SRI LANKA
State of the Economy
2011



Post-conflict Growth: Making it Inclusive

INSTITUTE OF POLICY STUDIES OF SRI LANKA



A young IT student at a rural Nenasala in Badulla, Central Province

An electricity sub-station in Udawalawe, Southern Province

Transporting sand to a construction site in Thissamaharama, Southern Province

Lush paddy cultivation at Unnichchai near Batticaloa, Eastern Province

Female school children in Polonnaruwa, North Central Province

Cover and inside images by Anushka Wijesinha

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Please address orders to:
Institute of Policy Studies of Sri Lanka
100/20, Independence Avenue, Colombo 7, Sri Lanka
Tel: +94 11 2143100 Fax: +94 11 2665065
Email: ips@ips.lk
Website: www.ips.lk
Blog: 'Talking Economics' - http://ipslk.blogspot.com
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This report was prepared by a team led by Dushni Weerakoon, with the guidance of Saman Kelegama, Executive Director, IPS. Contributing authors are Ashani Abayasekara, Nisha Arunatilake, Samanthi Bandara, Buddhika Brahmanage, G.D. Dayaratne, Ayodya Galappatige, Asha Gunawardena, Dilani Hirimuthugodage, Suwendrani Jayaratne, Priyanka Jayawardena, Roshini Jayaweera, Chandana Karunaratne, Malathy Knight, Sunimalee Madurawela, Wimal Nanayakkara, Nethmini Perera, Dharshani Premaratne, Parakrama Samaratunga, Dushni Weerakoon, Kanchana Wickremasinghe and Anushka Wijesinha.

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Contents

Post-conflict Growth and Recovery

1. Policy Perspectives **1**

2. Economic Performance: Post-conflict Growth **9**
2.1 Introduction 9
2.2 Output and Employment 10
2.2.1 Output Growth 10
2.2.2 Consumption, Investment and Savings 12
2.2.3 Labour Force and Employment 12
2.3 Fiscal Policy Developments 14
2.4 Monetary Policy Developments 17
2.5 External Sector Developments 18
2.6 Conclusion 20

3. Accelerating Inclusive Growth in Sri Lanka: The Role of the External Sector **21**
3.1 Introduction 21
3.2 Earnings from Exports of Goods and Services: An Overview 22
3.3 Emerging Global Economic Environment and Prospects for Exports 24
3.4 Inclusive Growth: The Distributional Impacts of Trade 27
3.4.1 Pro-Poor Growth: Manufacturing or Services Sector? 28
3.4.2 Trade and Gender Linkages 29
3.5 Trade and Inclusive Growth in Sri Lanka: Tea, Garments and Remittances 31
3.5.1 Garment Sector 31
3.5.2 Tea 33
3.5.3 Remittances 34
3.6 Conclusion 36

Post-conflict Growth: Making it Inclusive

4. Imperatives of Inclusive Growth **38**
4.1 Introduction 38
4.1.1 Inclusive Growth: A Framework for Analysis 39
4.2 Patterns of Growth and their Inclusiveness 41
4.3 Improving Employability 45
4.4 An inclusive Growth Strategy for Sri Lanka 47
4.4.1 Improving Productivity and Sustainability in the Primary Sector 47
4.4.2 Improving Connectivity and Making Use of Emerging Opportunities 48
4.5 Improving the Institutional Environment 50
4.5.1 Institutional Effectiveness and Inclusiveness 50
4.6 Conclusion 53

5. Social Protection as an Indispensable Instrument **54**
5.1 Introduction 54
5.2 Poverty and Inequality in Sri Lanka 55
5.3 Social Protection Layout 57

5.4 Social Protection in Inclusive Growth in Sri Lanka: Who Needs the 'Push'? 59
5.5 Social Protection Challenges and Gaps in Sri Lanka 63
5.5.1 Securing the Needs of the Most Vulnerable: Revisiting the Social Safety Net Programme 64
5.5.2 Social Protection to Combat Multiple Vulnerabilities 64
5.5.3 Social Protection Challenges Emerging from Demographic Transition 66
5.5.4 Improving Employability/Skills as a Social Protection Measure 67
5.5.5 Livelihood Support as Social Protection 67
5.6 Conclusion 68

6. Education and Health Services for Sustainable Growth 70
6.1 Introduction 70
6.2 Education 71
6.2.1 Current Status and Objectives 71
6.2.2 Equity Issue 72
6.2.3 Key Sector Challenges and Issues 74
6.2.4 Current Policies and Programmes 76
6.3 Health 77
6.3.1 Current Status and Objectives 77
6.3.2 Equity Issues in Health 79
6.3.3 Emerging Needs and Current Policies 81
6.3.4 Current Policies and Programmes 82
6.4 Conclusion and Policy Implications 82

7. Agriculture Sector and Challenges to Inclusive Growth 84
7.1 Introduction 84
7.2 Economic Growth and Agriculture 85
7.3 Employment and Poverty 86
7.3.1 Growth and Distribution of Employment 86
7.3.2 Land and Rural Poverty 88
7.4 Agriculture Sector Growth 89
7.4.1 Food Crop Sector Growth 89
7.5 Where Things Went Wrong 94
7.6 Way Forward 95

8. Inclusive Growth and the Fishery Sector 97
8.1 Introduction 97
8.2 Sri Lanka's Fishery Sector: An Overview 97
8.2.1 Fish Production 97
8.2.2 Fishery Sub-sectors 99
8.2.3 Fish Exports and Imports 102
8.2.4 Productivity in the Fishery Sector 103
8.2.5 Employment in the Fishery Sector 104
8.2.6 Socio-economic Conditions in Different Segments of the Fishery Sector 104
8.3 Recent Development Activities 107
8.3.1 Recent Developments in the Marine Fishery Sector 107
8.3.2 Developments in Inland Fisheries and Aquaculture 108
8.4 Conclusion and Way Forward 109

9. Small and Medium Enterprises: Key to Inclusive Private Sector Development 111
9.1 Introduction 111
9.2 Private Sector Enabling Environment and SME Development 112
9.2.1 Industrialization and Private Entrepreneurship: Policies, Institutions and Trends 112

9.3 SMEs in Sri Lanka: Policy and Institutional Framework 114
9.4 Towards Inclusive Private Sector Development and SME Growth: Key Policy Challenges 116
9.4.1 Creating an Enabling Environment for Inclusive Private Sector Growth 116
9.4.2 Revisiting Strategic Industrial Policy 118
9.4.3 Access to Credit: Unleashing the Potential for SME Growth 119
9.5 Conclusion 120

10. Towards a Competitive and Inclusive Knowledge Economy 121
10.1 Introduction 121
10.2 Advent of the 'Knowledge Economy' Concept 122
10.3 What is a Knowledge Economy?: Definitions and Determinants 123
10.4 Sri Lanka as a Knowledge Economy: Status, Comparison, Inclusivenes 124
10.4.1 Business Environment and Economic Incentives Regime 125
10.4.2 Information Communication Technology (ICT) Infrastructure 127
10.4.3 Research and Innovation System 131
10.4.4 Education and Skills 133
10.5 Way Forward - Strong Institutional Framework 137

Policy Reflections

11. Driving Infrastructure Developments for Inclusive Growth 140
11.1 Introduction 140
11.2 Role of Infrastructure in Inclusive Growth and Poverty Reduction 141
11.3 Infrastructure Development and Inclusive Growth in Sri Lanka 142
11.3.1 Policy on Infrastructure Development 142
11.3.2 National Level Infrastructure Development 144
11.3.3 Rural Infrastructure Development 146
11.4 Infrastructure Development and Employment 150
11.5 Conclusion and Way Forward 150

12. Developing Tourism for Inclusive Growth 151
12.1 Background 151
12.2 Tourism and Economic Development 152
12.2.1 Contribution of Tourism 152
12.2.2 Emerging Trends 154
12.3 Tourism and Inclusive Growth in Sri Lanka 155
12.3.1 Tourism Resources and Infrastructure 155
12.3.2 Distributional Aspects of Tourism Benefits 155
12.3.3 Environmental Sustainability 157
12.4 Key Policy Issues and Implications 157

13. Natural Disasters, Climate Change and Inclusive Growth 158
13.1 Background 158
13.2 Profile of Natural Disasters in Sri Lanka 159
13.3 Increased Disaster Vulnerability due to Global Climate Change 160
13.4 Impacts of Natural Disasters on Inclusive Growth 161
13.4.1 Direct Economic Costs 161
13.4.2 Distributional Impacts of Natural Disasters and Climate Change 162
13.5 Disaster Management System in Sri Lanka 163
13.5.1 Measures to Reduce Physical Vulnerability 163
13.5.2 Measures to Reduce Socio-economic Vulnerability 164
13.6 Implications for Policy 164

14. Strategic Remedies for Rising Food Prices **165**
14.1 Introduction 165
14.2 Global Food Prices 166
14.3 Foodflation in Sri Lanka 169
14.4 Coping with Soaring Food Prices 170
14.4.1 Coping Strategies during the 2007/08 Food Crisis 170
14.5 Way Forward 171
14.6 Conclusion 173

15. Social Determinants of Health **174**
15.1 Introduction 174
15.2 Growth, Social Inclusion and Health 175
15.3 Sri Lanka's Health Sector Achievements 176
15.4 Relevance of SDH for Sri Lanka 177
15.4.1 Health Inequity 177
15.5 Way Forward on SDH Approach in Sri Lanka 179
15.6 Conclusion and Policy Implications 180

16. A Rational Drug Policy: An Imperative of 'Health for All' **182**
16.1 Introduction 182
16.2 Burden of Disease 183
16.3 Sri Lanka's Drug Policy 184
16.4 Why Sri Lanka Needs a Rational Drug Policy 185
16.4.1 A Case of Shortages: Paracetamol 186
16.5 Present Status of Drug Regulatory Regime 187
16.6 Conclusion 188

17. Accessibility and Affordability in the Power Sector **189**
17.1 Introduction 189
17.2 Power Sector and its New Developments 190
17.2.1 Overview of the Power Sector 190
17.2.2 Recent Developments in the Power Sector 192
17.3 Electricity Sector and Inclusive Growth 194
17.3.1 Household Sector 194
17.3.2 Commercial (Hotel) and Industrial Sectors 197
17.4 Conclusion and the Way Forward 199

Prospects

18. Prospects **200**

Appendices

Appendix A: Macroeconomic Indicators **i**

Appendix B: Capital Market **xxvi**

LIST OF FIGURES

Figure	2.1	:	GDP and Sectoral Growth	10
Figure	2.2	:	Emerging External Debt Profile	15
Figure	2.3	:	External Debt Dynamics	16
Figure	2.4	:	Demand for Credit	17
Figure	2.5	:	Inflation Trends	18
Figure	2.6	:	Exports, Remittances and Tourism	18
Figure	2.7	:	Trends in Nominal and Real Exchange Rate Movements	19
Figure	3.1	:	Trends in Export Earnings	23
Figure	3.2	:	Sri Lanka's Export Share	24
Figure	3.3	:	EU and US: GDP, Consumption and Unemployment Rates	25
Figure	3.4	:	Sri Lanka's Share of Exports to US, EU, ASEAN and SAARC	26
Figure	3.5	:	Departures for Foreign Employment by Sex and Manpower Levels	31
Figure	3.6	:	Sri Lanka's Export Share in the USA and EU T&G Markets	32
Figure	3.7	:	Sri Lanka's Market Share in Major Tea Markets	34
Figure	3.8	:	Top Destinations of Labour Migrants from Sri Lanka by Country	36
Figure	4.1	:	Framework for Inclusive Growth Analysis	40
Figure	4.2	:	Contribution to GDP by Industrial Sector and Province	41
Figure	4.3	:	Changes in GDP, Poverty and Sectoral Shares of GDP across Provinces	42
Figure	4.4	:	Change in Access to Education, by Class	46
Figure	4.5	:	Change in Access to Health, by Class	46
Figure	5.1	:	Poverty Headcount Ratio by Districts	55
Figure	5.2	:	Percentage of Households by Socio-Economic Group in Each Province	59
Figure	5.3	:	Percentage of Poor Households by Socio-Economic Groups	60
Figure	5.4	:	Poor Households and Households in First Four Household Expenditure Deciles by Province	61
Figure	5.5	:	Informal Sector Employment by Major Industry	62
Figure	5.6	:	Formal/Informal Sector Employment by Occupational Group	62
Figure	5.7	:	Informal Sector Employment in Non-agricultural Sector by District	63
Figure	6.1	:	Distribution of Out-of-Pocket Expenditure on Education	75
Figure	6.2	:	Total Expenditure on Health	77
Figure	6.3	:	Child Nutrition and Health Status by Wealth Quintile	80
Figure	6.4	:	Child Nutrition and Health Status by Sector	80
Figure	7.1	:	GDP Growth in Sri Lanka	85
Figure	7.2	:	Agriculture Sector Contribution to GDP	85
Figure	7.3	:	Investment in Agricultural Research and Extension and Productivity Growth	93
Figure	8.1	:	Total National Fish Production by Sub-sector	98
Figure	8.2	:	National Fish Production	100
Figure	8.3	:	Fish Exports	102
Figure	8.4	:	Ornamental Fish Exports	102
Figure	8.5	:	Fish Imports	103
Figure	9.1	:	SME Policies in Sri Lanka: Re-inventing the Wheel	116
Figure	10.1	:	Comparison of Business Environment Infrastructure: Sri Lanka, India and Singapore	126
Figure	10.2	:	Comparison of ICT Infrastructure: Sri Lanka, India and Singapore	128
Figure	10.3	:	Provincial Distribution of Fixed Phones	129
Figure	10.4	:	Comparison of Research and Innovation Infrastructure: Sri Lanka, India and Singapore	131
Figure	10.5	:	Comparison of Education and Skills Infrastructure: Sri Lanka, India and Singapore	133
Figure	10.6	:	Computer Literacy in Sri Lanka across Urban, Rural and Estate Sectors	136

Figure 10.7 : Computer Literacy in Sri Lanka across Provinces 136
Figure 10.8 : Students by Medium of Study across Sri Lanka 137
Figure 11.1 : Impact of Infrastructure on Economic Growth and Poverty Reduction 141
Figure 11.2 : Contribution of Transport and Communication to GDP 142
Figure 11.3 : Public Investment 143
Figure 11.4 : Electrification Level in Sri Lanka 145
Figure 12.1 : Impacts of Tourism 152
Figure 12.2 : Tourist Arrivals and Earnings 153
Figure 12.3 : Tourist Arrivals and Employment Generation 154
Figure 12.4 : Percentage of Tourists by Purpose of Visit 155
Figure 12.5 : Distribution of Hotel Rooms and Guest House Rooms by District 156
Figure 13.1 : Chronological Trend of Disaster Events in Sri Lanka 159
Figure 13.2 : Number of People Affected due to Disasters 160
Figure 14.1 : World Food Price Index 166
Figure 14.2 : Global Food Commodity Price Indices 167
Figure 14.3 : Correlation between Oil and Food Prices 167
Figure 14.4 : World's Production, Supply and Utilization of Rice, Wheat, Cereal and Grain 168
Figure 14.5 : Global and Domestic Food Price Trends 169
Figure 14.6 : Major Food Commodity Prices 169
Figure 17.1 : Functional Structure of the Electricity Industry 190
Figure 17.2 : Level of Electrification by District 195
Figure 18.1 : Inflation Trends 204
Figure 18.2 : Exchange Rate and Interest Rate Trends 205

LIST OF TABLES

Table 2.1 : Sectoral Performance 11
Table 2.2 : Consumption, Investment and Savings 12
Table 2.3 : Demographic and Labour Force Trends 13
Table 2.4 : Government Revenue and Expenditure 14
Table 2.5 : Select Monetary and Financial Indicators 17
Table 3.1 : Growth in Goods and Services Exports 22
Table 3.2 : Projected World Output 24
Table 3.3 : Informal Private Tea Sector Daily Wages by Gender 30
Table 3.4 : Top Ten Destinations of Sri Lanka's Garment Exports 32
Table 3.5 : Main Export Markets for Sri Lankan Tea 33
Table 3.6 : Departures for Foreign Employment by Manpower Levels and Sex 35
Table 4.1 : Labour Productivity by Major Economic Sector 43
Table 4.2 : Contribution to Total Employment by Industrial Sector and Province 44
Table 4.3 : HCI by Major Industrial Group of Head of the Household and by Sector 44
Table 4.4 : Percentage Distribution of Employed Population by Occupation 45
Table 4.5 : Access to Infrastructure by Sector and Province 47
Table 5.1 : Types of Scocial Protection Measures 56
Table 5.2 : Causes of Risks 58
Table 5.3 : Examples of Social Protection Interventions by Life Cycle Stage 58
Table 5.4 : Current Transfer Payments to Households and Other Sectors 64
Table 6.1 : Net Enrolment Rates in Major Education Cycles by Economic Groups 72

Table 6.2 : Completion Rates in Major Education Cycles and Exam Success Rates 73
Table 6.3 : Comparison of Select Key Health Indicators 76
Table 6.4 : Distribution of Health Facilities by District 78
Table 6.5 : Sanitary Conditions and Mortality Rates by Sectors 79
Table 7.1 : Key Statistics of Labour Force 87
Table 7.2 : Incidence of Poverty by Land Holding Size 89
Table 7.3 : Annual Average Food Availability by Major Food Commodity Groups 90
Table 7.4 : Extent and Production of Major Food Crops 91
Table 7.5 : Profitability of Some Major Food Crops in Sri Lanka 94
Table 8.1 : Marine Fish Production by District 98
Table 8.2 : Changes in Total Fishing Fleet 99
Table 8.3 : Inland Fish Production by Districts 101
Table 8.4 : Labour Productivity in Marine Fisheries 103
Table 9.1 : Distribution of Industrial Establishments by Size and Provinces 113
Table 10.1 : Elements of a Knowledge Economy (KE) and Descriptions 124
Table 10.2 : Sri Lanka's Rank in Key 'Doing Business' Indicators 125
Table 10.3 : Number of Fixed, Mobile, and Broadband Subscribers 128
Table 10.4 : Broadband Internet Costs in Sri Lanka vis-a-vis South Asia 129
Table 11.1 : Sector-wise Public Investments 143
Table 11.2 : Funding for Infrastructure 144
Table 11.3 : Small and Medium Scale Water Supply Projects 148
Table 11.4 : Access to Services 149
Table 11.5 : Development of Irrigation Facilities 149
Table 13.1 : Cost of Relief for Selected Disasters 162
Table 15.1 : Select Health Indicators 177
Table 15.2 : Infant Mortality Rate by Mothers' Education Level 178
Table 17.1 : Recent Financial Performance of CEB 191
Table 17.2 : Planned Generation Mix of the Sri Lanka Grid 191
Table 17.3 : Level of Electrification by Sector 194
Table 17.4 : Rural Electrification Schemes 195
Table 17.5 : Affordability of Electricity 196
Table 17.6 : Ownership of Electric Equipment 197
Table 17.7 : Total Subsidy or Surcharge on Consumers 198
Table 18.1 : Sources of Foreign Financing 203
Table 18.2 : Fiscal Trends 204

LIST OF BOXES

Box 4.1 : Differing Views on Growth, Poverty Reduction and Human Development 39
Box 4.2 : Improving Access to Credit 51
Box 10.1 : Asia Foundation Economic Governance Index 127
Box 10.2 : e-Sri Lanka Programme 130
Box 10.3 : Performance Review of the Vidatha Programme 132
Box 10.4 : Sri Lanka's *Nenasalas* 135
Box 11.1 : Gama Neguma Programme 146

Box	11.2	:	Maga Neguma Programme	147
Box	11.3	:	Village Infrastructure Development through Gemidiriya	148
Box	17.1	:	The Roadmap for Tariff Rebalancing	193
Box	18.1	:	External Sector Performance	202
Box	18.2	:	Select Monetary and Financial Indicators	205

ACRONYMS

ADB	Asian Development Bank
ALMP	Active Labour Market Programmes
ASEAN	Association of South East Asian Nations
AWPR	Average Weighted Prime Lending Rate
BDS	Business Development Services
BOP	Balance of Payments
BPO	Business Process Outsourcing
BRIC	Brazil-Russia-India-China
CBO	Community Based Organizations
CBR	Crude Birth Rate
CBSL	Central Bank of Sri Lanka
CDR	Crude Death Rate
CEB	Ceylon Electricity Board
CECA	Comprehensive Economic Cooperation Agreement
CEPA	Comprehensive Economic Partnership Agreement
CPC	Ceylon Petroleum Corporation
CSDH	Commission on Social Determinants of Health
DCS	Department of Census and Statistics
DDEC	Daily Dietary Energy Consumption
DNP	Department of National Planning
DS	Divisional Secretariat
EPF	Employment Provident Fund
ETF	Employee Trust Fund
EU	European Union
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GCC	Gulf Cooperation Council
GCE	General Certificate of Education
GSP	Generalized System of Preferences
GDP	Gross Domestic Product
HFA	Health-for-All
HIES	Household and Income Expenditure Survey
ICT	Information and Communication Technology
IDP	Internally Displaced Persons
IMF	International Monetary Fund
IMR	Infant Mortality Rate
IPP	Independent Power Producers
ISFTA	India-Sri Lanka Free Trade Agreement
IT	Information Technology
ITES	Information Technology Enabled Services
MDG	Millennium Development Goals
MFI	Microfinance Institutions
MMR	Maternal Mortality Rate
MO	Medical Officers
NCD	Non-Communicable Diseases
N&E	Northern and Eastern Provinces
NGO	Non Governmental Organization
NPL	Non Performing Loan
OOPE	Out of Pocket Expenditure
PHC	Primary Health Care
PHCI	Poverty Head Count Index
PHCR	Poverty Head Count Ratio
PPP	Public-Private Partnership
PSPS	Public Sector Pension Scheme
PUCSL	Public Utilities Commission of Sri Lanka
RVA	Regional Value Chain
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SBA	Stand-by Arrangement
SDH	Social Determinants of Health
SLBFE	Sri Lanka Bureau of Foreign Employment
SME	Small and Medium Enterprises
SPC	State Pharmaceutical Corporation
TEVT	Technical Education and Vocational Training
TOT	Terms of Trade
TOU	Time of Use
TRC	Telecom Regulatory Commission
UNDP	United Nations Development Programme
VAT	Value Added Tax
WB	World Bank
WHO	World Health Organization

1. Policy Perspectives

As the global economy begins the arduous road to recovery, 'growth' has become the cornerstone for the world's policy makers, be it the US policy on 'foundations for long term growth', UK's 'strategy for economic growth' or Japan's 'new growth strategy'. In this, Sri Lanka is no exception, setting itself an ambitious medium term growth target in excess of 8 per cent per annum in the country's new post-conflict environment. Indeed, Sri Lanka achieved it in 2010 with a strong economic rebound, amidst a steadily improving macroeconomic environment. This was in stark contrast to the experience a mere two years ago, when economic performance was at best erratic, with unacceptably high inflation and dwindling foreign exchange reserves. In 2010, Sri Lanka posted a record high of US$ 6.6 billion in official reserves, a moderate inflation rate of 5.9 per cent and a stable exchange rate for much of the year. The remarkable turnaround owes much to a renewed confidence in the country's long term economic prospects, reinforced by policy and political stability from a strong incumbent government.

> ***"For Sri Lanka, emerging from a costly era of a long drawn conflict, rising socio-economic aspirations must be met to help restore and cement social harmony in its post-conflict development efforts"***

Amidst the strong recovery and seemingly bright medium term prospects for the Sri Lankan economy, there are, nevertheless, some concerns about specific aspects of the country's recent economic performance. The relatively weak recovery of private investment to take advantage of the country's new stability has been one such area. Growth in private sector credit disbursement was slow to pick up, as has been inflows of foreign direct investment (FDI) to the country. Private sector credit growth was sluggish for much of 2010, picking up only towards the latter months of the year, while net FDI inflows saw only a mild recovery at US$ 435 million as against US$ 385 in the crisis-ridden year of 2009. As in the previous year, it was buoyant public investment that kept Sri Lanka's growth momentum moving to allow the country to reach a GDP growth of 8 per cent.

The sources of economic growth are obviously important, but there has never been clear agreement on what drives growth. Indeed development thought is littered with changing beliefs about what the best policies are to ensure rapid growth. During the 1980s, there was a seismic shift to focus on markets, prices, and incentives. These called for raising investment as high as possible, especially into industry; reducing fiscal imbalances through 'structural adjustment'; and 'getting prices right' in the process. In the 1990s, the policy prescriptions became more arduous, asking countries to go beyond a mere 'strengthening of the market'. They required countries to strengthen public institutions by reducing corruption and improving the rule of law; to introduce incentives and actions for private sector development to 'cut costs of doing business'; to improve education and skills of its labour force; to upgrade technology, etc.

Whatever the merits of changing agendas, economic theory does suggest that a sustained increase in investment raises the economy's growth rate - albeit temporarily - while more sophisticated models suggest that bringing improvements in productivity, notably due to innovation and to investments in human capital, allows growth to be enhanced in a more sustainable fashion. In this respect, Sri Lanka's public investment drive that is heavily tilted towards improving physical infrastructure capital in the country will no doubt provide a useful initial boost to growth. But, the longer term sustainability of that growth momentum can only be ensured with appropriate investment in technology, knowledge transfer, etc. Here, private sector investment, and FDI especially, has a particularly important role to play.

Private sector credit growth was relatively slow to take-off despite the new resilience and faster growth in the Sri Lankan economy from mid-2009. Credit growth picked up only towards the second half of 2010 to record an overall healthy growth of 25 per cent by year end - albeit on the back of a growth of 7 per cent in 2008 and contraction of 5.8 per cent in 2009. The reasons for the slow recovery in credit growth to the private sector in the Sri Lankan context are not entirely clear, although a similar global phenomenon is easier to understand. In a recessionary economic environment that follows from a financial crisis - such as the global economic downturn of 2008/09 - weak credit growth is to be expected as households and firms reduce their debt burdens. Whilst Sri Lanka was not unduly affected by the global financial crisis, the economy went through its own financial turmoil amidst an environment of excessive credit growth during 2005-07. It saw not only the unravelling of some important financial organizations and illegal 'ponzi schemes', but over-leveraging of households and firms. The average gross non-performing lending (NPL) ratio of the banking sector, for instance, jumped as a result from 5 per cent in 2007 to 8.5 per cent in 2009. It could also have been that the corporate sector had retained profits for re-investment purposes.

Overall, Sri Lanka's experience suggests that both supply and demand factors played a role in muting private sector investment appetite. Despite the signs of an early economic recovery, over-leveraged households and firms were less willing to borrow while banks too were less willing to lend. Indeed, the economic downturn spurred increased savings by the private sector. Under the circumstances, the Central Bank of Sri Lanka (CBSL) acted aggressively to cut policy interest rates and used other means to convince banks to lower their lending rates, including setting mandatory measures. On the whole, these had only limited impacts. Therefore, it is not surprising that as households and firms pay

back debts, cheaper credit was likely to provide less of a stimulus than at other times.

For private investors, other avenues to make short term financial gains were clearly available, not least through a booming domestic stock market. Sri Lanka's bourse gained by over 95 per cent in 2010, to become the second best performer on a global scale for a second consecutive year. While renewed investor confidence in the long term prospects of the economy no doubt played a part, the gains were also driven to a large extent by speculative trading that compelled the regulators to step in. The relatively low returns from fixed income assets also played a role in channelling funds to the share market. For banks, the government debt securities continued to provide a healthy return at zero risk, negating any urgent need to seek out riskier corporate and household borrowers.

To an extent, the subdued private sector appetite to expand factories and invest in new machinery through credit from the banking system was perhaps a mixed blessing. If private sector credit growth had kicked off at a rapid pace, the government's own fiscal excesses - albeit a much improved outcome relative to that of the previous year - could not have been accommodated without igniting destabilizing consequences. Sri Lanka's fiscal deficit of 7.9 per cent of GDP in 2010 was financed through domestic borrowing of 3.6 per cent of GDP. Given that the private sector was in effect not competing for funds, the government was able to successfully retain a low inflation and interest rate regime despite fiscal pressures and a rapid recovery in economic activities.

However, the government's stance on deficit financing - i.e., limiting reliance on domestic sources of finance - in its attempt to retain a relaxed monetary policy stance to spur growth can prove to be double-edged. It necessarily raises Sri Lanka's reliance on foreign financing to meet the country's growing public investment needs. The repeated calls for fiscal consolidation efforts stem from a recognition of the potential medium to long term risks that arise from rising exposure to external debt.

The dominant source of deficit financing in recent years has been foreign currency denominated borrowing. In 2009, foreign financing stood at 4.8 per cent of GDP and declined only marginally to 4.4 per cent in 2010. The greater country risk exposure that is associated with foreign currency debt - sensitivities to sovereign ratings in the event of debt roll-over, exchange rate risks, etc. - are well known. Sri Lanka's external debt-to-GDP ratio, however, has remained unchanged for the most part; in fact, it declined from 36.5 per cent in 2009 to 36.1 per cent in 2010. Movements in the exchange rate have a clear bearing on external debt indicators. An appreciating currency, as was the experience of the rupee in 2010, helps to improve fiscal indicators by lowering the external debt-to-GDP ratio.

Notwithstanding the overall figures, the composition of the debt matters. Here, Sri Lanka has seen a rapid change in its external debt structure with non-concessional and commercial sources raising their share from 7.3 per cent in 2006 to 37.5 per cent in 2010. These are costlier sources of foreign finance, and not surprisingly, the country's overall external debt service ratio has crept up over the period from an annual average of 12 per cent during 2002-04 to 16.4 per cent over 2008-10. To make certain that future external debt service payments can be met comfortably and limit the country's exposure to unanticipated external shocks, Sri Lanka must ensure that its foreign exchange earnings remain strong. As a first

step, a prudent course is to limit foreign currency borrowing to projects that will, either directly or indirectly, enhance the foreign exchange needed to service future payments.

Ongoing developments in the industrialized economies offer a salutary lesson and a necessary reminder of the choices available to governments. Economic growth can be given a short term boost by fiscal and/or monetary policy stimulus, but at the risk of worsening long term debt problems. Alternatively, a more cautious approach on fiscal austerity can damage growth in the short term, and indeed incur electoral unpopularity along the way. For Sri Lanka, the current Stand-by Arrangement (SBA) with the International Monetary Fund (IMF) has provided an external anchor, underscoring the government's fiscal and monetary framework. As the IMF programme ends in 2012, Sri Lanka will have not only a healthier economy and stronger public finances, but also the necessary 'political space' to consolidate public finances in the absence of major electoral imperatives.

In view of the above concerns, it is encouraging that the overall fiscal outcomes in 2010 are positive. The deficit was reduced from 9.9 per cent of GDP in 2009 to 7.9 per cent in 2010 and looks set to be reduced further to under 7 per cent in 2011. This is, of course, not to imply that low fiscal targets per se are always desirable or appropriate. Arguably, Sri Lanka's expansionary fiscal policy stance of 2009 in the midst of a sharp economic downturn and domestic socio-political imperatives stemming from immediate rehabilitation needs of a war weary population could be justified. Without such a fiscal stimulus to the economy, the private sector's reluctance to undertake investment would have depressed economic activity even further than the 3.5 per cent growth recorded in 2009. Rather than adopt a dogmatic approach to fiscal targets, what is needed is a clear understanding that sound public finances allows a country the necessary leeway to respond appropriately to emerging domestic and/or external shocks. In the circumstances, what Sri Lanka needs to do first of all is to lower its deficit to a manageable level that will, over time, reduce the country's debt overhang; that in turn will release 'fiscal space' to respond appropriately to context-specific needs of the country through fiscal and/or monetary policy measures.

In this context, Sri Lanka's near term fiscal consolidation plans appear to be reasonable. In 2010, expenditure as a percentage of GDP was lowered to 22.9 per cent of GDP, primarily through rationalization of current expenditures. Encouragingly, capital expenditures remained more or less in line with budget forecasts. There is ample evidence to suggest that fiscal consolidation efforts via spending cuts rather than tax increases are more likely to support medium term growth prospects. This, the government has attempted to do through cuts in current expenditure, while supporting a higher rate of capital expenditure. Moreover, expenditure rationalization is being accompanied by fresh efforts to generate additional revenues by way of tax reforms on the basis of the recommendations of a Presidential Commission on Taxation. Tax reforms appear to be aimed at raising taxes on consumption and property rather than on income or savings. Taxing the former is less harmful to growth than taxing the latter.

Fiscal policy has clear implications not only for sustained high growth, but also in relation to the distributional impacts of such growth. For instance, Sri Lanka's current focus on public infrastructure is found to be concentrated heavily on the construction of roads, ports, airports, etc. By contrast, capital investment in education and health which

stood at 1.1 per cent of GDP in 2006 had declined to 0.6 per cent by 2010. The tight fiscal constraints within which the government is attempting to achieve a host of complex objectives are clear. Perhaps, most importantly it also serves to underline the necessity for placing Sri Lanka's public finances on a sounder footing as an immediate priority.

The consolidation of public finances will also help in setting monetary and exchange rate policy that will support long term growth objectives. Indeed, any adverse impact of fiscal tightening on output growth can be offset to an extent by monetary easing. This is what Sri Lanka did in 2010, although with limited results in stimulating private sector credit growth. However, despite a largely benevolent inflationary environment in 2010, there can be emerging threats to price stability. Thus, monetary policy should not sow the seeds of raising inflation expectations even as fiscal consolidation efforts bear results. Sri Lanka's potential growth rate without a risk of overheating can only be guessed at, but stability has its own rewards by providing a stable, predictable macroeconomic environment in which businesses could flourish. The costs of higher, and possibly more volatile, inflation would outweigh any output gains from excessive monetary easing. It is also the poor who ultimately suffer the most from price inflation, negating efforts to ensure equitable benefits of growth; the poor, unlike workers in formal employment, have limited options to defend themselves against inflation.

Sri Lanka's rate of inflation has been rising incrementally from the last quarter of 2010, primarily on account of rising food prices following inclement weather conditions. Political turmoil in some key oil exporting countries has also mounted rising pressures on international oil prices. Such supply-side price shocks will have inevitable one-off impacts on inflation. Standard monetary policy responses to contain supply-side induced inflation are not effective and alternative interventions through administered price controls and tax measures were adopted. There is, however, the threat that food and fuel price increases will be absorbed into the general inflationary pressures via wage increases, even as a recovery in credit growth to the private sector is anticipated to quicken and add to inflationary pressure on the demand-side.

Thus, the CBSL has to be extra vigilant to identify emerging channels of inflationary pressure and respond appropriately. Excess rupee liquidity in the market - estimated at Rs. 120-130 billion even by early 2011 - has been a potential source of inflationary pressure for most of 2010. A sharp increase in short term foreign investment inflows to the government debt securities market, and perhaps more critically, high volumes of government foreign currency denominated borrowing injected significant foreign currency surpluses into the country. These inflows have been supplemented by better-than-average inflows of worker remittances and tourism receipts in the post-2009 setting. With the CBSL stepping in to mop up capital inflows and prevent the currency from appreciating unduly, a contributory outcome has been the expansion of the domestic monetary base. Rather than work through a pricing mechanism - raising policy rates - the CBSL opted to work through a quantity mechanism - employing regulatory measures such as an increase in the Statutory Reserve Requirement (SRR) of commercial banks from 7 per cent to 8 per cent in April 2011. This is a crude, but often effective mechanism to absorb excess liquidity if pursued with sufficient vigour. Its effectiveness in curtailing inflationary pressure will depend on levels of excess liquidity and demand for credit.

While excess rupee liquidity had dropped to under Rs. 70 billion by the end of the first quarter of 2011, with annual inflation at 7 per cent by June 2011, the inflationary consequences of an expanding monetary base cannot be ignored. There are few signs to suggest that capital inflows will ease in the near term. Sri Lanka issued a second Sovereign bond for US$ 1 billion in July 2011, following the issue of the first US$ 1 billion Sovereign bond in October 2010. Large volumes of foreign capital inflows may be viewed as a sign of the country's renewed economic prospects and as evidence of good investment opportunities, but there are also other, less palatable implications for the economy. The manner in which current account deficits are funded matter; the bulk of capital inflows have come not from current demand for Sri Lanka's goods and services, but rather as a result of capital account transactions that are tilted heavily towards government foreign currency denominated borrowing. Such developments have both short and long term implications regarding the health of a country's external payments position.

Large net capital inflows also have immediate short term impacts. They inevitably exert upward pressure on a country's exchange rate. The Sri Lankan rupee appreciated by 3 per cent against the US$ in nominal terms in spite of heavy intervention by the CBSL in the foreign exchange market. An appreciation of the real exchange rate, as has been occurring vis-à-vis a basket of trading partner currencies, makes Sri Lankan exports less competitive in international markets. There will, of course, be heavily import dependent export products that will gain a price advantage through cheaper imported inputs. A stronger rupee will also help to curb inflation, especially in the face of rising international commodity prices.

However, in the midst of a significant drop in the ratio of exports to GDP in recent years - from 28 per cent in 2004 to 16.7 per cent in 2010 - Sri Lanka cannot be complacent about the need to push for higher foreign exchange earnings in the midst of a heavier exposure to external debt repayments in the long term. The drop in the exports-to-GDP ratio despite an increase in absolute dollar terms suggests that the higher growth momentum Sri Lanka has been seeing more recently is driven less by an export-push and more by other factors, such as the higher public investment drive in infrastructure, etc. However, given the very limited domestic market, sustained high growth can only be achieved if Sri Lanka raises foreign demand for the country's goods and services.

Thus, the details of macroeconomic policy management as outlined above matter for long term growth. They also matter if growth is to be accompanied by social progress in the country. For instance, sustained growth can help poverty alleviation by not only pulling the poor up into gainful employment, but also by providing larger volumes of revenue to finance targeted social programmes. On the face of it, Sri Lanka appears to have made significant strides in tackling overall poverty in the country and reducing emerging gaps between sectors of the economy. The Household and Income Expenditure Survey (HIES) carried out by the Department of Census and Statistics (DCS) appears to suggest that the poverty headcount index has dropped from 15.2 per cent in 2006/07 to around 8.9 per cent by 2009/10. The most promising is the suggestion that the gap between urban, rural and estate sectors have narrowed in the interim. The results on overall poverty reduction efforts are surprising in view of high price instability that was experienced in the interim years and the economic downturn experienced in 2009. However, the narrowing of inequity between sectors may not be so surprising

given the emphasis placed on bridging urban-rural gaps in the government's development thrust since 2005, primarily in infrastructure spending and support to the agrarian sector. Despite the overall narrowing of imbalances, inequities in access to gainful economic opportunities - across different dimensions such as gender, geographic location, sector, ethnicity, etc. - continue to persist. Policies to address these become all the more important in the context of post-conflict reconciliation efforts.

As recently experienced across the world, an inequitable distribution of wealth creates a higher degree of economic insecurity that can often spill over into social unrest during times of acute crisis. Indeed, the global economic turmoil and rising food prices have seen many countries grappling with renewed socio-political tensions. Thus, even as the global economy recovers from a debilitating economic contraction and swelling numbers of unemployed in developed countries, renewed attention is being paid to the issue of inequality. While the gap in wealth between developed and developing countries is narrowing - a result of the latter group growing faster on average than the former - concerns about the chasm between the rich and poor within countries remain.

As Sri Lanka prepares for a spell of rapid growth in the coming years, this may inevitably bring social problems to contend with as well, unless issues of equity are addressed at the outset. The push for higher growth is often accompanied by technological progress. This can raise the relative demand for skilled workers. When the supply of skilled workers fails to keep pace with demand, which is often the case, it can lead to a widening wage gap between skilled and unskilled workers. If, as anticipated, Sri Lanka's economic growth becomes increasingly driven by a higher skilled services sector in the coming years, widening wage gaps can emerge. Additionally, as more and more employment is created in the contractual/informal sectors - where limited incentives are present for employers or the self-employed to invest in training - the lack of skills development can exacerbate structural rigidities in the labour market. Often the most vulnerable segments will be unskilled, female labour.

While there is broad consensus that economic growth is vital for development, it is also recognized that growth alone is not the be-all and end-all of development. In this context, the notion of economic growth that is both sustainable and inclusive becomes an important policy imperative for governments. While these are often fashionable lexicons in policy documents, country-specific contexts demand that they are not ignored. For Sri Lanka, emerging from a costly era of a long drawn conflict, rising socio-economic aspirations must be met to help restore and cement social harmony in its post-conflict development efforts. That calls for economic policies that will not only deliver broad-based rapid growth, but policies that are also sensitive to issues of equity in the distribution of, and access to, resources.

This year's *State of the Economy* report takes as its central theme the notion of 'Post-conflict Growth: Making it Inclusive' to understand the myriad channels through which growth is accompanied by reduction in inequalities. Besides the desirability of inclusive growth from a purely ethical standpoint, from a more practical perspective, inclusiveness is needed for sustaining economic growth, as exclusion leads to underemployment of productive resources that restricts growth.

Access to productive employment is a critical element to drive inclusive growth. It requires improving employability of workers on the

one hand and improving access to productive employment opportunities, on the other. On the supply side, improving employability involves access to good quality health, education and other productive assets. On the demand side, improving access to employment requires opening up opportunities in various sectors of the economy in different geographic regions and for diverse types of workers. Initial conditions in an economy - such as levels of poverty and inequality, as well as other exogenous factors such as geography, demography, climate, governance, politics, social considerations and the policy environment - will also play an important role in determining the subsequent growth outcomes. In this context, the rest of this report examines the imperatives for inclusive growth in Sri Lanka across a spectrum of policy areas through a series of chapters and policy discussions.

ප්‍රතිපත්තිමය දෘෂ්ටිකෝණ

ගෝලීය ආර්ථිකය ප්‍රකෘතිමත් වීම සඳහා දුෂ්කර මාර්ගයකට අවතීර්ණ වී ඇති හෙයින්, දිගුකාලීන සංවර්ධනය සඳහා වූ පදනමක් පිණිස එක්සත් ජනපදයේ ප්‍රතිපත්තිය හෝ ආර්ථික සංවර්ධනය සඳහා එක්සත් ජනපදයේ ප්‍රතිපත්තිය හෝ ආර්ථික සංවර්ධනය සඳහා එක්සත් රාජධානියේ ක්‍රමෝපාය හෝ ජපානයේ 'නව සංවර්ධන ක්‍රමෝපාය' හෝ වේවා ලෝකයේ ප්‍රතිපත්ති සම්පාදකයින්ගේ ප්‍රධාන ප්‍රතිෂ්ඨාව වී ඇත්තේ ''දියුණුවයි'' යි. මෙහිදී ශ්‍රී ලංකාව බැහැර කළ නොහැකි අතර ගැටුම්කාරී තත්වයෙන් පසුව උදාවූ නව වාතාවරණය තුළ මධ්‍යකාලීන වශයෙන් 8% කට වැඩි වර්ධන අනුපාතයක් අත්කරගෙන තිබේ. ඇත්ත වශයෙන්ම, එය ශ්‍රී ලංකාව 2010 දී සාක්ෂාත් කරගත්තේ දැඩිලෙස වර්ධනය වන සාර්ව ආර්ථික පරිසරයක් තුළ අනපේක්ෂිත ආර්ථික ප්‍රතිඵල අත්වෙමින් තිබියදීය. මෙය, පිළිගැනීමට තරම් අමාරු උද්ධමනය හා විදේශ විනිමය සංචිත අඩුවෙමින් පැවති තත්වයක් තුළ ආර්ථික කාර්ය සාධනය ඉතාමත් අවිධිමත්ව පැවති මීට ඉහත දෙවසරට වඩා සම්පූර්ණයෙන්ම වෙනස් ය. 2010 දී ශ්‍රී ලංකාවේ නිල සංචිත, වාර්තාගත ලෙස එක්සත් ජනපද ඩොලර් මිලියන 6.6 ක වටිනාකමක් පෙන්නුම් කළ අතර මෙය උද්ධමනය සම්බන්ධයෙන් 5.9% ක මධ්‍යස්ත තත්වයක් වූ අතර අවුරුද්දේ වැඩි කාලයක් පුරා විනිමය අනුපාතකය ස්ථිරසාරව පැවතියේය. උපරිස්තලාභීය රජයක ප්‍රතිපත්තිමය හා දිගුකාලීන ස්ථාවරභාවය මත ගොඩනැගුනු රටේ දිගුකාලීන ආර්ථික සම්භාවිතාවන් සම්බන්ධයෙන් ඇතිවූ නවමු බලාපොරොත්තු හේතුකොටගෙන මෙකී සැලකිය යුතු පරිවර්තන ඇතිවී තිබේ.

ශක්තිමත් ලෙස ආර්ථිකයෙන් ගොඩවීමෙන් අනතුරුව ශ්‍රී ලංකාවේ ආර්ථිකය සම්බන්ධයෙන් විද්‍යාමාන වූ මධ්‍යම ප්‍රමාණයේ අපේක්ෂාවන් අතර කෙසේ නමුත් ශ්‍රී ලංකාවේ ආර්ථික කාර්ය සාධනයේ විශේෂිත අංශ පිළිබඳව අවධානය යොමුවී ඇති ඇතැම් වැදගත් කරුණු වේ. රටේ අභිනවයෙන් ඇතිවූ ස්ථාවරත්වය තුළින් ප්‍රයෝජන ගැනීම සඳහා සාපේක්ෂක වශයෙන් ඉතා දුර්වල ලෙස පෞද්ගලික ආයෝජන යෙදවීම එබදු එක් ක්ෂේත්‍රයකි. විදේශීය සෘජු ආයෝජන මෙරටට ගලා එමින් තිබෙන අතර පෞද්ගලික අංශයේ ණය වියදම් වල ප්‍රගතිය මන්දගාමී විය. පෞද්ගලික අංශයේ ණයදීම්වල ප්‍රගතිය 2010 වර්ෂයේ වැඩි කාලයක් තුළ අලස බවක් දැක්වූ අතර 2010 අන්තිම මාස ගණනාව තුළ පමණක් වර්ධනය පෙන්නුම් කළේය. ඒ අතර 2009 අර්බුද කාලසීමාව තුළ මෙරටට ලැබුණු සෘජු වියදම් ආයෝජන ප්‍රමාණය වූ ඒ. ජ. ඩොලර් මිලියන 385 සමග සලකා බලන කල 2010 වර්ෂයේ දී මෙරටට ලැබුනු සෘජු ආයෝජන ලෙස වාර්තාගත වූ ඒ. ජ. ඩොලර් 435 තුළින් පෙන්නුම් කරන්නේ සාමාන්‍ය ප්‍රගතියකි. පසුගිය වර්ෂයේදී මෙන් දල දේශීය නිෂ්පාදිතයේ 8% ක වර්ධනයක් කරා ලඟාවීමට මෙරටට හැකිවූයේ රාජ්‍ය අංශය විසින් සිදුකරන ලද ඉපිලුම් ආයෝජන හේතුකොට ගෙනය.

ආර්ථික දියුණුවේ ප්‍රභවයන් පැහැදිලිවම වැදගත් වීවා වන නමුත් දියුණුව මෙහෙයවන්නේ කුමකින් ද යන්න පිළිබඳව පැහැදිලි එකඟතාවයක් නොමැත. 1980 දශකය තුළ වෙළඳපොල මිලගණන් හා දිරිගැන්වීම් අවධාරණය කෙරෙමින් විශාල ලෙස විතැන්වීම් සිදුවිය. මේවායින් පැනනැගෙන අවශ්‍යතාවයක් නම් විශේෂයෙන්ම කර්මාන්ත වෙනුවෙන් හැකිතරම් විශාල ආයෝජන සිදුකිරීම, ව්‍යුහාත්මක ගැලපීම් සිදුකිරීම හරහා මූල්‍ය අසමතුලිතතාවයන් අඩුකිරීම, සහ එකී ක්‍රියාවලිය තුළ නිවැරදිලෙස මිල ඇතිකිරීම යන කරුණුය. රටවල් සම්බන්ධයෙන් හුදුලෙස වෙළඳපොල ශක්තිමත් කිරීමෙන් ඔබ්බට යන ලෙස නිර්දේශ කෙරෙන ප්‍රතිපත්තිමය යෝජනා සිදුකිරීම 1990 දී දුෂ්කර කාර්යයක් විය. ආයෝජන අඩුකොට නීතිය බලගැන්වීම් වැඩිදියුණු කිරීම තුළින් රාජ්‍ය ආයතන ශක්තිමත් කිරීම, ව්‍යාපාර විෂයෙහි පිරිවැය පහත හෙළීම සඳහා දිරිගැන්වීම් හා යම්යම් ක්‍රියාමාර්ග හඳුන්වාදීම, ස්වකීය ශ්‍රමබලකායේ දැනුම වර්ධනය කිරීම හා හැකියාවන් වැඩිදියුණු කිරීමල තාක්ෂණය ඉහළ නැංවීම යනාදිය රටවල් විසින් සිදුකල යුතුබව වීවායින් යෝජනා විය.

වෙනස්වන න්‍යායපත්‍ර නිසා අත්වන වාසි කුමක් වූවද, ආයෝජන සම්බන්ධයෙන් වන තිරසාර ආයෝජනයන්හි වැඩිවීම තුළින් ආර්ථිකයේ වර්ධන අනුපාතය තාවකාලික වශයෙන් ඉහල නැංවෙන අතර වඩාත් ම දියුණු ආදර්ශයන්ගෙන් යෝජනා කෙරෙන්නේ,

ඵලදායිතාව සම්බන්ධයෙන් විශේෂයෙන්ම නවෝත්පාදන හා මානව ප්‍රාග්ධනය සම්බන්ධයෙන් කෙරෙන ආයෝජන, සංවර්ධනය වඩාත් තිරසාර හැඩයකට ගෙන ඒමෙහි ලා ප්‍රස්ථාවන් ඇතිකරන බවකි. මේ අනුව බලන කල භෞතික යටිතල ප්‍රාග්ධනය වැඩිදියුණු කිරීම කෙරෙහි නැඹුරු වූ ශ්‍රී ලංකාවේ රාජ්‍ය ආයෝජන පරිශ්‍රම තුළින් නිසැකවම, සංවර්ධනය වෙනුවෙන් ප්‍රයෝජනවත් ප්‍රාරම්භක ජවයක් ලැබෙන බව කිව මනාය. එහෙත් එකී සංවර්ධන වේගයේ දිගුකාලීන තිරසාරබව සහතික කළ හැක්කේ තාක්ෂණය, දැනුම නුවමාරුව ආදිය වෙනුවෙන් නිසි ආකාරයෙන් කෙරෙන ආයෝජන මගින් පමණකි. මෙහිදී පෞද්ගලික අංශයේ ආයෝජන සහ වෙසෙසින්ම සෘජු විදේශීය ආයෝජන තුළින් ඉටුවිය යුතු වැදගත් කාර්ය භාරයක් ඇත. 2009 මැද භාගයේ සිට ශ්‍රී ලංකාවේ ආර්ථිකයේ නව නම්‍යශීලී ස්වභාවයක් සහ වේගවත් සංවර්ධනයක් සිදුවෙමින් තිබුනේ වී නමුදු සාපේක්ෂකව පෞද්ගලික අංශයේ ණයදීම් වර්ධනය සිදුවූයේ සෙමිනි. ණය වර්ධනය ඉහල ගියේ 2010 වර්ෂයේ පසුභාගය දක්වා පමණක් වූ අතර වර්ෂය අවසානය වනවිට 25% ක යහපත් වර්ධන ප්‍රවනතාවක් පෙන්නුම් කළේය. 2008 වර්ෂයේ වර්ධනය 7% ක් වූ අතර 2009 වර්ෂයේ 5.8% කින් සංකෝචනය විය.

ශ්‍රී ලංකාව සම්බන්ධයෙන් ගත්කල පෞද්ගලික අංශයේ ණය පිළිබඳව ඇතිවූ පසුබෑමට හේතුව සම්පූර්ණයෙන්ම පැහැදිලි නැති නමුත් ඊට අනුරූප ගෝලීය සංසිද්ධීන් තේරුම් ගැනීම පහසුය. මූල්‍ය අර්බුදයකින් ඉක්බිතිව ඇතිවන්නාවූ (2008/2009 දී ඇතිවූ ගෝලීය ආර්ථික පසුබැස්ම වැනි අවපාතමය) වාතාවරණයක් තුළ පවුල්වල හා සමාගම්වල ණයබර අඩුවන හෙයින් ණය වර්ධනයේ හීනවීමක් අපේක්ෂාකළ හැකිය. ගෝලීය ආර්ථික අර්බුදය නිසා ශ්‍රී ලංකාවට අනවශ්‍ය ලෙස බලපෑමක් ඇතිනොවූ අතර, 2005-2007 කාලය තුළ දී අත්‍යාධික ලෙස ණය වර්ධනය වීමේ පරිසරයක් තුළ මෙරට ආර්ථිකය තමන්ගේම මූල්‍ය අර්බුදයකට මුහුණ පෑවේය. මේ කාලය තුළ ඇතැම් වැදගත් මූල්‍යායතන සම්බන්ධයෙන් හා නීති විරෝධී 'Ponzi' වැනි මූල්‍ය ජාවාරම් පිළිබඳ ගැටළු පවුල් හා සමාගම් සම්බන්ධයෙන් වූ අත්‍යාධික උත්තෝලන ගැටළු නිරාකරණය කිරීම ද මේ කාලය තුළ සිදුවිය. උදාහරණයක් වශයෙන් 2007 දී 5% ක් වූ බැංකු අංශයෙන් ණය නොදීමේ ප්‍රවනතාව මෙහි ප්‍රතිඵලයක් වශයෙන් 2009 දී 8.5% දක්වා ඉහල ගියේය. මෙය සිදුවන්නට ඇත්තේ සංස්ථාමය අංශය විසින් තම ලාභ ප්‍රති ආයෝජන කාර්යයන් සඳහා රඳවා ගැනීම නිසා විය හැකි.

සමස්තයක් වශයෙන් ගත්කල ශ්‍රී ලංකාවේ අත්දැකීම් වලින් පැහැදිලි වන්නේ සැපයුම හා ඉල්ලුම යන සාධක විසින් පෞද්ගලික අංශයේ ආයෝජන අභිලාෂය සමනය කිරීමෙහිලා කාර්යභාරයක් ඉටුකල යුතු බවය. නුදුරු කාලයේ ආර්ථිකය ප්‍රකෘතිමත් වීමේ මං සලකුණු තිබුනේ වී නමුදු උත්තෝලනය වූ පවුල් සහ සමාගම් ණය ගැනීමට එතරම් උනන්දුවක් දැක්වූයේ නැති අතර බැංකු ද ණය දීමට දැක්වූයේ අඩු කැමැත්තකි. ඇත්ත වශයෙන්ම ආර්ථික අවපාතයේ ප්‍රතිඵලයක් වශයෙන් පෞද්ගලික අංශයේ වැඩි වැඩියෙන් ඉතිරිකිරීම් වලට නැඹුරුවක් ඇතිවිය. මෙම තත්වයන් යටතේ ශ්‍රී ලංකා මහබැංකුව දැඩි ක්‍රියාමාර්ගයකට අවතීර්ණ වෙමින් ප්‍රතිපත්තිමය පොලී අනුප්‍රමාණයන් අඩුකිරීමට මෙන්ම වෙනත් ක්‍රම යොදාගනිමින් බැංකු වලට ඒත්තු ගැන්වීමට උත්සාහ ගත්තේ ඔවුන්ගේ ණය පොලී අනුපාතිකයන් අඩු කළ යුතු බවට අනිවාර්ය කොන්දේසි පැනවීම මගිනි. සමස්තයක් වශයෙන් ගත්කළ මෙයින් ඇතිවූ බලපෑම් සීමා සහිත විය. එබැවින් පවුල් සහ සමාගම් විසින් ණය ආපසු ගෙවීම පුදුමයට කරුණක් නොවන අතර වෙනත් අවස්ථාවලට වඩා අඩු පොලී අනුපාත යටතේ දෙනුලබන ණය තුළින් සැලසුනු උත්තේජනය අඩුවිය. පෞද්ගලික ආයෝජකයන් සම්බන්ධයෙන් ගත්කල ඉහල යන දේශීය වෙළඳපොල හරහා නොව කෙටි කාලීන මූල්‍ය වාසි ලබාගැනීමේ මාර්ග ඔවුනට තිබුනි. ගෝලීය පරිසාධනයේ 95% වැඩි මට්ටමට ලඟාවෙමින් දෙවැනි වසරටත් ශ්‍රී ලංකාව ලෝකයේ දෙවැනි ප්‍රශස්ත කොටස් වෙළඳපොල බවට පත්වී තිබේ.

ආර්ථිකයේ දිගුකාලීන හැකියා ශක්තීන් පිළිබඳව ආයෝජකයන් තුළ අළුත්වූ විශ්වාසය නිසැකවම කිසියම් කාර්යභාරයක් ඉටුකල අතර සමපේක්ෂණ වෙළඳාම් තුළින් ඉතා විශාල අයුරින් ලබන ලද ලාභ හේතුකොටගෙන නියාමනය කිරීමේ අවශ්‍යතාවයක් ද පැන නැගිනි. ස්ථාවර ආදායම් වත්කම් තුලින් ද සාපේක්ෂ වශයෙන් ලැබුනු අඩු ලාභ හේතුකොට ගෙන කොටස් වෙළඳ පොළට අරමුදල් යොමු කෙරුනි. බැංකු සම්බන්ධයෙන් ගත්කල ශූන්‍ය අවදානමක් සහිතව රජයේ සුරැකුම් පත් තුළින් අබණ්ඩව යහපත් ප්‍රතිලාභ ලැබිනි. සංස්ථාමය හා ගෘහ ණය ගැනීම් වඩාත් අවදානම් වූයෙන් ඔවුන් ගැන අපේක්ෂා තැබීමක් සිදු නොවුනි.

වික්තරා ප්‍රමාණයකට බැංකු පද්ධතිය හරහා කර්මාන්තශාලා පුළුල් කිරීම හා නව යන්ත්‍රසූත්‍ර සඳහා ආයෝජනය කිරීම පිණිස වූ පෞද්ගලික අංශයේ අපේක්ෂාවන් අඩුවී යාම ඇතැම්විට මිශ්‍රිත ආශීර්වාදයක් විය හැකිය. පෞද්ගලික අංශයේ ණය වර්ධනය වේගවත්ව ආරම්භ වී නොතිබුනි නම් රජයේ ආර්ථික තත්වය අස්ථාවර වීමේ ප්‍රතිවිපාකයන්ට තුඩුනොදෙන සේ ඉකුත් වර්ෂයට සාපේක්ෂකව රජයට මූල්‍ය අතිරික්තයන් ඇති නොවන්නට තිබිනි. 2010 ශ්‍රී ලංකාවේ දල දේශීය නිෂ්පාදිතයෙන් 7.9% ක් වූ මූල්‍ය හිඟයට දේශීය ණය ගැනුම් වලින් (දල දේශීය නිෂ්පාදිතයෙන් 3.6% ක්) මූල්‍ය සම්පාදනය කෙරින. පෞද්ගලික අංශයේ අරමුදල් සඳහා ඇත්ත වශයෙන්ම තරඟ නොකිරීමේ තතවයක් තුළ මූල්‍ය පීඩන හා ආර්ථික ක්‍රියාකාරකම් ප්‍රකෘර්තිමත් වෙමින් තිබියදී වුවද උද්ධමන අනුපාතය හා පොලී අනුපාතය අඩුවෙන් පවත්වා ගැනීමට හැකිවිය.

කෙසේ නමුත් සංවර්ධනය කඩිනම් කිරීම සඳහා ලිහිල් මුදල් ප්‍රතිපත්තිමය ස්ථාවරයක් පවත්වාගැනීම සඳහා වූ රජයේ ප්‍රයත්නයේදී දේශීය මූල්‍ය ප්‍රභවයන් මත යැපීම සීමා කිරීම දෙපැත්තටම පාඩුගෙනදිය හැකි එකක් විය හැකිය. මෙරට වැඩිවන රාජ්‍ය ආයෝජන වුවමනාවන් පිරිමැසීම සඳහා විදේශීය මුදල් සම්පාදනය මත විශ්වාසය තැබීම වියින් අනිවාර්යයෙන්ම වැඩිකෙරේ. වැඩි වැඩියෙන් විදේශීය ණය ලබා ගැනීම හේතුකොට ගෙන ඒ නිසා ඇතිවන්නාවූ මධ්‍යකාලීන වශයෙන් හා දිගුකාලීන වශයෙන් දැරීමට සිදුවන්නාවූ අවදානම් සහගත තත්වයන් හරහා මූල්‍ය ස්ථාවරත්වය සඳහා ප්‍රයත්න දැරීමේ අවශ්‍යතාවයන් නොකඩවා ඇතිවේ.

මෑත අවුරුදුවල මූල්‍ය හිඟතාවයන්හිදී මූල්‍යකරණය සිදුවූ ප්‍රධාන මාර්ගය වූයේ විදේශීය ව්‍යවහර මුදලින් ණය ලබා ගැනීමය. 2009 වර්ෂයේ දී විදේශීය මූල්‍යකරණය දල දේශීය නිෂ්පාදිතයෙන් 4.8% ක් වූ අතර 2010 වනවිට විදේශීය මූල්‍යකරණය සීමිත අයුරින් 4.4% දක්වා පහත වැටුනි. විදේශ ව්‍යවහර මුදලින් ණය ගැනීම නිසා රටක් මුහුණපානු ලබන වඩාත් විශාල අවදානම් වනම් ණය ගෙවීම සඳහා කල්ගැනීම වැනි අවස්ථාවන්හි දී රන්පවුම් අනුපාතයන්ට සංවේදීවීම්, විනිමය අනුපාතික අවදානම් ආදිය ප්‍රකට දේවල් වේ. දල දේශීය නිෂ්පාදිතයේ අනුපාතයට ශ්‍රී ලංකාවේ විදේශීය ණය ගැණුම් බොහෝ කාලයක් තුළ නොවෙනස්ව පැවතුනි. ඇත්ත වශයෙන්ම 2009 දී 36.5% ක් ව පැවති වය 2010 දී 36.1% දක්වා පහත වැටුනි. විණිමය අනුපාතකයන්හි සංචලනය විදේශීය ණය දර්ශක කෙරෙහි පැහැදිලි බලපෑමක් ඇතිකරයි. අගය වැඩිවන ව්‍යවහාර මුදලකින් 2010 දී ලැබූ රුපියලේ අත්දැකීම් අනුව දල දේශීය නිෂ්පාදිතයට අනුව විදේශ ණය අඩුවී මූල්‍ය දර්ශක වැඩිදියුණු වීමට මඟ පෑදේ. මෙහිදී ශ්‍රී ලංකාව අනුග්‍රහශීලී නොවන සහ වාණිජ ප්‍රභවයන්ගෙන් බාහිර වශයෙන් ලබාගත් ණය ව්‍යුහය, සිදුවූ වේගවත් වෙනස්කම් අත්දැක ඇති අතර 2006 වර්ෂයේ එකී ණය ප්‍රමාණයේ කොටස 7.3% ක් වශයෙන් ද 2010 වර්ෂයේ දී එය 37.5% වශයෙන් ද ඉහල ගොස් ඇත. විදේශීය මූල්‍ය සම්පාදන විෂයෙහි දී මේවා අධික පිරිවැයක් දැරීමට සිදුවන මූලාශ්‍රයන්ය. තවද මේ අනුව සලකා බැලීමේදී විදේශීය ණය ආපසු ගෙවීමේ අනුපාතය 2002-04 කාලය තුළ 12% ක වාර්ෂික සාමාන්‍යයක සිට 2008-10 කාලය තුළ 16.4% ක සාමාන්‍යයක් දක්වා වැඩිවීම පුදුමයට කරුණක් නොවේ. ඉදිරියේ දී විදේශීය ණය ආපසු ගෙවීම් කිරීම අසීරුවකින් තොරවීමට මෙන්ම අනපේක්ෂිත බාහිර කම්පනයන්ට ගොදුරුවීම සීමා කිරීමට නම් ශ්‍රී ලංකාවේ විදේශ විනිමය ඉපයීම් ඍජුව හෝ වක්‍රව වැඩි වීමට තුඩුදෙන ආකාරයෙන් ව්‍යාපෘති සඳහා විදේශ ණය ලබාගැනීම සීමාකිරීම සඳහා බුද්ධිගෝචර ක්‍රියාමාර්ගයක් ගැනීම අවශ්‍ය වේ.

කාර්මිකරණය වූ ආර්ථිකයන් හි සිදුවන්නාවූ සංවර්ධනයන් තුළින් මීට කදිම පාඩමක් සහ රජයන්ට තෝරාගැනීමට ඇති දේ පිළිබඳව සිහිකැඳවූවමක් ද සැපයේ. මූල්‍ය සහ/හෝ මුදල් ප්‍රතිපත්තිමය උත්තේජනයක් මගින් ආර්ථික සංවර්ධනය කෙටිකාලීනව ඉහල නැංවිය හැකිය. එහෙත් එයින් දිගුකාලීන ණය පිළිබඳ ගැටළු වඩාත් නරක අතට පරිවර්තනය වීමේ අවදානමක් ඒතුළ පවතී. විකල්පමය වශයෙන්ල මූල්‍ය විනිමය සම්බන්ධයෙන් වඩාත් ප්‍රවේසම් සහිත ප්‍රවේෂයකින් කෙටිකාලීන වශයෙන් වර්ධනයට හානි විය හැකි අතර ඇත්ත වශයෙන්ම දේශපාලනමය වශයෙන් ජන අප්‍රියතාවයක් ඇතිවේ. ශ්‍රී ලංකාව සම්බන්ධයෙන් ගත්කල ශ්‍රී ලංකාවේ රාජ්‍ය මූල්‍ය හා මුදල් ක්‍රියාරාමුව පිළිබඳ සැලකිලිමත් වෙමින් ජාත්‍යන්තර මූල්‍ය අරමුදල සමග දැනට පවත්වාගෙන යනු ලබන සමීපස්ථ විධිවිධාන මගින් බාහිර ආධාරකයන් සලසනු ලැබ තිබේ. ජාත්‍යන්තර මූල්‍ය අරමුදලේ වැඩසටහන 2012 දී අවසන් වන අවස්ථාව වනවිට ශ්‍රී ලංකාවට යහපත් ආර්ථිකයක්, ශක්තිමත් රාජ්‍ය මුදල් සංචිත පමණක් නොව රාජ්‍ය මුදල් සංචිත ශක්තිමත් කරගැනීම සඳහා මැතිවරණ අවශ්‍යතාවයන්ගෙන් තොර දේශපාලන අවකාෂයක් ශ්‍රී ලංකාවට හිමිවනු ඇත.

ඉහත සඳහන්කොට ඇති කරුණු අනුව සලකා බැඳීමේදී 2010 වර්ෂයේ සමස්ත මූල්‍ය ප්‍රතිඵලය ශුභවාදී වීම දිරිගන්වන සුළු කරුණක් වේ. 2009 වර්ෂයේදී දල දේශීය නිෂ්පාදිතයෙන් 9.9% ක් වූ අයවැය හිඟය 2010 වර්ෂයේදී 7.9% දක්වා අඩුවූ අතර 2011 වනවිට තවදුරටත් අඩුවන බවක් පෙනී යයි. අඩු මූල්‍ය ඉලක්ක සෑම විටම නිසර්ගයෙන් උචිත හෝ යෝග්‍ය වී‍වා බව මෙයින් නොකියැවේ. තර්කානුකූලව නම්, තියුණු ආර්ථික පසුබෑමක් මධ්‍යයේ සහ යුද්ධයෙන් හෙම්බත්වූ ජනතාව වෙනුවෙන් පුනරුත්ථාපන කටයුතු දේශීය වශයෙන් සිදුකිරීමට තුඩුදුන් සමාජ දේශපාලන වාතාවරණයක් තුළ වූ 2009 වර්ෂයේ ශ්‍රී ලංකාවේ ව්‍යාප්තිමය මූල්‍ය ප්‍රතිපත්ති ස්ථාවරය සාධාරණීකරණය කළ හැකිය. ආර්ථිකයට එවැනි මූල්‍ය උත්තේජනයක් නොමැති තන්හිදී ආයෝජනය සම්බන්ධයෙන් පෞද්ගලික අංශය තුළ ඇතිවන අකමැත්ත තුළින් ආර්ථික ක්‍රියාකාරකම් සම්බන්ධයෙන් 2009 දී වාර්තා වූ 3.5% ක වර්ධනය තවදුරටත් අඩුවන්නට තිබුනි. මූල්‍ය ඉලක්කයන් සඳහා ආප්තවාදී ප්‍රවේශයක් යොදාගැනීමට වඩා නැගීඑන දේශීය සහ/හෝ විදේශීය කම්පනයන්ට නිසි අයුරින් ප්‍රතිචාර දැක්වීමට තිරසාර රාජ්‍ය සංචිත වලින් ප්‍රස්ථාව සැලසෙන බව තේරුම් ගැනීම අවශ්‍ය වේ.

මේ අනුව බලන කල ශ්‍රී ලංකාවේ මූල්‍ය ස්ථාවරත්වයක් ඇතිකර ගැනීම සඳහා වූ සැලසුම් සාධාරණ වේ. 2010 වර්ෂයේදී දල දේශීය නිෂ්පාදිතයේ ප්‍රතිශතයක් වශයෙන් වියදම ප්‍රධාන වශයෙන්ම වර්තන වියදම් සුවිධානය කිරීම මගින් දල දේශීය නිෂ්පාදනයෙන් 22.9% ක් වන සේ පහත හෙලන ලදී. මෙහිදී සිත් ධෛර්යමත් කරන සුළු කරුණක් නම් මුළුමනින්ම පාහේ අයවැය පුරෝකථනයන්ට අනුව ප්‍රාග්ධන වියදම් දැරීමය. බදු වැඩි කිරීමට නොගොස් වැය අඩු කිරීම හරහා ඇතිවන මූල්‍ය ස්ථාවරත්වයකින් මධ්‍ය කාලීන සංවර්ධන හැකියා ශක්තීන්ට සහායක් බොහෝවිට සැලසේ.

ප්‍රාග්ධන වියදම් සඳහා වැඩි මුදල් ප්‍රමාණයක් සම්පාදනය කිරීමට ඉඩ ලැබෙන අයුරින් වර්තන වියදම් කපාහැරීම් තුළින් මෙය සිදුකිරීමට උත්සාහ දරා තිබේ. තවද, වියදම් සුවිධානය කිරීම සහ බදුකරණය පිළිබඳ ජනාධිපති කොමිෂමේ නිර්දේශ මත බදු ප්‍රතිසංස්කරණ හරහා අතිරේක ආදායම උත්පාදනය කිරීමට නව ප්‍රයත්න දරණු ලබමින් තිබේ. බදු ප්‍රතිසංස්කරණ යොමුව ඇත්තේ ආදායම හෝ ඉතිරිකිරීම් මත නොව පරිභෝජනය හා දේපොල මත බදු අයකිරීම සම්බන්ධයෙනි. දෙවැනුව සඳහන් කළ විෂයන් මත බදු අයකිරීමට වඩා එය අඩුවෙන් හානිදායක වේ.

තිරසාර ඉහල වර්ධනයක් සාක්ෂාත් කර ගැනීමේ දී පමණක් නොව එකී වර්ධනයෙහි ව්‍යාප්තිමය බලපෑම් සම්බන්ධයෙන් ද පැහැදිලි මූල්‍ය ප්‍රතිපත්තිමය සංකූලතා ද තිබේ. උදාහරණයක් වශයෙන් දක්වන්නේ නම් පොදු යටිතල පහසුකම් සම්බන්ධයෙන් දැන් වැඩි අවධානයක් යොමුව ඇත්තේ මංමාවත්, වරාය, ගුවන් තොටුපල ආදිය කෙරෙහි ය. අනෙක් අතට 2006 වර්ෂයේ දී දල දේශීය නිෂ්පාදිතයෙන් 1.1 ක් වශයෙන් අධ්‍යාපනය හා සෞඛ්‍ය සේවා වෙනුවෙන් දරන ලද ප්‍රාග්ධන වියදම් 2010 වර්ෂයේ දී 0.6% දක්වා පහත වැටී තිබුනි. සංකීර්ණ අරමුණු රාශියක් සාක්ෂාත් කරගැනීම උදෙසා රජය විසින් ප්‍රයත්න දරමින් සිටින අවස්ථාවේ ඊට මුහුණ දීමට තිබෙන දැඩි මූල්‍ය දුෂ්කරතා මොනවාදැයි යන්න පැහැදිලිය. අතැම්විට එයින් ඉතා වැදගත් ලෙස එයින් අවධාරණය කෙරෙන දෙයක් නම් ශ්‍රී ලංකාවේ රාජ්‍ය මූල්‍ය සංචිත වඩාත් ස්ථිරසාර පදනමක් මත පිහිටා තිබිය යුතුවීම අත්‍යවශ්‍ය ප්‍රමුඛතාවයක් විය යුතු බවය.

රාජ්‍ය මුදල් සංචිත ශක්තිමත් කිරීම තුළින්, දිගු කාලීන සංවර්ධන අරමුණු මුදුන් පමුණුවාගැනීමට තුඩුදෙන මුදල් හා විනිමය අනුපාතික ප්‍රතිපත්තිය සකසා ගැනීමට පිටුවහලක් ලැබේ. ඇත්ත වශයෙන්ම රාජ්‍ය මූල්‍යමය සීමා කාරක තුළින් නිෂ්පාදන වර්ධනය කෙරෙහි ඇතිවන්නා වූ කිසියම් අහිතකර බලපෑමක් වෙතොත් එය මූල්‍යමය ලිහිල්කරණයන් තුළින් තරමක් දුරට සමනය කළ හැකිය. පෞද්ගලික අංශයේ ණය වර්ධනය උත්තේජනය කිරීමෙන් සීමිත ප්‍රතිඵල ලද්දේ වී නමුත් 2010 දී ද ශ්‍රී ලංකාව සිදුකළේ මෙවැනි දෙයකි.

කෙසේ නමුත් 2010 දී වඩාත් හිතකාමී උද්ධමනීය වාතාවරණයක් පැවති නමුදු මිළ ස්ථායීතාව කෙරෙහි අහිතකර බලපෑම් පැන නැගිය හැකිය. මේ අනුව බලන කල මූල්‍ය තත්වය ශක්තිමත් කිරීමේ ප්‍රයත්න තුළින් ප්‍රතිඵල අත්වන්නේ වී නමුදු උද්ධමනීය අපේක්ෂාවන්ට තුඩුදෙන දෑ මුදල් ප්‍රතිපත්තියට ඇතුළත් නොකළ යුතුය. උද්ධමනය අධික ලෙස ඉහළ අවදානමකින් තොරව ශ්‍රී ලංකාවේ ශක්‍යමාන වර්ධන අනුපාතය පිළිබඳව අනුමාන කළහැකි නමුදු ව්‍යාපාර සාර්ථක කරගැනීම පිණිස ශක්තිමත් පුරෝකථනය

කළ හැකි සාර්ව ආර්ථික පරිසරයක් සළසාදීමේ ප්‍රතිඵල ස්ථාවරත්වය තුළින්ම අත්කරගත හැකිවේ. අත්‍යාධිකව කෙරෙන මූල්‍ය ලිහිල්කරණය තුළින් අත්වන්නා වූ නිමැයුම් ප්‍රතිලාභ ඉහළ සහ වඩාත් වෙනස්වන සුළු උද්ධමනය තුලින් යටපත් වනු ඇත. අවසාන විග්‍රහයේ දී මිළ ඉහළයාම තුළින් පීඩාවට පත්වන්නේ දුප්පත් ජනතාව වන අතර එයින් සංවර්ධනයේ ප්‍රතිලාභ සමානව බෙදීයාම ප්‍රතික්ෂේප වීමක්සේ පෙනී යයි. විධිමත් රැකියාවන්හි නියුතු අයවලුන් මෙන් නොව උද්ධමනයට ඔරොත්තු දීමට දිළිඳු ජනතාවට ඇත්තේ සීමිත විකල්පයන්ය.

2010 අවසාන කාර්තුවේ සිට ශ්‍රී ලංකාවේ උද්ධමන අනුපාතය වර්ධනාත්මකව ඉහල යමින් තිබේ. ඊට ප්‍රධාන වශයෙන්ම හේතුවී ඇත්තේ අයහපත් කාළගුණය හේතුකොටගෙන ආහාර මිළ ගණන් ඉහළයාම නිසාය.[1] තෙල් අපනයනය කරන ප්‍රධාන රටවල් වල පවතින දේශපාලන වියවුල් හේතුකොට ගෙන ජාත්‍යන්තර තෙල් මිළ ගණන් ඉහළයාමේ ප්‍රවණතාවයක් ඇතිව තිබේ. සැපයුම් අංශය වෙතින් ඇතිවන එබඳු මිළ කම්පන වලින් උද්ධමනය වෙත අහිතකර බලපෑම් ඇතිවන්නේ එක් අවස්ථාවකදීය. සැපයුම් අංශයෙන් ඇතිවන උද්ධමනය පාලනය කිරීම උදෙසා වන මුදල් ප්‍රතිපත්තිමය ප්‍රතිචාරයන් ඵලදායී නොවන හෙයින් මිළ පාලන හා බදු ක්‍රියාමාර්ග හරහා විකල්පමය මැදිහත්වීම් යොදා ගැණිත. කෙසේ නමුත් පෞද්ගලික අංශයේ ණය වර්ධනය ප්‍රකෘතිවීමක් ලෙස විද්‍යාමාන විය හැකි වැටුප් වැඩිකිරීම් හරහා පොදුවේ පවත්නා උද්ධමනකාරී පීඩනයන් තුලට ආහාර මිළ හා තෙල් මිළ වැඩිවීම් අවශෝෂණය වීමේ තර්ජනයක් ඇතිවී ඒ නිසා ඉල්ලුම සම්බන්ධයෙන් පීඩනය ඉක්මනින් වැඩිවනු ඇතැයි අපේක්ෂා කරනු ලැබේ.

මේ අනුව උද්ධමනකාරී පීඩන ප්‍රභවයන් හඳුනාගැනීම පිණිස ශ්‍රී ලංකා මහ බැංකුව විසින් වැඩිපුර අවධානයක් යොමුකළ යුතුවේ. 2010 වර්ෂයේ වැඩි කාළයක් තුල වෙළඳපොලේ අතිරික්ත රුපියල් ද්‍රවශීලතාව 2011 මුල් භාගයේදී රු. බිලියන 120 - 130 ක් ලෙස ඇස්තමේන්තු කළ පරිදි උද්ධමනකාරී පීඩනයේ ශක්‍යමාන ප්‍රභවයක් වෙමින් තිබේ. රජයේ ණය සුරුකුම්පත් වෙළඳපොල වෙත ලැබුණු කෙටිකාලීන විදේශීය ආයෝජන ගලාවීම් තියුණු ලෙස වර්ධනය වීමක් සහ ඇතැම්විට ඉතා තීරණාත්මක අයුරින් විදේශීය ව්‍යවහාර මුදලින් අතිවිශාල ලෙස ණය ලබාගැනීම් වලින් ශ්‍රී ලංකාවේ කැපී පෙනෙන ලෙස විදේශීය ව්‍යවහාර මුදල් වල අතිරික්ත ඇති විය. මෙකී විදේශීය ව්‍යවහාර මුදල් මෙරටට ගලාවීමට අතිරේක වශයෙන් එතෙර ශ්‍රී ලාංකික රැකියා නියුක්තිකයන් විසින් සාමාන්‍යය ඉක්මවමින් මෙරටට ප්‍රේෂණය කරන ලද මුදල් ද 2009 න් පසු වාතාවරණය තුළ සංචාරක ව්‍යාපාරයෙන් ලද ආදායම් ද විය. ව්‍යවහාර මුදලේ අගය අනවශ්‍ය ලෙස ඉහලයාම වැලැක්වීම පිණිස ප්‍රාග්ධන ගලනයන් වෙනුවෙන් උචිත ක්‍රියාමාර්ග වලට අවතිර්ණ වීම තුලින් දේශීය මුදල් පදනම පුළුල් වීමට දායකත්වයක් සැපයුනි. මිළ නියම කිරීමේ යාන්ත්‍රණයක් හරහා එනම් ප්‍රතිපත්තිමය වශයෙන් අනුපාත ඉහළ නැංවීමට කටයුතු කිරීමට වඩා 2011 දී වාණිජ බැංකු වල ව්‍යවස්ථාපිත සංචිත අවශ්‍යතාවයන් 7% සිට 8% දක්වා වැඩිකිරීම වැනි නියාමන පියවර යොදාගනිමින් ප්‍රමාණාත්මක යාන්ත්‍රණයක් හරහා කටයුතු කිරීමට ශ්‍රී ලංකා මහ බැංකුව කැමැත්තක් දැක්විය. ප්‍රමාණවත් ලෙස සක්‍රීයව මෙය ක්‍රියාත්මක කරන්නේ නම් මෙය රළු හෙවත් ඵලදායී යාන්ත්‍රණයකි. අතිරික්ත ද්‍රවශීලතා මට්ටම හා ණය සඳහා වූ ඉල්ලුම මත උද්ධමනකාරී පීඩනය අඩුකිරීමේ සාර්ථකත්වය රඳා පවතී.

2011 පළමු කාර්තුව අවසාන වන විට අතිරික්ත රුපියල් ද්‍රවශීලතාව 2011 වන විට පැවති වාර්ෂික උද්ධමන අනුපාතයන් සමග රුපියල් බිලියන 70 වඩා පහත වැටුනු විට පුළුල් වන මුදල් පදනමක උද්ධමනකාරී ප්‍රතිඵල නොසලකා හැරිය නොහැක. නුදුරේදීම ප්‍රාග්ධනය පහසුවෙන් ගලා ඒමේ සලකුණු ඇත්තේ මඳ වශයෙනි. 2010 ඔක්තෝබර් මස පළමු නිකුත් කිරීමෙන් ඉක්බිතිව 2011 වර්ෂයේදී ඩී.ජ. ඩොලර් බිලියන 1 ක් සඳහා වූ බැදුම්කරයක් නිකුත් කිරීම සඳහා ශ්‍රී ලංකාව දැනටමත් සූදානම් වී සිටී.

විදේශීය ආයෝජන විශාල වශයෙන් මෙරටට ගලාවීම, රටේ අළුත් වූ ආර්ථික අපේක්ෂාවන් මෙන්ම යහපත් අයෝජන ප්‍රස්ථාවන් තිබෙන බවට සාක්ෂියක් වන නමුත් ආර්ථිකය කෙරෙහි එතරම් යහපත් නොවන බලපෑම්ද එහි අන්තර්ගතව ඇත. වර්තන ගිණුම් වල තිබෙන හිඟයන් සඳහා මූල්‍ය සම්පාදනය කරන්නේ කෙසේදැයි යන්න වැදගත් වේ. ප්‍රාග්ධන ගලනයන්ගෙන් බොහෝමයක් භාණ්ඩ හා සේවා

1 2011 ජූනි මාසයේදී 2002 පදනම් වර්ෂය ලෙස ගනිමින් පදනම් කාලය වශයෙන් දෘඩුරුදු සාමාන්‍යයක් (2006/2007) ගැනීම සඳහා 2006/2007 ගෘහාශ්‍රිත ආදායම හා වියදම් පදනම් කරගෙන CCP1 ගණනය කරන ලදී.

වෙනුවෙන් ශ්‍රී ලංකාවේ වත්මන් ඉල්ලුමෙන් ඇතිවූ ඒවා නොවන අතර එය ඇතිවී තිබෙන්නේ විදේශ ව්‍යවහාර මුදලින් ශ්‍රී ලංකා රජය විසින් ලබාගෙන ඇති ණය සම්බන්ධයෙන් වන ප්‍රාග්ධන ගිණුම් ගණුදෙනු වල ප්‍රතිඵලයක් වශයෙනි. එබඳු ප්‍රවණතා තුලින් රටක බාහිර ගෙවුම් තත්වය මැනවින් පවත්වා ගැනීම කෙරෙහි උද්ගතවන කෙටිකාලීන හා දිගුකාලීන බලපෑම් ඇතිවේ.

විශාල ශුද්ධ ප්‍රාග්ධන ගලන සම්බන්ධයෙන්ද ක්ෂණික කෙටිකාලීන බලපෑම් ද ඇතිවේ. ඒවායින් මෙරට විදේශ විනිමය කෙරෙහි වර්ධනාවනත අයුරින් පීඩන ඇති වේ. විදේශීය විනිමය වෙළඳපොල සඳහා ශ්‍රී ලංකා මහ බැංකුව විසින් සිදුකෙරුනු බරපතල මැදිහත්වීම් මධ්‍යයේ වුවද ශ්‍රී ලංකා රුපියල ඒ.ජ. ඩොලරයට සාපේක්ෂකව නාමිකව 3% කින් ඉහළ ගියේය. වෙළඳ හවුල්කරු ව්‍යවහාර මුදල් සම්බන්ධයෙන් සිදුවෙමින් පවතින අයුරින් මූර්ත විනිමය අනුපාතිකයන් ඉහළයාමක් තුළින් ජාත්‍යන්තර වෙළඳපොලවල් වල ශ්‍රී ලංකාවේ අපනයන, අඩු තරගකාරිත්වයකට යොමුකරනු ලබයි. එබැවින් ඇත්ත වශයෙන්ම වඩාත් ලාභදායී භාණ්ඩ අපනයන හරහා මිළ වාසියක් ලැබෙන පරිදි ආනයනය ආනයන පරායත්ත අපනයන නිෂ්පාදන සඳහා නැඹුරුවක් ඇතිවිය හැකිය. විශේෂයෙන්ම ඉහළ යන ජාත්‍යන්තර වෙළඳ ද්‍රව්‍ය මිළ ගණන් මධ්‍යයේ ශක්තිමත් රුපියලකින් උද්ධමනය මැඩපැවැත්වීමට සහායක් ලැබේ.

කෙසේ නමුත් මෑත අවරුදු වල දළ දේශීය නිෂ්පාදිතයට සාපේක්ෂව අපනයන අනුපාතය කැපී පෙනෙන ලෙස පහත වැටීමේ වාතාවරණයක් තුල (එනම් 2004 දී 28% ක් වූ අපනයන අනුපාතය 2010 දී 16.7% දක්වා පහත වැටුනි). විදේශ රටවලින් ලබාගන්නා ලද විශාල ණය දිගුකාලිනව ආපසු ගෙවීමේ පසුබිමක් අබියස වැඩි වැඩියෙන් විදේශ විනිමය ඉපයීමේ අවශ්‍යතාවයෙන් තොරවීමක් පිළිබඳව ශ්‍රී ලංකාවට සිතිය නොහැකිය.

ඩොලරයේ නිරපේක්ෂ වටිනාකම වැඩිවීමක් තිබියදීත් දල දේශීය නිෂ්පාදිතයට සාපේක්ෂව අපනයනයන්ගේ පහත වැටීම තුළින් පෙන්නුම් කෙරෙන්නේ ඉතාමත් මෑතදී ශ්‍රී ලංකාව අත්දකිමින් තිබෙන ඉහල වර්ධන වේගය වූකලී අපනයන නිසා පමණක් ඇතිවූ ප්‍රගතියක් පමණක් නොව යටිතල පහසුකම් සඳහා වැඩියෙන් ආයෝජනය කිරීම් ආදී ප්‍රයත්නයන් තුලින් අත්පත් කරගත් එකක් බවය. කෙසේ නමුත් ඉතා සීමාසහිත දේශීය වෙළඳපොල ගැන සළකා බලන කල තිරසාර ලෙස ඉහල සංවර්ධනයක් සාක්ෂාත් කරගත හැක්කේ මෙරට භාණ්ඩ හා සේවා සඳහා විදේශීය ඉල්ලුම ඉහල නංවා ගන්නේ නම් පමණකි.

මේ අනුව ඉහතින් විස්තර කරනු ලැබ ඇති පරිදි සාර්ව ආර්ථික ප්‍රතිපත්ති කළමනාකරණය දිගුකාලීන සංවර්ධනය සඳහා වැදගත් වේ. සංවර්ධනය සමාජ ප්‍රගතිය සමග ක්‍රියාත්මක වීමේදී ඒවා වැදගත් වේ. උදාහරණයක් වශයෙන් දිළිදු ජනයා වැටුප් ලබන රැකියාවන් වෙත යොමු කිරීමෙන් පමණක් තිරසාර සංවර්ධනය තුලින් දිළිදු බව තුරන්කිරීම සිදු නොකල හැකි අතර එය කල යුත්තේ මූල්‍ය ඉලක්ක සහිත සමාජයීය වැඩසටහන් සඳහා ආදායමින් විශාල කොටසක් සැපයීම මගිනි. මේ අනුව සලකා බලන කල රටේ සමස්ථ දරිද්‍රතාවය පිළිබඳ ගැටළුව විසදීමෙහිලා මෙන්ම ආර්ථිකයේ එක් එක් අංශයන් අතර නිර්මාණය වෙමින් තිබෙන හිදැස් අඩුකිරීම පිණිස රජය විසින් කැපී පෙනෙන පියවර රැගෙන ඇති බැව් පෙනී යයි.

ජන හා සංඛ්‍යා ලේඛන දෙපාර්තුමේන්තුව විසින් පවුල් හා ආදායම් වැය පිළිබඳ සිදුකරන ලද සමීක්ෂණයට අනුව 2006-07 වර්ෂයේ ජනගහණයෙන් 15.2% පමණ වූ දිළිදු ජන සංඛ්‍යාව 2009-10 වන විට 8.9% පමණ ප්‍රතිශතයක් දක්වා පහත වැටී තිබේ. මෙහි වඩාත් සිත්ගන්නා සුළු දෙය නම් මේ අතරතුර කාලයේදී නාගරික ග්‍රාමීය හා වතු අංශයේ පරතරය අඩුවීමයි.[2] එකී අතරතුර අවුරුදු වලදී දැඩිලෙස ඇතිවූ මිළ අස්ථාවරතාවය සහ 2009 දී මුහුණපෑමට සිදුවූ ආර්ථික අවපාතය ගැන සළකා බලන කළ දිළිදුකම පහත හෙලීමේ සමස්ථ ප්‍රයත්නයන්හි ප්‍රතිඵල පුදුම ඵලවන සුළුය. කෙසේ නමුත් එක් එක් අංශයන් අතර පවතින අසමානතාව අඩුකිරීම එතරම් පුදුමයක් නොවන්නේ මූලික වශයෙන්ම යටිතල පහසුකම් සඳහා මුදල් යෙදවීමේදී හා කෘෂිකාර්මික ක්ෂේත්‍රය සඳහා සහන සැළසීමේදී 2005 වර්ෂයේ සිටම නාගරික ග්‍රාමීය පරතරය අවම කිරීම පිණිස රජයේ සංවර්ධන ප්‍රයත්නයන්හිදී සැලකිල්ල යොමුකරන ලද හෙයින් සමස්ථයක් වශයෙන් ගත්කල අසමතුලිතතාවයේ

2 සර්වග්‍රාහී දියුණුව අත්‍යවශ්‍ය මෙවලමක් වශයෙන් සමාජ ආරක්ෂණය යන මැයෙන් මෙම වාර්තාවේ 5 වැනි ඡේදයෙහි දැක්වෙන සාකච්ජාව බලන්න.

පරතරය අඩුවීමක් සිදුව ඇති නමුදු සමාජයේ එක් එක් පැතිකඩ සම්බන්ධයෙන් සළකා බලන කල එනම් ස්ත්‍රී පුරුෂ සමාජභාවයල භූගෝලීය පිහිටීම, එක් එක් අංශ හා ජනවාර්ගිකභාවය අනුව ලාභදායී ආර්ථික ප්‍රස්ථාවන්ට ප්‍රවේශවීමේ විෂමතා තවදුරටත් පවතී. යුද ගැටුම් වලින් ඉක්බිතිව සිදුකෙරෙන ප්‍රතිසන්ධාන පසුබිම තුල මෙකී ගැටළු පිළිබඳව සොයාබැලීම ඉතා වැදගත් කරුණකි.

ලෝකය විසින් මෑතදී අත්දැක ඇති පරිදි සම්පත් අසමානව බෙදීයාම තුලින් අතිශය අර්බුදකාරී තත්වයන් තුල සමාජයීය මෙන්ම බොහෝවිට අසහනයන්ට තුඩුදෙන අන්දමේ තියුණු ආර්ථික අනාරක්ෂිතභාවයක් ද නිර්මාණය වේ. ඇත්ත වශයෙන්ම ගෝලීය ආර්ථික අර්බුදය සහ ආහාර ද්‍රව්‍ය මිළ ඉහළයාමේ හේතුවෙන් බොහෝ රටවල් වලට නව සමාජ ආර්ථික ආතතීන් සමග පොරබැදීමට සිදුව තිබේ. එක් එක් රටවල අවාසිදායක ආර්ථික සංකෝචනය හා රැකියා විරහිත සංඛ්‍යාවේ ප්‍රසාරණය මධ්‍යයේ ලෝකයේ ආර්ථිකය ප්‍රකෘතිමත් වෙමින් තිබෙන අවස්ථාවක අසමතුලිතතාවය පිළිබඳ ප්‍රශ්නගත කරුණු සම්බන්ධයෙන් නව අවධානයක් යොමුවෙමින් පවතී. සංවර්ධිත හා සංවර්ධනය වෙමින් පවතින රටවල තත්වය එනම් පොහොසත් හා දුප්පත් ජනතාව අතර පවත්නා පරතරය වැඩිවෙමින් පවතින ස්වභාවයක් තවමත් පවතී.

ඉදිරි වර්ෂ තුලදී ශ්‍රී ලංකාව වේගවත් සංවර්ධනයක් කරා යාමට සුදානම් වෙමින් සිටින හෙයින් සාමානත්වය පිළිබඳ ප්‍රශ්නගත කරුණු ආරම්භක අවස්ථාවේදීම විසඳීමට පියවර නොගන්නේ නම් මෙයින් ඉඳුරාම ඇතිවන සමාජ ගැටළු වලට ද අපට මුහුණදීමට සිදුවේ. ඉහල මට්ටමේ සංවර්ධනයක් ඇතිවන්නේ නිරතුරුවම තාක්ෂණික ප්‍රගතියද ඊට හවුල් වූ විටය. මෙයින් පුහුණ ශ්‍රමිකයන් සඳහා ඇතිවන සාපේක්ෂක ඉල්ලුම ඉහළ නැංවේ. ඉල්ලුමට සරිලන පරිදි පුහුණු ශ්‍රමිකයන් සැපයිය නොහැකිවන අවස්ථාවන්හිදී පුහුණු හා නුපුහුණු ශ්‍රමිකයන් අතර වැටුප් පරතරය පුළුල් වීමට මං පෑදේ.

අපේක්ෂිත ආකාරයෙන් ඉදිරි වර්ෂතුලදී ශ්‍රී ලංකාවේ ආර්ථික වර්ධනය වැඩි වැඩියෙන් ඉහළ පුහුණු සේවා අංශයක් හරහා සාක්ෂාත් කරගැනීමට යන්නේ නම් වැටුප් පරතරය පුළුල්වීමේ ගැටළුවක් මතුවිය හැකිය. ඊට අතිරේක වශයෙන් සේවා යෝජකයින් හෝ ස්වයං රැකියා නියුක්තිකයන් පුහුණුකිරීම වෙනුවෙන් ආයෝජනය කිරීම උදෙසා සම්පත් සීමිත වී ගිවිසුම්ගත/අවිධිමත් අංශයන්හි වැඩිවැඩියෙන් රැකියා නිර්මාණය වන අවස්ථාවන්හිදී නිපුණතා සංවර්ධනය නොමැතිකම තුලින් ශ්‍රම වෙළඳපොලේ ව්‍යුහාත්මක දෘඩතාවයන් උත්සන්න විය හැකිය. මෙහිදී බොහෝවිට පීඩාවට පත්වන්නේ නුපුහුණු හා කාන්තා ශ්‍රමිකයන්ය.

දියුණුව උදෙසා ආර්ථික සංවර්ධනය අත්‍යාවශ්‍ය බව බහුමතය වන අතර දියුණුව පමණක්ම සංවර්ධනයට අදාළ සියල්ලම නොවන්නාක් මෙන් අවසාන දෙයද නොවේ. මෙම පසුබිම යටතේ තිරසාර හා සර්වග්‍රාහී දියුණුව නමැති සංකල්පය රජයන්ට අවශ්‍යවන්නාවූ වැදගත් ප්‍රතිපත්තියක් බවට පත්වේ.

මේවා ප්‍රතිපත්තිමය ලිපිලේඛන වල චිචිත්‍රව භාවිතා කෙරෙන වාග්මාලාව වන නමුදු මෙරටට විශේෂ වූ තත්වයන් තුලින් ප්‍රකාශ වන්නේ ඒවා නොසලකා හැරීම නොකල යුතු බවයි. ශ්‍රී ලංකාව ගැන සලකා බලන කල කටුක පරිච්ඡේදයකින් ඉක්බිතිව ආර්ථික වශයෙන් හිස ඔසවන පසුබිමක් තුල ක්‍රියාත්මක වෙමින් පවතින සංවර්ධන ප්‍රයත්නය හරහා රටේ සමගිය හා ඒකාග්‍රතාව නැවතත් ඇතිකිරීම උදෙසා නැගී එන සමාජමය ආර්ථික අභිලාශයන් සපුරාලිය යුතුය.

ඊට පුළුල් පදනමකින් යුත් සීඝ්‍ර දියුණුවක් ඇති කෙරෙන ආර්ථික ප්‍රතිපත්ති සම්පාදනය කිරීම පමණක් නොව සම්පත් බෙදාහැරීම සහ ඒවාට ප්‍රවේශවීම සමාන ආකාරයෙන් සිදුවීම පිළිබඳ ගැටළු වලට සංවේදීතාවක් දක්වන ප්‍රතිපත්තිද සම්පාදනය කිරීම අවශ්‍ය වේ.

මෙම වසරේ ''ආර්ථික තත්වය'' නමැති වාර්තාවේ ප්‍රධාන තේමාව වූකලී අසමානතාවයන් අඩුකිරීම මගින් දියුණුවට තුඩුදෙන මාර්ග රාශියක් විස්තර කෙරෙන ''යුද්ධයෙන් පසු දියුණුව: සර්වග්‍රාහිත්ව අවශ්‍යතා'' යන්නයි. මේ හැරුණුකොට පැහැදිළිවම ආචාරධර්මානුකූල කෝණයකින් සහ වඩාත් ප්‍රායෝගික දෘෂ්ඨිකෝණයකින් බලන කල තිරසාර දියුණුව සඳහා සර්වග්‍රාහිත්වය අවශ්‍ය සාධකයකි. මන්දයත්, බැහැර කිරීම ඵලදායී සම්පත් අඩුවෙන් භාවිතා කිරීමට සහ දියුණුව සීමා කිරීමට ද මගපාදන බැවිනි.

ඵලදායී රැකියා නියුක්තිය සර්වග්‍රාහී දියුණුවේ තීරණාත්මක ගාමක සාධකයයි. කම්කරුවන්ගේ රැකියා නියුක්තිය වැඩිදියුණු කිරීම එක් අතකින්ද

අනෙක් අතින් ඵලදායී රැකියා අවස්ථාවන් සඳහා ප්‍රවේශය වැඩිදියුණු කිරීමද ඊට අවශ්‍ය වේ.

සැපයුම් පැත්තෙන් රැකියා නියුක්තිභාවය වැඩිදියුණු කිරීමට ඇතුළත්විය යුතුදේ නම් ගුණාත්මක තත්වයෙන් යුක්ත සෞඛ්‍යය පහසුකම් අධ්‍යාපනය හා වෙනත් ඵලදායී වත්කම්ය. ඉල්ලුම සම්බන්ධයෙන් සළකා බලන කල රැකියා ප්‍රවේශය වැඩිදියුණු කිරීම සඳහා විවිධ භූගෝලීය කලාප සහ විවිධ ගණයේ කම්කරුවන් වෙනුවෙන් ආර්ථිකයේ විවිධ අංශ තුළ අවස්ථා විවෘත කිරීම අවශ්‍ය වේ. ආර්ථිකයක දරිද්‍රතාවයේ හා අසමානතාවයේ මට්ටම් මෙන්ම භූගෝලීය, ජනගහන, දේශගුණික, පාලනාත්මක, දේශපාලන සමාජයීය කරුණු සහ ප්‍රතිපත්තිමය වාතාවරණය ආදී වෙනත් බාහිර සාධක වැනි තත්වයන්, දියුණුවේ ප්‍රතිඵල තීරණය කිරීමෙහිලා වැදගත් කාර්යභාරයක් ඉටු කරයි. මෙකී පසුබිම තුල පරිච්ඡේද ගණනාවක් හා ප්‍රතිපත්තිමය විස්තර කිරීම් සහිතව ප්‍රතිපත්තිමය ක්ෂේත්‍ර ගණනාවක් තුලින් ශ්‍රී ලංකාව සඳහා සර්වග්‍රාහී දියුණුවක් සාක්ෂාත් කරගැනීමට අවශ්‍ය දේ මෙම වාර්තාවේ ඉතිරි කොටස මගින් විමර්ශනයට ලක් කෙරේ.

கொள்கைத் தோற்றங்கள்

உலக பொருளாதார மீட்சிக்கான கடினமான பாதையை ஆரம்பிக்கையில், அது நீண்ட கால வளர்ச்சிக்கான அடிக் கற்களின் ஐ.நா. கொள்கையாக இருக்கட்டும், அல்லது ஐ.இ. யின் பொருளாதார வளர்ச்சி உபாயமாக இருக்கட்டும், அல்லது ஜப்பானின் புதிய வளர்ச்சி உபாயமாக இருக்கட்டும், உலகக் கொள்கை அமைப்பாளர்களுக்கு "வளர்ச்சியே" மூளைக் கல்லாக அமைந்தது. இந்த வகையில் நாட்டின் யுத்தத்துக்குப் பின்னான சூழலிலே அது தனக்கு வருடத்துக்கு 8 நூற்று வீதத்திற்கும் கூடுதலான ஒரு ஆவல் மிகுந்த இடைக் கால வளர்ச்சி இலக்கை வைத்திருப்பதில் ஸ்ரீ லங்கா ஒரு விதிவிலக்கல்ல. உண்மையில் ஒரு துரிதமாக முன்னேறி வரும் பேரண்டப் பொருளாதாரச் சூழலுக்கு மத்தியில் ஸ்ரீ லங்கா 2010 ல் ஒரு பலமான பொருளாதார மீண்டெழுதலுடன் இதனை அடைந்தது. ஏற்றுக் கொள்ள முடியாத அளவில் உயர்ந்த பணவீக்கத்துடனும் குறைந்து வரும் வெளிநாட்டு நாணயமாற்று இருப்புகளுடனுமான பொருளாதார நடவடிக்கைள் அதிகமாகச் சீர்கெட்டு இருந்த இரண்டே வருடங்களுக்கு முன்பு இருந்த நிலைக்கு நேரே வித்தியாசமானது. 2010 ல் ஸ்ரீ லங்கா ஒரு சாதனை மிக்க 6.6 மில்லியன் ஐ.நா. டொலர்களினாலான உயர் உத்தியோகப் பூர்வ இருப்புகளையும் ஒரு மிதமான 5.9 நூற்று வீத பணவீக்க விகிதத்தையும் வருடத்தின் பெரும்பாலான காலங்களில் ஒரு நிலையான நாணய மாற்று விகிதத்தையும் காட்டியது. இந்தக் குறிப்பிடத் தக்க திருப்பமானது ஆட்சியில் உள்ள பலம் மிக்க அரசாங்கத்தின் கொள்கையினாலும் மற்றும் அரசியல் ஸ்திரத் தன்மையினாலும், பலப் படுத்தப் பட்ட நாட்டின் நீண்டகால பொருளாதார எதிர்பார்ப்புகளிற் கொண்டுள்ள புதுப்பிக்கப் பட்ட நம்பிக்கைக்குப் பெருமளவிற் கடமைப் பட்டுள்ளது.

ஸ்ரீ லங்காவின் பலமான மீட்சிக்கும் தென்படுவது போன்ற பிரகாசமான இடைக்கால எதிர்பார்ப்புகளுக்கும் மத்தியில் நாட்டின் சமீப காலப் பொருளாதார நிறைவேற்றங்களிற் குறிப்பான சில அம்சங்கள் பற்றிச் சில கவலைகளும் உள்ளன. அத்தகைய அம்சங்களில் நாட்டின் புதிய ஸ்திரத்தன்மையிலிருந்து இலாபங்களைப் பெற்றுக் கொள்ளக் கூடிய தனியார் துறை மூலதனத்தின் ஒப்பீட்டு அடிப்படையிற் பலங் குறைந்த மீட்சியும் ஒன்றாகும். தனியார் துறையினரில் கடன் ஈடு செய்தலைப் பிரயோகிப்பதன் வளர்ச்சியும், நாட்டிற்கு வரும் நேரடி வெளிநாட்டு மூலதனத்தின் (எவ்.டீ.ஐ.) உள் வருகையைப் போலவே வேகங் குறைந்து காணப்பட்டது. தனியார்த துறைக் கடன் வளர்ச்சியானது 2010 ன் பெரும் பகுதியில் மந்தமாக இருந்து வருடத்தின் இறுதி மாதங்களில் மாத்திரம் அபிவிருத்தியடைந்ததோடு எவ் டீ ஐ உள்வரவுகள் சச்சரவுகள் நிறைந்த 2009 ஆம் வருடத்தின் 385 மில்லியன் ஐ.நா.டொலர்களுக்கு எதிராக 435 மில்லியன் ஐ.நா. டொலர் வரை ஒரு சாதாரண மீட்சி கண்டது. கடந்த வருடத்திற் போன்று நாடு ஒரு 8 நூற்று வீத வளர்ச்சியை அடைய அரச முதலீடே ஸ்ரீ லங்காவின் வளர்ச்சி முக்கியத்துவத்தினை முன் கொண்டு சென்றது.

பொருளாதார வளர்ச்சியின் மூலங்கள் முக்கியமானவை என்ற போதிலும் வளர்ச்சியை முன் கொண்டு செல்வது எது என்பதில் தெளிவான உடன்பாடு என்றுமே இருக்கவில்லை. உண்மையில் அபிவிருத்திக் கற்பனையானது துரித அபிவிருத்தியை உறுதிப் படுத்துவதற்கான அதி சிறந்த கொள்கைகள் எவை என்பதில் மாறுபட்ட நம்பிக்கைகளுடன் சிதறுண்டு கிடக்கின்றன. 1980 ஆம் வருடங்களில் சந்தைகள், விலைகள் மற்றும் ஊக்குவிப்புகளில் பார்வையை ஒரு முகப்படுத்துகையில் ஒரு அதிர்ச்சியூட்டும் நகர்வு காணப்பட்டது. இவை, இந்த நடைமுறையில் "கட்டமைப்பைச் சரிப்படுத்துதல்" விலைகளைச் சரியாகப் பெறுதல் ஆகியவற்றினூடாக நிதிச் சம நிலையின்மையைக் குறைத்து குறிப்பாகக் கைத்தொழில் மூலதனங்களைக் கூடிய வரை உயர்த்துதலை வேண்டி நிற்கிறது. 1990 களில் நாடுகளுக்குச் "சந்தைப் படுத்துதலை" மட்டும் கூறிக் கொள்கை வழிநடத்தல்களை வழங்குதல் மேலும் கடினமாக இருந்தது. தனியார்த் துறை அபிவிருத்திக்காக ஊக்குவிப்புகளையும் நடவடிக்கைகளையும் அறிமுகப் படுத்த மோசடிகளைக் குறைத்தும் சட்ட ஆட்சியை முன்னேற்றியும் "வியாபாரங்களை நடத்துவதிற் செலவினங்களைக் குறைத்தும்," தொழில் நுட்பம் ஆகியவற்றின் தரமுயர்த்தலுக்காக கல்வி மற்றும் அதன் வேலை அணிகளின் திறமைகளை

முன்னேற்ற அரச நிறுவனங்களைப் பலப்படுத்தும்படி அவை நாடுகளை வேண்டுகின்றன.

நிகழ்ச்சி நிரல்கள் மாற்றத்தினாலாகும் நலன்கள் எதுவாக இருப்பினும் மூலதனத்தின் ஒரு நிலையான அதிகரிப்பு பொருளாதாரத்தின் வளர்ச்சி விகிதத்தை தற்காலிகமாவேனும் உயர்த்துகிறதென பொருளாதாரச் சித்தாந்தம் குறிப்பிடுகையில் உற்பத்தித் திறனுக்கு மேம்பாடுகளைக் கொண்டு வருதல் குறிப்பாக மனித மூலதனத்தில் புதுமை மற்றும் முதலீடுகளின் காரணமாக மேலும் நிலையான முறையில் வளர்ச்சி பெருகுதலை அனுமதிக்கிறதென மேலும் கலப்புகளுள்ள முறைகள் குறிப்பிடுகின்றன. இந்தத் துறையில் நாட்டின் பௌதிக உட்கட்டமைப்பு மூலதனத்தை முன்னேற்றுதலுக்குப் பெரிதும் சார்பாவுள்ள ஸ்ரீ லங்காவின் அரச மூலதன முன்னெடுப்பு வளர்சிக்கு ஒரு பிரயோசனமான ஆரம்ப ஊக்குவிப்பைச் சந்தேகமின்றி வழங்கலாம். ஆனால் அந்த வளர்ச்சி முக்கியத்துவத்தின் நீண்ட காலம் நிலை கொள்ளுதல் தொழில் நுட்பம் மற்றும் அறிவுப் பரிமாற்றம் ஆகியவற்றிற் பொருத்தமான முறையில் மூலதனமிடுதலைக் கொண்டே உறுதிப்படுத்தலாம். இங்கே தனியார்த்துறை மூலதனம் மற்றும் விசேஷமாக எவ் டீ ஐ ஆகியவை ஒரு குறிப்பான முக்கிய பாகத்தை ஏற்க வேண்டியுள்ளது.

தனியார்த் துறை கடன் வளர்ச்சியானது 2009 ன் மத்திய பகுதியிலிருந்து ஸ்ரீ லங்காப் பொருளாதாரத்தில் ஏற்பட்ட புதிய மீள்பாய்ச்சல் மற்றும் கூடிய வேகத்திலான வளர்ச்சியின் போதும் ஒப்பிடுகையில். குதித்தெழுதல் மந்த வேகத்திலேயே இருந்தது. கடன் வளர்ச்சியானது, 2008 ல் ஒரு 8 நூற்று வீத வளர்ச்சிக்குப் பின் புறமாகவும், 2009 ன் 5.8 நூற்று வீதச் சுருங்கலின் போதும் 2010 ன் இரண்டாம் அரைப் பகுதியில் மட்டும் வருட இறுதியில் 25 நூற்று வீதத்தினாலான ஒரு ஆரோக்கியமான வளர்ச்சியைப் பதிவு செய்யும் அளவுக்குத் தொடர்ந்தது. ஸ்ரீ லங்கா அமைப்பில் இதே போன்ற ஒரு பேரண்ட அதிசயத்தைப் புரிந்து கொள்வது மிக இலகுவாக இருந்தும் தனியார் துறை வளர்ச்சியின் மந்தமான மீட்சிக்கான காரணம் முற்றிலும் தெளிவாக இல்லை. 2008/09 களின் பேரண்டப் பொருளாதாரக் கீழ் நோக்கைப் போன்ற ஒரு நிதிச் சிக்கல் நிலையைத் தொடரும் இடைக்காலப் பொருளாதாரச் சூழலிலே குடியிருப்புளும் நிறுவனங்களும் அவையவைகளின் கடன் சுமைகளைக் குறைப்பதனால் எதிர்பார்க்கக் கூடியதாகையால் மந்தமான கடன் வளர்ச்சி எதிர்பார்க்கக் கூடியதாகவுள்ளது. உலகாய நிதிச் சிக்கல் நிலையினால் ஸ்ரீ லங்கா தேவையற்ற முறையிற் பாதிக்கப் படாது இருந்து 2005 – 07 களின் மிதமிஞ்சிய கடன் வளர்ச்சிச் சூழலுக்கு மத்தியில் அதற்தே உரித்தான நிதிக் குழப்ப நிலையினூடே சென்று கொண்டு இருந்தது. அது சில முக்கியமான நிதி நிறுவனங்களும் சட்ட விரோதமான "பொன்சி திட்டங்கள்" அவிழ்வதை மட்டுமன்றி குடியிருப்புகள் மற்றும் நிறுவனங்களைக் கூடுதலாக ஆதிக்கஞ் செலுத்துவதையும் கண்டது. உதாரணமாக இதன் விளைவாக வங்கித் துறையின் சராசரி இயக்கமற்ற கடன் வழங்கல் (என் பீ எல்) விகிதாசாரம் 2007 ன் 5 நூற்று வீதத்திலிருந்து 2009 ல் 8.5 நூற்று வீதத்துக்குத் துள்ளியது. அது மீள்- மூலதன நோக்கங்களுக்காக கம்பனித் துறையினர் இலாபங்களை நிறுத்தி வைத்திருப்பதாகவும் இருக்கலாம்.

ஒட்டு மொத்தமாக, தனியார் துறை மூலதனப் பசியைக் குறைப்பதில் கேள்வி மற்றும் வழங்கல் அம்சங்கள் இரண்டும் ஒரு பாகத்தை ஏற்றுள்ளன என்பதை ஸ்ரீ லங்காவின் அனுபவம் சுட்டிக் காட்டுகிறது. ஒரு துரித பொருளாதார மீட்சியின் அறிகுறிகள் காணப்பட்ட போதிலும் மிதமிஞ்சி ஆதிக்கம் செலுத்தப் பட்டுள்ள வீடுகளும் நிறுவனங்களும் கடன் பெறுவதில் விருப்பக் குறைவாக இருந்ததோடு வங்கிகளும் கடன் வழங்குதலில் விருப்பக் குறைவாகவே இருந்தன. உண்மையில பொருளாதாரக் கீழ் நோக்கு தனியாரத் துறையினரின் சேமிப்பு அதிகரிப்பைத் தூண்டியது. இந்தச் சூழ்நிலைகளில வங்கிகள் கட்டாய நடவடிக்கைகள் வகுத்தல் உட்பட்ட அவற்றின் கடன் வழங்கல் விகிதங்களைக் குறைத்தலை ஈர்ப்பதற்காக ஸ்ரீ லங்கா மத்திய வங்கி (ஸீ பி எஸ் எல்) அதன் கொள்கை வட்டி விகிதங்களைக் குறைப்பதற்கு மும்முரமாக நடவடிக்கை எடுத்ததோடு ஏனைய வழிமுறைகளையும் பிரயோகித்தது. மொத்தமாக இவையெல்லாம் வரையறுக்கப் பட்ட விளைவுகளை மாத்திரமே கொண்டிருந்தன. எனவே குடியிருப்புகளும் நிறுவனங்களும் கடன்களைத் திருப்பச் செலுத்துகையில் ஏனைய காலங்களை விட ஒரு குறைந்த ஊக்குவிப்பையே வழங்கக் கூடும் என்பது ஆச்சரியமல்ல.

தனியார் துறை முதலீட்டாளர்களுக்கு குறுகிய கால நிதி இலாபங்களைப் பெற்றுக் கொள்ளத் தெளிவான வேறு வழிகள் உள்ளதோடு உயர்ந்து வரும் உள்ளூர் மூல நிதிச் சந்தையிலிருந்தும் குறைவாக அல்ல. ஸ்ரீ லங்காவின் "போர்ஸ்" ஆனது, தொடர்ந்து உலகளவில் இரண்டு வருடங்களாக இரண்டாவது அதி சிறந்த இயற்றுனராக ஆவதற்கு 2010 ல் 95 நூற்று வீதத்துக்கும் கூடுதலாக இலாபம் ஈட்டியது.

பொருளாதாரத்தின் நீண்ட கால வாய்ப்புகளில் புதுப் படுத்தப் பட்ட நம்பிக்கை சந்தேகமின்றி ஒரு பாகத்தை ஏற்று இருக்கையில் நெறிப் படுத்துவோரின் உற்புகுதலை கட்டாயப் படுத்தும் ஊகம் மிகுந்த வியாபார நடவடிக்கைகளினாலும் இலாபங்கள் ஒரு பெரும் அளவுக்கு முன் தள்ளப்பட்டன. ஒப்பிடுகையில் நிரந்தர வருவாய்ச் சொத்துக்களிலிருந்து வரும் குறைந்த வருவாய்களும் பங்குச் சந்தைகளுக்கு பணம் செலுத்துதலில் ஒரு பாகத்தை ஏற்றது. வங்கிகளுக்கு மேலும் அபாய மிக்க கம்பனித் துறையினரையோ, குடியிருப்புக் கடன் வாங்குபவர்களையோ நாடும் அவசரமான தேவைகளை இல்லாமலாக்கும் அபாயம் அறவே இல்லாத ஆரோக்கியமான வருவாயை அரசாங்கக் கடன் பிணையங்கள் தொடர்ந்து வழங்குகின்றன.

ஓரளவுக்கு தொழிற்சாலைகளை வங்கி முறையின் கடனினூடாக விசாலமாக்கி புதிய இயந்திரங்களில் முதலீடு செய்வதற்கான தனியாரத் துறையினரின் தாழ்த்தப் பட்டுள்ள பசியானது சில சமயம் ஒரு கலப்பான ஆசீர்வாதமாகும். தனியாரத் துறைக் கடன் வளர்ச்சி ஒரு துரித அடியில் மேலோங்கி இருந்ததால் அரசாங்கத்துக்குச் சொந்தமான நிதி மூலதனங்கள், கடந்த வருடத்துடன் தொடர்பில் மிக முன்னேற்றமான பிரதிபலன் இருந்த போதிலும் அசைவுறும் விளைவுகளைக் கொழுத்தி விடாது இடமளிக்க முடியாதிருந்திருக்கும். ஸ்ரீ லங்காவின் 2010 ன் ஜீ.டீ.பீ யின் 7.9 நூற்று வீதக் குறையை ஜீ.டீ.பீ யின் 3.6 நூற்று வீத உள்நாட்டுக் கடன் வாங்கலினூடாக நிதியிடப் பட்டது. இதன் அடிப்படையில் தனியார்த் துறை நிதிக்காகப போட்டி போடாத நிலையில், நிதி அழுத்தங்கள் மற்றும் பொருளாதார மீட்சிக்கான துரித நடவடிக்கைகள் இருந்த போதிலும் ஒரு குறைந்த பணவீக்கத்தையும் வட்டி விகிதத்தையும் கொண்ட ஒரு காலப் பகுதியை வெற்றிகரமாக நிலைக்கச் செய்ய அரசாங்கத்துக்கு முடிந்தது.

எவ்வாறிருந்த போதிலும் குறைக்கு நிதியிடல் தொடர்பான அரசாங்கத்தின் நிலைப்பாடானது – உதாரணமாக உள்நாட்டு நிதியீட்டு மூலங்களை நம்பியிருத்தலை வரையறுத்தல் - வளர்ச்சியைக் கூட்டுவதற்கு தளர்த்தப் பட்ட நிதிக் கொள்கை நிலைப்பாட்டை நிலைக்க வைக்கும் அதன் முயற்சியானது இரட்டை நகர்வுகளாக இருக்கக் கூடும். அது அவசியமாகவே நாட்டின் அரச முதலீட்டுத் தேவைகளை எதிர் நோக்க வெளிநாட்டு நிதியிடலை ஸ்ரீ லங்கா நம்பியிருத்தலை உயர்த்துகிறது. உயர்ந்து வரும் வெளிநாட்டுக் கடனுக்குத் திறவலாக இருத்தலால் நடுத்தரம் தொட்டு நீண்ட கால அபாயங்கள் ஏற்படக் கூடிய வாய்பை அங்கீகரித்தலை அடிக்கடி விடுக்கப் படும் நிதி பலப் படுத்தும் முயற்சிகளைக் கட்டுப்படுத்தும்.

சமீப காலத்தில் ஆதிக்கத்தில் இருந்து வந்துள்ள குறை நிரப்பு நிதியீட்டு மூலமானது வெளிநாட்டுப் பெயரிட்ட நாணயக் கடன் வாங்கலாகும். 2009 ல் வெளிநாட்டு நிதியீடு ஜீ டீ பீ யின் 4.8 நூற்று வீதமாக இருந்து 2010 ல் 4.4 நூற்று வீதத்துக்கு மட்டும் சற்று வீழ்ச்சி அடைந்தது. வெளிநாட்டு நாணயத்துடன் தொடர்பாக நாடு அபாயத்துக்கு பெருமளவு திறவலாக இருத்தல் - கடன் நீடிக்கும் சந்தர்ப்பங்களில் சவரெய்ன் விகிதங்களுக்குப் பாதிப்பு வாய்ப்பு, நாணய மாற்று அபாயங்கள் ஆதியன – நன்கு தெரிந்ததே. எவ்வாறிருந்த போதிலும் ஸ்ரீ லங்காவின் வெளிநாட்டு கடன்களின் ஜீ டீ பீ விகிதம் காலத்தின் பெரும் பகுதிகளில் மாற்றம் அடையாதே இருந்துள்ளதோடு உண்மையில் அது 2009 ன் 36.5 நூற்று வீதத்திலிருந்து 2010 ல் 36.1 நூற்று வீதமாகக் குறைந்துள்ளது. நாணய மாற்று நகர்வுகள் வெளிநாட்டுக் கடன் சுட்டிக் காட்டிகளில் தெளிவான பாதிப்பைக் காட்டுகின்றன. 2010 ல் ரூபாய் இருந்தது போன்ற அனுபவத்தினால் ஒரு கிராக்கி மிக்க நாணயம் ஜீ.டீ.பீ யிற்கு வெளிநாட்டுக் கடன் விகிதாசாரத்தைக் குறைப்பதன் மூலம் நிதிச் சுட்டிக் காட்டிகளை மேம்படுத்த உதவுகிறது.

முழு மொத்த எண்களைத் தவிர்க்காது கடன் விடயங்களை அமைத்தல். இங்கு ஸ்ரீ லங்கா சலுகைகள் இல்லாத மற்றும் வணிக மூல காரணங்களுடனுமான வெளிநாட்டுக் கடன் கட்டமைப்பில் அவற்றின் பங்குகளை 2006 ன் 7.3 நூற்று வீதத்திலிருந்து 2010 ன் 37.5 நூற்று வீதத்துக்கு உயர்த்தி ஒரு துரித மாற்றத்தைக் கண்டது. இவை விலையுயர்ந்த வெளிநாட்டு நிதி மூலங்களாவதோடு ஆச்சரியமேதும் இன்றி நாட்டின் முழு மொத்தக் கடன் சேவை விகிதம் காலப் பகுதியில் 2002-04 ன் 12 நூற்று வீத வருட சராசரியிலிருந்து 2008-10 ன் 16.4 நூற்று வீதத்திற்கு ஊடுறுவிச் சென்றது. எதிர்காலத்தில் வெளிநாட்டுக் கடன் சேவைச் செலுத்தல்களை சௌகரியமாக எதிர் கொள்ள முடியும் என்பதையும், எதிர்பாராத வெளிநாட்டு அதிர்வுகளுக்கு நாட்டின் திறவலை வரையறுப்பதையும நிச்சயித்துக் கொள்வதற்கும் ஸ்ரீ லங்கா அதன் அன்னிய செலாவனி உழைப்புகள பலமாக இருக்கின்றன என்பதை நிச்சயித்துக் கொள்ள வேண்டும். ஒரு முதற் படியாக ஒரு புத்தியான வழி எதுவெனில் எதிர் காலச் செலுத்தற் தேவைகளுக்குத் அவசியமான அண்ணிய

செலாவணியை நேரடியாகவோ அல்லது மறைமுகமாகவோ அதிகரிக்கும் வகையில் திட்டங்களுக்கு வெளிநாட்டு நாணயக் கடன் பெறுவதை வரையறுப்பதாகும்.

கைத்தொழில் மயமாக்கப் பட்ட பொருளாதாரங்களின் நடைமுறையில் உள்ள அபிவிருத்திகள் அரசாங்கங்களுக்குப் பெறக் கூடிய தேர்வுகள் பற்றிய ஒரு இலாபகரமான பாடத்தையும் ஒரு தேவையான ஞாபகமூட்டலையும் வழங்குகிறது. பொருளாதார வளர்ச்சிக்கு வரிப் பண மற்றும் ∴ அல்லது நிதிக் கொள்கை குறுகிய கால ஊக்குவிப்பை வழங்க முடியுமாயினும் நீண்ட கால கடன் பிரச்சினை மோசமடையும் அபாயத்துடனாகும். மாறாக வரிப் பணச் சமாளிப்பின் மீது ஒரு மேலும் அவதானமான அணுகு முறையானது குறுகிய கால வளர்ச்சியை பழுதாக்குவதோடு உண்மையில் அவ்வழியில் தேர்தற் களத்தில் மக்களின் வெறுப்பையும் ஏற்படுத்தும். ஸ்ரீ லங்காவிற்கு நடைமுறையில் உள்ள சர்வதேச நாணய நிதியத் கடனான (ஐ.எம்.எவ்) உடனான ஆதார ஏற்பாடு (எஸ் பீ ஏ) அரசாங்கத்தின் வரிப்பண மற்றும் நாணயக் கட்டமைப்புக்கு முக்கியத்துவம் அளித்து ஒரு வெளிவாரி நங்கூரத்தை இட்டுள்ளது. ஐ.எம்.எவ் திட்டம் 2012 ல் முடிவடைவதுடன் ஸ்ரீ லங்கா ஒரு ஆரோக்கியமான பொருளாதாரத்தையும் பலமான பொது நிதிகளைக் கைக்கொள்வது மட்டுமன்றி பிரதான தேர்தற் கண்டிப்புகள் இல்லாத நிலையில் பொது நிதிகளை ஒன்று திரட்டுவதற்குத் தேவையான அரசியல் அவகாசத்தையும் பெறும்.

மேற்கூறப்பட்ட சிரத்தைகளின் காரணமாக 2010 ன் வரிப் பண விளைவுகள் சாதகமாக உள்ளன என்பது உட்சாகமூட்டுவதாக உள்ளது. குறைபாடுகள் 2009 ன் ஜீ டீ பீ யின் 9.9. நூற்று வீதத்திலிருந்து 2010 ல் 7.9 நூற்று வீதமாகக் குறைக்கப் பட்டுள்ளதோடு 2011 மேலும் 7 நூற்று வீதத்துக்கும் கீழ்க் குறைக்க முனைந்துள்ளது. இது எவ்வாறாயினும் குறைந்த வரிப் பண இலக்குகள் எந்நேரமும் விரும்பத் தக்கதோ அல்லது பொருத்தமானதோ எனக் கருதுவதற்கல்ல. விவாதிக்கக் கூடிய விதமாக ஸ்ரீ லங்காவின் 2009 ன் விரிவு படுத்தல் நோக்கிலான வரிப் பணக் கொள்கையானது, ஒரு கூர்ந்த பொருளாதார கீழ் நோக்கு மற்றும் யுத்தத்தினால் தளர்ச்சியுற்ற மக்களை மீள்குடியேற்ற வேண்டிய உடனடித் தேவைகளினாற் கட்டுண்டுள்ள நிலையில உள்ளூர் சமூக அரசியல் கட்டாயங்களுக்கும் மத்தியில் நியாயமானதாகவே இருக்கலாம். பொருளாதாரத்துக்கு அத்தகைய ஒரு ஊக்குவிப்பு இன்றி தனியார்த் துறையினரின் முதலீட்டை மேற்கொள்வதற்கான பின்வாங்கல் 2009 ற் பதிவான 3.5 நூற்று வீத பொருளாதார நடவடிக்கையை மேலும் கீழ்த் தள்ளியிருக்கும். வரிப் பண இலக்குகளை அணுக ஒரு உறுதியான அணுகு முறையை அமுலாக்குவதை விட உள்ளூர் மற்றும் ∴ அல்லது வெளியூர் அதிர்வுகளுக்குப் பொருத்தமான முறையில் பதிலளிப்பதற்கு வேண்டிய வளைவு கொடுத்தலை அனுமதிக்க அவசியமாவது ஆரோக்கியமான அரச நிதிகள் என்பதைத் தெளிவாகப் புரிந்து கொள்வதாகும். இந்தச் சூழலிலே எல்லாவற்றிற்கும் முதன்மையாக ஸ்ரீ லங்கா செய்ய வேண்டியது என்னவென்றால் நாட்டின் கடன் பொறுப்பைக் காலப் போக்கில் குறைப்பதற்கு, அதன் குறைபாட்டை முகாமைத்துவம் செய்து கொள்ளக் கூடிய மட்டத்துக்கு தாழ்த்துவதோடு அது மறு புறமாக "வரிப் பண அவகாசத்தை" வரிப்பண மற்றும் ∴ அல்லது நிதிக் கொள்கை நடவடிக்கைகளின் ஊடாக சந்தர்ப்பத்துக்குப் பொருத்தமான முறையிற் பதிலளிப்பதற்கு நாட்டின் குறிப்பிட்ட தேவைகளை விடுவிக்கும்.

இந்த அடிப்படையில் ஸ்ரீ லங்காவின் சமீப கால வரிப் பண ஒன்றிணைப்பு திட்டங்கள் நியாயமானவையே எனத் தோன்றுகிறது. 2010 ல் செலவினங்கள் ஒரு ஜீ டீ பீ யின் நூற்று வீதமாக ஜீ டீ பீ யின் 22.9 நூற்று வீதமாகத் தற்போதைய செலவினங்களை நியாயப் படுத்துவதன் ஊடாகக் குறைக்கப் பட்டது. ஊக்கமளிக்கக் கூடிய விதத்தில் மூலதனச் செலவினங்கள் வரவு செலவுத் திட்ட எதிர்வு கூறல்களுக்கு ஏறத் தாழச் சமாந்தரமாக நிலைத்திருந்தன. இடைக் கால வளர்ச்சி வாய்ப்புகளுக்கு வரி அதிகரிப்புகளை விட செலவு வெட்டுகளின் ஊடான வரிப் பண ஒன்றிணைப்பு முயற்சிகளே மேலும் கூடுதலாக ஆதரவளிக்கும் என்பதைச் சுட்டிக் காட்டத் தாராளமாகச் சான்று உள்ளது. மேலும் உயர்வான முதலீட்டுச் செலவின விகிதத்துக்கு ஆதரவளிப்பதோடு நடைமுறைச் செலவினங்களின் வெட்டுகளின் ஊடாக இதைச் செய்ய அரசாங்கம் முயற்சிக்கிறது. மேலும் செலவின நியாயப் படுத்தலானது வரி அறவீட்டிற்கான ஜனாதிபதிக் கமி'னின் சிபாரிசுகளின் அடிப்படையில் வரிச் சீர்திருத்தங்களின் வழியாக மேலதிக இறைவரி வருமானத்தை உற்பத்தியாக்குவதற்கான புது முயற்சிகள் இணைந்துள்ளன.வரிச் சீர்திருத்தங்கள் வருமானத்திற்கோ அல்லது சேமிப்புகளுக்கோ அல்லாது நுகர்வுப் பொருள் மற்றும் சொத்துக்கள் மீதான வரிகளை உயர்த்துவதையே இலக்காகக் கொண்டுளதாகத் தோற்றுகிறது. முந்தியவை மீதான வரி அறவீடு பிந்தியவை மீதான வரி அறவீட்டை விட வளர்ச்சிக்குப் பாதகம் குறைவானதாக இருக்கும்.

இறைவரிக் கொள்கைக்கு நிலையான உயர் வளர்ச்சியுடன் மட்டுமன்றி அத்தகைய வளர்ச்சியின் பங்கீட்டு விளைவுகளுடனும் தெளிவான சம்பந்தங்கள் உள்ளன. உதாரணமாக நடைமுறையில் குவிவிடமாக உள்ள பொது உட்கட்டமைப்பில் பாதைகள், துறைமுகங்கள் விமான நிலையங்கள் நிர்மானிப்பதில் பெரிதும் ஒரு முகப்படுத்தப் பட்டுள்ளதாகத் தெரிகிறது. மாறாக கல்வி மறறும் சுகாதாரத் துறைகளுக்கான மூலதன முதலீடு 2006 ல் ஜீ டீ பீ யின் 1.1 நூற்று வீதமாக இருந்து 2010 ல் 0.6 நூற்று வீதமாகத் தாழ்ந்துள்ளது. இறுக்கமான வரிப் பணக் கட்டுப்பாடுகளினால் அரசாங்கம் அடைய முயற்சிக்கும் பற்பல சிக்கலான இலக்குகள் தெளிவாக உள்ளன. சில சமயம் மிக முக்கியமாக ஒரு உடனடி முன்னுரிமையாக ஸ்ரீ லங்காவின் அரச நிதிகள் ஒரு ஆரோக்கியமான நிலையில் இடம் பெறுவதின் அவசியத்துக்கு உடனடி முக்கியத்துவம் அளிப்பதற்கும் அது உதவுகிறது.

அரச நிதிகளை ஒன்று சேர்த்தல் நீண்ட கால வளர்ச்சி இலக்குகளுக்கு ஆதரவளிக்கக் கூடிய நாணய மற்றும் பரிமாற்ற விகிதக் கொள்கையை அமைப்பதற்கும் உண்மையில் உற்பத்தி வளர்ச்சிக்கு நிதி இறுக்கத்தினால் மோசமான பாதகமேதும் ஏற்படுமாயின் நாணய இலகு படுதலைக் கொண்டு ஈடு செய்ய முடியும். தனியார் துறைக் கடன் வளர்ச்சிக்கு ஒரு வரையறுக்கப் பட்ட பெறுபேறுகளுடனாயினும் 2010 ல் ஸ்ரீ லங்கா இதையே செய்தது. எவ்வாறு இருப்பினும் 2010 ல் பெருமளவு தயாளமான பணவீக்கச் சூழ் நிலையின் போதும் விலை ஸ்திரத்துவத்திற்கு எழக் கூடிய அச்சுறுத்தல்கள் உண்டு. இவ்வாறாக நிதி ஒன்றிணைப்பு முயற்சிகள் பெறுபேறுகளை அளிக்கின்ற போதிலும் நாணயக் கொள்கை பணவீக்க எதிர்பார்ப்புகளைத் தூண்டும் விதைகளைத் தூவக் கூடாது. ஸ்ரீ லங்காவின் சாத்தியமான மேலதிக சூடு பிடிக்காத வளர்ச்சி விகிதத்தைக் கற்பனை செய்ய மாத்திரமே முடியுமாயினும் வியாபாரங்கள் விருத்தியாகும் நிலையான எதிர்வு கூறக் கூடிய பேரண்டப் பொருளாதாரச் சூழலை வழங்குகின்ற அதற்கே உரித்தான வெகுமானங்களும் உள்ளன. உயர்ந்த மற்றும் சாத்தியமாக அதிக நிலையற்ற பணவீக்கத்தின் விலைகள் அளவுக்கதிகமான நாணய நெளிவினால் உற்பத்தி வரவுகளை மிஞ்சி விடலாம். முறையான தொழில்களில் உள்ள வேலையாட்களைப் போலல்லாது பணவீக்கத்தை எதிர்த்து தம்மைப் பாதுகாத்துக் கொள்வதற்கு வரையறுக்கப் பட்ட மாற்று வழிகளை மாத்திரமே கொண்டுள்ள ஏழைகளுக்கு சரிசமமாக வளர்ச்சியின் பலன்கள் பெறுவதை உறுதிப் படுத்துவதற்கான முயற்சி மறுக்கப் பட்டு இறுதியில் விலை வீக்கத்தினால் ஏழைகளே பாதிக்கப்படுவர்.

ஸ்ரீ லங்காவின் பண வீக்க விகிதம் 2010 ன் இறுதிக் காலாண்டுப் பகுதியிலிருந்த அடிப்படையில் கொந்தளிப்பான கால நிலையைத் தொடர்ந்த உணவு விலை அதிகரிப்பின் காரணமாக பெருக்கமாக உயர்ந்து வந்துள்ளது.[1] சில பிரதான எண்ணெய் ஏற்றுமதி செய்யும் நாடுகளில் ஏற்பட்ட அரசியல் குழப்ப நிலை காரணமாக சர்வதேச எண்ணெய் விலைகளை உயர்த்தும் அழுத்தங்களை ஏற்றின. அத்தகைய விநியோகப் பகுதி அதிர்ச்சிகள் பணவீக்கத்தின் மீது தவிர்க்க முடியாத பாதிப்புகள் இருக்கும் வழங்கற் தரத்தால் உந்தப்பட்ட பணவீக்கத்தைக் கட்டுப்படுத்துவதற்குத் தரப்படுத்தப்பட்ட நாணயக் கொள்கை இணக்கங்கள் பயனளிக்கவில்லையாதலால் பரிபாலிக்கப் பட்ட விலைக் கட்டுப்பாடுகள் வரி நடவடிக்கைகளின் ஊடான மாற்றுத் தலையீடுகள் நடைமுறைப் படுத்தப் பட்டன. எவ்வாறிருந்த போதிலும் கேள்வித் தரப்பின் மீதுள்ள பணவீக்க அழுத்தத்தை விரைவு படுத்தவும் கூட்டவும் தனியார்த் துறைக் கடன் வளர்ச்சி மீட்சியொன்று எதிர்பார்க்கப் பட்ட போதிலும் வேதன அதிகரிப்புகளினூடாக உணவுப் பொருள் மற்றும் எரிபொருள் விலை அதிகரிப்புகள் பொதுப் பணவீக்க அழுத்தங்களினுள் உரிஞ்சிக் கொள்ளப் படும் எனற அச்சம் இருக்கிறது.

இவ்வாறாக ஸீ பி எஸ் எல், எழுகின்ற பணவீக்க அழுத்தங்களைக் கண்டறிவதற்கு உபரியாக விழிப்பாய் இருந்து பொருத்தமான முறையில் மறுமொழி பகர வேண்டும். சந்தையில் மேலதிக ரூபாய்ப் புழக்கம் - 2011 ன் ஆரம்பப் பகுதியிற் கூட ரூபாய் 120 – 130 பிலியன்கள் என மதிப்பிடப் பட்டுள்ளது – 2010 ன் கூடுதலான பகுதிகளுக்கு ஒரு சாத்தியமான பணவீக்க அழுத்தம் மூலமாக இருந்துள்ளது. அரசாங்கத்தின் கடன் பிணையங்கள் சந்தைக்கு வெளிநாட்டு மூலதன உள்வரவுகளின் கூர்ந்த அதிகரிப்பும் மேலும் விமர்சனத்துக்குரிய விதமாக பெருமளவு அரசாங்க வெளிநாட்டு நாணயப் பெயரிலுள்ள கடன் பெறுகை, சில சமயம் கனிசமான மேல் மிஞ்சிய வெளிநாட்டு

1 (2002 ஐ அடித்தள வருடமாகக் கொண்டு) 2006/07 ன் வீட்டு வருமானம் மற்றும் செலவின ஆய்வின் அடிப்படையில் கணகக்கிடப் பட்ட (2006/07) இரண்டு வருடச் சராசரியைக் கொள்வதற்கு 2011 ல் ஸீ ஸீ பீ ஐ திருத்தப் பட்டது.

நாணயங்களை நாட்டினுற் செலுத்தி இருக்கிறது. 2009 க்குப் பிந்திய கால அமைப்பின் சராசரியை விடவும் சிறந்த வேலையாள் பண அனுப்புதல்களின் உள்வாங்கல்கள் இந்த உட்செலுத்தல்களை அதிகப் படுத்தியது. மூலதன உட்செலுத்தல்களை மட்டுப் படுத்தி அனாவசிய நாணயப் பெறுமதி அதிகரிப்பை தடுப்பதற்கு ஸீ பி எஸ் எல் அடி வைத்தலின் ஒரு பங்களிப்பு பிரதிபலனாக உள்நாட்டு நாணய அடித்தள விரிவாக்கம் இருந்தது. ஒரு விலையீட்டு நுட்பத்தினூடாகச் – கொள்கை விகிதங்களை உயர்த்துதல் - செயற்படுவதை விட 2011 ஏப்ரலில் வர்த்தக வங்கிகளின் அரச ஒதுக்கீட்டுத் தேவைப்பாடுகளில் இது கடினமான ஆனால் (எஸ் எஸ் ஆர்) 7 நூற்று வீதத்திலிருந்து 8 நூற்று வீதத்துக்குக கூட்டுதல் போன்ற ஒரு பரிமான நுட்பத்தினூடாகச் செயற்படுவதை ஸீ பி எஸ் எல் தேர்ந்தெடுத்தது. மிதமிஞ்சிய பணப் புழக்கத்தை ஈர்த்துக் கொள்வதற்கு இதைத் தொடர்ந்தால் ஒரு கடினமான ஆனால் பயன் தரக்கூடிய நுட்பமாகும். பண வீக்கத்தின் அழுத்தத்தைக் குறைப்பதில் அதன் பயன் தரும் தன்மையானது மிதமிஞ்சிய பணப் புழக்கம் மற்றும் கடனுக்கான தேவை ஆகியவற்றின் மட்டங்கள் ஆகியவற்றிற் தங்கியுள்ளன.

2011 ஏப்ரல் அளவில் வருடாந்த பணவீக்கம் 6.6 நூற்று வீதத்திலிருந்ததுடன் 2011 முதற் காலாண்டில் மிதமிஞ்சிய ரூபாய்ப் புழக்கம் ரூபாய் 70 பில்லியனுக்கும் கீழாக வீழ்ந்ததுடன் விரிவடையும் நாணய அடித்தளத்தின் பணவீக்க விளைவுகளைத் தட்டிக் கழிக்க முடியாது. மூலதன உள்வரவுகள் சமீப காலத்தில் சுலபமாகும் எனக் குறிப்பிடுவதற்கான அடையாளங்கள் உள்ளன. 2010 ஒக்டோபரில் வழங்கிய முதலாவது பவுன் கடன் பத்திரத்தைத் தொடர்ந்து 2011 பிந்திய பகுதியில் இரண்டாவது 1 பில்லியன் ஐ.நா டொலர்களுக்கான பவுன் கடன் பத்திரமொன்ற வழங்கவும் ஏற்கனவே தயாராகி வருகிறது.பெருமளவிலான வெளிநாட்டு மூலதன உள்வரவுகள் நாட்டின் புதுப்படுத்தப் பட்ட பொருளாதார வாய்ப்புகளின் அறிகுறியெனவும் நல்ல முதலீட்டு வாய்ப்புகளின் சாட்சிகளாகுமெனவும் கருதக் கூடியதாக இருக்கின்றதாயினும் பொருளாதாரத்துக்குக் குறைந்த ருசியுள்ள சிக்கல்களும் உள்ளன.நடைமுறைக் கணக்குக் குறைபாடுகளுக்கு நிதியிடும் விதம் ஸ்ரீ லங்காவின் பொருட்களுக்கும் சேவைகளுக்கும் தற்போது நிவுகின்ற தேவைகளின் மூலமான மூலதன உட்செலுத்தல்களின் பெரும் பகுதியினால வந்துள்ளனவல்லாது அரசாங்கத்தின் வெளிநாட்டு நாணயப் பெயரிடப்பட்ட கடன் வாங்கல்களினாற் சரிந்துள்ள மூலதன உட்செலுத்தற் கணக்குக் கொடுக்கல் வாங்கல்களின் விளைவாகவே என்பது முக்கியமானது. இத்தகைய அபிவிருத்திகள் ஒரு நாட்டின் வெளிவாரிக் கடன் செலுத்தல் நிலைமையின் மீது குறுகிய கால மற்றும் நீண்ட காலப் பாதிப்புகளைக் கொண்டுள்ளன.

பாரிய நிகர மூலதன உட்செலுத்தல்களினாலும் உடனடி குறுகிய காலப் பாதிப்புகள் உள்ளன. அவை தவிர்க்க முடியாத விதத்தில் ஒரு நாட்டின் நாணய மாற்று விகிதத்தை உயர் நோக்கித் தள்ளுவதற்கு அழுத்தம் கொடுக்கிறது. ஸீ பி எஸ் எல் லின் வெளிநாட்டு நாணய மாற்றுச் சந்தையிற் பலத்த குறுக்கீடுகள் இருந்த போதிலும் பெயரளவில் ஐ நா டொலர்களுக்குச் சமாந்தரமாக ஸ்ரீ லங்கா ரூபாய் 3 நூற்று வீதத்தினால் மதிப்பேறியது. வியாபார பங்காளர் நாணயத் தொகைகளுக்கு எதிரெதிராக இடம் பெற்றுள்ளன போன்ற உண்மையான நாணய மாற்று விகிதத்தில் ஒரு மதிப்பேற்றமானது, ஸ்ரீ லங்காவின் ஏற்றுமதிகளை சர்வதேசச் சந்தையில் சகாயமற்றதாகச செய்கிறது. மலிவான இறக்குமதி உள்வரவுகளினூடக விலை வாய்ப்பைப் பெறக் கூடிய , இறக்குமதியைப் பெருமளவில் நம்பியுள்ள ஏற்றுமதிப் பொருட்கள் இருக்கலாம். குறிப்பாகச் சர்வதேச நுகர்வுப் பொருள் விலை அதிகரிப்புகளின் மத்தியில் ஒரு பலம் வாய்ந்த ரூபாயானது பணவீக்கத்தை கட்டுப்படுத்த உதவியாக இருக்கும்.

எவ்வாறிருப்பினும், சமீப காலத்தின் ஏற்றுமதிகளுக்கு ஜீ டீ பீ யின் விகிதாசாரத்தில் ஒரு கனிசமான வீழ்ச்சியின் மத்தியிலும் - 2004 ல் 28 நூற்று வீதத்திலிருந்து 2010 ல் 16.7 நூற்று வீதம் - நீண்ட காலத்தில் வெளிநாட்டுக் கடன் மீளச் செலுத்தல்களுக்குத் திறவலாக உள்ள நிலையின் மத்தியில் வெளிநாட்டு நாணயமாற்று உழைப்பின் தேவை பற்றி ஸ்ரீ லங்கா திருப்தியில் இருக்க முடியாது. பூரண டொலர் அடிப்படையிலான அதிகரிப்பின் போதும் ஏற்றுமதிகளுக்கு ஜீ டீ பீ யின் விகிதாசார வீழ்ச்சி சமீப காலத்தில் ஸ்ரீ லங்கா கண்டு வரும் உயர் வளர்ச்சி முக்கிய நிலையானது ஏற்றுமதித் தள்ளுதலினாற் குறைவாகவும் உட்கட்டமைப்பு ஆகியன போன்ற அரச மூலதன ஊக்குவிப்பினாற் கூடிய அளவிலும் உள்ளன என்பதைச் சுட்டிக் காட்டுகிறது. எவ்வாறிருந்த போதிலும் மிக வரையறுக்கப் பட்ட உள்நாட்டுச் சந்தை இருக்கையில் நாட்டின் பொருட்கள் மற்றும் சேவைகளுக்கான வெளிநாட்டுக் கிராக்கியை உயர்த்துவதன் மூலம் மாத்திரமே நிலையான உயர் வளர்ச்சியை அடைய முடியும்.

இவ்வாறாக மேலே விவரிக்கப் பட்ட பேரண்டப் பொருளாதாரக் கொள்கை முகாமைத்துவ விவரங்கள் நீண்ட கால வளர்ச்சிக்குக் காரணிகளாக அமையும். வளர்ச்சியுடன் நாட்டின் சமூக முண்னேற்றத்தையும் இணைப்பதாயின் அவையும் காரணியாக அமையும். உதாரணமாக, வருவாய் மிக்கத் தொழில்களுக்கு வறியவர்களை இழுத்தலின் மூலம் மட்டுமன்றி இலக்கு வைத்த சமூகத் திட்டங்களுக்கு நிதியிடுவதற்காக மேலும் பெரிய அளவு வரிப் பணத்தை வழங்குவதன் மூலமும் நிலையான வளர்ச்சி வறுமை ஒழிப்புக்கு உதவ முடியும். அந்த வகையில் நாட்டின் முழு மொத்த வறுமையை எதிர்கொள்வதிலும், பொருளாதாரத்தின் துறைகளுக்கிடையில் எழுந்து வரும் இடைவெளிகளைக் குறைப்பதிலும் ஸ்ரீ லங்கா கனிசமான அடிகளை முன் வைத்துள்ளதாகத் தோன்றுகிறது. ஆட்கணக்கெடுப்பு மற்றும் புள்ளிவிவரத் திணைக்களத்தினால் நடத்தப் பட்ட வீட்டு மற்றும் வருவாய்ச் செலவின ஆய்வு (எச் ஐ ஈ எஸ்) வறுமைத் தலைக் கணக்கெடுப்புச் சூசகம் 2006/2007 ன் 15.2 நூற்று வீதத்திலிருந்து 2009/2010 ல் 8.9 நூற்று வீதமாகக் வீழ்ச்சியடைந்துள்ளது. மிக நம்பிக்கையூட்டும் கருத்தாவது இடைக் காலப் பகுதியில்[2] நகர கிராம மற்றும் தோட்டத் துறைகளுக்குமிடையிலான இடைவெளிகள் குறுகியுள்ளன என்பதாகும். இடைக் கால வருடங்களில் அனுபவித்த உயர் விலை ஸ்திரமற்ற நிலைமையையும், 2009 ல் அனுபவித்த பொருளாதாரக் கீழ்நோக்கையும் கருத்திற் கொண்டு முழு மொத்த வறுமைக் குறைப்பு முயற்சிகளின் பெறுபேறுகள் வியக்கத் தக்கனவாயுள்ளன. எவ்வாறிருந்த போதிலும் 2005 தொடக்கம் அரசாங்கத்தின் அபிவிருத்தித் தள்ளுதலில், அடிப்படையில் கமத் தொழிற் துறையினருக்கு உட்கட்டமைப்பு மற்றும் ஆதாரத்துக்காக செலவிட்டு நகர கிராமப் புற இடைவெளிகளுக்கு பாலம் அமைப்பதில் வழங்கியுள்ள அழுத்தத்தின் காரணமாக துறைகளுக்கிடையே வித்தியாசத்தைச் சுருங்க வைத்தல் அவ்வளவு வியக்கத் தக்கதாக இருக்காது. முழு மொத்தச் சமத்துவமின்மை ஒடுங்கிவிட்ட போதிலும் வருவாய் மிக்கப் பொருளாதார அவகாசங்களை அணுகுவதில் உள்ள வேறுபாடுகள் போல், புவியியல் அமைப்பு துறை, மதக்கொள்கை ஆகியன போன்ற – தொடர்ந்து இருக்கச் செய்கிறது. யுத்தத்துக்குப் பின்னான சமரச முயற்சிகளின் அடிப்படையில் இவற்றை எதிர் கொள்வதற்கான கொள்கைகள் மிக முக்கியமாகியுள்ளன.

உலகெங்கும் சமீப காலத்தில் அனுபவித்ததன் பிரகாரம் ஒரு சமமற்ற செல்வப் பங்கீடு, கடுமையான கலவர நிலைமையின் போது நிதமும் சமூகக் குழப்ப நிலை வழிந்து செல்லக் கூடிய உயர் மட்டத்திலான பொருளாதார ஸ்திரமற்ற நிலையை உருவாக்கும். உண்மையில் உலகப் பொருளாதாரக் கொந்தளிப்பும், உணவுப் பொருள்களின் விலையேற்றமும், பல நாடுகள் புதுப்பிக்கப் பட்ட சமூக அரசியல் அதிர்ச்சிகளுடன் போரிடுவதைக் கண்டுள்ளன. இவ்வாறாக ஒரு பலவீனமான பொருளாதாரச் சுருங்களிலிருந்தும் அபிவிருத்தியடைந்து வரும் நாடுகளின் வேலையற்றோர் எண்ணிக்கை பெருகி வருவதிலிருந்தும் உலகப் பொருளாதாரம் மீட்சி பெற்று வருகையிலும் சமத்துவமினமைப் பிரச்சினைக்கு புதுப்படுத்தப் பட்ட கவனம் செலுத்தப் பட்டு வருகிறது. அபிவிருத்தியடைந்த மற்றும் அபிவிருத்தியடைந்து வரும் நாடுகளுக்கிடையில் உள்ள, செல்வத்தின் இடை வெளிகள் ஒடுங்கி வருகையில் - சராசரியாக பின்னைய குழுவினர் முன்னையவர்களை விடக் கூடிய வேகத்தில் வளர்ச்சியடைந்து வருவதன் பிரதிபலனாக – நாடுகளினுள்ளே செல்வந்தர் மற்றும் வறியோர்களுக்கிடையிலான ஆழமான பிளவு பற்றிய கவலை இருந்து வருகிறது.

வருகின்ற வருடங்களிலே ஸ்ரீ லங்கா ஒரு துரித வளர்ச்சி காலத்துக்காகத் தயாராகிக் கொண்டிருக்கையில் ஆரம்பத்திலே சமஉரிமைப் பிரச்சினையைத் தீர்த்தாலன்றி இது தவிர்க்க முடியாத விதமாக சமூகப் பிரச்சினைகளையும் திருப்திப் படுத்த வேண்டி வரும். உயர் வளர்ச்சிக்கான தள்ளுதல் எப்போதும் தொழில் நுட்ப முன்றேற்றத்துடன் சேர்ந்தே வரும். இது சம்பந்தப் பட்ட பயிற்சி பெற்ற வேலையாட்களுக்கான கிராக்கியை உயர்த்தக் கூடும். எப்போதும் உள்ளது போல தேவைக்கேற்ற விதமாக பயிற்சி பெற்ற வேலையாட்களை வழங்கத் தவறும் போது பயிற்சி பெற்ற மற்றும் பயிற்சியில்லாத வேலையாட்களின் சம்பள இடைவெளி அகலமாவதற்கு வழி வகுக்கும். எதிபார்த்த படி ஸ்ரீ லங்காவின் வளர்ச்சி வருகின்ற வருடங்களில் உயர் பயிற்சி பெற்ற சேவைகள் துறையினரால் அதிகமாகச் செலுத்தப் பட்டு வருமாயின் அகலமாகும் சம்பள இடைவெளி எழக் கூடும். மேலும் ஒப்பந்த ∴ சம்பிரதாயப்படி இல்லாத துறைகளில் மென் மேலும் தொழில்கள் உருவாக்கப் பட்டு வருகையில் - தொழில் வழங்குணர்களுக்கு

1 இந்த அறிக்கையில் 5 ஆவது அத்தியாயத்தில் "உள்ளடக்கிய வளர்ச்சி" என்ற தலைப்பின் மீதான உரையாடலைப் பாருங்கள்.: தட்டிக் கழிக்க முடியாத ஒரு உபகரணமாக சமூகப் பாதுகாப்பு.

அல்லது சுயமாகத் தொழிலில் ஈடுபட்டுள்ளவர்களுக்கு பயிற்சிக்காக முதலீடு செய்வதற்கு வரையறுக்கப் பட்ட ஊக்குவிப்புகள் மாத்திரமேயுள்ள – பயிற்சி அபிவிருத்திகள் இல்லாமை தொழிற் சந்தையிலே கட்டமைப்புக் கட்டாய வேண்டுதல்களை மோசமாக்க முடியும். நிதமும் இதனால் மிகவும் பாதிக்கப் படக் கூடிய பிரிவினர் பயிற்சியில்லாத பெண் வேலையாட்களே.

அபிவிருத்திக்கு பொருளாதார வளர்ச்சி முக்கியமானது என்பதில் விரிவான உடன்பாடு இருக்கையில் அபிவிருத்திக்கு வளர்ச்சி மட்டுமே எல்லாமல்ல என்பதையும் அங்கீகரிக்கப் பட்டுள்ளது. இதன் அடிப்படையில் நிலையானதும் உள்ளடக்கியதுமாகிய பொருளாதார வளர்ச்சி என்ற கருத்து அரசாங்கங்களுக்கு ஒரு கண்டிப்பான கொள்கையாகிறது. இவை கொள்கை ஆவணங்களில் ஒரு நாகரீகமான அகராதிச் செல்லாக இருக்கையில் குறிப்பிட்ட நாட்டு அடிப்படையில் அவை புறக்கணிக்கப் படாது என வேண்டப் படுகின்றன. நீண்ட காலமாக இழுபட்டு வந்த செலவு மிகுந்த யுத்தத்திலிருந்து மீண்டு வருகின்ற ஸ்ரீ லங்காவுக்கு அதன் யுத்தத்தின் பின்னான அபிவிருத்தி முயற்சிகளில் சமூக ஒற்றுமையை மீட்டி எடுத்து ஸ்திரப் படுத்த உதவுவதற்காக எழுந்து வரும் சமூகப் பொருளாதார ஆவல்கள் நிறைவேற்றப் பட வேண்டும். பரந்த அடிப்படையிலான துரித வளர்ச்சியை வழங்குவது மட்டுமல்லாமல் வளங்களைப் பங்கீடு செய்வதிலும் அணுகுவதிலும் உள்ள பாதகமேற்படக் கூடிய பிரச்சினைகளுக்கு பதிலளிக்கக் கூடியதான பொருளாதாரக் கொள்கைகளை அது வேண்டுகிறது.

இந்த வருடத்தின் பொருளாதார நிலைமையின் அறிக்கையானது யுத்தத்தின் பின்னான வளர்ச்சி எனற கருத்தை அதன் மத்திய கருப் பொருளாக எடுக்கிறது சமத்துவமில்வாமையைக் குறைக்கும் :எண்ணிலடங்காத வழிகளைத் தொடருகின்ற வளர்ச்சியைப் புரிந்து கொள்வதற்கான கண்டிப்பான உள்ளடக்கல்கள் அத்தோடு விரும்பத் தக்கதான சுத்தமாக ஒரு தர்ம சாஸ்திர நிலைப் பாட்டிலிருந்தும் மேலும் செயற்படுத்தக் கூடிய நோக்கிலும் உள்ளடக்கிய வளர்ச்சி , அவற்றை உட்படுத்தாமை வளர்ச்சியைக் கட்டுப் படுத்தும் உற்பத்தியாக்கக கூடிய வளங்களைக் குறைவாகப் பிரயோகிப்பதற்கு வழி வகுப்பதால் பொருளாதார வளர்ச்சியை ஸதிரப் படுத்த உட்படுத்தப் பட்டவை தேவைப்படுகிறது.

உட்படுத்தப் பட்ட வளர்ச்சியைச் செலுத்துவதற்கு உற்பத்தியாக்கும் தொழில்களை அணுகுதல் ஒரு முக்கிய அடிப்படையாகும். அது ஒரு புறமாக வேலையாட்களை வேலையில் ஈடுபடுத்தக் கூடிய தன்மையை முன்னேற்றுதலையும் மறு புறமாக உற்பத்தியாக்கக் கூடிய தொழில் வாய்ப்புகளை அனுகுவதை முன்னேற்றுதலையும் வேண்டுகிறது. வழங்கற் புறத்தில் தொழிலில் ஈடுபடுத்தக் கூடிய தன்மையை முன்னேற்றுதலில் நல்ல தரமான சுகாதாரம், கல்வி, மற்றும் ஏனைய உற்பத்திச் சொத்துகள் உள்ளடங்குகின்றன. கேள்விகளின் புறமாக பல்வேறு பொருளாதாரத் துறைகளில் விதவிதமான புவியியற் பிரதேசங்களிலும் பல்வேறு வகைகளிலான வேலையாட்களை வேலையில் அமர்த்தும் வாய்ப்புகளை அணுகுதலில் முன்னேற்றம் தேவைப் படுகிறது. ஒரு பொருளாதாரத்தின் ஆரம்ப நிலைமைகள் - வறுமை மற்றும் சமத்துவமின்மையின் மட்டங்கள், அவ்வாறாகவே புவியியல், மக்கட் தொகையியல், காலநிலை, அரசாட்சி, அரசியல், சமூகப் பெறுமதிகள், கொள்கைச் சூழல் போன்றவை – பின் தொடருகின்ற வளர்ச்சி விளைவுகளை நிர்ணயிப்பதில் ஒரு முக்கிய பாகத்தை ஏற்கலாம். இந்த அடிப்படையில் இந்த அறிக்கையின் எஞ்சிய பாகம் ஒரு அத்தியாய மற்றும் கொள்கைச் சுருக்கத் தொடரினூடாக கொள்கை பகுதிகளின் வரணமாலைகளுக்குக் குறுக்கே ஸ்ரீ லங்காவின் அனைத்தும் உற்பட்ட வளர்சிக்கான தடைகளைப் பரிசீலிக்கும்.

2. Economic Performance: Post-conflict Growth

2.1 Introduction

As anticipated, the Sri Lankan economy made a rapid recovery to post a GDP growth of 8 per cent in 2010 amidst a stable and benevolent macroeconomic environment characterized by a low inflation and interest rate regime. While the growth spurt in part reflected a recovery from a low base following the economic downturn of 2009, Sri Lanka's economic performance in 2010 holds up well in the light of global comparisons. The recovery in output and other macroeconomic fundamentals are comparable even to the better performing countries of the Asian region.

> ***"Ensuring that Sri Lanka has the necessary macroeconomic policy space to respond appropriately to emerging risks to growth and stability is critical"***

The country's renewed economic vigour owes much to the perception of peace and stability in the aftermath of decades of socio-political conflict. Sri Lanka is also witnessing political stability in the presence of a strong incumbent government and a popular Executive. The combination of factors hold out a real opportunity for the country to embark on a sustained development drive that will deliver better standards of living and help cement social cohesion in the country.

A doubling of per capita GDP over the next few years is being envisaged. However, irrespective of whether Sri Lanka attains this goal or not, the details underlying such a growth momentum need to be given thought. Per capita income on its own can hide socio-economic disparities across and/or within regions, sectors and households. For instance, if the agrarian sector fails to keep pace with other more dynamic areas of economic activity in industries and services - or where surplus rural labour is unable to find alternative sources of gainful employment - aggregate growth alone will not deliver the promise of development to the country as a whole.

Sri Lanka's medium term development agenda as spelt out in the Mahinda Chinthana: Ediri Dakma (Vision

for the Future) has taken cognizance of the need to achieve 'balanced growth', be it through rapid infrastructure development of rural and conflict-affected parts of the country or in promoting small and medium enterprises (SMEs) as a key source of livelihoods generation. The task before the government is to effectively implement its development programmes while keeping a watchful eye on the emerging economic shocks that can have a dampening effect on its programmes. In this respect, a keyword is 'stability' on the macroeconomic front - to be attained and retained, in order to allow the authorities the necessary leeway to respond appropriately to changing circumstances. As noted recently, rising food and oil prices in the world market once again pose a threat to the nascent global economic recovery. These developments will have inevitable consequences on Sri Lanka's own economic prospects in the near term. Thus, ensuring that the country has the necessary macroeconomic policy space to respond appropriately to emerging risks to growth and stability, is critical. Sri Lanka has made significant strides in this direction during 2009/10, but the risks must be recognized and appropriate policy adjustments made accordingly.

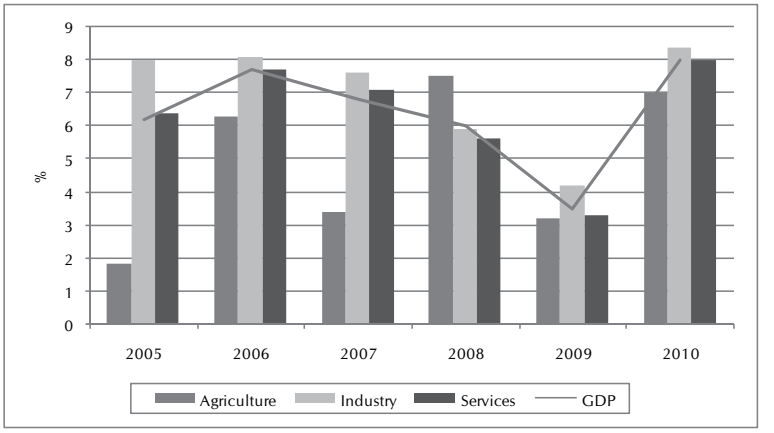
2.2 Output and Employment

Sri Lanka's economic recovery in 2010 was supported by broad-based output growth across all three sectors of economic activity. This is a positive outcome as skewed growth will have adverse outcomes in terms of broader socio-economic objectives, such as rapid delivery of income opportunities to the less well off. Higher growth was accompanied by a recovery in employment creation that saw Sri Lanka's rate of unemployment decline to 4.9 per cent by end 2010.

2.2.1 Output Growth

Even though the agriculture sector, for instance, accounts for less than 12 per cent of GDP, it continues to provide employment to nearly 33 per cent of the workforce. According to the HIES 2009/10 compiled by the DCS, the headcount poverty index is highest in the Eastern, Uva, and Sabaragamuwa Provinces.[1] Agriculture's share of GDP in these provinces at nearly 25 per cent is much higher than at the national level. A strong and sustained performance in the agriculture sector will, therefore, do much to ensure that the benefits of growth are more evenly distributed.

Figure 2.1
GDP and Sectoral Growth



Source: DCS and CBSL, *Annual Report*, various issues.

[1] The HIES 2009/10 did not cover Mannar, Mullaitivu and Kilinochchi districts in the Northern Province.

The strong recovery in agricultural output in 2010 is likely to face some disruption in 2011 with the adverse consequences of inclement weather conditions faced in late 2010/early 2011. In particular, paddy production is estimated to suffer losses as a result of not only destroyed crops, but also owing to the destruction of seeds. However, rising international commodity prices are expected to benefit Sri Lanka's plantation export crops. The overall net impact, however, is likely to ensure that agriculture sector performance will be less buoyant in 2011.

The industrial sector - accounting for 24.2 per cent of employment - recorded a strong rebound of 8.4 per cent growth in 2010, supported by manufacturing sector growth of 7.3 per cent and robust growth in construction of 9.3 per cent. Increased export demand as well as a recovery in domestic consumption helped industrial sector activity to resume after the modest output growth in 2009. The expansion in construction activities is set to continue with the heavy government expenditures on infrastructure related investments as well as the anticipated recovery in the housing and real estate sector.

The services sector has been the mainstay of Sri Lanka's economic growth over the last decade, accounting for nearly 60 per cent of GDP and 43 per cent of employment. Key service sector activities - in trade, leisure, communication and financial sectors - which suffered a downturn in 2009 saw an expansion of activities with the revival of demand in 2010. As Sri Lanka gears to promote itself as a hub for many services-related activities, it will require not only a supportive regulatory environment and infrastructure, but a skilled workforce that is able to meet the demands of an increasingly 'knowledge-driven' economy.

2.2.2 Consumption, Investment and Savings

Consumption expenditure as a percentage of GDP continued to remain relatively subdued, although private consumption had indicated a marginal recovery. The modest recovery is not surprising in view of the lagged effects of the financial sector volatility and economic downturn of 2008/09. Under such circum-

Table 2.1
Sectoral Performance

	Share of GDP (%)	Growth (%)			
	2010	2007	2008	2009	2010
Agriculture	11.9	3.4	7.5	3.2	7.0
Tea	1.1	-1.8	4.2	-8.4	13.1
Paddy	1.8	-6.2	23.1	-5.1	17.5
Industry	28.7	7.6	5.9	4.2	8.4
Manufacturing	17.3	6.4	4.9	3.3	7.3
Construction	6.7	9.0	7.8	5.6	9.3
Services	59.3	7.1	5.6	3.3	8.0
Wholesale and retail trade	23.2	6.1	4.7	-0.2	7.5
Hotels and restaurants	0.5	-2.3	-5.0	13.3	39.8
Transport and communication	13.9	10.5	8.1	6.3	11.9
Banking, insurance & real estate	8.9	8.7	6.6	5.7	7.5

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

Table 2.2
Consumption, Investment and Savings

	2007	2008	2009	2010
Consumption	82.4	86.1	82.1	81.3
Private	67.2	70.0	64.4	65.8
Government	15.3	16.2	17.6	15.6
Investment	28.0	27.6	24.4	27.8
Private	22.6	21.1	17.9	21.6
Government	5.4	6.5	6.6	6.2
Domestic savings	17.6	13.9	18.0	18.7
National savings	23.3	17.8	23.7	24.7

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

stances, firms and households are likely to save more and spend less. Indeed, Sri Lanka's domestic savings ratio has crept up from a low of 13.9 per cent in 2008 when the country witnessed a credit boom, to a ratio of 18.7 per cent in 2010.

With domestic savings of 18.7 per cent of GDP, Sri Lanka continued to grapple with a savings-investment gap of over 9 per cent of GDP. While private transfers helped to bridge the gap partially, the need to push for higher volumes of FDI - from a current level of 0.9 per cent of GDP in 2010 - is clear.

Much of Sri Lanka's growth momentum in recent years has been coming from increased volumes of public investment. Clearly, in times of a dip in private investment, public investment plays an important role in keeping the economy buoyant. However, as private investment picks up, the challenges to ensure macroeconomic stability will be felt more keenly. Indeed, the weak private sector investment response in part explains why Sri Lanka was able to maintain a relatively modest inflationary environment in 2010 despite high growth and a fiscal deficit of 7.9 per cent of GDP.

2.2.3 Labour Force and Employment

Sri Lanka's labour market seems to have done well over the years, recording a persistent reduction in the rate of unemployment. According to the Labour Force Survey (LFS) data compiled by the DCS, this decrease is reflected across both males and females. It is also encouraging that the decline is sharper for youth in the 20-24 age group, and for females with more than an Advance-Level education - two groups that have had historically high unemployment rates.[2] Part of the improvement in the unemployment rate in Sri Lanka can be attributed to foreign employment, others being demographic changes and higher participation in education.[3] Following a slight reversal in the unemployment rate in 2009 in the wake of the economic downturn, the unemployment rate has once again come down to 4.9 per cent in 2010.

The unemployment rate alone does not provide a full picture of the labour market conditions of an economy. This is because the unemployment rate might hide the fact that workers are underemployed or doing unproductive work. Hence, usually along with unemployment rates, other indicators are examined to assess labour market performance. The employment-to-population ratio for Sri Lanka has remained around 45 from 2003 onwards, indicating that the ability of the economy to create jobs has stagnated over the years. The proportion of workers participating in the labour market - the labour force participation rate - also had remained just below 50 per cent over the

Table 2.3
Demographic and Labour Force Trends[a]

	2007	2008	2009	2010
Population ('000 persons)	20,010	20,217	20,450	20,653
Labour force ('000 persons)	7,489	8,082	8,074	8,108
LFPR[b] (%)	49.8	50.2	49.2	48.6
Male	67.8	67.9	66.7	67.3
Female	33.4	34.3	33.7	32.1
Unemployment rate (%)	6.0	5.2	5.7	4.9
By gender				
Male	4.3	3.6	4.3	3.5
Female	9.0	8.0	8.2	7.5
By age group				
15-19	21.6	20.6	21.2	21.1
20-29	15.0	13.2	15.1	13.7
By education level				
GCE (O/L)	8.2	7.4	8.1	6.9
GCE (A/L)	11.8	9.9	10.8	11.3

Note: a: Date excludes Northern and Eastern Provinces; b: LFPR = Labour Force Participation Rate.
Source: CBSL, *Annual Report*, various issues.

same period. According to the LFS data, over 60 per cent of the employed were working in the informal sector. These included 83 per cent of those in the agricultural sector, and around a half (49 per cent) of those in the non-agriculture sector.[4]

A large proportion of Sri Lanka's workforce being in informal sector employment also means that they are subject to a higher degree of income insecurity, are likely to receive limited opportunities for skills training and are also exposed to other forms of vulnerability. Indeed, informal sector workers are less likely to be covered by social safety nets which raise their vulnerability in times of acute crises.

2.3 Fiscal Policy Developments

Sri Lanka has seen an improvement in its fiscal policy stance in 2010. The fiscal deficit was reduced to a more manageable 7.9 per cent of GDP in 2010 as opposed to the 9.9 per cent recorded in 2009. The deficit was reduced primarily by a cut in expenditures, predominantly through a cut in current expenditures. This is the preferred course as opposed to a cut in budgeted capital expenditure given its adverse implications to support Sri Lanka's long term growth objectives. Fiscal consolidation efforts have also been encouraging in view of the efforts being made to address weaknesses in revenue generation as well. The key focus is to raise government revenues through tax reforms based on the recommendations of the Presidential Commission on Taxation. The benefits of tax reforms in raising revenue are expected to be seen more sharply in 2011.

Despite the overall positive fiscal outcomes in 2010, Sri Lanka has still to be watchful on fiscal policy trends, particularly in relation to the financing of deficits and implications for public debt management. Essentially, the

[2] Arunatilake, N., and P. Jayawardena, 2010, "Labour Market Trends and Outcomes in Sri Lanka" in R. Gunatilaka, M. Mayer and M. Vodopivec (eds.), T*he Challenges of Youth Employment in Sri Lanka*, World Bank, Washington, D. C.

[3] *Ibid.*

[4] Weerakoon, D., and N. Arunatilake, 2011, a report on "Macroeconomic Policy for Full and Productive Employment and Decent Work for All: Sri Lanka Country Study", International Labour Organization, Geneva.

Table 2.4
Government Revenue and Expenditure

% of GDP	2007	2008	2009	2010	2011[a]
Fiscal deficit	-7.7	-7.0	-9.9	-7.9	-6.8
Revenue and grants	15.8	15.6	15.0	14.9	15.6
Tax revenue	14.2	13.3	12.8	13.0	13.6
Expenditure and net lending	23.5	22.6	24.9	22.9	22.4
Recurrent	17.4	16.9	18.2	16.7	16.1
Public investment	6.4	6.0	6.8	6.4	6.5
Deficit financing (domestic)	3.6	7.1	5.1	3.6	4.6
Deficit financing (foreign)	3.7	-0.1	4.8	4.4	2.3
Government debt	85.0	81.4	86.2	81.9	80.0

Note: a: Estimates.
Source: CBSL, *Annual Report*, various issues.

country has been resorting to borrowings to finance higher volumes of infrastructure investments. In principle, governments can justify such borrowing on the grounds that infrastructure investment 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.

In recent years, foreign sources have appeared as the dominant means of deficit financing. In 2010, foreign financing of the fiscal deficit amounted to 4.4 per cent of GDP, of which 3.5 consisted of loans and another 0.9 per cent of GDP consisted of foreign capital inflows into government Treasury bills and bonds. The government's preference to limit its recourse to domestic borrowing is aimed to encourage private sector investment in the economy. Under normal economic conditions, heavy domestic borrowing for fiscal financing purposes can crowd out private investment and put upward pressure on interest rates. Higher interest rates in turn would stifle GDP growth prospects.

Foreign currency denominated debt carries well-known additional risks, especially in relation to the exchange rate. 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, the trade-off between fiscal conditions (debt) and exchange rate management can constrict a country's macroeconomic policy space considerably.

The desirability or otherwise of external debt accumulation also depends critically on its composition. Here, Sri Lanka's increasing reliance on costlier non-concessional forms of foreign borrowing in recent years is very clear. Although the country's overall foreign debt-to-GDP ratio has not changed much as

previously observed, the composition of foreign debt has changed sharply. For instance, the share of non-concessional and commercial borrowing in Sri Lanka's total outstanding foreign debt has increased notably from 7.3 per cent in 2006 to 37.5 per cent in 2010.

The growing reliance on costlier sources of foreign finance has important implications for Sri Lanka's foreign debt servicing obligations. As evident from Figure 2.3, the country's overall foreign debt service ratio - i.e., the ratio of interest and amortization on foreign debt to earnings from the export of goods and services - has been rising steadily in recent years. In 2009, the ratio rose sharply to 19 per cent as a result of the shrinking of earnings from exports, but has recovered to an extent in 2010 to stand at 15.2 per cent.

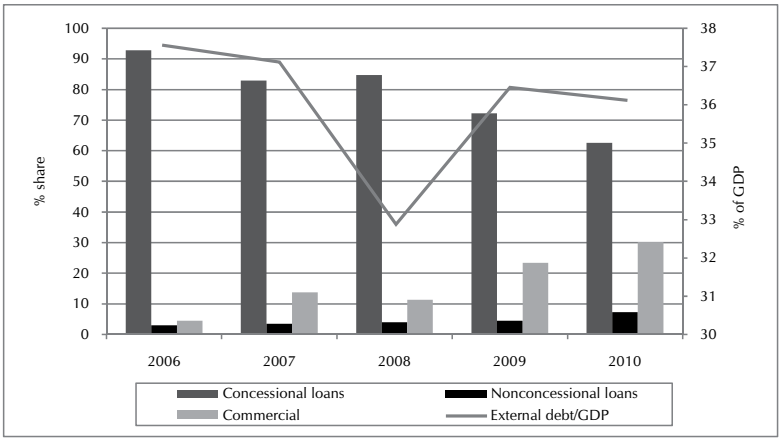
As previously noted, the return on investments financed by debt matters. Much of Sri Lanka's public investment is being channelled to infrastructure such as roads, ports, airports, etc., where such investments may not generate the necessary foreign earnings flows to service the debt in the short to medium term. The most prudent course of 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. This becomes all the more imperative given the fact that despite Sri Lanka witnessing an increase in earnings from the export of goods and services in absolute terms, the ratio of such earnings to GDP has been on the decline (Figure 2.3). It suggests that the higher GDP growth momentum that Sri Lanka has observed in recent years is not being driven by an export-push, but rather by other factors such as higher volumes of government infrastructure investment, etc. which can have considerable multiplier effects on economic activity.

The increased recourse to foreign financing of the fiscal deficit clearly has other spill-over effects on macroeconomic management, not least its impact on monetary policy management and exchange rate performance.

2.4 Monetary Policy Developments

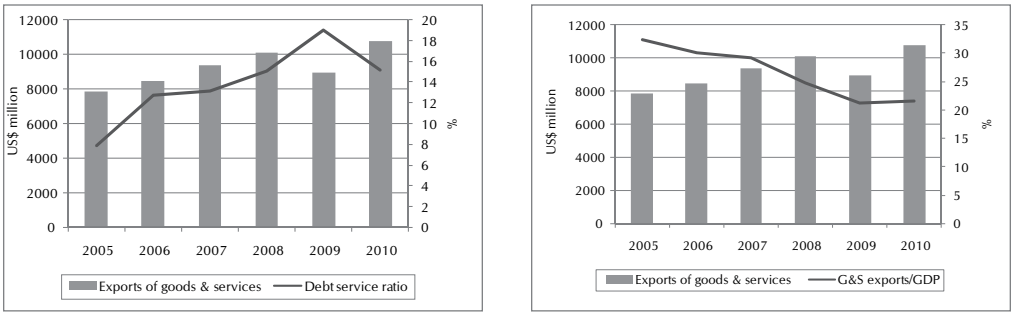
The relatively slow recovery in private investment in 2010 was reflected in weak demand for credit by the private sector for much of the year, despite the improvements to the

Figure 2.2
Emerging External Debt Profile



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

Figure 2.3
External Debt Dynamics

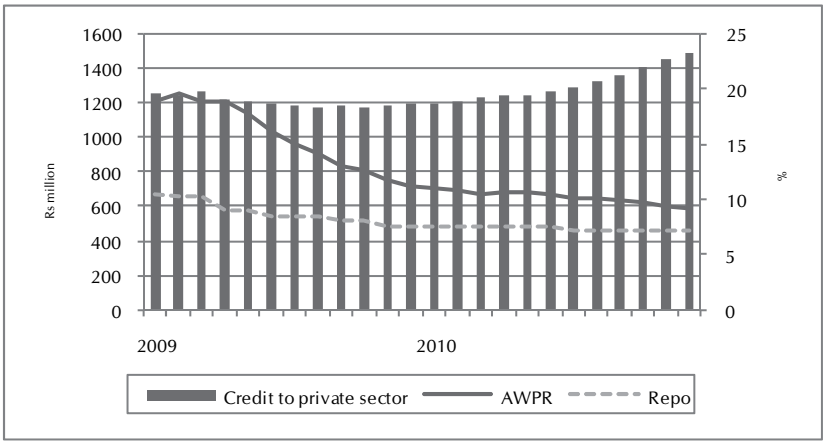


Source: CBSL, *Annual Report*, various issues.

country's medium term economic outlook since the end of the conflict in May 2009. Private sector credit growth remained sluggish, despite attempts to ease monetary policy from early 2009 through downward adjustments to policy rates as well as other directives to commercial banks. Credit growth to the private sector picked up in the latter part of 2010 to record a growth of 25 per cent by year end as compared to a contraction of 5.8 per cent in 2009.

The initial weak recovery in demand for credit by the private sector is perhaps best explained by the over-leveraging of households and firms preceding the economic downturn. Sri Lanka witnessed a credit boom during 2006-07 that was abruptly curtailed with a sharp tightening of monetary policy as the rate of annual inflation peaked at over 22 per cent in 2008. Consequently, the gross non-performing loan (NPL) ratio of the banking sector rose from 5.2 per cent in 2007 to 8.5 per cent in 2009. Thus, Sri Lanka's experience of hesitant private sector investment growth suggests that both supply and demand factors played a role. Despite the signs of an early economic recovery, over-leveraged

Figure 2.4
Demand for Credit



Note: AWPR = Average Weighted Prime Lending Rate.
Source: CBSL, *Monthly Economic Indicators*, various issues.

households and firms may have been less willing to borrow, while banks too may have been less willing to revert to a lending spree. Thus, despite high volumes of excess liquidity in the market - as high as Rs. 120-130 billion by the beginning of 2011 - there was muted inflationary pressures as demand for credit remained low, while the exchange rate movements minimized import-related price pressures. Indeed, Sri Lanka saw a moderate inflationary environment for much of 2010, with inflation beginning to rise only towards the last quarter of 2010, largely as a result of rising food prices in the country (Figure 2.5). A standard monetary policy response to such short term supply shocks is ineffective. Other options such as the removal of taxes and tariffs on food commodities were used to keep prices down, notwithstanding possible adverse impacts on fiscal operations via lost revenues. There is, however, a risk that if demands for wage increases on the back of rising food and fuel prices are accommodated, supply-side induced inflationary pressures can be absorbed into general price increases.

The threat of rising inflationary pressures in the Sri Lankan economy is growing. In April 2011, the Central Bank of Sri Lanka (CBSL) opted to raise the Statutory Reserve Requirement (SRR) on commercial banks by 1 percentage point rather than raise interest rates and set back the recovery in credit growth to the private sector. The SRR works through quantity rather than price and can be effective if there is no significant variation in levels of liquidity between institutions - i.e., forcing credit rationing in those institutions operating at the margins. However, with the government anticipating further inflows of foreign capital in 2011, the risks of igniting 'demand-pull' inflation in the economy continues to remain high.

2.5 External Sector Developments

Sri Lanka saw a significant recovery in earnings from exports of merchandise goods, remittances and tourist receipts in 2010 on the back of a much improved global economic environment. Earnings from merchandise exports grew by 17 per cent, remittances by 24 per cent, and tourism earnings by 65 per cent. Thus, despite import expenditure growing at a much faster pace of 32 per cent relative to export earnings, the country was able to maintain a manageable current account deficit of 2.9 per cent of GDP in 2010.

Notwithstanding the improved earnings via current account flows, the bulk of foreign currency inflows were generated through the capital account of the balance of payments (BOP). Here, the recovery of FDI inflows remained muted while non-equity flows remained high. This included the issue of a US$ 1 billion Sovereign bond in October 2010.

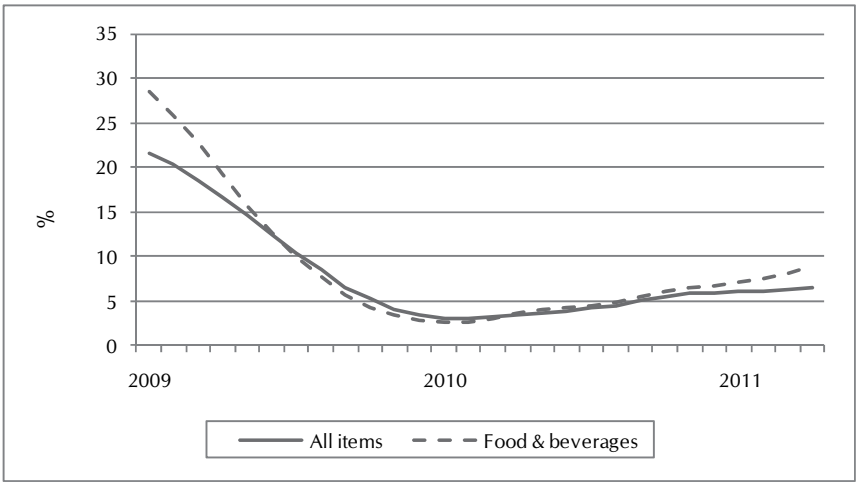
Foreign capital inflows cause upward pressure to be applied on the exchange rate. An appreciation of the real exchange rate in

Table 2.5
Select Monetary and Financial Indicators

% change	2007	2008	2009	2010
Reserve money	10.2	1.5	13.1	18.8
Broad money (M_{2b})	16.6	8.5	18.6	15.8
Credit to private sector	19.3	7.0	-5.8	25.1
Gross NPL ratio of banking sector	5.2	6.3	8.5	5.3
Rate of inflation	15.8	22.6	3.4	5.9

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

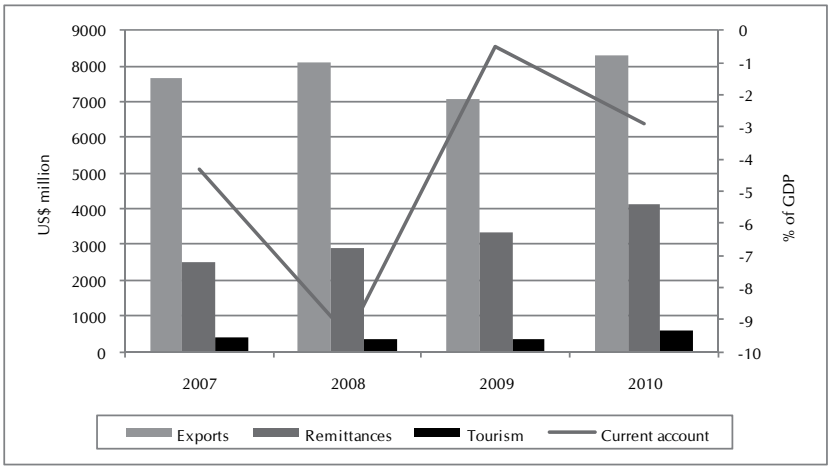
Figure 2.5
Inflation Trends



Source: CBSL, *Monthly Economic Indicators*, various issues.

turn, hurts the competitiveness of domestic exports in international markets. To prevent the currency from appreciating too much, monetary authorities can intervene in foreign exchange markets and mop up foreign capital inflows. This, however, also has the effect of raising the monetary base in the country which can hold inflationary consequences. In 2010, despite intervention by the CBSL, the rupee appreciated by 3 per cent in nominal terms against the US dollar. Of greater concern was the sharper real appreciation of the exchange rate by 5.3 per cent over the same period. As Sri Lanka prepares to float another Sovereign bond of US$ 1 billion in 2011, the continued inflows of foreign capital will require prudent management of monetary policy to ensure that excess rupee liquidity does not spill-over into rising inflationary pressures. Any hesi-

Figure 2.6
Exports, Remittances and Tourism



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

tance to raise interest rates for fear of squeezing growth will generate macroeconomic instability. In the circumstances, the trade-off between stability and growth needs to be carefully assessed. Sustainable high growth in the long term can only come with a stable macroeconomic environment.

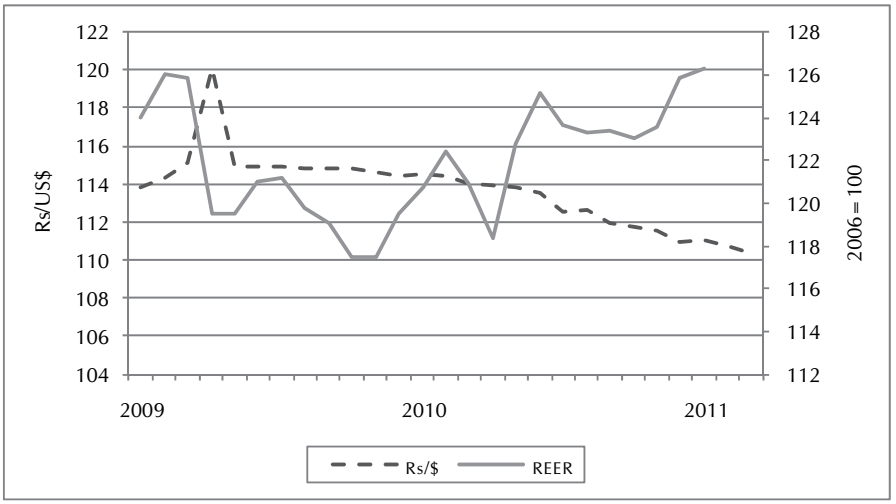
There are emerging threats to the Sri Lankan economy arising from external shocks, primarily in the form of rising food and fuel prices from the latter part of 2010. However, Sri Lanka appears comfortably positioned to deal with external exigencies in the near term with healthy official reserves of US$ 6.6 billion at end 2010, sufficient for 5.9 months of imports. Sri Lanka's accumulation of reserves, however, is not the result of surpluses in the current account of its BOP, but rather the result largely of foreign investments in Treasury bills and bonds, government foreign borrowing, etc. Thus, the country's medium term exposure to external shocks cannot be discounted. Indeed, a weakening of macroeconomic fundamentals could lead to a swift outflow of funds in government debt instruments. Additionally, Sri Lanka remains sensitive to any adverse changes in its sovereign rating that will stymie efforts to raise funds from international capital markets at competitive rates of interest.

2.6 Conclusion

Sri Lanka has experienced a sharp and broad based recovery in economic growth in 2010, accompanied by a stable macroeconomic environment. The country has thus set itself a strong foundation from which to build on what has already been achieved in a relatively short time span of two years following the end of a three decade long debilitating armed conflict. While the near term outlook promises higher growth to achieve the government's development objectives, there are also areas of concern with regards to the evolving macroeconomic environment that cannot be ignored.

Critical amongst these is the growing reliance on costlier forms of foreign borrowing

Figure 2.7
Trends in Nominal and Real Exchange Rate Movements



Source: CBSL, *Monthly Economic Indicators*, various issues.

to finance government capital spending. If Sri Lanka is to continue down this path, a prudent course is to ensure that such borrowings will over time generate foreign currency earnings - directly or indirectly - to meet debt service obligations. The most satisfactory outcome would for Sri Lanka to bridge its savings-investment gap via non-debt sources of finance such as FDI. Here, Sri Lanka's performance has been desultory, with FDI inflows stagnating at 0.9 per cent of GDP in 2010 despite the rather more impressive recovery recorded in all other sectors - viz., export earnings, tourism receipts, remittance inflows, etc.

The failure to generate more dynamism in attracting FDI inflows has been blamed variously on prevailing institutional and regulatory weaknesses. Sri Lanka is attempting to attract FDI in a highly competitive environment, particularly in the neighbouring Asian region. In 2011, the country is likely to see a much better outcome, owing largely to anticipated inflows into the country's real estate and leisure sectors. But it is FDI inflows into skilled manufacturing and service sectors activities that are most likely to boost productivity in the country. Transfers of knowledge and skills that often accompany such FDI inflows are as important as the actual financial flows. Sri Lanka has made the first important breakthrough to attract such investments in future by bringing to an end the unattractive political and security environment for foreign investors that dogged the country through its decades of conflict. It remains for the country to take the next important steps of ensuring predictability and consistency in policy, and strengthening the policies, regulations and institutions that will encourage investors to act on the opportunities available.

3. Accelerating Inclusive Growth in Sri Lanka: The Role of the External Sector

3.1 Introduction

Sri Lanka's growth cannot be examined in isolation. This is because its economy is intricately interwoven to its neighbours and other countries through commercial, political and cultural links. The sustainability of any growth strategy adopted by the country will depend on the stability of different partnerships and the ability of the country to be resilient to adverse shocks. Given this, any strategy that looks at improving equitable growth will need to take stock of the international environment within which the Sri Lankan economy is functioning.

> ***"Achieving rapid and equitable growth will hinge on the ability of Sri Lanka's export sector to contribute to GDP growth, as well as ensure a healthy earnings of foreign exchange"***

As a small open economy, Sri Lanka is dependent on external demand for its goods and services to sustain domestic growth as well as to earn foreign exchange for its import expenditures. The downturn of the global economy in 2008-09 had its inevitable drag on the country's export earnings, contributing to a lower overall domestic output expansion. However, the global economic recovery in 2010 - with world output growing at 5 per cent compared to a contraction of 0.5 per cent in the previous year, helped by a strong recovery in global trade and investment flows - provided a much more conducive environment for Sri Lanka's own economic expansion. As the country gears up to further strengthen its growth objectives in the medium term, enhanced earnings from the export of goods and services is expected to play an important role in contributing to growth as well as towards a stable external payments position in the medium to longer term.

In this context, the recent decline in Sri Lanka's exports-to-GDP ratio - from 28 per cent in 2004 to 16.7 per cent in 2010 - is a cause for some concern. It suggests that despite the rising earnings from exports in absolute terms, Sri Lanka's higher GDP growth momentum has been coming from sources other than the export sector. Unlike economies with a large domestic market, the extent to which aggregate

demand can be stimulated from catering to domestic demand alone remains limited in the case of Sri Lanka. Thus, a renewed effort to encourage faster growth in the export sector is important.

The policy challenges are many. As developed economies - which remain the primary export markets for most developing countries - struggle to recover from the global financial crisis, competition amongst developing country exporters will heighten. Many countries are opting for preferential market access via trading arrangements of one sort or another. Any trade policy reform - be it unilateral, bilateral/regional, or multilateral - will have eventual 'beneficiaries' and 'losers'. Often, adjustment costs for the economy overall are borne in the short term. However, it could well be that long term costs prevail for particular industries or sectors. Thus, the distributional impacts of trade policy cannot be ignored, particularly when Sri Lanka is attempting to achieve not only rapid growth, but a growth process that is both equitable and inclusive to meet its long term post-conflict development objectives. In this context, the Chapter looks at Sri Lanka's recent export performance and future prospects, with a special focus on key export earning sectors in goods and services - viz., garments, tea, and migrant workers.

3.2 Earnings from Exports of Goods and Services: An Overview

Merchandise goods exports saw a strong recovery in 2010 following the downturn in 2009, with overall export earnings growing by 17.3 per cent to record peak earnings of US$ 8,307 million. Industrial exports accounted for nearly 75 per cent of Sri Lanka's total merchandise exports in 2010, with earnings from the textiles and garments subsector accounting for more than 42 per cent. Earnings from the latter grew by 7 per cent despite the loss of tariff benefits from the Generalized System of Preferences (GSP-plus) market access to the European Union (EU) in August 2010. In view of the impending withdrawal of the GSP-plus benefits, industry sources suggest that many manufacturers improved the quality of their products, focusing on higher levels of value addition, and branded products that cater to high-end customers. Sri Lanka's exports of agriculture continue to be dominated by plantation export crops, with tea alone accounting for 16 per cent of total agricultural exports in 2010. The increase in earnings from agricultural exports, led by tea, was mainly due to

Table 3.1
Growth in Goods and Services Exports

	Annual Average Growth		Share[a]
	2005-09	2010	2010
Agriculture	12.9	18.9	24.6
Tea	13.1	14.1	16.6
Industrial	6.3	14.3	74.3
Food, beverages	26.1	21.8	6.1
Textiles and garments	5.9	5.1	42.2
Services	4.6	30.4	
Transportation	7.4	33.6	46.8
IT	30.0	8.2	10.7

Note: a: Values as a percentage of total goods exports, transportation and IT as a percentage of total services exports.

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

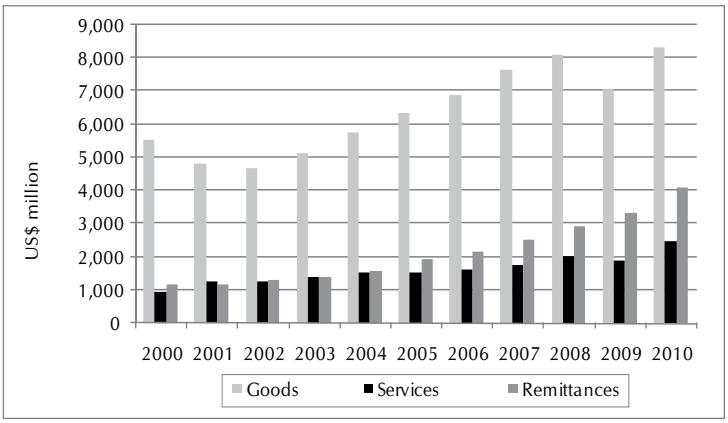
the high prices that prevailed in the international markets throughout the year.

Higher earnings from merchandize goods have been complemented by a rapid growth in services exports, albeit from a lower base. Net earnings from services exports increased by over 78 per cent in 2010 to US$ 698 million, with key sectors such as transportation (accounting for 47 per cent of total services exports) and information technology (IT) showing a rapid recovery. Transportation services growth was attributed to the increase in the number of passengers travelling to Sri Lanka, increase in freight charges collected and improvement in port and airport related other business services. Computer and information services sub-sector also saw gross inflows on account of a pick-up in exports of software, business process outsourcing (BPO) and other IT enabled services (ITES).

Sri Lanka has also benefitted historically from earnings from migrant worker remittances. Unlike other inflows, worker remittances remained relatively healthy during the downturn of 2009 and posted a strong growth of 23.6 per cent. The record inflow of US 4.1 billion in 2010 was in part due to an increase by 8 per cent in the numbers of migrant workers leaving for employment overseas in 2010, compared to a contraction of 1.4 per cent of total placements in the previous year.

However, despite the absolute increase in export earnings, it is of some concern that Sri Lanka's export earnings as a percentage of GDP - a measure of how much export-led an economy is - has been falling continuously in more recent years (Figure 3.2). The exports-to-GDP ratio which stood at 30 per cent in 2000 had declined to 16.7 per cent by 2010. Indeed, Sri Lanka's export penetration - i.e., its share of global merchandise exports - has mirrored this decline, falling from 0.09 per cent in 2000 to 0.05 per cent in 2008.[1] Sri Lanka's export performance vis-à-vis competitors in the Asian region have not been impressive. For instance, in 1990, exports from both Vietnam and Sri Lanka amounted to US$ 2 billion, but by 2008, exports of Vietnam amounted to US$ 61 billion while Sri Lankan exports amounted to approximately US$ 8 billion.[2]

Figure 3.1
Trends in Export Earnings

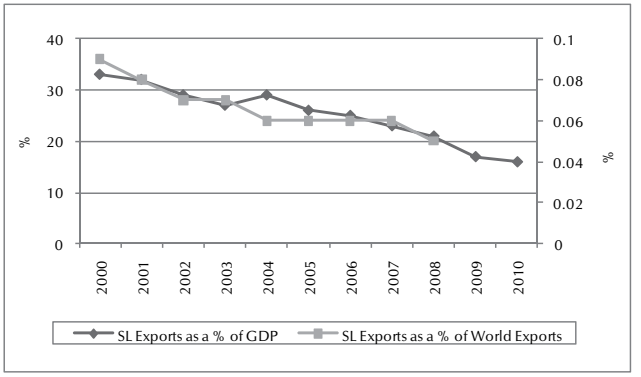


Source: Compiled using data from the CBSL, *Annual Report 2010*.

[1] IMF, *Direction of Trade Statistics 2009*.

[2] Kelegama, S., 2011, "WTO Trade Policy Review - Sri Lanka 2010", *Economic Review*, Vol. 36, Nos. 11 & 12, People's Bank.

Figure 3.2
Sri Lanka's Export Share (2000-2010)



Sources: CBSL, *Annual Report 2010,* and IMF, *Direction of Trade Statistics 2009.*

Being a trade dependent country with limited scope to expand aggregate demand through domestic demand alone, Sri Lanka needs to pay careful attention to policies that will over time, raise productivity and thus the competitiveness of the country's exports in international markets. A related issue remains the undiversified nature of both its exports and export markets. If Sri Lanka is to raise its exports and increase its global share, new products as well as new products markets have to be explored and penetrated.

3.3 Emerging Global Economic Environment and Prospects for Exports

The recent global financial crisis and the resultant global economic downturn in 2008/ 09 is changing the dynamics of the global economy. It has had a debilitating impact on the strength and dynamism of the Western economies. The balance of economic power is shifting decidedly from West to East, with China, India, and East Asian 'Tiger' economies leading the global economic recovery. Global production hubs are shifting to China and India, not only

Table 3.2
Projected World Output (2011-12)

				Projections	
	2008	2009	2010	2011	2012
World output	3.0	-0.5	5.0	4.4	4.5
Advanced economies	0.5	-3.4	3.0	2.4	2.6
US	0.4	-2.6	2.8	2.8	2.9
UK	0.5	-4.9	1.3	1.7	2.3
Euro Area	0.6	-4.1	1.7	1.6	1.8
Japan	-1.2	-6.3	3.9	1.4	2.1
Canada	0.4	-2.5	3.1	2.8	2.6
Emerging & developing economies	6.1	2.7	7.3	6.5	6.5
India	7.3	6.8	10.4	8.2	7.8
China	9.6	9.2	10.3	9.6	9.5
Russia	5.6	-7.8	4.0	4.8	4.5
Brazil	5.1	-0.6	7.5	4.5	4.1
Middle East & North Africa	5.3	1.8	3.8	4.1	4.2
ASEAN-5[a]	4.7	1.7	6.9	5.4	5.7

Note: a: Indonesia, Malaysia, Philippines, Thailand and Vietnam.

Source: IMF, *World Economic Outlook*, April 2011.

because of lower costs, but also increasingly because it is being complemented by improved industrial and technological capabilities.

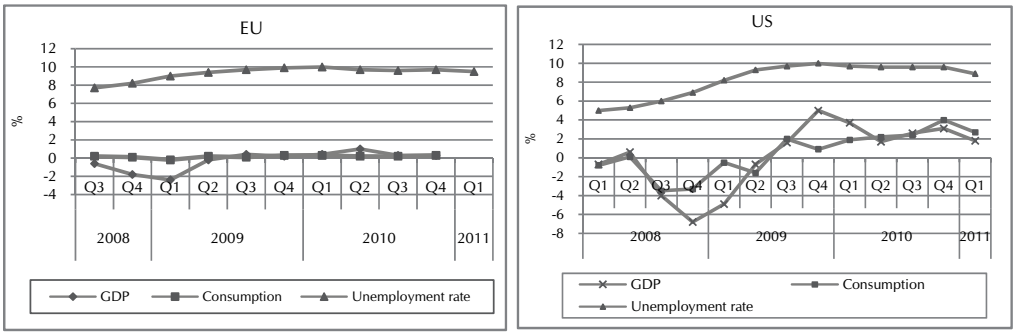
Growth in global economic output is expected to fall from 5 per cent in 2010 to 4.4 per cent in 2011, with both advanced and emerging developing economies expected to see slower growth. The most recent available forecasts suggest that the outlook for 2012 remains unchanged from that of 2011.

The global economic recovery in 2010 was assisted by rising consumption expenditures that was in part helped by stimulus measures that were undertaken by advanced economies. However, despite the growth in consumption expenditures, many advanced economies are grappling with high levels of unemployment. In the US, for instance, the rate of unemployment remained at 9.6 per cent in 2010. For much of the EU, similar rates of unemployment prevailed in 2010.

In many of the advanced countries, output remains far below potential with high unemployment levels and deteriorating fiscal positions plaguing the recovery process. Debt ratios in most advanced countries have been rising with the average general government gross debt-to-GDP ratio projected to breach the 100 per cent threshold for the first time since the aftermath of World War II.[3] On the other hand, in emerging markets where fiscal and financial positions were much stronger at the outset of the crisis, exports have largely recovered. However, the better economic prospects and relatively high interest rates are seeing increasing volumes of foreign capital flowing to these economies. Growing inflationary pressures - amidst rising oil prices at a record two-year high, spurred by social and political turmoil in the Middle Eastern and North African regions - pose challenges to emerging and developing countries. The threats to economic stability in these countries are exacerbated by rising food prices where food consumption makes for a relatively larger share of household consumption. Tighter monetary policies to rein in threats of inflationary build-up are expected to slow down growth in 2011.

The slow recovery in the US and EU is troubling for Sri Lanka. They continue to be the largest importers of Sri Lankan products,

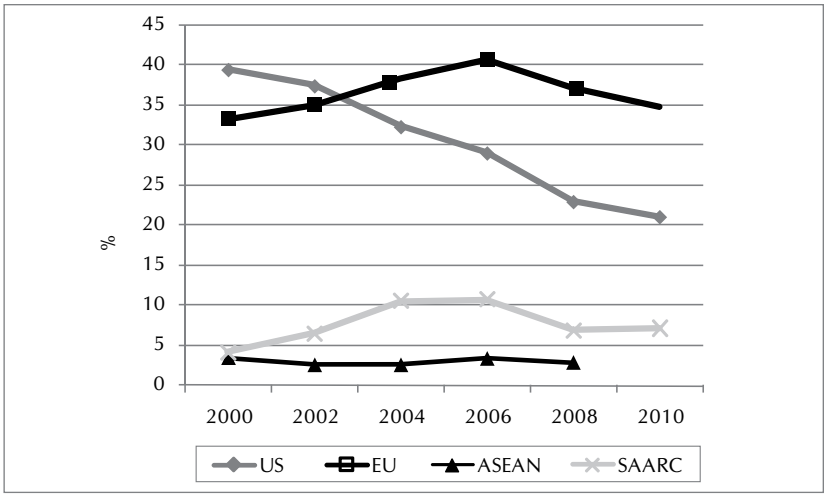
Figure 3.3
EU and US: GDP, Consumption and Unemployment Rates



Note: Figures for unemployment are end of period values.
Sources: Euro stat/US Department of Commerce/US Department of Labour.

[3] IMF, *Fiscal Monitor 2011*.

Figure 3.4
Sri Lanka's Share of Exports to US, EU, ASEAN and SAARC



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

attracting 56 per cent of the country's total exports in 2010. Nevertheless, Sri Lanka's share of exports to the US declined from 31 per cent in 2005 to 21 per cent in 2010, while its exports share to the EU has seen a more marginal decline. The increase in share of exports to other Asian economies has been slow, while exports to the Middle East grew faster - rising from 5 per cent in 2005 to 12 per cent in 2010.

It is clear that 2011 is likely to see a lethargic recovery in both US and EU markets and it is something Sri Lankan exporters need to be vigilant of. The country is yet to effectively 'plug in' to the dynamic growth centres that are emerging in its vicinity - India, East and South East Asia, and China. Sri Lanka needs to look at developing stronger linkages with these healthier economies of Asia, explore new trading opportunities, and move away from the excessive dependence on the US and EU. To this end, it is notable that India regained its position in 2010 as the third largest single market for Sri Lankan products, a position it held last in 2007. Stronger links with the other Asian giant, China, would also help. Although Sri Lanka has seen a marginal increase in its exports to China - rising from 0.4 per cent in 2006 to 0.9 per cent by 2010 - much more needs to be done to strengthen export penetration to this rapidly growing market.

Sri Lanka needs to be acutely aware of the tectonic shifts in the centre of gravity of global economic power that are gradually taking place. Although earlier touted as the new platform for international economic co-operation, the G20 - the grouping of the richest Western economies and the most commercially important emerging economies set up as a joint initiative to tackle the global economic crisis - does not appear to have much longevity beyond the crisis response efforts it originally mandated itself to do. Rather, what is now emerging as a key power bloc is the BRIC (Brazil, Russia, India, and China) group. The BRIC countries, which showed strong resilience during the global economic crisis, account for 45 per cent of the world's population, 25 per cent of global GDP, and an estimated 60 per cent of the world's foreign currency reserves. In its most recent summit in April 2011, South Africa was invited to join the grouping (and expanding the 'BRIC' to 'BRICS'), further solidifying the grouping as a powerful player

on the global stage. BRICS have agreed to lend to each other in their own currencies, rather than dollars, and have managed to successfully lobby for greater representation in supranational bodies like the IMF and World Bank.

This gradual emergence of the BRIC could, eventually, provide an effective platform for developing countries as a whole to rally around, link up productively through its own, albeit relatively weak, G-15 group, and thus find a stronger voice in the global economic arena. This has direct implications for smaller developing economies like Sri Lanka. Despite being unassociated with the initial financial markets crisis, developing countries like Sri Lanka were badly hit by the global downturn that followed, and therefore has a strong desire to see the developing world gain a stronger voice in reforming the world economic order. By finding ways to strategically link up to this type of new, stronger 'South-South' cooperative voice, Sri Lanka could create more avenues to seek support for its economic goals internationally.

3.4 Inclusive Growth: The Distributional Impacts of Trade

Sri Lanka's trade policy continues to be aimed at achieving greater integration into the global economy through multilateral, regional and bilateral trade arrangements, through an incentive regime consisting of rationalization of tariffs geared to encouraging exports and attracting foreign direct investments, and a number of development programmes to improve infrastructure, with the twin objectives of enhancing competitiveness and market access.

In the more recent past, Sri Lanka has seen its tariff regime become more opaque with an increase in the number of tariff bands as well as the introduction of para-tariff measures on an increasing number of imported products.[4] In June 2010, and thereafter through the 2011 Budget announced in November 2011, the government relaxed the import tariff regime to a limited extent by lowering some import tariff rates, restructuring tariff bands, and removing some indirect taxes. Nonetheless, the import tariff regime continues to be riddled with para-tariffs. In addition to unilateral tariff reforms, Sri Lanka's commitments under its bilateral and regional free trade agreements have required the adjustment of import tariffs for related trade partners.

Trade reforms create distributional impacts, depending on how different sectors in the economy are affected. Some sectors will benefit from improved competitiveness and greater market access - i.e., by reducing distortions in relative prices, and allowing those activities with a comparative advantage to expand. However, there will be other sectors that will be adversely affected by international competition - the removal of trade barriers leads to a decline in the value of assets of protected industries and the loss of jobs in those industries. Trade policies will create 'winners' and 'losers' - benefitting some, while in the short term adversely affecting others, with attendant adjustment costs and distributional effects.

The primary focus of literature that examines the distributional aspects of trade has been on identifying the means by which trade and poverty are linked through economic growth. Trade can affect poverty and distributional outcomes through multiple channels including economic growth, prices of goods and services consumed by households, livelihoods of the poor and income earning ability, vulnerability to shocks and effects on government revenue.

[4] Pursell, Garry and F.M. Ziaul Ahsen, 2011, "Sri Lanka's Trade Policies: Back to Protectionism", ASARC Working Paper 2011/03.

During the past five decades, developing countries have experienced important changes in their trade policies, providing a useful source of empirical evidence on the nexus between trade, growth and poverty.[5] Some evidence suggests that trade openness triggers growth, and that growth is a central driver of poverty reduction. But there is also evidence that suggests that economic integration into the world economy can be the result of successful and inclusive growth and development, rather than a prerequisite for it - i.e., that inclusive growth processes can lead to trade openness and economic integration into global markets.[6]

There is little doubt that changes in trade flows, directly or indirectly, affect the welfare of households. The impact of trade reform on poverty and distributional outcomes appears to depend on a combination of pre-existing conditions - such as geography, market size, and institutional capacity - and complementary policies (education, infrastructure, financial and macroeconomic policies) designed to help the poor participate in the positive opportunities that emerge while protecting them from the most harmful consequences.

For Sri Lanka, greater trade openness has had many positive impacts, including the generation of significant employment and income earning opportunities. The benefits in aggregate in sectors such as garments are clear. It provided useful foreign exchange earnings and opened new channels of employment opportunities to young, unskilled female labour. Similarly, 73 per cent of outgoing migrant workers in Sri Lanka is estimated to be from outside the Western Province, while 67 per cent were either unskilled workers or housemaids.[7] The experiences of both the garments sector and migrants suggest that a large proportion of workers from rural or poor backgrounds benefitted. Indeed, the presence of a family member abroad is estimated to have a significant marginal effect in reducing the likelihood of a household being poor.[8] Remittances are also found to have helped increase expenditure and investment in health and education of beneficiary households and have provided security from external shocks.[9]

However, outcomes in other export sectors are less clear. Whilst tea exports have historically provided much needed foreign exchange earnings, the estate sector population has remained mired in poor socio-economic conditions. Additionally, those sectors most open to trade and investment opportunities - centred in urbanized settings - have also led to widening output gaps and related poverty indicators across sectors and provinces of the country. Thus, complementary policies to address the distributional implications of external trade promotion should not be ignored.

3.4.1 Pro-Poor Growth: Manufacturing or Services Sector?

Growth that is driven by expansion of output in manufacturing is often considered to have beneficial impacts on addressing poverty and inequity given its potential to

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[5] See Dollar, D., and A. Kraay, 2004, "Trade, Growth and Poverty", *The Economic Journal*, 144(493), pp. 22-49; Ravallion, M., 2005, "Looking Beyond Averages in the Trade and Poverty Debate", Policy Research Working Paper 3461, World Bank, Washington, D.C.

[6] Chang, H.J., 2007, *Bad Samaritans,* London: Random House Business Books; Rodriguez, F. and D. Rodrik, 1999, "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-Country Evidence", Discussion Paper Series 2143, CEPR, London.

[7] Sri Lanka Bureau of Foreign Employment, *Annual Statistical Report 2009*.

[8] World Bank, 2007, *Sri Lanka Poverty Assessment*, World Bank, Washington, D.C.

[9] Arunatilake, N., P. Jayawardena and D. Weerakoon, 2011, "Sri Lanka" in Kelegama, S., (ed.), *Migration, Remittances and Development in South Asia*, Sage Publications, New Delhi.

generate employment for unskilled labour - an abundant factor of production in many developing economies where a sizeable proportion of such workers are considered to represent low-income segments of the population.

Overall, employment growth in Sri Lanka's industrial sector has been better than that of the services sector in recent years.[10] However, productivity in the former has lagged behind that of the latter, which is clearly a concern in terms of the ability of the industrial sector to generate productive employment opportunities. Nonetheless, the export-oriented manufacturing sector has been an important source of job creation. Indeed, the industry is estimated to provide over 300,000 in direct employment as well as another 1 million in indirect employment. The industry expects to create job opportunities for a further 20-30,000 over the next five years in the face of an anticipated expansion of factories. A further positive approach is the stated intention of the Joint Apparel Association Forum (JAAF) to employ rural youth in regional factories. In turn, this is likely to address long recognized problems associated not only with rural employment, but also living conditions for factory workers who are often forced to move in search of employment and make such job opportunities more attractive.

The government's focus on promoting small and medium enterprises (SMEs), if effective, will also help in generating manufacturing output and employment. SMEs have gained wide recognition as a critical source of employment, especially for the poor. In Sri Lanka, SMEs make up more than 80 per cent of all businesses, account for about 35 per cent of employment and about 20 per cent of total industrial value added.[11] Whilst they may not always be direct exporters - in the garments industry, for instance, around 80 per cent of factories are categorized as SMEs according to the value of exports, but they account for less than 30 per cent of total export earnings - SMEs are an important source of inputs for many export industries. However, nearly 80 per cent of SMEs are estimated to be located in the Western Province inhibiting its contribution to promote a more regionally balanced development process.[12]

Besides the industrial sector, the services sector has also been a significant contributor to economic growth in Sri Lanka in the recent past. Unlike manufacturing, however, the services sector tends to generate employment for higher skilled workers, which may in part account for the greater productivity gains in the services sector at the aggregate level. The most rapidly expanding services sector has been in telecommunication, banking, IT, finance, etc. As Sri Lanka turns increasingly to promote services-oriented export activities - including efforts to develop the country as a hub for select services - the employment opportunities that will be generated will most likely require a higher skills profile that could have broader distributional and equity issues in the country.

3.4.2 Trade and Gender Linkages

Trade openness can create economic opportunities, but because of different endowments, control over resources, access to labour markets and varying roles within the household, there can be significant gender differences in any accruing benefits.[13] Sri

[10] See Chapter 4 of this report on "Imperatives of Inclusive Growth".

[11] World Bank, 2005, International Finance Corporation (IFC) Survey 2005.

[12] Munisada, K.L.D.H, 2008, *Best Practices on SME Development and Management in Sri Lanka*, Asian Development Bank Institute,Tokyo.

[13] Maurizio, Busoolo and E. De Hoyos Rafael, 2009, *Gender Aspects of the Trade Poverty Nexus: A Micro-Macro Approach*, World Bank, Washington D.C.

Table 3.3
Informal Private Tea Sector Daily Wages by Gender

Year	Annual Average (Rs.)		Percentage Change			
			Nominal		Real[a]	
	Male	Female	Male	Female	Male	Female
2006	333	234	10.9	7.9	-2.8	-5.8
2007	375	263	13.8	11.5	-3.7	-6.0
2008	440	305	17.4	16.1	-4.2	-5.2
2009	488	356	10.9	16.5	7.2	12.6
2010	543	391	11.3	9.9	5.0	3.7

Note: a: Real wage changes are based on CCPI (2002 = 100).

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

Lanka is an interesting case study of gender dimensions of trade and poverty, given the fact that women from rural areas and deprived communities dominate the labour force of the significant export earning activities - garments, migration and tea. At present, women account for over 70 per cent of the labour force in the export garments sector and over a half of the labour migrants are women. There is clear indication that greater employment opportunities for women have had a significant impact on patterns of employment in Sri Lanka. The female labour force participation rate increased substantially from 25.8 per cent in 1980 to 39.5 per cent by 1990 and stood at 32.1 per cent in 2010.

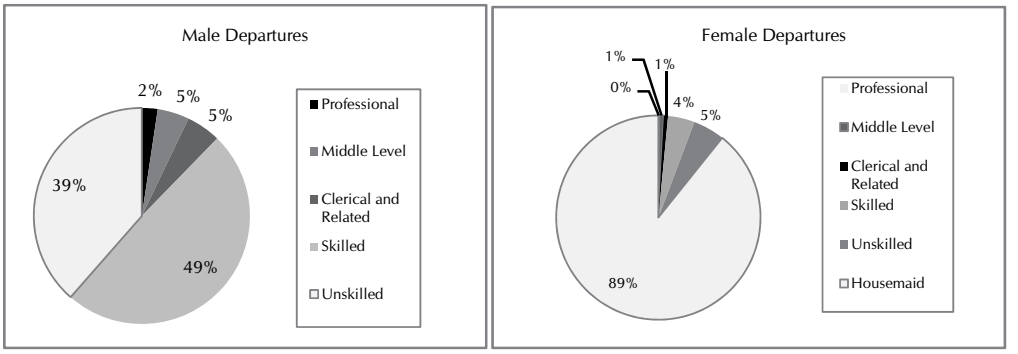
However, a majority of these women are to be found in low skilled categories where wages are relatively low. Furthermore, even though significant employment opportunities for females are present, opportunities for upward mobilization of labour is extremely limited or almost non-existent. In the garments industry, for instance, it has been found that female career development has been trapped at low level employment categories, whereas male workers have more opportunities for upward mobility and access to upper or middle level employment categories.[14]

Males continue to dominate in senior and middle manager categories accounting for 85 and 69 per cent of employment, respectively.[15] Thus, the garment sector provides a good example of a case where men and women appear unable to take equal advantage of trade opportunities. The same is true of the estate tea export sector as well. Even though it generates significant employment for female workers, it is mostly very low-skilled employment that yields low incomes. Gender wise informal private sector daily wages in the tea sector show that not only do males earn higher wages than females, but that males tend to also enjoy a higher percentage increase in both nominal and real wages compared to females (Table 3.3). However, trade policy alone is not to blame. The structure of the industry, as well as the incentives and contracts that govern relations between employees and employers, matter. The nature of 'resident labour' in the estate sector as opposed to tea smallholders - where socio-economic outcomes are much better - lends support to this argument.

[14] Jayaweera, S., 2005, "Continuity and Change: Women Workers in Garment and Textile Industries in Sri Lanka", [http://reseau.crdi.ca/en/ev-58039-201-1-DO_TOPIC.html]

[15] Chandrasiri, S., 2009, *Promoting Employment-Intensive Growth in Sri Lanka: Policy Analysis of the Manufacturing and Service Sectors,* International Labour Organization, Geneva.

Figure 3.5
Departures for Foreign Employment by Sex and Manpower Levels: 2009



Source: SLBFE, *Annual Statistical Report 2009*.

Trends in foreign employment in Sri Lanka also demonstrate notable differences between males and females. In 2009, while almost a half (46.8 per cent) of migrant males were skilled workers, the corresponding figure for females was a mere 4.2 per cent. Housemaids were the dominant source of female migration, accounting for 89 per cent of the total. This gives an indication of the higher earning potential as well as the better working and living conditions of male migrants compared to females.

3.5 Trade and Inclusive Growth in Sri Lanka: Tea, Garments and Remittances

As Sri Lanka looks to raise its long term GDP growth rate to 8 per cent and above, the country's export sector will be expected to play a critical role. Three of the country's main foreign exchange earners through the export of goods and services - garments, tea and remittances - will also hold significant distributional implications for the economy as a whole. The rest of the section will analyze the emerging global environment for each of the sectors and Sri Lanka's potential to further raise export earnings in the coming years.

3.5.1 Garment Sector

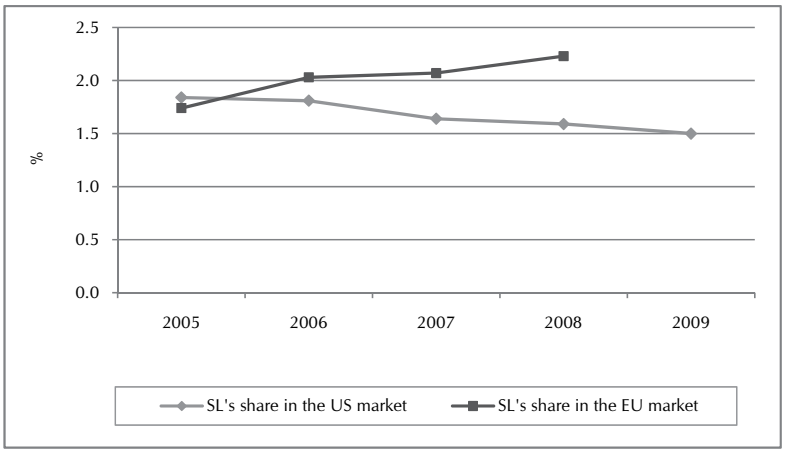
As previously noted, the textile and garments (T&G) sector accounts for 42 per cent of Sri Lanka's total exports. The garments sector alone is estimated to provide employment to 351,762 workers, making up 41 per cent of total industrial employment in the country.[16] However, 74 per cent of garment industry firms and 73 per cent of employment in such firms is to be found within the Western Province.[17]

Despite the withdrawal of GSP-plus concessions by the EU in August 2010, earnings from T&G exports increased by 7 per cent to US$ 3,504 million in 2010. The EU attracted almost 51 per cent of Sri Lanka's total garment exports in 2010 while the US attracted 41 per cent. The increase in garment export earnings despite a decline in the volume exported, suggests the export of high value products to niche markets. This seems to support suggestions that the industry is aiming to improve the quality of products and productivity in order to face stiffer competition, especially in view of the loss of GSP-plus concessions in the lucrative EU market. Other measures include attempts to

[16] DCS, *Annual Survey of Industries 2009*.

[17] *Ibid.*

Figure 3.6
Sri Lanka's Export Share in the US and EU T&G Markets: 2005-09



Source: International Textiles and Clothing Bureau.

cater to high end customers and focus on branded products.

Nonetheless, the steady inroads that Sri Lankan garments exporters had been making into the EU market may see a slowdown with the withdrawal of the tariff concessions. Indeed, the increase in export earnings over the years has been due largely to a shift in Sri Lankan garments exports from the US to the EU. In contrast to Sri Lanka's success in penetrating the EU market, Sri Lanka has been seeing a steady decline in its market share in the US, from 1.8 per cent in 2005 to 1.5 per cent in 2009. For the longer term interests of the industry, it is imperative that market diversification takes place. In this respect, Sri Lanka has made rapid inroads into new markets such as Turkey and Slovakia (Table 3.4).

For Sri Lanka, of immediate concern is the slow recovery in key markets of the US and EU. After having declined by over 5 per cent in 2009, the US apparel market regained momentum with a 2 per cent increase for

Table 3.4
Top Ten Destinations of Sri Lanka's Garment Exports

Rank	2005		2009	
	Country	Value (US$ mn.)	Country	Value (US$ mn.)
1	US	1633	US	1285
2	UK	603	UK	844
3	Italy	139	Italy	349
4	Germany	85	Germany	178
5	Belgium	58	Belgium	69
6	France	44	Netherlands	59
7	Canada	40	France	57
8	Netherlands	28	Canada	42
9	Spain	19	Turkey	29
10	Japan	12	Slovakia	20

Source: Export Development Board, 2010, *Export Performance Indicators 2000-2009.*

2010.[18] In the year ending June 2010, EU clothing imports is estimated to have fallen in value to their lowest level since 2006 (and to the lowest in volume terms since 2005).[19] Also, the average import price fell after rising a year earlier. Sri Lanka will face stiffer price competition in these markets, even as apparel exporters to the EU from Bulgaria, Kosovo, Macedonia and other Balkan countries enjoy a number of competitive advantages, including quicker transportation time, lower transportation costs and zero duty on entry to the EU.

For Sri Lanka, infrastructure investment that is currently under way is expected over time to improve road and rail linkages, make available cost-effective and reliable supply of energy, etc. Such efforts will be critical to enhance the price competitiveness of the country's exports in the medium to longer term. Indeed, the critical need to invest in efforts to improve trade facilitation is well recognized. Recent studies, for instance, have suggested that a 10 per cent reduction in delays in exports by a country can see its exports rising by as much as 4 per cent.[20]

The benefits or otherwise of other forms of support offered by the government - investment incentives and a number of established and fully serviced industrial zones, estates and parks - are yet to be fully determined. The industry too is attempting to do its share with the undertaking of several campaigns such as 'Garments without Guilt' (for good labour conditions) and the introduction of 'Green Garments' to exploit Sri Lanka's other comparative advantages vis-à-vis its competitors.

3.5.2 Tea

The tea sector recorded its highest ever annual production of 329 million kgs in 2010, surpasing the previous all time high of 319 million kgs in 2008. Correspondingly, Sri Lanka earned a record US$ 1,375 million. Despite Kenya exporting a higher volume of tea than Sri Lanka, higher prices for 'Ceylon tea', and value addition helped

Table 3.5
Main Export Markets for Sri Lankan Tea

Country	2010 ('000 kg.)	2005 ('000 kg.)	Export Share (%) 2010	2005
Russia	50,172	57,648	16	19
UAE	30,201	38,180	10	12
Iran	28,675	24,948	9	8
Syria	27,186	27,670	9	9
CIS countries[a]	26,259	13,430	8	4
Turkey	19,032	17,241	6	6
Jordan	17,620	12,057	6	4
Iraq	13,899	10,784	4	3
Kuwait	11,470	3,012	4	1
Japan	10,855	8544	3	3

Note: a: CIS countries excluding Russia.

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

[18] International Trade Administration, Office of Textiles and Apparel.

[19] *Ibid*.

[20] Djankov et al., 2008, "Trading on Time", available at http:espanol.doingbusiness.org/Documents/ TradingOnTime_APR08.pdf.

Sri Lanka obtain higher export earnings. Encouragingly, a higher percentage of exports of nearly 65 per cent consisted of value added teas, while the rest were in bulk form. In the global tea market, Sri Lanka retained its position as the third largest exporter in volume terms after Kenya and China.

Middle Eastern countries, Russia and the other Commonwealth of Independent States (CIS) are the main tea export markets for Sri Lanka (Table 3.5). Globally, Russia, UK, US, UAE and Egypt are the largest buyers of tea. However, Sri Lanka's market share for tea in some of the key export markets has shown an indifferent performance. In the case of Russia, while Sri Lanka remains the primary supplier, the market share has declined from 41.9 per cent in 2006 to 29.9 per cent in 2010 (Figure 3.7). Similarly, Sri Lanka's market shares in UAE and in Iran have also gradually decreased. However, while Sri Lanka is losing its market share in its larger export markets, it may be gaining in relatively smaller markets. For example, in the case of Turkey, the market share has increased from 58.7 per cent in 2005 to 62.6 per cent in 2009. While seeking new markets, Sri Lanka must also ensure that it is not losing ground in major tea consuming countries.

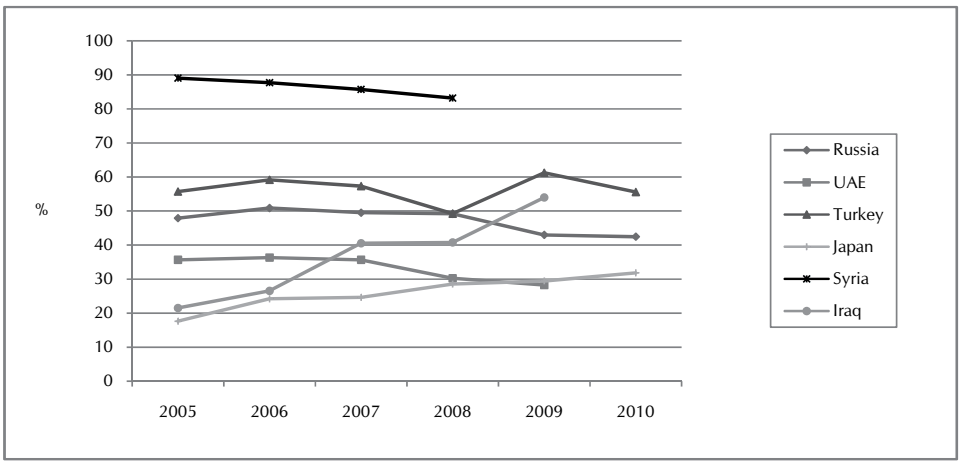
Sri Lanka's tea industry should also take cognizance of emerging trends in consumer preferences. In the EU, for instance, the trend towards convenience and smaller portions has led to an increasing demand for products like instant tea pods, tea-for-one bags, and iced tea. Increasing environmental and social awareness has directed more consumer attention to 'sustainable' tea. Health concerns have also seen the growth of organic products, along with market demand for organic certification.

Additionally, European consumers are calling for more variety and specialties, including a rise in demand for green tea. While Sri Lanka's green tea production has risen in recent years - from 2.2 million kg in 2006 to 3.3 million kg to 2010 - it is still of marginal importance. Herbal tea consumption is also on the rise. Other trends include a growing demand for tea packs containing various flavours, particularly in markets such as the EU.

3.5.3 Remittances

Inward worker remittances continued its position as the prime foreign exchange earner in 2010, recording inflows of US$ 4.1 billion - an increase of 23.6 per cent

Figure 3.7
Sri Lanka's Market Share in Major Tea Markets: 2005-2010



Source: ITC Trade Map data.

compared to the previous year. The number of outbound migrant workers increased by 8 per cent compared to the 1.4 per cent decline of total placements in the previous year. On a global scale, remittance flows to developing countries are estimated to have fully recovered to the pre-crisis level of US$ 325 billion in 2010.[21] In line with a recovering but still fragile global economy, remittance flows to developing countries are expected to increase in 2011-13, but at lower rates compared to the pre-global crisis period.

With the government promoting skilled labour migration, there is a notable growth in the number of migrants in the categories of professionals, middle level, clerical and skilled workers (Table 3.6).[22] Correspondingly, Sri Lanka has seen a decrease in the share of housemaids leaving for foreign employment over time; in turn, this has also had the impact of changing the gender composition of the migrant labour force away from women and towards more male migrants. Typically, females make up only a very small share of the more skilled categories of migrant workers. The change in the skills profile of migrant workers is expected to lead to higher remittance inflows in the coming years.

Middle Eastern countries continue to attract a majority of workers, accounting for 90 per cent of total departures in 2010 and 60 per cent of workers' remittances (Figure 3.8). The Maldives, Cyprus, South Korea, Singapore and Malaysia are the other emerging host countries, particularly for semi-skilled workers.

Despite the current political and social unrest in the Middle East, it is not expected to have a notable impact on remittances as the major destination countries of Sri Lankan workers in the Middle Eastern region remain stable. An escalation of oil prices that raises the living standards of oil producing countries in the Middle East may also help increase remittance inflows via enhanced employment opportunities, especially in skilled and professional labour, as well as the prospect of higher wages. In addition to external factors, Sri Lanka has also taken measures to improve working conditions for its migrant population by entering into collective agreements with employers. The post-conflict development of financial services in the North and East of the country is also expected to yield significant benefits in terms of adding to remittance flows in the coming years.

Table 3.6
Departures for Foreign Employment by Manpower Levels and Sex: 2005 & 2009

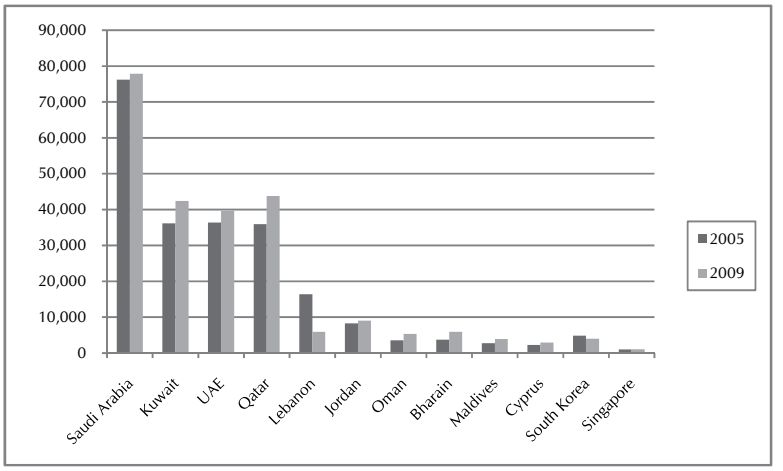
	2005		2009	
	Male	Female	Male	Female
Professional	1,324	97	2,689	133
Middle level	7,150	892	5,407	985
Clerical and related	6,988	754	5,869	837
Skilled labour	39,882	6,806	55,846	5,384
Unskilled labour	38,552	3,352	43,791	6,367
Housemaid		125,493		113,777

Source: SLBFE, *Annual Statistical Report of Foreign Employment 2009*.

[21] World Bank, 2010, *Migration and Remittances Factbook 2011*.

[22] It should be noted that this is likely to be an underestimate. It is mainly unskilled workers and housemaids that register with the SLBFE, while workers migrating independently do not necessarily register themselves.

Figure 3.8
Top Destinations of Labour Migrants from Sri Lanka by Country



Source: SLBFE, *Annual Statistical Report of Foreign Employment 2009*.

Whilst the policy approach to send higher skilled workers is appropriate, Sri Lanka also needs to ensure that domestic labour market conditions are taken into consideration. For instance, it is estimated that Sri Lanka has the highest expatriation rate of doctors and the third highest expatriation rate of nurses to the OECD.[23] This is in spite of recognized skills shortages in the country in certain health care services. Therefore, while recognizing the potential for trained labour to earn higher remittances, it is also important to consider the downside impact on equitable access to services domestically.

3.6 Conclusion

The success or otherwise of achieving Sri Lanka's long term post-conflict development objectives - rapid and equitable growth - will hinge in no small measure on the ability of the country's export sector to contribute to GDP growth, as well as ensure a healthy earnings of foreign exchange for the country. In this respect, the strong recovery in key export earning sectors in 2010 - in merchandise goods, services, tourism, and migrant remittances - is a positive development. However, it is also noteworthy that Sri Lanka's recent export performance overall is of some concern. Rising export earnings in absolute terms has not been commensurately matched by an increase in the country's exports-to-GDP ratio. It suggests that despite higher GDP growth in the interim, growth has not been led by exports which can be problematic for a small open economy that clearly has a very limited domestic market to support a sustained expansion of aggregate demand. Notably, Sri Lanka has also been losing ground in penetrating export markets vis-à-vis its competitor countries, seeing a gradual lowering of its share of global trade in recent years.

The policy challenges to provide a conducive environment to promote an export-push are many. A key area of concern in this regard is ensuring that export competitiveness is not adversely affected by an appreciating real exchange rate. Sri Lanka's nominal

[23] Dumont, J.C. and P. Zurn, 2007, *Immigrant Health Workers in OECD Countries in the Broader Context of Highly Skilled Migration,* International Migration Outlook, Paris.

exchange rate movements in the recent past have been dominated by capital account transactions that have little bearing on aggregate demand for the country's goods and services overseas. Additionally, while the ongoing accelerated infrastructure development in the country will certainly ease some of the constraints - in energy, transport, telecommunications, etc., - more needs to be done to provide a supportive regulatory environment, be it in developing a dynamic SME sector or attracting export and knowledge-enhancing inflows of FDI. Efforts to ensure that investors find the necessary pool of skilled labour, flexible and efficient labour market conditions, transparent governance structures, etc., will prove as critical as a stable policy and political environment to encourage the export sector. Higher earnings from the country's historical channels of foreign exchange and emerging new areas hold the potential to not only support growth, but also to meet the government's efforts to ensure that the benefits of that growth are equitably distributed.

4. Imperatives of Inclusive Growth

4.1 Introduction

Following the ending of Sri Lanka's long drawn separatist conflict in May 2009, the growth prospects for the country in the medium term look promising. However, sustaining growth and ensuring peace will largely depend on reducing disparities and improving opportunities for participation in development. There is general agreement that growth is a necessary condition for poverty reduction. Most countries that have experienced high levels of growth have experienced reductions in the number of people in poverty, at least in absolute terms.[1] But, there is an increasing realization that poverty alleviation depends not only on growth, but also on the distribution of incomes. For example, at Brazil's level of inequality, 1 per cent growth is estimated to reduce poverty by less than 1 per cent, while in India and China - countries with greater equality - 1 per cent growth is estimated to reduce poverty by more than 3 per cent.[2] Expressed in another way, with a 3 per cent growth rate and at the present levels of inequality, Brazil will take 30 years to halve its current levels of poverty, but if the same rate of growth is accompanied by a 5 per cent reduction in inequality, poverty can be halved in only ten years.[3]

> ***"Continued disparities across regions could increase vulnerability of the country to future conflicts … it is essential to understand the causes of inequality and redress them"***

Recent debates on development have focused on the need for 'inclusive growth' to achieve sustained growth outcomes. The inclusiveness approach is concerned with addressing disparities in population groups across a variety of dimensions including, gender, geographic location, sector, ethnicity, etc. According to recent literature, the need for inclusiveness across these different dimensions comes from several sources. First and foremost, inclusiveness is desired from an ethical standpoint. In addition, inclusiveness is needed for sustaining economic growth, as exclusion leads to

[1] Rodrik, D., 2000 , "Growth Versus Poverty Reduction: A Hollow Debate", *Finance and Development*, Vol. 37, No. 4, International Monetary Fund.

[2] Thomas, V., 2007, "The Difference Inclusive Growth Makes", Latin America Emerging Markets Forum 2007.

[3] *Ibid.*

Box 4.1
Differing Views on Growth, Poverty Reduction and Human Development

In a recent lecture to the Indian Parliament on "Reforms Yesterday and Today", Prof. Jagdish Bhagwati argued for further strengthening India's 'conventional reforms' (which he calls Stage 1 reforms) – that include liberalization and diversification of trade, liberalizing retail trade, and labour market reforms.[4] He points out that these reforms have produced the growth that India is experiencing now, which in turn has improved the lives of all segments of society including those of the poor. He argues that policy makers should focus on growth because growth actively helps to reduce poverty, and not only through the trickle-down effect as sometimes argued. According to him, social sector reforms (which he calls Stage 2 reforms) must follow Stage 1 reforms aimed at growth. He refutes arguments made for replacing Stage 1 reforms with Stage 2 reforms, as without revenue generated through growth, it is not possible to undertake social expenditure.

Prof. Amartya Sen also agrees that growth is necessary for poverty alleviation, but does not believe that growth is synonymous with development. According to him, growth is important but only as an instrument for achieving human development, and not as an ultimate goal. He also points out that although growth can provide greater access to economic and social opportunities for many, some may need special assistance to come out of poverty.[5]

underemployment of productive resources that could restrict growth. Exclusion could also lead to social tensions and conflict, which could undermine the growth process. Inclusiveness is, therefore, especially important in a post-conflict setting. Inclusive growth strategies have become increasingly popular among developing Asian economies which have faced rapid growth and rising inequalities in the recent past; indeed, it has been identified as the first key development agenda in the Asian Development Bank's (ADB) 'Strategy 2020'.

The term 'inclusive growth' is sometimes confused with 'pro-poor growth'. But the two terms have related, but different meanings under most definitions. In this discussion, growth that accompanies reductions in absolute levels of poverty is termed 'pro-poor', while growth that is accompanied by a decrease in inequality is termed 'inclusive'. Growth that is pro-poor may not necessarily be inclusive. This is because growth can increase the average income of a population while also increasing inequality. If the growth effect of income is more than the inequality effect, poverty can reduce, making growth pro-poor but not necessarily inclusive. On the other hand, if growth is inclusive (i.e., cuts across all segments of population), poverty will also fall. Hence, inclusive growth is also pro-poor.

4.1.1 Inclusive Growth: A Framework for Analysis

Inclusive growth starts with the assumption that sustained growth over a long period is a necessary condition for rapid and long term poverty reduction. For growth to be sustainable in the long run, 'it should be broad-based across sectors and inclusive of the large

[4] Bhagwati, J., 2011, "Indian Reforms Yesterday and Today", prepared statement on the Prof. Hiren Mukherjee Memorial Annual Parliament Lecture, http://www.cfr.org/india/indian-reforms-yesterday-today/p23607 [accessed June 7th, 2011].

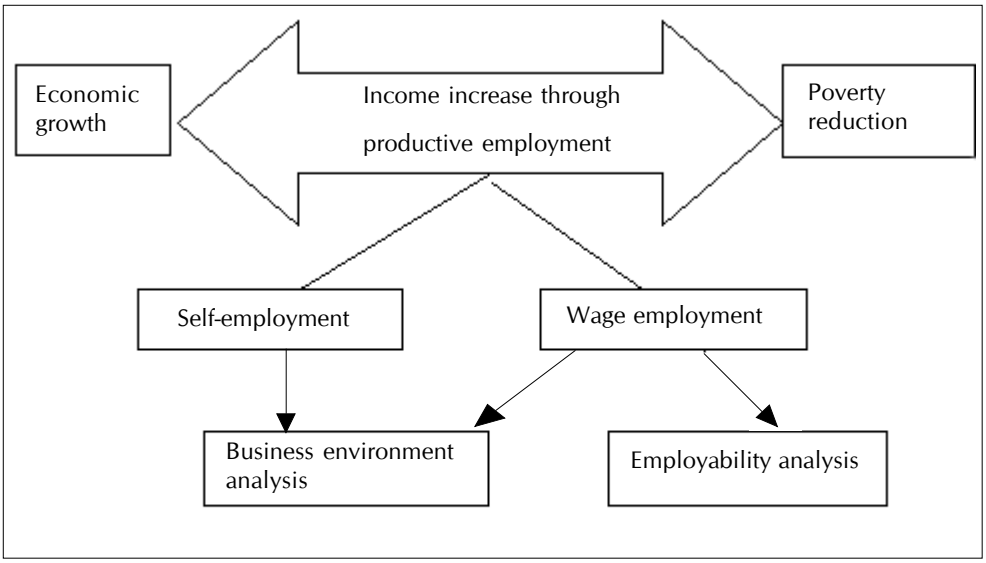
[5] Sen, A., 2011, "Growth and Other Concerns", *The Hindu*, New Delhi, India [February 14, 2011].

part of the country's labour force'.[6] Whilst there are different frameworks for analyzing inclusiveness of growth, many are concerned with improving the utilization of productive resources and identifying constraints to growth.

The Hausmann, Rodrik and Velasco (HRV) framework looks at inclusive growth from the perspective of the individual.[7] It assumes that access to productive employment provides the main means of inclusive growth and poverty reduction. To achieve this, first, there should be employment growth - whether self-employment or wage employment. Second, there should be productivity growth so that wages increase and there are higher returns from self-employment.

According to the described framework, an inclusive growth analytics should start with a background analysis which provides an overview of the country's growth patterns and poverty trends. This should be followed by an examination of the involvement of different economic population groups in the growth process. Lastly, the analytics should evaluate the constraints to inclusive growth. This step involves examining growth potential for different sectors of the economy, the ability of individuals to participate in these sectors in the short term, generating employment and improving productivity. In some instances, when some sectors are lagging, it could also involve re-orienting training and other aspects of human resource development for restructuring the economy.

Figure 4.1
Framework for Inclusive Growth Analysis



Source: Hausemann, Rodrik and Velasco (2005) as shown in Ianchovichina and Lundstrom (2009) "Inclusive Growth Analytics – Framework and Application", Policy Research Working Paper 4851, The World Bank.

[6] Ianchovichina, E. and S. Lundstrom, 2009, "Inclusive Growth Analytics – Framework and Application", Policy Research Working Paper 4851, World Bank, Washington, D.C., pp. 2.

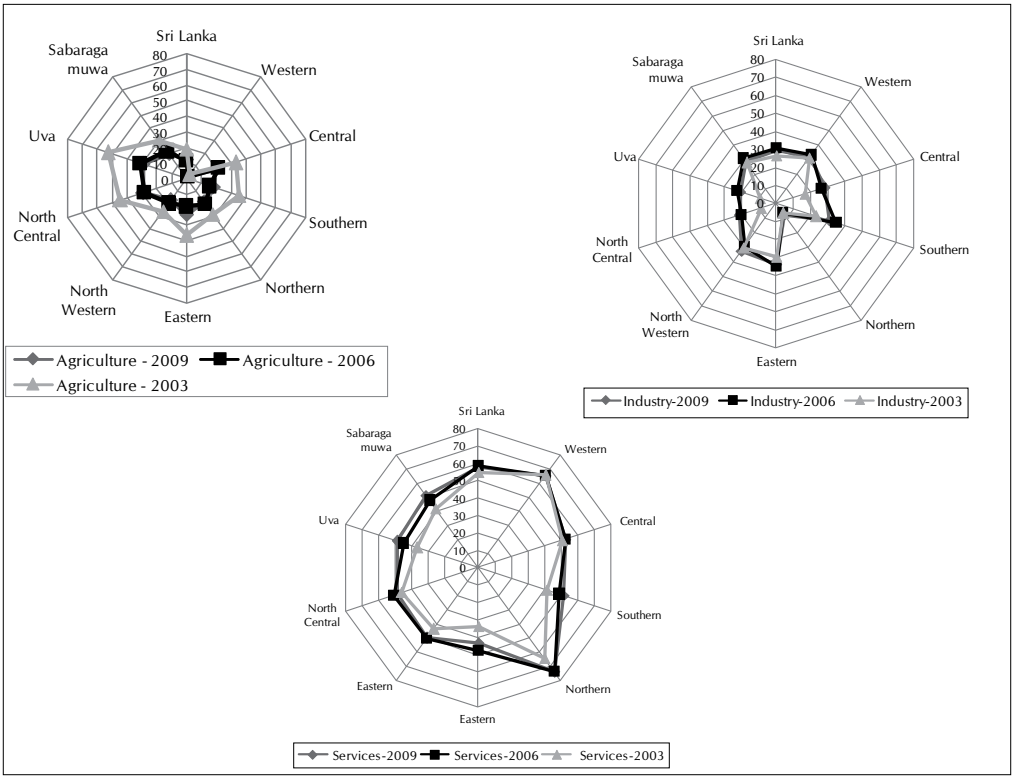
[7] *Ibid.*

Whilst it is beyond the scope of this discussion to conduct a full scale inclusive growth analysis, taking a cue from the policy stance of the government in balancing provincial growth and making use of regional growth trends, this Chapter focuses on the following. Section 4.2 sets the stage by discussing patterns of growth experienced in Sri Lanka across various population groups, and examines whether past experience with growth has been inclusive. Section 4.3 briefly discusses the employability and access to infrastructure. Section 4.4 describes key areas of policy focus essential to foster an inclusive growth strategy. The discussion looks at the importance of raising productivity in the primary sector,[8] given the large numbers of poor who are economically engaged in this sector. The discussion also takes stock of opportunities and strategies for Sri Lanka in a changing world economy, as well as the implications of efforts currently under way to improve connectivity within the country as well as with the outside world. Section 4.5 examines the institutional environment for inclusive growth that can better encourage effective use of underutilized resources and investments. Section 4.6 concludes.

4.2 Patterns of Growth and their Inclusiveness[9]

On average, the Sri Lankan economy maintained a growth rate of 5.9 per cent during

Figure 4.2
Contribution to GDP by Industrial Sector and Province



Source: Compiled using data from CBSL, *Annual Report*, various issues.

[8] The primary sector is defined as consisting of industries – such as agriculture, fisheries, mining and quarrying – that produce goods using natural resources.

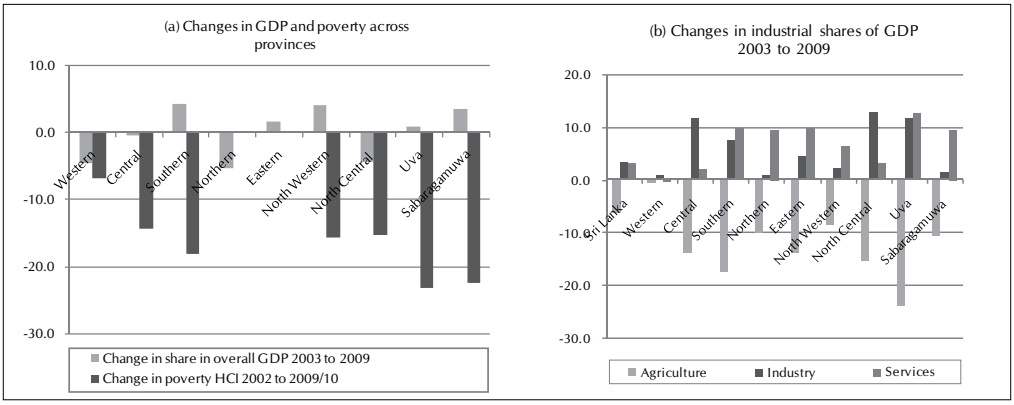
[9] All poverty statistics in this section are officially published statistics by the DCS, available at http://www.statistics.gov.lk/poverty [accessed 30th April, 2011].

2003-09.[10,11] The contribution to overall growth was mixed across provinces. Economic activities remained highly concentrated in the Western Province, which contributed a little over 45 per cent of GDP in 2009, a slightly lower share compared to its 50 per cent contribution in 2003. The provincial shares of GDP also declined in the Central, Northern, and North Central Provinces, indicating lower than average growth in these provinces (Figure 4.2). This decline was sharper in the Northern and North Central Provinces and marginal in the Central Province. The contribution to overall GDP improved in all other provinces, with the Southern, North Western and Sabaragamuwa Provinces showing the largest improvements.

The number of people living under the official poverty line declined from 4.3 million in 2002 to 1.8 million in 2009/10 (a reduction of close to 58 per cent), and per capita GDP at current market prices (US$) increased by more than 141 per cent over the period 2003-10 to reach US$ 2,368, indicating a general improvement in living standards.[12] The proportion of population living below the official poverty line - referred to as the poverty headcount ratio (PHCR) - dropped from 22.7 per cent to 8.9 per cent over the 2002 to 2009/10 period. For provinces for which data is available, this decline was more than the national average, except in the Western Province.

In the overall economy, growth was driven mainly by the industry and services sectors. The agriculture sector also grew at above 4 per cent during 2003-09, although its growth was lower than the overall growth levels in the country. The contribution of the agricultural sector to the overall economy declined by 6.3 percentage points to 12.7 per cent over 2003-09, while the contributions of industry and services sectors increased over the same period by 3.3 and 3.1 percentage points to reach 29.7 per cent and 57.6 per cent, respectively. In all provinces, except the Western Province, the shares of industry and services sectors gained, while the share of agricultural sector declined (Figure 4.3).

Figure 4.3
Changes in GDP, Poverty and Sectoral Shares of GDP across Provinces



Source: Compiled using data from CBSL, *Annual Report*, various issues.

[10] From 2003 to 2010, the average growth rate was 6.2 per cent. As province-wise disaggregated GDP estimates are not available for 2010, the rest of the analysis uses 2009 estimates.

[11] The DCS took over the function of calculating GDP estimates from 2003. As data prior to that use a different methodology for estimating GDP, the Chapter conducts comparisons from 2003 to ensure consistency in the series.

[12] CBSL, *Annual Report*, various issues.

Table 4.1
Labour Productivity by Major Economic Sector

	2002	2003	2004	2005	2006	2007	2008[b]	2009[b]	2010[b,c]
Labour productivity by major economic sector (Rs. '000 per person)[a]									
Total	132.0	132.6	134.0	286.0	294.2	317.0	309.3	322.2	343.3
Agriculture	73.6	74.0	70.8	117.5	112.4	120.7	114.8	119.2	125.3
Industry	168.0	161.2	161.3	305.5	312.3	339.0	335.6	367.1	407.2
Services	161.0	163.7	169.1	392.3	424.6	449.0	446.1	451.8	472.8
Index of labour productivity (2002 = 100)									
Total	100.0	100.8	101.9	217.5	223.7	241.1	235.2	245.0	261.1
Agriculture	100.0	100.5	96.2	159.6	152.7	164.0	156.0	162.0	170.2
Industry	100.0	95.7	95.8	181.4	185.5	201.3	199.3	218.0	241.8
Services	100.0	101.8	105.2	244.0	264.1	279.2	277.4	281.0	294.0

Note: a: Employment data excludes Northern and Eastern Provinces, unless otherwise specified;
b: Employment data excludes Northern Province; c: Provisional.

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

In the Western Province, the shares of both the agriculture and services sectors declined, albeit marginally. However, the patterns of change in sectoral shares were not uniform across provinces. The decline in agriculture share of GDP was more pronounced (more than 15 per cent over 2003-09) in the Southern, North Central and Uva Provinces. In the Southern, Northern, Eastern, Uva and Sabaragamuwa Provinces, the share of the services sector increased markedly (by 10 or more percentage points), while there was a moderate increase in the services sector in the North Western Province. In the Central, North Central and Uva Provinces, the share of the industrial sector increased markedly (by more than 10 percentage points), while it increased moderately in the Southern Province.

These differences in the patterns of growth may have had a role in contributing to poverty reduction. A cursory glance at available statistics implies that the productivity improvements in the services sector, rather than improvements in employment levels, played a key role in alleviating poverty (Table 4.1). Improvements in employment levels in the industrial sector, which also experienced a moderate increase in productivity, may have also helped. Productivity in the total economy was mainly driven by productivity improvements in the services sector.

During 2002-09, total employment in the economy grew at 1.4 per cent on average per annum. This increase in employment is mainly explained by employment generation in the industrial sector, which grew at 3.6 per cent on average over the period. The comparative growth in employment in the agriculture and services sectors (at 0.5 and 0.9 per cent, respectively) was marginal.[13] Across provinces, the contribution of the services sector to total employment remained largely constant, except for an improvement in the Uva Province and a reduction in the North Western and the Sabaragamuwa Provinces (Table 4.2). The contribution of the industrial sector to total employment increased in the Southern, Eastern and the Sabarabamuwa Provinces. The reductions in poverty levels were greatest in the provinces that experienced high growth (more than 5

[13] Calculated based on DCS, *Labour Force Survey*.

Table 4.2
Contribution to Total Employment by Industrial Sector and Province

	Agriculture			Industry			Services		
	2004	2007	2009	2004	2007	2009	2004	2007	2009
Western	8.3	7.9	9.0	34.2	34.5	33.5	57.5	57.6	57.5
Central	45.4	42.4	43.2	16.9	20.8	18.1	37.7	36.8	38.7
Southern	40.0	36.2	36.9	22.9	27.2	26.6	37.1	36.6	36.5
Northern[a]	37.7	n.a	n.a	17.8	n.a	n.a	44.5	n.a	n.a
Eastern	37.5	n.a	34.0	16.8	n.a	18.9	45.7	n.a	47.1
North Western	29.7	31.2	34.4	28.8	29.1	27.9	41.5	39.7	37.7
North Central	54.9	56.9	55.8	14.0	13.0	13.2	31.1	30.1	31.0
Uva	67.7	62.7	62.8	11.3	11.8	10.9	21.0	25.5	26.3
Sabaragamuwa	40.7	38.2	40.1	23.2	27.3	26.5	36.1	34.5	33.4

Note: a: 2004 data excludes Killinochchi and Mullaitivu districts.

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

Table 4.3
HCI by Major Industrial Group of Head of the Household and by Sector: 2006/07

	Sri Lanka	Urban	Rural	Estate
Agriculture	21.6	8.3	20.8	29.4
Industry	15.1	8.3	16.0	29.2
Services	11.3	6.5	12.1	26.4
Total	15.4	7.1	16.0	28.8

Note: Poverty data are not yet available by sector for 2009/10.

Source: DCS, *Poverty in Sri Lanka*.

per cent) in the services sector (see Figure 4.3). The poverty data also indicate that the poverty levels are higher in the agriculture sector, when measured by the sector of employment of the head of the household (see Table 4.3).

The above analysis indicates that generally economic growth has been beneficial across provinces, with less deprived provinces (i.e., those outside the Western Province) showing greater reductions in poverty and improvements in growth, perhaps with the exception of the Central and North Central Provinces. Due to lack of data, the analysis did not fully examine the growth patterns in the N&E, but available data looks promising. They indicate that the contribution to GDP is shifting from agriculture to the services sector in the Northern Province, and to the services and industry sectors in the Eastern Province.

Growth was less inclusive across sectors, where the decline in the proportion of the population below the poverty line was sharper in the rural sector, marginal in the urban sector, and increased in the estate sector. Limited available data on poverty rates for 2009/10 indicate that the poverty levels have come down sharply in the estate sector since 2006/07.

An analysis of the distribution of occupations across provinces from 2002 to 2009 indicate that there has been a marginal increase in the share of white collar occupations nationally and across provinces (not shown), and a larger decline in the shares of

skilled agriculture and fishery workers, as well as in the share of elementary occupations (Table 4.4). There has also been a relatively higher increase in the shares of plant and machine operators and craft and related workers. Without more in-depth analysis, it is not possible to conclude whether growth has benefitted individuals with different skill levels. But, available data suggests a general movement away from elementary and skilled agriculture and fishery workers and a movement towards craft and related workers, and plant and machine operators and assemblers. In addition, in the Southern and North Western Provinces there is a large increase in professionals, sales and service workers.

Examining unemployment rates by education levels indicate that although unemployment levels have declined steadily over the last decade, unemployment rates are still high for more educated workers outside the Western Province. In 2009, the unemployment rate in the country was 5.8 per cent overall, but it was twice that (11.2 per cent) for those who have passed A-Levels. However, the unemployment rate for those with A-Levels in the Western Province (at 5.9 per cent) was closer to the general unemployment rate. In contrast, in all other provinces, the unemployment rate was more than 10 per cent for individuals with A-Level qualifications. These rates were also much higher for females with A-Levels, than for males. An examination of unemployment rates alone cannot determine whether the high unemployment rates are caused by lack of jobs for more skilled workers or by the lack of relevant skills amongst the more educated workers. Available literature indicates that there is a need for both creating better jobs as well as for improving skills.

4.3 Improving Employability

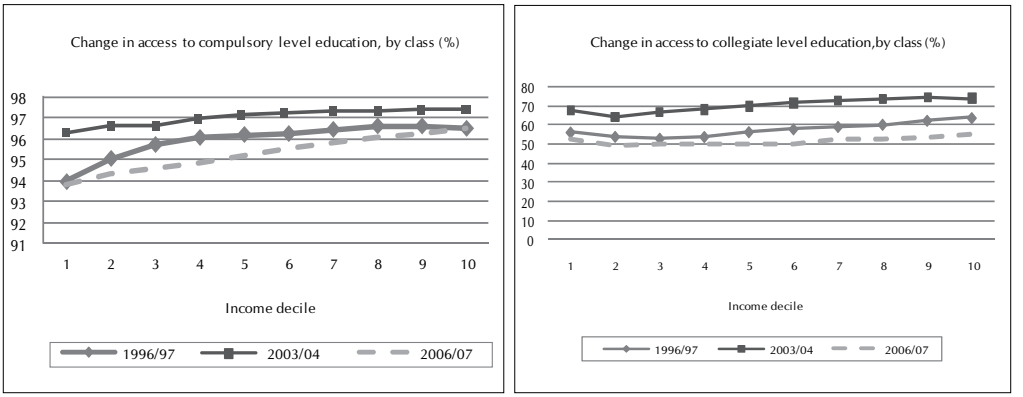
The usual measures of human development have a role in explaining poverty. The PHCR is found to be higher when the head of the household has low levels of education. Further, the more educated have a better chance of making use of opportunities opening in the more productive services sector. To reap better returns from education and to gain better access, other dimensions of human development such as health, housing, access to clean water and sanitation, roads, financial services, etc., are important.

Table 4.4
Percentage Distribution of Employed Population by Occupation, Selected Years

	2009	2002	Annual Average Change (2002-09) Sri Lanka
Senior officials and managers	1.6	1.3	0.3
Professionals	6.0	5.4	0.6
Technical and associate professionals	5.2	4.9	0.3
Clerks	4.1	4.4	-0.3
Proprietors and managers of enterprises	6.7	6.2	0.5
Sale and service workers	8.0	7.8	0.2
Skilled agricultural and fishery workers	22.4	24.2	-1.8
Craft and related workers	15.5	14.3	1.2
Plant and machine operators and assemblers	7.0	5.7	1.3
Elementary occupations	22.6	24.7	-2.1

Source: Compiled using data from DCS, *Labour Force Survey*.

Figure 4.4
Change in Access to Education, by Class (Selected Indicators)

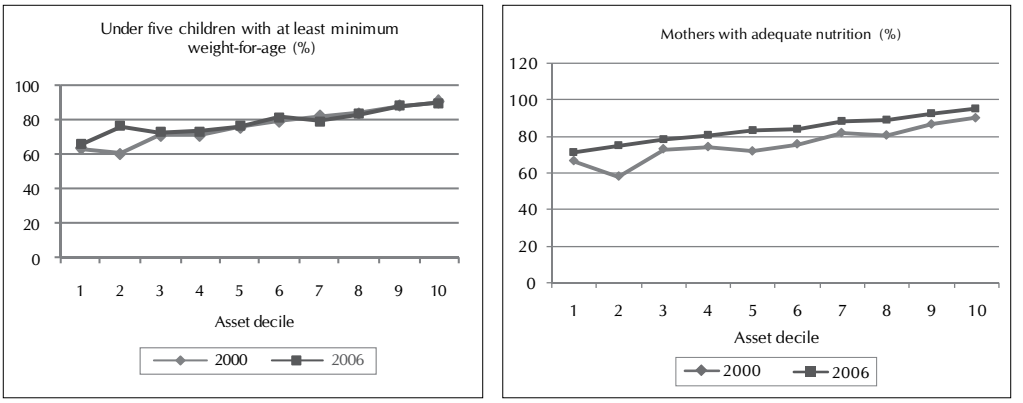


Note: Data for 1996/97 and 2003/04 are from *Consumer Finance Survey* of CBSL. Data for 2006/07 are from *Household Income and Expenditure Survey* of DCS. Given that the data for 2006/07 is from a different source, the data from this year are not comparable to those in the previous two years.

Source: Arunatilake, N., and P. Jayawardena, 2010, "Equitability in Education and Health Services in Sri Lanka", Asian Development Bank, Manila.

Overall, Sri Lanka's indicators of human development have shown progress over time. The percentage of underweight children declined from 29.4 to 26.9 between 2000 and 2006/07, and enrolment in primary school increased (from 95.7 per cent to 97.4 per cent between 1996 and 2006/07).[14] Comparison of some of these improvements over time across different income groups indicates that the improvements are not always inclusive across different dimensions. For example, improvements in access to compulsory education were inclusive, with the poor benefitting more than the rich; but,

Figure 4.5
Change in Access to Health, by Class (Selected Indicators)



Note: Compiled based on data from DCS, *Demographic and Health Survey* (2000 and 2006). Nutritional levels are based on recommendations by the World Health Organization.

Source: Arunatilake, N., and P. Jayawardena, 2010, "Equitability in Education and Health Services in Sri Lanka", Asian Development Bank, Manila.

[14] IPS/UNDP, 2010, *Millennium Development Goals Country Report – 2008/09.*

Table 4.5
Access to Infrastructure by Sector and Province: 2006/07 (%)

	Access to Safe Drinking Water		Access to Electricity for Lighting		Telephone (Mobile or Fixed)	
	Poor	Non-poor	Poor	Non-poor	Poor	Non-poor
Sri Lanka	70.3	86.9	55.1	83.6	9.2	51.9
Sector						
Urban	90.9	98.1	74.1	96.0	16.7	69.6
Rural	72.7	86.9	54.1	82.2	8.9	50.3
Estate	40.9	48.1	53.1	65.5	7.9	20.6
Province						
Western	85.5	95.0	71.2	94.3	12.4	66.5
Central	51.5	74.9	62.6	81.7	9.1	47.6
Southern	74.9	85.6	66.3	86.6	6.1	51.5
Eastern			26.4	72.1	7.9	35.0
North Western	86.3	91.1	46.2	74.1	12.2	48.0
North Central	81.9	87.0	40.2	73	9.6	44.2
Uva	76.7	82.9	46.7	76.2	6.1	36.3
Sabaragamuwa	51.6	71.2	48.8	76.9	8.7	38.9

Source: DCS, *Poverty in Sri Lanka*.

the inclusiveness of improvements to adequate levels of nutrition is not clear (Figures 4.4 and 4.5).

Access to infrastructure plays a key role in improving returns to self-employment activities by reducing transaction costs. Available information on access to infrastructure suggests that there are wide disparities across sectors and provinces. Some examples of these are given in Table 4.5. Making improvements in access to infrastructure will be imperative in opening up opportunities to participate more meaningfully in economic activities across different segments of the population.[15]

4.4 An inclusive Growth Strategy for Sri Lanka

Despite improvements in the services and the industry sectors, about a third of the employed rely on the primary sector for employment. Further, the household heads who are employed in this sector, particularly in agriculture, are more likely to be poor. Given this, it is important to improve the productivity in the primary sector while exploring avenues for expanding and improving the industry and services sectors.

4.4.1 Improving Productivity and Sustainability in the Primary Sector

The proportion of those engaged in agriculture varies widely across provinces, but can be quite large. For example, in the Central, North Central, Uva and Sabaragamuwa Provinces more than 40 per cent of employed are engaged in agricultural activities. It is not possible to vastly increase the employment levels in the more productive industrial and services sectors in the short term. Also, available newer employment opportunities in the services sector require better skilled workers. Given this, in the short to medium term, it is imperative to improve the productivity levels of the primary sector and provide those

[15] See discussion on "Driving Infrastructure Developments for Inclusive Growth" elsewhere in this report.

in this sector means of coping with different vulnerabilities through effective social protection mechanisms.[16]

Opportunities to access productive assets, develop capabilities and resources, including natural resources, are key ingredients in inclusive growth. Among natural resources of the categories of mineral, petroleum, hydropower, and other resources of commercial importance, minerals play a major role in Sri Lanka. The country is endowed with industrial mineral resources, including limestone, graphite, mineral sands, gems, phosphates, clay, etc. However, the share of natural resources in Sri Lanka's exports is very limited compared to other countries in the region. Exports are dominated by garments, tea, rubber, etc. From natural resources, only gems, graphite and mineral sands have any significant share.

On top of the contribution to the economy through exports, there is a range of other non-exportable natural resources which are nationally important and contribute to the economy through activities related to tourism, fisheries, and other livelihood related activities. Hydropower is a major natural resource endowment. The natural ecosystem is another such, but most of them are confined spatially to specific geographic areas. Sri Lanka is considered as one of the world's biodiversity hotspots and has the highest biodiversity per unit area of land among Asian countries in terms of vertebrate groups, except birds. The biodiversity rich ecosystems like the rainforests and coastal habitats are on the top of the list. The coastline which is about 1770 km. long hosts a number of interrelated coastal ecosystems, with habitat of mangroves and coastal reefs.

Centred to the industries related to natural resources, inequities exist across different types of actors. For example, a recent study finds that small scale fishers are poor and extremely vulnerable compared to the large scale/ export oriented fishers.[17] The relatively isolated small scale fisher communities that locate their work places on the beach front are predisposed to natural disasters. Entitlement constraints that such small scale fishers face can also raise their vulnerability. The majority of coastal communities are functionally or absolutely landless. There are inequities depending on asset ownership. For instance, there is evidence to suggest that growth in fish trade was significant for multi-day boat owners and exporters who are anyway better-off.[18] By contrast, non-skilled workers in the supply chain were found not to have benefitted much from trade opportunities. Even amongst workers, the highest family income was earned by a multi-day crew and the lowest was reported by crew members of traditional craft.[19]

If an economy is backed by the presence of natural resources, a major challenge would be to ensure equal distribution of access to the natural resource wealth across different dimensions: whether it is shared fairly by spatially, by income groups, by gender, by ethnic groups, etc.

4.4.2 Improving Connectivity and Making Use of Emerging Opportunities

Improving access to better quality jobs is an essential component of an inclusive growth strategy. As such, while improving productivity of the sectors where the poor are engaged in the short term, there is a need to open avenues for creating better employment

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16 This will be addressed in more detail in the discussion in Chapter 5 on "Social Protection as an Indispensable Instrument".

17 IPS, 2010, "Trade Poverty Nexus in the Sri Lankan Fisheries Sector", a report prepared for the United Nations Industrial Development Organization (UNIDO).

18 *Ibid.*

19 See discussion in Chapter 8 on "Inclusive Growth and the Fishery Sector".

opportunities in all sectors over the long term. In this regard, it is important to improve the physical connectivity of the country both within and with the outside world. The government has initiated several programmes to improve opportunities for creating jobs in the country.

External connectivity - Sri Lanka's historical legacy and post-conflict resurgence: For centuries, Sri Lanka enjoyed a strong position in international commerce owing to its strategic location in the Indian Ocean, at the crossroads of East and West. The country's ports were once a critical link in the ocean 'Silk Route' from China to the Middle East and West. During its time as a colony, particularly under the British, Sri Lanka continued to enjoy strong external economic relations, particularly as a key Asian trading outpost of the British Empire. The Colombo port, the only external access point at that time, was the hub for the country's exports of commodities like tea, rubber, coconut, and spices to the West. However, in the post-colonization era, Sri Lanka was unable to leverage on this 'first-mover' advantage that it gained, and transition into a modern regional and/or international hub. This was due to, among other reasons, the political instability that resulted from the rise of an armed separatist conflict.[20]

Since the end of the conflict, Sri Lanka has been making renewed efforts to become a hub by improving infrastructure of its points of external connectivity. A five-hub concept is envisioned for the country, with two of these hubs being for external connectivity - aviation and maritime. A key component of this policy thrust has been to rapidly develop the existing external connectivity infrastructure in the country, by improving existing access points, as well as building new ones.

External connectivity - improving airports and seaports: Sri Lanka's sole international airport - the Bandaranaike International Airport (BIA) - is being expanded to cater to 12 million passengers per annum by 2016 from the current 6 million, along with a new domestic terminal, elevated access roads and monorail connectivity, and widened runway or a parallel runway to ease congestion as well as to accommodate new generation 'wide-bodied' aircraft. Additionally, several domestic airports are being 'de-militarized' to cater to increased tourism as well as business travel. The Ratmalana airport is to be developed into a 'city airport' by 2011, to cater to both leisure travellers as well as corporate jet traffic. The Koggala airport (which has immense tourism value), the Ampara airport and the Jaffna airport are also slated for development. Sri Lanka is also constructing a new international airport in Mattala, Hambantota, touted as an important complement to the new Hambantota seaport in advancing the region as a new hub for commercial and manufacturing activity.

Sri Lanka is already an embryonic aviation hub for the southern Indian continental region and the Maldives, but has been overtaken by other regional locations like Singapore, Dubai, and recently South India (Hyderabad and Bangalore) in establishing a true aviation hub. Moreover, it is contended that although the country is strategically located for marine transport, it is much less so for aviation as Sri Lanka is well away from established air routes connecting Asia, the Middle East, Far East and the West. New seaports are being developed in five areas, including the largest in Hambantota and the addition to the existing Colombo port by way of the Colombo South Port.

[20] In fact, the only external air connectivity point, the international airport at Katunayake, was a direct target in 2001, that in turn raised the war-risk insurance premiums on both airport and seaport services, impacting on the international competitiveness of the country's exports.

External connectivity - bridging regional disparities: It is clear that the dominance of the Western Province in the country's economic activity is attributable to the monopoly that it enjoys over external connectivity, being host to the country's only international airport and seaport. Enterprises have concentrated their operations around the Colombo metropolitan area, taking advantage of proximity to these international gateways, resulting in the clear emergence of the region as the country's only veritable industrial and commercial agglomeration. Colombo and its surrounding districts in the Western Province account for 70 per cent of industrial value added, and is home to 37,000 industrial production units, employing 540,000 people.[21] It employs over 60 per cent of the country's estimated 350,000 textiles and garment workers.

With the new Hambantota seaport, a new industrial and commercial agglomeration is likely to emerge in the district. With better road connectivity from neighbouring districts into these facilities, poverty-stricken, lagging areas like those in the Uva Province would gain better access to, and be 'included' in, the new economic opportunities generated by this.

The development of the new ports and airports throughout the country not only facilitates greater access for non-Sri Lankans into Sri Lanka, but also directly improves the connectivity of Sri Lankans to the world, particularly to global markets. Better spatially-spread external connectivity points can catapult a producer or service-provider from the confines of his/her town, district or province, to lucrative regional and global value chains. This is particularly true of perishable goods exports. The time between 'catch' to 'table' or 'farm gate' to 'consumer plate' determines the value of perishable cargo. Considering that agriculture and fisheries still form an important part of livelihoods in lagging regions, and the ongoing policy push is towards greater value addition in these, better external connectivity (particularly via air cargo across the country) has the potential to be truly transformational. A co-operative of yellow-fin tuna fishermen from Trincomalee could plug-in directly to a supply chain exporting to Japan, via the Jaffna airport, which has connecting flights to Colombo. A processed food manufacturer in Moneragala would be able to export goods more cost-effectively directly from Hambantota instead of having to bring it all the way to Colombo.[22]

4.5 Improving the Institutional Environment

4.5.1 Institutional Effectiveness and Inclusiveness

The inclusiveness in the future growth strategies for Sri Lanka for a large part will be determined by the legal, political and institutional environment which govern the economic activities in the country. In order to facilitate growth and improve inclusiveness, it is essential to critically examine the existing policy environment to identify sources of exclusion and to improve inclusiveness so as to free resources and improve efficiency in the economy.

Security was a main constraint that held back investments and restricted economic activities, not only in the N&E of the country, but also in other parts. It is clear that the security situation in the country at present is very different from that which existed during the conflict. Businesses are now thriving in towns where fighting and bombing once prevented commerce from flourishing. Fishing activity

[21] World Bank, 2009, *Sri Lanka: Reshaping Economic Geography*, World Bank, Washington, D.C.

[22] Recently, a local joint-venture firm has begun advertising a small 'Cessna' cargo aircraft which could operate flights with fish catch from Dondra, Point Pedro, or Batticaloa to BIA, and remarks that this would transform the prosperity of fishermen by enabling better access to markets and getting them higher prices for their catch.

has increased in the Northern Province following the lifting of restrictions imposed during the conflict years. Agricultural output in the N&E of the country has grown following the restoration of peace in regions severely affected by fighting. The return of security in many areas across the country has helped thousands return to a normal life and facilitate investments.

However, existing constraints in the system are holding back progress on several fronts. For example, despite good access, adequate credit is still not available easily across the country (Box 4.2). The legal environment with regard to gender equality is another area which needs to be examined. There still exist clear disparities in national legislation on gender. These disparities in part may have also influenced the low participation of females in the labour force. The labour force participation of prime age (25 years or older) females at just below 40 per cent is half that of prime age males. A recent UNDP report highlighted these differences.[23] Notable examples include the absence of laws entitling maternal leave for women in a comprehensive range of industries (particularly for those in the informal sector), a lack of equal rights for women when administering property. Although Sri Lanka has fared well in gender equality compared to other comparative countries, there is still room for improvement.

The observed disparities and inefficiencies in institutions stem from a variety of factors, including archaic and obsolete laws, lack of awareness among policy makers on the need to improve inclusiveness and issues in introducing changes. To improve inclusiveness, more attention needs to be paid to identify the specific causes of disparities and inefficiencies and to recommend remedies.

Box 4.2
Improving Access to Credit

Easy and affordable access to credit is important for developing livelihoods. The following discussion looks at inclusiveness in the financial infrastructure in the country.

Expanding financial infrastructure - post-conflict 'bank branch boom': Following the end of the conflict, and the overall take-off in the Sri Lankan economy since then, nearly all of the country's commercial banks have rapidly expanded their operations. In just the second half of 2009, 49 new bank branches opened island-wide, and in 2010, a total of 121 new bank branches and related service centres opened up in the N&E alone, according to the CBSL. While in newly liberated areas in the N&E much of the initial activity was dominated by deposit-taking and pawn-broking, the overall picture is one of faster credit growth than deposit growth.

Discussions with regional entrepreneurs, particularly in the North, North-Central, Eastern, and Uva Provinces note that bank branches in their regions appear to be extremely risk averse, often despite borrowers being able to provide the requisite collateral. Many entrepreneurs noted that even when loans are approved, they are often as low as Rs. 100,000 - grossly insufficient for local businesses wishing to expand or undertake new ventures; even, for instance, a small-scale rice farmer looking to invest in agro-machinery like combine harvesters and mechanized threshing equipment.

Expanding access to finance - improving financial literacy: Aside from supply-side issues, there are demand-side issues as well, particularly stemming from weak financial literacy of small business owners. It is observed that they are often unable to wade through the complicated formulas and calculations for loan products, find it difficult to understand

[23] Cheema, Hasna, 2010, *Benchmarking National Legislation for Gender Equality: Findings from Five Asian Countries*, UNDP Human Development Report Unit, UNDP.

Table 4.2 contd.../

the nuanced 'small print', and are not sufficiently 'bank-savvy' in order to get a good deal. Many record their frustration at the 'lack of transparency' of the banks' lending practices, insisting that more awareness needs to be created, and rules need to be simplified.

The financial literacy issue extends also to the limited capacity of business owners to produce book-keeping records and accounting requirements of a standard acceptable to managers of local bank branches. Additionally, many businesses looking to venture into new projects or expand existing ones find it challenging to produce business plans to convince bank managers of their borrowing needs. Solving this problem can be addressed in several ways: 1) improving the capacity of local business owners to produce credible and attractive business plans; 2) expanding the provision of business development services (BDS) to assist local entrepreneurs in this exercise; and 3) educating local branch managers on evaluating SME business plans in conflict-affected areas with a different mindset to regular loan applications.

Microfinance in financial inclusion: Despite the extensive financial infrastructure, a vast section of society still remains financially excluded and continue to remain outside the formal system. This limits their access to savings, credit and insurance. Microfinance has the capacity to further the agenda of financial inclusion as it seeks to reach out to the financially excluded category of the population.

The poor should be able to take advantage of the opportunities presented by higher growth in the economy. Microfinance can be a critical step towards that. The basic concept of microfinance is to provide financial services for the poor who are left behind by the formal banking systems. Fundamentally, microfinance products and services are designed with flexible features to meet the financial needs of the poor. Flexible credit is essential in initiating, rebuilding or expanding businesses, while deposits are often important for the poor to cope with shocks. Particularly its role in social and political development within conflict affected environments is indispensable. The asset base of most conflict-affected households has been partially or fully destroyed. Many such households will not qualify for credit under standard conditions. Flexible credit can provide the necessary capital to kick-start economic activities.

Access to microfinance services in Sri Lanka is quite high. Provision of microfinance in the N&E of Sri Lanka is a challenging task for the microfinance institutions (MFIs). The infrastructure and human resource limitations in the N&E are high. Sending resources from other regions increases operational costs. Many conflict affected households are restarting their livelihoods, rebuilding their asset bases and building social networks. In such a setting, obtaining collateral or pay back guarantees are difficult - increasing the risks of credit.

Lesser formalities to access microfinance and the non-requirement of collateral favour the poor. The poor would compensate the cost aspect of borrowing with the convenience of borrowing, which they would not have enjoyed with formal banking systems. However, loan amounts are still perceived to be too small, while product characteristics are considered to be more supply driven and therefore limited. MFIs are quite sluggish in providing for non-productive credit needs such as emergencies, life-cycle services, etc. In addition to credit and savings, MFIs have to build on improving non-financial services to the poor such as vocational training, marketing assistance and other business development services to achieve sustained poverty reduction. MFIs should facilitate graduation of entrepreneurial businesses, by linking them with different kinds of service providers. At the same time, strengthening the microfinance regulatory environment will enable the MFIs to mobilize savings, which matters in institutional sustainability and sustainable service provision.

4.6 Conclusion

There is general agreement among policy makers across Asia about the need for inclusive growth, to improve the rate of poverty alleviation and to sustain growth over the long term. The growth dynamics of the Sri Lankan economy since 2003 indicate that growth has generally been inclusive across provinces, with the exception of perhaps the Central, Northern and North Central Provinces. Economic activities have moved away from the Western Province to the regions, and the shares of services and industrial sectors have increased relative to the agriculture sector across provinces, outside the Western Province. There has also been a marginal improvement in the share of more skilled occupation categories across provinces, and a reduction in elementary and skilled agriculture and fishery related occupations. However, unemployment rates amongst the more educated individuals remain high in the country, and these rates are higher for those outside the Western Province, especially females. These developments indicate that although there is progress in the right direction, the change needs to accelerate and employment generation in better skilled occupation categories needs to increase.

Education and health indicators for the country have generally improved over time. But, the improvements have not always been inclusive. The disparities in access to clean water, sanitation and other infrastructure are still large. To improve living conditions to all and give them a better chance at engaging in the economic process more effectively and efficiently, it is necessary to improve access to services across the country.

Despite recent developments in the industry and services sectors, a large proportion of the poor are dependent on the primary sector for their livelihoods. Given this, along with developing new growth areas, it is important to improve the productivity of the primary sector and provide those engaged in this sector with the necessary safeguards to enable them to be independent and to improve the sustainability of their livelihoods. The present policy stance focuses on improving the connectivity of regions across the country, and the connectivity of the country to the rest of the world. The developments are taking place across provinces, and as such, they are likely to benefit individuals across the country as well. However, the exact impacts of these developments on individuals from different socio-economic backgrounds are difficult to estimate at present. It is important to examine the inclusive nature of these developments to ensure sustained growth and more effective poverty alleviation.

Sri Lanka has emerged from a thirty year long separatist conflict which has improved the security situation and boosted the investment climate of the country. However, evidence shows that the engagement of different institutions can be made more inclusive to free unutilized and underutilized resources to maximize growth, while reducing disparities. Countries that emerge from violent conflicts remain vulnerable to recurrence of violence, unless underlying causes of violence are examined and eliminated. There is general agreement that continued disparities across regions could increase vulnerability of the country to future conflicts. Given this, it is essential to understand the causes of inequality and redress them. The analysis in this discussion shows that patterns of growth are becoming more balanced across provinces, but more needs to be done to improve inclusion of different types of actors in the Sri Lankan economy.

5. Social Protection as an Indispensable Instrument

5.1 Introduction

Equitable access to productive employment opportunities - ensuring a broader participation of society - is a key cornerstone of an inclusive approach to growth and development. In Sri Lanka, as in many comparative developing countries, predominant trends in occupation groups - on spatial distribution, types of vulnerabilities, etc. -are to be observed. These could be the result of location, resource endowments, socio-cultural dynamics, political importance, etc. They are directly linked to the availability of economic opportunities as well.

The poor are often unable to participate fully in the growth process, because of multiple depravations and adverse shocks which prevent them from investing in human and physical capital. Low investments result in low returns and continued poverty. In Sri Lanka, for instance, the poor are to be found in certain occupational groups such as agriculture and fishery, and the distribution of such households suggest disparities in access to economic opportunities across the country. Different types of workers are also prone to different vulnerabilities. Certain vulnerabilities such as old age are common across groups, while others such as natural disasters are occupation specific.

> ***"Social protection policies going beyond the provision aspect to envelop production and distribution with a springboard effect for socio-economically vulnerable groups, promote inclusive growth"***

In this context, the role of social protection in providing a trajectory out of poverty is critical. Over time, broader definitions of social protection have gone beyond merely provision aspects in the event of a shock (a residual or compensatory response) to encompassing a transformative role with a 'springboard' effect. Thus, even as Sri Lanka makes significant strides in reducing overall poverty rates and bridging sectoral gaps, different types of vulnerabilities amongst different occupational groups have continued to limit equitable access to growing economic opportunities across the country. This Chapter tries to identify poor socio-economic groups, their

vulnerabilities and regional spreads as a means of highlighting groups/regions that need particular attention in social protection - in both provision and promotive aspects of social protection for inclusive growth.

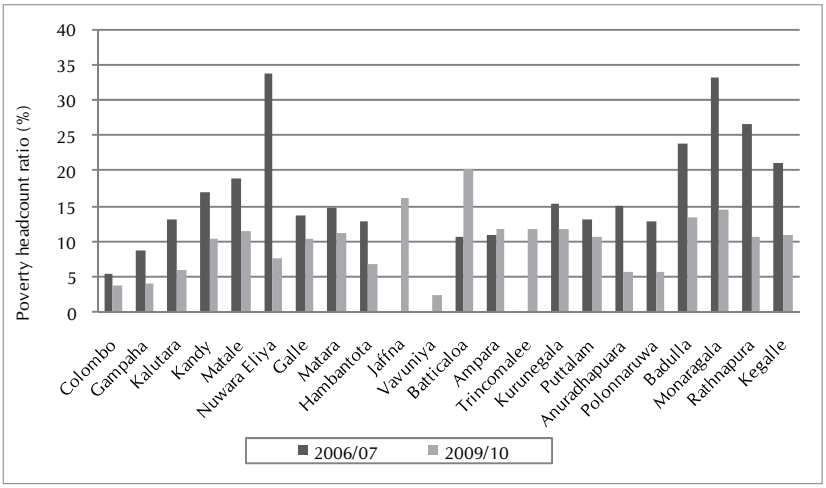
5.2 Poverty and Inequality in Sri Lanka

The national poverty headcount - the percentage of the population below the poverty line - computed by the DCS declined from 15.2 per cent in 2006/07 to 8.9 per cent in 2009/10.[1] During the three year period, the PHCR decreased by 41 per cent, the highest drop ever witnessed in Sri Lankan history. Sectoral data is also indicating a drastic decline in poverty - especially, a decline in poverty in the rural sector similar to the drop in poverty at the national level (nearly 40 per cent decline from 15.7 in 2006/07 to 9.4 in 2009/10) as this sector is the main contributor to poverty. In the urban sector, the PHCR shows a 21 per cent decline (from 6.7 per cent in 2006/07 to 5.3 per cent in 2009/10) while in the estate sector, poverty is estimated to have declined by nearly two-thirds (from 32 per cent in 2006/07 to 11.4 per cent in 2009/10) during this period.

However, intra-province variations in poverty levels are still found to be large in 2009/10. In the two poorest provinces, Eastern and Uva, the incidence of poverty is 14.8 per cent and 13.7 per cent, respectively. However, poverty levels in these poorest provinces in 2009/10 are significantly low, compared to poverty levels of the poorest provinces in 2006/07 (the two poorest provinces in 2006/07 were Uva and Sabaragamuwa where poverty levels were 27 per cent and 24 per cent, respectively).

There are also substantial variations in poverty between districts. Poverty levels range from 20.3 per cent in Batticaloa to a mere 3.6 per cent in the Colombo district (Figure 5.1). Ampara and Batticaloa are the only districts to have witnessed an increase in poverty during the last three year period.[2] The Nuwara Eliya district shows a drastic reduction in poverty levels (from 33.8 per

Figure 5.1
Poverty Headcount Ratio by Districts (2006/07 and 2009/10)



Source: DCS, HIES (2006/07 and 2009/10).

[1] It should be noted that the HIES conducted by the DCS did not cover Mannar, Mullaitivu and Kilinochchi districts in the Northern Province.

[2] HIES 2006/07 survey has not been conducted in the Trincomalee and other districts in the Northern Province.

cent in 2006/07 to just 7.6 per cent in 2009/10). With more than 50 per cent of the population in the Nuwara Eliya district to be found in the estate sector, it is conceivable that the remarkable outcome is partly related to a 40 per cent wage increase to estate workers in September 2009. Monaragala, and Ratnapura districts which were the poorest districts in 2006/07 next to Nuwara Eliya, are also showing more than a 50 per cent reduction in poverty during this short period of 3 years. However, the Monaragala district is still the second poorest district (with headcount ratio of 14.5 per cent), next to Batticaloa district. Although the Badulla district also shows a reduction in poverty of 44 per cent, it is still fourth amongst the poorest districts of Sri Lanka.

It is interesting to note that income inequality measured by the Gini co-efficient as well as by quintile ratio has declined during the three year survey period. The Gini co-efficient shows a reduction from 0.40 to 0.36 for Sri Lanka, while the highest drop is recorded in the North Central Province (from 0.40 in 2006/07 to 0.33 in 2009/10). The lowest income inequality is shown in the Northern Province while the highest income inequality (0.38) is observed in the Western Province.

Table 5.1
Types of Social Protection Measures

Provision Measures	Preventive Measures	Promotive Measures	Transformative Measures
Provide relief from deprivation, secure basic consumption. Social assistance such as targeted resource transfers-food/cash transfers, disability benefits , single-parent grants, publicly financed social pensions. Social services for those who need special care – orphanages, fee waivers/abolition of education and health charges to extend access to basic services to the very poor.	Poverty alleviation programmes, and programmes that reduce fluctuations in consumption and avert asset reduction. Social insurance designed for 'economically vulnerable groups' – people who are poor or might fall into poverty, and may need support to help them manage their livelihood shocks. E.g.: pension schemes, insurance, maternity benefits, unemployment benefits, savings, strategies of risk diversification – such as crop or income diversification, disaster prevention practices, etc.	Enhance incomes and capabilities. Livelihood improvement and livelihood protection programmes targeted at households and individuals. E.g.: microfinance, public works programmes , education, health and nutrition.	Address concerns of economic, political, social justice. E.g.: exclusion, exploitation of workers, discrimination against different dimensions like gender, ethnicity, religion. Examples of interventions include collective action, changes to the regulatory framework to protect 'socially vulnerable groups' (anti discrimination legislation), people with disabilities, victims of domestic violence, secure rights/entitlements, advocacy to enhance social equity, strengthening ability of citizens to claim rights.

Source: Adapted from Ruel, M., 2008, "Social Protection for Inclusive Growth", a presentation available at International Food Policy Research Institute (IFPRI), available at http://www.slideshare.net/ifpri; and Sabates-Wheeler, R. and S. Devereux, 2007, "Social Protection for Transformation", *IDS Bulletin*, Vol. 38, No. 3, Institute of Development Studies (IDS), Sussex.

5.3 Social Protection Layout

The many definitions of social protection have broadened to include policies that would provide a trajectory out of poverty, rather than being confined only to provision aspects in the event of a shock. The ADB defines social protection as a set of policies and programmes designed to reduce chronic poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruptions in employment or loss of income.[3] The World Bank (WB) definition of social protection is even broader, and considers social protection not only as a safety net for all, but as a spring-board for the poor.[4] The suggestion, therefore, is that social protection should treat not only the symptoms of poverty, but also its causes. In other words, to treat social protection as an investment in human capital formation - focused on avoiding social exclusion - rather than as a cost.

In yet another definition, the role of social protection policies in providing opportunities - centred on social risk management - is identified as public interventions to: (i) assist individuals, households, and communities better manage risk, and (ii) provide support to the critically poor.[5] This broader definition includes labour market interventions, social insurance programmes, social safety nets, public provision of risk management instruments, and public actions to improve market based and non-market based (informal) instruments of risk management.

The extent to which social protection policies go beyond the 'provision' aspect to address issues related to production and distribution - to preventive, promotional and transformational roles - provides a link with inclusive growth. Table 5.1 identifies the type of social protection programmes falling under each type of measure.

Conventional social protection measures fall into the provision measures. The narrowly targeted safety nets, social assistance and social services also can be recognized as provision measures. The preventive, promotional and transformative measures are more proactive measures. Preventive measures are aimed at preventing deprivations. Poverty alleviation initiatives and social insurance programmes which are meant for economically vulnerable groups can be identified under this.

The inclusion of promotional and transformative aspects is subject to criticism that it makes the concept of social protection too distant from its original conception. However, these two aspects have been incorporated in most of the working definitions used by funding agencies, including the ADB and the WB. Promotional social protection measures are designed to improve incomes and capabilities. Among development programmes, livelihood improvement and livelihood protection programmes which target income stabilization come under this. Transformative measures address concerns of economic, political and social justice. Policies falling under the latter three measures are 'spring-boards' and serve as a trajectory out of poverty.

However, these measures are not mutually exclusive. Preventive measures could have promotive effects too. For example, a person might diversify income earnings as a means of being prepared for a disaster, which

[3] Ortiz, I., (ed.), 2001, *Social Protection in Asia and the Pacific*, ADB, Manila.

[4] Holzmann, R. and S. Jorgensen, 2000, "Social Risk Management: A New Conceptual Framework for Social Protection and Beyond", Social Protection Discussion Paper No. 0006, World Bank, Washington, D.C.

[5] *Ibid.*

Table 5.2
Causes of Risks

Social	Domestic disturbance including domestic violence, functions, social commitments, commitments to extended families, crime, terrorism, civil strife, etc.
Economic	Unemployment, loss of employment, livelihood shocks, loss of crops, business failures, financial crises, etc.
Political	Discriminatory laws, discriminatory policies, riots, political default of programmes.
Health related	Illnesses, injuries, disabilities, epidemics, etc.
Life cycle related	Birth, marriage, death.
Natural/environmental	Natural disasters like floods, rain, landslides, earthquakes, tsunami, droughts, environmental pollution, deforestation, etc.

Source: Adapted from Jimenez, E., 2008, "Social Protection and the Welfare of Children and Youth at the World Bank", a presentation available at www.unicef.org from http://www.anekadownload.com/download/dl/child-welfare-program-in-bangladesh-.ppt.

has a promotive effect. At the same time, the person might not have taken advantage of those opportunities otherwise. The diversification of income thus improves income earning capacity and the overall well-being of the individual concerned. Further, in designing social protection policy, the different forms in which risks arise - and which makes households vulnerable - have to be recognized. They can be idiosyncratic or covariate risks. Table 5.2 identifies the major causes of risks and examples for each.

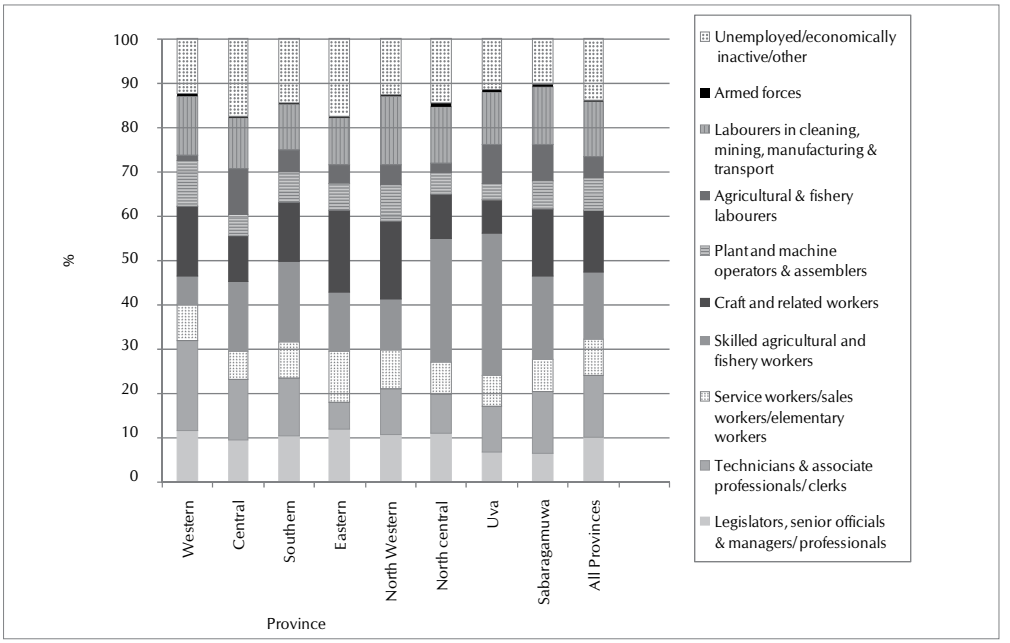
Measures identified in social protection policy designing are related to vulnerabilities arising at different stages of the life cycle. Table 5.3 identifies a few types of social protection interventions by life cycle stage. It suggests the need for comprehensive approaches towards social protection that ties up the intervention stages, life cycle and different forms of vulnerabilities. This highlights the importance of broad based social policies. When policies are narrowly targeted, they are highly unlikely to bring in the development linkage. Moreover, when interventions are narrowly designed to address specific risks, they tend to neglect the underlying nature of vulnerability that exposed the households to such risks.

Table 5.3
Examples of Social Protection Interventions by Life Cycle Stage

Life Cycle Stage	**Examples of Social Protection Interventions**
Elderly	Pensions/food and cash transfer
Adults	Public works/income generation/employment related/food and cash transfer
Youth	Public works/income generation/vocational training/skill development/ education
Maternal stage	Health/nutrition
Prenatal/ infants	Health/nutrition/food and cash transfer
Pre-school	Early childhood care and development (ECCD)/food and cash transfer
School age	Education/cash, food, vouchers, fee waivers, transport

Source: Ruel, M., 2008, "Social Protection for Inclusive Growth", a presentation available at International Food Policy Research Institute (IFPRI), available at http://www.slideshare.net/ifpri.

Figure 5.2
Percentage of Households by Socio-Economic Group in Each Province



Source: Calculated using data from DCS, HIES 2006/07.

5.4 Social Protection in Inclusive Growth in Sri Lanka: Who Needs the 'Push'?

There are predominant trends observed in different socio-economic groups, such as trends on spatial distribution, types of vulnerabilities, etc. These could be the result of natural location, resource endowments, socio-cultural dynamisms and political importance. They are directly linked to the availability of economic opportunities as well. Households headed by skilled agricultural and fishery workers are found to be the predominant socio-economic group in all provinces of Sri Lanka, with the exception of the Western Province (Figure 5.2).[6] This group accounts for around 30 per cent of households in the North Central and Uva Provinces, followed by Sabaragamuwa (18.6 per cent) and Southern (18.2 per cent) Provinces.[7] It hints at disparities in access to economic opportunities across regions in Sri Lanka.

The other dominant socio-economic groups are households headed by craft related workers and labourers in all the sectors. In most deprived provinces, such as Uva, Sabaragamuwa as well as Central and North Western Provinces, more than 20 per cent of the households are headed by labourers in different fields (agriculture, mining, manufacturing, transport and cleaning). It is also evident that there is a high percentage of households headed by economically inactive people in all provinces. Whilst all provinces have a relatively higher percentage of households headed by technicians and in associated professions, the distribution is skewed towards the Western Province.

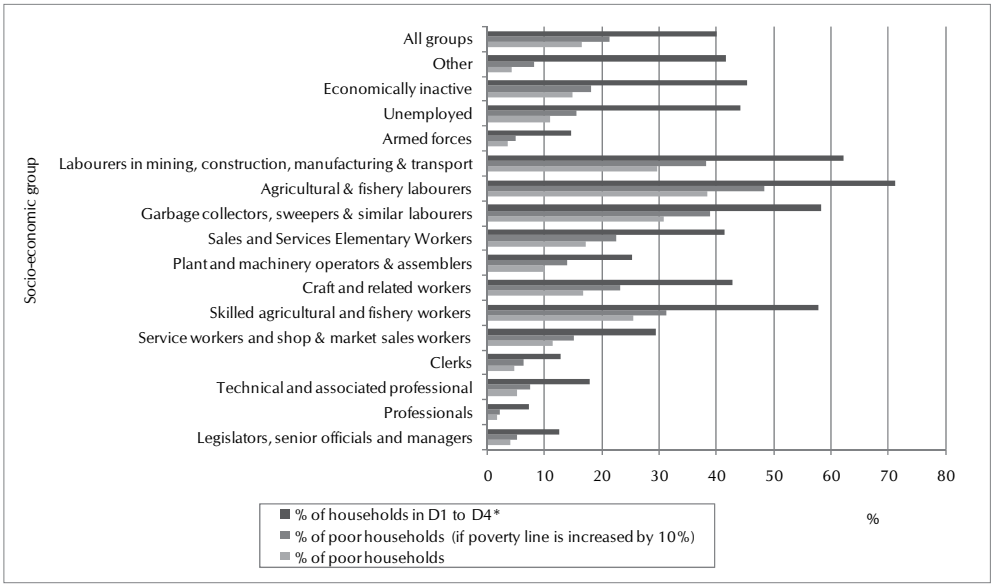
[6] The socio-economic group here is based on the occupation of the head of the household.

[7] Occupational groups and their percentages may have changed from 2006/07 to 2009/10.

When occupations of the heads of households are minor or unskilled in nature, or if they are of a less productive sector, the income generated often does not provide an adequate means for living. For instance, nearly 40 per cent of households headed by agricultural and fishery labourers are found to be poor (Figure 5.3). More than 70 per cent of households in this group are within the first four household expenditure deciles. It is also noteworthy that as much as one-fourth of households headed by even skilled agricultural and fishery workers are among the poor - with nearly 60 per cent households in this group found to be within the first four deciles. Households headed by labourers of all types, which include labourers in mining, construction, manufacturing, transport, cleaning, etc., are among the poorest socio-economic groups. They occupy the highest percentage of poor households, highest percentage of households lying in the lowest four household expenditure deciles, and have lowest per capita household expenditures (Figure 5.3). The importance of prioritizing social protection policies towards such groups who are disadvantaged compared to the others is, therefore, critical.

Agriculture and fisheries are the main sources of livelihood in the N&E of Sri Lanka,[8] with 24.8 per cent of households in agriculture. Apart from agriculture and fisheries sectors, unskilled daily labour is a prominent source of primary employment for 20.9 per cent of surveyed households. However, 5 per cent of households are estimated not to have any income earner and a further 63.4 per cent of households with only one income earner. This indicates high vulnerability to risks and difficulties such households can face in post-conflict recovery efforts. Although livelihood constraints are found to have eased with the end of the conflict, increased competition and resource limitations have led many to abandon their traditional occupations for

Figure 5.3
Percentage of Poor Households by Socio-Economic Groups



Note: D1 to D4 consists of first four household expenditure deciles.
Source: Calculated using data from DCS, HIES 2006/07.

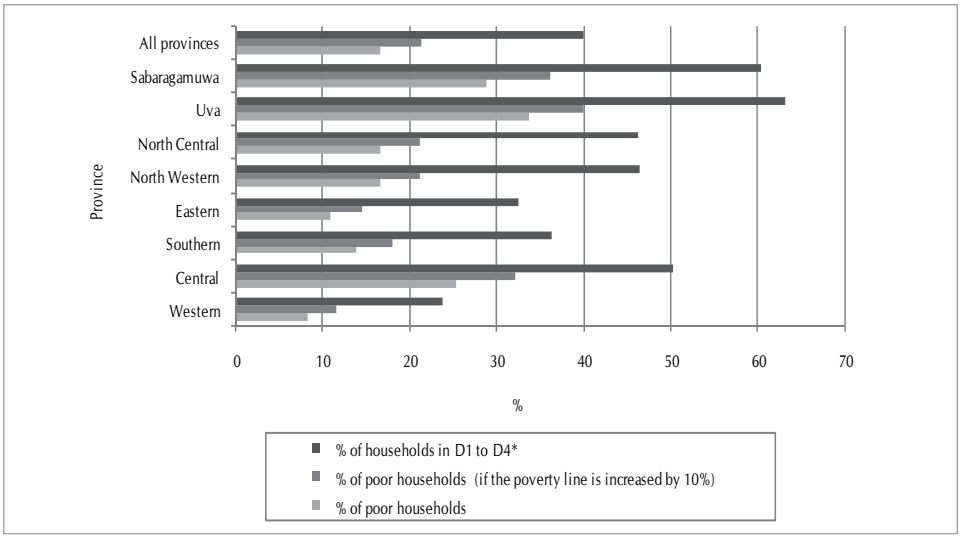
[8] UNDP, 2011, 'Socio- Economic Baseline Analysis: For Eleven Conflict-affected Districts in Sri Lanka'.

daily wage labour.[9] Gender disparities with regard to engagement in income generation/ livelihood activities are also found to remain high in the N&E, with only 38.6 per cent of females engaged in employment compared to 90.2 per cent of men. A relatively high number of widowed women are reported in most districts in the N&E, pointing towards the realities surrounding gender dimensions of socio-economic vulnerabilities.

Not only are many households poor in certain occupational categories, but the non-poor may also be highly vulnerable to fall into poverty. For example, if the poverty line is increased by 10 per cent, a substantial proportion of households fall into poverty, indicating that they are very close to the poverty line (Figure 5.3). All types of households with the head of household as a labourer appear to be sensitive: for the households headed by agriculture and fishery labourers, the percentage of poor household increases by almost 10 percentage points (from 38.5 to 48.3 per cent); for other labourer categories, the percentage increases by more than 8 percentage points. This clearly indicates that they are vulnerable to economic shocks and therefore, could slip back to poverty easily. The other socio-economic groups which are at a higher risk of slipping back to poverty are those headed by skilled agricultural and fishery workers, craft and related workers, and sales and service elementary workers.

In terms of geographic disparities, Uva, Sabaragamuwa and Central Provinces remain the lagging regions in the country.[10] Among them, Uva and Sabaragamuwa are the poorest with more than 60 per cent of the households in the first four household expenditure deciles (Figure 5.4). If the poverty line is increased by 10 per cent,[11] nearly 7 per

Figure 5.4
Poor Households and Households in First Four Household Expenditure Deciles by Province



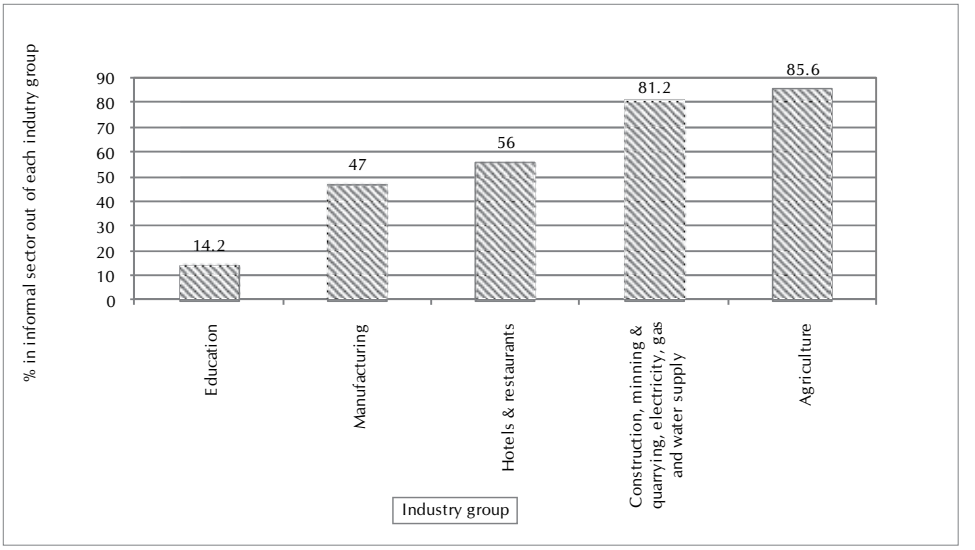
Note: D1 to D4 consists of first four household expenditure deciles.
Source: Calculated using data from DCS, HIES 2006/07.

[9] *Ibid.*
[10] As per 2009/10 HIES data, Eastern, Uva and Northern Provinces are the poorest.
[11] Estimated by using district official poverty lines.

cent of the non-poor households in Uva, Sabaragamuwa and Central Provinces could slip into poverty, indicating that there are significant numbers of households just above the poverty line. The average per capita household expenditure is also relatively low in these three provinces. Vulnerable occupational groups in these regions need special attention on social protection, and specifically on promotive and transformative social protection measures.

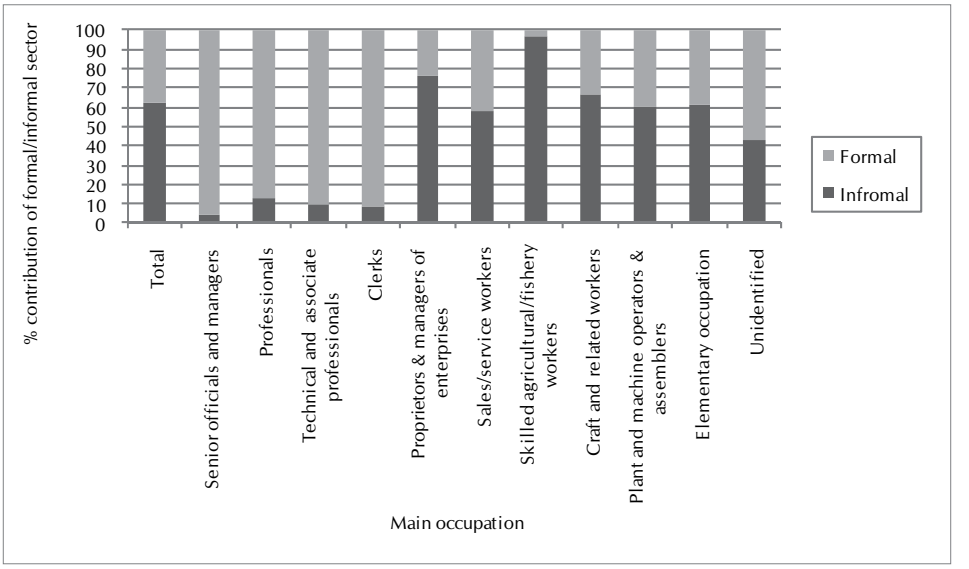
Employment activities in the informal sector have been expanding over the years in Sri

Figure 5.5
Informal Sector Employment by Major Industry



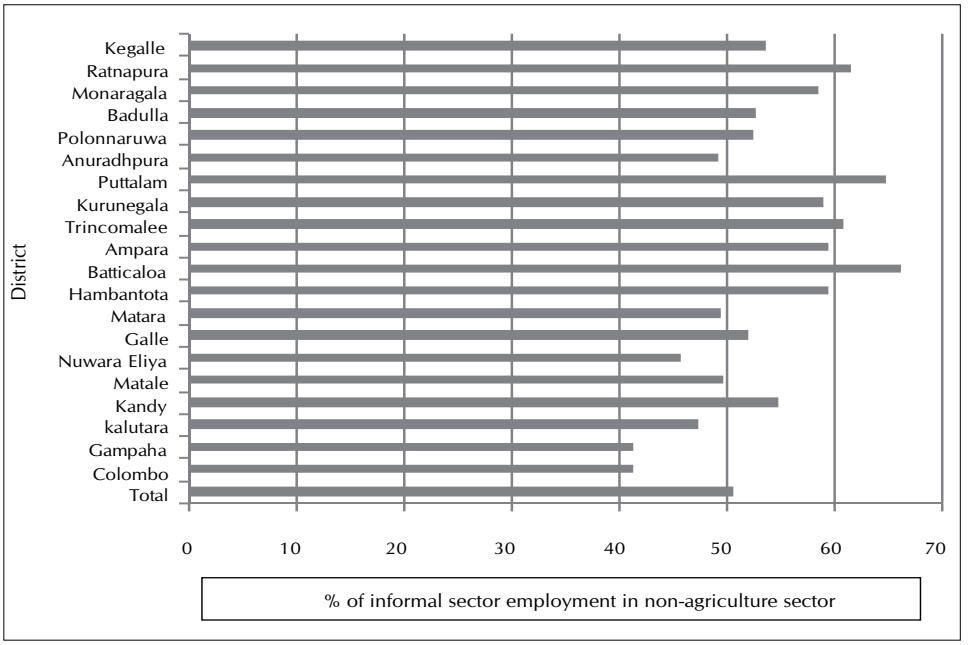
Source: Compiled using data from DCS, *Labour Force Survey*, and *Annual Report 2009*.

Figure 5.6
Formal/Informal Sector Employment by Occupational Group



Source: Compiled using data from DCS, *Labour Force Survey*, and *Annual Report 2009*.

Figure 5.7
Informal Sector Employment in Non-agricultural Sector by District



Source: Compiled using data from DCS, *Labour Force Survey*, and *Annual Report 2009*.

Lanka to account for 61.9 per cent of the employed. As evident from Figure 5.5, the agriculture sector has more than four-fifth of labour in the informal sector (85.6 per cent) which has to be taken into serious consideration in social protection policy designing. Further, almost all skilled agricultural and fishery workers (97 per cent) are also to be found in the informal sector (Figure 5.6).

However, it should be noted that the dominance of informal sector employment is not limited to agriculture. Overall, the contribution of the informal sector in non-agricultural employments is just above 50 per cent in some districts, while the contribution is over 40 per cent in all districts (Figure 5.7).

5.5 Social Protection Challenges and Gaps in Sri Lanka

Extensive social protection programmes in Sri Lanka include all types of social protection measures, including provision to transformative policies. The Social Protection Index compiled by the ADB in 2007 indicates that Sri Lanka performed well, with a rank of 9 out of 31 Asian and Pacific countries. The index captures a broad definition of social protection and shows that the country had fared well in all aspects of social protection expenditure, coverage, distribution and impact.

Social protection in Sri Lanka covers components of social insurance, social assistance and labour market programmes. In 2010, the government spent 3.5 per cent of GDP on current transfers and subsidy programmes - a key component of social protection (Table 5.4). Current transfers to households increased in 2010 owing mainly to higher pension payments (which accounts for more than 50 per cent of transfers to households), as a result of a higher cost-of-living allowance and an increase in the number of pensioners.

Table 5.4
Current Transfer Payments to Households and Other Sectors (2010)

Item	Expenditure (Rs. mn.)	As % of Total Expenditure	As % of GDP
Current transfers and subsidies	196,216	15.3	3.5
To households and other sectors	156,194	12.2	2.8
Samurdhi	9,241	0.7	0.2
Pension	90,995	7.1	1.6
Fertilizer subsidy	26,028	2.0	0.5
Other	29,931	2.3	0.5

Source: CBSL, *Annual Report 2010*.

The expenditure breakdown provides an overall picture of social protection provision and priorities of the government. Looking beyond, what is important to assess is whether social protection policies in Sri Lanka are designed to 'push' the vulnerable into the economic growth process, while providing a safety net of sorts. Social protection is also not the sole responsibility of governments, but of all the stakeholders, including the private sector, NGOs, etc. Hence, the following section highlights where policy focus is needed, the extent to which that has materialized and the way forward.

5.5.1 Securing the Needs of the Most Vulnerable: Revisiting the Social Safety Net Programme

Safety nets cater to the needs of deprived groups in order to enhance their capabilities. In Sri Lanka, for instance, deteriorating nutrition levels is one of the major challenges faced, where income support in the form of safety nets has a role to play. The main income support programme at present is Samurdhi. However, it has been criticized for poor targeting. Further, the cash grant is deemed insufficient to meet the basic needs of a household and allow minimum energy intake levels. At present, while the national poverty level is estimated at Rs. 3,028, Samurdhi does not support households earning an income above Rs. 1,500. Thus, there can be many households earning an income, but are yet poor. Hence, an important consideration should be inclusion of the vulnerable occupational categories under Samurdhi. Being in the programme is important for households as it is multi-pronged, with additional empowerment components.

5.5.2 Social Protection to Combat Multiple Vulnerabilities

Different forms of vulnerabilities in the form of economic, social, political, and natural and environment related shocks limit households - particularly economically vulnerable groups - from participating in livelihood activities. Households in vulnerable occupational groups are anyway poor and lack measures to mitigate or manage risks. The informal sector workers also lack social protection policies to help them withstand shocks. Hence, these groups are more vulnerable to unforeseen risks. Therefore, it is important to design social protection policies with particular attention on identified occupational categories.

On the one hand, the natural environment offers a range of livelihood opportunities to households, but at the same time exposes them to a range of potential disasters. Some livelihoods are often hazardous and some are more at risk from natural disasters, as a result of which certain occupational

categories are more vulnerable. For example, the agricultural sector is considered as a high risk sector as it is weather dependent and exposed to natural disasters, whereby agriculture dependent households are more likely to be worse off in the absence of proper risk coping methods. Many of the risk coping methods of vulnerable occupational groups are harmful and often affect livelihoods, income, future income, health, education, etc., catching and retaining them in the poverty trap as a result.

Social protection plays a complementary role in natural disaster management. The most common forms are immediate relief programmes, food transfer programmes, food-for-work programmes, cash transfers services, fee waiving, etc. which are ex-post measures or provision measures. A difference can be made by other social protection measures such as microfinance (which is a provision and a promotive measure), insurance, income diversification, community disaster management plans (as both prevention and promotion measures).

Natural disaster related social protection measures in Sri Lanka include insurance programmes. Apart from the farmers' and fishermen's insurance, Agriculture and Agrarian Insurance Board (AAIB) is offering crop and livestock insurance for natural disasters. The insurance covers agriculture equipment too. However, the lack of human and physical capacity for evaluation of risks is one of the major barriers constraining the programme. After the 2004 tsunami, Sri Lanka developed a National Disaster Management Plan and Emergency Operation Plan with the aim of preparing for timely and effective response, equitable relief distribution, speedy recovery, timely rehabilitation and reconstruction at provincial, district and Grama Niladhari (GN) level. The Early Warning Dissemination Division maintains and operates Early Warning Towers and other early warning dissemination equipment. It has initiated awareness programmes on activities related to early warning, disseminates early warning messages, including to remote vulnerable villagers. Such measures act as preventive measures to mitigate the adverse effects of a disaster.

Besides natural and environmental related risks, households are exposed to multiple risks, ranging from family related shocks, banditry and crime, economic shocks, and negative political, social or legal events. Studies suggest that shocks experienced by most households are family related, such as deaths, illnesses, disablements, disputes, divorces and other life cycle events such as marriage and childbirth followed by the weather and environment related shocks.[12] These types of shocks have a bearing on the productivity of labour and output. As previously discussed, skilled agricultural and fishery workers, labourers, and sales and service workers are the occupational groups most at risk.

The low income households find it difficult to afford traditional formal insurance schemes as they are costly and formalities are high. On the other hand, microinsurance can be used as an effective tool in managing risks. The penetration of microinsurance in Sri Lanka is very low and only a handful of institutions are involved. Further, microinsurance services/products available for agriculture related and natural disaster related risks are minimal. Policy intervention on social security is required in this regard to improve the microinsurance sector.

[12] Galappattige, A., R. Jayaweera and G. Tilakaratna, 2011, "Microinsurance in Sri Lanka: Combating Multiple and Overlapping Vulnerabilities", IPS.

5.5.3 Social Protection Challenges Emerging from Demographic Transition

A key challenge for social protection is the demographic transition that Sri Lanka is undergoing. The changing demography will exert considerable demand for social protection, requiring that policies be in place before publicly financed social security schemes - where a shrinking working age population contributes towards elderly care - becomes unsustainable.

Economic and social behaviour of retirees is different from the working population in terms of time/expenditure on leisure activities, expenses on health, and income at retirement age. The share of health in total expenditure will rise due to greater demand from the elderly. Whilst a number of social security insurance programmes covering the formal and informal sectors are operating in Sri Lanka - and the government and formal private sector have a fairly wide coverage of schemes - the informal sector lacks sufficient coverage. Although the government provides coverage even to elementary permanent workers, a major criticism of the public sector pension scheme (PSPS) is the inadequacy of the replacement income due to non-indexation. Further, the non-contributory nature of the PSPS raises issues of sustainability, especially with the rising old age population. The formal sector has fairly good social security schemes - Employees' Provident Fund (EPF) and Employee Trust Fund (ETF) - which are contributory. However, some of the employers evade the requirements which leave out many of the deserving elementary level workers. Further, both these schemes are criticized for the lump sum nature of benefits received at retirement, as well as on the management and investment issue of the funds.

Whilst the Budget for 2011 proposed a pension scheme for formal sector workers who are outside the PSPS, the initial proposals ran into considerable opposition and it is currently under revision. There was criticism on the way the pension scheme was formulated, with much of the criticism based on the terms and conditions, operational issues and lack of awareness. As the proposed scheme requires 10 years of contribution, it was not clear to some people how this would address social security concerns of certain types of workers - mainly because some might not be working for such longer periods, but would be contributing until they leave the job and would thereafter be unable to reclaim their contributions. For example, in the case of garment sector workers - where there is a high turnover rate - most female workers leave employment after 5-7 years of work, making them ineligible for pension benefits despite having contributed. Another concern with the initial proposals was that its design suggested that once the money in a member's account runs out, he/she will not be eligible for a pension thereafter. Given the longevity of life and short term of contributions, how the proposed scheme would benefit pensioners in the old age was not clear. Besides, the adequacy of the retirement scheme as a replacement income was also subject to criticism.

Unlike many South Asian countries, Sri Lanka has initiated pension schemes for the informal sector too. There are schemes for farmers, fishermen and for the self-employed. However, studies highlight that the effective coverage of the eligible for such schemes are found to be very low at below 40 per cent.[13] Also, all these schemes face the same problem of losing value in real terms as a result of inflation. This is mainly because

[13] Gaminiratne, N., 2007, "Population Ageing, Policy Responses and Options to Extend Retirement Coverage: Case Study of Sri Lanka", Demographic Transition and Pension Series No.7, IPS.

the payments are not index-linked to inflation and hence, does not act as a replacement income. These contributory pension schemes are not compulsory as well, as there is no sufficient incentive for voluntary enrolment. The awareness about the programmes is also poor among those engaged in relevant occupations. On top of all the above, there is much criticism on the management and investment deficiencies in the schemes. Thus, the programmes are considered to be insufficient as safety nets.

The absence of a universal or means tested pension has left a large segment of the informal sector population in Sri Lanka without a formal security cover in old age. However, the government had proposed in the Budget for 2011 the introduction of one pension scheme for all self-employed, and another for foreign employed persons. These are still under discussion. In addition, provision of livelihood support to the elderly who are economically active in the informal sector should be considered. This would lessen the pressure on social protection to a certain extent.

5.5.4 Improving Employability/Skills as a Social Protection Measure

Improving skills of the population - and therefore access to economic opportunities - is one way of promoting employability. Poor people often remain unemployed or trapped in low productive employments as they do not posses skills to move into high productive occupations. Acquiring the skills might not be financially affordable, which makes them forgo the opportunities. Policy intervention on skills development of the poor, therefore, can increase social and economic inclusion, particularly given the significant numbers of households trapped in occupations of less productive sectors, especially in the lagging regions, as discussed previously.

Support on improvement of skills and employability is mainly linked to training programmes. A number of Active Labour Market Programmes (ALMPs) are carried out by the government, private institutions and NGOs with the purpose of supporting employment creation and improvement of skills and employability. National Apprentice and Industrial Training Authority, Ministry of Labour Relations and Manpower, JobsNet and NGOs such as SEEDS and Arthacharya Foundation also play significant roles in providing different training facilities. The positive effects of ALMPs are constrained by some financial and institutional limitations such as lack of human resources, lack of training equipment, and some donor conditions. The overlaps and lack of coordination of the programmes have also hindered intended benefits. As a result, there is a regional imbalance of availability of training programmes.[14] It is important to identify occupations in more productive sectors and target and emphasize training and skill development specific to those occupations, whilst not neglecting the skill development of lagging sectors.

5.5.5 Livelihood Support as Social Protection

Livelihood support is a promotive aspect of social protection. Support on employment creation can be either for self-employment and small businesses or to migrant workers. There are numerous government, NGO, and private sector initiatives on livelihood support. For example, the Samurdhi Authority provides several livelihood support programmes all over the island, including the provision of microfinance facilities.

[14] IPS, 2010, "A Review of Active Labour Market Programmes in Sri Lanka", report prepared for the World Bank.

While in the longer term, investing for people to move into high productive sectors is important, in the short and medium term, existing sectors have to be provided with support. Various efforts are being made to improve agriculture and the SME sector by providing opportunities, filling in resource gaps, connecting with markets and improving access to facilities. One such example is the Vidatha programme, one objective of which is to help rural people uplift their economic conditions by improving access to technology. It also tries to ensure that quality products and services from the rural sector reach the market as a means of stabilizing incomes. This holds positive implications for improving local economies and on expanding economic opportunities for those who are trapped in low productive occupations.

Apart from technology, financial and market access are two other major hindrances. MFIs are playing an important role in the financial sector in Sri Lanka. Research suggests that over 60 per cent of households that have utilized financial services, have accessed institutions such as Samurdhi, Regional Development Banks (RDBs), Co-operative Rural Banks (CRBs), Sanasa Development Bank, NGOs and Community Based Organizations (CBOs), underlining the important role of MFIs.[15] Further, access to credit was found to have helped nearly 30 per cent of households to better cope with various risks and vulnerabilities. Between 30-40 per cent of households indicated that employment opportunities and their business knowledge improved as a result of accessing financial services.

The sustainability of self-employment activities is important for ensuring a steady income. 'Credit Plus' services which refer to non-financial services such as vocational training, marketing assistance and other business development services (BDS) are important in this context. While the Samurdhi bank is estimated to be the largest provider of Credit Plus services, less than 5 per cent of the surveyed households were found to have received such services from the financial institutions they deal with.[16] The main types of training received were vocational training which include self-employment training, technical assistance and services such as training on business and financial management, accounts, and book keeping. Business development services is also found to be an important component in microfinance, with government microfinance programmes and development banks found to be the main providers.[17]

5.6 Conclusion

Sri Lanka has comprehensive social protection policies, as evident from the high ranking received amongst other Asian countries. The policies fall under provision, through to transformative measures of social protection. As such, social protection has become an indispensable instrument in achieving inclusive growth objectives.

As discussed, the concentration of occupations around the low-skilled (in agriculture, industry, and manufacturing) and concentration around agriculture and fishery, whether skilled or unskilled, found primarily in lagging regions is a cause of concern in the context of productive

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[15] IPS, 2008, "Outreach of Financial Services in Sri Lanka: A Look at the Demand-side from a Microfinance Perspective", report prepared for the GTZ. The study was based on a household survey which covered around 3,000 households from all districts in the country except Kilinochchi, Mannar and Mullaitivu.

[16] *Ibid.*

[17] Tilakaratne, G., A.Galappattige and R.Perera, 2009, "Promoting Empowerment through Microfinance in Sri Lanka" in "Economic and Political Empowerment of the Poor: Sri Lanka", CPD-SACEPS Monograph Series 3, Centre for Policy Dialogue (CPD) and South Asia Centre for Policy Studies (SACEPS), Dhaka.

employment and issues of equity. The transient nature of poverty of these groups and concentration of the workforce in the informal sector serves only to exacerbate existing vulnerabilities.

Overall, existing social protection policies are deemed insufficient to cover most of the vulnerabilities. A few social protection programmes extend to informal sector workers and vulnerable occupational groups overall (with some targeted at specific groups and/or some types of vulnerabilities). However, there is no extensive targeted social protection programmes for vulnerable occupation groups in Sri Lanka at present. Except for old age income security programmes for a few types of occupation categories, the informal sector workers do not have social protection on illnesses, unemployment, etc.

Social protection policies can play a major role at both ends from provision to transformation of vulnerable occupational groups. Social protection measures can target vulnerable occupational groups through the provision of safety nets, while addressing the poor overall. Insurance, in the form of microinsurance and savings, has the potential to act as preventive measures in the face of multiple vulnerabilities that are encountered. These kinds of social protection measures will prevent households from using harmful methods of risk management which often affects their livelihoods, income, future income, health, education and keep them in the poverty trap. Skill development and livelihood support programmes, including microfinance, have a major role to play in providing social protection to foster inclusive growth.

6. Education and Health Services for Sustainable Growth

6.1 Introduction

To achieve inclusive growth and spatial equity, it is essential to improve economic as well as social development of a country. In this respect, education and health services are crucial for enhancing human development, promoting equity and contributing to economic prosperity. Human capital formation and accumulation through education encourages innovation and productivity, and helps sustain long term economic development. Similarly, the 'health of a nation' is of central importance. Indeed, health and education are inter-linked, as the former is considered the basis for job productivity, the capacity to learn in school, and the capability to grow intellectually, physically, and emotionally.[1]

The distribution of education and health outcomes can be regarded as a key indicator of the inclusiveness of economic development in a country. Education is a universal right and an agent of upward socio-economic mobility that opens many social, economic, and political doors and increases access to income and employment opportunities. The levels and distribution in health outcomes can serve as proxies for concerns a government has regarding the health of its people.[2] While Sri Lanka has long been recognized for its achievements in human development, it faces new challenges in providing quality services and improved service delivery that will cater to the changing demands of a rapidly growing economy.

"There are wide disparities in both education and health services in terms of accessibility as well as resource availability across the country"

Although human capital is recognized as vitally important in leveraging Sri Lanka's vision to develop as a knowledge-based, middle income country, the quality of human capital, in general, has not kept pace with job market requirements. Most of the school

[1] WHO, 2001, "Macroeconomics and Health: Investing in Health for Economic Development", report of the Commission on Macroeconomics and Health, WHO, Geneva.

[2] Tandon A., Zhuang, J., 2007, "Inclusiveness of Economic Growth in the People's Republic of China: What Do Population Health Outcomes Tell Us?" Asian Development Bank, Manila.

leavers are ill-prepared, with lack of cognitive dimensions to fit into the world of work. Increasing the equity of access to quality education with required facilities is also a major challenge. As regards the country's health sector, there are wide ranging disparities in accessing health care services, facilities, resources, as well as health outcomes. This is particularly so with regard to maintaining and upgrading existing social services, while restoring services in previously conflict-affected areas.

This Chapter seeks to examine the gaps in education and health service delivery in the country and their recent trends, with a view to identifying inequities and making policy recommendations on improving access to better quality services in health and education. First, attention is paid to the present status of the country's education and health sector and its growth objectives. Thereafter, equity in education and health is discussed along the dimensions of access, outcomes and distribution of resources. Emerging needs and current policies of the two sectors are assessed in order to identify policy gaps, with key findings and policy recommendations suggested in the final section.

6.2 Education

6.2.1 Current Status and Objectives

Sri Lanka has long considered education as crucial for enhancing human development and contributing to economic growth. The education ordinances of 1939 and free education introduced in 1945 were among the earliest policies in achieving economic and social equity through 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.[3] Successive governments adopted strategic measures such as introducing free textbooks, scholarships for disadvantaged students, free uniforms, and subsidized transport facilities to encourage schooling amongst children.

Thus, Sri Lanka has often been cited as having high education achievements and learning when compared to counterparts in South Asia. This reputation has been largely built on the high literacy levels and the high levels of primary enrolment, as well as the gender parity in education access and achievements. Moreover, Sri Lanka is an early achiever of the Millennium Development Goals (MDGs) of universal primary education, and gender equity in education. In 2006, it attained a primary enrolment rate 97.5 per cent, gender parity index for primary education of 99 per cent, and 95.8 per cent literacy rate in the age group 15-24.[4]

While there is an encouraging improvement in literacy rates (92.7 per cent in 1996 to 95.8 per cent in 2006) and universal primary education in numerical terms, several gaps exist in the sector. Existing disparities in the provision of education services - regional discrepancies (geographical, economic and social), disparities in the quality of education imparted, unequal distribution of resources, exclusion in access and participation, etc., - can widen uneven economic development unless addressed. For instance, more than a half of the schools in the country are small schools with less than 200 students, with science education in grades 12-13 confined to only 7 per cent of schools with these grades.[5]

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[3] Regulations for compulsory education of 5-14 age group were approved by Parliament in 1997 and came into force in January 1998.

[4] IPS/UNDP, 2010, *Millennium Development Goals: Sri Lanka Country Report 2008/2009*.

[5] Ministry of Education, 2008, *School Census 2008: Preliminary Report*.

Information technology (IT) is still in the early stages of development in schools. Many children faced disruptions to education - through displacement, loss of family members, psychological impact, loss of school materials as well as the destruction of school buildings and infrastructure - through the conflict years. In these circumstances, simply providing basic service delivery of education is often a major challenge.[6]

6.2.2 Equity Issue

Increasing the equity of access to quality education with required facilities is a major challenge. Equity in education can be considered along the dimensions of access, outcomes and resources.

With regard to equity in access, primary education is almost universalized. However, disparities in access to education are higher beyond the primary education cycle (Table 6.1). According to the estimates of a recent study that assessed the equitability in education and health services in Sri Lanka, net enrolment rates in the upper secondary and collegiate levels were found to be only about 54 per cent and 19 per cent, respectively.[7] Moreover, disparities in access to education are higher across

Table 6.1
Net Enrolment Rates in Major Education Cycles by Economic Groups: 2006/07 (%)

	Primary (Grades 1–5)	Junior Secondary (Grades 6–9)	Upper Secondary (Grades 10–11)	Collegiate (Grades 12-13)
Economic groups				
Poorest quintile	95.7	82.6	47.6	11.0
2nd quintile	95.9	85.7	50.2	18.5
3rd quintile	96.5	89.5	50.0	15.7
4th quintile	96.8	89.8	59.1	23.4
Richest quintile	97.9	94.0	62.9	27.7
Gender				
Male	96.3	88.1	50.1	19.1
Female	96.6	87.9	57.2	19.6
Sector				
Estate	91.1	71.1	27.4	4.3
Rural	97.0	89.6	56.0	20.4
Urban	97.5	90.5	57.2	21.5
Province				
Western	96.2	88.6	52.5	19.9
Central	96.4	88.9	56.7	15.0
Southern	97.2	88.9	59.2	23.5
Northern	n.a	n.a	n.a	n.a
Eastern	96.7	85.9	44.8	13.7
North Western	97.6	87.4	44.1	17.0
North Central	97.3	94.1	62.0	19.3
Uva	95.9	85.1	58.4	20.5
Sabaragamuwa	94.0	84.3	48.8	19.6
Sri Lanka	**96.5**	**88.2**	**53.6**	**19.3**

Note: n.a. = not available.

Source: Arunatilake, N., N. Attanayake and P. Jayawardena, 2010, "Equitability in Education and Health Services in Sri Lanka", IPS, mimeo.

[6] IPS, 2010, "Protecting the Education Rights of Conflict-affected Children" in *Sri Lanka: State of the Economy* 2010.

[7] Arunatilake, N,, N. Attanayake and P. Jayawardena, 2010, "Equitability in Education and Health Services in Sri Lanka", IPS, mimeo.

economic groups, sectors, and provinces as the level of education advances.

Quality of education - learning-teaching process in the classroom - is reflected in completion rates in major education cycles as well as success rates at national public examinations. It is found that one-fifth of children who are in official age of completing grade 5, and 30 per cent of children who are in official age of completing grade 9 do not complete the education cycle appropriate for their age.[8] Further, wide disparities in school completion rates as well as public exam success rates across economic groups, gender, sector, and province were also to be found. The completion rates were lower for higher school cycles, and their disparities wider with the advancement of education level. Similar patterns were reflected in the O-Levels and A-Levels success rates.

Table 6.2
Completion Rates in Major Education Cycles and Exam Success Rates: 2006/07

	Completion Rates[a] %			Exams Success Rates[b] %	
	Grade 5	Grade 9	Grade 11	O-Levels	A-Levels
Income Group					
Poorest quintile	73.4	61.2	22.6	31	17
2nd quintile	81.3	69.2	35.4	44	17
3rd quintile	85.0	71.7	32.8	46	20
4th quintile	82.2	76.6	47.3	57	27
Richest quintile	87.4	75.4	60.6	68	44
Gender					
Male	81.9	67.7	35.3	45	22
Female	80.8	73.3	42.9	53	29
Sector					
Estate	64.2	46.1	7.9	14	8
Rural	83.3	74.5	42.7	51	26
Urban	84.9	72.0	42.3	56	31
Province					
Western	80.7	69.2	41.8	54	33
Central	79.4	75.3	33.1	45	25
Southern	86.3	74.8	45.5	54	24
Northern	n.a.	n.a.	n.a.		
Eastern	n.a.	n.a.	n.a.	41	23
North Western	82.8	69.9	28.8	44	25
North Central	89.9	78.4	37.4	48	24
Uva	71.0	55.8	28.4	38	18
Sabaragamuwa	79.3	67.2	45.1	51	21
Sri Lanka	**81.4**	**70.5**	**39.1**	**49**	**26**

Note: n.a. = not available; a: Completion rate is defined as percentage of children in the official age group completing the education cycle; b: Exam success rates are defined as percentage of children (in the official age of sitting the exam) who have passed the relevant exam. The sample for O-Levels comprises 17 and 18 year olds and the sample for A-Levels comprises 20 and 21 year olds at the time of the survey. Calculations consider all children in an age cohort, not only those who have sat for an exam.

Source: Arunatilake, N., N. Attanayake and P. Jayawardena, 2010, "Equitability in Education and Health Services in Sri Lanka", IPS, mimeo.

[8] *Ibid.*

With regard to the distribution of resources, resource constraints have led to a decline in the quality of education provided by schools. Many schools in the country experience disparities in the availability of libraries, science labs and computer labs across provinces. Only 7 per cent of state schools are found to have facilities to teach science subjects (Type AB) in GCE (A/L). Further, schools offering science subjects in GCE (A/L) are not rationally located, with a majority to be found in urban areas, with almost one-fourth of the Type AB schools located in the Western Province. This shows that only a limited number of students are privileged to follow the science streams up to GCE (A/L).

Rural children from poor families with financial constraints have no options other than to choose a resource-poor secondary school that offers only arts or arts/commerce streams located mainly in economically disadvantaged areas. For example, 56 schools in Vavuniya, 9 schools in Ratnapura, while 8 schools in each Mannar and Mulaittivu districts had one teacher per school. These figures, bad as they are, do not show the true picture of educational problems, which in reality is even more disturbing. These aggregates do not show the internal disparities within a district. Also, it is often the case that there may be an excess of teachers for certain subjects while there is a deficit of teachers for more demanding subjects such as English, science and IT.

6.2.3 Key Sector Challenges and Issues

Developing competencies to meet emerging needs: As Sri Lanka aims to move towards a knowledge-based economy, new configuration of skills, abilities and competencies to face the emerging needs of accelerating global competition will be required. The information and communication technologies (ICT) workforce is expected to increase from the current 50,000 to 186,000 by 2016.[9] Further, about 50,000-70,000 skilled people are needed annually with the planned large scale development activities in the naval, aviation, commercial, energy, road and transport, urban development, irrigation and knowledge sectors.[10] Information and knowledge-based economic development will require that learning-teaching methods become more competency-based and cater to skills demand. This means Sri Lanka must overcome prevailing constraints in access to ICT, proficiency in English language, and science and technical education, etc.

Addressing the mismatch between the skills acquired through the education system and the requirements of the labour market has been a key concern of current education policy.[11] Of more than 100,000 deserving students, only around 15 per cent who gain the necessary A/L qualification are able to enter into university due to the limited number of placements.[12] External degree programmes are generally marked by the absence of an accreditation system, poor quality, and weak administration. There is also a lack of a systematic Technical Education and Vocational Training (TEVT) link with secondary education, leaving a majority of school leavers with no access to skills development programmes. Overlooking the importance of TEVT is also partly responsible for the shortage of skilled manpower to match the dynamic needs of the labour market.

Protecting education rights of conflict-affected children: Improving access to edu-

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9 DNP, 2010, *Sri Lanka – The Emerging Wonder of Asia*, Ministry of Finance and Planning.

10 *Ibid.*

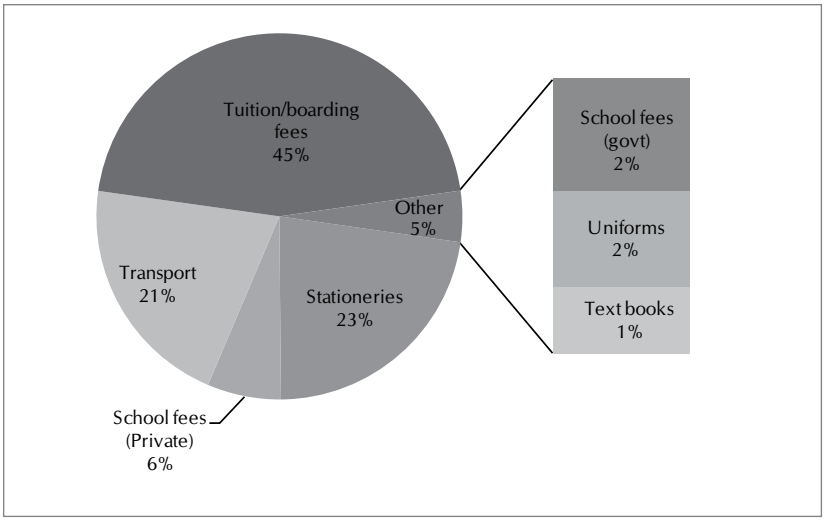
11 National Education Commission, 2003, *Proposal for a National Policy Framework on General Education in Sri Lanka.*

12 Ministry of Education, 2005, *Education for Development and Prosperity.*

cation in the conflict-affected areas remains a major challenge. According to available estimates, approximately 100,000 internally displaced persons (IDPs) and returnee school aged children, and 347 schools required rehabilitation in the Northern Province.[13] According to criterion-based learning assessment conducted by the Northern Province education authorities, there is an urgent need to implement remedial education programmes to improve learner competencies and ensure student retention. Further, an estimated 20,000 children and youth outside of the formal system were identified as requiring non- formal education programmes to develop their skills for income generating opportunities.[14]

Budgetary constraints and public investments in education sector: The public education system remains the predominant service provider while budgetary constraints have limited government investment in the education sector. Government expenditure on education as a percentage of GDP increased from 2 per cent in 2001 to 2.7 in 2006 but decreased gradually to 1.9 per cent in 2010 - constituting about 8 per cent of total government expenditure.[15] This figure is far behind that of South East Asian countries such as Malaysia (17.2 per cent) and the Philippines (16.9 per cent), as well as neighbouring South Asian countries such as Nepal (19 per cent) and Bangladesh (14 per cent).[16] The proportion of education expenditure devoted to recurrent expenditure is in the range of 80 per cent, with the major portion (75 per cent) devoted for teachers' salaries. The limited public capital expenditure in the education sector has resulted in resource poor schools and increased out-of-pocket expenditure.

Figure 6.1
Distribution of Out-of-Pocket Expenditure on Education



Source: Arunatilake, N., N. Attanayake and P. Jayawardena, 2010, "Equitability in Education and Health Services in Sri Lanka", IPS, mimeo.

[13] GOSL/UN, "Joint Plan for Assistance for the Northern Province – 2011", February 2011, http://ochaonline.un.org/humanitarianappeal/webpage.asp?Page=1942.

[14] *Ibid.*

[15] Central Bank of Sri Lanka, *Annual Report 2010*.

[16] Respective year of international estimates is 2008. Available at http://stats.uis.unesco.org/unesco/tableviewer/document.aspx?ReportId=143.

As revealed in a recent study, 2.6 per cent of total household income is spent on education related expenses.[17] This proportion is more or less the same across households from different income deciles. Further, the major portion (45 per cent) is found to be spent on tuition or boarding fees (Figure 6.1).

Strengthening management of the education sector services delivery: Management of education sector service delivery has been identified as a key challenge in relation to education service delivery.[18] Lack of proper supervision, administration and monitoring badly affects the growth objectives of the education sector service delivery. Further, inadequate management capabilities at local level have constrained decentralized management. Studies have revealed the necessity of improving capacity at all levels of the education sector to make decentralized planning and management more effective and efficient.[19]

6.2.4 Current Policies and Programmes

The Education Sector Development Framework and Programme (ESDFP) 2006-2010 formulated by the Ministry of Education with the support of the World Bank is being implemented currently. The major policy themes of the ESDFP are: (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. The ESDFP is developed on a sector-wide approach, considered the most appropriate instrument to address system-wide needs. This strategy could pave the way to sustain development plans of the sector by mainstreaming and improving coordination of external donor investments with government budgeting across the central, provincial and school levels. The ESDFP has been incorporated into the planning process whereby targets have been set to raise the current GCE (O/L) pass rate from 52 per cent to 65 per cent, and GCE (A/L) pass rate from 60 per cent to 75 per cent by 2020.[20]

With regard to rehabilitation of education services in the previously conflict-affected areas, education facilities are estimated to have been restored to nearly all affected children in the Northern Province. The needs of 98 schools and 20 pre-schools in the resettlement areas have been fully met, while another 150 schools are targeted to be repaired in 2011. As a response to the criterion based assessment findings, teacher books for alternative learning programmes for primary and secondary grades for key subjects have also been developed.[21]

6.3 Health

6.3.1 Current Status and Objectives

Despite the fact that Sri Lanka is a low-spender on health, the country is regarded as a success story in achieving most of the vital health indicators much earlier than its regional counterparts. Most of the key health indicators for Sri Lanka are almost at the same level as that of developed economies (Table 6.3).

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17 Arunatilake, N., N. Attanayake and P. Jayawardena, 2010, "Equitability in Education and Health Services in Sri Lanka", IPS, mimeo.

18 DNP, 2008, *Public Investment 2008–2011*, Ministry of Finance and Planning.

19 Arunatilake, N., and P. Jayawardena, 2010, "Formula Funding and Decentralized Management of Schools – Has it Improved Resource Allocation in Schools in Sri Lanka?", *International Journal of Educational Development*. Vol. 30, No. 1.

20 DNP, 2010, *Sri Lanka – The Emerging Wonder of Asia*, Ministry of Finance and Planning.

21 GOSL/UN, "Joint Plan for Assistance for the Northern Province – 2011", February 2011, http://ochaonline.un.org/humanitarian appeal/webpage.asp?Page = 1942.

Table 6.3
Comparison of Select Key Health Indicators

Indicator	Sri Lanka	South-East Asia Region	Global
Life expectancy at birth (2009)	71	65	68
Infant Mortality Rate (IMR)[a] (2009)	13	45	42
Under-five mortality rate[b] (2009)	16	59	60
Maternal mortality rate (MMR)[c] (2008)	39	240	260

Notes: a: Probability of dying by age 1 per 1,000 live births; b: Probability of dying by age 5 per 1,000 live births; c: Per 100,000 live births.

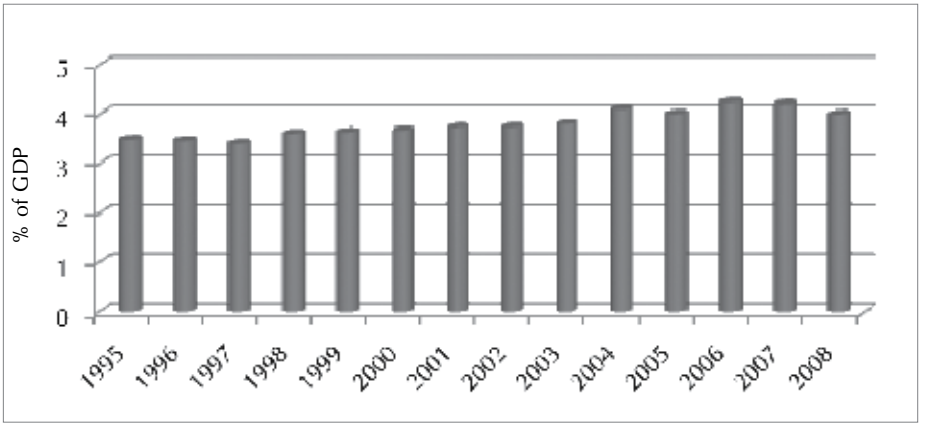
Source: WHO, *World Health Statistics 2011*.

As evident from Figure 6.2, total health expenditure as a percentage of GDP has been not more than 4.5 per cent over the years for Sri Lanka, whereas the global figure stood at 9.7 per cent in 2007.[22] General government expenditure on health as a percentage of total government expenditure is 8.5 per cent, while per capita health expenditure was US$ 68 for Sri Lanka in 2007.[23] The global figures read as 15.4 per cent and US$ 802, respectively.

At end 2009, the public sector health workforce was estimated at 107,560 (54,917 at Line Ministry Institutions and 52,643 at Provincial Institutions).[24] As at end 2007, there were 11,023 medical officers (MOs) and 31,466 nurses serving at 615 government hospitals with total bed strength of 68,694.[25]

In 2007, the Ministry of Healthcare and Nutrition published a Health Master Plan (HMP) for 2007-2016, with the aim of

Figure 6.2
Total Expenditure on Health: 1995-2008



Source: http://www.who.int/nha/country/lka.xls.

[22] This includes both public and private expenditure on health.

[23] WHO, *World Health Statistics 2010*.

[24] http://203.94.76.60/nihs/BEDS/Manpowersum-09-12-31.pdf .

[25] Ministry of Health, *Annual Health Bulletin 2007*.

providing the policy and strategic framework for the development of an innovative health system by 2016. The main objective is to improve the health status of the country and reduce inequalities. This is to be achieved through five strategies, namely:

- Ensure the delivery of comprehensive health services, which reduce the disease burden and promote health;
- Empower communities (including households) towards more active participation in maintaining their health;
- To improve the management of human resources for health;
- To improve health financing, resource allocation and utilization; and
- To strengthen stewardship and management functions of the health system.

The government's overall development framework also identifies some major challenges

Table 6.4
Distribution of Health Facilities by District: 2005 and 2007

District	Govt. Medical Institutions with Specialties[a]	Govt. Hospital Beds	Govt. Hospital Beds per 1,000 Population	Specialists in Curative Care	Medical Officers per 100,000 Population	Nurses per 100,000 Population
	2007				2005	
Colombo	9	12,126	4.9	229	128.2	230.1
Gampaha	4	6,078	2.8	75	39.2	73.5
Kalutara	4	2,773	2.5	32	40.1	77.1
Kandy	4	6,686	4.8	83	90.3	176.2
Matale	2	1,661	3.5	26	40.8	82.2
Nuwara Eliya	1	1,803	2.4	17	8.8	20.2
Galle	3	3,314	3.2	58	68.5	124.0
Matara	2	2,286	2.8	24	37.2	84.2
Hambantota	4	1,624	2.9	22	29.0	51.1
Jaffna	2	2,455	4.1	11	42.1	65.8
Kilinochchi	1	378	2.6	0	10.3	14.5
Mannar	1	481	4.7	0	33.3	40.4
Vavuniya	1	463	2.8	7	45.5	58.6
Mullaitivu	0	472	3.3	0	5.0	17.0
Batticaloa	3	1,484	2.8	15	26.4	72.5
Ampara	5	2,429	1.3	28	41.4	82.5
Trincomalee	3	1,185	3.3	12	36.9	48.5
Kurunegala	3	4,814	3.2	48	26.9	93.9
Puttalam	3	1,489	2.0	30	54.7	64.9
Anuradhapura	3	3,198	4.0	28	43.2	88.0
Polonnaruwa	2	1,291	3.3	16	51.2	110.6
Badulla	3	3,390	4.0	40	25.5	95.3
Monaragala	1	1,376	3.2	9	34.7	53.0
Ratnapura	4	3,193	2.9	19	32.9	81.0
Kegalle	4	2,245	2.8	23	36.8	52.8
Sri Lanka	72	68,694	3.4	852	45.6	95.8

Note: a: Teaching hospitals, provincial hospitals and base hospitals.

Source: Ministry of Health, *Annual Health Bulletin,* 2004/2005 and 2007.

Table 6.5
Sanitary Conditions and Mortality Rates by Sectors

Sector/ District	Percentage Distribution of Households by Safe Access to Drinking Water and Availability of Toilets (2006/07)					Mortality Rates (2003)	
	Main Source of Drinking Water		Availability of Toilets			Under 5 Mortality Rate[a]	Infant Mortality Rate[a]
	Safe (%)	Not Safe (%)	Exclusive for Household (%)	Sharing with Household (%)	No Toilet Facilities (%)		
Sri Lanka	84.8	15.2	89.1	7.3	3.6	21	15
Sector							
Urban	97.7	2.3	86.5	9.7	3.8	19	10
Rural	85.0	15.0	90.9	6.0	3.0	23	19
Estate	46.2	53.8	67.7	20.5	11.8	33	29

Note: a: Per 1,000 live births.

Sources: DCS, HIES 2006/07 and *Demographic and Health Survey 2006/07*.

in the health sector, namely: (a) responding to a changing disease and demographic pattern, (b) human resource management, (c) improving responsiveness, and (d) addressing the needs of vulnerable groups.[26]

6.3.2 Equity Issues in Health

Disparities in the distribution of health resources are prevalent despite the fact that ensuring equal opportunities in accessing health services across the country is a key component of inclusive growth. There are wide disparities in health resource availability (physical as well as human) between districts (Table 6.4). Colombo district, the richest district of the country with a PHCI of 5.4 per cent,[27] is well-served by having 9 medical institutions with specialties, nearly 20 per cent of total hospital beds and 25 per cent of the specialists in curative care. Further, Colombo district has the highest number of MOs and nurses per 100,000 population. However, the figures from the poorest districts (e.g., Nuwara Eliya, Monaragala and Ratnapura with a PHCI of 33.8, 33.2 and 26.6 per cent, respectively) and previously conflict-affected areas of the N&E indicate wide disparity in health service availability relative to other districts.

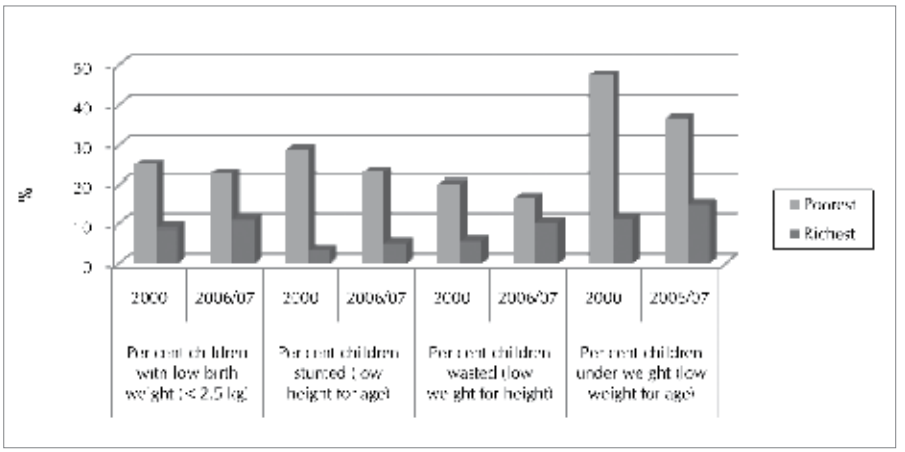
Sri Lanka is also seeing disparities in accessing basic sanitary needs. Here, access to safe drinking water and availability of toilets is considered a key indicator. Considering national level figures, it may be concluded that Sri Lanka is at a satisfactory level by achieving 85 per cent of access to safe water, 96 per cent in availability of toilets, and low rates of mortality (Table 6.5). However, the situation differs across sectors with the estate sector lagging behind other sectors in almost all indicators. More than a half of the estate population does not have access to safe water and 12 per cent are left without toilet facilities.

There are also disparities in health and nutritional outcomes to be found. Even though

[26] DNP, 2010, *Mahinda Chinthana; Vision for the Future*, Ministry of Finance and Planning.

[27] DCS, HIES 2006/07.

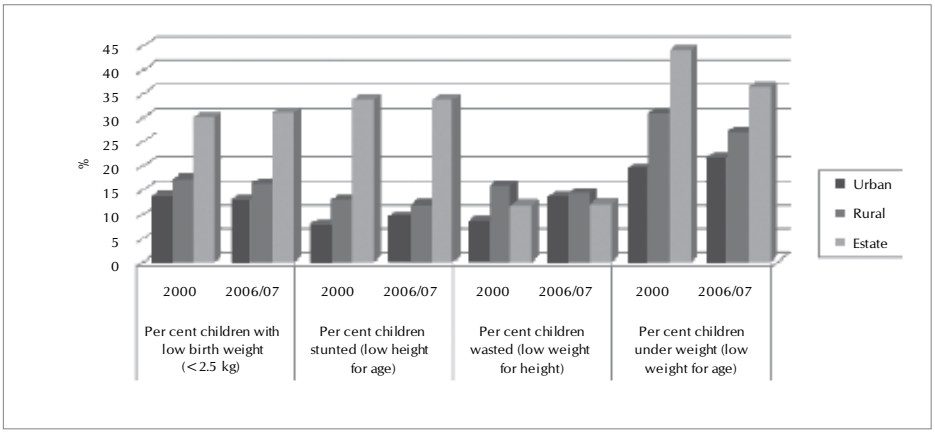
Figure 6.3
Child Nutrition and Health Status by Wealth Quintile: 2000 and 2006/07



Source: IPS/UNDP, 2010, *Millennium Development Goals Country Report 2008/09*.

Sri Lanka has implemented various nutritional programmes, 50.7 per cent of the country's population is estimated to receive below 2030 kilocalories (kcal) level of Daily Dietary Energy Consumption (DDEC).[28] Even the non-poor people in the urban and rural sector consume less than the required level. As evident from Figures 6.3 and 6.4 - depicting, respectively, the nutrition status of children by wealth quintiles and by sector - it is clearly observed that although the nutrition status of the poorest quintile has improved from 2000 to 2006/07, the gap between the poorest and the richest remains almost at the same levels for all the indicators. Another notable observation is that the nutrition status of the children from the richest quintile has deteriorated slightly over the same period

Figure 6.4
Child Nutrition and Health Status by Sector 2000 and 2006/07



Source: IPS/UNDP, 2010, *Millennium Development Goals Country Report 2008/09*.

[28] *Ibid.*

(despite a marginal increase in all the indicators in the richest quintile). This indicates the country as a whole is facing a nutrition problem regardless of the wealth status of individuals.

When child nutrition by sector is considered, the prevalence of being underweight, stunted and wasted is high among estate children (Figure 6.4). Further, the nutrition status of estate children has also not improved over the years in a significant manner. Even in the other sectors, a marked improvement cannot be observed.

6.3.3 Emerging Needs and Current Policies

Re-establishing health services in previously conflict-affected areas is one of the major challenges that the health sector faces at present, recognized by the Health Master Plan of 2007. Damage to health infrastructure, lack of human resources and other supportive facilities such as medical supplies and equipment, a breakdown of preventive and promotive services, etc., are major constraints. The health challenges are also more complex in view of conflict-related psycho-social problems that have to be taken into consideration. Development and allocation of human resources for health have being identified as one of the most crucial strategies for effective reconstruction of health service systems in conflict-affected areas of the country.[29]

In addition to specific needs of conflict-affected populations, Sri Lanka is also facing an epidemiological transition, experiencing a change in the pattern of causes for deaths. The number of deaths attributable to maternal and child health and infectious diseases have declined over the years, whereas deaths due to non-communicable diseases (NCDs) - such as ischaemic heart disease, strokes and cancer - have increased greatly. At present, nearly 90 per cent of the country's disease burden is attributed to NCDs. In the past half-century alone, the proportion of deaths due to circulatory disease (such as heart disease and strokes) has increased from 3 per cent to 24 per cent, while that due to infectious diseases has decreased from 42 per cent to 20 per cent.[30] Ischaemic heart disease was ranked as the number one leading cause for hospital deaths in 7 districts of the country in 2000, and by 2007, this had become the number one leading cause in hospital deaths in 15 districts.[31]

Health hazards due to natural disasters and climate change is another emerging challenge for the health sector. Apart from the deaths and disabilities caused by natural disasters, health issues related to climate change are reported more frequently than before. Problems in accessing safe drinking water, outbreaks of vector and water borne diseases (dengue, diarrhoea), increased rate of respiratory disorders (due to dust and cold waves), more communicable diseases (skin diseases, typhoid fever), and malnutrition (due to food inaccessibility) are some of the outcomes. Psychological problems due to the loss of dwellings, habitat and income and loss of family members could also arise. Sanitation issues and other social problems arise as populations are displaced due to extreme weather events.

Amidst emerging new sources of health concerns, Sri Lanka is also facing major

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[29] Mari Nagai, M., S. Abraham, M. Okamoto, E. Kita and A. Aoyama, 2007, "Reconstruction of Health Service Systems in the Post-conflict Northern Province in Sri Lanka", *Health Policy*, Vol. 83, pp. 84–93.

[30] Engelgau M., K. Okamoto, K.V. Navaratne, and S. Gopalan, 2010, "Prevention and Control of Selected Chronic NCDs in Sri Lanka: Policy Options and Action", Health, Nutrition and Population (HNP) Discussion Paper, World Bank.

[31] Ministry of Health, *Annual Health Bulletin*, 2000 and 2007.

demographic transitions that clearly hold implications for the health sector. The country is undergoing a demographic transition, where the population stabilizes at low birth rates and low death rates. If this trend persists, by year 2041, 25 per cent of Sri Lanka's population will be in the above 60 year age category.[32] This means that there will be more demand for health needs from the aged population in the future.

As such, private sector involvement is going to be very critical in providing effective and efficient health care service. However, in Sri Lanka, private sector involvement in health is largely concentrated in the Western Province with around 60 per cent of total private hospitals, and 75 per cent of total private hospital beds in 2008.[33] Whilst this 'urban bias' is understandable from a private sector perspective, it leaves many other parts of the country without access to private sector investment to develop health services.

6.3.4 Current Policies and Programmes

Sri Lanka has taken several initiatives to increase food consumption and ensure adequate nutrition intake among households and individuals. The main intervention has been the 'Thriposha' (a pre-cooked cereal based food) national programme, made available to pregnant and lactating women during the first 6 months and infants between 6-11 months of age. It is estimated to cater to nearly 580,000 beneficiaries.[34] Another major intervention by the government is food assistance to populations affected by the conflict in the N&E, including displaced persons. The value of food assistance ranges between Rs.336 for families consisting of one individual to Rs.1,260 for families of five persons per month.[35] A school-feeding programme under which poor children are given a hot meal in school, and provision of a food package for expectant mothers ('poshana malle') are some other interventions. In addition, a 'National Nutrition Surveillance System' was launched in 2008 to obtain timely data at provincial and central level. The government has already launched a 'National Nutrition Policy' for the period 2008-18.

The government has also identified the gravity of NCD-related health challenges and taken several policy initiatives. A 'National Policy and Strategic Framework for Prevention and Control of Chronic Non-communicable Diseases' was approved by the Cabinet in 2010. In the Budget 2011, an additional allocation of Rs. 900 million was made (approximately 1.5 per cent of total expenditure allocated to Ministry of Health in 2011) for a three year Action Plan targeting the control of NCDs, to be implemented from 2011 through improvements in the primary healthcare system.

6.4 Conclusion and Policy Implications

Ensuring equal opportunities in accessing education and health services across the country is a key component of inclusive growth. However, there are wide disparities in both the education and health sectors in terms of accessibility as well as resource availability that results in disparities in outcomes. As discussed in the previous sections, disparities have been identified in the education sector in terms of access quality as well as distribution of resources. Disparities in access to education are higher beyond the primary level, particularly at the

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[32] De Silva, W.I., 2007, "Beyond Twenty Million: Projecting the Population of Sri Lanka 2001-2081", Demographic Transition and Pension Series No.6, IPS.

[33] IPS, 2011, *Census of Private, Co-operative and Estate Hospitals 2010*.

[34] Ministry of Health, *Annual Health Bulletin 2007*.

[35] IPS/UNDP, 2010, *Millennium Development Goals Country Report 2008/09*.

secondary and collegiate levels. Despite high access, almost a fifth of the children do not complete primary education at the appropriate age. There are wide disparities in school completion rates in major education cycles across economic groups, gender, sector, and provinces, while disparities rise for higher education cycles. The estate sector and males register the poorest performance in completion of compulsory and secondary education cycles. Disparities in completion rates of higher education cycles are also reflected in the GCE (O/L) and GCE (A/L) success rates. Lack of resources and teacher shortages are worst for schools situated in less developed districts, particularly schools in previously conflict-affected areas and in remote plantations.

Sri Lanka needs to improve enrolment at the post-primary levels, particularly at the senior secondary level. Particular attention should be given to improving school cycle completion among poorer groups, males, and those in the estate sector. Private sector participation can bring benefits. For instance, private investment in university education - operated under state regulation and standards - could improve the quality of education through competition, enhanced access to university education and resource mobilization, etc. Sri Lanka also needs to pay greater attention to broader skills development through the TEVT sector and tertiary education.

In the health sector, disparities are observed in the distribution of health facilities and resources. Sectoral discrepancies are evident in accessing safe drinking water and availability of toilets, and in indicators such as IMR and Under 5 mortality rate. Prevalence of being underweight, stunted and wasted is high among poor and estate children.

The development of social infrastructure has been recognized as a key factor needed for sustainable economic growth. As Sri Lanka aims to accelerate growth, it is critically important that the human capital needed to compete globally is developed. This requires that special attention be paid not only to education but also to the country's health system. A rapid demographic transition resulting in an ageing population, and emerging health risks such as NCDs are major health sector challenges, amidst efforts to rehabilitate education and health services in a post-conflict environment. Although Sri Lanka has a decentralized health system, prevalence of regional/spatial disparities suggests that it has not been used effectively. Lack of resources in primary health care units - the dearth of health personnel and other facilities (i.e., medical equipment and essential drugs) - affects delivery of health care services, especially in rural areas. This suggests that the government should place greater emphasis on strengthening primary health care units, which in turn would avoid creating bottlenecks at the secondary and tertiary health care units.

7. Agriculture Sector and Challenges to Inclusive Growth

7.1 Introduction

Since the late 1970s, Sri Lanka's growth and development objectives have been pursued through a relatively liberal, open market policy regime. Whether the resulting growth outcomes have helped all sectors of the economy comparably is open to debate. This is particularly pertinent in relation to the agriculture sector which still employs 33 per cent of Sri Lanka's total labour force but continues to have a majority of the poor. However, the framework of inclusive growth can provide a basis for inquiring whether this process has helped the agriculture sector to develop on par with the other sectors of the economy. This framework refers both to the 'pace' and 'pattern' of growth, which are considered interlinked and therefore need to be addressed together for achieving a high, sustainable growth record, as well as poverty reduction. For an economy to have inclusive growth, both the pace which reflects the rate of growth and the pattern that refers to equitable growth in all sectors, should be attained together. The analysis also focuses on ways to raise the pace of growth by utilizing more fully, parts of the labour force trapped in low-productivity activities or completely excluded from the growth process. As such, the inclusive growth framework shows promise as a model for evaluating growth processes where all sectors are not equally benefitted.

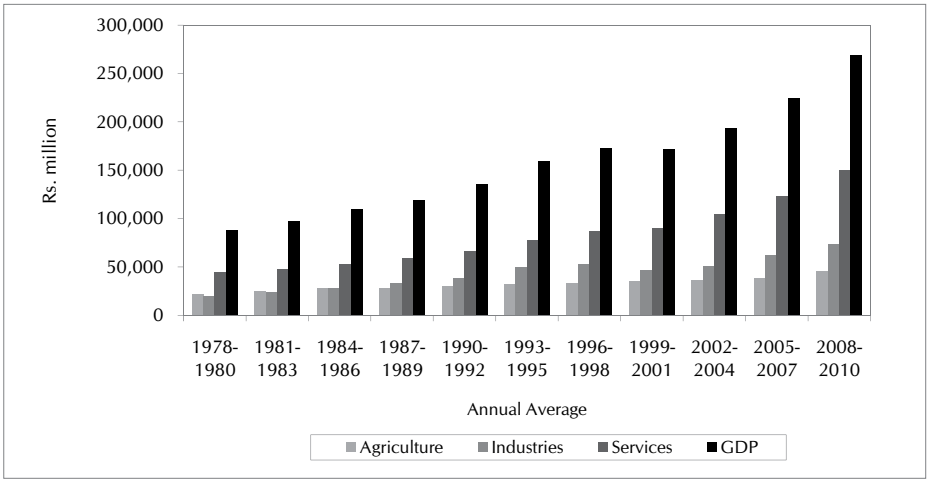
> ***"The open economy followed since 1977 has not been inclusive, at least on the count that the rural agricultural sector has not received its fair share from the growth process"***

Therefore, using the inclusive growth framework, this Chapter attempts to examine whether the liberal and export-oriented growth strategy adopted by Sri Lanka has benefitted the rural agriculture sector comparably with the rest of the economy. Agriculture in Sri Lanka consists of the export-oriented plantation sector and the rural based food crop production sector. Although both these are considered together in the early part of the analysis, the food crop sector which is larger and consists of a greater degree of poverty in absolute terms, is given priority in the later sections.

7.2 Economic Growth and Agriculture

As evident from Figure 7.1, the hitherto dominant plantation agriculture sector was progressively relegated to a much less important position as a contributor to the country's GDP over time. The outcome in the food crop production sector was even more drastic. Thus, the benefits of the initial post-liberalization growth did not permeate into the rural and plantation sectors where agriculture is the main economic activity and source of livelihood. Further, growth in industry was highly urban-biased and its benefits accrued mainly to the urban and peri-urban population. The 'inclusiveness' implications of these developments, in hindsight, do not appear to be very persuasive. A more concentrated effort to ensure a greater spread of industries across the country following further reforms in the early 1990s was a more

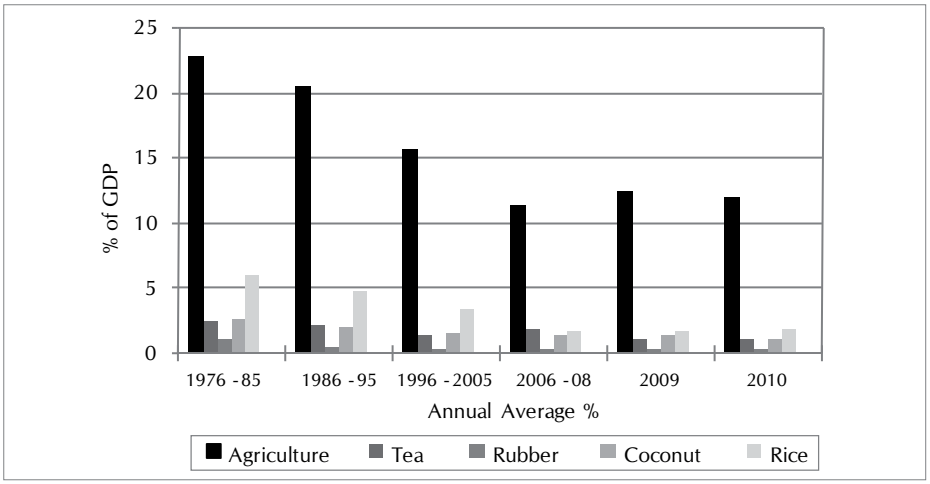
Figure 7.1
GDP Growth in Sri Lanka (1978-2010)



Notes: At constant prices.

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

Figure 7.2
Agriculture Sector Contribution to GDP (1976-2010)



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

positive development from an inclusive growth point of view, albeit a fairly modest improvement.[1]

Over the years, the relative contribution of agriculture to GDP continued to decline due to faster growth in industrial and services sector (Figure 7.2). But this growth has not helped the rural or agricultural sectors very much due to lack of backward linkages.

Despite efforts to raise productivity and competitiveness across economic sectors - e.g., declaration of 1996 as the 'Productivity Year' and 1996-2006 as the 'Productivity Decade' - there was no notable improvement in sectors such as industry due to institutional and macroeconomic challenges. Agriculture continued to record slow growth, driven primarily by expansion of cultivated extent due to the Mahaweli development scheme.

In more recent years, Sri Lanka's services sector has seen accelerated expansion and its future prospects too are considered to be relatively bright. Nevertheless, how inclusive such growth could be is debatable. A bulk of migrant workers leaving Sri Lanka for employment overseas is predominantly unskilled, and to a lesser degree semi-skilled workers. The relatively less educated from the rural agricultural sector constituted a substantial portion of the migrants, and consequently, the rural sector received tangible economic benefits. At present, however, services sector growth (both exportable and local) is concentrated mostly on skilled manpower. Until and unless the agricultural and non-agricultural rural labour force is provided with educational and vocational training facilities that enable them to enter this category, services led growth may result in growth that is not inclusive. The anticipated services sector driven growth might be realized in the short run by employing unemployed and underemployed youth from the urban and semi-urban sectors. Whilst the pace of growth could be appropriate in the short run, its pattern - i.e., providing opportunities for the majority of the labour force - may not be appropriate from an inclusiveness point of view.

As services growth picked up, Sri Lanka's agriculture sector has almost stagnated in absolute real terms. Although the relative contribution of agriculture to GDP declined sharply with faster growth of other sectors, it has seen Sri Lanka through a global food crisis without plunging the country into social and political turmoil. When it comes to food production, it is not the proportion but the absolute values that matter. This clearly suggests that growth of the food production sector has to be maintained at a reasonable level in the present context of growing food insecurity in the world. To do this successfully, the agriculture sector has to be an integral part of an inclusive growth strategy. Whether this has been the case in Sri Lanka during the last 30 years has to be examined in detail.

7.3 Employment and Poverty

7.3.1 Growth and Distribution of Employment

The major conduit which transmits the benefits of economic growth to the masses is growth of productive employment.[2] Sri Lanka's rate of unemployment has been declining steadily over the years to reach the lowest recorded rate of 4.9 per cent in 2010 (Table 7.1). During 2000-10, the labour force grew by 17 per cent. However, yearly labour force growth rates show that the labour force

[1] Other significant developments that influenced Sri Lanka's growth process came via multilateral tariff liberalization commitments under the WTO and other bilateral FTAs.

[2] A somewhat restrictive assumption is made that all recorded employment is of a 'productive employment' category.

is growing at a declining rate despite an increase in the working age (15 and over) population.[3] A decrease in the labour force participation (since 1990) is mainly responsible for this trend.

The share of the agricultural sector in total employment has declined from a high of over 50 per cent in 1977 to 33 per cent in 2010. There are of course fluctuations from year to year depending on annual volumes of agricultural production. Although there was a tendency to increase labour absorption into 'agriculture development' (as opposed to the 'agricultural sector'),[4] due to large agricultural development projects, particularly the Mahaweli project, this was a temporary phenomenon that ended in the late 1980s. A more sustainable generation or growth of employment as a result of such projects was relatively lower as the people who were provided with irrigation or received lands were those who were already engaged in agriculture and, therefore, listed as employees in the agricultural sector.

The decrease in the agricultural labour force from the late 1970s is usually attributed to labour absorption into the growing industry sector first, and later into the services

Table 7.1
Key Statistics of Labour Force

	1971	1981	1990	2000	2002	2004	2006	2008	2009	2010
Labour force ('000 persons)	n. a.	4,500	5,915	6,827	7,145	8,061	7,599	7,650	8,074	8,108
LFPR[a] (%)	35.4	33.8	50.7	50.3	50.3	48.6	51.2	50.3	48.7	48.1
Male	50.7	49.4	67.2	67.2	67.9	66.7	68.1	67.6	66.6	67.2
Female	19.1	17.6	34.7	33.9	33.6	31.5	35.7	35.0	32.8	30.7
Employment status[b] (%)										
Employees - Public sector	66.6	67.2	55.7	13.4	13.4	13.0	13.4	14.9	15.2	14.3
Private sector				42.9	44.5	46.4	42.1	41.1	42.1	41.2
Employers	3.1	1.7	1.5	2.3	2.8	2.9	3.1	3.0	2.6	2.6
Self-employed	25.4	28.4	29.8	28.4	28.6	28.3	30.8	30.2	29.2	31.5
Unpaid family workers	5.2	2.6	13.0	13.0	10.7	9.4	10.5	10.8	10.6	10.4
Composition by economic activity (% of total)										
Agriculture	50.1	45.9	47.7	36.0	34.5	33.5	32.2	32.7	32.6	32.7
Industry	12.8	18.5	20.5	23.6	20.9	22.8	26.6	26.3	25.1	24.2
Services	28.5	35.6	31.8	40.3	44.7	43.7	41.2	41.0	42.3	43
Unemployment rate (%)	14	17.9	16.3	7.6	8.8	8.3	6.5	5.2	5.8	4.9
Male	n. a.	13.1	12.5	5.8	6.6	6.0	4.7	3.6	4.3	3.5
Female	n. a.	32.0	23.5	11.1	12.9	12.8	9.7	8.0	8.6	7.7

Note: a: Labour Force Participation Rate; b:Includes unspecified employment of 0.8 per cent for 1971.
Sources: DCS and CBSL, *Annual Report*, various issues.

[3] Samaratunga, P.A., 2010, "Impact of Global Economic Crisis and Agriculture Sector in Sri Lanka", paper presented at a conference on "Global Economic Crisis and its Impact on South Asian Agriculture", Beijing, 2010.

[4] The agriculture sector is defined to consist of resources and employment involved in (annual) agricultural production. A large segment of population working in expansionary development projects are not considered to be a part of the agricultural sector, but rather as a part of the construction sector. The agricultural development sector above is defined to include those who are engaged in such development activities as well.

sectors. In addition, out-migration of Sri Lankan labour for employment abroad contributed to this change as well, especially from the mid-1980s. But, for such labour absorption to be inclusive in nature, the employment generated should be of high quality, belonging to the productive employment category. The lack of strong backward linkages from the industrial expansion that followed liberalization - particularly in key export sectors such as garments - hampered the generation of productive employment. The rural and agricultural labour was not ready to benefit from industrial growth as they lacked the skills needed by most industries except the garment industry. The employment created was also largely related to activities like import trading which is of a less productive nature.

On the other hand, those who are employed in the agricultural sector may not be considered as fully employed because, even in the current state of apparent labour shortages in the rural sector, the jobs available are largely seasonal and do not secure year-round employment. These characteristics of employment generation cast serious doubts on the validity of assuming that all employment growth is in productive employment - a necessary condition for inclusive growth. Even at present, informal sector employment accounts for over 60 per cent of total employment in Sri Lanka. These developments suggest that Sri Lanka's workforce remains vulnerable to socio-economic stresses in the event of job lay-offs. Thus, the nature of employment that is generated matters for inclusive growth, particularly where surplus rural agrarian labour needs to be absorbed by other more dynamic sectors of the economy.

7.3.2 Land and Rural Poverty

Poverty levels in Sri Lanka have been declining over time, with the highest drop recorded between 2006/07 and 2009/10. Whilst rural poverty too has also been on the decline, at any given time, the percentage of the poor in rural areas appears to be greater than in the urban sector (and less than in the estate sector). In absolute numbers, the rural population below the poverty line is higher compared to both urban and estate sectors. For example, in 2009/10, out of 1.8 million poor people in Sri Lanka, 1.5 million are estimated to be from the rural sector. The agriculture sector still has the highest absolute number of poor people in Sri Lanka.

Poverty has its roots in low endowments. Amongst other factors, the rural poor lack land, physical and liquid capital, education and social standing, etc. In the Sri Lankan rural sector where 60 per cent of the population depends on agriculture, rural poverty is synonymous with agricultural poverty. Although many factors contribute to poverty in agriculture, scarcity of land can be singled out as the major cause of poverty.

Table 7.2 provides information of land ownership by all land holdings as well as that of rice and highland as well.[5] The largest proportion of the poor is the landless. Those with no land in the rice sector appear to be among the worst of the poor in this category. This is partly because earnings from casual employment from rice are low as rice is a low-income crop in many parts of the country, and wage rates are also lower consequently. In all land holding size classes, contribution to poverty decreases with increasing size of holdings. The data also shows that size of landownership is highly skewed. The proportion of those who own lands larger than 4 acres is small. Landless-

[5] As land is the major asset of farmers, as well as non-farmer inhabitants in rural Sri Lanka, access to land is used here as a proxy for access to assets.

Table 7.2
Incidence of Poverty by Land Holding Size (1995/96)

Land Size	Incidence of Poverty (%)						Population Share of Total Land
	All Land Holdings[a]		Rice Land Holding		Highland Holding		
	Index	Contribution	Index	Contribution	Index	Contribution	
Landless	29.3	16.0	27.5	79.4	29.3	16.8	14.7
0 < 1/8	23.4	14.2	24.9	0.4	23.3	14.7	16.3
1/8 – 1/4	20.8	8.4	24.9	1.2	20.8	8.8	10.8
1/4 – 1/2	28.4	13.3	24.1	3.3	28.2	14.8	12.6
½ < 1	30.8	17.3	28.7	6.3	29.9	19.3	15.1
1 -< 2	28.3	14.4	24.1	4.6	28.7	15.3	13.7
2 - < 3	31.0	8.2	24.7	3.5	31.9	7.3	7.1
3 - < 4	28.5	4.4	18.7	0.7	23.3	1.3	4.1
4 - < 5	20.4	1.5	10.9	0.1	12.1	0.4	2.0
5 - < 10	15.8	1.5	11.7	0.3	16.1	0.6	2.5
10 - < 20	16.9	0.4	15.6	0.1	21.2	0.4	0.6
> 20	21.7	0.5	33.5	0.2	17.7	0.3	0.6

Note: a: All holdings of rural and estate sectors.
Source: Gunewardena, D., 2000, "Consumption Poverty in Sri Lanka, 1985-1996: A Profile of Poverty Based on Household Survey Data", mimeo.

ness and uneconomical small holdings have been an ever worsening problem in the 20th Century in Sri Lanka due to a continuously growing population. Before 1950, however, this problem was redressed through developing unutilized land in the dry zone and settling people from highly populated areas. But, by the late 1970s, Sri Lanka had almost exhausted this potential. Despite the accelerated Mahaweli development programmes, extremely limited availability of developable land restricted the allotment size of new settlers to 2.25 acres, as against 8 acres per family in early settlements. Thus, efforts at inclusive growth outcomes were often hampered by natural resource constraints.

7.4 Agriculture Sector Growth

Despite constraints faced, agriculture continues to be an important sector of the Sri Lankan economy in terms of its contribution to GDP, employment and income. Whilst the absolute contribution of this sector to GDP has more than doubled over the period 1978-2010, its relative contribution has declined from 23 per cent to 12 per cent in 2010 over the same period. The composition of the contribution of different subsectors of agriculture shows that rice is the single crop that has consistently been responsible for the highest share, but at the same time recording the steepest decline over the years. This indicates that the food crop sector - amply represented by rice - has declined more severely in its GDP contribution, compared to the plantation crops. The rest of the discussion will, therefore, concentrate on the food crop sector which appears to have been the least included in Sri Lanka's growth process in recent decades.

7.4.1 Food Crop Sector Growth

The requirement of crop based food items in Sri Lanka are met with local production as well as imports. Currently, more than three-fourths (77 per cent) of food commodities are produced domestically, while slightly less than one-fourth (24 per cent) is imported (Table 7.3). The amount of food exports from

Table 7.3
Annual Average Food Availability by Major Food Commodity Groups (2000-09)

Commodity Group	Gross Availability	Production		Exports and Change in Stock		Imports	
		Qty (000 Mt)	% Availability	Qty. (000 Mt)	% Availability	Qty. (000 Mt)	% Availability
Cereals	3354.8	3144.9	93.8	292.4	34.6	889.3	26.5
Roots, tubers & other starchy food	417.2	377.4	90.5			65.0	15.6
Sugar	557.9	49.8	8.9			492.3	88.2
Pulses & nuts	147.5	34.0	23.9			113.5	76.9
Vegetables (incl. onions)	989.7	863.8	87.3	22.1	2.2	64.8	6.5
Fruits	365.3	328.1	89.8	4.2	1.2	41.9	11.4
Meat	121.2	119.3	98.4	0.1	0.1	2.0	1.7
Eggs	55.4	53.3	96.1				
Fish	369.2	308.5	83.6	48.6	13.2	76.1	20.6
Milk	271.2	213.0	78.5	77.3	28.5	58.2	21.5
Oils & fats (incl. coconut)	986.4	1026.8	104.1	107.5	10.9	16.3	1.6
Total	7635.9	6518.9	85.4	552.2	0.7	1327.2	17.4

Notes: The availability does not add up to 100 as other elements such as losses, net change in annual stocks, etc. are excluded.

Source: DCS, *Food Balance Sheet*, various years.

total domestic food production is very insignificant at just over 1 per cent. At individual commodity level, local production of all major crop based food items except wheat flour, other cereals, sugar and pulses and nuts which are imported in bulk quantities, exceeds 75 per cent of total availability.[6]

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. Food imports as a percentage of total imports has declined from 9.3 per cent in 1977-80 to 7.3 per cent in 2007-10, and food imports as a percentage of total value of annual food consumption has declined from 12 per cent to 10.7 per cent for the same period. This shows that Sri Lanka has brought down its import dependence for food over the last 35 years and credit for this should go to the domestic food production sector. However, it is worth examining under what conditions this growth took place, and how far it was included in the overall growth process of the period.

As Table 7.3 indicates, even the politically coveted goal of food self-sufficiency has not yet been achieved in Sri Lanka even after decades of agricultural development efforts. But this is not to say that the food crop production sector has not expanded and developed. Table 7.4 provides an insight into the domestic food production sector as well as some of its problems. The extents cultivated by major food crops have been constant since 2000 but this level is considerably higher compared to the 1970-79 period mainly due

[6] Computed based on DCS, *Food Balance Sheets*, various years.

Table 7.4
Extent and Production of Major Food Crops (1970-2009)

		Average 70-79	Average 80-89	Average 90-95	Average 96-00	2001	2002	2003	2004	2005	2006	2007	2008	2009
Rice	Extent (ha)	772400	853100	846201	819374	798259	852529	982617	778549	937175	910490	816713	925000	842000
	Production ('000 Mt)	1955	2333	2555	2542	2695	2860	3072	2609	3246	3342	3131	3875	3652
	Yield (Kg/ha)	2301	3310	3447	3658	3953	3893	3761	4086	3963	4137	4421	4187	4336
Maize	Extent (ha)	30355	37904	31399	28806	25712	23413	27060	23421	28401	32000	34190	51608	50857
	Production (Mt)	44170	40058	32412	30982	28755	26417	29645	35201	41804	47530	56440	112300	129800
	Yield (Kg/ha)	970	1075	1032	1076	1118	1128	1096	1503	1472	1485	1651	2200	2600
Pulses	Extent (ha)	54755	51635	50746	40727	28865	30765	21743	14641	18933	29220	29070	32122	38532
	Production (Mt)	31442	50151	50392	35788	25304	27010	32403	23814	32086	30750	31920	43700	46800
	Yield (Kg/ha)	809	924	993	879	877	878	1490	1627	1695	1052	1098	1900	1500
Roots/ Tubers	Extent (ha)	58403	54890	53540	42929	39400	40687	40157	35050	35669	35510	34420	33482	23465[a]
	Production (Mt)	584036	531489	469192	363141	339803	361158	344640	341767	343832	346190	346470	74800	61700
	Yield (Kg/ha)	12695	129141	8763	8459	8624	8876	8582	9751	9640	9749	10066	15400	14900

Note: a: Does not include Potatoes.

Source: CBSL, *Annual Report,* various issues and DCS.

to new land being brought in under the Mahaweli development project.[7] The near constancy since 2000 is due to the lack of new arable land to be brought under agriculture.

Presently, 1.2 million hectares of high land and 0.7 million hectares of low land are available for crop production, and about 80 per cent of this total arable extent is annually cultivated. As such, even under most favourable economic and natural environment conditions, only a 20 per cent increase in area cultivated can be expected. Under the current yield levels, therefore, production cannot reach the national requirement even under the present levels of per capita food consumption. As the population is growing at 1.1 per cent annually and per capita income is rising at 15 per cent per year,[8] the national requirement will be rising constantly in the years to come, and consequently, area expansion will not be a solution to this growing food requirement.

Possible solution to this problem from the domestic production and farm income fronts should, therefore, come through yield improvement. Table 7.4 shows that the yield levels of domestically grown food crops have been stagnant for nearly 20 years at levels non-impressive even by developing country standards, except for rice. This situation has been a result of a severe lack of investment on agricultural research and extension in Sri Lanka since the late 1970s.

Figure 7.3 depicts public spending on agricultural research as a percentage of agricultural GDP in Sri Lanka over the years. The investment in agricultural research had an upward trend during the green revolution starting around 1970s. It is clear that this investment started declining in the late 1970s - coinciding with the opening up of the Sri Lankan economy - and continued on a negative trend thereafter. This has been as low as 0.6 per cent of agricultural GDP of the country as against the internationally accepted standards of around 4 per cent. Figure 7.3 also indicates that the yields of rice and other important food crops started stagnating following this turn of events, after a long period of impressive growth. The yield stagnation combined with the restriction of area expansion to an apparent maximum at the completion of the accelerated Mahaweli diversion programme brought the growth of food crop production sector to a halt (see Table 7.3).

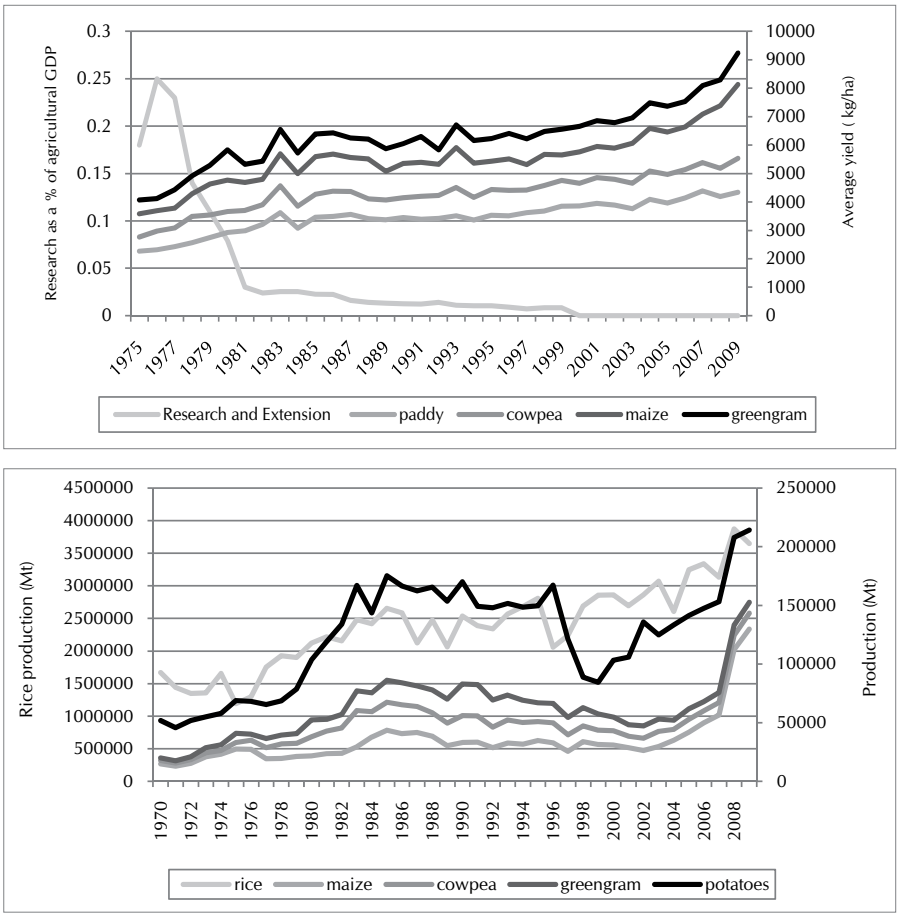
The impact of stagnant crop production technology is reflected in declining profitability (Table 7.5). Profitability in nominal terms may be stagnant or increasing slightly in some cases, but they have been declining in real terms over recent years. In fact, these are financial net returns and the effects of government interventions are not netted out. Consequently, the social net returns would be even lower as the agricultural sector of Sri Lanka is supported by incentive prices and a fertilizer subsidy. The impacts of these subsidies on productivity are questionable but their income distribution effect is the intended benefit: an unsustainable surrogate for inclusive development. This leads to the conclusion that agricultural policy during recent years, with the exclusion of the irrigation subsidy, has not helped the food crop production sector of Sri Lanka to grow on par with the rest of the economy.

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[7] Land and irrigation development programmes have been undertaken since 1930 up to the final stage of the Mahaweli river diversion scheme completed in the early 1990s, marking the end of an era of area expansion in agriculture in Sri Lanka.

[8] On the basis of the average percentage change in per capita GDP for the period 2000-07.

Figure 7.3
Investment in Agricultural Research and Extension and Productivity Growth



Source: DCS and CBSL, *Annual Report*, various issues.

Low productivity, combined with small farm sizes averaging at 0.48 ha,[9] do not provide an adequate income for farmers to meet their consumption needs, let alone to invest on farm improvements and innovations. In fact, as evident from Table 7.5, private net returns in real terms have not increased over the last two decades. Under these circumstances, agriculture survives due to direct and indirect support measures provided by the government, and partly due to lack of alternative employment opportunities in the non-farm sector. The economic costs of these measures are a reflection of the unsustainable and misdirected measures adopted by governments to maintain domestic food crop production. This is far from any acceptable notion of inclusive growth.

Under the liberal, open economic model, the rural agricultural sector could have been comfortably accommodated by converting the less productive traditional food crop sector into a competitive export crop production sector through diversification. This called for increased investment in research and development (R&D) on diversified agriculture. Unfortunately, reduced in-

[9] DCS, *Census of Agriculture 2002*.

Table 7.5
Profitability of Some Major Food Crops in Sri Lanka: 1990-2007 (Rs/ac)

	Paddy				Maize			
	Nominal		Real[a]		Nominal		Real[a]	
	NRAIC	NRBIC	NRAIC	NRBIC	NRAIC	NRBIC	NRAIC	NRBIC
1990	1364	4412	1364	4412	n.a	n.a	n.a	n.a
1993	-422	3556	-304	2558	-1341	2190	-959	1576
1996	-1894	2560	-981	1326	n.a	n.a	n.a	n.a
1999	-845	4839	-342	1959	769	8032	311	1797
2002	-1250	3558	- 380	1081	6582	14420	2001	4283
2006	3171	11252	665	2415	8368	22129	1754	4639
2007	6902	11045	1225	1962	8671	15975	1540	2837
	Potato				Gingelly			
	Nominal		Real[a]		Nominal		Real[a]	
	NRAIC	NRBIC	NRAIC	NRBIC	NRAIC	NRBIC	NRAIC	NRBIC
1990	47555	52632	47555	52632	538	1915	538	1915
1993	n.a	n.a	n.a	n.a	1479	3244	1064	2334
1996	18801	42323	9741	21929	5059	8004	2621	4147
1999	24807	36248	10043	14675	n.a	n.a	n.a	n.a
2002	95146	110630	28920	33636	1394	8576	424	2606
2006	70873	127897	14858	26812	1899	10171	398	2132
2007	n.a	n.a	n.a	n.a	1919	6058	341	1076

Note: a: Deflated using the food component of the CCPI (1952=100); NRAIC = Net Returns After Adding Inputed Costs; NRBIC = Net Returns Before Adding Inputed Costs; n.a. = Not Availalbe.

Source: CBSL and Department of Agriculture, *Cost of Cultivation Report*, various years.

vestment in any form of agricultural technology generation and a continuation of the traditional political objective of self-sufficiency in food through area expansion alone, proved insufficient. A key opportunity of including agriculture in Sri Lanka's expanded growth process was missed due to inconsistent policy directions.

7.5 Where things Went Wrong

The overall conclusion that can be drawn from the preceding discussion is that the rural agricultural sector has not received its fair share from the growth process under a liberal market economic framework. The growth process, as was mentioned earlier, could be right in its pace, but wrong in pattern.

The reasons for the wrong pattern were threefold. The first was the preconception that the open economy, export-led growth process has no place for rural agriculture which was oriented towards domestic food production. High expectations of enhanced foreign exchange earnings from expanding industrial and services sectors, combined with declining food prices in the world market in the 1980s and 1990s could have contributed towards such reasoning. What was ignored here is that the rural agricultural sector could be a part of export-led growth if necessary product diversification was promoted. What was unforeseen, on the other hand, was that the rosy prospects for the world food market were short-lived due to growing demand for food worldwide, and under-investment in agricultural research by national

governments as well as the international donor community. A gradual rise in food prices that started around 2000 gathered momentum in 2008, resulting in a renewed interest in domestic food production in almost all food importing countries.

A second reason, was the expectation that a rapidly growing industry and services sectors would absorb the surplus rural labour force so that they would be 'included' in the growth process from early on. The above discussion assessed why this prospect was not realized - i.e., lack of backward linkages and skills mismatches of the rural populace for the jobs made available.

A third reason for the non-inclusiveness was the adoption of inconsistent policy objectives and strategies. While export promotion was the policy for the industrial sector, import substitution and self-sufficiency was the policy for rural agriculture. No attempt was made to exploit the opportunities opened by liberalization for agricultural exports. Even the objective of self-sufficiency was attempted through area expansion with non-viable small holdings, while the mandatory technological change process was crippled by severe under-investment. The result was stagnation of productivity and income of the rural farming community, leading to high incidence of poverty.

7.6 Way Forward

The way forward is mainly in the correction of past mistakes - making the pattern right through necessary structural change. The first step in this direction is to get the right perspective. As over one-third of the population is agriculture-dependent, and the employment opportunities offered by the present industrial and services sector growth are not directly accessible to the rural (and mainly agricultural) poor, the present structure of the Sri Lankan economy is not likely to undergo a drastic change in the near future. The rural agricultural sector will remain in its present form with only moderate changes in the medium run. On the other hand, even within a non agriculture-led export growth process, there is a niche for rural agriculture - firstly, as an export-oriented venture, and secondly, as an undertaking to ensure food security.

In this context, Sri Lanka's current development efforts are likely to offer mixed results in terms of its agricultural development orientation. On the positive side, the strong political will to lay an overall policy foundation encompassing the rural sector in the country's growth process is encouraging. The increased sensitivity shown by the state, particularly in the light of growing global food shortages in recent years, towards solving the food security problem in the country is another positive sign. Although not a direct input to agriculture, the present drive to improve rural infrastructure, particularly rural road networks, also holds significant potential to promote rural agricultural growth. In spite of these positive attributes, rural agriculture in Sri Lanka is still suffering from some major deficiencies that thwart its growth, in parallel to industrial and services sectors.

The main drawback is in relation agricultural investment. The role of public investment is of paramount importance in this regard as rural agriculture depends largely on public goods. Hitherto ignored research and extension have to be revived with the dual objectives of enhancing domestic food production and developing an export-oriented agriculture sector. Neglect of agricultural research and extension over recent decades was mainly due to the industry bias in economic policy, and too high expectations of policy makers that industrial growth would generate employment and absorb the surplus agricultural labour force. Further, it was also expected that private sector investment would

substitute for public sector investment, at least partially.[10] However, despite the importance given to developing the rural sector, these issues continue to remain unaddressed.

Indeed, what Sri Lanka's agricultural sector needs at this stage is complementary investment. Physical infrastructure and skilled manpower needed for developing new agricultural technology is already present in institutions such as the Department of Agriculture and the Department of Export Agriculture. What is needed is a comparatively limited additional investment to activate existing resources to generate new agricultural technology. Significant investment in irrigation and land development has already taken place over many decades. Presently, further investments are being made in rural roads and IT facilities. All these can yield optimal returns only if complementary technological inputs are in place.

Developing international competitiveness may not be the aim in the case of domestic food production, but depreciated agricultural incomes have to be raised without burdening consumers. In the case of export promotion, however, research should look into diversifying uneconomical traditional food crop production into high value, labour-intensive products with comparative advantage, such as horticultural products. In addition to such horizontal diversification, vertical diversification in food processing is another avenue to utilize surplus labour available in farm households. The SME sector may be integrated into this process generating rural non-farm employment. The bottom line of all these, is increasing land and labour productivity in the rural agricultural sector, and thereby improving rural incomes to a level comparable with that of the rest of the economy. Institutional innovations and infrastructural developments that reduce transaction costs in agriculture are also vital in this respect.

In the end, all such efforts to promote the rural agricultural sector are not aimed to perpetuate small scale agriculture that employs a larger portion of the country's labour force. In the long run, the inevitable shrinking of the rural sector in terms of employment share will take place. But as mentioned earlier, this did not happen in Sri Lanka because the expansion of other sectors did not offer many opportunities that are accessible to the rural youth who were lagging behind in education and technical skills. Imbalances in social services and infrastructure, leading to such hindrances to the inclusion of the rural labour force in the growth process, should be minimized in the long run to facilitate the final exodus of the surplus rural agricultural labour force. Only this would enable the remaining farmers to have larger farms, exploit economies of scale, and have income levels comparable to other sectors, completing the inclusive growth process.

[10] See IPS, 2008, "Does 'Foodflation' Call for Agricultural Reforms?' in *Sri Lanka: State of the Economy 2008*.

8. Inclusive Growth and the Fishery Sector

8.1 Introduction

Sri Lanka's fishery sector contributed 1.2 per cent to GDP in 2010 and 2 per cent of the country's total exports. Its contribution to economic well-being, however, is wider; it ensures food security by supplying 70 per cent of the animal protein requirement of the country, and provides a source of livelihood for many poor people who reside in the coastal belt of the country.[1] Available data suggest employment in fisheries to be 6.5 per cent of the country's total employment.[2] However, employment in the fishery sector is largely informal, and the majority of jobs involve small scale operations except for a few commercial operators with modern facilities. This makes fishery workers one of the most vulnerable groups in terms of economic, social and geographical dimensions in Sri Lanka.

> ***"Expansion of fish exports does not necessarily provide for inclusive growth in the context where benefits are limited to a few stakeholders in the upper levels of the export value chain"***

The high resource potential in the fishery sector and growing demand for its output has clear relevance for not only supporting Sri Lanka's overall growth objectives, but also its broader socio-economic developmental vision. Fishery sector developments hold the potential to improve the welfare of a large marginalized and vulnerable group in the country. As such, this Chapter aims to provide an overview of the fishery sector in terms of performance and employment outcomes, assess the ongoing and planned development activities within the sector, and examine ways of making the development activities more inclusive with appropriate policy suggestions.

8.2 Sri Lanka's Fishery Sector: An Overview

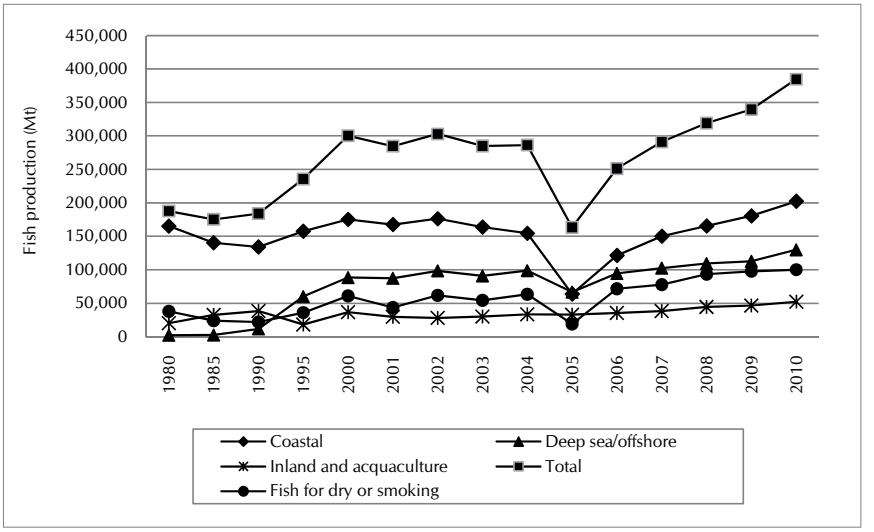
8.2.1 Fish Production

The contribution of the fishery sector to Sri Lanka's GDP has stagnated at around 1.2 per cent, despite a

[1] DCS, *Food Balance Sheet 2009*.

[2] Ministry of Fisheries and Aquatic Resources, *Fisheries Statistics 2010*.

Figure 8.1
Total National Fish Production by Sub-sector (1980-2010)



Source: Ministry of Fisheries and Aquatic Resources, Statistical Unit.

gradual increase in total fish production over the years (Figure 8.1). A drastic reduction in 2005 following the December 2004 tsunami disaster was followed by a sharp recovery in 2006. A decline in the rate of growth in fish production thereafter in 2007-09 reversed in 2010, largely as a result of the resumption of fishing activities in previously conflict-affected N&E of the country.

Table 8.1
Marine Fish Production by District

Fishery District	Marine Fish Production (MT)					Percentage Change in 2010 (%)
	2006	2007	2008	2009	2010	
Colombo	590	510	1,030	830	1,990	139.8
Negombo	29,070	5,710	37,820	37,490	28,250	-24.6
Kalutara	30,530	9,950	39,580	33,100	43,360	31.0
Galle	15,530	7,820	16,800	24,930	21,830	-12.4
Matàra	38,480	8,460	47,810	44,180	38,970	-11.8
Hambantota	15,590	0,990	20,850	20,990	20,170	-3.9
Kalmunai	11,490	2,810	15,050	16,260	16,380	0.7
Batticaloa	8,930	1,710	21,850	24,530	39,610	61.5
Trincomalee	6,270	8,150	17,980	27,690	36,250	30.9
Mulaittivu	850	360	260	-	1,360	
Kilinochchi	820	590	360	-	560	
Jaffna	11,220	5,130	6,830	13,080	20,890	59.7
Mannar	12,990	9,170	7,390	8,130	10,790	32.7
Puttalam	14,910	7,130	18,960	20,010	24,830	24.1
Chilaw	18,710	4,180	22,060	21,950	27,020	23.1
Total	215,980	52,670	274,630	293,170	332,260	13.3

Source: Ministry of Fisheries and Aquatic Resources, Statistical Unit.

8.2.2 Fishery Sub-sectors

Sri Lanka's fishery sector can be divided into three sub-sectors based on the diversity of resource base, spatial differences where fishing is taking place, and types of craft and methods used for fishing - i.e., coastal, offshore and inland fisheries and Aquaculture.

Coastal fishing: Coastal fishing takes place within the continental shelf and is largely a small scale industry, characterized by multi-species and multi-gear fishing. Except multi-day boats and inland oru, all other boats are used in coastal fishing (Table 8.2). The sub-sector caters mainly to the local market, except where a small proportion of catch received by one-day boats (IDAY) go to the export market. Despite the continued dominance of coastal fishing, its share in total fish production declined until 2007. From 2008, coastal fish production began to rise once again due to the relaxation of restrictions on fishing and various fishery development activities under the N&E development programmes. In 2010, the sub-sector contributed 52.5 per cent of total national fish production.

As evident from Table 8.1, marine fish production (both coastal and offshore) has increased significantly in the N&E districts in 2010 - by 62 per cent in Batticaloa, by 60 per cent in Jaffna, by 33 per cent in Mannar and by 31 per cent in Trincomalee. In addition, Kalutara, Puttalam and Chilaw also recorded increases in the range of 20-30 per cent. However, significant declines in fish production in major fishing areas such as Negombo, Galle, Matara and Hambantota are also observed, perhaps owing to migration of fishers back to own areas in the N&E.

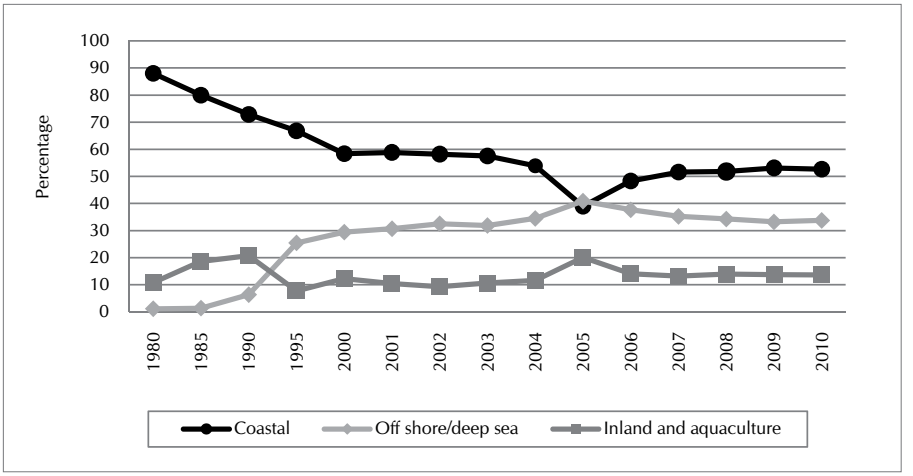
Table 8.2
Changes in Total Fishing Fleet

Year	Inboard Engines		Outboard Engines		Traditional including NBSB	Inland Oru NTRB	Total Fishing Craft (Oru/Tubes)
	IMUL	IDAY	OFRP	MTRB			
1995	1,639	1,357	8,564	1,060	31,169	14,649	3,900
1999	1,419	1,275	8,623	1,274	32,091	14,900	4,600
2000	1,430	1,170	8,690	1,205	32,295	15,100	4,700
2001	1,572	993	8,744	640	32,349	15,200	5,200
2002	1,614	1,112	9,033	776	33,735	15,600	5,600
2003	1,530	1,486	11,020	618	35,494	15,040	5,800
2004	1,581	1,493	11,559	674	36,567	15,260	6,000
2005	1,328	1,164	11,010	1,660	36,101	14,739	6,200
2006	2,394	907	13,860	1,842	41,850	16,347	6,500
2007	2,460	1,060	15,200	1,680	43,640	16,640	6,600
2008	2,809	1,140	15,847	1,959	46,103	17,178	7,170
2009	2,934	958	17,193	2,126	49,014	18,243	7,560
2010	3,341	1,177	18,770	2,680	53,148	19,190	7,990

Notes: IMUL = In-board multi-day boats, IDAY = In-board one-day boats, ORFP = Out-board engine fibreglass reinforced boats, MTRB = Motorized traditional boats, NTRB = Non-motorized traditional boats, NBSB = Beach seine boats.

Source : Ministry of Fisheries and Aquatic Resources, Statistical Unit.

Figure 8.2
National Fish Production (1980-2010)



Source: Ministry of Fisheries and Aquatic Resources, Statistical Unit.

A few studies prior to the 2004 tsunami found that coastal resources in Sri Lanka have reached their optimum level of exploitation.[3] However, post-tsunami rehabilitation efforts resulted in increasing the country's fishing fleet, making coastal fishing very competitive. Rising pressure on coastal fishing has led to comparatively low fish catches in most areas. Thus, apart from the Northern Province where coastal fishing was not very significant over the years, further expansion is not possible. However, expansion of coastal fishing even in the Northern districts such as Jaffna, Kilinochchi, and Mannar has become problematic due to conflicts with Indian fishermen in the Palk Bay. Since Sri Lanka had not been practising coastal fishing in these areas due to the conflict, South Indian fishermen have taken undue advantage to fish in Sri Lankan waters. The practice of Indian fishermen crossing the boundary line and poaching shrimp resources that are abundant on the Sri Lankan side of the Bay with the use of large scale destructive trawlers, has negative implications not only on the sustainability of fishery resources, but also on damages to local fishing vessels and gear.

Offshore fishing: Offshore/deep sea fishing - the most dynamic sub-sector showing a steady growth over the years - is the second largest sub-sector, and is mainly focused on export markets (Figure 8.2). Offshore fishing is taking place outside the continental shelf and beyond, extending to the edge of the Exclusive Economic Zone (EEZ) with the use of multi-day boats (IMUL). Compared to 2004, the number of multi-day boats has doubled by 2010 (see Table 8.2). The contribution of the sub-sector to total national fish production was 39 per cent in 2010.

Deep sea fishing is the main sub-sector which contributes to exports. About 14-19 per cent of deep sea fish production and 6-7 per cent of marine fish production are exported. Fish exports have experienced a slight decline over the past two years due to the global

[3] Dayaratne, P., M. M. Gunaratne and Alwis, 1995, "Fish Resources and Fisheries in a Tropical Lagoon System in Sri Lanka, *AMBIO,* Vol. 24, pp. 402-16; Wijayaratne, B., 2001, "Coastal Fisheries in Sri Lanka: Some Recommendations for Future Management", Ministry of Fisheries and Aquatic Resources Development, Sri Lanka.

economic downturn and loss of GSP-plus benefits to the EU. Despite the potential for further expansion of production, heavy initial investment to buy new multi-day boats and high operational and maintenance costs are deterrents to the average fisher folk. Many of the existing multi-days boats are also not equipped with modern advanced technology to assure high quality of fish and efficient use of fuel. Improved new technology is necessary to increase productivity as well as quality of fish. However, such improvisations are not possible with some existing boats.

Inland fisheries and aquaculture: Inland fisheries and aquaculture is the smallest sub-sector, contributing around 13-14 per cent of fish production. It has vast potential for expansion owing to availability of inland water bodies throughout the country. This sub-sector comprises capture fisheries and culture fisheries. Capture fisheries are mainly carried out in major irrigation, minor irrigation and seasonal tanks spread across the country. In 2010, Matara and Kalutara districts recorded 33 and 25 per cent growth, respectively, in inland fish production while Mannar, Kurunegala, and Moneragala also fared well (Table 8.3).

Ornamental fish is also one of the growing sectors coming under inland fisheries, which shows significant potential in the export markets where Sri Lanka already holds 3-4 per cent of the global market share.

Table 8.3
Inland Fish Production by Districts

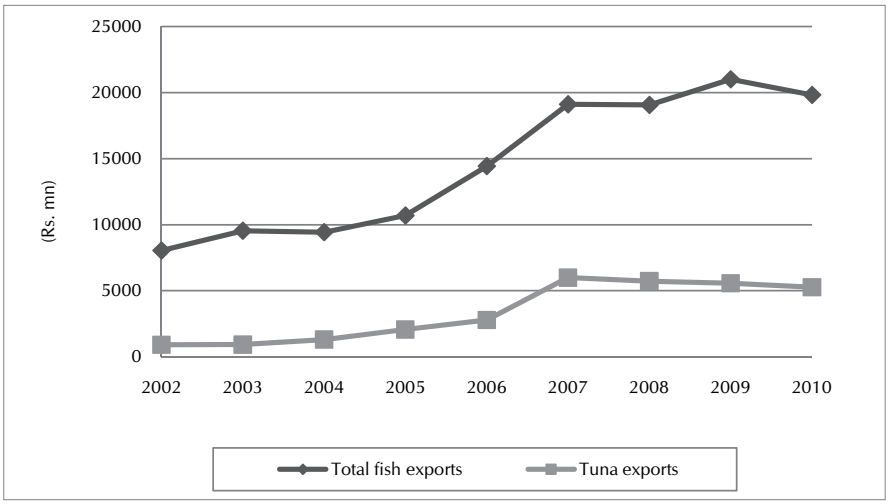
District	Inland Fish Production			Percentage Change in 2010 (%)
	2008	2009	2010	
Colombo	120	110	120	9
Gampaha	210	180	190	6
Kalutara	60	80	100	25
Kandy	270	290	320	10
Matale	520	640	720	13
Nuwara Eliya	100	90	90	0
Galle	50	50	60	20
Matara	20	30	40	33
Hambantota	3,270	2,720	3,280	21
Jaffna	60	70	80	14
Mannar	320	180	220	22
Vavuniya	260	420	490	17
Mulaittivu	n.a.	n.a.	10	
Kilinochchi	n.a.	n.a.	10	
Batticaloa	1,750	1,680	1,640	-2
Ampara	5,240	5,430	6,140	13
Trincomalee	1,650	1,720	1,840	7
Kurunegala	4,190	3,590	4,390	22
Puttalam	5,290	5,290	5,820	10
Anuradhapura	9,680	10,770	11,920	11
Polonnaruwa	7,320	7,280	7,950	9
Badulla	960	1,140	1,240	9
Monaragala	1,910	2,460	2,950	20
Ratnapura	1,210	2,320	2,770	19
Kegalle	30	20	20	0
Total	**44,490**	**46,560**	**52,410**	**13**

Source: Ministry of Fisheries and Aquatic Resources, Statistical Unit.

8.2.3 Fish Exports and Imports

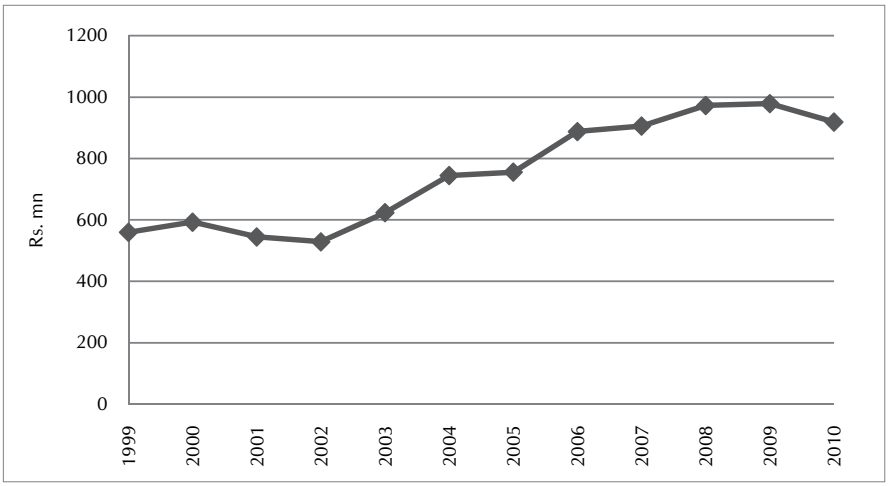
There had been a gradual increase of total fish exports from early 2000 to 2005. From 2005, fish export earnings increased at a higher rate due to the GSP-plus scheme which enabled better access to the EU market.[4] However, earnings from fish exports declined slightly in 2009 with a further drop in 2010 (Figure 8.3). This may be due to the loss of GSP-plus benefits to the EU market, as well as the lower demand arising from the global economic downturn. A steady growth in ornamental fish exports also saw a slight reversal in 2010 (Figure 8.4).

Figure 8.3
Fish Exports (2002-2010)



Source: Ministry of Fisheries and Aquatic Resources, Statistical Unit.

Figure 8.4
Ornamental Fish Exports (1999-2010)



Source: Ministry of Fisheries and Aquatic Resources, Statistical Unit.

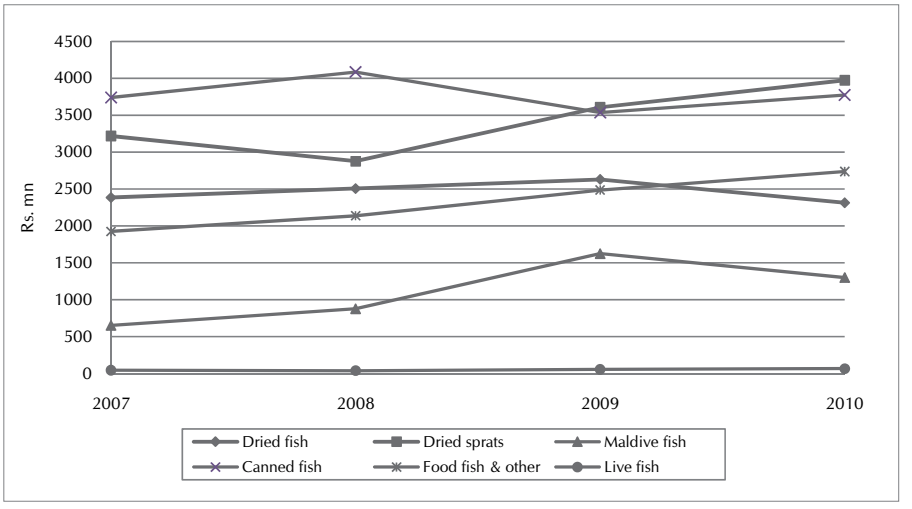
[4] Tuna is the major contributor to Sri Lankan fish exports, with the EU being the main importer. In 2007, the largest share of Sri Lankan tuna was imported by the UK (41 per cent), followed by France (17 per cent), the Netherlands (9 per cent) and Germany (6 per cent).

It is also noteworthy that Sri Lanka imports a considerable amount of fish from other countries such as the Maldives, mainly to fulfill unmet domestic demand. Dried sprat and dried fish are the main fish imports followed by canned fish (Figure 8.5).

8.2.4 Productivity in the Fishery Sector

Available data suggests that the labour productivity in the marine fishery sector has been declining over the years (Table 8.4). Labour productivity in inland and aquaculture fisheries is recorded as 1.6 mt. in 2007.[5] Sri Lanka's fishery industry lags behind countries such as Japan and Thailand. For instance, productivity per area in Thailand in 2004 (5,600 kg per sq. km.),[6] is found to be several times higher than that of Sri Lanka (472 kg per sq.km.). In addition, labour productivity in Thailand is seven times higher than that of Sri Lanka. Apart from very low productivity, per capita fish consumption is also well below that of Thailand and Japan.

Figure 8.5
Fish Imports (2007-2010)



Source: Ministry of Fisheries and Aquatic Resources, Statistical Unit.

Table 8.4
Labour Productivity in Marine Fisheries

Year	Marine Fish Production (Mt)	No. of Active Fishers	Productivity/ Labour
2004	253,190	151804	1.7
2008	274,630	167370	1.6
2010	332,260	222740	1.5

Source: Ministry of Fisheries and Aquatic Resources, Statistical Unit.

[5] Ministry of Fisheries and Aquatic Resources, 2007, *Fisheries Statistics*.

[6] Ministry of Fisheries and Aquatic Resources, 2007, *Ten Year Development Policy Framework of the Fisheries and Aquatic Resources Sector (2007-2016)*.

8.2.5 Employment in the Fishery Sector

The fishery sector provides livelihood for people living in the coastal belt, and around the irrigation tanks and reservoirs in the Dry Zone. Active fishers in the marine sector were recorded as 222,740 in 2010, while the total marine fishing household population was recorded as 825,200 in 2010.[7]

Most of fishing activities are carried out by self-employed/own account workers, employing labourers or low skilled workers. Therefore, the workforce is mostly informal and dominated by small scale operators, except for some employees who work for exporters. Fishing activities are mostly seasonal whereby some fishers, workers and service related employees do not find employment throughout the year. Part-time employment is also to be found among fishers. By contrast, formal employment in the fishery sector is limited mainly to 5,000 public sector employees working in six state institutions that provide support services to the industry under the purview of the Ministry of Fisheries and Aquatic Resources (MFAR), and employees who work for exporters.

8.2.6 Socio-economic Conditions in Different Segments of the Fishery Sector[8]

Coastal and offshore sub-sectors (collectively called marine fisheries) are inter-linked as both primarily supply the local market, while 6-7 per cent of marine fish production goes to export markets. As offshore fishing is the most dynamic sub-sector that contributes mostly to exports, fish exporters are in the uppermost segment of the marine value chain. The main actors in the value chain to export markets are exporters/processors, sub-contractors of fish exporters, multi-day boat owners and some one-day boat owners and crew members. Amongst them, significant disparities in socio-economic levels are to be found.

Exporters and processors: Most of the processors are also exporters, and some process the products of other exporters who do not have sufficient capacity. In general, processors have contractual agreements with multi-day boat owners and sub-contractors and tend to purchase only their products, provided that quality standards are met. In certain cases, processors use their own multi-day boats while others have joint ventures with foreign companies who own large vessels. The expansion of fish exports has benefited this group, allowing them to gain ownership of productive assets such as new multi-day boats, good housing, land, etc.

The number of fishery processing and export establishments increased from 12 in 2002 to 34 in 2009, where three tuna exporters alone account for about 80 per cent of total exports. The larger exporters are estimated to earn about US$ 0.5 profit per kg. of fish. Some of the exporters have been able to invest in new technologies - such as -850c freezing technology and state-of-the-art factories with temperature controlled rooms - which enhance the quality of fish. In addition, some have been able to diversify their business portfolio by vertical integration (production of ice, packing materials, feed for prawns, etc.), invest in improving workforce skills by training them in-house and overseas, etc. Almost all tuna exporters have expanded their production and export capacities over the years.

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[7] Ministry of Fisheries and Aquatic Resources, Statistical Unit.

[8] This section is based on information collected through stakeholder consultations conducted in different areas of Negombo. See IPS, 2010, "Trade Poverty Nexus in the Sri Lankan Fisheries Sector", a report prepared for the United Nations Industrial Development Organization (UNIDO).

Large exporting companies employ about 200-300, while smaller companies employ about 10-30. The managerial, supervisory and office staff form about 15 per cent of the workforce while the rest are mostly unskilled workers. The need to maintain hygienic conditions in the factory, process water quality and product quality as per the required EU standards has enabled many graduates and diploma holders to gain employment in these factories with starting remunerations in the range of Rs. 30-40,000 per month, while the average salary of an unskilled worker is about Rs. 15,000 per month. Permanent staff benefit from many welfare facilities and other forms of financial gain, whereby factory employees in the sector appear to be better off as compared to other factory employees in the locality. Remuneration and welfare facilities have enabled workers to secure a reasonable livelihood. Consequently, it has allowed them to invest in land, businesses or build new houses.

Sub-contractors: The sub-contractors of fish exporters who buy fish from boats and sell them to exporters are also a group who earn profit by providing services such as credit to boat owners and transport facilities for exporters. This group has minimum income volatility compared to exporters, as price fluctuations or any other shocks in the global market can be absorbed in the high margin of Rs. 150-250 per kg. of tuna that they maintain. Most of them are wealthy private individuals with some even having ownership of multi-day boats and freezer trucks.

Multi-day boat owners: Multi-day boat owners for whom fishing is the main livelihood are usually a more educated and wealthier group as compared to other fishermen. Some boat owners engage in fish trade and transport as well. They have been in the business for about 8-10 years or more, and have access to very good living conditions.

Multi-day boat owners are thus wealthier in comparison to other fishermen who contribute to domestic fish production using outboard engine fiberglass reinforced boats (ORFP) or other small boats and canoes which are larger in numbers. In real terms, the total income gained from each trip is about Rs. 1.5 million. The income gained can vary drastically depending on the fish catch, price fluctuations and increase of fuel cost, bait, etc. Further, the reduction of Sri Lankan fish exports due to the global economic downturn and removal of GSP-plus has had a greater impact on multi-day boat owners than on exporters, as the latter pass on the loss margin to boat owners by reducing the purchasing price of fish from boat owners and sub-contractors. Thus, new multi-day boat owners find it more difficult to be competitive due to fluctuations of fish catches and prices, in contrast to multi-day boat owners who have been in the business for many years and who have been able save and invest in new boats and other assets.

There are some socio-economic constraints faced by this category of fishers. The categorization as fishermen by profession often means that obtaining admission to leading state schools for their children can be difficult, whereby children are mostly educated at private schools. By contrast, public and private health care services are readily available in these areas and some boat owners can afford to make use of private healthcare facilities.

Multi-day crew members: The multi-day boat owners usually employ 5-6 crew members per boat to work in the sea. However, income volatility in the multi-day boat crew income is apparent as the profit gained from offshore fishing has been declining over the years, due to high operational cost (fuel, ice, water, food, bait, fishing equipment, etc.)

and decrease of fish prices due to competition with foreign vessels and other external shocks. In most cases, the multi-day boat owners bear the total fixed cost and total operational/variable cost of the fishing trip. The profit earned by each trip is shared amongst the crew members according to their own informal arrangements. Some multi-day boat owners typically take 60 per cent of the total profit and 10 per cent is provided to the skipper. The rest is shared among the other 5 crew members.

Expansion of the fish trade has led to an increase in multi-day boats, with an increase in employment of about 18,000 as crew members, especially at unskilled levels. However, these are informal job opportunities, limited only for the fishing days/season. Incomes tend to be highly variable due to fluctuations in fish catches and changes in prices (with payments settled at the end of each trip). This is, therefore, not a regular income source and only those who have developed saving habits have been able to secure finances and build houses, invest in boats, educate children and retain savings to cope with risks such as natural disasters or sicknesses. Some multi-day owners pay their crew members during the months when fishing is not undertaken or provide loans to be deducted during the fishing season. According to boat owners, around 50 per cent of their crew members are capable of managing their finances.

Usually, crew members are young or middle aged people who are strong enough to undertake fishing in the offshore/deep sea which is often a cumbersome and difficult job. As they grow older, and physical strength to undertake such activities deplete, they are exposed to hardships in the absence of social welfare schemes for fishing communities. Most boat owners obtain insurance cover for crew members due to high risks involved in multi-day fishing. However, the compensation payments are comparatively low since the premium paid by the owners is also low.

In terms of education for children, crew members face similar problems as that of multi-day boat owners. However, private schools are not as readily accessible. Except for membership in some fishery cooperatives, crew members are not well organized and are not strong enough to present their grievances unlike multi-day boats owners. Nonetheless, multi-day crew earn about six-fold income relative to a traditional crew member. The total income of a crew member of an OFRP out-board boat was similar to that of in-board one-day boat.

Other boat owners and crew members: The coastal fishermen and one-day boat owners depend on their daily fish catch as income, which is always variable. The daily fish catch includes both large and small pelagic fish. The large pelagic types such as tuna caught with gillnets often get damaged, leaving fishermen at a disadvantage as quality concerns means they will not fetch high prices offered by processors. Hence, the catch has to be sold in the domestic market. Further, due to lack of appropriate facilities for storage and preservation, losses are incurred through spoilage of the fish catch. Crew members who work for coastal boats earn very low incomes compared to those who work for multi-day boats.

Employees at supporting services: Employment for unskilled workers providing support services - such as ice plants, transport agents, boat repair, dried fish making, wholesale and retail fish trade and other ancillary services - have also been generated, but are informal in nature and characterized by low wages. These employees can be considered as those who live just above poverty, with the risk falling below the poverty line being very high.

Thus, the socio-economic impacts of an expansion in fish trade can vary along the fishery export value chain with economic benefits, conditions and bargaining power being higher in the upper levels of the value chain, and less so in the lower levels. This suggests that expansion of fish exports can contribute to rising inequality amongst different stakeholders in the export value chain. Another noteworthy fact is that the uncertainty and vulnerability to changes in the global and local enabling environment is very high for actors at the lowest level of the value chain, while it is low for those in the upper levels.

Employees who work for actors in the upper level of the value chain - such as those employed by exporters - are less vulnerable to risks than those employed in the lower levels, such as crew members due to the informal nature of jobs. However, when the entire fishery sector is considered, the socio-economic conditions of the actors in the export value chain are higher than that of other coastal and inland fisheries. Therefore, it can be surmised that the expansion of fish trade has led to an improvement in socio-economic conditions of comparatively wealthy stakeholders in the fishery sector. However, trade expansion is unlikely to have a significant influence in improving the socio-economic conditions of the poorest and marginal sections of the fishery sector - such as small boat owners and their workers - except the creation of employment as casual workers in some export factories, and jobs to make dried fish out of factory rejects (offal).

8.3 Recent Development Activities

This section discusses ongoing and planned development activities in both marine and inland and aquaculture sectors.

8.3.1 Recent Developments in the Marine Fishery Sector

Development activities in the marine sector are mainly focused on improving economic infrastructure facilities. These include:

- Central Fish Market Complex: The complex, with a capacity to handle 500 tonnes of fish per day, has been constructed on 3.17 hectares of reclaimed marshy land along the main Katunayake airport expressway. The market consists of 148 wholesale stalls and 128 retail stalls, a 50 tonne flake ice plant, a vehicle park for 100 lorries and 500 motor cars, 3 cold rooms, and a waste water treatment unit. In addition, the complex has banks, a post office, shopping complex, Police post, restaurant and a quality control room.

- Dikowita Fishery Harbour: This is aimed to provide anchorage facilities for (400-500) multi-day boats, and to provide all other required harbour facilities such as building for cleaning and auctioning fish, cold stores and freezing facilities, ice plant, building for repairing nets, fresh water storage and distribution system, and fuel storage and distribution system. However, most of the boat owners find that there is room for further improvements to reduce the number of days that a boat is lined up to obtain fuel, water and other services.

- Restoration and development of fish landing centres with stakeholder participation has been done in some areas. In addition, development and construction of harbours will be done in Codbay and Valachchenai to provide berthing place for multi-day boats. Three large scale habours are

to be constructed in Gurunagar in Jaffna, Silavathura in Mannar and Gandara in Matara district.

Apart from improving physical infrastructure, the Ministry of Fisheries and Aquatic Resources (MFAR) has taken steps to improve financial infrastructure for the fishery sector. Access to finance has been one of the main problems that most of the fishers and boat owners have been facing over the years. As most of the fish exporters/processors are formally well established and own a portfolio of assets, they do not find it difficult to obtain loans from formal banks. However, the situation is different with both coastal and offshore boat owners, as well as crew members and individual fishers. Their access to the formal credit market is very limited due to lack of collateral assets like property, and are, therefore, dependent on informal credit mechanisms. Apart from the fact that fishery societies in certain areas provide credit facilities for their members, loans are obtained informally by stakeholders in the fishery value chain. Recently, the MFAR introduced a new loan scheme - mainly to facilitate high tech improvements in existing multi-day boats - which does not require guarantees for the fishery sector. The interest rate for these loans is 12 per cent, where the government pays 4 per cent and the borrower 8 per cent.

8.3.2 Developments in Inland Fisheries and Aquaculture

The National Aquaculture Development Authority (NAQDA) is the main provider of a range of services to improve inland fisheries and aquaculture. The services extend to three different livelihood areas: ornamental fish, prawn farming, and inland fisheries.

The NAQDA provides training facilities to start ornamental fish rearing or production of aquatic plants as a business in two fish breeding centres in Rambadagalle and Ginigathhena. These are in-house training programmes conducted at a nominal fee to provide practical knowledge and hands-on experience. In addition, it has established an Ornamental Fish Exchange Centre which provides information to small scale producers about both local and international buyers. The centre also displays samples of ornamental fish of small scale producers, so that large exporters can collect fish required for exports from small producers. The NAQDA also produces and sells quality breed stock for small scale ornamental fish producers, and provides technical support for large scale producers who themselves produce the required breed stock.

Monitoring and regulating shrimp/prawn farms and providing technical support through extension services are the main services provided by the NAQDA for the prawn industry. It maintains close contact with hatcheries and conducts regular checks of hatchery samples in order to assure the quality of post-larvae as a precautionary measure to minimize possible threat of disease such as White Spot Disease. In addition, NAQDA promotes best manufacturing procedures (BMP) prawn farms by creating awareness and providing information on crop calendar (to indicate when to undertake pond preparation, stocking, and harvesting in different areas).

Most prawn farms are located in the Puttalam area, whilst there are some initiatives to develop prawn farms in Batticaloa. A hatchery to produce post-larvae has been set up in Batticaloa under a private-public partnership. Initially, the programme intends to develop farms in 50 hectares to benefit 20 families, and will be extended to 70 hectares to benefit 27 families. In order to minimize negative environmental and other impacts, cluster shrimp farming will be promoted, where

farms are designed in such a way as to have a common inlet and outlet for the whole system.

The NAQDA, in collaboration with MFAR, has also initiated efforts to introduce new aquaculture production systems such as sea farming. Some pilot progammes include cage culture (aquaculture production system where fish are held in floating cages/pens) in Negombo and Trincomalee districts to produce sea bass and milk fish which have very high economic value in the export market. Cage culture is promoted in both brackish water as well as fresh water. Pen culture is promoted in lagoons and tanks in Mannar district.

In the context of inland fisheries, the NAQDA has promoted capture fisheries in large, medium and small irrigation tanks. Some of the activities that have been carried out include creating awareness and importance of increasing productivity, implementation of regulations to reduce use of illegal nets, improving existing management practices, issuing licences based on availability of resources, introducing new fish breeds with high production, etc. Community based fishery societies have been established among those undertaking fishing in large/ medium and small irrigation tanks to manage and solve common problems. For example, societies operating in large and medium tanks have created a revolving fund by contributing Rs.10-20 per kg. of fish sold by each fisher. This fund has been used to buy new fingerlings after the harvest. In the case of small irrigation tanks, societies charge Rs. 20 per kg. of fish sold for improving management practices and invest on fingerlings. These village based fishery societies are organized into district level societies and have formed themselves into district federations. Such co-management arrangements have helped to increase inland fish production over the last few years.

There are also plans to promote capture fisheries in the Northern Province, and in newly built reservoirs in Embilipitiya, Moragahakanda, Welimada and Weheragala. The NAQDA has been making several efforts to increase fish seed production in order to increase inland fish production. The aim is to increase fish seed production in key breeding centres such as Dambulla (4.7 million), Uda Walawe (5 milllion), Iginiyagala (5 million) and Kalawewa (1 million), and promote community based fish seed production in 30 mini-hatcheries managed by the fisher community, by providing required technical support and supporting private individuals to maintain hatcheries and produce fish seed.

8.4 Conclusion and Way Forward

One of the key instruments for inclusive growth is the generation of productive employment. While Sri Lanka's fishery sector has been able to expand its exports over the years, it does not necessarily provide for inclusive growth in the context where the benefits are limited to only a few stakeholders in the upper level of the export value chain. On the other hand, the creation of employment alone will not allow for growth in the absence of productivity improvements. Labour productivity of fishers in the marine sector - the largest in terms of production as well as employment generation within the fishery sector - is far below potential. Productivity in the export-oriented offshore fishery sector is also low, due to reasons such as poor technology use, lack of capital, and poor post-harvest techniques. The coastal fishery sub-sector is the least productive, with large numbers of fishermen who have to compete with stakeholders in the export sector for certain support facilities such as ice and fuel. The sub-sector which represents mainly small scale self-employed/own account workers and informal employees are in casual employment lacking decent work conditions. By contrast, the smallest sub-

sector of inland fisheries and aquaculture has been growing steadily. Its development activities are more supportive of inclusive growth, although the sector employs a relatively small number compared to the marine sector.

As previously discussed, within the fishery sector, those employed in certain sub-sectors (and also within sectors) are better off than others in terms of income, assets owned, education access, etc. The main task is to identify means of increasing productivity of low productive and under-utilized sub-sectors. For example, offshore fishing can be expanded as there is more potential to increase fish production. Inland fisheries and aquaculture needs more investment to create employment in areas such as ornamental fish to meet rising demand. Most areas in coastal fishery are over-exploited with large numbers engaged in the sector living just above the poverty line. Therefore, dependence on coastal fishing has to be reduced by introducing skill development in alternative livelihood activities. If the focus is on productive employment, the coastal sector should receive considerable attention in development priorities. That, however, is not the actual situation at present.

The second strategy is to broaden access to economic opportunities. The MFAR has identified offshore fishing as a sub-sector to be promoted. There are plans to provide multi-day boats to fishermen. However, an average fisherman will not have equal access to such opportunities given issues of affordability, and such initiatives are likely to benefit the better-off. Access to networks plays a significant role in obtaining boats. Thus, a more prudent course would be to provide multi-day boats to well organized fishery cooperatives or fishery societies, where groups of actual fishers can own and maintain such assets collectively.

In this context, changes in fishery management systems from a 'top down' to a 'bottom-up' approach, where fishery stakeholders are also taken into management and decision making, is important. This is particularly so in enforcing rules; for example, the use of illegal fishing methods (use of trawlers in muddy areas, bottom long liners, use of dynamite, etc.) for short term increase of fish catch has risen with detrimental consequences on the long term sustainability of fishery resources. Capacity building programmes on the concept of fishery management to bring about changes in knowledge, attitude and skills of officials (towards co-management) is important. Empowerment of communities - by identifying and classifying available community based fishery organizations - in decision making, collective resource management, and conflict solution would help fishery authorities to manage fishery resources more successfully.

9. Small and Medium Enterprises: Key to Inclusive Private Sector Development

9.1 Introduction

The nature and dynamics of inclusive growth in the specific context of private entrepreneurship and SMEs in post-conflict Sri Lanka hinges on two inter-related strands: the process of participatory development and equal opportunity in accessing the benefits of growth.

The analysis in this Chapter pivots on three central constructs. First, policy experience in post-conflict situations around the world suggests that the private sector is one of the most resilient and adaptable institutions for socio-economic reconstruction and revival in the face of systemic shocks.[1] In Sri Lanka, the relative composition of private and public industries as a percentage of the total industrial sector has been 97 and 3, respectively, from 2007-09.[2] Second, industrial growth still matters for employment generation, competitiveness and inclusive socio-economic development even in services-oriented emerging economies; international experience suggests that a robust industrial policy is in fact essential to realize the full potential of services-led growth.[3] These dynamics are particularly relevant to public policy when the pattern of intra-country growth points to significant geographical disparities, as is the case in Sri Lanka.

> ***SMEs play a particularly significant role in enhancing the impact of private sector activity on broader socio-economic development outcomes***

Third, cross-country policy research shows that SMEs play a vital role in job creation and socio-economic growth, particularly in low-income countries.[4] There is no standard definition of an SME in Sri Lanka, with different organizations using varied measures ranging from the number of employees and the magnitude of capital investment to the type of business that a firm

[1] Mac Sweeny, N., 2008, "Private Sector Development in Post-Conflict Countries: A Review of Current Literature and Practice", The Donor Committee for Enterprise Development at: http://www.enterprise-development.org/page/current-work.

[2] CBSL, *Annual Report 2010.*

[3] Sulaman, H., and S. Hassan, 2010, "Services-led Industrial Policy for Inclusive Growth and Competitiveness", *Competitiveness Review*, Vol. 20, No. 2.

[4] See for instance Ayyagari, M., A. Demirguc-Kunt, and V. Maksimovic, 2011, "Small vs. Young Firms across the World: Contribution to Employment, Job Creation, and Growth", Policy Research Working Paper No.5631, World Bank, Washington D.C.

is engaged in. However, a fairly accurate notion of the scope and contribution of the SME sector to the Sri Lankan economy can be gauged from the data published by the DCS. The data for 2008 indicate that industrial establishments are largely concentrated in the Western Province and that around 91 per cent of industries can be classified as SMEs, with these entities accounting for around 26 per cent of total industrial sector employment.[5] These estimates re-emphasise the importance of bridging regional disparities through the geographical expansion of SMEs and growing SMEs to a level where they are competitive in both domestic and international markets as a key to inclusive private sector development, particularly in the context of post-conflict growth in Sri Lanka.

The rest of this Chapter is organized as follows. Section 9.2 briefly sets out the status quo with respect to the policy objectives and initiatives pertaining to industrialization and the role of the private sector in general, and the SME sector in particular, in post-conflict Sri Lanka. Section 9.3 discusses policy solutions pertaining to identified gaps, addressing key issues including facilitating an enabling institutional environment for private sector participation in post-conflict growth, creating the right incentives to bridge regional disparities in industrialization, and implementing workable strategies to build a competitive SME sector. Section 9.4 revisits the political economy of the reform process, looking at issues such as participatory decision-making, stakeholder dynamics and sustainable policy buy-in. Section 9.5 provides concluding remarks.

9.2 Private Sector Enabling Environment and SME Development

9.2.1 Industrialization and Private Entrepreneurship: Policies, Institutions and Trends

Sri Lanka's industrial sector - defined as including mining and quarrying, manufacturing, electricity, gas and water, and construction - contributes to around 28 per cent of GDP, with the manufacturing subsector accounting for around 17 per cent of this total.[6] The vast growth potential inherent in the industrial sector has been duly recognized by the government's economic policy framework.[7] With the implementation of strategies and plans to develop the industrial sector,[8] the aim is to facilitate an average annual industrial growth rate of around 11 per cent and raise the share of this sector to around 40 per cent of GDP by 2020. Whilst achieving this laudable objective will entail significant challenges, they can be met with strategic public policy solutions (as will be discussed later). The spatial pattern of current industrial development in Sri Lanka in terms of the size and geographic spread of industrial entities, reinforces the claim that industrialization is largely concentrated in the Western Province (Table 9.1).

Government policy on the role of the private sector in Sri Lanka's post-conflict growth spells out the need to create a level playing field, where public infrastructure investment is expected to play a key role in providing a supportive environment for private sector economic activity.[9] The policy thrust on industrial development also emphasises a mixed

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5 DCS, *Annual Survey of Industries 2008*.

6 CBSL, *Annual Report 2010*.

7 Department of National Planning, 2006, *Mahinda Chinthana: Vision for a New Sri Lanka: A Ten Year Horizon Development Framework 2006-2016*, Ministry of Finance and Planning.

8 Ministry of Industry and Commerce, 2010, *Five Year Plan (2011-2015)*.

9 *Ibid.*

Table 9.1
Distribution of Industrial Establishments by Size and Provinces

Industry Size	Small Industries (2003/04)[a] (%)	Medium & Large Industries (2003/04)[b] (%)	Total (%)	No. of Establishments (2008)[c] (%)
Province				
Western	28.1	44.4	29.3	42
North Western	18.8	16.2	18.6	20
Southern	12.0	8.0	11.7	8
Central	10.8	10.8	10.8	12
Sabaragamuwa	10.4	8.0	10.2	6
North Central	5.8	4.3	5.7	4
Eastern	5.8	3.3	5.6	3
Uva	4.4	2.6	4.3	3
Northern	3.8	2.3	3.7	2

Notes: a: Less than 10 employees as classified in the *Census of Industry 2003/04*; b: More than 10 employees as classified in *Census of Industry 2003/04*; c: With 5 or more persons employed as classified in *Annual Survey of Industries 2009*.

Source: Compiled using data from DCS, *Census of Industry 2003/04*, and *Annual Survey of Industries 2009*.

approach, combining both domestic enterprise growth and FDI, underpinned by

> "*integrating the positive attributes of the free market economy with domestic aspirations in order to ensure a modern and balanced approach where domestic enterprises can be supported while encouraging foreign investment*".[10]

The literature on the links between FDI flows and inclusive and sustainable industrial development show mixed results.[11] FDI as an effective conduit for business knowledge and technology transfer, enhanced firm competitiveness, and access to international markets and global production networks, is associated with specific country conditions - including policies, institutions and the enabling business environment; the nature of the industrial sector - interactions between large and small domestic enterprises; and, state-market relationships. In short, domestic country conditions are significant in shaping outcomes; and, whilst cross-country findings are useful in developing industrial strategies, blind policy transfer may well produce adverse results.

The debate on the role of and strategies relating to FDI in post-conflict Sri Lanka is an ongoing one. In a nutshell, the status quo pertaining to FDI flows and industrial development is as follows. First, the recovery in FDI flows in post-conflict Sri Lanka has been slow; net inflows stood at US$ 435 million in 2010, recording an increase of only US$ 55 million from that of 2009.[12] Second, whilst the manufacturing sector accounted for around 31 per cent of total FDI flows in 2010 (with the textile and apparels, leather products, chemical, coal, petroleum, and plastic products sub-sectors accounting for a majority of this investment), the services

[10] *Ibid*. pp. 68.

[11] See for instance: Wade, R., 2010, "After the Crisis: Industrial Policy and the Developmental State in Low-Income Countries", *Global Policy*, Vol. 20, No. 2.

[12] CBSL, *Annual Report 2010*.

sector - led by the telecommunications sub-sector continued to dominate the inflow of investment.

This leads to a number of key policy questions including: a) what needs to be done to increase FDI flows; b) although the broad policy vision is to encourage both local and foreign investment, what is required to ensure that these investments are inclusive - that both the bigger domestic private firms and foreign investors/multi-national corporations (MNCs) have an incentive to forge backward linkages with SMEs; and, c) the extent to which selective intervention in terms of both industrial development and FDI flows is a feasible and sustainable option in Sri Lanka.

9.3 SMEs in Sri Lanka: Policy and Institutional Framework

The aftermath of the global financial crisis of 2008/09 witnessed a renewed interest in SMEs as an engine of inclusive growth in countries around the world. As pointed out earlier, cross-country research indicates that SME development is a key to increased production, job creation and sustainable socio-economic development. As Sri Lanka emerges from a long conflict that has left in its wake serious issues of socio-economic disparities and significant gaps in regional development, the need for SME development has re-surfaced on the country's reform agenda. Debates amongst key stakeholders in Sri Lanka highlight the importance of participatory development - providing the opportunity for all citizens to engage in the process and outcome of socio-economic growth - in terms of post-conflict reconciliation, reconstruction and rehabilitation. Given the profile of Sri Lanka's industrial sector as set out in Table 9.1, SME development is recognized by the government as a crucial component of the drive to bridge regional disparities and facilitate inclusive growth.

As documented in research on the subject of SMEs in Sri Lanka,[13] successive policy regimes have developed various strategies and established a number of institutions targeting the SME sector. Whilst a detailed analysis of these initiatives is beyond the scope of this discussion, selected policies and institutions that pertain to impediments to SME development in Sri Lanka will be discussed.

The overarching policy on SMEs at present, suggests a focus on entrepreneurship development, improvements to marketing opportunities - through sub-contracting arrangements - by promoting backward and forward linkages between large scale and foreign enterprises, provision of financial assistance, etc.[14] At present, the institutional framework for industrial policy, including SME development, consists of numerous ministries such as the Ministry of Industry and Commerce, the Ministry of Traditional Industries and Small Enterprise Development, the Ministry of Economic Development, the Ministry of Local Government and Provincial Councils and the Ministry of Finance and Planning. Whilst it could be argued that each of these institutions has its own, unique mandate, in practice, the functions of these entities tend to overlap and send confusing signals to entrepreneurs and investors. Field work suggests that entrepreneurs perceive the absence of a coherent and co-ordinated policy framework to be a significant obstacle to doing business.[15] The transaction costs of a fragmented policy framework - including

[13] Based on research carried out by the IPS for the Ministry of Industry and Commerce in preparing a National SME Policy.

[14] Ministry of Industry and Commerce, 2010, *Five Year Plan (2011-2015);* Department of National Planning, 2010, *Sri Lanka: The Emerging Wonder of Asia*, Ministry of Finance and Planning.

[15] Findings emerging from Private-Public Dialogues (PPDs) on local enterprise development constraints conducted by the IPS and The Asia Foundation for a study on 'Local Economic Governance'. PPDs were held in the second half of 2010, with participants from the Central, North Central, Southern, Sabaragamuwa, Eastern, and Northern Provinces.

time spent meeting the bureaucratic requirements of each ministry, and red tape and delays associated with coordinating business plans and getting approvals to set up enterprises with the different ministries - are perceived as high by entrepreneurs.

The powers of the National Enterprise Development Authority (NEDA), established in 2006 and currently functioning under the Ministry of Industry and Commerce, to develop the SME sector and to serve as a one-stop shop for industrialists to network with policy makers appear to be diluted with its mandate being divided amongst other institutions. Policy responsibility pertaining to industrialization and to SME development is now shared amongst the Ministry of Traditional Industries and Small Enterprises Development (the Industrial Development Board and NEDA), the Ministry of Economic Development (BOI and all regional development programmes including district development programmes), the Ministry of Local Government and Provincial Councils (government functions relating to Local Authorities and all matters relating to Provincial Councils), and the Ministry of Finance and Planning (local loans and Development Fund, the co-ordination of public and private sector activities, and the facilitation of the private sector for economic development).[16]

The need for a more robust SME policy is also highlighted in recent research findings that compare the strategies set out in the 'National Strategy for SME Sector Development White Paper' of 2002,[17] with those in the 'Draft SME Policy 2010' developed by NEDA. As illustrated in Figure 9.1, the Draft SME Policy 2010 appears to have both neglected critical strategies and re-invented the wheel with respect to a number of strategies detailed in the White Paper of 2002.

A closer look at public policy trends in Sri Lanka indicates that re-inventing the policy wheel is not confined to a specific sector or associated with any particular political regime. The volumes of reports spanning a wide range of socio-economic issues combined with path dependence in the gaps between policy rhetoric and policy implementation across successive regimes, suggest that the policy reform is often impeded by back-peddling and the lack of political will. The following discussion addresses some critical policy constraints to the development of private entrepreneurship and SME growth in Sri Lanka.

9.4 Towards Inclusive Private Sector Development and SME Growth: Key Policy Challenges

9.4.1 Creating an Enabling Environment for Inclusive Private Sector Growth

The international literature on drivers of private investment in developing economies suggest that governance measures such as voice and accountability, regulatory quality, political stability and control of corruption,[18] as well as ease of doing business measures such as those set out in the 'Doing Business Indicators' developed by the World Bank,[19] have a significant impact on both FDI and

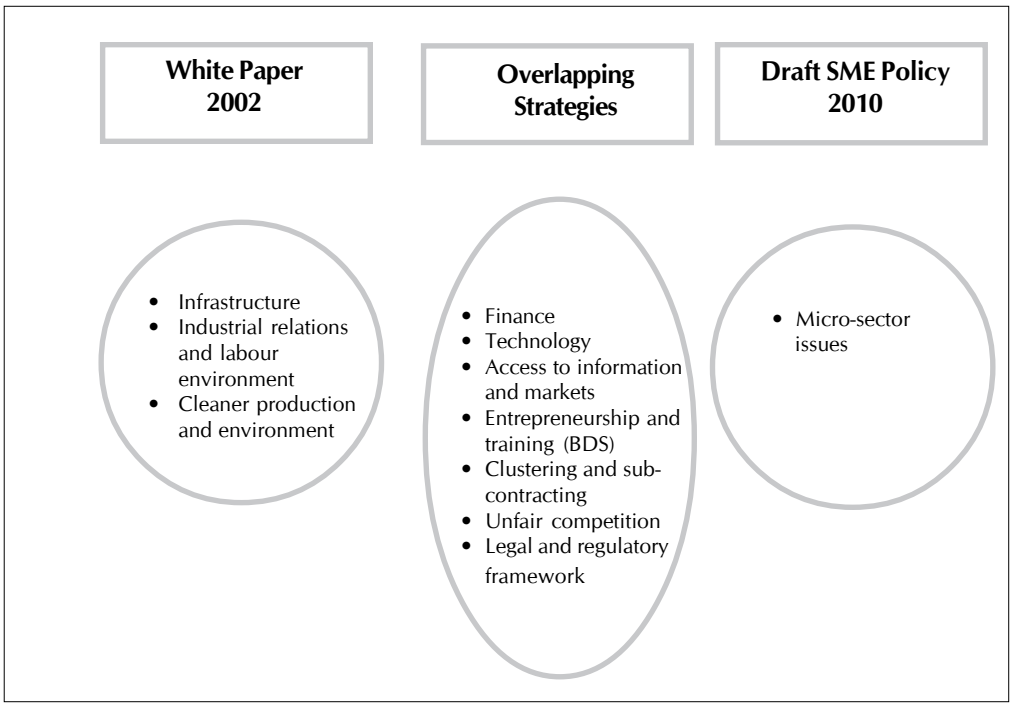
[16] The Gazette of the Democratic Socialist Republic of Sri Lanka Extraordinary, No.1651/20. Friday, April 30, 2010 at: http://www.priu.gov.lk/news_update/Current_Affairs/ca201005/1651_20E.pdf.

[17] At: http://www.ips.lk/publications/series/gov_reports/sme_white_paper/sme_white_paper.pdf.

[18] See Udomkerdmomgkol, M. and O.Morrissey, 2008, "Political Regime, Private Investment, and Foreign Direct Investment in Developing Countries", Research Paper No.2008/109, WIDER, United Nations University.

[19] See http://www.doingbusiness.org.

Figure 9.1
SME Policies in Sri Lanka: Re-inventing the Wheel



on domestic private investment. Indeed, as highlighted by the CBSL,

> *"….performance in the stages of Dealing with Construction Permits, Registering Property, Paying of Taxes and Enforcing Contracts is particularly weak as it ranks below 100 of the 183 countries considered and therefore, pulls down the country's overall ranking. In fact, in the areas of Dealing with Construction Permits and Registering Property, it fares worse than the worst performing country, Chad. Out of the economies considered, Sri Lanka's performance falls below 10, namely Singapore, Hong Kong, South Korea, Thailand, Malaysia, Mongolia, Vietnam, China and even the South Asian countries like Pakistan and Maldives. As some of Sri Lanka's competitors in trade are included in this group, it is a matter of concern that Sri Lanka performs worse than them."*[20]

Cross-country research findings also suggest that there is a positive correlation between FDI flows and domestic private investment.[21] Facilitating a predictable and credible enabling environment for private enterprise development is particularly critical in post-conflict conditions such as those that prevail in Sri Lanka, where perceptions on country risk are bound to prevail for some time.

Over the last decade, Sri Lanka has seen average FDI inflows that amounted to just 1.5 per cent of GDP, and whilst post-

[20] CBSL, *Annual Report 2010*, pp. 24-25.

[21] See Ndikumana, L., and S.Verick, 2008, "The Linkages between FDI and Domestic Investment: Unraveling the Developmental Impact of Foreign Investment in Sub-Saharan Africa", IZA Working Paper No.3296.

conflict optimism affords a significant window of opportunity to draw in investment, building an enabling environment for sustainable business development remains a critical policy challenge. Opportunities for rent-seeking can be greater in the presence of large-scale infrastructure projects. In spite of the various methodological limitations attached to aggregate cross-country rankings such as the 'Doing Business Indicators', these scores do impact on stakeholder perceptions, and more often than not, investment decisions are driven by perceptions.

The macro-investment climate pertaining to domestic and foreign investment is relevant to SME development, given the potential for forward and backward linkages between SMEs, larger domestic private enterprises and FDI-driven industries. However, these factors are necessary but not sufficient conditions for SME growth. Sustainable SME development hinges on elements such as establishing formal ties/sub-contracting with larger domestic industries in the short to medium term, and partnering with foreign investors either via their larger domestic counterparts or on their own in the long term; partnerships that would facilitate technology and knowledge transfer, business development skills (BDS), access to competitive domestic and international markets and opportunities to move towards higher value-added manufacturing processes and outputs. The need to promote linkages between SMEs and larger domestic industrial entities and MNCs, brings in the role of the state in the industrialization process.

The comparative advantage of the Sri Lankan state lies in facilitating business rather than in growing business, as evidenced from policy experiments over the decades with state-led, private sector-led and mixed private and public sector-led development strategies. The role of the state in the industrialization process and in SME development will be revisited later in the discussion in the context of selective intervention, access to credit and collective decision-making for inclusive socio-economic growth. In the specific context of creating backward and forward linkages between SMEs and larger industrial entities, however, the initiatives taken by the Malaysian state to incentivize larger corporates to provide technical training to SMEs in exchange for the purchase of parts and components, could well be a workable, strategic solution for Sri Lanka.

The enabling local government environment is also crucial to regional private enterprise growth which, as discussed previously, hinges largely on SME development. The importance of local governance factors in efforts to bridge regional disparities is highlighted in the research findings. For instance, a study based on a set of economic governance indices (EGIs) developed to capture perceptions of stakeholders in the local government policy space, finds that in the case of Sri Lanka,

> "*EGI analysis shows that even though structural conditions, such as quality of infrastructure in a locality, tend to dominate the business environment, improvement in economic governance can substantially alter the business environment from one area to another. Improvement in certain areas of economic governance such as reduction of informal charges, transparency, and participation can have an important impact on the overall business climate in the country.*"[22]

Another important insight coming out of the cross-country experience (Indonesia, Cambodia, Vietnam, Sri Lanka and Bangladesh) with the EGI, is that country specific local condi-

[22] The Asia Foundation, 2009, "Measuring Economic Governance at the Local Level: The Experience of the Asia Foundation in Indonesia, Vietnam, Cambodia, Sri Lanka, and Bangladesh" at: http://asiafoundation.org/publications/pdf/41 < http://asiafoundation.org/publications/pdf/41.

tions matter; as emphasized previously, policy transfer needs to be aligned with domestic political economy factors in order to secure stakeholder buy-in and ensure sustainable reform outcomes.

9.4.2 Revisiting Strategic Industrial Policy

As evidenced in the international development literature, the debate on the nature and dynamics of industrial policy is an ongoing and evolving one.[23] The objective of the following discussion is to look at industrial strategies such as selective intervention ('picking winners') and FDI policies as they pertain to inclusive private sector growth in post-conflict Sri Lanka. As such, the discussion set out below is based on the definition of industrial policy as,

> "*a policy aimed at particular industries (and firms as their components) to achieve the outcomes that are perceived by the state to be efficient for the economy as a whole.*"[24]

The principal arguments for industrial policy hinge on three much-debated constructs: the infant industry rationale, the view that industries generating positive knowledge spill-overs should be promoted using targeted incentives, and the position that coordination failures are more likely when investment decisions are made by a number of independent agents. The underlying assumptions associated with all these positions are that market failures are more recurrent than government failures in developing economies, and that issues of informational externalities and the free-rider problem are best addressed through strategic state intervention in the industrialization process. These assumptions, however, run contrary to ground realities in countries that lack good economic and regulatory governance practices; countries where public policy is based on political economy realities, with interest group dynamics, populist ideologies and rent-seeking opportunities driving the policy process; and countries that lack the space for collective action, voice and participatory decision-making. These assumptions also disregard the realities of the symbiotic relationship between state and markets; and, the dynamics of state-societal links - embedded autonomy - in shaping the policy process.

In terms of facilitating inclusive private sector entrepreneurship in Sri Lanka - given the country's political economy realities discussed previously - industrial policy that focuses on 'picking winners' is not a feasible option for Sri Lanka. A better approach would be to focus on enhancing the general environment for doing business; strategies that would enable the private sector to discover areas of comparative advantage. Similarly, industrial policy in Sri Lanka should focus on identifying the constraints to SME development and facilitate an enabling environment that effectively targets these gaps. For instance, as discussed previously, Sri Lanka lacks a co-ordinated SME policy, strategies aimed at developing a culture of entrepreneurship, innovation and networking through effective BDS activities, and as will be discussed below, effective strategies to address access to credit issues that are a common and persistent problem faced by SMEs in Sri Lanka, as well as in several other developing economies.

Strategic industrial policy also includes a country's approach to FDI flows; as discussed

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[23] See for example, Lin, J. and H.Chang, 2009, "Should Industrial Policy in Developing Countries Conform to Comparative Advantage or Defy it? A Debate Between Justin Lin and Ha-Joon Chang", *Development Policy Review*, Vol. 27, No. 2.

[24] Chang, H., 2003, *Globalisation, Economic Development and the Role of the State*, Zed Books, London, pp. 112.

earlier, increasing FDI flows is important for sustainable and inclusive growth in post-conflict Sri Lanka. However, as indicated in the literature, cross-country case studies point to a positive correlation and complementarity between domestic private investment and FDI. Developing a strong industrial base with SMEs as the key to inclusive private sector growth, hinges on the robustness of large-scale domestic private industries, strategic joint ventures between domestic and foreign entrepreneurs, and workable backward and forward linkages between large domestic corporates, MNCs and SMEs. As such, FDI policies for emerging economies like Sri Lanka must be based on a level playing field in terms of incentives for domestic and foreign investment, at least in the short to medium run. A selective approach to investment should only be adopted once positive spill-overs such as technology transfer and BDS capacity, are embedded to the extent that an industry can compete in domestic and international markets.

9.4.3 Access to Credit: Unleashing the Potential for SME Growth

Lack of adequate and affordable access to finance is a key impediment to SME growth in Sri Lanka.[25] In spite of the various SME loan schemes developed by successive policy regimes over the years, focus group discussions with business persons at the local government level and one-on-one interviews with small and medium scale entrepreneurs, clearly indicate that the cost and access to finance remains a huge constraint to the growth of the sector.

The access to credit problem has two dimensions. On the supply side, traditional financial institutions are reluctant to lend due to the lack of requisite collateral and to perceptions that new and small enterprises are more likely to default on loan repayments than entities with a proven credit record. On the demand side, SMEs lack the skills required to develop feasible business plans that would be acceptable to lending institutions or to establish sub-contracting and other linkages with larger and more established enterprises. Given that most entrepreneurs in the post-conflict areas have been disconnected from established markets for years, with a number of them still being displaced, issues of collateral and BDS capacity are likely to be exacerbated in these regions.

Access to credit constraints is not unique to Sri Lanka, with several countries in South and South-East Asia facing very similar impediments to SME growth. An analysis of best practice solutions adopted by affected countries, points to a number of useful and workable strategies to tackle the problem. For example, both India and Malaysia have established credit registries and credit ratings on SMEs to provide banks, other financial institutions and potential business partners with the information required to reduce the risk of defaults and to promote linkages between business entities.

As discussed earlier, what Sri Lanka lacks is a comprehensive and informative SME policy that sets out a clear direction, and pragmatic solutions relating to issues including access to credit, BDS, the legal and regulatory framework, facilitating workable backward and forward linkages, and access to markets. The end of a prolonged conflict presents Sri Lanka with an enormous opening to grow the SME sector and move towards inclusive private sector development. However, the piecemeal

[25] 'Access to Credit: Critical Issue for Conflict-Affected Enterprises', *Talking Economics*, 6th October 2010, http://ipslk.blogspot.com/2010/10/access-to-credit-critical-issue-for.html; 'Private Enterprise Growth in the Regions: What is Slowing it Down?', Talking Economics, 29th November 2009, http://ipslk.blogspot.com/2009/11/private-enterprise-growth-in-regions.html.

policy framework, combined with overlapping institutional functions, and a regulatory regime that is not aligned with the dynamics of the market, may well close this window of opportunity.

9.5 Conclusion

Development work in post-conflict conditions around the world has, to a large extent, revolved around nation-building, relief efforts and security concerns. Post-conflict reconstruction programmes have for the most part, overlooked the crucial fact that economic deprivation, marginalization and inequalities play a key role in instigating and perpetuating conflicts. Similarly, the development community has only recently begun to focus on private sector development as a key pillar in post-conflict recovery efforts. However, private sector activity has proven to be one of the most resilient forces of development in Sri Lanka, even in the face of conflict and even when social and political institutions have been weakened. It is in this context that private sector development is seen as crucial in achieving post-conflict inclusive growth.

SMEs play a particularly significant role in enhancing the impact of private sector activity on broader socio-economic development outcomes. The development literature posits that SMEs are crucial in terms of job creation and socio-economic growth in low-income countries. In the Sri Lankan case, the prevalence of regional disparities resulting from a combination of a long conflict-situation and policy gaps in getting to balanced development, underscores the importance of SME growth as a key to inclusive socio-economic development. However, growing the SME sector and positioning it as a vital component to inclusive private sector development entail significant policy challenges. In addition to those highlighted in the preceding discussion, the focus here will be on a few issues relating to the political economy of reforms and inclusive development, defined as both a process and an outcome variable.

Inclusive development as a process requires transparent and collective decision-making, with equal opportunity accorded to all members of the polity to participate in the public policy process. However, the political economy realities of policy making in Sri Lanka spanning successive political regimes, suggests that policy decisions are for the most part, shaped by powerful interest groups, seeking to maximize opportunities for rent. Given that development policy that is not founded on participatory decision-making rebuts visions of inclusive growth, there is an imminent need to broaden the space for stakeholder dialogue.

Stakeholder dialogue in the context of inclusive private sector growth, SME development, and industrial policy, points to the need for effective state-business relations, where the state and the market are seen not as substitutes but rather as complementing each other in moving towards inclusive growth. Whilst the need for the state to be open to dialogue and collective decision-making in the development process has been emphasized right through the discussion, a similar onus lies on the private sector. The Sri Lankan private sector - specifically the larger domestic establishments - tends towards collusive, as opposed to collaborative and participatory, decision-making. Moreover, to a large extent, the culture of private entrepreneurship in Sri Lanka is one that lacks dynamism and leans on a patriarchal state, with only a few pro-active members of the business community engaging in policy dialogues. If inclusive private sector growth through SME development is to be more than policy rhetoric, the private sector needs to actively participate not only in the outcomes but also in the process of public policy.

10. Towards a Competitive and Inclusive Knowledge Economy

10.1 Introduction

Knowledge has always been an integral part of any country's development. But with increasing globalization, shrinking of national borders due to virtualization, the international fragmentation of production, and heightened global competition, the speed at which knowledge is created and used has made it an even more vital element of rapid economic development. Knowledge accumulation and application have become major factors in economic development and are increasingly at the core of a country's competitive advantage in the global economy.[1] Comparative advantages among nations come less and less from abundant natural resources or cheap labour and increasingly from technical innovations and the competitive use of knowledge - or from a combination of the two - as is illustrated by the success story of Bangalore, the capital of the Indian software industry.

"To ensure coherent efforts in building a knowledge economy, Sri Lanka should implement strategies that take a holistic approach. Addressing all elements concurrently would be essential, owing to the strong inter-linkages…"

The structure of Sri Lanka's economy is also changing rapidly, from being agriculture-based to services-based. The country possesses a sound base of educated individuals, with the highest literacy rate in the South Asian region. Despite the shortcomings of literacy rates as an indication of the quality of education, it demonstrates that literacy provides a trainable workforce which can now be geared to a knowledge-based economy. Moreover, the growth of the telecoms sector, growing private sector participation in non-degree, non-university tertiary training programmes, and the emergence of a globally-competitive offshoring industry can support Sri Lanka's transition to a knowledge economy.

Yet, currently, much of the knowledge-intensive and knowledge-using production is concentrated in pock-

[1] Porter, M., 1990, *The Competitive Advantage of Nations*, Free Press, New York.

ets in Sri Lanka - either regionally or at firm-level. The Western Province, for example, owing to the wider and deeper availability of skill development opportunities as well as better technology diffusion and utilization, has emerged as a knowledge economy region within the country. Knowledge-based enterprises like offshored IT, legal, and accountancy services as well as nano-technology and garment industry innovation centres, are based primarily in the Western Province. The key is to now ensure that these developments would become more widespread and inclusive to the entire economy.

The ability of rich countries to develop rapidly hinged on their ability to fully harness the power of knowledge-induced growth.[2] As identified in the Report of the Commission on Growth and Development,[3] this was also true of thirteen late-industrializing countries that achieved high sustained growth in recent decades. A key ingredient was their ability to harness 'knowledge' to speed up their growth, but not growth as an end in itself, but this knowledge-led growth being able to create higher and more productive employment, better living standards, improve education, etc.

As Sri Lanka attempts to 'catch-up', whilst also ensuring that growth is inclusive and poverty-reducing, the challenges and opportunities for leveraging the knowledge economy to achieve this, needs to be analyzed. This is particularly policy-relevant given the government's stated goal of transforming Sri Lanka into a Knowledge Hub - one of five hubs articulated in 'Mahinda Chintana - Idiri Dekma' vision statement. An essential pre-requisite for the country to move towards a 'knowledge hub' is the re-orientation of the country towards a 'knowledge economy' (also referred to as a 'knowledge-based economy').

This Chapter aims to provide a better understanding of the advent and evolution of the concept of a knowledge economy and its definition and determinants; evaluate the status and recent performance of Sri Lanka with respect to key determinants of developing a knowledge economy; highlight the key challenges in making a knowledge-economy thrust truly inclusive: and discuss the policy options, particularly possible institutional arrangements, for driving the knowledge economy agenda forward.

10.2 Advent of the 'Knowledge Economy' Concept

In 1962, in reference to a publication that appeared to have developed a theory on 'knowledge' as a key production factor in an economy,[4] *Time Magazine* noted that,

> *"Economists take infinite pains in diagnosing the auto, oil or steel industry, but almost no one tackles the industry that makes the most important product of all. It is knowledge, defined as information, old or new, which is produced and disseminated by all kinds of agents".*[5]

The term knowledge is almost as old as the term development, as entrepreneurship or

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[2] Conceição, P., D.V. Gibson, M. V. Heitor, and G.Sirilli, 2001, "Knowledge for Inclusive Development: The Challenge of Globally Integrated Learning and Implications for Science and Technology Policy", *Technological Forecasting and Social Change*, Vol. 66, No. 1.

[3] Alternatively called the "Spence Commission on Growth and Development," or "The Growth Commission". The Commission is an independent body chaired by Nobel Laureate Michael Spence, and was created in April 2006. The full report, released in 2008, is available at www.growthcommission.org.

[4] Machlup, F., 1962, *The Production and Distribution of Knowledge in the United States*, Princeton, New Jersey: Princeton University Press.

[5] Time Magazine, 'Education: The Knowledge Industry', Time Magazine, 21 December, 1962, http://www.time.com/time/magazine/article/0,9171,940171,00.html.

entrepreneurial knowledge is the linchpin of the organization of production in an economy, which in turn, is fundamental for development. However, the concept of 'knowledge economy' is relatively newer, and has evolved over the last few decades. Today, the knowledge economy has become almost a 'buzz word' among economists, planners, private sector players and other professionals, and its role in broader development is increasingly acknowledged.

Whilst the first use of the term knowledge economy can be traced back to 1962, it would be several decades before the idea would be mainstreamed, as the world globalized, creation and dissemination became freer and cheaper, economies became more integrated with closer trade in goods and services, etc. The knowledge economy became referred to in the context of the ingredients of production, competitiveness, international specialization, and thus growth and development.

With increased globalization, integration, and heightened awareness of economies on gaining a 'competitive advantage' (moving away from the old 'comparative advantage' theory), the need for knowledge-driven growth was identified - innovation, R&D, higher-level learning, proficiency in ICTs, etc. For this, advances in higher level human capital was seen at least as, if not more, important as physical capital.

10.3 What is a Knowledge Economy?: Definitions and Determinants

The knowledge economy has been defined in various ways, but can be well captured as 'an economy that creates, disseminates, and inputs or uses knowledge to promote growth and development'.[6] This is broadly the idea of a knowledge economy that will be built on in the Sri Lankan context, in the discussion to follow.

While land is the key resource in an agricultural economy and natural resources (raw materials like coal, iron ore, etc.) and basic labour is the key resource in an industrial economy, knowledge is argued to be the key resource in a knowledge economy.[7] It is maintained that a knowledge economy refers to an overall economic structure comprising "the rise in knowledge intensity of economic activities, and the increasing globalization of economic affairs...where the principal component of value creation, productivity and economic growth is knowledge". The primary ingredient of a knowledge economy is viewed as a greater reliance on intellectual capabilities rather than on physical inputs or natural resources.[8] It is the combination of production and services based on knowledge-intensive activities that is argued to contribute to an accelerated pace of technical and scientific advance that can in turn, raise competitiveness and accelerate growth.

The OECD defines knowledge economies as "economies which are directly based on the production, distribution and use of knowledge and information".[9] By that definition, however, all economies are knowledge economies. What is different about this concept today, however, is that as economies strive to grow faster and move into advanced stages of economic activity, the effective creation, acquisition, distribution and the use of knowledge becomes increasingly more important, and this is driven, to a great

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[6] Radwan, I., N. Kuruppu, and A. Wijesinha, 2008, *Building Sri Lanka's Knowledge Economy*, World Bank, Washington D.C.

[7] Houghton, J. and P. Sheehan, 2000, *A Primer on the Knowledge Economy*, Centre for Strategic Economic Studies, 2000, Victoria, Australia.

[8] Powell, W. and K. Snellman, 2004, "The Knowledge Economy", *Annual Review of Sociology*, Vol. 30, pp. 199-220.

[9] OECD, 1996, *The Knowledge-based Economy*, Organization for Economic Co-operation and Development (OECD), Paris.

extent, by advances in science and technology and ICT.

The characteristics of a successful knowledge economy are that there is a close linkage between academic science and industrial technology, there is greater importance placed on innovation for economic and competitiveness, there is increased significance of education and lifelong learning, and there is greater investment in R&D, software, and education.[10] Thus, a knowledge-based economy is one that encourages its people, its firms, and its institutions to acquire, create, disseminate and use knowledge more effectively for greater economic and social development. Required elements for the creation and strengthening of a knowledge economy are set out in Table 10.1.

The above framework is used to analyze Sri Lanka's status as a knowledge economy, and identify gaps which need to be addressed to develop the sector. For much of the indicators to analyze each of the elements, the Knowledge Assessment Methodology (KAM) developed by the World Bank Institute is employed.[11]

10.4 Sri Lanka as a Knowledge Economy: Status, Comparison, Inclusiveness

The elements set out in the above discussion can be considered the necessary conditions for Sri Lanka in moving towards a knowledge economy in particular, but also towards increasing the efficiency, flexibility, and resilience of the economy and its ability to restructure, respond to changing competitiveness requirements, and take advantage of new and emerging economic opportunities both at home and abroad, so that the benefits of growth are broadly shared by all Sri Lankans.

Table 10.1
Elements of a Knowledge Economy (KE) and Descriptions

Element of KE	Description
Business environment and economic incentives regime	An economic and institutional regime that provides incentives for the efficient use of existing knowledge, the creation of new knowledge and entrepreneurship
Education and skills	An educated and skilled population that can create and use knowledge
Information communication technology (ICT) infrastructure	A dynamic information infrastructure that can facilitate the effective communication, dissemination and processing of information
Research and innovation	A system of research centres, university, think tanks, consultants, firms and other organizations that can tap into the growing stock of global knowledge, assimilate and adapt it to local needs, and create new knowledge

Source: Adapted from Dahlman, C. and T. Anderson, 2000, *Korea and the Knowledge-based Economy: Making the Transition*, World Bank, Washington, D.C.; and Radwan, I., N. Kuruppu, and A. Wijesinha, 2008, *Building Sri Lanka's Knowledge Economy*, World Bank, Washington D.C.

[10] Dahlman, C. and A. Utz, 2005, *India and the Knowledge Economy: Leveraging Strengths and Opportunities*, World Bank, Washington, D.C.

[11] Available at www.worldbank.org/kam.

The discussion to follow will evaluate Sri Lanka's standing in each of the elements and identify key constraints that need to be addressed in making the thrust towards a knowledge economy both successful and inclusive.

10.4.1 Business Environment and Economic Incentives Regime

Creating a good business environment, with a robust and market-friendly economic incentive regime and institutional set-up, is crucial to spur innovation and knowledge creation and utilization. A conducive competitive environment induces individuals and firms to seek and use knowledge, identify market opportunities, drive entrepreneurship, and thus create wealth, jobs, and economic growth.

A good business environment would mean that Sri Lanka's laws, policies and institutional mechanisms are conducive to fostering successful and inclusive commercial activity. This involves the ease of doing business by both local and foreign firms, the efficiency with which the rule of law is administered, the ease of entering and exiting a market, the level of labour market flexibility, among others.

The World Bank's 'Doing Business in 2011' report ranks Sri Lanka 102 out of 183 countries in the overall ease of doing business. While it is ahead of more economically developed countries like Greece, Argentina, and Russia, the report indicates that, since the previous report in 2010, Sri Lanka has not pushed forward with any significant policy reforms that could have boosted its standing. Indeed, it is suggested that the business environment in Sri Lanka has become less conducive to carrying out commercial transactions between 2000 and 2009. Despite a rise in the index from 4.96 in 1995 to 6.02 in 2000, it experienced a fall back to 4.56 in 2009.[12]

In this and later sections, Sri Lanka's performance is benchmarked with India and Singapore. Singapore has emerged as an unmatched leader in developing and harnessing knowledge for economic growth, having a formidable force of knowledge workers and

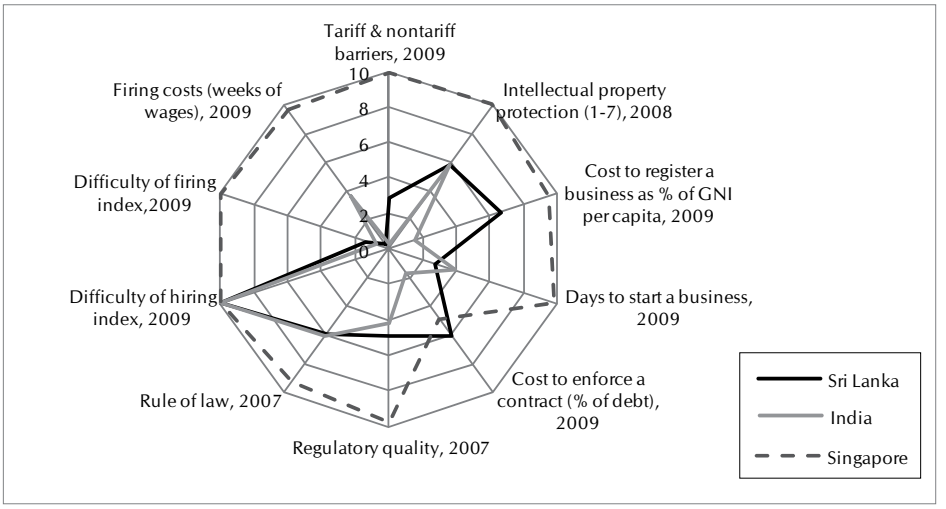
Table 10.2
Sri Lanka's Rank in Key 'Doing Business' Indicators[a]

Doing Business Indicator	2008	2010	2011
Starting a business	29	40	34
Dealing with licences	160	167	169
Hiring and firing workers	111	-	-
Registering property	134	151	155
Getting credit	97	69	72
Protecting investors	64	73	74
Paying taxes	158	165	166
Trading across borders	60	66	72
Enforcing contracts	133	136	137
Closing a business	39	45	43

Note: a: Ranked from a total of 178 in 2008 and 183 countries in 2010 and 2011.
Source: World Bank, 'Doing Business' database.

[12] *Ibid.*

Figure 10.1
Comparison of Business Environment Infrastructure: Sri Lanka, India and Singapore



Source: Compiled using data from World Bank Knowledge Assessment Methodology (KAM) database.

playing host to hundreds of leading knowledge enterprises and innovation centres. India has been a new entrant to the knowledge economy sphere, but has been able to make rapid headway on all fronts of knowledge economy development, and gained international competitiveness in areas like nanotechnology and bio-technology as well as hi-tech production and offshore IT services.

When compared to Singapore and India, Sri Lanka lags behind with respect to certain indicators of business environment infrastructure (Figure 10.1). In particular, Sri Lanka scores low in terms of the number of days to start a business and the difficulty in firing employees. However, Sri Lanka scores well above India with respect to costs associated with registering a business, tariff and non-tariff barriers, and costs to enforce a contract, even placing itself above Singapore on this last point.

These indicators provide an indication of the 'national' picture on the state of doing business in Sri Lanka. At the regional/provincial level, the picture is likely to remain largely the same. However, it is often the case that in dealing with licences and permits, firms located in or around key commercial hubs (e.g., Western Province) may be better able to access the relevant government institutions, than firms located in lagging regions. There are also disparities across provinces, as reported in the Asia Foundation's Economic Governance Index (see Box 10.1). Despite the presence of provincial branches of relevant government agencies, discussions with stakeholders reveal that firms often perceive the institutional and regulatory regime to be more pro-business or more understanding of the private sector's needs in commercial hubs like the Western Province which have reached a higher level of sophistication and dynamism of economic activity, than those in other areas.[13] Thus, such practical issues need to be borne in mind when considering the inclusiveness of public agencies in providing a business environment conducive for entrepreneurship.

[13] These were revealed during field visits and stakeholder consultations with members of the local private sector during the period January 2009 to December 2010 in the Central, Southern, North Central, Eastern and Northern Provinces.

Box 10.1
Asia Foundation Economic Governance Index

The Asia Foundation's Economic Governance Index (EGI) evaluates the business environment for private enterprises. It employs ten sub-indices to carry out its evaluation, ranging from ease of obtaining permits and licences to confidence in legal institutions. The EGI report on Sri Lanka highlights the provincial disparities across the country using surveys conducted among private enterprises. These surveys capture a sense of the private sector's perception of the business environment across seven of the nine provinces, with the Northern and Eastern Provinces excluded due to security concerns at the time of data collection.

The report finds that economic governance across the provinces differs widely, with certain provinces ranking high on some sub-indices while scoring low on others. The Western Province, for example, scored the highest when it came to businesses obtaining registration, permits, and licences while scoring the lowest on confidence in legal institutions and conflict resolution. Uva Province scored highest in this latter category, indicating stronger support for the province's judiciary and appeals process regarding business activities compared to other provinces. On the other hand, this province ranked the lowest in terms of tax administration, burden, and services, indicating private enterprises in this area experienced relatively more tax-related obstacles than any other province. In reference to land access and property rights, the survey revealed that obtaining property for commercial purposes was easier in the North Western Province than in the Western Province, with 55 per cent of businesses in the former province highlighting the ease of obtaining property compared to 34 per cent in the latter.

Source: The Asia Foundation, *Economic Governance Index 2007: A Measure of the Local Enabling Environment for Private Enterprise in Sri Lanka*.

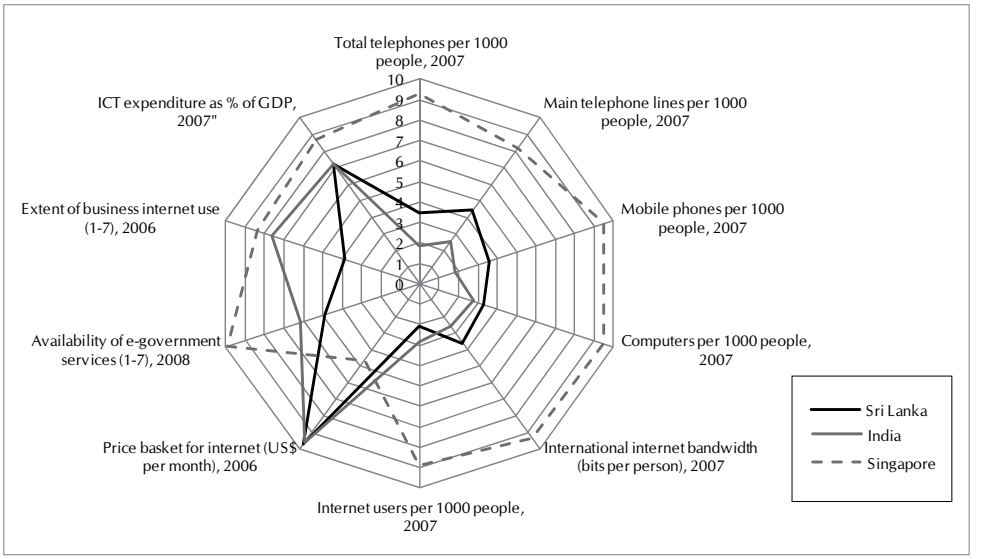
10.4.2 Information Communication Technology (ICT) Infrastructure

With ICT usage permeating through all aspects of economic and social activities, ICTs have become a linchpin of a knowledge-based economy. As Sri Lanka pushes towards becoming a knowledge economy, ensuring that its ICT infrastructure is affordable, efficient, and inclusive, will be important to drive economic growth and productivity across the country.

However, this push forward may not be enough. The World Bank's KAM data indicate that ICT infrastructure in Sri Lanka has worsened over time. The index that measures ICT development stood at 4.50 in 1995 but dipped to 3.64 in 2000, and dropped further still to 2.98 in 2009. This seems counterintuitive given the numerous initiatives undertaken by the Information and Communication Technology Agency (ICTA) to improve the level of ICT development in the country, but could be due to the faster advances that other countries have made, relative to Sri Lanka.

Furthermore, Sri Lanka scores low on several indicators with respect to ICT infrastructure when compared with Singapore and India (Figure 10.2). In particular, Sri Lanka lags behind in terms of the number of internet users and extent of business internet use. On the other hand, Sri Lanka surpasses India on total number of telephones and mobile phones per person, prevalence of telephone lines, as well as number of computers available per person and international internet bandwidth. The lack of internet usage, then, could reflect the high connection and

Figure 10.2
Comparison of ICT Infrastructure: Sri Lanka, India and Singapore



Source: Compiled using data from World Bank Knowledge Assessment Methodology (KAM) database.

monthly rental costs, as well as the cost of computers which cannot be afforded by all groups.

Telecoms, a key determinant of ICT infrastructure, has shown remarkable growth in recent years in Sri Lanka (growing at around 16 per cent annually in the last three years), following liberalization of the sector and the subsequent influx of FDI into it (Table 10.3). While fixed telephony has saturated over time, mobile telephony has shown a sharp growth, as heightened competition drove down prices, and mobile service charges became very affordable to individuals at most levels of the income spectrum.

Fixed tele-density remains heavily skewed towards the Western Province - accounting for 40 per cent of all fixed line phones (Figure 10.3). However, it must be borne in mind that with the proliferation of affordable mobile telephony, this gap has been bridged, with many rural households substituting the lack of a fixed line by a mobile telephone or at least a portable CDMA (Code Division Multiple Access) phone.

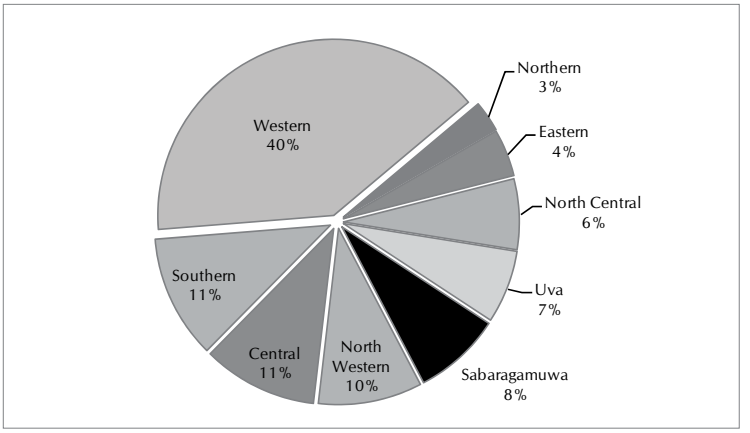
Table 10.3
Number of Fixed, Mobile, and Broadband Subscribers

Year	Fixed	Mobile	Broadband[a]
2006	1,884,076	5,412,496	130,000
2007	2,742,059	7,983,489	202,348
2008	3,446,411	11,082,454	234,000
2009	3,435,958	14,095,346	249,756
2010	3,578,463	17,359,312	280,000

Notes: a: Provisional.

Source: Telecom Regulatory Commission, *Statistical Overview 2010.*

Figure 10.3
Provincial Distribution of Fixed Phones (as at December 2010)



Source: Telecom Regulatory Commission, *Statistical Overview 2010*.

Broadband internet connectivity has also risen over the years (although not as dramatically as mobile telephony), doubling between 2006 and 2010. However, the lack of full expansion of the broadband backbone to rural areas makes availability unequal geographically. An estimated 280,000 broadband subscribers as at end 2010, comprised a mere 1.4 per cent of the country's total population. This is compared to over 70 per cent of people being connected via mobile telephony.[14]

The high costs of broadband connectivity limit access to connectivity and affects inclusiveness in terms of expanding internet literacy for all. Sri Lanka ranks third highest among South Asian countries in terms of the annual cost of a broadband connection (Table 10.4). Moreover, the quality of broadband also remains an issue, with download speeds estimated to be far below the advertised rates.[15] However, since then, corrective measures adopted by Telecom Regulatory Commission (TRC) have led to a 60 per cent improvement by operators.[16]

Table 10.4
Broadband Internet Costs in Sri Lanka vis-a-vis South Asia

Country	Annual Cost (US$)[a]
Bangladesh	618
Nepal	248
Sri Lanka	168
Pakistan	114
India	143

Notes: Cost of 256kbps broadband business connection.

Source: LIRNEasia, www.lirneasia.net.

[14] Dialog Axiata Plc., *Annual Report 2009*.

[15] Lanka Business Online (LBO), 'Sri Lanka broadband speeds below advertised rates: regulator', 27th December 2010, http://www.lankabusinessonline.com/fullstory.php?nid=1013747302.

[16] *Ibid*.

The concerted efforts by the ICTA currently underway to completely re-orient Sri Lanka towards better ICT adoption and utilization by broader society will no doubt boost the country's position on the ICT pillar in the coming years (see Box 10.2).

Box 10.2
e-Sri Lanka Programme

Sri Lanka began implementing the e-Sri Lanka Programme in 2003, with the aim to promote access to ICT across the country. According to a report prepared for the ICTA in 2010, a mere 5.7 per cent of the population in Sri Lanka has access to the internet.[17] The impetus behind the programme is that ICT is seen as "an enabler and a tool that can help people to increase their income levels in whatever fields of employment they are involved in." The programme's primary aims are to provide improved access and use of ICT; access to and use of public services on-line by businesses and citizens; and enhanced competitiveness of the private sector and in particular of the knowledge industry and SMEs. It endeavors to tackle these challenges through:

1. Empowering the rural poor, disadvantaged groups, women and youth through increased and affordable access to information and communication tools
2. Developing leadership and skills in ICT
3. Creating employment in the ICT industry and ICT enabled services, and enhancing the competitiveness of user industries and services

The e-Sri Lanka Programme has adopted six approaches to fulfilling these aims. They include i) ICT Policy, Leadership and Institutional Development; ii) ICT Human Resources Development and Industry Promotion; iii) Regional Telecommunications Network; iv) Telecenter (Nenasalas) Development; v) Re-engineering Government; and vi) e-Society Development. Several of these have been successful in promoting ICT among government employees, as well as reaching out to the disadvantaged and providing ICT access to youth and women in rural areas.

According to the World Bank, the programme has achieved some critical successes, noting that it is the "most comprehensive ICT project in the World Bank,".[18] It is estimated that following the programme's implementation, over 50,000 new jobs have opened and over 35,000 private sector employees have used the programme's ICT training in their work. The government online portal has reportedly attracted over 4 million users since it began offering services in 2009, and its telecenter project draws over 70,000 people monthly through its 600+ Nenasalas (see Box 10.3).

Nonetheless, the e-Sri Lanka Programme has key challenges in implementation, which in turn have impacted its scaling-up. When implementing certain projects under the programme, there has been difficulty ensuring the quality of ICT services provided consistently meets the expected standards. Another key issue is that of the language barrier that exists for many Sri Lankans when operating predominantly English software and on-line applications. Additionally, the ICTA is trying to meet the challenge of promoting export growth of ICT-related services and establishing an institutional framework that clearly defines the legal boundaries of ICT use in Sri Lanka.[19]

Sources: ICTA, 2010, "Outcome Evaluation Report of Nenasala Project", a report prepared for the ICTA by Skill International Private Limited; http://www.icta.lk/en/programmes.html; interview with Monitoring and Evaluation Programme Head, ICTA.

[17] ICTA, 2010, "Outcome Evaluation Report of Nenasala Project", a report prepared for Information and Communication Technology Agency of Sri Lanka by Skill International Private Limited. ICTA: October 2010.

[18] World Bank, 2011, "Implementation Status and Results: Sri Lanka E-Lanka Development", World Bank.

[19] Interview with Monitoring and Evaluation Programme Head, ICTA.

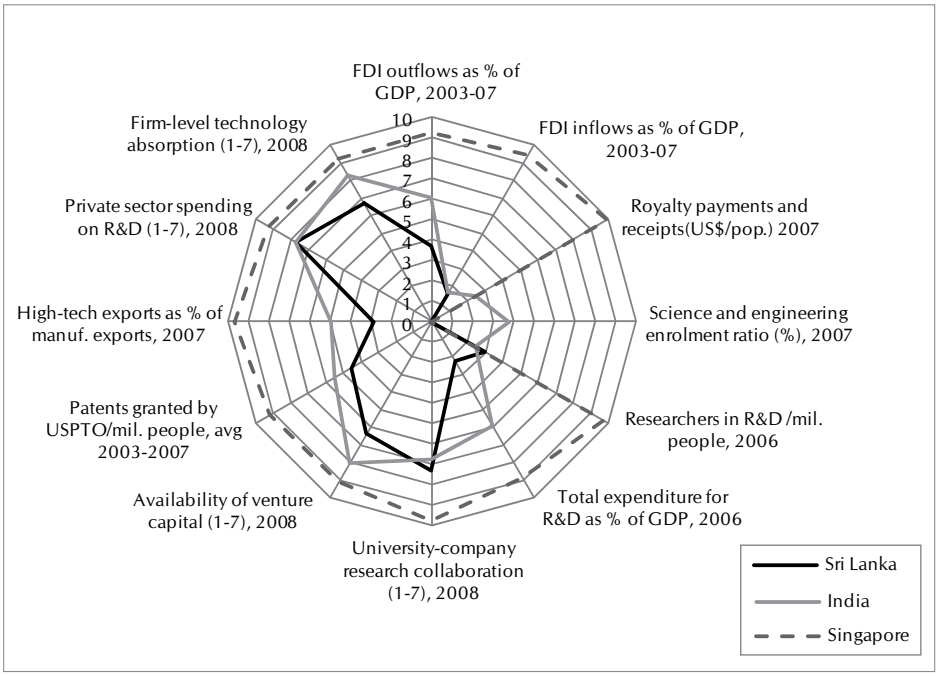
10.4.3 Research and Innovation System

There is no single accepted definition of a national innovation system. Rather, it refers to the network of institutions, rules and procedures that foster innovation and R&D in a country - the web of interaction as a whole. It includes the degree to which existing technologies from other countries are adopted and developed further to suit the local needs, the development of globally competitive technologies and production processes, and the nexus between science and research institutes and the private sector (i.e., firms that would use new and/or adapted technologies).

The World Bank's KAM database reports a rise in the quality of research and innovation infrastructure in Sri Lanka recently. Despite a slight decrease in the KAM indicator between 1995 and 2000 from 3.27 to 3.24, Sri Lanka's score in 2009 rose to 4.13. Despite this rise, Sri Lanka lags behind India and Singapore with respect to certain aspects of research and innovation infrastructure. In particular, Sri Lanka performs relatively poorly in the areas of royalty payments and receipts, total expenditure for R&D, and high-tech goods as a percentage of manufactured exports (Figure 10.4).

Sri Lanka is a late-comer to the research and innovation revolution that has swept the world in the last decades. Many of the country's scientific institutes remain underfunded, with insufficient international collaboration to acquire and adapt global technologies. Sri Lanka's research institutes are also overwhelmingly agriculture-based. Of an estimated total of 5,300 scientists spread over 13 universities and 19 R&D institutes in 2005, more than 60 per cent of

Figure 10.4
Comparison of Research and Innovation Infrastructure: Sri Lanka, India and Singapore



Source: Compiled using data from World Bank Knowledge Assessment Methodology (KAM) database.

the R&D institutes were related to agriculture.[20] Additionally, the protracted conflict, along with unattractive career potential, meant that a large proportion of science and engineering professionals left the country in search of better opportunities. However, this is gradually changing.

An example of the improved nexus between academic scientific research and private sector initiative would be the telecom centre in the Moratuwa University (in partnership with Dialog Axiata telecom) and the ground-breaking Sri Lanka Institute of Nanotechnology (SLINTEC), which operates under a unique public-private partnership (PPP) model. The SLINTEC has also been able to attract Sri Lankan diaspora experts to link up with local scientists for nanotech research. As was the case in much of industrialized East Asia, Sri Lanka can absorb existing technologies and production systems, and then leverage on such a base to develop more innovative industries and create newer, or adapt existing technologies. However, due to a lack of public funding for R&D enterprises over the decades, the national science and technology environment experienced little growth. Despite the stated government goal in 2006 to allocate 1.5 per cent of GDP to R&D by 2016,[21] by 2008 only one-tenth of that had been allocated.[22]

A key government initiative is currently under way to ensure that innovation capabilities and opportunities are not limited to the urban and highly commercial hubs - e.g., the 'Vidatha' programme of the Ministry of Technology and Research. By end 2009, there were 254 Vidatha Resource Centres across Sri Lanka, covering 77 per cent of all Divisional Secretariat (DS) divisions in the country,[23] involved in 'transfer of technology' programmes under the theme 'Gamata Thaakshanaya' ('technology to the village'). Yet, there is evidence to suggest that the link-

Box 10.3
Performance Review of the Vidatha Programme

A recent assessment showed that, as at end 2009, Vidatha had provided close to 3,400 trainings in 139 technologies, providing services to over 8,400 entrepreneurs. Moreover, roughly 1,400 entrepreneurs had received assistance in obtaining loans at low interest rates for technology development. A key element of the programme is to provide computer training to local communities, and over 27,200 people have benefited from this feature. However, despite its successes, the programme has encountered certain obstacles. The provision of more up-to-date technologies, business management training, and ways for entrepreneurs to access capital (including raw materials and machinery) at concessionary rates are identified as critical needs. These would need to be implemented both at the local Vidatha Resource Centre level and the central level in order to ensure that innovation at the local level can be of a high quality, with the potential for better commercialization.

Source: Asha Gunawardena, Kanchana Wickramasinghe, and Nethmini Perera, 2010, "Assessment of Vidatha Technology Transfer Programme", a report prepared by the IPS for the Ministry of Technology and Research.

[20] Radwan, I., N. Kuruppu, and A. Wijesinha, 2008, *Building the Sri Lankan Economy*, World Bank, Washington D.C.

[21] DNP, 2006, *Mahinda Chinthana: A Ten Year Horizon Development Framework 2006-2016,* Ministry of Finance and Planning.

[22] Radwan, I., N. Kuruppu, and A. Wijesinha, 2008, *Building Sri Lanka's Knowledge Economy*, World Bank, Washington D.C.

[23] Ministry of Technology and Research, www.most.gov.lk.

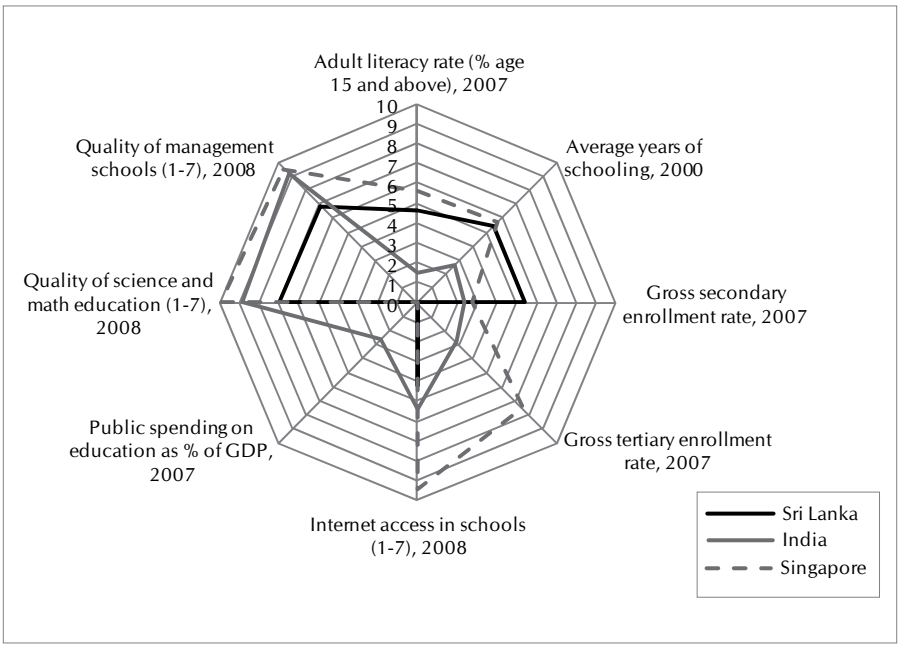
age between the activities of the Vidatha centres and private enterprises in the local area - i.e., if the innovation capabilities developed by these centres are in fact filtering in to entrepreneurship and product/ service innovations - remains weak, for several reasons (Box 10.2). These linkages need to be strengthened to ensure that not only is access to such facilities made more widespread, and thus inclusive to a larger part of the population, but that they are effective conduits for research and innovation to be commercialized.

10.4.4 Education and Skills

Developing the country's human resources is the key second element in developing a competitive and inclusive knowledge economy. It refers collectively to the education system and the level of vocational training in the country. Having a relatively high adult literacy rate of 92 per cent, Sri Lanka is a forerunner among developing nations with regard to universal literacy. However, the quality and relevance of the education provided has not kept up with local and global changes and labour market requirements.

Nonetheless, World Bank KAM data show that the quality of education and skills infrastructure has improved in the recent past. Although the quality in education may have suffered slightly from 1995 to 2000, as suggested by the KAM index's decrease from 4.42 in 1995 to 4.31 in 2000, it seems to have improved over the following years, indicated by a score of 5.00 in 2009. Yet, when looking more closely at various indicators and when comparing to India and Singapore, it is evident that Sri Lanka performs poorly with respect to Internet ac-

Figure 10.5
Comparison of Education and Skills Infrastructure: Sri Lanka, India and Singapore



Source: Compiled using data from World Bank Knowledge Assessment Methodology (KAM) database.

cess in schools, public spending on education, and gross tertiary enrolment, as shown in Figure 10.5. However, Sri Lanka excels in terms of gross secondary enrolment, surpassing both India and Singapore in this area.

Spatial disparities in education access and quality pose a considerable challenge to growing the knowledge-potential of the Sri Lankan economy in an inclusive manner. Available evidence suggests significant spatial disparities in access to education across districts in Sri Lanka, whereby educational opportunities, in terms of the availability of schools, human resources, and other facilities, are widely imbalanced across the country.[24] Physical resources in the Northern Province are not as widely available as those in other parts of the country. In particular, the districts of Mullaitivu, Mannar, and Vavuniya suffer a shortage of schools with Advanced Level (A/L) programmes. For instance, there is only one school with A/L science for over 400 sq. km. in Mullaitivu and Vavuniya, while Mannar has one for every 200 sq. km. This is in stark contrast to districts in other provinces. Colombo, which lies in the Western Province, enjoys a distribution of the same type of school for every 10 sq. km., while Kandy and Gampaha have one for approximately every 40 sq. km. and 25 sq. km., respectively.

Human resources is another area where spatial disparities are evident. The availability of qualified teachers (with graduate certificates or other types of training), is considerably disproportionate across different districts. Kilinochchi, Mannar, and Polonnaruwa have particularly low proportions of graduate trained teachers in relation to the total number of teachers available in the province, numbering 0.5 per cent, 0.6 per cent, and 1.3 per cent, respectively. On the other hand, districts like Kurunegala, Colombo, and Kandy, with 11.2 per cent, 10.5 per cent, and 8.8 per cent respectively, enjoy relatively high proportions of such teachers.

A third area where access to education is disproportionate is accessibility to facilities like libraries, science laboratories, and computers. Over three-fourths of the total number of schools in Kilinochchi, Mannar, Mullaitivu, and Vavuniya do not have a library, not even a temporary reading room. However, many schools in Colombo and Gampaha enjoy such resources, with only 15 per cent and 26 per cent of schools in these respective districts having no access to libraries or reading rooms. The availability of science laboratories tells a similar story, with over 80 per cent of schools in Kilinochchi and Mullaitivu having no science labs whatsoever, while only 11 per cent of schools in Colombo and 20 per cent of schools in Gampaha suffer the same fate. Similarly, Kilinochchi and Mullaitivu have, on average, fewer than one computer per school, whereas Colombo has, on average, over six computers per school while Galle, Gampaha, Hambantota, Kalutara, Kandy, and Matara, have between two and three computers per school.

Specific education areas like computer literacy are also important indicators of the ability to strengthen Sri Lanka's knowledge economy potential. This needs to be developed along with expanding ICT infrastructure, to ensure that ICT development is inclusive for all to leverage upon. However, there are significant geographical disparities in computer literacy across the country. A survey conducted by the DCS, reveals that while computer literacy in 2009 was around 30 per cent in urban Sri Lanka, it was 19 per cent in rural areas and a low 8.5 per cent in

[24] Tilakaratna, G., A. Galappattige, R. Jayathilaka, and R. Perera, 2008, "Educational Opportunities for the Poor in Sri Lanka: Assessing Spatial Disparities", IPS.

estate areas (Figure 10.6). Across provinces too, significant disparities are prevalent, with all regions lagging well behind the Western Province (Figure 10.7). However, in both indicators, there is clear evidence of improvement between 2006/07 and 2009. The ICT Agency's Nenasalas programme have gone someway in addressing the issue of computer literacy, by taking computer usage to rural areas through the network of these 'rural telecenters' (see Box 2).

Box 10.4
Sri Lanka's *Nenasalas*

The ICTA established the *Nenasala* project in order to "empower the population in rural areas of the country through affordable community access to information and communication technologies."[25] The term Nenasala roughly translates to 'wisdom outlet' in Sinhala. The project aims to establish 1,000 telecommunications centers in rural communities across the country. These centers are expected to provide:

- availability of affordable basic communication services (voice, fax, email and Internet access), office services (printing, copying, scanning) and community information in rural and disadvantaged areas.
- enhanced access and quality of social services (e.g., public services on-line, distance education).
- access to private sector and banking services on-line.
- e-Commerce, information on employment opportunities for improved entrepreneurship (e.g., through online technical assistance, and expanded input and output market networks).
- mobilization of local knowledge and support to local industry development.
- empowerment of target groups through community driven development.

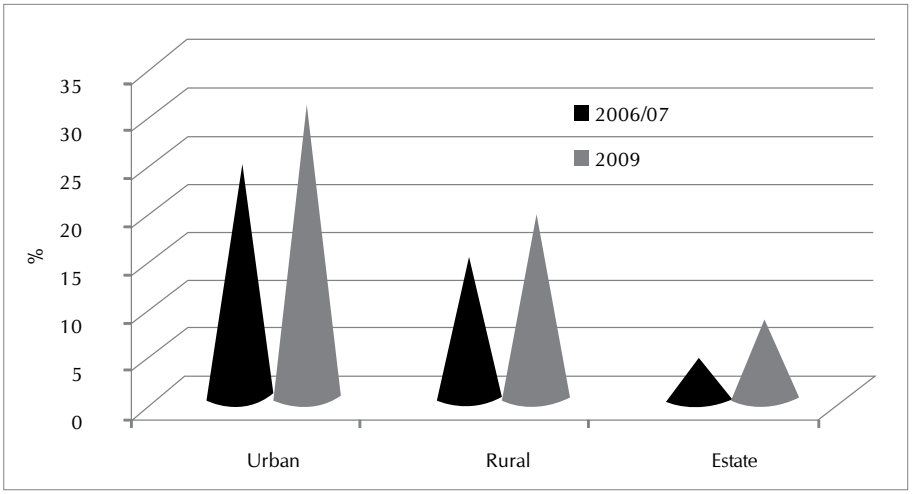
As of October 2010, there were reportedly 629 centers that had been progressively established across Sri Lanka. An evaluation of the *Nenasala* commissioned by ICTA suggests that the majority of users had a positive opinion about the services offered at these telecenters and perceived them to be useful. Among those surveyed, roughly 60 per cent rate the services as 'very good', and on overall satisfaction, close to 40 per cent of users reported being 'highly satisfied'. However, an independent review is yet to be undertaken.

The majority of users of the *Nenasala*as are found to be young people, with three-fourths aged between 12-25 years. The Nenasala project has also seemingly succeeded in bridging the gender gap in the area of ICT, with 63 per cent of all users being female. Nonetheless, the sustained popularity and relevance of these telecenters remains to be seen. The same survey pointed out declining trends in both computer usage and number of users between May-July 2010, as well as a decreasing trend in total Internet hours from September 2009 to July 2010. Furthermore, the *Nenasalas* face the challenge of a lack of relevant content available to local communities. Much of the information provided is obtained from the internet, which is predominantly in English, and largely globalised. In order to stay relevant, these centers would need to ensure that more locally relevant information is also available to the users.

[25] ICTA, 2010, "Outcome Evaluation Report of *Nenasala* Project", a report prepared for ICTA by Skill International Private Limited.

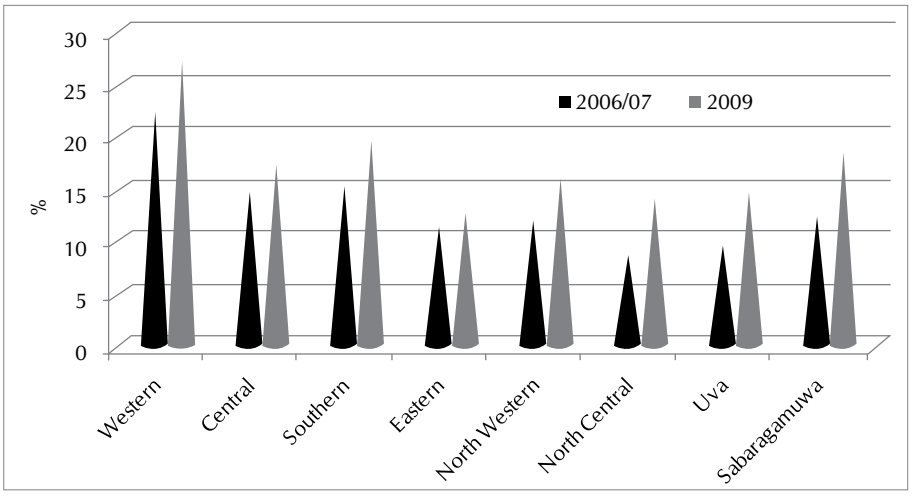
Moreover, Sri Lanka spends a disproportionate amount (50 per cent) on secondary education from its total education budget.[26] This stands in stark contrast to the share of expenditure spent on primary, university, and technical levels, which were considerably less at 32, 14, and 3 per cent, respectively. The need to further develop the country's private sector university system and expand on the relationship between the tertiary education system and the private sector remains an important step in developing the nation's knowledge economy.

Figure 10.6
Computer Literacy in Sri Lanka across Urban, Rural and Estate Sectors



Source: DCS, *National Computer Literacy Survey*.

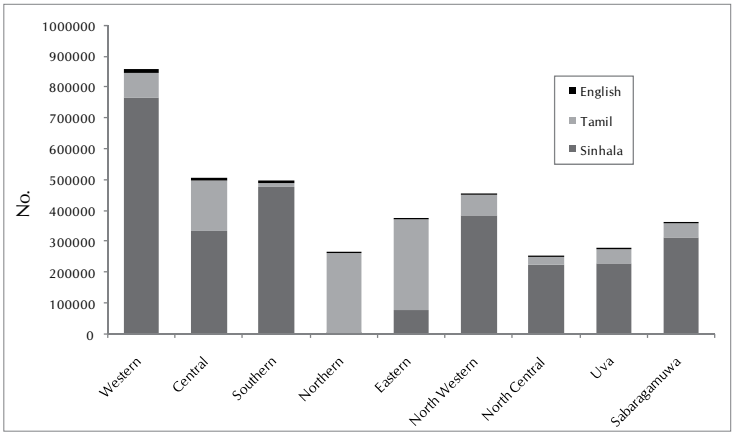
Figure 10.7
Computer Literacy in Sri Lanka across Provinces



Source: DCS, *National Computer Literacy Survey*.

[26] World Bank, 2005, 'Treasures of the Education System in Sri Lanka', World Bank, Colombo.

Figure 10.8
Students by Medium of Study across Sri Lanka



Source: Ministry of Education, *School Census 2006*.

As Sri Lanka is becoming increasingly integrated into a globalized society, the need for English language skills is becoming more apparent. However, the prevalence of English as a medium of study is low in all provinces, and markedly so in the Central, Northern, Eastern, North Central, Uva, and Sabaragamuwa Provinces (Figure 10.8). Yet, this might not entirely be an accurate indication of English language ability across the country, owing to the numerous privately administered English language classes seen to be available throughout much of the country, albeit mainly in urban and semi-urban areas.

10.5: Way Forward - Strong Institutional Framework

The preceding discussion aimed to demonstrate the key elements that determine the growth of a knowledge-based economy. Sri Lanka needs to take a comprehensive look at each of these elements and their constituents, to identify which gaps need addressing urgently in order to ensure that a competitive and inclusive knowledge economy can be fostered. To ensure coherent and concerted efforts in building the knowledge economy and becoming a knowledge hub, Sri Lankan policy makers should implement strategies that take a holistic approach. Addressing all elements concurrently would be essential, owing to the strong inter-linkages between the elements highlighted earlier.

Setting up robust institutions to catalyze this would indeed be a vital step. For instance, setting up a Knowledge Commission, or a Knowledge Economy Task Force, could help drive these efforts at a national, strategic level, and ensure the aforementioned holistic and coherent approach is adopted. Some lessons could be drawn from a similar effort in India, where a National Knowledge Commission has been giving leadership to India's efforts at developing its knowledge economy since 2005 (Box 10.3). Such a body could comprise of representatives from the government, academia, and private sector, covering fields relevant to each of the elements that determine the growth of the knowledge economy. Such a Commission would need to be given leadership at the highest level, and tasked with making policy recommendations and developing appropriate strategies, as well as advising on driving the necessary sector-wise initiatives at the line ministry level.

The thrust to develop Sri Lanka as a knowledge hub has been clearly articulated in gov-

ernment policy documents. Thus, it is important for the government to develop and achieve these by setting concrete policy priorities for each of the knowledge economy determinants by bringing together all government and private sector bodies working on this sector. Such an action plan will provide necessary guidance to these bodies on what specific steps need to be taken, as well as provide a strong signal to investors willing to take up opportunities in investing in the gamut of knowledge-based enterprises - research and innovation centres, tertiary education and technical/vocational training

Box 10.4
India's National Knowledge Commission

The National Knowledge Commission (NKC) of India is an advisory body tasked with providing policy analysis and recommendations to help develop India's potential as a knowledge society. It covers areas such as education, science and technology (S&T), and agriculture. Set up in June 2005, it reports to the Prime Minister (PM) and comprises six members. The tasks that the NKC carries out revolve around developing India's research and knowledge production capabilities. It aims to harness this knowledge to use in other areas of the economy, including agriculture, industry, and health care. The NKC aims to:

- Build excellence in the educational system to meet the knowledge challenges of the 21st century and increase India's competitive advantage in fields of knowledge.
- Promote creation of knowledge in S&T laboratories.
- Improve the management of institutions engaged in intellectual property rights (IPRs).
- Promote knowledge applications in agriculture and industry.
- Promote the use of knowledge capabilities in making government an effective, transparent and accountable service provider to the citizen and promote widespread sharing of knowledge to maximize public benefit.
- Expand the education system and use the country's IT infrastructure to improve governance and connectivity across the nation.

The NKC first identifies key issues and their relevant stakeholders, followed by consultations and workshops, discussions within the NKC prior to finalizing their recommendations to the PM, and then issuing a formal letter to the PM containing policy recommendations and financial impacts. It then seeks to disseminate its work using its website and its contact with state governments and members of civil society.

It has led many initiatives over a variety of different areas and has made its findings available through reports, presentations, newsletters, and newspaper articles. Its 'Report to the Nation 2006-2009', a compilation of previously published reports, highlights many of the recommendations the NKC has made over its three and a half year term. Covering topics such as IPRs, vocational education and training (VET), and entrepreneurship, the report addresses key areas through which the country can develop its knowledge economy.

Source: http://www.knowledgecommission.gov.in/default.asp.

institutes, IT-enabled service providers, and science and technology related ventures like nanotechnology, biotechnology, and high-tech manufacturing. A policy mix of a specialized high-level advisory body, and recommendations via an expert task force representing all relevant stakeholders, combined with a comprehensive and specific government action plan, as well as buy-in from key government ministries and agencies as well as private sector players, will ensure that Sri Lanka emerges as a competitive and inclusive knowledge economy in the country's new era of post-conflict growth.

11. Driving Infrastructure Developments for Inclusive Growth

11.1 Introduction

An accelerated infrastructure development thrust lies at the core of Sri Lanka's post-conflict economic programme. Whilst infrastructure spending is undoubtedly beneficial in providing the initial momentum to economic growth, the inclusiveness of the infrastructure development - where different agents are given equal opportunities to participate in development activities, while allowing the benefits of such developments to be equitably shared among various social groups - will to an extent, determine the sustainability of the growth process in the longer term.

Infrastructure projects currently carried out in Sri Lanka are spread across provinces, with special attention being given to the previously conflict-affected N&E. Provision of adequate infrastructure for lagging regions is critical not only to tap unutilized resources but also to bridge existing regional disparities in socio-economic development. International experience also suggests the importance of focusing not only on 'how much' but also 'where', in addressing infrastructure needs.[1] Inadequate infrastructure is identified as a key factor in the unequal distribution of gains from economic growth, calling for policies that centre on inclusiveness to reach balanced regional development.[2]

> ***"Bringing the multiple rural infrastructure development programmes under one arm would ensure balanced development across regions"***

This discussion attempts to look at the distribution of infrastructure developments across regions in Sri Lanka, and thereby to assess infrastructure policy in terms of ensuring inclusivity in economic growth. It focuses specifically on rural infrastructure development initiatives and the status of the developments

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[1] Estache, A., and Fay, M., 2007, "Current Debates on Infrastructure Policy", Policy Research Working Paper Series 4410, World Bank, Washington, D.C.

[2] Li, W., T. Mengistae and L.C. Xu, 2011, "Diagnosing Development Bottlenecks: China and India", World Bank Policy Research Working Paper Series; Joshi, G.S., 2010, "Infrastructure Development Strategies for Inclusive Growth: India's Eleventh Plan", *Leadership and Management in Engineering*, Vol. 10, No. 2, American Society of Civil Engineers.

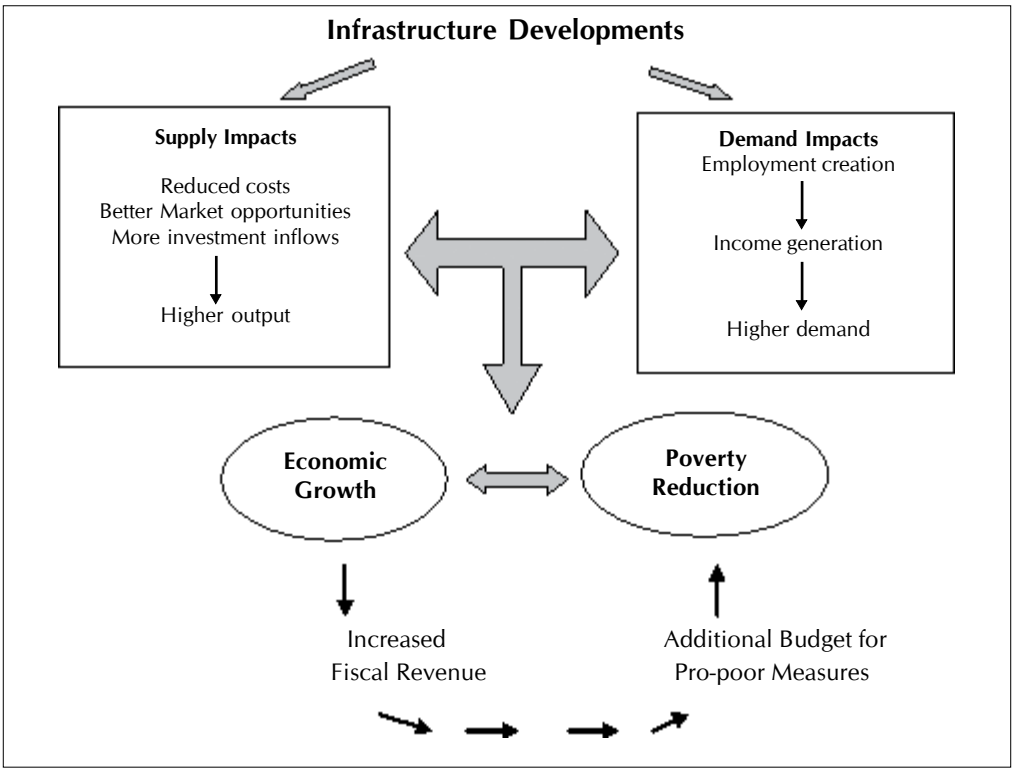
of different sub-sectors of infrastructure across regions in the country.

11.2 Role of Infrastructure in Inclusive Growth and Poverty Reduction

Sustainable infrastructure development has a direct impact on accelerating rural and urban livelihood improvement. This can propel a country towards an inclusive growth path where the gains of economic development trickle down to all layers of the society as their full potential is utilized in the national development process. Alongside stimulating growth in lagging areas, improving integration between lagging and leading areas - where infrastructure plays an important role - is vital for economic progress.[3]

The impact of infrastructure on economic growth and poverty reduction takes the form of first-round effects, followed by subsequent impacts.[4] In the first round, both supply and demand sides of the economy are impacted through an enhanced business climate. Roads and irrigation infrastructure have shown to directly improve the incomes from agriculture and non-farm activities, and living standards of the poor, while electricity has proven to create employment through the establishment of industries in the areas.[5] The social

Figure 11.1
Impact of Infrastructure on Economic Growth and Poverty Reduction



Source: Jahan, S. and R. McCleery, 2005, *Making Infrastructure Work for the Poor,* UNDP.

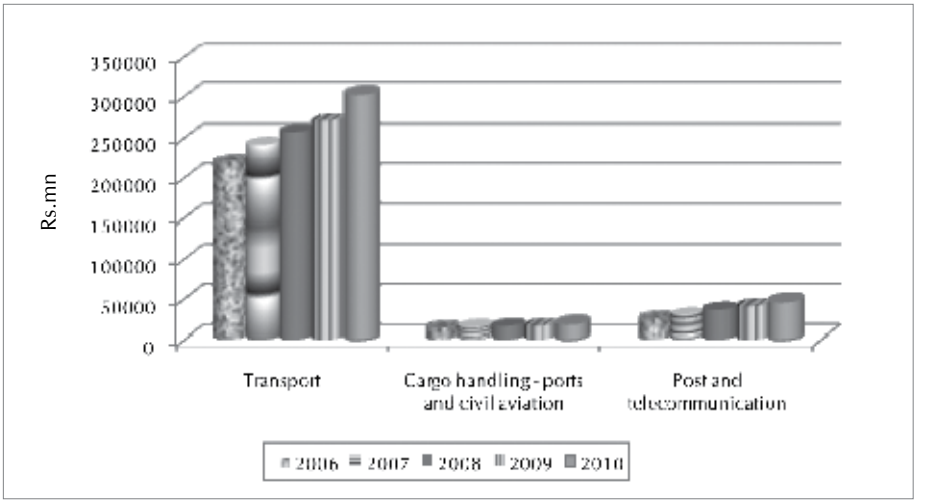
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[3] World Bank, *World Development Report 2009: Reshaping Economic Geography*, World Bank, Washington, D.C.

[4] Jahan, S. and R. McCleery, 2005, *Making Infrastructure Work for the Poor,* UNDP.

[5] Ali, I., and E. M. Pernia, 2003, "Infrastructure and Poverty Reduction - What is the Connection?", ERD Policy Brief Series, Asian Development Bank, Manila.

Figure 11.2
Contribution of Transport and Communication to GDP



Source: CBSL, *Annual Report 2010*.

dimension of better infrastructure is the increased access to basic social services that improve the living conditions of the poor. The subsequent effect of infrastructure development arises when growth increases fiscal revenue, resulting in additional budget being generated for programmes that improve the living conditions of the poor.

Although infrastructure improvements affect the overall functioning of the economy, the impact of some infrastructure sectors on the domestic output can be specifically identified. Since Sri Lanka's accelerated infrastructure development drive commenced in 2006, the performance of the transport, cargo handling and post and telecommunication subsectors has been significant (Figure 11.2). During 2006-10, these three sub-sectors have recorded a growth of 37 per cent, 37 per cent, and 88 per cent, respectively. The transport and cargo handling sectors have grown at an annual average rate of 8.2 per cent and 8.5 per cent, respectively, well above the country's overall rate of GDP growth. In 2010, the sectors recorded a growth of 11.4 per cent and 16.8 per cent, reflecting the benefits of a post-conflict environment as well as the overall economic recovery from the downturn of 2009. Clearly, increased output holds the potential to create wider employment opportunities and impact positively on poverty reduction.

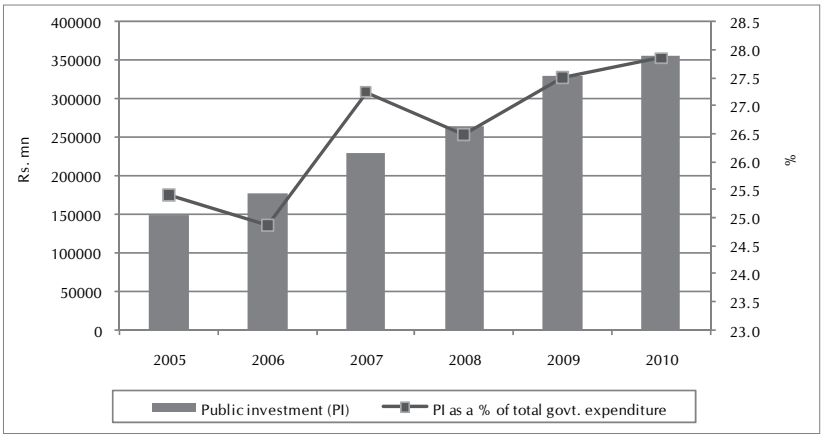
11.3 Infrastructure Development and Inclusive Growth in Sri Lanka

One of the major thrusts of Sri Lanka's present development strategy is to strengthen the 'village' as a dynamic and sustainable growth centre that can effectively contribute to the national growth process. This is equally highlighted in the infrastructure development measures. An assessment of whether these infrastructure facilities are adequately distributed across regions without being concentrated in already economically active districts is important.

11.3.1 Policy on Infrastructure Development

Sri Lanka's current infrastructure policy aims to accommodate broader regional and rural development policies and poverty alleviation efforts. 'Randora' is carried out at the national level covering development of roads,

Figure 11.3
Public Investment



Source: Ministry of Finance and Planning, *Annual Report,* various issues.

electricity, water supply and sanitation, and ports and aviation, while the corresponding infrastructure projects at the regional level are carried out through the 'Maga Neguma' and 'Gama Neguma' programmes.

As evident from Figure 11.3, the government's priority on infrastructure spending is clear. Public investment as a percentage of GDP which stood at 6.8 per cent in 2009 was maintained at 6.4 per cent in 2010. During 2005-10, public investment has more than doubled, at a rate faster than the increase in total expenditure, and remains above one-fourth of the total government expenditure.

Allocations among different sectors of infrastructure also reflect a significant change over time, with the share spent on roads and bridges, electricity, ports and aviation, and specifically for rural infrastructure being higher in 2009 compared to 2006. However, the share of spending on social infrastruc-

Table 11.1
Sector-wise Public Investments (Rs.mn)

Sector	2006	% Share	2009	% Share
Roads and bridges	25,871	14.6	85,146	25.8
Electricity	4,484	2.5	32,852	9.9
Ports and aviation	5,731	3.2	28,332	8.6
o/w ports	191	0.1	25,425	7.7
Irrigation	7,329	4.1	14,207	4.3
Agriculture and production	9,474	5.3	14,512	4.4
Water supply	17,944	10.1	22,514	6.8
Education	17,200	9.7	16,934	5.1
Health	13,969	7.9	12,664	3.8
Rural infrastructure	16,222	9.1	57,000	17.2
Transport (railway/CTB)	7,586	4.3	11,247	3.4
Administrative/police/judicial/other	51,470	29.0	8,102	2.5
Total	177,443	100.0	330,448	100.0

Source: Ministry of Finance and Planning, *Annual Report* 2009.

ture - e.g., health and education - has declined over the same period. Although 'hard' economic infrastructure such as roads and bridges bring about an immediate boost to the economy, the importance of improved education and health in the long run must not be forgotten.

11.3.2 National Level Infrastructure Development

National level infrastructure requirements are identified, planned and implemented under the Randora programme encompassing both economic and social infrastructure. Prominence is given to maintain and rehabilitate the existing road network under the 'National Road Master Plan' focusing on the construction of expressways and highways, widening of highways, reduction of traffic congestion, road maintenance and rehabilitation, bridge rehabilitation and reconstruction, land acquisition and resettlement of affected people.

Sectors with potentially high returns such as electricity, and ports and aviation have attracted more foreign financing while rural and social infrastructure seems to have received less emphasis (Table 11.2). Focusing on these areas will be equally important to achieve balanced development. The emphasis on road development is largely derived from the desire to establish a high quality road network connecting the regions with the centre, which can trigger regional investments, both domestic and foreign. Transport improvements such as Colombo-Kandy expressway suggests a reduction of island-wide transport costs by 20 per cent.[6] Rehabilitating railways, restructuring of the state bus service and addition to train and bus fleet are carried out under transport sector developments. State bus service and railways account for 23 per cent and 6 per cent, respectively, of passenger transport in the country.[7] The developments are aimed at making the state bus service operation efficient while allowing fair competition

Table 11.2
Funding for Infrastructure (Rs.mn)

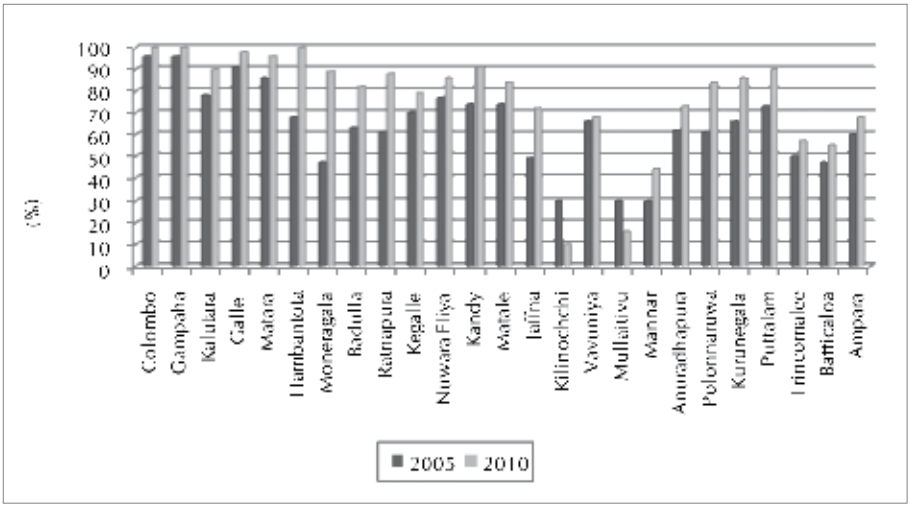
Sector	Domestic	Foreign
Economic		
Roads	118,693	275,685
Electricity	33,409	264,656
Water supply & sanitation	23,439	56,021
Ports and aviation	59,640	144,016
Transport	24,795	99,150
Rural infrastructure	23,798	11,919
Irrigation	18,392	48,730
Social		
Health	9,788	13,953
Education	16,200	16,170

Source: Randora National Infrastructure Development Programme/Mahinda Chinthana: Ten Year Horizon Development Framework 2006–2016.

[6] World Bank, 2010, *Sri Lanka: Reshaping Economic Geography*, World Bank, Washington, D.C.

[7] Ministry of Finance and Planning, 2008, *'Randora' National Infrastructure Development Programme.*

Figure 11.4
Electrification Level in Sri Lanka (%)



Source: Ministry of Power and Energy and Ministry of Finance and Planning, *Annual Report,* various issues.

between private and state buses in a passenger-friendly manner. The benefits of transport infrastructure improvement are significant for rural communities whose use of private vehicles is limited.

The power sector aims to achieve 100 per cent electrification by 2012 through the development of infrastructure and facilities to remote and distant locations by connecting to the national grid or other energy sources. Presently, 85 per cent of the population has access to electricity through the national grid, 3 per cent by alternative energy sources (solar and micro hydro projects), while 12 per cent are left with no access to electricity.[8] Areas to which the extension of the national grid is unfeasible are planned to be provided with renewable energy technologies through the 'Grama Shakthi' programme. The N&E and some poverty stricken districts such as Moneragala and Badulla continued to record low levels of electrification (Figure 11.4). Promotion of alternative sources in these areas will better cater towards livelihood development due to their affordability, while easing the burden on the economy as a whole by reducing dependence on oil-based power generation. 120,000 solar power projects and 10,000 village micro-hydro projects have been completed across the country under Grama Shakthi.[9]

Considering Sri Lanka's potential for international trade and tourism due to its unique strategic geographic location, port and aviation infrastructure development is being carried out as a priority. The expansion in ports and airports will undoubtedly create direct employment opportunities that can be exploited by the youth, especially in the lagging regions. Trainings for youth, specifically targeting employment related to planned developments, would maximize available opportunities.

[8] Ministry of Power and Energy, http:// www.power.lk/.

[9] *Ibid.*

Box 11.1
Gama Neguma Programme

The allocation to the N&E has been increasing over the years, indicating the priority afforded to the region after the end of the conflict. By end 2009, the N&E (excluding Mullaitivu and Kilinochchi) accounted for around 13.8 per cent of the total allocation.

Gama Neguma Performance

District	Govt. Expenditure (end 2009) (Rs. mn.)	Beneficiaries (2008-09)	District	Govt. Expenditure (end 2009) (Rs. mn.)	Beneficiaries (2008-09)
Ampara	784	1,009,765	Kurunegala	2,260	845,648
Anuradhapura	1,388	1,164,820	Mannar	293	42,612
Badulla	1,080	422,323	Matale	730	348,935
Batticaloa	769	775,741	Matara	1,135	291,040
Colombo	763	181,956	Moneragala	1,113	537,331
Galle	1,616	919,625	N'Eliya	932	1,411,457
Gampaha	1,403	437,549	Polonnaruwa	579	395,736
Hambantota	1,029	434,150	Puttalam	1,062	276,528
Jaffna	563	212,743	Ratnapura	1,132	432,593
Kalutara	1,286	278,923	Trincomalee	571	319,570
Kandy	1,095	391,398	Vavuniya	156	71,004
Kegalle	903	330,516			

Source: Ministry of Nation Building and Estate Infrastructure Development.

The highest number of beneficiaries is recorded in Nuwara Eliya, the district with the highest poverty headcount. Nuwara Eliya, Moneragala, Ratnapura, Badulla, Kegalle and Matale – the six districts recording the highest poverty – has accounted for one-fourth of the total expenditure. According to the Ministry of Economic Development, the government has spent Rs. 6.4 billion in 2010, covering the implementation of 32,526 projects in 10,567 Grama Niladhari Divisions throughout the country.

11.3.3 Rural Infrastructure Development

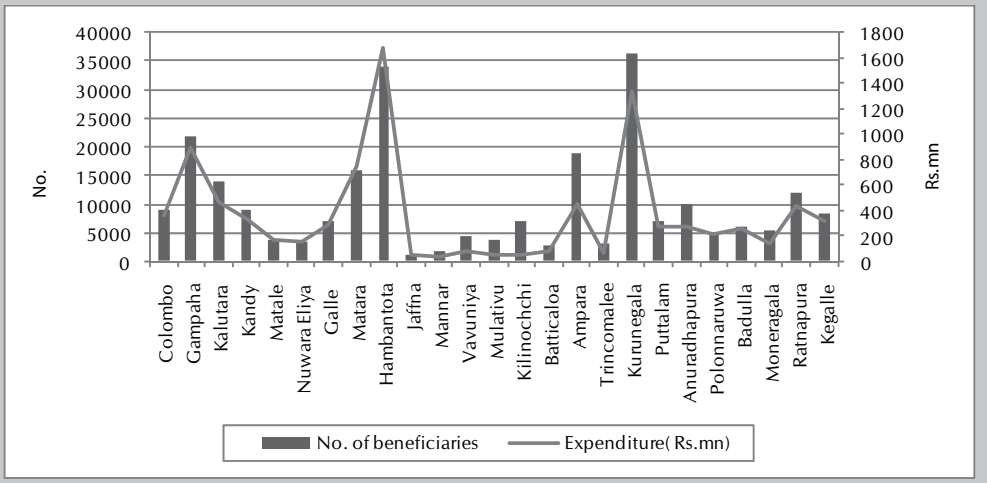
In formulating rural development strategies and allocating resources, priority has been given to the Gama Neguma village based development programme which focuses on rural infrastructure and livelihood development. Community participation throughout the project cycle is a distinct feature of this programme to ensure the sustainability of the facilities in improving livelihoods. A positive feature is the priority given to the N&E regions and poverty stricken districts to ensure that the benefits are delivered to the neediest segments.

Fund allocation under the Maga Neguma rural road development programme, which aims at improving the connectivity between regional and urban areas, has also progressed in terms of beneficiaries. Nonetheless, the level of development of the regions when making allocations appears less relevant under this programme (Box 11.2).

Box 11.2
Maga Neguma Programme

Since its initiation in 2005, road length of 7,449 kms. has been completed by end 2009 according to the Ministry of Finance. The district-wise fund allocation indicates that more has been set aside for districts with larger number of beneficiaries and vice versa. However, the allocations seem to have been centred on a few low-poverty areas. For example, 28 per cent of total expenditure between 2007 and 2009 has been utilized in Kurunegala and Hambantota districts alone.

Maga Neguma Coverage (2007 - 2009)



Source: Ministry of Finance and Planning, Department of National Budget.

The Gemidiriya programme which was initiated to support the government's strategy to reduce rural poverty through promoting sustainable livelihoods and equitable rural development has carried an infrastructure development component since its commencement. The significance of simultaneous infrastructure improvements in lagging regions is thus recognized.

The Samurdhi Development Authority also carries out a village infrastructure development programme, a bottom-up operation where the needs are identified, prioritized and implemented by the Samurdhi recipients with the guidance of government officials in the area. Concreting of village roads, tank renovation, construction of wells and clearing canals, and construction and repairing of school buildings have been carried out thus far. By 2010 this programme was estimated to have reached 3,060 villages in 317 Divisional Secretariat divisions.[10]

Alongside the above special rural infrastructure development programmes, the government implements programmes aligned with national service provision. As regards water supply, locally funded small and medium scale water supply projects are carried out across the country, which are planned and designed by the National Water Supply and Drainage Board (NWSDB).

[10] Media Centre for National Development of Sri Lanka.

Box 11.3
Village Infrastructure Development through Gemidiriya

By end 2009, 3,245 projects had been implemented, benefiting 800,000 rural people.

Infrastructure Projects under Gemidiriya

Type	No. of Projects
Road development	1818
Bridges, culverts and causeways	160
Irrigation	50
Drinking water	353
Sanitation	218
Multi-purpose building projects	501
Other	145

Source: Gemidiriya Community Development and Livelihood Improvement Project, *Annual Report 2009*.

The higher number of road projects undertaken in this programme indicates that roads are recognized as a priority in infrastructure facilities. Completed projects of 1,137 have been handed over to the communities for operation and maintenance as a measure of sustainable management through community participation.

In 2009, 17 new projects and rehabilitation and augmentation of 22 water supply schemes were undertaken benefitting over 1.2 million people (Table 11.3). Anuradhapura, Kalutara, Kurunegala, Matara and Ratnapura districts which record higher poverty levels have been given priority in terms of share of allocations and/or larger target groups.

According to HIES data compiled by the DCS, a notable improvement is recorded in access to electricity and safe drinking water between 2006/07 and 2009/10, especially in the rural and estate sectors (Table 11.4). Such factors, through improving livelihoods, can partly account for the sharp overall re-

Table 11.3
Small and Medium Scale Water Supply Projects (2009)

District	Allocation (Rs. mn.)	Beneficiaries	District	Allocation (Rs. mn.)	Beneficiaries
Ampara	13	17,500	Kurunegala	84	12,000
Anuradhapura	120	5,000	Matale	10	29,800
Badulla	29	37,150	Matara	92	192,000
Colombo	58	162,500	Moneragala	49	37,800
Galle	13	3,000	Nuwara Eliya	56	10,500
Gampaha	40	240,000	Polonnaruwa	41	60,000
Kalutara	80	142,000	Puttalam	4	2,500
Kandy	15	12,300	Ratnapura	92	205,900
Kegalle	63	47,500	Trincomalee	61	60,000

Source: National Water Supply and Drainage Board, *Annual Report 2009*.

duction in poverty levels that have been experienced in the country in more recent years.

Rural infrastructure development contributes significantly to agriculture and rural development, particularly in areas where poten-

Table 11.4
Access to Services (% of population)

Sector	Poverty Head Count		Electricity		Safe Drinking Water	
	2006/07	2009/10	2006/07	2009/10	2006/07	2009/10
Urban	6.7	5.3	94.9	96.5	97.7	96.8
Rural	15.7	9.4	78.5	83.2	85.0	87.1
Estate	32.0	11.4	62.3	84.0	46.2	65.1
Sri Lanka	15.2	8.9	80.0	85.0	84.8	87.3

Source: DCS, HIES (2009/10 and 2006/07).

Table 11.5
Development of Irrigation Facilities, 2010

Districts	Agriculture Land (in hectares)[a]	No. of Projects	Intervention Allocation (Rs. mn.)	No. of Beneficiary Families
Colombo	28,385	62	n.a	465
Kalutara	91,056	55	25.00	2,647
Galle	88,323	7	2.85	3,500
Matara	81,246	49	8.40	415
Hambantota	89,710	64	125.00	4,000
Ratnapura	141,366	n.a	98.00	4,100
Puttalam	91,068	1	18.00	579
Kurunegala	272,072	1	23.00	353
Matale	68,740	179	92.15	951
Kandy	94,674	207	54.60	951
Nuwara Eliya	86,761	5	2.34	870
Badulla	106,738	99	61.38	n.a
Moneragala	96,437	8	0.99	n.a
Anuradhapura	151,941	116	46.40	7,665
Polonnaruwa	71,206	16	15.80	1,702
Ampara	73,180	47	135.26	n.a
Batticaloa	34,490	4	382.00	n.a
Trincomalee	22,474	39	304.52	n.a
Vavuniya	13,840	2	80.00	334
Mulaittivu	16,293	45	100.27	n.a
Mannar	8,920	4	319.00	n.a
Kilinochchi	15,939	41	183.80	n.a
Jaffna	16,942	19	56.97	n.a

Note: a: Latest data available for 2002 only; n.a = not available.

Source: DCS, *Census of Agriculture 2002*; Ministry of Economic Development, *Annual Progress Review 2010*.

tial for agriculture development exists.[11] However, district-wise expenditure on irrigation in Sri Lanka appears to be somewhat ad hoc, where agriculture land extents and the allocations for irrigation rehabilitation follow no link. The N&E, comprising eight districts accounting for 11 per cent of agriculture land (according to 2002 mapping), is found to account for 73 per cent of irrigation expenditure in 2010 (Table 11.5). This may have included the restoration of the destroyed schemes in addition to the new developments. Nevertheless, the potential for expansion is a relevant consideration if allocations are to be effective.

11.4 Infrastructure Development and Employment

The potential for employment generation of infrastructure development is considerable. Infrastructure investments in core areas such as transportation, water systems, energy and school buildings have shown to generate a significant number of new jobs, both direct and indirect, with the highest proportion being in the construction sector.[12] Sri Lanka has mostly resorted to labour-intensive infrastructure projects. Although estimates on the jobs generated due to mega infrastructure projects in the country are not available, its contribution towards easing the issue of unemployment, especially among the rural youth is evident.[13] The contribution of infrastructure developments towards employment generation stretches beyond the period during construction to the commencement of operation of these projects. The mega port projects, for instance, can create direct jobs for sailors, technicians, bunker suppliers and many other vocations, and indirect jobs due to other shipping services and tourism - in addition to many more opportunities as service providers to the main operations.

11.5 Conclusion and Way Forward

Sri Lanka is aiming to achieve economic development that is regionally balanced. The provision of infrastructure facilities will be important in attracting investments into the provinces. However, despite much progress, the distribution of new infrastructure developments reflects imbalances in some sectors. In terms of financing, rural and social infrastructure developments at national level seem to have gained less attention from foreign funding sources. Encouraging private investments through an enabling environment with favourable policy, laws and regulations for public-private partnerships is vital in this regard.

In its infrastructure policy, Sri Lanka has attempted to address issues of inclusiveness by giving specific attention to rural infrastructure development. Moreover, the community participation aspect incorporated in most rural development programmes is a useful step. It will not only improve effectiveness of the programmes, but also ease the financing burden. However, the existence of several rural development programmes addressing infrastructure requirements at village level could lead to inefficiencies, resulting in duplication of work and some areas being totally missed out from the plans due to the absence of clearly assigned responsibilities of multiple authorities. A national policy for rural infrastructure development governing these multiple authorities would hence be important to properly capture and cater to all villages, avoiding duplication of developments and ensuring effective use of expenditures.

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[11] Rauniyar, G. and R. Kanbur, 2009, *Inclusive Growth and Inclusive Development: A Review and Synthesis of Asian Development Bank Literature*, Asian Development Bank, Manila.

[12] Heintz, J. and R. Pollin, 2009, "How Infrastructure Investment Supports the U.S. Economy: Employment, Productivity and Growth," Political Economy Research Institute (PERI), University of Massachussetts, Amherst.

[13] Anecdotal evidence in field discussions in the North and East (December 2010-February 2011).

12. Developing Tourism for Inclusive Growth

12.1 Background

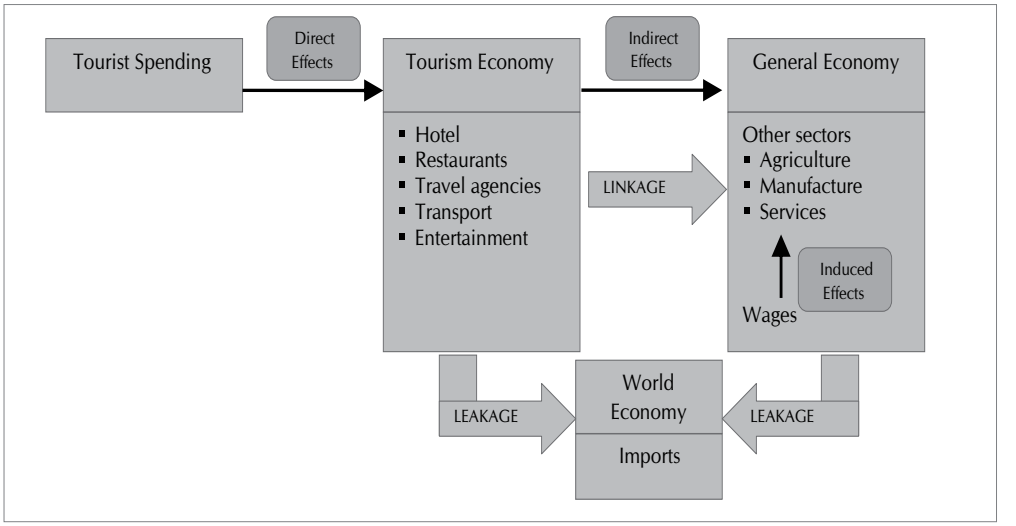
The tourism industry in Sri Lanka has begun to record a strong recovery - with a substantial increase in arrivals in 2010 - following the end of the conflict in May 2009. With tourism and related economic activities expected to continue their strong performance, the contribution to Sri Lanka's medium to long term development objectives will be important. Tourism holds out the promise of supporting inclusive growth in the country, through its contribution to foreign exchange earnings and more critically, by generating employment and livelihoods opportunities. The sector can also help bridge existing economic inequities given the diverse nature of employment it generates across socio-economic segments.

Direct employment opportunities in the tourism industry are to be found in hotels, with tour operators, travel agencies, airlines and transport operators, agencies providing recreational services, etc. In addition, a number of economic opportunities can be derived through forward and backward linkages with other economic sectors, including transport, construction, engineering, manufacturing, agriculture, food and horticulture, telecom, IT, healthcare, etc. These may often be indirect employment opportunities that are generated as a result of a dynamic tourism industry.

> ***"Besides the volume-based tourism targets, integrated policies to take care of environmental concerns and community benefits would make tourism's role in economic growth more inclusive"***

In addition, concepts such as 'responsible tourism' can be viewed as important drivers that promote sustainable growth. Environmental consciousness is an increasingly important element in international demand for travel and tourism at the global level. Therefore, if tourism strategies can be appropriately placed within an environmentally-friendly framework, it would play an imperative role in inclusive growth and development. In this connection, this discussion looks at linkages between inclusive growth and tourism, and indentifies critical policy issues related to achieving such objectives through tourism development in Sri Lanka.

Figure 12.1
Impacts of Tourism



Source: Lejárraga, I. and P. Walkenhors, 2010, "On Linkages and Leakages: Measuring the Secondary Effects of Tourism, *Applied Economics Letters,* Vol. 17, No. 5.

12.2 Tourism and Economic Development

The impacts of tourism on an economy are various and complex, and is thus hard to measure. The benefits of tourist spending can flow in the form of direct, indirect and induced benefits (Figure 12.1). Direct impacts are generated via initial tourist spending, and indirect impacts are due to purchase of goods and services from the non-tourist sectors of the economy. Induced impacts arise due to changes in wage income in the tourism economy and its consequent impacts on the general economy. All tourism expenditure is not retained in the economy and a portion of tourism expenditure leaks out for imports and to pay for foreign factors of production as leakages.

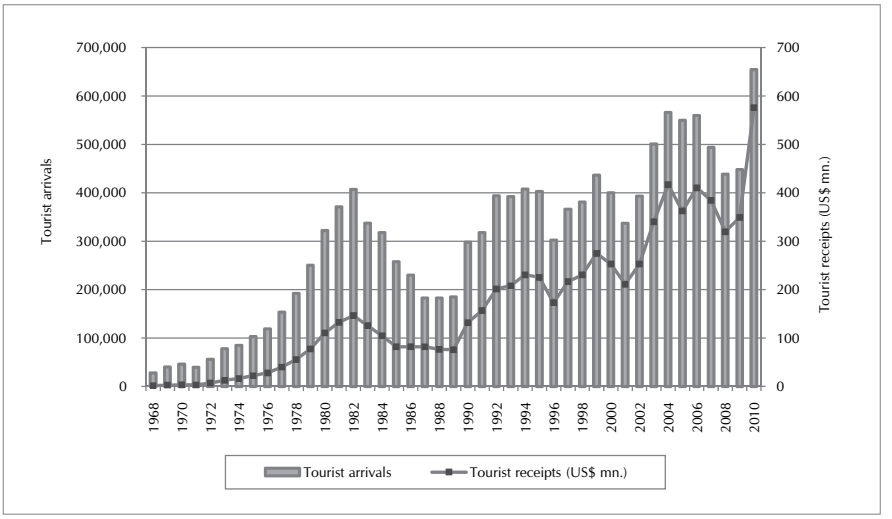
12.2.1 Contribution of Tourism

In the case of Sri Lanka, the tourism industry has direct and significant impacts on foreign exchange earnings of the country, and thereby on the entire economy. There has been a surge in arrivals as well as foreign exchange earnings in 2010 (Figure 12.2). Arrivals increased by 46 per cent in 2010 when compared with that of 2009 while earnings rose by 76 per cent from US$ 326 million in 2009 to US$ 576 million in 2010. Tourism is the fourth largest source of foreign exchange earnings for Sri Lanka, following garments, migrant remittances and tea.

In addition to foreign exchange earnings, tourism generated direct and indirect employment of 55,023 and 77,032, respectively, in 2010, accounting for 1.6 per cent of total employment in the country (Figure 12.3). Around 60 per cent of the direct employment is in hotels and restaurants.[1] Other primary direct employment channels include travel agents and tour operators (14 per cent), airlines (10 per cent), and guides (7 per cent). Of total direct employment by the industry, managerial and scientific professionals account for 17 per cent, while technical, clerical and supervisory employment form 59 per cent. The rest involve employment that is of a manual and operative nature.

[1] Sri Lanka Tourism Development Authority, *Annual Statistical Report 2009*.

Figure 12.2
Tourist Arrivals and Earnings



Source: Sri Lanka Tourism Development Authority.

Over the years, indirect employment has been higher than direct employment generated by the tourism industry. The ratio of direct employment to indirect employment is 1:1.4, meaning that every 100 jobs created in the tourism sector, creates 140 jobs in the supplying sectors.[2] Both direct and indirect employment shows considerable growth of 5.7 per cent in 2010 when compared with 1.5 per cent growth in 2009.

Around 56 per cent of employment in hotels and restaurants are informal in nature.[3] Some of the employment opportunities available in the industry are seasonal in nature, owing to seasonality in tourist arrivals across the year. While disaggregate data is not available, a high proportion informal and/or seasonal jobs create equity implications. The lack of tourism related employment data on a geographic basis further hinders efforts to assess the contribution of tourism to regional development. In the absence of disaggregated data, a rough picture on distributional impacts of tourism can be drawn only on the basis of the distribution of tourism facilities.

Indirect impacts of tourism are usually measured by multipliers. The direct plus indirect revenue multiplier for tourism in Sri Lanka is estimated to be 2.08.[4] It indicates that one unit of tourist expenditure, directly and indirectly generates more than two units of output in the economy. However, there is no mechanism presently in place to assess the indirect impacts of tourism in the economy by means of income generation and as a source of employment. In 2009, an estimated 151 tourist shops and 21 agencies provided recreational facilities, which together generated 1,837 jobs.[5] As the

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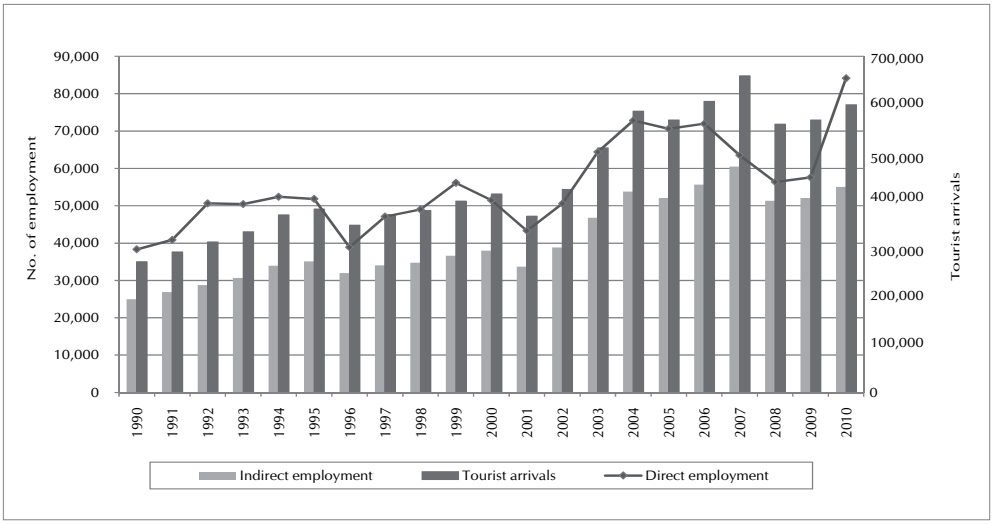
[2] *Ibid.*

[3] DCS, *Sri Lanka Labour Force Survey Annual Report 2009.*

[4] Economic and Social Commission for Asia and the Pacific, 1996, *Economic Impact of Tourism in the Asia-Pacific Region*, Bangkok.

[5] Sri Lanka Tourism Development Authority, *Annual Statistical Report 2009.*

Figure 12.3
Tourist Arrivals and Employment Generation



Source: Sri Lanka Tourism Development Authority.

industry grows at a rapid pace, there will be ample opportunities for further such employment generation.

12.2.2 Emerging Trends

International tourist arrivals at a global level show an increase of 6.7 per cent in 2010 when compared with 2009,[6] with growth being faster in emerging economies (8 per cent) than in the advanced economies (5 per cent). The Asia Pacific region is forecast to lead growth in 2011, with an increase of 13 per cent. In terms of preferences, more than a half of international tourists travel for leisure, recreation and holidays.[7] As per the present world tourism trends, well off, well educated, health conscious, and socially and environmentally aware individuals will be the industry's new premium customers in the years to come.[8] Accordingly, it can be expected that there will be high demand for destinations with high natural and cultural endowments.

In the case of Sri Lanka, over the last decade, more than 60 per cent of tourist arrivals have come for pleasure (Figure 12.4). Sri Lanka, being a destination with a large variety of cultural and natural attractions located in a small geographical area, can take advantage of emerging tourism trends. West Europe and South Asia are the regions with highest market share in terms of arrivals, with India (19 per cent) and the UK (18 per cent) taking the lead. It has been widely recognized that Sri Lanka will benefit immensely from targeting niche markets and aiming to attract high-yielding tourists from higher spending segments.[9]

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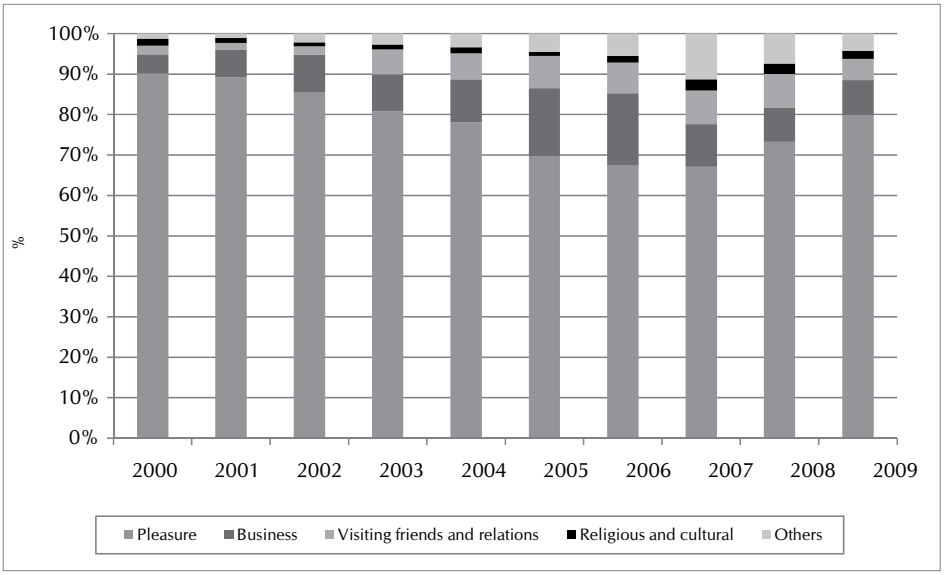
[6] World Tourism Organization, 2011, *UNWTO World Tourism Barometer*, Vol. 9. No. 1, February 2011.

[7] UNWTO, 2010, *Tourism Highlights 2010*.

[8] World Travel Trends Report 2010/2011, www.messe-berlin.de.

[9] Sri Lanka Tourism Development Authority, *Annual Statistical Report 2009*.

Figure 12.4
Percentage of Tourists by Purpose of Visit



Source: Compiled using data from Sri Lanka Tourism Development Authority, *Annual Statistical Report 2009*.

12.3 Tourism and Inclusive Growth in Sri Lanka

Inclusiveness in relation to tourism is based on several aspects. Distribution of tourism resources, infrastructure, distributional aspects of direct and indirect benefits of tourism, and aspects related to environmental and social sustainability are important to consider in this regard.

12.3.1 Tourism Resources and Infrastructure

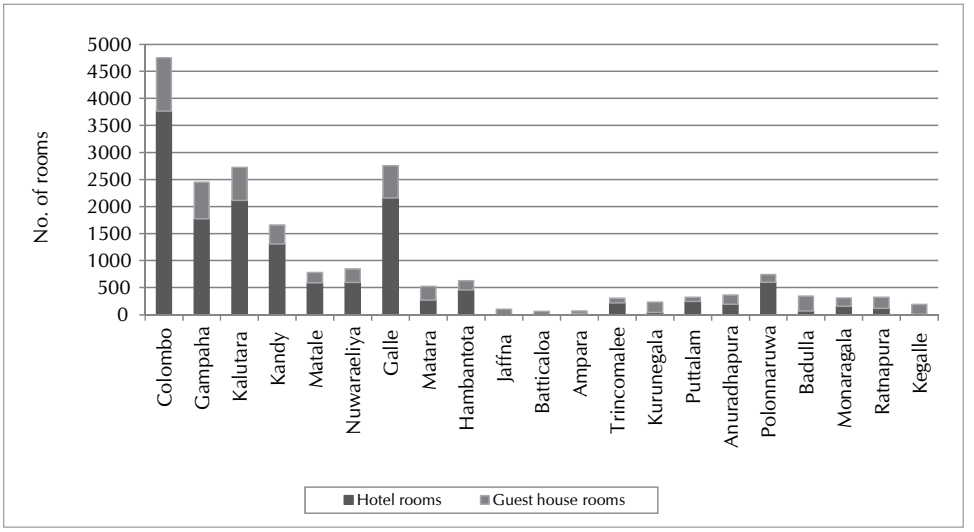
A tourist area is characterized by several factors including attractions, accessibility, amenities and ancillary services. Therefore, not all regions qualify for tourism and tourism has inherently to be based on areas which fulfill the above criteria. Accordingly, the main tourism resort regions in Sri Lanka include Colombo city, Greater Colombo, South coast, East coast, hill country and ancient cities.

Infrastructure services - including airports, railways, roads, waterways, electricity, water supply, etc., - tend to be better in cities, which can hold back tourism development in more remote areas. The distribution of related tourism facilities - such as accommodation, restaurants, recreational and shopping facilities - tend to be geographically skewed. Although tourism zones are scattered across Sri Lanka, accommodation units are confined primarily to the Western, Southern and Central Provinces, and to the North Central Province to a lesser extent (Figure 12.5).

12.3.2 Distributional Aspects of Tourism Benefits

The distribution of accommodation facilities can be taken as a rough indicator of the distribution of employment opportunities in the accommodation sub-sector of tourism. Accordingly, it can be presumed that most of the employment in tourism is generated

Figure 12.5
Distribution of Hotel Rooms and Guest House Rooms by District



Source: Sri Lanka Tourism Development Authority.

in the economically developed regions of the country. In addition, accommodation occupancy rates are comparatively lower in certain tourism regions, with implications for region-wise capacity to reap the benefits. For instance, in 2009, the occupancy rate in the East coast (37.8 per cent) was much lower than at the national level (48.4 per cent). The up-country and ancient cities recorded occupancy rates of 42.2 per cent and 44.4 per cent, respectively. The highest occupancy rates have been recorded in the Colombo City (57.8 per cent) and Greater Colombo Area (52.7 per cent).[10]

The extent to which tourism can be inclusive for development is also dependent on the benefits it offers to communities in areas where tourism takes place and its pro-poor impacts. It is acknowledged that mass tourism does not generate major gains to local communities and is characterized with high rates of leakages. In contrast, small scale community-based forms of tourism, where community participation is considered as an integral element, can be more gainful for local communities. Sri Lanka, a destination rich with natural and cultural endowments, possesses significant potential for development of ecotourism, agrotourism, community tourism, etc. Such forms of tourism use local resources, whereby the level of leakages is comparatively low. Ecotourism by definition carries elements of inclusiveness by means of generating community benefits and contributing to environmental conservation. Although Sri Lanka has taken initiatives to develop ecotourism policies and strategies, they have not yet been implemented in any notable fashion.[11]

The Sri Lanka Tourism Development Authority has introduced 45 tourism zones with the aim of avoiding ad hoc developments across

[10] Sri Lanka Tourism Development Authority, *Annual Statistical Report 2009*.

[11] Wickramasinghe, K., 2009, "Ecotourism for Sustainable Forest Management in Sri Lanka", Environmental Economic Policy Series No. 12, IPS.

the country. A positive development has been that such plans have been based on local community participation, especially fishery communities.[12] In addition, ongoing tourism developments in the East have the potential to provide significant livelihood opportunities and assist in the recovery of conflict-affected households. Another example is the Kalpitiya tourism project, which on completion is expected to offer 37,500 direct and indirect employment opportunities. However, attention also needs to be paid to possible adverse social impacts of tourism, especially in the N&E which are newly open for tourism.

12.3.3 Environmental Sustainability

As envisaged in the government's economic policy framework, the target for tourist arrivals to Sri Lanka has been set at 2.5 million by 2016. Whilst necessary facilities are expected to be developed to accommodate higher numbers, unplanned activities can lead to negative environmental and social impacts. Past unplanned tourism developments in certain areas of the country provide evidence of negative environmental impacts due to construction of unauthorized buildings in environmentally sensitive areas, garbage problems, beach pollution, etc.

With the aim of strengthening the institutional framework to facilitate environmentally and socially sound tourism investments, the Sustainable Tourism Development Project was launched in 2010. The project is expected to fund improvements to the overall efficiency and efficacy of the institutional framework to promote tourism, to provide essential highly localized tourism related infrastructure services in the East, and to improve and extend the product content and supply chain of small and medium entrepreneurs related to the tourism industry.[13]

12.4 Key Policy Issues and Implications

Integrated policies and strategies should be in place in promoting tourism to contribute to inclusive growth in Sri Lanka. This calls for links with a number of non-tourism sectors. In this respect, relevant agencies working under tourism, poverty and infrastructure should collaborate closely. Policy level initiatives have to be taken to make sure that tourism generates livelihood opportunities for local communities. At present, community benefits offered by tourism are below potential. The promotion of community-based small scale tourism can reverse such trends. Additionally, the tourism industry should also be encouraged to adopt environment-friendly approaches. Ongoing initiatives of making tourism sustainable should provide incentives for tourism businesses that adopt environmentally friendly approaches.

[12] www.sltda.lk.

[13] www.sltda.lk.

13. Natural Disasters, Climate Change and Inclusive Growth

13.1 Introduction

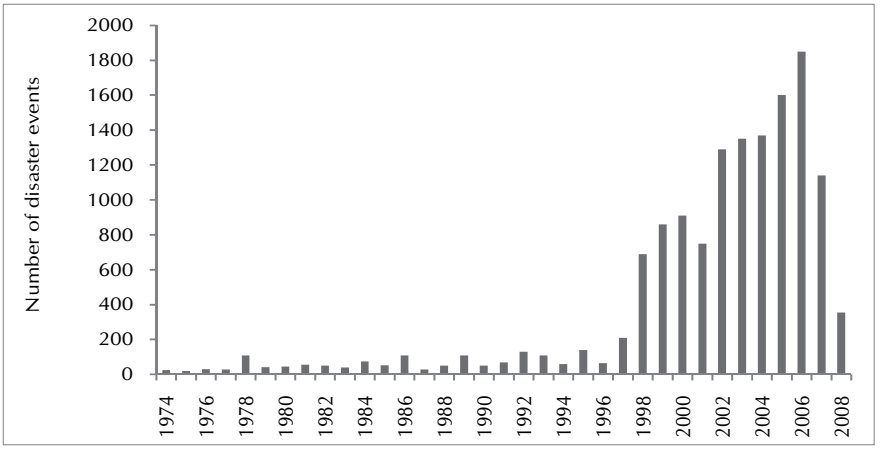
The increased intensity and frequency of natural disasters - and the attendant costs in terms of human, physical, financial and environmental losses - have a significant bearing on a country's growth prospects. The vulnerability to and impacts of natural disasters also differ across segments of society, thus posing added dimension with regard to issues of economic disparities.

Natural disasters affect inclusive growth by constraining the participation of vulnerable segments in the development process. They also lead to the diversion of resources, which otherwise could be allocated for pro-poor development activities. The impacts of natural disasters also tend to be unevenly distributed - physical vulnerability of different regions to various natural disasters varies across regions. In Sri Lanka, for instance, the Dry Zone is highly vulnerable to droughts and certain districts of the Wet Zone are at risk of recurrent floods. Moreover, disaster vulnerable areas host a large proportion of the poor population, who are dependent on weather-reliant livelihoods such as agriculture and fisheries.

"In the midst of the challenges brought about by global climate change, Sri Lanka has to be better prepared to manage the differential socio-economic impacts of natural disasters"

As the frequency and intensity of natural disasters heighten, their impact in aggravating existing disparities may worsen. The most recent floods in late 2010/ early 2011, impacting Sri Lanka's formerly conflict-affected provinces of the N&E, has slowed down ongoing post-conflict development activities and affected livelihoods recovery. In this context, this discussion looks at the impacts of natural disasters on inclusive growth, to review the present disaster management system in relation to this and, provide policy inputs for managing natural disasters to support inclusive growth in Sri Lanka.

Figure 13.1
Chronological Trend of Disaster Events in Sri Lanka



Source: Disaster Profile in Sri Lanka, (www.desinventar.lk).

13.2 Profile of Natural Disasters in Sri Lanka

Although there are year-to-year fluctuations, the number of disaster incidents in Sri Lanka shows an increasing trend over the years. The sheer number of incidents, sudden disasters such as landslides, floods, extreme wind events, etc., indicates a significant increase over the past two decades (Figure 13.1).

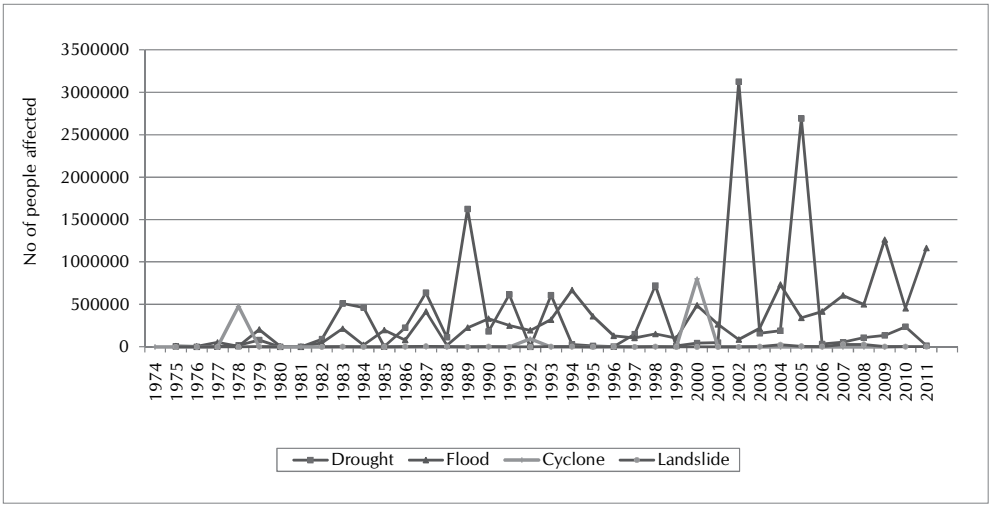
The geographic distribution of disaster events is not heterogeneous across the country. According to the 'Disaster Profile in Sri Lanka',[1] the distribution of natural disaster events for the period of 1974-2008 indicates that the highest number of natural disaster events has taken place in Anuradapura, Polonnaruwa, Matale and Kurunegala districts and certain DS divisions in the Southern part of the country. However, the number of disaster incidents alone does not reveal their true impacts. For instance, droughts are not significant in terms of the number of events, but in terms of the number of people affected, it becomes one of the most critical natural disasters in Sri Lanka.

The impacts of natural disasters can be demonstrated using the number of people affected, loss of properties, impacts on livelihoods, etc. As evident from Figure 13.2, based on data compiled in the Disaster Information Management System in Sri Lanka, the number of people affected has clearly risen over the last decade. The data also indicate that during the period 1974-2008, around 92 per cent of the people affected by natural disasters were prone to adverse effects of floods (48 per cent) or droughts (44 per cent). Flooding has been occurring almost on an annual basis. Therefore, in terms of the number of people affected, climatological disasters have been the most critical.

In terms of number of deaths, extreme winds and landslides are the key natural disasters in Sri Lanka. These are responsible for 77 per cent of total losses of life during the period of 1974-2008, with the exclusion of the tsunami disaster of 2004. In terms of destruction and damages to houses, strong winds, tsunami and floods have been the most important natural disasters. Over time,

[1] Available online at http://www.desinventar.lk/.

Figure 13.2
Number of People Affected due to Disasters



Source: Compiled using data from www.desinventar.lk.

Polonnaruwa district has experienced the highest level of destruction and damages to houses - the result of extreme winds and floods. Droughts, floods and extreme winds are the major causes of crop damages due to natural disasters, and accounted for 52, 39 and 4 per cent, respectively of agricultural crop losses. The geographic distribution of disaster-induced agricultural crop losses shows that Kurunegala and Ampara districts have experienced the highest crop losses during the period of 1974-2008.

13.3 Increased Disaster Vulnerability due to Global Climate Change

Foremost among a number of impacts of global climate change in Sri Lanka are increased frequency and intensity of natural disasters, changes in the rainfall pattern, sea level rise and changes in temperature. By and large, Sri Lanka is expected to experience more droughts and prolonged dry spells which can accelerate water scarcity in the country's agricultural districts. Floods are also expected to be more frequent along with changes in climate and rainfall patterns. Therefore, climate change can be expected to intensify the impacts caused by natural disasters on agriculture and other livelihood activities.

Climate change induced impacts are often coupled with other socio-economic dynamics. It is estimated that by 2025, with the projected increase in population, the demand for both irrigation and domestic and industrial water is expected to rise, and the country as a whole, and the Dry Zone in particular, will reach a status of medium water scarcity by 2025.[2] Although there are uncertainties and information gaps in relation to likely real impacts of climate change, it can be presumed that climate change will make the problem of water scarcity worse in the coming decades.

[2] Amarasinghe, U.A., L. Mutuwatta, and R. Sakthivadivel, 1999, "Water Scarcity Variations within a Country: A Case study of Sri Lanka", Research Report 32, Colombo: International Water Management Institute.

With the sea level rise, the coastal regions of the country are expected to experience increased frequency and intensity of flooding and storms, increasing the pressure on coastal ecosystems and habitats.[3] Due to high population density in Sri Lanka's coastal area, inundation will directly affect low lying coastal settlements and coastal wetlands. The impacts will create a number of social and economic implications on the coastal sector.

13.4 Impacts of Natural Disasters on Inclusive Growth

Although the actual cost of natural disasters is difficult to measure in monetary terms at macro level, sector-wise evidence suggests that the costs are substantial. The cost of natural disasters is dependent on a number of factors including intensity of the disaster, extent of localization, etc.

13.4.1 Direct Economic Costs

The major impacts of natural disasters and climate change come in the form of loss of lives, injuries, destruction of houses/buildings, damages to infrastructure, loss of agricultural and other livelihood activities and disturbances of day-to-day activities. The agriculture sector is particularly vulnerable as climate variables have direct and significant impacts on agricultural productivity. On one hand, it holds implications for food production and food security, and on the other, implications for the country's export earnings via impacts on plantation agriculture. The performance of the latter, which includes primarily tea, coconut and rubber, shows significant variations with extreme droughts observed in particular areas. Annual tea production has been highly susceptible to droughts over the years,[4] indicating drastic declines in 1982, 1989, 1992 and 2003 in line with drought shocks in those years.

In addition, the government has to spend large sums of money in managing natural disasters, in terms of mitigation, preparedness, response and recovery. Centrally compiled statistics are not available at present to denote cost of disaster management in Sri Lanka. However, available information shows that about 0.04 per cent of government expenditure is incurred annually towards relief for disaster victims (Table 13.1). Over the last decade, the highest cost of relief has been incurred on floods and droughts.

The economic costs of natural disasters are likely to rise with the impacts of global climate change. Sri Lanka, as a small economy having an insignificant contribution to global CO2 emissions, will have to focus on adaptation strategies in facing up to impacts of climate change. It is estimated that around Rs. 47.7 billion of additional financing will be required for the period of 2011-16 to implement the climate change adaptation strategies. The estimated additional financing is expected to be used for mainstreaming climate change adaptation into national planning and development, enabling climate resilient and healthy human settlements, minimizing climate change impacts on food security, improving climate resilience of key economic drivers, and safeguarding natural resources and biodiversity from climate change impacts.

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[3] Hettiarachchi, S.S.L and S.P. Samarawickrama, 2009, "A Strategic Approach towards Planning and Management of Impacts of Sea Level Rise in Sri Lanka", a paper presented at the workshop on "Mainstreaming Climate Change for Sustainable Development in Sri Lanka", organized by the IPS, 19-21 August 2009, Sri Lanka. Available at http://www.ips.lk/events/workshops/ 19_8_09_climate_ change/ more_detail.html.

[4] Wickramasinghe, K., A. Senaratne, 2009, "Climate Impacts on Performance of Agricultural Exports of Sri Lanka: Analysis Based on the Tea Sector", a paper presented at the "Third Annual Research Forum of the Sri Lanka Agricultural Economics Association (SAEA)", 2 October, 2009, Colombo.

Table13.1
Cost of Relief for Selected Disasters (Rs. mn.)

	Animal Attack	Drought	Flood	Landslide	Rains	Total	Relief Expenditure as % of Government Expenditure
2001	3	245	9	-	0	257	0.089
2002	3	121	10	3	1	138	0.042
2003	5	48	941	152	0	1,147	0.347
2004	7	221	6	1	0	235	0.062
2005	3	14	56	1	1	75	0.017
2006	3	25	53	10	7	97	0.018
2007	1	51	30	3	4	90	0.015
2008	1	1	70	3	4	80	0.011
2009	1	18	5	1	3	27	0.003
2010	-	0	11	-	-	12	0.001
Total	31	753	1,228	174	19	2,206	0.040

Source: Compiled using data from data www.desinventar.lk.

13.4.2 Distributional Impacts of Natural Disasters and Climate Change

Natural disasters and climate change can cause distributional impacts owing to two key reasons. First, due to the fact that physical vulnerability to natural disasters and climate change vary across regions, the occurrences and the impacts of natural disasters are heterogeneously distributed within the country. Second, natural disasters can lead to worsening regional disparities due to the differences in the ability to manage disaster risks effectively among different endowment classes.

The Dry Zone, coastal areas and certain parts of the Wet Zone are experiencing most of the natural disasters in Sri Lanka. Most of the Dry Zone districts are based on agriculture for livelihoods, whereby droughts and floods have significant adverse effects on output. Agricultural households constitute around 45 per cent of total poor households in Sri Lanka, with the poverty headcount index at 21.6 per cent - significantly higher than the national figure of 15.2 per cent in 2006/07.[5] Water scarcity in Dry Zone agriculture can further exacerbate existing inequities in poverty outcomes. Moreover, adverse impacts on sectors where many tea/rubber plantations exist - with the highest incidence of poverty in comparison to urban and rural sectors of the country - may also see a worsening of equity gaps.

Climate-induced water scarcity has implications on energy security of the country as well. During 2000-08, for instance, hydroelectricity is estimated to have contributed 43 per cent on average to national electricity supply.[6] Lack of adequate water in the country's major reservoirs thus leads to a

[5] Department of Census and Statistics, *Poverty in Sri Lanka*, available online: www.statistics.gov.lk.

[6] Department of Census and Statistics, *Statistical Abstract 2008*, available online: www.statistics.gov.lk.

reduction in hydro power generation. If appropriate mitigation and adaptive strategies are not implemented, natural disasters and climate change can have considerable implications on poverty and inequality.

Natural disasters can also have broader consequences on development processes. For instance, floods in certain districts in the N&E in late 2010/early 2011, hampered ongoing post-conflict development activities, including delays and damage to reconstruction of infrastructure, resettlement, etc. Revival of livelihoods of conflict-affected communities also suffered a set-back due to destruction of agriculture and other livelihoods. Such impacts tend to worsen existing conditions. Poor infrastructure and less developed institutional mechanisms in some of the flood-affected regions in the N&E made them inaccessible for relief services.[7]

Recurrent floods also hold implications for urban poverty. It has been found that most of the shanty and slum settlements within the Colombo Municipal Council are located in the flood-prone areas. If natural calamities continue to occur at higher frequencies, they will undeniably worsen prevailing socio-economic disparities.

Given that the impacts of natural disasters depend on a host of varying factors - segments of the society, income groups, livelihood categories, geographical regions, etc. - and that the impacts are becoming more significant for vulnerable groups with the increased intensity and frequency of disasters, adopting an inclusive strategy for managing disasters is critical.

13.5 Disaster Management System in Sri Lanka

Given the varying types of natural disasters, there cannot be a uniform approach to manage disasters, but rather strategies have to be location and cause-specific.[8] Disaster management processes usually comprise four basic elements: namely, disaster mitigation, preparedness, response, and recovery. In terms of facing the impacts of global climate change, Sri Lanka will have to take adaptive measures, which might fall into all four elements of disaster management. However, in broad terms, disaster management and climate adaptation strategies fall into the two categories of (i) physical measures, and (ii) socio-economic measures.

13.5.1 Measures to Reduce Physical Vulnerability

Disasters are not entirely natural phenomena. Natural disasters are also caused due to anthropogenic factors. Unplanned deforestation and unsustainable land utilization practices lead to landslides, where climate related factors aggravate the occurrences and intensities. Therefore, as a preventive measure, it is important to adopt sustainable strategies for the utilization of natural resources. However, all natural calamities are not always preventable. Mitigation actions can help to lessen the impacts of certain natural disasters, including droughts and floods. Commendably, a number of disaster mitigation projects are ongoing aimed at droughts and floods. They are mainly concerned with rehabilitation of tanks, canals, construction of culverts, etc. In 2011, 39 such projects are expected to be conducted in vulnerable districts across Sri Lanka. Sustainable natural resource utilization and disaster mitigation

[7] Based on field discussions in N&E regions in early 2011.

[8] Steele, P., M. Knight-John, A. Rajapakse, K. Senanayake, and K. Wickramasinghe, 2007, "Disaster Management Policy and Practice: Sharing Lessons among Government, Civil Society and Private Sector", IPS, mimeo.

measures should be incorporated into sectoral development activities to make them viable in the long run.

13.5.2 Measures to Reduce Socio-economic Vulnerability

Social protection also has an important complementary role in disaster management. There is ample evidence of instances where social protection has been used as an important component in overall disaster management,[9] although the results have tended to be mixed. The presence of effective social safety nets is vital to minimize impacts of natural disasters on the poor. In the absence of effective coping mechanisms, vulnerable groups tend to adopt sub-optimal or inefficient coping strategies. At present, existing social protection mechanisms in Sri Lanka do not play an effective role in disaster risk management.[10] They are found to be highly biased towards relief, while schemes such as agricultural insurance cover only small proportions of the cultivated area of the country. Agriculture insurance is primarily used by farmers as a prerequisite for obtaining agricultural loans and insurance is not taken as a direct risk management strategy in most of the cases. It is timely to revisit socio-economic security systems in Sri Lanka and enhance their ability to cover against negative impacts of climate change.

13.6 Implications for Policy

There is a need to mainstream disaster management into national development strategies, as it cuts across a number of sectors including agriculture, infrastructure, poverty, etc. Given the wide spectrum of issues in relation to disaster management and climate change adaptation, a number of measures have to be taken to mitigate the disaster impacts on inclusive growth in Sri Lanka. The measures should address the differential impacts of natural disasters, and aim to minimize the consequent implications on poverty and equality. First, reduction of physical vulnerability should receive high attention in order to lessen the impacts. In line with the physical measures, the socio-economic system in terms of coping and adaptation strategies has to be strengthened to enable vulnerable groups to better manage risks. It is only with the adoption of both types of measures that efforts to reduce impacts of natural disasters and climate change will successfully support inclusive growth strategies.

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[9] Vakis, R., 2006, "Complementing Natural Disasters Management: The Role of Social Protection", Social Protection Discussion Paper No. 0543, The World Bank.

[10] Wickramasinghe, K., 2008, "Natural Disasters and Socio-economic Security in Sri Lanka", a paper presented at the International Conference on "Universalizing Socio-economic Security in South Asia", New Delhi, India, 18-21 January, 2008.

14. Strategic Remedies for Rising Food Prices

14.1 Introduction

The easing of global food price increases of 2007/08 - the highest recorded in 30 years - reversed once again in late 2010/early 2011. Price increases underpin changing global supply and demand conditions. A rising world population - especially in India, China and Russia - and growing incomes in developing countries resulting in and associated with changing food consumption patterns - are key factors on the demand side. On the supply side, cyclical and structural factors are also at work. Cyclical factors include adverse impact on crop production - such as on corn, rice, wheat, and sugar due to poor weather conditions in the US, Australia, China, etc., while rising crude oil prices, directly and indirectly, also impacts food prices. Structural factors include reduced investment in R&D in agriculture which decelerates growth in agricultural productivity, constraints in expansion of cultivated lands, diversion of resources used for food production for bio-fuel production due to higher crude oil prices, etc. In 2010/11, the main reason for rising global food price increase was the price increase in crude oil, maize, wheat, soyabeans and sugar. Simultaneously, the crisis in the Middle-East and natural disasters contributed directly to food price inflation.

> ***'Implementing food price policy measures to support consumers and producers is a challenge as food pricing is politically controversial'***

Sri Lanka's food prices also increased in parallel with global trends, not surprisingly given that the country is a net food importer. While the country is almost self-sufficient in its staple food (rice), producing approximately 97 per cent of requirements, Sri Lanka is dependent on imports for all its wheat requirements, 85 per cent of milk, 93 per cent of sugar, and 70 per cent of cereal. Thus, even a slight change in global prices can influence domestic food prices.

However, the factors behind price increases in 2010/11 are different from those of 2008/09. The recent hike is largely due to poor weather, where heavy rains

and floods destroyed nearly 200,000 ha of cultivated paddy crop, with an estimated loss of nearly one million metric tons of paddy yield. Livestock, vegetables and other food crops were also damaged due to the bad weather. Many hundreds of farmers in Ampara, Batticaloa and Trincomalee in the Eastern Province, for instance, lost lives, homes, cultivated lands, etc. The extent of damage can go further afield, as crops in other areas may also get affected by fungal diseases that flow from extreme wet weather conditions. Therefore, mitigating escalating food prices is a serious challenge for Sri Lanka in the near term. This discussion aims to analyze recent trends in global and domestic food prices, and suggest short and long term policy options that Sri Lanka can adopt to mitigate high food prices, drawing on examples from international best practices.

14.2 Global Food Prices

"Global food prices are rising to dangerous levels and threaten tens of millions of poor people around the world, the price hike is already pushing millions of people into poverty, and putting stress on the most vulnerable, who spend more than half of their income on food."

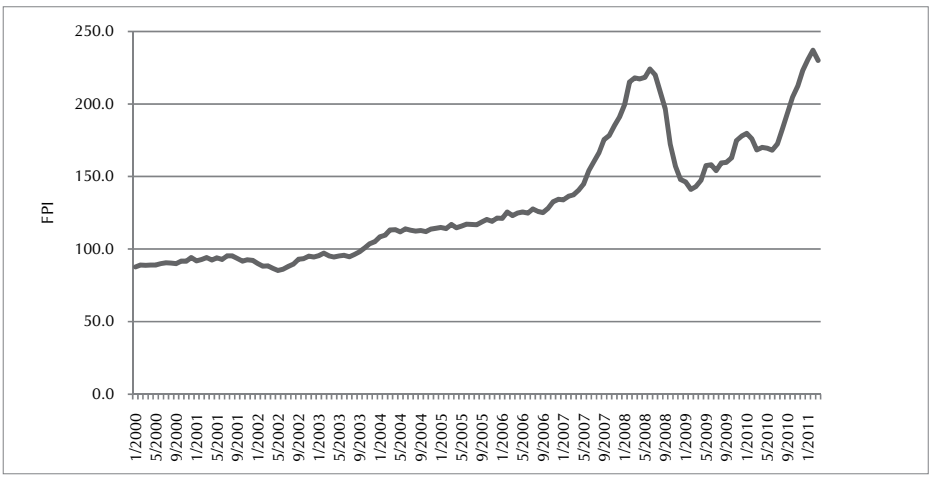
Robert B. Zoellick, President, The World Bank

Global food prices have increased persistently over the last decade, with significant hikes from mid-2008 and early 2011 (Figure 14.1). Relative to 2000, food prices rose by approximately 77 per cent in 2008 and by 120 per cent in the first quarter of 2011.

When looking at global trends in major food commodity prices during 2008-11, sugar indicates clear changes - rising by 25 per cent in 2008 and by nearly 200 per cent in 2011 relative to prices in 2000 (Figure 14.2). Similarly, crude oil prices increased by 314 per cent, cereal by 154 per cent, dairy by 104 per cent, and meat prices by 49 per cent, relative to 2000 prices. The initial causes for the 2010/11 price hikes include bad weather conditions in the sugar, grain and meat producing countries and rising crude oil prices.

The main reason for the positive correlation between oil and food prices is that when the former increases, demand for bio-fuel rises,

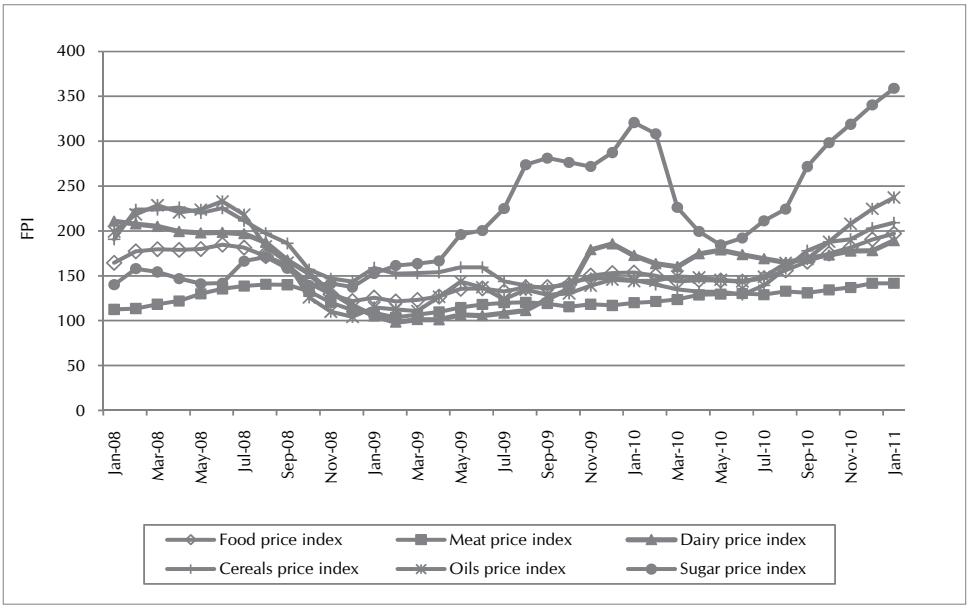
Figure 14.1
World Food Price Index



Source: FAO, Food Price Index.

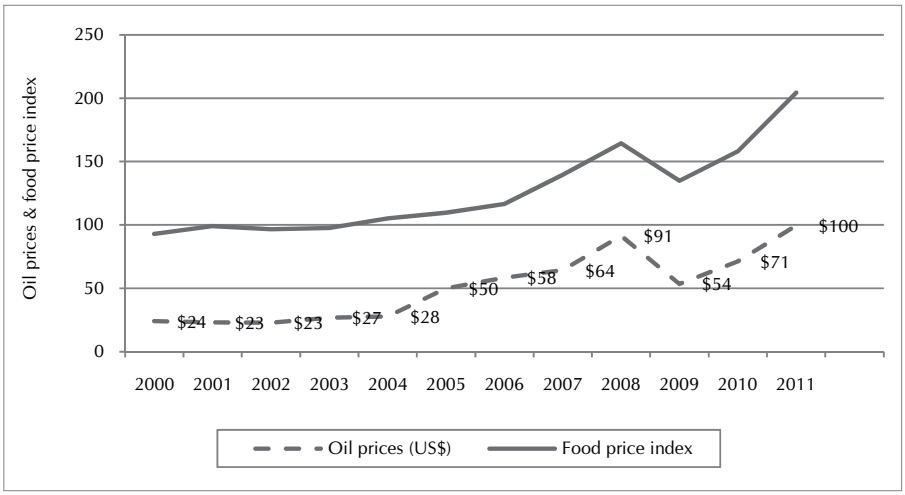
whereby maize production is diverted to produce bio-fuel rather than as a consumption food item. In turn, heightened competition for bio-fuel produced crops pushes up prices. Moreover, oil price increases raises the cost of fertilizers, transportation, usage of agricultural machinery, etc., leading to higher food prices overall.

Figure 14.2
Global Food Commodity Price Indices



Source: FAO, Food Price Index.

Figure 14.3
Correlation between Oil and Food Prices

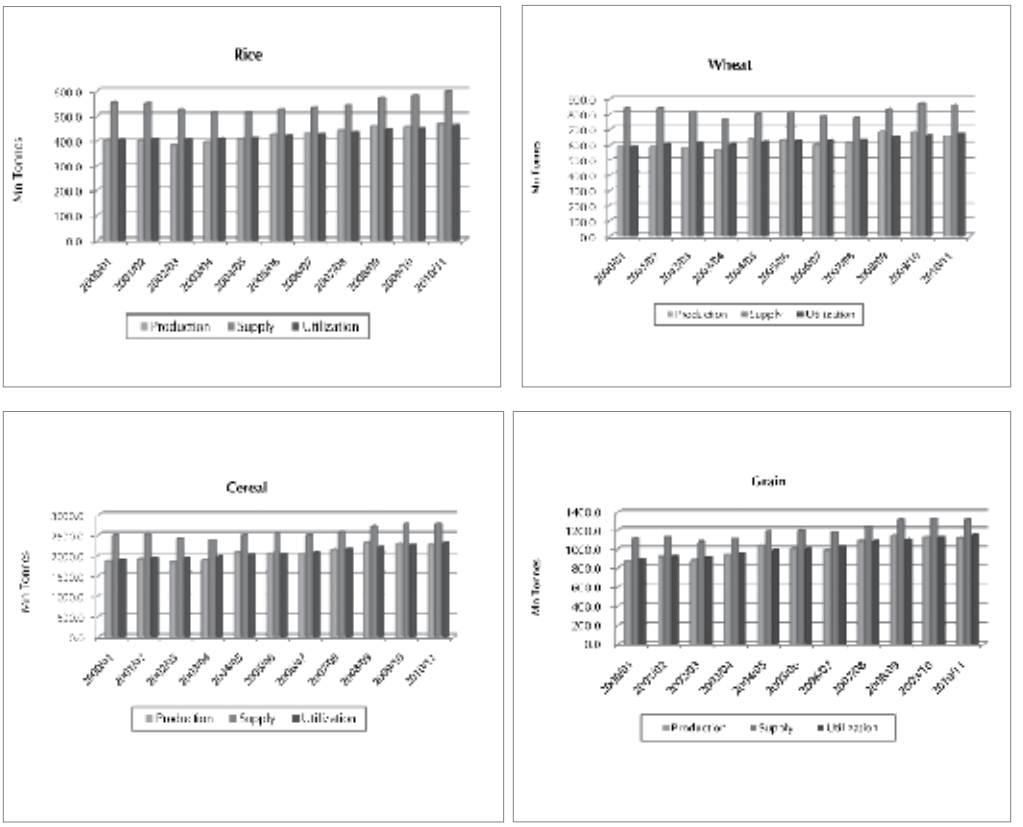


Source: FAO and Organization for Petroleum Exporting Countries (OPEC).

Rice, maize and wheat provide 60 per cent of the world's food energy intake. Rice is the second most important grain after corn, and is the most important food item for a large part of Latin America and Asia. World rice production increased at only a very marginal rate up to 2008, before stagnating at 450 mn. tonnes (Figure 14.4). Wheat, which is second to rice in terms of total production tonnage, saw a fall in production of nearly 30 mn. tonnes in 2010 compared to the previous year. Grain production and utilization have seen a significant increase over the last decade, albeit with production experiencing stagnation since 2008. In terms of staple foods, utilization has risen faster than production.

Apart from these structural and cyclical reasons, several other factors such as government policies on international trade affect rising food prices. For instance, export restrictions by the world's main wheat producers - Russia, Ukraine, Uzbekistan and Kazakhstan - prompted hoarding with a surge of exports to the Middle-East and North Africa. Speculative hoarding was another factor which influenced food prices in 2008 and 2011. Food shortages and rising prices - due to demand and supply side factors as

Figure 14.4
World's Production, Supply and Utilization of Rice, Wheat, Cereal and Grain



Note: Supply contains production and the opening stock of that year.

Source: FAOSTAT.

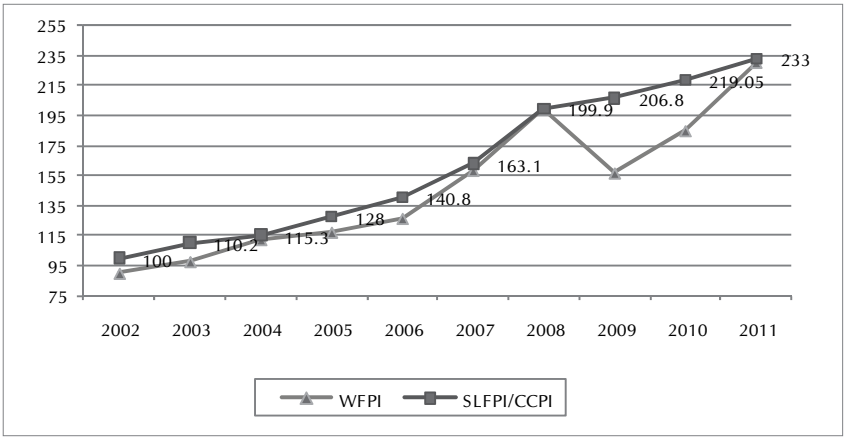
discussed above - are estimated to have caused nearly one billion people to be in hunger in early part of the 2011.[1]

14.3. Foodflation in Sri Lanka

The food component of the Colombo Consumer Price Index (2002) - carrying a weight of 46.7 per cent - started to climb from 2003 (Figure 14.5). It clearly indicates a sharp price hike in 2008 and a significant increase again in the first quarter of 2011. By and large, Sri Lanka's food price trends reflect that of global trends.

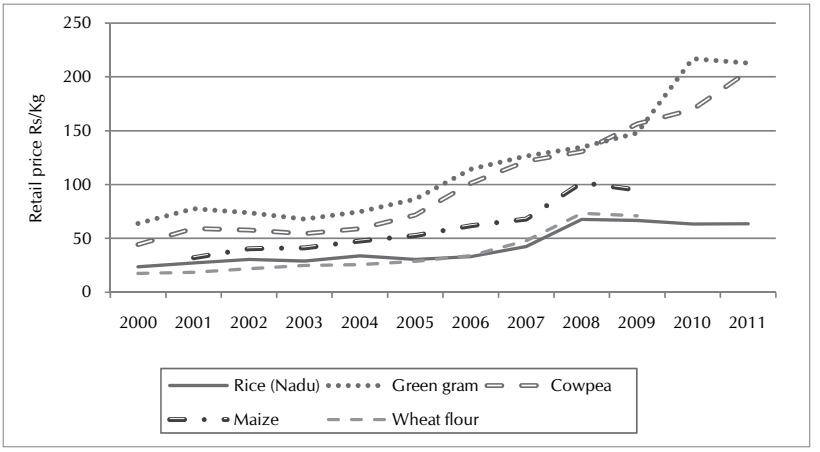
In terms of trends in major food commodity prices in Sri Lanka, significant price increases are noted in green gram and cowpea. Rice and wheat also saw price increases of 68 and 63 per cent, respectively, in 2008, prompting the government to impose price controls on rice in December 2009. However, the price of a kilogram of wheat flour and of rice

Figure 14.5
Global and Domestic Food Price Trends



Sources: World Food Price Index (WFPI); FAO, Food STAT; DCS, Sri Lanka Food Price Index (SLFPI).

Figure 14.6
Major Food Commodity Prices (2000-2011)



Source: Hector Kobbekaduwa Agrarian Research Institute.

[1] According to the FAO data collection, available at World Food Situation, http://www.fao. org/ worldfood.

are close. In Sri Lanka, wheat flour is the most popular substitute for rice. Given that the country is entirely dependent on imports for its wheat requirements, domestic prices are subject to global price fluctuations. However, when domestic prices began to rise in 2007, prices were stabilized through government price control measures.

A comparison of trends in international and domestic rice prices - with rice imports being only around 3 per cent of Sri Lanka's requirements - suggests that the international price of wheat (the primary substitute for rice in Sri Lanka) is the main channel through which high food prices are passed on to Sri Lanka. In mid-2008, when the global food prices were at a peak, domestic rice prices were below the world prices due to government price controls. However, as the price of wheat rose in mid-2008 - in the context of high demand for wheat flour by Sri Lankan consumers - the substitution to rice as an alternative impacted on the price of the latter.

The HIES data suggest that from an average monthly household income of Rs. 31,331 in 2009/10, nearly 42.3 per cent went towards food expenditure relative to 37.6 per cent in 2006/07. Higher food price inflation vis-à-vis non-food price inflation has meant that a greater share of household expenditure is devoted to food during times of food price increases.

14.4 Coping with Soaring Food Prices

Food pricing is a very sensitive subject in any country. In Sri Lanka too, food pricing is a politically contentious issue. Besides the broader macroeconomic consequences of rising food prices for the economy, it lowers the level of household welfare, where the poor are the most vulnerable to its adverse consequences.

14.4.1 Coping Strategies during the 2007/08 Food Crisis

Countries around the world adopted several strategies to deal with the 2007/08 food crisis. These strategies included pricing policy measures, trade policy measures, welfare measures, public distribution measures, etc. Sri Lanka too took certain policy measures to mitigate rising food prices, the vast majority of which were aimed at mitigating the problems faced by consumers. Given the predominance of rice and wheat in the country's food consumption basket, most of the policy measures were confined to these two commodities.

The government imposed price controls or a maximum retail price on rice and wheat, as well as on selected items of milk. Price controls run the risk of negatively affecting supply by creating perverse incentives to producers. This was experienced in several other countries that applied similar measures. For example, in Pakistan, it was found that as a result of government attempts to control smuggling by placing temporary restrictions on private trader movement of wheat between provinces, it prevented the flow of wheat from surplus to deficit areas, and widened the price variation amongst provinces.[2]

Government intervention in Sri Lanka was also to be seen in food distribution, marketing and storage. Through the re-established Paddy Marketing Board (PMB), a national paddy purchasing programme is conducted and a buffer stock of rice maintained. Restrictions on the import of maize were imposed, while imports of wheat grain were encouraged through tax exemptions. A Special Commod-

[2] World Bank, "Food Price Increase in South Asia", available at *siteresources.worldbank.org/SOUTH ASIAEXT/.../South_Asia_Regional_Food_Prices_Final.pdf.*

ity Levy was imposed on rice, wheat, red onion, potatoes, sugar and garlic with the hope of protecting farmers from getting affected by imported products. A Cabinet sub-committee on 'Food Security and Control of Cost of Living' to monitor and advice on price issues was established. Its aim is to regularly review the food situation in the country, price changes in the markets and other developments with a view to making recommendations on price related matters.

Other initiatives include a programme to establish 30,000 home gardens under Divi-Neguma programme around the country to enhance household food security. The government provides vegetable, fruit seeds, fertilizers, tools and gardening techniques to the people willing to grow fruits or vegetables in their gardens. The programme is being monitored by the Pradesheeya Sabhas. According to available data, this programme is successfully carried out in several areas.[3] However, these types of programmes are unlikely to be accommodated by urban households. Several welfare and support programmes also lend assistance. For instance, nutrition packs for pregnant mothers, fresh milk for malnourished children of 2-5 years of low income families, and school nutrition programmes are some of the initiatives.

The above are some of the policy measures that Sri Lanka initiated during the 2007/08 food crisis. It needs to be highlighted that most of these strategies focus on consumers rather than on producers. Supply response policies and producer welfare received much less attention. At the same time, most measures are of a short term nature as opposed to being long term sustainable strategies.

14.5 Way Forward

As discussed above, there are structural and seasonal reasons for high food prices. High food prices occurring seasonally can in most instances, be patched up with short term strategies. However, in the case of structural factors, strategies that address both demand and supply issues with a more long term outlook are required.

Policies to increase crop productivity are critical given constraints that may exist in increasing cultivated land areas. To enhance productivity, technical interventions, advanced technologies and high yield seed varieties are required. It also needs advancements in R&D in agriculture. At present, even though there are research institutes for major food crops such as rice, coconut, sugar, tea, etc., the main problems continue to be lack of adequate funding and support for research activities. Government financial and technical support for research institutes is at a very minimal level. However, more recently, incentives have been provided to these institutes, but there are several issues that require attention such as bureaucracy, external influence, fund utilization, etc.

Public investment in agricultural research in Sri Lanka - denoted as a percentage of agricultural GDP - increased during the 'green revolution' in the 1970s, but from the late 1970s continued on a negative trend.[4] Yields on rice and other important food crops started to stagnate, corresponding to a decline in investment in research and extension on agriculture.

To improve productivity, farmers need high quality seeds, fertilizers and tools, as well as technical assistance, training and credit made available to them on a predictable basis.

[3] Interview with Hector Kobbekaduwa Agriculture Research Institute (HARTI).

[4] See Chapter 7 on "Agriculture Sector and Challenges to Inclusive Growth".

Currently, Sri Lanka provides a fertilizer subsidy to farmers, distributes high yield varieties and seeds at marginal costs, and provides necessary assistance through 'govi niyamaka' at village level. However, it is important to make sure that these systems are working in an effective manner avoiding political interference in selecting farmers for these programmes.

It is also important to have an effective information system among farmers, traders and consumers. Recently, the Department of Agriculture introduced Rural Agriculture Knowledge Centres/Cyber Extension Units in several districts. At present, 53 Knowledge Centres are providing necessary information to farming communities. Asymmetry in information is one of the reasons which reduce efficiency in agricultural markets. Information search costs are estimated to be much higher in Sri Lanka compared to other South Asian countries.[5] Improved connectivity among suppliers and consumers can reduce asymmetries in information. It is also essential to develop rural infrastructure facilities such as roads, electricity, irrigation, etc., to provide easy and efficient access to urban markets and to connect rural farmers with urban consumers. As agricultural products are easily perishable, a developed road system and electricity are of utmost importance. The government has implemented new projects such as 'Gama Neguma' and 'Maga Neguma' to improve rural infrastructure, especially the rural road network.

The government has to take necessary steps to reduce the post-harvesting losses by providing storage and transport facilities, plastic containers, etc. The main purpose of the re-established PMB is to enable consumers to obtain their food requirement at reasonable prices while providing the farming community a reasonable price for their products through guaranteed price schemes. It is noted that due to limited storage facilities, the PMB is unable to buy the entire production of farmers, and on average, buys only one-fifth.[6] Whilst the PMB is also responsible for maintaining a buffer stock of rice, limitations - such as storage facilities, monitoring, protection from pests, etc., hinder its effectiveness. Further, these facilities are different from area to area, where different co-operative shops have to buy paddy from farmers and store it for the PMB. Thus, it is important to provide sufficient storage facilities, and close supervision of paddy storage in PMB and its agents.

Sri Lanka banned the import of Genetically Modified (GM) foods in mid-2001 by Genetically Modified Foods (Provisional) Regulations, No. 1 of 2001. Currently, most developed countries are experimenting with GM foods as a solution for high food prices. However, GM foods remain a contentious issue. On the one hand, GM foods are easy to grow and produce higher yields which can reduce world hunger. These food products use very minimum amount of pesticides, herbicides and fertilizers, causing less damage to the environment. On the other hand, it is contended that GM foods can be detrimental to human health, through transfer of antibiotic resistance, toxicity and allergenicity. It is also argued that cross-pollination with pollens from GM plants can change non-GM plants too. Moreover, since production of GM foods needs well advanced technology, there is also a concern that it will create a monopoly situation in world markets.

Further, a well designed safety net programme is a timely requirement to safeguard the poor from escalating food prices. At present, many

[5] LIRNEasia, 2008, "Using ICT to Reduce Transaction Costs in Agriculture through Better Communication: A Case-study from Sri Lanka", available at ; www.lirneasia.net/wp-content/uploads/2008/.../ *transactioncosts.pdf.*

[6] Interview with Hector Kobbekaduwa Agriculture Research Institute (HARTI).

countries have food banks, most of which are non-profit organizations or civil society organizations. As explained before, Sri Lanka has introduced several programmes to protect the poor from high food prices. However, it is important to identify the exact target group and there is need to strengthen the monitoring system, for any such programme to be effective.

Finally, it is most important to link consumer side policy measures with producer side policy measures by improving consumer and producer welfare. For instance, Bangladesh combined consumer side policies with measures on the producer side, in order to boost rice production and productivity.[7] These measures mainly consisted of a 50 per cent increase in the procurement price of rice, and improved availability and timely delivery of inputs.

14.6 Conclusion

In the light of the above discussion, it is important to identify policy measures that impact both consumers and producers to ease the burden arising from rising food prices. Some areas requiring policy attention include those aimed at developing communication and connectivity amongst producers and consumers. This will support efforts to achieve equilibrium in food demand and supply. It is also critical to reduce market asymmetry through the provision of improved connectivity, particularly between urban and rural settings. Simultaneously, the government also needs to develop both short term and long term strategies to effectively tackle escalating food prices, which is likely to be a persistent phenomenon in the coming years.

[7] "Food Price Increase in South Asia", World Bank, available at: *siteresources.worldbank.org/SOUTHASIAEXT/.../South_Asia_Regional_Food_Prices_Final.pdf.*

15. Social Determinants of Health

15.1 Introduction

Shaping a healthy, equitable and sustainable future for all is a central goal of global health initiatives. Actions to narrow 'health inequities' - the result of imbalances in wealth and power and other resources at global, national and local levels - that ultimately finds expression in inequalities in quality of life, within and between countries, contribute to sustained and inclusive economic development. The major causes for health inequity are social conditions in which people live and work, referred to as the 'social determinants of health (SDH)'. The social determinants reflect different positions that people occupy with regard to social status, power and resources, where global experience suggests that a large burden of disease and health inequalities are caused by such factors.[1]

> ***"As the country aims to achieve rapid growth, Sri Lanka's health sector needs to take urgent action on the Social Determinants of Health approach to mitigate health inequities"***

The Alma-Ata conference of 1978 is recognized as an important milestone for SDH initiatives. The Alma-Ata declaration of 1978 adopted the concept of 'Health for All (HFA) by 2000', through improvements to primary health care (PHC). The HFA/PHC strategy encouraged the recognition of social determinants as a major public health concern. Consequently, the PHC model took a more comprehensive approach, recognizing that while PHC services themselves are important, they should also address underlying social, economic and political causes of poor health.[2] In the 1980s, the concept of 'Inter-sectoral Action for Health (IAH)' was adopted to drive and spread the HFA concept. Subsequently, in the mid-1980s, the first International Conference on Health Promotion adopted the concept of 'Ottawa Charter on Health Promotion' under which eight key determinants (prerequisites) of health were identified, namely: peace, shelter, education, food, income, a

[1] McGinnis J.M., et al., 2002, "The Case For More Active Policy Attention to Health Promotion", Health Affairs, Vol. 21, No. 2.

[2] WHO, 2005, *Action on the Social Determinants of Health: Learning from Previous Experiences*, WHO, Geneva.

stable eco-system, sustainable resources, social justice, and equity.

In 2005, the WHO initiated the Commission on Social Determinants of Health (CSDH) with the intention of encouraging governments, civil society groups, international organizations and donors to address the social and economic circumstances that influence health, particularly among the most vulnerable populations. The specific goals of the CSDH were:[3]

- to support health policy change in countries by assembling and promoting effective evidence-based models and practices that address SDH,
- to support countries in placing health equity as a shared goal to which many government departments and sectors of society contribute, and
- to help build a sustainable global movement for action on health equity and social determinants, linking governments, international organizations, research institutions, civil society and communities.

In 2008, the final report of the CSDH on 'Closing the Gap in a Generation: Health Equity Action on the Social Determinants of Health' was launched with a set of recommendations.

Following the CSDH, Sri Lanka - along with other member countries - initiated a National Commission on SDH in 2005 under the Ministry of Health in collaboration with the WHO country office. A working group comprising members who represent health, academia, social services, and civil society was appointed to develop a framework for SDH to address and take action on social conditions which reduce health inequities, especially in relation to groups across the country.

This policy discussion makes an attempt to understand the SDH concept and its approach -through health and inter-sectoral actions - to address adverse effects of health inequity in Sri Lanka. The relevance of the SDH approach will be looked at through select health outcomes such as life expectancy, infant/maternal mortality, crude death/birth rate, nutritional status, and morbidity patterns. Further, strategies under the SDH approach in Sri Lanka's efforts to achieve health equity, aimed at improving human capital for sustained growth will be discussed. Finally, possible policy options to strengthen participation in the SDH approach to mitigate adverse health outcomes due to social determinants in the country will be presented.

15.2 Growth, Social Inclusion and Health

The health of a country's population contributes crucially to economic and social development. Investing in health is necessary for both creating opportunities and easing access to such opportunities. Indeed, four links are typically identified between health and the economy, namely: (i) better health leads to greater productivity, (ii) better health leads to improved demographic dividend, (iii) better health improves human capital, and (iv) better health improves social capital. In principle, there is a reciprocal relationship between growth and health. A better health system - that is more efficient, equitable and accessible - is a prime input in producing human capabilities that in turn, contribute to growth.

In addition, 'social inclusion' - the provision of certain rights to all individuals and groups in society (such as employment, adequate housing, health care, education and training, etc.) - is vital for sustained growth

[3] WHO/SEARO (October 2007), "Social Determinants of Health: Report of a Regional Consultation", Colombo.

and development. Social inclusion is a key social condition of health that is addressed by SDH to narrow health inequity.

Including health policies in a country's development agenda is more likely to lead to inclusive growth rather than implementing social policies separately. This is vital as health is a goal in the development agenda itself, and a key development input towards other development goals. For example, due recognition was given in MDGs, where of the total eight goals, health related goals number three, namely; reduce child mortality, improve maternal health, and combat HIV/AIDS, malaria and other diseases for achieving good health status universally.

The WHO initiated the Commission on Macroeconomics and Health (CMH) in 2002 with a specific focus 'to assess the place of health in global economic development'. The Commission report on 'Macroeconomics and Health: Investing in Health for Economic Development', published in 2001 highlights that 'investing in health' is the pillar of economic growth/development. The report also emphasized the need for countries to develop their own strategies for improving health through macroeconomic development.

In Sri Lanka too, periodic reports that spell out the country's overall national development framework have generally focused on improving health status and equity in the health sector through development policies. Objectives of accelerated economic growth and improvements in socio-economic outcomes have underpinned targeted improvements in health status across the country.

15.3 Sri Lanka's Health Sector Achievements

Since the late 1930s, Sri Lanka has implemented universal free health coverage, and as a result, the country has experienced remarkable health outcomes with relatively low public health expenditure when compared with countries at similar levels of socio-economic development. Health indices such as infant mortality rate (IMR), maternal mortality rate (MMR) and life expectancy have shown positive trends in Sri Lanka. In addition, expansion in health service delivery - through staffing, institutions for each level of care, technology-intensive medical equipment, etc. - has also been provided through the state.

After the implementation of welfare policies in the 1930s, IMR and MMR have seen a significant decline (Table 15.1). Widely extended infectious disease control programmes by the state also resulted in a relatively low death rate of 5.8 per 1,000 population in 2007 relative to 11 per 1,000 population in 1955. In turn, Sri Lanka saw a rising life expectancy rate. By 2009, life expectancy on average was 71 years which was much higher than the prevailing average of 65 years for the South East Asian countries.[4]

The network of curative care institutions for each level of care - primary, secondary and tertiary - has been constructed in demarcated geographical areas across the country. In 1941, the number of hospitals was estimated at 129, excluding maternity homes and other health centres.[5] By 1950, this had increased to 263. In 2007, the total number of hospitals with in-patient care was estimated at

[4] WHO, 2011, *World Health Statistics*.

[5] Silva. K. Tudor, 2010, "Social Determinants of Health: Lessons from Sri Lanka", in S. Bhattacharya *et al.* (eds.). *Social Determinants of Health: Assessing Theory, Policy and Practice*, Orient Blackswan, New Delhi.

Table 15.1
Select Health Indicators

	1935	1950	1970	1990	1995	2000	2005	2009
IMR[a]	263	82.3	47.5	19.3	16.5	13.3	11	13
MMR[b]	265	55.5	14.5	9.1	2.4	2	n.a.	3.9
Life expectancy	42.3[c]	55	65	71	72	73	73	74

Notes: a: Per 1,000 live births; b: Per 10,000 live births; c: Figure refers to 1946; n.a = not available.

Sources: WHO, *World Health Statistics;* Ministry of Health, *Annual Health Bulletin* (2000, 2003 and 2007); WHO–Sri Lanka (2002), "Macroeconomics and Health Initiatives".

615, in addition to which 441 central dispensaries provided out-patient care services.[6] In turn, bed strength also increased progressively, estimated at 3.4 beds for 1,000 population in 2007 relative to 2.8 in 1985. In terms of key health personnel, the number of medical officers (MOs) rose from 2,035 in 1982 to 11,023 by 2007. Accordingly, doctors per 100,000 population have increased to 55.1 in 2007 from 13.9 in 1980, while nurses also rose to 157 per 100,000 population in 2007 from 75 per 100,000 population in 1997. Overall, Sri Lanka's achievements on availability of health facilities and health outcomes are the result primarily of state-led programmes by successive governments.

15.4 Relevance of SDH for Sri Lanka

The focus on SDH arises owing to the fact that while medical care itself can only prolong survival, social determinants exert significant influence on premature death and diseases, particularly amongst vulnerable groups such as women, children, the elderly, etc. Emerging trends - viz., increasing inequalities within and between countries, new patterns of consumption and communication, commercialization, global environmental change, and urbanization - can exacerbate existing inequities.

Overall, narrowing health inequity is the most critical goal underpinning policies and interventions on SDH. Health inequity refers to the presence of systematic disparities in health between groups with different social advantages/disadvantages. The SDH are broadly constituted by: (i) the structural factors - unequal distribution of power, income, goods, and services, globally and nationally; and (ii) individual level factors - consequent unfairness in the immediate, visible circumstances of people's lives (access to health care, schools, education, conditions of work/leisure, homes, communities, towns, or cities and chances of leading a flourishing life) including the health system.

In order to understand the relevance of SDH for Sri Lanka, an analysis of health inequity needs to done, as addressed in the discussion that follows.

15.4.1 Health Inequity

Inequity in health is known simply as unfair distribution of services. Inequity can be observed through three means, namely:[7] (i) health status/outcomes, (ii) access to services and, (iii) financial allocations. Five common measures for health system assessments are:[8] (i) overall level of health, (ii) distribution of health in the population, (iii)

[6] Ministry of Health, *Annual Health Bulletin 2007*.

[7] WHO–Sri Lanka, 2002, "Poverty, Transition and Health: A Rapid Health System Analysis".

[8] WHO, 2000, *The World Health Report 2000: Health Systems - Improving Performance*, WHO, Geneva.

Table 15.2
Infant Mortality Rate by Mothers' Education Level

	1993	2000	2006/07
No schooling	44.7	25.5	33
Primary	32.3	29.9	23
Secondary	22.7	17.6	19
GCE(O/L) and GCE(A/L)	18.0	13.6	13
Higher	18.0	13.8	17

Source: Ministry of Health, *Annual Health Bulletin 2007*.

overall level of responsiveness, (iv) distribution of responsiveness, and (v) distribution of financial contribution. Of these, three measures - distribution of health, responsiveness and finance - are related to equity. While equity has two objectives pertaining to both inputs and outcomes, the latter is vital. Even in developed countries, where input distribution is relatively equitable, outcome disparities can be present.

Inequity in health outcomes: Even though Sri Lanka has achieved exceptional health outcomes through universal coverage of free health services, some significant pockets of disparities remain in groups with different social conditions. For instance, IMR across different levels of education of mothers vary (Table 15.2). The IMR for those in the 'no schooling' group is relatively high compared to the group with tertiary education levels. Accordingly, it is evident that disparities in health outcomes owing to social status, remains a concern.

Second, variations for crude death rate (CDR) and crude birth rate (CBR) are to be found across districts. For example, the highest CBR (29.4 per 1,000 population for 2007) was reported from Kilinochchi district, while the lowest at 13.5 was recorded in Gampaha district.[9] Furthermore, the highest CDR (8.4 per 1,000 population in 2007) was reported in Colombo district despite a relatively high accessibility of care. It may be that deaths occurring in hospitals in the Colombo district - with such hospitals drawing high numbers from across the country - are recorded as deaths in the Colombo district itself. The lowest CDR of 3.3 per 1,000 population was recorded in the Monaragala district.

Additionally, the prevalence of stunting amongst income groups vary. For instance, the percentages in the poorest and richest quintiles were 24 and 4 per cent, respectively, in 2000.[10] When considering wasted children, the poorest income quintile reported the highest rate of 20.1 per cent, while the richest quintile recorded 3.5 per cent in 2000.

Inequity in access to services: Improving health services through appropriate matching of facilities and recruitment of manpower in Sri Lanka remains an issue in the absence of adequate needs assessments. Most of the tertiary (teaching/special/provincial hospitals) and secondary care (district base hospitals) facilities are located in urban and semi-urban areas. In addition, health staff also prefer to work in these areas because of other facilities such as availability of accommodation in hospital premises or outside, schooling, transport, availability of safe

[9] *Ibid*.

[10] Rannan-Eliya, R., 2008, "Activities at Regional Level to Address Social Determinants and Health Inequalities", paper presented at seminar on 'Social Determinants of Health in the Maldives', October 2008.

drinking water, electricity, etc. Though people in rural or estate areas have access to primary care level facilities (divisional hospitals, including primary medical care units), they tend to by-pass these owing to unavailability of health staff and essential medicines/equipment at primary care level.[11] This phenomenon has adverse effects on inequalities in health outcomes between rural and urban sectors, as well as between income quintiles.

In 2006/07 for instance, IMR in the urban sector was 10 per 1,000 live births whilst for the rural and estate sectors it was 19 and 29 per 1,000 live births, respectively.[12] When considering health personnel, the majority of specialist doctors for curative care are to be found at higher level facilities in urban areas. Of a total 852 specialists in the country, 229 were in Colombo and a further 83 in Kandy in 2007. Moreover, skilled birth attendance by the poorest quintile in 2000 was 91 per cent while the richest was 99 per cent. Thus, the above figures reveal existing disparities in health facilities that in turn, constrain accessibility for care to patients.

Inequity in health financing: Financial risk protection is another pillar of attaining equity in health. In Sri Lanka, free health care is available to all citizens, but whether they are protected from financial risk in practice or whether services are free at the point of delivery is quite doubtful. Out-of-pocket expenditure for health (OOPE) is a valuable means of showing inequity in health financing in the context of free health services. In 2009, OOPE was 51 per cent of total health expenditure on average,[13] which is quite high compared to Thailand (34 per cent) which also has a well developed universal coverage existing within a mixed health financing system.

High OOPE has important implications. In Sri Lanka, unequal distribution of public health infrastructure may push people to poverty and impoverishment. At the same time, better quality of services in private rather than public facilities may increase demand for private care that results in rising 'catastrophic' expenditure - i.e., catastrophic impact signifies households with health care spending greater than 15 per cent of total household consumption.[14] Sri Lanka reports a figure of less than 2 per cent of households who fall into this category, better than countries with successful health systems like Thailand (2 per cent) and Taiwan (3 per cent).[15]

The recommendation by the WHO is that OOPE should not exceed 30-40 per cent of total health expenditure to achieve universal coverage.[16] In other words, as OOPE goes beyond 40 per cent of total health expenditure, it increases the financial risks of care seekers and that can contribute to rising inequity.

15.5 Way Forward on SDH Approach in Sri Lanka

Sri Lanka has been successful in acting on SDH through its national Commission. Two South East Asia Regional Consultations on SDH took place in 2007 and 2009 in Sri Lanka. As documented in the Consultation Report 2007, Sri Lanka aims to have a framework with regard to scaling up of sustain-

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11 de Silva, U.H.S and N. Attanayake, 1992, "Utilization of Resources at Peripheral Health Care Institutions in Gampaha District", mimeo.

12 Ministry of Health, *Annual Health Bulletin 2007*.

13 Central Bank of Sri Lanka, *Annual Report 2010*.

14 Catastrophic expenditure refers to percentage of consumption at individual household level.

15 Central Bank of Sri Lanka, *Annual Report 2010*.

16 WHO, 2009, *Health Financing Strategy for the Asia Pacific Region 2010-2015*, WHO, Geneva.

able action to address health inequities using an SDH approach. Three approaches have been identified, namely: (i) equity as an explicit and key objective of policy, (ii) SDH as an approach to narrow inequities, and (iii) PHC and inter-sectoral action as strategy. Actions on SDH in Sri Lanka have been implemented through the Sarvodaya and Shramadana Movement, the Gemidiriya Community Development and Livelihood Improvement Project, and a geo-spatial approach analysis. The Sarvodaya and Shramadana Movements work as NGOs while the Gamidiriya Project is financed by the state with foreign assistance. All development activities come through household level at the village and in turn, the benefits also go to the participants.

There are also other significant policy developments in relation to SDH. The WHO has proposed a project to strengthen national level policy formulation and implementation to tackle health inequities in Sri Lanka using an SDH approach, which in turn, is expected to provide support to develop interactions with other sectors. Second, two other interventions have been initiated - linked, although not directly targeted to SDH - including a pilot project on strengthening PHC by the Ministry of Health, and a pilot project on WHO Package of Essential Non-Communicable Disease Interventions (WHO PEN) for primary care in low-resource settings. While these are positive developments, given the many disparities faced by Sri Lanka's health sector due to social and economic conditions, actions to mitigate such disparities are few.

15.6 Conclusion and Policy Implications

Equity is vital to maintain good health outcomes and achieve economic and development objectives. It is evident that the greater share of health inequity is due to the social conditions in which people live and work. In Sri Lanka, socio-economic disparities in various forms continue to persist. In particular, income inequality becomes the main social condition for pushing people out from accessing opportunities. Unless checked, the gap between the poor and rich can widen further.

At present, Sri Lanka is attempting to address inequalities via SDH approach through limited economic and social interventions. However, it is clear that progress remains slow. Although inter-sectoral collaboration is a key strategy of Sri Lanka's SDH framework, its absence between health and other sectors in the country is the main constraint to make progress on issues of health equity. Previously, the National Health Council facilitated inter-sectoral actions, but its non-functionality at present, and the absence of an alternative high level stakeholder assembly, is a factor for the slow progress. Accordingly, a proper institutional mechanism to facilitate inter-sectoral actions on health, needs to be initiated by the Ministry of Health.

Health in All Policies (HiAP) is a key path of intersectoral actions for health. In the context of Sri Lanka, HiAP is still not formalized. Therefore, as a first step, stakeholders need to be convinced of the benefits of HiAP. Second, effective policy formulation to implement the HiAP concept could be developed thereafter.

Sri Lanka, as a lower-middle income country, is grappling with accelerating growth on one hand, and changing morbidity/mortality patterns and lifestyles with an ageing population due to transitions of demography and epidemiology, on the other. As a result, NCDs and a rapidly ageing population are on the rise. Such transitions may cause existing health inequities in the country to increase. Thus, while PHC as a major strategy of SDH approach is currently being strength-

ened, an effective, efficient, equitable and accessible health service with formalized health policies need to be implemented to tackle health outcome inequities, especially through PHC. Second, to manage equity in health financing, existing health financing policy needs to be revisited, in particular to ensure that the poor and vulnerable groups are protected from financial risks.

Overall, addressing SDH is urgent to mitigate health inequity in Sri Lanka. The CSDH provides technical guidance through regional consultations and other forms. The 2008 report of the CSDH called for global recognition to tackle health inequity through its three recommendations,[17] namely: (i) improving daily living conditions, (ii) tackling inequitable distribution of power, money and resources, and (iii) measuring and understanding the problems and impacts of inter-sectoral actions and PHC. Thus, Sri Lanka's health sector - together with other sectors - needs to take urgent action on SDH approach to mitigate health inequities as the country aims to achieve rapid growth. It is with the bridging of inequities that Sri Lanka will achieve the broader objective of inclusive economic development.

[17] WHO, 2008, *Closing the Gap in a Generation: Health Equity through Action on the Social Determinants of Health*, WHO, Geneva.

16. A Rational Drug Policy: An Imperative of 'Health for All'

16.1 Introduction

The provision of essential drugs - which are accessible and affordable to all - is one of the critical means to achieve the ultimate goal of 'health for all'. Sri Lanka's current demographic transition is a reflection of its success in providing good health services over many decades. Nevertheless, emerging disparities in status, income and access to resources have led to inequalities in health services and outcomes within the country. While health disparities within a population are common to any country, what is important is the recognition that restoration of equity in health care service delivery is critical for sustained and equitable socio-economic development of a country. In this respect, an essential element in the health policy paradigm is equitable access to drugs and equitable health outcomes resulting from access to drugs.

> ***"Access to essential life saving medicines has become a crucial issue in recent times, requiring policies that build an institutionally sound and transparent pharmaceutical system"***

Policy making in the provision of essential drugs cannot be examined and studied in isolation, but has to be approached as an integrated function of a health system. Sri Lanka's health policy covers a system that contributes specific services such as health administration, promotion, preventive, curative, and rehabilitative care. Among these, the most important in the provision of health care services - i.e., curative care and community care - are laboratory services and pharmaceutical services. All these services have specific policies as integral parts of a national health policy. In this context, pharmaceutical services play a pivotal role in health service delivery which meets an essential element in health care needs of the population. This discussion aims to examine the main policy issues linked to usage of pharmaceuticals (drugs) and identify gaps in making available essential drugs at affordable prices and its rational usage through a well defined drug policy. It remains a critical area of policy concern given the rising burden of disease and experiences of drug shortages.

16.2 Burden of Disease

After World War II, the disease picture in Sri Lanka was dominated by infectious diseases like tuberculosis (TB) and malaria. As a result of improved health advisory and hygiene, and the availability of life saving medicines, such as penicillin, other antibiotics and various vaccines, infectious diseases declined. Improvement made over time in primary care, reproductive health, and efforts to reduce maternal and infant mortality resulted in increasing life expectancy at birth. These trends led to a dramatic advance in health status and fertility reduction in the country. From the 1960s, Sri Lanka entered the third stage of demographic transition, namely, the phase of declining fertility.[1] As a result, the country is experiencing a rapid increase in the elderly cohort. It is estimated that the above 70-year age category will double over the next 20 years.

As NCDs emerge as the most prevalent diseases, the direct and indirect costs of treating such patients are currently estimated to be about US$ 420 per person per year.[2] This provides an indication of the magnitude of the cost of medi-care needed for the population for similar illnesses. As the prevalence of chronic diseases increases with age, the burden of NCDs can be heavy on the poor and marginalized population.

In addition, preventable communicable diseases such as Dengue are also on the rise. Dengue is the most common mosquito-borne illness and is endemic in Sri Lanka, spread by rapid urbanization - characterized by densely populated areas and widespread mosquito breeding grounds. Other emerging diseases in Sri Lanka include, HIV-Aids. According to the Aids Prevention Division of the Ministry of Health, registration of Aids patients was up by 3,000 in 2009, with 1,249 new registrations in 2010.

The seriousness of the burden of diseases is also evident by the rising demand for treatment for multiple illnesses by different age/gender groups, and by different communities of varied income levels. Data on out-patient visits and in-patient admissions in public and private hospitals reveal that there had been around 43 million out-patient visits to government hospitals, in addition to annual clinic visits of 16 million, and in-patient admissions of 4.6 million in 2007.[3] Of the patients who obtained indoor treatment in government hospitals, bed occupancy rates in differently categorized hospitals provide a cross-sectional view of the degree of demand for long term care in non-fee levying government hospitals - i.e., estimated bed occupancy rates in provincial hospitals stood at 101 per cent, national hospital (101 per cent), teaching hospitals (90 per cent) and base hospitals (82 per cent).[4]

Further, in 2007, 5.7 million out-patient visits and 221,000 in-patient admissions have been reported by private hospital facilities.[5] This does not include the out-patient treatment delivered by around 2,000 General Practitioners (GPs) spread throughout the country. In the late 1990s for instance, when the number of GPs stood at 900, an estimated 12.7 million patients were seen by them annually.[6] Indeed, private Western

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1 Indralal De Silva "Beyond Twenty Million: Projecting the Population of Sri Lanka 2001-2081", Research Studies: Demographic Transition and Pension Series No.6, Institute of Policy Studies.

2 Price Water House Coopers, 2009, *Pharma 2020: The Vision.*

3 Ministry of Health, *Annual Health Bulletin 2007*.

4 Fernando, Joel, 2002, "Functional Perspective in Health Sector in Sri Lanka: Current Status and Challenges", mimeo.

5 IPS, *Census of Private, Co-operative and Estate Hospitals 2005-2008.*

6 De Silva N., and K. Mendis, 1998, "One Day General Practice Morbidity Survey in Sri Lanka", *Family Practice*, Vol. 15, pp. 32331.

out-patient services were considered to be the fastest growing segment of health services in the country.

When glancing at the profiles of patients seeking health provisions from government health institutions and from private GPs, government hospital facilities have been mostly patronized by the lower-middle class and poor households, while households of almost all income groups make use of GP out-patient facilities when a need arises.[7] Free delivery, quality and confidence are some of the key factors that influence low income groups to obtain drugs from state institutions.

16.3 Sri Lanka's Drug Policy

Drug policy is a branch of health policy that deals with the development, provision and use of medications within a health care system. It embraces drugs (both brand name and generic), biological products, vaccines and natural health products. An effective drug policy aims at ensuring that people get good quality drugs at the lowest possible price, and that doctors prescribe the minimum of required drugs in order to treat the patient's illnesses. As is found commonly in other countries, Sri Lanka too has a three-tiered structure of demand where a physician prescribes, a pharmacist dispense, and the patient consumes free of charge, pays or a third party pays.

Pharmaceutical policy is the part of health policy that aims at addressing problems such as increasing access to safe, effective and affordable medicines for all patients.[8] Obstacles to achieving these goals can arise from financial interests on the side of suppliers and health care providers, who may benefit from charging higher prices and issuing more prescriptions than might be justified from a clinical and economic viewpoint. Obstacles can also arise from unscrupulous suppliers trying to introduce low quality or counterfeit drugs into markets, exploiting regulatory weaknesses. In addition, corruption and ineffective bureaucracies sometimes interfere with well intended programmes to offer access to essential medicines for the poor.[9] Some of the issues raised above have relevance to Sri Lanka's current drug administration system as will be discussed later.

The drug registration and regulatory system in Sri Lanka began in the early1960s. The National Formulary Committee established in 1962, introduced a drug list by reducing the number of drugs from 4,000 to 2,100, to be imported only by the private sector. During this period, the procurement procedure for drugs was biased towards more expensive brand names. Sri Lanka's first National Drug Policy in 1971, aimed at ensuring that people could get good quality drugs at the lowest possible price, and that doctors would prescribe the minimum required drugs to treat illnesses. The new drug policy identified the need for a state buying agency for procurement in accordance with the national formulary, to reduce the costs of drugs while maintaining the quality in order to save foreign exchange, rationalize drug usage, and supply essential drugs to the whole population at an affordable cost. Accordingly, an essential drugs list was introduced by a new formulary that reduced the number of essential drugs to 600.

In 1971, the State Pharmaceutical Corporation (SPC) was established to replace private sector drug importers, and in 1973, the SPC

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7 Fernando, Joel 2002, "Private Sector Community Health Services and Health Sector in Sri Lanka: Current Status and Challenges", mimeo.

8 World Bank, 2007, *Practical Approach to Pharmaceutical Policy*, World Bank, Washington, D.C.

9 *Ibid.*

became the sole importer of pharmaceuticals by replacing 134 private pharmaceuticals importers. Subsequently, the SPC introduced an international tendering system with quality control requirements, purchasing of low-cost generic products whenever available, approaching non-patent observing sources for newer patented products, and bargaining with transnational sources for newer patented products that were not available elsewhere. As a result, branded drugs were replaced by generic drugs in the prescription and sale of medicine. In 1972, the SPC is estimated to have imported 52 drugs at a third of their previous prices, and some drug prices dropped by a half or two-thirds.[10] The 1971 National Drug Policy was a part of health reforms that was pro-poor, in line with the government policy of centralization of economic activities more or less within a welfare state.

With the introduction of trade liberalization policies in 1977/78, efforts were made to reduce the monopoly of drug imports by the SPC, and its activities were confined only to import the drug requirements of the public sector while the private sector was given a free hand to import drugs, creating a price distortion in the pharmaceutical market. The new policy stance did not make any changes to the existing formulary or the essential drugs list. Although the State Pharmaceutical Manufacturing Corporation (SPMC) established in 1987 aimed to manufacture commonly needed drugs - such as paracetamol and a few others - the institution was mostly running as a loss making venture.

There were attempts to develop a National Drug Policy in 1991 and in 1996, which were accepted by the Ministry of Health (MOH), but failed to gain Cabinet level approval. The report of the 'Presidential Task Force on Formulation of a National Health Policy for Sri Lanka' - established in 1992 - recognized the need for a national drug policy but it was not fully comprehensive nor was it well defined. In 2005, the MOH, with the assistance of the WHO, worked out a comprehensive draft for a National Medicinal Drug Policy for Sri Lanka. After at least four rounds of talks with all stakeholders, the final draft was approved by the Cabinet in October 2005, but is yet awaiting the ratification of Parliament prior to implementation. The delay is largely assumed to be on account of lobbying by vested interests, opposed to its implementation.

16.4 Why Sri Lanka Needs a Rational Drug Policy

The necessity for a comprehensive drug policy has been warranted due to various issues. The more critical are: emerging profile of disease burden; growing influx of patients seeking treatment from free health care services; availability of around 9,000 varieties of branded, generic, and cheap drugs; rising conflicts in prescribing low cost generics and expensive branded drugs; shortages of life saving drugs in government hospitals and dispensaries; sales of drugs without prescriptions over-the-counter; and affordability to pay from out-of-pocket for procurement of drugs by poor households. Among these, shortage of drugs - against the background of disease burden and influx of patients seeking free treatment at state hospitals to avoid the high cost of drugs and care - is the most significant issue for the majority of people.

Effective pharmaceutical delivery to patients seeking treatment from government hospitals is being hampered by non-availability of adequate stocks, absenteeism of qualified

[10] Lall,S., and S. Bibile, 1977, "The Political Economy of Controlling Transnationals: The Pharmaceutical Industry in Sri Lanka (1972-76)", *World Development,* Vol. 5, pp. 677-98.

pharmacists, and uneven distribution of pharmacists and dispensers in dispensaries across the country. As a result, most patients tend to receive less than the quota of prescribed drugs from these institutions, and are frequently required to purchase more expensive drugs from private pharmacies. The granting of state approval for government health professionals to engage in private practice, and intermittent shortages of essential drugs experienced in state hospitals, in combination, has led to patients having to seek treatment at higher costs through private consultations.

The shortage of drugs is a key health policy concern. Shortages in Dextran 40 (a crucial fluid administered to critically ill Dengue patients), in cancer treatment related vaccines, in supplies of Saline, and other essential drugs critical for patients suffering from diabetes, asthma and heart conditions, as well as expectant mothers, etc., have been noted. Indeed, media reports suggested that "300 essential drugs are in short supply in many of the country's hospitals....Doctors have confirmed that the shortages have affected government hospitals."[11] In some instances, Sri Lanka was compelled to take extraordinary action to address critical shortages. For instance, Saline stocks were replenished by immediately airlifting supplies into the country in 2010.

Other irregularities in the supply of drugs have also been highlighted. Drug companies have been found to supply drugs prescribed for cancer patients in Sri Lanka to the private sector at higher prices, while failing to supply the same to the MOH throughout 2010. In such instances, the MOH is compelled to purchase drugs locally at higher prices in order to provide effective treatment to patients. Other reported malpractices include instances where despite the presentation of quality drug samples to the National Drug Quality Assurance Laboratory (NDQAL), the subsequent delivered orders are found to be sub-standard drugs. Due to such fraudulent practices, the MOH took action to withdraw 228 kinds of drugs in batches and 58 other items over the period 2006-10.[12] Moreover, it is also the case that the irregularity of drug supplies makes it harder for hospitals to give accurate figures on what drugs are available or in short supply at any given time.

According to the Sri Lanka Chamber of Pharmaceutical Industry, the shortage of drugs in state hospitals is primarily a procurement issue, requiring more transparent tender procedures.[13] The recommendations made are to institute time frames for every step of the tender procedure - i.e., predetermined times for tender boards, awards, indents, letters of credit, etc. - whereby participants are informed within the specific time period. Transparent procedures are also argued to earn greater acceptance and recognition of the SPC, amongst other suppliers. Safeguards against irregular suppliers through the execution of bid bonds and performance bonds on time, subject to a proper evaluation of any reasonable excuses for delays (which should again be limited to a fixed time frame), is also considered important in this regard.

16.4.1 A Case of Shortages: Paracetamol

Paracetamol is a widely used pain reliever, commonly used for the relief of headaches, other minor aches and pains, and is a major ingredient in numerous cold and flu remedies. Paracetamol is also used for relief

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11 *Daily Mirror*, "Essential drugs shortage puts patients and hospitals in a spot", 5 May, 2010.

12 *Daily Mirror*, "Sickening mismanagement", 19 April, 2011.

13 The Island, "Shortage of drugs in state hospitals: transparency in procurement vital – Samarasinghe, Ananda, President, Sri Lanka Chamber of Pharmaceutical Industry", http://www.island.lk/index.php?page_cat = article-details&page = article-details&code_title = 22356.

of more severe pain such as in post-surgical recovery. In Sri Lanka, the SPMC is responsible for manufacturing a part of the local requirement of paracetamol for state hospitals, while private industry providers and importers supply the same to the pharmaceutical market under brand names (e.g., Panadol, Panadin, etc.). The drugs are made available without a prescription, and have increasingly become a common household drug.

Since 2008, state-run hospitals across the country have been affected by a chronic shortage of Paracetemol. As a result, it is alleged by the Government Medical Officers Association (GMOA), that doctors attached to both government and private hospitals have had no alternative but to prescribe more expensive brands.[14] It is reported that the SPMC has been entrusted to manufacture only 150 million tablets out of a required annual quantity of around 750 million tablets, forcing Sri Lanka to import 600 million tablets.

In February 2011, the MOH initiated inquiries into the purchase of 100 million Paracetamol tablets from the open market at a cost of Rs.37 million under the 'Emergency Purchase' tag, as the SPC holds the monopoly in the supply of drugs to the Medical Supply Division. The inquiries have revealed that the SPC unaccountably delayed supplying the required stocks that led to country-wide shortages of Paracetamol tablets at state hospitals, while there had been ample stocks in the open market manufactured by the SPMC. In March 2011, the MOH instructed the SPMC to take immediate measures to produce 564 million tablets.[15]

16.5 Present Status of Drug Regulatory Regime

Sri Lanka's drug procurement process which follows various stages, including registration, selection procurement, distribution and service delivery, was designed to be transparent. The registration process is expected to guarantee the drug's safety and efficacy, but there are allegations that the credibility of this guarantee is eroded by the pharmaceutical industry lobby. Studies have noted that the registration of new drugs takes almost one year and involves tedious bureaucratic procedures. This has led to an increased circulation of unregistered drugs that undermines the objective of quality regulation to ensure the supply of safe drugs to the public.[16]

The next stage of the process is the selection of drugs which ensures that the most cost-effective and appropriate drugs for a population's health needs are chosen fairly. Unfortunately, the cost effectiveness is not considered often, and as a result, around 9,000 varieties of (mostly expensive) drugs are imported. These drugs are imported by the SPC as well as by the private sector. The SPC is responsible for procurement of drugs for the Medical Supplies Division of the MOH. The Medical Supplies Division overlooks the distribution of drugs to government health institutions, while private sector importers distribute drugs to private pharmacies. Sri Lanka's NDQAL does not have the capacity to quality test all the drugs that are being brought to the country, and there are weaknesses in post-marketing surveillance due to limitations in capacity.

The ineffectiveness of the NDQAL for quality testing has created two issues, namely:

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[14] *The Island*, "Paracetamol causes headache for Health Dept.", 20 May, 2008.

[15] *Daily Mirror*, "SPMC asked to make more Paracetamol available", 10 March, 2011.

[16] Knight-John, Malathy, P.P.A.Wasantha, Andrew Perumal, Pubudini W. Rupasinghe, Avanthi Gunathilake, 2003, "Cross- Border Competition and Implication for Sri Lanka: Case Studies of Pharmaceutical, Cement Markets and Shipping Line Sector", IPS/LST.

(i) unlicensed individuals and/or entities conducting illegal trade of pharmaceutical products containing controlled substances, and (ii) licensed individuals and/or entities contravening laws to sell controlled drugs, such as pharmacists who sell controlled drugs without a prescription. Due to these areas of weaknesses, it has become common that pharmacies market drugs not registered in the country, employing under-qualified persons as pharmacists, failing to store drugs under specified temperature, and storing foods and drugs in the same refrigerators - which are against the set standards for selling pharmaceutical items.

16.6 Conclusion

The call for a national medicinal drug policy in Sri Lanka has spanned several decades since the liberalization of trade in the late 1970s. The MOH was involved in the preparation of a National Medicinal Drug Policy in 2005, which is yet to receive Parliamentary approval for implementation. Given the number of years that has lapsed since the report was first drafted, it may be that the report itself needs to be revisited to ascertain whether it reflects the key features of a viable drugs policy and best practices, prior to completion of passage of legislative ratification.

Various countries, including both drug manufacturing and drug importing nations, have adopted features in their drugs policy that fit in to national needs. Among these, the key features that could be seen are equitable access, safety, affordability, sustainability, evidenced-based decision, transparency, impartiality, participation and inclusiveness. As Sri Lanka is highly dependent on imported drugs - importing around 90 per cent of requirements - the most important features amongst these are: (i) equitable access which involves individual access to approved drugs and accessibility to a speedy new drug approval process; (ii) safety which requires appropriate pre-market evaluation and post-market surveillance, (iii) affordability applicable to both individuals and the health system, so that no one should suffer undue financial hardship in accessing needed drug therapies, (iv) sustainability which ensures that drugs are evaluated in the context of the overall burden of illness, and of their impact on direct and indirect illness costs and health system sustainability, and (v) participation and inclusiveness of all stakeholder engagement for meaningful involvement in the development and implementation of a proposed national drug policy.

Another issue that is needed to be looked at is the present controversy over generics versus branded drugs, which is closely related to the economics of the pharmaceutical industry. Brand name drugs are several times more expensive than equivalent generics which are feely available in the global market. In the ongoing debate, several questions have been raised whether branded drugs are worth the extra cost, or whether generic alternatives give the same results at a lesser cost. What is important is the ability of patients to understand the difference between generics and brands, recognize the generic name of a drug, and find a good quality variety of that particular drug. A rational drug policy resolves this intricate issue as it is based on drug use, in which patients receive medications appropriate to their clinical needs, in doses that meet their own individual requirements, for an adequate period of time, and at the lowest cost to them.

Access to essential life saving medicines has become a crucial issue in recent times and it is the responsibility of governments to ensure a policy that builds an institutionally sound and transparent pharmaceutical system, with appropriate mechanisms in place to avoid the likelihood of denial of life saving medicines to those in need, especially the poor and marginalized population.

17. Accessibility and Affordability in the Power Sector

17.1 Introduction

Numerous studies suggest the existence of a strong correlation between electricity consumption and economic growth.[1] Clearly, as the dependence of an economy on electricity rises, its impact on growth will become critical. In Sri Lanka, available evidence suggests that current as well as past changes in electricity supply have a significant impact on the country's growth outcomes.[2] Indeed, the lagged effects of increased electricity supply are found to have a greater impact on GDP. For instance, estimates suggest that for every increase in supply of electricity by 1 megawatt hour (MWh) in the current year leads to an income increase of Rs. 38,200 in the same year, Rs. 30,000 in the second year and Rs. 44,100 in the third year.

Given a clear nexus between electricity consumption and growth, access to a sufficient, affordable and reliable supply of electricity across all sectors of the economy has strong distributional implications. In Sri Lanka, despite considerable progress in ensuring access to electricity - currently estimated to reach 90 per cent level of electrification - significant disparities are to be found across sectors and provinces of the country. With a set government target of reaching 100 per cent electrification by 2012, an assessment of key policy issues in the power sector is timely. This discussion aims to provide an overview of the power sector in Sri Lanka - with a specific focus on household, commercial (hotel) and industrial sectors - and outline the new developments in the sector as it pertains to supporting the country's overall growth and development objectives.

"Given a clear nexus between electricity consumption and growth, access to a sufficient, affordable and reliable supply of electricity has strong distributional implications"

[1] See Ferguson, R., W. Wilkinson, R. Hill, 2000, "Electricity Use and Economic Development", *Energy Policy*, Vol. 28, No. 13; Gupta, G. and N.C. Sahu, 2009, "Causality between Electricity Consumption and Economic Growth: Empirical Evidence from India", Munich Personal RePEc Archive, available at http://mpra.ub.uni-muenchen.de/22942.

[2] Morimoto, R., C. Hope, 2001, "The Impact of Electricity Supply on Economic Growth in Sri Lanka", Research Papers in Management Studies, University of Cambridge.

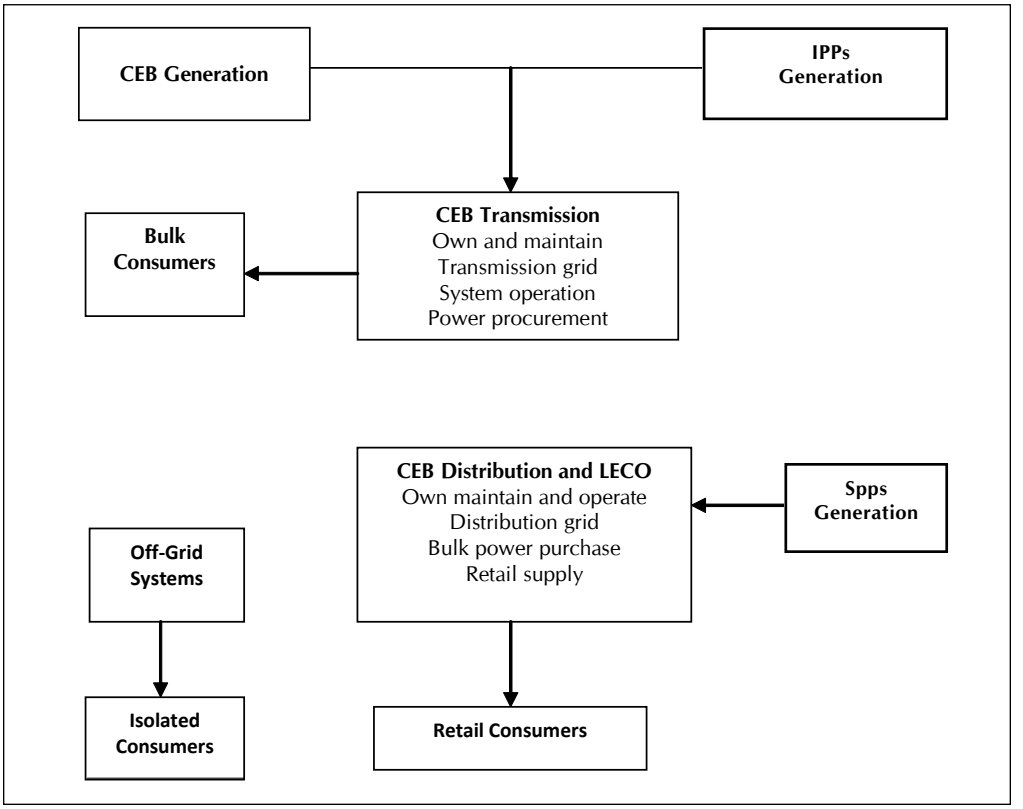
17.2 Power Sector and its New Developments

17.2.1 Overview of the Power Sector

The power sector in Sri Lanka is assigned three main functions, namely, the generation, transmission and distribution of electricity, which are licensed out to several parties. The majority of consumers are served by the national grid while isolated pockets of consumers are served by off-grid systems. In 2009, the Ceylon Electricity Board (CEB) contributed 55 per cent of gross generation to the national grid, while the rest was generated by Independent Power Producers (IPPs).[3] While the CEB is the sole transmission licensee in the national grid, distribution is jointly carried out by CEB and Lanka Electricity Company (LECO) licensees. Figure 17.1 illustrates the functional structure of the electricity sector in Sri Lanka.

At present, the electricity industry has long term debt exceeding Rs. 200 billion (largely the debts of CEB) which is expected to increase to Rs. 500 billion by 2015.[4] The revenue is only adequate to meet around 90 per cent of industry expenditures.[5] The CEB

Figure 17.1
Functional Structure of the Electricity Industry



Notes: IPPs = Independent Power Producers; SPPs = Small Power Producers.
Source: Public Utilities Commission of Sri Lanka (PUCSL).

[3] PUCSL, 2009, *The Electricity Act of 2009 and the Development of the Sector*.

[4] Siyambalapitiya, Tilak, 2011, "The New Electricity Pricing Policy in Sri Lanka", Prof. R. H. Paul Memorial Lecture, Institute of Engineers, Colombo, 10 February 2011.

[5] *Ibid.*

has reported steady losses since 1999,[6] and the utility has been making increasingly negative returns (Table 17.1). The reasons for the poor performance are two-fold, namely, the dependence on oil-powered thermal generation to meet the electricity demand and sustenance of end user tariffs below the cost.

The major share in the cost of sales to end users consists of generation cost which is around 80 per cent of the total. Of this, generation fuel alone was estimated to make up 62.4 per cent of the total in 2010. Given the energy mix of the country, the electricity sector is largely dependent on oil-fired thermal generation. As Table 17.2 indicates, 59.8 per cent of electricity generation in 2007 was oil-fired. This was estimated to increase to 63.3 per cent by 2010. Except for a slight drop in 2009, the global price of crude oil increased steadily, driving up generation costs in the electricity sector. Therefore, the long term generation expansion plan of CEB is aiming at gradually decreasing the dependence on oil-fired thermal generation. By 2020, the industry will be dominated by coal-fired thermal generation, which is a cheaper alternative.

End user tariffs in Sri Lanka have consistently been set below the cost of sales, and have been insufficient to fulfill the revenue requirement of the CEB. For example, the average earnings of the CEB in 2005 were 7.71 rupees per kilowatt (Rs/kW), whereas the average revenue required to satisfy the cash flow requirements was 9.62 Rs/kW.[7] Government efforts to mitigate the financial loss of the sector such as direct settlement of CEB dues to Ceylon Petroleum Corporation (CPC), moratorium on capital and interest

Table 17.1
Recent Financial Performance of CEB

	2006	2007	2008
Net profit before tax (Rs. mn.)	-11,125	-19,811	-33,870
Return on average net fixed assets (%)	-0.56	-2.29	-5.85

Source: Siyambalapitiya, Tilak, 2011, "The New Electricity Pricing Policy in Sri Lanka", *Sri Lanka Energy Managers Association*, Vol. 14, No. 1.

Table 17.2
Planned Generation Mix of the Sri Lanka Grid (Base Case)

Primary source	Share of Total Gross Energy in the Grid (%)			
	2007	2010	2015	2020
Hydro	40.2	36.7	28.2	19.5
Oil-fired thermal	59.8	63.3	5.7	9.6
Coal-fired thermal	0.0	0.0	66.1	70.9
Biomass, solar	Not included in the long term plan			
Wind	Not included in the long term plan			
Total	100.0	100.0	100.0	100.0

Source: PUCSL, The Electricity Act of 2009 and the Development of the Sector.

[6] PUCSL, 2009, *The Electricity Act of 2009 and the Development of the Sector*.

[7] *Ibid.*

due from CEB on long term debts and removal of value added tax (VAT) on fuel oil have failed to guarantee the financial success of the CEB.[8] Therefore, a few key changes were made in the power sector with a view to making the entity profitable.

17.2.2 Recent Developments in the Power Sector

Sri Lanka Electricity Act No. 20 of 2009: The Act aims to address the shortcomings of the power sector by introducing well targeted measures. The main features of the Act are to:

- Place the electricity sector under the regulatory purview of the Public Utilities Commission of Sri Lanka (PUCSL)
- Introduce a new mechanism for setting the tariff structure, and
- Assign the authority to form general policy guidelines to the Ministry of Power and Energy.

Although the PUCSL came into operation in 2003, it was not fully functional owing to the failure to pass the Electricity Reform Act of 2002.[9] This was addressed by the new Electricity Act as the PUCSL was appointed to administer the provisions of the Act. One of the main functions of the PUCSL within this capacity, is advising the government on all matters concerning the generation, transmission, distribution and supply of electricity. The second key function, is regulating tariffs and other charges levied by licensees and other electrical undertakings in order to ensure that the most economical and efficient service possible is provided to consumers. The third, is consulting any person or group of persons who may be affected, or are likely to be affected, by the decisions of the PUCSL. Thus, the Act ensures that the PUCSL safeguards the interests of all parties involved in the power sector.

The Act allows licensees to set electricity tariffs in a cost reflective methodology approved by the PUCSL. Within this capacity, the licensees may recover all reasonable costs in the carrying out of the activities authorized by the licensee in an efficient manner either through tariffs or by direct subsidies from the government. This aims to alleviate one of the main hindrances to the financial sustainability of the power sector - i.e., of electricity tariffs being set below cost. However, it is essential for the tariffs to fall within the policy guidelines set by the government and the PUCSL retains the right to revise the tariffs periodically.

The Ministry of Power and Energy is expected to form policy guidelines taking into consideration factors such as the requirements of electricity based on socio-economic characteristics, fuel diversity, and electricity pricing policy to ensure sustainable economic growth and any other measures being taken by the government with regard to the sector. Although this characteristic limits the authority of the PUCSL as an independent regulator, the implication of this provision is that the government is able to accurately reflect the views and needs of the stakeholders in making policy decisions. The policy guidelines, as outlined in the 'National Energy Policy and Strategies of Sri Lanka',[10] aims to ensure that access and affordability

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[8] The Ministry of Power and Energy recently claimed that the CEB has made a profit of Rs. 5.06 billion. However, critics have pointed out that this has been achieved through a large government subsidy and underpriced fuel provided to CEB (see *The Island,* "Energy Policy Review: Need to Remain Focused in Fundamentals", May 31, 2011).

[9] The Act was introduced in order to facilitate the restructuring process of the power sector. This included unbundling of CEB to form a single buyer and five companies for distribution, as well as appointing an independent regulator to regulate these independent businesses. However, owing to political pressure and opposition from the CEB staff, the sector failed to secure the Ministerial Order required to make the Act fully operational.

[10] http://power.lk/about-us/energy-policy.

of electricity by consumers is addressed. Priority to improve access to rural areas, and a pricing policy that encompasses affordability by households and viability of commercial and industrial categories, are important elements in the policy documents.

***The road map for tariff re-balancing*:** The road map as set out by the PUCSL aims to restore financial viability to the power sector by 2015,[11] with key characteristics of the exercise being:

- Debt moratorium to be granted on all long term debts till 31 December 2009.

Box 17.1
The Roadmap for Tariff Rebalancing

Year	Households	Religious	Other retail (industry, general, hotel)	Industry (bulk)	Hotel (bulk)	General (bulk)
2011	No major changes	No changes	Reduce the gap between the three classes	TOU mandatory	All hotel customers unified into one category	No changes
2012	Reduce blocks from 6 to 4. For 0-30 kWh customers, Govt fully implements a direct subsidy, as provided in the National Energy Policy and the Govt's 10-year plan	No changes	Further reduce the price gap between the three classes of customer	All three classes of bulk customers to be unified and Time of Use (TOU) tariffs to be mandatory Introduce a charge for reactive power		
2013	Reduce blocks from 4 to 3	No changes	No difference between the customer classes, except in terms of voltage at which service is provided. For the purpose of retaining a database, customer classification will be retained in the accounting system. TOU tariffs will be mandatory for all retail and bulk customers in industry, hotel and general purpose categories Any subsidies will be addressed outside the licensee tariffs.			
2014	Retain 3 blocks Optional TOU tariff for all 3-phase customers	No changes No changes	No further changes			
	Tariffs yield adequate revenue to breakeven, meet all commitments including debt service, but excluding a return on assets to GOSL					
2015	Abolish block tariffs. Optional TOU tariffs to all customers	No changes	No further changes			
	Tariffs to all customers are targeted to be fully cost reflective. GOSL earns a return on assets on the sector					

Source: PUCSL, 2010, *Consultation Paper on Setting Tariffs for the Period 2011 – 2015*.

[11] PUCSL, 2010, *Consultation Paper on Setting Tariffs for the period 2011 – 2015*.

- Licensees held strictly responsible for matters under their control and to be transparently compensated for parameters beyond their control. For example, short term losses owing to weather conditions, etc., will be passed on to consumers, and any subsidies provided will be duly compensated by the government. Similarly, benefits arising from weather conditions, etc., will be passed through to consumers as reduced tariffs.
- Gradual reduction of the number of tariff blocks to three and apply Time of Use (TOU) tariffs to all consumers.

The first tariff revision as per the proposed rebalancing exercise was implemented for the period January-June 2011, which carried modifications such as reducing consumer categories from 27 to 20, unifying medium and large hotels into one category, mandating TOU tariffs for all medium and large industries as well as medium and large hotels, and distributing the cost of street lighting among all consumers. These alterations in the tariff structure have considerable impacts on affordability and competitiveness of industries, which will be discussed in the next section.

17.3 Electricity Sector and Inclusive Growth

17.3.1 Household Sector

When considering the accessibility of electricity, the overall level of electrification in Sri Lanka increased to 90 per cent by the end of 2010 compared to 86 per cent in 2009. It is targeted to reach 100 per cent by 2012.[12] As seen in Table 17.3, there is a remarkable improvement in the level of electrification, especially in the estate and rural sectors.

However, substantial disparities in the level of electrification at the district level can be seen. While developed areas such as Colombo and Gampaha have electrification levels close to 100 per cent, areas such as Monaragala, Kilinochchi and Mullaitivu have very low levels of electrification (Figure 17.2). As pointed out previously, lack of accessibility to economic infrastructure can constrain these areas from making use of gainful economic opportunities and contributing effectively to the growth process.

With a view to addressing inequitable access to electricity, the government has launched numerous rural electrification schemes (Table 17.4). Some of these are funded by the Treasury while others are implemented with funding received from lending agencies as well as bilateral government assistance.

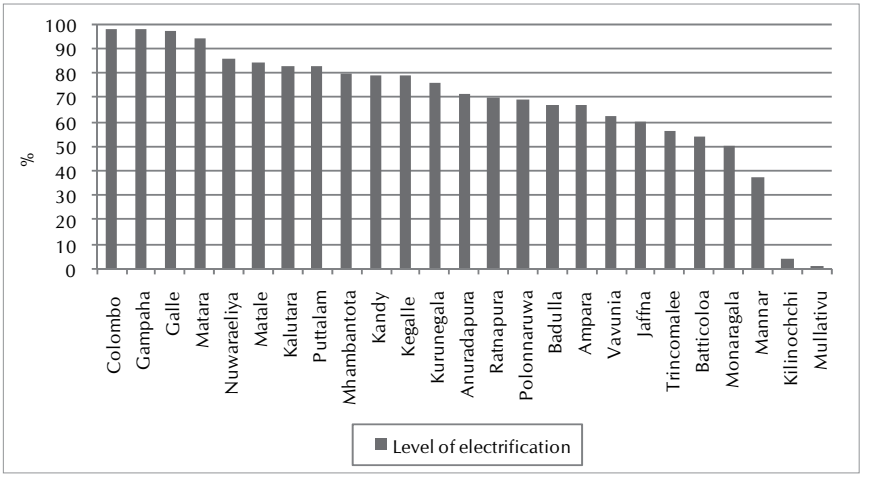
Table 17.3
Level of Electrification by Sector

	2006/07	2009/10
Urban	94.9	96.5
Rural	78.5	83.2
Estate	62.3	84.0

Source: DCS, HIES, 2006/07 and 2009/10.

[12] CBSL, *Annual Report 2010.*

Figure 17.2
Level of Electrification by District – 2009



Source: http://power.lk/electricity-distribution.

Table 17.4
Rural Electrification Schemes

Electrification Scheme	Description
Power Sector Development Project (RE6)	Targeted to benefit 141,000 consumers.
Conflict Affected Areas Rehabilitation Project (CAARP)	Benefiting 12,000 households in the N&E with extension to additional 9,000 households.
RE4	Benefiting 34,300 rural consumers.
RE8	Targeted to electrify remote areas as well as gap areas in between electrified areas, and aimed to benefit 180,000 households.
Wadakkin Wasantham	Aimed to supply electricity to the whole of Northern Province.
Lighting Sri Lanka - Hambantota District	Benefit 68,000 consumers in the underdeveloped regions of the Hambantota district.
Lighting Sri Lanka - Kalutara District	Target of 2,412 beneficiaries.
Lighting Sri Lanka - North Central Province	Initial beneficiary pool of 10,500 and extension with a view to achieving 100 per cent electrification in the North Western Province.
Lighting Sri Lanka - Eastern Province (Trincomalee and Batticaloa Districts)	Provide electricity to 30,000 new consumers in these districts.
Lighting Sri Lanka - Uva Province	Expected to provide electricity to 800 villages – 80,000 households and small, medium and large scale industries.
Sustainable Power Sector Support Project II	Provide electrification to 12,245 rural households in the Eastern Province.
Pubudamu Wellassa	Implemented in the areas of Kataragama, Sevanagala and Thanamalvila to benefit 637 households.
Rural Household Connection (Part 8)	Aims to connect 60,000 rural households to the national grid.
SIDA Extension	Aims to achieve 100 per cent electrification in the North Central Province.

Source: http://power.lk/re-projects.

Table 17.5
Affordability of Electricity

	Percentage of Households
Difficulty in paying the electricity bill	15.39
Fail to pay the electricity bill on a monthly basis	14.06
Taken steps to reduce the bill	43.06

Source: Social Policy Analysis and Research Centre, 2010, "A Study on Requirements of Prospective Electricity Consumers and Fuel Poverty (Electricity) and Affordability", PUCSL.

However, affordability of electricity remains an issue for the household sector (Table 17.5). Estimates suggest that nearly 15 per cent of households find it difficult to pay their bills on a monthly basis, while another 14 per cent do not make payments on a monthly basis. Around 43 per cent of households have found it necessary to adopt ways of reducing their electricity bills. Further, a high level of disparity is found to exist between consumer groups. The lowest 10 per cent of households consume only 2 per cent, while the top 10 per cent consumes 27 per cent of total electricity consumption. Low end users are argued to find it difficult to afford electricity due to pricing policy.

A possible alternative would be to identify low income groups and administer targeted subsidies. Although not implemented as yet, the energy policy document proposes to subsidize the electricity consumption of Samurdhi beneficiaries by financing 50 per cent of the cost of supply up to 30 kWhs. This is to be funded by the Treasury by providing coupons worth the value of the subsidy. However, poor targeting of Samurdhi recipients is an issue in Sri Lanka. More often than not, the appointment of Samurdhi officers and subsequently the selection of beneficiaries, are carried out under political patronage rather than income criteria.[13] This leads to a misallocation of resources. Perhaps, an alternative would be to credit the subsidy directly to consumer accounts held with the distributor, as practised in Hong Kong,[14] for consumers identified by the distributor based on income criteria.

Another alternative adopted by consumers and much advocated by the government, is demand management strategies such as reducing the use of electricity at peak demand periods. However, despite the fact that electricity is meant to be used primarily for lighting, a number of appliances - such as televisions, irons, radios, etc., - constitute basic needs for decent living standards. These account for the major share of electricity demand by households, with a majority of households estimated to own a number of these high energy consumption equipment (Table 17.6). Although the degree of necessity for these is arguable, many view them as basic needs given the positive impact they have on living standards.

It is also noteworthy that a key feature of the road map is passing on any increased costs or benefits to consumers. Therefore, in principle, the profit of Rs. 5.06 billion made by the CEB in 2010 should ease costs for consumers in the next tariff period of July-December 2011.

[13] http://ipslk.blogspot.com/2010/07/better-targeting-of-transfers-samurdhi.html#more.

[14] https://www.clponline.com.hk/Documents/Govt_Subsidy_update_clponline_pdf_file_English_v2.pdf.

Table 17.6
Ownership of Electric Equipment

Equipment	Percentage of Ownership
Television	89.4
Electric iron	75.1
Hand phone	62.7
Radio	50.1
Refrigerator	46.8
Cassette	44.2
Fan	41.8

Source: Social Policy Analysis and Research Centre, 2010, "A Study on Requirements of Prospective Electricity Consumers and Fuel Poverty (Electricity) and Affordability", PUCSL.

17.3.2 Commercial (Hotel) and Industrial Sectors

Over 40 per cent of urban manufacturing firms and 25 per cent of rural enterprises in Sri Lanka are estimated to find electricity to be a major bottleneck for industrial growth.[15] In 2004, less than 70 per cent of rural enterprises received electricity from the national grid. Although this may have improved due to various electrification schemes, reliability of electricity supply continues to hamper the industrial sector. Nearly 75 per cent of urban manufacturing firms own generators to cope with power outages, which accounts to 12 per cent of their fixed assets on average.[16]

Maintaining competitiveness is crucial for the growth of commercial and industrial sectors, where electricity tariffs impinge on production costs. However, these sectors have been neglected within the tariff structure. At best, the low end commercial and industrial sub-sectors have received marginal subsidies. On the other hand, these two categories are surcharged in order to cross subsidize other categories (Table 17.7). Subsidies granted to 'Industrial 1', 'Industrial 2' and 'Hotels 2' categories are comparable to that of the 'religious' category, which is smaller in terms of the amount of sales and has no commercial viability. On the other hand, the rest of the categories in commercial and industrial categories are heavily surcharged.

Implementation of TOU tariffs from January 2011 has further driven up the costs of commercial and industrial categories. Tariff increments in the commercial category affect key sectors such as tourism, where it is estimated that top city hotels will incur additional costs of Rs. 120 million due to electricity tariff increases in 2011.[17] Similarly, electricity intensive industries such as textile, cement, ceramic, metal and aluminum, ship building and food and beverages are also affected by this measure. Industry sources expect a cost increase of 4 to 8 per cent on average, which adversely affects the competitiveness, especially of export-oriented manufacturers. In the ceramic manufacturing industry for example, the electricity component alone accounts for about 50 per cent of total costs. A statement by the Sri Lanka Ceramics Council (SLACC)

[15] http://www.enterprisesurveys.org/documents/enterprisesurveys/ICA/SriLankaICA.pdf.

[16] *Ibid.*

[17] http://www.porcelaintablewares.com/news/news32.html.

Table 17.7
Total Subsidy or Surcharge on Consumers

Customer Category in the 2010 Tariff Schedule	Total Sales Forecast in 2011 (GWh)	Total Cost (Rs. mn.)	Total Revenue (Rs. mn.)	Total Subsidy or Surcharge on Customers (Rs. mn.)
Households				
0-30	233	5,518	1,113	-4,405
31-60	756	15,928	3,695	-12,233
61-90	1,018	20,093	5,974	-14,119
91-180	1,254	22,225	14,973	-7,252
181-600	492	8,346	9,957	1,611
>600	100	1,479	3,561	2,082
Sub Total	3,853	73,590	39,273	-34,317
Other LV				
Religious	57	1,004	513	-491
General purpose 1	1,149	15,809	23,943	8,134
Industrial 1	238	3,171	2,611	-561
Hotel 1	1	19	20	1
Street lighting	148	2,292	3,668	1,376
Sub total	1,594	22,295	30,754	8,460
LV BULK				-
General purpose 2	875	9,751	18,555	8,803
Industrial 2	1,561	19,899	19,444	-455
Industrial 2 TOU	174	2,159	2,343	184
Hotels 2 TOU	2	26	30	4
Hotels 2 (GP)	73	824	1,169	345
Hotels 2 (IP)	54	656	625	-31
Sub total	2,739	33,315	42,165	8,850
Medium voltage				-
General purpose 3	223	2,263	4,378	2,115
Industrial 3	1,035	10,965	11,661	697
Industrial 3 TOU	143	1,376	1,721	345
Hotels 3	8	77	83	6
Hotel 3 TOU	71	629	725	95
Sub total	1,480	15,310	18,569	3,259
Total	9,666	144,510	130,761	-13,749

Source: PUCSL, 2010, *Consultation Paper on Setting Tariffs for the period 2011-2015*.

indicates that they expect the cost of electricity of their member companies to increase by 20 to 42 per cent.[18]

Consequently, global competitiveness of Sri Lanka's export manufacturing industries will be affected. Competing economies such as India, Thailand, and Vietnam not only have lower electricity tariff rates than Sri Lanka, but also provide subsidies to their industrial sector. This may have significant repercussions on the external sector as export

[18] *Ibid.*

margins become thinner, which will trickle down to other sectors of the economy by reducing employment. One such example, is the decision by Lanka Walltile PLC to shut down its Balangoda plant and retrench 800 odd employees owing to high energy costs.[19] A suggested alternative by the Ministry of Power and Energy was shifting production from peak to off-peak hours. However, this is not practical in industries which have several shifts, work twenty four hours a day, seven days a week, and employ a large number of female staff. Another option is to install energy efficient plant and machinery which is a costly alternative involving considerable capital investment.

17.4 Conclusion and Way Forward

It is evident that electricity supply is a significant determinant of growth. To ensure that such growth outcomes are inclusive, factors such as accessibility, reliability of supply and affordability are important. Although accessibility to electricity has seen a remarkable improvement in the recent past, this was mainly achieved through rural electrification projects, most of which are not connected to the national grid as yet. Similarly, apart from urban centres, few areas enjoy electricity supply without power outages. Therefore, steps need to be taken to connect the rural electrification schemes to the national grid and minimize power outages in order to provide a constant supply of electricity.

Affordability of electricity remains a problem for households, commercial and industrial consumers. In the case of households, the best policy alternative would be to apply targeted subsidies to low income consumers such as Samurdhi beneficiaries. Ensuring affordability for commercial and industrial categories is equally important, as they are major contributors to national output. A possible measure which could be adopted is shifting the production process to off-peak hours in order to reduce the cost of electricity. However, this cannot be universally adopted given the practical constraints such as working several shifts a day or where significant numbers of female employees are present. Transforming the production process to energy saving plant and machinery is another option, albeit a costly one. Removal of import duties and taxes on energy saving equipment can help mitigate the high cost of installing such equipment.

It should be noted that these concerns are to be addressed amidst the attempts by the Ministry of Power and Energy to restore financial viability to the power sector, which may drive up electricity tariffs further. Therefore, the challenge remains for the government to strike a balance between affordability of electricity and the financial success of the power sector.

[19] *Ibid.*

18. Prospects

The outlook for a sustained global economic recovery received a significant blow in mid-2011 with a deepening of the debt crisis in the Euro Zone economies, and political intransigence in resolving a deal to raise the US debt ceiling and avert a debt default. The uncertainty rattled financial markets across the world, signalling loss of investor confidence in economic leadership worldwide.

In the Euro Zone, a string of sovereign debt crises in Greece, Portugal and Ireland began to spread to the larger EU economies of Spain and Italy - and more recently France - threatening to unravel the single currency at the heart of the European integration process. As borrowing costs for the already weakened economies rose in the face of half-hearted measures to stabilize the Euro Zone, the European Central Bank (ECB) moved in to support Spain and Italy by expanding its bond-buying programme on the understanding that they continued to cut fiscal deficits. Despite this immediate relief, pessimism about European economic prospects is deeply rooted. Second quarter 2011 growth figures for the Euro Zone rose by a mere 0.2 per cent, the slowest quarterly economic growth since mid-2009. Any attempt to come to grips with the potential escalation of the sovereign debt crisis will require a commitment from more fiscally prudent EU member states such as Germany to raise the current •440 billion European Financial Stability Facility (EFSF) rescue fund and/or for the Euro Zone to issue bonds backed by all member nations. Whilst such a move will no doubt calm markets, it will be a difficult sell for many of the stronger Euro Zone economies given the significant economic and political costs representing such a bailout. The shakier Euro Zone economies will be called on to undertake deep structural reforms carrying painful austerity measures, as governments attempt to persuade their creditors that they can meet their debt obligations. Austerity measures are likely to hurt growth, but there appears to be little choice for the debt-ridden governments.

> ***"An important lesson from the debt crises in the Euro Zone economies is that dependence on private capital to finance public expenditure can create stresses and strains on an economy when they are least expected"***

The problems for the US economy are as complex. Political brinkmanship on a deal to raise the US debt ceiling - agreed on almost at the last moment on 31 July 2011 - was purportedly a key factor in the decision by Standard & Poor's to strip the country of its AAA credit rating on August 5, 2011. The final debt deal that focused more on spending cuts than tax increases to tackle fiscal problems was lopsided, and unlikely to help a faltering economic recovery. Nonetheless, unlike the Euro Zone - which lacks true political integration - the US has favourable factors working for it, including a greater likelihood of tackling fiscal problems if political leadership is able to rise above partisan politics. The reasoning behind the US dollar 'exceptionalism' - the global reserve currency of choice - also suggests that the downgrading will have a limited impact, especially given that the euro is hardly likely to be viewed as a viable alternative to the dollar anytime soon. However, with an unemployment rate of over 9 per cent, an annualized GDP growth rate of a mere 0.8 per cent in the first half of 2011, and consumer spending at its weakest in two years, the US economic downturn is clearly more severe than was previously understood. Indeed, the economic woes of the US and EU have been described as a second 'Great Contraction' of growth (the first being the period after the Great Depression) as opposed to a typical recession or even a double-dip Great Recession.[1] The symptoms - slow growth over many years - are argued to be the result of deep financial crises that require bailouts by states, which are then left with few resources and tools to cope with stagnant growth and high unemployment.

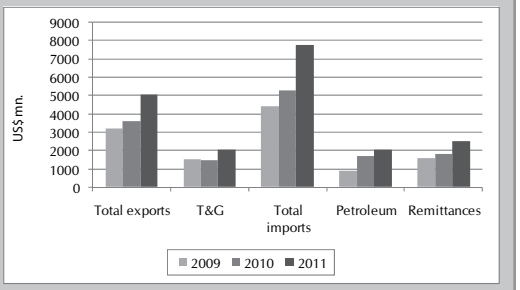
Even as the developed world is being plagued by record levels of debt and weak growth as economies struggle to recover, a slow but steady re-balancing of the global economy is taking shape, moving the centre of global economic gravity from the West to the East. Emerging economies of Asia - particularly China and India - have already begun to play a more prominent role in global economic governance reforms through membership of key forums such as the G20. However, the region is unlikely to escape unscathed from the recent developments. While demand for exports may shrink, the direct impact on growth will be less severe as the larger Asian economies rely ever more on stimulating domestic demand to keep growth buoyant. Alternatively, their growth prospects are more likely to be impacted by the possibility of investors fleeing to safer havens. The Asian region may experience a renewed inflow of foreign capital, raising the risks of overheating even further, and requiring a tighter monetary policy response that will take a toll on growth. While economic growth in Asian emerging markets, particularly in China and India, is already forecast to slow relative to historical trends over the last decade, the region will still be the driving force behind any global economic recovery process.

For Sri Lanka, renewed concerns about the global economic outlook will have mixed bearings. The most obvious concern will be in regard to the medium term prospects for the country's major export industries that are heavily reliant on US and EU markets. In the first half of 2011, export growth remained strong, albeit on the back of a steady improvement from the poor performance experienced in 2009. While the immediate impact on key exports such as garments may be limited, if consumer demand in the US and EU continues to weaken further, it will clearly have an impact on order books in the months to come. On the import side, expenditures have outpaced export earnings, with Sri Lanka's trade deficit expanding by 62.7 per cent in the first six months of 2011.

[1] http://www.project-syndicate.org/commentary/rogoff83/English.

Box 18.1
External Sector Performance (January-June)

% growth	2009	2010	2011
Exports	-18.0	13.7	35.2
T&G	-4.1	-2.5	34.7
Imports	-36.7	42.1	46.5
Petroleum	-56.6	97.3	27.7
Trade balance	-59.9	108.6	-62.7
Remittances	5.4	13.5	26.4



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

A slowdown in export earnings could be offset if international oil prices were to ease as global growth falters. However, a general downward movement in commodity prices could be double-edged, if there is a knock-on impact on some of Sri Lanka's key non-industrial exports such as tea and rubber.

Even as the trade deficit swells, Sri Lanka has continued to see a strong surge in worker remittances, with inflows growing by 26.4 per cent in the first half of 2011. Additionally, earnings from tourism remain healthy, estimated to have grown by over 50 per cent to US$ 370 million over the same period,[2] with an increase in tourist arrivals of 37 per cent. However, such inflows are not sufficient to bridge the trade balance, as a result of which Sri Lanka is likely to see an expanded deficit in its current account of the BOP in 2011.

Overall, however, the outlook for the country's external payments position remains positive in view of inflows on the capital account transactions. The CBSL reported official reserves of US$ 7.5 billion by end June 2011 - sufficient for 5.4 months of imports, country's official reserves jumped to US$ 8.1 billion by end July 2011, adequate for 5.8 months of imports. On the face of it, therefore, the country appears favourably positioned to withstand an immediate external shock to the economy. However, as Sri Lanka's trade balance widened, non-borrowed reserves have declined steadily in recent months amidst efforts to hold the exchange rate within a pre-determined band.

Despite a faltering global economy, with a GDP growth rate of 8 per cent recorded during the first half of 2011, Sri Lanka's growth forecast for the year of around 7-8 per cent is also likely to remain unchallenged. Much of the country's recent growth momentum is derived from domestic stimulus as the government's public investment programme is implemented. However, this is not to suggest that Sri Lanka should be complacent and overlook more medium term risks to economic performance and macroeconomic stability. The risk is all the more should the debt crises in the developed countries lead to a protracted and slower global economic recovery process.

As already noted, Sri Lanka's export earnings could be adversely affected. Apart from this, there are also other adverse spillover effects that could materialize. These relate in the

[2] CBSL, *External Sector Performance – June 2011*, www.cbsl.gov.lk.

main to the possible impact on global financial flows. Short term capital inflows to Sri Lanka's sovereign debt market are necessarily curtailed by regulatory restrictions capping the holdings of foreign investors. The risk for a small economy such as Sri Lanka, making a slow but steady post-conflict economic recovery, is investor perception with regard to the outlook for medium term economic stability. Should the current global economic uncertainties make investors highly risk-averse, smaller emerging economies such as Sri Lanka could see a slowdown - or even a reversal - of capital flows. Such a development could also come about, as previously experienced in 2008, if foreign investors face a liquidity crunch. The underlying pressures on global flows of FDI are likely to be similarly driven. In the first half of 2011, Sri Lanka is estimated to have attracted gross FDI inflows of US$ 413 million as part of the government's target of raising US$ 1 billion by end 2011.[3] The anticipated upsurge in FDI inflows to Sri Lanka in 2011 is tied largely to the leisure and real estate sectors. Attracting FDI inflows more strategically into manufacturing and skilled services sectors can be expected to become more difficult if global economic conditions deteriorate to a significant extent.

FDI, however, accounts for only a fraction of Sri Lanka's Gross Domestic Capital Formation (GDCF). Net FDI amounted to only 3 per cent of GDCF in 2010. Sri Lanka's current investment drive, driven by an expanded public investment programme, is largely dependent on a mix of private capital and multilateral/bilateral development finance. In July 2011, Sri Lanka issued its fourth US dollar benchmark offering in global bond markets, raising US$ 1 billion. In addition, Sri Lanka has also been raising larger volumes of development finance through loans in recent years. Access to such finance is unlikely to be affected by the global debt upheavals. For Sri Lanka, Asian economies such as China and India - with significant foreign exchange reserves - have emerged as the main source of bilateral development finance. Indeed, these two countries accounted for over 40 per cent of total foreign financing commitments made to Sri Lanka in 2010.

While Sri Lanka may not see its access to sources of foreign savings drying up, there

Table 18.1
Sources of Foreign Financing (US$ million)

	2008[a]		2009[a]		2010[b]	
	Loans	Grants	Loans	Grants	Loans	Grants
Bilateral	397.4	79.9	870.7	99.4	2402.5	104.6
China	46.3	0.8	295.4	2.4	821.4	7.5
India	0.5		30.2	17.2	483.8	
Japan	263.3	15.4	295.8	15.6	396.6	42.3
Multilateral	380.1	213.7	427.0	224.5	762.3	19.0
ADB	248.2	41.7	243.4	40.5	366.7	5.5
World Bank	96.0	49.6	147.6	54.5	347.4	
Total	932.0	293.6	1297.9	323.9	3136.9	123.6

Note: a: Disbursed; b: Committed.
Source: Department of External Resources, *Performance Report*, various issues.

[3] CBSL, "Monetary Policy Review – August 2011", http://www.cbsl.gov.lk.

Table 18.2
Fiscal Trends (January-April)

As % of GDP	2010	2011
Revenue	4.3	4.4
Recurrent expenditure	5.8	5.6
Public investment	1.6	1.6
Overall budget deficit	3.0	2.7

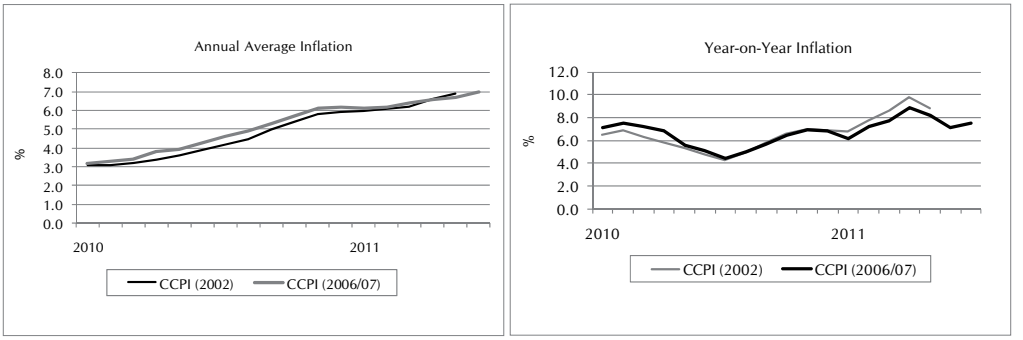
Source: Ministry of Finance and Planning, *Mid-Year Fiscal Position Report*, June 2011.

could be other risks. For one thing, rating agencies are likely to adopt a tougher stance in the aftermath of the US downgrading which means that room for policy slippage narrows. A downgrade in ratings can be costly for a country that relies on private capital for public investment, as Sri Lanka has done in recent years.

The medium term outlook with regard to macroeconomic stability is, therefore, critical. The positive inroads Sri Lanka had made in fiscal restructuring have continued into 2011 and the government appears to be well on target to achieve a reduced fiscal deficit of under 7 per cent in 2011, helped by improved revenue generation. The deficit for the first half of 2011 was estimated at 3.4 per cent, compared to 3.8 per cent in the same period a year ago. A stronger fiscal performance will help in maintaining price stability, in spite of rising inflationary pressures in more recent months.

In June 2011, the CCPI (with 2002 as the base year) was revised by the DCS to take the two year average (2006/07) as a base period, computed on the basis of the Household Income and Expenditure Survey 2006/07. The most significant change was a drop in the weight assigned to food items from 46.7 to 41.0 per cent in the new index. While the revision was justified on the basis of more recent data, the lower weight assigned to food items in the midst of rising food prices, saw the new CCPI recording a lower rate of inflation as compared to the previous index (Figure 18.2). Nonetheless, with annual inflation touching 7 per cent by end June 2011, ensuring that the country continues to enjoy a low inflationary environment will be a priority for the government.

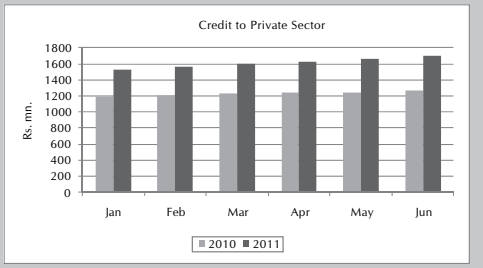
Figure 18.1
Inflation Trends



Source: CBSL, *Colombo Consumer Price Index*, www.cbsl.gov.lk.

Box 18.2
Select Monetary and Financial Indicators (January-June)

% change	2009	2010	2011
Reserve money	-2.2	6.4	10.2
Broad money (M_{2b})	8.1	4.2	8.6
Credit to private sector	-5.8	6.5	14.0
Rate of Inflation	12.5	3.9	7.0



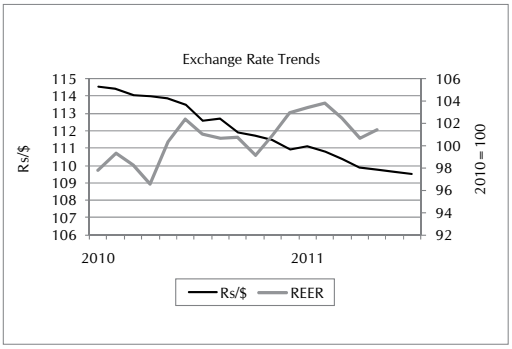
Source: CBSL, *Monthly Economic Indicators*, various issues.

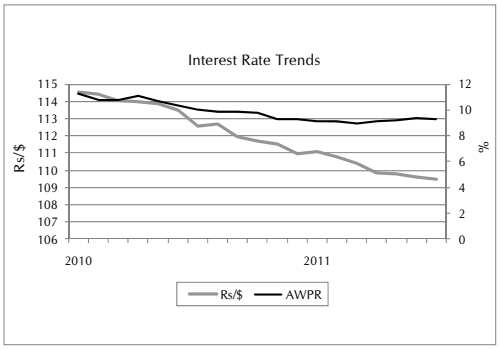
The acceleration of credit growth to the private sector in the second half of 2010 has continued into 2011. The onus for the CBSL will now be to try and cool down credit growth to prevent the economy from overheating. It did so in April 2011 with an increase in the SRR of commercial banks, while also using moral suasion on commercial banks to ease on credit allocation, as opposed to raising policy interest rates that could have an impact on the country's growth prospects. For the moment, such a policy stance may suffice. Nonetheless, it is critical that as Sri Lanka aims to achieve rapid development progress in the coming years, the country does not lose sight of striking the appropriate balance between growth and stability.

A stable macroeconomic outlook will have a strong bearing on investor confidence in the Sri Lankan economy, particularly in the context of disarray in the outlook for the more advanced economies globally.

Sri Lanka's monetary policy stance in the coming months will also have an impact on another fundamental indicator of macroeconomic stability - i.e., the exchange rate. Sri Lanka has being experiencing a steady nominal appreciation of the rupee against the US dollar since the beginning of 2010 (Figure 18.3). Despite carrying a current account deficit - which suggests that the rupee should ideally be depreciating - strong net capital inflows have put upward pressure on the ex-

Figure 18.2
Exchange Rate and Interest Rate Trends





Note: REER = Real Effective Exchange Rate; AWPR = Average Weighted Prime Lending Rate.
Source: CBSL, *Monthly Economic Indicators*.

change rate. The CBSL has intervened in the foreign exchange market to ensure that the rupee stays within a pre-determined band.

The policy stance has been to target the exchange rate by mopping up capital inflows. The consequent build-up of foreign exchange reserves can potentially raise inflationary pressures - i.e., it allows the domestic monetary base to expand without a corresponding increase in production. If inflationary pressures are to be countered, interest rates should be allowed to move up.

Ensuring a stable exchange rate and interest rate policy regime raises a critical policy dilemma for countries that face a surge in foreign capital inflows. If an independent monetary policy - i.e., setting interest rates - takes precedence over an exchange rate target, then the exchange rate has to be allowed to move in line with market developments and vice versa. If global economic growth contracts - dampening aggregate demand in Sri Lanka - there could be an easing of credit growth and any potential build-up of inflationary pressures. If not, the current monetary and exchange rate policy stance will need to be reviewed.

In more recent months, the upward pressure on the currency has reversed as import expenditures have continued to outpace export earnings. Efforts by the CBSL to ensure the stability of the exchange rate have seen a gradual decline in Sri Lanka's non-borrowed reserves. Clearly, a stable exchange rate has a bearing on fiscal outcomes, particularly as dependence on foreign capital borrowing rises. Notwithstanding the above, the underlying market fundamentals driving movements in the rupee raise concerns. There are many difficulties in ascertaining what constitutes an equilibrium real exchange rate - particularly in distinguishing between 'permanent' and 'transient' capital flows. What counts as sustainable levels of net capital flows is the relevant issue in determining the equilibrium rate, and any deviation suggests a misalignment. Such a misalignment can be costly for longer term export growth.

Sri Lanka needs to be extra vigilant to ensure a healthy growth in earnings from exports of goods and services which has a critical bearing in meeting the country's growing foreign debt service obligations. Although, the country appears to be comfortably placed with gross official reserves of US$ 8 billion, these include net foreign inflows into Treasury bills and bonds as well as other forms of commercial borrowing. An important lesson from the debt crises unfolding in the Euro Zone economies offers a reminder that dependence on private capital to finance public expenditure can create stresses and strains on an economy when they are least expected. Thus, maintaining macroeconomic stability is critical. Any perceived weakening can have a significant impact on investor confidence, magnified by the uncertainties currently gripping the global economy.

Appendices

Appendix A: Macroeconomic Indicators (Statistical Base)

Table A1: Socio-Economic Indicators

1. Basic indicator	**Unit**					
Area:	Sq. km.	65,610				
Mid year population (2010)	('000)	20,653				
Population growth rate (2010)	%	1.0				
Life expectancy at birth (2007)	years	74.1				
Infant mortality rate (2007)	per 1000 live births	8.5				
Gross school enrolment ratio (2005)(a)	%	62.7				
Adult literacy rate (2009)	%	91.4				
Human development index (HDI) (2010)	Value	0.658				
Human poverty index (HPI) (2005)	Value	17.8				
		2006	**2007**	**2008**	**2009**	**2010(e)**
2. Output, labour force and employment						
GNP at current market prices	Rs. bn.	2,898.0	3,540.0	4,306.0	4,779.0	5,530.0
GDP at current market prices	Rs. bn.	2,939.0	3,579.0	4,411.0	4,835.0	5,602.0
GDP at current factor cost prices	Rs. bn.	2,938.7	3,578.7	4,410.7	4,835.3	5602.3
GDP per capita at current market prices	US$	1,421.0	1,634.0	2,014.0	2,057.0	2,399.0
Labour force(b)	mn.	7.6	7.5	8.0	8.1 (C)	8.1
Labour force participation (b)	%	51.2	49.8	49.5	48.7 (C)	48.1
Unemployment (b)	%	6.5	6.0	5.4	5.8 (C)	4.9
3. Real output growth						
GDP	%	7.7	6.8	6.0	3.5	8.0
Agriculture, forestry, and fishing	%	6.3	3.4	7.5	3.2	7.0
Mining and quarrying	%	24.2	19.2	12.8	8.2	15.5
Manufacturing	%	5.5	6.4	4.9	3.3	7.3
Construction	%	9.2	9.0	7.8	5.6	9.3
Services	%	7.7	7.1	5.6	3.3	8.0
4. Prices & wages						
CCPI (annual average)	% change	13.7	17.5	22.6	-	-
New CCPI (2002 = 100)	% change	10.0	15.8	22.6	3.4	5.9
WPI (annual average)	% change	11.7	24.4	24.9	-4.2	11.2
Implicit GNP deflator	% change	11.2	14.0	16.3	5.9	7.3
Real wage rates						
Workers in wages boards trades	% change	-7.1	4.1	2.7	1.5	24.5
Government employees	% change	-11.8	5.0	-12.4	5.7	-2.5
5. Consumption, investment, and savings						
Consumption	% of GDP	83.0	82.4	85.9	82.1	81.3
Gross domestic capital formation	% of GDP	28.0	28.0	27.5	24.4	27.8
Gross domestic savings	% of GDP	17.0	17.6	14.1	17.9	18.7
Gross national savings	% of GDP	22.3	23.3	18.2	23.7	24.7
Net imports of goods and services	% of GDP	-11.0	-11.3	-14.7	-7.4	-10.5
6. Government finance						
Revenue	% of GDP	16.3	15.8	14.9	14.5	14.6
Expenditure & net lending	% of GDP	24.3	23.5	22.6	24.9	22.9
Current expenditure	% of GDP	18.6	17.4	16.9	18.2	16.7
Capital expenditure & net lending	% of GDP	5.6	6.1	5.7	6.7	6.1
Current a/c balance	% of GDP	-2.4	-1.6	-2.0	-3.7	-2.1
Budget deficit						
Primary deficit	% of GDP	-1.9	-1.8	-2.2	-3.5	-1.7
Overall deficit (before grants)	% of GDP	-8.0	-6.9	-7.0	-9.9	-7.9
Public debt						
External	% of GDP	38.4	37.1	32.8	36.5	36.1
Domestic	% of GDP	50.3	47.9	48.5	49.8	45.8

Contd..../-

	Unit	2006	2007	2008	2009	2010(e)
7. External trade						
Terms of trade	% change	-3.5	-1.0	-11.8	24.0	-5.3
Import price index	% change	8.0	5.9	20.0	-19.7	17.2
Export price index	% change	4.2	4.8	5.8	-0.4	10.9
Import volume index	% change	7.1	4.1	4.0	-9.8	13.0
Export volume index	% change	4.1	7.3	0.4	-12.3	5.7
8. External finance						
Trade balance	% of GDP	-11.5	-11.3	-14.7	-7.3	-10.5
Current account balance	% of GDP	-5.3	-4.3	-9.5	-0.5	-2.9
Capital & financial account balance	% of GDP	6.7	6.5	4.4	6.2	5.7
Foreign direct investments	% of GDP	1.7	1.7	1.7	1.0	1.0
Foreign portfolio investments	% of GDP	0.2	0.3	0.2	0.0	0.0
Import capacity	months of imports (d)	4.7	5.3	3.1	8.3	7.7
External debt	% of GDP	50.3	51.0	43.7	49.7	50.1
Debt-service ratio	% of exports	12.7	13.1	15.1	19.0	15.2
9. Exchange rates (year end)						
U.S.A.	Rs./US$	107.7	108.7	113.1	114.4	111.0
U.K.	Rs./UK Pound	211.3	217.1	163.3	181.8	171.4
Japan	Rs./Yen	0.9	1.0	1.3	1.2	1.4
European Union	Rs./Euro	141.6	160.3	159.5	163.7	147.6
India	Rs./Rs. Indian	2.40	2.8	2.4	2.5	2.5
SDR	Rs./SDR	162.00	171.60	174.3	178.7	170.8
10. Money supply						
Narrow money supply (M1)	% change	12.6	2.7	4.0	21.4	20.9
Broad money supply (M2)	% change	17.8	15.6	11.7	18.6	15.8
Domestic credit	% change	25.9	16.3	18.0	0.5	18.6
External banking assets	% change	-15.0	33.2	-65.9	417.2	-6.1
11. Interest rates						
Treasury bill yield rates						
3 month	% per annum	12.8	21.3	17.3	7.7	7.2
12 months	% per annum	12.9	19.9	18.6	9.3	7.6
Call money rates	% per annum	14.5	25.0	14.7	9.1	8.0
Average prime lending rate	% per annum	15.2	17.9	18.5	10.9	9.3
Commercial banks saving	% per annum	10.5	16.5	16.5	10.5	9.5
NSB saving	% per annum	5.0	5.0	5.0	5.0	5.0
Commercial banks fixed deposits	% per annum	14.0	20.0	20.25	19.0	17.0
NSB fixed deposits	% per annum	11.0	15.0	15.0	9.5	8.5
12. Share market indicators						
Annual turnover	Rs. bn.	105.1	104.9	110.4	142.5	570.3
Companies listed	No.	237	235	235	231	241
Market capitalisation	Rs. bn.	835.0	821.0	489.0	1092.1	2210.5
Net purchases by non-nationals	Rs. mn.	5,377.0	11,254.0	13,950.5	-789.0	-26,335.0
Share price indices						
CSE Share	(Index, 1985 = 100)	2,722.4	2,541.0	1,503.0	3385.6	6,635.9
CSE Sensitive(f)	(Index, 1985 = 100)	3,711.8	3,291.9	1,631.3	3849.4	7,061.5

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.

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, 1988-2010

	Constant Prices (c)			Growth Rates		
	GDP	PGDP	POP(b)	GDP	PGDP	POP
	Rs. mn.	Rs.mn.	('000)			
1988	475,441.7	28,665.2	16,586	2.7	1.3	1.4
1989	486,140.6	28,926.6	16,806	2.3	0.9	1.3
1990	516,152.7	30,335.2	17,015	6.2	4.9	1.2
1991	539,954.8	31,270.9	17,267	4.6	3.1	1.5
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	35,571.9	17,891	5.6	4.2	1.3
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	39,875.1	18,552	6.3	5.1	1.2
1998	774,796.0	41,225.7	18,794	4.7	3.4	1.3
1999	808,340.0	42,448.1	19,043	4.3	3.0	1.3
2000	857,035.0	44,270.6	19,359	6.0	4.3	1.7
2001	843,794.0	45,045.6	18,732	-1.5	1.8	1.4
2002	877,284.0	46,155.8	19,007	4.0	2.5	1.5
2003(d)	1,733,222.0	90,028.2	19,252	5.9	4.6	1.3
2004	1,827,597.0	93,905.9	19,462	5.4	4.3	1.1
2005	1,947,671.0	99,027.4	19,668	6.2	5.5	1.0
2006	2,090,548.0	105,126.6	19,886	7.7	6.2	1.1
2007	2,232,656.0	111,577.0	20,010	6.8	6.1	0.6
2008	2,365,500.0	117,005.5	20,217	6.0	4.9	1.0
2009	2,449,214.0	119,766.0	20,450	3.5	2.4	1.1
2010(a)	2,645,432.0	128,089.5	20,653	8.0	6.9	1.0

Notes: (a): Provisional.
(b): From 2001 the figures are based on Census of Population and Housing-2001.
(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, 2002-2010

	Unit	2002	2003 (c)	2004	2005	2006	2007	2008	2009	2010 (a)	2000-2010 (b)
1. Structure of output											
Agriculture, forestry, and fishing	% of total output	20.5	13.2	12.5	11.8	11.3	11.9	12.1	12.0	11.9	10.7
Agriculture	% of total output	16.6	14.7	14.3	14.3	13.4	10.8	10.9	10.9	10.7	10.6
Tea	% of agriculture	7.2	10.9	11.6	11.4	10.5	13.6	11.0	12.1	11.5	9.1
Rubber	% of agriculture	1.2	2.6	3.2	3.8	6.1	5.9	5.4	3.6	7.1	3.5
Coconut	% of agriculture	8.4	13.4	11.9	11.3	10.1	11.2	12.5	9.8	9.7	8.9
Paddy	% of agriculture	18.0	14.8	13.7	14.8	13.1	12.3	19.1	19.2	18.3	13.0
Mining and quarrying	% of total output	1.8	1.4	1.4	1.5	1.6	1.6	1.6	2.1	2.3	1.4
Manufacturing	% of total output	15.8	18.6	18.7	19.5	19.2	18.5	18.0	17.4	17.3	14.8
Export processing	% of manufacturing	11.3	4.2	4.0	3.4	3.1	3.3	4.1	4.4	4.5	3.8
Factory industry	% of manufacturing	77.2	89.6	89.8	90.9	91.4	91.5	91.0	90.8	90.8	73.0
Small industry	% of manufacturing	7.6	6.3	6.2	5.7	5.5	5.3	4.9	4.8	4.6	4.6
Construction	% of total output	7.2	6.0	6.1	6.8	7.4	7.4	7.4	7.8	7.6	5.8
Services	% of total output	54.9	58.3	58.8	58.0	58.0	58.4	57.3	59.3	59.3	47.5

	Unit	2002	2003	2004	2005	2006	2007	2008	2009	2010 (a)	2000-2010 (b)
2.Real output growth											
Agriculture, forestry, and fishing	% growth	2.5	-54.9	-5.5	-6.1	-4.3	3.4	7.5	3.2	7.0	-4.3
Agriculture	% growth	1.9	-12.9	-2.8	0.0	-6.7	2.3	7.3	2.8	6.4	-0.2
Tea	% growth	5.1	33.9	6.4	-2.3	-8.7	-1.8	4.2	-8.4	13.1	3.8
Rubber	% growth	5.0	53.2	20.5	15.8	37.7	4.2	10.3	7.9	12.7	15.2
Coconut	% growth	-13.6	37.3	-12.4	-5.2	-12.1	5.1	5.2	5.2	-14.3	-0.4
Paddy	% growth	5.1	-21.9	-7.6	7.4	-13.2	-6.2	22.9	-5.1	17.5	-0.1
Mining and quarrying	% growth	-1.1	-28.5	2.8	1.6	6.8	19.2	12.8	8.2	15.5	3.4
Manufacturing	% growth	2.1	15.0	0.7	4.1	-1.5	6.4	4.9	3.3	7.3	3.8
Export processing	% growth	-0.9	-170.6	-3.4	-19.3	-7.9	2.4	5.3	0.7	5.8	-17.1
Factory industry	% growth	2.5	13.8	0.3	1.2	0.6	6.7	5.0	3.4	7.5	3.7
Small industry	% growth	2.1	-21.3	-1.8	-7.4	-4.8	4.5	5.6	3.3	5.5	-1.3
Construction	% growth	-0.8	-19.2	1.1	10.8	7.2	9.0	7.8	5.6	9.3	2.8
Services	% growth	6.1	5.9	0.8	-1.5	0.1	7.1	5.6	3.3	8.0	3.2
GDP	% growth	4.0	5.9	6.9	7.9	8.9	6.8	6.0	3.5	8.0	5.3

Notes: (a): Provisional.
(b): Average annual growth rate.
(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 A4: Value Added in Industry and Industrial Production, 1998-2010

	1998	1999	2000	2001	2002	2003 (b)	2004	2005	2006	2007	2008	2009	2010 (a)
1. Value added, current prices (Rs. mn.)													
Food, beverages and tobacco	40,452	44,503	49,031	54,282	61,550	136,058	158,229	202,785	241,854	282,843	348,358	397,244	458,151
Textile, wearing apparel and leather products	47,482	55,263	69,451	71,263	77,028	76,511	85,179	103,198	113,956	131,522	147,822	155,409	172,726
Wood and wood products (including furniture)	1,313	1,390	1,554	1,639	1,736	1,085	1,121	1,143	1,245	1,353	1,447	1,585	1,786
Paper and paper products	2,578	2,664	2,808	3,103	3,124	1,669	2,079	2,963	3,998	4,857	5,789	6,631	7,653
Chemicals, petroleum, coal, rubber and plastic products	14,274	13,832	17,771	19,245	22,653	46,133	58,912	72,089	95,346	112,915	135,447	142,935	170,000
Nonmetallic mineral products (except petroleum and coal)	12,463	13,817	14,240	16,010	17,273	11,388	13,432	15,805	17,930	20,352	22,776	24,653	27,865
Basic metal products	710	777	959	1,131	1,306	970	998	1,061	1,292	1,521	1,638	1,659	1,826
Fabricated metal products, machinery and transport equipment	6,779	7,367	7,714	8,731	9,698	28,339	30,217	34,480	38,872	47,947	55,185	62,013	72,990
Manufactured products n.e.s.	3,426	3,799	3,965	4,154	4,695	1,307	1,350	1,446	1,879	2,208	2,508	2,903	3,410
Total	129,477	143,412	167,493	179,559	199,063	303,460	351,517	434,970	516,372	605,544	720,979	795,032	916,407
2. Composition of industrial production (%)													
Food, beverages and tobacco	31.2	31.0	29.3	30.2	30.9	44.8	45.0	46.6	46.8	46.7	48.3	50.0	50.0
Textile, wearing apparel and leather products	36.7	38.5	41.5	39.7	38.7	25.2	24.2	23.7	22.1	21.7	20.5	19.5	18.8
Wood and wood products (including furniture)	1.0	1.0	1.0	0.9	0.9	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Paper and paper products	2.0	2.0	1.7	1.7	1.6	0.5	0.6	0.7	0.8	0.8	0.8	0.8	0.8
Chemicals, petroleum, coal, rubber and plastic products	11.0	9.6	10.6	10.7	11.4	15.2	16.8	16.6	18.5	18.6	18.8	18.0	18.6
Nonmetallic mineral products (except petroleum and coal)	9.6	9.6	8.5	8.9	8.7	3.8	3.8	3.6	3.5	3.4	3.2	3.1	3.0
Basic metal products	0.5	0.5	0.6	0.6	0.7	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.2
Fabricated metal products, machinery and transport equipment	5.2	5.1	4.6	4.9	4.9	9.3	8.6	7.9	7.5	7.9	7.7	7.8	8.0
Manufactured products n.e.s.	2.6	2.6	2.4	2.3	2.4	0.4	0.4	0.3	0.4	0.4	0.3	0.4	0.4
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, 1988-2010

	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)
1988	227.0	41.59	55.95	122.4	24.40	37.33	1,936	4.00	2,477	80.00
1989	207.0	52.16	66.91	110.7	22.63	36.18	2,484	3.36	2,063	80.00
1990	233.0	65.72	91.78	113.1	22.93	35.50	2,532	3.63	2,538	110.00
1991	241.0	57.13	84.12	103.9	23.59	34.55	2,184	4.82	2,389	136.00
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	258.4	103.88	139.56	112.5	67.85	79.78	2,561	9.42	2,061	155.00
1997	276.9	119.40	158.40	105.8	56.70	75.40	2,631	9.60	2,239	155.00
1998	280.1	134.30	184.90	95.7	49.70	67.70	2,552	8.30	2,692	155.00
1999	283.7	115.30	162.40	96.6	45.30	54.00	2,828	9.90	2,857	155.00
2000	305.8	135.50	184.40	87.6	55.00	66.90	3,096	7.40	2,860	155.00
2001	295.1	143.90	208.90	86.2	55.00	66.40	2,796	7.10	2,695	-
2002	310.0	149.30	216.30	90.5	68.80	69.50	2,392	12.10	2,859	-
2003	303.2	149.05	221.01	92.0	102.50	105.25	2,562	9.98	3,071	-
2004	309.5	180.74	248.92	94.7	127.20	128.51	2,591	11.00	2,628	-
2005(d)	317.2	185.84	263.31	104.4	147.41	147.73	2,515	13.00	3,246	-
2006	310.8	198.87	279.97	109.2	202.50	189.90	2,785	24.30	3,342	-
2007	305.2	279.10	364.28	117.6	234.22	234.50	2,869	16.87	3,131	-
2008	318.7	301.63	430.40	129.2	269.51	278.20	2,909	24.77	3,875	-
2009	291.0	360.85	470.11	136.9	211.65	202.23	2,853	18.23	3,652	-
2010(e)	329.0	371.54	494.39	153.0	403.02	373.87	2,317	25.67	4,301	-

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, 2000-2010

	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
2000							
q1	13.5	6.9	50.8	6.3	92.0	0.5	8.0
q2	13.5	7.0	52.0	6.5	93.0	0.5	7.0
q3	13.5	6.7	49.4	6.2	92.0	0.5	8.0
q4	13.6	6.7	49.2	6.2	92.6	0.5	7.4
2001							
q1	13.7	6.7	49.2	6.2	92.3	0.5	7.7
q2	14.0	6.9	49.0	6.3	91.7	0.6	8.3
q3	13.9	6.7	48.3	6.2	92.2	0.5	7.8
q4	14.1	6.8	48.9	6.2	91.7	0.5	8.3
2002							
q1	14.1	7.2	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	14.2	7.1	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							
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	8.0
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 (a)							
q1	16.3	7.9	49.0	7.3	91.9	0.6	8.1
q2	16.5	8.0	48.6	7.3	91.0	0.7	9.0
q3	16.7	8.0	47.8	7.3	91.5	0.7	8.5
q4	16.7	8.1	47.8	7.4	91.8	0.7	8.2
2005 (b)	16.9	8.1	48.3	7.5	92.3	0.6	7.7
2006							
q1	14.8	7.6	51.7	7.1	92.8	0.5	7.2
q2	14.8	7.6	51.1	7.1	93.7	0.5	6.3
q3	15.0	7.6	50.7	7.1	93.5	0.5	6.5
q4	15.0	7.6	51.0	7.1	93.7	0.5	6.3
2007							
q1	15.0	7.5	49.8	7.0	93.3	0.5	7.1
q2	15.0	7.4	49.0	7.0	94.6	0.5	7.1
q3	15.0	7.5	50.2	7.1	94.7	0.4	5.6
q4	15.1	7.6	50.1	7.2	94.7	0.4	5.6
2008							
q1	15.1	7.5	49.8	7.1	94.7	0.4	5.3
q2	15.1	7.5	49.6	7.1	94.7	0.4	5.3
q3	14.8	7.6	51.1	7.2	94.7	0.4	5.3
q4	15.2	7.6	50.3	7.2	94.7	0.4	5.3
2009 (c)							
q1	16.6	8.1	49.2	7.7	94.5	4.0	5.5
q2	16.5	7.9	48.3	7.4	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	8.0	94.3	0.4	5.7
2010 (c)							
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

Notes: (a) Up to 4th quarter 2002, data excludes both Northern and Eastern Provinces. Commencing from 1st quarter 2003, Eastern Province is included and only the Northern Province is excluded from the survey.
(b) Quarterly labour force survey was conducted as a one-off survey in August 2005.
(c) Data exclude Northern Province.

Source: Department of Census and Statistics, *Quarterly Report of the Sri Lanka Labour Force*.

Table A7: Gross Domestic Fixed Capital Formation, 1988-2010

	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)	
1988	37,156	12,805	16.7	5.8	86,801.6	29,914.3	-3.5	2.4
1989	39,943	14,306	15.9	5.7	85,114.8	30,484.7	-1.9	1.9
1990	57,910	12,507	18.0	3.9	102,852.2	22,213.3	20.8	-27.1
1991	68,368	15,838	18.4	4.3	109,412.4	25,346.3	6.4	14.1
1992	86,407	13,632	20.3	3.2	125,717.4	19,833.8	13.0	-27.8
1993	105,305	20,570	21.1	4.1	139,953.2	27,338.1	10.2	27.4
1994	136,649	17,611	23.6	3.0	166,094.3	21,405.8	15.7	-27.7
1995	147,280	23,595	22.1	3.5	165,105.2	26,450.7	-0.6	19.1
1996	160,181	23,328	20.9	3.0	160,181.0	23,328.0	-3.1	-13.4
1997	186,950	29,923	21.0	3.4	172,145.0	27,553.4	6.9	15.3
1998	221,754	33,960	21.9	3.3	188,246.2	28,828.5	9.4	4.6
1999	266,518	35,210	24.1	3.2	216,505.3	28,602.7	15.0	-2.6
2000	311,460	41,132	24.8	3.3	237,212.5	31,326.7	9.6	9.5
2001	267,298	42,346	19.0	3.0	181,058.0	28,683.6	-23.7	-8.4
2002	298,731	31,812	19.1	2.0	188,863.2	19,913.6	4.1	-44.1
2003(f)	318,909	46,285	17.5	2.5	62,531.2	9,075.5	-66.9	-54.4
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	807,400	192,900	22.6	5.4	57,671.4	13,778.6	4.3	47.0
2008	928,800	286,000	21.1	6.5	56,981.6	17,546.0	-1.2	27.3
2009	838,629	308,811	17.3	6.4	142,140.5	52,340.8	149.4	198.3
2010(d)	1,128,151	323,851	20.1	5.8	154,541.2	44,363.2	8.7	-15.2

Notes: (a): Private sector and public corporations.
(b): Government and public enterprises.
(c): Current series deflated by GDP deflator.
(d): Provisional.
(e): Up to 2002 data are based on 1996 prices and 2003 onwards data are based on 2003 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, 1996-2010

	1996	1997	1998	1999	2000	2001	2002	2003 (c)	2004	2005	2006	2007	2008	2009	2010 (a)
(As % of GDP)															
Gross domestic capital formation	24.2	24.4	25.1	27.3	28.0	22.0	21.3	20.0	22.6	23.4	24.9	27.9	27.5	24.4	27.8
Gross domestic savings	15.3	17.3	19.1	19.5	17.4	15.8	14.5	16.0	16.4	17.9	17.0	17.6	14.1	17.9	18.7
Net imports of goods and non-factor services (b)	8.9	7.1	6.0	7.8	10.6	6.2	6.8	6.4	6.6	7.1	6.7	10.4	13.7	6.5	9.1
Net factor income from abroad	-1.5	-1.1	-1.1	-1.6	-2.1	-1.7	-1.6	-0.9	-1.0	-1.2	-1.4	-1.1	-2.2	-1.2	-1.3
Net private transfers	5.1	5.2	5.4	5.6	5.9	6.2	6.6	6.4	6.5	7.1	6.7	6.8	6.3	7.0	7.3
Gross national savings	19.0	21.5	23.4	23.5	21.5	20.3	19.5	21.5	22.0	23.8	22.3	23.3	17.8	23.7	24.7
Foreign savings	5.2	5.2	1.7	3.8	6.5	1.7	1.8	-1.5	0.6	5.9	5.3	5.7	3.9	5.8	6.0

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, 1998-2010

(As % of GDP)	1998	1999	2000	2001	2002	2003 (c)	2004	2005	2006	2007	2008	2009	2010 (b)
Revenue	17.3	17.7	16.8	16.7	16.5	15.7	15.4	16.1	16.3	15.8	14.9	14.5	14.6
Grants	0.7	0.6	0.4	0.4	0.4	0.5	0.4	1.5	1.7	1.6	1.6	0.5	0.3
Expenditure													
Current expenditure	19.6	18.7	20.2	21.6	20.8	19.0	19.2	18.7	18.6	17.4	16.9	18.2	16.7
Capital & net lending	6.7	6.5	6.5	5.9	4.5	4.7	4.3	6.0	5.6	6.1	5.7	6.7	6.1
Current account balance	-2.4	-1.0	-3.4	-4.9	-4.4	-3.3	-3.9	-2.7	-2.4	-1.6	-2.0	-3.7	-2.1
Primary deficit	-3.8	-1.9	-4.2	-4.1	-1.6	-0.9	-2.2	-3.6	-2.9	-2.6	-2.2	-3.5	-1.7
Overall deficit (before grants)	-9.2	-7.5	-9.9	-10.8	-8.9	-8.0	-8.2	-8.7	-8.0	-7.7	-7.7	-9.9	-7.9
Financing budget deficit													
Foreign financing	1.7	0.7	0.4	1.4	0.6	2.9	8.2	3.4	2.5	3.7	0.6	4.8	4.4
Net borrowings	1.0	0.1	0	1.0	0.1	2.4	1.8	2.0	1.4	2.8	-0.1	4.7	0.2
Grants	0.7	0.6	0.4	0.4	0.4	0.5	0.4	1.4	1.0	0.9	0.7	0.5	0.3
Domestic financing	7.1	6.8	9.4	8.8	8.0	4.5	5.8	5.2	5.6	3.6	7.0	5.1	3.6
Market borrowings	7.1	6.8	9.2	8.7	8.0	4.5	5.5	5.0	5.6	3.6	7.0	4.9	3.4
Bank	1.9	2.5	4.5	3.5	-0.3	-1.2	2.1	1.1	2.7	0.4	4.4	1.0	-
Non-bank	5.2	4.4	4.7	5.3	8.3	5.7	3.4	3.9	2.9	3.1	2.6	3.8	3.5
Other borrowings	-0.1	-0.1	0.3	0.1	-0.1	-	0.2	0.2	-	-	-	0.2	0.2
Privatisation proceeds(a)	0.4	-	-	0.6	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, 1991-2010

	Unit	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1. Financial depth											
Narrow money supply	M_1/GDP	12.5	11.8	11.9	12.2	11.3	10.2	10.7	10.5	10.9	10.5
Broad money supply	M_2/GDP	29.7	30.5	32.1	33.1	34.2	33.0	35.9	34.6	36.0	36.0
2. Monetary expansion/contraction											
Narrow money supply	% growth	17.7	7.4	18.6	18.7	6.7	4.0	9.8	12.1	12.8	9.1
Broad money supply	% growth	22.1	17.4	23.4	19.7	19.2	10.8	13.8	9.7	13.3	13.0
3. Causal factors											
3.1 External banking assets	Rs. mn.	12,258.0	20,940.0	48,119.0	64,467.0	66,532.0	61,861.0	89,292.0	93,724.0	83,892.0	59,448.0
	% growth	258.5	70.8	129.8	34.0	3.2	-7.0	44.3	5.0	-10.5	-29.1
3.2 Domestic credit	Rs. mn.	127,751.2	144,003.0	150,696.9	173,795.6	223,798.3	252,317.0	272,733.0	311,626.0	374,120.0	469,084.0
	% growth	10.2	12.7	4.6	15.3	28.8	12.7	8.1	14.3	20.1	25.4
3.2.1 Government	Rs. mn.	35,392.0	33,065.0	26,993.0	28,148.0	35,214.0	48,537.0	46,365.0	58,591.0	85,881.0	134,484.0
	% growth	0.1	-6.6	-18.4	4.3	25.1	37.8	-4.5	26.4	46.6	56.6
3.2.2 Private sector	Rs. mn.	92,359.2	110,938.0	123,703.9	145,647.6	188,352.0	203,780.0	226,368.0	253,035.0	288,239.0	334,599.0
	% growth	14.6	20.1	11.5	17.7	29.3	8.2	11.1	11.8	13.9	16.1
3.3 Other liabilities	Rs. mn.	-29,435.0	-35,150.0	-38,679.0	-46,590.0	-61,794.0	-60,978.0	-73,768.0	-89,176.0	-99,936.0	-123,863.0
	% growth	2.1	19.4	10.0	20.5	32.6	-1.3	21.0	20.9	12.1	23.9

Contd…

	Unit	2001	2002	2003 (b)	2004	2005	2006	2007	2008	2009	2010
1. Financial depth											
Narrow money supply	M_1/GDP	9.8	8.8	8.9	9.0	9.4	8.8	7.4	6.3	7.0	7.3
Broad money supply	M_2/GDP	36.0	32.2	31.9	32.9	33.6	33.8	32.1	29.1	31.8	32.4
2. Monetary expansion/contraction											
Narrow money supply	% growth	3.2	14.0	16.0	14.2	18.3	11.2	2.7	4.0	21.4	20.9
Broad money supply	% growth	11.4	13.2	15.3	15.6	16.4	17.1	16.6	8.5	18.6	18.0
3. Causal factors											
3.1 External banking assets	Rs. mn.	82,966.0	101,717.0	129,487.0	129,152.0	167,147.0	185,005.0	225,989.0	88,760.0	358,554.0	390,284
	% growth	39.6	22.6	27.3	-0.3	22.7	9.6	22.1	-60.7	303.9	8.8
3.2 Domestic credit	Rs. mn.	513,457.0	548,578.0	602,898.0	734,605.0	864,392.0	1,138,805.0	1,607,800.0	1,897,500.0	1,907,748.0	2,262,861.0
	% growth	9.5	6.8	9.9	21.8	11.6	24.1	44.9	43.0	0.5	18.6
3.2.1 Government	Rs. mn.	161,735.0	153,171.0	143,444.0	181,111.0	249,565.0	357,289.0	374,100.0	582,907.0	640,326.0	627,185.0
	% growth	20.3	-5.3	-6.3	26.3	11.6	30.1	10.5	55.8	9.9	-2.1
3.2.2 Private sector	Rs. mn.	351,722.0	395,407.0	430,575.0	526,236.0	680,693.0	856,842.0	1,184,500.0	1,267,601.0	1,194,189.0	1,494,155.0
	% growth	5.1	12.4	16.2	22.2	22.7	20.0	33.1	7.0	-5.8	25.1
3.3 Other liabilities	Rs. mn.	-145,696.0	-139,899.0	-151,638.0	-175,793.0	-208,608.0	-330,545.0	-431,800.0	-452,423.0	-503,460.0	-548,895
	% growth	17.6	4.0	8.5	15.9	15.7	36.8	12.1	4.8	11.3	9.0

Notes: Data have been reclassified starting from 1990. For more information, see Central Bank of Sri Lanka, 1995, *Annual Report*.
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, 1997-2010

(%, end of period)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Bank rate	17.0	17.0	16.0	25.0	18.0	18.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Treasury bills, yield rates														
3 Month	10.0	12.0	12.1	17.8	12.9	9.9	7.3	7.2	10.1	12.8	21.3	17.3	7.7	7.2
12 Month	10.2	12.6	12.8	18.2	13.7	9.9	7.2	7.6	10.4	13.0	20.0	19.1	9.3	7.6
Repurchase rate	11.0	11.3	9.3	17.0	12.0	9.9	7.0	7.5	8.8	10.0	10.5	10.5	7.5	7.3
Call money rate														
Maximum	20.0	16.5	14.3	32.0	13.0	10.9	8.2	10.6	11.1	15.1	40.0	20.0	9.1	8.4
Minimum	9.0	11.3	9.8	20.3	12.5	10.2	7.4	9.5	10.5	12.7	16.0	13.3	8.0	7.8
Weighted average prime lending rate	14.2	15.1	15.2	21.5	14.2	12.2	8.9	10.2	12.1	14.7	17.0	19.2	11.1	9.3
Commercial bank saving														
Maximum	11.0	10.0	10.0	10.0	12.0	11.0	7.2	7.7	10.3	10.5	16.5	16.5	10.5	10.5
Minimum	3.0	2.0	2.0	2.0	4.0	3.5	2.1	3.0	3.0	3.0	3.0	3.0	1.5	1.5
NSB saving	10.8	10.5	9.2	8.4	8.4	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Commercial bank fixed deposit (one year)														
Maximum	15.3	13.0	12.5	15.0	14.5	11.0	7.8	9.8	11.5	14.0	20.0	20.3	19.0	18.0
Minimum	8.5	9.0	9.0	9.0	9.5	7.5	5.0	5.0	5.5	5.5	8.5	8.5	7.3	5.1
NSB fixed deposit (one year, paid on maturity)	11.0	11.5	11.5	15.0	13.0	10.0	7.0	8.0	9.0	11.0	15.0	15.0	9.5	8.5

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, 1990-2010

	CCPI (1952 = 100)	% change	CCPI (2002 = 100)	% change	WPI (1974 = 100)	% change	GDPD (1996 = 100)	% change
1990	1,008.6	21.5			651.1	22.2	56.3	20.0
1991	1,131.5	12.2			710.8	9.2	62.5	11.0
1992	1,260.4	11.4			773.0	8.8	68.7	10.0
1993	1,408.4	11.7			831.8	7.6	75.2	9.5
1994	1,527.4	8.4			873.4	5.0	82.3	9.3
1995	1,644.6	7.7			950.7	8.9	89.2	8.4
1996	1,906.7	15.9			1,145.1	20.4	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	12.3
2002	3,176.4	9.6			1,629.0	10.7	159.9	8.4
2003	3,377.0	6.3			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	2,351.6	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	3,653.6	24.9	298.3	16.3
2009			206.8	3.5	3,500.9	-4.2	315.8	5.9
2010			219.1	5.9	3,893.0	11.2	338.8	7.3

Notes: CCPI : Colombo Consumers' Price Index.
GCCPI : Greater 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, 1989-2010
(December 1978 = 100)

	Workers in wages boards trades(a)		Government employees(b)	
	Nominal	Real	Nominal	Real
1989	338.1	112.0	421.8	121.9
1990	453.5	107.6	476.8	113.2
1991	518.8	109.7	534.6	113.2
1992	590.0	112.0	557.6	106.0
1993	685.8	116.6	675.5	114.8
1994	712.4	111.7	735.5	115.4
1995	740.3	107.8	792.5	115.4
1996	801.7	100.7	818.2	103.5
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	81.3	2,417.5	142.7
2006	1,358.2	70.7	3,150.8	164.0
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(c)	2865.3	95.5	4651.6	155.1

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, 1993-2010

	Unit	1993	1994	1995	1996	1997	1998	1999	2000	2001
1.Exports to selected countries and groupings										
U.S.A	US$ mn.	1,006.8	1,115.3	1,353.5	1,395.8	1,666.4	1,890.2	1,791.8	2,192.5	1,925.9
U.K.	US$ mn.	203.5	285.4	345.3	388.6	525.4	530.4	604.2	736.7	576.4
Germany	US$ mn.	227.5	222.5	254.3	239.3	230.0	231.9	215.7	230.2	198.5
Japan	US$ mn.	148.0	165.3	200.4	256.4	234.2	196.1	159.1	229.7	185.8
EC	% of total exports	31.2	31.3	31.0	29.4	35.0	33.6	35.3	33.4	32.3
Germany	% of exports to EC	25.5	22.2	21.6	19.8	17.1	17.9	16.2	15.2	15.8
UK	% of exports to EC	22.8	28.4	29.3	32.2	39.0	41.0	45.0	48.5	45.8
ASEAN	% of total exports	2.9	3.9	3.7	2.8	3.4	3.0	3.1	3.5	2.9
Singapore	% of exports to ASEAN	58.6	60.6	52.3	52.0	43.7	38.1	37.9	38.7	51.4
Malaysia	% of exports to ASEAN	4.0	4.6	15.7	23.5	16.6	10.1	6.0	5.0	5.9
SAARC	% of total exports	2.5	2.7	2.7	2.6	3.1	3.0	3.8	4.2	4.1
India	% of exports to SAARC	27.6	27.2	31.3	39.6	37.0	33.2	33.7	30.6	45.6
NAFTA	% of total exports	37.1	36.8	37.3	35.6	45.5	51.5	49.8	50.5	52.0
USA	% of exports to NAFTA	94.9	94.4	95.4	95.6	95.3	95.4	95.1	95.4	95.1
Canada	% of exports to NAFTA	3.4	4.3	3.5	3.1	3.2	3.1	3.1	3.1	3.4
APEC	% of total exports	48.7	49.6	50.1	48.7	59.8	58.9	56.3	57.8	59.5
USA	% of exports to APEC	72.3	70.1	71.0	69.8	72.4	83.4	84.1	83.5	83.1
Japan	% of exports to APEC	10.6	10.4	10.5	12.8	10.2	8.6	7.5	8.7	8.0
Singapore	% of exports to APEC	0.2	0.2	0.1	0.1	0.1	1.9	2.1	2.3	2.5
2. Imports from selected countries and groupings										
Japan	US$ mn.	452.6	526.6	498.6	497.3	479.3	555.9	560.9	646.0	336.9
India	US$ mn.	342.9	404.4	469.2	561.9	559.8	539.4	511.6	600.1	709.3
Hong Kong	US$ mn.	312.4	316.6	357.4	354.1	411.3	411	459.1	515.9	500.3
U.S.A	US$ mn.	131.3	284.7	172.7	198.3	186.6	229.5	216.2	254.9	265.6
U.K.	US$ mn.	184.8	247.6	242.6	251.7	282.4	304.8	251.1	311.4	220.6
Taiwan	US$ mn.	225.7	250.2	286.4	287.8	372.1	378.7	347.1	390.1	322.8
EC	% of total Imports	15.8	16.3	15.3	15.4	17.6	23.3	19.4	18.8	18.0
Germany	% of Imports from EC	21.9	21.8	20.5	18.4	20.5	20.2	15.8	16.5	16.3
UK	% of Imports from EC	29.2	31.8	29.8	30.1	31.6	30.3	29.1	32.8	26.0
ASEAN	% of total Imports	14.5	13.2	12.8	12.6	14.7	19.6	21.1	21.0	19.4
Singapore	% of Imports from ASEAN	35.8	37.2	36.6	37.7	38.3	36.8	48.2	46.7	44.8
Malaysia	% of Imports from ASEAN	29.5	28.8	31.1	26.7	22.3	22.8	18.0	20.5	22.7
SAARC	% of total Imports	10.7	10.3	10.2	11.9	13.1	15.1	14.2	14.0	15.1
India	% of Imports from SAARC	80.1	82.7	86.1	86.9	83.9	83.3	81.4	84.8	84.4
NAFTA	% of total Imports	3.7	6.3	3.6	4.3	5.7	7.1	5.5	6.0	6.2
USA	% of Imports from NAFTA	89.4	95.0	91.3	84.6	64.7	75.0	89.0	84.1	91.5
Canada	% of Imports from NAFTA	10.1	4.6	7.9	10.0	19.0	13.6	9.3	15.6	8.2
APEC	% of total Imports	55.7	55.4	50.2	50.4	61.9	45.9	53.4	54.9	55.6
USA	% of Imports from APEC	5.9	10.8	6.5	7.3	5.9	11.6	9.1	9.2	10.1
Japan	% of Imports from APEC	11.3	11.0	9.4	9.2	9.4	28.1	23.6	23.2	12.8
Singapore	% of Imports from APEC	9.3	8.8	9.3	9.5	9.1	15.7	19.0	17.8	15.6

Cont./

	Unit	2002	2003	2004	2005	2006	2007	2008	2009	2010(a)
1. Exports to selected countries and groupings										
U.S.A	US$ mn.	1,764.0	1,777.4	1,869.3	1988.1	2,005.5	1,970.0	1,869.3	1,576.0	1,754.0
U.K.	US$ mn.	590.3	640.4	779.2	777.3	880.1	1,018.0	1,090.4	1,024.3	1,021.0
Germany	US$ mn.	199.3	232.4	274.1	271.8	328.8	437.9	405.3	347.2	399.0
Japan	US$ mn.	140.3	165.4	157.6	144.6	163.6	159.6	159.0	139.0	168.0
EU	% of total exports	35.2	35.9	38.3	37.2	40.7	37.6	37.4	38.5	35.0
Germany	% of exports to EU	14.4	15.3	14.9	13.9	14.5	15.2	13.4	12.7	13.7
UK	% of exports to EU	42.8	42.2	42.3	39.9	38.7	35.4	35.9	37.6	35.1
ASEAN	% of total exports	2.6	2.5	2.6	2.9	3.4	2.8	2.9	3.7	5.3
Singapore	% of exports to ASEAN	63.6	61.8	67.9	52.2	39.0	37.6	31.8	32.7	42.6
Malaysia	% of exports to ASEAN	8.4	11.7	7.1	9.5	12.9	16.7	18.6	17.7	16.4
SAARC	% of total exports	6.5	8.3	10.5	12.5	10.7	8.5	6.9	6.2	7.2
India	% of exports to SAARC	66.5	70.0	77.3	86.7	81.6	79.8	74.6	73.0	77.5
NAFTA	% of total exports	47.6	44.5	41.2	40.4	38.1	27.6	24.9	24.1	22.9
USA	% of exports to NAFTA	94.6	94.5	94.5	94.1	94.2	93.3	92.4	92.2	91.9
Canada	% of exports to NAFTA	3.3	3.4	3.6	3.7	3.6	3.7	4.4	4.3	4.9
APEC	% of total exports	54.6	52.2	47.8	46.2	44.0	37.1	35.0	34.0	35.3
USA	% of exports to APEC	82.5	80.6	81.4	82.3	81.5	69.4	65.6	65.3	61.4
Japan	% of exports to APEC	6.6	7.4	6.9	5.9	6.6	5.6	5.6	5.8	5.9
Singapore	% of exports to APEC	3.1	3.0	3.8	3.3	3.0	2.8	2.7	3.6	6.4
2. Imports from selected countries and groupings										
Japan	US$ mn.	355.3	448.1	411.7	379.7	449.6	413.2	424.5	224.0	584.0
India	US$ mn.	852.9	1,073.2	1,439.1	1,835.4	2,172.9	2,610.1	3,443.0	1,820.3	2,570.0
Hong Kong	US$ mn.	491.0	559.5	619.4	648.2	659.1	724.8	694.6	517.0	580.0
U.S.A	US$ mn.	218.7	188.3	240.1	204.5	200.6	412.1	272.6	259.2	168.0
U.K.	US$ mn.	262.9	272.9	312.1	276.2	303.4	229.8	243.2	254.0	267.0
Taiwan	US$ mn.	288.0	276.1	290.8	278.7	274.8	263.6	251.2	201.4	264.0
EU	% of total Imports	18.0	18.8	18.2	16.7	15.9	12.4	12.4	12.6	11.3
Germany	% of Imports from EC	13.5	13.4	15.7	14.3	16.2	16.4	16.2	15.9	16.5
UK	% of Imports from EC	29.3	25.5	25.2	22.2	22.1	16.5	14.0	19.7	17.4
ASEAN	% of total Imports	19.1	19.8	20.0	20.5	21.7	16.7	15.7	18.8	18.5
Singapore	% of Imports from ASEAN	46.0	46.2	51.2	48.2	52.9	59.3	56.7	55.6	62.2
Malaysia	% of Imports from ASEAN	21.7	25.6	24.1	25.7	23.7	15.0	16.3	15.0	15.3
SAARC	% of total Imports	19.1	19.9	23.1	26.6	27.2	24.9	26.1	20.1	21.3
India	% of Imports from SAARC	89.4	91.5	91.4	92.6	92.4	92.7	94.1	88.6	89.3
NAFTA	% of total Imports	4.7	4.1	4.1	3.9	4.8	4.4	4.7	5.2	3.3
USA	% of Imports from NAFTA	93.8	85.4	84.4	71.2	48.0	83.5	41.6	48.0	37.6
Canada	% of Imports from NAFTA	5.8	14.2	15.3	28.0	51.4	16.1	57.9	51.6	62.4
APEC	% of total Imports	52.1	49.2	46.4	44.0	43.8	42.5	39.4	46.9	51.2
USA	% of Imports from APEC	8.5	7.1	7.6	6.2	5.3	8.6	4.9	5.4	2.8
Japan	% of Imports from APEC	13.8	16.0	13.0	11.6	11.9	8.6	7.7	4.7	9.9
Singapore	% of Imports from APEC	16.8	18.7	20.5	22.4	26.2	23.3	22.5	22.1	26.4

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, 1991-2010

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1. Consumer goods										
Value (US$ mn.)	782.1	734.6	774.5	930.6	982.0	1,030.0	1,084.0	1,128.0	1,131.0	1,261.0
Growth	10.3	-6.1	5.4	20.1	5.6	5.2	4.9	4.0	0.3	11.5
% of total imports	25.5	21.0	19.3	19.5	18.5	19.0	18.5	19.2	18.9	17.3
1.1 Food										
Value (US$ mn.)	404.9	419.7	415.9	483.9	522.0	597.0	642.0	596.0	551.0	566.0
Growth	3.8	3.7	-0.9	16.4	7.8	14.3	7.5	-7.2	-7.6	2.7
% of total imports	13.2	12.0	10.4	10.2	9.8	11.0	11.0	10.1	9.2	7.8
1.2 Other										
Value (US$ mn.)	377.2	314.9	358.7	446.6	461.0	433.0	442.0	532.0	581.0	696.0
Growth	18.1	-16.5	13.9	24.5	3.1	-5.8	1.8	20.6	9.2	19.8
% of total imports	12.3	9.0	8.9	9.4	8.7	8.0	7.5	9.0	9.7	9.5
2. Intermediate goods										
Value (US$ mn.)	1,553.3	1,884.4	2,154.4	2,425.0	2,900.0	2,971.0	3,235.7	3,108.0	3,168.0	3,916.0
Growth	11.6	21.3	14.3	12.6	19.6	2.6	8.9	-3.9	1.9	23.6
% of total imports	50.7	53.8	53.7	50.9	54.6	54.6	55.2	52.8	53.0	53.5
2.1 Petroleum										
Value (US$ mn.)	311.5	318.0	309.2	296.3	386.9	479.9	539.5	345.0	500.0	901.0
Growth	-13.2	2.1	-2.8	-4.2	30.6	24.1	12.4	-36.1	44.9	80.2
% of total imports	10.2	9.1	7.7	6.2	7.3	8.8	9.2	5.9	8.4	12.3
2.2 Textiles										
Value (US$ mn.)	498.2	765.5	865.1	1,038.1	1,158.5	1,168.8	1,386.9	1,397.0	1,320.0	1,471.0
Growth	48.3	53.7	13.0	20.0	11.6	0.9	18.7	0.6	-5.5	11.4
% of total imports	16.3	21.9	21.6	21.8	21.8	21.5	23.7	23.7	22.1	20.1
3. Investment goods										
Value (US$ mn.)	720.1	850.9	1,046.8	1,366.5	1,189.0	1,203.0	1,324.0	1,477.0	1,565.0	1,737.0
Growth	23.2	18.2	23.0	30.5	-13.0	1.5	10.0	11.3	6.0	11.0
% of total imports	23.5	24.3	26.1	28.7	22.4	22.1	22.6	25.1	26.2	23.6
4. Total imports										
Value (US$ mn.)	3,061.1	3,503.4	4,011.3	4,767.3	5,311.1	5,439.0	5,864.0	5,889.0	5,979.0	7,320.0
Growth	13.8	14.5	14.5	18.8	11.4	2.6	7.7	0.4	1.5	22.4

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	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010(a)
1. Consumer goods										
Value (US$ mn.)	1,126.0	1,189.0	1,344.0	1,440.0	1,503.0	1,782.0	1,768.0	2,174.0	1,713.0	2,613.0
Growth	-10.7	5.6	13.0	7.1	4.4	18.6	-0.8	23.0	-21.6	52.5
% of total imports	18.9	19.5	20.1	18.0	16.9	17.4	15.6	15.5	16.8	19.3
1.1 Food										
Value (US$ mn.)	545.0	566.0	564.0	596.0	611.0	757.0	831.0	1,138.0	987.0	1,385.0
Growth	-3.7	3.9	-0.4	5.7	2.5	23.9	9.8	36.9	-13.3	40.3
% of total imports 9.1	9.3	8.5	7.5	6.9	7.4	7.3	8.1	9.7	10.2	
1.2 Other										
Value (US$ mn.)	581.0	623.0	780.0	844.0	891.0	1,024.0	937.0	1,047.0	726.0	1,229.0
Growth	-16.5	7.2	25.2	8.2	5.6	14.9	-8.5	11.7	-30.6	69.3
% of total imports 9.7	10.2	11.7	10.6	10.1	10.0	8.3	7.5	7.1	9.1	
2. Intermediate goods										
Value (US$ mn.)	3,430.0	3,622.0	3,948.0	4,828.0	5,458.0	6,161.0	6,751.0	8,716.0	5,928.0	7,753.0
Growth	-12.4	5.6	9.0	22.3	13.0	12.9	9.6	29.1	-32.0	30.8
% of total imports	57.4	59.3	59.2	60.4	61.6	60.1	59.8	62.2	58.1	57.4
2.1 Petroleum										
Value (US$ mn.)	731.0	789.0	838.0	1209.0	1,655.0	2,070.0	2,501.0	3,368.0	2,167.0	3,019.0
Growth	-18.9	7.9	6.2	44.3	36.9	25.1	20.8	34.7	-35.6	39.3
% of total imports 12.2	12.9	13.7	15.1	18.7	20.2	22.1	24.0	21.2	22.3	
2.2 Textiles										
Value (US$ mn.)	1,320.0	1,321.0	1,372.0	1,514.0	1,531.0	1,546.0	1,632.0	1,702.0	1,442.0	1,732.0
Growth	-10.3	0.1	3.9	10.3	1.1	1.0	5.6	4.3	-15.1	20.1
% of total imports 22.1	21.6	20.6	18.9	17.3	15.1	14.5	12.2	14.1	12.8	
3. Investment goods										
Value (US$ mn.)	1,081.0	1,169.0	1,320.0	1,670.0	1,869.0	2,246.0	2,685.0	2,979.0	2,451.0	2,970.0
Growth	-37.8	8.1	12.9	26.5	11.9	20.2	19.5	10.9	-19.6	21.2
% of total imports	18.1	19.2	19.8	20.8	21.1	21.9	23.8	21.3	24.0	22.0
4. Total imports										
Value (US$ mn.)	5,974.0	6,105.0	6,672.0	8,000.0	8,863.0	10,254.0	11,296.0	14,008.0	10,207.0	13,512.0
Growth	-18.4	2.2	9.3	19.9	10.8	15.7	10.2	24.0	-27.6	32.4

Notes: (a): Provisional.

Sources: Central Bank of Sri Lanka, *Annual Report,* various issues; IPS database.

Table A16: Structure of Commodity Exports, 1991-2010

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1. Agricultural exports										
Value (US$ mn.)	641.4	604.7	655.3	702.1	829.0	961.0	1060.0	1088.0	947.0	1005.0
Growth	-11.0	-5.7	8.4	7.1	18.1	16.1	10.3	2.6	-13.0	6.1
% of total exports	32.3	24.6	22.9	21.9	21.8	23.5	22.9	22.9	20.6	18.2
1.1 Plantation crops										
Value (US$ mn.)	538.5	468.1	514.9	546.8	660.9	801.3	882.1	878.1	738.0	806.0
Growth	-12.8	-13.1	10.0	6.2	20.9	21.2	10.1	-0.4	-16.0	9.2
% of total exports	27.1	19.0	18.0	17.0	17.4	19.5	19.0	18.0	15.8	14.3
1.1.1 Tea										
Value (US$ mn.)	431.9	339.8	412.7	424.2	481.0	615.0	719.0	780.0	621.0	700.0
Growth	-12.7	-21.3	21.4	2.8	13.3	28.2	17.0	8.5	-20.4	12.7
% of total exports	21.7	13.8	14.4	13.2	12.6	15.0	15.5	16.4	13.5	12.7
1.1.2 Rubber										
Value (US$ mn.)	63.8	67.5	64.0	72.5	111.0	104.0	79.0	44.0	33.0	29.0
Growth	-17.0	5.8	-5.3	13.3	53.8	-6.6	-24.4	-44.3	-25.0	-12.1
% of total exports	3.2	2.7	2.2	2.3	2.9	2.5	1.7	0.9	0.7	0.5
1.1.3 Coconut kernel products										
Value (US$ mn.)	42.8	60.8	38.3	50.1	69.0	81.0	82.0	56.0	84.0	77.0
Growth	-7.0	42.2	-37.0	30.9	37.1	17.7	2.0	-31.8	50.0	-8.3
% of total exports	2.2	2.5	1.3	1.6	1.8	2.0	1.8	1.2	1.8	1.4
1.2. Minor agricultural crops										
Value (US$ mn.)	82.4	113.1	120.7	129.2	134.0	132.0	145.0	170.0	165.0	155.0
Growth	3.2	37.3	6.7	7.0	3.5	-1.4	9.9	17.7	-2.9	-6.1
% of total exports	4.1	4.6	4.2	4.0	3.5	3.2	3.1	3.6	3.6	2.8
2. Mineral exports										
Value (US$ mn.)	61.9	62.7	75.7	86.9	87.0	96.0	90.0	60.0	64.0	97.0
Growth	-28.8	1.3	20.7	14.7	-0.1	10.3	-6.7	-33.1	6.7	51.6
% of total exports	3.1	2.5	2.6	2.7	2.3	2.3	1.9	1.3	1.4	1.8
3. Industrial exports										
Value (US$ mn.)	1,237.3	1,763.2	2,102.3	2,398.9	2,870.0	3,006.0	3,436.0	3,607.0	3,551.0	4,283.0
Growth	19.4	42.5	19.2	14.1	19.6	5.0	14.3	3.2	-1.6	20.6
% of total exports	62.3	71.7	73.4	74.8	75.4	73.4	74.1	74.9	77.0	77.6
3.1 Textile & garments										
Value (US$ mn.)	803.9	1,214.0	1,412.4	1,551.9	1,853.0	1,902.0	2,274.0	2,460.0	2,425.0	2,982.0
Growth	28.0	51.0	16.3	9.9	19.4	2.9	19.6	8.2	-1.4	23.0
% of total exports	40.5	49.3	49.3	48.4	48.7	46.4	49.0	52.0	52.7	54.0
3.2 Petroleum products										
Value (US$ mn.)	79.5	63.2	78.8	80.1	85.0	104.0	97.0	73.0	74.0	98.0
Growth	-19.9	-20.5	24.6	1.7	5.9	22.4	-6.3	-25.9	1.4	32.4
% of total exports	4.0	2.6	2.8	2.5	2.2	2.5	2.1	1.5	1.6	1.8
4. Total commodity exports inc. petroleum										
Value (US$ mn.)	1,987.5	2,460.8	2,863.7	3,208.6	3,806.6	4,199.0	4,736.0	4,871.0	4,684.0	5,620.0
Growth	0.2	23.8	16.4	12.0	18.6	10.3	12.8	2.9	-3.8	20.0
5. Total commodity exports excl. petroleum										
Value (US$ mn.)	1,908.0	2,397.5	2,784.9	3,128.5	3,721.7	3,991.0	4,542.0	4,725.0	4,536.0	5,424.0
Growth	1.2	25.7	16.2	12.3	19.0	7.2	13.8	4.0	-4.0	19.6

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	2001	2002	2003	2004	2005	2006	2007(a)	2008	2009	2010(b)
1. Agricultural exports										
Value (US$ mn.)	932.0	938.0	965.0	1065.2	1,153.8	1,292.7	1,507.2	1,854.8	1,690.3	2,041.4
Growth	-7.3	0.6	2.9	10.4	8.3	12.0	16.6	23.1	-8.9	20.8
% of total exports	19.3	20.0	18.8	18.5	18.2	18.8	19.7	22.9	23.9	24.6
1.1 Plantation crops										
Value (US$ mn.)	755.0	728.0	770.0	849.0	905.9	1,027.1	1,194.9	1,567.6	1,449.9	1,719.4
Growth	-6.3	-3.6	5.8	10.3	6.7	13.4	16.3	31.2	-7.5	18.6
% of total exports	15.5	15.3	14.8	14.5	14.0	14.4	15.6	19.3	20.5	20.7
1.1.1 Tea										
Value (US$ mn.)	690.0	660.0	683.0	739.0	810.2	881.2	1,025.2	1,271.5	1,185.1	1,375.4
Growth	-1.4	-4.3	3.5	8.2	9.6	8.8	16.3	24.0	-6.8	16.1
% of total exports	14.3	14.1	13.3	12.8	12.8	12.8	13.4	15.6	16.7	16.6
1.1.2 Rubber										
Value (US$ mn.)	24.0	27.0	39.0	51.0	46.9	93.1	109.4	125.1	98.6	170.4
Growth	-17.2	12.5	44.4	30.8	-8.0	98.5	17.5	14.4	-21.2	72.8
% of total exports	0.5	0.6	0.8	0.9	0.7	1.4	1.4	1.5	1.4	2.1
1.1.3 Coconut kernel products										
Value (US$ mn.)	41.0	41.0	48.0	59.0	48.8	52.8	60.3	82.4	58.2	55.4
Growth	-46.8	0.0	17.1	22.9	-17.3	8.2	14.2	36.7	-29.4	-4.8
% of total exports	0.9	0.9	0.9	1.0	0.8	0.8	0.8	1.0	0.8	0.7
1.2. Minor agricultural crops										
Value (US$ mn.)	136.0	168.0	150.0	162.0	183.4	194.6	231.5	287.3	240.4	322.0
Growth	-12.3	23.5	-10.7	8.0	13.2	6.1	19.0	24.1	-16.4	33.9
% of total exports	2.8	3.5	2.9	2.8	2.9	2.8	3.0	3.5	3.4	3.9
2. Mineral exports										
Value (US$ mn.)	86.0	90.0	84.0	120.0	143.3	119.9	127.8	97.8	88.7	92.6
Growth	-11.3	4.7	-6.7	42.9	19.4	-16.3	6.6	-23.5	-9.3	4.4
% of total exports	1.8	1.9	1.6	2.0	2.3	1.7	1.7	1.2	1.3	1.1
3. Industrial exports										
Value (US$ mn.)	3,710.0	3,631.0	3,977.0	4,506.0	4,948.4	5,401.1	5,967.3	6,158.0	5,305.4	6,172.8
Growth	-13.4	-2.1	9.5	13.3	9.8	9.1	10.5	3.2	-13.8	16.3
% of total exports	77.0	77.3	77.5	78.3	78.0	78.5	78.1	75.9	74.9	74.3
3.1 Textile & garments										
Value (US$ mn.)	2,543.0	2,424.0	2,575.0	2,809.0	2,894.6	3,080.4	3,339.6	3,468.7	3,274.2	3,504.1
Growth	-14.7	-4.7	6.2	9.1	3.0	6.4	8.4	3.9	-5.6	7.0
% of total exports	52.8	51.6	50.2	48.8	45.6	44.8	43.7	42.8	46.2	42.2
3.2 Petroleum products										
Value (US$ mn.)	68.0	73.0	65.0	100.0	130.9	188.4	168.9	254.9	134.7	216.3
Growth	-30.6	7.4	-11.0	53.8	30.9	43.9	-10.4	50.9	-47.1	60.6
% of total exports	1.4	1.5	1.3	1.7	2.1	2.7	2.2	3.1	1.9	2.6
4. Total commodity exports inc. petroleum										
Value (US$ mn.)	4,885.0	4,772.0	5,198.0	5,856.7	6,477.6	7,140.3	7,640.0	8,110.6	7,084.5	8,307.0
Growth	-13.1	-2.3	8.9	12.7	10.6	10.2	7.0	6.2	-12.7	17.3
5. Total commodity exports excl. petroleum										
Value (US$ mn.)	4,749.0	4,626.0	5,068.0	5,657.6	6,215.8	6,882.7	7,740.5	7,855.7	6,949.8	8,090.7
Growth	-12.4	-2.6	9.6	11.6	9.9	10.7	12.5	1.5	-11.5	16.4

Notes: (a): Revised.
(b): Provisional.

Sources: Central Bank of Sri Lanka, *Annual Report,* various issues; IPS database.

Table A17: Tourism, 1991-2010

	Unit	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Tourist arrivals	No.	317,703	393,669	392,250	407,511	403,101	302,265	366,165	381,063	436,440	400,414
Excursionist arrivals	No.	2,665	5,651	6,093	8,413	10,556	12,863	18,265	27,629	28,335	44,518
Tourist nights	000	3,633	4,055	4,148	4,251	4,024	2,947	3,680	3,944	4,479	4,056
Earnings	Rs. mn.	6,485.8	8,825.6	10,036.8	11,401.6	11,551.6	9,559.1	12,980.0	14,868.0	19,297.3	19,162.2
	US$ mn.	156.8	201.4	208.0	230.7	225.4	173.0	216.7	231.5	274.9	252.8
Receipts per tourist per day	US$	42.8	49.7	50.1	54.2	56.1	57.9	58.6	59.5	61.4	62.3
Average duration	Nights	11.4	10.3	10.6	10.4	10.0	9.8	10.1	10.4	10.3	10.1
Accommodation											
Rooms	No.	9,679	10,214	10,365	10,742	11,255	11,600	12,370	12,772	12,918	13,311
Beds	No.	18,947	19,907	20,242	20,929	21,680	22,040	22,944	23,373	24,216	24,953
Occupancy rate, graded	%	48.4	55.3	57.0	56.6	52.6	40.3	49.1	52.8	57.6	52.3
Sri Lanka nationals											
Arrivals	No.	237,424	339,109	375,740	422,367	459,441	488,055	482,850	481,793	521,073	514,448
Departures	No.	310,373	420,749	416,246	448,437	504,420	494,258	530,712	518,050	496,963	524,212
Employment											
Direct	No.	26,878	28,790	30,710	33,956	35,068	31,963	34,006	34,780	36,560	37,943
Indirect	No.	37,629	40,306	42,994	47,538	49,095	44,748	47,608	48,692	51,184	53,120

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	Unit	2001	2002	2003	2004	2005	2006	2007(a)	2008	2009	2010(b)
Tourist arrivals	No.	336,794	393,174	500,642	566,202	549,308	559,603	494,008	438,475	447,890	654,476
Excursionist arrivals	No.	60,008	63,560	82,066	110,000	119,618	128,719	98,432	87,695	89,526	112,497
Tourist nights	000	3,435	3,989	5,093	5,742	4,754	5,793	4,940	4,165	4,075	6,544
Earnings	Rs. mn.	18,863.3	24,202.0	32,810.0	42,666.3	36,377	42,586	42,519	37,094	40,133	65,018
	US$ mn.	211.1	253.0	340.0	416.8	362	410	384	319	349	575.9
Receipts per tourist per day	US$	63.1	63.4	66.8	72.2	74.6	83.4	79.1	76.7	81.8	88.0
Average duration	Nights	9.9	10.1	10.2	10.1	8.7	10.3	10.0	9.5	9.1	10.0
Accommodation											
Rooms	No.	13,626	13,818	14,137	14,322	13,162	14,218	14,604	14,793	14,461	14,714
Beds	No.	25,595	25,956	26,511	26,854	24,740	27,117	27,500	28,698	28,344	28,978
Occupancy rate, graded	%	42.1	43.1	53.2	59.3	43.6	39.8	46.2	43.9	48.4	70.1
Sri Lanka nationals											
Arrivals	No.	487,356	493,947	560,602	646,990	683,169	734,421	817,524	900,815	914,584	1,081,417
Departures	No.	505,341	533,565	561,126	680,248	727,301	756,735	862,011	966,337	962,786	1,122,212
Employment											
Direct	No.	33,710	38,821	46,761	53,766	52,085	55,649	60,516	51,306	52,071	55,023
Indirect	No.	47,194	54,349	65,465	75,272	72,919	77,909	84,723	71,821	72,899	77,032

Notes: (a): Revised.
(b): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report,* various issues.

Table A18: Monthly Tourist Arrivals, 1999-2010

	1999		2000		2001		2002		2003		2004	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
January	44,379	19.2	43,311	-2.4	44,187	2.1	28,296	-36.0	40,647	43.6	49,950	22.9
February	41,526	17.7	43,287	4.2	46,575	7.6	31,683	-32.0	39,081	23.4	43,584	11.5
March	41,022	27.2	40,110	-2.2	44,290	10.4	33,084	-25.3	40,818	23.4	38,418	-5.9
April	34,443	34.7	33,642	-2.3	36,906	9.7	27,057	-26.7	33,714	24.6	30,672	-9.0
May	25,212	23.6	23,404	-7.2	26,924	-15.0	26,661	-1.0	30,048	12.7	30,162	0.4
June	26,184	16.8	21,825	-16.6	28,323	29.8	26,355	-6.9	31,836	20.8	32,119	0.8
July	33,288	12.7	33,267	-0.1	28,566	-14.1	35,742	25.1	43,743	22.4	50,525	15.5
August	39,081	24.3	34,422	-11.9	15,717	-54.3	35,475	125.7	42,111	18.7	48,675	15.6
September	33,915	7.1	31,035	-8.5	11,758	-62.1	32,982	180.5	36,054	9.3	51,525	42.9
October	35,112	10.5	26,658	-24.1	12,904	-51.6	36,258	181.0	49,922	37.7	59,442	19.1
November	41,952	9.2	32,469	-22.6	17,344	-46.6	37,395	115.6	54,946	46.9	64,971	18.2
December	40,326	-10.6	36,984	-8.3	23,300	-36.9	42,183	81.0	57,722	36.8	66,159	14.6
Total	436,440	14.5	400,414	-8.3	336,794	-15.9	393,171	16.7	500,642	27.3	566,202	13.1

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	2005		2006		2007		2008		2009		2010(a)	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
January	38,187	-23.5	52,103	36.4	56,553	8.5	56,916	0.6	38,468	-32.4	50,757	31.9
February	36,645	-15.9	52,687	43.8	43,051	-18.3	40,551	-5.8	34,169	-15.7	57,300	67.7
March	50,418	31.2	54,746	8.6	35,031	-36.0	38,049	8.6	34,063	-10.5	52,352	53.7
April	42,261	37.8	49,776	17.8	33,039	-33.6	29,747	-10.0	26,054	-12.4	38,300	47.0
May	40,878	35.5	43,825	7.2	26,307	-40.0	31,140	18.4	24,739	-20.6	35,213	42.3
June	45,699	42.3	44,066	-3.6	30,810	-30.1	27,960	-9.3	30,234	8.1	44,730	47.9
July	56,745	12.3	55,354	-2.5	44,142	-20.3	32,982	-25.3	42,223	28.0	63,339	50.0
August	51,216	5.2	52,931	3.3	44,742	-15.5	30,672	-31.4	41,207	34.3	55,898	35.7
September	43,536	-15.5	38,485	-11.6	37,104	-3.6	29,529	-20.4	37,983	28.6	47,339	24.6
October	44,095	-25.8	38,815	-12.0	37,011	-4.6	35,103	-5.2	37,575	7.0	52,370	39.4
November	48,457	-25.4	37,591	-22.4	45,102	20.0	36,901	-18.2	44,311	20.1	72,251	63.1
December	51,171	-22.7	39,224	-23.3	61,116	55.8	48,925	-19.9	56,862	16.2	84,627	48.8
Total	549,308	-2.9	559,603	1.9	494,008	-11.7	438,475	-11.2	447,890	2.1	654,476	46.1

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.

Table A19: Tourist Arrivals by Country of Residence, 1999-2010

	1999		2000		2001		2002		2003		2004	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
North America	18,477	5	17,319	-6	15,983	-8	19,866	24	25,110	26	29,759	19
Canada	7,905	5	7,503	-5	7,609	1	8,304	9	11,164	34	14,633	31
U.S.A.	10,572	6	9,816	-7	8,374	-15	11,565	38	13,946	21	15,126	8
Western Europe	275,796	15	260,824	-5	203,984	-22	200,295	-2	255,169	27	284,440	11
Germany	77,259	4	70,584	-9	60,405	-14	55,170	-9	58,908	7	58,258	-1
United Kingdom	80,919	22	84,693	5	67,830	-20	67,533	0	93,278	38	106,645	14
France	34,458	28	25,992	-25	20,949	-19	19,989	-5	28,585	28	29,996	5
Italy	19,815	25	16,833	-15	12,074	-28	12,177	1	15,654	29	18,862	20
Netherlands	29,670	29	22,618	-24	12,569	-44	11,748	-7	18,197	55	21,455	18
Asia	114,375	15	91,521	-20	89,732	-2	143,064	59	177,351	24	198,068	12
Japan	16,332	19	10,226	-37	9,237	-10	13,602	47	17,115	26	19,641	15
India	42,315	13	31,860	-25	33,924	7	69,960	106	90,603	30	105,151	16
Pakistan	11,421	6	10,005	-12	8,562	-14	6,756	-21	9,704	44	9,638	-1
Australasia	15,159	25	18,228	20	13,105	-28	13,209	1	22,965	74	26,540	16
Australia	13,218	28	16,443	24	11,457	-30	11,217	-2	19,958	78	23,247	16
Other(a)	12,633	-4	12,522	-1	13,990	12	16,737	20	20,047	20	27,395	37
Total	436,440	15	400,414	-8	336,794	-16	393,171	17	500,642	27	566,202	13

Contd…/

	2005		2006(b)		2007		2008		2009		2010(c)	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
North America	46,457	56	35,323	-24	28,355	-20	24,311	-14	24,948	3	40,216	61
Canada	21,185	45	14,623	-31	11,869	-19	10,258	-14	10,707	4	21,123	97
U.S.A.	25,272	67	20,700	-18	16,486	-20	14,053	-15	14,241	1	19,093	34
Western Europe	227,191	-20	228,447	1	194,448	-15	167,187	-14	170,123	2	256,861	51
Germany	46,350	-20	47,402	2	35,042	-26	30,625	-13	29,654	-3	45,727	54
United Kingdom	92,629	-13	88,306	-5	94,060	7	81,331	-14	81,594	0	105,496	29
France	26,653	-11	22,693	-15	8,091	-64	10,594	31	15,886	50	31,285	97
Italy	10,192	-46	12,424	22	11,451	-8	13,030	14	7,514	-42	11,423	52
Netherlands	15,156	-29	19,360	28	17,526	-9	9,116	-48	11,291	24	17,861	58
Asia	223,351	13	242,132	8	202,480	-16	173,039	-15	174,534	1	244,124	40
Japan	17,148	-13	16,189	-6	14,274	-12	10,075	-29	10,926	8	14,352	31
India	113,323	8	128,370	13	106,067	-17	85,238	-20	83,634	-2	126,882	52
Pakistan	11,029	14	11,145	1	10,204	-8	7,885	-23	7,373	-7	9,148	24
Australasia	29,738	12	25,127	-16	22,924	-9	21,839	-5	26,068	19	37,290	43
Australia	25,986	12	21,849	-16	20,241	-7	19,536	-3	23,239	19	33,456	44
Other(a)	22,571	-18	28,576	27	45,801	60	52,099	14	52,217	0	75,985	46
Total	549,308	-3	559,603	2	494,008	-12	438,475	-11	447890	2	654,476	46

Notes: (a): Latin America & the Caribbean, East Europe, Africa, and Middle East.
(b): Revised.
(c): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report,* various issues.

Table A20: Balance of Payments, 1999-2010

	Unit	1999	2000	2001	2002	2003(c)	2004	2005	2006	2007	2008	2009	2010(a)
1. Trade balance	US$ mn.	-1,369.0	-1,798.0	-1,157.0	-1,406.0	-1,539.0	-2,243.0	-2,516.0	-3,370.0	-3,656.0	-5,981.0	-3,122.0	-5,205.0
	% of GDP	-8.7	-10.8	-7.4	-9.5	-8.1	-10.9	-10.3	-11.9	-11.3	-14.7	-7.4	-10.5
2. Services balance	US$ mn.	147.0	38.0	175.0	295.0	399.0	419.0	338.0	257.0	302.0	402.0	391.0	698.0
	% of GDP	0.9	0.2	1.3	2.0	2.1	2.0	1.4	0.9	0.7	1.0	0.9	1.4
3. Income, net	US$ mn.	-254.0	-305.0	-267.0	-253.0	-172.0	-204.0	-299.0	-389.0	-358.0	-972.0	-488.0	-572.0
	% of GDP	-1.6	-1.8	-1.9	-1.7	-0.9	-1.0	-1.2	-1.4	-1.1	-2.4	-1.2	-1.1
4. Net private transfers	US$ mn.	887.0	974.0	984.0	1,097.0	1,205.0	1,350.0	1,736.0	1,904.0	2,214.0	2,565.0	2,927.0	3,608.0
	% of GDP	5.6	5.9	7.0	7.5	6.3	6.5	7.1	6.7	6.8	6.3	6.9	7.1
5. Net official transfers	US$ mn.	26.0	24.0	22.0	31.0	36.0	30.0	93.0	101.0	97.0	101.0	77.0	52.0
	% of GDP	0.2	0.1	0.2	0.2	0.2	0.1	0.4	0.4	0.3	0.2	0.2	0.1
6. Current account balance	US$ mn.	-563.0	-1,066.0	-244.0	-237.0	-71.0	-648.0	-650.0	-1,499.0	-1,401.0	-3,775.0	-214.0	-1,418.0
	% of GDP	-3.6	-6.4	-1.7	-1.6	-0.4	-3.1	-2.7	-5.3	-4.3	-9.3	-0.5	-2.8
7. Capital and financial a/c	US$ mn.	373.0	443.0	562.0	444.0	722.0	631.0	1,224.0	1,808.0	2,097.0	1,773.0	2,594.0	2,876.0
	% of GDP	2.4	2.7	4.0	3.0	3.8	3.1	5.0	6.4	6.5	4.4	6.2	5.7
Capital account	US$ mn.	80.0	50.0	198.0	65.0	74.0	64.0	250.0	291.0	269.0	291.0	233.0	164.0
Financial account	US$ mn.	293.0	393.0	364.0	379.0	648.0	567.0	974.0	1517.0	1828.0	1483.0	2,361.0	2,713.0
8. Long-term	US$ mn.	435.0	304.0	164.0	326.0	722.0	680.0	798.0	907.0	1251.0	1016.0	1,304.0	2,379.0
Foreign direct investment	US$ mn.	177.0	173.0	82.0	181.0	171.0	217.0	234.0	451.0	548.0	691.0	384.0	435.0
Private long-term (net)	US$ mn.	196.0	82.0	-257.0	-21.0	-33.0	14.0	11.0	-35.0	31.0	74.0	79.0	149.0
Government long-term	US$ mn.	62.0	47.0	249.0	162.0	554.0	439.0	553.0	491.0	672.0	252.0	840.0	1,796.0
9. Short-term	US$ mn.	-142.0	88.0	201.0	53.0	-75.0	-112.0	176.0	610.0	577.0	466.0	1,058.0	334.0
Foreign portfolio investment	US$ mn.	-13.0	-45.0	-11.0	25.0	2.0	11.0	60.0	51.0	101.0	60.0	-6.0	-230.0
10. Other (b)	US$ mn.	-101.0	174.0	71.0	-145.0	-2.0	202.0	323.0	293.0	364.0	728.0	346.0	-537.0
11. Overall balance	US$ mn.	-263.0	-522.0	220.0	338.0	502.0	-205.0	501.0	204.0	531.0	-1385	2,725.0	921.0
	% of GDP	-1.7	-3.1	1.6	2.3	2.6	-1.0	2.1	0.7	1.6	-2.9	6.5	1.8

Notes: (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, 1999-2010

Currency	Unit	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Nominal exchange rates													
U.S.A.	S.L. Rs. per US$	72.12	80.06	93.16	96.72	96.74	104.60	102.12	107.71	108.72	113.14	114.38	110.95
Japan	S.L. Rs. per Yen	0.71	0.70	0.71	0.82	0.90	1.02	0.87	0.90	0.97	1.25	1.24	1.36
U. K.	S.L. Rs. per Pound	116.72	119.37	135.06	155.12	172.19	201.37	175.94	211.29	217.15	163.28	181.75	171.41
Europeon Union	S.L. Rs. per Euro	72.53	74.32	82.27	101.38	121.60	142.32	120.96	141.58	160.27	159.45	163.72	147.56
India	S.L. Rs. per Ind. Rs.	1.66	1.71	1.93	2.02	2.12	2.40	2.27	2.44	2.77	2.36	2.46	2.48
24 currency													
Nominal effective exchange rates (NEER)	NEER 2006 = 100 (a)	-	-	-	-	110.31	97.57	104.77	94.35	87.79	101.85	98.12	100.49
Real effective exchange rate (REER)	REER 2006 = 100 (a)	-	-	-	-	92.01	89.64	100.15	99.26	105.64	99.35	97.57	102.82

Sources: Central Bank of Sri Lanka, *Annual Report,* various issues.

Appendix B: Capital Market

Table B1: Sri Lanka's Capital Market Structure, 2005-2010

		2005	2006	2007	2008	2009	2010(a)
1.	Equity market:						
	Market capitalization	584,000	834,800	820,700	488,812	1,092,100	2,210,500
	of which central depository	259,780	370,076	418,088	488,813	1,092,100	2,210,500
2.	Debt market:	1,266,802*	1,460,644*	1,507,698	2,140,228	2,400,955	2,565,662
	(i) Private	29,060*	42,260*	50,320*			
	(ii) Public	1,237,742	1,418,384	1,457,373	2,026,463	2,281,341	2,460,555
	(a) Short-term(TBs)	234,174	257,732	307,012	402,600	441,032	514,442
	(b) Medium & long term	1,003,568	1,160,652	1,351,999	1,623,863	1,840,309	1,946,113
3.	Total debt and equity (Rs. mn)	1,850,802*	2,295,444	2,328,393	2,629,040	3,493,055	4,776,162
	As a percentage of GDP(%)	88.20	78.11	65.09	34.35	72.39	85.25
	of which actually traded through the central depository	270,680	393,576	449,288			
	As a share of total (%)	14.6	17.1	19.3	na	na	na
4.	Foreign participation in the central depository as a per cent of market capitalization (%)	14	14	19	na	na	na

Note: (a): Provisional.
* Debentures listed is no longer available. (Source: CSE Fact Book 2005, 2006 and 2007).

Sources: Colombo Stock Exchange, *Annual Report*; Fact Book, Central Bank of Sri Lanka, *Annual Report*, various issues.

Table B2: Recent Developments in the Share Market, 2002-2010

	2002	2003	2004	2005	2006	2007	2008	2009	2010
1. Number of companies listed	238	244	242	239	237	235	235	231	242
New Listings	9	8	5	6	2	-	3	3	10
De-listings	9	2	7	9	4	2	2	6	1
2. Number of Companies Traded	231	236	241	242	232	231	232	231	238
3. Market Capitalization Rs.bn.	162	263	382	584	835	821	489	1,092	2,211
US$ bn.	1.7	2.7	3.8	5.8	8.0	8.0	4.3	9.6	20.1
4. Price -earnings ratio times, year end	12.1	11.1	10.8	12.4	14.0	11.6	11.3	15.3	25.2
5. Number of shares traded No. mn.	1,220	2,255	2,752	5,128	3,912	2,952	3,155	4,763	18,489
Domestic No. mn.	1,035	1,932	2,479	4,313	3,178	2,049	1,935	3,784	16,685
Foreign No. mn.	185	323	273	815	734	902	1,220	978	1,805
6. Trades No. '000	283.2	481.3	645.1	1100.4	952.4	876.9	776.2	1,266	3,355
Domestic No. '000	273.2	460.9	611.6	1038.5	908.2	831.7	730.4	1,190	3,225
Foreign No. '000	10.0	22.0	33.4	61.9	44.2	45.3	45.8	75.5	130.1
7. Turnover: Rs.Bn.	30.5	73.8	59.0	114.6	105.1	105.0	110.5	142.5	570.3
US$ bn.	0.3	0.7	0.6	1.1	1.0	1.0	1.0	1.2	–
Domestic Rs. bn.	24.3	59.9	48.3	89.9	70.7	63.8	50.8	99.0	464.7
Foreign Rs. bn.	6.2	13.8	9.8	24.6	34.5	41.2	59.7	43.5	105.6
8. Liquidity- turnover / market capitalization ratio (%)	18.8	28.1	15.4	19.6	12.6	12.8	22.6	26.3	25.79
9. No. of new issues (No.)	5	4	_	_	_	_	_	_	_
10. Total no. of shares issued (mn.)	244	_	_	_	_	_	_	_	_
11. Value of shares issued (Rs. bn.)	3.6	_	_	_	_	_	_	_	_
12. Central depository:									
Domestic (Rs. bn.)	66.5	98.2	140.4	179.8	248.7	260.4	162.3	387.6	942
Foreign (Rs. bn.)	19.5	37.8	54.6	79.9	121.4	157.6	108.0	231.2	431.3
Total (Rs. bn.)	86.0	136.0	195.0	259.7	370.1	418.0	270.3	618.9	1,373.3
Percentage of market cap.	53.1	51.7	51.0	44.5	44.3	50.9	55.3	56.0	62.0
13. Non-national activity									
Net purchases (Rs. mn.)	2,441.5	209.3	1,106.3	6,144.5	5,377.0	11,254.3	13,950.5	-789.0	-26,335.3
Purchases (Rs. mn.)	7,477.7	13,943.9	11,278.0	27,712.4	37,167.0	46,796.8	66,632.2	43,057.3	92,425.5
Sales (Rs. mn.)	5,036.2	13,734.6	10,172.0	21,567.9	31,790.0	35,542.5	52,681.7	43,846.3	118,760.9
14. Price indices									
All share 1985 = 100	815.1	1,062.0	1,506.9	1,922.2	2,722.4	2,541.0	1,503.0	3,385.6	6,635.9
Growth % change	31.2	30.2	41.9	27.6	41.6	6.7	40.9	125.3	96.0
Sensitive 1985 = 100	1,374.6	1,898.0	2,073.7	2,451.1	3,711.8	3,291.9	1,631.3	3,849.4	7,061.5
Growth % change	33.3	38.1	9.3	18.2	51.4	11.3	-50.4	136.0	83.4

Note: 1000 Million = 1 Billion.

Source: Colombo Stock Exchange, *Annual Report,* various issues.

Table B3: Market Concentration
(% of total market capitalization)

	2010(%)
JKH	8.41
Carsons	4.56
Dialog	4.35
Commercial Bank	4.15
Bukit Darah	4.08
SLT	4.00
HNB	3.46
Aitken Spence	3.12
Ceylon Tobacco	3.01
LOLC	2.75
Total	41.89

Note: As at 2010 the top ten of the 231 listed company accounted 41.89% of total market capitalization.

Source: Colombo Stock Exchange , *Annual Report*, various issues.

Table B4: New Equity Listings - 2006-2010

Company	No. of shares offered	Issue price Rs.	No. of shares subscribed by public	No. of shares devolved to underwriters	Date listed
1. **New listings - 2006**					
Blue Diamonds Jewellery Worldwide Ltd.	65,589,385	2.50	30,057,291	–	6-Jan-06
Cargo Boat Development Co. Ltd	3,400,012	15.00	3,400,012	–	4-Jan-06
Commercial Leasing Co. Ltd	2,016,667	60.00	2,016,667	–	30-Jan-06
Regnis (Lanka) Ltd	1,207,271	50.00	1,207,271	–	20-Jan-06
Chemical Industries (Colombo) Ltd	8,100,000	62.00	8,100,000	–	29-Mar-06
Chemical Industries (Colombo) Ltd	2,430,000	35.00	2,430,000	–	29-Mar-06
Dankotuwa Porcelain Ltd	18,094,296	10.00	12,791,509	5,302,787	25-Apr-06
Seylan Merchant Leasing Ltd	5,047,475	18.00	5,047,475	–	20-Apr-06
The Fortrees Resorts Ltd	38,882,344	10.00	38,882,344	–	23-May-06
Seylan Bank Ltd	83,560,000	12.50	83,560,000	–	2-May-06
Vidullanka Ltd	2,981,250	20.00	2,981,250	–	3-May-06
Overseas Reality (Ceylon) Ltd	69,057,200	15.00	10,133,921	58,923,279	23-Aug-06
Pan Asia Banking Corporation Ltd	55,571,883	10.00	55,068,524	–	26-Oct-06
Seylan Merchant Leasing Ltd	3,028,485	20.00	3,028,485	–	30-Oct-06
Diesel & Motor Engineering Co. Ltd	1,100,000	50.00	1,100,000	–	20-Nov-06
People's Merchant Bank Ltd	12,500,000	20.00	12,500,000	–	14-Nov-06
Value (Rs)	4,705,479,692				
Issues (No.)	15				

2. **Right issues - 2006 by sector**	No.of issues	No. of shares	Value (Rs.)
Banks, Finance & Insurance	6	161,724,510	2,122,643,100
Chemicals & Pharmaceuticals	1	10,530,000	587,250,000
Hotels & Travels	1	38,882,344	388,823,440
Land & Property	2	72,457,212	1,086,858,180
Motors	1	1,100,000	55,000,000
Manufacturing	3	84,890,952	405,279,972
Power & Energy	1	2,981,250	59,625,000
Total	15	372,566,268	4,705,479,692

3. **New listings-2007**	No. of shares offered	Issue price Rs.	No. of shares subscribed by public	No. of shares devolved to underwriters	Date listed
Kshatriya Holdings PLC	19,679,528	10.00	19,679,528	–	12-Feb-07
Kelsey Development Ltd	5,809,758	20.00	5,809,758	–	12-Feb-07
The Fortress Resorts Ltd	20,161,215	10.00	17,242,725	2,918,490	27-Feb-07
Lanka Tiles Ltd	5,052,420	35.00	5,052,420	–	1-Mar-07
John Keells Holdings PLC	92,103,534	140.00	92,103,534	–	6-Feb-07
Amana Takaful PLC	12,500,099	30.00	12,500,099	–	22-Mar-07
Commercial Bank of Ceylon Ltd	40,288,996	138.00	40,288,996	(Voting)	4-Apr-07
Commercial Bank of Ceylon Ltd	2,790,138	65.00	2,790,138	(Non-voting)	4-Apr-07
ACME Printing & Packing Ltd	4,472,160	14.00	3,510,191	961,969	24-Apr-07
DFCC Bank	21,639,134	140.00	21,639,134	–	27-Apr-07
Kshatriya Holdings PLC	73,798,230	10.00	73,798,230	–	21-Jun-07
Dialog Telecom PLC	740,343,492	21.00	740,343,492	–	21-May-07
John Keells Hotels PLC	496,413,675	5.75	496,413,675	–	28-Jun-07
Marawila Resorts Ltd	14,000,000	4.00	14,000,000	–	7-Aug-07
Muller and Phipps (Ceylon) Limited	216,000,000	1.00	87,571,714	–	31-Dec-07
First Capital Holdings PLC	18,750,000	10.00	18,750,000	–	17-Aug-07
Parquet (Ceylon) Ltd	1,324,800	10.00	1,324,800	–	23-Oct-07
LB Finance Ltd	10,100,000	17.00	10,100,000	–	27-Nov-07
Coco Lanka Ltd	6,300,000	18.00	6,300,000	–	7-Nov-07
Ceylon Glass Company PLC	395,869,200	1.90	395,869,200	–	5-Nov-07
The Lanka Hospitals Corporation Ltd	67,119,651	15.00	67,119,651	–	20-Dec-07
Ceylon Hotels Corporation PLC	150,000,000	2.00	150,000,000	–	31-Dec-07
Value (Rs)	44,622,201,960				
Issues (No.)	21				

Contd...../-

4. Right issues - 2007 by Sector	No.of issues	No. of shares	Value (Rs.)
Banks, Finance & Insurance	5	106,068,277	9,504,919,448
Beverage Food & Tobacoo	1	6,300,000	113,400,000
Hotels & Travels	4	680,574,890	3,411,990,781
Healthcare	1	67,119,651	1,006,794,765
Manufacturing	4	406,718,580	1,004,844,420
Diversified Holdings	3	185,581,292	13,829,272,340
Land & Property	1	5,809,758	116,195,160
Stores & Supplies	1	216,000,000	87,571,714
Telecommunication	1	740,343,492	15,547,213,332
Total	21	2,414,515,940	44,622,201,960

5. New listings-2008	No. of shares offered	Issue price Rs.	No. of shares subscribed by public	No. of shares devolved to underwriters	Date listed
Janashakthi Insurance Company Ltd.	33,000,000	12.00	33,000,000		21-Jul-08
Ceylinco Insurance PLC	8,500,000	175.00	6,414,480		14-Aug-08

6. Right issues - 2008 by sector	No.of issues	No. of shares	Value (Rs.)
Banks Finance & Insurance	3	46,519,739	1,136,239,907
Chemicals & Pharmacuticals	2	21,000,000	1,335,856,107
Healthcare	2	76,502,766	165,000,000
Manufacturing	1	1,464,044	14,640,440
Investment Trust	1	1,366,667	27,333,340
Total	9	146,853,216	2,679,069,794

7. Right issues - 2009 by sector	No.of issues	No. of shares	Value (Rs.)
Banks Finance & Insurance	4	80,111,050	1,095,457,600
Beverage Food & Tobacco	2	33,500,000	1,375,000,000
Construction & Engineering	1	900,000	9,000,000
Healthcare	1	2,352,272	118,431,789
Hotels & Travels	2	20,421,050	153,421,000
Investment Trust	1	2,500,000	50,000,000
Trading	2	121,702,560	2,434,051,200
Total	13	261,486,932	5,235,361,589

8. Right issues - 2010 by sector	No.of issues	No. of shares	Value (Rs.)
Banks Finance & Insurance	5	822,860,428	2,613,168,938.60
Beverage Food & Tobacco	2	20,799,500	1,059,965,000.00
Construction & Engineering	1	3,585,096,339	3,585,096,339.00
Hotels & Travels	4	407,206,283	7,114,053,860.00
Investment Trust	1	69,544,320	2,086,329,600.00
Plantations	3	39,821,988	727,572,875.00
Chemicals & Pharmaceuticals	2	144,428,286	382,285,457.40
Land & Property	2	290,070,253	4,751,949,795.00
Motors	1	1,013,813	50,690,650.00
Manufacturing	5	137,119,330	821,614,389.00
Footware & Textiles	1	12,500,000	912,500,000.00
Power & Energy	1	54,109,700	216,438,800.00
Total	28	5,584,570,240	24,321,665,704.00

Source: Colombo Stock Exchange, *Fact Book*, Various Issues

Table B5: Structure of Debt Market, 2006-2010

(Rs.bn)	2006	2007	2008	2009	2010(a)
1. Private Debt:					
(a) Commercial paper(year end)	23.50	30.00	24.00	21.50	12.00
(b) Certificates of deposit	18.76	19.10	19.10	19.62	18.92
(I) Commercial banks	17.70	17.76	17.76	17.25	17.63
(ii) Finance companies	1.06	0.86	0.91	1.07	1.29
(c) Debentures (listed)	**	**	**	**	**
Total private debt	42.26	50.30	50.30	41.12	49.84
2. Public debt:					
(a) Short terms					
(i) Treasury bills	257.73	307.01	307.01	441.03	514.44
(ii) Central bank securities	–	–	–	–	
(b) Medium & long term					
(i) Treasury bonds	885.97	1018.85	1018.85	1513.51	1643.89
(ii) Rupee securities	116.71	131.51	130.01	112.29	87.71
(iii) Certificates of deposit	–	–	–	–	–
Total public debt	1,260.41	1,456.37	1,457.37	2,066.83	2246.04
3. Total debt	1,302.67*	1,507.67*	1,507.67*	2,107.95	1,179.61

Note: (a): Provisional.
** All corporate denbentures listed on the Colombo Stock Exchange were transferred to the DEX with effect from August 2005.
* Debentures listed is no longer available. (Source: CSE Fact Book 2005, 2006 and 2007).

Source: Central Bank of Sri Lanka, *Annual Report,* various issues; Colombo Stock Exchange, Annual Reportvarious issues.

Table B6: Listed Debentures, 2006-2010

Issuer	Issued (No.)	Par value (Issue price Rs.)	Interest (p.a.)	No.of debt subscribed	Date listed
1. Listings 2006					
Seylan Merchant Leasing Ltd.	10,000,000 with an option	100	13.00%	7,646,400	25.07.06
	to issue up toa further	100	13.50%	4,620,800	25.07.06
	5,000,000 if oversubscribed	100	Floating	305,950	25.07.06
DFCC Bank		1,000	13.75%	200,000	17.11.06
	Unsecured subordinated	Floating	170,000	17.11.06	
	redeemable debenture	Floating	40,000	17.11.06	
		14.00%	590,000	17.11.06	
2. Listings 2007					
Commercial Bank of Ceylon Ltd	Issue of 1,000,000 with an	1,000	13.50%	527,800	23.01.07
	option to issue up to a further	1,000	Floating	131,020	23.01.07
	500,000	1,000	13.75%	250	23.01.07
	1,000	Floating	300	23.01.07	
	1,000	14.00%	467,260	23.01.07	
	1,000	Floating	400	23.01.07	
Seylan Merchant Bank PLC	950,000	100	16.00%	321,390	08.01.07
	100	17.00%	628,260	08.01.07	
	100	Floating	350	08.01.07	
	Issue of 1,000,000 with	100	16.00%	588,080	01.01.07
	an option to issue	100	16.50%	352,300	01.01.07
	upto a further 950,000	100	16.25%	9,000	01.01.07
	100	16.75%	6,300	01.01.07	
	100	16.50%	11,120	01.01.07	
	100	17.00%	8,500	01.01.07	
	100	17.00%	8,600	01.01.07	
	100	17.50%	16,100	01.01.07	
Seylan Bank PLC	Issue of 5,000,000 with	100	15.75%	2,916,200	18.01.07
	an option to issue	100	16.75%	4,275,450	18.01.07
	upto a further	100	Floating	302,350	18.01.07
	5,000,000				
Sampath Bank Ltd	Issue of 10,000,000	100	15.50%	222,650	04.10.07
	with an option to	100	17.50%	5,206,725	04.10.07
	issue up to a	100	Floating	9,570,625	04.10.07
	further 5,000,000				
Nations Trust Bank PLC			14.10%	1,650,000	25.05.07
		Floating	1,650,000	25.05.07	
		Floating	1,700,000	25.05.07	
Hatton National Bank PLC			Floating	2,625,000	13.01.07
		Floating	2,500,000	13.01.07	
		Floating	3,000,000	13.01.07	
		Zero coupon	5,143,445	13.01.07	
		Zero coupon	13,628,000	13.01.07	
		16.00%	5,000,000	28.11.07	
		16.75%	7,000,000	28.11.07	
National Development Bank PLC			17.50%	250,000	24.12.07

Contd.../

Issuer	Issued (No.)	Par value (Issue price Rs.)	Interest (p.a.)	No.of debt subscribed	Date listed
3. Listings 2008					
Seylan Bank PLC	Up to 10,000,000	100	17.00%	2,089,550	14.01.08
	Unsecured subordinated	100	Floating	107,550	14.01.08
	redeemable debentures	100	Floating	433,350	14.01.08
	559,285,000	100	18.00%	2,962,400	14.01.08
LB Finance PLC	Up to 450,000	1000	21.00%	149,480	21.10.08
	Unsecured subordinated	1000	14.00%	296,570	21.10.08
	redeemable debentures				
	450,000,000	1000	Floating	2,500	21.10.08
	1000	Floating	1,450	21.10.08	
Singer (Sri Lanka)	Up to 6,000,000	100	Floating	280,000	28.10.08
PLC	Unsecured redeemable				
	listed rated A+				
	300,000,000	100	19.75%	2,720,000	28.10.08
Bank of Ceylon	Up to 50,000,000	100	19.00%	3,451,000	19.12.08
	Unsecured subordinated				
	redeemable debentures				
	4,272,370,000	100	Floating	36,993,900	19.12.08
	225	Zero	2,277,900	19.12.08	
	10,000,000				
Nations Trust	Unsecured subordinated		21.00%		06.11.08
Bank PLC	redeemable debentures				
4. Listings 2009					
Seylan Bank PLC	Unsecured subordinated	100	20.50%	395,400	10.02.09
	redeemable debentures	100	21.50%	231,600	10.02.09
	3,954,400	100	Floating	330,000	10.02.09
	100	Floating	100,000	10.02.09	
Nations Trust Bank PLC	Rated Unsecured redeemable	1000	20.53%	500,000	14.05.09
	debentures				
5. Listings 2010					
Bank of Ceylon	50,000,000	100	11.50%	10,747,700	15.07.10
	Unsecured subordinated				
	redeemable debentures				
	5,000,000,000	100	Floating	39,252,300	15.07.10
Urban Development Authority	100,000,000	100	11.00%	97,211,600	20.10.10
	Fully secured redeemable	100	Floating	7,300	20.10.10
	10,000,000,000	100	10.00%	2,781,100	20.10.10

Source: Colombo Stock Exchange.

Themes of the “Sri Lanka: State of the Economy” Reports

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1993	Export Sector
1994	Agriculture Sector
1995	Poverty Alleviation
1996	Workers’ Charter
1997	Private Sector Expansion
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2011	Post-conflict Growth and Recovery

As post-conflict Sri Lanka targets a phase of rapid growth, economic policies have to be geared to deliver broad-based growth, and ensure that equity in access to and distribution of resources are addressed. This calls for a growth process that is both sustainable and inclusive. Sri Lanka has made positive progress to date, recording a strong economic recovery, accompanied by an improved macroeconomic environment. While the economy appears to be comfortably positioned to meet an immediate external shock from a weakening global economy, timely macroeconomic policy adjustments to ensure that the country retains the flexibility to respond appropriately to emerging risks to growth and stability are critical.

The myriad channels through which growth is accompanied by a reduction in inequalities are many. Access to productive employment is a critical element. It requires improving employability of workers on the one hand, and improving access to productive employment opportunities on the other. On the supply side, improving employability involves access to good quality health, education and other productive assets. On the demand side, improving access to employment requires opening up opportunities in various sectors of the economy in different geographic regions and for diverse types of workers. The Sri Lanka: State of the Economy 2011 report examines these and other imperatives for inclusive growth in Sri Lanka's post-conflict setting, through a series of chapters and policy discussions.



INSTITUTE OF POLICY STUDIES OF SRI LANKA
100/20, Independence Avenue
Colombo 7
SRI LANKA
Tel: 94 11 266 5068, Fax: 94 11 266 5065
Email: ips@ips.lk
Website: www.ips.lk

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