed immediately, when assuring a delivery of quality health care service. A well-planned referral system for health care delivery is needed in reducing the unnecessary cost burden on the secondary and tertiary health care institutions. Further, revitalizing primary health care should be done to address the issue of bypassing primary health care institutions.

## 9.3.2 Physical and Human Resource Allocation

An adequate health workforce which is committed and motivated, and which has the required public health and clinical competencies is seen as a must for the effective functioning of the health system. The number of different types and categories of health workers and their proper utilization is equally essential for better functioning of the health system, as is the provision of an enabling working environment and proper supporting logistics. Recognizing the importance of maintaining the efficiency of resources, the National Health Policy of 1996 adopts "allocating resources between provinces/districts based on their health needs and national priorities" and "supporting and strengthening human resource development in keeping with contemporary needs" as key strategies to raise the health status of the population. The 2007 HMP also identifies improving health financing, resource allocation and utilization as one of its main strategic objectives.

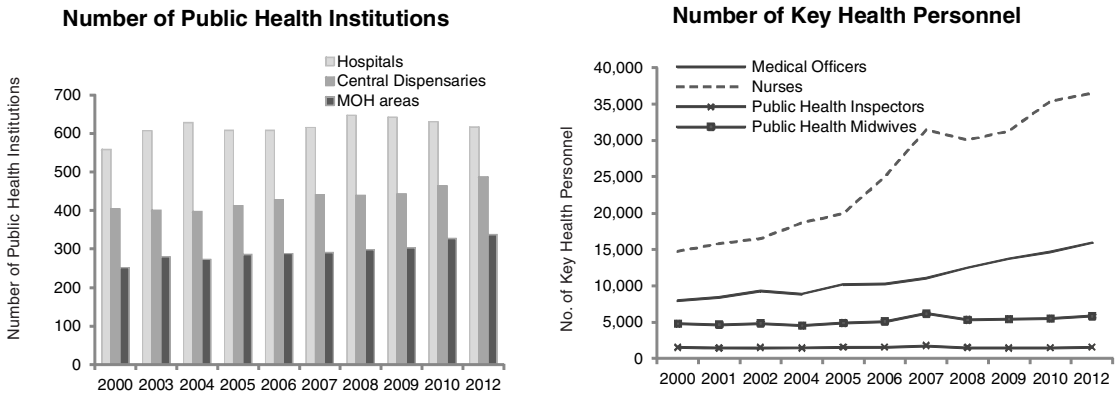
Over the years, an absolute increase could be observed in physical and human resources in the public health care sector (Figure 9.3). A growth can be observed in the number of public health institutions, number and types of facilities available, and number of health personnel employed in the health sector. The HMP estimates that the necessary number of hospital beds for Sri Lanka by 2015 is about 60,000. The country's health system was able to reach that by 2005. The latest available figures show that the country's total bed capacity has reached to 76,087 by 2012.[18] At present, however, the size and the quality of the health manpower are

**A well-planned referral system for health care delivery is needed in reducing the unnecessary cost burden on the secondary and tertiary health care institutions.**

[17] Mahipala, P.G. (2011), "Public Health Interventions Then and Now: How They Will Shape the Future Health System in Sri Lanka", *Sri Lanka Journal of Medical Administration*, Vol.13.

[18] Ministry of Health (2012), "Annual Health Bulletin 2012", Ministry of Health, Colombo.

**Figure 9.3**
**Physical and Human Resources in Public Health Care (2000-2012)**




Source: MOH (2012), "Annual Health Bulletin 2012", Ministry of Health, Colombo.

inadequate in many areas, especially in rural and estate areas.[19]

Although the numbers related to human and physical resources have increased, the country is still lagging behind global averages for most of the indicators related to health workforce and infrastructure indicating a dearth of resources in the health sector. According to the indicators listed in Table 9.1, Sri Lanka has a long way to go before reaching global averages, apart from the indicator on 'hospital beds per 10,000 population'. Sri Lanka records 36 hospital beds per 10,000 population where the global average for the same indicator is 27.

Despite the fact that resources have increased over the years, regional disparities in the distribution of physical and human resources remain.[20] The available evidence suggests that both health personnel and facilities are insufficient to screen patients and refer to special care facilities as needed. There is a high concentration of medical facilities,

**Table 9.1**
**Health Work Force and Infrastructure**

| | Sri Lanka | South East Asia | Global |
|---|---|---|---|
| Physicians per 10,000 population (2006-2013) | 6.8 | 5.9 | 14.1 |
| Nursing and midwifery personnel per 10,000 population (2006-2013) | 16.4 | 15.3 | 29.2 |
| Dentistry personnel per 10,000 population (2006-2013) | 0.8 | 1.0 | 2.7 |
| Pharmaceutical personnel per 10,000 population (2006-2013) | 0.4 | 3.8 | 4.3 |
| Psychiatrists per 10,000 population | <0.05 | <0.05 | 0.3 |
| Hospital beds per 10,000 population (2000-2012) | 36 | 10 | 27 |
| Radiotherapy units per 1,000,000 population (2013) | 0.1 | 0.3 | 1.8 |

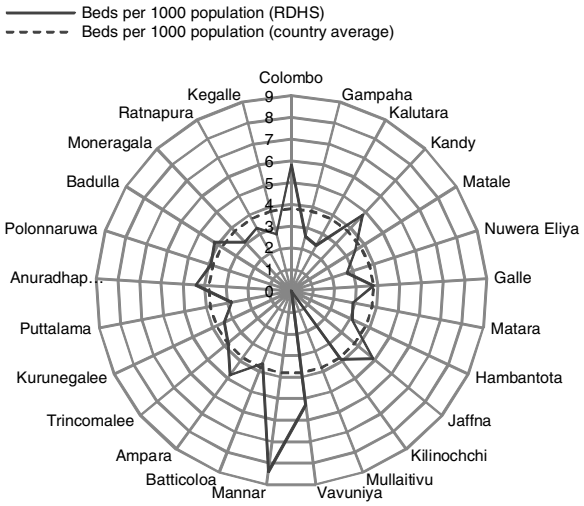
Source: WHO (2014), "World Health Statistics", World Health Organization, Geneva.

[19] *Ibid.*

[20] IPS (2011), "Education and Health Services for Sustainable Growth" in *Sri Lanka: State of the Economy 2011*, Institute of Policy Studies of Sri Lanka, Colombo; UNDP (2012), *Sri Lanka Human Development Report 2012: Bridging Regional Disparities for Human Development*, United Nations Development Programme, Colombo.

[21] *Ibid.*

**Figure 9.4**
**Distribution of Beds per 1,000 Population by RDHS Division (2012)**




Source: MOH (2012), "Annual Health Bulletin 2012", Ministry of Health, Colombo.

**Although the numbers related to human and physical resources have increased, the country is still lagging behind global averages for most of the indicators related to health work force and infrastructure indicating a dearth of resources in the health sector.**

even basic facilities like patient beds, MOs and nurses in metropolitan areas, especially in Colombo (Figures 9.4 and 9.5).

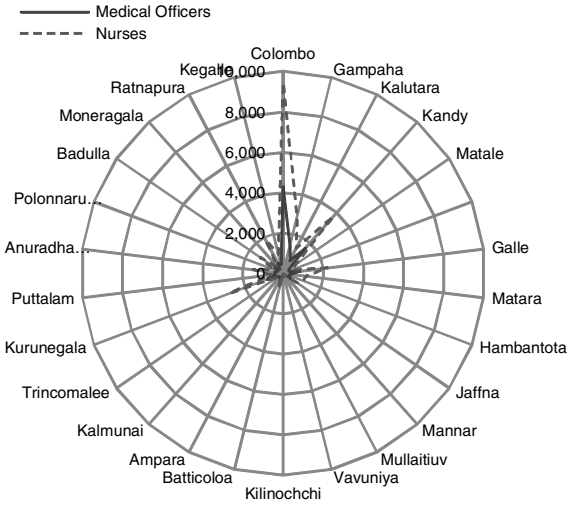
Absenteeism of doctors and other health personnel is another human resource issue, as is encouraging doctors to serve in remote areas. The latter requires the provision of essential facilities (e.g., accommodation and transportation facilities) and incentives such as being afforded priority when selecting for fellowships and training.

## 9.3.3 Public Health Sector Management and Monitoring

As a result of the implementation of the Provincial Councils Act in 1989, the public sector health system in Sri Lanka has a decentralized structure for providing health care. The MOH operates at the national level while separate provincial ministries of health operate across provinces of the country. The key responsibilities of the MOH include setting policies and guidelines, promoting medical education, managing specialized medical institutions, and purchase of medical requisites. The Provincial Directors of Health Services (PDHSs) are mainly responsible for the implementation and management of health care services.

Despite decentralization, the health system is centrally dominated by the MOH. For example, the Provincial Councils to a large extent are dependent on the central government for block transfers to finance health expenditure. There is a lack of an objective and transparent measure of population needs for the allocation of provincial funds and there is no clear link between the level of financing and performance and outcomes. Furthermore, the public servants employed at Provincial Councils depend on the central government for career promotions, etc., which increase their allegiance to the centre rather than the local area. This has resulted in a

**Figure 9.5**
**Distribution of Key Health Personnel by RDHS Division (2012)**




Source: MOH (2012), "Annual Health Bulletin 2012", Ministry of Health, Colombo.

lack of accountability of health officials towards their local citizens.[22]

Since most of the authority lies with the central government, it causes duplication and inefficient use of public resources. In order to rectify this situation, the government needs to: a) clearly define the role and responsibility of the national government, and b) clarify what is expected of its decentralized units. The central government should be explicitly responsible for public sector regulation and managing tertiary care hospitals. With regard to managing non-tertiary hospitals and primary care, what is important is to link financing with performance and targets, and tie responsibilities to decision making authority.

Even though centralization of government funds is prevalent, this in itself is not problematic. What should be changed are the terms on which funds are allocated to Provincial Councils. Grants should be given based on the needs of each individual provincial government. It should also be directly linked to specific targets and individual performance. Furthermore, with regard to hospitals, what has proven to work internationally is to allow the administrators of each facility the flexibility and responsibility to maintain quality and efficiency and manage human resources.[23] In order to manage human resources effectively, the roles, responsibilities, individual performance targets, and lines of authority and accountability need to be clearly defined. Performance evaluation needs to be carried out so that incentives and rewards are attributed accordingly. Each province should be reviewed for their achievements and drawbacks; annual reports should be produced on the progress and challenges faced by each council in order to ensure transparency and accountability.[24] Furthermore, to measure effectiveness and efficiency of the health care model, Sri Lanka should also adopt a well-designed management information system (MIS). An MIS in health care is a specially designed information system that aids in managing and planning health care programmes.[25] It will help health care managers shift towards an evidence based decision making process. Since different levels of administration within the system have different roles and responsibilities, different data needs should be identified and collected. Afterwards, such data should be linked to local community, demographic and epidemiological information to respond to different local needs effectively.

[22] World Bank (2006). "Service Delivery and Decentralization in Sri Lanka: Assessment and Options", World Bank. Colombo.

[23] *Ibid.*

[24] Ministry of Healthcare and Nutrition (2007).

[25] WHO (2004), "Developing Health Management Information Systems: A Practical Guide for Developing Countries", World Health Organization, Geneva.

# 9.4 Private Sector Health Care Reforms

## 9.4.1 Provision of Health Services

During the past two decades the private sector has grown rapidly, with expansions in hospitals, laboratories and clinics. Over 100 private hospitals, with investments of over Rs. 50 billion, entered the health care sector between 1990-2013.[26] The demand for private sector health care has increased rapidly due to reasons ranging from improvements and investments in health technology in the private sector, and poor public sector performance. The private out-of-pocket expenditure of households in 2009 was about 45 per cent of total heath expenditure and 83 per cent of total private health expenditure.[27]

Sri Lanka's private health care sector is predominantly engaged in providing curative care services such as laboratory tests, medication, surgeries, and nursing care. In 2009, 51 per cent of total health expenditure was spent on curative care.[28] Moreover, private facilities are disproportionately concentrated in the Western Province in urban or semi-urban areas due to its higher income level and population density. For example, approximately 50 per cent of private hospitals are in Colombo, while the rest are scattered across a few districts such as Galle, Kurunegala and Kandy; in a review of four District Secretariat (DS) areas it was found that three-fourths of such facilities were located in close proximity to government hospitals.[29]

It is always the poorest (in rural areas) that suffer most from the limitations (limited curative care, drugs shortages, limited availability of specialty treatment) of the public sector. Even though the private sector is able to compensate for these limitations, it is evident that the supply of private facilities does not necessarily expand in order to address these limitations. To overcome the drawbacks in each sector independently, public-private partnerships (PPPs) can be considered as a solution.

## 9.4.2 A Role for Public-Private Partnerships

Public-private partnerships in the health care sector in Sri Lanka are minimal. Almost all of the private health facilities are owned and operated by private persons or organizations; a small fraction (about 3.5 per cent) of medium scale private hospitals are partly foreign owned/operated.[30] Furthermore, the government provides only minimal support for private participation in public health programmes. For example, during 2007-2010, only 25 per cent and 10 per cent of reviewed private facilities received financial and technical assistance, respectively, for programmes on childhood vaccination; similarly, only 25 per cent and 8 per cent, respectively, received financial and technical support for antenatal care.[31]

Given that Sri Lanka has an ageing population, it is bound to face an increase in demand for acute care. Since acute illnesses are predominantly treated in public facilities, it will add further pressure to an already overburdened public sector. For example, it was reported that over 5,000 patients are on the waiting list for heart surgery.[32] Similarly, it is expected that the demand for certain services such as diagnostic testing in the private sector will increase due to a reduction in public financing in

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[26] Dayaratne, G.D. (2013), "Private Hospital Health Care Delivery in Sri Lanka: Some Issues on Equity, Fairness, and Regulation", Institute of Policy Studies of Sri Lanka, Colombo.

[27] *Ibid.*

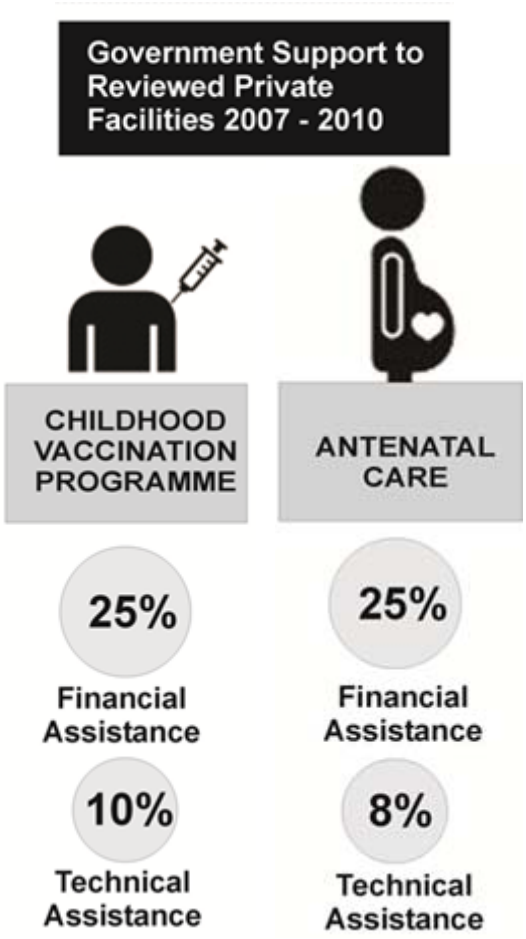
[28] Govindaraj, R., *et al.*, (2014), "Health Care in Sri Lanka. What Can the Private Health Sector Offer?", Health, Nutrition, and Population (HNP) Discussion Paper, World Bank Human Development Network (HDN).

[29] *Ibid.*

[30] *Ibid.*

[31] *Ibid.*

[32] The Island (2013), "*Over 5,000 on Waiting List for Heart Surgery*", *The Island* http://www.island.lk/index.php?page_cat=article-details&page=article-details&code_title=74821 *[accessed 27 April, 2015].*




such areas. However, the private sector has limited capacity to provide diagnostic services.

In light of this evidence, it is counter-intuitive for the two sectors to operate independently. Public-private collaborations will help alleviate capacity constraints; improve equity and efficiency due to synergies between public and private sectors through pooling of resources such as funds and technology; improve access and reach of health care services for the population; and strengthen regulation of quality within the health sector.

One option is for the government to contract with private providers to deliver health services in remote areas.[33] If, through public funding, the private sector can expand coverage it will result in improved efficiency and effectiveness. Initially, the country can start pilot operations in a limited geographical area to benefit from economies of scale and concentrate in an area with poor health indicators. Bangladesh, Cambodia and India are examples of countries that have used such contracts. A second option is to implement demand-led financing strategies such as vouchers; the government provides a demand side subsidy to ensure that private health services are more affordable to vulnerable groups. It also acts as an inducement to the private sector to provide services in areas they might not have considered before. Nicaragua is a country that has successfully implemented such a strategy. It is important to note that implementing such options requires an increase in public sector financing. Strategies on improving financing were discussed in an earlier section (Section 9.2.1).

## 9.4.3 Incorporating Elements of Patient Centred Care

The private sector is heavily reliant on the public sector for the supply of doctors. Government doctors are permitted to work in private facilities provided that they have completed their official hours. Only 700 medical doctors were employed full time in the private sector in 2011.[34] There is a potential conflict of interest that arises from this form of dual practice. Since many people seek out private care based on the belief that it is of superior quality, it can potentially influence the quality of care provided by the private practitioner; they might give preferential treatment to a private client compared to one seeking care in the public sector.[35] The potential negative effect of working double the hours (official duty hours in the

[33] Harding, A., (2009), "Partnerships with the Private Sector in Health: What the International Community Can Do to Strengthen Health Systems in Developing Countries", Center for Global Development, London.

[34] Govindaraj, R., *et al*., (2014).

[35] Dayaratne, G.D. (2013).

**Public-private collaborations will help alleviate capacity constraints; improve equity and efficiency due to synergies between public and private sectors through pooling of resources such as funds and technology; improve access and reach of health care services for the population; and strengthen regulation of quality within the health sector.**

public sector and off-duty hours in the private sector) on a doctor's performance also cannot be ignored. Additionally, since most private practitioners consult at more than one hospital per day, they invariably appear late to consultations because: a) private hospitals are scattered across Colombo, and b) they are held up in previous consultation rounds. This has led to an increase in patient waiting times at private hospitals. Many patients end up waiting more than what they consider to be an acceptable waiting time at private hospitals; in fact, some wait over 20 minutes for a scheduled appointment when they believe that an acceptable waiting time is only 5-10 minutes.[36]

One way around such limitations is to have a permanent cadre of medical specialists in private hospitals. Also, one method to ensure that quality is not compromised is to be more responsive to patient expectations (patient centred care). Currently, Sri Lanka's private sector is doctor-centric.[37] Patient centred care requires acknowledging and incorporating patient needs, values and choices in the service delivery system. Regular evaluation of patient satisfaction by conducting surveys is a step in this direction. It will also signal to the consumer that their considerations are taken into account and that the private sector is committed to ensuring value for money for the services they provide.

## 9.4.4 Regulation

In 2006, the Private Medical Institutions (Registration) Act (PMIRA) came into effect with the aim of regulating private medical institutions in Sri Lanka. Under the PMIRA, all private medical institutions are required to obtain a Certificate of Registration. Furthermore, the PMIRA established the Private Health Services Regulatory Council (PHSRC), an independent statutory body that is primarily responsible for licensing, regulating and monitoring private medical institutions.In addition, the PHSRC gathers information and data on quality assurance and service standards which are subsequently used to grade the performance of private medical institutions. Private medical

[36] Samarakoon. S., (2015), "Patient Waiting Times in Private Hospitals: A Growing Concern in Sri Lanka" http://www.ips.lk/talkingeconomics/2015/01/07/patient-waiting-times-in-private-hospitals-a-growing-concern-in-sri-lanka-2/, Institute of Policy Studies of Sri Lanka, Colombo.

[37] RAM Ratings (2013), "Private Pills for Public Pains: The Private Health Care Sector of Sri Lanka", Ram Ratings (Lanka) Ltd., Colombo.

providers, the central government, Provincial Councils and other professional body representatives form the PHSRC. As a result of the Act, private sector regulation is outside the domain of the MOH.

Existing evidence, however, point out that the regulatory system is functioning sub-optimally. Though the basic purpose of the PHSRC is registering and licensing private medical providers, it has failed to register and/or license a large number of institutions.[38] The body has been ineffective in implementing a system to monitor the registration status of medical providers. Though the PHSRC has a database on registry of licences, it has not been able to gauge the number of currently registered providers or the number of renewed applications each year. There is also a lack of follow-up action such as warnings, suspensions or cancellation of licences against providers who fail to renew or obtain licences. In the absence of strict legal enforcement, there is no incentive for medical providers to comply with rules and regulations. For example, a study that mapped four DS areas in the country, found that 68 per cent of reviewed private health facilities were not registered with a relevant authority.[39]

A regulatory body should ideally be independent, unbiased and transparent. However, the PHSRC allows direct involvement of private medical providers in the regulation process when such providers are essentially those that are to be regulated by the PHSRC. As a result, this could potentially increase the risk of regulatory capture. Moreover, the PHSRC suffers from understaffing and underfinancing. For example, in 2012 only two full-time employees were employed to carry out the basic functions. This is in stark contrast with Malaysia where the licensing unit for private medical providers employs 62 staff members - a number deemed insufficient by Malaysian experts.[40] Given that the demand for private sector health care is increasing, it is imperative for Sri Lanka to strengthen private sector regulation to maintain quality standards.

One option is to benchmark Sri Lanka's regulatory system against other comparable countries in the region. This would require returning the regulatory functions of PHSRC to MOH, mirroring the scenarios in countries which have similar institutional backgrounds (Singapore, Malaysia, Hong Kong) or level of economic development (Thailand). As depicted in Table 9.2, compared to these countries, it is only in Sri Lanka that the regulatory body is not independent of private medical providers, regulation lies outside of the MOH, and private hospitals do not have a strict requirement to report patient data annually. Such features point to the relatively weak performance of the regulatory body in comparison; for example, the effectiveness of licensing in Sri Lanka is only 48 per cent for 2011 while it is full or near full in other comparable countries.

If the country is to retain the PHSRC, a second option would be to reinforce its regulatory effectiveness. This can be implemented by: a) limiting or eliminating private sector provider representation within the PHSRC, and including representatives from the Independent Medical Practitioners Association, Attorney General's Department appointed by the Minister to the Council and Sri Lanka Medical Association; b) training and strengthening the regulatory capacity of officers in charge. It is imperative to train and appoint more persons in charge of the PHSRC to carry out the necessary regulatory mechanisms. In terms of regulatory capacity, according to the PMIRA, only the Provincial Directors of Health Services (PDHSs) or their deputies are permitted to carry out inspections and investigations of private medical providers. These appointees, however, have limited authority compared to the Deputy Director Generals

[38] IHP (2012). "Private Health Sector Review", IHP Technical Reports Series Number 2, Institute for Health Policy, Colombo.

[39] Govindaraj, R., *et al*., (2014).

[40] Rosnah, N.R., *et al*., (2011), "Impact of the Private Health Care Facilities and Services Act 1998 (Act 586) and Regulations 2006 on the Medical Practice in Corporate Private Hospitals in Malaysia", *International Journal of Sustainable Development*, 2 (9):89-106.

**Table 9.2**
**Private Health Sector Regulatory Characteristics of Select Countries**

| Regulatory characteristic | Sri Lanka | Singapore | Malaysia | Hong Kong | Thailand |
|---|---|---|---|---|---|
| Responsible authority for regulation | PHSRC (independent body outside MOH) | MOH | MOH | DOH (Health Ministry) | MOPH (Health Ministry) |
| Responsible authority for regulation and licensing | PHSRC (independent body outside MOH) | MOH | MH | DOH (Health Ministry) | MOPH (Health Ministry) |
| Independence of regulatory body from private sector | No | Yes | Yes | Yes | Yes |
| Requires license to operate | Yes | Yes | Yes | Yes | Yes |
| Effectiveness of licensing | 48% (2011) | 100% | >98% | 100% | >90% |
| Statistical reporting requirements of private | None | Annual patient statistics; patient morbidity and mortality every 3 months | Annual patient statistics | Annual patient statistics including mortality | Annual patient statistics returns |

Source: IHP (2012), "Private Health Sector Review", IHP Technical Reports Series Number 2, Institute for Health Policy, Colombo.

(DDGs) of the central government. Therefore, uniting the PDHSs and their deputies with the DDGs in the form of joint regulatory teams will strengthen regulatory functions.

In addition, a committee should be appointed to handle the problems private providers face at the registration stage. This would also entail that private providers are supported in areas where they may need assistance. It is important to implement this committee at a high level of government to strengthen the regulatory process. Adequate financing should be allocated to the regulatory body to carry out their roles and responsibilities effectively. It would also help in maintaining an accurate and complete health information system within the sector.

# 9.5 Drug Policy

## 9.5.1 Evolution of Sri Lanka's Drug Policy

In 1957, led by Senaka Bibile, a National Formulary Committee (NFC) was set up as the apex body with a mandate to manage the whole spectrum of pharmaceutical preparations. Subsequently, the 'Ceylon Hospital Formulary' was prepared which recommended 600 selected drugs with their generic names. Price control of medical drugs under the Control of Prices Act No. 29 of 1950 was another milestone in the process of drug policy evolvement. In 1971, confronted with a trade deficit and import restrictions, the government called for an assessment of the pharmaceutical system and proposals for its future development, without compromising on accessibility and availability of drugs within the country. The resultant 'Bibile Report' was considered the pioneer in drug policy not just nationally but also internationally.[41] With the change in economic policies and liberalization of imports in 1977, the few proposals of the Bibile Report that were implemented started to be diluted. Price controls by the government were removed and drug promotion was allowed. Though the State Pharmaceutical Corporation (SPC) continued, it ceased to be the sole importer of drugs. Consequently, thousands of drugs with a variety of brands flooded the country since the private health sector as well as private

[41] Siribaddana, S., and A. Sumathipala (2005), " Essential Drugs, Senaka Bibile and Sri Lanka: Rejoinder to a Eurocentric Debate Led by WHO on the TRIPS Agreement", Technology Innovation Group, (3)3.

## Box 9.1
## Health Care Reform for the Elderly

Sri Lanka is known as a country which advanced well in its demographic and epidemiological transition and it was among the first developing countries to achieve below replacement level fertility. A decline in fertility rates, rising life expectancy at birth, and increasing out-migration (particularly among the younger group) are the main contributory factors behind the demographic transition in Sri Lanka.

The National Health Policy of 1996 identified health problems of the elderly as a priority area which need focused attention. The Presidential Task Force which was appointed in 1997 to formulate a health policy and identify the strategies to address health problems and issues of the country specifies "expanding the services to areas of special needs" as a priority issue, where the elderly health care is identified as an area of special needs. Identifying the elderly as a vulnerable group as well as a challenge to the health system, the HMP of 2007 aims to expand health care services and training in the area of geriatric medicine to meet the emerging health care requirements of the elderly.

Sri Lanka has to face a number of challenges with population ageing such as social protection to the elderly, ageing of the labour force, rising demand for geriatric care, and institutional capacities to take care of the elderly. Elderly people demand health care and treatment more than younger people. The pattern and causes of their illnesses also differ (e.g., Alzheimer and dementia), requiring special care and geriatric treatment that can be costly. Further, the elderly are more vulnerable to chronic illnesses such as heart diseases, stroke, lung and liver diseases, cancer, asthma and rheumatism, as well as degenerative diseases like hypertension, diabetes, cancer, etc.

With the increasing number of elderly, the demand for intensive diagnostic tests, long-term hospitalization and better treatment as well as rehabilitation and social and clinical therapy will go up. Further, geriatric health care needs special medical training and skills. In order to meet this demand, the country's health service should be well equipped with required resources - both financial as well as non-financial resources.

However, it is questionable whether the country would be able to cater to the increasing demand for elderly care with current resource allocations. Under the current system, it is difficult to identify the health expenditure for elderly separately as the government provides free medical treatment for all, irrespective of age. However, the comparatively low budgetary allocation for the health sector would be a barrier in meeting the rising demand for geriatric health care, while maintaining standards in maternal and child care. To address this dilemma, strengthening geriatric health care investments by increasing the overall budgetary allocations for the health sector seems inevitable. Better provision of long-term care by both public and private sectors, and re-orientation of preventive and promotive care to cater to the health needs of the elderly are other pressing areas requiring policy attention.

Source: IPS (2014), "Demographic Challenges of an Aging Asia" in Sri Lanka: State of the Economy 2014, Institute of Policy Studies of Sri Lanka, Colombo.

pharmaceutical companies had the liberty to import drugs directly. Also, thousands of private pharmacies opened across the country and sold drugs on a prescription or on over- the-counter basis.

The Cosmetics, Devices and Drugs Act No. 27 of 1980 came into operation in 1986 with a Technical Advisory Committee. However, this was not adequate to act as a central regulator of medicinal drugs management from pre and post stages. In 1989, the Fair Trading Commission Act introduced a maximum retail price, and a price formula to which the SPC as well as private sector importers had to conform. Two National Medicinal Drug Policies were

## Box 9.2
## Salient Features of the Bibile Report

***Introducing a single purchasing agency for the country***: The report proposed the public sector to act as a sole importer, and distributor of approved drugs by the formulary for the country. Further, bulk purchasing was also recommended to reduce taxes and alter the mark-ups which reduce the cost of pharmaceuticals.

***Establishment of the SPC***: In 1971, the SPC was established under the Industrial Corporations Act No. 49 of 1957. The reason was to transfer the monopoly of pharmaceutical trade to the government. This reduced not only the outflow of foreign exchange, but also the financial burden on patients.

***Reduction of numbers of medicines imported and expansion of quality testing facilities:*** Formulations imported to the country in the 1970s reduced from 3,000 to 800. When limiting the varieties of drugs, price variation of drugs can gradually go down. This can then meet the availability and affordability criteria. But to meet the quality of drugs, accredited lab facilities had to be set up within the country, as proposed.

***Mandatory use of generic names in import and prescription:*** Thousands of non-essential drugs in different brand names imported to the country could be reduced with the introduction of mandatory use of generic names in import.

***Expansion of local manufacture:*** As an outcome of the report, the State Pharmaceutical Manufacturing Corporation (SPMC) was set up in 1986, managed by the SPC.

***Change drug information system:*** Under this, advertising medicinal drugs was proposed to be stopped, and preparation of formulary notes made available to all medical practitioners was recommended.

***Changes in patent law:*** This allows purchasing drugs from the process patent holders where drugs are cheaper than that from the product patent holders. However, whilst drugs are currently being imported from cheaper sources to reduce drug costs, it can lead to poor quality in some instances.

Source: Siribaddana, S., and A Sumathipala (2005), "Essential Drugs, Senaka Bibile and Sri Lanka: Rejoinder to a Eurocentric Debate Led by WHO on the TRIPS Agreement", Technology Innovation Group, 3(3); Abeykoon, P. (2012), "A Long history of NMP: Where are We Now? The Sri Lankan Experience" http://www.apcnmp2012.com.au/images/P6-ABEYKOON.pdf.

drafted in 1991 and 1996, but did not proceed to the stage of Cabinet approval.

Whilst medicine shortages in government hospitals were frequently reported, no proper planning and management was taken to remedy the situation. In 2005, Cabinet approval was finally given to a National Medicinal Drug Policy (NMPD). Allopathic medicine was the main concern of this policy, and policies for other systems of medicines are to be developed later. Ten years on since Cabinet approval, the National Medicinal Regulatory Authority Bill (NMRA) was approved in March 2015 to serve as an umbrella to facilitate the implementation of the NMDP.

The NMDP focuses on the following areas: a) ensure availability and affordability of efficacious, safe and good quality medicines relevant to the health care needs of the people in a sustainable and equitable manner; b) promote the rational use of medicines by health care professionals and consumers; and c) promote local manufacture of essential medicines. The policy was framed within the overall health policy of the country based on the 'essential medicines' concept. It focuses on the health sector but includes coordination with relevant areas such as education, finance, agriculture, animal husbandry, pharmaceutical industry and trade, and acts to safeguard the rights of the patients/consumers.

### 9.5.2 Implementing National Medicinal Drug Policy

Successive governments in Sri Lanka have provided health care over the decades without a proper drug management system. This happened not because of unavailability of a policy, but due to poor commitment to implement the drug policy which was introduced in the 1950s. Use of poor quality drugs by state hospitals is frequently reported. Inadequate capacity to align with international standards by the National Drug Quality Assurance Laboratory (NDQAL) is the foremost cause. On the other hand, more than 15,000 drugs are reportedly flooding in to the country because of the absence of a drug formulary. With limited capacity, it is impossible for the NDQAL to check all such drugs. Accordingly, reducing the variety of imported drugs can make room for the NDQAL to test for quality assurance. Therefore, the country should commit to select essential drugs, and increase the capacity of the NDQAL further.

Another issue is that more than 25,000 pharmacies have been established in the country very rapidly. Many do not hold licences, and dispensing of drugs is not done by trained pharmacists. Therefore, a proper regulatory system should be formed to regulate and monitor pharmacies consistently.

Price control of drugs is another area which requires urgent action. As per the last price formula by the Fair Trading Commission in 1989, the maximum retail price should not be more than 65 per cent of the cost at which the drug is imported. However, usage of this formula has been inactive since 2002, and since then no price formula has been introduced. Therefore, price variation of drugs in the market at present is immense. Hence, a pricing committee to be appointed under the NMDP should consider the CIF value of the drug, the company's profit margin and the commissions to be paid to the agents and pharmacies in determining the price.

## 9.6 Conclusion

With the onset of the demographic and epidemiological transitions, it is apparent that the organization, delivery and regulation of Sri Lanka's health sector needs to be strengthened. Greater resources need to be brought together from the public and private sectors for prevention and control of NCDs, increase efficiency and effectiveness, and ensure consumer satisfaction. Mechanisms such as increasing excise duties on harmful products such as tobacco, alcohol and even fast food need to be considered in order to increase health care financing. It is imperative to consider donations and social health insurance as alternative financing mechanisms as the country moves towards the future. Moreover, in order to strengthen financing, especially in the public sector, Sri Lanka should continually measure performance against set targets so that financing and planning are used to the best effect.

Within the public sector, it is necessary to continually upgrade the health care delivery system to be able to meet not only emerging health challenges such as NCDs but also emergency situations such as outbreak of viruses, and disaster situations (tsunamis, floods, etc.). Some possible recommendations to improve the delivery system include: a) restructuring of the macro-organization framework so as to enhance efficiency and equity; b) reclassification of existing health care institutions; and c) reallocation of resources in order to improve equal facilities at outpatient services across the country. Sri Lanka also needs a clearly defined referral system to reduce the cost burden on secondary and tertiary institutions. Gaps in the primary health care system need to be revitalized to address the issue of bypassing primary health care institutions. Providing essential facilities such as accommodation and transportation, as well as training to doctors is equally important to encourage doctors to serve in the underserved parts of the country.

It is clear that both the private and public sectors have drawbacks when considered independently. Sri Lanka could benefit immensely if it benchmarks countries in the region (e.g., India, Bangladesh) that have successfully implemented public-private partnerships in the health sector. Possible options include: a) government contract with private providers with the aim of providing private health services in remote areas; and b) implement demand-led financing strategies such as vouchers where the government provides a demand side subsidy so that vulnerable groups are better able to access private health services. The private sector also needs to ensure that patients' perspective is better incorporated in the health care delivery model. Long waiting times, for example, is a trend that is of growing concern in Sri Lanka. Implementing strategies to regularly evaluate patient satisfaction will help understand what gaps in the delivery model need to be addressed. Private sector regulation reform is of utmost importance due to its current lack of effectiveness. The regulatory council, PHSRC, is independent of the MOH. Returning the regulatory functions back to the MOH (as is the case in other countries with similar backgrounds) is an option that needs to be considered. Alternatively, the effectiveness of the PHSRC needs to be reinforced by limiting private sector provider representation, and training and strengthening the regulatory capacity of officers in charge.

With regard to the drug policy, it is necessary for Sri Lanka to commit to select essential drugs so as to avoid the influx of many drugs and to maintain quality assurance. Implementing a proper regulatory system to manage importation of drugs is important in this regard. It is also necessary to regulate the pharmacies to ensure they are licensed and trained to dispense drugs appropriately. Price control of drugs is another vital area to be addressed; a committee should be appointed to determine prices rationally.

**Greater inter-sectoral collaboration, therefore, will help the health sector of Sri Lanka face the imminent challenges.**

Important influences that affect the health of a population and health inequities across a country are sometimes outside the health sector. Therefore, it requires the health sector to collaborate with other sectors of government (education, finance and planning, pharmaceutical industry, etc.) to address health needs. Greater inter-sectoral collaboration, therefore, will help the health sector of Sri Lanka face the imminent challenges.

# 10. Reforming Sri Lanka's Social Protection System

## 10.1 Introduction

Sri Lanka has made significant progress in reducing poverty over the past decade. The poverty head count ratio (HCR) at the national level has declined from 22.7 per cent in 2002 to 6.7 per cent in 2012/13. Poverty levels have also dropped across districts and sectors of the country, with the HCR for the urban sector declining to 2.1 per cent, while the rural and estate poverty levels have fallen to 7.6 per cent and 10.9 per cent, respectively in 2012/13.[1] Consequently, Sri Lanka achieved the MDG of halving the poverty level between 1990 and 2015, well before its target year. In addition, it is 'on track' to achieve a majority of MDGs such as achieving universal primary education, promoting gender equality in education, reducing child mortality and improving maternal health.[2] With a Human Development Index (HDI) value of 0.750, Sri Lanka is currently classified as a 'high human development' country - the only South Asian country in this category.[3]

Despite the above achievements, inequality and vulnerability remain issues of great concern. The Gini coefficient of household income, although it shows a slight decline from 0.49 in 2009/10 to 0.48 in 2012/13, has remained around 0.47-0.49 during the last decade, while the Gini coefficient of household expenditure too remains around 0.40. Moreover, the share of household income in the poorest (income) decile has declined over the past two decades reaching 1.5 per cent in 2012/13, while that of the of the top decile has remained at around 38-40 per cent, indicating considerably high levels of inequality in the country.[4] Furthermore, a considerable proportion of the country's vulnerable population is clustered above the poverty line, facing the risk of slipping into poverty. For instance, a 10 and 20 per cent increase in the poverty line would lead to an increase in the poverty HCR to 9.9 per cent and 13.2 per cent, respectively.[5] In the estate and urban sectors in particular, a 20 per cent increase in the poverty line would more than double the poverty HCRs - reaching 22.1 per cent and 5.1 per cent, respectively.

Sri Lanka is also faced with a number of demographic and labour market related challenges such as the rapid ageing of its population and a large share of informal sector workers (over 60 per cent). The 60 years and above population is projected to increase to 24.8 per cent by 2031, making one-in-every-four of Sri Lanka's population an elderly person.[6] Population ageing raises concerns on the ability of the social protection

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1 DCS (2015), "Household Income and Expenditure Survey 2012/2013- Final Report", Department of Census and Statistics, Colombo.

2 UN (2015), *Millennium Development Goals Country Report 2014- Sri Lanka*, United Nations, Colombo.

3 UNDP (2014), *Human Development Report 2014*, United Nations Development Programme, New York.

4 United Nations (2015).

5 Estimates based on the Household Income and Expenditure Survey 2012/13 (HIES) data.

6 De Silva, I. (2012), "The Age Structure Transition and the Demographic Dividend: An Opportunity for Rapid Economic Take-off in Sri Lanka", Sri *Lanka Journal of Advanced Social Studies,* 2(1).

system to cater to their needs. Moreover, as the longevity of females is projected to increase at a higher rate than that of men, women will account for a higher share of the elderly. This brings further concerns, as many females are less likely to have adequate income at old-age, particularly old-age retirement benefits, due to the continuing low female labour force participation rate in the country.

The above discussed challenges related to inequality, vulnerability and demographic changes call for a comprehensive social protection system for Sri Lanka. At present, there are a large number of social protection programmes implemented by various government ministries/departments, targeting vulnerable segments of the population, such as the poor, the elderly, the disabled, those affected by disaster, children, and women. These programmes vary from cash and in-kind transfers to pensions and other retirement benefits, education programmes, health-care assistance and livelihood development programmes. They can be broadly categorised as (i) social insurance programmes that include old age retirement schemes such as pensions and provident funds and other insurance schemes; (ii) social assistance programmes that largely include cash and in-kind transfers to vulnerable groups (e.g., Samurdhi/Divineguma subsidy programme); and (iii) labour market programmes that include livelihood and skills development programmes.[7] Despite the multitude of programmes, there are several gaps and weaknesses such as low coverage, poor targeting, inadequacy of benefits, lack of coordination among programmes, budgetary constraints, and inequitable resource allocation.[8]

In the above context, this chapter discusses three key reforms related to social protection in Sri Lanka, deemed necessary to address vulnerability, enhance equity and to better face the emerging demographic challenges. These reforms include: (i) retirement benefit schemes in Sri Lanka; (ii) Samurdhi/Divineguma cash transfer/subsidy programme - the largest social assistance programme; and (iii) integrating the social protection system of Sri Lanka. These three reforms will be discussed in Sections 10.2-10.4, while Section 10.5 provides some concluding remarks.

## 10.2 Reforming the Current Retirement System

### 10.2.1 Current Status and Coverage of the Retirement System

The retirement system in Sri Lanka is built around a number of defined contributions and defined benefit schemes covering both formal and informal workers. The retirement schemes are mandatory for formal sector workers while voluntary schemes are available for informal sector workers.

The Public Service Pension Scheme (PSPS) is a defined benefit mandatory scheme that covers civil servants holding permanent and pensionable posts with a minimum service period of 10 years. The pension is payable at age 55 for men and age 50 for women, with 60 being the compulsory age of retirement. Benefits are funded from general tax revenue and there is no wage ceiling for pension entitlements.

The PSPS members are mandatorily covered by survivor and disability benefit schemes, known as the Widows and Orphans (W&OP) schemes. Unlike the PSPS, the W&OP schemes are contributory, with contributions ranging from 6-7 per cent of the basic salary of members, depending on the salary scale. The public sector is further supplemented by the

[7] Tilakaratna, G., *et al.*, (2014), "Updating and Improving the Social Protection Index – Sri Lanka Country Report", Technical Assistance Consultant's Report prepared for the Asian Development Bank, Manila, (forthcoming).

[8] Tilakaratna, G. (2015), "Addressing Issues of Social Protection to Enhance Equity in Sri Lanka", Institute of Policy Studies of Sri Lanka (http://www.ips.lk/talkingeconomics/2015/02/20/addressing-issues-of-social-protection-to-enhance-equity-in-sri-lanka/).

**Table 10.1**
**Public Service Pension Scheme Coverage**

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| No. of pensioners ('000) | 326.4 | 335.1 | 349.8 | 366.0 | 379.9 |
| Public sector employees ('000) | 877.4 | 927.3 | 825.5 | 838.4 | 841.6 |
| Employed labour force ('000) | 7,648 | 7,602 | 7,707 | 8,197 | 8,129 |
| Labour force ('000) | 8,082 | 8,074 | 8,108 | 8,555 | 8,465 |
| Percentage of public sector workers in employed population (%) | 11.5 | 12.2 | 10.7 | 10.2 | 10.4 |
| Percentage of public sector workers in labour force (%) | 10.9 | 11.5 | 10.2 | 9.8 | 9.9 |

Source: Department of Pensions; Central Bank of Sri Lanka, Annual Report, various years.

Public Service Provident Fund (PSPF), which is a mandatory contributory system that was set up to cover government employees not eligible for the PSPS. Approximately 841,630 workers are covered by the PSPS, which is around 10 per cent of the labour force (Table 10.1).

The Employees' Provident Fund (EPF) is a mandatory provident fund that acts as a retirement savings scheme for the formal private sector. Administered and managed by the CBSL on behalf of the Department of Labour, the EPF is the largest fund in Sri Lanka in terms of asset size and membership. There is no wage ceiling for contributing to the EPF, and contributions of 8 per cent and 12 per cent of gross wages are made by the employees and employers, respectively. In 2012, the number of total member accounts stood at 14.6 million of which 2.3 million accounts were active. This represents a coverage rate of 69 per cent, based on an estimated 3.4 million private sector workers eligible for EPF membership (Table 10.2).

Contributory defined benefit pension schemes serve farmers, fishermen and the self-employed. They include the Farmers' Pension and Social Security Benefits Scheme (FPS), Fishermen's Pension Scheme (FSPS) and the pension schemes implemented by the Social Security Board (SSB) targeting self-employed workers.

**Table 10.2**
**Coverage of Retirement Schemes**

| | Membership ('000) | Eligible Workers ('000) | Coverage (as % eligible) |
|---|---|---|---|
| PSPS | 842 | 842 | 100 |
| EPF | 2,300 | 3,357 | 69 |
| Farmers | 954 | 1,522 | 63 |
| Fishermen | 68 | 148 | 46 |
| Self-employed | 455 | 2,650 | 17 |

Notes: All figures are for 2012 except membership figures for farmers and fishermen schemes, which are from 2011. Membership figures do not take into account defaults. Eligible population for PSPS based on regular public sector employment for 2012. Eligible population for EPF based on private sector employees for 2012.

Source: PSPS, EPF membership and population – Central Bank Annual Reports; Farmers/ fishermen membership – Agriculture and Agrarian Insurance Board; Self-employed membership – Sri Lanka Social Security Board; Farmers/fishermen population estimation – Labour Force Survey 2012 using occupation codes; Own-account workers estimation – Labour Force Survey 2012 using status of employment.

The Farmers' Pension Scheme was set up in 1987 and is administered by the Agriculture and Agrarian Insurance Board (AAIB). In 2011, total membership stood at 954,454, which represents a coverage rate of 63 per cent based on an estimated farming population of 1.5 million (Table 10.2). The Fishermen's Pension Scheme is also managed by the AAIB, with a total membership of 67,553 in 2011. However, both the farmers and fishermen's pension

schemes have a high incidence of default, so the actual coverage is likely to be lower.[9]

The SSB operates several voluntary contributory schemes targeting self-employed workers. The two main schemes currently being operated are: 1) 'Surakuma' – aimed at individuals between the ages of 18-59 years who are not entitled to the PSPS; 2) 'Arassawa' – aimed at children under 18 years of age which can be combined with 'Surakuma' at the age of 18 years. The total enrolment for all SSB schemes stood at 455,438 in 2012, which represents a coverage rate of 17 per cent based on an estimated 2.6 million self-employed workers. However, the SSB schemes are also known to have a high default rate, so actual coverage is likely to be smaller.

In summing up the coverage of the retirement system in Sri Lanka, approximately 4.6 million people were covered from all retirement schemes currently being implemented based on an employed population which stood at 8.1 million in 2012. This represents a coverage rate of 57 per cent of the employed population. However, when the high default rates are factored in for the informal sector pension schemes, the effective coverage rate is likely to be lower (Table 10.2). In addition, only around 40-50 per cent of the current elders are covered under some form of social protection/old-age benefit programme like pension schemes, provident funds or monthly cash transfers.[10]

## 10.2.2 Retirement Income

The benefit amounts provided within the retirement system varies, with the most generous being the PSPS. The PSPS pension amount is calculated based on the last drawn salary with the replacement rate determined by the years of service. The replacement rate of the PSPS is fairly generous compared to the average gross replacement rate of 57.9 per cent for OECD countries. For example, under the PSPS, a public sector worker would be entitled to a replacement rate of 85-90 per cent after 30 years of service.[11] However, this pension is not indexed to inflation or wages and has been adjusted in an ad hoc basis, eroding its value in real terms.

The average monthly pension value in 2012 was Rs.19,850 (Table 10.3). However, due to the skewed distribution of pension payments, the median value of pension payments is likely to be lower. In 2012, the government expenditure on pensions as a percentage of current expenditure was 8.1 per cent, representing 1.2 per cent of GDP.

The EPF pays a lump sum benefit to private sector employees upon retirement at age 55 years. The benefit amount is linked to the level of income and

**Table 10.3**
**Expenditure and Average Monthly Pension Values for PSPS**

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Pension payments (Rs.bn) | 62.9 | 70.1 | 73.3 | 80.3 | 90.5 |
| Average monthly pension (Rs.) | 16,045 | 17,433 | 17,460 | 18,285 | 19,850 |
| Pension exp. as share of total current expenditure (%) | 8.5 | 7.9 | 7.7 | 7.9 | 8.1 |
| Pension exp. as share of GDP (%) | 1.4 | 1.5 | 1.3 | 1.2 | 1.2 |

Source: Department of Pensions; Central Bank of Sri Lanka, *Annual Report*, various years.

[9] Eriyagama, V. and R.P. Rannan-Eliya (2003), "Assessment of the Farmers' and Fishermen's Pension and Social Security Benefit Scheme in Sri Lanka", Institute of Policy Studies of Sri Lanka, Colombo.

[10] IPS (2014), "Demographic Challenges of an Ageing Asia"in *Sri Lanka: State of the Economy 2014*, Institute of Policy Studies of Sri Lanka, Colombo.

[11] Willmore, L. (2008), "Tackling Poverty in Old Age: A Universal Pension for Sri Lanka", HelpAge International, London.




years of contributions made. This lump sum represents the cumulative net contributions (gross contributions less pre-retirement withdrawals) and the rate of return credited to individual accounts.

The EPF invests primarily in government securities and loans. In 2012, 93.6 per cent of the total EPF investment portfolio of Rs. 1,106 billion comprised of government securities.[12] The rate of return on the EPF is linked to the interest rates applicable to government securities, and therefore the return is low compared to other investment instruments. The average interest rate paid on member balances has been in the range of 11.50-13.75 per cent for the period of 2008-2012. The long-term rate of return on EPF balances has been very low.[13] The average annual compound growth rate for the real return on investments for the EPF was 1.4 per cent for the period 1988-2002.[14] In 2012, the average member balance was Rs. 480,970 (Table 10.4). Assuming a 12 per cent interest rate on investment, a 20 year annuity on this principal balance would result in a monthly income of Rs. 5,296.

The voluntary defined benefit pension schemes for the informal sector provide a lifetime flat rate pension amount based on the age of entry and the contributory schedule. However, the pension payments are not index-linked to inflation, and the adequacy of the pension payments is a major source of concern for all the programmes currently being implemented.

The pension entitlement for the farmers and fishermen's pension schemes is in the range of Rs. 1,000-4,167. However, these pension payments are not inflation protected. For example, a person joining these schemes at the age of 18 can expect to receive a pension of Rs. 4,167 a month. But, at the age of 60, this value would only be worth Rs. 76 in real terms assuming an inflation rate of 10 per cent.[15]

**Table 10.4**
**EPF Members' Balances and Benefit Amounts**

| | Active Members (000's) | Total Balance (Rs. Mn.) | Average Account Balance (Rs.) | Monthly Annuity for 6% Interest Rate (Rs.) | Monthly Annuity for 12% Interest Rate (Rs.) |
|---|---|---|---|---|---|
| 2008 | 2,296 | 644,955 | 280,904 | 2,012 | 3,093 |
| 2009 | 2,052 | 752,219 | 366,578 | 2,626 | 4,036 |
| 2010 | 2,165 | 869,199 | 401,478 | 2,876 | 4,421 |
| 2011 | 2,211 | 986,046 | 445,973 | 3,195 | 4,911 |
| 2012 | 2,338 | 1,124,508 | 480,970 | 3,446 | 5,296 |

Source: Estimated based on data from the Central Bank of Sri Lanka.

[12] CBSL (2014), *Annual Report 2013*, Central Bank of Sri Lanka, Colombo.

[13] Gaminiratne, N. (2004), "Population Ageing, Elderly Welfare, and Extending Retirement Cover: The Case Study of Sri Lanka", Overseas Development Institute, UK; Gaminiratne, N (2007), 'Population Ageing, Policy Responses and Options to Extend Retirement Coverage:Case Study of Sri Lanka' Institute of Policy Studies of Sri Lanka, Colombo.

[14] Karunarathne,W. (2005), "Mandatory Savings and Retirement Adequacy: Portfolio Simulation of EPF in Sri Lanka", National University of Singapore, Singapore.

[15] Willmore (2008).

The defined benefit schemes for self-employed workers offered by the SSB suffer a similar fate as the AAIB schemes. The lack of formal indexation for the flat rate pensions severely erodes its value at the age of retirement for members. For an 18 year old individual joining the scheme today, the purchasing power of a flat rate pension amount of Rs. 1,000 paid at the age of 60 will only be worth Rs. 18 assuming an inflation rate of 10 per cent.

## 10.2.3 The Need for Reform

An ageing population, a large informal sector workforce and issues related to adequacy and sustainability of existing retirement schemes call for a host of reforms.

Sri Lanka's demographic trends suggest a rapidly ageing population that will test the ability of the current retirement system to support the elderly, and strain intergenerational relations.[16] This is a particularly pertinent issue given how important traditional family support mechanisms have been to the elderly population in Sri Lanka. The World Bank Sri Lanka Ageing Survey (2006) found 77 per cent of the elderly to be living with their children, with co-residence forming an important source of support; around 48.9 per cent of the elderly population in Sri Lanka receives income support from their children. However, there is evidence to suggest that as income and education levels increase, co-residence is likely to decline in Sri Lanka.[17] This would leave a large proportion of the elderly population without access to a sufficient retirement income.

Sri Lanka's labour force characteristics point to a growing informal sector, with 61.1 per cent of total employment comprised of informal sector employment in 2012.[18] A vast majority of them lack social security coverage. Thus, the inadequacy of the benefits provided by the current informal sector pension schemes is a major concern. The pension amounts are not formally indexed to inflation and fail to provide sufficient old age income security. Further, the farmers and fishermen's pension schemes have been found to be fiscally unsustainable and high default rates are prevalent in both programmes.

The adequacy and sustainability of the formal sector retirement schemes are debatable given that the PSPS represents a large fiscal cost to the government (see Table 10.1). It is the most generous scheme within the current retirement system, but only covers a relatively small proportion of the population. The pension amounts under the PSPS are calculated based on final salary contrary to the lower average salary. It is also fairly generous in terms of pre-retirement benefit deductions, where the replacement rate is only reduced by 2 per cent for each year below the required 30 years of service. Further, the PSPS has a generous commutation scheme, where public sector workers can receive a lump sum payment equivalent to two years of pensions in commutation for a pension reduced by 10 per cent compared to the unreduced pension for the first 10 years.[19]

However, it is important to note that the PSPS is not formally indexed to inflation, eroding the real value of its generosity. Further, there is a pay differential between the public and private sectors. The generosity of the PSPS is often viewed as a way of compensating for this pay differential and an important incentive to attract and retain workers in the public sector. Therefore, in considering reform options for the PSPS, it is important to strike a balance between adequacy and sustainability.

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16 World Bank (2008), "Sri Lanka: Addressing the Needs of an Ageing Population", World Bank, Washington, D.C.

17 *Ibid.*

18 DCS, "Labour Force Survey 2012", Department of Census and Statistics, Colombo.

19 World Bank (2000), "Review of Superannuation Benefit Programmes in Sri Lanka", World Bank, Washington, D.C.

The EPF fails to provide adequate old-age financial protection to its members. Since the scheme does not provide its members with a pension or an option to convert the lump sum benefit payment into regular periodic payments after retirement, the longevity risk and the burden of effective investment of the lump sum payment after withdrawal is fully transferred to the member. However, even if the lump sum payments were to be converted to an annuity, the level of replacement income would be very low (see Table 10.4).

## 10.2.4 Reform Options for Sri Lanka's Retirement System

In assessing the reform options for Sri Lanka's retirement system, it is important to consider the desired objectives. The two main principle objectives of a retirement system in a country should be: to 1) provide minimum income support to old people; and 2) enable retired individuals to smooth consumption over the life-cycle.

Government intervention has a key role to play in achieving the first objective. Traditional family support mechanisms and other institutions cannot reliably protect the elderly from deprivation. While there is a debate about the level of government intervention that is required, there is a general consensus that some form of government intervention is crucial to achieve the first objective.[20]

The second objective of consumption smoothing over the life-cycle could be achieved through occupational pension schemes or through public and private retirement income schemes. As discussed in the previous section, Sri Lanka's retirement system fails in providing an adequate income replacement. Therefore, in thinking about reforming the current income replacement schemes, attention should be paid to the desired benefit amount (targeted replacement level), mode of payment (lump sum vs. monthly payment) and parametric choices such as the age at which retirement benefits should be provided.

***Providing basic income protection to the elderly:*** In line with the first objective, ensuring minimum income support for the elderly should be the foundation of Sri Lanka's retirement system. It is apparent that the current social security schemes fail to provide old-age financial protection to a large portion of the population, particularly those working in the informal sector. This situation is not unique to Sri Lanka. Many developing countries have struggled to expand contributory social security beyond a small proportion of the labour force.[21] Similar to Sri Lanka, many other countries in South Asia have large informal sectors and contributory schemes mostly cover formal sector workers. Countries with a labour force having a high share of informal sector workers have low rates of pension coverage.

**The current social security schemes fail to provide old-age financial protection to a large portion of the population, particularly those working in the informal sector.**

[20] World Bank (1994), *Averting the Old Age Crisis,* Oxford University Press, U.K.

[21] Barrientos, A. (2007), "New Strategies for Old-age Income Security in Low Income Countries", Technical Report, International Social Security Association.

Therefore, trying to expand contribution based pension systems to those on low incomes might not be feasible. Contributory pension schemes should be viewed as a mechanism for consumption smoothing for those with sufficient income to save for old age. A non-contributory basic pension can ensure old-age income security for the entire population of the country, regardless of earnings or occupation.[22] Non-contributory pensions could be means-tested, targeting the elderly who are too poor to support themselves or universal non-means tested, which would cover all elderly individuals. Both approaches have their pros and cons, and it is important to choose an approach that best suits the needs of a country.

The means-tested approach has the benefit of eliminating some of the inherent disadvantages of a universal non-means tested approach. Since it is targeted, funds will only be distributed to those most in need, making it more equitable and progressive. Means-testing also eliminates the potential disincentive effects a non-means tested universal pension could have.[23] However, means-tested programmes are difficult to administer. Countries like India and Bangladesh that have put in place means-tested pensions have struggled with effective targeting. For example, 45 per cent of pension benefits from India's National Old Age Pension went to those who are better off. Inability to effectively reach the poor has also been a feature of Bangladesh's means-tested pension.[24] There are some weaknesses in Sri Lanka's administrative structure to effectively execute a mean-tested pension programme. This is apparent from the targeting problems inherent in the Samurdhi programme (see Section 10.3). Therefore, it would be better in a way for Sri Lanka to adopt a non-means tested approach.

In assessing the fiscal cost of implementing a non-means tested universal pension, it was found that for a monthly benefit amount of Rs. 2,321 (national poverty line for 2007), a universal pension aimed at individuals above the age of 70 years would cost 0.8 per cent of GDP and 4.3 per cent of current government expenditure, which is an amount that is well below the expenditure on the PSPS.[25] For this particular benefit amount, assuming per capita GDP growth of 3.6 per cent, the cost would actually reduce to 0.6 per cent of GDP in 2041. The current poverty line has increased to Rs. 3,815 and this would have to be taken into consideration in deciding the benefit amount of a universal pension. However, based on above, the fiscal cost would still be manageable with an increased benefit amount, assuming moderate GDP growth.

Therefore, implementing a universal (social) pension seems a viable option for Sri Lanka. It will be politically popular, and with the correct parameters set in its design, the fiscal cost could be kept under control (below the current PSPS expenditure levels). Once the administration for the programme has been set up and strengthened, there will be an opportunity to convert it to a mean-tested pension, which would further reduce costs and improve the progressivity of the programme.

***Reforming the formal sector retirement schemes:*** The formal sector retirement schemes have an important role to play in achieving the second desired objective of enabling consumption smoothing over an individual's life-cycle. Therefore, reforms should focus on providing adequate retirement income while ensuring sustainability.

The PSPS represents a significant fiscal cost to the government to cover a relatively small proportion of

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[22] Willmore, L. (2007), "Universal Pensions for Developing Countries", *World Development*, 35(1):24-51.

[23] Hu, Y., and F. Stewart (2009). "Pension Coverage and Informal Sector Workers: International Experiences", OECD Working Papers on Insurance and Private Pensions, No. 31, OECD, Paris.

[24] Willmore (2008).

[25] *Ibid.*

**The PSPS represents a significant fiscal cost to the government to cover a relatively small proportion of the elderly.**

the elderly. Therefore, a commonly prescribed solution is to convert the PSPS into a contributory system, as was attempted in 2002, which required civil servants to make a contribution of 8 per cent of their salaries with the government contributing 12 per cent. The initiative failed due to it being politically unpopular, and the PSPS reverted to a non-contributory scheme in 2006. A key insight from this reform attempt was that it would have only resulted in modest expenditure savings for the government. The sustainability of the scheme was in question because of the high return on investment that was required relative to wage growth. It was estimated that the scheme would run cash flow deficits in 45 years.[26]

A further deterrent to structural reforms of the PSPS is the relatively low wages public sector workers earn compared to private sector workers. Converting the PSPS into a contributory system would require the government to increase wages in order to make the contributions affordable. Therefore, the burden of the PSPS on tax payers will not reduce.

In light of this, it is prudent to focus initially on parametric reforms. One of the most sensible ways to ensure the sustainability of the PSPS is to increase the mandatory retirement age. The current retirement age of 60 is too low considering the high life expectancy of Sri Lankans. Many developed countries have already done this to ease the burden of their pension systems. Increasing the retirement age improves the passivity ratio (number of years worked relative to number of years spent in retirement). This would increase the country's labour supply and reduce the size of the pensioner stock, which would ultimately reduce the pension bill. However, in the long run, raising the retirement age within a non-contributory system would not result in substantial fiscal savings because the government will have a larger wage bill. Therefore, following this, it would be feasible to convert the PSPS into a contributory system since raising the retirement age would reduce the required contribution rate.

Raising the mandatory retirement age would also benefit the EPF. This is because increasing the investment returns alone would not substantially increase the benefit amounts. Even if a high real rate of return of 4 per cent is assumed, this would only increase the lump sum amount by 50-100 per cent, which would still convert to very low annuities.[27] A central reason for the low lump sum benefits is the low contribution period. Raising the retirement age would increase the overall period of contributions, boosting the value of the retirement benefits.

In 2011, an attempt was made to introduce a mandatory contributory pension scheme to cover private sector workers. The proposed Employee Benefit Pension Fund was to be designed as an additional benefit to other retirement benefits private sector workers were already entitled to such as the EPF. The contribution was to be 2 per cent of the employee's monthly gross salary from both the

[26] World Bank (2008).

[27] Eriyagama and Rannan-Eliya (2003).

employee and employer for a total contribution of 4 per cent. It was further proposed that 10 per cent of the total gratuity payable by an employer to the employee at the termination of employment would go to the fund. A minimum contributory period of 10 years was set for eligibility, with the pension payable at the age of 60.

Subsequently, the proposed Bill was withdrawn after stiff opposition from trade unions. A main point of contention was the mandatory nature of the scheme because it was not viewed as beneficial to all workers, particularly FTZ and garment factory workers who are unlikely to meet the minimum contributory period of 10 years.[28] The low pension benefit amount was another issue. The proposed pension benefit structure would have resulted in 15 per cent of the monthly salary being paid for a contributory period of 10-19 years, 30 per cent for a contributory period of 20-29 years and 60 per cent of the monthly salary for a contributory period of more than 30 years. It was argued that this would have resulted in very low benefit amounts for workers earning relatively low salaries, particularly those with a contributory period of less than 30 years. However, given that this proposed pension scheme was designed to be a fully funded scheme to supplement the EPF/ETF, this would have been a beneficial scheme for most private sector workers, provided the fund was managed in a sustainable manner.

Given the failure of this reform effort, the EPF still remains the main retirement benefit scheme for the formal private sector. In order to address the lack of periodic payments for this sector, the EPF should provide a pension benefit instead of a lump sum. This is particularly important given the poorly developed annuities market in the country. The EPF offering a monthly pension through a centrally administered system would be cheaper for beneficiaries than if they had to rely on annuities. This would enable better risk pooling and a modest amount of redistribution could be introduced to improve the progressivity of the fund. However, this structural reform effort should be undertaken in consultation with all stakeholders, including trade unions and employers in order to mitigate the issues that arose with the proposed Employee Benefit Pension Fund in 2011.

Finally, limitations should be imposed on pre-retirement withdrawals. The current lump-sum benefit provision increases the longevity risk to members. The EPF allows pre-retirement withdrawals under numerous circumstances such as using the fund balance as collateral for housing loans or women leaving the labour force after marriage. This further aggravates the longevity risk for these individuals and therefore should be limited.

## 10.3 Reforming the Samurdhi/Divineguma Subsidy Programme

### 10.3.1 Current Status of the Samurdhi/ Divineguma Subsidy Programme

The Samurdhi/Divineguma programme is currently the main social protection initiative for the poor in Sri Lanka. It has multiple components, including the subsidy (or the cash transfer) programme, social security (or insurance) programme, microfinance programme and livelihood development. At present, this programme is administered by the Department of Divineguma Development.[29]

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[28] Azwer, M., (2011) , "Workers Vow to Defeat Private Sector Pension Scheme", *The Sunday Leader*, 29 May 2011, http://www.thesundayleader.lk/2011/05/29/workers-vow-to-defeat-private-sector-pension-scheme/.

[29] Until 2014, the Samurdhi subsidy programme and social security programme were administered by the Department of Commissioner General of Samurdhi (DCGS) while the Microfinance and the Livelihood Development Programmes were under the purview of the Samurdhi Authority of Sri Lanka (SASL). In 2014, the Department of Divineguma Development was established under the Divineguma Act, No.1 of 2013 by amalgamating the DCGS, SASL and three other entities namely the Southern Development Authority of Sri Lanka, Upcountry Development Authority and Department of Upcountry Peasantry Rehabilitation.

**Table 10.5**
**Benefits of the Samurdhi/Divineguma Subsidy Programme (Since April 2015)**

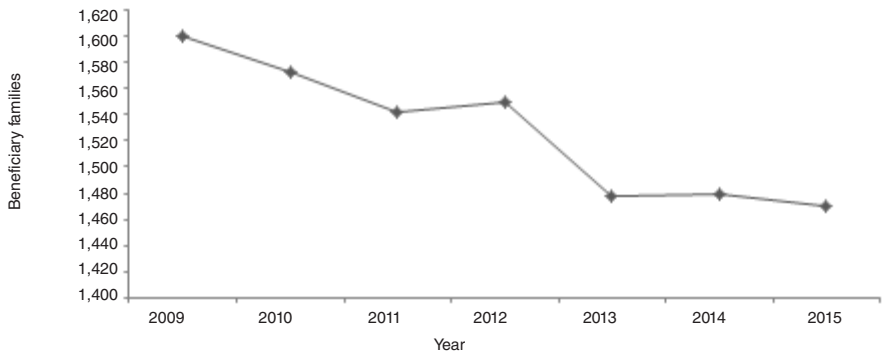
| Category of Samurdhi/ Divineguma Beneficiary Families | Total Monthly Subsidy (Rs.) | Net Subsidy Amount (Rs.) | Compulsory Savings (Rs.) | Contribution to Social Security Fund (Rs.) | Contribution to Housing Fund (Rs.) |
|---|---|---|---|---|---|
| 1-2 member families | 1,500 | 1,345 | 100 | 45 | 10 |
| 3-5 member families | 2,500 | 2,245 | 200 | 45 | 10 |
| 6 or more members | 3,500 | 3,145 | 300 | 45 | 10 |
| Empowered families | 420 | n.a | 365 | 45 | 10 |

Source: Department of Divineguma Development.

The Samurdhi/Divineguma subsidy programme is the largest social assistance programme in the country - both in terms of the budget and the number of beneficiaries. Under the Samurdhi subsidy component, identified families are given a cash transfer on a monthly basis. Since April 2015, the amount of the monthly cash transfer /subsidy has been increased to a maximum of Rs. 3,500 and a minimum of Rs. 420. The amount given depends on the size of the family, except in the case of 'empowered families' (i.e., families that are considered to have graduated out of poverty over time) who receive a minimum subsidy amount of Rs. 420 per month (Table 10.5).

The entitled (net) amount of the Samurdhi/ Divineguma subsidy is debited to the personal account of the beneficiaries at the Divineguma Community Based Bank (formerly known as the Samurdhi Banks). There are deductions from the total monthly subsidy amount to different components such as the compulsory savings, social security fund and the housing fund. An amount of Rs. 100-365 is deducted from the subsidy amount as compulsory savings. Its initial purpose was to promote a savings culture among poor families and to increase their financial habits. However, at present, these compulsory savings can only be withdrawn after a beneficiary reaches the age of 60 years, if he/she suffers from a serious illness or for an investment need. In addition to the compulsory savings, an amount of Rs. 45 and Rs. 10 is deducted from the monthly subsidy for the social security fund (to use as a premium for the social security programme) and the housing fund, respectively.

**Figure 10.1**
**Number of Beneficiaries of the Samurdhi/Divineguma Subsidy Programme (2009-2015)**




Source: CBSL, *Annual Report 2014*; Department of Divineguma Development.

By June 2015, the Samurdhi/Divineguma cash transfer programme had 1,470,262 beneficiaries. The number of beneficiaries has shown a decline over the past six years from around 1,600,000 (Figure 10.1).

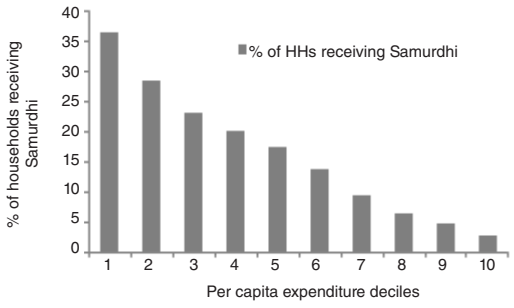
## 10.3.2 Weaknesses in the Samurdhi/ Divineguma Subsidy Programme and Need for Reforms

Despite being in operation for nearly two decades and having a substantial coverage of families, the Samurdhi/Divineguma subsidy programme has several weaknesses related to targeting, quality of benefits, etc.

The Samurdhi/Divineguma programme has been widely criticized for lapses in its targeting - both inclusion errors (i.e., including those who are not eligible to receive benefits) and exclusion errors (i.e., excluding the eligible person).[30] According to HIES 2012/13 data, 16.4 per cent of households have received Samurdhi cash transfers, more than three times the share of poor households (5.3 per cent), and much higher than the poverty HCR (6.7 per cent). However, as shown in Figure 10.2, only less than 40 per cent of households in the poorest decile received Samurdhi/Divineguma cash transfers, while around 3-15 per cent of households in the top five deciles were also receiving benefits under this programme.

A more disaggregated analysis of the HIES 2012/ 13 data shows that the share of households receiving Samurdhi benefits is almost double the share of poor households in many districts. However, in almost all districts, only a fraction of poor households are covered by this programme while a higher share of beneficiaries are non-poor households. Except in the districts of Hambantota, Nuwara Eliya, Batticaloa, Ampara and Ratnapura, less than a half of the poor households receive Samurdhi benefits. Such exclusion errors are particularly higher in the districts of Trincomalee, Jaffna, Mannar, Killinochchi, Mullaitivu and Colombo where less than 25 per cent of poor households receive Samurdhi benefits. Overall, only 38 per cent of poor households received the Samurdhi subsidy, indicating that 60 per cent of poor households are not beneficiaries. These figures indicate the severity of the targeting issues suffered by the Samurdhi cash transfer programme at present.

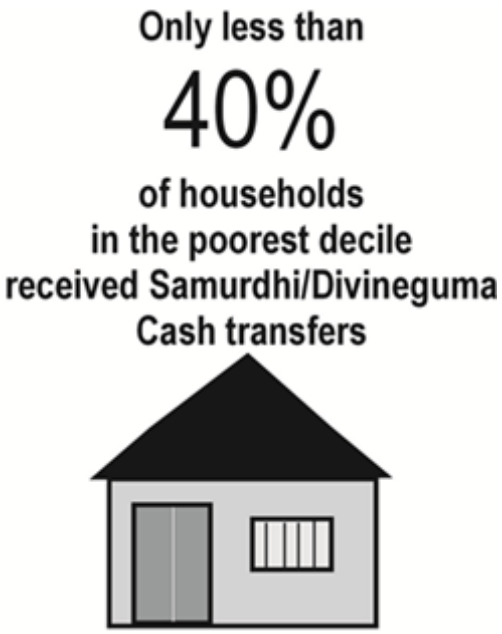
**Figure 10.2**
**Share of Households Receiving Samurdhi Subsidy by Decile (2012/13)**




Notes: Some households have multiple recipients of Samurdhi.
Source: Based on data from DCS, Household Income and Expenditure Survey 2012/13.

**In almost all districts, only a fraction of poor households are covered by the Samurdhi programme while a higher share of beneficiaries are non-poor households.**

[30] Tilakaratna, G., *et al.*, (2013), "Safety Nets in Sri Lanka: An Overview", report prepared for the World Bank, Colombo (unpublished).




The Samurdhi/Divineguma subsidy programme also suffers from the lack of a clearly defined criterion for selecting beneficiaries, a key factor in targeting errors. The selection criteria for beneficiaries, stated at the inception of the programme, was family income being less than Rs. 1,500 a month. In 2007, there was an attempt to improve the beneficiary selection process by adopting a participatory methodology where potential beneficiaries were to be selected by the community members. However, at present, there is no clear eligibility criterion for selecting beneficiaries while the families that have been identified initially have simply continued to receive benefits.[31]

The Samurdhi /Divineguma subsidy programme also lacks an entry and exit mechanism to identify non-poor households who fall into poverty due to various risks and vulnerabilities (i.e., the so called 'new poor'), and to remove those households who have moved out of poverty over time ('non-poor'). At present, the new entrants are added to the Samurdhi/Divineguma programme mostly as a replacement for a beneficiary who voluntarily exits the programme or who is deceased. In such an event, the next person in the priority list (managed by the Divisional Secretary) becomes eligible. The lack of an entry and exit mechanism also has contributed to targeting errors.

Although the Samurdhi/Divineguma subsidy amounts have increased in recent times, the amounts are far below the minimum required per person per month to meet his/ her basic needs, estimated at around Rs. 3,815 as per the Official Poverty Line (OPL) for Sri Lanka.[32] Under the Samurdhi/Divineguma programme, the maximum amount of Rs. 3,500 per month (Rs. 1,500 until end 2014) was received by households with four or more family members, leaving only around Rs. 875 or less per person per month in the family. Indeed, the inadequacy of benefit amounts is found to be a key reason for dissatisfaction with the Samurdhi subsidy programme by its beneficiaries,[33] in addition to politicization and political interference, which is considered another major weakness.

## 10.3.3. Reform Options for the Samurdhi/Divineguma Subsidy Programme

The Samurdhi/Divineguma cash transfer programme has undergone a few waves of reforms during the last decade. These reforms were aimed at improving the quality of benefits and the structure and the design of the programme. Since its inception (and until 2012), there were seven categories of beneficiaries, including four categories based on family size, families who were beneficiaries of the former Janasaviya programme, empowered families and self-exited families (see Table 10.6). In 2006, the amount of subsidy given to these categories was

[31] *Ibid.*

[32] DCS (2015), 'District Official Poverty Lines' (http://www.statistics.gov.lk/poverty/monthly_poverty/index.htm).

[33] Tilakaratna, G., *et al.*, (2015), "Social Protection in Sri Lanka: A Household Level Analysis" report prepared for UNICEF, Colombo (unpublished).

increased by 50 per cent in 141 Divisional Secretariat (DS) divisions, identified as the poorest in Sri Lanka. Accordingly, the maximum amount given was increased from Rs.1,000 to Rs.1,500 while amounts given to other beneficiary categories (except for the so-called 'empowered families') in the 141 DS divisions were also increased to some extent. By contrast, there was only a little or no change in the subsidy amounts received by the Samurdhi beneficiary families in other DS divisions. For instance, only the social security component of the subsidy was raised from Rs. 30 to Rs. 45 for some categories of beneficiaries, including families with 3-5 members and families with six or more members, raising the total subsidy amount received by these families by only Rs. 15 per month (Table 10.6).

**Although the Samurdhi/ Divineguma subsidy amounts have increased in recent times, the amounts are far below the mini-mum required per person per month to meet his/ her basic needs.**

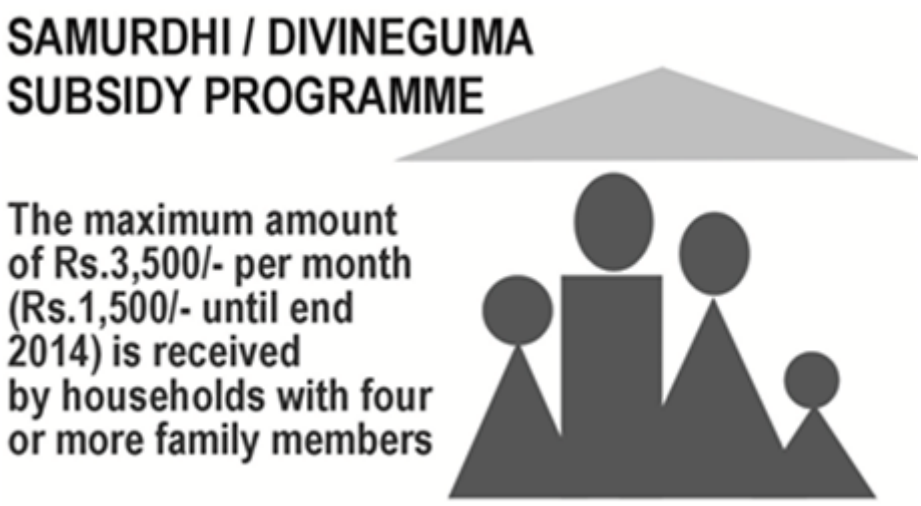
**Table 10.6**
**Changes to Samurdhi/Divineguma Subsidy Programme (2006-2015)**

| Beneficiary Categories | Pre-2006 (Amounts in Rs.) | Changes in 2006 | |
|---|---|---|---|
| | | Amounts Increased by 50% in 141 DS Divisions (Rs.) | Amounts to Beneficiaries in other DS Divisions (Rs.) |
| 1 member families | 250 | 375 | 250 |
| 2 member families | 350 | 525 | 350 |
| 3-5 member families | 600 | 900 | 615 |
| 6 or more member families | 1,000 | 1,500 | 1,015 |
| Empowered families | 155 | 210 | 155 |
| Janasaviya families | 400 | 415 | 415 |
| Self-exit families | 55 | 55 | 55 |

| Beneficiary Categories since 2012 | 2012- 2014 (Amounts in Rs.) |
|---|---|
| 1-2 members | 750 |
| 3-5 members | 1,200 |
| 6 or more members | 1,500 |
| Empowered families | 210 |

| Beneficiary Categories since 2015 | Jan-March 2015 (Amounts in Rs.) | April 2015 – (Amounts in Rs.) |
|---|---|---|
| Less than 3 members | 1,000 | 1,500 |
| 3 members | 2,000 | 2,500 |
| 4 or more members | 3,000 | 3,500 |
| Empowered families | 420 | 420 |

Source: Department of Divineguma Development; Tilakaratna, G., *et al.* (2013), "Safety Nets in Sri Lanka: An Overview", report prepared for and funded by the World Bank (unpublished).




In 2012, the Samurdhi cash transfer programme underwent another set of reforms, where changes were made to the beneficiary categories, amounts of benefits as well as the nature of the benefits. The number of beneficiary categories was simplified in 2012 by bringing it down to four, with four different amounts ranging between Rs. 210 and Rs. 1,500.

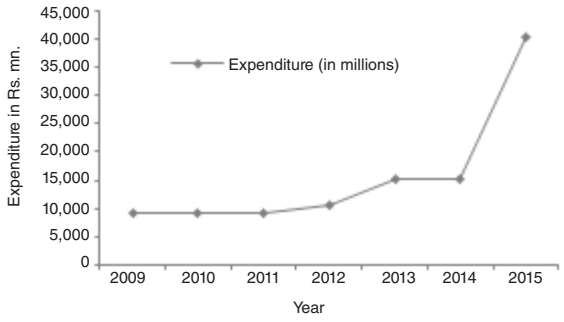
In addition to the changes to the subsidy amounts, notable changes were made to the method of payment of the subsidy. Prior to 2012, the subsidy was provided to the beneficiaries through printed stamp cards where part of the subsidy was given as a commodity stamp that could be used to purchase some selected items from the cooperative shops, while the other part was given in the form of a cash stamp. However, commodity stamps had many weaknesses such as the quality of goods available to purchase and the mismatch between the type of goods available at cooperative shops and the needs of beneficiaries. This method of stamp cards was changed in 2012 and the full net subsidy amount was directly transferred to the Samurdhi Bank accounts of the recipient, while the compulsory deductions (e.g., compulsory savings, contribution to social security fund and housing fund) were transferred directly to the relevant funds. One of the objectives of the change was to promote capital investment among the poor by improving saving habits. It was also expected to promote beneficiaries to use financial institutions like banks. Moreover, as stamp cards are not printed under this new method, an overall cost reduction of the programme was also anticipated.[34]

The Samurdhi/Divineguma beneficiary categories and the subsidy amounts were revised again in January 2015. The beneficiary families were re-categorised based on their family size, i.e., families with less than three members, three-member families and families with four or more members (in addition to the so called empowered families), while the amounts were increased with a maximum of Rs. 3,000 and a minimum of Rs. 420 per month. The subsidy amounts received by all categories of beneficiaries except the 'empowered families' were raised again in April 2015 with a maximum amount of Rs. 3,500 per month.

Although the reforms in recent years have improved the quality of the benefits (and the programme design), the cost of the programme has increased substantially. As shown in Figure 10.3, following the reforms in 2012, the cost of the cash transfers

[34] Tilakaratna *et al.*, (2013).

**Figure 10.3**
**Expenditure of the Samurdhi/Divineguma Subsidy Programme (2009-2015)**




Source: CBSL, *Annual Report 2014*; and data from the Department of Divineguma Development.

increased to over Rs. 15 billion in 2013 (from around Rs 10.5 billion in 2012 and Rs. 9 billion in 2011). With the increase in the benefit amounts in 2015, the cost of the programme is expected to increase by over 150 per cent in 2015 from its 2014 level. For instance, the estimated expenditure of the Samurdhi/ Divineguma subsidy programme would be over 40 billion in 2015.[35]

The rising cost of the Samurdhi/Divineguma subsidy programme stresses the need to improve its targeting by bringing down the number of beneficiaries while ensuring that the benefits are received by the 'most needy' groups, which in turn would help reduce the cost of the programme and ensure its sustainability. Improving targeting errors would first require identifying a criterion or a set of criteria to select beneficiaries, keeping in mind that the Samurdhi/Divineguma programme aims to reduce poverty and vulnerability.

The best way to identify the poor (and the vulnerable) is perhaps to define the selection criterion on the OPL for Sri Lanka, estimated at present to be Rs. 3,815. Accordingly, based on HIES 2012/13 data, 6.7 per cent of the population or 5.3 per cent of households are currently estimated to be poor. In addition, there are a considerable number of households/persons that are just above the OPL, facing the risk of falling in to poverty due to various shocks. For example, a 10 per cent increase in the OPL would raise the share of the poor population to 9.9 per cent and poor households to 7.9 per cent, while a 20 per cent increase raises these figures to 13.2 and 10.7 per cent, respectively.

Thus, it is important that the Samurdhi/Divineguma subsidy programme aims to cover the poor as well as the vulnerable households. Accordingly, the selection criteria for the subsidy programme can be 10 per cent or perhaps 20 per cent above the OPL. For instance, it can be defined at around Rs. 4,600 per person per month (20 per cent increase). As such, a household with four members would be eligible to receive a Samurdhi subsidy only if their monthly income is Rs. 18,400 or less, while a household with two members would be eligible for the subsidy only if the household income is not more than Rs. 9,200 per month.

The above proposed reforms can reduce the total number of beneficiaries, while targeting the 'most deserved' ones. It can also reduce the cost of the programme (with the reduced number of beneficiaries), which will in turn help increase the subsidy amount in the long run to make it adequate to cover minimum needs. As discussed earlier, despite the improvements in Samurdhi/Divineguma subsidy amounts in recent years, these amounts still remain rather low and inadequate.

Identifying eligible households/beneficiaries based on the criterion discussed above is complex and requires resources (both human and financial) at the beginning. However, it can be easily done by pooling together existing human resources at the divisional level such as the Samurdhi Development/

[35] Estimations are based on the allocation of funds per month for Samurdhi/Divineguma subsidy programme as per the data from the Department of Divineguma Development. Monthly allocation for March 2015 was around 2.9 billion while it is around 3.5 billion after the increase in the subsidy amounts in April.

Divineguma Officers, Grama Niladaris and officials at the DS level (including the divisional statistical officers). Moreover, it is important to revise the threshold level/selection criteria at least every 2-3 years based on the OPL. It is also important to conduct rapid surveys at least every two years to identify the 'new poor' who should be included in the subsidy programme and those who have clearly moved out of poverty. The proposed reforms to improve targeting of the Samurdhi/Divineguma programme, however, may not appear to be politically appealing as it will involve removing a considerable share of 'undeserving' beneficiaries from the programme (although it will also include some new 'deserving' groups who are currently not receiving benefits). Nevertheless, such reforms will undoubtedly bring considerable benefits in the long run both in terms of reducing poverty, vulnerability and inequality, as well as reducing the costs and ensuring the sustainability of the programme.

# 10.4 Integration of the Social Protection System of Sri Lanka

## 10.4.1 Current Status of Sri Lanka's Social Protection System

Sri Lanka has an extensive social protection system in place. However, these programmes are managed and implemented by numerous departments and agencies and there is little or no coordination between them (Table 10.7). The Department of Pensions administers the public sector pensions, while the EPF is managed and administered by the Department of Labour and the Monetary Board of the CBSL. The AAIB and the SSB were set up under the Ministry of Finance and Planning to offer pension schemes to informal sector workers.

The social assistance programmes are disparate and spread out amongst many departments and agencies. The Samurdhi programme was managed by the Department of the Commissioner General of Samurdhi with the labour market component handled by the Samurdhi Authority. However, after the change in government following the 2015 Presidential election, the programme has been brought under one roof under the Department of Divineguma Development. The National Secretariat for Elders and the National Secretariat for Persons with Disabilities offer social assistance programmes targeting the elderly and disabled. Assistance programmes for children are implemented by many departments and agencies in addition to the Ministry of Child Development and Women's Affairs.

Finally, in addition to social assistance programmes carried out by the central government, several programmes are implemented by Provincial Councils, with the main programme being the Public Assistance Monthly Allowance (PAMA) cash transfer scheme. Provincial Councils also implement several assistance programmes targeting the chronically ill and disabled.

## 10.4.2 The Need for Integration

Many of the current social protection programmes have been set up in an ad hoc, reactive and isolated manner and as a result, operate in a fragmented fashion. This has resulted in there being programme overlap. For example, elderly beneficiaries of the PAMA and Samurdhi programmes are also eligible to receive a cash transfer benefit from the National Secretariat for Elders. Therefore, a single beneficiary could potentially receive cash benefits from multiple programmes implemented by different departments. This programme overlap and duplication of beneficiaries result in high administrative costs and misallocation of human resources.

Lack of integration also has negative implications on potential beneficiaries. The existence of overlapping programmes undermines transparency in the beneficiary selection process. It also results in potential beneficiaries being left out of the social protection system. Integration would promote synergies between interventions. This in turn would increase the probability of an intervention being

**Table 10.7**
**Social Protection Programmes and Implementing Agencies**

| Social Protection Programmes | Implementing Agency |
|---|---|
| Public Servants Pension Scheme, W&OP, Public Service Provident Fund (PSPF) | Department of Pensions - Ministry of Public Administration & Home Affairs |
| Employees' Provident Fund (EPF) | Department of Labour - Ministry of Labour and Labour Relations and the Monetary Board of the CBSL |
| Employees' Trust Fund (ETF), ETF related health and education assistance | Employees' Trust Fund Board - Ministry of Finance and Planning |
| Social Security Board Pension Schemes | Sri Lanka Social Security Board - Ministry of Finance and Planning |
| Farmers' Pension and Fishermen's Pension Schemes | Agricultural and Agrarian Insurance Board - Ministry of Finance and Planning |
| Migrant Workers' Insurance | Ministry of Foreign Employment Promotion and Welfare |
| Public Sector Health Insurance | National Insurance Trust Fund (NITF) - Ministry of Economic Development |
| Assistance programmes for the elderly | National Secretariat for Elders - Ministry of Social Services |
| Assistance programmes for children | Department of Probation and Child Care Services, Ministry of Education, Ministry of Economic Development, Department of Commissioner General of Samurdhi, Sri Lanka Transport Board, Ministry of Child Development and Women's Affairs, Sri Lanka Bureau of Foreign Employment |
| Disaster relief | Ministry of Resettlement, Ministry of Disaster Relief, Ministry of Economic Development |
| Assistance programmes for the disabled | Department of Social Services and National Secretariat for Persons with Disabilities - Ministry of Social Services, Provincial Councils |
| Assistance for poor, Samurdhi Social Security | Department of Commissioner General of Samurdhi, Ministry of Economic Development, Samurdhi Authority, Provincial Councils |
| Labour market programmes for vulnerable groups | Department of Social Services and National Secretariat for Persons with Disabilities - Ministry of Social Services |
| Labour market programmes for disaster affected | Ministry of Economic Development |
| Livelihood development assistance programmes | Samurdhi Authority, Ministry of Education, Ministry of Economic Development |

Notes: Implementing agencies for 2010-2015 administration.

Source: Tilakaratna G., S. Jayawardena Y. Ellepola (2014), "Updating and Improving the Social Protection Index – Sri Lanka Country Report", Asian Development Bank, Manila.

successful. International experience in countries such as Chile, Brazil and Colombia points to institutional models that have enabled these countries to successfully integrate their social protection system. The key features are a centralised and unified database of beneficiaries, standardised mechanisms to target them, and the development of a clear and coherent social protection policy with a single ministry - such as the Ministry of Planning - given the role of central coordinator.[36]

[36] Rosero, L., (2013), "Social Protection Systems in Latin America and the Caribbean", Economic Commission for Latin America and the Caribbean (ECLAC), Colombia.

### 10.4.3 Reform Options for Social Protection

Integrating the current social protection system in Sri Lanka would be an intensive process requiring the build-up of administrative capacity, political will and designing a unifying social protection framework. Therefore, it is important to approach integration in a pragmatic way, with clearly defined medium and long-term goals.

Developing a centralised beneficiary registry is a vital component in an integrated social protection system. Crucially, a ministry has to be identified and given a central role in managing this registry. Typically, this has tended to be the ministry assigned the subject of planning, and appears to make sense for Sri Lanka to adopt the same. Such a registry, as the focal point, would assist in unifying the current social assistance programmes with overlapping objectives. In addition, a centralised registry would enable means-testing to be done in an efficient and effective manner.

**Integrating the current social protection system would be an intensive process requiring the build-up of administrative capacity, political will and designing a unifying social protection framework.**

Reforms could be enacted in the medium-term to improve formal sector pension mobility, which would be an important step towards integration. Pension portability is an important component of an integrated social protection system. The dualistic nature of the private and public sector pensions limits labour market mobility between the two sectors. Enacting the reforms suggested in the pension reforms section, would be a step towards pension mobility and social protection integration.

In the long-term, establishing a national social protection framework is critical. The framework must specify the roles and responsibilities of all institutions involved in implementing social protection programmes (including Provincial Councils) with well-defined objectives and outcomes. In addition, the framework must clearly establish standards in terms of selecting beneficiaries. This would help reduce programme fragmentation and overlap. It would also make monitoring and evaluation cost effective and efficient. Within a shared framework, programmes can be coordinated to allow the expected outcome of the programme to be achieved and benefits maximised.

## 10.5 Summary and Conclusion

Despite Sri Lanka's progress in poverty reduction and achieving a number of MDGs, inequality and vulnerability remain high. The country also faces a number of demographic and labour market related challenges such as rapid ageing of its population and a large informal sector workforce with little or no social security. These challenges emphasize the need for reforms in the social protection system - that at present comprises a large number of programmes implemented by several ministries and targeting various vulnerable groups, and suffers from a number of weaknesses such as poor targeting, inadequate coverage and lack of integration. In this context, three key reforms discussed - the current retirement benefit schemes; the Samurdhi/

Divineguma cash transfer/ subsidy programme; and integrating the social protection system - are fundamental to address poverty and vulnerability, enhance equity and allow Sri Lanka to face emerging demographic challenges.

The retirement system in Sri Lanka fails to cover a large proportion of the elderly population. Moreover, the level of retirement income provided by most of the existing schemes is inadequate. People working in the informal sector are particularly vulnerable in this regard. In light of Sri Lanka's ageing demographics and large informal sector, it is important to implement reforms that would expand coverage and provide an adequate retirement income. A universal pension designed to provide basic income security to the elderly population is an important reform option. In addition, a combination of parametric and structural reforms is needed to ensure the viability and sustainability of the current formal sector retirement schemes.

The Samurdhi/Divineguma subsidy programme, despite being the largest social assistance programme in Sri Lanka, has many limitations such as poor targeting, inadequate benefits, the lack of clearly defined eligibility criteria, and an entry and exit mechanism. These, together with the rising cost of the programme, signal the need to improve targeting measures and to cover the 'most needy' groups, which in turn will help bring down costs and ensure sustainability. It is suggested to define the selection criterion, using the OPL as a basis, with a 20 per cent increase, to cover the poor as well as the vulnerable segments clustered just above the poverty line. This selection criterion should be revised every 2-3 years based on the OPL, while also revising the beneficiary list by including the 'new poor' and removing those who have clearly moved out of poverty.

Sri Lanka has a fragmented social protection system that has resulted in programme overlap and high administrative costs. Integrating the social protection system will promote synergies between programmes and improve their efficiency and outcomes. A national social protection framework that utilises a centralised registry of beneficiaries will enable the country to effectively implement social protection programmes within a unified and coordinated structure.

# 11. Policy Reforms for a Productive Agriculture Sector

## 11.1 Introduction

Sri Lanka's agricultural sector is the sector that employs and sustains a majority of the population, and impinges on critical areas of poverty, food security and related social issues. It is a sector of production that clearly needs significant attention to achieve sustainable development outcomes. Agricultural development issues are time dependent and context dependent. The times and contexts, marked by different development paradigms, have determined the issues and influenced agricultural policy direction in Sri Lanka. The issues before liberalizing reforms in the late 1970s were reflective of the then political and economic environment based on self-sufficiency, centred around inward looking policies. The agriculture policy framework also suffered from the weakness of being sub-sector specific, concentrating on individual products or resources rather than on broader development needs or goals of the sector as a whole.

At the outset of agriculture policy formation, interest focused on the export-oriented plantation agriculture introduced during the colonial era. The major problem in the beginning was finding suitable lands to establish plantations; later on, it was to improve the profitability of plantations. The focus shifted towards food crops, mainly rice, partly as a result of world food shortages during regional/global conflicts of the time, and partly due to the emergence of nationalistic thinking on food self-sufficiency. This resulted in the development of a food crop production sector with heavy support from the state. Following this evolution, Sri Lanka's agriculture sector today is dualistic in nature, comprising an export-oriented plantation sector and a domestic food crop production sector. The issues faced by the sector overall have grown and become more diverse in nature, compared to those of the plantation dominated era. This is largely because matters pertaining to the plantation sector are more technical and trade-oriented, whereas those relating to the food crop sector are a more complex mix, with technical, social and political dimensions.

Also, agriculture sector issues today are not sub-sector oriented, but are identified as integral parts of broader development objectives such as food security and poverty reduction. They are relatively more related to global economic phenomena such as 'foodflation' and 'regoverned markets' as well as globally shared technical challenges such as climate change, among others. However, this does not imply that the long standing sub-sectoral development issues are no longer valid. Rather, they appear in modified forms that are more consistent with current development paradigms. This transition is given due attention in identifying the issues and the policy reforms that should receive priority consideration in achieving the primary goal of enhanced productivity, and the broad objectives of food security and poverty reduction. Hence, identifying the existing policy framework, along with further changes or improvements that address sectoral issues, is the major focus of this chapter.

# 11.2 Agricultural Sector in Sri Lanka

Agriculture which consists of domestic and export sub-sectors remains a vital sector in the economy through the provision of income, employment, foreign exchange, food and raw materials. It also stimulates growth in the rest of the economy through its forward and backward linkages with other economic sectors.

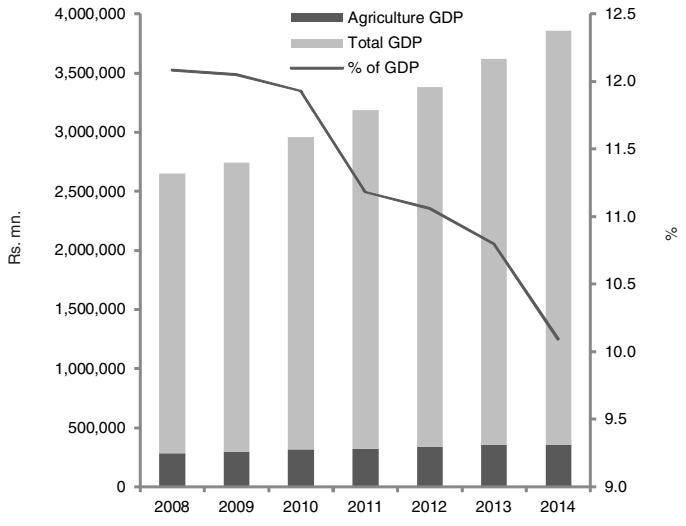
## 11.2.1 Agriculture Contribution to Output and Employment

The relative contribution of agriculture to GDP was 10.1 per cent in 2014. The absolute contribution to total GDP has increased over time at a very slow pace. In absolute terms, agriculture's contribution to GDP has increased by 24 per cent from 2008-2014 as opposed to a 48 per cent increase in total GDP during the same period (Figure 11.1). However, its relative contribution to GDP has declined from 12.1 per cent in 2008 to 10.1 per cent in 2014 due to faster growth rates recorded by industry and services sectors.

Since 2008, the agriculture sector grew at a rate of little over 4 per cent on average. By contrast, industrial and services sectors have shown much higher growth rates of 8.6 per cent and 6.1 per cent, respectively, for the same period (Table 11.1). The decline in agriculture's contribution to GDP since the 1970s has continued to fuel a debate on the importance of agriculture to Sri Lanka's economic growth. However, empirical literature indicates that a transition from primary industries such as agriculture to secondary industries and services in the process of development is a global phenomenon experienced across countries.

The agricultural sector's contribution to Sri Lanka's employment is still quite significant. Despite a decline in the employment share with the expansion of the industrial and services sectors in recent years, the agricultural sector absorbs nearly 28.5 per cent

**Figure 11.1**
**Agriculture Contribution to GDP (2008-2014)**




Source: Central Bank of Sri Lanka, *Annual Report*, various years.

**Agriculture sector issues today are not sub-sector oriented, but are identified as integral parts of broader development objectives such as food security and poverty reduction.**

**Table 11.1**
**Growth Rates of GDP (2008-2014)**

| Year | Agriculture | Industry | Services | GDP |
|---|---|---|---|---|
| 2008 | 7.6 | 5.9 | 5.6 | 6.0 |
| 2009 | 3.2 | 4.2 | 3.3 | 3.5 |
| 2010 | 7.0 | 8.4 | 8.0 | 8.0 |
| 2011 | 1.4 | 10.3 | 8.6 | 8.2 |
| 2012 | 5.2 | 10.3 | 4.6 | 6.3 |
| 2013 | 4.7 | 9.9 | 6.4 | 7.2 |
| 2014 | 0.3 | 11.4 | 6.5 | 7.4 |
| Average | 4.2 | 8.6 | 6.1 | 6.7 |

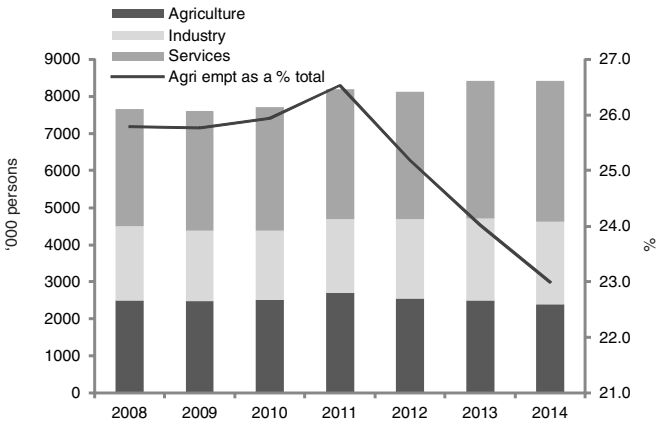
Source: Central Bank of Sri Lanka, *Annual Report*, various years.

of the total labour force in 2014 (Figure 11.2). The most significant employment generation comes from rice and tea - the two dominant players of the non-plantation and plantation sectors, respectively. While utilizing 43 per cent of the total land area of the country, the sectors remain the mainstay of the rural economy in Sri Lanka.

## 11.2.2 Agricultural Exports and Food for People

Export earnings from agricultural products have been increasing in value terms, with the share of agricultural exports in total exports hovering around 25 per cent. All the major agricultural exports, except rubber, have shown positive growth during 2008-2014. A steady growth in exports of minor agricultural products - and resultant increase in its share of total agricultural exports - can be considered as one of the major transformations in the agricultural sector over the same period (Figure 11.3). Exports of minor agricultural products have grown by 300 per cent from 2008-2014, while its share has risen from 2.5 per cent to 6 per cent of total agriculture exports.

**Figure 11.2**
**Agriculture Contribution to Employment (2008-2014)**




Source: Central Bank of Sri Lanka, *Annual Report*, various years.

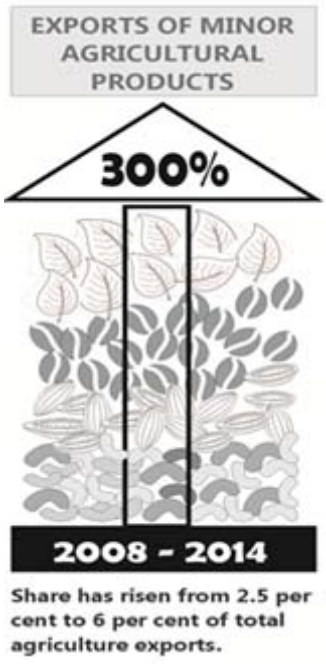
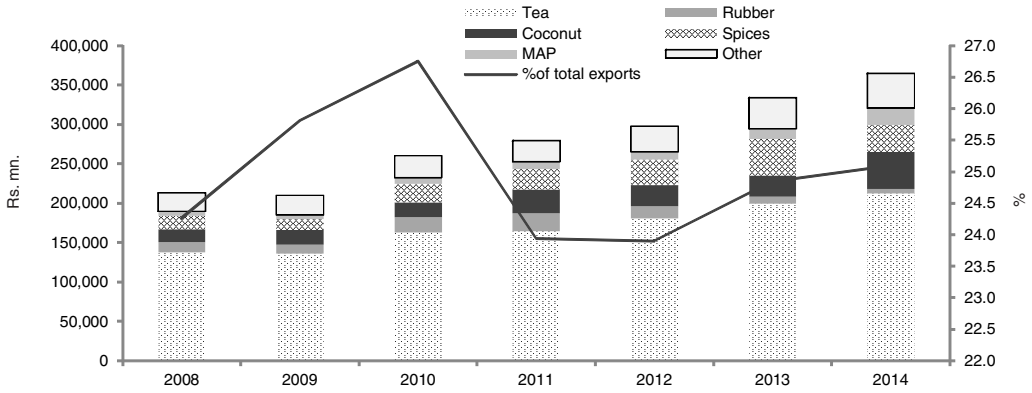


**Figure 11.3**
**Composition of Agricultural Exports in Total Exports (2008-2014)**




Source: Central Bank of Sri Lanka, *Annual Report*, various years.

Domestic agriculture still provides approximately 80 per cent of Sri Lanka's food requirement in value terms. Table 11.2 shows the availability of major food commodity groups categorized by domestic production, exports and imports in 2013. It is clear that more than three fourths (79 per cent) of food commodities are produced domestically while only one-fourth is imported. The amount of food exports from total domestic food production is a mere 4 per cent. Even at individual commodity level, local

**Table 11.2**
**Food Availability in Sri Lanka by Major Food Groups (2013)**

| Commodity Group | Gross Availability Qty (000Mt) | Production | | Imports | | Exports | |
|---|---|---|---|---|---|---|---|
| | | Qty (000Mt) | % | Qty (000Mt) | % | Qty (000Mt) | % |
| Rice | 3,094 | 3,082 | 99.6 | 23 | 0.7 | 11 | 0.4 |
| Wheat & products | 819 | 0 | 0.0 | 944 | 115.3 | 125 | 15.3 |
| Other cereals | 267 | 216 | 80.9 | 52 | 19.5 | 1 | 0.4 |
| Starchy roots | 574 | 435 | 75.8 | 154 | 26.8 | 15 | 2.6 |
| Sugar crops | 960 | 960 | 100.0 | 0 | 0.0 | 0 | 0.0 |
| Sugar | 622 | 35 | 5.6 | 592 | 95.2 | 5 | 0.8 |
| Pulses | 232 | 25 | 10.8 | 221 | 95.3 | 14 | 6.0 |
| Tree nuts | 37 | 45 | 121.6 | 2 | 5.4 | 10 | 27. |
| Oil crops | 2,376 | 2,560 | 107.7 | 6 | 0.3 | 190 | 8.0 |
| Vegetable oils | 267 | 69 | 25.8 | 206 | 77.2 | 8 | 3.0 |
| Vegetables | 1,108 | 910 | 82.1 | 217 | 19.6 | 19 | 1.7 |
| Fruits | 869 | 848 | 97.6 | 70 | 8.1 | 49 | 5.6 |
| Spices | 97 | 70 | 72.2 | 71 | 73.2 | 44 | 45.4 |
| Meat | 138 | 139 | 100.7 | 1 | 0.7 | 2 | 1.4 |
| Animal fats | 15 | 2 | 13.3 | 16 | 106.7 | 3 | 20.0 |
| Eggs | 110 | 111 | 100.9 | 0 | 0.0 | 1 | 0.9 |
| Milk | 868 | 325 | 37.4 | 546 | 62.9 | 3 | 0.3 |
| Fish, seafood | 602 | 435 | 72.3 | 192 | 31.9 | 25 | 4.2 |
| Total | 17,236 | 13,565 | 78.7 | 4,332 | 25.1 | 661 | 3.8 |

Source: FAO, FAOSTAT data, Food and Agriculture Organization, Rome.

production of all major food items except for wheat flour, sugar, pulses and milk which are imported in bulk quantities, exceeds 75 per cent of the total availability (Table 11.2).

Table 11.3 indicate that although food imports have been increasing in both volume and value in absolute terms, their share in total imports and total exports have been declining slightly or remained constant. The total value of food imports has increased by 73 per cent from 2008 to 2014, but food imports as a percentage of total imports increased only from 8.1 per cent in 2008 to 8.4 per cent in 2014, and even if we consider the impact of oil price volatility on Sri Lankan import bill, the increase still remains marginal. Similarly, food imports as a percentage of total exports increased from 14 per cent in 2008 to 14.7 per cent in 2014 (Table 11.3). While national level food availability seems less challenging overall due to larger shares of local production in most of the food crops, there are a few aspects to be considered such as the share of food imports trending upward over the last couple of years.

**While national level food availability seems less challenging overall due to larger shares of local production in most of the food crops, there are a few aspects to be considered such as the share of food imports trending upward over the last couple of years.**

## 11.3Agrarian Development Issues and Challenges

While the importance of the agricultural sector in providing food, employment and export income is quite clear, the problem at hand at present is how this sector can effectively contribute to sustained growth, while addressing existing constraints and imminent challenges through policy reforms. This section attempts to identify the major agricultural

**Table 11.3**
**Food Import Value and its Share of Total Imports and Total Exports (2008-2014)**

| | Value (Rs. mn) | | | | % of Share | | |
|---|---|---|---|---|---|---|---|
| | Value of Food Imports | Total Imports | Total Imports w/o Oil | Total Exports | Total Imports | Total Imports w/o Oil | Total Exports |
| 2008 | 123,203 | 1,525,705 | 1,158,865 | 878,499 | 8.1 | 10.6 | 14.0 |
| 2009 | 113,329 | 1,172,618 | 921,612 | 813,911 | 9.7 | 12.3 | 13.9 |
| 2010 | 149,568 | 1,519,737 | 1,175,928 | 974,387 | 9.8 | 12.7 | 15.3 |
| 2011 | 173,277 | 2,241,488 | 1,723,207 | 1,167,588 | 7.7 | 10.1 | 14.8 |
| 2012 | 166,003 | 2,441,879 | 1,817,063 | 1,245,531 | 6.8 | 9.1 | 13.3 |
| 2013 | 176,423 | 2,323,128 | 1,788,080 | 1,344,054 | 7.6 | 9.9 | 13.1 |
| 2014 | 213,308 | 2,535,163 | 1,955,752 | 1,453,176 | 8.4 | 10.9 | 14.7 |

Source: Central Bank of Sri Lanka, *Annual Report*, various years.

development issues and challenges that affect income, employment, food security, agrarian poverty and export earnings.

## 11.3.1 Stagnating Productivity

The macro availability of food has improved slightly since the 2000s. This, however, does not mean that Sri Lanka is completely food secure. Table 11.4 provides an insight into the domestic food production sector and some of its problems. The extents cultivated for major food crops have been constant since 2000 due to the present lack of new arable land to be brought under agriculture. The yield levels of domestically grown food crops, except for rice, have stagnated for more than a decade at unimpressive levels even by developing country standards. Therefore, domestic production will not be able to meet national requirements even under present levels of per capita food consumption. As the population is growing at approximately 1 per cent annually and real per capita income is rising at 7.5 per cent per year,[1] the national requirement will be rising constantly in the years to come. Due to the limited scope for further area expansion, a possible solution to the problem of meeting the growing food requirement from the domestic production front should come through yield improvement.

Imperfections in land policy and regulations are argued to generate some problems relating to agricultural development such as non-viable holdings, environmental degradation and low productivity.[2] The limited agricultural land market in Sri Lanka, resulting from state regulations and ill-defined property rights, is likely to prevent inter income group land transactions necessary for size adjustments, leading to continuation with small non-viable holdings. A lack of policy focus on land resource management has resulted in environmental degradation such as soil erosion and downstream sedimentation due to improper land use for agricultural purposes, especially on hilly slopes in the up country.[3] Similarly, a lack of secure property rights offers fewer incentives to the operators, making them economically unstable and unsustainable.[4] This creates disinterest in farming activities leading to the sluggishness in the sector. Also, restrictions on land transfers, especially on ownership and mortgaging,[5] prevent lands from being transferred to the most efficient uses and users who would be willing to invest in improving land quality. This too leads to land degradation in the long run and low productivity.

**The yield levels of domestically grown food crops, except for rice, have stagnated for more than a decade at unimpressive levels even by developing country standards.**

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1 Average percentage change in real per capita GDP during 2010-14.

2 Samaratunga, P., and D. Marawila (2005), "Major Characteristics and their Determinants of the Rural Land Sector in Sri Lanka and Implications for Policy", Agricultural Policy Series No.7, Institute of Policy Studies of Sri Lanka, Colombo.

3 Samaratunga, P., (2011), "Achieving Economic Efficiency and Equitable Distribution of Land Use through Reforms and/or Market Discipline", in Kelegama, S. and D. Gunewardena, (eds.), *Economic and Social Development under a Market Economy Regime in Sri Lanka: Buddhadasa Hewavitharana Felicitation*, Vijitha Yapa Publications, Colombo.

4 Deininger, K. (2003), *Land Policies for Growth and Poverty Reduction*, World Bank and Oxford University Press, London.

5 FAO (2012), "FAO Country Programming Framework (2013-2017) for Sri Lanka", Food and Agricultural Organization, Rome.

**Table 11.4**
**Production Performance of Major Food Crops in Sri Lanka**

| | 1993-97 | 1998-02 | 2003-07 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| Rice, paddy | | | | | | | | | |
| Extent ('000ha) | 791 | 811 | 855 | 1,053 | 942 | 1,060 | 1,091 | 990 | 1,188 |
| Production (000mt) | 2,473 | 2,793 | 3,084 | 3,875 | 3,652 | 4,301 | 3,895 | 3,846 | 4,621 |
| Yield (Kg/ha) | 3,125 | 3,444 | 3,608 | 3,680 | 3,875 | 4,056 | 3,570 | 3,885 | 3,889 |
| Maize | | | | | | | | | |
| Extent ('000ha) | 31 | 27 | 29 | 52 | 51 | 58 | 51 | 59 | 68 |
| Production (000mt) | 31 | 30 | 42 | 136 | 130 | 162 | 138 | 202 | 209 |
| Yield (Kg/ha) | 1,000 | 1,111 | 1,452 | 2,634 | 2,552 | 2,806 | 2,726 | 3,419 | 3,087 |
| Pulses | | | | | | | | | |
| Extent ('000ha) | 42 | 26 | 21 | 22 | 20 | 21 | 18 | 20 | 20 |
| Production (000mt) | 36 | 24 | 20 | 21 | 23 | 23 | 21 | 26 | 25 |
| Yield (Kg/ha) | 856 | 904 | 945 | 968 | 1,136 | 1,102 | 1,163 | 1,274 | 1,270 |
| Roots and tubers | | | | | | | | | |
| Extent ('000ha) | 48 | 41 | 36 | 36 | 34 | 33 | 34 | 34 | 35 |
| Production (000mt) | 425 | 343 | 345 | 368 | 387 | 381 | 399 | 406 | 435 |
| Yield (Kg/ha) | 8,868 | 8,472 | 9,528 | 10,352 | 11,374 | 11,494 | 11,586 | 11,924 | 12,494 |
| Vegetables | | | | | | | | | |
| Extent ('000ha) | 87 | 77 | 77 | 78 | 77 | 76 | 78 | 82 | 79 |
| Production (000mt) | 576 | 558 | 625 | 723 | 732 | 733 | 759 | 819 | 910 |
| Yield (Kg/ha) | 6,599 | 7,250 | 8,098 | 9,224 | 9,507 | 9,656 | 9,708 | 9,998 | 11,461 |
| Fruits | | | | | | | | | |
| Extent ('000ha) | 100 | 107 | 105 | 103 | 104 | 112 | 116 | 115 | 115 |
| Production (000mt) | 810 | 842 | 755 | 729 | 710 | 786 | 824 | 839 | 848 |
| Yield (Kg/ha) | 8,066 | 7,892 | 7,202 | 7,075 | 6,811 | 7,032 | 7,078 | 7,269 | 7,376 |

Source: DCS, Agriculture Data (http://www.statistics.gov.lk/agriculture/index.htm), Department of Census and Statistics, Colombo.

## 11.3.2 Lack of Agricultural Diversification

There has been diversification of Sri Lankan diets away from food grains to high value and high nutritious products over the years (Table 11.5). These changes are mainly driven by urbanization, increased female participation in the labour force, rising average per capita income, and increased advertising and availability of convenience food. Rice has traditionally been the staple food item and the major source of dietary energy for a majority of Sri Lankans. However, recent data suggest that the cereals that include rice are becoming less important in providing not only calories but also proteins in the diet. On the other hand, the consumption of meat, fish, eggs and vegetables has increased in terms of quantity. Also the importance of animal products as a source of calorie and protein has increased substantially over the years. However, both the domestic and the export agricultural sectors that have been centred on a few crop products have shown little dynamism over the years. Hence, the agricultural sector has to meet the challenge of diversifying its product base to reflect changes occurring in consumption patterns and export demand.

**Table 11.5**
**Changing Composition of Sri Lankan Diets**

| | Food Consumption | 1964-1973 | 1974-1983 | 1984-1993 | 1994-1998 | 1999-2003 | 2004-2008 | 2009-2013 |
|---|---|---|---|---|---|---|---|---|
| Quantity (kg/capita/year) | Rice | 95.3 | 96.2 | 94.6 | 90.4 | 93.0 | 101.2 | 109.4 |
| | Wheat | 42.3 | 45.6 | 41.7 | 48.1 | 46.7 | 44.2 | 37.3 |
| | Pulses | 6.1 | 2.9 | 5.2 | 6.5 | 7.7 | 7.4 | 8.8 |
| | Starchy roots | 29.8 | 39.7 | 26.0 | 18.8 | 16.9 | 15.6 | 18.6 |
| | Potatoes | 2.9 | 2.3 | 3.3 | 5.8 | 6.3 | 6.1 | 7.7 |
| | Vegetables | 14.7 | 20.3 | 33.0 | 30.3 | 31.3 | 36.0 | 41.1 |
| | Fruits | 42.9 | 76.2 | 41.7 | 40.0 | 38.3 | 32.9 | 35.3 |
| | Sugar & sweeteners | 22.0 | 12.6 | 21.8 | 25.7 | 29.8 | 28.6 | 27.2 |
| | Fish | 15.9 | 12.1 | 15.5 | 19.4 | 21.6 | 19.8 | 24.6 |
| | Meat | 4.6 | 3.7 | 3.5 | 5.1 | 5.9 | 6.5 | 6.4 |
| | Milk | 20.0 | 24.0 | 29.1 | 31.0 | 32.8 | 33.0 | 36.8 |
| | Eggs | 1.5 | 1.4 | 2.3 | 2.3 | 2.3 | 2.1 | 3.1 |
| Calories | Total (kcal/ capita/day) | 2,258 | 2,241 | 2,219 | 2,264 | 2,343 | 2,380 | 2,491 |
| | % from cereals | 54.8 | 56.7 | 55.9 | 54.7 | 54.0 | 55.4 | 54.7 |
| | % from animal | 4.6 | 4.4 | 5.3 | 6.1 | 6.2 | 6.1 | 6.5 |
| Protein supply | Total (g/capita/day) | 46.5 | 45.3 | 47.5 | 50.8 | 53.4 | 54.5 | 58.1 |
| | % from cereals | 58.8 | 62.3 | 57.8 | 54.9 | 53.1 | 53.4 | 50.7 |
| | % from animals | 19.1 | 18.2 | 21.4 | 24.4 | 25.6 | 24.5 | 26.9 |

Source: FAO, FAOSTAT data (http://faostat3.fao.org), Food and Agriculture Organization, Rome.

## 11.3.3 Agrarian Poverty

The domestic agricultural sector in Sri Lanka is characterized by small scale farming. Many small holders do not earn a sufficient income from farming, and poverty is a predominant phenomenon among them. Agrarian poverty and vulnerability is widespread in rural areas where approximately 87 per cent of the identified poor is living.[6] Also, almost a half of the poor rural population consists of small-scale farmers.[7] Low productivity coupled with non-competitiveness both in the domestic and export markets are partly responsible for rural agrarian poverty. Thus, it is critical to enhance agricultural productivity, income diversification and economic growth in rural areas. The agriculture sector has to make the largest contribution to poverty reduction efforts as a majority of the poor live in rural and plantation sectors where agriculture is the predominant economic activity; a majority of the rural poor and all estate workers rely on agriculture for their livelihood.

Because of this clear linkage between agriculture and poverty incidence, poverty reduction has become the top priority in agricultural development in recent times. Thus, increasing agricultural productivity and increasing rural income through rural agro enterprises are at the top of the agenda for rural poverty alleviation. Consequently, agrarian poverty stands out as a serious issue demanding prompt attention at policy level.

[6] http://www.statistics.gov.lk/poverty/PovertyIndicators2012_13.pdf.

[7] http://www.ifad.org/operations/projects/regions/pi/factsheets/srilanka.pdf.

**Low productivity coupled with non-competitiveness both in the domestic and export markets are partly responsible for rural agrarian poverty.**

Even though the causes of agrarian poverty and the means available to overcome it vary across regions, the poor basically suffer from a set of common issues such as low resource endowment, low skills, poor access to technology, inadequate institutional support and low productivity.

Since Sri Lanka's independence, there have been a number of short-term efforts by successive governments to alleviate agrarian poverty through price support and input subsidies.[8] While these may not necessarily be sufficient for agricultural growth, the purpose of such short-term policies is to create the conditions for efficient allocation of productive resources while correcting economic imbalances. Ironically, these short-term support measures have been in existence in Sri Lanka for almost seven decades. Yet, their contribution to agrarian poverty alleviation has been minimal, and the opportunity cost of such short run interventions is not known.[9] Thus, a strong need exists for long run measures to empower farmers through effective coordination of existing policy measures with the new policy reforms.

## 11.3.4 Food Insecurity

The fight against hunger has been a key objective of development efforts. The depth of hunger for Sri Lanka in 2014 was 216 kcal/capita/day, indicating a medium level of food deficit among undernourished children.[10] However, this is not much improved from the level of 230-240 kcal/capita/day that existed in the early 1990s. The greater the deficit, the greater the susceptibility to health risks related to undernourishment. As of 2012, the share of Sri Lanka's undernourished population is estimated at 24.6 per cent, a decline from 30.6 per cent in 2000. The share of underweight children less than 5 years of age is 26.3 per cent, stunted children is 14.7 per cent and wasted children 21.4 per cent in 2012.[11] However, it has been found that, improved health care alone cannot improve all health related outcomes as deep rooted socio-economic factors that include intake of an imbalanced diet, household high alcohol and tobacco consumption, and lack of education substantially contribute to child and maternal malnutrition, especially in the estate sector.[12]

One of the major reasons for an imbalanced diet is the dietary concentration of Sri Lanka's population, especially those who are in rural and estate sectors, on a staple commodity (rice) and wheat flour. Even though there is some recent diversification in the dietary pattern in general, the composition of the food basket on average has been more or less static

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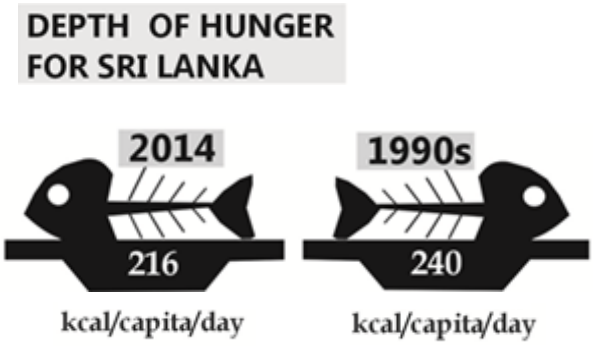
8 A guaranteed price scheme and a fertilizer subsidy scheme are the major support programmes that have been in existence since 1948 and 1970s, respectively.

9 Samaratunga, P., *et al.*,(2012), "Agricultural Pricing and Public Procurement Policies in South Asia", Briefing Paper No. 10, GDN Agriculture Policy Series, Global Development Network, New Delhi.

10 Depth of hunger, which is the difference between the minimum and the average dietary energy intake of the undernourished population, indicates by how much food deprived people fall short of minimum food needs. The depth of food deprivation is medium when it is 200 to 300 (Global Hunger Index 2014).

11 FAOSTAT available at http://faostat3.fao.org/download/D/FS/E.

12 Jayawardena, P., (2014), "Can People in Sri Lanka's Estate Sector Break Away from Poor Nutrition: What Causes Malnutrition and How it Can be Tackled", Health Economic Series No. 1, Institute of Policy Studies of Sri Lanka, Colombo.




over the years. The World Food Summit of 1996 defined food security as "when all people at all times have access to sufficient, safe, nutritious food to maintain a healthy and active life". This definition provides the basis for the four components of food security widely adopted today; availability at national and global level, accessibility at regional or household level, affordability at household level, and household utilization of food in a nutritious way. The availability of sufficient food and the means to acquire enough food at the household level do not ensure proper utilization of food and good health. Hence, food insecurity is a major determinant of nutrition related disorders.

Sri Lanka's food security problem is found to be more severe at the micro (affordability and utilization) level than at the macro (or availability) level.[13] Nevertheless, there are concerns about national level food security arising from the vulnerability of the country's exports, the escalation of oil prices, shortages in global food production and the escalation of international food prices. The gradual distancing of traditional food production bases from the people in favour of specialized foreign food producers further aggravates the problem. The role of domestic agriculture in addressing these heightened with the culmination of a global food crisis in 2008. However, the solutions must simultaneously address all aspects. In the long run, the vulnerability to hunger can be lowered by raising agricultural productivity for a diverse set of both competitive and sustainable crops, and promoting dietary diversification.

## 11.3.5 Inefficiency in Water Management

The Sri Lankan agricultural economy has historically been heavily dependent on irrigation, being a rice based country endowed with sophisticated irrigation infrastructure. Both irrigation infrastructure and water stored and delivered are treated as public goods supplied free of charge to the farmers. Being considered as a common property with no ownership, no one takes the responsibility for management and maintenance, except in certain cases where the government has sought the participation of farmers. Apart from the fiscal cost, free provision leads to overuse and wastage of water, giving rise to an unaccounted economic loss. The losses are accruing over time, creating a financially and economically unsustainable system in the long run. Currently, the irrigated agriculture sector of Sri Lanka faces two major problems; inefficiency of irrigation water utilization, and poor management of irrigation systems owing to a rising budgetary burden of providing irrigation water.

Inefficiency in relation to irrigation water use implies that a unit of irrigated land uses more water than the requirement for the crop. Consequently, the extent cultivated with the total volume of water available will be less than the maximum cultivable extent. This result is from: (a) a lack of technical know-how on water management and/or (b) a lack of an incentive to use water sparingly. At zero price of irrigation water, there is no incentive for farmers to limit their water use or to adopt water saving technologies. The global demand for water for agricultural and non-agricultural purposes is increasing steadily, and Sri Lanka is no exception to this general trend.

## 11.3.6 Climate Change and Agriculture

Agriculture in Sri Lanka has evolved in close harmony with the prevailing climatic conditions of respective agro climatic regions of the island.

[13] Samaratunga, P., (2011), "Multiple Facets of Food (In) Security in Sri Lanka: An Input to Food Policy", in Mittal, S. and D. Sethi(eds.), *Policy Options to Achieve Food Security in South Asia*, Foundation Books, New Delhi.




However, Sri Lanka's climate has undergone changes to an extent that the right amount of rainfall does not come at the correct time of the growing season. Agricultural productivity is likely to suffer severe losses because of high temperature, severe drought, flood conditions, sea level rise and soil degradation. Thus, the future of agriculture in a changing global climate in the context of an increasing human population has to be a policy priority, and an issue of topical importance to the scientific community.

Increased occurrence of extreme rainfall events due to climate change, droughts and floods could lead to crops losses due to moisture stress and excess water. Besides the water stresses, these conditions obstruct the management of operations such as land preparation, transplanting, weed control, and fertilizer and agro-chemical application that could result in yield losses. Moreover, increased occurrence of rainfall irregularity is likely to cause severe damages to existing irrigation infrastructure, limiting the water availability for irrigated crop production. Crop injuries due to high temperatures are also inevitable, Sri Lanka being a tropical island. The same will lead to rapid drying up of tanks giving rise to scarcity of water for agriculture. Apart from the direct impact of increased variability of rainfall and rise of ambient temperature, indirect effects of increased rainfall intensities worsen land degradation, especially in hilly areas where plantation crops are grown.

As an island, Sri Lanka is highly vulnerable to sea level rise and consequent sea water intrusion to low lying agricultural lands which could cause salinization of land available for agriculture. Being a small developing country, the most appropriate response to climate change is in general adaptation rather than mitigation. It has been revealed that with adaptation, the vulnerability of agriculture to climate change can largely be reduced.[14] Many agricultural adaptation options have been suggested in the literature and they include a wide range of micro-level options such as crop diversification and altering the timing of operations; market responses such as income diversification and credit schemes; institutional changes, mainly government responses such as removal or preservation of subsidies; and improvement of agricultural markets and technological developments.

## 11.3.7 Regoverning Markets

Rapid and ongoing changes are occurring in domestic and export procurement systems, with the growing dominance of supermarkets, high quality retail, bulk procurement by domestic manufacturing firms, and increased quality awareness in the global trading system. This phenomenon has been further influenced by urbanization, income increases, increased migration of Sri Lankan citizens, increased female participation in the labour force, etc. In turn, new demand patterns emerge, shifting the focus towards continuous supply of high quality, value added products with improved processing, packaging and labelling. As in other developing countries, the food retail market in Sri Lanka has gradually evolved from fragmented local markets to centralized wholesale markets and eventually to the emergence of supermarkets.

[14] Droogers, P., (2004), "Adaptation to Climate Change to Enhance Food Security and Preserve Environment Quality: Example for Southern Sri Lanka", *Agricultural Water Management*, 66, 15-33.

The most intractable issue arising from the global market is public concern regarding food safety in industrialized countries that has resulted in increased and tightened public standards over the past two decades.[15] Moreover, significant institutional changes and intensified border control on food imports have been serious issues of concern for Sri Lanka. The country lacks sufficient administrative and technical capacities to comply, but the cost of compliance could also weaken its competitive position on agricultural exports. Any failure to comply can result in loss of market for agricultural products. On top of that, international trade agreements such as the WTO's Agreement on Agriculture (AOA), Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) agreements exhibit both facilitative as well as inhibitive effects on the Sri Lankan agriculture sector. Imports of genetically modified (GM) organisms, including food and planting materials, have become a serious issue of concern in the present day due to the health effects on human and plant varieties.

The inferior quality of most Sri Lankan farm gate products has been a serious issue in the present context of high quality consciousness. A large proportion of the produce leaving the farm gate are of a quality far below the expected level at the high end of the supply chain.[16] This is mainly attributed to poor weather conditions, low cost processing technology, poor storage facilities, early harvesting habits and the small-scale nature of production. Poor quality leads to a direct loss of potential exports and foreign exchange earnings. Many producers do not have proper processing facilities and are unaware of the quality parameters. Thus, the impact of modern and restructured markets has had a number of repercussions on small-scale farmers who are unable to keep up with emerging marketing trends.

## 11.4 Policy Reforms for Raising Agricultural Growth

Dramatically increasing the food supply and export earnings is a daunting challenge on its own, and needs certain reforms in the current policy structure in order to bring about some innovative solutions. Sri Lanka, even after 67 years of independence, does not have a sustainable agricultural policy. There have been some policy papers which have been presented on agriculture at various stages and intervals, but nothing sustainable has been

**Dramatically increasing the food supply and export earnings is a daunting challenge on its own, and needs certain reforms in the current policy structure in order to bring about some innovative solutions.**

[15] Product quality standards such as ISO 9000, ISO 14000 certification and process quality standards such as HACCP have become essential parameters in the food industry.

[16] Samaratunga, P., (2007), "Sri Lanka: Innovative Practice in Integrating Small Farmers into Dynamic Supply Chains: A Case Study of Ma's Tropical Food Company", Regoverning Markets Innovative Practice Series, International Institute for Environment and Development, London.

implemented to date in a coherent manner. The major factors which need focus in any reform effort have special reference to the achievement of three strategic thrusts relevant to the sector - i.e., eradication of poverty, food security and sound ecosystem management. These are explained separately.

## 11.4.1 Land Policy

The major objectives of the present land policy which dates back to Land Development Ordinance of 1935 are to hold untitled land under government ownership and distribute such lands as small holdings for agricultural production purposes while preventing further subdivision of land holdings. The other major land related policy is the Paddy Lands Act of 1956 which consolidated the rights of the tenant paddy farmers and restricted the use of paddy lands for any other purpose; this was partially and conditionally relaxed under the Agrarian Services Act of 2000. Moreover, land use and land resource management have not been subject to policy attention except for the Soil Conservation Act of 1953 and its recent revision.

Hence, reforming current national land use policy to foster a shift from low value to high value agriculture, addressing the issues of low productivity and efficiency, is a timely requirement. These policy reforms should essentially cover strict enforcement measures of regulations on land use such as limiting agricultural land uses only to suitable land classes, amending regulations on soil conservation to prevent improper land uses, identifying activities leading to degradation of land and initiating conservation practices in susceptible areas, preventing land encroachment especially in environmentally sensitive areas. Rationalizing land ownership for efficient use of land resource by revising the dated regulations on the ownership and removing restrictions on transactions of such lands to increase access to land by efficient farmers have to be considered a top priority. There is a strong need to execute an integrated and consistent approach in managing the land resource of the country by strengthening the organizational and institutional framework for land management by bringing all the scattered institutions with duplicating responsibilities under one umbrella body.

Even though securing land rights is an important issue, serious thought has to be given to avoid the possible equity implications for marginalized and vulnerable groups. Measures to mitigate the effects of imperfections in credit, input and output markets have to be undertaken simultaneously in order to prevent large farmers getting a competitive advantage over small family farms resulting in a large scale land sell-out by rural poor. These ill effects should not be deterrents, as there would not be great disadvantages in such reforms when considering the positive results, especially the significant enhancement on land productivity and production efficiency.

## 11.4.2 Irrigation Policy

With new developments, it is obvious that the approach to water management over the past cannot continue into the future with a policy thrust towards high productivity and sustainable water resources. Maintenance of all existing irrigation projects and the new water resource development activities are under the purview of the state institutions. Subsequent governments have identified the need for a comprehensive policy revision in the water sector and are attempting to develop a new set of policies.

The National Water Policy of 2000 aimed at transferring the management of irrigation works to farmer organizations. The introduction of irrigation charges has been proposed many times, and even attempted at a pilot scale in the past without success. A major factor behind this failure was the socio-political setting that strongly believes that water is treated as a free gift of nature, or as a public good in an economic sense. The inherent bureaucratic inefficiency of state institutions that collect and utilize

the irrigation charges was also partly instrumental in the failure of this initiative.[17]

Hence, future policy reforms should essentially deal with these two issues in order to ensure efficiency and long run sustainability. A Participatory Irrigation Management (PIM) in the form of farmers working together with government irrigation agencies taking the responsibility of irrigation systems management was adopted in Sri Lanka for this purpose. The main purpose of PIM is to improve the productivity of irrigated agriculture, making the system perform efficiently and reduce government expenditure. Nevertheless, the problem of irrigation service provision cost cannot be solved without some form of a charge. Hence, the long run solution to the problems of irrigation water use efficiency, equity and cost recovery seems to lie with a suitable combination of participatory management and land based irrigation charges.

Nevertheless, there are three major areas that need to be systematically looked into before launching such an attempt. These are administrative determination of water charges, determining the suitable institutional arrangement for implementation, and evaluating the consequences of such an initiative. This type of policy revision could be coupled with the introduction of water saving irrigation technologies for the marginalized people who would possibly be affected by such a major policy revision. These could include for example, the introduction of solar powered drip irrigation, promotion of agro-wells, rain water harvesting to increase water use efficiency and to enhance the income levels of farmers in the water scarce areas. These can also be considered as adaptation strategies to minimize the climate change impacts on the agricultural sector.

## 11.4.3 Policy on Technology Transformation

Productivity enhancement in agriculture requires the choice and use of appropriate technology - i.e., the technology which is appropriate and adaptable to local conditions with a majority of rural, relatively poor farmers. It also determines to what extent the poor will benefit or lose from integrating into the modern economy. A National Agricultural Research Policy (NARP) was formulated in the early 1980s to foster a public national agricultural system that ensures demand orientation, client orientation and high quality in its research and dissemination. However, the resulting agricultural research system is also essentially government-centred, and not successful in commercializing agriculture and promoting regional specialization and vertical diversification. Technology adopted in paddy farming has undergone significant changes over the years. However, most other agricultural products are grown under traditional farming methods and characterized by low productivity.

Enhancing agricultural research and technology by increasing budgetary and human resources allocation, with a focus on much broader aspects like livelihood improvement, rural development, food security and agro based industries is a necessary condition for policy reforms in technology generation. Technology generation does not simply mean the creation of technology only domestically, by investing on domestic research. The importation of technology also plays a pivotal role in the present context of globalization. As a result, adaptive research emerges as very important in buying or acquiring foreign technology before it can be transferred successfully to different locations in the country.

[17] World Bank (2003), http://documents.worldbank.org/curated/en/2003/02/2171985/sri-lanka-promoting-agricultural-rural-non-farm-sector-growth-main-report.

The traditional supply driven process of technology generation has to change into demand driven technology development to cater to transformed markets and niche markets. Promoting research on the utilization of unexploited indigenous genetic potentials, especially fruits, aquatic plants and medicinal herbs; on controlled agriculture (green house and poly-tunnel technology); on water saving crop production techniques (solar power drip irrigation) and non-seasonal crop production; and small and medium scale agricultural machinery should be given emphasis, especially in the long run. However, there can be a problem that only rich farmers can afford such technology, especially in the case of embodied technology such as machinery and hybrid seeds, rather than disembodied technology such as agronomic practices. Consequently, the state has to play a role in ensuring inclusion of all farmers.

Both policy and institutional reforms are needed to bring R&D, technology and extension under one umbrella while strengthening the role of public private partnerships. Agricultural extension is under increasing pressure to become more effective, more responsive to clients and less costly to governments. Despite various attempts at reform for the effective dissemination of agricultural technology, the process of reform has remained incomplete. Technology dissemination process through extension has to be customized by strengthening existing extension approaches with adequate budgetary and human resource investments. Further, the present extension system which focuses on the production aspect has to be restructured towards process and value chain approaches in order to improve competitiveness, to strengthen business decision-making and to introduce diversification into processing and value addition. Establishing a demand driven fee-levying extension system in addition to the conventional system, encouraging public private partnerships in extension delivery, and developing IT technology infrastructure to enable easy and speedy access to information by all stakeholders have to be given careful consideration.

Creating a dynamic data ecosystem that act as a network of interactions - with government organizations, private sector and individuals who are producing and using development information - is a top priority in modern day agriculture. Time and time again, the increasing urgency for more data literacy is heard. Data literacy includes creating more data producers, strengthening their ability to create quality data, and enabling stakeholders to be better data users. This needs taking hard-to-comprehend information, and putting it into a format that people can understand. Drawing data from different organizations and institutions into a common repository, enforcing common definitions and standards, creating visual representations of data, and designing interactive websites and apps are just a few tools that can be used to make information more accessible and useful. With the highest level of resources, and ability to produce valuable tools to strengthen the economy, the private sector is also the least likely to make their data public. However, there may be several private sector companies who are willing to contribute in any such development attempts. Those avenues that create close relationships between public and private sectors have to be explored to strengthen data sharing, especially through frequent public-private policy dialogues.

## 11.4.4 Marketing Policy

The domestic agricultural sector in Sri Lanka is characterized by small scale farming. Many small holders do not earn a sufficient income from farming, and poverty has been a predominant phenomenon among them. Low productivity coupled with non-competitiveness both in the domestic and export market has partly been responsible for rural poverty. Added to these, the impact of modern and restructured markets has had a number of repercussions on small-scale farmers who are unable to keep up with emerging marketing trends. The state marketing policy has historically been limited to ad hoc procurement of a few products under a guaranteed price scheme. However, recent

developments in agricultural markets indicate that markets are not readily available to absorb the produce at the time of harvesting, and it was left to organized traders to purchase at relatively low prices. This scenario of over-emphasis on the importance of government intervention still continues without much change.

This situation has triggered the need for a new innovative practice working with small holders to improve their ability to face restructured market conditions by delivering knowledge, assisting in accessing capital and advising on food standards and enterprise planning. Even though there are certain innovations elsewhere that fulfill these consumer demands while effectively integrating the farmers in the supply chain (e.g., MAS Food, Cargills), lack of capacity to accommodate a large number of poor farmers has resulted in exclusion and marginalization. Hence, government policy should emphasize more on enhancing the value addition and agro based products among small holder farmers and linking them with dynamic value chains.

Development of marketing and allied infrastructure (trade facilitation) by international trade promotion and branding for primary and value-added products with export potential should be a top priority in agricultural marketing policy. Strengthening trader-farmer contracts (through Dedicated Economic Centres, contract grower systems) are a critical intervention. Private sector investment in agriculture should be encouraged and the linkages between producers and the modern value chain actors should be facilitated. Technical, scientific and financial assistance should be provided to modernize and upgrade facilities to international standards, especially in the area of post-harvest management, good agricultural practices and food safety. Ensuring a predictable and transparent trade policy instead of ad hoc policy changes is required to avoid market uncertainties and investor confidence. Need-based state intervention while maintaining market competition and rural infrastructure development is suggested. Maintenance of buffer stocks of essential commodities is useful to stabilize prices, consumption and food security.

## 11.4.5 Climate Change Policy

Recent efforts initiated by the Ministry of Environment and Renewable Energy such as the adoption of a National Climate Change Policy in 2012 and National Climate Change Adaptation Strategy for 2011-16 have helped to fill some gaps in policy on climate change at the national level. However, climate change issues are yet to receive due attention of policy makers at sector level policies. This cannot be considered as a favourable situation for a vulnerable country like Sri Lanka. This significant policy gap on climate change issues in agriculture needs to be addressed through carefully designed policies with the participation of policy makers, researchers and academia from both the government and non-government sectors. Increased irregularity of rainfall over time and increased variance of rainfall and temperature within cultivation seasons have been reported as crucial climatic variables for Sri Lankan agriculture with adverse implications on food security.

In the context of an increasing population and vulnerability to food security, increased climatic variance and thereby, instability of agricultural production, policy priority should be given to areas of agricultural research and food production enhancement. However, it should be noted that some of the climatic issues in the agriculture sector can be readily addressed by irrigation and technology policy reforms. Different adaptation techniques can be used to minimize the vulnerability to climate change, such as improving stability and adaptability of crop varieties through genetic improvement and molecular breeding. Moreover, strategies are needed to strengthen farmers' abilities to manage risks such as by changing the cropping period to take advantages of weather, improved crop management through crop rotation, inter-cropping and integrated pest management.

Growing water scarcity in irrigated areas and worsening uncertainty of rainfall in rain fed agriculture are two major climate change consequences that can be tackled from improved water use management as suggested in irrigation policy reforms. State intervention to enhance both technical and institutional capacities for more efficient water management and conservation is therefore of vital importance. Improved moisture conservation, modern sustainable irrigation techniques such as solar drip irrigation, rainwater harvesting and recycling, efficient use of irrigation water and conservation agriculture are some avenues that need to be given careful consideration in policy reforms. Furthermore, redesigning credit and agricultural insurance instruments to properly transfer risk needs future policy focus.

## 11.5 Conclusion and Way Forward

Agriculture is one of the key sectors of the Sri Lankan economy with significant contribution to GDP, employment, and income of the people. While the importance of the agricultural sector is well recognized, the problem at present is deciding on policy reforms to effectively contribute to sustained growth, while mitigating existing constraints and future challenges. This chapter attempted to identify the major agricultural development issues and challenges that affect the role of agriculture in providing income, generating employment, promoting food security, alleviating agrarian poverty and improving export earnings.

Since independence, Sri Lanka's agriculture has transformed in many aspects. A focus on field crops other than rice is particularly noteworthy, while reducing the food deficit in many varieties of crop products. The declining percentage of the country's labour force employed in agriculture and agriculture's contribution to GDP over the years cannot be considered as problems due to the universal trend of slow rise in the demand for food as compared with other goods and services as incomes rise. However, long unsolved problems remain in achieving the major objectives of the sector that are evident in a relatively high incidence of agrarian poverty and food insecurity. Dramatically increasing agricultural productivity to promote food supply and export earnings is a daunting challenge on its own and needs certain reforms in the current policy structure in order to bring about some innovative solutions.

Hence, within Sri Lanka's current liberal economic environment, agriculture policy should be directed towards transforming traditional subsistence agriculture to one which maximizes productivity. The government should also give priority to improving processing, marketing and downstreaming activities to increase value addition to agricultural products, providing more employment opportunities in rural areas, and thereby increasing food security and lowering agrarian poverty. High priority should be placed on achieving a broad based shift from traditional low value to modern high value agriculture, accompanied by sustained improvements in productivity and competitiveness through policy reforms, which will launch the agriculture sector into a significantly higher growth path.

While the reforms in factors of production such as land and labour should be undertaken with a view to enhancing agricultural productivity and efficiency, modernizing the systems of agricultural R&D, technology and extension - focusing on livelihood improvement, rural development, food security, improving agro-based industries, initiating commercial agriculture and preparing the sector to face global challenges -should be done with the participation of the private sector. Resources from agricultural subsidies that are argued to be fiscally unsustainable, economically inefficient and environmentally unsustainable such as fertilizer subsidy should be gradually released for more productive agricultural investments. Participation of farmer organizations and the private sector as partners in agriculture development is recognized

as essential for equity-based development. Enhanced youth involvement in agriculture should be sought through promoting agricultural entrepreneurship training, encouraging scientific farming and promoting agro-enterprises. Improved diversification, especially the restricted agriculture export base, is essential for transforming agriculture into a sustainable industry.

While there have been some isolated policy documents at various stages, Sri Lanka even today does not have a sustainable agricultural policy. A sustainable agricultural policy does not necessarily mean one that does not evolve over time. It can drop obsolete policy strategies and add some modern policy actions, avoiding ad hoc policy changes from time to time.

# 12. Environmental Reforms for Sustainable Growth

## 12.1 Introduction

Environmental concerns have been increasingly notable in on-going debates on economic growth strategies for development. While a number of factors are essential to achieve high and sustained growth in the long-run, environmental sustainability is a vital aspect. Though negative environmental impacts of growth are apparent, little has been done to minimize such impacts with policy attention seemingly focused almost entirely on growth, with resultant negative implications on the natural environment and its resources being largely ignored.

Overall, in order to ensure a sustainable development trajectory for a country, key elements that have to be assured are sustaining the natural capital stock and preservation of the natural environment from pollution. In addition, a proper adaptation mechanism should be in place to respond to global environmental threats, such as climate change. Individual policy level attempts to find solutions to existing issues are not sufficient. By and large, the issues call for reforms in the overall environmental management system of a country.

Though there have been many discussions on environmental issues, and a recognition of the need to change existing policies and regulatory frameworks, nothing tangible has occurred in terms of changes in the overall environmental management practices in Sri Lanka. This is in spite of the country embarking on ambitious large scale infrastructure development projects that have raised concerns on environmental damage. A clearly visible outcome of such omissions is confrontations among environmental activists, responsible agencies, groups responsible for environmental problems and the general public in many instances. This is a clear symptom of an unhealthy environmental management system in the country, and justifies the need for environmental reforms. It is therefore timely to focus on environmental reforms as part of a larger economic reform effort to ensure that intended development outcomes are environmentally sustainable.

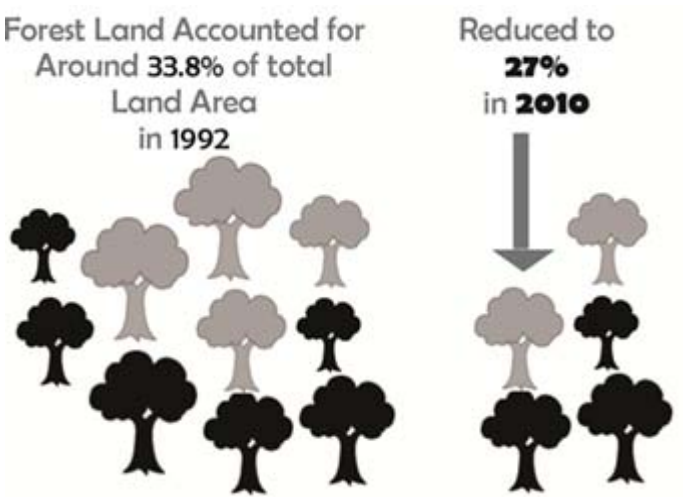
## 12.2 Key Environmental Issues in Sri Lanka

Key environmental issues facing Sri Lanka at present can be discussed under three themes; namely, degradation of natural capital stock, environmental pollution and responding to impacts of global climate change.

### 12.2.1 Degradation of Natural Capital

At the national level, there are issues in allocation of natural resources, including land, forests, etc. Degradation of natural capital brings adverse impacts on the economy as they play a significant role in economic activities, though they are not considered in standard national accounting frameworks.

***Deforestation and forest degradation:*** According to Forest Department data, a notable change in the country's forest cover has been

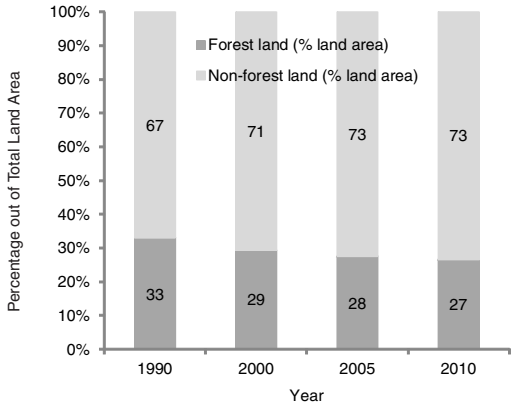



**Degradation of natural capital brings adverse impacts on the economy though they are not considered in standard national accounting frameworks.**

observed. Forest land accounted for around 33.8 per cent of total land area in 1992, but reduced to around 27 per cent in 2010 (Figure 12.1).

The causes for forest degradation are numerous. Forest degradation in the Dry Zone is mainly linked to the nature of the agriculture system prevailing in the respective areas. Increased demand for land by farmers has resulted in considerable deforestation. Additionally, unsustainable land use patterns, including in plantation agriculture, has been the main reason for forest loss and subsequent land degradation in the hill country. The forest land which was kept intact in the Northern and Eastern regions due to absence of development projects during the conflict-affected years is now exposed to deforestation and degradation. Unplanned settlements and development projects are causing significant changes in the forest cover in the areas.[1]

**Figure 12.1**
**Change in Forest Cover (1990-2010)**




Source: UN (2014), *Millennium Development Goals Country Report 2014 - Sri Lanka*", United Nations, Colombo.

Forests provide a number of ecosystem goods and services. Thus, forest degradation is directly associated with many other environmental problems such as negative implications on biodiversity, water scarcity, land degradation, etc., which lead to significant environmental costs.

***Land degradation:*** Land degradation, occurring at varying degrees in different parts of the country,

[1] UNDP (2011), "Northern Province - Integrated Strategic Environmental Assessment", United Nations Development Programme, Colombo.

is particularly a problem in sensitive areas, especially in the hill country, with steep slopes, high intensity rainfall and inappropriate land use practices. For instance, cultivating potatoes and tea in sloppy lands, without adopting proper soil management measures has resulted in severe degradation problems.[2]

Land degradation in Sri Lanka is highly associated with the changes in land use pattern over the years and rate of deforestation. Historically, deforestation took place due to large-scale conversion of agricultural lands to grow plantation crops. For instance, tea lands are already showing signs of loss of fertility in the uplands,[3] and cardamom cultivation in the Knuckles forest area has degraded the soil cover significantly.[4] Loss of soil fertility is a direct consequence of land degradation, which poses significant problems for agricultural productivity. Land resources are being used by a number of economic sectors in the country, such as agriculture, forestry, irrigation, plantation industries, etc. Due to inadequate legal interventions, land is being unsustainably utilized.

## 12.2.2 Environmental Pollution

Unplanned rapid industrialization reforms that took place in the early 1980s have in particular, led to a number of environmental pollution issues.[5] Lack of due consideration on the environmental consequences by the said reforms has made the intended developments environmentally unsustainable and caused many environmental costs such as industrial pollution, agricultural pollution, etc.

***Damage to the environment by excessive application of chemicals:*** Heavy use of agrochemicals, such as chemical fertilizer and pesticides is continuing with the objective of increasing agricultural productivity. Agrochemicals are heavily used particularly in paddy cultivation, vegetable farming in the uplands and tea plantations. The government fertilizer subsidy, which represents a major agricultural policy, has direct implications on the use of fertilizer in Sri Lanka. Though the fertilizer subsidy has in part contributed to increase rice production in the country, its effectiveness and sustainability, especially in regard to negative environmental externalities, are often being questioned.[6]

As shown in Figure 12.2, the use of fertilizer per land unit was comparatively low during 1990-94 where there was no subsidy given for paddy cultivation. The full subsidy came into effect in 1995 and fertilizer use has since increased considerably. Paddy productivity has also increased with the subsidy schemes over the years. However, the latest data show a decrease in paddy productivity even under increased fertilizer utilization. This provides some evidence that fertilizer is being used excessively and paddy cultivation is becoming less responsive to applied fertilizer. Both lead to negative environmental externalities where excess fertilizer reduces soil fertility, bio-diversity and water quality in agricultural lands.

Studies have found that existing cropping systems with heavy use of fertilizer in the upper catchment areas of the Mahaweli have caused increased

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2 Samaratunga, P.A. and C.M.M. Chandrasekara (2002), "Applicability of Economic Instruments in Controlling Soil Erosion in Up-Country Sri Lanka", Ministry of Environment and Natural Resources, Colombo, Sri Lanka.

3 Ananda, J., (1998), "Soil Erosion Damage Function for Smallholder Tea in Sri Lanka: An Empirical Estimation", a paper presented at the 1st World Congress of Environmental and Resource Economists, 24-27 June 1998, Isoladi San Giorgio, Venice, Italy.

4 Dhakal, B., *et al.*, (2012), "Impacts of Cardamom Cultivation on Montane Forest Ecosystems in Sri Lanka, *Forest Ecology and Management,* vol. 274, pp.151–160.

5 Ileperuma, O.A., (2000), "Environment Pollution in Sri Lanka: A Review", *Journal of National Science Foundation Sri Lanka,* 28(4):301-325.

6 Rodrigo, C. (2014), "Key Determinants of Sri Lanka's Fertilizer Subsidy: Some Research Findings for Policy Makers", Institute of Policy Studies of Sri Lanka, Colombo, http://www.ips.lk/talkingeconomics/2014/11/24/key-determinants-of-sri-lankas-fertilizer-subsidy-some-research-findings-for-policy-makers/.

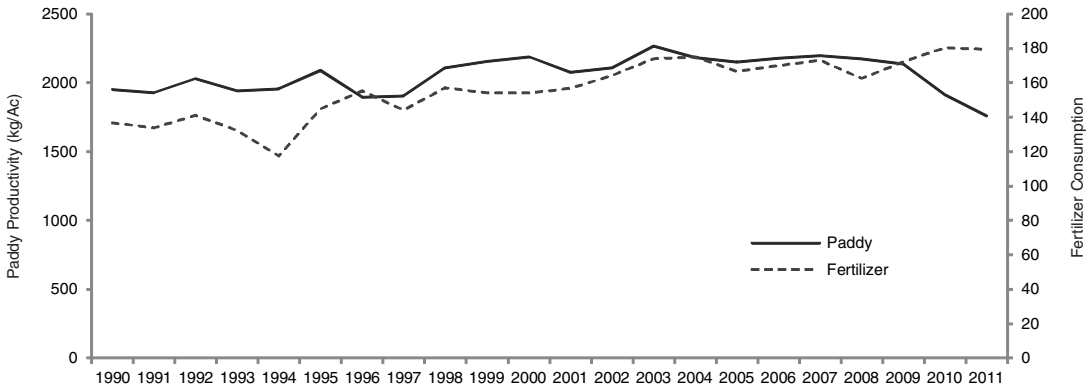
**Lack of due consideration on the environmental consequences of industrial reforms has made the intended developments environmentally unsustainable and caused many environmental costs.**

Cadmium levels in the Mahaweli river water.[7] Heavy use of agrochemicals is a risk factor for the occurrence of kidney disease in the North Central Province of Sri Lanka.[8] This calls for promoting more organic agriculture in the country, which at present claims only around 5 per cent of agricultural land.[9]

An agricultural system that operates under organic fertilizer has the potential to produce Ecosystem Goods and Services (EGSs). Many EGSs produced through agricultural systems generate positive externalities. For example, revitalization of the soil with rich organic matter is a direct positive externality, while improving the biodiversity is an indirect positive externality. However, an agriculture system that is predominantly based on chemical use will lose most of these EGSs and create negative environmental externalities.

***Un-coordinated waste management:*** Over the years, much emphasis has been laid on dealing with the Municipal Solid Waste (MSW), as it is the main

**Figure 12.2**
**Fertilizer Consumption and Paddy Productivity (1990-2011)**




Source: Department of Agriculture, "Cost of Cultivation" data.

[7] Bandara J.M., *et al*., (2011), "Pollution of River Mahaweli and Farmlands under Irrigation by Cadmium from Agricultural Inputs Leading to a Chronic Renal Failure Epidemic among Farmers in NCP, Sri Lanka", *Environmental Geochemistry and Health,* (5):439-53.

[8] Bandarage, A., (2013), "Political Economy of Epidemic Kidney Disease in Sri Lanka", http://sgo.sagepub.com/content/3/4/2158244013511827.full.

[9] Wahundeniya, W.M.K.B., (2013), "Organic Farming Situation in Sri Lanka", Horticulture Crop Research and Development Institute, Sri Lanka.

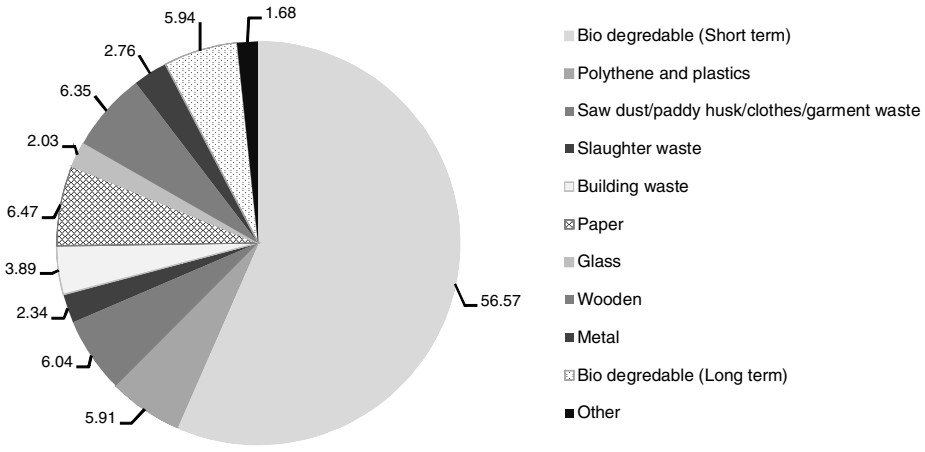
contributor to the solid waste generated in Sri Lanka. Handling of MSW is being done with the services of municipal councils. The management of MSW, unlike other waste, is backed by a national solid waste management policy, a national strategy for solid waste management and technical guidelines.[10] As evident from Figure 12.3, a larger proportion of MSW is biodegradable which can be used to make organic fertilizer, if appropriate strategies are in place.

Industrial waste, hospital waste and electronic waste generation are on an increasing trend. Waste separation is minimum at household level, thus it leaves room for electronic and other waste to be mixed with household solid waste. In addition, hospital waste and industrial waste also have the probability of being mixed with MSW since 'open dumping' is quite common for all these waste types. With heavy rainfall, these can get easily absorbed into soil and water, creating environmental pollution.

Industrial waste management is mainly focused on FTZs and it does not involve a national strategy. There are other industries in urban areas that violate the conditions of the Environment Protection Licence (EPL) issued by the Central Environment Authority (CEA). It leads industrial waste to be mixed with solid waste.[11] In addition, though there is an environmental management framework for health care waste in Sri Lanka,[12] only a handful of hospitals implement it. Lack of adoption of set frameworks leaves room for environmental pollution.[13]

Sri Lanka does not have an electronic waste management policy or a strategy in place. The CEA

**Figure 12.3**
**Composition of MSW in Sri Lanka (2013)**




Source: Western Province Waste Management Authority of Sri Lanka.

[10] CEA (2005), "Technical Guidelines on Solid Waste Management in Sri Lanka", Central Environmental Authority, Colombo; Wijetunga, S., (2013), "Community Views and Attitudes for Waste Management Improvement in a Higher Education Institute: Case Study", *Journal of Environmental Professionals Sri Lanka*, 1(1): 57-69.

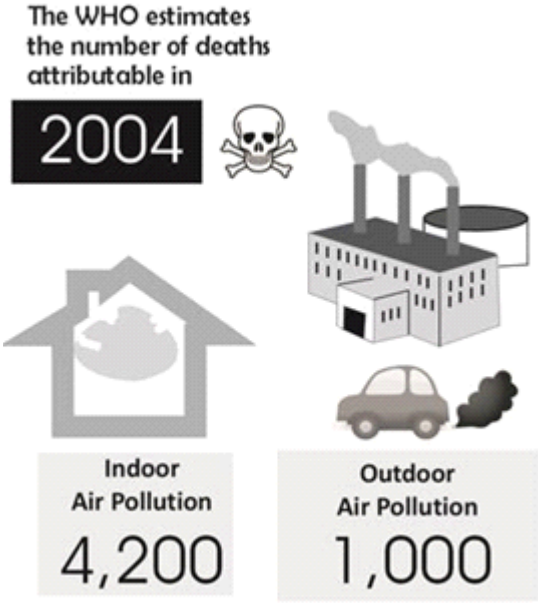
[11] Karunasena, G., and A Kannangara (2013), "Industrial Waste Management: Free Trade Zones in Sri Lanka", University of Moratuwa, Sri Lanka, http://www.civil.mrt.ac.lk/conference/ICSBE2012/SBE-12-226.pdf.

[12] MOH (2012), "Environmental Management Framework for Healthcare Waste and Infrastructure Development", Ministry of Health, Colombo.

[13] Visvanathan, C., (2006), "Medical Waste Management Issues in Asia", paper presented at Asia 3R Conference, 30 October -1 November, 2006, Tokyo, Japan.

has linkages with around 14 private sector companies in Sri Lanka in managing electronic waste under a Memorandum of Understanding. Though MSW is being managed with high emphasis on a proper policy, strategy and technical guidelines, other types of waste are not managed in such a comprehensive manner. This leaves room for industrial, health care and electronic waste to create more pollution. The absence of a comprehensive integrated sustainable waste management policy has now become a significant issue in environment management in Sri Lanka.

***Air pollution:*** The WHO estimates the number of deaths attributable to indoor air pollution and outdoor air pollution in Sri Lanka to be 4,200 and 1,000, respectively in 2004. A majority of the residential areas in Sri Lanka have particulate matter (PM), ground level ozone (O3), carbon monoxide (CO), sulfur oxide (SOx), nitrogen oxide (NOx) and lead (Pb) levels which are higher than recommended levels. These elevated conditions have the probability of causing respiratory diseases.[14]




While the MOH is fully equipped to treat respiratory illnesses, it involves significant costs. Preventing such health and related environmental impacts have to be done by limiting the emissions of pollutants. The main cause of air pollution in Sri Lanka is an ever increasing vehicle population. The number of motor vehicles annually registered is clearly showing an increasing trend (Table 12.1).

The CEA is the responsible authority to measure air quality in Sri Lanka. However, CO2 emissions are not measured at the moment because the machines have malfunctioned, thus creating a problem of monitoring. Air pollution monitoring mechanism should also be improved; CO2 emission data is only available for Sri Lanka up to 2008. The available data suggest an increase in the emissions as illustrated in Figure 12.4.

As outdoor air pollution in Sri Lanka is mainly caused by emissions from vehicles, it is necessary to reduce the importation of high emission vehicles. One solution to fill the gap of vehicle demand is to import more low emission vehicles, namely hybrid and electric vehicles. As suggested by the US Environmental Protection Agency (EPA) every gallon

**Table 12.1**
**Number of Motor Vehicles Registered**

| Vehicle class | Year | | | |
|---|---|---|---|---|
| | 2003 | 2006 | 2009 | 2012 |
| Buses | 1,949 | 3,346 | 739 | 3,095 |
| Cars | 21,184 | 27,758 | 5,762 | 31,546 |
| Motor cycles | 86,777 | 156,626 | 135,421 | 142,584 |
| Three wheelers | 36,204 | 64,466 | 37,364 | 98,815 |

Source: Department of Motor Traffic, Colombo, http://www.motortraffic.gov.lk/

[14] Nandasena, S., *et al.*, (2012), "Air Pollution and Public Health in Developing Countries: Is Sri Lanka Different?", *Journal of the College of Community Physicians of Sri Lanka*, 17(1): 15-20.

of gasoline pumps about 20 to 25 pounds of carbon dioxide into the air. For Sri Lanka, this amount of carbon dioxide is released by consuming 3.785 litres of fuel. The hybrid technology is however capable of running a car at 20-30km per litre and at zero emission level using electricity.[15]

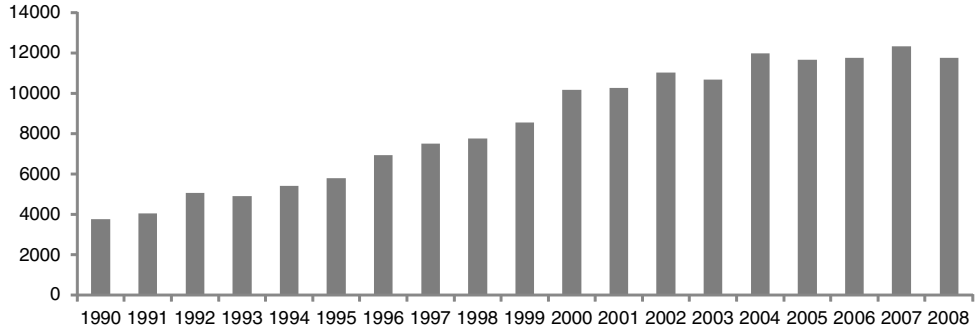
Sri Lanka's draft 'National Transport Policy' has placed emphasis on having more cost effective and environmentally friendly automobiles. However, the recent increases in the taxes of hybrid cars discourage consumers from buying them. Therefore, the government should reconsider its taxation policies in order to achieve the objectives of transport policy, and ensure there are no contradictory policies and strategies dealing with the same environmental issues.

## 12.2.3 Global Environmental Threats

Though Sri Lanka is not a significant contributor to global climate change, the country has to face its negative impacts like many other developing and emerging countries. The impacts are and predicted to be, in terms of increase in air temperature, changes in intensity and distribution of rainfall, increased frequency and severity of extreme weather events and sea level rise. While the specific impacts of these are different across the economic sectors, the cost of climate change is not negligible. Impacts of climate change are particularly to be felt by agriculture, water management, coastal and human settlement sectors, health, biodiversity, etc. The integrated assessment models suggest that the loss of annual GDP due to climate change impacts in Sri Lanka will be 1.2 per cent by 2050.[16]

A 'National Climate Change Policy' and a 'National Climate Change Strategy (2011-16)' to deal with climate change issues are in place in Sri Lanka. However, still there are several gaps in relation to mainstreaming climate change into the country's development process. They include information gaps, lack of a policy agenda and identification of priorities, coordination gaps and resource mobilization gaps.[17]

**Figure 12.4**
**Total $CO_2$ Emissions (MT)**

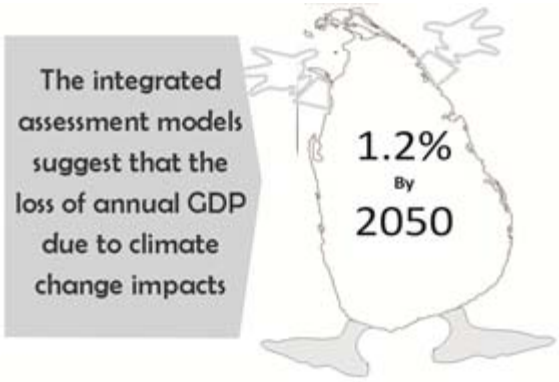



Source: UNDP (2015), "Millennium Development Goals Country Report", United Nations Development Programme, Colombo.

[15] Abeygunasekara, S., *et al.*, (2014). "Evaluation and Comparison of Automobile Fuel Systems, Most Appropriate to Sri Lankan Automobile Standards", paper presented at the SAITM Research Symposium on Engineering Advancements, 25-26 April 2014, Sri Lanka.

[16] Ahmed, M., and S. Suphachalasai (2014), "Assessing the Costs of Climate Change and Adaptation in South Asia", Asian Development Bank, Manila.

[17] Senaratne, A., N. Perera, K. Wickramasinghe (2009), "Mainstreaming Climate Change for Sustainable Development in Sri Lanka: Towards a National Agenda for Action", Working Paper Series No. 14, Institute of Policy Studies of Sri Lanka, Colombo.




Sri Lanka has to focus more on the impacts of climate change in regard to the above mentioned gaps. However, in order to make an adaptation process effective, reforms are needed in inter-sectoral policy coordination and institutional mechanisms. The focal point for climate change in Sri Lanka is the Climate Change Secretariat (CCS), which comes under the purview of the ministry dealing with the subject of environment. While the CCS undertakes the central role, other ministries and line agencies too have to be coordinated effectively in order to mainstream climate change into the development process.

# 12.3 Present Environmental Management System and Gaps

## 12.3.1 Issues in Environmental Governance

At policy level, the subjects of natural environment and resources are being handled by a specific ministry in the country's administrative structure, as in many other countries. The ministry is expected to provide leadership to manage the country's environment and natural resources in line with sustainable development initiatives. In order to achieve this, it is very important that the ministry and its implementing agencies have a common policy direction.

In the case of Sri Lanka, there have been ad hoc changes in the implementing agencies under subject ministry. Accordingly, the name of the ministry has undergone significant changes during Cabinet reshuffles (Table 12.2). Agencies which are not directly dealing with environment and natural resource issues have also been included under the purview of the ministry. For instance, the Department of Railways and several agencies dealing with transport were placed under one ministry along with the environmental agencies during 1994-97.

The agencies which are directly dealing with the environment subject such as the Forest Department (FD), CEA, State Timber Corporation (STC), Geological Survey and Mines Bureau (GSMB) and Marine Environment Protection Authority (MEPA) have been continuously listed under the ministry dealing with the environment subject. However, the Department of Wildlife Conservation (DWC), which owns and manages a significant portion of forests in the country (accounting for nearly 12 per cent of the total land area) is frequently placed under ministries which are not primarily dealing with conservation. There have been periods where the DWC was under the ministry dealing with agrarian services; during 2010-12, the DWC functioned under the Ministry of Economic Development; and currently, it is under the Ministry of Tourism and Sports.

The income generated by the wildlife parks owned and managed by the DWC is showing a significant increase, mainly after the end of the North/East conflict in 2009.[18] However, there are many concerns relating to the sustainability of wildlife parks as certain parks are being over-visited during some parts of the year, and it creates direct adverse impacts on wildlife. However, the ministries dealing with tourism or agrarian services do not have the capacity to address such issues which are related to natural resource management.

[18] SLTDA, "Annual Statistical Report 2013", Sri Lanka Tourism Development Authority, Colombo.

**Table 12.2**
**Changes in the Ministry Dealing with Environment Subject (1994-2015)**

| Period | Name of the Ministry | Environment Subject Related Agencies under the Ministry | Other Agencies under the Ministry |
|---|---|---|---|
| 1994-1997 | Ministry of Transport Environment and Women's Affairs | CEA | Department of Railways, Sri Lanka Central Transport Board, Department of Motor Traffic, National Transport Commission, Transport Studies and Planning Centre, Women's Affair Division |
| 1998-2000 | Ministry of Forestry and Environment | CEA, FD, STC | Department of National Zoological Garden |
| 2001- | Ministry of Forestry and Environment | CEA, FD, DWC, STC, GSMB, WT | Department of National Zoological Garden |
| 2003 | Ministry of Environment and Natural Resources | CEA, FD, DWC, STC, GSMB, WT | Department of National Zoological Garden |
| 2004-2005 | Ministry of Environment and Natural Resources | CEA, FD, DWC, STC, MEPA, GSMB, WT | Department of National Zoological Garden,Department of Meteorology |
| 2006 | Ministry of Agriculture, Irrigation and Mahaweli Development | CEA, FD, DWC, STC, MEPA, GSMB | |
| 2007 | Ministry of Environment and Natural Resources | CEA, FD, DWC, STC, MEPA, GSMB | |
| 2008-2009 | Ministry of Environment and Natural Resources | CEA, FD, DWC, STC, MEPA, GSMB, WT | |
| 2009 | Ministry of Environment | CEA, FD, DWC, STC, MEPA, GSMB, WT | |
| 2010-2012 | Ministry of Environment | CEA, FD, STC, MEPA, GSMB | National Gem and Jewellery Research and Training Institute, National Gem and Jewellery Authority |
| 2012-2013 | Ministry of Environment | CEA, FD, STC, MEPA, GSMB | National Gem and Jewellery Research and Training Institute, National Gem and Jewellery Authority Sustainable Energy Authority |
| 2013-2015 | Ministry of Environment and Renewable Resources | CEA, FD, STC, MEPA, GSMB | National Gem and Jewellery Research and Training Institute National Gem and Jewellery Authority Central Engineering Consultancy Bureau |
| 2015-todate | Ministry of Mahaweli Development | CEA, FD, STC, MEPA, GSMB | National Gem and and Environment Jewellery Research and Training Institute National Gem and Jewellery Authority Central Engineering Consultancy Bureau |

Notes: CEA (Central Environment Authority), FD (Forest Department), STC (State Timber Corporation), DWC (Department of Wildlife Conservation), GSMB (Geological Survey and Mines Bureau), WT (Wildlife Trust), MEPA (Marine Environment Protection Authority).

With these types of frequent and ad hoc changes in administrative structures of the ministry and agencies dealing with the environment subject, the intended 'sustainability' objectives are difficult to achieve. The ministry is expected to provide overall policy direction to its agencies, but when the policy direction of the main ministry is not centred on natural resource management, it creates confusing policy signals and undermines sustainability as a core focus of development policy.

In addition, when the implementing agencies of a ministry change, it leads to a number of inefficiencies due to logistical issues. The personnel allocated to address certain subject areas under the overall environment subject also tend to be underutilized. The situation is further worsened when the agencies which are not directly dealing with the environment subject are listed under the environment related ministry.

Apart from the above mentioned agencies, there are other ministries and implementing agencies which are dealing with environment and natural resource issues. Water resources in the country are managed by a number of agencies, such as the Water Resource Board, Irrigation Department, Mahaweli Authority, etc. Coastal resource management is undertaken by the Coast Conservation Department. Fishery resources are managed by the Ministry of Fisheries and Aquatic Resources and its line agencies. Most of such agencies have a development mandate primarily, though conservation aspects are also included.

## 12.3.2 Gaps in Environmental Planning

Proper environmental planning is essential in making decisions in regard to planning development activities and prioritizing them, with due consideration to the natural environment. In practice, environment planning has to incorporate all the elements which deal with development and natural

**With frequent and ad hoc changes in administrative structures of the ministry and agencies dealing with the environment subject, the intended 'sustainability' objectives are difficult to achieve.**

environment, such as land use, infrastructure development, regional development, urban planning, etc. It should take place at all levels in the decision making process - national, regional, programme or project levels.

***National and regional planning:*** At national and regional levels, environmental planning is based on the National Physical Plan (NPP) for 2011- 2030, which was approved by the National Physical Planning Council in July 2007, as per the Town and Country Planning (Amendment) Act No 49 of 2000. The project proposals in relation to the plan were approved in January 2011. The plan was prepared with the objective of promoting and regulating the integrated planning of economic, social, physical and environment aspects of land in Sri Lanka, and thereby to promote economic growth. It also aims to

bring the government, stakeholders and the community together to discuss, review and make decisions to guide the future of Sri Lanka's economy, environment and communities.

A NPP is an important strategic document for any country. It is of high importance to guide development in an environmentally and socially sustainable manner. The plan should provide guidelines for utilizing the natural resource sustainability while optimizing economic gains. However, there are several issues in the current NPP which limits its effective implementation in development planning. According to the NPP, the central hills and the coastal belt is identified as the key fragile areas of the country. It identifies that the population density of the identified fragile areas are higher than that in the rest of the country. Thus, the NPP identifies the movement of population from the fragile areas to metro regions as a national priority. Several metro regions are proposed to be developed namely, Western Metro Region, Southern Metro Region, Eastern Metro Region, North Central Metro Region and Northern Metro Region.

One of the most observable facts in regard to the NPP is that areas identified for development activities are covered by natural forests. Thus, forest areas are allocated for other economic uses such as rural settlements, agriculture, metro regions, etc. This calls for careful examination and appropriate revisions in the plan, so that the natural resource capital of the country is kept intact. Additionally, it is questionable if the development projects proposed in the NPP have been undertaken with adequate feasibility assessments.

***Project level planning:*** At present, Sri Lanka uses Environmental Impact Assessment (EIA) as a tool at the initial stage to identify possible effects of projects on the environment. The EIA process was first introduced to Sri Lanka in 1981 and it became a mandatory requirement by law in 1993; it is a mandatory requirement as per the National Environment Act No. 47 of 1980 amended by Acts No. 56 of 1988 and No. 53 of 2000. In addition, the EIA provisions are also included in the Coast Conservation (Amendment) Act No. 57 of 1981 and the EIA in the Fauna and Flora (Amended) Act No. 49 of 1993. There are around 23 government agencies which can act as the project approving agencies for EIA depending on the subject area, and they are responsible for administering the EIA process for a project.

According to the National Environment Act, only large scale development projects which are likely to have significant negative impacts on the natural environment are subjected to EIA. When it is considered that the environmental impacts of a project are not significant, only an Initial Environmental Examination (IEE) is required to be carried out. In addition, projects located in environmentally sensitive areas are required to go through the EIA. According to the Fauna and Flora Act, any development activity which takes place within a mile from the boundary of any National Reserve should undergo an EIA process.

There are several drawbacks in using the EIA as the only tool to integrate environmental aspects into development planning. First, the EIAs take into consideration only project-based environmental impacts and they do not consider the cumulative impacts of development projects. However, at policy and programme planning level, strategic decisions ought to be taken considering the entire impacts of development projects and not necessarily considering an individual project impacts on the environment. Project level environmental assessments limit the space for coordinated action among the government agencies. Thus, current mechanisms constrain effective decision making. The need is for a more holistic approach which looks at the cumulative impacts of development projects.

It is argued that rapid industrialization with lack of monitoring, insufficient technically skilled personnel

and lack of baseline information for evaluation are factors that restrict sustainable implementation of environmental assessments in Sri Lanka.[19] Also, studies document gaps in relation to the present EIA process itself. For instance, the EIA which was carried out for the Southern Transport Development Project in Sri Lanka was highly criticized for its lack of consideration of environmental issues.[20] Major environmental concerns such as the impact on the river basins and wetlands were largely ignored. Lack of transparency and inadequate involvement with the affected local communities were also issues in this context.

Key local level issues such as implications on biodiversity, ecosystem services which have significant social implications are under-represented in EIAs. Also, the assessments of ecological impacts of development projects have not been done up to the required details. Accordingly, it seems that the present EIA system does not provide necessary information for relevant stakeholders, including policy makers.[21]

## 12.3.3 Weaknesses in Current Approach of Environmental Management

Though Sri Lanka adopted open market economic reforms in the late 1970s, it is important to note that the approach for environmental management in the country is largely based on a command and control method.[22] Enough evidence exists to support market-based mechanisms, rather than command and control methods as effective pollution mitigating tools. Market-oriented mechanisms refer to economic instruments such as taxes, permits and emission charges, which create incentives for polluters to reduce pollution rather than paying penalties.[23]

Pollution control is mandated by the National Environment Act and the regulatory powers are vested with the CEA. Only a few significant interventions exist to control pollution and Sri Lanka's pollution control mechanisms lack market-based instruments (MBIs). For example, if a firm pollutes an open water source by its effluents, the CEA can charge it under existing laws that can lead to a cancellation of the firm's Environmental Protection License (EPL) and halt further business. Such command and control approaches encourage rent seeking behaviour. There are other rules and regulation in place to control pollution in Sri Lanka; public littering is prohibited and it is a punishable offence; open dumping of MSW can only happen at an identified place by the local government; at every registration, it is mandatory for motor vehicles to pass an emission test. All these mechanisms are command and control methods.

Sri Lanka introduced a load based licence fee scheme in 2000. It was initially introduced to high polluting industries with the aim of expanding towards moderate and low polluters as well. Market-based instruments (MBIs) like this are common in countries such as Thailand, the Philippines and Malaysia. They are effective in reducing pollution levels while promoting environmental-friendly technologies in managing industrial waste.

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[19] Mackee, J., *et al.*, (2001), "Environmental Assessment in Sri Lanka: Its Status and the Potential for the Introduction of Strategic Environmental Assessment", *Journal of Environmental Assessment Policy and Management,* 3(02):209-240.

[20] ADB (2009), "Southern Transport Development Project Sri Lanka" in *ADB and the Environment, A Monitoring Framework for ADB's Environment Policy based on Four Case Studies*, http://www.forum-adb.org/docs/ADB-and-the-Environment-case1.pdf [accessed 25 April 2015].

[21] Samarakoon, M., and J.S. Rowan (2008), "A Critical Review of Environmental Impact Statements in Sri Lanka with Particular Reference to Ecological Impact Assessment", *Environmental Management,* 41(3).

[22] Wilson, C., *et al.*, (2010), "Why do Policy Decision-makers Opt for Command and Control Environmental Regulation? An Economic Analysis with Special Reference to Sri Lanka", School of Economics and Finance Discussion Papers and Working Papers Series 259, Queensland University of Technology, Australia.

[23] Edirisinghe, J., *et al.*, (2008), "Taxing the Pollution: A Case for Reducing the Environmental Impacts of Rubber Production in Sri Lanka", South Asian Network for Development and Environmental Economics, Nepal.

# 12.4 Proposed Environmental Reforms

Given the negative economic, social and environmental impacts highlighted above, it is timely for Sri Lanka to adopt suitable reforms to address gaps and deficiencies in its management of the environment and natural resources. Reforms can include changes in policies, regulations, and institutional frameworks. These are discussed below.

## 12.4.1 Reforming Environmental Governance

In the case of Sri Lanka, due to existing weaknesses in the governance mechanism of the environment sector, it has to undergo system-wide changes. The reforms should ensure that the basic components of environmental governance that leads to sustainable development are in place. There are mainly seven principles of effective environmental governance and they are:[24]

- Environmental laws should be clear, even-handed, implementable and enforceable,
- Environmental information should be shared with the public,
- Affected stakeholders should be afforded opportunities to participate in environmental decision-making,
- Environmental decision-makers, both public and private, should be accountable for their decisions,
- Roles and lines of authority for environmental protection should be clear, coordinated, and designed to produce efficient and non-duplicative programme delivery,
- Affected stakeholders should have access to fair and responsive dispute resolution procedures,
- Graft and corruption in environmental programme delivery can obstruct environmental protection and mask results and must be actively prevented.

In order to achieve effective environmental governance, reforms are required in the institutional structure and the policy structure of the country. In terms of institutional changes, it is a must that the ministry dealing with the environment subject and relevant implementing agencies are assigned a single policy direction, by bringing all the agencies with a conservation mandate under the ministry. Ad hoc shuffling of implementing agencies and attaching non-relevant subjects to the ministry handling the environment subject should be avoided. The role of the ministry as the main government entity to ensure sustainable development should be given due prominence in the overall governance structure of the country.

The institutional reform measures should also take into consideration the need for creating inter-agency linkages with the agencies under the mandate of natural resources and environmental management. Both the agencies with a conservation mandate, listed under the ministry dealing with environment subject and other ministries and agencies which deal with environment and natural resource management should have effective coordination. The coordination is also required for agencies under environment vis-à-vis other economic sectors.

In terms of policy reforms, attention must be given to eliminating the contradictory policies with regard to environmental conservation and economic development. For instance, though the overall policy thrust is to promote forest-based ecotourism in Sri Lanka, there are policy and legal barriers in forest and wildlife policies for effective implementation of ecotourism principles.[25] All the policies and Acts related to environment and natural resource

[24] Benjamin A.H., and S. Fulton (2011), "Effective National Environmental Governance – A Key to Sustainable Development", United Nations Environmental Programme (UNEP).

[25] Wickramasinghe, K., (2009), "Ecotourism for Sustainable Forest Management in Sri Lanka", Environmental Economic Policy Series No. 12, Institute of Policy Studies of Sri Lanka, Colombo.

management should be reviewed carefully and revised to eliminate contradictions and gaps. Ultimately, reforms should make sure that policy and the legal framework for environmental and natural resource management are clear and consistent.

Both institutional and policy gaps can be addressed via an inter-ministerial coordination committee at the policy making level. There has to be a change in the current approaches to minimize such conflicts and thereby move towards environmental conservation and gaining economic benefits through natural resources. Mainstreaming climate change into Sri Lanka's development process is a must in adapting to the impacts of global climate change. As impacts are felt across all economic sectors, system-wide changes are required to incorporate climate change adaptation into all policies, plans, programmes, projects, etc., in appropriate manner. Facilitation of climate change adaptation can be listed as another important role of an inter-ministerial committee for ensuring sustainable development.

The existing issues in the environment sector with regard to development activities show that there is lack of awareness among important stakeholders such as the public and more specifically local communities. Development activities which have implications on the natural environment should necessarily consider the involvement of affected groups from the design stage and create a proper dialogue in order to reduce possible economic and social issues. Unfortunately there is no forum at present for relevant stakeholders to meet and discuss environmental issues in Sri Lanka. Also, increased community participation in management of natural resources such as forests can bring in sustainable outcomes. Thus, establishment of transparency in terms of environmental planning and management should be an important component of the reform process.

## 12.4.2 Enhancing Environmental Planning

It is a commendable move that the National Physical Planning Department is in the process of integrating climate change and disaster risk reduction aspects into the NPP. Given the increased frequency and severity of natural disasters and more visible signs of global climate change, this is an important step forward. However, incorporation of climate change adaptation into national physical planning should acknowledge that there are significant information gaps and research needs in relation to climate change vulnerabilities in various sectors. The NPP has to be flexible enough to incorporate such findings in the future. Similar to many other national plans, the NPP should not exist in isolation of other strategic plans in different sectors. Revisions and further improvements in the NPP is a prioritized need. Meaningful coordination of relevant stakeholders is a must in this regard. It also calls for synergy among other policy plans at sectoral level.

Strategic Environmental Assessment (SEA) can be viewed as an important tool for integrating environmental aspects into development activities. There is no exact definition for the SEA, though it is being increasingly adopted by many developed and certain developing countries in the world. There are several definitions proposed by various agencies. According to OECD, an SEA refers to a range of analytical and participatory approaches that aim to integrate environmental considerations into policies, plans and programmes and evaluate the inter-linkages with economic and social considerations.[26] It is a complementary tool for EIA. The SEA is a broader concept than the EIA - which is for a particular project - and helps in decision making in regard to government policies, plans and programmes.

[26] OECD (2006), "Applying Strategic Environmental Assessment: Good Practice Guidance For Development Co-Operation", DAC Guidelines and Reference Series, OECD Publishing.

The SEA is meant for proactive decision making in regard to the most appropriate development interventions for a given geographical area. However, as opposed to the EIA, it does not need to end at the initial phase in getting legal clearance for the project. Instead, it can be used to evaluate and modify policies during and after the process. Though it implies integration of environmental concerns into development planning, social aspects in regard to planning are also usually incorporated. The SEAs do not necessarily take a 'one-size-fits-all' approach for different contexts. There is no uniform approach which is universal in regard to SEAs. The SEA for a given context has to be developed based on specific conditions.

There have been many discussions in regard to weaknesses of the EIA process and the potential benefits of SEA; it has not been a mandatory requirement in the case of Sri Lanka. In 2006, the Cabinet of Ministers approved implementation of SEA for policies, programmes and plans in Sri Lanka. The memorandum that was submitted by the CEA through the Ministry of Environment and Natural Resources recommends that in the future, all policies, plans and programmes should be subjected to a SEA during their development.[27] There have been three pilot scale SEA studies carried out since then, namely the Trincomalee Metro Area Development Plan (2008), Hambantota Development Plan (2010) and Northern Province Regional Development Plan (2011). There is an important need to make SEA a mandatory requirement in development planning, with required legal provisions in place. This has to be coupled with capacity building and proper awareness creation among the stakeholders.

## 12.4.3 Introduction of Market-based Instruments

MBIs are based on creating an explicit or implicit price on emissions, and generate financial incentives for controlling environment pollution. Market signals are a key element in implementing MBIs. These are also called economic incentives (IEs) and include pollution charges or levies, taxes, subsidies, and tradable permits. MBIs have the potential to allow a recommended level of environmental pollution while compensating the affected groups at the social cost of environmental cleaning. MBIs can be either direct or indirect. Direct instruments require the regulator to monitor emissions. The most used direct instruments are emission fees and tradable permits. Taxes and subsidies are the main indirect MBIs.

Under an emission fee system, the regulatory authority charges the polluting entity once the effluent discharge passes set standards. In a tradable permit system, once the overall level of pollution is established, the level of allowable pollution is allocated among firms in terms of a permit. If a firm is polluting below its allowable limit, under the permit, it is possible to trade the rest of the permit to another entity.

Taxes are common in controlling air pollution. For example, a tax system to encourage low emission vehicles can reduce the level of air pollution and encourage more usage of such vehicles in the country. At the same time, tax systems are important in reducing the flow of goods into the country. An effective tax scheme is capable of reducing the importation of second hand electronic and electrical items, limiting the amount of electronic waste being generated. One example of a possible subsidy intervention is to provide loan facilities or grants for entrepreneurs to collect electronic waste and handle disposal. Under a sufficient subsidy scheme, electronic waste can be bought for a nominal price from the consumers where waste collectors are paid for their services and consumers get a price for their waste, encouraging more environmentally-friendly electronic waste disposal. Another popular subsidy scheme is the deposit-refund system. In such a

[27] CEA (n.d.), "A Simple Guide to Strategic Environmental Assessment (SEA)", Central Environment Authority, Colombo.

## Box 12.1
## Deposit Refund Systems in Sri Lanka

Deposit refund systems are a famous MBI tool that most countries use to minimize the consumption of potentially harmful products. This is done at the point of sale, and the consumer can claim the refund at the end of the useful life of the product by returning it to the sales point. Deposit refund system is a preventive mechanism, the charge or the deposit is paid in advance before the pollution occurs. Hence, it rewards the good environmental practices rather than penalizing the bad. The revenue collected from such a system can be applied to recycling efforts. Sri Lanka in 2011, attempted to implement the deposit refund system to the use of pesticide containers. However, it has not yet been finalized as the proposal for implementation of the scheme is awaiting Cabinet approval.

system, a deposit is taken by the regulators when the items are sold to the consumer and it will be returned after use (Box 12.1). This sort of system is also ideal in controlling electronic waste with LED batteries and CFL bulbs.

Emission fee systems are ideal in controlling pollution through industrial waste disposal. Industries are known to dispose their effluent to nearby streams, ultimately damaging the ecosystems, downstream water quality and even ground water. Once emission fee systems are established, the monitoring agencies can be vigilant about the levels of emissions and charge them accordingly. However, the major drawback in such a system is that the regulatory authorities are responsible for monitoring, where a possibility of bribes and cost of monitoring and technical support can cripple such a system easily. A tradable permit system is also ideal for controlling industrial and hazardous waste, especially for an industrial zone. Since there are many industries in a zone, where firms are polluting at different levels, a tradable permit system will ensure that pollution is controlled by the pricing of permits. There are enough examples from developing countries around the world regarding implementation of MBIs for controlling environmental pollution (Box 12.2).

## Box 12.2
## Market Based Instruments (MBI) in Developing Countries

Malaysia stands as one of the first countries to implement effluent charges. In 1978, Malaysia introduced effluent fees, paired with licensing in order to control pollution from the palm oil industry. In 1997, the Philippines implemented environmental fees for wastewater discharge from industrial sources. Colombia introduced a pilot programme of water effluent charges. This is after experiencing no success in pollution control with command and control regulations. Ecuador implemented a water effluent charge system in the municipality of Quito. Here, the enterprises discharging above national standards for organic content and Total Soluble Solids (TSS) pay a per-unit charge equal to the cost incurred by the municipality. Also, the provision of subsidies and tax relief for the mining sector mercury recovery investments is a priority for the Ecuadorian authorities. Brazil and Colombia extended subsidies in the clean technology area. Important aspects of the programme were industrial pollution abatement investments, as well as income tax and value-added tax rebates for clean technology adoption. Furthermore, Jamaica offers tax and tariff relief for pollution abatement investments, while Mexico offers subsidies for industrial pollution abatement investments. This is administered by exempting a set of pollution control equipment from import taxation. In addition, for industrial abatement investments, the Venezuelan authorities provide tax and tariff relief.

**Three key requirements for implementation of MBIs are setting up rules, monitoring performance, and enforcing compliance.**

However, the implementations of MBIs are heavily dependent upon the regulatory and enforcement mechanisms, and the strength of the institutions. Three key requirements for this are setting up rules, monitoring performance, and enforcing compliance. It is important that as a first step, Sri Lanka recognizes environment and development as complementary rather than substitutes. Once this is accepted, the problems of weak regulatory institutions, understaffing and lack of resources can be better addressed.

## 12.5 Conclusion

Ad hoc policy interventions do not lead policy makers to find lasting solutions to existing and emerging environmental threats in Sri Lanka. Most of the environmental issues arise due to lack of consideration in making system-wide changes, such as in governance structure, environment planning and monitoring, and approach to environmental management. As Sri Lanka gears to revisit its development framework and relevant economic reforms, it is timely to mainstream environment sector reforms to ensure sustainable growth in the long-term.

As previously discussed, three types of reforms in the environment sector in Sri Lanka can be identified. First, there should be changes in the environment governance structure, where environmental sustainability is given due recognition in policy planning and implementation. This has to be supported with enhancing inter-agency linkages, policy coordination and meaningful stakeholder participation. Mainstreaming climate change into development planning becomes an important need in this regard. Secondly, changes should be made in the current method of environmental planning by addressing gaps in the NPP and making SEAs mandatory for the relevant development interventions. Thirdly, weaknesses in the current command and control based environmental management system can be avoided by introducing appropriate MBIs to manage not only existing environment problems, but also those that can arise due to the growth process.

**Ad hoc policy interventions are not sufficient to find lasting solutions to existing and emerging environmental threats in Sri Lanka.**

# APPENDICES

# Appendix A: Macroeconomic Indicators (Statistical Base)

## Table A1: Socio-Economic Indicators

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **1.** | **Basic indicator** | **Unit** | | | | | |
| | Area: | Sq. km. | 65,610 | | | | |
| | Mid year population (2014) | ('000) | 20,675 | | | | |
| | Population growth rate (2014) | % | n. a. | | | | |
| | Life expectancy at birth (2013) | Years | 74.3 | | | | |
| | Infant mortality rate (2010) | Per 1000 live births | 9.9 | | | | |
| | Gross school enrolment ratio (2005)(a) | % | 62.7 | | | | |
| | Adult literacy rate (2013) | % | 92.5 | | | | |
| | Human development index (HDI) (2013) | Value | 0.75 | | | | |
| | Human poverty index (HPI) (2005) | Value | 17.8 | | | | |
| **2.** | **Output, labour force and employment** | | **2010** | **2011** | **2012** | **2013** | **2014(e)** |
| | GNP at current market prices | Rs. bn. | 5,534.0 | 6,471.0 | 7,424.0 | 8,448.0 | 9,545.0 |
| | GDP at current market prices | Rs. bn. | 5,604.0 | 6,543.0 | 7,579.0 | 8,674.0 | 9,785.0 |
| | GDP per capita at current market prices | US$ | 2,397.0 | 2,836.0 | 2,922.0 | 3,280.0 | 3,625.0 |
| | Labour force (p) | Mn. | 8.1 (h) | 8.6 (l) | 8.5 (l) | 8.8 (l) | 8.8 (l) |
| | Labour force participation | % | 48.1 (h) | 47.8 (l) | 52.6 (l) | 53.8 (l) | 53.3 (l) |
| | Unemployment | % | 4.9 (h) | 4.2 (l) | 4.0 (l) | 4.4 (l) | 4.3 (l) |
| **3.** | **Real output growth** | | | | | | |
| | GDP (g) | % | 8.0 | 8.2 | 6.3 | 7.2 | 7.4 |
| | Agriculture, forestry, and fishing | % | 7.0 | 1.4 | 5.2 | 4.7 | 0.3 |
| | Mining and quarrying | % | 15.5 | 18.5 | 18.9 | 11.5 | 11.0 |
| | Manufacturing | % | 7.3 | 7.9 | 5.2 | 7.5 | 8.0 |
| | Construction | % | 9.3 | 14.2 | 21.6 | 14.4 | 20.2 |
| | Services | % | 8.0 | 8.6 | 4.6 | 6.4 | 6.5 |
| **4.** | **Prices & wages** | | | | | | |
| | CCPI (2002 = 100) - annual average | % change | 5.9 | - | - | - | - |
| | CCPI (2006/07 = 100) - annual average (n) | % change | 6.2 | 6.7 | 7.6 | 6.9 | 3.3 |
| | WPI - annual average | % change | 11.2 | 10.6 | 3.5 | 9.2 | 3.2 |
| | Implicit GNP deflator (g) | % change | 7.3 | 7.9 | 8.9 | 6.7 | 5.1 |
| | Real wage rates (q) | | | | | | |
| | Workers in wages boards trades | % change | 24.3 | -2.0 | 13.8 | -1.2 | 0.4 |
| | Government employees | % change | -2.7 | -0.1 | -3.7 | -0.6 | 7.0 |
| **5.** | **Consumption, investment, and savings (g)** | | | | | | |
| | Consumption | % of GDP | 80.7 | 84.6 | 83.1 | 80.0 | 78.9 |
| | Gross domestic capital formation | % of GDP | 27.6 | 29.9 | 30.6 | 29.5 | 29.7 |
| | Gross domestic savings | % of GDP | 19.3 | 15.4 | 16.9 | 20.0 | 21.1 |
| | Gross national savings | % of GDP | 25.4 | 22.1 | 24.0 | 25.8 | 27.0 |
| | Net Imports of Goods and Services | % of GDP | 8.3 | 14.6 | 13.7 | 9.5 | 8.5 |
| **6.** | **Government finance (g)** | | | | | | |
| | Revenue | % of GDP | 14.6 | 14.8 | 13.9 | 13.1 | 12.2 |
| | Expenditure & net lending | % of GDP | 22.9 | 21.9 | 20.5 | 19.2 | 18.3 |
| | Current expenditure | % of GDP | 16.7 | 15.7 | 14.9 | 13.9 | 13.5 |
| | Capital expenditure & net lending | % of GDP | 6.1 | 6.2 | 5.6 | 5.4 | 4.8 |
| | Current a/c balance | % of GDP | -2.1 | -0.9 | -1.0 | -0.8 | -1.3 |
| | Budget deficit | | | | | | |
| | Primary deficit | % of GDP | -1.7 | -1.4 | -1.1 | -0.8 | -1.6 |
| | Overall deficit (before grants) | % of GDP | -8.0 | -6.9 | -6.5 | -5.9 | -6.0 |
| | Public debt | | | | | | |
| | External | % of GDP | 36.1 | 35.6 | 36.5 | 34.1 | 31.8 |
| | Domestic | % of GDP | 45.8 | 42.9 | 42.7 | 44.2 | 43.7 |

| | Unit | 2010 | 2011 | 2012 | 2013 | 2014(e) |
|---|---|---|---|---|---|---|
| **7. External trade** | | | | | | |
| Terms of trade | % change | 27.4 (j) | -8.9 (j) | -1.5(j) | 4.6(j) | 4.3(j) |
| Import price index | % change | 10.2 (j) | 22.0 (j) | -5.8(j) | -4.7(j) | -1.5(j) |
| Export price index | % change | 40.4 (j) | 11.1 (j) | -7.3(j) | -0.3(j) | 2.7(j) |
| Import volume index | % change | 19.6 (j) | 23.6 (j) | 0.5 (j) | -1.5(j) | 9.5(j) |
| Export volume index | % change | -13.3 (j) | 10.2 (j) | -0.2 (j) | 6.7(j) | 4.3(j) |
| **8. External finance (g)** | | | | | | |
| Trade balance | % of GDP | -9.7 | -16.4 | -15.8 | -11.3 | -11.1 |
| Current account balance | % of GDP | -2.2 | -7.8 | -6.6 | -3.8 | -2.7 |
| Capital & financial account balance | % of GDP | 5.7 | 7.0 | 7.2 | 4.6 | 2.7 |
| Foreign direct investments | % of GDP | 0.9 | 1.5 | 1.5 | 1.3 | 1.2 |
| Foreign portfolio investments | % of GDP | -0.5 | -0.3 | 0.5 | 0.3 | 0.2 |
| Import capacity | months of imports (d) | 7.7 | 4.7 | 5.4 | 5.7 | 6.1 |
| External debt | % of GDP | 50.1 | 55.3 | 62.5 | 59.4 | 57.4 |
| Debt-service ratio (m) | % of exports | 16.7 | 12.7 | 19.7 | 23.5 | 20.2 |
| **9. Exchange rates (year end)** | | | | | | |
| U.S.A. | Rs./US$ | 111.0 | 113.9 | 127.2 | 130.8 | 131.0 |
| U.K. | Rs./UK Pound | 171.4 | 175.4 | 205.5 | 215.6 | 204.0 |
| Japan | Rs./Yen | 1.4 | 1.5 | 1.5 | 1.2 | 1.1 |
| European Union | Rs./Euro | 147.6 | 147.4 | 168.1 | 180.5 | 159.4 |
| India | Rs./Rs. Indian | 2.5 | 2.2 | 2.3 | 2.1 | 2.1 |
| SDR | Rs./SDR | 170.8 | 174.9 | 195.3 | 201.4 | 189.9 |
| **10. Money supply** | | | | | | |
| Narrow money supply (M1) | % change | 20.9 | 7.7 | 2.6 | 7.7 | 26.3 |
| Broad money supply (M2) | % change | 15.8 | 19.1 | 17.6 | 16.7 | 13.4 |
| Domestic credit | % change | 18.6 | 34.3 | 21.7 | 13.7 | 10.5 |
| External banking assets | % change | -6.1 | -74.0 | -126.3 | -195.5 | 119.8 |
| **11. Interest rates** | | | | | | |
| Treasury bill yield rates | | | | | | |
| 3 month | % per annum | 7.2 | 8.7 | 10.0 | 7.5 | 5.7 |
| 12 months | % per annum | 7.6 | 9.3 | 11.7 | 8.3 | 6.0 |
| Call money rates | % per annum | 8.0 | 9.0 | 9.8 | 7.7 | 6.2 |
| Average prime lending rate | % per annum | 9.3 | 10.8 | 14.4 | 10.1 | 6.3 |
| Commercial banks saving | % per annum | 9.5 | 8.5 | 10.5 | 9.1 | 8.0 |
| NSB saving | % per annum | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Commercial banks fixed deposits | % per annum | 17.0 | 11.0 | 17.0 | 16.0 | 12.0 |
| NSB fixed deposits | % per annum | 8.5 | 8.5 | 12.5 | 9.5 | 6.5 |
| **12. Share market indicators** | | | | | | |
| Annual turnover | Rs. bn. | 570.3 | 546.3 | 213.8 | 200.5 | 340.9 |
| Companies listed | No. | 242 | 272 | 287 | 289 | 294 |
| Market capitalisation | Rs. bn. | 2210.5 | 2213.9 | 2167.6 | 2459.9 | 3104.9 |
| Net purchases by non-nationals | Rs. mn. | -26335 | -19039 | 38661 | 22783 | 21217 |
| Share price indices | | | | | | |
| CSE Share | (Index, 1985 = 100) | 6,635.9 | 6,074.4 | 5,643.0 | 5,912.8 | 7,299.0 |
| CSE Sensitive(f) | (Index, 1998 Dec = 1000) | 7,061.5 | 5,229.2 | 5,119.1 | - | - |

Notes:
(a): Combined first, second, and third level gross enrolment ratio.
(b): Excluding Northern and Eastern Provinces.
(c): Average of four quarters.
(d): Months of same year imports.
(e): Provisional.
(f): The Milanka Price Index (MPI) was introduced in January 1999, (1998 December = 1000) to replace the Sensitive Price Index.
(g): From 2003, data are based on GDP estimates compiled by the Dept. of Census and Statistics.
(h): Excluding Northern Province.
(i): Excluding Mullaitivu and Killinochchi districts.
(j): From 2007 onwards, trade indices have been calculated with a wider coverage using 2010 as the base year.
(k): Estimates from 2006 onwards are based on National Accounts data of the Dept. of Census and Statistics.
(l): Data covers the entire island.
(m):The rebased CCPI (2006/07 = 100) has replaced CCPI (2002 = 100).
(n): Overall debt service ratios were reclassified to capture debt servicing"of government, short-term debt in accordance with the External Debt Statistics Manual (2003)"of the IMF."
(p): Data up to 2011 for household population aged 10 and above"while that of 2012 onwards for those aged 15 and above.
(q): Real wage rate indices are based on CCPI (2006/07 = 100).

Sources: IPS database.
Central Bank of Sri Lanka, *Annual Report,* various issues.
Colombo Stock Exchange, *Annual Report,* various issues.
UNDP, *Human Development Report,* various issues.
Dept. of Census and Statistics, *Quarterly Report of the Sri Lanka Labour Force Survey*, various issues.

## Table A2: Gross Domestic Product (GDP), Mid-year Population (POP), Per Capita GDP (PGDP), and their Growth Rates, 1992-2014

| | Constant Prices (c) | | | Growth Rates | | |
|---|---|---|---|---|---|---|
| | GDP | PGDP | POP(b) | GDP | PGDP | POP |
| | Rs. mn. | Rs.mn. | ('000) | | | |
| 1992 | 563,061.9 | 32,311.6 | 17,426 | 4.3 | 3.3 | 0.9 |
| 1993 | 602,171.5 | 34,125.1 | 17,646 | 6.9 | 5.6 | 1.3 |
| 1994 | 636,061.5 | 35,552.0 | 17,891 | 5.6 | 4.2 | 1.4 |
| 1995 | 670,742.2 | 36,984.0 | 18,136 | 5.5 | 4.0 | 1.4 |
| 1996 | 695,934.0 | 37,954.5 | 18,336 | 3.8 | 2.6 | 1.1 |
| 1997 | 739,763.0 | 39,840.7 | 18,568 | 6.3 | 5.0 | 1.3 |
| 1998 | 774,796.0 | 41,247.7 | 18,784 | 4.7 | 3.5 | 1.2 |
| 1999 | 808,340.0 | 42,419.2 | 19,056 | 4.3 | 2.8 | 1.4 |
| 2000 | 857,035.0 | 44,866.2 | 19,102 | 6.0 | 5.8 | 0.2 |
| 2001 | 843,794.0 | 44,889.8 | 18,797 | -1.5 | 0.1 | 1.6 |
| 2002 | 877,284.0 | 46,365.6 | 18,921 | 4.0 | 3.3 | 0.7 |
| 2003(d) | 1,733,222.0 | 90,399.1 | 19,173 | 5.9 | 4.6 | 1.3 |
| 2004 | 1,827,597.0 | 94,036.4 | 19,435 | 5.4 | 4.0 | 1.4 |
| 2005 | 1,941,671.0 | 98,843.0 | 19,644 | 6.2 | 5.1 | 1.1 |
| 2006 | 2,090,548.0 | 105,274.9 | 19,858 | 7.7 | 6.5 | 1.1 |
| 2007 | 2,232,656.0 | 111,415.5 | 20,039 | 6.8 | 5.8 | 1.2 |
| 2008 | 2,365,501.0 | 116,837.9 | 20,246 | 6.0 | 4.9 | 1.1 |
| 2009 | 2,449,214.0 | 119,613.9 | 20,476 | 3.5 | 2.4 | 1.1 |
| 2010 | 2,645,542.0 | 127,958.5 | 20,675 | 8.0 | 7.0 | 1.0 |
| 2011 | 2,863,691.0 | 137,222.2 | 20,869 | 8.2 | 7.2 | 1.0 |
| 2012 | 3,045,288.0 | 149,807.6 | 20,328 | 6.3 | 9.2 | 0.9 |
| 2013 | 3,266,041.0 | 159,451.3 | 20,483 | 7.2 | 6.4 | 0.8 |
| 2014(a) | 3,506,664.0 | 169,608.9 | 20,675 | 7.4 | 6.4 | 0.9 |

Notes: (a): Provisional.

(b): From 1997 the figures are based on "Statistics on Vital Events 2000-2010" published by Registrar General's Department in January 2011. 2001 figure is based on Census of Population and Housing-2001. From 2008 the figures are provisional.

(c): Up to 2002 data are based on 1996 prices and 2003 onwards data are based on 2002 prices.

(d): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A3: Structure and Growth of Output, 2005-2014

| | Unit | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(a) | 2005-2014 (b) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1. Structure of output** | | | | | | | | | | | | |
| Agriculture, forestry, and fishing | % of total output | 12.5 | 12.3 | 11.9 | 12.1 | 12.0 | 11.9 | 11.2 | 11.1 | 10.8 | 10.1 | 11.6 |
| Agriculture | % of total output | 11.7 | 11.3 | 10.8 | 10.9 | 10.9 | 10.7 | 9.9 | 9.7 | 9.5 | 8.8 | 10.4 |
| Tea | % of agriculture | 12.1 | 11.4 | 11.0 | 10.7 | 9.5 | 10.2 | 10.1 | 9.6 | 9.5 | 9.7 | 10.4 |
| Rubber | % of agriculture | 2.1 | 2.1 | 2.2 | 2.2 | 2.3 | 2.5 | 2.5 | 2.3 | 2.0 | 1.3 | 2.1 |
| Coconut | % of agriculture | 11.9 | 12.3 | 12.6 | 12.4 | 12.7 | 10.2 | 10.5 | 10.6 | 8.6 | 9.3 | 11.1 |
| Paddy | % of agriculture | 16.0 | 15.9 | 14.6 | 16.8 | 15.5 | 17.1 | 15.7 | 14.7 | 16.8 | 14.1 | 15.7 |
| Mining and quarrying | % of total output | 1.5 | 1.7 | 1.9 | 2.0 | 2.1 | 2.3 | 2.5 | 2.8 | 2.9 | 3.0 | 2.3 |
| Manufacturing | % of total output | 18.1 | 17.7 | 17.7 | 17.5 | 17.4 | 17.3 | 17.3 | 17.1 | 17.1 | 17.2 | 17.4 |
| Export processing | % of manufacturing | 3.9 | 3.7 | 3.6 | 3.6 | 3.5 | 3.5 | 3.2 | 3.3 | 3.1 | 3.0 | 3.4 |
| Factory industry | % of manufacturing | 89.9 | 90.0 | 90.2 | 90.2 | 90.3 | 90.5 | 90.7 | 90.7 | 91.1 | 91.5 | 90.5 |
| Small industry | % of manufacturing | 6.2 | 6.3 | 6.2 | 6.2 | 6.2 | 6.1 | 6.0 | 6.0 | 5.9 | 5.6 | 6.1 |
| Construction | % of total output | 6.2 | 6.3 | 6.4 | 6.5 | 6.6 | 6.7 | 7.1 | 8.1 | 8.7 | 9.7 | 7.2 |
| Services | % of total output | 59.4 | 59.5 | 59.6 | 59.5 | 59.3 | 59.3 | 59.5 | 58.6 | 58.1 | 57.6 | 59.0 |

| | Unit | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(a) | 2005-2014(b) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2. Real output growth** | | | | | | | | | | | | |
| Agriculture, forestry, and fishing | % growth | 1.8 | 6.3 | 3.4 | 7.5 | 3.2 | 7.0 | 1.4 | 5.2 | 4.7 | 0.3 | 4.1 |
| Agriculture | % growth | 6.9 | 3.5 | 2.3 | 7.3 | 2.8 | 6.4 | -0.2 | 4.7 | 4.5 | -0.2 | 3.8 |
| Tea | % growth | 3.0 | -2.0 | -1.8 | 4.2 | -8.4 | 13.8 | -1.2 | 0.3 | 3.4 | 1.2 | 1.2 |
| Rubber | % growth | 10.2 | 4.6 | 4.2 | 10.3 | 7.9 | 12.7 | 1.9 | -6.0 | -9.1 | -32.3 | 0.5 |
| Coconut | % growth | -2.9 | 6.4 | 5.1 | 5.2 | 5.3 | -14.3 | 3.0 | 6.0 | -16.1 | 7.9 | 0.6 |
| Paddy | % growth | 23.6 | 2.9 | -6.2 | 23.1 | -5.1 | 17.5 | -8.4 | -1.6 | 19.5 | -16.7 | 4.8 |
| Mining and quarrying | % growth | 17.8 | 24.2 | 19.2 | 12.8 | 8.2 | 15.5 | 18.5 | 18.9 | 11.5 | 11.0 | 15.8 |
| Manufacturing | % growth | 6.2 | 5.5 | 6.4 | 4.9 | 3.3 | 7.3 | 7.9 | 5.2 | 7.5 | 8.0 | 6.2 |
| Export processing | % growth | 1.4 | 0.8 | 2.4 | 5.3 | 0.7 | 5.8 | 0.9 | 6.5 | 0.6 | 4.8 | 2.9 |
| Factory industry | % growth | 6.4 | 5.7 | 6.7 | 5.0 | 3.4 | 7.5 | 8.3 | 5.2 | 7.9 | 8.5 | 6.5 |
| Small industry | % growth | 6.3 | 5.7 | 5.6 | 4.5 | 3.3 | 5.5 | 7.0 | 4.6 | 5.1 | 2.5 | 5.0 |
| Construction | % growth | 9.0 | 9.2 | 9.0 | 7.8 | 5.6 | 9.3 | 14.2 | 21.6 | 14.4 | 20.2 | 12.0 |
| Services | % growth | 6.4 | 7.7 | 7.1 | 5.6 | 3.3 | 8.0 | 8.6 | 4.6 | 6.4 | 6.5 | 6.4 |
| GDP | % growth | 6.2 | 7.7 | 6.8 | 6.0 | 3.5 | 8.0 | 8.2 | 6.3 | 7.2 | 7.4 | 6.7 |

Notes: Data are based on constant (2002) prices.
(a): Provisional.
(b): Average annual growth rate.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A4: Value Added in Industry and Industrial Production, 2002-2014

| | 2002 | 2003 (b) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 (a) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1. Value added, current prices** (Rs. mn.) | | | | | | | | | | | | | |
| Food, beverages and tobacco | 61,550 | 136,058 | 158,229 | 202,785 | 241,854 | 282,843 | 348,358 | 397,244 | 458,151 | 537,691 | 610,891 | 697,903 | 787,932 |
| Textile, wearing apparel and leather products | 77,028 | 76,511 | 85,179 | 103,198 | 113,956 | 131,522 | 147,822 | 155,409 | 172,726 | 207,578 | 239,351 | 268,430 | 315,901 |
| Wood and wood products (including furniture) | 1,736 | 1,085 | 1,121 | 1,143 | 1,245 | 1,353 | 1,447 | 1,585 | 1,786 | 2,580 | 2,908 | 3,253 | 3,764 |
| Paper and paper products | 3,124 | 1,669 | 2,079 | 2,963 | 3,998 | 4,883 | 5,798 | 6,631 | 7,653 | 8,466 | 9,372 | 10,235 | 11,972 |
| Chemicals, petroleum, coal, rubber and plastic products | 22,653 | 46,133 | 58,912 | 72,089 | 95,346 | 112,915 | 135,447 | 142,935 | 170,000 | 207,654 | 235,515 | 263,842 | 292,491 |
| Nonmetallic mineral products (except petroleum and coal) | 17,273 | 11,388 | 13,432 | 15,805 | 17,930 | 20,352 | 22,776 | 24,653 | 27,865 | 32,167 | 35,991 | 38,920 | 41,894 |
| Basic metal products | 1,306 | 970 | 998 | 1,061 | 1,292 | 1,521 | 1,638 | 1,659 | 1,826 | 2,119 | 2,399 | 3,017 | 3,395 |
| Fabricated metal products, machinery and transport equipment | 9,698 | 28,339 | 30,217 | 34,480 | 38,872 | 47,947 | 55,185 | 62,013 | 72,990 | 82,852 | 93,261 | 112,202 | 124,398 |
| Manufactured products n.e.s. | 4,695 | 1,307 | 1,350 | 1,446 | 1,879 | 2,208 | 2,508 | 2,903 | 3,410 | 3,149 | 3,546 | 4,550 | 5,180 |
| Total | 199,063 | 303,460 | 351,517 | 434,970 | 516,372 | 605,544 | 720,979 | 795,032 | 916,407 | 1,084,256 | 1,233,234 | 1,402,352 | 1,586,927 |
| **2. Composition of industrial production** (%) | | | | | | | | | | | | | |
| Food, beverages and tobacco | 30.9 | 44.8 | 45.0 | 46.6 | 46.8 | 46.7 | 48.3 | 50.0 | 50.0 | 49.6 | 49.5 | 49.8 | 49.7 |
| Textile, wearing apparel and leather products | 38.7 | 25.2 | 24.2 | 23.7 | 22.1 | 21.7 | 20.5 | 19.5 | 18.8 | 19.1 | 19.4 | 19.1 | 19.9 |
| Wood and wood products (including furniture) | 0.9 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Paper and paper products | 1.6 | 0.5 | 0.6 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 | 0.8 |
| Chemicals, petroleum, coal, rubber and plastic products | 11.4 | 15.2 | 16.8 | 16.6 | 18.5 | 18.6 | 18.8 | 18.0 | 18.6 | 19.2 | 19.1 | 18.8 | 18.4 |
| Nonmetallic mineral products (except petroleum and coal) | 8.7 | 3.8 | 3.8 | 3.6 | 3.5 | 3.4 | 3.2 | 3.1 | 3.0 | 3.0 | 2.9 | 2.8 | 2.6 |
| Basic metal products | 0.7 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Fabricated metal products, machinery and transport equipment | 4.9 | 9.3 | 8.6 | 7.9 | 7.5 | 7.9 | 7.7 | 7.8 | 8.0 | 7.6 | 7.6 | 8.0 | 7.8 |
| Manufactured products n.e.s. | 2.4 | 0.4 | 0.4 | 0.3 | 0.4 | 0.4 | 0.3 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Notes: (a): Provisional.
(b): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A5: Major Agricultural Crops, Production and Prices, 1992-2014

| | Tea | | | Rubber | | | Coconut | | Paddy | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Production | Price | | Production | Price | | Production | Price(a) | Production | Price(b) |
| | Mn. kg. | Colombo (net) Rs/kg. | Export (f.o.b.) Rs/kg. | Mn. kg. | Colombo (RSS 1) Rs/kg. | Export (f.o.b.) Rs/kg. | Mn.nut | Rs./nut | '000 Mt | Rs./bushel(c) |
| 1992 | 179.0 | 60.51 | 81.98 | 106.1 | 29.28 | 37.65 | 2,296 | 6.47 | 2,340 | 136.00 |
| 1993 | 231.9 | 68.88 | 91.16 | 104.2 | 35.48 | 44.34 | 2,164 | 6.31 | 2,570 | 155.00 |
| 1994 | 242.2 | 65.12 | 91.32 | 105.3 | 50.36 | 51.81 | 2,622 | 5.67 | 2,684 | 155.00 |
| 1995 | 245.9 | 72.21 | 102.31 | 105.7 | 72.04 | 83.69 | 2,755 | 6.08 | 2,810 | 155.00 |
| 1996 | 259.0 | 103.88 | 139.56 | 112.5 | 67.88 | 79.73 | 2,546 | 9.42 | 2,061 | 155.00 |
| 1997 | 277.4 | 119.40 | 158.39 | 105.8 | 56.71 | 75.42 | 2,631 | 9.63 | 2,239 | 155.00 |
| 1998 | 280.7 | 134.35 | 184.94 | 95.7 | 49.83 | 67.72 | 2,504 | 8.31 | 2,692 | 155.00 |
| 1999 | 284.2 | 115.31 | 162.39 | 96.6 | 45.35 | 53.73 | 2,828 | 9.95 | 2,857 | 155.00 |
| 2000 | 306.8 | 135.53 | 184.73 | 87.6 | 54.91 | 66.87 | 3,096 | 7.35 | 2,860 | 155.00 |
| 2001 | 296.3 | 143.96 | 208.89 | 86.2 | 54.77 | 66.17 | 2,796 | 7.05 | 2,695 | - |
| 2002 | 310.6 | 149.30 | 216.26 | 90.5 | 68.76 | 69.53 | 2,392 | 12.06 | 2,859 | - |
| 2003 | 304.8 | 149.05 | 221.01 | 92.0 | 93.60 | 105.25 | 2,562 | 9.98 | 3,071 | - |
| 2004 | 309.4 | 180.74 | 248.38 | 94.7 | 127.20 | 127.26 | 2,591 | 11.03 | 2,628 | - |
| 2005(d) | 317.2 | 185.84 | 263.81 | 104.4 | 140.99 | 147.98 | 2,515 | 13.04 | 3,246 | - |
| 2006 | 310.8 | 198.87 | 279.97 | 109.2 | 202.23 | 204.70 | 2,785 | 12.08 | 3,342 | - |
| 2007 | 305.2 | 279.10 | 364.28 | 117.6 | 234.22 | 234.48 | 2,869 | 16.26 | 3,131 | - |
| 2008 | 318.7 | 301.63 | 430.55 | 129.2 | 269.51 | 278.39 | 2,909 | 23.46 | 3,875 | - |
| 2009 | 291.0 | 360.80 | 470.11 | 136.9 | 211.65 | 202.30 | 2,853 | 18.23 | 3,652 | - |
| 2010 | 331.4 | 371.54 | 496.27 | 152.9 | 403.02 | 377.54 | 2,584 | 24.64 | 4,301 | - |
| 2011 | 327.5 | 360.68 | 510.41 | 158.2 | 508.80 | 535.40 | 2,808 | 39.15 | 3,894 | - |
| 2012 | 328.4 | 392.40 | 563.94 | 152.0 | 416.61 | 420.74 | 2,940 | 28.80 | 3,846 | - |
| 2013 | 340.0 | 444.42 | 623.91 | 130.4 | 376.90 | 389.91 | 2,513 | 29.36 | 4,621 | - |
| 2014(e) | 338.0 | 461.86 | 649.44 | 98.6 | 285.76 | 362.96 | 2,870 | 38.91 | 3,381 | - |

Notes: (a): Average export price of the three major coconut products only.
(b): Guaranteed price.
(c): 20.9 kg. of paddy = 1 bushel of paddy.
(d): Revised.
(e): Provisional.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A6: Labour Force Participation of the Household Population
## All Island, 2002-2014

| | Household population (10 yrs. & over) | Labour force | Labour force participation | Labour force | | | |
|---|---|---|---|---|---|---|---|
| | | | | Employed | | Unemployed | |
| | No. mn. | No. mn. | rate (%) | No. mn. | Rate | No. mn. | Rate |
| 2002 | | | | | | | |
| q1 | 14.1 | 7.3 | 51.7 | 6.7 | 91.3 | 0.6 | 8.7 |
| q2 | 14.2 | 7.0 | 49.5 | 6.3 | 90.2 | 0.7 | 9.8 |
| q3 | 14.3 | 7.0 | 49.4 | 6.4 | 90.9 | 0.6 | 9.1 |
| q4 | 14.3 | 7.2 | 50.6 | 6.7 | 92.5 | 0.5 | 7.5 |
| 2003 (a) | | | | | | | |
| q1 | 15.6 | 7.6 | 49.1 | 6.9 | 90.8 | 0.7 | 9.2 |
| q2 | 15.6 | 7.5 | 48.3 | 6.9 | 91.9 | 0.6 | 8.1 |
| q3 | 15.7 | 7.6 | 48.6 | 7.0 | 91.6 | 0.6 | 8.4 |
| q4 | 15.8 | 7.8 | 49.6 | 7.2 | 92.1 | 0.6 | 7.9 |
| 2004 | | | | | | | |
| q1 (b) | 16.3 | 8.0 | 49.0 | 7.3 | 91.9 | 0.7 | 8.1 |
| q2 (e) | 16.5 | 8.0 | 48.6 | 7.3 | 91.0 | 0.7 | 9.0 |
| q3 (e) | 16.7 | 8.0 | 47.8 | 7.3 | 91.5 | 0.7 | 8.5 |
| q4 (e) | 16.7 | 8.2 | 48.8 | 7.5 | 91.8 | 0.7 | 8.2 |
| 2005 (c) | 16.9 | 8.1 | 48.3 | 7.5 | 92.3 | 0.6 | 7.7 |
| 2006 (d) | | | | | | | |
| q1 | 14.8 | 7.6 | 51.7 | 7.1 | 92.8 | 0.5 | 7.2 |
| q2 | 14.8 | 7.5 | 51.1 | 7.1 | 93.7 | 0.5 | 6.3 |
| q3 | 15.0 | 7.6 | 50.7 | 7.1 | 93.6 | 0.5 | 6.4 |
| q4 | 15.0 | 7.6 | 51.0 | 7.1 | 93.7 | 0.5 | 6.3 |
| 2007(d) | | | | | | | |
| q1 | 15.0 | 7.5 | 49.8 | 7.0 | 93.8 | 0.5 | 6.2 |
| q2 | 15.0 | 7.4 | 49.0 | 6.9 | 93.5 | 0.5 | 6.5 |
| q3 | 15.0 | 7.5 | 50.2 | 7.1 | 94.4 | 0.4 | 5.6 |
| q4 | 15.1 | 7.6 | 50.1 | 7.2 | 94.5 | 0.4 | 5.5 |
| 2008 (a) | | | | | | | |
| q1 | 16.3 | 8.0 | 49.1 | 7.6 | 94.9 | 0.4 | 5.1 |
| q2 | 16.3 | 8.0 | 49.0 | 7.6 | 94.5 | 0.4 | 5.5 |
| q3 | 16.3 | 8.2 | 50.3 | 7.7 | 94.5 | 0.4 | 5.5 |
| q4 | 16.4 | 8.2 | 49.7 | 7.7 | 94.6 | 0.4 | 5.4 |
| 2009 (a) | | | | | | | |
| q1 | 16.6 | 8.2 | 49.2 | 7.7 | 94.5 | 0.5 | 5.5 |
| q2 | 16.5 | 8.0 | 48.3 | 7.5 | 93.8 | 0.5 | 6.2 |
| q3 | 16.7 | 8.1 | 48.7 | 7.6 | 94.1 | 0.5 | 5.9 |
| q4 | 16.6 | 8.1 | 48.5 | 7.6 | 94.3 | 0.5 | 5.7 |
| 2010 (a) | | | | | | | |
| q1 | 16.9 | 8.1 | 48.2 | 7.7 | 95.0 | 0.4 | 5.0 |
| q2 | 16.8 | 8.1 | 47.9 | 7.6 | 94.6 | 0.4 | 5.4 |
| q3 | 16.8 | 8.0 | 47.4 | 7.6 | 95.1 | 0.4 | 4.9 |
| q4 | 17.0 | 8.3 | 48.8 | 7.9 | 95.5 | 0.4 | 4.5 |
| 2011 (a) | | | | | | | |
| q1 | 16.9 | 8.1 | 48.0 | 7.8 | 95.7 | 0.3 | 4.3 |
| q2 | 17.2 | 8.3 | 48.3 | 8.0 | 95.8 | 0.4 | 4.2 |
| q3 | 17.1 | 8.3 | 48.3 | 7.9 | 96.1 | 0.3 | 3.9 |
| q4 (f) | - | - | - | - | - | - | - |
| 2012 (e) | | | | | | | |
| q1 (f) | - | - | - | - | - | - | - |
| q2 | 17.8 | 8.3 | 46.4 | 7.9 | 96.1 | 0.3 | 3.9 |
| q3 | 17.8 | 8.4 | 47.2 | 8.1 | 95.9 | 0.3 | 4.1 |
| q4 | 18.1 | 8.7 | 48.1 | 8.4 | 96.1 | 0.3 | 3.9 |
| 2013 (e)(g) | | | | | | | |
| q1 | 16.4 | 8.9 | 54.2 | 8.5 | 95.4 | 0.4 | 4.6 |
| q2 | 16.4 | 8.9 | 54.2 | 8.5 | 95.6 | 0.4 | 4.4 |
| q3 | 16.4 | 8.8 | 53.8 | 8.4 | 95.6 | 0.4 | 4.4 |
| q4 | 16.4 | 8.7 | 53.0 | 8.3 | 95.9 | 0.4 | 4.1 |
| 2014 (e)(g) | | | | | | | |
| q1 | 16.4 | 8.8 | 53.4 | 8.4 | 95.9 | 0.4 | 4.1 |
| q2 | 16.5 | 8.8 | 53.6 | 8.4 | 95.5 | 0.4 | 4.5 |
| q3 | 16.6 | 8.9 | 53.2 | 8.5 | 95.8 | 0.4 | 4.2 |
| q4 | 16.6 | 8.8 | 52.9 | 8.4 | 95.6 | 0.4 | 4.4 |

Notes: Up to 4th quarter 2002, data excludes both Northern and Eastern provinces.
(a) Including Eastern province but excluding Northern province.
(b) Excluding Vavunia,Mullaitivu ,Kilinochchi districts.
(c) Quarterly labour force survey was conducted as a one off survey in August 2005.
(d) Excluding Northern & Eastern provinces.
(e) All the districts are included.
(f) Labour Force Survey was not conducted for this quarter.
(g) All persons of age 10 years and over are considered to be in the working age (Labour Force) , before 2013. However, this was changed as age 15 and over from 2013 onward.

Source: Department of Census and Statistics, *Quarterly Report of the Sri Lanka Labour Force.*

## Table A7: Gross Domestic Fixed Capital Formation, 1992-2014

| | Private(a) | Public(b) | Private(a) | Public(b) | Private(a) | Public(b) | Private(a) | Public(b) |
|---|---|---|---|---|---|---|---|---|
| | (Rs. mn., current market prices) | | (As % of GDP) | | (At constant prices(c)(e)) | | (Growth in real terms) | |
| 1992 | 86,407 | 13,632 | 20.3 | 3.2 | 8640.7 | 1363.2 | 39.0 | -5.3 |
| 1993 | 105,305 | 20,570 | 21.1 | 4.1 | 11084.7 | 2165.3 | 28.3 | 58.8 |
| 1994 | 136,649 | 17,611 | 23.6 | 3.0 | 14693.4 | 1893.7 | 32.6 | -12.5 |
| 1995 | 147,280 | 23,595 | 22.1 | 3.5 | 17533.3 | 2808.9 | 19.3 | 48.3 |
| 1996 | 160,181 | 23,328 | 20.9 | 3.0 | 13238.1 | 1927.9 | -24.5 | -31.4 |
| 1997 | 186,950 | 29,923 | 21.0 | 3.4 | 21738.4 | 3479.4 | 64.2 | 80.5 |
| 1998 | 221,754 | 33,960 | 21.8 | 3.3 | 26399.3 | 4042.9 | 21.4 | 16.2 |
| 1999 | 266,518 | 35,210 | 24.1 | 3.2 | 60572.3 | 8002.3 | 129.4 | 97.9 |
| 2000 | 311,460 | 41,132 | 24.8 | 3.3 | 46486.6 | 6139.1 | -23.3 | -23.3 |
| 2001 | 267,298 | 42,346 | 19.0 | 3.0 | 21556.3 | 3415.0 | -53.6 | -44.4 |
| 2002 | 298,731 | 31,812 | 18.9 | 2.0 | 35563.2 | 3787.1 | 65.0 | 10.9 |
| 2003(f) | 318,909 | 46,285 | 17.5 | 2.5 | 62,531.2 | 9,075.5 | 75.8 | 139.6 |
| 2004 | 422,060 | 51,262 | 20.2 | 2.5 | 47,961.4 | 5,825.2 | -23.3 | -35.8 |
| 2005 | 478,917 | 94,347 | 19.5 | 3.8 | 46,049.7 | 9,071.8 | -4.0 | 55.7 |
| 2006 | 624,972 | 105,938 | 21.3 | 3.6 | 55,307.3 | 9,375.0 | 20.1 | 3.3 |
| 2007 | 714,084 | 170,604 | 20.0 | 4.8 | 51,006.0 | 12,186.0 | -7.8 | 30.0 |
| 2008 | 852,708 | 262,602 | 19.3 | 6.0 | 52,313.4 | 16,110.6 | 2.6 | 32.2 |
| 2009 | 838,629 | 308,811 | 17.3 | 6.4 | 142,140.5 | 52,340.8 | 171.7 | 224.9 |
| 2010 | 1,128,151 | 323,851 | 20.1 | 5.8 | 154,541.2 | 44,363.2 | 8.7 | -15.2 |
| 2011 | 1,402,217 | 370,298 | 21.4 | 5.7 | 177,495.8 | 46,873.2 | 14.9 | 5.7 |
| 2012 | 1,695,184 | 494,621 | 22.4 | 6.5 | 190,470.1 | 55,575.4 | 7.3 | 18.6 |
| 2013 | 1,946,925 | 589,723 | 22.4 | 6.8 | 290,585.8 | 88,018.4 | 52.6 | 58.4 |
| 2014(d) | 2,119,243 | 633,020 | 21.7 | 6.5 | 415,537.8 | 124,121.6 | 43.0 | 41.0 |

Notes: (a): Private sector and public corporations.
(b): Government and public enterprises.
(c): Current series deflated by GDP deflator.
(d): Provisional.
(e): Up to 1995 data are based on 1982 prices. From 1996-2002 data are based on 1996 prices. 2003 onwards data are based on 2002 prices.
(f): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A8: Saving and Investment, 2000-2014

| | 2000 | 2001 | 2002 | 2003 (c) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(a) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **(As % of GDP)** | | | | | | | | | | | | | | | |
| Gross domestic capital formation | 28.0 | 22.0 | 21.2 | 22.0 | 25.3 | 26.8 | 28.0 | 28.0 | 27.6 | 24.4 | 27.6 | 29.9 | 30.6 | 29.5 | 29.7 |
| Gross domestic savings | 17.4 | 15.8 | 14.4 | 16.0 | 16.4 | 17.9 | 17.0 | 17.6 | 13.9 | 17.9 | 19.3 | 15.4 | 16.9 | 20 | 21.1 |
| Net imports of goods and non-factor services (b) | 10.6 | 6.2 | 6.7 | 6.0 | 8.8 | 8.9 | 11.0 | 10.4 | 13.7 | 6.5 | 8.3 | 14.6 | 13.7 | 9.5 | 8.5 |
| Net factor income from abroad | -1.8 | -1.7 | -1.5 | -0.9 | -1.0 | -1.2 | -1.4 | -1.1 | -2.4 | -1.2 | -1.2 | -1.1 | -2.0 | -2.6 | -2.5 |
| Net private transfers | 5.9 | 6.2 | 6.6 | 6.4 | 6.5 | 7.1 | 6.7 | 6.8 | 6.3 | 7.0 | 7.4 | 7.8 | 9.1 | 8.4 | 8.3 |
| Gross national savings | 21.5 | 20.3 | 19.5 | 21.5 | 22.0 | 23.8 | 22.3 | 23.3 | 17.8 | 23.7 | 25.4 | 22.1 | 24 | 25.8 | 27 |
| Foreign savings | 4.1 | 4.5 | 5.1 | 5.5 | 5.6 | 5.9 | 5.3 | 5.7 | 3.9 | 5.8 | 6.1 | 6.7 | 7.1 | 5.8 | 5.9 |

Notes: (a): Provisional.
(b): Also referred to as external inflow or the resources gap.
(c): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Sources: IPS database; Central Bank of Sri Lanka, *Annual Report,* various issues.

## Table A9: Summary of Government Fiscal Operations, 2002-2014

| (As % of GDP) | 2002 | 2003 (c) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(b) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 16.5 | 15.7 | 15.4 | 16.1 | 16.3 | 15.8 | 14.9 | 14.5 | 14.6 | 14.3 | 13.9 | 13.1 | 12.2 |
| Grants | 0.4 | 0.5 | 0.4 | 1.4 | 1.0 | 0.9 | 0.7 | 0.5 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 |
| Expenditure | | | | | | | | | | | | | |
| Current expenditure | 20.9 | 19.0 | 19.2 | 18.7 | 18.6 | 17.4 | 16.9 | 18.2 | 16.7 | 15.4 | 14.9 | 13.9 | 13.5 |
| Capital & net lending | 4.6 | 4.7 | 4.3 | 6.0 | 5.6 | 6.1 | 5.7 | 6.7 | 6.1 | 6 | 5.6 | 5.4 | 4.8 |
| Current account balance | -4.4 | -3.3 | -3.9 | -2.7 | -2.4 | -1.6 | -2.0 | -3.7 | -2.1 | -1.1 | -1.0 | -0.8 | -1.3 |
| Primary deficit | -1.6 | -0.9 | -2.2 | -3.6 | -2.9 | -2.6 | -2.2 | -3.5 | -1.7 | -1.4 | -1.1 | -0.8 | -1.6 |
| Overall deficit (before grants) | -8.9 | -8.0 | -8.2 | -8.7 | -8.0 | -7.7 | -7.7 | -9.9 | -8.0 | -6.9 | -6.5 | -5.9 | -6.0 |
| Financing budget deficit | | | | | | | | | | | | | |
| Foreign financing | 0.1 | 2.4 | 1.8 | 2.0 | 1.4 | 2.8 | -0.1 | 4.8 | 4.4 | 3.4 | 3.8 | 1.4 | 2.1 |
| Domestic financing | 8.0 | 4.5 | 5.8 | 5.2 | 5.6 | 3.6 | 7.1 | 5.1 | 3.6 | 3.5 | 2.7 | 4.5 | 3.9 |
| Market borrowings | 8.0 | 4.5 | 5.5 | 5.0 | 5.6 | 3.6 | 7.0 | 4.9 | 3.4 | 3.6 | 2.7 | 4.4 | 4.0 |
| Bank | -0.3 | -1.2 | 2.1 | 1.1 | 2.7 | 0.4 | 4.4 | 1.0 | - | 2.9 | 1.7 | 3.4 | 1.3 |
| Non-bank | 8.3 | 5.7 | 3.4 | 3.9 | 2.9 | 3.1 | 2.6 | 3.8 | 3.5 | 0.7 | 0.9 | 1.0 | 2.7 |
| Other borrowings | -0.1 | - | 0.2 | 0.2 | - | - | 0.1 | 0.2 | 0.2 | -0.1 | - | 0.1 | -0.1 |
| Privatisation proceeds(a) | 0.4 | 0.6 | 0.1 | - | - | - | - | - | - | - | - | - | - |

Notes: (a): Since 1994, privatization proceeds have been shifted from the capital expenditure and net lending category to the financing section.
(b): Provisional.
(c): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report,* various issues.

## Table A10: Money Supply and Underlying Factors, 1995-2014

| | Unit | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003(b) | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **1. Financial depth** | | | | | | | | | | | |
| Narrow money supply | M1/GDP | 11.3 | 10.2 | 9.6 | 9.5 | 9.8 | 9.4 | 8.7 | 8.8 | 8.9 | 9.0 |
| Broad money supply | M2/GDP | 34.2 | 33.0 | 32.4 | 31.1 | 32.4 | 32.2 | 32.0 | 32.3 | 31.9 | 32.9 |
| **2. Monetary expansion/contraction** | | | | | | | | | | | |
| Narrow money supply | % growth | 6.7 | 4.0 | 9.8 | 12.1 | 12.8 | 9.1 | 3.2 | 14.0 | 16.0 | 16.6 |
| Broad money supply | % growth | 19.2 | 10.8 | 13.8 | 9.7 | 13.3 | 13.0 | 11.4 | 13.2 | 13.8 | 18.5 |
| **3. Causal factors** | | | | | | | | | | | |
| 3.1 External banking assets | Rs.mn. | 66,532.0 | 61,861.0 | 89,292.0 | 93,724.0 | 83,892.0 | 59,448.0 | 80,019.0 | 101,717.0 | 129,487.0 | 129,152.0 |
| | % growth | 3.2 | -7.0 | 44.3 | 5.0 | -10.5 | -29.1 | 34.6 | 27.1 | 27.3 | -0.3 |
| 3.2 Domestic credit | Rs.mn. | 262,670.0 | 292,395.0 | 323,046.0 | 369,517.0 | 432,888.0 | 549,927.0 | 638,876.0 | 680,396.0 | 731,872.0 | 895,942.0 |
| | % growth | 27.5 | 11.3 | 10.5 | 14.4 | 17.1 | 27.0 | 16.2 | 6.5 | 7.6 | 22.4 |
| 3.2.1 to Government | Rs.mn. | 38,662.0 | 47,131.0 | 45,250.0 | 64,618.0 | 93,915.0 | 147,304.0 | 201,311.0 | 192,994.0 | 176,236.0 | 220,462.0 |
| | % growth | 23.3 | 21.9 | -4.0 | 42.8 | 45.3 | 56.8 | 36.7 | -4.1 | -8.7 | 25.1 |
| 3.2.2 to Private sector | Rs.mn. | \210,703.0 | 229,773.0 | 263,198.0 | 294,868.0 | 325,927.0 | 364,369.0 | 396,754.0 | 444,371.0 | 519,444.0 | 634,310.0 |
| | % growth | 29.0 | 9.1 | 14.5 | 12.0 | 10.5 | 11.8 | 8.9 | 12.0 | 16.9 | 22.1 |
| 3.3 Other liabilities | Rs.mn. | -67,974.0 | -66,813.0 | -79,874.0 | -97,425.0 | -106,660.0 | -136,035.0 | -163,867.0 | -168,544.0 | -181,111.0 | -207,515.0 |
| | % growth | -34.6 | 1.7 | -19.5 | -22.0 | -9.5 | -27.5 | -20.5 | -2.9 | -7.5 | -14.6 |

Contd..

| | Unit | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **1. Financial depth** | | | | | | | | | | | |
| Narrow Money Supply | M1/GDP | 9.4 | 8.8 | 7.4 | 6.3 | 7.0 | 7.3 | 6.7 | 5.9 | 5.6 | 6.3 |
| Broad Money Supply | M2/GDP | 33.6 | 33.8 | 32.1 | 29.1 | 31.8 | 32.4 | 33.5 | 34.2 | 35.3 | 35.4 |
| **2. Monetary Expansion/Contraction** | | | | | | | | | | | |
| Narrow Money Supply | % growth | 22.4 | 12.6 | 2.7 | 4.0 | 21.4 | 20.9 | 7.7 | 2.6 | 7.7 | 26.3 |
| Broad Money Supply | % growth | 19.6 | 20.7 | 15.6 | 11.7 | 19.9 | 18.0 | 20.9 | 18.3 | 18.0 | 13.1 |
| **3. Causal Factors** | | | | | | | | | | | |
| 3.1 External Banking Assets | Rs.mn. | 167,147.0 | 185,005.0 | 225,989.0 | 88,760.0 | 358,554.0 | 390,284 | 150,916 | 112,395 | 133,808 | 318,203 |
| | % growth | 29.4 | 10.7 | 22.2 | -60.7 | 304.0 | 8.8 | -61.3 | -25.5 | 19.1 | 137.8 |
| 3.2 Domestic Credit | Rs.mn. | 1,067,385.0 | 1,382,004.0 | 1,607,786.0 | 1,897,500.0 | 1,907,748.0 | 2,262,861.0 | 3,037,970 | 3,696,131 | 4,200,783 | 4,640,146 |
| | % growth | 19.1 | 29.5 | 16.3 | 18.0 | 0.5 | 18.6 | 34.3 | 21.7 | 13.7 | 10.5 |
| 3.2.1 to Government | Rs.mn. | 249,565.0 | 357,289.0 | 374,100.0 | 582,907.0 | 640,326.0 | 627,185.0 | 833,610 | 1,045,232 | 1,301,342 | 1,435,900 |
| | % growth | 13.2 | 43.2 | 4.7 | 55.8 | 9.9 | -2.1 | 32.9 | 25.4 | 24.5 | 10.3 |
| 3.2.2 to Private Sector | Rs.mn. | 801,149.0 | 993,159.0 | 1,184,519.0 | 1,267,601.0 | 1,194,189.0 | 1,491,099.0 | 2,005,860 | 2,358,421 | 2,534,343 | 2,758,199 |
| | % growth | 26.3 | 24.0 | 19.3 | 7.0 | -5.8 | 24.9 | 34.5 | 17.6 | 7.5 | 8.8 |
| 3.3 Other Liabilities | Rs.mn. | -246,438.0 | -348,644.0 | -431,759.0 | -452,423.0 | -503,460.0 | -548,895 | -644,287 | -741,230 | -706,605 | -779,418 |
| | % growth | -18.8 | -41.5 | -23.8 | -4.8 | -11.3 | -9.0 | -17.4 | -15.0 | 4.7 | -10.3 |

Notes: Data have been reclassified starting from 1990. For more information, see *Annual Report 1995*, Central Bank of Sri Lanka.
(b) From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A11: Interest Rates, 2001-2014

| (%, end of period) | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank rate | 18.0 | 18.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 |
| Treasury bills, yield rates | | | | | | | | | | | | | | |
| 3 Month | 12.9 | 9.9 | 7.4 | 7.3 | 10.1 | 12.8 | 21.3 | 17.3 | 7.7 | 7.2 | 8.7 | 10.0 | 7.5 | 5.7 |
| 12 Month | 13.7 | 9.9 | 7.2 | 7.7 | 10.4 | 13.0 | 20.0 | 19.1 | 9.3 | 7.6 | 9.3 | 11.7 | 8.3 | 6.0 |
| Repurchase rate | 12.0 | 9.8 | 7.0 | 7.5 | 8.8 | 10.0 | 10.5 | 10.5 | 7.5 | 7.3 | 7.0 | 7.5 | 6.5 | 6.5 |
| Call money rate | | | | | | | | | | | | | | |
| Maximum | 13.0 | 10.9 | 8.3 | 10.6 | 11.0 | 15.1 | 40.0 | 20.0 | 9.1 | 8.4 | 9.1 | 9.9 | 7.8 | 6.5 |
| Minimum | 12.5 | 10.3 | 7.4 | 9.5 | 10.5 | 12.8 | 16.0 | 13.3 | 8.0 | 7.8 | 8.8 | 9.5 | 7.5 | 6.0 |
| Weighted average prime lending rate | 14.3 | 12.2 | 9.0 | 10.2 | 12.1 | 14.7 | 17.0 | 19.2 | 11.1 | 9.3 | 10.5 | 14.3 | 10.0 | 6.4 |
| Commercial bank saving | | | | | | | | | | | | | | |
| Maximum | 12.0 | 11.0 | 7.3 | 7.8 | 10.3 | 10.5 | 16.5 | 16.5 | 10.5 | 9.5 | 8.5 | 10.5 | 9.1 | 8.0 |
| Minimum | 4.0 | 3.5 | 2.1 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 1.5 | 1.5 | 1.0 | 0.8 | 0.8 | 0.5 |
| NSB saving | 8.4 | 6.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Commercial bank fixed deposit (one year) | | | | | | | | | | | | | | |
| Maximum | 14.5 | 11.0 | 7.8 | 9.8 | 11.5 | 14.0 | 20.0 | 20.3 | 19.0 | 17.0 | 11.0 | 17.0 | 16.0 | 12.0 |
| Minimum | 9.5 | 7.5 | 5.0 | 5.5 | 5.5 | 5.5 | 8.5 | 8.5 | 7.3 | 5.1 | 5.6 | 5.0 | 6.0 | 4.0 |
| NSB fixed deposit (one year, paid on maturity) | 13.0 | 10.0 | 7.0 | 8.0 | 9.0 | 11.0 | 15.0 | 15.0 | 9.5 | 8.5 | 8.5 | 12.5 | 9.5 | 6.5 |

Sources: Central Bank of Sri Lanka, *Annual Report*, various issues.
Central Bank of Sri Lanka, *Bulletin*, various issues.

## Table A12: Basic Indicators of the General Price Level, 1994-2014

| | CCPI (1952 = 100) | % change | CCPI (2002 = 100) | % change | CCPI (2006/07 = 100) | % change | WPI (1974 = 100) | % change | GDPD (1996 = 100) | % change |
|---|---|---|---|---|---|---|---|---|---|---|
| 1994 | 1,527.4 | 8.4 | | | | | 873.4 | 5.0 | 82.3 | 9.3 |
| 1995 | 1,644.6 | 7.7 | | | | | 950.3 | 8.8 | 89.2 | 8.4 |
| 1996 | 1,906.7 | 15.9 | | | | | 1,145.1 | 20.5 | 100.0 | 12.1 |
| 1997 | 2,089.1 | 9.6 | | | | | 1,224.3 | 6.9 | 108.6 | 8.6 |
| 1998 | 2,284.9 | 9.4 | | | | | 1,298.7 | 6.1 | 117.8 | 8.4 |
| 1999 | 2,392.1 | 4.7 | | | | | 1,295.3 | -0.3 | 123.1 | 4.4 |
| 2000 | 2,539.8 | 6.2 | | | | | 1,317.2 | 1.7 | 131.3 | 6.7 |
| 2001 | 2,899.4 | 14.2 | | | | | 1,471.2 | 11.7 | 147.6 | 12.4 |
| 2002 | 3,176.4 | 9.6 | 100.0 | | | | 1,628.9 | 10.7 | 160.0 | 8.4 |
| 2003 | 3,377.0 | 6.3 | 105.8 | | | | 1,679.1 | 3.1 | 168.2 | 5.1 |
| 2004 | 3,632.8 | 7.6 | 115.3 | 9.0 | | | 1,889.0 | 12.5 | 183.0 | 8.8 |
| 2005 | 4,055.5 | 11.6 | 128.0 | 11.0 | | | 2,105.9 | 11.5 | 202.1 | 10.4 |
| 2006 | 4,610.8 | 13.7 | 140.8 | 10.0 | | | 2,351.5 | 11.7 | 224.9 | 11.3 |
| 2007 | 5,416.1 | 17.5 | 163.1 | 15.8 | | | 2,924.4 | 24.4 | 256.4 | 14.0 |
| 2008 | | | 199.9 | 22.6 | 129.2 | | 3,653.6 | 24.9 | 298.3 | 16.3 |
| 2009 | | | 206.8 | 3.4 | 133.6 | 3.5 | 3,500.9 | -4.2 | 315.8 | 5.9 |
| 2010 | | | 219.1 | 5.9 | 141.9 | 6.2 | 3,893.0 | 11.2 | 338.9 | 7.3 |
| 2011 | | | 226.5 | 6.9 | 151.5 | 6.7 | 4,306.5 | 10.6 | 365.5 | 7.9 |
| 2012 | | | - | - | 162.9 | 7.6 | 4,457.3 | 3.5 | 398.1 | 8.9 |
| 2013 | | | - | - | 174.2 | 6.9 | 4,867.9 | 9.2 | 424.8 | 6.7 |
| 2014(a) | | | - | - | 179.9 | 3.3 | 5,022.1 | 3.2 | 446.4 | 5.1 |

Notes: (a): Provisional.
(b): CCPI (2002 = 100) has been replaced since June 2011.
CCPI: Colombo Consumers Price Index
WPI: Wholesale Price Index
GDPD: GDP Deflator

Sources: Department of Census and Statistics.
Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A13: Wage Rate Indices, 1993-2014 (December 1978 = 100)

| | Workers in wages boards trades(a) | | Government employees(b) | |
|---|---|---|---|---|
| | Nominal | Real | Nominal | Real |
| 1993 | 685.8 | 116.6 | 675.5 | 114.8 |
| 1994 | 712.4 | 111.7 | 735.5 | 115.4 |
| 1995 | 740.3 | 107.7 | 792.5 | 115.4 |
| 1996 | 801.7 | 100.7 | 818.2 | 103.0 |
| 1997 | 849.1 | 97.3 | 906.5 | 104.0 |
| 1998 | 953.3 | 99.9 | 1,001.4 | 104.9 |
| 1999 | 977.6 | 97.8 | 1,001.4 | 100.2 |
| 2000 | 1,000.4 | 94.3 | 1,084.7 | 102.1 |
| 2001 | 1,049.3 | 86.6 | 1,310.8 | 108.1 |
| 2002 | 1,126.5 | 84.9 | 1,525.3 | 115.0 |
| 2003 | 1,205.2 | 85.4 | 1,525.0 | 108.1 |
| 2004 | 1,233.0 | 81.3 | 1,872.1 | 123.3 |
| 2005 | 1,329.7 | 78.5 | 2,417.5 | 142.7 |
| 2006 | 1,358.2 | 70.5 | 3,150.8 | 163.5 |
| 2007 | 1,648.8 | 73.6 | 3,828.4 | 171.6 |
| 2008 | 2070.4 | 75.5 | 4116.1 | 150.4 |
| 2009 | 2171.4 | 76.7 | 4502.8 | 159.0 |
| 2010 | 2865.3 | 95.3 | 4651.6 | 154.7 |
| 2011 | 2996.1 | 93.3 | 4964.5 | 154.7 |
| 2012 | 3662.0 | 106.2 | 5304.7 | 153.8 |
| 2013 | 3869.2 | 104.9 | 5568.3 | 150.9 |
| 2014(c) | 4012.2 | 105.3 | 6058.0 | 159.0 |

Notes: The wage rates used in the calculation of index numbers are minimum wages.
(a): Combined index for workers in agriculture, industry and commerce, and services.
(b): Combined index for non-executive officers and minor employees.
(c): Provisional.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A14: Sri Lanka's Direction of Foreign Trade, 1997-2014

| | Unit | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| **1. Exports to selected countries and groupings** | | | | | | | | | | |
| U.S.A | US$ mn. | 1666 | 1890 | 1792 | 2193 | 1926 | 1764 | 1777 | 1869 | 1988 |
| U.K. | US$ mn. | 525 | 530 | 604 | 737 | 576 | 590 | 640 | 779 | 777 |
| Germany | US$ mn. | 230 | 232 | 216 | 230 | 199 | 199 | 232 | 274 | 272 |
| Japan | US$ mn. | 234 | 196 | 159 | 230 | 186 | 140 | 162 | 158 | 145 |
| EC | % of total exports | 35 | 33.6 | 35.3 | 33.4 | 26.1 | 29.0 | 30.0 | 32.5 | 30.9 |
| Germany | % of exports to EC | 17.1 | 17.9 | 16.2 | 15.2 | 15.8 | 14.6 | 15.1 | 14.6 | 13.9 |
| UK | % of exports to EC | 39 | 41 | 45 | 48.5 | 45.8 | 43.3 | 41.6 | 41.6 | 39.6 |
| ASEAN | % of total exports | 3.4 | 3 | 3.1 | 3.5 | 2.9 | 2.6 | 2.5 | 2.6 | 2.9 |
| Singapore | % of exports to ASEAN | 43.7 | 38.1 | 37.9 | 38.7 | 51.4 | 63.6 | 61.8 | 67.9 | 52.2 |
| Malaysia | % of exports to ASEAN | 16.6 | 10.1 | 6 | 5 | 5.9 | 8.4 | 11.7 | 7.1 | 9.5 |
| SAARC | % of total exports | 3.1 | 3 | 3.8 | 4.2 | 3.3 | 5.5 | 6.8 | 8.8 | 10.3 |
| India | % of exports to SAARC | 37 | 33.2 | 33.7 | 30.6 | 45.6 | 66.5 | 70.0 | 77.3 | 86.7 |
| NAFTA | % of total exports | 45.5 | 51.5 | 49.8 | 50.5 | 42.1 | 39.6 | 36.6 | 34.4 | 33.3 |
| USA | % of exports to NAFTA | 95.3 | 95.4 | 95.1 | 95.4 | 95.1 | 94.6 | 94.6 | 94.5 | 94.1 |
| Canada | % of exports to NAFTA | 3.2 | 3.1 | 3.1 | 3.1 | 3.4 | 3.3 | 3.4 | 3.6 | 3.7 |
| APEC | % of total exports | 59.8 | 58.9 | 56.3 | 57.8 | 59.5 | 54.6 | 52.2 | 47.8 | 46.2 |
| USA | % of exports to APEC | 72.4 | 83.4 | 84.1 | 83.5 | 83.1 | 82.5 | 80.6 | 81.4 | 82.3 |
| Japan | % of exports to APEC | 10.2 | 8.6 | 7.5 | 8.7 | 8.0 | 6.6 | 7.4 | 6.9 | 5.9 |
| Singapore | % of exports to APEC | 0.1 | 1.9 | 2.1 | 2.3 | 2.5 | 3.1 | 3.0 | 3.8 | 3.3 |
| **2. Imports from selected countries and groupings** | | | | | | | | | | |
| Japan | US$ mn. | 479 | 556 | 561 | 646 | 337 | 355 | 448 | 412 | 380 |
| India | US$ mn. | 560 | 539 | 512 | 600 | 709 | 853 | 1073 | 1439 | 1835 |
| Hong Kong | US$ mn. | 411 | 411 | 459 | 516 | 500 | 491 | 560 | 619 | 648 |
| U.S.A | US$ mn. | 187 | 230 | 216 | 255 | 266 | 219 | 198 | 240 | 205 |
| U.K. | US$ mn. | 282 | 305 | 251 | 311 | 221 | 263 | 273 | 312 | 277 |
| Taiwan | US$ mn. | 372 | 379 | 347 | 390 | 323 | 288 | 276 | 291 | 279 |
| EC | % of total imports | 17.6 | 23.3 | 19.4 | 18.8 | 14.2 | 14.6 | 16.5 | 15.7 | 14.5 |
| Germany | % of imports from EC | 20.5 | 20.2 | 15.8 | 16.5 | 16.3 | 13.6 | 13.0 | 15.4 | 13.9 |
| UK | % of imports from EC | 31.6 | 30.3 | 29.1 | 32.8 | 26.0 | 29.5 | 24.8 | 24.8 | 21.6 |
| ASEAN | % of total imports | 114.7 | 19.6 | 21.1 | 21 | 19.4 | 19.1 | 19.8 | 20.0 | 20.5 |
| Singapore | % of imports from ASEAN | 38.3 | 36.8 | 48.2 | 46.7 | 44.8 | 46.0 | 46.2 | 51.2 | 48.2 |
| Malaysia | % of imports from ASEAN | 22.3 | 22.8 | 18 | 20.5 | 22.7 | 21.7 | 25.6 | 24.1 | 25.7 |
| SAARC | % of total imports | 13.1 | 15.1 | 14.2 | 14 | 11.9 | 15.6 | 17.6 | 19.7 | 22.4 |
| India | % of imports from SAARC | 83.9 | 83.3 | 81.4 | 84.8 | 84.4 | 89.4 | 91.5 | 91.4 | 92.6 |
| NAFTA | % of total imports | 5.7 | 7.1 | 5.5 | 6 | 4.9 | 3.8 | 3.5 | 3.6 | 3.2 |
| USA | % of imports from NAFTA | 64.7 | 75.0 | 89 | 84.1 | 91.5 | 93.8 | 85.4 | 84.4 | 71.2 |
| Canada | % of imports from NAFTA | 19 | 13.6 | 9.3 | 15.6 | 8.2 | 5.8 | 14.3 | 15.3 | 28.0 |
| APEC | % of total imports | 61.9 | 45.9 | 53.4 | 54.9 | 55.6 | 52.1 | 49.2 | 46.4 | 44.0 |
| USA | % of imports from APEC | 5.9 | 11.6 | 9.1 | 9.2 | 10.1 | 8.5 | 7.1 | 7.6 | 6.2 |
| Japan | % of imports from APEC | 9.4 | 28.1 | 23.6 | 23.2 | 12.8 | 13.8 | 16.0 | 13 | 11.6 |
| Singapore | % of imports from APEC | 9.1 | 15.7 | 19 | 17.8 | 15.6 | 16.8 | 18.7 | 20.5 | 22.4 |

Cont../

| | Unit | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(a) |
|---|---|---|---|---|---|---|---|---|---|---|
| **1. Exports to selected countries and groupings** | | | | | | | | | | |
| U.S.A | US$ mn. | 2006 | 1970 | 1869 | 1576 | 1701 | 2145 | 2126 | 2494 | 2731 |
| U.K. | US$ mn. | 880 | 1018 | 1090 | 1024 | 990 | 1112 | 1059 | 1078 | 1116 |
| Germany | US$ mn. | 329 | 438 | 405 | 347 | 400 | 510 | 455 | 468 | 498 |
| Japan | US$ mn. | 164 | 160 | 159 | 139 | 171 | 223 | 217 | 224 | 237 |
| EU | % of total exports | 33.7 | 37.6 | 37.4 | 38.5 | 33.3 | 33.9 | 33.0 | 31.5 | 31.4 |
| Germany | % of exports to EU | 14.2 | 15.2 | 13.4 | 12.7 | 13.9 | 14.3 | 14.1 | 14.3 | 14.3 |
| UK | % of exports to EU | 37.9 | 35.4 | 35.9 | 37.6 | 34.4 | 31.1 | 32.8 | 32.9 | 32.0 |
| ASEAN | % of total exports | 3.4 | 3.0 | 3.2 | 4.8 | 9.0 | 7.0 | 3.9 | 3.0 | 3.8 |
| Singapore | % of exports to ASEAN | 39.0 | 34.8 | 29.7 | 25.8 | 65.5 | 55.4 | 26.1 | 33.7 | 33.6 |
| Malaysia | % of exports to ASEAN | 12.9 | 15.7 | 17.2 | 13.9 | 9.4 | 13.3 | 18.0 | 15.1 | 10.7 |
| SAARC | % of total exports | 8.7 | 8.5 | 6.9 | 6.2 | 7.2 | 6.6 | 7.8 | 7.4 | 7.9 |
| India | % of exports to SAARC | 81.6 | 79.8 | 74.5 | 73.0 | 76.8 | 74.1 | 74.4 | 70.4 | 70.9 |
| NAFTA | % of total exports | 30.9 | 27.6 | 24.9 | 24.1 | 21.6 | 22.4 | 24.3 | 26.4 | 27.1 |
| USA | % of exports to NAFTA | 94.2 | 93.3 | 92.4 | 92.2 | 91.5 | 90.5 | 89.6 | 90.8 | 90.6 |
| Canada | % of exports to NAFTA | 3.6 | 3.7 | 4.4 | 4.3 | 5.0 | 5.4 | 6.1 | 5.5 | 5.7 |
| APEC | % of total exports | 44.0 | 38.8 | 37.0 | 37.9 | 39.8 | 38.7 | 38.1 | 40.1 | 41.6 |
| USA | % of exports to APEC | 81.5 | 66.4 | 62.3 | 58.7 | 49.5 | 52.5 | 57.1 | 59.9 | 59.1 |
| Japan | % of exports to APEC | 6.6 | 5.4 | 5.3 | 5.2 | 5.0 | 5.5 | 5.8 | 5.4 | 5.1 |
| Singapore | % of exports to APEC | 3.0 | 2.7 | 2.5 | 3.2 | 14.9 | 10.0 | 2.7 | 2.5 | 3.0 |
| **2. Imports from selected countries and groupings** | | | | | | | | | | |
| Japan | US$ mn. | 450 | 413 | 426 | 224 | 584 | 1025 | 552 | 668 | 941 |
| India | US$ mn. | 2173 | 2610 | 3447 | 1820 | 2570 | 4431 | 3640 | 3171 | 4023 |
| Hong Kong | US$ mn. | 659 | 725 | 695 | 517 | 580 | 632 | 605 | 430 | 351 |
| U.S.A | US$ mn. | 201 | 412 | 279 | 259 | 168 | 266 | 234 | 416 | 492 |
| U.K. | US$ mn. | 303 | 230 | 250 | 254 | 267 | 304 | 297 | 281 | 290 |
| Taiwan | US$ mn. | 275 | 264 | 251 | 201 | 264 | 352 | 365 | 435 | 443 |
| EU | % of total imports | 13.7 | 12.4 | 12.5 | 12.6 | 10.9 | 9.2 | 9.3 | 9.2 | 8.2 |
| Germany | % of imports from EU | 15.8 | 16.4 | 16.0 | 19.3 | 17.2 | 18.3 | 17.9 | 23.1 | 20.6 |
| UK | % of imports from EU | 21.5 | 16.5 | 14.2 | 19.8 | 18.2 | 16.4 | 16.7 | 16.9 | 18.3 |
| ASEAN | % of total imports | 21.7 | 16.9 | 15.8 | 18.7 | 18.8 | 18.6 | 18.2 | 18.6 | 16.2 |
| Singapore | % of imports from ASEAN | 52.9 | 58.4 | 55.8 | 55.8 | 61.8 | 56.4 | 48.2 | 50.2 | 40.0 |
| Malaysia | % of imports from ASEAN | 23.7 | 14.8 | 16.1 | 15.1 | 15.2 | 18.2 | 23.2 | 17.0 | 23.6 |
| SAARC | % of total imports | 22.9 | 24.9 | 26.0 | 20.1 | 21.4 | 23.7 | 21.0 | 19.9 | 22.3 |
| India | % of imports from SAARC | 92.4 | 92.7 | 94.0 | 88.6 | 89.3 | 92.1 | 90.2 | 88.4 | 92.7 |
| NAFTA | % of total imports | 4.1 | 4.4 | 4.7 | 5.2 | 3.3 | 3.2 | 3.0 | 3.6 | 4.1 |
| USA | % of imports from NAFTA | 48.0 | 83.5 | 42.4 | 48.4 | 37.6 | 41.3 | 41.2 | 64.0 | 61.2 |
| Canada | % of imports from NAFTA | 51.5 | 16.1 | 57.6 | 51.6 | 62.4 | 58.7 | 58.1 | 35.2 | 38.6 |
| APEC | % of total imports | 43.8 | 46.1 | 43.0 | 47.8 | 46.3 | 46.6 | 48.7 | 52.0 | 53.1 |
| USA | % of imports from APEC | 5.3 | 7.9 | 4.6 | 5.3 | 2.7 | 2.8 | 2.5 | 4.4 | 4.8 |
| Japan | % of imports from APEC | 11.9 | 7.9 | 7.0 | 4.6 | 9.4 | 10.9 | 5.9 | 7.1 | 9.1 |
| Singapore | % of imports from APEC | 26.2 | 21.5 | 20.6 | 21.9 | 25.2 | 22.5 | 18.0 | 18.0 | 12.2 |

Note: (a): Provisional.
Sources: International Monetary Fund, *Direction of Trade Statistics*, various issues; Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A15: Structure of Commodity Imports, 1995-2014

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Consumer goods | | | | | | | | | | |
| Value (US$ mn.) | 982.0 | 1,030.0 | 1,084.0 | 1,128.0 | 1,131.0 | 1,261.0 | 1,126.0 | 1,189.0 | 1,344.0 | 1,440.0 |
| Growth | 5.5 | 4.9 | 5.2 | 4.1 | 0.3 | 11.5 | -10.7 | 5.6 | 13.0 | 7.1 |
| % of total imports | 18.5 | 18.9 | 18.5 | 19.2 | 18.9 | 17.2 | 18.8 | 19.5 | 20.1 | 18.0 |
| 1.1 Food | | | | | | | | | | |
| Value (US$ mn.) | 522.0 | 597.0 | 642.0 | 596.0 | 551.0 | 566.0 | 545.0 | 566.0 | 564.0 | 596.0 |
| Growth | 7.9 | 14.4 | 7.5 | -7.2 | -7.6 | 2.7 | -3.7 | 3.9 | -0.4 | 5.7 |
| % of total imports | 9.8 | 11.0 | 10.9 | 10.1 | 9.2 | 7.7 | 9.1 | 9.3 | 8.5 | 7.5 |
| 1.2 Other | | | | | | | | | | |
| Value (US$ mn.) | 461.0 | 433.0 | 442.0 | 532.0 | 581.0 | 696.0 | 581.0 | 623.0 | 780.0 | 844.0 |
| Growth | 3.2 | -6.1 | 2.1 | 20.4 | 9.2 | 19.8 | -16.5 | 7.2 | 25.2 | 8.2 |
| % of total imports | 8.7 | 8.0 | 7.5 | 9.0 | 9.7 | 9.5 | 9.7 | 10.2 | 11.7 | 10.6 |
| 2. Intermediate goods | | | | | | | | | | |
| Value (US$ mn.) | 2,900.0 | 2,971.0 | 3,235.7 | 3,108.0 | 3,168.0 | 3,916.0 | 3,430.0 | 3,622.0 | 3,948.0 | 4,828.0 |
| Growth | 19.6 | 2.4 | 8.9 | -3.9 | 1.9 | 23.6 | -12.4 | 5.6 | 9.0 | 22.3 |
| % of total imports | 54.6 | 54.6 | 55.2 | 52.8 | 53.0 | 53.5 | 57.4 | 59.3 | 59.2 | 60.4 |
| 2.1 Petroleum | | | | | | | | | | |
| Value (US$ mn.) | 386.9 | 479.9 | 539.5 | 345.0 | 500.0 | 901.0 | 731.0 | 789.0 | 838.0 | 1209.0 |
| Growth | 30.6 | 24.1 | 12.4 | -36.1 | 44.9 | 80.2 | -18.9 | 7.9 | 6.2 | 44.3 |
| % of total imports | 7.3 | 8.8 | 9.2 | 5.9 | 8.4 | 12.3 | 12.2 | 12.9 | 12.6 | 15.1 |
| 2.2 Textiles | | | | | | | | | | |
| Value (US$ mn.) | 1,158.5 | 1,168.8 | 1,386.9 | 1,397.0 | 1,320.0 | 1,471.0 | 1,320.0 | 1,321.0 | 1,372.0 | 1,514.0 |
| Growth | 11.6 | 0.9 | 18.7 | 0.7 | -5.5 | 11.4 | -10.3 | 0.1 | 3.9 | 10.3 |
| % of total imports | 21.8 | 21.5 | 23.7 | 23.7 | 22.1 | 20.1 | 22.1 | 21.6 | 20.6 | 18.9 |
| 3. Investment goods | | | | | | | | | | |
| Value (US$ mn.) | 1,189.0 | 1,203.0 | 1,324.0 | 1,477.0 | 1,565.0 | 1,737.0 | 1,081.0 | 1,169.0 | 1,320.0 | 1,670.0 |
| Growth | -13.0 | 1.2 | 10.1 | 11.6 | 6.0 | 11.0 | -37.8 | 8.1 | 12.9 | 26.5 |
| % of total Imports | 22.4 | 22.1 | 22.6 | 25.1 | 26.2 | 23.7 | 18.1 | 19.1 | 19.8 | 20.9 |
| 4. Total Imports | | | | | | | | | | |
| Value (US$ mn.) | 5,311.1 | 5,439.0 | 5,864.0 | 5,889.0 | 5,979.0 | 7,320.0 | 5,974.0 | 6,105.0 | 6,672.0 | 8,000.0 |
| Growth | 11.4 | 2.4 | 7.8 | 0.4 | 1.5 | 22.4 | -18.4 | 2.2 | 9.3 | 19.9 |

Contd…/

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(a) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Consumer goods | | | | | | | | | | |
| Value (US$ mn.) | 1,503.0 | 1,782.0 | 1,665.0 | 2,006.0 | 1,565.0 | 2,476.0 | 3,654.0 | 2,995.0 | 3,182.0 | 3,853.0 |
| Growth | 4.4 | 18.6 | -6.6 | 20.5 | -22.0 | 58.2 | 47.6 | -18.0 | 6.2 | 21.1 |
| % of total imports | 17.0 | 17.4 | 14.7 | 14.2 | 15.3 | 18.4 | 18.0 | 15.6 | 17.7 | 19.8 |
| 1.1 Food | | | | | | | | | | |
| Value (US$ mn.) | 611.0 | 757.0 | 803.0 | 1,089.0 | 933.0 | 1,322.0 | 1,567.0 | 1,304.0 | 1,368.0 | 1,634.0 |
| Growth | 2.5 | 23.9 | 6.1 | 35.6 | -14.3 | 41.7 | 18.5 | -16.8 | 4.9 | 19.4 |
| % of total imports | 6.9 | 7.4 | 7.1 | 7.7 | 9.1 | 9.8 | 7.7 | 6.8 | 7.6 | 8.4 |
| 1.2 Other | | | | | | | | | | |
| Value (US$ mn.) | 891.0 | 1,024.0 | 862.0 | 918.0 | 632.0 | 1,155.0 | 2,087.0 | 1,691.0 | 1,814.0 | 2,219.0 |
| Growth | 5.6 | 14.9 | -15.8 | 6.5 | -31.2 | 82.8 | 80.7 | -19.0 | 7.3 | 22.3 |
| % of total imports | 10.1 | 10.0 | 7.6 | 6.5 | 6.2 | 8.6 | 10.3 | 8.8 | 10.1 | 11.4 |
| 2. Intermediate goods | | | | | | | | | | |
| Value (US$ mn.) | 5,458.0 | 6,161.0 | 6,983.0 | 9,019.0 | 6,158.0 | 8,054.0 | 12,275.0 | 11,578.0 | 10,554.0 | 11,398.0 |
| Growth | 13.0 | 12.9 | 13.3 | 29.2 | -31.7 | 30.8 | 52.4 | -5.7 | -8.8 | 8.0 |
| % of total imports | 61.6 | 60.1 | 61.8 | 64.0 | 60.3 | 59.9 | 60.6 | 60.3 | 58.6 | 58.7 |
| 2.1 Petroleum | | | | | | | | | | |
| Value (US$ mn.) | 1,655.0 | 2,070.0 | 2,516.0 | 3,392.0 | 2,184.0 | 3,041.0 | 4,795.0 | 5,045.0 | 4,308.0 | 4,597.0 |
| Growth | 36.9 | 25.1 | 21.5 | 34.8 | -35.6 | 39.2 | 57.7 | 5.2 | -14.6 | 6.7 |
| % of total imports | 18.7 | 20.2 | 22.3 | 24.1 | 21.4 | 22.6 | 23.7 | 26.3 | 23.9 | 23.7 |
| 2.2 Textiles | | | | | | | | | | |
| Value (US$ mn.) | 1,531.0 | 1,546.0 | 1,724.0 | 1,788.0 | 1,529.0 | 1,812.0 | 2,321.0 | 2,266.0 | 2,046.0 | 2,328.0 |
| Growth | 1.1 | 1.0 | 11.5 | 3.7 | -14.5 | 18.5 | 28.1 | -2.4 | -9.7 | 13.8 |
| % of total imports | 17.3 | 15.1 | 15.3 | 12.7 | 15.0 | 13.5 | 11.5 | 11.8 | 11.4 | 12.0 |
| 3. Investment goods | | | | | | | | | | |
| Value (US$ mn.) | 1,869.0 | 2,246.0 | 2,597.0 | 2,852.0 | 2,093.0 | 2,758.0 | 4,286.0 | 4,590.0 | 4,253.0 | 4,152.0 |
| Growth | 11.9 | 20.2 | 15.6 | 9.8 | -26.6 | 31.8 | 55.4 | 7.1 | -7.3 | -2.4 |
| % of total imports | 21.1 | 21.9 | 23.0 | 20.2 | 20.5 | 20.5 | 21.1 | 23.9 | 23.6 | 21.4 |
| 4. Total imports | | | | | | | | | | |
| Value (US$ mn.) | 8,863.0 | 10,254.0 | 11,296.0 | 14,091.0 | 10,207.0 | 13,451.0 | 20,269.0 | 19,190.0 | 18,003.0 | 19,417.0 |
| Growth | 10.8 | 15.7 | 10.2 | 24.7 | -27.6 | 31.8 | 50.7 | -5.3 | -6.2 | 7.9 |

Notes : (a): Provisional.
Categories are reclassified from 2007 based on National Import Tariff Guide - 2010

Sources: Central Bank of Sri Lanka, *Annual Report*, various issues; IPS database.

## Table A16: Structure of Commodity Exports, 1995-2014

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| **1. Agricultural exports** | | | | | | | | | | |
| Value (US$ mn.) | 829.0 | 961.0 | 1060.0 | 1088.0 | 947.0 | 1005.0 | 932.0 | 938.0 | 965.0 | 1065.2 |
| Growth | 18.1 | 15.9 | 10.3 | 2.6 | -13.0 | 6.1 | -7.3 | 0.6 | 2.9 | 10.4 |
| % of total exports | 21.8 | 23.5 | 22.8 | 22.7 | 20.5 | 18.2 | 19.3 | 20.0 | 18.8 | 18.5 |
| 1.1 Plantation crops | | | | | | | | | | |
| Value (US$ mn.) | 695.00 | 829.00 | 916.00 | 918.00 | 783.00 | 850.00 | 796.00 | 771.00 | 815.0 | 903.30 |
| Growth | 21.3 | 19.3 | 10.5 | 0.2 | -14.7 | 8.6 | -6.4 | -3.1 | 5.7 | 10.8 |
| % of total exports | 18.3 | 20.2 | 19.7 | 19.1 | 17.0 | 15.4 | 16.5 | 16.4 | 15.9 | 15.7 |
| 1.1.1 Tea | | | | | | | | | | |
| Value (US$ mn.) | 481.0 | 615.0 | 719.0 | 780.0 | 621.0 | 700.0 | 690.0 | 660.0 | 683.0 | 738.9 |
| Growth | 13.4 | 27.9 | 16.9 | 8.5 | -20.4 | 12.7 | -1.4 | -4.3 | 3.5 | 8.2 |
| % of total exports | 12.6 | 15.0 | 15.5 | 16.3 | 13.5 | 12.7 | 14.3 | 14.0 | 13.3 | 12.8 |
| 1.1.2 Rubber | | | | | | | | | | |
| Value (US$ mn.) | 111.0 | 104.0 | 79.0 | 44.0 | 33.0 | 29.0 | 24.0 | 27.0 | 39.0 | 51.3 |
| Growth | 53.1 | -6.3 | -24.0 | -44.3 | -25.0 | -12.1 | -17.2 | 12.5 | 44.4 | 31.5 |
| % of total exports | 2.9 | 2.5 | 1.7 | 0.9 | 0.7 | 0.5 | 0.5 | 0.6 | 0.8 | 0.9 |
| 1.1.3 Coconut kernel products | | | | | | | | | | |
| Value (US$ mn.) | 69.0 | 81.0 | 82.0 | 56.0 | 84.0 | 77.0 | 41.0 | 41.0 | 48.0 | 58.6 |
| Growth | 37.7 | 17.4 | 1.2 | -31.7 | 50.0 | -8.3 | -46.8 | 0.0 | 17.1 | 22.1 |
| % of total exports | 1.8 | 2.0 | 1.8 | 1.2 | 1.8 | 1.4 | 0.9 | 0.9 | 0.9 | 1.0 |
| 1.2. Minor agricultural crops | | | | | | | | | | |
| Value (US$ mn.) | 134.0 | 132.0 | 145.0 | 170.0 | 165.0 | 155.0 | 136.0 | 168.0 | 150.0 | 161.9 |
| Growth | 3.7 | -1.5 | 9.9 | 17.2 | -2.9 | -6.1 | -12.3 | 23.5 | -10.7 | 7.9 |
| % of total exports | 3.5 | 3.2 | 3.1 | 3.5 | 3.6 | 2.8 | 2.8 | 3.6 | 2.9 | 2.8 |
| **2. Mineral exports** | | | | | | | | | | |
| Value (US$ mn.) | 87.0 | 96.0 | 90.0 | 60.0 | 64.0 | 97.0 | 86.0 | 90.0 | 84.0 | 120.0 |
| Growth | 0.2 | 10.3 | -6.3 | -33.3 | 6.7 | 51.6 | -11.3 | 4.7 | -6.7 | 42.9 |
| % of total exports | 2.3 | 2.3 | 1.9 | 1.3 | 1.4 | 1.8 | 1.8 | 1.9 | 1.6 | 2.1 |
| **3. Industrial exports** | | | | | | | | | | |
| Value (US$ mn.) | 2,870.0 | 3,006.0 | 3,436.0 | 3,607.0 | 3,551.0 | 4,283.0 | 3,710.0 | 3,631.0 | 3,977.0 | 4,506.1 |
| Growth | 19.6 | 4.7 | 14.3 | 5.0 | -1.6 | 20.6 | -13.4 | -2.1 | 9.5 | 13.3 |
| % of total exports | 75.4 | 73.4 | 74.1 | 75.2 | 77.0 | 77.6 | 77.0 | 77.3 | 77.5 | 78.3 |
| 3.1 Textile & garments | | | | | | | | | | |
| Value (US$ mn.) | 1,853.0 | 1,902.0 | 2,274.0 | 2,460.0 | 2,425.0 | 2,982.0 | 2,543.0 | 2,424.0 | 2,575.0 | 2,808.9 |
| Growth | 19.4 | 2.6 | 19.6 | 8.2 | -1.4 | 23.0 | -14.7 | -4.7 | 6.2 | 9.1 |
| % of total exports | 48.7 | 46.4 | 49.0 | 51.3 | 52.6 | 54.0 | 52.8 | 51.6 | 50.2 | 48.8 |
| 3.2 Petroleum products | | | | | | | | | | |
| Value (US$ mn.) | 85.0 | 104.0 | 97.0 | 73.0 | 74.0 | 98.0 | 68.0 | 73.0 | 65.0 | 99.6 |
| Growth | 6.1 | 22.4 | -6.7 | -24.7 | 1.4 | 32.4 | -30.6 | 7.4 | -11.0 | 53.2 |
| % of total exports | 2.2 | 2.5 | 2.1 | 1.5 | 1.6 | 1.8 | 1.4 | 1.6 | 1.3 | 1.7 |
| **4. Total commodity exports Inc. petroleum** | | | | | | | | | | |
| Value (US$ mn.) | 3,806.6 | 4,095.0 | 4,639.0 | 4,798.0 | 4,610.0 | 5,522.0 | 4,817.0 | 4,699.0 | 5,133.0 | 5,757.2 |
| Growth | 18.6 | 7.6 | 13.3 | 3.4 | -3.9 | 19.8 | -12.8 | -2.4 | 9.2 | 12.2 |
| **5. Total commodity Eeports excl. petroleum** | | | | | | | | | | |
| Value (US$ Mn.) | 3,721.6 | 3,991.0 | 4,542.0 | 4,725.0 | 4,536.0 | 5,424.0 | 4,749.0 | 4,626.0 | 5,068.0 | 5,657.6 |
| Growth | 19.0 | 7.2 | 13.8 | 4.0 | -4.0 | 19.6 | -12.4 | -2.6 | 9.6 | 11.6 |

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(a) |
|---|---|---|---|---|---|---|---|---|---|---|
| **1. Agriculture exports** | | | | | | | | | | |
| Value (US$ mn.) | 1,153.8 | 1,292.7 | 1,507.2 | 1,854.8 | 1,690.3 | 2,306.4 | 2,527.80 | 2,331.50 | 2,581.10 | 2,793.90 |
| Growth | 8.3 | 12.0 | 16.6 | 23.1 | -8.9 | 36.4 | 9.6 | -7.8 | 10.7 | 8.2 |
| % of total exports | 18.2 | 18.8 | 19.7 | 22.9 | 23.9 | 26.7 | 23.9 | 23.9 | 24.8 | 25.1 |
| 1.1 Plantation crops | | | | | | | | | | |
| Value (US$ mn.) | 970.40 | 1,098.20 | 1,275.80 | 1,567.60 | 1,449.90 | 1,779.60 | 1,963.30 | 1,745.90 | 1,818.10 | 2,030.00 |
| Growth | 7.4 | 13.2 | 16.2 | 22.9 | -7.5 | 22.7 | 10.3 | -11.1 | 4.1 | 11.7 |
| % of total exports | 15.3 | 16.0 | 16.7 | 19.3 | 20.5 | 20.6 | 18.6 | 17.9 | 17.5 | 18.2 |
| 1.1.1 Tea | | | | | | | | | | |
| Value (US$ mn.) | 810.2 | 881.2 | 1,025.2 | 1,271.5 | 1,185.1 | 1,440.6 | 1,490.90 | 1,411.90 | 1,542.20 | 1,628.30 |
| Growth | 9.6 | 8.8 | 16.3 | 24.0 | -6.8 | 21.6 | 3.5 | -5.3 | 9.2 | 5.6 |
| % of total exports | 12.8 | 12.8 | 13.4 | 15.7 | 16.7 | 16.7 | 14.1 | 14.4 | 14.8 | 14.6 |
| 1.1.2 Rubber | | | | | | | | | | |
| Value (US$ mn.) | 46.9 | 93.1 | 109.4 | 125.1 | 98.6 | 173.2 | 206.4 | 125.1 | 71.3 | 45.3 |
| Growth | -8.6 | 98.5 | 17.5 | 14.4 | -21.2 | 75.7 | 19.2 | -39.4 | -43.0 | -36.5 |
| % of total exports | 0.7 | 1.4 | 1.4 | 1.5 | 1.4 | 2.0 | 2.0 | 1.3 | 0.7 | 0.4 |
| 1.1.3 Coconut Kernel Products | | | | | | | | | | |
| Value (US$ Mn.) | 48.8 | 52.8 | 60.3 | 82.4 | 58.2 | 55.4 | - | - | - | - |
| Growth | -16.7 | 8.2 | 14.2 | 36.7 | -29.4 | -4.8 | - | - | - | - |
| % of Total Exports | 0.8 | 0.8 | 0.8 | 1.0 | 0.8 | 0.6 | - | - | - | - |
| 1.2. Minor agricultural crops | | | | | | | | | | |
| Value (US$ mn.) | 183.4 | 194.6 | 231.5 | 287.3 | 240.4 | 71.6 | 88.7 | 76 | 101.3 | 165.2 |
| Growth | 13.3 | 6.1 | 19.0 | 24.1 | -16.3 | -70.2 | 23.9 | -14.3 | 33.3 | 63.1 |
| % of Total Exports | 2.9 | 2.8 | 3.0 | 3.5 | 3.4 | 0.8 | 0.8 | 0.8 | 1.0 | 1.5 |
| **2. Mineral exports** | | | | | | | | | | |
| Value (US$ mn.) | 143.3 | 119.9 | 127.8 | 97.8 | 88.7 | 24.2 | 32.9 | 61.3 | 51.6 | 59.5 |
| Growth | 19.4 | -16.3 | 6.6 | -23.5 | -9.3 | -72.7 | 36.0 | 86.3 | -15.8 | 15.3 |
| % of total exports | 2.3 | 1.7 | 1.7 | 1.2 | 1.3 | 0.3 | 0.3 | 0.6 | 0.5 | 0.5 |
| **3. Industrial exports** | | | | | | | | | | |
| Value (US$ mn.) | 4,948.4 | 5,401.1 | 5,967.3 | 6,158.0 | 5,305.4 | 6,096.1 | 7,991.70 | 7,371.20 | 7,749.40 | 8,262.00 |
| Growth | 9.8 | 9.1 | 10.5 | 3.2 | -13.8 | 14.9 | 31.1 | -7.8 | 5.1 | 6.6 |
| % of total exports | 78.0 | 78.5 | 78.1 | 75.9 | 74.9 | 70.7 | 75.7 | 75.4 | 74.6 | 74.2 |
| 3.1 Textile & garments | | | | | | | | | | |
| Value (US$ mn.) | 22,894.5 | 3,080.4 | 3,339.6 | 3,468.7 | 3,274.2 | 3,356.0 | 4,191.20 | 3,991.10 | 4,508.30 | 4,929.90 |
| Growth | 3.0 | 6.4 | 8.4 | 3.9 | -5.6 | 2.5 | 24.9 | -4.8 | 13.0 | 9.4 |
| % of total exports | 45.6 | 44.8 | 43.7 | 42.8 | 46.2 | 38.9 | 39.7 | 40.8 | 43.4 | 44.3 |
| 3.2 Petrolium products | | | | | | | | | | |
| Value (US$ mn.) | 130.9 | 188.4 | 168.9 | 254.9 | 134.7 | 263.4 | 552.7 | 463 | 427.7 | 338 |
| Growth | 31.4 | 43.9 | -10.4 | 50.9 | -47.2 | 95.5 | 109.8 | -16.2 | -7.6 | -21.0 |
| % of total exports | 2.1 | 2.7 | 2.2 | 3.1 | 1.9 | 3.1 | 5.2 | 4.7 | 4.1 | 3.0 |
| **4. Total commodity exports inc. petroleum** | | | | | | | | | | |
| Value (US$ mn.) | 6,346.7 | 6,882.7 | 7,640.0 | 8,110.6 | 7,084.5 | 8,625.8 | 10,558.8 | 9,773.5 | 10,394.3 | 11,130.1 |
| Growth | 10.2 | 8.4 | 11.0 | 6.2 | -12.7 | 21.8 | 22.4 | -7.4 | 6.4 | 7.1 |
| **5. Total commodity exports excl. petroleum** | | | | | | | | | | |
| Value (US$ mn.) | 6,215.8 | 6,694.3 | 7,471.1 | 7,855.7 | 6,949.8 | 8,362.4 | 10,006.1 | 9,310.5 | 9,966.6 | 10,792.1 |
| Growth | 9.9 | 7.7 | 11.6 | 5.1 | -11.5 | 20.3 | 19.7 | -7.0 | 7.0 | 8.3 |

Note: (a): Provisional.

Sources: Central Bank of Sri Lanka, *Annual Report*, various issue; IPS database.

## Table A17: Tourism, 1995-2014

| | Unit | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Tourist arrivals | No. | 403,101 | 302,265 | 366,165 | 381,063 | 436,440 | 400,414 | 336,794 | 393,171 | 500,642 | 566,202 |
| Excursionist arrivals | No. | 10,556 | 12,863 | 18,265 | 27,629 | 28,335 | 44,518 | 60,084 | 63,560 | 82,066 | 110,000 |
| Tourist nights | 000 | 4,024 | 2,947 | 3,680 | 3,944 | 4,479 | 4,056 | 3,342 | 3,989 | 5,093 | 5,742 |
| Earnings | Rs. mn. | 11,551.6 | 9,559.1 | 12,980.0 | 14,868.0 | 19,297.3 | 19,162.2 | 18,863.3 | 24,202.0 | 32,810.0 | 42,666.3 |
| | US$ mn. | 225.4 | 173.0 | 216.7 | 230.5 | 274.9 | 252.8 | 211.1 | 253.0 | 340.0 | 416.8 |
| Receipts per tourist per day | US$ | 56.1 | 57.9 | 58.6 | 59.5 | 61.4 | 62.3 | 63.1 | 63.4 | 66.8 | 72.2 |
| Average duration | Nights | 10.0 | 9.8 | 10.1 | 10.4 | 10.3 | 10.1 | 9.9 | 10.1 | 10.2 | 10.1 |
| Accommodation | | | | | | | | | | | |
| Rooms | No. | 11,255 | 11,600 | 12,370 | 12,770 | 12,918 | 13,311 | 13,626 | 13,818 | 14,137 | 14,32 |
| Beds | No. | 21,680 | 22,040 | 22,944 | 23,373 | 24,216 | 24,953 | 25,595 | 25,956 | 26,511 | 26,854 |
| Occupancy rate, graded | % | 52.6 | 40.3 | 49.1 | 52.8 | 57.6 | 52.3 | 42.1 | 43.1 | 53.2 | 59.3 |
| Sri Lanka nationals | | | | | | | | | | | |
| Arrivals | No. | 459,441 | 488,055 | 482,850 | 481,793 | 521,073 | 514,448 | 487,356 | 493,947 | 560,602 | 646,990 |
| Departures | No. | 504,420 | 494,258 | 530,712 | 518,050 | 496,963 | 524,212 | 505,341 | 533,565 | 561,126 | 680,248 |
| Employment | | | | | | | | | | | |
| Direct | No. | 35,068 | 31,963 | 34,006 | 34,780 | 36,560 | 37,943 | 33,710 | 38,821 | 46,761 | 53,766 |
| Indirect | No. | 49,095 | 44,748 | 47,608 | 48,692 | 51,184 | 53,120 | 47,194 | 54,349 | 65,465 | 75,272 |

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| | Unit | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(a) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Tourist arrivals | No. | 549,308 | 559,603 | 494,008 | 438,475 | 447,890 | 654,476 | 855,975 | 1,005,605 | 1,274,593 | 1,527,153 |
| Excursionist arrivals | No. | 119,618 | 128,719 | 98,432 | 87,695 | 89,526 | 112,497 | 119,875 | 126,523 | 140,009 | 138,097 |
| Tourist nights | 000 | 4,754 | 5,793 | 4,940 | 4,166 | 4,075 | 6,548 | 8,560 | 10,056 | 10,961 | 15,119 |
| Earnings | Rs. mn. | 36,377 | 42,586 | 42,519 | 37,094 | 40,133 | 65,018 | 91,926 | 132,427 | 221,147 | 317,502 |
| | US$ mn. | 362.3 | 410.0 | 384.4 | 319.5 | 349.3 | 575.9 | 838.9 | 1038.3 | 1715.5 | 2431.1 |
| Receipts per tourist per day | US$ | 74.6 | 83.4 | 79.1 | 76.7 | 81.8 | 88.0 | 98.0 | 103.0 | 156.5 | 160.8 |
| Average duration | Nights | 8.7 | 10.4 | 10.0 | 9.5 | 9.1 | 10.0 | 10.0 | 10.0 | 8.6 | 9.9 |
| Accommodation | | | | | | | | | | | |
| Rooms | No. | 13,162 | 14,218 | 14,604 | 14,793 | 14,461 | 14,714 | 14,653 | 15,510 | 16,223 | 18,078 |
| Beds | No. | 24,740 | 27,117 | 27,500 | 28,698 | 28,344 | 28,978 | 28,844 | 30,880 | 32,284 | 35,976 |
| Occupancy rate, graded | % | 45.4 | 47.8 | 46.2 | 43.9 | 48.4 | 70.1 | 77.1 | 71.2 | 71.7 | 74.3 |
| Sri Lanka nationals | | | | | | | | | | | |
| Arrivals | No. | 683,169 | 734,421 | 817,524 | 900,815 | 914,584 | 1,081,417 | 1,210,951 | 1,210,914 | 1,200,778 | 1,263,494 |
| Departures | No. | 727,301 | 756,735 | 862,011 | 966,337 | 962,786 | 1,122,212 | 1,239,290 | 1,268,792 | 1,261,711 | 1,311,063 |
| Employment | | | | | | | | | | | |
| Direct | No. | 52,085 | 55,649 | 60,516 | 51,306 | 52,071 | 55,023 | 57,786 | 67,862 | 112,550 | 129,790 |
| Indirect | No. | 72,919 | 77,909 | 84,722 | 71,828 | 72,899 | 77,032 | 80,899 | 95,007 | 157,600 | 170,100 |

Notes: (a): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report,* various issues; Central Bank of Sri Lanka, *Annual Report*, various issues.

## Table A18: Monthly Tourist Arrivals, 2003-2014

| | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth |
| January | 40,647 | 43.6 | 49,950 | 22.9 | 38,187 | -23.5 | 52,103 | 36.4 | 56,553 | 8.5 | 56,916 | 0.6 |
| February | 39,081 | 23.4 | 43,584 | 11.5 | 36,645 | -15.9 | 52,687 | 43.8 | 43,051 | -18.3 | 40,551 | -5.8 |
| March | 40,818 | 23.4 | 38,418 | -5.9 | 50,418 | 31.2 | 54,746 | 8.6 | 35,031 | -36.0 | 38,049 | 8.6 |
| April | 33,714 | 24.6 | 30,672 | -9.0 | 42,261 | 37.8 | 49,776 | 17.8 | 33,039 | -33.6 | 29,747 | -10.0 |
| May | 30,048 | 12.7 | 30,162 | 0.4 | 40,878 | 35.5 | 43,825 | 7.2 | 26,307 | -40.0 | 31,140 | 18.4 |
| June | 31,836 | 20.8 | 32,119 | 0.9 | 45,699 | 42.3 | 44,066 | -3.6 | 30,810 | -30.1 | 27,960 | -9.3 |
| July | 43,743 | 22.4 | 50,525 | 15.5 | 56,745 | 12.3 | 55,354 | -2.5 | 44,142 | -20.3 | 32,982 | -25.3 |
| August | 42,111 | 18.7 | 48,675 | 15.6 | 51,216 | 5.2 | 52,931 | 3.3 | 44,742 | -15.5 | 30,672 | -31.4 |
| September | 36,054 | 9.3 | 51,525 | 42.9 | 43,536 | -15.5 | 38,485 | -11.6 | 37,104 | -3.6 | 29,529 | -20.4 |
| October | 49,922 | 37.7 | 59,442 | 19.1 | 44,095 | -25.8 | 38,815 | -12.0 | 37,011 | -4.6 | 35,103 | -5.2 |
| November | 54,946 | 46.9 | 64,971 | 18.2 | 48,457 | -25.4 | 37,591 | -22.4 | 45,102 | 20.0 | 36,901 | -18.2 |
| December | 57,722 | 36.8 | 66,159 | 14.6 | 51,171 | -22.7 | 39,224 | -23.3 | 61,116 | 55.8 | 48,925 | -19.9 |
| Total | 500,642 | 27.3 | 566,202 | 13.1 | 549,308 | -3.0 | 559,603 | 1.9 | 494,008 | -11.7 | 438,475 | -11.2 |

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| | 2009 | | 2010 | | 2011 | | 2012 | | 2013 | | 2014(a) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth |
| January | 38,468 | -32.4 | 50,757 | 31.9 | 74,197 | 46.2 | 85,874 | 15.7 | 110,543 | 28.7 | 146,575 | 32.6 |
| February | 34,169 | -15.7 | 57,300 | 67.7 | 65,797 | 14.8 | 83,549 | 27.0 | 113,968 | 36.4 | 141,878 | 24.5 |
| March | 34,065 | -10.5 | 52,352 | 53.7 | 75,130 | 43.5 | 91,102 | 21.3 | 113,208 | 24.3 | 133,048 | 17.5 |
| April | 26,054 | -12.4 | 38,300 | 47.0 | 63,835 | 66.7 | 69,591 | 9.0 | 80,737 | 16.0 | 112,631 | 39.5 |
| May | 24,739 | -20.6 | 35,213 | 42.3 | 48,943 | 39.0 | 57,506 | 17.5 | 74,838 | 30.1 | 90,046 | 20.3 |
| June | 30,234 | 8.1 | 44,730 | 47.9 | 53,636 | 19.9 | 65,245 | 21.6 | 90,279 | 38.4 | 103,175 | 14.3 |
| July | 42,223 | 28.0 | 63,339 | 50.0 | 83,786 | 32.3 | 90,338 | 7.8 | 107,016 | 18.5 | 133,971 | 25.2 |
| August | 41,207 | 34.3 | 55,898 | 35.7 | 72,463 | 29.6 | 79,456 | 9.7 | 123,269 | 55.1 | 140,319 | 13.8 |
| September | 37,983 | 28.6 | 47,339 | 24.6 | 60,219 | 27.2 | 71,111 | 18.1 | 90,339 | 27.0 | 105,535 | 16.8 |
| October | 37,575 | 7.0 | 52,370 | 39.4 | 69,563 | 32.8 | 80,379 | 15.5 | 107,058 | 33.2 | 121,576 | 13.6 |
| November | 44,311 | 20.1 | 72,251 | 63.1 | 90,889 | 25.8 | 109,202 | 20.1 | 109,420 | 0.2 | 119,727 | 9.4 |
| December | 56,862 | 16.2 | 84,627 | 48.8 | 97,517 | 15.2 | 122,252 | 25.4 | 153,918 | 25.9 | 178,672 | 16.1 |
| Total | 447,890 | 2.1 | 654,476 | 46.1 | 855,975 | 30.8 | 1,005,605 | 17.5 | 1,274,593 | 26.7 | 1,527,153 | 19.8 |

Note: Monthly growth figures reflect percentage changes compared to the same month in the previous year.
(a): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report*, various issues and Monthly Statistical Bulletin, 2012.
Ceylon Tourist Board, Monthly Statistical Bulletion, 2012.

## Table A19: Tourist Arrivals by Country of Residence, 2003-2014

| | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth |
| North America | 25,110 | 26.4 | 29,759 | 18.5 | 46,457 | 56.1 | 35,323 | -24.0 | 28,355 | -19.7 | 24,311 | -14.3 |
| Canada | 11,164 | 34.5 | 14,633 | 31.1 | 21,185 | 44.8 | 14,623 | -31.0 | 11,869 | -18.8 | 10,258 | -13.6 |
| U.S.A. | 13,946 | 20.6 | 15,126 | 8.5 | 25,272 | 67.1 | 20,700 | -18.1 | 16,486 | -20.4 | 14,053 | -14.8 |
| Western Europe | 255,169 | 27.4 | 284,440 | 11.5 | 227,191 | -20.1 | 228,445 | 0.6 | 194,448 | -14.9 | 167,187 | -14.0 |
| Germany | 58,908 | 6.8 | 58,258 | -1.1 | 46,350 | -20.4 | 47,402 | 2.3 | 35,042 | -26.1 | 30,625 | -12.6 |
| United Kingdom | 93,278 | 38.1 | 106,645 | 14.3 | 92,629 | -13.1 | 88,306 | -4.7 | 94,060 | 6.5 | 81,331 | -13.5 |
| France | 28,585 | 43.0 | 29,996 | 4.9 | 26,653 | -11.1 | 22,693 | -14.9 | 8,091 | -64.3 | 10,594 | 30.9 |
| Italy | 15,654 | 28.6 | 18,862 | 20.5 | 10,192 | -46.0 | 12,424 | 21.9 | 11,451 | -7.8 | 9,126 | -20.3 |
| Netherlands | 118,197 | 54.9 | 21,455 | 17.9 | 15,156 | -29.4 | 19,360 | 27.7 | 17,526 | -9.5 | 13,030 | -25.7 |
| Asia | 1177,351 | 24.0 | 198,068 | 11.7 | 223,351 | 12.8 | 242,132 | 8.4 | 202,480 | -16.4 | 173,039 | -14.5 |
| Japan | 17,115 | 25.8 | 19,641 | 14.8 | 17,148 | -12.7 | 16,189 | -5.6 | 14,274 | -11.8 | 10,075 | -29.4 |
| India | 90,603 | 29.5 | 105,151 | 16.1 | 113,323 | 7.8 | 128,370 | 13.3 | 106,067 | -17.4 | 85,238 | -19.6 |
| Pakistan | 9,704 | 43.6 | 9,638 | -0.7 | 11,029 | 14.4 | 11,145 | 1.1 | 10,204 | -8.4 | 7,885 | -22.7 |
| Australasia | 22,965 | 73.9 | 26,540 | 15.6 | 29,738 | 12.0 | 25,127 | -15.5 | 22,924 | -8.8 | 21,839 | -4.7 |
| Australia | 19,958 | 77.9 | 23,247 | 16.5 | 25,986 | 11.8 | 21,849 | -15.9 | 20,241 | -7.4 | 19,536 | -3.5 |
| Other(a) | 20,047 | 19.8 | 27,395 | 36.7 | 22,571 | -17.6 | 28,576 | 26.6 | 45,801 | 60.3 | 52,099 | 13.8 |
| Total | 500,642 | 27.3 | 566,202 | 13.1 | 549,308 | -3.0 | 559,603 | 1.9 | 494,008 | -11.7 | 438,475 | -11.2 |

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| | 2009 | | 2010 | | 2011 | | 2012 | | 2013 | | 2014(b) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth |
| North America | 24,948 | 2.6 | 40,216 | 61.2 | 49,057 | 22.0 | 59,236 | 20.7 | 65,616 | 10.8 | 72,653 | 10.7 |
| Canada | 10,707 | 4.4 | 21,123 | 97.3 | 24,671 | 16.8 | 29,329 | 18.9 | 30,926 | 5.4 | 33,282 | 7.6 |
| U.S.A. | 14,241 | 1.3 | 19,093 | 34.1 | 24,386 | 27.7 | 29,907 | 22.6 | 34,690 | 16.0 | 39,371 | 13.5 |
| Western Europe | 170,123 | 1.8 | 256,861 | 51.0 | 315,210 | 22.7 | 373,063 | 18.4 | 421,037 | 12.9 | 479,007 | 13.8 |
| Germany | 29,654 | -3.2 | 45,727 | 54.2 | 55,882 | 22.2 | 71,642 | 28.2 | 85,470 | 19.3 | 102,977 | 20.5 |
| United Kingdom | 81,594 | 0.3 | 105,496 | 29.3 | 106,082 | 0.6 | 114,218 | 7.7 | 137,416 | 20.3 | 144,168 | 4.9 |
| France | 15,886 | 50.0 | 31,285 | 96.9 | 48,695 | 55.6 | 56,863 | 16.8 | 64,388 | 13.2 | 78,883 | 22.5 |
| Italy | 7,514 | -17.7 | 11,423 | 52.0 | 13,527 | 18.4 | 15,871 | 17.3 | 17,982 | 13.3 | 21,116 | 17.4 |
| Netherlands | 11,291 | -13.3 | 17,861 | 58.2 | 23,966 | 34.2 | 26,754 | 11.6 | 22,281 | -16.7 | 24,196 | 8.6 |
| Asia | 174,534 | 0.9 | 244,124 | 39.9 | 333,841 | 36.8 | 380,289 | 13.9 | 509,653 | 34.0 | 650,810 | 27.7 |
| Japan | 10,926 | 8.4 | 14,352 | 31.4 | 20,586 | 43.4 | 26,085 | 26.7 | 29,923 | 14.7 | 39,136 | 30.8 |
| India | 83,634 | -1.9 | 126,882 | 51.7 | 171,374 | 35.1 | 176,340 | 2.9 | 208,795 | 18.4 | 242,734 | 16.3 |
| Pakistan | 7,373 | -6.5 | 9,148 | 24.1 | 14,724 | 61.0 | 16,056 | 9.0 | 25,336 | 57.8 | 25,424 | 0.3 |
| Australasia | 26,068 | 19.4 | 37,290 | 43.0 | 46,467 | 24.6 | 57,776 | 24.3 | 60,836 | 5.3 | 65,252 | 7.3 |
| Australia | 23,239 | 19.0 | 33,456 | 44.0 | 41,728 | 24.7 | 51,614 | 23.7 | 54,252 | 5.1 | 57,940 | 6.8 |
| Other(a) | 52,217 | 0.2 | 75,985 | 45.5 | 111,400 | 46.6 | 135,241 | 21.4 | 217,451 | 60.8 | 259,431 | 19.3 |
| Total | 447,890 | 2.1 | 654,476 | 46.1 | 855,975 | 30.8 | 1,005,605 | 17.5 | 1,274,593 | 26.7 | 1,527,153 | 19.8 |

Notes: (a): Latin America & the Caribbean, East Europe, Africa, and Middle East.
(b): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report,* various issues and Monthly Statistical Bulletin, 2012.

## Table A20: Balance of Payments, 2003-2014

| | Unit | 2003(c) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(a) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Trade balance | US$ mn. | -1539 | -2243 | -2516 | -3370 | -3657 | -5981 | -3122 | -4825 | -9710 | -9417 | -7609 | -8287 |
| | % of GDP | -8.2 | -10.9 | -10.3 | -11.9 | -11.3 | -14.7 | -7.4 | -9.7 | -16.4 | -15.9 | -11.3 | -11.1 |
| 2. Services balance | US$ mn. | 399 | 419 | 338 | 257 | 302 | 401 | 391 | 707 | 1099 | 1262 | 1180 | 1880 |
| | % of GDP | 2.1 | 2.0 | 1.4 | 0.9 | 0.9 | 1.0 | 0.9 | 1.4 | 1.9 | 2.1 | 1.8 | 2.5 |
| 3. Income, net | US$ mn. | -172 | -204 | -299 | -389 | -358 | -972 | -488 | -617 | -647 | -1219 | -1751 | -1839 |
| | % of GDP | -0.9 | -1.0 | -1.2 | -1.4 | -1.1 | -2.4 | -1.2 | -1.2 | -1.1 | -2.1 | -2.6 | -2.5 |
| 4. Net private transfers | US$ mn. | 1205 | 1350 | 1736 | 1904 | 2214 | 2565 | 2927 | 3608 | 4583 | 5339 | 5619 | 6199 |
| | % of GDP | 6.4 | 6.5 | 7.1 | 6.7 | 6.8 | 6.3 | 7.0 | 7.3 | 7.7 | 9.0 | 8.4 | 8.3 |
| 5. Net official transfers | US$ mn. | 36 | 30 | 93 | 101 | 97 | 101 | 77 | 52 | 60 | 53 | 21 | 28 |
| | % of GDP | 0.2 | 0.1 | 0.4 | 0.4 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| 6. Current account balance | US$ mn. | -71 | -648 | -650 | -1499 | -1402 | -3886 | -214 | -1075 | -4615 | -3982 | -2541 | -2018 |
| | % of GDP | -0.4 | -3.1 | -2.7 | -5.3 | -4.3 | -9.5 | -0.5 | -2.2 | -7.8 | -6.7 | -3.8 | -2.7 |
| 7. Capital and financial a/c | US$ mn. | 722 | 631 | 1224 | 1808 | 2097 | 1774 | 2594 | 2877 | 4263 | 4394 | 3135 | 1994 |
| | % of GDP | 3.8 | 3.1 | 5.0 | 6.4 | 6.5 | 4.4 | 6.2 | 5.8 | 7.2 | 7.4 | 4.7 | 2.7 |
| Capital account | US$ mn. | 74 | 64 | 250 | 291 | 269 | 291 | 233 | 164 | 164 | 130 | 71 | 58 |
| 8. Financial account | US$ mn. | 648 | 567 | 974 | 1517 | 1828 | 1483 | 2361 | 2713 | 4098 | 4263 | 3126 | 1936 |
| Long-term | US$ mn. | 722 | 680 | 798 | 907 | 1251 | 1016 | 1304 | 2379 | 3308 | 2587 | 2314 | 2086 |
| Foreign direct investment | US$ mn. | 171 | 217 | 234 | 451 | 548 | 691 | 384 | 435 | 896 | 871 | 868 | 877 |
| Private long-term (net) | US$ mn. | -33 | 14 | 11 | -35 | 31 | 74 | 79 | 149 | 175 | 724 | 605 | 563 |
| Government long-term | US$ mn. | 554 | 439 | 554 | 491 | 672 | 252 | 840 | 1796 | 2237 | 992 | 841 | 646 |
| 9. Short-term | US$ mn. | -75 | -112 | 176 | 610 | 577 | 466 | 1058 | 334 | 790 | 1676 | 750 | 150 |
| Foreign portfolio investment | US$ mn. | 2 | 11 | 60 | 51 | 101 | 60 | -6 | -230 | -171 | 272 | 226 | 184 |
| 10 Other (b) | US$ mn. | -148 | -189 | -72 | -105 | -165 | 728 | 346 | -881 | -708 | -412 | -594 | 24 |
| 11. Overall balance | US$ mn. | 502 | -205 | 501 | 204 | 531 | -1385 | 2725 | 921 | -1059 | 151 | 985 | 1369 |
| | % of GDP | 2.7 | -1.0 | 2.1 | 0.7 | 1.6 | -3.4 | 6.5 | 1.9 | -1.8 | 0.3 | 1.5 | 1.8 |

es: (a): Provisional.
(b): Valuation adjustments, errors, and omissions.
(c): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report,* various issues.

## Table A21: Exchange Rate Behaviour, 2003-2014

| Currency | Unit | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Nominal exchange rates | | | | | | | | | | | | | |
| U.S.A. | S.L. Rs. per US$ | 96.74 | 104.61 | 102.12 | 107.71 | 108.72 | 113.14 | 114.38 | 110.95 | 113.90 | 127.16 | 130.75 | 131.05 |
| Japan | S.L. Rs. per Yen | 0.90 | 1.02 | 0.87 | 0.91 | 0.97 | 1.25 | 1.24 | 1.36 | 1.47 | 1.48 | 1.25 | 1.10 |
| U. K. | S.L. Rs. per Pound | 172.20 | 201.37 | 175.94 | 211.29 | 217.15 | 163.28 | 181.75 | 171.41 | 175.45 | 205.47 | 215.58 | 204.04 |
| Europeon Union | S.L. Rs. per Euro | 121.60 | 142.32 | 120.96 | 141.58 | 160.27 | 159.45 | 163.72 | 147.56 | 147.42 | 168.13 | 180.45 | 159.42 |
| India | S.L. Rs. per Ind. Rs. | 2.12 | 2.40 | 2.27 | 2.44 | 2.77 | 2.36 | 2.46 | 2.48 | 2.15 | 2.33 | 2.11 | 2.07 |
| 24 currency | | | | | | | | | | | | | |
| Nominal effective exchange rates (NEER) | NEER 2006 = 100 (a) | 113.75 | 104.32 | 104.06 | 110.94 | 98.96 | 100.07 | 99.85 | 100.00 | 99.84 | 90.44 | 91.39 | 91.99 |
| Real effective exchange rate (REER) | REER 2006 = 100 (a) | 92.82 | 90.60 | 97.43 | 81.02 | 78.07 | 95.19 | 97.36 | 100.00 | 101.84 | 95.80 | 100.61 | 101.94 |

Notes: (a): From 2006 onwards, NEER 2010 = 100.

Sources: Central Bank of Sri Lanka, *Annual Report,* various issues.

**Themes of the "Sri Lanka: State of the Economy Reports"**

| | |
|---|---|
| 1992 | Macroeconomic Policy |
| 1993 | Export Sector |
| 1994 | Agriculture Sector |
| 1995 | Poverty Alleviation |
| 1996 | Workers' Charter |
| 1997 | Private Sector Expansion |
| 1998 | Demographic Change and Social Safety Nets |
| 1999 | Free Trade in South Asia |
| 2000 | Plantation Sector |
| 2001 | Competition Policy and Regulations |
| 2002 | Agriculture Sector |
| 2003 | Garment Sector |
| 2004 | Land Policy |
| 2005 | Post-Tsunami Economic Issues |
| 2006 | Agriculture Reforms: Irrigation Water Charges and Land Policy |
| 2007 | Empowerment of the Poor |
| 2008 | Political Economy  Dilemma of Reforms |
| 2009 | The Global Economic Crisis: Issues, Impacts and Outlook |
| 2010 | Growth and Stability in Post-conflict Economic Recovery |
| 2011 | Post-Conflict Growth and Recovery |
| 2012 | Keeping Sri Lanka on the Growth Expressway |
| 2013 | The Transition to a Middle-Income Economy |
| 2014 | Rising Asia: Opportunities and Challenges for Sri Lanka |
| 2015 | Economic Reforms: Political Economy and Institutional Challenges |

Sri Lanka's fiscal constraints, the demographics of a contracting labour force, and skill deficiencies suggest that a rise in infrastructure investment will spur growth only temporarily. Sustaining higher growth in the long run must come via a competitive export sector through improvements in productivity, notably due to innovation and to investments in human capital.

Overhauling Sri Lanka's tax system, tackling loss making state-owned-enterprises (SOEs), improving labour market efficiency, filling skill gaps in the work force, improving productivity of agriculture, delivering a better safety net to the poor and vulnerable, to name a few, are amongst a raft of reforms that need attention. Such reforms are politically difficult to deliver through the legislative phase, and are often even more difficult to implement. Reforms generate distributional impacts that create 'losers' and 'winners', entailing short-term adjustment costs and the potential for long-term benefits. Thus, while reforms need to be ambitious in scope, it is typically the case that ambition may have to be tempered by political economy realities.

An agenda setting for reforms must begin with attempts to strengthen interactions between institutions, policy processes, and policy outcomes. The environment in which many of these sorts of transitions take place is strongly influenced by broader factors such as the quality of institutions and governance in a country. The Sri Lanka: State of the Economy 2015 report addresses these through an overarching theme of "Economic Reforms in Sri Lanka: Political Economy and Institutional Challenges". The report examines in some detail the many interrelated reforms that touch on important economic policy areas - trade and investment, labour market, foreign employment, education, health, social protection, agriculture and the environment. Given the array of issues, the report argues for coherence and prioritization in the design of reforms on several fronts, so that they add up to a plausible overall economic strategy that will help Sri Lanka to achieve sustained high growth in the long-run.

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