# SRI LANKA
# *State of the Economy*
# 2010



Post-conflict Economic Development Challenges

INSTITUTE OF POLICY STUDIES OF SRI LANKA

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## State of the Economy

## 2009




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Please address orders to:
Institute of Policy Studies of Sri Lanka
99 St Michael's Road, Colombo 3, Sri Lanka
Tel: +94 11 2431 368, 2431 378 Fax: +94 11 2431 395
Email: ips@ips.lk
Website: www.ips.lk

This report was prepared by a team led by Dushni Weerakoon, with the guidance of Saman Kelegama, Executive Director, IPS. Contributing authors are Nisha Arunatilake, G.D. Dayaratne, Deshal de Mel, Ayodya Galappatige, Asha Gunawardena, Dilani Hirimuthugodage, Suwendrani Jayaratne, Ruwan Jayathilaka, Priyanka Jayawardena, Tilani Jayawardhana, Roshini Jayaweera, Haren Kodagoda, Malathy Knight-John, Sunimalee Madurawela, Wimal Nanayakkara, Nethmini Perera, Dharshani Premaratne, Parakrama Samarathunga, Athula Senaratne, Manoj Thibbotuwawa, Dushni Weerakoon, and Kanchana Wickremasinghe. Editorial support from Charmaine Wijesinghe and D.D.M Waidyasekera, and formatting support from Asuntha Paul is gratefully acknowledged.

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## 1. Policy Perspectives

Sri Lanka made significant progress towards long term peace and stability in 2009 with the successful end to a 30 year armed separatist conflict in the country. The economic dividends, however, were slow to materialize, held down not only by a severe global economic downturn but also by the distractions of Presidential and Parliamentary elections. In the midst of such developments, Sri Lanka's relatively low GDP growth of 3.5 per cent for 2009 went almost unnoticed. The reasons were primarily two fold. First, the adverse knock-on effects of the global economic crisis on the Sri Lankan economy were anticipated well in advance. And secondly, any residual concerns about the downturn were eclipsed by optimism of new opportunities for growth that a 'post-conflict' economy could generate in the medium term.

Usage of the term 'post-conflict' implies many things, including the many political nuances it contains in relation to issues of conflict resolution. At its simplest, however, it can be taken to imply a phase of reconciliation and reconstruction, with intended political and development objectives. In so far as post-conflict development relates to the economic sphere, the primary objective is to reduce the major risk factors of conflict recurrence by formulating economic policies that are sensitive to issues of inequities among groups. While there can be many commonalities in the policies adopted by conflict-affected countries towards this end, there is no recommended "one-size-fits-all" approach. Sri Lanka, like other conflict-affected states, must fashion an approach that is context-appropriate to its own circumstances. Above all, it must be owned, formulated and driven by national actors.

In this, the government had already taken the lead in enunciating its development objectives for the Northern and Eastern Provinces under the 'Uthuru Wasanthaya' (Northern Spring) and 'Nagenahira Navodaya' (Eastern Re-awakening) programmes, respectively. In turn, these were included in its broader national programme of activities spelt out in the 'Mahinda Chinthana: Idiri Dekma' (Vision for the Future) that served a dual purpose as the government's election manifesto. The intention is clearly to deliver rapid economic development to the war ravaged North and East (N&E), while focusing on bridging the rural-urban divide in the rest of the country. That the government's message resonated with a vast majority of the voting public in Sri Lanka was apparent from the overwhelming mandate received at both the Presidential and Parliamentary elections held in January and April 2010, respectively. Whilst it cannot be discounted that support for the government stemmed in part from its military successes in 2009, its economic message - rapid infrastructure improvements to rural Sri Lanka - has also become a decisive factor to an important constituency of voters.

Thus, the electoral successes of the ruling government in 2010 have guaranteed Sri Lanka a degree of political and policy stability that comes with a strengthened Executive, assured of a healthy majority in Parliament. Indeed, the elections have delivered the country an opportunity to overcome what has been a recurring constraint on successive governments to carry out a sustained

development drive - i.e., fragile coalitions that have often failed to hold together for the full life time of an elected Parliament. At the same time, however, the electoral successes have also raised the stakes for the government in the coming years. With the ending of the military efforts, the attention of the electorate will be focused almost exclusively on reaping the economic benefits of peace. As a consequence, the pressures on the government to meet high and rising expectations of economic progress and durable peace in the country are that much greater.

And expectations have been on the rise since the defeat of the Liberation Tigers of Tamil Eelam (LTTE) by government forces in May 2009. The groundswell of optimism in relation to Sri Lanka's medium term economic prospects was immediate. The country was quick to capture global attention, not only as a prime destination for tourism, but also as an emerging economy tipped to record a sharp rebound in performance from 2010. In this, Sri Lanka appears well placed to achieve a targeted growth rate of around 6.5-7.0 per cent in 2010, supported by a recovery in almost all key sectors of the economy. While it is understood that growth alone does not define an economic recovery, broad based growth is an initial critical component. It holds out the possibility of generating employment opportunities and improving the lives of the people in the near term.

Early, robust economic growth that has an immediate widespread impact will go some way towards meeting the aspirations of a conflict weary population. From a socio-political perspective, it is critical that such a recovery process should begin to immediately redress imbalances in the conflict-affected regions vis-à-vis the rest of the country. Revival of agriculture and tourism in these regions will help. But, more will need to be done to position the N&E to grow rapidly in the next few years. Indeed, reactivating economic growth in a region that is emerging from a prolonged conflict may call for different approaches. For instance, where conflict prevention is a priority - needing a speedy response - it may be that the benefits of some public expenditure cannot always be subject to standard investment appraisal techniques. In the immediate short term, actions to develop both physical infrastructure and regenerate social capital - a rapid rebuilding of destroyed homes, hospitals, schools, roads, etc. - can make a timely contribution to achieving Sri Lanka's long term socio-political objectives.

Many of these elements have already been captured in the policy documents put forward by the government. Indeed, many more activities are in the process of being implemented as evident by the sharp increase in spending allocated to the N&E. But beyond the immediate recovery efforts must lie clear medium term policy goals that anticipate the transition to long term post-conflict economic development. In the absence of a sound medium term macroeconomic framework that underpins a strategy of growth with stability, the 'phoenix' effect - whereby countries rebuild and grow faster in the immediate post-conflict years - may prove to be unsustainable in the longer run.

The need for a credible macroeconomic policy framework is very real as Sri Lanka grappled with an expansion of its projected budget deficit of 7 per cent of GDP for 2009 to a realized figure of 9.8 per cent of GDP by year end. While it can be explained in part by falling tax revenues in the midst of an economic downturn, expenditure needs - partly related to rehabilitation and resettlement of internally displaced persons (IDPs), etc. - were on the rise. Nonetheless, such fiscal constraints are a reminder that

the challenges for macroeconomic management over the next few years will be highly complex. Macroeconomic policy will be called on to support high growth - as almost a precondition to minimizing conflict risk - while ensuring that stability is not compromised in the process. Clearly, this will entail some trade-offs between growth and stability. Indeed, it may even mean tolerating moderate inflation and budget deficits to support Sri Lanka's post-conflict economic recovery process. What is important is the recognition that such a path will hold fewer risks if a medium term macroeconomic framework is underpinned by a clear and transformative process of economic policy reforms.

The priority for fiscal policy is to release financing for infrastructure investment and reconstruction spending. This entails that a mix of far reaching economic, institutional and policy reforms accompany a re-orientation of public finances. In the absence of such reforms, Sri Lanka will falter in putting its public finances in order - that is, cutting back on recurrent spending to support capital investment. Without such flexibility, a heavy infrastructure-led development drive will inevitably rely on borrowed funds. This will not only lead to an accumulation of the country's stock of public debt, and associated risks for macroeconomic stability, but will also mean that Sri Lanka's development priorities do not have the financing that is needed on a predictable basis.

The absence of a broader programme of economic reforms will have another downside effect. Undoubtedly, investing in a critical mass of infrastructure projects will facilitate a growth take-off. Infrastructure spending creates not only public assets but pushes money into the economy with all its multiplier effects. However, for such a growth process to be sustainable beyond the medium term, overall productivity in the economy has to improve. Lower costs that come with improved infrastructure - in transport, energy, communication - can help firms to be more competitive. But, raising the overall productivity in the economy also calls for improvements in the allocation of factors of production. In the absence of such improvements via economic reforms, Sri Lanka's growth will be sub-optimal, and will be subject to increasing volatility as the economy comes up against supply-side rigidities. The concern is that in the absence of a broader reform effort, improved infrastructure delivery will only take the country so far and no further.

The strong political mandate received by the government suggests that Sri Lanka has a very real opportunity for pushing through some of these reforms. Restructuring of state-owned enterprises to ease the financial burden on the Treasury, labour market regulatory reforms to create an attractive environment for employment generation, and education sector reforms to improve the quality, relevance and delivery of education to meet the needs of a modernizing economy are some areas that need attention. There are also more difficult and politically complex areas for reform that touch on improving the efficiency and productivity of Sri Lanka's rural agrarian economy. The government will weigh its options and decide what is feasible. That should not, however, negate adopting a sequential approach to reforms, picking on what is more easily doable and building on the reform process in the medium term.

What Sri Lanka should avoid is to be lulled into a sense of complacency. A post-conflict economic recovery phase driven by accelerated infrastructure spending can see the country achieving an annual average growth rate in excess of 7 per cent in the next few years. Already, the country has re-

bounded to post a GDP growth rate of 7.1 per cent in the first quarter of 2010. Such promising news on the growth front can also drown out calls for reforms. But, if the country is to truly lay the most viable platform on which to base long term growth, complementing an infrastructure development thrust with a broad reform effort will provide the most sustainable outcome.

A prudent fiscal policy framework will go a long way towards ensuring that a growth rebound is accompanied by macroeconomic stability. Without major attempts to rationalize recurrent spending, some degree of fiscal stability can be achieved by focusing on the revenue side. Indeed, as the Sri Lankan economy recovers from its current downturn, revenue generation can be expected to be positive. In addition, the government has already taken steps by appointing a Presidential Taxation Commission to rationalize the taxation structure and improve tax administration with a view to raising revenue by two per cent of GDP by 2011 from current levels. It is important that an appropriate mix of taxation measures is adopted. Raising taxes can harm growth. Those that are least likely to harm growth are taxes on consumption or on immobile assets such as property. However, there are limits to how much consumption taxes can be raised in view of their immediate and regressive impact on the cost of living.

While improved revenue generation may help to bridge fiscal deficits, it will only be partial given the above factors. The government can still make the case for a development strategy that relies on raising public capital investment in the economy primarily through sovereign debt. There is little doubt that a public investment-led infrastructure drive - based on economic needs - can make a significant contribution towards a growth take-off for Sri Lanka. Arguably, such a strategy can also be justified on the grounds that higher growth reduces the burden of public debt, and may make it easier to rationalize public finances by bringing in more tax revenue. In principle, governments that borrow and spend prudently can reap these benefits. But it is also the case that in practice, management of public debt has been at the centre of macroeconomic instability and crises for many developing countries.

There are other downside risks. A coherent post-conflict economic recovery strategy will solicit the return of private investment. This means government borrowing cannot be allowed to crowd out private investment, which could also lower future growth. To mitigate the crowding out effect, countries can resort to sourcing a larger chunk of financing needs through foreign borrowing. The dangers of greater sovereign foreign debt exposure are well known. Foreign debt brings with it additional exchange rate risk and vulnerability to downside shocks of external economic conditions.

The greater the dependence on short term foreign capital, the greater the risks of macroeconomic volatility. In 2009, Sri Lanka depended heavily on foreign investment in Treasury bills and bonds to bridge its fiscal financing gap. The potential for such capital to take 'flight' at the first signs of investor risk are well known. As the country's ratio of foreign debt service to exports grows - doubling from 7.1 per cent to 14.6 per cent between 2006 and 2009 - the safest course is to ensure that earnings from exports keep pace, to enable external debt service obligations to be held at comfortable levels. This again requires reforms that raise productivity and efficiency of Sri Lanka's export sectors. A supporting macroeconomic environment for export expansion is also critical. The inflows of foreign savings are exerting upward pressure on the country's exchange rate. In turn, intervention in the

foreign exchange market to mop up excess capital inflows adds to the domestic monetary base, requiring a prudent monetary policy response that will ensure price stability in the medium to longer term.

As Sri Lanka learned from the withdrawal of GSP-plus concessions by the European Union (EU) that came tied with conditions of marginal relevance to trade relations, reliance on the goodwill of developed countries to provide preferential market access does not come without a heavy cost. Whilst such a "carrot-and-stick" approach may also go against the dictum that in post-conflict recovery, donor countries fuel positive economic recovery and do no harm by promoting actions that heighten the risk of conflict recurrence in any form, the onus is on Sri Lanka to lay the foundation for the export sector to compete in any market. This not only encompasses improved infrastructure, flexible labour markets, improved labour force skills and a competitive exchange rate regime, but it also means strengthening the institutional infrastructure for better governance. Transparency and accountability - be it in relation to investors and/or tax payers - will strengthen the state's credibility and prevent its authority being undermined in myriad ways.

Thus, the ingredients to guide a successful post-conflict development effort are many. This year's 'State of the Economy' report devotes itself to an initial exploration of many of the above policy issues that Sri Lanka faces in meeting the challenges of a post-conflict economic development effort. Primary among them is the need to bridge socio-economic inequities across the country, taking a cross-sectoral assessment of policy concerns.

The lack of reliable information in the previously conflict-affected regions of the N&E - be it on demographic trends, production, asset base, or socio-economic conditions - stymies efforts to arrive at a robust analysis of the regions' developmental needs and prospects for recovery. Nonetheless, it is clear that the N&E face problems peculiar to a region that has been the theatre of conflict for nearly three decades, despite the fact that similar deprivations and disparities exist even within the 'conflict unaffected' areas of the country.

The scattered information available suggests that the decades of marginalization have left the N&E as two of the poorest provinces of Sri Lanka. The need of the moment is not only to build up the socio-economic environment in the N&E - comparable to the rest of the country - but to do it rapidly. This means taking a multi-pronged approach to development, which takes into account rebuilding and modernizing destroyed infrastructure, alleviating poverty through promoting economic independence, and providing the necessary social safety nets for managing vulnerability to shocks.

In this, a key element is rebuilding - rebuilding of destroyed physical and social infrastructure such as roads, schools, telecommunications, electricity services, and health facilities, etc. Such measures on the one hand provide an environment for human resource development, as well as encouraging investments through reduced transaction costs and improved returns to private investments.

The traditional livelihood practices and the know-how that took advantage of the natural resources in the N&E were discontinued due to decades of conflict, while most productive resources in the area were oriented towards military efforts. For sustained development, it is essential that the people in the N&E are able to take advantage of their natural endowments and be economically

independent. To achieve this, they must be assisted in reviving their traditional livelihoods, including tourism, fisheries, agriculture and other industries. Assistance is needed in a variety of ways including, skills training, managing local assets, and improving access to credit.

The long duration of the conflict has also damaged the social infrastructure and the trust of the people in the area. Efforts must be put in place to encourage community-led approaches to developing the production base in the N&E and help rebuild the damaged social fabric in these war torn areas.

Going beyond livelihoods, human resources in the N&E regions should be developed such that people are productive and are able to make use of new opportunities. In this regard, filling existing gaps in service delivery - such as improving immunization coverage and providing second chances to school drop-outs - is important. At the same time, education and health services need to be modernized so that people are able to take advantage of new developments in health care, and be able to gain modern skills that are in demand in the labour market.

The rest of this report will discuss these inter-linked issues through a series of chapters and policy briefs.

## 2. Growth and Stability in Post-conflict Economic Recovery

### 2.1 Introduction

While there can be no one single model of successful post-conflict economic development, a credible perspective of lasting and durable peace is vital. Without it, even the most sophisticated economic policy framework will not convince investors to risk long term investment in a country's development. To this end, the halt to Sri Lanka's three decade long armed conflict in May 2009 has enabled the government to provide perhaps the most important public good - i.e., peace for economic development to take place.

Although conflict affected economies tend invariably to be lumped together, the transition from conflict can arise from many different outcomes. A winner-take-all victory where the winner is the government in power, a successful independence struggle, or a negotiated settlement that leads to a power-sharing arrangement can bring different approaches to the notion of post-conflict development. The capacity of states to prevent conflict recurrence is also defined by the initial conditions. Weak institutional capacity that can often accompany conflict is used to portray conflict-affected states as 'fragile'. Indeed, the World Bank's Country Policy and Institutional Assessment Index (CPIA) - that captures a range of macroeconomic, structural and social policies - finds that post-conflict countries start with an average CPIA score of only 2.41, compared with a developing country average of 3.00.[1] But generalizations are often unhelpful in dealing with a country's context-specific situation. Sri Lanka, for instance, despite being subject to a violent, protracted and costly conflict, scores a relatively healthy 3.40 in the 2008 CPIA estimates. In January 2010, the International Monetary Fund (IMF) graduated Sri Lanka from the list of Poverty Reduction and Growth Trust (PRGT) eligible countries and recognized it as a country with a middle income emerging market status based on its past economic performance and future prospects.[2]

Sri Lanka's administrative capacity has remained fairly robust even in the theatre of conflict, albeit with recognized shortcomings in the country's overall institutional infrastructure for better governance. The latter undoubtedly should be improved to guide Sri Lanka's long term economic development effort. Indeed, a strong electoral mandate for the government in 2010 has guaranteed Sri Lanka a degree of political and policy stability - the lack of which has hampered the implementation of a consistent policy framework in the recent past.[3] Thus, in the near term, there are few obstacles to launching a development programme intended to deliver rapid growth. As Sri Lanka looks set to follow just such a path under the 'Mahinda Chinthana: Idiri Dekma'

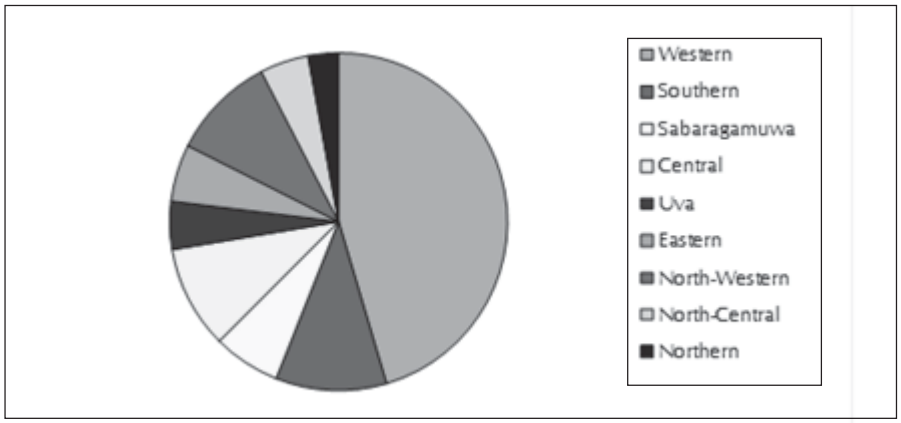
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1 Davies, V.A.B, 2008, "The Macroeconomics of Post Conflict Recovery", UNDP. Available at: http://undp.org/cpr/ content/economic recovery/Background_4.pdf.

2 Graduating from PRGT is recognized if a country (i) has enjoyed income per capita well above the International Development Association (IDA) threshold for a number of years; (ii) has the capacity for durable and substantial access to international financial markets, and (iii) does not face serious short term vulnerabilities (www.cbsl.gov.lk).

3 Weerakoon, D., 2010, "Improving Policy Efficiency in South Asia: Sri Lanka's Economic Reform Process", South Asian Bureau of Economic Research, Australian National University.

**Figure 2.1**
**GDP by Province (2008)**

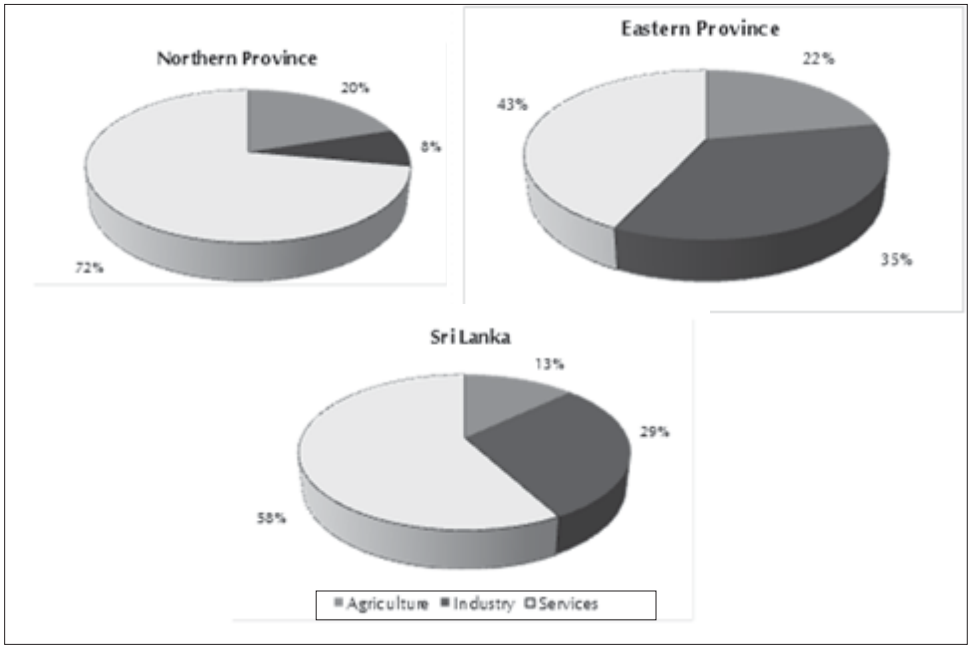



programme, how effectively the government manages the macroeconomic outcomes will determine whether or not the country lays the foundation for a sustainable growth effort. This Chapter examines these and other related issues in more detail in the following sections.

## 2.2 Recovery and Growth

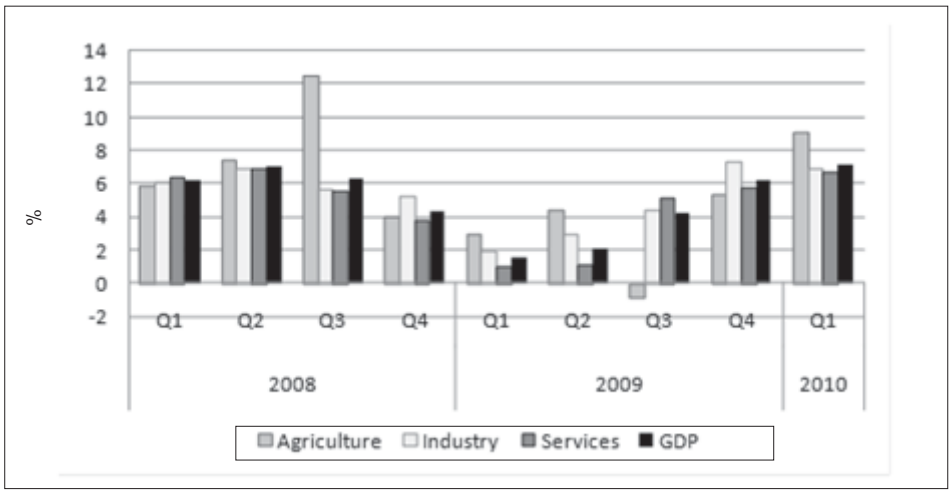
Countries that emerge from conflicts can often exhibit rapid growth as disruptions to economic activity cease and economic activity resumes in previously conflict-affected parts of a country. The Sri Lankan economy too will be the recipient of such immediate

**Figure 2.2**
**Sectoral Composition of GDP in N&E (2008)**




Source: Central Bank of Sri Lanka, *Annual Report* 2009.

**Figure 2.3**
**Quarterly GDP Growth**




Source: Department of Census and Statistics.

benefits. However, a resurgent economic performance in 2010 - with GDP growth forecast at 6.0-6.5 per cent - has other proximate causes, not least a recovery that is computed over a low base output growth in 2009.

The Sri Lankan economy, like others spread across the globe, was subjected to back-to-back external shocks - the commodity price shock and record high food and fuel prices that began in 2007, and the global economic crisis from September 2008. As was expected, GDP growth in 2009 was a low 3.5 per cent, with the most severely affected sectors being services and industry. The drag on economic activity was two-fold: loss of demand from export markets and a lacklustre domestic demand. The former is clearly evident in the sharp contraction in export earnings growth in 2009 of 12.6 per cent. Growth in domestic consumption demand in 2009 fell sharply to 4.1 per cent from 28.8 per cent in 2008.

The recovery in 2010 is expected to be fairly evenly spread across all sectors. This is clearly what is needed if the government is to nurture support for its economic programme. The role of agriculture as an engine of economic recovery and poverty alleviation cannot be ignored despite its relatively low and declining contribution towards GDP growth. Paddy production in 2009 suffered from the twin effects of a sharp increase in 2008 and unfavourable weather conditions. However, conditions for 2010 look better. A record 'Maha' season harvest in 2010, made possible by the addition of the harvest of the North and East (N&E), will go some way towards rekindling lost employment and livelihood opportunities.

The recovery of international commodity prices will bring some relief to another vulnerable sector, that of the plantations. Tea production in the country - which suffered a fall of 9 per cent in 2009 with the onset of the global financial crisis - began to witness a sharp recovery in the latter part of the year. Improvements in international commodity prices and favourable weather conditions are expected to support recovery of the tea industry in 2010.

Sri Lanka's industrial sector saw growth shrink to 4.2 per cent in 2009 on the back of continued poor performance in the manufacturing sector for a second consecutive year. Industrial sectors such as food, beverages and

**Table 2.1**
**Agricultural Sector Performance**

| | % of GDP | % Change | | | |
|---|---|---|---|---|---|
| | 2009 | 2006 | 2007 | 2008 | 2009 |
| Agricultural GDP | | | | | |
| Agriculture | 12.0 | 6.3 | 3.4 | 7.5 | 3.2 |
| Agriculture, livestock & forestry | 10.9 | 3.4 | 2.3 | 7.3 | 2.8 |
| Fishing | 1.2 | 53.5 | 15.6 | 9.9 | 6.9 |
| | | | | | |
| Production | Unit | | | | |
| Tea | kg mn | 310.8 | 305.2 | 318.9 | 289.8 |
| Rubber | kg mn | 109.2 | 117.6 | 129.2 | 136.9 |
| Paddy | mt '000 | 3342 | 3131 | 3875 | 3652 |

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

**Table 2.2**
**Industrial Sector Performance**

| | % of GDP | % Change | | | |
|---|---|---|---|---|---|
| | 2009 | 2006 | 2007 | 2008 | 2009 |
| Industry | 28.6 | 8.1 | 7.6 | 5.9 | 4.2 |
| Mining & quarrying | 2.1 | 24.2 | 19.2 | 12.8 | 8.2 |
| Manufacturing | 17.4 | 5.5 | 6.4 | 4.9 | 3.3 |
| Electricity, gas & water | 2.4 | 14.8 | 4.6 | 2.7 | 3.7 |
| Construction | 6.6 | 9.2 | 9.0 | 7.8 | 5.6 |
| | | | | | |
| Value added in industry | Share (%) | | | | |
| Food, beverages & tobacco | 48.0 | 5.8 | 6.6 | 5.2 | 5.9 |
| Textile, clothing & leather | 23.0 | 4.0 | 7.3 | 3.1 | 0.6 |
| Chemical, rubber & plastics | 15.0 | 8.0 | 6.6 | 6.4 | 1.8 |

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

tobacco that cater to the domestic market fared better than the export dependent sectors such as textiles and clothing. Indeed, garment workers in the industrial sector are likely to face some uncertainty with the disruption to businesses caused by the withdrawal of the GSP-plus benefits to Sri Lanka offered by the European Union (EU). The steady increase in the share of exports of Sri Lankan garments to the EU can come under some threat. While it could be argued that countries extending non-reciprocal preferential market access as a tool of development are well within their rights to determine eligibility, promoting actions that fuel adverse economic impacts can also prove counterproductive. Those likely to suffer the immediate consequences disproportionately are large numbers of vulnerable workers - mostly unskilled, young females. Additionally, disruptions to one of Sri Lanka's largest and most dynamic industries curtails its potential to provide immediate employment and livelihood opportunities to the conflict-affected population at a time when it is most needed.

The GSP-plus controversy, however, also holds a singularly important message for Sri Lanka - i.e., that trade preferences should not overshadow the drive to meet international competitiveness in exports. It is ultimately the latter that will allow Sri Lanka's manufacturing export sector to withstand and mitigate external shocks. Improvements in the quality of the country's infrastructure services - in energy, transport and communication - will help. Other regulatory reforms to improve the productive skills of its workforce, the legal environment governing labour laws and improving the institutional capacity are as important. Notwithstanding the above, ensuring a stable and predictable macroeconomic environment to ease the recovery process will be critical in the near term.

Undue volatility in key macroeconomic fundamentals - price inflation, interest rates and exchange rate - over the last few years has sapped investor confidence. For the export sector, the intersection of macroeconomic management is felt most in relation to the exchange rate. Ensuring that the exchange rate reflects the underlying macroeconomic fundamentals - and thus supports an export recovery - is likely to be a key policy challenge in the near term. This will be taken up for discussion in more detail later.

The services sector which has been the engine of growth for the Sri Lankan economy in recent years is likely to play an even stronger role in the coming years. Apart from government services, all other sub-sectors saw a lower rate of expansion in 2009. Nonetheless, with improved investor conditions in the country from the second half of the year, the downturn was mitigated in sectors such as financial services, and transport and communications. Another visible aspect of Sri Lanka's 'post-conflict status' was a strong rebound in tourism that had a knock-on effect on prospects for the leisure sector. Growth in tourism will offer immediate self-employment opportunities in small scale industries. In particular, such avenues of livelihood need to be developed and nurtured in the untapped tourist markets of the N&E.

However, tourism's contribution to GDP remains small. It is growth in sectors such as transport and communications, and financial services that will form the core of economic recovery in services. The major infrastructure investments already under-way

**Table 2.3**
**Services Sector Performance**

| | % of GDP | % Change | | | |
|---|---|---|---|---|---|
| | 2009 | 2006 | 2007 | 2008 | 2009 |
| Services | 59.3 | 7.7 | 7.1 | 5.6 | 3.3 |
| Wholesale & retail trade | 23.3 | 7.1 | 6.1 | 4.7 | -0.3 |
| Hotels & restaurants | 0.4 | 2.5 | -2.3 | -5.0 | 13.3 |
| Transport & communication | 13.5 | 12.6 | 10.5 | 8.1 | 6.6 |
| Banking, insurance & real estate | 8.9 | 8.5 | 8.7 | 6.6 | 5.7 |
| Ownership of dwellings | 3.0 | 1.1 | 1.1 | 1.1 | 1.3 |
| Government services | 7.8 | 5.0 | 6.0 | 5.7 | 5.9 |
| Private services | 2.4 | 7.8 | 7.8 | 6.5 | 5.8 |

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

in the former - for instance, developments of Colombo and Hambantota ports and Trincomalee harbour - are intended to position Sri Lanka to serve as a regional cargo hub. With the Colombo Stock Exchange (CSE) showing signs of renewed dynamism in the wake of political and policy stability, alongside steps taken to incrementally relax the country's foreign exchange regime and tighten financial regulations, it holds the potential to create a financial services hub in Sri Lanka. However, in order to create a conducive regulatory environment, excessive intervention in the economy should be avoided. Sri Lanka's banking sector of late, for instance, has been subject to intervention in setting lending rates as well as directed credit to select sectors of economic activity. Such interventions in the allocation of financial resources can prove harmful for economic efficiency in the long term.

### 2.2.1 Employment

Loss of employment was a notable aspect of the economic downturn across the world. Sri Lanka was no exception in this regard, witnessing a 0.5 percentage increase in its rate of unemployment. The most severely affected sector was that of manufacturing, with total employment in the sector declining by 54,000.

A worrying feature of labour force trends in recent years has been the progressive increase in the numbers employed by the public sector. Total public sector employment has seen a steady increase from 1.1 million in 2006 to 1.3 million by 2009, a rise of nearly 15 per cent over the three years. Whilst a large share of the increase is related to increased recruitment to the armed forces in the wake of intensified military operations, the fact that employment generation in the private sector has been lacklustre is cause for some concern.

**Table 2.4**
**Labour Force Trends**[a]

| | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Labour force ('000 persons) | 7,599 | 7,489 | 7,599 | 7,572 |
| Total employment ('000 persons) | 7,105 | 7,042 | 7,175 | 7,140 |
| Unemployment rate (%) | 6.5 | 6.0 | 5.2 | 5.7 |
| Male | 4.7 | 4.3 | 3.6 | 4.3 |
| Female | 9.7 | 9.0 | 8.0 | 8.2 |
| Employment share (%) | | | | |
| Public sector | 13.4 | 13.8 | 14.9 | 15.2 |
| Private sector | 42.1 | 42.7 | 41.1 | 41.2 |
| Employers | 3.1 | 2.8 | 3.0 | 2.9 |
| Self-employed | 30.8 | 30.3 | 30.3 | 29.0 |
| Unpaid family workers | 10.5 | 10.3 | 10.8 | 11.0 |
| By economic activity (%) | | | | |
| Agriculture | 32.2 | 31.3 | 32.7 | 32.5 |
| Industry | 26.6 | 26.6 | 26.3 | 25.5 |
| Services | 41.2 | 42.1 | 41.0 | 42.0 |

Notes: a: Data excludes Northern and Eastern Provinces.

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

### 2.2.2 Savings and Investment

The deflationary impact of the economic downturn is clearly visible in the sharp decline in the growth of consumption expenditure in 2009, down to 4.1 per cent from a growth of 28.8 per cent in the previous year. Private expenditure and investment has been at the core of the downturn, with government spending mitigating the slowdown to some extent. Despite efforts to maintain an investor friendly interest rate regime, lack of demand arising from both the domestic and external environment failed to encourage both consumption and investment from households and private sector businesses. Clearly, a corollary of decreased private consumption has been higher private savings. The sharp increase in private domestic savings in 2009 points to consumption smoothing behaviour in the face of considerable economic uncertainty.

Sri Lanka's national savings in 2009 stood at 23.9 per cent, largely as a result of private current transfers in the form of remittance inflows. As Sri Lanka targets a growth rate in the region of 7-8 per cent in the coming years, the country's investment rate will have to rise quite substantively. While overall domestic savings may well rise as financial intermediation improves, Sri Lanka is likely, however, to face a growing savings-investment gap, particularly in view of the large infrastructure programme being rolled out by the government. In contrast to higher anticipated government investment, its savings - the current account balance of the government budget - deteriorated sharply in 2009.

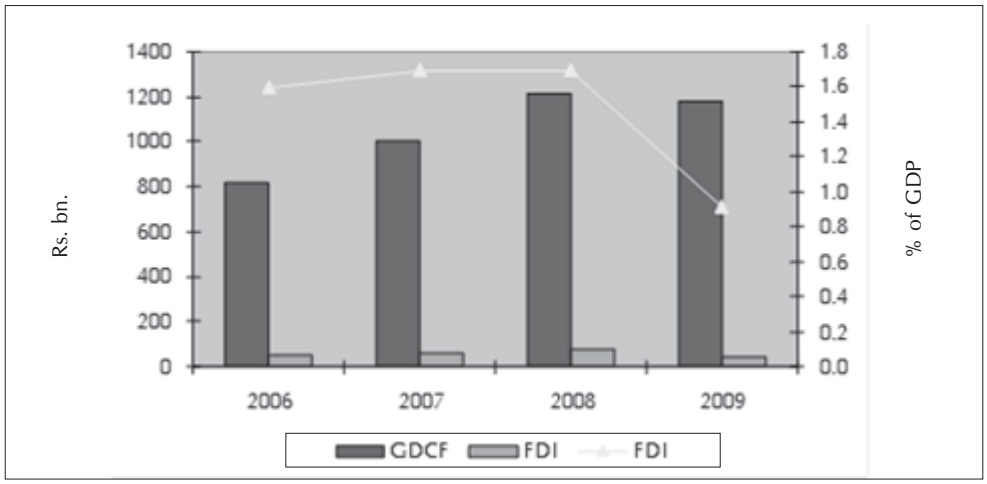
Sri Lanka can continue to access foreign savings to support a higher domestic rate of investment despite its relatively low rate of savings. However, there are risks should the gap widen significantly. Low domestic savings relative to investment manifests as a current account deficit where foreign liabilities also rise. A significant savings shortfall also raises the risks of growth volatility as countries depend on foreign saving to finance a higher investment rate than domestic savings alone

**Table 2.5**
**Consumption, Investment and Savings**

| | % of GDP | | % Change | |
|---|---|---|---|---|
| | **2008** | **2009** | **2008** | **2009** |
| Consumption expenditure | 28.8 | 4.1 | 86.1 | 82.0 |
| Private | 28.4 | 0.6 | 70.0 | 64.3 |
| Government | 30.6 | 19.3 | 16.2 | 17.6 |
| Investment | 21.5 | -2.6 | 27.6 | 24.5 |
| Private | 15.1 | -6.9 | 21.1 | 17.9 |
| Government | 48.3 | 11.3 | 6.5 | 6.6 |
| Domestic savings | -2.8 | 42.2 | 13.9 | 18.0 |
| Private | 1.9 | 49.5 | 15.9 | 21.7 |
| Government | -53.3 | -100.0 | -2.0 | -3.7 |

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

**Figure 2.4**
**Trends in Foreign Direct Investment (2006-09)**




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

would allow. Volatility is likely to be greater if a rising share of such inflows is of a short term nature. Sri Lanka in recent years has increased its exposure to short term foreign liabilities in the form of rupee denominated Treasury bills and bonds issues to foreign investors, Sri Lankan diaspora and its migrant workforce.

By contrast, less volatile forms of foreign savings such as foreign direct investment (FDI) are preferred, given that they are not only more stable forms of capital, but also that they bring other important spill-over effects such as technology transfer. Sri Lanka's record of attracting FDI has been poor, largely the result of investor hesitance related to the political violence in the country. The share of FDI in the country's gross domestic capital formation (GDCF) has averaged 5-6 per cent, before declining to 3.7 per cent in 2009. The latter reflects the general downturn in global capital flows, where FDI as a share of Sri Lanka's GDP declined to 0.9 per cent in 2009 from 1.7 per cent in the previous year.

The long term outlook for FDI looks more favourable in the post-conflict phase. Despite attractive tax concessions, political stability is a much more critical decisive factor for foreign investors. If Sri Lanka is to capitalize on the opportunity presented to raise FDI inflows substantively, maintaining macroeconomic stability and credible regulatory governance will be the decisive factors in a post-conflict environment. The services sector is likely to be the major beneficiary of increased FDI inflows.

Whilst initiatives to encourage FDI should be undertaken, it is still quite critical that efforts to increase government savings are not neglected. Besides efforts to raise revenues, this also means that fiscal policy needs to address recurrent expenditures in support of a rebalancing of growth from consumption to investment - or alternatively, making a trade-off between present and future standards of living.

## 2.3 Fiscal Policy Management

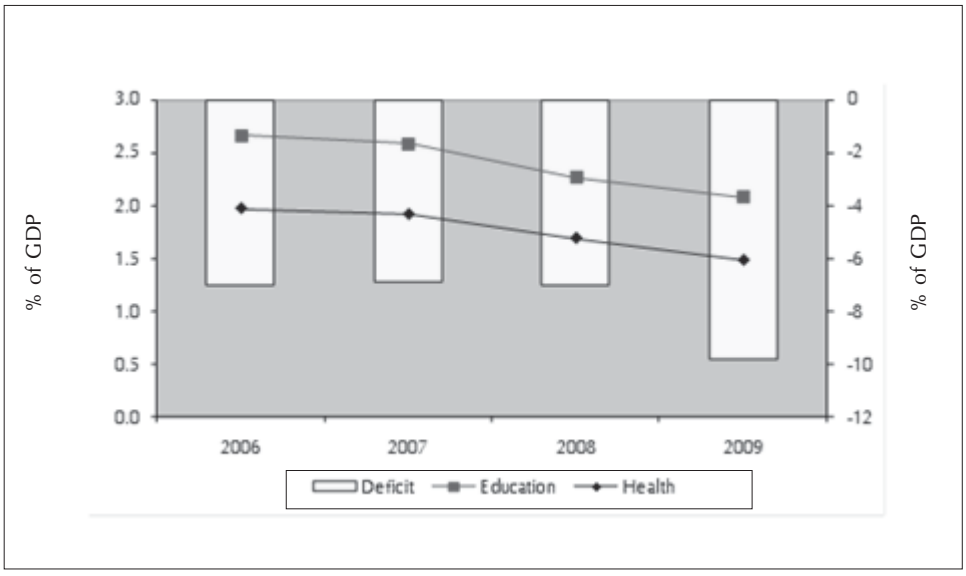
In post-conflict Sri Lanka, fiscal policy will need to balance the dual objectives of sustaining peace and laying the foundation for long term economic development. Unlike many other conflict-affected states, Sri Lanka's administrative structures were largely left intact through the course of its 30 year con-

flict. To that end, international experience offers limited comparative lessons for Sri Lanka on how to adjust approaches to the unique challenges of post-conflict tax efforts and public expenditure patterns. Tax policies that not only mobilize revenue but also address inequality will strengthen the legitimacy of the taxation system and compliance. Expenditures can be targeted to have differentiated effects across groups, as well as on inter-regional and intra-regional lines.

Tensions between fiscal austerity and reconstruction efforts are to be expected. Sri Lanka signed on to conventional macroeconomic conditionalities when it sought financial assistance from the International Monetary Fund (IMF). Stringent fiscal deficit targets were set, requiring Sri Lanka to trim its fiscal deficit progressively to 5 per cent of GDP by 2011 in order to qualify for successive instalments of the loan. Progress on macroeconomic balances can clash with the aim of achieving durable peace that rests partially on access to equal economic opportunities and decent standards of living.

In this context, a key issue for fiscal authorities will be to determine what is an acceptable moderate budget deficit - in effect, to balance the trade-off between fiscal stringency and potential social tensions that can be generated by curtailed public expenditures. The end of the conflict has raised expectations that economic rewards will follow. Cost of living pressures amidst soaring inflation during the height of military operations were endured. Economic hardships were exacerbated by external shocks in the form of the food price crisis and the global financial meltdown. In the conflict affected regions of the N&E, a war weary population will be seeking redress in the form of access to improved living conditions, employment and livelihood opportunities. Thus, the pressures on the government to deliver on its promises are heavy and rising.

**Figure 2.5**
**Budgetary Allocations on Health and Education**




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

What constitutes a moderate deficit as Sri Lanka attempts to make the transition to sustaining a durable peace will be a subject of much debate. Clearly, rampant inflation is not in the best interests of maintaining political stability or economic recovery. Inflation is especially hard on the poor and will raise social tensions and undermine political stability. On the other hand, enforcing indiscriminate spending cuts purely as a means of achieving a conditional deficit target can be counter-productive. As evident from Figure 2.5, a deteriorating fiscal situation has seen total expenditures in key social sectors of education and health undergoing cuts in annual budget allocations.

Achieving long term goals of economic recovery and political stabilization calls for a more prudent approach to fiscal consolidation. There is considerable fiscal leakage in transfers and subsidies and unproductive spending on public sector wages and salaries. The operating losses in state-owned-enterprises (SOEs) are a growing and unsustainable burden on the Treasury. The Ceylon Electricity Board (CEB), the Ceylon Petroleum Corporation (CPC) and Sri Lankan Airlines together accounted for operating losses of Rs. 32 billion in 2009. Apart from fiscal considerations, reforms in public administration and state entities are necessary. Microeconomic reforms that address constraints on growth and enhance the country's international competitiveness and flexibility are crucial for long term sustainability of economic growth.

Often, reforms that call for austerity are more difficult to carry through from a relatively weak fiscal position. Healthy public finances mean that there is greater probability of compensating those likely to lose out from reforms. But, Sri Lanka has overcome a singular constraint that has stalled reforms in the past - that is of having a strong government not shackled by the vagaries of weak coalitions and subject to narrow interests of constituent parties. In this, as in the unique position of embarking on a post-conflict development drive, Sri Lanka has the opportunity to place the country on a sounder fiscal footing after decades of inaction.

### 2.3.1 Deficit Financing and Debt

While there is certainly room to raise revenue capacity, expenditure needs are likely to outstrip revenue growth. In this context, if Sri Lanka is slow to undertake reforms that will allow a rebalancing of growth from consumption to investment, capital investment needs will have to be met by borrowings. The alternative to sovereign debt would be to print money which will be far more damaging to macroeconomic stability. Thus, the

**Table 2.6**
**Recurrent Expenditures (2006-09)**

| % of GDP | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Salaries & wages | 6.0 | 6.0 | 5.4 | 5.6 |
| Interest payments | 5.1 | 5.1 | 4.8 | 6.4 |
| Foreign | 0.6 | 0.6 | 0.7 | 0.7 |
| Domestic | 4.6 | 4.5 | 4.1 | 5.7 |
| Transfers & subsidies | 4.9 | 4.1 | 3.9 | 3.9 |
| Households & other sectors | 3.6 | 3.1 | 3.0 | 3.1 |

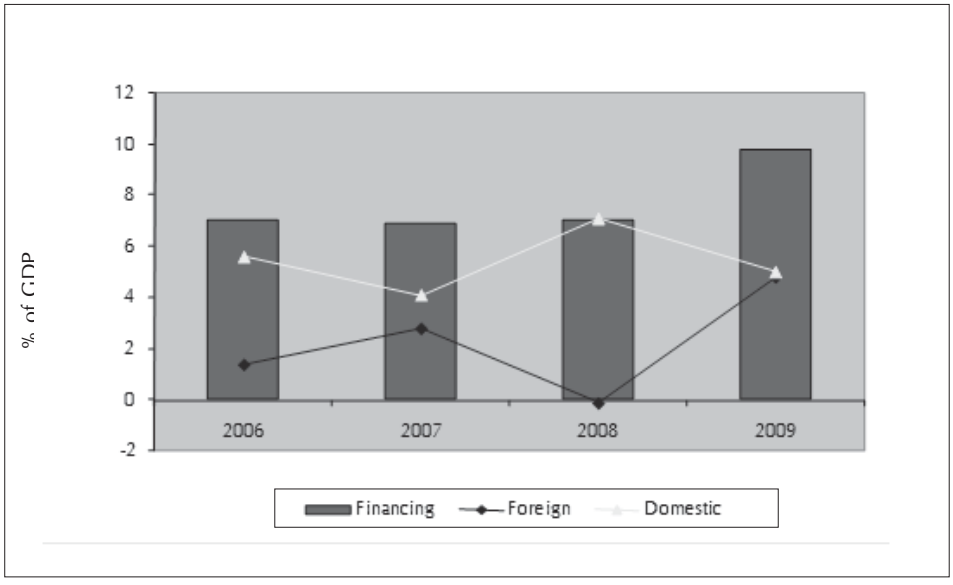
Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

anticipated higher volumes of investment will most likely mean higher levels of borrowing in the medium term. Already, Sri Lanka's debt servicing has increased sharply to 6.4 per cent of GDP in 2009 from 4.8 per cent in the previous year.

A breakdown of the financing pattern of the fiscal deficit suggests an increasing reliance on foreign savings to bridge expenditure needs (Figure 2.6). Historically, Sri Lanka has depended on loans and grants on concessionary terms. But official development assistance (ODA) is proving harder to come by as the country progresses to a middle-income status. Additionally, much of donor assistance is increasingly coming with strings attached where 'conditionalities' are used to advance a variety of goals. While Sri Lanka may have anticipated an increased influx of ODA for post-conflict development, it has been less receptive to 'conditions' that are perceived as an intrusion on national sovereignty. Even should such obstacles be overcome, recent studies suggest that while conditional budget support has played a role in sustaining post-conflict recovery, it has not played a role in starting the process.[4] Also, it is often the case that a post-conflict related aid influx typically diminishes over time, and other sources are necessary to sustain programmes into the long term.

Since Sri Lanka opened its Treasury bills and bonds market to foreign investors in 2006, such equity liabilities have supplemented grants and concessionary loans received by the government. In addition, foreign commercial borrowings have also become another source of funds. In 2009, foreign financing of the deficit increased sharply to 4.8 per cent of GDP, having declined in 2008 due to the slowdown in the inflow of foreign savings with the onset of the global financial crisis.

**Figure 2.6**
**Deficit Financing (2006-09)**




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

[4] http://www.crise.ox.ac.uk/confabstract.shtml?mcleod.

**Table 2.7**
**Net Foreign Financing (2009)**

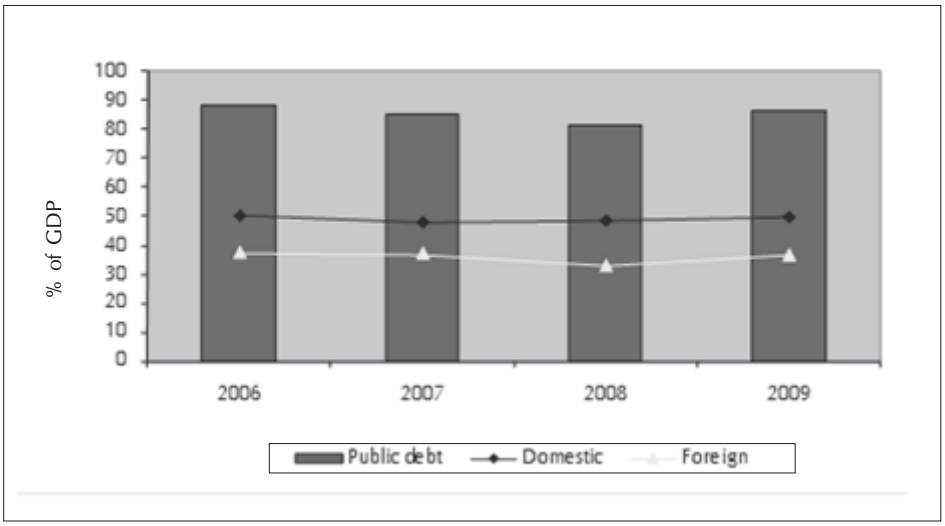
| | Estimate | Revised | Actual |
|---|---|---|---|
| Foreign financing (% of GDP) | 2.4 | 0.7 | 4.8 |
| Foreign financing (Rs. bn.) | 123.0 | 34.4 | 230.8 |
| Commercial borrowing | | | 57.4 |
| Treasury bills & bonds | | | 146.9 |

Source: Central Bank of Sri Lanka, *Annual Report 2009*.

There are potential risks associated with a greater reliance on foreign savings to meet Sri Lanka's fiscal expenditure needs. Capital inflows to Treasury bills and bonds are essentially of a short term nature, raising the risks of volatility and uncertainty with regards to financing of the deficit, which in turn can permeate into the financial markets. Indeed, the revised estimate for net foreign financing in 2009 under the IMF Stand-by Arrangement was 0.7 per cent of GDP from the original figure of 2.4 per cent (Table 2.7). However, the actual turned out to be 4.8 per cent of GDP on the back of a strong rebound in foreign investment in Treasury bills and bonds in the second half of 2009. Volatility of short term capital means constant adjustments to net domestic financing targets, introducing a degree of uncertainty in the financial market.

A second issue related to reliance on foreign savings relates to the cost of capital and implications for meeting the country's foreign debt servicing obligations. Governments more often than not resort to foreign borrowing when faced with constraints on mobilizing domestic financing. Excessive financing from domestic sources typically 'crowds out' private investment. Even as domestic financing of the deficit increased in 2008-09, Sri Lanka was able to avoid this pitfall

**Figure 2.7**
**Public Debt (2006-09)**




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

**Table 2.8**
**Foreign Debt Dynamics (2006-09)**

| | | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Foreign debt | % of GDP | 37.5 | 37.1 | 32.8 | 36.5 |
| Concessional | % share | 92.7 | 82.9 | 84.7 | 72.2 |
| Non-concessional | % share | 2.8 | 3.4 | 3.9 | 4.4 |
| Commercial | % share | 4.4 | 13.7 | 11.3 | 23.3 |
| Total foreign debt/exports[a] | % | 124.6 | 127.4 | 132.2 | 170.7 |
| Foreign debt service/exports[a] | % | 7.1 | 8.2 | 13.9 | 14.6 |

Notes: a: Exports of goods and services.

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

due to the lacklustre demand for credit from the private sector owing to the general economic gloom that prevailed as the global economic crisis took hold.

Sri Lanka's government debt to GDP ratio increased in 2009 to 86.2 per cent from 81.4 per cent in 2008 (Figure 2.7). Much of the increase was accommodated by a rising share of foreign debt - from 32.8 per cent in 2008 to 36.5 per cent in 2009. But more than the increase in the share of foreign debt, the change in its composition is what is of growing concern. The share of costlier commercial foreign borrowing has increased markedly over time from 4.4 per cent of total foreign debt to 23.3 per cent by 2009 (Table 2.8).

The ratio of Sri Lanka's foreign debt to exports has also risen accordingly from 124.6 per cent in 2006 to 170.7 per cent by 2009. Similarly, the ratio of foreign debt service to exports has gone up sharply from 7.1 per cent in 2006 to 14.6 per cent in 2009. In effect, if Sri Lanka continues with this pattern of debt accumulation, servicing foreign debt will require an increase in future exports or sufficiently high future real returns on domestic capital to service the debt. In the longer run, the efficiency with which borrowed funds are converted into investment is particularly important for the sustainability of the current account deficit of the balance of payments (BOP). Moreover, as previously emphasized, economic reforms to enhance Sri Lanka's international export competitiveness and policy flexibility are critical to sustain such a debt management path.

### 2.3.2 Fiscal Policy and Macroeconomic Stability

Fiscal policy in the near term is focused on reining in the deficit to 8 per cent of GDP in 2010 from the high 9.8 per cent recorded in 2009. A sharply higher deficit than forecast in 2009 resulted from lower revenues as well as higher current expenditures. Reduced revenue collection resulted primarily from the economic downturn, while current expenditure overruns came from the salaries and wages bill and interest payments.

The adjustments to fiscal targets in 2010 signal an intention to cut back on current spending to support public investment, which appears set to remain high by recent historical standards (Table 2.9). Given the many constraints to rationalizing current spending without far reaching structural reforms, it suggests concerted efforts are needed to increase revenues. At the same time, however, taxation policy has to be devised in a manner that avoids choking off an economic recovery. In that context, the recommendations of the Presidential Commission on Taxation are appropriate, aimed at broadening the tax base

**Table 2.9**
**Fiscal Framework**

| % of GDP | 2009 | 2010[a] | 2011[a] |
|---|---|---|---|
| Revenue | 14.5 | 14.8 | 15.5 |
| Tax revenue | 12.8 | 13.1 | 13.8 |
| Expenditure | 24.9 | 23.2 | 22.7 |
| Current | 18.2 | 16.9 | 16.5 |
| Public investment | 6.8 | 6.5 | 6.5 |
| Budget deficit | 9.8 | 8.0 | 6.8 |

Notes: a: Estimates.

Source: Ministry of Finance and Planning, *Fiscal Management Report 2010*.

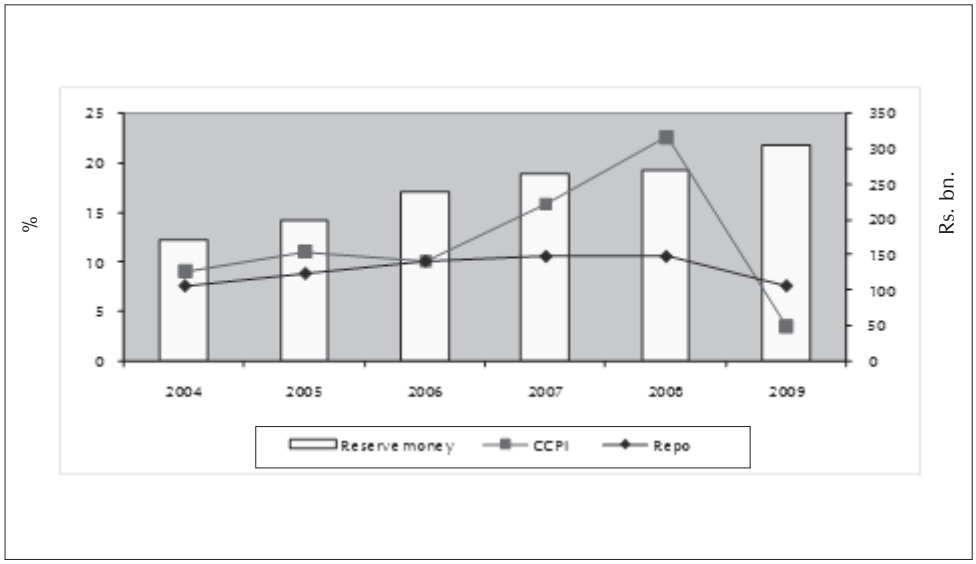
and improving the administrative efficacy of revenue collection and tax compliance.

The fiscal targets for 2010 raise the important question of how long term fiscal sustainability should enter into short term expenditure planning. Resources that are spent today often have implications on how domestic resources must be spent tomorrow. For instance, capital investments with high operational and maintenance costs also generate fiscal burdens down the road. Similarly, the means through which the fiscal deficit is financed today will have long term implications on debt management and economic stability in the medium to longer term.

## 2.4 Monetary Policy for Economic Recovery

In a post-conflict phase, meeting pressing short term needs and adopting an appropriate macroeconomic framework to revive economic activities is justifiable. As already discussed, spending needs will be on the rise while taxation capacity remains limited. While monetary policy will also be called on to support a recovery process, there can

**Figure 2.8**
**Monetary Policy and Inflation**




Source: Central Bank of Sri Lanka, *Annual Report*, various issues

**Table 2.10**
**Credit Growth (2005-09)**

| % change | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Net credit to private sector | 26.3 | 24.0 | 19.2 | 7.0 | -5.7 |
| Net credit to government | 1.5 | 46.4 | 9.0 | 48.5 | 13.4 |

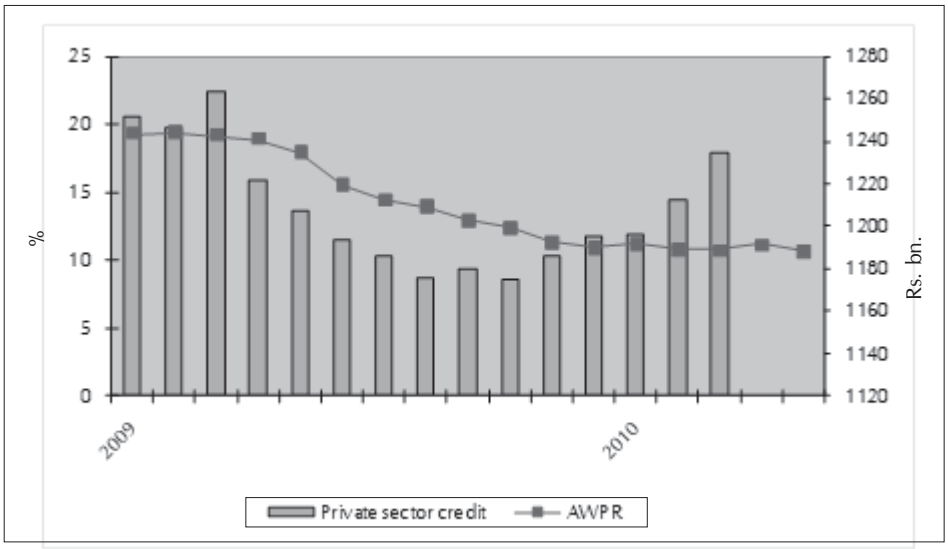
Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

be no justifiable argument for abandoning monetary discipline if economic recovery is to be sustained in the longer term.

The lack of monetary discipline during 2005-06 where adjustments of policy rates was slow in the face of growing evidence of a build up of inflationary pressures in the economy saw Sri Lanka's inflation rate peak at 22.6 per cent in 2008 (Figure 2.8). Not only was credit growth to the government high, but credit growth to the private sector was also encouraged as interest rate adjustments failed to keep up with inflation (Table 2.10). Indeed, the resultant environment of 'cheap credit' was to prove a trigger point for the collapse of a number of financial institutions. While Sri Lanka's financial system was largely immune to the global financial meltdown, it was not immune to adverse domestic policy developments.

From 2007, the Central Bank of Sri Lanka (CBSL) abandoned policy rates in favour of reserve money as the primary operating target for monetary policy. A sharp tightening of monetary policy in 2007, helped by a gradual easing of domestic demand for credit in line with the emerging unfavourable global economic conditions in 2008, allowed Sri Lanka to bring down its rate of consumer inflation to 3.4 per cent by end 2009. The rapid deceleration in inflation also allowed the CBSL to begin easing its monetary policy stance from mid-2009.

**Figure 2.9**
**Private Sector Credit Growth (2009-10)**




Notes: AWPR refers to average weighted prime lending rate of commercial banks.

Source: Central Bank of Sri Lanka, *Monthly Economic Indicators*, various issues.

Under normal circumstances, a large fiscal deficit of 9.8 per cent of GDP - of which the domestic financing component was 5 per cent of GDP - would have militated against an easing of monetary policy. However, given the economic downturn and sharp contraction in demand for credit by the private sector, deficit financing was accommodated without igniting inflation once again. Monetary policy easing in this context has been appropriate as the priority for the government is to encourage a rapid economic recovery.

Despite the improved economic outlook and business confidence following the end of the military conflict, the demand for credit from the private sector has been slow to pick up (Figure 2.9). In fact, excess liquidity in Sri Lanka's financial market has been the order of the day. In order to speed up economic recovery, the CBSL has increasingly resorted to moral suasion and regulatory requirements, including calls to cut lending rates and provide directed credit to identified sectors and regions, such as for agriculture, small and medium enterprises (SMEs) and to the Northern and Eastern Provinces. While there are justifiable concerns that credit constraints be addressed in priority areas, overt intervention can adversely impact efficient financial resource allocation in the long term.

Sri Lanka's commercial banking sector, for instance, is yet to fully recover from the excesses of the credit boom during 2005-07. Much of the increased lending, as would be expected, was in the more riskier areas of real estate and consumption.[5] Many of the lending books remain weak. The gross non-performing loans (NPL) ratio of licensed commercial banks deteriorated further in 2009 to 8 per cent from 6.3 per cent in 2008. Given the still as yet fragile global economic recovery process, the slow start to domestic economic activity and uncertainty on the medium term fiscal outlook with the delayed presentation of a government budget, the banking sector has remained cautious in aggressively pursuing volume growth in their lending portfolios.

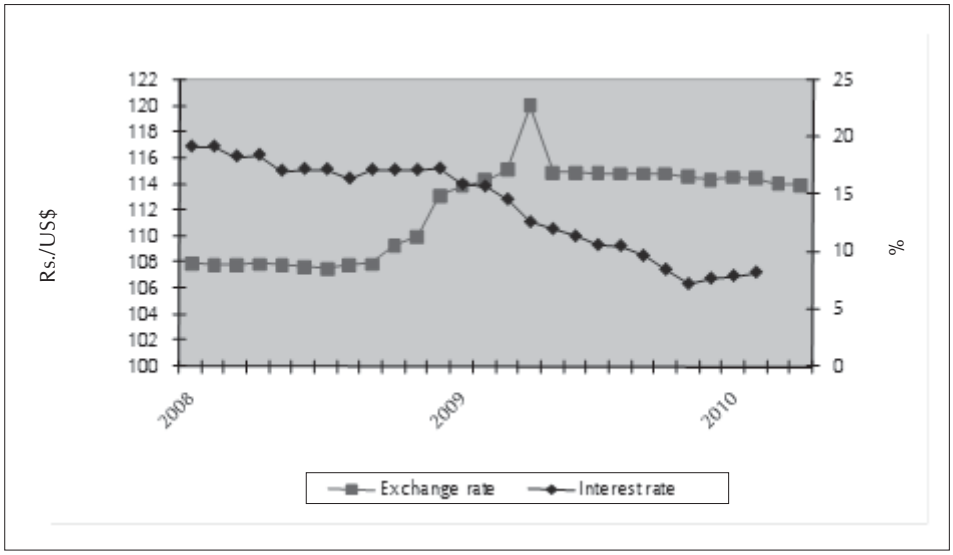
In the near term, the primary responsibility for monetary authorities will be to strike a balance between the need for a rapid economic recovery without compromising macroeconomic stability. It will require the CBSL to impose monetary discipline as and when evidence of inflationary pressures emerge. As the government rolls out its infrastructure spending and private investment picks up, there will be the inevitable pull on aggregate demand. At the same time, the recovery in commodity prices will see Sri Lanka's oil import bill surge once again, adding to cost-push pressures on domestic prices. Monetary authorities should retain the flexibility to respond appropriately. Here, a policy dilemma for the CBSL will be in choosing to target interest rates or the exchange rate or both.

### 2.4.1 The Impossible Trinity: Implications for Interest Rates and the Exchange Rate

For an open economy, theory suggests that in principle it is not possible to have free capital mobility, a fixed exchange rate and an independent monetary policy at the same time. Given that Sri Lanka is yet to fully liberalize its capital account, it can be argued that at least one of the three elements of the 'impossible trinity' does not apply. However, Sri Lanka has been progressively opening up its capital account, not only allowing foreign capital into the equity and debt market, but also progressively signalling the readiness to permit an outflow of foreign ex-

[5] See IPS, *Sri Lanka: State of the Economy 2007*.

**Figure 2.10**
**Movements in Exchange Rate and Interest Rates**




Notes: Interest rate refers to 3 month Treasury bill rate.

Source: Central Bank of Sri Lanka, *Monthly Economic Indicators*, various issues.

change. Sri Lanka is thus increasingly facing the complex challenge of trying to pursue an open capital account, while attempting to retain some independence in monetary policy and 'manage' its exchange rate. The increased inflows of foreign capital in the post-conflict phase makes the dilemma all the more compelling.

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. But, in an environment of high and volatile capital inflows this may not be very appropriate, particularly in view of retaining a measure of international export competitiveness to support an economic recovery. On the other hand, if the exchange rate is to be targeted, capital inflows have to be mopped up. The build up of foreign exchange reserves allows the domestic monetary base to expand without a corresponding increase in production. It can potentially raise inflationary pressure, requiring an upward adjustment to interest rates.[6]

In the aftermath of the post-conflict environment, Sri Lanka witnessed a significant reversal in capital flows to the country. Besides the improved economic outlook, the formal agreement for a Stand-by Arrangement with the IMF in July 2009 to avert an emerging BOP crisis also added to investor confidence. In August 2009, the net inflow of foreign investment into Treasury bills and bonds stood at US$ 270 million. By end 2009, this had risen to US$ 1,345 million. There were also other forms of capital inflows - a US$ 500 million sovereign bond issued in October 2009, worker remittances of US$ 3.3 billion by end 2009, etc.

Foreign capital inflows invariably exerted upward pressure on the exchange rate - a phenomenon widely cited as the 'Dutch dis-

[6] Higher domestic interest rates in turn can encourage more foreign capital inflows. However, given that Sri Lanka has to date only permitted a partial opening up of foreign investment into the country's debt market can mitigate the spiralling impact.

ease' effect. The monetary authorities were compelled to intervene in the foreign exchange market to hold the rupee steady as a result (Figure 2.10). In this instance, depressed economic activity in the country and contracting demand for credit meant that the excess rupee liquidity did not ignite inflationary pressures, allowing the CBSL to ease interest rates. However, as economic activity picks up, further inflows of foreign capital can call for upward adjustments to the interest rates if the intention is to continue to maintain a 'targeted' exchange rate for the rupee.

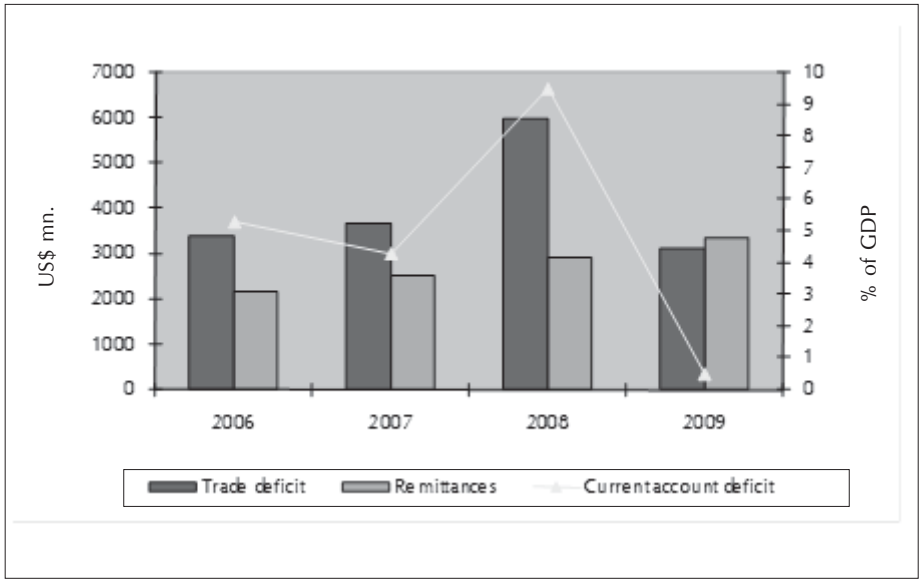
As far as exchange rate management is concerned, much will depend on the outlook for Sri Lanka's external current account position. A rapidly deteriorating trade balance will negate inflows on the capital account. The most critical factor for the monetary authorities is to retain policy flexibility to respond to developing circumstances. This means establishing price stability as the most important policy priority. The costs of rampant inflation and a misaligned exchange rate can be high for a country's export sector.

## 2.5 External Sector: Current Account, Capital Flows and the Exchange Rate

Sri Lanka's external current account improved sharply in 2009, recording a deficit of only 0.5 per cent of GDP as opposed to a deficit of 9.5 per cent in the previous year (Figure 2.11). The reduction was made possible due to a near halving of the country's trade deficit in 2009 against the previous year. Remittance inflows remained strong at US$ 3.3 billion, outstripping the trade deficit in 2009.

The improvement in Sri Lanka's current account deficit hides the more disturbing feature of export sector performance in 2009. The narrowing of the trade deficit was not due to an increase in export earnings, but rather due to the greater contraction of import expenditure (by 27.6 per cent) than export earnings (12.6 per cent). The contraction in export earnings in 2009 is not unex-

**Figure 2.11**
**Trade Balance, Remittances and Current Account**




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

**Table 2.11**
**Exports, Imports and Remittances (2008-10)**

| | US$ Million[a] | | | % Change[a] | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| Exports | 1878.1 | 1647.4 | 1763.6 | 10.2 | -12.3 | 7.1 |
| Textiles & clothing | 780.4 | 826.2 | 703.2 | 3.2 | 5.9 | -14.9 |
| Imports | 3279.4 | 2312.5 | 3224.9 | 37.6 | -29.5 | 39.5 |
| Petroleum | 732.0 | 363.3 | 752.0 | 98.7 | -50.4 | 107.0 |
| Trade balance | -1401.3 | -665.1 | -1461.3 | 107.2 | -52.5 | 119.7 |
| Remittances | 787.0 | 780.7 | 890.6 | 23.5 | -0.8 | 14.1 |

Notes: First quarter data only.

Source: Central Bank of Sri Lanka, press release on 'External Trade Performance', various issues.

pected in view of depressed global market conditions.

What is of concern is whether the export sector is seeing a sustained recovery. First quarter performance for 2010 suggests a recovery is under way, although it is yet to achieve pre-crisis levels in 2008. Of concern is the slow growth in export earnings of the textile and clothing sector which is still the mainstay of manufactured exports for the country. The uncertainty related to the suspension of EU GSP-plus preferential market access benefits for Sri Lanka would not have helped restore confidence in this particular sector.

Sri Lanka has also to be watchful of a rapidly expanding import expenditure bill. The sharp increase in import expenditure growth of 107 per cent in the first quarter of 2010 was driven primarily by rising oil prices, with the average import price of crude oil rising by 68 per cent year-on-year to US$ 78.29 per barrel. As a result, Sri Lanka's intermediate goods imports rose by 53.6 per cent in the first quarter of 2010, followed closely by consumer imports rising by 45.3 per cent. It is notable that investment imports rose by a mere 2.6 per cent, signalling that capital investment in the country is yet to take off.

Inflows of remittances continue to remain strong at US$ 890 million in the first quarter of 2010, showing a growth of 14 per cent over the same quarter in 2009. However, remittance inflows are not likely to cover the emerging trade deficit in 2010. The economic fundamentals underlying Sri Lanka's external current account performance strongly suggests that its currency should be on a depreciating trend. However, the reality for the most part has been otherwise, with the rupee coming under upward pressure, particularly in view of inflows from the capital account of the BOP.

### 2.5.1 'Dutch Disease' through a Post-conflict Lens

Sri Lanka's recent record of exchange rate management has not been without controversy. As the country's annual rate of inflation peaked at 23.4 per cent in October 2008, intervention in the foreign exchange market to hold the rupee steady led to a depletion of the country's foreign reserves. This was exacerbated by a rapid outflow of foreign currency investments in government securities in late 2008 on the heels of the global financial meltdown. The end result was that Sri Lanka was compelled to approach the IMF in February 2009 for BOP support under a Stand-by Arrangement.

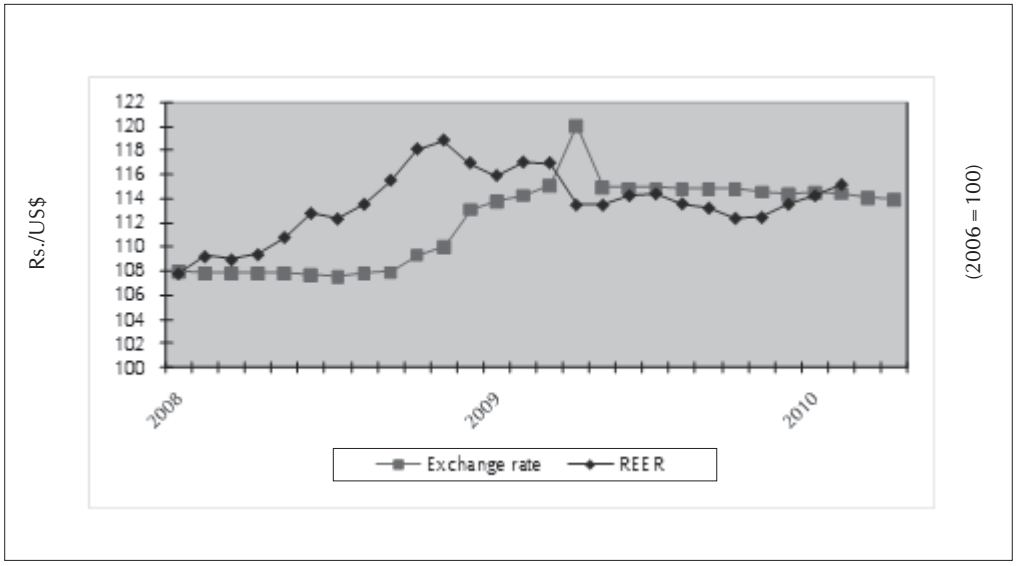
The misalignment of the nominal exchange rate also meant a steady appreciation of the real exchange rate - which takes into account

not only variations in the nominal exchange rate, but also the inflation differentials amongst countries.[7] The 24 currency basket used by the CBSL to compile the Real Effective Exchange Rate (REER) saw a steady appreciation before beginning to depreciate in 2009. While it implied an improvement to the competitiveness of Sri Lanka's exports in the global market, the depreciation was still less than the pre-crisis levels.

What is of concern is that the REER is once again showing a steady increase in 2010. Heavy intervention in the foreign exchange market to prevent a nominal appreciation has helped to ease the upward real appreciation.[8] In view of the need to promote a rapid recovery of the export sector, the underlying causes for movements in the exchange rate need to be understood and managed effectively.

As already discussed, the improvement in Sri Lanka's current account balance in 2009 was in spite of a downturn in export earnings of 12.6 per cent. When demand for a country's goods and services declines, the currency typically tends to depreciate. A depreciating currency in turn pulls down the relative prices of the country's goods and services, making them more attractive in the international market. For Sri Lanka in recent months, particularly in the post-conflict environment that has attracted foreign finance, some exchange rate movements reflect a rebalancing of capital account transactions that have little to do with current demand for Sri Lankan goods and services. Increased inflows of foreign capital - into the Treasury bills and bonds market, sovereign foreign borrowings, official development assistance, etc. - have been the primary causes for the upward pressure on the exchange rate.

**Figure 2.12**
**Nominal and Real Exchange Rate Movements (2008-10)**

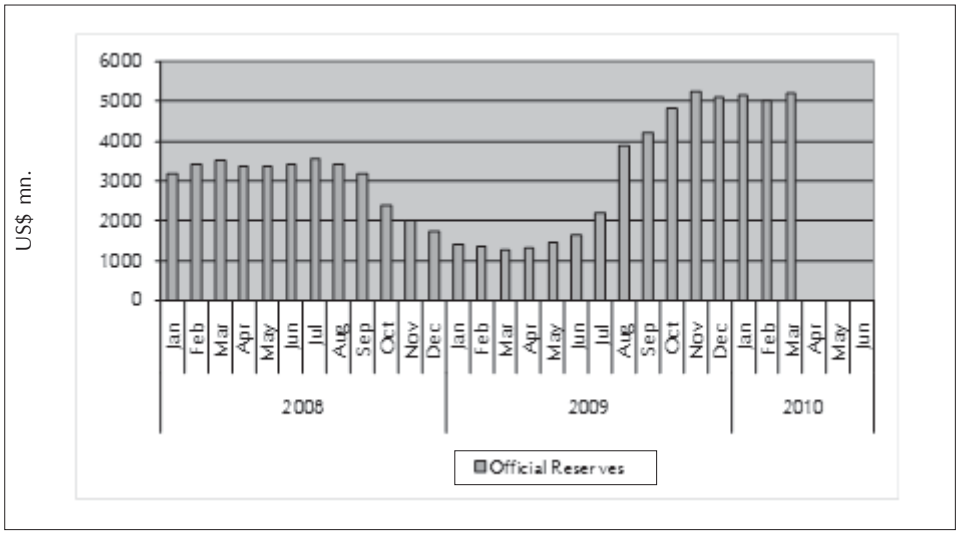



Source: Central Bank of Sri Lanka, *Monthly Economic Indicators*, various issues.

[7] To the extent that an overvaluation dampens net exports and thus aggregate demand in an economy, the consequences supports monetary policy tightening.

[8] Cross currency movements, particularly the depreciation of the exchange rates of competitor currencies against the US dollar while the rupee remained steady is also partly responsible.

**Figure 2.13**
**Official Reserves (2008-10)**




Source: Central Bank of Sri Lanka, *Monthly Economic Indicators*, various issues.

### 2.5.2 Capital Inflows and Official Reserves

With a sharply deteriorating current account, Sri Lanka ran down its official reserves in a bid to defend the currency in the latter half of 2008. This, coupled with the onset of the global financial crisis which saw a rapid outflow of short term foreign investment in government securities in the fourth quarter of 2008, compelled the country to approach the IMF in February 2009. Sri Lanka's official reserves fell to a low of US$ 1,272 million in March 2009,[9] sufficient for only 1.2 months of imports.

Following the end of the conflict in May 2009, however, Sri Lanka began to see a reversal in foreign capital inflows. Foreign capital inflows to the debt market picked up, gaining momentum with the disbursement of US$ 322 million as the first tranche of the delayed IMF US$ 2.6 billion facility in July 2009. Net short term foreign investment in Treasury bills and bonds which stood at US$ 270 million in August 2009 had increased to US$ 1,354 by the end of the year.

The rising volumes of capital accounts inflows - in the midst of a rapidly contracting demand for imports and healthy volumes of worker remittance inflows - saw the CBSL begin to intervene in the foreign exchange market to mop up excess dollars. By end 2009, the CBSL had absorbed more than US$ 2.5 billion to ease upward pressure on the exchange rate and at the same time to rebuild the country's foreign reserves. As such, official reserves stood at US$ 5,097 million by end 2009, sufficient for 6.2 months of imports. However, the reserves target of US$ 3 billion set by the Stand-by Arrangement does not recognize short term debt liabilities in the accumulated reserves. Nonetheless, some of the foreign capital inflows into government debt securities can be deemed to be not 'short term' given that Sri Lanka's secondary market for bonds is still not fully advanced. Even leaving aside short term

[9] This excludes Asian Clearing Union (ACU) receipts.

**Table 2.12**
**Foreign Non-concessional Borrowing**

| Date Issued | Type | Amount (US$ million) | Period (Yrs.) | Due |
|---|---|---|---|---|
| 2007 October | Sovereign bond | 500 | 5 | 2012 March |
| 2008 June | Syndicated loan | 150 | 3 | 2011 June |
| 2008 June | SLDB | 230 | 2 | 2010 June |
| 2008 September | SLDB | 60 | 2 | 2010 September |
| 2009 August | SLDB | 190 | 2 | 2011 August |
| 2009 September | SLDB | 41 | 3 | 2012 September |
| 2009 October | Sovereign bond | 500 | 5 | 1014 October |
| 2010 March | SLDB | 45 | 2 | 2012 March |
| 2010 March | SLDB | 55 | 3 | 2013 March |
| 2010 June | SLDB | 102 | 3 | 2013 June |
| 2010 June | SLDB | 176 | 2 | 2012 June |

Source: Compiled from www.cbsl.gov.lk.

liabilities, Sri Lanka's official reserves position was comfortably placed by end 2009. While total official reserves have held steady in 2010, rising import expenditure will begin to exert pressure once again. By end March 2010, the import coverage of reserves had dropped to 5.6 months of imports.

The developing external sector conditions, in particular, the deteriorating trade balance calls for prudent management of Sri Lanka's external debt exposure. As already discussed, Sri Lanka has resorted to higher volumes of foreign commercial debt in recent years. In October 2009, the country once again issued a sovereign bond for the value of US$ 500 million, while it is seeking to raise a further US$ one billion in 2010. The decision to strategically improve Sri Lanka's sovereign rating signals the government's intentions to up its foreign non-concessional borrowing in the medium term.

## 2.6 Conclusion

The most pressing post-conflict economic priority for Sri Lanka is to deliver robust and broad based growth. This is essential not only to address social grievances of a conflict-weary population in the Northern and Eastern Provinces, but also to meet the expectations of a population that had withstood economic hardships - primarily rising cost-of-living pressures brought on both by domestic and external exigencies - in the years immediately preceding the end of military efforts in May 2009. In this, Sri Lanka is already reaping the economic rewards of 'peace', set to register a strong rebound in growth in 2010.

Reactivating economic growth in a region that is emerging from a prolonged conflict will require concerted efforts to rebuild social and physical capital in the N&E. The priority and sequencing will depend on the needs of the population. Alongside efforts at resettlement and rehabilitation of internally displaced persons (IDPs), the government has also started to roll out its public infrastructure investment programme in the Northern and Eastern Provinces. Improved connectivity and access to resources such as land and capital will go a long way to generating benefits quickly to the people in the region.

For the government, the main challenge will be to balance growth with stability. Fiscal restructuring that is underpinned by a reform process offers the first best policy option. Not only will it release finances from current spending to support capital investment, it will also allow a more efficient re-allocation of factors of production within the economy, raising productivity and ensuring that the growth process is stable and sustainable in the longer run.

# 3. Developments in the External Economy and its Role in Post-conflict Development

## 3.1 Overview

The global economy is in transition from a period of recession to recovery following the greatest financial and economic crisis since the Second World War. The recovery kicked off early, with the economic crisis easing off in the latter half of 2009. The resultant stronger-than-expected performance in 2009 - with emerging economies recording high growth rates in particular - has seen a progressive normalization of conditions at the global level. Correspondingly, economic performance forecasts for 2010 have been pushed upwards from what was predicted at the initial stages of the crisis; the global economy is now expected to grow at 4.6 per cent in 2010, largely supported by extensive coordinated stimulus efforts by governments.

Nevertheless, the level of recovery as well as prospects for recovery has varied considerably among countries. Among the advanced economies, the US had a better start than many countries in the European Union (EU) or Japan, due to larger stimulus packages, larger policy rate cuts, a non-financial sector which relies less on the banking sector and other factors. Countries like Japan have, however, taken longer to recover, strained by lower domestic demand and the large appreciation of the yen which have weighed down the recovery of their exports.[1]

There also remain some other important downside risks which do not allow for complacency. Many developed economies are burdened by rising fiscal deficits and growing volumes of public debt. As already evident, the fiscal crises in many European economies (Greece, Portugal, Italy and Spain) can threaten to destabilize financial markets in the region and beyond, along with threats of overheating, asset bubbles and inflation in emerging market economies. Thus, despite the fact that many multilateral agencies have revised their global growth forecasts upward, the depth of the crisis will mean that its consequences will be long felt in the global markets.

Although largely insulated from the global financial crisis, Sri Lanka was exposed to the impact of the crisis when the effects spread to the real sector of the country's main export markets in the US and the EU. The credit crunch (which affected trade finance), lower consumption and shifts in taste to cheaper product sources affected Sri Lanka in different ways, inter alia, by bringing down the export volumes and earnings of the country, and consequently the loss of jobs in export and related sectors. The external sector performance has nevertheless been changing since the latter stages of 2009, driven by recovery of global demand and an improved domestic economic climate. The end of the long-drawn conflict in the country has been a catalyst for economic optimism, opening access to previously untapped resources, drawing in foreign investment to the country, and boosting performance in sectors such as tourism. This Chapter will assess the role of the external economy in supporting post-conflict development in Sri Lanka.

[1] Lower demand is a result of the re-emergence of deflation, weak labour market, etc.

## 3.2 Global Economic Environment

Global GDP which fell in three consecutive quarters began recovering as production and trade bounced back in the latter half of 2009. The uncertainty with regard to the depth and duration of the crisis saw constant revisions to the global economic outlook in the interim (Table 3.1). Indeed, as predicted, 2009 recorded the worst global economic performance since the Great Depression with world output and growth rates of advanced economies contracting by 0.6 and 3.2 per cent, respectively. The advanced economies faced the brunt of the economic crisis with the growth rates in the US contracting by 2.4 per cent, UK by 4.9 per cent, and the Euro area by 4.1 per cent in 2009. The emerging market economies and developing countries were on the other hand, able to combat the economic crisis to an extent through buoyant domestic consumption and government stimulus measures, in spite of the slump in demand from their traditional export markets in the developed world. These economies grew by 2.5 per cent in 2009 - albeit at a much slower pace than the 6.1 per cent rate of growth recorded in 2008. However, despite the overall poor performance, 2009 ended on a positive note with many economies rebounding faster than expected. Factors such as large stimulus and financial rescue packages, inventory building, and Asia's quick recovery helped tow the rest of the world to recovery.

The world economy is now expected to grow by 4.6 per cent, and advanced economies by 2.6 per cent in 2010 (Table 3.2). The speed and magnitude of recovery differs across regions and countries, based on factors such as initial conditions, external shocks, and policy responses of countries. In many of the advanced countries, growth is expected to be sluggish compared to pre-crisis levels, with high unemployment, consumer debt and constrained credit conditions likely to prevail for the next couple of years. Given the financial instability of Greece and its implications on the Euro zone, the projections made for the advanced economies are likely to be under constant review. In the context that the EU and the US are Sri Lanka's main export markets, attracting 38 per cent and 22 per cent of Sri Lanka's total exports in 2009, developments in these economies are of particular relevance.

### 3.2.1 Outlook for the US Economy

Despite being at the centre of the economic crisis, the US recovered relatively faster than other advanced economies, spurred by large government incentives and a robust inventory cycle. The US provided a crisis related discretionary fiscal stimulus equal to 2.9 per cent of its GDP in 2010. Its stimulus package of US$ 787 billion comprised of US$ 212 billion worth of tax cuts while the remainder of US$ 575 billion translated into an increase in government spending. In response to these factors, the economy which fell four consecutive quarters from the third quarter of 2008 - hitting a low of -6.4 per cent in early 2009 - has been expanding for three successive quarters since (see Figure 3.1).

**Table 3.1**
**2010 Economic Performance Projections, January 2009-July 2010**

| | 2009 January | 2009 April | 2009 July | 2009 October | 2010 January | 2010 April | 2010 July |
|---|---|---|---|---|---|---|---|
| World output projections for 2010 | 3.9 | 1.9 | 2.5 | 3.1 | 3.9 | 4.2 | 4.6 |

Source: International Monetary Fund, *World Economic Outlook*, various issues.

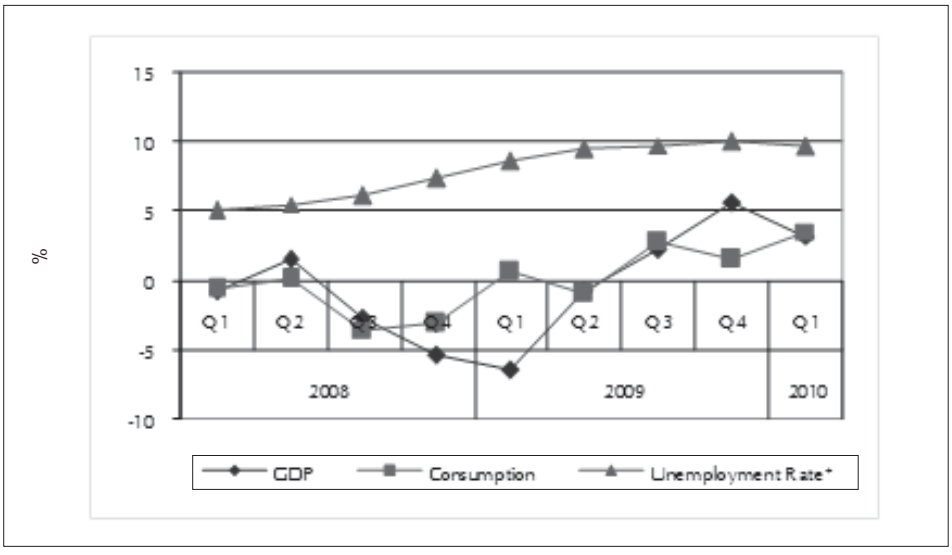
**Table 3.2**
**Projected World Output (2009-11)**

| | Projections | | | |
|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2011** |
| **World output** | **3.0** | **-0.6** | **4.6** | **4.3** |
| **Advanced economies** | **0.5** | **-3.2** | **2.6** | **2.4** |
| US | 0.4 | -2.4 | 3.3 | 2.9 |
| UK | 0.5 | -4.9 | 1.2 | 2.1 |
| Euro area | 0.6 | -4.1 | 1.0 | 1.3 |
| Japan | -1.2 | -5.2 | 2.4 | 1.8 |
| Canada | 0.5 | -2.5 | 3.6 | 2.8 |
| **Emerging and developing economies** | **6.1** | **2.5** | **6.8** | **6.4** |
| India | 6.4 | 5.7 | 9.4 | 8.4 |
| China | 9.6 | 9.1 | 10.5 | 9.6 |
| Russia | 5.6 | -7.9 | 4.3 | 4.1 |
| Brazil | 5.1 | -0.2 | 7.1 | 4.2 |
| Middle East & North Africa | 5.3 | 2.4 | 4.5 | 4.9 |
| ASEAN-5 | 4.7 | 1.7 | 6.4 | 5.5 |

Source: International Monetary Fund, *World Economic Outlook*, July 2010.

Nonetheless, the pace of growth in the first quarter of 2010 of 3.7 per cent was relatively lower than the 5 per cent growth in the previous quarter and was slightly below the forecasts. A weak housing market, spending cuts by state and local governments, and negative net exports of goods and services put pressure on the rate of growth.

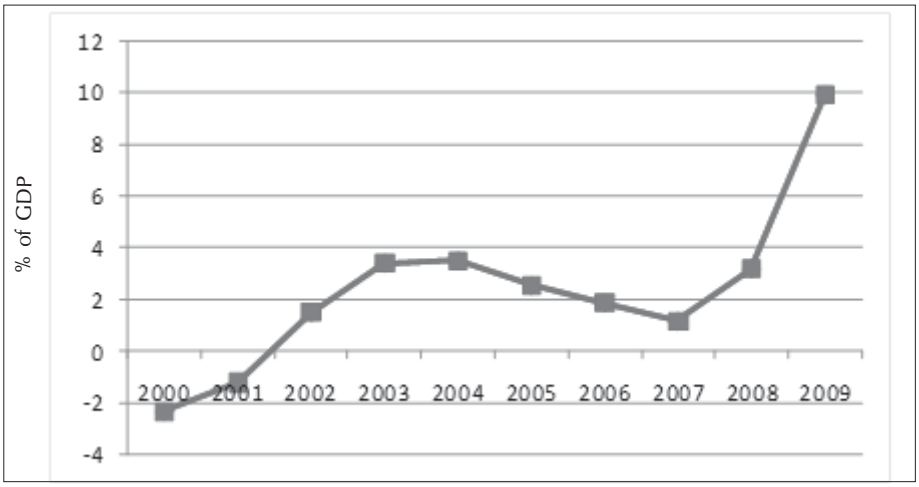
**Figure 3.1**
**US Output, Unemployment and Consumption Rates**




Notes: Figures for unemployment are end of period values.

Source: Compiled using data of the Bureau of Economic Analysis and the United States Bureau of Labour Statistics.

**Figure 3.2**
**US Budget Deficit (2000-09)**




Source: http://www.usgovernmentspending.com/federal_deficit_chart.html.

Encouragingly, consumption expenditure grew by 3.6 per cent in the first quarter of 2010, the best quarterly performance since 2007. The consumption of non-durable items has increased by about 4 per cent in the last quarter of 2009 and the first quarter of 2010. This is heartening given that about 80 per cent of Sri Lankan exports to the US are in the non-durable items of garments. However, there are concerns about the sustainability of growth, with a possibility of consumer spending declining after government incentives are withdrawn from the economy. Furthermore, the labour market remains weak with a high unemployment rate of 9.5 per cent. The number of jobs available has been increasing with the economic recovery - adding the highest number of jobs in April 2010 after a four year hiatus. However, owing to a large number of persons re-entering the labour force, unemployment also increased in April 2010 and an estimated 14.6 million people were classified as unemployed by mid-2010. Weak labour market conditions can act as a drag on consumer spending. Unemployment in the US is likely to reduce very slowly as structural changes in the labour market (job losses were largely in manufacturing whilst new job opportunities are largely in services) will take time to adjust.

Furthermore, the fiscal positions of many of the advanced countries are deteriorating, and the US is no exception. With many of the governments in developed countries being forced to recapitalize banks, undertake large parts of the debt of ailing financial institutions and having to introduce large stimulus packages to revive demand, fiscal deficits have expanded and debt levels have risen substantially. In the US, the fiscal deficit ballooned in the aftermath of the crisis, and the country is now faced with significant fiscal challenges. The US fiscal deficit has run into a massive US$ 1.4 trillion in 2009 or around 10 per cent of its GDP - the highest since the end of the Second World War. This has resulted in a substantial increase in gross financing needs of the government - i.e., the new overall borrowing requirement as well as debt maturing - that is set to exceed 30 per cent of GDP in 2010, while gross debt is expected to be 83.2 per cent of GDP (see Table 3.3).

**Table 3.3**
**Gross Financing Needs of Advanced Economies (2010)**

| % of GDP | Maturing Debt | Fiscal Deficit | Gross Financing Needs | Debt (2009) | Average Maturity (years) |
|---|---|---|---|---|---|
| US | 21.2 | -11.0 | 32.2 | 83.2 | 4.4 |
| UK | 8.6 | -11.4 | 20.0 | 68.2 | 12.8 |
| Japan | 54.2 | -9.8 | 64.0 | 217.7 | 5.2 |
| France | 16.9 | -8.2 | 25.1 | 77.4 | 6.5 |
| Germany | 10.2 | -5.7 | 15.9 | 72.5 | 6.0 |
| Portugal | 13.0 | -8.8 | 21.8 | 77.1 | 6.2 |
| Spain | 10.3 | -10.4 | 20.7 | 55.2 | 6.7 |
| Greece | 13.4 | -8.1 | 21.5 | 115.1 | 7.4 |
| Italy | 21.2 | -5.2 | 26.4 | 115.8 | 6.7 |

Source: International Monetary Fund, *Fiscal Monitor 2010*.

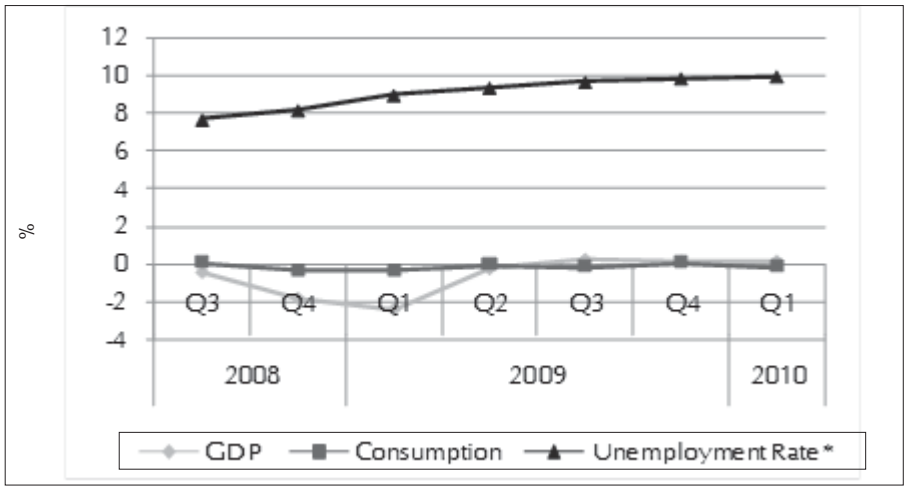
Greater fiscal challenges mean that fiscal stimulus initiatives will need to be withdrawn before long. It is unlikely that US growth can continue at the current pace without the stimulus spending and the ending of the inventory cycle. The short to medium term downturn in the US should not, however, detract from the fact that the country continues to display the fundamentals for long term growth - for instance, its strengths in higher education, the ability to attract the best global talent, and a legal environment to encourage innovation and technological development.

### 3.2.2 Outlook for the EU Region

Entering the crisis with substantial imbalances, Europe as a region was hit the hardest by the crisis. As a result, Europe's recovery has faced more significant stumbling blocks, with the region growing at a slow pace of 0.2 per cent in the last quarter of 2009 and into the first quarter of 2010. When compared with the US, consumption levels, as well as growth in output remain well below. While large stimulus packages supported the recovery of many countries in the region - the initial fiscal stimulus package of • 200 billion equal to 1.5 per cent of EU GDP was injected to the economy in 2009 - private demand is yet to show a strong pick up. Furthermore, large current account imbalances as well as domestic imbalances led to considerable losses of output in some EU member countries.

Unemployment levels in the euro area have been rising from 2008, reaching a seasonally adjusted high of 10.1 per cent in April 2010, which is the highest level of unemployment since 1999. An estimated 15.9 million are still unemployed. Nevertheless, compared to a loss of half a million jobs a month during the worst times of the crisis, April 2010 recorded the second lowest number of job losses in over two years in the Euro zone. With the temporary agency work market in large EU economies recording double-digit growth rates, unemployment is expected to have peaked, and peaked at a level below the 10.5-11 per cent previously expected. While the number of unemployed has been reducing for the 11th consecutive month in the largest economy of the bloc, Germany, temporary staff working hours have increased in March 2010 by 12 per cent in France, 24 per cent in Germany and 20 per cent in Italy, signalling a positive recovery of the economy. This, together with the larger-than-expected rise in industrial production, boosts hope of the economic recovery gaining momentum in the region. Decreasing unemployment will

**Figure 3.3**
**EU Output, Unemployment and Consumption Rates**




Notes: Figures for unemployment are end of period values.
Source: Eurostat database.

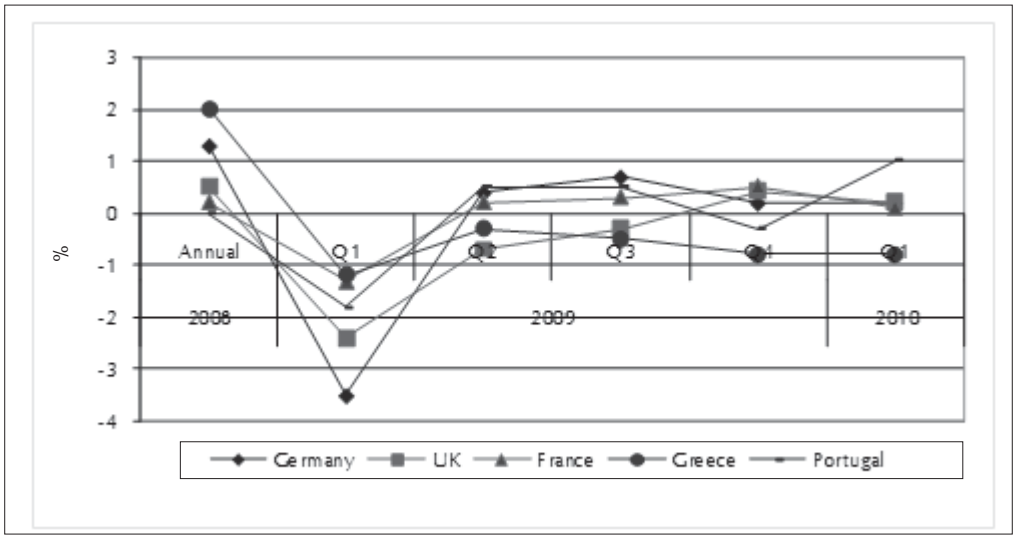
improve consumption levels, the benefits of which would trickle down to countries like Sri Lanka, which is dependent on EU as an export destination.

Nevertheless, the recovery has been uneven among countries in the EU region. The biggest Euro zone economies like Germany, France, Spain and Italy barely managed to record a positive output in the first quarter of 2010 (see Figure 3.4). Greece, in the face of a spiralling deficit and deep recession, has failed to report a positive output since the last quarter of 2008. Its growth rate has been falling steadily and stood at a negative 0.8 per cent in the first quarter of 2010. More alarmingly, there has been substantial fiscal and current account imbalances in Greece, as well as in some other countries in the bloc such as Ireland, Italy, Portugal and Spain, threatening to spread to the entire European region and prolong its recovery (see Table 3.3). In the UK, the fiscal deficit has increased to a towering US$ 235 billion in the fiscal year 2009-10, which is equivalent to about 11.4 per cent of GDP. The situation in the UK is of concern, with the IMF predicting that its budget deficit will be the highest among the G-7 countries both in 2010 and 2011. The expected deficit will also be the highest recorded in the UK since the Second World War.

The EU and IMF provided Greece, the most vulnerable member, with a significant rescue package of US$ 145 billion in May 2010, but the underlying macroeconomic stresses remain. If aggressive fiscal measures are not undertaken to cut deficits in countries such as Portugal, Ireland, Italy and Spain, it will be near impossible for the EU to afford similar bail outs in these countries. The repercussions of such a degree of contagion would be massive, both for Europe and for the stability of the global economy as a whole.

The EU remains Sri Lanka's most significant export market, and a further contraction in the region would result in a major negative shock to Sri Lanka's external sector. For example, stemming from the debt crisis in several EU countries, the euro fell to a four-year low in 2010. By mid-2010, the Sri Lankan rupee had already appreciated by over 17 per cent against the euro as against the previous year. The steep appreciation of the rupee

**Figure 3.4**
**GDP Growth Rates of Select EU Countries**




Source: Eurostat database.

against the euro could have considerable negative repercussions on Sri Lanka's export earnings. While exporters to the EU could see a drop in their export earnings due to the reduction of the value of the euro, the demand for Sri Lankan exports can also be affected with the exports being more expensive for European consumers. With the impact of a currency appreciation having similar repercussions on most countries exporting to EU, the competition for Sri Lankan exports would be more from their European competitors. Furthermore, tourist earnings as well as remittances generated from the EU will be affected due to the depreciation of the euro. Due to the uncertainties in the EU region, there can also be a possibility of capital being withdrawn from developing countries like Sri Lanka which will in turn affect the availability of credit and their growth performances.

### 3.2.3 Outlook for Emerging Economies

There have been marked differences in the growth levels of advanced and developing countries during the downturn. Countries like India and China have witnessed a steady recovery, supported by strong domestic demand and large fiscal and monetary stimulus packages. Substantial accumulated reserves and healthy macroeconomic fundamentals in these countries left them with sufficient policy space to engage in a fiscal and monetary stimulus. China led growth in Asia, posting a double-digit growth rate of 10.7 per cent in the last quarter of 2009. The re-stocking of inventories in the US as well as domestic inventory rebuilding is expected to provide a strong boost to Asia's exports and industrial production, although the volumes will be lower than pre-crisis levels except for countries like China and South Korea.

Thus, the outlook for emerging economies is much brighter, with growth levels expected to reach 6.8 per cent in 2010 and 6.4 per cent in 2011 led by the key emerging economies of China, India, Indonesia and South Korea. China's growth - which exceeded the government's target of 8 per cent in 2009 - is expected to be 10.5 per cent in 2010, and

**Table 3.4**
**Growth Rates of Some Selected Countries in Asia**

| | | Projections | |
|---|---|---|---|
| **Country** | **2009** | **2010** | **2011** |
| Developing Asia | 6.9 | 9.2 | 8.5 |
| China | 9.1 | 10.5 | 9.6 |
| India | 5.7 | 9.4 | 8.4 |
| | | | |
| ASEAN-5 | 1.7 | 6.4 | 5.5 |
| Indonesia | 4.5 | 6.0 | 6.2 |
| Thailand | -2.2 | 7.0 | 4.5 |
| Philippines | 1.1 | 6.0 | 4.0 |
| Malaysia | -1.7 | 6.7 | 5.3 |
| Vietnam | 5.3 | 6.5 | 6.8 |

Source: International Monetary Fund, *World Economic Outlook*, July 2010.

India which grew by 5.7 per cent in 2009 is expected to grow by 9.4 per cent in 2010. India has recorded an impressive 8.5 per cent growth in the first quarter of 2010. As opposed to the US and the EU, strong external reserves and fiscal positions of many of the emerging countries give them the flexibility to make policy changes.

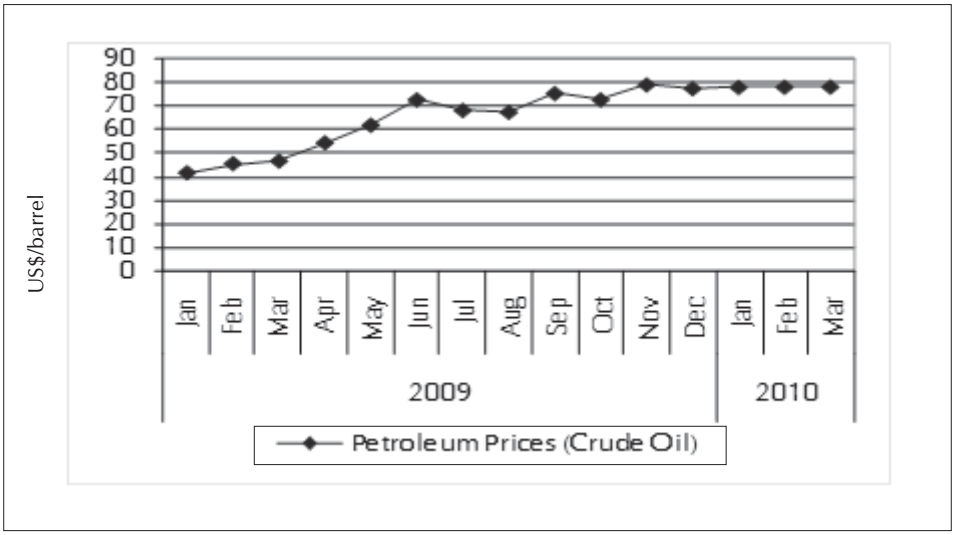
Despite the fact that emerging economies have been resilient to the crisis thus far, there remain potential downside risks in these markets as well. The risk of overheating of these economies is important and this calls into question the sustainability of growth, particularly of China. One concern has been the fact that the loose monetary policy employed to support growth in Europe and the US has encouraged capital inflows into emerging markets seeking higher returns, and in turn causing potential asset price bubbles to emerge in these countries. Such a scenario calls for macroeconomic policy tightening, which could slow down growth rates in emerging economies and thus inhibit overall recovery in the global economy. Furthermore, with Europe being an important export market of emerging economies such as China and ASEAN, fiscal issues in the EU as well as tight policies adopted in the region can negatively affect demand stemming from the region. This could bring down the growth rates of the emerging economies in the coming years.

## 3.3 Sri Lanka's External Sector

Sri Lanka was no exception in suffering external sector distress as a result of the global economic downturn. Export earnings contracted by 12.7 per cent in 2009 owing to the fall in exports of all major products. Imports also contracted by 27.6 per cent due to the reductions in both volumes and prices. Due to the significantly large reduction in import expenditure compared to the decline in export earnings, the trade deficit contracted by 47.8 per cent in 2009.

However, the trade deficit has been expanding steeply since the beginning of 2010 largely due to increased import expenditure on all major categories, particularly in consumer goods and intermediate goods. The global recovery and the corresponding rise in international commodity prices, particularly oil prices, will bear heavily on Sri Lanka's import bill. The country's trade deficit increased sharply to US$ 1,461.3 million in the first quarter of 2010, a 119.7 per cent increase over the same period in 2009. As domestic economic activity re-starts in the second half of 2010, import expenditures will

**Figure 3.5**
**Crude Oil Prices (January 2009-March 2010)**




Source: Central Bank of Sri Lanka, *Selected Monthly Economic Indicators*, various issues.

rise. The general relaxation of import duties and other charges - particularly on vehicles - will also add to the import expenditure bill.

Thus, the trade deficit can be expected to expand by end 2010 once again, creating a strain on the balance of payments (BOP) if the inflow of foreign capital is not large enough to offset the deficit.

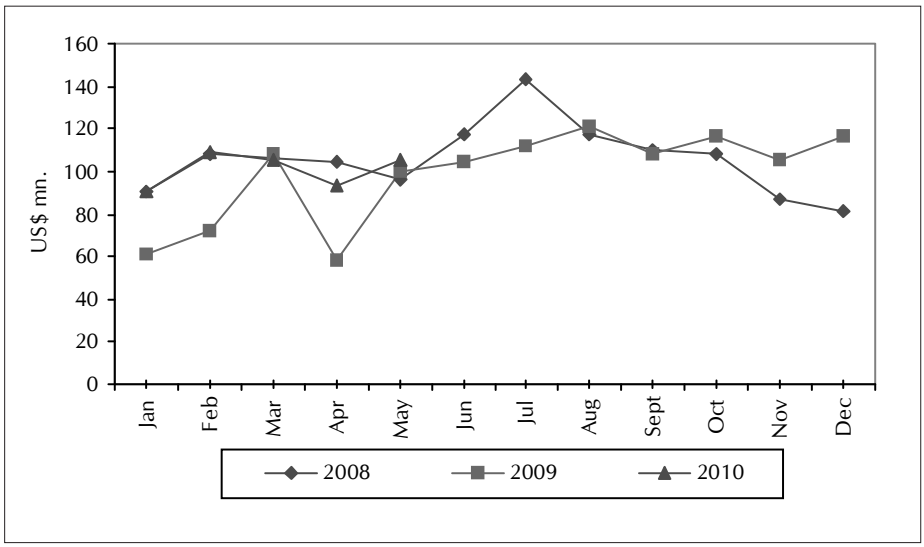
Sri Lanka faced a near crisis in its BOP at the beginning of 2009, with gross official reserves declining to US$ 1,272 million by March 2009 as exports declined and foreign investments in government securities were withdrawn with the financial crisis deepening in the fourth quarter of 2008. Foreign investor sentiments towards government securities and equity markets improved significantly in the immediate aftermath of the ending of the conflict in May 2009. Moreover, the approval of the IMF Stand-by-Arrangement (SBA) facility of US$ 2.6 billion in July 2009 further boosted investor confidence. Remittances and tourism receipts also increased significantly after the first quarter of 2009, resulting in a BOP surplus of US$ 2.2 billion and gross official reserves of US$ 4.2 billion by September 2009.

In terms of sector-wise performance, textiles and garments, tea, and rubber and rubber products have been the largest contributors to Sri Lanka's exports earnings. Textiles and garments exports accounted for US$ 3,274 million, securing a 46 per cent share of total exports in 2009. Tea exports accounted for 16.7 per cent of total exports (US$ 1,185 million) while exports of rubber and rubber products took a share of 6.8 per cent (US$ 483 million) in 2009.

### 3.3.1 Tea

Earnings from agricultural exports declined by 8.9 per cent to US dollars 1,690 million in 2009 from US$ 1,854 million in 2008 mainly due to the reduction in demand for tea, rubber and coconut products and liquidity constraints in importing countries. Yet, during the fourth quarter of 2009 and in the first quarter of 2010, global supply shortages resulted in higher prices and higher export

**Figure 3.6**
**Tea Exports (January 2008-May 2010)**



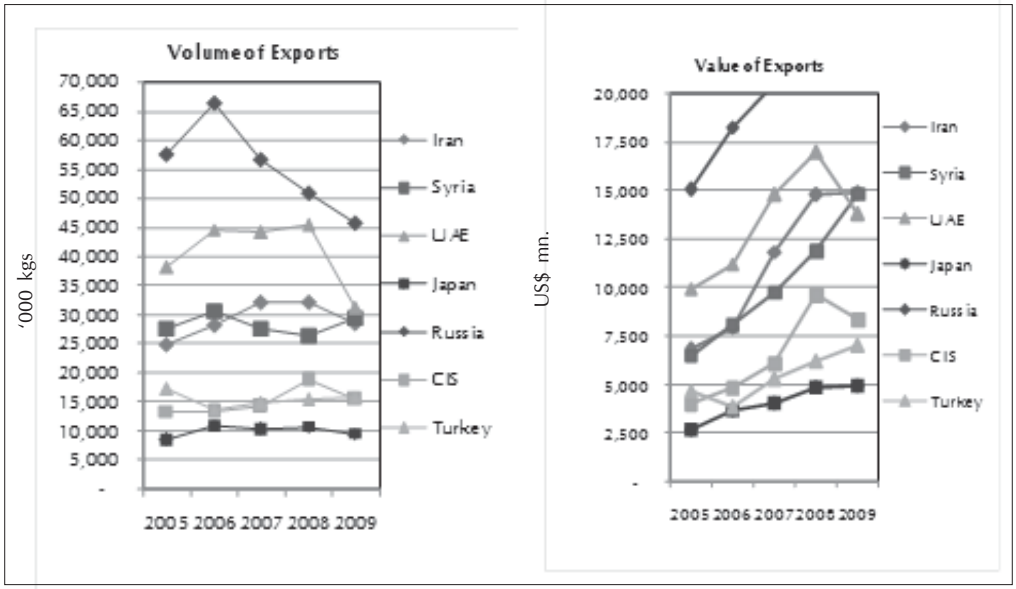

Source: Central Bank of Sri Lanka, *Selected Monthly Economic Indicators*, various issues

earnings in tea, rubber and some minor agricultural commodities. The upswing can be mainly attributed to the global supply shortage created by the production deficit in Kenya, India and Sri Lanka due to unfavourable weather conditions. Furthermore, strong demand from the Middle East for Sri Lankan low grown teas and rising demand led by the gradually reviving global economy also strengthened the price increase.

Though tea exports declined during 2008 and into the first quarter of 2009, exports picked up from mid-2009 (Figure 3.6). Hence, earnings from tea exports increased from US$ 58.2 million in April 2009 to US$ 105.5 million in March 2010. However, although the value of tea exports has increased over the past five years owing to the high prices, the volumes have depicted a declining trend. Sri Lanka's main export destinations for tea are Russia, United Arab Emirates (UAE), Iran and Syria. While there have been a significant drop in demand for Ceylon tea from countries like Russia even prior to the pre-crisis period, the situation was aggravated by the financial crisis in 2008 (Figure 3.7).

However, Russia's economy is on the road to recovery that has led to improved private consumption. Private consumption in Russia has grown at an average rate of 0.4 per cent since November 2009, driven mainly by an improving wage growth in the real sector and slowing inflation. Though Russia's growth is substantially lower than the 1 per cent growth achieved in 2005-08, it is a positive signal for the post-crisis period. Thus, as the largest export destination of Sri Lankan tea, an increase in demand from Russia can be expected in the coming years if proper marketing strategies of Sri Lankan tea are in place. Sri Lanka needs to put into action effective promotional tools in retaining and improving its market share as it has faced tough competition in the Russian tea market due to aggressive promotional strategies of Kenyan tea.

**Figure 3.7**
**Sri Lanka's Major Export Markets for Tea**




Source: Central Bank of Sri Lanka, *Annual Report* 2009.

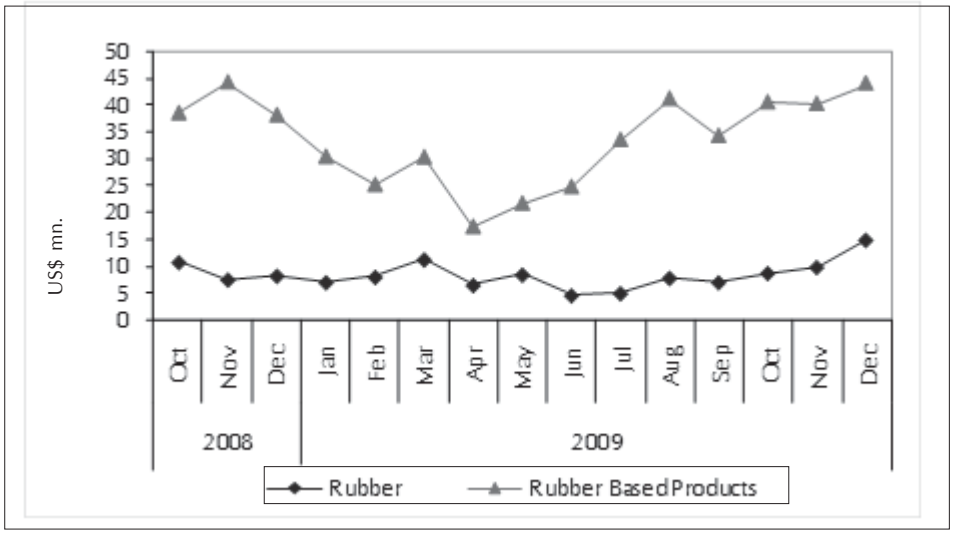
Furthermore, with Iran, the fourth largest importer of Sri Lankan tea, expecting to double its tea purchases from Sri Lanka in 2010 - from 28.6 kilos in 2009 to 50 million kilos in 2010 - a strengthening of the export earnings of the tea sector can be projected. Moreover, with the growing concern towards consumption of healthier beverages, demand for high grown tea is expected to improve especially in the EU and Middle Eastern countries.

With the end of the conflict, Sri Lanka's tea plantation sector too has attracted FDI with companies like Bogowantalawa Tea Plantations Corporation establishing joint ventures with foreign investors. With one of the major barriers in enhancing productivity and profitability in tea plantations in Sri Lanka being the use of out-dated technology, these FDI receipts, which will be followed by technological transfers, could be utilized to enhance productivity and profitability of tea plantations. Thus, the prospects for the development of the plantation sector and thereby improving the level of exports will be much better.

### 3.3.2 Rubber and Rubber Products

Rubber products have been of great importance to Sri Lankan export earnings as it is the second largest industrial export, though natural rubber production levels are not at impressive heights. Despite a 15.1 per cent increase in export volumes, earnings from rubber exports reduced by 21.2 per cent to US$ 98.6 million in 2009 from US$ 125.1 million in 2008 (Figure 3.8). This result was attributed largely to the decline in synthetic rubber prices in line with the decline in crude oil prices, which resulted in a significant decline in rubber prices in the international market. Due to the severe crisis in the industrial and automobile sectors in North America and Europe, which was a result of the economic downturn, the earnings from exports of rubber products, largely tyres and tubes, recorded negative growth from November 2008 until April 2009. There has been a gradual increase since.

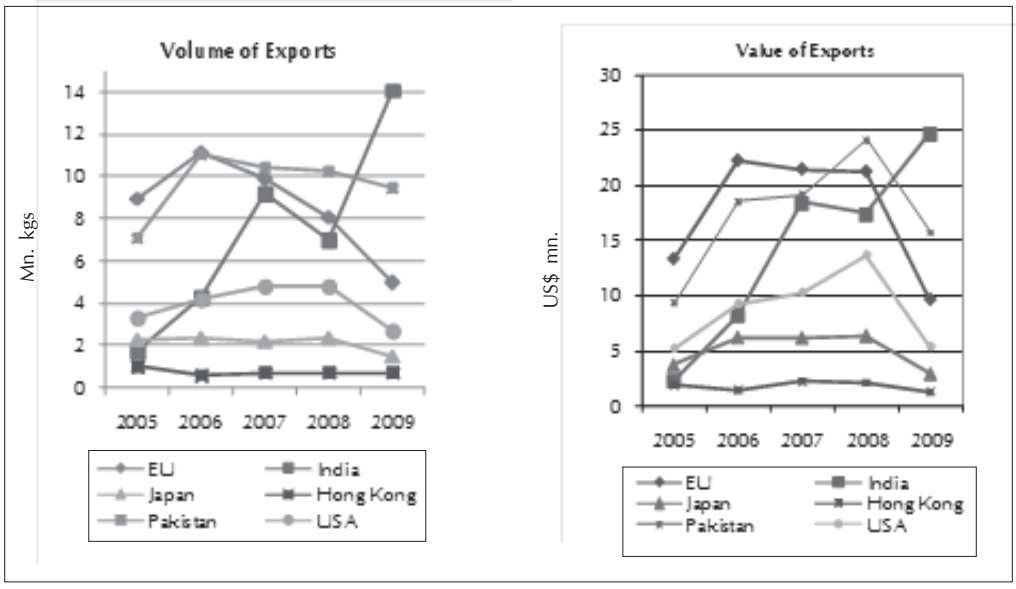
**Figure 3.8**
**Exports of Rubber and Rubber Based Products (October 2008-December 2009)**




Source: Central Bank of Sri Lanka, *Selected Monthly Economic Indicators*, various issues.

With the industrial nations demanding higher volumes of natural rubber together with the East Asian countries like Thailand, Indonesia, Malaysia, Vietnam and China switching from rubber to less labour intensive oil palm production, the global natural rubber industry is experiencing a supply deficit which is expected to last beyond 2011. This would pave the way to further strengthen demand for Sri Lankan rubber.

**Figure 3.9**
**Sri Lanka's Major Export Markets for Rubber**




Source: Central Bank of Sri Lanka, *Annual Report* 2009.

With the demand for natural rubber largely depending on tyre sales for manufacturing of vehicles and replacement tyres, the outlook for natural rubber exports looks positive.[2] With the global economic recovery under way, Sri Lanka can expect a boost in demand for natural rubber from leading automobile manufacturers like Japan, India and the EU in the near future.

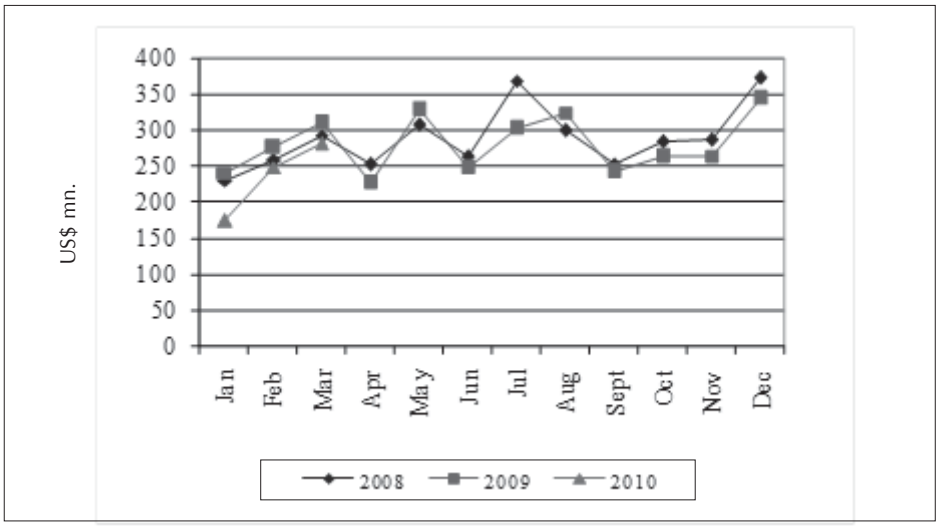
Nevertheless, with tyres and tubes from Sri Lanka being exported to EU countries like Belgium, Germany, Holland and Poland, the suspension of GSP-plus concessions can have a negative impact on Sri Lanka's export earnings.[3] Industry sources claim that the GSP-plus dispute has already affected the sentiments of the buyers in EU over Sri Lankan products and some have already shifted to alternative producers with lower prices. Thus, Sri Lankan tyres and tube industry faces the prospect of market share erosion in the EU with the loss of GSP-plus preferential concessions.

### 3.3.3 Textile and Garments

Although the garment-sector seemed fairly resilient in the first quarter of 2009, the lagged effects of the global crisis affected the performance of the sector in the following quarters, especially in the latter half of 2009 (Figure 3.10). Earnings from textile and garments exports contracted by 3.1 per cent to US$ 3,364 million in 2009, primarily due to lower global demand. In the first quarter of 2010, apparel exports decreased by 14.9 per cent to 703.2 million US dollars from that of the same period in 2009.

While the bigger players in the industry were better able to withstand the crisis due to their established links with buyers, niche markets and international reputation as reliable

**Figure 3.10**
**Exports of Textiles and Garments (January 2008-March 2010)**




Source: Central Bank of Sri Lanka, *Selected Monthly Economic Indicators*, various issues.

[2] The tyre sector consumes approximately 65 to 70 per cent of the annual global production of natural rubber.

[3] In February 2010, the EU announced the suspension of GSP+ concessions to Sri Lanka for a period of 6 months. However, Sri Lanka was to continue to receive preferential access to the EU market during the period until a final decision was to be arrived at. In July 2010, Sri Lanka declined to meet the conditions set down by the EU to renew concessions from August 2010.

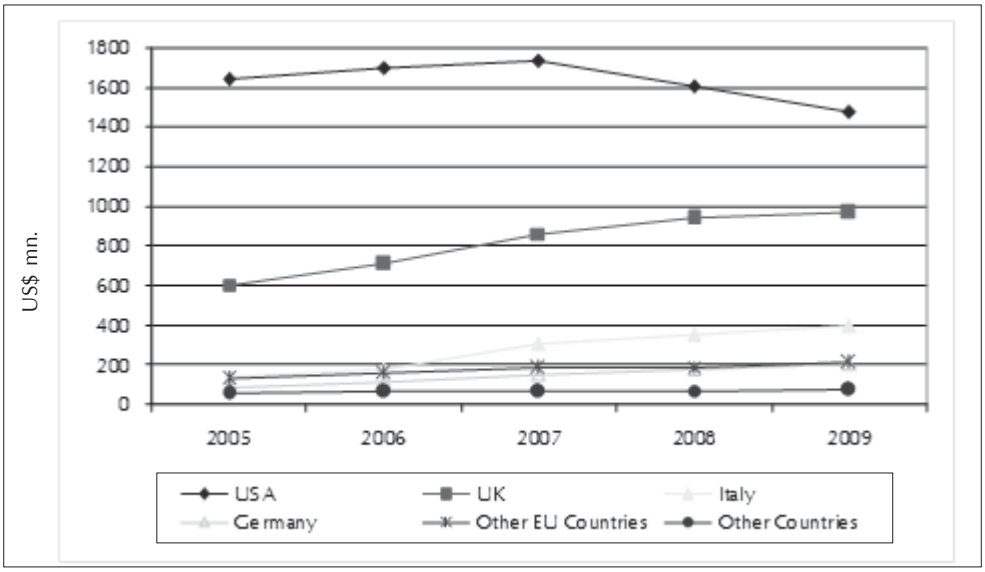
supplier of high quality markets, the small and medium players were adversely affected. The bigger players also took measures to cut down their overhead costs in order to meet the price cuts in their main export destinations. With the withdrawal of GSP-plus concessions by the EU, it is important that the government undertakes measures to weather the negative impact on small and medium players. Exports earnings of the textile and garment industry fell by 15 per cent in the first quarter of 2010, mainly due to lower global demand with industry sources mentioning that GSP-plus related uncertainties have also played a role. The impact of the withdrawal of concessions is expected to be reflected in export levels in the coming months.

Sri Lanka's textile and apparel industry has remained fairly resilient over the years, weathering the ending of the quota regime administered under the Multi-Fibre Arrangement (MFA) in 2005. Some of the leading apparel manufacturers have emerged as regional players. For instance, Brandix Lanka Limited has opened a 1,000-acre 'Apparel Park' in India to serve as a hub for manufacturers and suppliers in the south Asian region. The facility near the eastern Indian port city of Vishakhapatnam when fully occupied will accommodate up to 20 apparel manufacturing plants, three fabric mills, eight accessories manufacturers and a finishing plant. Development of these backward linkages may help Sri Lankan apparel exporters to remain competitive. However, in order for the small and medium manufacturers to survive, it is essential that the government takes measures to mitigate the impacts of the loss of GSP-plus to some degree.

### 3.3.4 Remittances

Inward worker remittances became the prime foreign exchange earner in 2009, rising by over 14 per cent to US$ 3,330 million. Remittance inflows have consistently helped Sri Lanka to manage its current account deficit on the BOP. As shown in Figure 3.12, even though workers' remittances have

**Figure 3.11**
**Major Export Markets for Textiles and Garments in Sri Lanka**




Source: Central Bank of Sri Lanka, *Annual Report* 2009.

shown a marginal decline during the first quarter of 2009, the ending of the three-decade long conflict saw a significant increase in remittance transfers to Sri Lanka in the following months. Indeed, the large Tamil diaspora can become a significant source of inward remittances to the country as households in the Northern and Eastern Provinces gear up to rebuild their livelihoods and social capital.

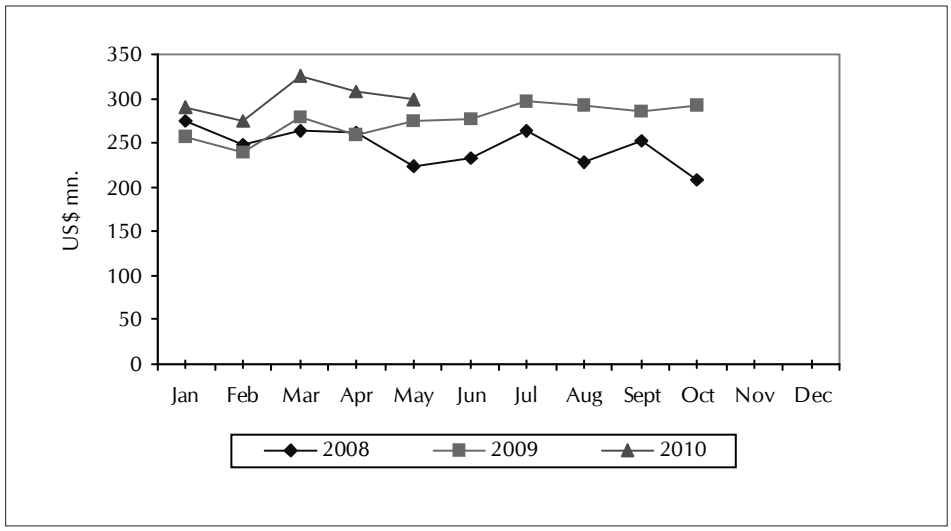
Remittance inflow from the Middle Eastern countries, which accounts for more than 60 per cent of Sri Lanka's total remittances, has been on an upward trend since 2005, despite speculation regarding some reduction in wages and loss of employment during 2008-09 on the back of falling oil prices and sluggish growth rates. Similarly, remittance flows from the EU has been increasing, but at a slower rate from 2007. Despite the recession, remittance flows from the EU countries have held steady which may be due to the higher incomes and the stock of high-skilled workers in these countries who were less adversely affected by the loss of jobs. Furthermore, the CBSL together with commercial banks took additional measures in 2009 to promote the inflow of workers' remittances through formal channels which may be reflected in the increasing flows of remittances. Higher inflows of remittances are expected to be received in 2010 and beyond through formal channels with the expansion of the bank branch network in the Northern and Eastern Provinces as well.

For many South Asian countries, including Sri Lanka, prospects for higher inflows of worker remittances are improving in oil-producing countries as well as in higher-income Asia. However, jobless economic recovery and unpredictable exchange rate movements in some of the developed nations may adversely affect remittance inflows in 2010 with lagged effects.

### 3.3.5 Tourism

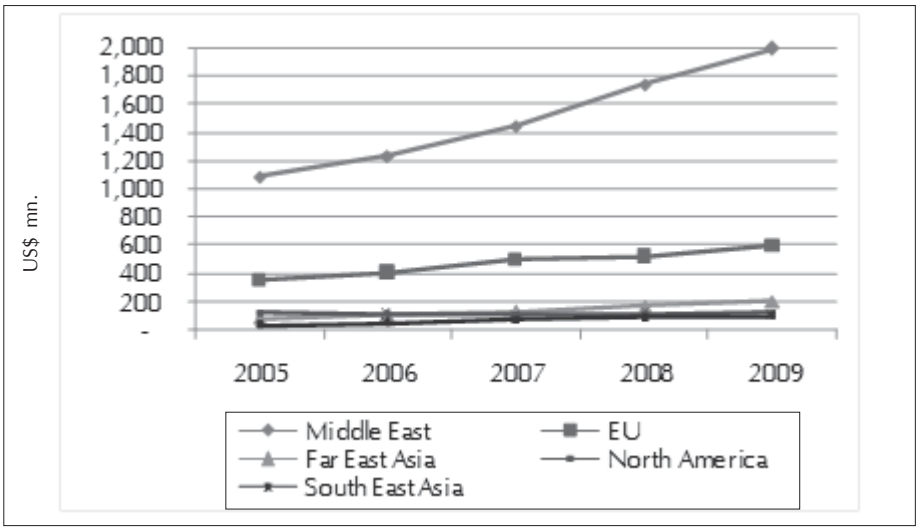
The end of the conflict in Sri Lanka has paved the way for the travel and tourism industry to flourish. Despite the sharp drop in tourist

**Figure 3.12**
**Monthly Private Remittances (January 2008-May 2010)**




Source: Central Bank of Sri Lanka, *Selected Monthly Economic Indicators*, various issues.

**Figure 3.13**
**Private Remittances by Country of Origin**

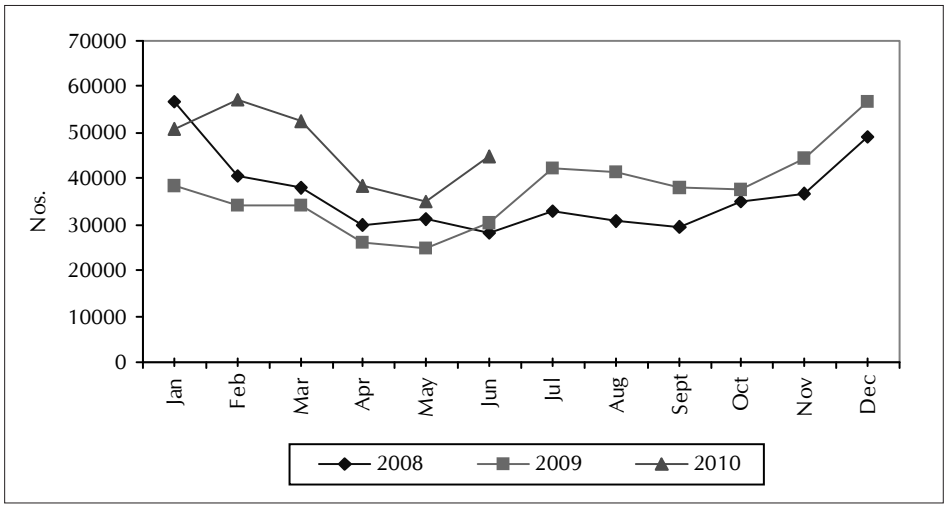



Source: Central Bank of Sri Lanka, *Annual Report 2009*.

arrivals until mid-2009, arrivals increased from June 2009 onwards (Figure 3.14). Adverse travel advisories issued by some countries were subsequently withdrawn or relaxed as the circumstances changed. As a result, there has already been a sharp increase in tourist arrivals in 2010 - an increase of 48.4 per cent in the first six months of the year compared to the same period last year.

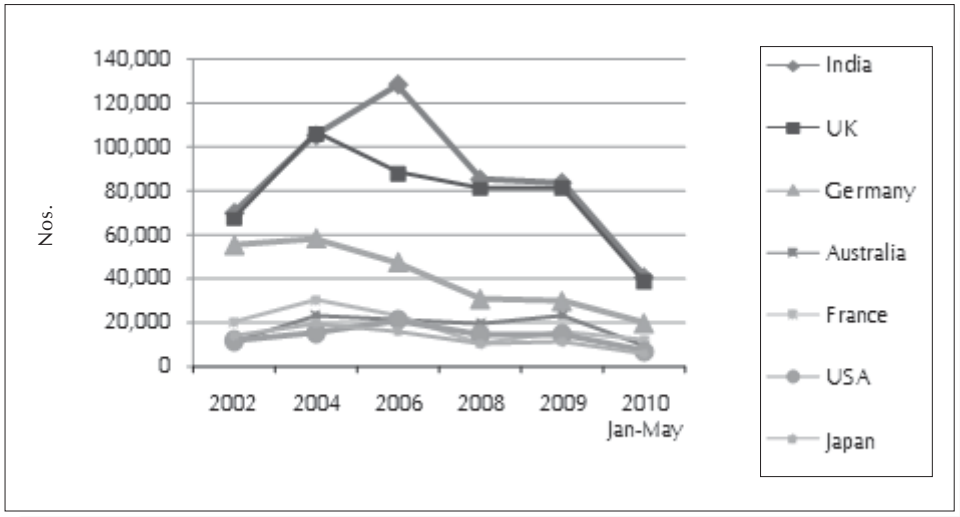
Sri Lanka's global attractiveness as a tourist destination will undoubtedly increase in the coming years with the end of the conflict. This will bring about both opportunities and challenges. The management of tourism will require a great deal of policy dexterity to ensure that economic benefits of tourism are

**Figure 3.14**
**Tourist Arrivals (January 2008-June 2010)**




Source: Central Bank of Sri Lanka, *Selected Monthly Economic Indicators*, various issues; and Sri Lanka Tourism Development Authority.

**Figure 3.15**
**Tourist Arrivals by Country**




Source: Central Bank of Sri Lanka, *Selected Monthly Economic Indicators*, various issues; and Sri Lanka Tourism Development Authority.

reaped, the infrastructure to handle tourism is in place, and most importantly that the industry grows in a manner that is sustainable. These issues will be dealt with in later chapters.

The highest number of tourist arrivals was recorded from India (83,634), followed by the UK (81,594), the Maldives (31,916) and Germany (29,654) in 2009. Moreover, an impressive number of tourist arrivals were recorded from Middle East, France, Australia, Singapore and Malaysia. The higher numbers of tourist arrivals from emerging economies can be anticipated in the future with the emerging economies expected to play a major role in boosting international travel with China alone expected to provide almost 95 million visitors for other destinations by 2020.[4]

### 3.3.6 Capital Flows

Global FDI inflows fell drastically in all developed, developing and transition economies in 2009 as a result of weak economic performances in many parts of the world. Total FDI inflows amounted to US$ 1,114 billion, declining by 37 per cent compared to the previous year. Outflows too fell by 43 per cent to record US$ 1, 101 billion.[5]

The crisis changed the investment landscape with developing and transition economies' absorbing almost half of total FDI inflows in 2009 while inflows to developed economies fell by 44 per cent. Although the developing and transition economies suffered a decline of inflows as well, they performed better than the developed economies. China climbed the ranks to become the second largest FDI recipient, with the US securing the largest amounts of FDI inflows in 2009. In terms of the South, East and South-East Asian countries, there has been a drop of 17 per cent in FDI inflows in 2009 (to US$ 233 billion), the largest decline of FDI flows since 2001. Nevertheless, these regions have been the first to rebound and are expected to pick

[4] World Travel and Tourism Council, http://www.wttc.org/
[5] UN, World Investment Report 2010.

pace and lead the global recovery. Developing and transition economies are expected to attract higher levels of investments due to their high growth rates, and increased openness to FDI and international production.[6]

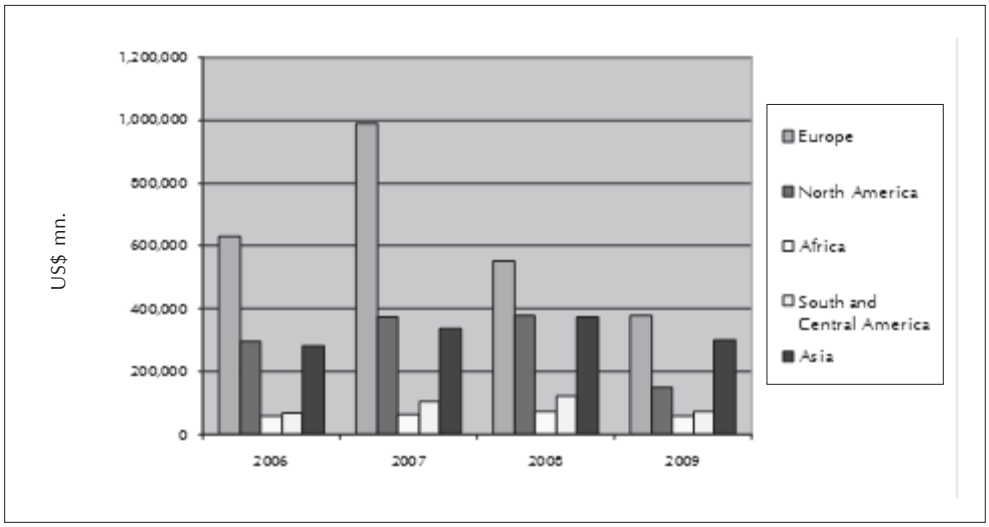
In terms of FDI outflows, although the funds flowing out of the developed countries fell steeply in 2009, the region still remains the largest source of FDI and their outflows exceed inflows. Nevertheless, the developing and transition economies increased their share of FDI outflows - from 19 per cent in 2008 to 25 per cent in 2009 - and are expected to further strengthen their position as emerging sources of FDI with investments abroad.

In South Asia, India is the major recipient accounting for 83 per cent of total FDI inflows to the region. India is expected to continue to attract increasing amounts of FDI in the coming years. At the global level, a slow recovery of FDI flows is expected in 2010, with a more robust performance in 2011.

With a conducive political environment for investment in the aftermath of the conflict, Sri Lanka too is expected to attract more investment. With the onset of the global economic crisis, Sri Lanka suffered a drop in FDI inflows, with net inflows declining from a high of US$ 691 million in 2008 to US$ 384 million in 2009.[7] Gross inflows too recorded a downturn in 2009, falling from US$ 889 million in 2008 to US$ 601 million in 2009, with China, UK and India injecting the largest amount of funds, especially to the telecommunications and the power and energy industries. This is similar to trends in the recent past with the services/infrastructure sectors attracting the highest amount of FDI to the country - 72 per cent of total FDI inflows in 2009 (Table 3.5).

This trend is expected to change in 2010 with more funds coming in to the tourism and leisure sectors. While FDI inflows to the textile, wearing, apparel and leather sector may

**Figure 3.16**
**Direction of World Investment Inflows (2006-08)**




Source: UN, *World Investment Report 2010*.

[6] Ibid.

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

decline in response to the withdrawal of concessions under the EU GSP-plus scheme, renewed positive investor sentiment and recovery of the external sector can strengthen foreign capital inflows into other areas. These include infrastructure related projects, information technology (IT) and business process outsourcing (BPO), agriculture and food processing, fisheries, gems and jewellery, and rubber-based products. Around US$ 250 million is estimated to have already come into Sri Lanka in the first quarter of 2010, compared to the US$ 601 million inflow for the whole of 2009.

## 3.4 Prospects for Regional Integration

The economic crisis reinforced the need for Sri Lanka to diversify its export markets. The recessionary conditions and sluggish recovery of its traditional markets, the loss of GSP-plus preferential concessions, and the resilience of emerging economies to the crisis and their large markets make it only rational for Sri Lanka to consider opportunities in major emerging economies in Asia such as India, China and the emerging ASEAN countries. Strong growth in India, China and ASEAN countries will have positive spillover effects on their neighbouring countries, particularly in terms of FDI inflows and export opportunities. Therefore, it is important for export driven economies like Sri Lanka to penetrate these markets in order to diversify and develop its export income and growth.

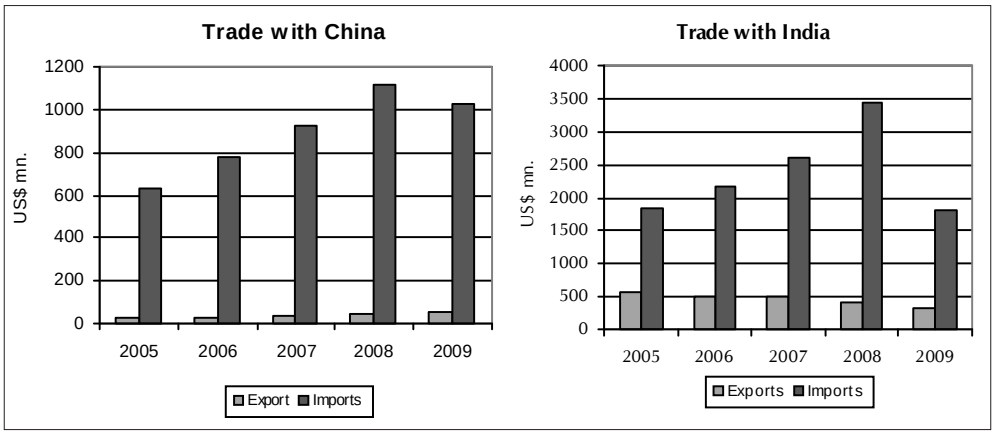
Sri Lanka has preferential access to both India and China under the Indo-Sri Lanka Free Trade Agreement (ISFTA) and the Asia Pacific Trade Agreement (APTA). Under the ISFTA, Sri Lanka has enjoyed considerable success in terms of expanding export earnings as well as diversification of its export basket. Following the ISFTA, India is now the sixth largest export destination of Sri Lanka. Furthermore, several Sri Lankan exporters in sectors such as furniture, garments, ships, animal feed, rubber gloves,

**Table 3.5**
**Foreign Direct Investment by Sector (2007-09)**

| | | US$ Million | | |
|---|---|---|---|---|
| | **Sector** | **2007** | **2008** | **2009** |
| 1. | Food beverages & tobacco | 25.9 | 14.7 | 10.1 |
| 2. | Textile, wearing apparel & leather | 62.6 | 72.3 | 51.4 |
| 3. | Wood & wood products | 0.8 | 2.2 | 1.7 |
| 4. | Paper & paper prod., printing & publishing | 0.00 | 0.8 | 20.8 |
| 5. | Chemicals, petroleum, coal, rubber & plastics | 49.0 | 39.9 | 15.4 |
| 6. | Non-metallic mineral products | 4.7 | 12.8 | 11.2 |
| 7. | Fabricated metal, machinery & transport equip. | 12.5 | 14.4 | 14.0 |
| 8. | Manufactured products (NES) | 18.4 | 32.0 | 38.6 |
| 9. | Agriculture | 0.4 | 2.6 | 3.7 |
| 10. | Services/infrastructure | 559.9 | 697.1 | 434.3 |
| | **TOTAL** | **734.4** | **888.9** | **601.2** |

Source: Board of Investment of Sri Lanka.

**Figure 3.17**
**Sri Lanka's Trade with China and India**




Source: Central Bank of Sri Lanka, *Annual Report 2009*.

rubber tyres, food products, and electrical machinery among others, have been able to successfully penetrate the Indian market. Completion of the first decade of the operation of ISFTA in March 2010, has set a platform to review and rectify the impediments faced during its implementation, addressing inefficiencies at both ends, conflicting interests, domestic policies, high tariffs and non-tariff barriers, etc.

Although the ISFTA does not cover investments, increased business confidence as a result of the agreement has also given a boost to Indian investments in Sri Lanka, making it the third largest investor in 2009. With India pursuing stronger economic relations with the wider Asian region, closer economic integration with India would open doors for new opportunities in both goods and services for the Sri Lankan economy. India has already signed Comprehensive Economic Co-operation Agreements (CECAs) with Singapore and South Korea, and a Trade in Goods Agreement with ASEAN. India has also begun negotiations on a FTA with the Gulf Cooperation Council (GCC) and the EU. In this background, enhanced economic integration with Sri Lanka's emerging global economic neighbour would open doors to tap into the growth potential of India as well as the rest of the world. Similarly, if preferences provided in APTA could be effectively utilized, Sri Lanka can reap the benefits of market access to China, the world's fastest growing economy. Box 3.1 further discusses the prospects of APTA for Sri Lanka.

## 3.5 Conclusion

Although the recovery of the global economy has been moving forward - with emerging and developing economies moving more rapidly towards a solid recovery - important downside risks remain. With fiscal crisis in some EU countries threatening contagion effects on Europe and the global economy, Sri Lanka should be wary as Europe remains a key market for Sri Lanka. Deteriorating fiscal positions and rising public debt may leave little room for policy maneuver in the developed world, and thereby undermine financial stability and hold back the world economic recovery. While economic stress in Europe can undermine Sri Lanka's export performance, the issue is compounded by the loss of GSP-plus preferential access as well.

While the post-conflict recovery and the lagged effects of expansionary fiscal and

## Box 3.1
## APTA and Prospects for Sri Lanka

The preferential trade agreement, APTA, which includes the countries of Bangladesh, China, India, the Republic of Korea, Sri Lanka and the Lao PDR has been in force from 1 July 2006. It is one of the largest regional trading arrangements (RTA) blocs in terms of market size in the Asia-Pacific region, covering a total population of over 2.5 billion. APTA offers substantial tariff concessions and wide product coverage for Sri Lanka. At the fourth round of negotiations held in December 2009, it was decided to go into areas beyond traditional tariff concessions in order to deepen trade cooperation and integration. APTA members are currently negotiating three framework agreements on trade facilitation, trade in services, and investments. In addition, APTA members are exchanging information on non-tariff measures.

Sri Lanka's current major export items to the member countries of APTA include desiccated coconut, coconut fibre, copra, coconut oil, natural rubber, tea, cloves and crude glycerine. The consolidated national lists of the member countries have offered concessions on items of export interest to Sri Lanka in addition to the above products in spices (pepper, nutmeg, mace), cashew nuts, essential oils, natural graphite, rubber products (tyres, gloves, mats, rings) floor tiles, ceramic tableware/kitchenware, glassware, semi-precious stones, gems and jewellery, stuffed toys, cut flowers, footwear, biscuits, apparel, fresh fruits and juices, wooden furniture, ornamental fish, fresh/frozen fish and fisheries products.

Given the expertise of member countries, and the complementary resources available in Sri Lanka, APTA can also pave the way for the promotion of investments and joint ventures in Sri Lanka on projects such as manufacture of microwave ovens, electronic/video games, motorcycles, telecommunication apparatus, copper items, fans, marble, computers, aluminium products, telephone sets, garments and footwear.

Sri Lanka's trading relationship with China, as the largest member of the APTA, is quite significant when examining the prospects of APTA for Sri Lanka. While Sri Lankan exports to China have grown over the past few years, imports from China have grown at a much faster rate. For instance, Sri Lanka's exports to China increased from US$ 29 million in 2005 to US$ 56 million in 2009 (rising marginally from 0.5 of total exports to 0.8 per cent), while imports from China increased from US$ 631 million to US$ 1,029 million (rising from 7.1 per cent of imports to 10.1 per cent) over the same period.

Sri Lanka's major exports to China include raw coconut coir, apparel items, tea, natural rubber, diamonds and other precious stones, titanium ores and concentrates, and bicycles and other cycles. Sri Lanka's major imports from China include electrical machinery and equipment, boilers and machinery and parts, cotton, iron or steel and its articles, man-made staple fibres, knitted or crocheted fabrics, fertilizers, railway locomotives and inorganic chemicals.

Under APTA, China already provides tariff concessions for over 1700 products that are imported from Sri Lanka at a margin of preference (MOP) of 27 per cent, which covers around 50 per cent of total exports to China from Sri Lanka. These concessions are expected to increase up to 2000 export products within the next 2 years. Yet, the utilization of tariff concessions by Sri Lankan exporters is reportedly very low, with Sri Lanka utilizing less than 5 per cent of preferential tariff lines granted by China. Out of APTA eligible exports, 15 per cent is still completely untouched by Sri Lankan exporters.

APTA provides ample opportunities for business expansion and attracting FDI into Sri Lanka. Presently, 16 Chinese businesses have invested in garment, leather, telecom and electronics manufacturing facilities in the country. These sectors have significant importance to Sri Lanka's economy as export items and as potential means of going into higher value added exports in the coming years.

monetary policy would drive economic growth in the short term, in order for this to be sustainable over the long run, it is important for Sri Lanka to diversify its markets and to look at new opportunities, especially in emerging economies. Sri Lanka holds the advantage of having preferential access to the strongly emerging economies of India and China through the ISFTA and APTA, respectively. If the thrust areas of exports to these countries are identified and preferential access available under such agreements is fully utilized, Sri Lankan exporters would be able to reap substantial benefits from export opportunities.

Expanding Sri Lanka's export earnings is critical for long term sustainability of the external current account, particularly with imports expected to increase steeply in the coming months. Sri Lanka will be assisted in managing its BOP through improved inflows of capital. Investments flowing in to areas such as tourism and the leisure sector look promising, while remittances from migrant workers and tourism earnings are also expected to cushion a widening trade imbalance. Nonetheless, the key to ensuring a comfortable external current account position will hinge on the country's ability to continually raise its earnings from exports of goods and services.

# 4. Poverty Reduction Challenges in Post-conflict Sri Lanka

## 4.1 Introduction

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

The prolonged conflict in Sri Lanka has raised numerous issues in the economic and social front, and challenged the future development efforts of the country. Unless well planned development and poverty alleviation strategies are adopted, Sri Lanka can be in danger of failing to meet its long term development objectives, including high rates of economic growth. The literature on post-conflict development points to the often paradoxical relationship between social protection and economic recovery. While reforms of public expenditure policies demand tight control of social expenditure, investment in the latter is a necessary driver of growth. Some studies, for instance, suggest that key post-conflict priorities should be social policies first, followed by sectoral policies while keeping macro policies to the last.[1]

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

## 4.2 Conflict and Poverty: Channels of Effect

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

Many theoretical and empirical studies show

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

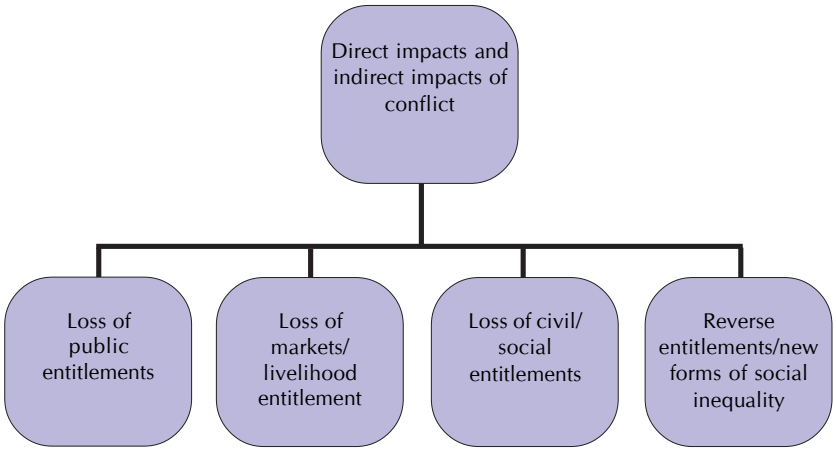
[2] Goodhand, J., 2003, "Enduring Disorder and Persistent Poverty: A Review of the Linkages between War and Chronic Poverty", *World Development,* Vol. 31, No. 3, pp. 629-646.

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

Conflict is one out of many external shocks that increases vulnerability. The effects of conflict differ according to the nature, duration and the phase of the conflict and the specific economic and social conditions. The effects also vary depending on the level of compensatory actions. Conflict can be a 'driver' and 'maintainer' of inter-generational transmitted poverty.[6]

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

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




Source: Adapted from Draman (2003).

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

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

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

[6] See Goodhand, J., 2003. *Ibid.*

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

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

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

### 4.2.1 Conflict and Loss of Public Entitlements

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

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

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

### 4.2.2 Conflict and Loss of Livelihood Entitlements

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

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

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

Conflicts also lead to a depletion of resource endowments. The loss of productive land, water bodies and livestock is a major adverse effect.[9] In Sri Lanka, the extent of land under agriculture in the N&E declined by 25 per cent between 1982 and 2002.[10] This is particularly significant in view of the fact that the livelihoods of households in the N&E were mainly agriculture and livestock centred before the conflict. The N&E accounted for two-thirds of total national fish production, involving about 30,000 fishing households in the Northern Province alone before the outbreak of the conflict.[11] The total length of the coastal line in the Northern Province is about 480 km, out of which most were underutilized during the conflict due to security and other reasons. As a result, households tend to retreat into subsistence or they may migrate out of the region.

Destruction of assets and livelihoods due to forced displacement and migration are other types of direct effects. As in the case of Sri Lanka, the conflict displaced a large number of households and often limited the access of households to employment opportunities and earnings. Refugees from conflict affected areas and internally displaced persons (IDPs) are amongst the most deprived. Displaced populations may have to struggle to find suitable work in the post-conflict period and their productivity may be low. The very poor are likely to be the worst affected. On the other hand, population movements, especially migration, may entail some positive effects on livelihoods and economic status of households through remittances. However, refugee migration to adjacent areas and to the urban centres from the conflict-affected areas can create a situation of labour influx that has indirect effects on livelihoods. An influx builds pressure in the labour market and can bring down wage rates as the new entrants may be willing to work for cheaper rates. In turn, this can affect the livelihoods of resident workers.

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

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

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

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

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

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

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

### 4.2.3 Conflict and Loss of Civil/ Social Entitlements

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

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

### 4.2.4 Conflict and Reverse Entitlements/ New Forms of Inequality

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

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

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

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

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

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

## 4.3 Gaps and Future Challenges

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

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

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

In the absence of access to the large areas in the Northern Province and some parts of the Eastern Province, government social protection programmes were restricted to the rest of the country during the conflict period. These areas also hardly had any formal private sector businesses that could provide any kind of social protection.[15] Nonetheless, loss of livelihoods have made households highly vulnerable in these regions. In this context, social protection is deemed an essential basic service for reducing poverty in conflict-affected areas.

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

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

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

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

**Box 4.1**
**Cash Transfer Programmes in a Post-conflict Context**

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

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

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

The GAPVU (Cash Payments to War-Displaced Urban Destitute Households Programme) implemented in Mozambique in the1990s worked well during the first five years. However, it was suspended due to fraud and corruption. The GAPVU illustrates the capacity of a post-conflict state to implement a social transfer programme successfully, but its subsequent failure emphasizes the need for sufficient resources, administrative system and monitoring and evaluation in the scale up of such programmes.

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

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

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

A major concern regarding Samurdhi is the inadequacy of the cash transfer as a safety net. The value of Samurdhi benefits provided to each poor household is below the level of sustenance. The benefits received by the recipients, especially the conflict-affected who have been deprived of basic needs over a long time, should be adequate to keep them

**Box 4.2**
**Issues in Targeting Social Protection Assistance**

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

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

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

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

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

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

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

above the level of sustenance.[17] There is a need to revise the benefit amount for it to act as a proper safety net, while having the microfinance and insurance components too. Additionally, targeting of social protection programmes after a conflict is a major challenge that needs to be addressed (Box 4.2).

A new form of vulnerable groups in Sri Lanka is ex-combatants, with many housed in rehabilitation centres. Their reintegration becomes vital as any perceived marginalization will push them back into conflict. Sri Lanka took early action, drafting a 'National Framework Proposal on Reintegration of Ex-Combatants into Civilian Life in Sri Lanka' with the objective of achieving key goals such as reconciliation and social cohesion, raising the employability of ex-combatants and minimizing the risk of their socio-economic marginalization.[19] A successful reintegration programme targeting ex-combatants goes through various phases of transition from disarmament and demobilization, rehabilitation, reinsertion, and social and economic reintegration. The reintegration programmes have to be combined with the area-based approaches of post-conflict reconstruction, and social and economic development.

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

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

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

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

[20] Ranaviru Seva Authority, 2009, http://www.ranaviruseva.lk/project.html.

targeted activities.

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

### 4.3.2 Entitlement to Public Services

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

The conflict destroyed vital infrastructure and deprived households of the N&E of their public entitlements. Thus, post-conflict development initiatives have attempted to streamline rehabilitation of the infrastructure in the Northern and Eastern Provinces under the 'Negenahira Navodaya' and the 'Uthuru Wasanthaya' programmes, respectively.

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

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

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

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

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

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

and Jaffna districts under a separate zone.[23]

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

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

New tools for connectivity are also emerging.[24] Gemidiriya brings a good example of the use of information and communication technology (ICT) at grass roots level, to network the villages and provide access to dynamic markets. This facilitates transactions, offers more choices for buyers and widens the economic activities of the village. Through the Gemidiriya information dissemination system, communities are provided with timely, relevant and reliable information, enabling village community organizations to compete with other private companies. Gemidiriya also allows village organizations to come together to increase the marketability of village companies. The federation of companies enhances their negotiating and bargaining powers, and helps protect livelihoods.

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

### 4.3.3 Restoring Livelihoods

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

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

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

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

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

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

There is also a tendency for young adults to migrate to urban centres as they are not familiar with agricultural activities after years of non-participation. Internal labour migration can create pressures on local labour markets, bringing down wage rates and affecting the livelihood of households in other areas as well. With the end of the conflict, the possibility of migrants returning is high. They may possess skills which are valuable to boost economic activity and should be encouraged to access credit facilities (including microfinance), business-aid, and training for self-employment and other livelihood activities.

### 4.3.4 Compensating the Loss of Social Entitlements

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

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

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

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

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

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

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

## 4.4 Conclusion

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

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

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

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

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

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

# 5. Post-conflict Employment and Skills Development

## 5.1 Introduction

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

Over time, there have been some improvements to the labour market conditions in the country. Unemployment trends have come down steadily over the past several years. Despite this, a closer look at employment statistics highlights several areas where the labour market conditions can improve. Although overall, unemployment rates have declined, they continue to be high relative to regional and global averages, particularly amongst youth, females, and the educated. The proportion of employed persons in the population has stagnated over the years, indicating slow progress in job creation. A large proportion of the Sri Lankan workers are estimated to work in the informal economy, engaged in work that does not fully utilize their productive capacity. At the same time, the country is increasingly relying on foreign employment to solve the problem of lack of jobs. While dealing with these challenges, Sri Lanka is confronted with a new challenge with the ending of the three decade long secessionist conflict - that of finding productive work for individuals in the North and East (N&E) regions of the country.

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

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

[1] World Bank, *World Development Report 2007*.

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

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

## 5.2 Policy Context

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

It is estimated that over 300,000 unskilled youth enter the labour market annually, partly because they have failed O-Levels or because they have failed to enter university for higher education. The government has plans to improve access to tertiary education and vocational training for these youth in a field of their choice by providing financial assistance. What is important is that government policy recognizes the need for training to obtain internationally recognized qualifications for youth, so that they are able to meet the demands of the global labour markets. Special attention is given in government policy documents for training individuals in accountancy, IT, tourism, construction, health and beauty culture.

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

## 5.3 Overview of Employment Outcomes in Sri Lanka

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

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

The unemployment rate alone does not provide a full picture of the labour market conditions of an economy. This is because the unemployment rate might hide the fact that workers are underemployed or doing unproductive work. Hence, usually along with unemployment rates, other indicators are examined to assess labour market performance. The employment-to-population ratio for Sri Lanka has remained at around 45 from 2003 to 2008, indicating that the ability of the economy to create jobs has stagnated over the years. The proportion of workers participating in the labour market - the labour force participation rate - also had re-

**Table 5.1**
**Selected Labour Market Indicators for Sri Lanka**[a]

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

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

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

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

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

A recent IPS study finds that the employment prospects for youth (those in the 15-24 age group) in Sri Lanka are less favourable than the regional averages for their counterparts across the globe.[2] This study shows that compared to world regional averages, the youth in Sri Lanka participate less in the labour force, the proportion of youth who are employed are lower, and the unemployment rate amongst youth is higher for Sri Lanka. The same study also shows that the incidence of informal employment is higher for youth compared to adults. Together, these findings show that the availability of productive work opportunities in the economy is limited, and that they have not improved much over the years. This is especially the case for youth.

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

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

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

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

## 5.4 Employment in the N&E

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

Labour market information for the whole of the Northern Province is not yet available. Labour market information is available for the Eastern Province for 2003 and 2008 and for parts of the N&E for 2002 (see Table 5.1). The available data shows that as for the rest of the country, the total unemployment rate has declined for the Eastern Province - from 12.8 per cent in 2003 to 7.7 per cent in 2008. Although these rates are higher than the average unemployment rate for the country (excluding the Northern Province), the discrepancy between the Eastern Province and the average for the country has decreased over time, indicating some progress.

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

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

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

**Box 5.1**
**The Need for and Challenges to Job Creation in a Post-conflict Environment**

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

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

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

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

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

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

## 5.5 Foreign Employment[4]

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

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

firms invested in Sri Lanka to make use of lower wage workers which mainly resulted in shifting employment from agriculture to manufacturing. Along with that, the number of people leaving the country for economic and political reasons increased significantly in the early 1980s. According to estimates by the SLBFE, more than 250,000 Sri Lankans migrated (not corrected for returnees) for foreign employment in 2008. This estimated outflow of workers is higher than the number estimated to be entering the labour force

**Box 5.2**
**The Impact of Migration on the Country of Origin**

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

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

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

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

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

Sri Lanka has witnessed a steady increase in remittance inflows over the last two decades, rising from US$ 140 million in 1980 to US$ 3.3 billion by 2009. Further, compared to overseas development assistance (ODA) and foreign direct investment (FDI), remittances have been the most stable as well as the largest source of foreign capital over the period. Remittances have provided significant balance of payments (BOP) support to the country by offsetting the adverse impacts of high trade deficits during times of crisis. Further, there are indications that remittance inflows have improved national savings and lifted the rate of investment in the country. Although high levels of remittance inflows have the potential to cause exchange rate appreciation, this does not seem to have been a concern in Sri Lanka. These factors indicate that at least at the macro level, remittances have been beneficial to the country. The effects of worker migration on the labour market and household welfare are less clear.

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

**Table 5.2**
**Expatriates in OECD Countries by Selected Country of Origin**

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

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

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

being demographic changes and higher participation in education.[5] However, the effect of migration on labour force participation is less pronounced. Labour force participation rates have remained stagnant, despite large numbers of workers emigrating for work. This is partly due to the fact that many of the low skilled female workers who migrate for work were housewives and are not captured in the labour statistics as economically active. The effect of migration on wages is harder to establish. There is some evidence to suggest that unemployment has influenced wage increases in occupations. The Central Bank of Sri Lanka (CBSL) states that the continued domestic demand for construction sector workers, together with shortages of these workers due to foreign employment, were contributory factors for the 15-16 per cent increase in nominal wages over the 2007-08 period.[6]

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

**Table 5.3**
**Expatriation Rates for Nurses and Doctors in Selected Countries (2000)[a]**

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

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

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

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

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

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

## 5.6 Employment in the IT and ITES Sectors

Another area in which there has been a recent surge in employment is software development and in ITES - such as business process outsourcing (BPO) and knowledge process outsourcing (KPO) - companies. Earnings from this sector have grown by close to 200 per cent from US$ 82 million in 2005 to US$ 245 million by 2009.[7]

The Sri Lanka Information and Communication Technology Association (SLICTA) data shows that the overall IT workforce in Sri Lanka has doubled from 2003 to 2006 and it is estimated to be around 45,000 in 2008. About 22,000 of these workers were demanded by the IT-sector while 20,000 were demanded by the non-IT sector and the rest by government agencies. These are only workers whose primary work output is IT related. In addition to these, a large number of workers have found employment in ITES services - that is services that are enabled by developments in IT. The demand for IT workers has far exceeded the supply of workers. For example, the SLICTA estimated that 5,755 IT graduates were needed in 2007 to cater to the growth in demand. In addition to this, a further 2000 non-graduate IT experts were in demand. However, less than half that number (2,216 graduates) were being trained in that year. Although an attempt was made to fill in vacancies with graduates in IT related degree courses, the supply still did not meet demand.

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

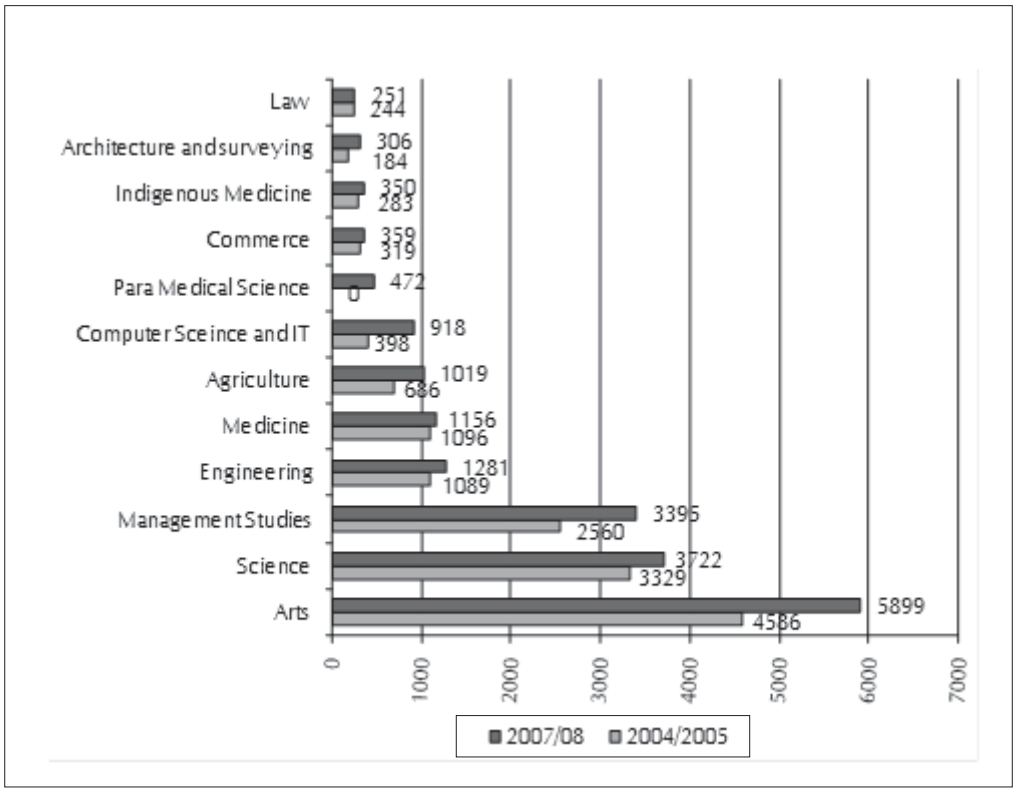
Information on employment in the ITES industry is not available through traditional sources of information in Sri Lanka. But, anecdotal evidence suggests that it has grown substantially over time. Amba, a company that specializes in providing investment research support, started with 20 employees in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

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

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

A main set-back faced by IT and ITES sectors is the shortage of qualified workers. Sri Lanka has a comparative advantage in attracting investments in this sector, given its educated workforce, who are IT and foreign language literate. However, the available pool of workers who are willing to work in this sector is not sufficient to meet the demand by this sector. Some companies who sought to expand within Sri Lanka have chosen to expand their activities abroad due to this reason. An example of one such company is Amba research, which branched out to other countries. At the high end, software and KBO companies look for degree holders competent in IT and English. At the low-end, BPOs look for workers competent in English with a working knowledge in IT. The university and non-university tertiary education sector is unable to cater to this demand due to various reasons. One main constraint faced by IT training institutes is attracting qualified trainers. The government training institutes are particularly handicapped as they are unable to offer salaries demanded by qualified and good trainers. Financial and geographical barriers prevent students from obtaining

**Figure 5.1**
**Number of Undergraduate Entrants by Academic Stream**




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

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

## 5.7 Tertiary Education Reforms

Sri Lanka has been faced with the challenge of creating productive jobs for decades. The expansion of the manufacturing sector mainly created jobs for those with a secondary level education. There was some expansion in jobs for more educated workers in the service sector, but this increase was relatively slow. Globalization has increased the potential for creating jobs both within and outside the country for more educated workers, in the IT and ITES sectors as well as in medical, paramedical, engineering, accounting and other sectors internationally. Although opportunities in this regard have increased, the expansion of these sectors has been constrained by lack of skilled human capital. Most of these employment opportunities require IT literacy or degrees in science and technology related subjects. As seen in Figure 5.1, although the number of university entrants has increased over time, the increase has been mostly in entrants for undergraduate courses in arts subjects. Although there has been some increase in the number of science and technology subjects, the increase is far below what is required by the market.

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

**Table 5.4**
**Youth Education Attainments in Sri Lanka[a]**

| | |
|---|---|
| **By A-Level subject stream[2]** | |
| Arts | 29.5 |
| Commerce | 14.3 |
| Mathematics | 4.2 |
| Biology | 5.1 |
| Did not do A-Levels | 46.9 |
| **By ability to speak English** | |
| Very good | 7.3 |
| Good | 32.1 |
| Poor | 43.5 |
| Not at all | 17.2 |
| **By computer literacy** | |
| Those who have ever used the Internet | 33.5 |
| Computer literacy | 56.6 |

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

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

only 34 per cent had ever used the Internet.

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

## 5.8 Conclusions and Policy Direction

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

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

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

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

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

To safeguard the interests of the country, while reaping the benefits of labour migration, it is necessary to ensure that education policies and training programmes in the country match the needs of the local market as well as the envisaged global markets. Until a sufficient number of workers to meet these skill demands are trained, the promotion of migrant workers in sectors with labour shortages needs to be streamlined.

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

# 6. Challenges to Health Financing in a Post-conflict Environment

## 6.1 Introduction

Despite being subject to a prolonged conflict, Sri Lanka continued to do well in terms of its health outcomes in relation to its per capita income and level of social development. Publicly-funded health care services played a major role in this achievement, accounting for 97 per cent of inpatient care, 55 per cent of outpatients' services, and the bulk of preventive and public health services. The key priorities with regard to the health care system in general include ensuring good quality care that meet the expectations of the professionals and the needs of the people on one hand, and improving the equitability of access to health care services. However, in the post-conflict era, health care delivery is facing the twin challenges of maintaining the existing free health care service while restoring the severely damaged health system in the conflict-ravaged areas of the Northern and Eastern Provinces.

There are increasing numbers of deaths in Sri Lanka from diseases characteristic of later stages in the epidemiological transition, such as ischaemic heart disease, cerebrovascular conditions and lung cancer. There is also a recent resurgence in deaths from dengue, a high rate of malnutrition among children, and rising incidence of malaria. Some of these factors, more heavily concentrated in the North and East (N&E) of the country, reflect the consequences of the conflict which has severely disrupted the normal functioning of health care institutions, than a failure in the system as a whole.

Although Sri Lanka's health system has, and continues to do well in efficiency, effectiveness and equity in the use of public expenditures, improvements to equitable access to health services and risk-protection against diseases will require an increase in public expenditures. As the conflict imposed its own fiscal pressures, decades of expenditure constraints have left Sri Lanka's health care system with a diminishing ability to manage such changes. The lack of social safety nets to protect the affected populations from catastrophic incidents will compound this predicament further. This Chapter attempts to highlight some of the key policy challenges facing the health sector in its attempts to bring together a functioning national health system in the conflict-affected areas, while dealing with the problems arising from underinvestment in the publicly funded health system in the country as a whole.

## 6.2 Health Status and Challenges to the Health System in Sri Lanka

There have been several major reviews of Sri Lanka's health sector in the past five years, the most recent one being the Health Master Plan (HMP) commissioned by the World Bank and Japan International Cooperation Agency (JICA) which covered the period 2000-03. Accordingly, as stated in HMP, Sri Lanka's health system has and continues to do well. Efficiency, effectiveness and equity in the use of public expenditures for health have played a major role in this achievement. It has been able to do this through continuous and incremental organizational change over several decades.

### 6.2.1 Health Status

Sri Lanka has health indicators which are more akin to an upper-middle income economy than to a developing country. By 2008, despite an income level of US$ 2,000 per capita, Sri Lanka - excluding the N&E - had reduced its infant mortality rate to 11.3, its child mortality rate to 11 per 1,000 live births, its total fertility rate to below replacement level at 1.9, and raised its life expectancy to 75 and 72 years at birth for women and men, respectively. Controlling for its levels of income, education, nutrition and sanitation, Sri Lanka continues to perform far better than average for the Asia-Pacific region, for instance, in terms of health outcomes. An increasing body of evidence indicates that this is directly linked to a superior performance of both curative and preventive health services delivery in the country.[1]

Although Sri Lanka has achieved remarkable standards in health care, more government health care spending would be needed as Sri Lanka has an ageing population that will require attention on non-communicable diseases and certain communicable diseases. Malnutrition, urbanization and changing lifestyles are beginning to challenge the country's health sector. Chronic non-communicable diseases mortality rate in Sri Lanka is 20-30 per cent higher than in many developed countries. Cardiovascular diseases, diabetes mellitus, chronic respiratory diseases, renal diseases, and cancer are the major reported non-communicable diseases. The rising trend in non-communicable diseases demands additional financing for health care, placing further demands on resources of the government. Meanwhile, the reappearance of certain communicable diseases is challenging the country's health care sector.

The outbreak of dengue in 2009 placed a serious strain on the entire health sector. The number of dengue patients has risen above 11,619 from the beginning of 2010, with the highest number of deaths (35) reported in January 2010. Accordingly, from January-April 2010, the total dengue death toll has been 67.[2]

Childhood under-nutrition has improved markedly over the past two decades, allowing Sri Lanka to maintain its status as a country with the lowest prevalence of underweight children in South Asia. However, according to aggregate trends in underweight rates (1993-2000), Sri Lanka does not appear to be on track to achieve its Millennium Development Goal (MDG) target of 19 per cent prevalence of underweight children by 2015, unless significant improvements occur in the interim.[3] Nonetheless, the country is on track to achieve its MDGs for other health indicators. When considering Sri Lanka's national income and the remarkable achievements in other health-related sectors, the nutrition indicator should have been much better. Disaggregating the rates sub-nationally shows that under-nutrition rates are much higher among the rural population, especially in the estate sector, where the prevalence of stunting and underweight children is 42 per cent and 30 per cent, respectively.

A survey of pre-school children found that the prevalence of sub clinical Vitamin A

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[1] Caldwell, J., I. Gajanayake, P. Caldwell, and I. Peiris, 1989, "Sensitization to Illness and the Risk of Death: An Explanation for Sri Lanka's Approach to Good Health for All", *Social Science and Medicine*, 28(4):365-79.

[2] Ministry of Health Care and Nutrition, Epidemiology Unit.

[3] IPS/UNDP, 2010, "Millenium Development Goals: Sri Lanka Country Report 2008/2009".

[4] Jayatissa, R., MRI, Survey on Pre-school children, in Colombo, Ratnapura, Anuradhapura, Kurunegala, Tricomalee, Jaffna, Badulla, Nuwara Eliya and Hambantota carried out in 2009.

deficiency was 36.3 per cent,[4] which is high in comparison to other countries of South Asia. Iron deficiency anemia, which is generally lower than elsewhere in South Asia, is still high at 30 per cent. Iodine deficiency disorders have almost been eliminated. The other key micronutrient deficiencies such as Vitamin A and Iron have seen a reduction across population groups, but not adequately so. However, wasting or thinness among children under five years of age has been hovering around 14 per cent. Household food insecurity, limited access to safe water and sanitation, and poor maternal and child care practices have been identified as the causes of under-nutrition in Sri Lanka. Rising income inequalities between and within regions are bound to have an impact on childhood malnutrition, which could worsen in the absence of targeted, pro-poor intervention at state expense.

### 6.2.2 Health Status in the N&E

Although the overall health indicators stand at satisfactory levels, the socio-economic status of conflict-affected areas are not fully reflected in the national level indicators due to non-availability of data for the N&E. According to 2003 estimates of the Registrar General's Department, the infant mortality rate in Sri Lanka as a whole was 11 per 1,000 live births, but it was 14.7 in the N&E regions in 2000, with significant variations within the region itself (Table 6.1).

International evidence suggests that the return of refugees can make greater demands on already stressed systems, and possibly bring new sources of disease to the population. Displacement is a significant factor driving inequities in health status. Internally displaced persons (IDPs) frequently have higher mortality and morbidity than populations not displaced or refugees. A study using Disability Adjusted Life Years (DALY) to assess the long term impact of conflicts

**Table 6.1**
**Selected Health Indicators for N&E (2000/01)**

| | IMR[a] | MMR[b] | Low Birth Weight[c] (%) | Underweight 0-5 Years[c] (%) | Home Deliveries[c] (%) | Safe Sanitation[c] (%) |
|---|---|---|---|---|---|---|
| Sri Lanka | 11.2[d] | 14[d] | 16.7 | 29.4 | 4.0 | 72.6 |
| N&E | 14.7 | 81 | 25.7 | 46.2 | 19.4 | 48.2 |
| Ampara | 10.3 | 24 | 22.7 | 44.1 | 19.8 | 52.7 |
| Batticaloa | 15.8 | 117 | 24.3 | 53.2 | 31.4 | 28.4 |
| Trincomalee | 4.6 | 57 | 30.5 | 44.7 | 13.6 | 25.6 |
| Jaffna | 22.3 | 62 | 30.5 | 43.1 | 4.4 | 79.0 |
| Kilinochchi | 27.8 | 158 | N.A | N.A | N.A | N.A |
| Mannar | 22.3 | 97 | 12.7 | 38.3 | 39.4 | 70.9 |
| Mullativu | 20.3 | 123 | N.A | N.A | N.A | N.A |
| Vavuniya | 8.8 | 76 | 38.8 | 50.6 | 2.3 | 71.0 |

Notes: a: Infant mortality rate per 1000 live births in 2000; b: Maternal mortality rate per 1000 live births in 2000; c: Data for 2001; d: Data for 2002.

Source: Ministry of Health, *National Health Bulletin*, various years; and World Health Report 2002.

that occurred during 1991-97 found that, as compared to a conflict free country, the loss of healthy years of life for girls under the age of five was 28.5 years per 100 girls.[5] That figure increased for extreme cases, such as Rwanda, to 53 years lost per100 children. Further, this reduction in healthy life years was associated with malaria, tuberculosis, respiratory infections, and other infectious diseases. Another study using WHO Health Adjusted Life Expectancy (HALE) on armed conflict found that each additional conflict a country experiences reduces the number of healthy years of life of its population by seven months.[6]

In Sri Lanka too, with the return of IDPs, key indicators including infant, child, and maternal mortality rates may remain at the conflict-time levels, or even increase as water, power, electricity and sanitation services remain severely strained, clinics remain damaged or unstaffed or understaffed, where health prevention programmes have been stalled, and other health workers have become scarce. The recent development programmes initiated by the government and donor agencies to reconstruct health institutions are an indicator of the needs in this sector.

## 6.3 Improving Health Care Facilities

A major challenge in rehabilitating or designing hospitals - or indeed any large-scale investment project - to be sustainable in the long term is the long time periods involved in planning, financing, construction and operation. The interval between concept and commissioning of major hospitals reconstruction can range from 3-5 years owing to complex administrative procedures, while several more years may be needed to construct a new hospital. This can mean that many hospitals, when beginning to operate, may not meet the current (or future) health needs of the population.

A key challenge facing policy makers in this regard is the compression of capital expenditure affecting long term reconstruction projects, and the dearth of donor funding for hospital projects due to the elevation of Sri Lanka to a status of a middle income economy. A good example that can be cited is that Sri Lanka's main cancer hospital located in Maharagama had a long felt need for a few fully fledged chemotherapy surgical theatres to meet demand, but these did not materialize due to the exorbitant costs involved. Due to this reason, it was the practice in the past to transfer serious patients to private hospitals at a cost borne by the state. Very recently, the necessary funds were made available by private donations to establish four operating theatres in a refurbished old building.

### 6.3.1 Repairing and Rehabilitating Health Facilities in the North and East

Substantial funds need to be directed towards reconstruction or rehabilitation of state health institutions damaged or devastated at the height of the conflict in the Northern and Eastern Provinces. The distribution of health facilities prior to the end of the conflict is given in Table 6.2. Given the damage incurred to health facilities over the course of Sri Lanka's protracted conflict, capital investment can be expected to play a major role in the rehabilitation process.

While long term investment projects take place, there is a dire need for accelerated investment to improve the operating efficiency of tertiary, secondary and primary hospitals in the conflict-affected areas. For instance, the Jaffna Teaching Hospital, which is the main state health institution in the peninsula

[5] Ghobarah, H.A, P. Huth, B. Russett, 2004, *The Post War Public Health Effect of Civil Conflict*, Harvard University, Cambridge.

[6] *Ibid.*

**Table 6.2**
**Distribution of Government Health Institutions in the North and East by District (December 2005)**

| District | Teaching Hospitals | Provincial Hospitals | Base Hospitals | District Hospitals | Peripheral Units | Rural Hospitals | CDs & MHs[a] | Other Hospitals | CDs |
|---|---|---|---|---|---|---|---|---|---|
| Jaffna | 1 | | 1 | 6 | 6 | 4 | 9 | 1 | 15 |
| Killnochchi | | | | 1 | 4 | | 4 | | 2 |
| Mannar | | | 1 | 3 | 1 | 1 | 2 | | 3 |
| Vavuniya | | | 1 | 1 | 1 | 1 | 3 | | 3 |
| Mullativu | | | | 1 | 1 | 1 | 2 | 1 | 2 |
| Batticaloa | 1 | | 1 | 5 | 1 | 4 | 2 | | 18 |
| Ampara | | | 1 | 9 | 5 | 3 | 7 | 1 | 31 |
| Tricomalee | | 1 | 1 | 2 | 3 | 5 | 3 | | 12 |

Notes: a: Central dispensaries and maternal homes.
Source: Ministry of Healthcare and Nutrition, *Annual Health Bulletin 2005*.

catering to more than 650,000 people, is in need of major improvements to its children's wards to bring them on par with similar facilities in Colombo. The Ministry of Health (MOH) has taken several steps in recent months to develop the district's main hospitals. Work on a Japanese-funded project to build a new hospital building with more than Rs. 3 billion of investment is expected to commence soon. It will include a new laboratory complex, a radiological diagnosis department, a new operating theatre, including ICUs and a Central Supply and Sterilizing Department.[7]

Further, the government has allocated Rs. 350 million to uplift health care facilities in the Jaffna district, which includes the reconstruction of the Chavakachcheri Base Hospital. According to the Ministry of Rehabilitation and Reconstruction, the government has allocated Rs. 460 million under the 'Uthuru Wasanthaya' programme to improve health facilities in the Jaffna peninsula. Of this, Rs. 110 million is to be spent on upgrading the Jaffna Teaching Hospital.

Currently, ongoing projects include the construction of a new administrative building and an Out Patient Department (OPD) of the Chavakachcheri Base Hospital, construction of a maternity ward complex for the Manipayi hospital, construction of an OPD building for the Karaveddi hospital, construction of a primary medical clinic at Illavalai and construction of maternity wards in Thennmarachchi and Kodikamam, among other planned projects. The above indicates the significance and importance of capital expenditure requirements which is essential for the normalization in hospital services delivery.

## 6.4 Public Expenditure on Health

### 6.4.1 Overall Expenditure on Health

The total health budget of the government in 2009 amounted to Rs. 71.4 billion which was 44 per cent of the total health expenditure of the country.[8] There are around 555 government health institutions functioning at different levels, with 68,800 beds - translating to 3 beds per 1,000 persons. The health staff included 13,603 qualified doctors and

[7] *The Island*, "Hospitals First, Hotels Can Wait", 20 April, 2010.
[8] IPS, "Preliminary Sri Lanka National Health Accounts 2009".

25,549 nurses in 2009.

In Sri Lanka, total expenditures on health consist of current expenditures on medical care and capital formation. Public health expenditures as a proportion of GDP averaged around 1.6 per cent throughout the 1990s and reached 2 per cent in 2008.[9] Two-thirds of this was channelled through the central government, and one-third through Provincial Councils (PCs), but more than 95 per cent of this was ultimately financed through central government's tax revenue. This low level of public health expenditures of 1.5-2.0 per cent of GDP itself is the culmination of several decades of expenditure compression in the government health sector, which has seen public expenditure on health decline continuously from its peak of around 2.5 per cent of GDP in the late 1950s.[10]

The largest proportion of government expenditures of 63 per cent is incurred at hospitals.[11] This level of expenditure being spent on inpatient and outpatient care services does not represent a significant change from the spending levels during the past fifty years. Taking into account that hospitals are the main mechanism for providing inpatient care, the network of hospital facilities in the country and associated minimal barriers to access by the poor, a high level of efficiency is needed to achieve the desired health care delivery output in the hospital sector, via enhanced allocation of financial resources to close the gaps in manpower needs. Shortage of health delivery personnel at primary care level due to geographical barriers in the plantation sector is the best example of gaps in manpower needs.

### 6.4.2 Expenditure on Preventive and Curative Care

Public expenditures for preventive public health programmes measured in real terms stagnated continuously until 2005 as central MOH expenditures declined. This in turn is largely explained by a decline of more than 90 per cent in malaria control expenditures, due to adoption of a more efficient vector-control strategy in accordance with the 'Roll-back Malaria' programme and thus represents a productivity improvement. The overall performance of the malaria control programme was maintained, reflected in declining case loads throughout the decade. Unfortunately, the reduction of allocation for other preventive services has impacted on community health in recent times. The prevailing dengue epidemic is a case in point. Although analysis of the reasons why preventive services expenditures declined, and evidence of increasing pressure on curative services, do not support the argument that allocational efficiency of public expenditures will be improved by increases in the relative allocation to preventive health. There should be a reasonable increase in expenditures on the preventive side, but the priority should remain curative services (Figure 6.1).

### 6.4.3 Financing of Emerging Health Issues

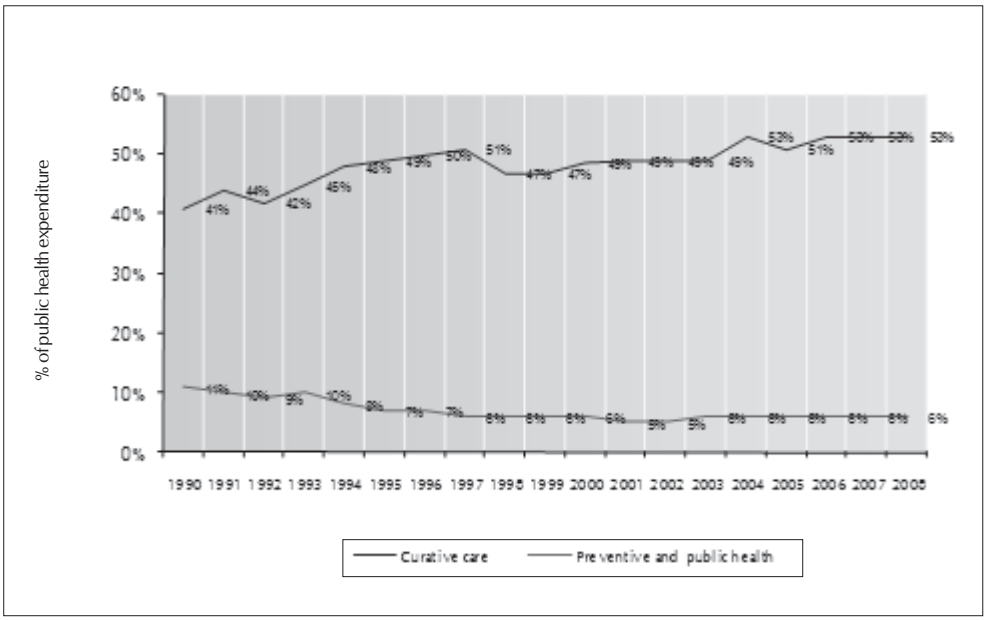
Health care expenditures in developed countries have been growing rapidly over the past fifty years. In most of these countries, expenditures on medical treatment increased at a faster rate than GDP. This rapid growth indicates an improvement in life expectancy and quality of life, but also jeopardizes the sustainability of public budgets. Sri Lanka is now quite advanced in its epidemiological and demographic transitions. The experience of other demographically advanced econo-

[9] IPS, Sri Lanka National Health Accounts data base.

[10] IPS, "Sri Lanka Public Expenditure Review: Health Sector 2004".

[11] IPS, "Sri Lanka National Health Accounts 2008".

**Figure: 6.1**
**Public Health Expenditure for Curatve and Preventive Service,1990-2008**




Source: IPS, Sri Lanka National Health Accounts data base.

mies - most of which allocate higher proportions of health expenditure to hospitals - would indicate that Sri Lanka will need to increase the allocation of expenditures to hospital services in the coming years. Since private financing is able to fund limited hospital services, there is a need for real increases in public expenditure on hospitals services in years to come. This situation will be compounded by the demand for more capital expenditure for post-conflict restoration of devastated or damaged hospital infrastructures and other health institutions in the Northern and Eastern Provinces.

As noted by the World Bank, Sri Lanka's health sector will require much higher resources in the future to cater to the needs of an ageing population, the growing non-communicable disease burden, and rising expectations of citizens. Based on the average for lower middle income countries, it is estimated that the public health expenditure would need to increase from the currently 2 per cent of GDP to around 4 per cent of GDP.[12]

## 6.5 Different Means of Meeting Financial Needs

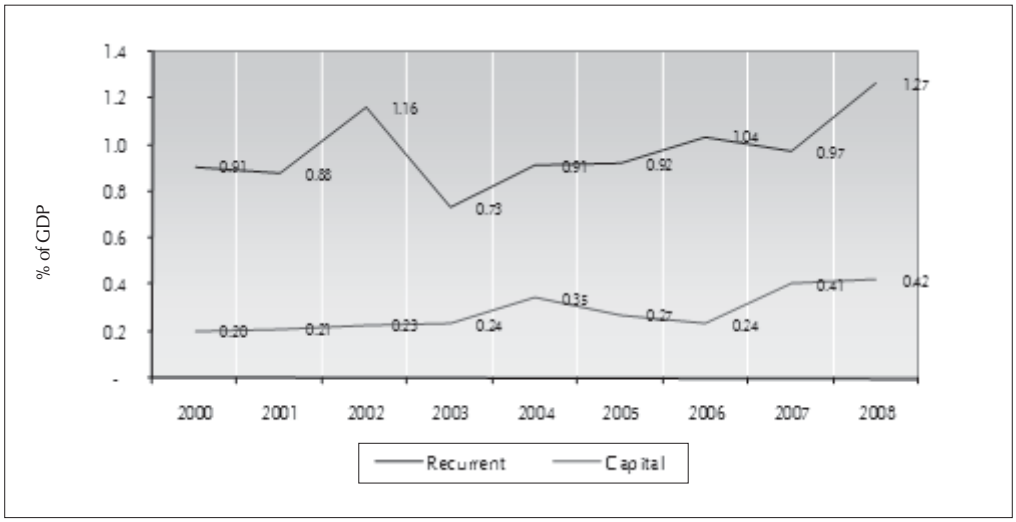
### 6.5.1 Public Finance

Government spending on health from domestic sources is an important indicator of its commitment to the health of its people, and is essential for the sustainability of health programmes. The average public expenditure for health over the years in Sri Lanka remained static between 1.7-2.0 per cent of GDP.

When looking at post-conflict health financing, a very real concern is that overall capital expenditure, or long term government investments, may continue to be sacrificed at the expense of recurrent expenditure. In 2009,

[12] World Bank, "Sri Lanka Health Sector-Aide Memoire of Identification Mission", March 8-19, 2010.

**Figure 6.2**
**Public Expenditure on Health (2000-08)**




Source: Ministry of Finance, Budget Estimates 2000-09; IPS, Sri Lanka National Health Accounts.

for instance, total capital expenditure for all sectors was estimated at Rs. 368.2 billion, but the actual outturn amounted to Rs. 312.5 billion,[13] registering a decline of over 15 per cent from the budgeted amount. A tendency to underestimate current expenditures and overestimate revenues in budgets has been a recurring feature of Sri Lanka's public finances, with the obvious result being recurrent expenditures overshooting targets and capital expenditure being cut or sacrificed in the process as expected revenues are not received.

The government's capacity to increase allocation for financing the health sector has to be viewed in the background of Sri Lanka's current fiscal scenario where many competing sectors demand urgent attention. As a result, a dearth of capital investment was visible in many sectors, including health (Figure 6.2). A widening gap between recurrent and capital expenditure in the health sector over the years poses a significant challenge in addressing post-conflict health infrastructure restoration efforts.

As emphasized, increased public expenditures for health is the central and most critical element in any strategy to improve overall sector performance. The temptation always exists to attempt organizational change even if such funding is not available. However, it remains necessary to observe the strong recommendation that attempting change without fixing the financing system is likely to damage the system and thus its ability to protect the poor.[14] If the financing gap can be resolved, then it would be possible and desirable to turn to other stages of reforms.

### 6.5.2 Development Assistance

In all developing countries, public financing of health from domestic sources in constant dollar terms is estimated to have increased

[13] Central Bank of Sri Lanka, *Annual Report 2009*.

[14] Hsiao, W., 2000, "A Preliminary Assessment of the Health Sector of Sri Lanka and Way Forward", IPS/HPP.

by nearly 100 per cent during the past decade. Overall, this increase was the product of rising GDP. In nominal terms, Sri Lanka increased its spending on the health sector from Rs. 11,000 million in 1995 to Rs. 59,000 million by 2006. This includes overseas development assistances (ODA) for health, amounting to an increase from Rs. 1,200 million in 1995 to Rs. 1,320 million in 2006.[15]

When it comes to capital expenditure requirements, ODA for health plays a crucial role, but the elevation of Sri Lanka's economic status to a middle income country slowed the inflow of foreign financial assistance. Further, with the introduction of MDGs, a larger share of ODA for health focused on disease specific funding to bridge gaps in government spending. In 2008, concerns that under-funded and weak health systems are impeding the achievement of the health MDGs in low and middle income countries led to the creation of a High Level Task Force on Innovative International Financing for Health Systems. Accordingly, the Global Fund for HIV, Tuberculosis and malaria, and the GAVI Alliance (formerly the Global Alliance for Vaccines and Immunization), have both provided funding opportunities for health systems. Sri Lanka is well ahead in achieving MDGs in HIV, Malaria, TB and immunization goals, but the country is still open to receive humanitarian assistance from bilateral sources, provided there is greater encouragement to accommodate the private sector and NGOs to participate in the health sector development process.

Enhancement of public financing of health is important for the long term financial sustainability of the post-conflict health sector. If donor funding declines or stops, the continuation of health programmes will be difficult without increased financial support from the government. Furthermore, any lag in financing could force households to pay more from their own pockets and thus push them below the poverty line as a consequence of high health payments. Also any reduction of government allocation for health from domestic sources in anticipation of foreign donor assistance is inconsistent with many goals of international donors and domestic agencies, such as the Ministry of Health. Cross-country experiences indicate that ODA to the health sector has a negative and significant effect on domestic government spending on health, such that for every US$1 of ODA for health, government health expenditures from domestic resources were reduced by US$ 0.43-1.14.[16]

### 6.5.3 Increasing Private Participation

To bridge the gap in health financing in Sri Lanka's post-conflict development effort - that is needed to restore normalcy in health care delivery - the potential role of the private sector is perhaps the area which is most debated. The private sector plays a significant role in providing health care in Sri Lanka. It provides services to about 5 per cent of all inpatients annually and 53 per cent of outpatients. However, the overall responsibility of patients' protection and ensuring patients obtain value-for-money for the health care services paid for, lies with the government. In this context, the private sector regulatory council, which was established in 2007, would need to take necessary measures to ensure consumer protection. The private sector has a role in raising and investing capital, and providing health insurance, health services, and resources that are needed for health care in conflict-affected areas. It might assume this role on its own behalf, or on

[15] IPS, Sri Lanka National Health Accounts data base.

[16] Chunling Lu, *et al.*, 2010, "Public Financing of Health in Developing Countries: A Cross-national Systematic Analysis", *The Lancet*, Vol. 375, Issue 9723, pp. 1375-87.

contract to the state (e.g., to build facilities, provide services, distribute drugs and medical supplies, etc.). There could be some scepticism with regard to the desirability and feasibility of private insurance on account of affordability issues of the users. With respect to health care provision, there is limited positive evidence on whether investment in private sector delivery reaps health care benefits, specifically for the poorest people in conflict areas.

### 6.5.4 Out-of-Pocket (OOP) Expenditure

Out-of-pocket expenditures for health can have a direct impact on poverty because of their potential to impact on net consumption levels of poor households, and for catastrophic expenditures on impoverished households. In Sri Lanka, OOPs for inpatient care as a share of total household consumption is highly progressive relative to the ability to pay, with a ten-fold difference between the richest and poorest quintiles' shares. This can be attributed to the availability of free hospital care that poor households do have good access to. This finding confirms that Sri Lanka's focus on hospital services in its public expenditure is effective, as it was originally intended to, in protecting most households from financial burdens when ill.[17] The OOP expenditure for outpatient care and drugs as a share of household consumption is only mildly progressive or proportional to ability to pay. This is not surprising since even poorer households will resort to self-treatment, and also can afford small payments for private outpatient care and medicines.

## 6.6 Conclusions

Sri Lanka's health care system has done well by international and regional standards in various dimensions of equity, in particular its targeting of public expenditures to the poor, and the effectiveness of public expenditure in protecting households against the impoverishing impacts of catastrophic illness. The relatively sound performance demonstrates that the general approach of relying on public expenditure as the primary funding source for the health system, concentrating public expenditures on hospital services and maintaining the principle of universal access has been effective in ensuring equity on the delivery and risk-protection side. Further improvements in this area will depend on increasing the share of public expenditure in total health system financing so as to reduce the burden of out-of-pocket payments.

Public financing remains a challenge in view of competing demands for government expenditures. Government health expenditure accounted for 44 per cent of total expenditure on health in 2008. During the last five years, the public expenditure share has dropped from 50 per cent to 44 per cent, while inpatients and outpatients treated in government hospitals increased by 5 per cent and 6.5 per cent, respectively, over the same period. Over time, these challenges - alongside new post-conflict priorities of rehabilitating health services in the N&E - are likely to drive the wedge further between the access and quality of health care services available for the rich and the poor.

Sri Lanka's health system needs to reorient its attention to problems in service delivery for children (nutrition, stunting, etc.) and expectant women with high and continuing prevalence of foetal and maternal under-nutrition, and towards the problems associated with service delivery to adult males and females, particularly for treatment of chronic diseases such as diabetes, ischaemic heart disease, etc. This requires increasing emphasis on the expenditure side on delivery of medical services, as mortality reduction in many of these diseases requires more effec-

[17] IPS, "Sri Lanka Public Health Expenditure Review 2004".

tive case management and treatment. Indeed, Sri Lanka will need to make significant changes to its health system in order to face new challenges from epidemiological and demographic transitions and also to adequately prepare for threats that may have to be faced in the future. Therefore, these emerging challenges in post-conflict Sri Lanka, which includes changing demographic and disease patterns, limited resources, increased demand and expectations by the public, and the need for equity and fairness in service delivery should be given priority in the formulation of future policy reforms.

# 7. Challenges for the Food Crop Production Sector: A Post-conflict Perspective

## 7.1 Introduction

Sri Lankan agriculture, particularly the food crop production sector, has been in a crisis for many decades. Both long standing endogenous problems as well as the more recent exogenous factors - such as the global 'foodflation', energy crisis, and economic crisis - have contributed to this quagmire, Sri Lanka's armed conflict of the last three decades is also popularly believed as one such inhibiting factor. In the present context where all development and reform initiatives are being reconsidered in a post-conflict context, development of food crop production should also be discussed in the same vein. However, the discussion on the food crop sector has already received considerable attention.[1] Therefore, the primary objective of this Chapter is to bring in the additional dimensions introduced by the present 'post-conflict' setting to the extent possible.

The post-conflict effect on the food crop sector emanates from the end of the 30 year armed conflict and the ensuing restoration of civil administration in the Northern and Eastern Provinces of Sri Lanka. This impact will be felt on both the consumption side as well as on the production side. An increase in demand for food and an increase in food supply can be expected not only in the conflict-affected areas, but also in the rest of the country as a result of the restoration of peace.

## 7.2 Agricultural Sector in Sri Lanka's Economy

Agriculture is one of the key sectors of the national economy with significant contribution to GDP, employment and income. In 2009, the relative contribution of agriculture to GDP was only 12 per cent, while that of

**Table 7.1**
**Percentage Contribution to GDP by Industrial Origin**

| Year | Agriculture Forestry & Fishing | | Industry | | Services | |
|---|---|---|---|---|---|---|
| | Value (Rs. mn) | % | Value (Rs. mn) | % | Value (Rs. mn) | % |
| 1977 | 4,299 | 26.7 | 3,491 | 21.7 | 8,288 | 51.5 |
| 1987 | 27,409 | 23.6 | 30,198 | 26.1 | 58,315 | 50.3 |
| 1997 | 131,678 | 17.8 | 227,847 | 30.8 | 380,238 | 51.4 |
| 2007 | 265,870 | 11.9 | 635,199 | 28.5 | 1,331,587 | 59.6 |
| 2009 | 294,921 | 12.0 | 701,129 | 28.6 | 1,453,254 | 59.3 |

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

[1] See IPS, *Sri Lanka: State of the Economy*, various issues.

**Table 7.2**
**Growth Rate of GDP (1977-2009)**

| Year | Agriculture Forestry & Fishing | Industry | Services | GDP |
|---|---|---|---|---|
| 1977 | 10.4 | -3.4 | 4.7 | 4.2 |
| 1987 | -5.9 | 5.3 | 3.2 | 1.6 |
| 1997 | 3.1 | 8.3 | 6.6 | 6.5 |
| 2007 | 3.3 | 7.6 | 7.1 | 6.8 |
| 2008 | 7.6 | 5.9 | 5.6 | 6.0 |
| 2009 | 3.2 | 4.2 | 3.3 | 3.5 |

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

the industrial and service sectors were 28.6 and 59.3 per cent, respectively. With structural changes in the economy due to pro-market policy reforms of the post-1977 period, the relative contribution of agriculture to GDP has declined from 26.7 in 1977 to 12 per cent by 2009 (Table 7.1).

With rising overall GDP growth in the country, the slow growth rate in the agricultural sector compared with higher growth rates of service and industrial sectors has contributed towards the shrinking of agricultural sector contribution to the economy (Table 7.2). While Sri Lanka posted, on average, an annual growth rate in the region of 5 per cent, agriculture continued to perform poorly, growing by not more than 2 per cent on average while in some years it has been negative.

One important point to note is that the contribution of agriculture to overall economic growth has shown a marked decline from 1977-1987. Disruption of agriculture in the North and East (N&E) regions with the eruption of the violent conflict in the early 1980s could be identified one among

**Table 7.3**
**Decadal Growth Rates of Major Non-plantation Crops (%)**

| Major Crops | Extent Cultivated | | | Production | | | Average Yield | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1979-1988 | 1989-1998 | 1999-2008 | 1979-1988 | 1989-1998 | 1999-2008 | 1979-1988 | 1989-1998 | 1999-2008 |
| Paddy | 0.4 | 1.7 | 1.9 | 3.0 | 3.0 | 3.4 | 2.4 | 0.8 | 1.5 |
| Maize | 7.3 | 0.3 | 6.7 | 6.9 | 1.1 | 15.2 | 1.5 | 0.9 | 7.9 |
| Green gram | 9.2 | -4.7 | -5.4 | 9.6 | -2.9 | -4.8 | 7.9 | 1.9 | 0.6 |
| Cowpea | 6.3 | -4.7 | -0.8 | 6.7 | -3.8 | -0.1 | 0.6 | 0.9 | 0.7 |
| Black gram | 17.0 | 3.8 | -0.4 | 17.2 | 4.0 | 3.9 | 0.7 | 0.2 | 4.3 |
| Red onion | -2.1 | -5.1 | -2.3 | -1.5 | -6.8 | 1.6 | 4.3 | -1.8 | 4.0 |
| B'onion | 19.4 | 6.8 | -1.3 | 6.8 | 14.0 | -1.0 | 4.0 | 6.7 | 0.3 |
| Ground nut | 0.7 | -1.2 | 0.0 | 0.1 | -1.9 | 5.1 | 0.3 | -0.8 | 5.1 |
| Chillies | -3.1 | -1.3 | -4.0 | 6.6 | -0.9 | -1.8 | 5.1 | 0.4 | 2.3 |
| Banana | 4.8 | 1.3 | -0.1 | -9.2 | -2.3 | 0.0 | 2.3 | -3.6 | 0.1 |

Source: HARTI, *Agricultural Trade Review*; and Department of Census and Statistics

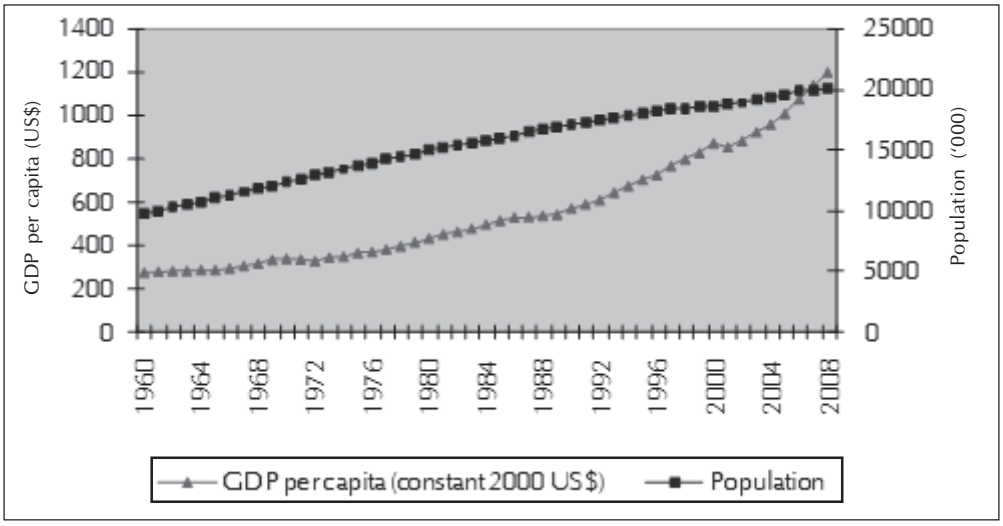
numerous for this. Reduction in production growth rates around this period of individual food crops in Sri Lanka is further highlighted in Table 7.3 as well.

### 7.2.1 The Demand Side

Both population and per capita income have been increasing in Sri Lanka for the last five decades (Figure 7.1). As a result of these two factors, the demand for major food categories has been constantly rising in Sri Lanka.

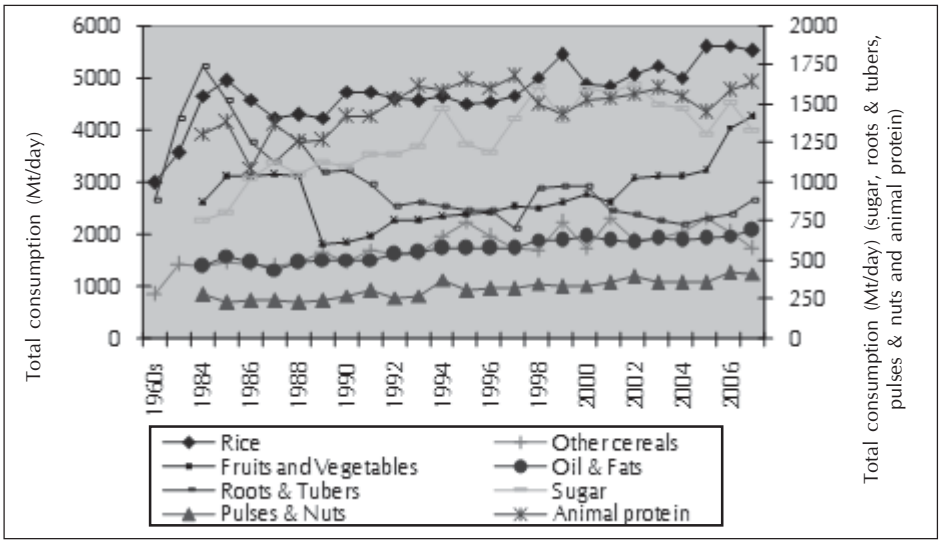
This overall picture, however, camouflages certain details that are relevant in explaining variations in food demand. Firstly, the disparity between the per capita income in

**Figure 7.1**
**Change in Real Per Capita GDP and Population (1960-2008)**




Source: Central Bank of Sri Lanka; and CBSL, *Annual Report*, various issues.

**Figure 7.2**
**Consumption of Major Food Categories (Mt/day)**




Source: Department of Census and Statistics, "Food Balance Sheets", various years.

conflict-affected areas and the rest of the country grew in leaps and bounds after 1983. Secondly, needless to say, the poverty situation diverged between the two areas as a result. According to Sri Lanka Food Security Assessment (2007) conducted by the World Food Programme (WFP), about 23 per cent of the population lives below the official national poverty line in the seven 'conflict unaffected' provinces in the country.[2] Household survey data suitable for poverty measurement does not exist for the two remaining conflict-affected Northern and Eastern Provinces. However, according to the WFP, the N&E has by far the lowest per capita income of all the provinces, so it is likely that the incidence of poverty in these areas is greater than in most of the other provinces. Hence, the national poverty headcount could, in fact, be greater than the stated 23 per cent.

Poverty reduction has been slow because of generally slow economic growth in the past. While Sri Lanka's economic growth accelerated during the second half of the 1990s, there was a sharp increase in inequality, and this considerably reduced the poverty-reducing benefits of the growth process.

It is also important to note that wide income disparities prevail within the 'conflict unaffected' areas as well. Nevertheless, the situation in those areas would not be directly influenced by the restoration of peace as that of conflict-affected areas. Consequently, this aspect is not highlighted here, notwithstanding the relevance of its possible indirect effects.

Secondly, there is a host of non-income factors that contributed to the discrepancy in food consumption in 'affected' and 'unaffected' areas.

- Market prices and their volatility make it very difficult for the poorest households to obtain enough food.
- There are substantial differences in road access, market access, quality of education, job opportunities and investment in general, which have an overall impact on relative poverty between urban and rural areas. The N&E is likely to be more adversely affected by all the above mentioned factors.
- Purchasing power is further reduced by wages not increasing at the same rate as inflation, especially for unskilled labourers who earn less today than they did in the 1970s.
- The conflict has resulted in severe livelihood depletion in the N&E due to the embargo on agricultural inputs and fuel, as well as restrictions on fishing.
- The government's safety net programme for poor households, Samurdhi, has been found to have serious defaults with targeting, with some 40 per cent of the benefiting households not amongst the poorest.

Some of these income and non-income factors determining food demand are the first to be affected by the dawn of peace in Sri Lanka. The first is the improved mobility of both people and goods within the N&E and between the N&E and the rest of the country. This results in the removal of one major impediment to food security in N&E, poor food accessibility. Both public food distribution channels and private marketing agents would be enabled to carry out their operations more efficiently resulting in a sharp decline in food prices, giving rise to an increase in food consumption in the area. Further, rehabilitation and reconstruction activities that are already under way in the N&E

[2] World Food Programme, 2007, "Sri Lanka Food Security Assessment Based on the Integrated Food Security and Humanitarian Phase Classification Approach".

would be a new avenue of employment and increased family income of which the most immediate impact would be increased food demand. In addition to these immediate impacts, there are possible medium and long run effects that would further increase the demand for food in the N&E in time to come. They are the reduced general inflation, increased investment and employment and a reduction in the rate of out-migration which has been in an increasing trend during the last decade, according to the WFP (2007).[3]

The impact of cessation of the conflict on food demand in the N&E can, therefore, be expected to be a positive one in the short run as well as in the long run. In addition, the end of the conflict could have similar impacts on food demand in the rest of the country too. The immediate impact would be an increase in consumption of food due to the reduced general rate of inflation. Possible long run impact of increased investment, employment and personal income would follow suit, although their impacts may not be so salient as in the N&E. In total, however, the impact of peace will be a substantial positive one, on the demand for food in Sri Lanka. Obviously, most of this incremental demand will be first felt on starchy staples and pulses, followed by cheaper sources of animal protein such as dry fish than more expensive fruits, vegetables and meat.

The N&E has traditionally been a high potential agricultural area. The agricultural production scenario before the eruption of violent conflict in the early 1980s is summarized in Table 7.4.

**Table 7.4**
**Agricultural Production and Cultivated Extent in N&E (1975-1985)**

| | Paddy | | Other Cereals | | Pulses | | Oil Seeds | | Roots and Tubers | | Chilli (Green) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Ext (ha) | Pro ('000mt) | Ext (ha) | Pro (mt) | Ext (ha) | Pro (mt) | Ext (ha) | Pro (mt) | Ext (ha) | Pro (mt) | Ext (ha) | Pro (mt) |
| 1975 | | | 8432 | 7152 | 1682 | 1184 | 4550 | 1140 | 20853 | 112732 | 6234 | 6262 |
| 1976 | | | 8481 | 5856 | 1868 | 1042 | 4195 | 1016 | 19295 | 133993 | 9949 | 10041 |
| 1977 | | | 6561 | 4613 | 2609 | 1715 | 4686 | 1092 | 14951 | 101785 | 11377 | 10129 |
| 1978 | | | 5739 | 5022 | 2160 | 1469 | 3985 | 1308 | 9313 | 54696 | 5672 | 5313 |
| 1979 | 211,449 | 587.9 | 5368 | 5398 | 3078 | 1703 | 7662 | 3104 | 19734 | 119564 | 15333 | 14506 |
| 1980 | 232,412 | 638.7 | 2779 | 5134 | 3483 | 2355 | 7908 | 4178 | 13591 | 122777 | 11539 | 12856 |
| 1981 | 218,801 | 615.4 | 6581 | 6739 | 3413 | 2243 | 6744 | 3487 | 13594 | 118575 | 9979 | 11793 |
| 1982 | 200,461 | 603.6 | 6431 | 4662 | 3271 | 2292 | 9087 | 3335 | 14568 | 133738 | 9531 | 11195 |
| 1983 | 253,143 | 822.3 | 7423 | 8645 | 3666 | 2917 | 7114 | 3862 | 14914 | 167296 | 9516 | 13274 |
| 1984 | 207,978 | 567.5 | 8628 | 10653 | 3168 | 2724 | 4415 | 2636 | 8674 | 101940 | 3602 | 6837 |
| 1985 | 234,571 | 762.2 | 10432 | 14848 | 8488 | 7598 | 3843 | 2577 | 12574 | 146412 | 5418 | 18062 |

Notes: Ext and Pro stand for Extent and Production, respectively.
Source: Department of Agriculture, Socio Economics and Planning Centre.

[3] 'Ibid.

However, taxes imposed by the militant groups, trade embargos imposed by the government (especially on fertilizers and fuel), breakdown of the North-South road connectivity and railway, dysfunction of agricultural research and extension system along with the general collapse of the security situation led to lower outputs, increased costs of production and contracted market opportunities. The end result was to limit agricultural supplies from the N&E to the rest of the country to a minimum. Production that took place was for consumption within the same conflict-affected localities.

An end to the conflict, therefore, would obviously be an opening up of a large agricultural resource base for production. However, the effect of this opening up is difficult to predict accurately due to the lack of statistical data for the N&E for the last 30 years. Without knowing the magnitude of the resource stock that was held back, it is difficult to predict the impact of its re-introduction to the production stream. Making crude assumptions about the magnitude or the rate of this "come back" would also be undependable for they are strongly affected by exogenous factors such as government policy. The task is made further difficult by the lack of food demand and supply parameter estimates for the country. Thus, the impact forecast is, by default, limited to a qualitative one.

However, it is reasonable to assume that the resource utilization would not return to the pre-conflict levels immediately. Working on a rather conservative but arbitrary assumption that the immediate (short run) impact would be to return one-third of the land area kept unused during the conflict at present productivity levels, the added output would be as indicated in Table 7.5.

Agriculture in the N&E had historically been trade oriented. Mainland Northern Province and the entire Eastern Province have been major sources of rice to the rest of the country. Domestic demand for chilli and onion used to be largely met with the produce in the North and the Jaffna Peninsula had been a major supplier of potato to the rest of the island in Maha seasons.[4] Pulses and some oil seeds were also among the contribution of the N&E to the food supply reaching the 'unaffected' areas. Under the assumption that 80 per cent of the produce of the N&E reaches the

**Table 7.5**
**Added Output Due to New Cultivations**

| | Rice | Other Cereals | Pulses | Oil Seeds | R&T |
|---|---|---|---|---|---|
| Pre-conflict cultivated extent[a] | 253,143 | 5468 | 2241 | 7065 | 18222 |
| Post-conflict cultivated extent[b] | 98,714 | 1263 | 1134 | 1502 | 6448 |
| Decrease in land extent (ha) due to conflict | 154,429 | 4,205 | 1,107 | 5,563 | 11,774 |
| Assuming 1/3 of their extent, addition after conflict (ha) | 51476 | 1402 | 369 | 1854 | 3925 |
| Present productivity (kg/ha) | 4232 | 2815 | 1069 | 1139 | 10329 |
| The added output (Mt) | 217870 | 3946 | 394 | 2112 | 40538 |

Notes: a: Pre-1983 highest; b: Post-1983 lowest; c: Refers to roots and tubers.

Source: Calculations based on data from the Department of Agriculture.

[4] 'Maha' is the major cultivation season spanning September to February.

**Table 7.6**
**Additional Short Run Supply of Added Output to the Rest of the Country**

| | Rice | Other Cereals | Pulses | Oil Seeds | R&T |
|---|---|---|---|---|---|
| The added output (Mt) | 217870 | 3946 | 394 | 2112 | 40538 |
| Additional supply to the rest of the country (Mt) | 174296 | 3157 | 316 | 1690 | 32430 |
| Addition to the current supply (%) | 4.77 | 2.31 | 0.94 | 7.82 | 6.30 |

Source: Calculations based on data from the Department of Agriculture.

markets in the rest of the country, the additional supply of food to these areas in the short run would be as indicated in Table 7.6.

These may be considered as the lower bounds of estimates in the light of the conservative assumptions on which they are made. Although the additional supplies indicated are not large, they may depress the prices substantially in the short run due to the low price elasticities of basic food commodities. Although this is beneficial from the consumers' point of view, the producers in the rest of the country will be forced to face some competition. Pre-conflict farm budget data published by the Department of Agriculture have shown that the producers in the N&E are more efficient in agriculture than their counterparts in other areas. The producers in these areas who are at the threshold of production inefficiency, therefore, run a risk of being forced out of business.

Although this appears at first sight to be a problem, this is nothing but a hastening of one of the long standing needs for a change towards product diversification in Sri Lankan agriculture. In fact, this would not only be a need for the 'unaffected' areas but also be a valid solution to the problems of agriculture in the N&E. The merger of the agricultural sectors of the N&E and the rest of the country through open inter-regional trade would, therefore, generalize the issues hitherto treated as pertaining to agriculture in the latter, to cover the former as well.

## 7.3 Issues Relating to Agricultural Development

As discussed above, the end of the long held armed conflict in Sri Lanka will result in increased agricultural production and reduced prices of traditionally produced food crops. In addition to the restoration of war ravaged infrastructure which is part of the general rehabilitation programme, the problems pertaining to agricultural development in Sri Lanka would, therefore, remain unchanged. The issues considered so far for the areas where peace prevailed could now be generalized as applicable to the entire country without any significant change. As such, the impact of return to normalcy on agriculture in Sri Lanka would be one that proliferates the validity of the issues and problems hitherto considered only in relation to the 'unaffected' region.

The following nine broad issues covering the development in Sri Lankan agriculture, can be generalized as relevant to both conflict-affected as well as unaffected areas in the short run as well as in the long run.[5]

- Reduction of agrarian poverty
- Food security

[5] Samaratunga, P.A., 2010, "A Note on Agricultural Development Issues of Sri Lanka", paper presented at the "Global Development Network", Prague, Czech Republic, 13-19, January, 2010.

- Public investment in technological and institutional innovations
- Market and regulation of agricultural land
- Inefficiency in irrigation water use
- Adoption of cutting edge technology
- WTO, regional and bilateral trade agreements
- Climate change and agriculture
- Integrating agriculture in dynamic markets

### 7.3.1 Reduction of Agrarian Poverty

The agriculture sector has to make the largest contribution in poverty reduction as the majority of the poor are living in rural and plantation sectors, where agriculture is the predominant economic activity. Further, the majority of rural poor and all estate workers rely on agriculture for their livelihood. According available estimates, about 40 per cent of those involved in agriculture and related fields were in poverty. About 31 per cent of the total labour force of the country, and over 75 per cent of the rural labour force is involved in agriculture and related activities and agricultural households account for nearly 50 per cent of the poorest households. Because of this clear linkage between agriculture and poverty incidence, poverty reduction has become the top priority in agricultural development in recent times. The inclusion of the N&E that is predominantly agricultural and deeply poverty stricken to mainstream development, further strengthens the poverty focus of post-conflict agricultural development. Thus, increasing agricultural productivity and increasing rural income through rural agro enterprises will remain on top of the agenda for rural poverty alleviation in Sri Lanka.

Even though the causes of agrarian poverty and the means available to overcome it vary across regions, the poor basically suffer from a set of common issues such as low resource endowment, low skills, poor access to technology and inadequacy of institutional support. Consequently, agrarian poverty stands out as a serious issue demanding prompt attention at policy level. As such, empowerment of the agrarian poor has been recognized as an essential part of any poverty alleviation programme in Sri Lanka. This entails improving access to numerous productive resources and agrarian services. The present disjointed efforts in this respect should be effectively coordinated and focused on priority objectives.

### 7.3.2 Food Security

The role of domestic agriculture in addressing the problems of food security has been broadened with the advent of the global food crisis in 2008. The gradual rise of food prices that started in the early part of the decade was a result of a systematically developing mismatch between the world's demand and supply of food. The global trend of deliberate cut backs of investment on improving technology based agricultural productivity growth in the face of declining real prices of food in the world market in the past two to three decades was a major factor behind this, and Sri Lanka was no exception to this widespread phenomenon.

This state of affairs was engendered by the leniency of the assumption that the food availability at macro or global level is adequate to ensure food security for the masses. The crucial question of distribution rooted in food accessibility and affordability was disregarded. The gradual distancing of the traditional food production bases from their food consuming masses in favour of specialized food producers further aggravated the problem. Moreover, the imminent prospect of a sharp rise in fuel prices and the ensuing implications on the poor majority was also sidelined.

In recent years, Sri Lanka's food security problem was found to be more severe at micro (affordability) level than at macro (or availability) level. The meso (physical accessibility) level problem is less clear, but appears to be the least serious.[5] In terms of nutritional security, utilization at the household level is a serious issue of concern. Other than that, social issues affecting intra-household food insecurity such as alcoholism, social norms and behaviours are found to be affecting food security at the household level. This state of substantial food insecurity in Sri Lanka is nothing but the cumulative outcome of the aforesaid problems that have been smoldering for more than two decades, and the mere cessation of armed conflict is not likely to bring about any positive change in this respect.

### 7.3.3 Public Investment in Technological and Institutional Innovations

With the progressive opening up of the Sri Lankan economy in the last 2-3 decades, the development focus shifted from agriculture to industry and services. Investment in research and development (R&D) in agriculture was reduced, and funds were diverted to manufacturing and services sector development, especially to the garment sector. The investment in agricultural research was on an upward trend during the green revolution starting around 1970s. It is clear that this investment started declining with the first introduction of liberalization in 1977 and continued on a negative trend thereafter.[6] Public spending on agricultural research as a percentage of agricultural GDP in Sri Lanka remains very low compared even to developing countries like India, and it is recommended in the literature to increase public investments at least up to 2 per cent of agricultural GDP. Though the country has employed substantial manpower in an array of research institutions for different crops, the output has been constrained by poor complementary investments in R&D.

Some of the major problems of the current research system are its supply driven nature and lack of interaction and proper coordination among institutions. The degree to which research is steered by an integrated research policy and to what extent research priorities are set using an objective criteria are not clear. The agriculture sector has to play a vital role in making productive use of land and helping the rural poor to come out of the poverty trap. In this connection, government and public institutions have to play the major role as the private sector is unlikely to undertake agricultural research due to the difficulty in securing property rights for technology they develop, and due to the public good nature of some services like surface irrigation. However, in all other instances like seed, planting material, other inputs and extension, both the public and private sector actors can participate in service provision. Although it is not clearly established in the case of Sri Lanka, public-private partnerships are said to be successful in providing some technological inputs, and this is the kind of area in which additional effort may result in high returns.

### 7.3.4 Market and Regulation of Agricultural Land

The limited agricultural land market of Sri Lanka resulting from state regulations and ill-defined property rights, which is also plagued with distorted land prices and asymmetric information flow, is likely to prevent low income groups from actively participating in land transactions necessary for size adjustments. This could lead to perpetuation of

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[5] Samaratunga, P.A., 2009, "Multiple Facets of Food (In)Security in Sri Lanka" in Surabhi Mittal (ed.) *Food Security in South Asia,* Cambridge University Press.

[6] IPS, 2008, "Does Foodflation Call for Reforms in Agriculture?" in *Sri Lanka: State of the Economy 2008*.

the problem of non-viable holdings. However, it is mainly the out-right ban on sales of alienated land and strict regulations and penalties on land fragmentation that have prevented concentration of lands in the hands of a few dominant groups of people in settlement schemes. The current allocation system is not always passing land to the most efficient producers who would invest in improving land quality, resulting in land degradation in the long run. It is also believed that without secure property rights, operators are only interested in short run profits and they, therefore, neglect the sustainability of land use. The controversial impacts of this land policy need to be assessed and fed into policy circles to design a new land policy more suitable for competitive agriculture of the present day.

The current post-conflict scenario adds to this long standing problem of inadequate land markets. Thirty years of war in the N&E and the breakdown of civil administration obviously have made its dent in the land market activities, particularly in relation to ownership and user rights. Establishment of these rights is a prerequisite to the mobilization of land resources for commercial agricultural production in these areas.

### 7.3.5 Inefficiency in Irrigation Water Use

Inefficiency in irrigation water use implies that a unit of irrigated land uses more water than the requirement of a crop. Consequently, the extent cultivated with the total volume of water available would be less than the maximum cultivable extent. This is a result of (a) a lack of technical know-how on water management and/or (b) a lack of an incentive to use water sparingly. At zero price of irrigation water, there is no incentive for farmers to limit their water use or to adopt water saving technologies.

Inherent difficulties in charging for water prompted the need for an effective alternative. Participatory Irrigation Management (PIM) has been proposed and adopted in Sri Lanka for this purpose. The main purpose of PIM is to make the farmers work together with government irrigation agencies, taking the responsibility of irrigation systems management with a view to improving the productivity of irrigated agriculture, making the system performance efficient and reducing government expenditure.

PIM could often be taken as a justification for refraining from charging. Nevertheless, the problem of irrigation service provision cost cannot be solved without some form of a charge. Hence, the long run solution to the problems of irrigation water use efficiency, equity and cost recovery seems to lie with a suitable combination of participatory management and land based irrigation charges. This is an area of particular interest in the N&E, where commercial agriculture is predominantly irrigated. Restoration of both physical (irrigation) and institutional infrastructure from the present war ravaged state brings additional challenges for development of agriculture in these areas.

### 7.3.6 Adoption of Cutting-edge Technology

The rationale for considering research and development (R&D) is the belief that investments in research results in an increase in the stock of knowledge which, in turn, either facilitates the use of existing knowledge or generates an entirely new technology. Technological advances, through improvements in either the quality or the quantity of inputs, lead to productivity gains. Education, training and extension also increase productivity by increasing people's knowledge and skill base, which are essential for technology adoption and efficient use of inputs.

There remains an array of interrelated questions as to what the potential benefits and risks are. What new policies and institutions are needed to achieve benefits without incurring unintended costs? What should be the roles of the private and the public sectors? How can modern technology help poor people escape poverty? In other words, how can technology be used to make agricultural development more inclusive? Moreover, private sector participation in technology development in value chains, where research results exist and benefits can be privately appropriated, has to be secured with protection of markets for research results via patents and intellectual property rights (IPRs). Consequently, the state has to play a role in preventing exclusion of certain strata of farmers, and prevent the country being overly dependent on technologies that can be controlled by external economic or political powers.

### 7.3.7 WTO, Regional and Bilateral Trade Agreements

Sri Lanka has been a net food importer since the time of British colonial rule and has been affected by changes in the global food market, both favorably and unfavourably. As a result, the food security situation in Sri Lanka still depends, particularly through food availability parameter, on the conditions in the world food market as well as the domestic market, in both the short and long run. Since the agricultural sector in Sri Lanka was substantially liberalized unilaterally before and soon after to the adoption of the Agreement on Agriculture (AOA) under the WTO, Sri Lanka did not gain increased market access for its exports, and consequently no diversification of agricultural exports took place either. Lower productivity and competition, and import surges that followed speedy liberalization resulted in higher import diversification and export concentration. In fact, the speedy and unchecked liberalization led to increases in non-essential and 'luxury' food items that do not contribute to improved food security. Even the recent limited export drive was not sufficient to improve income levels of the majority of the rural poor substantially and, therefore, could not result in any improvement in sustainable agricultural development and food security in the country.

Despite these measures, on the other hand, frequent ad hoc tariff amendments in terms of imposing and removing specific duties and numerous other levies and surcharges have had adverse impacts on the farmer, the trader and the consumer from time to time. This disturbs the decision making process of the producers, and discourages investments in the agricultural sector. Since agricultural trade is a very sensitive issue in agricultural development of the country, trade policies should not be a cause for marginalization, impoverishment and uneven development, especially for the majority of small farmers. Trade has perhaps been the most researched area in agriculture in recent years in Sri Lanka, but a synthesis of these findings in solid policy recommendations is still pending, and agricultural trade policy decisions continue to be made without giving due regard to their development implications.

Trade supported by improved export diversification in order to harness market access opportunities can be used to promote overall growth in the N&E area. Shifting from semi-subsistence agriculture to commercially oriented agriculture through the cultivation of high-value crops for export markets is considered necessary. Removing existing barriers, while facilitating smooth flows of commodities and technology, is a prerequisite in this regard. Thus, trade policies should be coordinated with overall economic policies in the region. Improved private sector participation to seek the trade potential in the area, especially in agribusiness is necessary. The support of external countries should be

secured in order to take advantage of, or to avoid potential pitfalls in international trade agreements.

### 7.3.8 Climate Change and Agriculture

Agriculture in Sri Lanka has evolved in close harmony with the prevailing climatic conditions of respective agro climatic regions of the country. However, it has been evident during recent decades that the heritage of farming experiences and accumulated weather tradition of centuries are no longer useful in the process of agricultural planning at any level. Sri Lanka's climate has undergone changes to an extent that the correct amount of rainfall does not come at the correct time of the growing season. Agricultural productivity in Sri Lanka is likely to suffer substantial losses because of high temperature, severe drought, flood conditions, sea level rise and soil degradation. Thus, the future of agriculture in a changing global climate in the context of increasing human population has to be a policy priority, and an issue of topical importance to the scientific community.

Increased occurrence of extreme rainfall events due to climate change, droughts and floods could lead to crop losses due to moisture stress and excess water. Moreover, increased occurrence of positive rainfall anomalies is likely to cause severe damages to existing irrigation infrastructure, limiting water availability for irrigated crop production. Sri Lanka being a tropical island, crop injuries due to high temperatures are inevitable.

Apart from the direct impact of increased variability of rainfall and rise of ambient temperature, indirect effects of increased rainfall intensity worsens land degradation, especially in hilly areas where plantation crops are grown. Moreover, increased temperature and frequent and negative rainfall anomalies can cause salinization of agricultural lands in semi-arid parts of the country. The same will lead to rapid drying up of tanks, giving rise to scarcity of water for agriculture. As an island, Sri Lanka is highly vulnerable to sea level rise and consequent sea water intrusion to low lying agricultural lands which could cause further reduction of land available for agriculture. All these climate change related aspects are particularly severe in the N&E which is entirely in the Dry Zone. Consequently, devising adaptation strategies suitable for these areas should be at the centre of post-conflict agricultural development plans of Sri Lanka.

### 7.3.9 Integrating Agriculture in Dynamic Markets

Rapid and ongoing changes are presently occurring in the domestic and export procurement systems in Sri Lanka with the growing dominance of supermarkets, high quality retailing, bulk procurement by domestic manufacturing firms and increased quality awareness in the global trading system. This phenomenon has been further influenced by urbanization, income increases, increased migration of Sri Lankan citizens, increased female participation in the labour force, etc. These factors have created a new demand pattern shifting the focus towards continuous supply of high quality, value added products with improved processing, packaging and labelling.

Thus, the impact of modern and restructured markets has had a number of repercussions on small-scale farmers who are unable to keep up with emerging marketing trends. This situation has triggered the need for a new innovative practice working with smallholders to improve their ability to face restructured market conditions by delivering knowledge, assisting in accessing capital and advising on food sanitation and enterprise planning. Even though there are certain innovations elsewhere that fulfill these consumer demands while effectively integrating the farmers in the supply chain, lack of ca-

pacity to accommodate a large number of poor farmers have resulted in exclusion and marginalization. Quality unconsciousness and credit bound relationships also have some form of correlation with the exclusion of farmers from the chain. Nevertheless, the capacity of small scale farmers and rural small and medium enterprises (SMEs) to sustain their participation in a given supply chain and restructured market, has still not been adequately studied, analyzed or understood.

Connectivity is a key driver of economic growth, and better marketing can reduce poverty among rural communities engaged in agriculture. A fragile business enabling environment due to poor infrastructure and lack of technological advances may act as a major barrier in integrating N&E producers in modern dynamic markets. Thus, improving market linkages and relaxing any existing barriers have the potential to induce economic growth in these areas.

## 7.4 Conclusion and Policy Implications

Sri Lankan agriculture, particularly food crop production, has been in a crisis for many decades. While long standing endogenous problems as well as the more recent exogenous factors have contributed to this situation, a protracted armed conflict added to it only marginally. Although the end of the 30 year long armed conflict is beneficial for Sri Lanka in the long term, it entails an array of challenges which could be felt on both the consumption side as well as the production side, not only in the N&E, but also in the rest of the country.

Restoration of peace will increase the demand for food and food supply in the conflict-affected areas which would in turn be transferred to the rest of the country. An increase in food demand is partly attributed to the added population in the conflict-affected areas. On the other hand, improved mobility of both people and goods within the N&E and between the N&E and the rest of the country, will certainly cause an upward trend in food consumption through improved food accessibility. Improved incomes and overall livelihood opportunities will raise the purchasing power of the people positively, contributing to food demand. Further, macroeconomic factors like reduced general inflation, increased investment and employment and a reduction in the rate of out- migration will add on to this. The end of the conflict could have similar impacts on food demand in the rest of the country also.

On the whole, the impact of peace will be a substantially positive one on the demand for food in Sri Lanka. Obviously, most of this incremental demand will be first felt on starchy staples and pulses, followed by cheaper sources of animal protein such as dry fish than more expensive fruits, vegetables and meat. This added food demand may not be met with local production alone and a rise in food imports, at least in the short run, is likely.

The N&E has traditionally been a high potential agricultural area providing livelihood to a group of hard working and resilient farmers. The cessation of the conflict, therefore, would obviously be an opening up of a large agricultural resource base for production. Although, the effect of this opening up is difficult to predict accurately due to unavailability of necessary data, it is reasonable to assume that resource utilization would not return to the pre-conflict levels immediately.

The substantial increase of the supplies of the commodities produced in the N&E is likely to exert downward pressure on their prices, creating a beneficial effect on consumers. Managing extra production is very important from the farmers' point of view while poor infrastructure including transport, storage, etc., would pose barriers to achieving this. On the other hand, producers from

the rest of the country can be expected to face some degree of competition from efficient N&E producers.

Although the increased food demand cannot be met with increased local supply in the short run - leading to extra imports - it is mandatory that there should be a long term strategy to address major development issues that Sri Lanka's agriculture sector has been facing for a long time, including reduction of agrarian poverty, food security, public investment in technological and institutional innovations, market and regulation of agricultural land, inefficiency in irrigation water use, adoption of cutting edge technology, WTO, regional and bilateral trade agreements, climate change and agriculture, and integrating agriculture into dynamic markets. All these efforts should focus on the long overdue requirement of product diversification in Sri Lankan agriculture.

As stated above, the relevance of these are not limited to the N&E only, and a merger of the agricultural sectors of the N&E and the rest of the country through open inter-regional trade and information prompts the need for an integrated development programme for agriculture in the entire country.

# 8. Environmental and Natural Resource Issues in Post-conflict Development

## 8.1 Introduction

Post-conflict development has become the major focus of Sri Lanka's current national development agenda. The country faces a number of complex challenges in this regard with many issues and aspects to be taken account of and addressed appropriately. One of the most important aspects is that of environment/natural resource management. A failure to ensure a sustainable post-conflict development effort in terms of environment and natural resources could lead to limited achievement of Sri Lanka's overall long term goals. In this backdrop, this Chapter attempts to examine the environmental aspects of post-conflict development, highlighting the necessity of a balanced approach for achieving the objectives of sustainable development.

The Chapter is organized in the following manner. It first discusses the nature of the relationship between conflicts and the environment and thereafter proceeds to present a profile of natural resources in the formerly conflict-affected Northern and Eastern Provinces of Sri Lanka. This is followed by a brief discussion on livelihoods supported by the profile of resources, and major impacts of the conflict on livelihoods and the environment. In the next section, the essential aspects that need to be addressed in dealing with environmental issues in a post-conflict era are examined. In the final section, important policy implications that can be derived from the assessment are discussed.

## 8.2 Human Conflicts and Environmental Resources

The environment is a dynamic system, which remains in continuous interaction with social and economic systems, and fulfills the numerous livelihood needs of people. Therefore, environmental resources are usually identified as natural capital to distinguish them from other man-made assets (capital), which support livelihoods. Modern concepts of sustainable development advocate that there should be harmony between livelihood demands of humans and the capacity of environmental systems to fulfill them. In this respect, human conflicts create conditions that not only endanger livelihoods of people but that of the environment as well. Thus, conflicts can be considered as a serious threat to sustainable development.

Conflicts cause numerous direct and indirect damages to the environment and livelihoods. Even low intensity conflicts - with limited use of violence and a low level of resource damage - can inflict significant welfare losses due to restrictions imposed upon activities pertaining to use of livelihood resources (e.g., loss of access to forests/fisheries due to security reasons). Prolonged conflicts with extensive use of violent force inflict direct damages to natural systems, thereby disturbing the livelihood security of local communities that depend on such resources. This is not only confined to natural assets, but conflicts

also damage man-made assets such as irrigation facilities, urban and rural infrastructure, amenities, public utilities and cultural facilities, etc., that provide essential support for livelihoods. Such adverse effects on both natural and man-made capital impose severe constraints on the economic welfare of communities and reduce the quality of the environment that they live in. In the worst circumstances, communities could be forcefully evicted from their familiar environments causing permanent damage to their livelihoods, leaving the resources also under conditions that are vulnerable to devastation. Experience shows that many conflicts have evolved from relatively less intensive initial phases to violent later stages, resulting in outcomes with cumulative damage of all forms over extended periods of time.

The conflict experienced by Sri Lanka is an example of a prolonged, intense conflict with serious adverse consequences over both livelihoods and the environment. The overall impact of the conflict left major outcomes on the environment and natural resources as follows:

- Physical damages to the environment and natural resources
- Loss of access to resources and associated welfare losses to livelihoods
- Collapse of local systems of resource management
- Loss of control over state managed resources

Due to lack of reliable data, arriving at a detailed assessment of the above effects is not feasible at present. Therefore, only a brief account on the above effects is presented in the following sections. To make this a meaningful effort, it is necessary to recognize the profile of environment/natural resources in the conflict-affected areas of the North and East (N&E) and the nature of livelihoods supported by this profile.

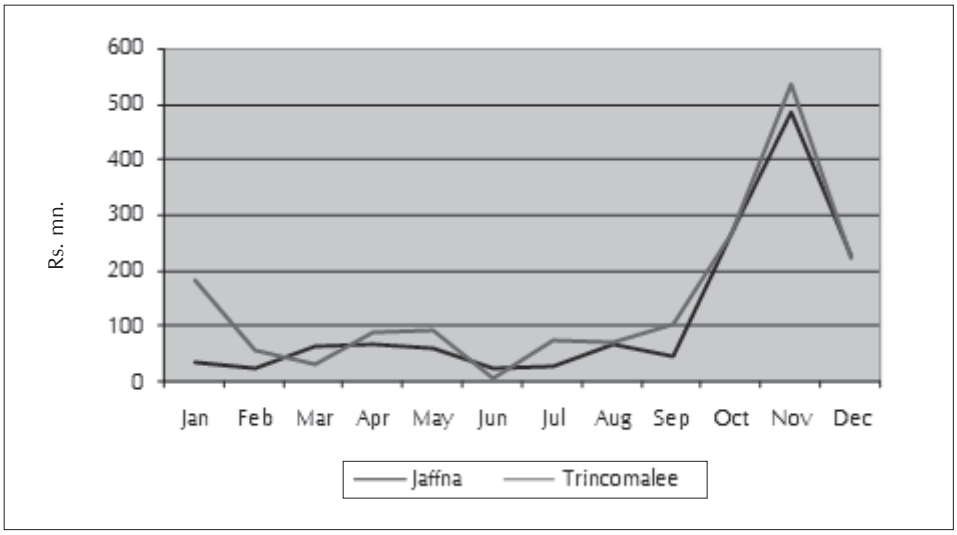
## 8.3 Profile of Resources and Livelihoods in the N&E

### 8.3.1 A Brief Profile of Resources

In this section, a short profile of natural resources in the N&E is presented. Both the Northern and Eastern Provinces belong to the dry zone of the country. This implies that these areas receive limited rainfall during certain months of the year, followed by extended periods of dry weather in between. Figure 8.1 provides the average pattern of monthly rainfall for Jaffna (2003-08) and Trincomalee (2003-05). Accordingly, it shows that Jaffna (Northern Province) and Trincomalee (Eastern Province) experience dry conditions for a number of months during the year. Both have a pattern of rainfall with a single peak during the months of October-December, receiving significant amounts of rainfall from the northeast monsoon (NEM) and a second inter-monsoon (SIM).

Geologically, the Jaffna peninsula and the northwestern coastal belt that extends towards the Mannar district are underlain with sediments of Miocene limestone, a distinct geological formation not common to the rest of the country. This formation has specific physical properties. Porous limestones store substantial amounts of groundwater in shallow karstic aquifers in the Jaffna peninsula, and deep confined aquifers in the Mannar area. As a result, groundwater has an important role to play in agricultural and domestic water supply in these areas. Geographically, the Jaffna district is a peninsula connected to the mainland of the country by a narrow strip of land. Geological, geographical and climatic conditions in Jaffna have given rise to a distinct type of farming system in the peninsula. Comparatively, mainland districts of the Northern

**Figure 8.1**
**Average Monthly Rainfall in Jaffna and Trincomalee**




Source: Department of Census and Statistics, *Statistical Abstract 2009*.

Province and the Eastern Province have a different farming system, which shares features common to many other areas of the dry zone.

The two provinces of the N&E jointly cover 28.7 per cent of the total land area of the country. Table 8.1 presents the composition of land and inland water resources in the N&E, together with their country shares. Accordingly, the two provinces account for 40 per cent of forest cover and 42 per cent of inland waters of the country, which are significantly higher than their share of land

**Table 8.1**
**Land and Inland Water Resources in N&E**

| District | Land Cover (Hectares) | | | |
|---|---|---|---|---|
| | Forest | Land Agriculture | Other | Inland Water |
| **Northern Province** | | | | |
| Jaffna | 1,478 | 16,942 | 74,480 | 9,600 |
| Kilinochchi | 37,600 | 15,939 | 66,961 | 7,400 |
| Mannar | 123,861 | 8,920 | 55,219 | 11,600 |
| Mullaittivu | 171,167 | 16,293 | 54,040 | 20,200 |
| Vavuniya | 117,188 | 13,840 | 55,072 | 10,600 |
| **Eastern Province** | | | | |
| Ampara | 168,763 | 73,180 | 180,257 | 19,300 |
| Batticaloa | 56,736 | 34,490 | 169,774 | 24,400 |
| Trincomalee | 127,236 | 22,474 | 103,190 | 19,800 |
| **Total** | **804,029** | **202,078** | **758,993** | **122,900** |
| **Sri Lanka** | **2,022,160** | **1,942,663** | **2,305,677** | **290,500** |
| **N&E share (%)** | **40** | **10** | **33** | **42** |

Source: Department of Census and Statistics, *Statistical Abstract 2009*.

cover. Due to lack of reliable data on the population of these provinces, it is difficult to estimate per capita availability of land, forest and inland waters. However, given the relatively low density of population in mainland areas of the Northern Province (i.e., Kilinochchi, Mannar, Mullaittivu and Vavuniya districts), it is reasonable to assume that per capita availability of resources in these areas is relatively high compared with the Jaffna peninsula and the Eastern Province.

Table 8.2 presents details about the distribution of forest resources in the N&E. The data indicate that large proportions of Mannar, Mulaittivu and Vavuniya districts come under natural forests (around 60 per cent or more). Trincomalee, Ampara, Kilinochchi and Batticaloa districts also have significant shares of land under natural forests, whereas the Jaffna district has a very low area under forests. Natural forests in these areas come under two major types, namely; lowland semi-deciduous forests and lowland semi-deciduous wood land/thorn shrub forests. These forest types usually house valuable hardwood species and abundant wildlife. The majority of these forest lands belong to the Forest Department while the Department of Wildlife Conservation manages certain wildlife rich patches. Limited areas under forest plantations are indicated for many districts, except for the Ampara and Batticaloa districts.

The two provinces of the N&E have a major advantage in terms of their richness in coastal resources. They jointly cover nearly 60 per cent of Sri Lanka's coastline. Except for Kilinochchi and Vavuniya, all other districts have coastlines running along the entire length of the land stretch. Table 8.3 provides details on coastal resources in the two provinces. Accordingly, they have all the major types of coastal habitats, exceeding over 60 per cent of the respective country totals in many cases. These coastal resources have been recognized for their high economic potential in terms of fishing, coastal aquaculture, tourism and mineral resources. Rich marine fishing grounds surround the entire

**Table 8.2**
**Forest Resources in N&E**

| District | Forest | Plantations | Total | % of Land Area |
|---|---|---|---|---|
| **Northern Province** | | | | |
| Jaffna | 1,355 | 124 | 1,478 | 1.4 |
| Kilinochchi | 37,600 | - | 37,600 | 29.0 |
| Mannar | 123,740 | 121 | 123,861 | 62.0 |
| Mullaittivu | 169,304 | 1,864 | 171,167 | 65.4 |
| Vavuniya | 117,051 | 138 | 117,188 | 59.6 |
| **Eastern Province** | | | | |
| Ampara | 164,129 | 4,633 | 168,763 | 38.2 |
| Batticaloa | 52,733 | 4,003 | 56,736 | 19.9 |
| Trincomalee | 126,746 | 490 | 127,236 | 46.7 |
| **Total** | **792,658** | **11,372** | **804,029** | |
| **Country total** | **1,942,219** | **79,941** | **2,022,160** | |
| **N&E share (%)** | **41** | **14** | **40** | |

Source: Forest Department.

**Table 8.3**
**Coastal Resources in N&E**

| Districts | Extent of Coastal Habitats (Ha) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mangroves | Salt Marshes | Dunes | Beaches | Barriers & Spits | Lagoons | Other Water Bodies | Marshes |
| **Northern Province** | | | | | | | | |
| Mannar | 874 | 5,179 | 1,458 | 912 | - | 3,828 | 2,371 | 308 |
| Kilinochchi | 770 | 4,975 | 509 | 420 | - | 11,917 | 1,256 | 1,046 |
| Jaffna | 2,276 | 4,963 | 2,145 | 1,100 | 3 | 45,525 | 1,862 | 149 |
| Vavuniya | - | - | - | - | - | - | - | - |
| Mullaittivu | 428 | 517 | - | 864 | - | 9,233 | 507 | 194 |
| **Eastern Province** | | | | | | | | |
| Trincomalee | 2,043 | 1,401 | - | 671 | - | 18,317 | 2,180 | 1,129 |
| Batticaloa | 1,303 | 2,196 | - | 1,489 | - | 13,682 | 2,365 | 968 |
| Ampara | 100 | 127 | 357 | 1,398 | - | 7,235 | 1,171 | 894 |
| **Total** | **7,794** | **19,358** | **4,469** | **6,854** | **3** | **109,737** | **11,712** | **4,688** |
| **Country total** | **12,189** | **23,819** | **7,606** | **11,788** | **12** | **158,017** | **18,776** | **9,754** |
| **N&E share (%)** | **64** | **81** | **59** | **58** | **25** | **69** | **62** | **48** |

Source: Olsen, S., *et al*., 1992, "Coastal 2000: Recommendations for a Resource Management Strategy for Sri Lanka's Coastal Region", CRC Technical Report No. 2033, Coast Conservation Department.

coastal stretch of both provinces. In addition, there are numerous lagoons and brackish water bodies, which support significant brackish water fisheries. These inland water bodies and shallow seas around coastal areas provide ample opportunities for coastal aquaculture as well. More on fisheries resources is discussed under the section on livelihoods.

Besides fisheries resources, many coastal habitats have numerous tourist attractions, which provide a strong foundation for a viable tourism industry in the area. Certain coastal cites, especially in the Eastern Province, were among the key tourist attractions of the country from the colonial era. Notable attractions include Nilaweli beach, Kokilai lagoon and sanctuary, Kalkudah/ Passkudah beach, Arugam Bay lagoon, Lahugala and Kumana National Parks, Trincomalee and Yala East National Park, etc., which were popular destinations for both foreign and local tourists before the conflict.

In addition, the Northern and Eastern Provinces are endowed with significant mineral resources. Many of these are based on coastal areas. Such examples are mineral sand deposits in Pulmoddai area, and silica sands in the Vadamarachchi area (Jaffna peninsula). The potential for large-scale extraction of construction sands has also been identified both in the Jaffna peninsula and the eastern coast. Among other vital mineral resources in the region are copper-iron deposits in the Seruwila area and limestone resources in Kankesanturai. Facilities for commercial extraction of mineral sands in Pulmoddai, and manufacturing cement using limestone in Kankasanturai had already been established even before the conflict. Mineral sands deposits in Pulmoddai are ranked among the

best of its type in the world, and provide illmenite, rutile and zircone, which have value added industrial uses. Before halting such industrial operations in the 1990s due to the conflict, mineral sand output from Pulmoddai was mainly exported.

### 8.3.2 Major Livelihoods and Impacts of Conflict

The profile of resources in the N&E discussed above supports a local economy that is mainly based on agriculture and fisheries. Conditions in the Jaffna peninsula has given rise to a distinctive commercial farming system based on major crops - red onion, chilli, potato, tobacco, fruits and vegetables, with limited amount of paddy and livestock activities. In addition, Jaffna is famous for products based on palmyrah palm. Unlike other areas of the dry zone, groundwater from shallow karstic aquifers is a major source of water supply for agricultural crops in Jaffna. Being a peninsula surrounded by shallow sea with a complex system of lagoons and surrounding islands, Jaffna has a significant population that depends on fishing for livelihood. Fishing activities are concentrated in coastal areas, lagoon and small islands around the peninsula. Compared with other mainland districts in the Northern Province, Jaffna is more densely populated with a mixed population of urban, semi-urban and rural communities. Therefore, a significant proportion of the population is also occupied in commercial ventures and other service based activities, including public sector jobs.

Compared with the relatively diverse pattern of livelihoods in the Jaffna peninsula, the population in the mainland districts of the Northern Province as well as the Eastern Province is mainly dependent on agriculture and livestock for their livelihood. In addition, there are fishing communities based on coastal fisheries, lagoons, bays and large irrigation reservoirs. Agriculture in the mainland areas is based on a dry zone farming system with two major components, namely, lowland rice farming and rain-fed highland crops. Certain variations in the farming system could be observed depending on the availability of irrigation water. There are major irrigation schemes in many districts that can support a greater number of farmers with more reliable supply of water for paddy farming. Major irrigation schemes play an important role in agricultural production in Ampara, Batticaloa, and Trincomalee districts as well as certain parts of Vavuniya and Mannar districts. As a result, the Eastern Province has remained a major rice producing area of the country even after several decades of conflict.

In addition to major irrigation schemes, a significant number of farmers in all districts are operating under minor irrigation schemes. This can be considered as basically a rain-fed farming system supported by communally owned rainwater harvesting devices known as village tanks. Unlike major irrigation schemes, minor irrigation schemes are heavily dependent on local rainfall. Therefore, farmers in village tanks face more uncertainties in water supply than farmers in major schemes. Besides the major and minor schemes, there are also farmers in dry zone districts who operate under pure rain-fed conditions, facing severe hardships when faced with lengthy spells of dry weather.

Both agriculture as well as fisheries livelihoods in the N&E were severely affected by the conflict. There were multiple effects on livelihoods. The impacts included loss of life of farmers/fishers, destruction of farming/fishing assets, forceful eviction from livelihood environments, denial of access to resources supporting livelihoods and abandoning or wasting of production harvest due to conflict related events. For instance, there were numerous incidents of attacks on farm villages and farmers in fields. Many

**Table 8.4**
**Impact of Conflict on Livelihoods: Paddy Farming**

| District | Asweddumized Extent of Paddy (Ha) | | |
|---|---|---|---|
| | 1985/86 | 2006/07 | % Change |
| **Northern Province** | | | |
| Mannar | 20,358 | 9,985 | -51 |
| Mullaittivu | 16,268 | 14,189 | -13 |
| Jaffna | 12,677 | 10,724 | -15 |
| Kilinochchi | 22,379 | 21,019 | -6 |
| Vavuniya | 20,205 | 16,330 | -19 |
| **Eastern Province** | | | |
| Ampara | 63,697 | 75,147 | 18 |
| Batticaloa | 57,399 | 58,238 | 1 |
| Trincomalee | 40,674 | 29,920 | -26 |
| **Total** | **253,657** | **235,552** | **-7** |

Source: Department of Census and Statistics, *Statistical Abstract,* 1986 and 2009.

farmers/fishers have become internally displaced persons (IDPs). Table 8.4 offers some idea of the impacts of the conflict on farmers' livelihood as indicated by the drop of asweddumized lands in different districts during the period of 1985-2007. Accordingly, paddy land under production dropped by over 20 per cent in the Northern Province. The impact is highest in the Mannar district (51 per cent) followed by the Trincomalee district (26 per cent).

Livelihood of the fishing community was also severely affected by the conflict. From the early stages, the conflict escalated into the sea as well. As a result, controls were imposed on fishing operations in many areas due to security reasons, thereby restricting fishers' access to fishery resources. This affected not only the local fishers but also migrant fishermen from other areas during the off-season in those areas. In addition, as confrontations at sea sometimes inflicted losses on lives and assets, fishers themselves refrained voluntarily from regular fishing operations. Table 8.5 indicates the negative impacts on fisheries production due to the conflict during the period 1983-2007. It indicates that fisheries production from the two provinces dropped drastically by 55 per cent while fisheries production of the country increased by 59 per cent. From the 1990s onwards, the fisheries sector in other areas of the country was largely benefited by new technology and infrastructure developments, which helped to boost national production, even with the decline of production in the two major fishing areas of the N&E. This implies that fishers in the N&E were denied the benefits of overall progress experienced by the sector during the last two decades.

Tourism was another key sector that was adversely affected by the conflict. It is an industry which is highly sensitive to conflict situations. As a result, the inflow of tourists into the N&E area has decreased sharply over the years. This led to losses in tourism income from direct and indirect sources, especially for communities in the coastal belt. The losses to the tourism industry were not confined to the N&E alone. The conflict lowered the attractiveness of Sri Lanka as a tourism destination. Thus, the tourism industry of the country as a whole

**Table 8.5**
**Impact of Conflict on Livelihoods: Marine Fisheries**

| District | Marine Sector Fish Catch (Mt) | | |
|---|---|---|---|
| | 1983 | 2007 | % Change |
| **Northern Province** | | | |
| Mannar | 19,040 | 9,170 | -52 |
| Mullaittivu | 6,960 | 360 | -95 |
| Jaffna | 49,740 | 5,130 | -90 |
| Kilinochchi | - | - | - |
| Vavuniya | - | - | - |
| **Eastern Province** | | | |
| Ampara | 10,650 | 12,810 | 20 |
| Batticaloa | 4,460 | 11,710 | 163 |
| Trincomalee | 13,510 | 8,150 | -40 |
| **Total** | **104,360** | **47,330** | **-55** |
| **Sri Lanka** | **184,740** | **293,170** | **59** |

Source: Ministry of Fisheries and Aquatic Resources.

suffered as a result of underutilization of country-wide tourism facilities.

## 8.4 Impacts of Conflict on Natural Resources and the Environment

In this section, impacts of the conflict on natural resources and the environment are briefly discussed. It is less than three decades since the environment and natural resources have become a subject of public interest in Sri Lanka. Major legislation and institutions relating to environment came into existence only after 1980. This was the period when the Northern and Eastern Provinces began to come under the influence of the armed conflict. As a result, information on natural resources and the environment in these areas is scarce. Hence, making an objective assessment of impacts of the conflict on the environment and natural resources in the N&E is difficult. In this section, a preliminary attempt at conjecturing feasible outcomes based on commonly available knowledge is attempted. As discussed earlier, there are four major impacts that can be broadly identified, as follows:

- Physical damage to natural systems: The prolonged conflict extended its impacts over all types of natural systems and habitats causing physical damages at various levels of intensity. The level of damage depended on the level of exposure to the conflict. Damaged systems include forests and wild life parks, coastal strips, mangroves and wetlands, local water courses, etc. Sometimes these have undergone indiscriminate exploitation (e.g., felling timber, disturbing wild life) or severe modification (e.g., extensive clearing of forest stretches, construction of bunkers, ditches, etc.) for combat purposes. Many habitats that have become battlefronts were subject to destruction due to extensive use of fire-power. Another harmful effect is the heavy load of land mines buried in these habitats, which would be a severe threat to resource users even in the future.

- Loss of access to resources and associated welfare losses due to underutilization: The conflict has deprived resource users of their rights to access resources, and

numerous users were forcefully uprooted from their living environments. As a result, certain resources were left underutilized without extracting a sustainable stream of economic value. Examples are fisheries resources, coastal habitats, forest resources and communally owned assets such as village tanks. This has caused economic welfare losses not only to local communities, but also to the entire national economy. For instance, the conflict left some of the best fishing grounds of the country underutilized for nearly three decades. Farmers had to abandon their fields, creating conditions that threatened food security of local communities. Similarly, prime tourist attractions and associated facilities ran out of visitors depriving the local economy of significant income opportunities. Given that fisheries, agriculture and tourism in the areas are closely connected to the national economy through value chains, the conflict created significant welfare losses to the entire national economy due to long term underutilization of such resources.

- Collapse of local systems of resource management: From a resource management perspective, alienating resources from their owners and custodians has led to a collapse of local arrangements of resource management, making them susceptible to rapid degradation. This becomes especially important in the case of resources that need regular maintenance and management. Some examples are community owned tanks, canals, local catchments forests, etc. Usually, local institutions govern such resources under participatory systems of management. In addition, even privately owned assets such as agricultural fields, home gardens, water supply units, soil conservation structures, etc., have fallen into degradation due to long periods of negligence, and their restoration may need significant investments.

- Collapse of control over state managed resources: The conflict-affected areas have a significant stock of natural resources which are the responsibility of state agencies such as the Forest Department, Department of Wildlife Conservation, Geological Survey and Mines Bureau, as well as local officials in District and Divisional Secretariats. In addition, there are productive ventures such as mineral sands mining in Pulmoddai beach area. The control of civil administration over such resources collapsed with the intensification of the conflict. As a result, maintenance and management needs of such resources have been neglected over a lengthy period time.

### 8.5 Achieving Sustainability in Post-conflict Development

Rehabilitation of a large mass of population whose livelihoods used to depend on primary resources such as land, forests and fisheries needs careful attention for sustainable management of resources. Therefore, policy makers and development workers have to take the current realities of environment and natural resources into consideration when selecting post-conflict development strategies. In the absence of such a policy thrust, selected development strategies may fail to achieve the desired long term results. There are several aspects that need attention in the post-conflict development context to ensure sustainability of the overall exercise. Among them, a few important aspects that need to be fulfilled to achieve this goal are discussed.

- Assess the losses and damages to natural systems due to the conflict: A reasonable assessment on losses and damages to natural systems is necessary to design appropriate post-conflict development strategies. Given the conditions prevailing in the N&E areas after the conflict and poor availability of information, a full-scale assessment may not be a real-

istic target in a short period of time. Therefore, assessments can be a step-wise exercise that is built into the overall development planning process. In order to achieve this, the participation of necessary stakeholders is critical.

- Resettle original users of resources and reinstate their rights: The first step in all rehabilitation activities is to resettle affected communities in their familiar environments that support their original livelihoods. Given the devastation caused by the conflict in certain areas, this may be a difficult and time-consuming task. The most important issue involved here is the restoration of their rights to private and community assets/resources with appropriate safeguards and precautionary measures. In this context, adhering to traditional practices in a strict sense may not be essential, but rather to focus on a process that provides plausible solutions to address issues of sustainability of livelihoods under the prevailing circumstances.

- Re-establish control of regulatory bodies and government agencies over sustainable management of resources: It is necessary to strengthen the institutional capacity of relevant state agencies, which have mandatory responsibilities for respective resources. This implies strengthening of management procedures applied to land/soil, water, forest, wildlife, coastal, fisheries and mineral resources. Relevant agencies include the Land Commissioner General's Department, Irrigation Department, Agrarian Development Department, Forest Department, Department of Wildlife Conservation, Coastal Conservation Department, Department of Fisheries and Aquatic Resources, National Aquaculture Development Authority and Geological Survey and Mines Bureau. Moreover, it is also necessary to implement general procedures and the National Environment Act as well. The relevant agency in this regard is the Central Environmental Authority. Many of these agencies are currently at a relatively weak position in the Northern and Eastern Provinces. Their position should be strengthened by providing adequate staff, facilities and other required resources. These agencies should have a fresh look at the current issues and existing conditions and select their strategies accordingly. It is necessary to take a consultative approach to the extent possible with the participation of stakeholders concerned.

- Rehabilitate livelihoods through promotion of sustainable use of environmental resources: Resettling the displaced alone would not be sufficient to ensure the sustainability of post-conflict development. It is necessary to take a holistic approach that addresses the livelihood needs of displaced as well as non-displaced conflict-affected communities. All development strategies should promote sustainable use of land, forest, water, fisheries and other natural resources that support livelihoods. All forms of unsustainable practices that lead to further degradation of resources should be discouraged through appropriate incentives and safeguard measures.

- Strengthen the role of local communities in the management of environmental resources: The role of local communities in management of resources should be strengthened. As already mentioned, this should be achieved through the restoration of rights of user communities, selecting participatory approaches involving all stakeholders, and setting appropriate incentive mechanisms to encourage sustainable resource use practices. Moreover, enhanced awareness, extension and adaptive learning approaches can fa-

cilitate such a process. All resource users should perceive their rights and responsibilities correctly. Enhanced cooperation would be helpful to improve the process of reconciliation of communities as well, in addition to ensuring environmental sustainability.

- Implement appropriate safeguard measures to enhance restoration and to prevent over-exploitation: As already mentioned, certain natural systems have undergone physical damages due to the conflict. These should be allowed to be restored without further disturbances. If any harmful modifications had been made, they have to be renovated by using appropriate scientific methods. Not only the damaged systems, but the resources that are currently being used should also be brought under sustainable systems of management. Any post-conflict development activity (e.g., livelihood development programmes, infrastructure projects, productive enterprises) which involves critical natural systems, should be implemented with appropriate safeguard measures to avoid over - exploitation and prevent harmful effects on the environment. This implies that existing procedures of environmental impact assessments and other necessary safeguard measures should be applied in all post-conflict development efforts.

## 8.6 Conclusion

Environmental and natural resource issues represent an important aspect of post-conflict development of Sri Lanka. The conflict has imposed significant damages to natural systems in the conflict-affected Northern and Eastern Provinces. Moreover, it has inflicted significant losses to the economic welfare of communities due to disturbances on livelihoods. Communities have been forcefully uprooted from their livelihood resources, resulting in the collapse of local management and degradation of resources. As a result, environmental and natural resources in conflict-affected areas are in a state of decline, requiring the urgent attention of policy makers.

Thus, ensuring environmental sustainability becomes an important aspect of ongoing post-conflict development efforts. The government has recognized this and a strategic environmental assessment (SEA) is currently under way with donor support, complementing the 'Uthuru Wasanthaya' programme in the Northern Province. This can be considered a positive step towards increasing the sustainability of post-conflict development efforts. However, ensuring sustainability of post-conflict development is a complex challenge. It needs a holistic approach with close collaboration of communities, the state, and other relevant stakeholders.

Given the current conditions in the N&E areas, resettling of displaced communities and supporting their livelihoods are the most urgent steps in post-conflict development. Therefore, addressing environmental issues also has to commence from these early steps. A participatory, consultative approach should be adopted in all stages, and the role of communities in resource management should be strengthened. Among the major constraints that could negatively affect the process are poor capacity of state agencies in the N&E areas and lack of necessary information. Therefore, strong capacity building measures should also be introduced to strengthen the relevant agencies so that they can facilitate livelihood support strategies in an effective manner. Overall, post-conflict development efforts need a balanced approach that can harmonize livelihood needs of communities and the sustainable use of environmental resources.

# 9. The Role of Foreign Aid in Post-conflict Recovery

## 9.1 Introduction

Post-conflict societies often face the risk of return to conflict, although this may be lessened in cases where a conflict ends in military defeat of one side. Nonetheless, the choice of policies that are employed to lock in peace is critical. This usually entails a balance between political and economic measures. The economic challenges are usually characterized by damaged infrastructure, loss of human capital and livelihoods. In more extreme cases, economies can collapse entirely. Sri Lanka's experience has been a hybrid of sorts, with widespread socio-economic destruction in the Northern and Eastern Provinces whilst general economic structures in the rest of the country remained in place. Nonetheless, the extent of damage in the North and East (N&E) imposes a heavy reconstruction and rehabilitation burden on government finances. Given Sri Lanka's fiscal constraints, external financial assistance clearly has an important role in supporting the country's post-conflict development. Indeed, effective aid delivery could reduce the risks of return to conflict by enhancing prosperity and poverty reduction through growth.

This Chapter explores the role of external assistance in supporting post-conflict economic development in Sri Lanka. External assistance largely refers to Overseas Development Assistance (ODA) provided at concessional rates by multilateral and bilateral development partners. However, other forms of external flows such as that provided by the International Monetary Fund (IMF) through its Stand-by Arrangement (SBA) are also included. The necessity of foreign aid given Sri Lanka's macroeconomic circumstances is outlined at first, focusing on the fiscal stresses that constrain the government's spending capacity. The priority interventions for donors are then discussed along with the sectors that could drive economic growth in the short run and how aid can help alleviate productive bottlenecks in these sectors. The domestic policies required in the effective management of aid is dealt with next, particularly focusing on issues of absorptive capacity and macroeconomic management of aid flows. The final section of the Chapter examines the distributional impacts of aid and potential negative socio-political externalities that can result in a return to conflict. In this context, the importance of designing effective institutions for the transparent and inclusive delivery of aid is outlined.

## 9.2 The Prima Facie Necessity for Foreign Aid in Post-conflict Sri Lanka

Sri Lanka has long been a recipient of foreign aid which has played an important role in contributing to the capital expenditure of the budget. The access to concessionary ODA from international donors, primarily Japan, the Asian Development Bank (ADB) and the World Bank (WB) has enabled the country to carry out developmental activity without placing an excess burden on short term debt financing, since these loans have traditionally been characterized by low interest rates and long repayment horizons. The ADB Special Fund Resources for instance had a 30 year maturity and interest rates of 0.5 per cent and many of Sri Lanka's early World Bank loans had a maturity of up to 40 years

with 0.75 per cent service charge.[1] As a result, even today, the bulk of Sri Lanka's foreign debt stock has long repayment horizons and, therefore, does not place substantial pressure on short term repayment. In the recent past, however, there has been a slight shift away from this favourable position.

The role of foreign assistance has indeed been instrumental in supporting the development process in Sri Lanka, particularly with regard to financing capital intensive infrastructure ranging from power generation to roads. However, at the same time, it could be argued that the easy access to low cost finance undermined discipline in financial management in Sri Lanka. Successive Sri Lankan governments were able to spend the entirety (and more) of government revenue on recurrent consumption, knowing that foreign finances would be available to finance capital intensive investment.

The government's spending power is to a great extent curtailed by a constrained fiscal environment. In such a situation, borrowing becomes a necessity and two options could be pursued. Domestic borrowing could be problematic since it could create upward pressure on interest rates and thus 'crowd out' critical private sector investment to spur post-conflict growth.[2] Foreign borrowing is an alternative and this could be achieved either through commercial markets or concessionary borrowing from donors. The former is costly and brings heightened risks to macroeconomic management as detailed in Chapter 2. Therefore, the most acceptable form to support higher government capital expenditures would be in the form of concessionary borrowing. This is further exemplified by the magnitude of the expenditure required in resurrecting the post-conflict economy in the North and East (N&E) of the country. The economic, physical and social infrastructure in the two provinces was severely affected during the conflict and reconstruction would require a very substantial degree of financial resources. However, as Sri Lanka's per capita income has increased in recent years, the country's windows of access to concessionary borrowing have become narrower, particularly in the case of multilateral donors.[3] This has made bilateral aid a more attractive option for Sri Lanka, particularly from China which offers low rates of interest and is less rigid in terms of conditionalities. However, bilateral aid has its own constraints, particularly in terms of requirements for sourcing of labour, materials and project implementation.

Foreign aid is also useful to support a country's balance of payments (BOP). Indeed, it was the need for BOP support that prompted Sri Lanka to approach the IMF for an SBA in February 2009. With the ongoing recovery in global commodity prices, the import intensity of reconstruction measures could be substantial. This may not, however, be a major short term concern in Sri Lanka as, despite the fact that prospects for export earnings in the short term are not optimal, foreign exchange inflows due to remittances and short term capital inflows (particularly in government securities and equity) have supported Sri Lanka's foreign exchange reserve position in the post-conflict era. Increased investor confidence in the Sri Lankan economy was also influenced by the SBA with the IMF.

## 9.3 Priority Interventions

The conflict in Sri Lanka had differentiated impacts on the economies of the N&E and on the overall national economy. Whilst the

[1] Kelegama, S., and D. de Mel, 2007, "Sri Lankan Perspectives on Reform of the International Aid Architecture" North-South Institute, Canada.

[2] Furthermore, by the terms of Sri Lanka's Stand-by Arrangement with the IMF arrived at in July 2009, there is a ceiling on permitted volumes of borrowing - both domestic and external borrowing on commercial terms.

[3] Ibid.

former saw extensive destruction, the national economy displayed substantial resilience, with overall economic infrastructure remaining intact. Therefore, the purpose of foreign aid differs at the national and local levels. At the national level, foreign aid is desirable primarily in terms of supporting macroeconomic stability. It was in this context that IMF assistance approved in July 2009 was important in terms of supporting post-conflict recovery in Sri Lanka. Given the relatively weak fiscal situation, the role of foreign aid at the macroeconomic level would be in terms of supporting expenditure on reconstruction, thereby enabling fiscal consolidation by the government. If foreign aid were not available, either reconstruction and humanitarian assistance would be compromised, or the fiscal position would further deteriorate if even more government expenditure was utilized in reconstruction, resulting in macroeconomic stress that could undermine post-conflict recovery and long term growth.

In the conflict-affected N&E, the role of foreign aid is more precise in terms of supporting interventions towards reconstructing the economy in the region. The creation of livelihood opportunities and enhancement of productive capacity becomes a priority in a post-conflict scenario. This needs to be considered from different time frames - short and long term. In the long term, employment generation is facilitated by a stable macroeconomic framework, a sound investment regime, access to inputs, secure property rights, etc. However, in a post-conflict situation, job creation needs to be conducted on a more urgent basis. The most rapid measure is to maximize generation of local job opportunities through reconstruction activities, particularly those related to infrastructure such as roads, railways, etc. This is one area where foreign aid in Sri Lanka has not always had a positive record. Many large scale donor supported programmes in infrastructure have required the utilization of donor country labour and sourcing of raw materials from the donor country. In the context of post-conflict reconstruction, such conditionalities would generate a sub-optimal outcome, since the utilization of local labour and sourcing (contingent on supply capacity) would maximize the multiplier growth impacts of aid.

### 9.3.1 Key Sectors

In the short term, whilst addressing issues of refugee return, housing and de-mining, aid should be channelled into supporting reconstruction measures that address current impediments to employment creation. For example, support to the reconstruction of reservoirs and irrigation systems could assist the creation of employment in agricultural activities. Given the traditional strengths of fisheries and agriculture in the conflict-affected provinces, these sectors would be good starting points in terms of aid supporting livelihood generation in the N&E. In the fisheries sector, for instance, much of the reconstruction efforts would require high fixed costs of construction, for example, reconstruction of damaged fishery harbours, piers, quality testing facilities, storage facilities and ice plants.[4] This high cost entails a potential necessity of ODA in supporting such reconstruction. Whilst there is also a need for access to boats and other direct fishery implements, care needs to be taken in terms of targeting such aid effectively. The issue of targeting aid is discussed in some detail later.

For fisheries, agriculture and all other economic production (tourism is also an important post-conflict sector), a key

[4] See policy brief on "Fishery Sector and Post-conflict Development Challenges".

component for viability and income generation would be connectivity to markets. Again, given the high costs entailed in reconstruction of transport infrastructure, the role of concessional ODA would be significant in this endeavour. Since information is likely to be a significant market failure, donors could provide support to business chambers both at the national and regional levels in order to link producers in the N&E with firms and consumers in the rest of the country. A parallel approach would be for donors to work with firms who actively source from suppliers in the conflict-affected provinces.

When examining the existing disbursements of ODA to the N&E during 2009 and leading up to June 2010, it is clear that the bulk of financing has indeed gone into the costly heavy infrastructure sector, along with urgent needs of housing and resettlement (Table 9.1). There has also been support for the priority livelihood sectors of agriculture and fisheries - for instance, one of the community support projects of the ADB targets coastal communities. The aid that has gone into the N&E reflects the short term priorities in the region. With time, however, more support can be expected to filter into social services sectors such as health and education along with increased support to SMEs and entrepreneurs to ensure sustainability of economic recovery.

## 9.4 Domestic Aid Management

The effectiveness of aid in achieving its objectives is contingent on the confluence between sound aid delivery policies and prudent domestic management of aid receipts. The literature points to the role of domestic policy quality for ensuring aid effectiveness given the importance of policies and institu-

**Table 9.1**
**ODA Disbursed by Sector for N&E Specific Projects (2009-10)[a]**

| | US$ Million | |
|---|---|---|
| **Sector** | **2009** | **Jan-June 2010** |
| Roads | 8.7 | 2.1 |
| Bridges | 8.1 | 0.7 |
| Ports | 13.4 | 9.1 |
| Power | | 0.2 |
| Other infrastructure [b] | 29.4 | 15.9 |
| Agriculture | 11.1 | 3.6 |
| SMEs | 0.2 | 0.1 |
| Housing | 18.5 | 3.8 |
| Local services | 2.0 | 0.3 |
| IDPs | 0.4 | 1.4 |
| Community support | 18.4 | 4.1 |
| Education | 0.1 | |
| Other [c] | 19.4 | 12.4 |
| Total | 129.7 | 53.6 |

Notes: a: This data does not include national level projects which may have some N&E aid components; b: Other infrastructure refers to general infrastructure rehabilitation programmes (such as the French funded Trincomalee Integrated Infrastructure Project and the Japanese funded Pro-poor Eastern Infrastructure Project); c: Other refers to general projects in the N&E (such as the ADB Conflict Areas Rehabilitation Project, the UNDP Transition Recovery Programme and the World Bank emergency NE recovery project).

Source: External Resources Department (www.erd.gov.lk).

tions in determining absorptive capacity.[5] Studies that have looked at the role of aid in supporting peace find that aid, in combination with good policies affects economic growth and prosperity which in turn reduces the risk of conflict.[6] In post-conflict situations, absorptive capacity tends to suffer due to disruptions to government aid delivery institutions and in other cases due to loss of control over macroeconomic policy during conflict. Studies find that the period in which absorptive capacity is maximized is between the 4th and 7th years following the end of the war.[7] Hence, the flow of aid into a post-conflict country should gradually build-up as opposed to petering out following the first few years of peace, which is what tends to occur in many cases.

In Sri Lanka's case, however, central government institutions remained intact and macroeconomic conditions are well above par compared to most post-conflict economies which often suffer from hyper-inflation and chronic indebtedness. Many post-conflict economies suffer due to poor aid absorption in the immediate post-conflict period, which tends to coincide with spikes in aid receipts. Evidence from countries which saw conflicts end in the 1990s and 2000s saw aid increasing at the immediate onset of peace and then tapering off back to trend levels.[8] The conflict is unlikely to have a significant effect on aid absorption capacity at the national level in Sri Lanka. Nonetheless, regardless of the conflict, there have been gaps in Sri Lanka's general aid absorptive capacity due to factors such as delays in providing counterpart funding, delays in obtaining land and administrative capacity constraints.

Even though issues of absorption may not be as significant a constraint in Sri Lanka compared to many other post-conflict economies, the value of securing longer term aid flows remains high. Increasing the time-span with which aid enters into a nation, following the cessation of conflict, is conditional upon a number of pre-requisites which would facilitate such an arrangement. Securing donor funds in the medium term would require a stronger relationship between the donor and the recipient country, as the agreement would necessarily require a greater degree of planning and commitment on behalf of the donor. Increasing transparency of government policy would be one such measure that could help to secure longer term funding. A credible long term development plan would assist in increasing transparency and securing donor funds, through signaling greater organization and commitment to executing development proposals.

Demonstrating greater direction in the long term development of the country may also help in reducing the conditionalities demanded by donors as a prerequisite to aid. Externally devised conditionalities run the risk of being biased towards certain social groups, as donors may fail to interact with a wide spectrum of stakeholders and instead consult only donor-friendly groups. Sri Lanka's earlier experiences of conditionalities related to aid and peace did not have positive outcomes.[9] The 2003 Tokyo Donor Conference saw donors pledge US$ 4.5

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[5] Burnside, C., D. Dollar, 2002, "Aid, Policies and Growth", *American Economic Review*, 90 (4), 847-68; and Collier, P. and D. Dollar, 2002, "Aid Allocation and Poverty Reduction", *European Economic Review*, 46, 1475-1500.

[6] Collier, P. and A. Hoeffler, 2002, "Aid, Policy and Growth in Post-conflict Societies", World Bank, Washington, D.C.

[7] *Ibid.*

[8] Elbadawi, I, L. Kaltani, and K. Schmidt-Hebbel, 2007, "Post Conflict Aid, Real Exchange Rate Adjustment and Catch Up Growth", *Policy Research Working Paper Series 4187*, World Bank, Washington, D.C.

[9] Kelegama, S., and D. de Mel, 2007, "Sri Lankan Perspectives on Reform of the International Aid Architecture", North-South Institute, Canada.

billion of aid to Sri Lanka conditional upon the fulfillment of a number of peace-related requirements.[10] Such involvement saw a diversification of international actors from their traditional roles as overseers of long term development and economic stability. The peace process related to short term developments, and was unavoidably of a highly political nature. The external influence of donors in political factors further disrupted the peace process through pursuing policies which undermined the needs of communities in the 'conflict-unaffected' areas. This led to a backlash against the involvement of 'neo-imperial' donors.[11] In a post-conflict context, employing policies which can be perceived as being biased towards different social groups can be detrimental to the success of 'peace' and subsequent reconstruction.

The experience of the 2002-04 'peace process' indicates the difficulty with which political and economic objectives are aligned. Therefore, it may be beneficial to all stakeholders for the government to take on a more active role in pursuing transparent, inclusive policies which consult and incorporate the needs of different groups in society. Along with clarity and transparency of long term development planning, greater transparency in short term activities of a peace building process would help to direct foreign assistance to long term plans for economic development, by signaling greater commitment to social equity. Such measures will work to increase the ease with which the government can secure aid for the medium term; wherein absorptive capacity would be further enhanced.

### 9.4.1 Macroeconomic Management

The other important consideration is the macroeconomic impact of aid inflows. Capital inflows such as aid can have various macroeconomic implications, which manifest in different ways depending on the policy priorities and targets of the relevant monetary authority. The most common impacts are on exchange rate, monetary base, inflation and interest rates. Significant capital inflows in the form of aid can result in an appreciation of the real exchange rate (RER) which in turn will undermine the net export position and thereby reduce incomes through the 'Dutch disease' effect. The manifestation of this is contingent on how aid inflows are utilized by the government.

As discussed in Chapter 3, the role of exports will be important in post-conflict development, therefore management of the RER will be an important policy objective. However, governments have sufficient tools to prevent exchange rate appreciation in the event of foreign aid inflows. Studies have found that in a sample of 36 countries, 30 did not demonstrate a significant correlation between aid and the RER.[12] However, it is not just aid inflows that can influence the RER but also capital inflows such as remittances and short term inflows into equity and bond markets. In a post-conflict situation, increased confidence in the economy could attract significant capital inflows into equity and debt markets and remittances also tend to spike in support of relief and rehabilitation measures.

Another important risk to keep in mind is the impact of aid and reconstruction on the

[10] Goodhand, J., B. Klem, D. Fonseka, S. Keethaponcalan, and S. Sardesi, 2005, "Aid, Conflict and Peace Building in Sri Lanka", World Bank, Washington, D.C.

[11] *Ibid.*

[12] Elbadawi, I, L. Kaltani, and K. Schmidt-Hebbel, 2007, "Post-conflict Aid, Real Exchange Rate Adjustment and Catch Up Growth", *Policy Research Working Paper Series 4187*, World Bank, Washington, D.C.

| | |
|---|---|
| Spend All | Spend all on non-trade sector – Complete aid absorption but RER appreciation<br>Spend all on tradable sector – No aid absorption but no RER appreciation |
| Save All | Build up international reserves or use aid to repay foreign debt – No impact on RER<br>Use aid to repay local debt – RER appreciation |

non-traded sector. Due to supply constraints, particularly in post-conflict areas, reconstruction activity can drive up prices of raw materials and construction related labour. This is problematic due to its inflationary impacts and also due to the resultant challenges in terms of costing aid projects. This was experienced by Sri Lanka in the aftermath of the December 2004 Asian tsunami where many projects ran into budgetary problems due to mis-estimations of costs.[13]

## 9.5 Distributional Effects of Aid: Lessons from the Past

The injection of aid into a country can have a number of social implications, which need to be considered before devising and implementing projects. The distributional effects of aid can be a potential hindrance to long term development and, within a post-conflict context, detrimental to social reconciliation. The experience of the Mahaweli Development Project (MDP) initiated in the 1970s - funded largely by donors - is one such example. The project was intended to provide jobs and land for the landless through irrigating surplus land in the dry zones of the North-Central, Northern and Eastern Provinces. This newly irrigated land was to be allocated between approximately 18,500 families with each receiving 0.2ha on which they could live and cultivate paddy and other crops.[14] Despite its development component, the MDP was perceived to have aggravated social tensions between communities, including ethnic rivalries.[15] The experience of the MDP illustrates the susceptibility of development projects to scrutiny from domestic stakeholders. The role of perceptions is essential in donor engagement in post-conflict areas. Especially in order to ensure that policy cannot be misconstrued as favouring any one group, projects must be sensitive to the demographic and socio-economic composition of the regions concerned. Given that restructuring social capital is a vital prerequisite to post-conflict development, a degree of redistribution may be unavoidable. Nonetheless, policies should aim to minimize such disturbances. Such measures would require greater engagement with domestic stakeholders on behalf of both the government and donors.

The relief effort following the December 2004 Asian tsunami is another example of negative externalities accruing from donor-funded activities. In the post-tsunami period,

[13] Weerakoon, D, S. Jayasuriya, N. Arunatilake and P. Steele, 2007, "Economic Challenges of Post-tsunami Reconstruction in Sri Lanka", Asian Development Bank Institute, Tokyo.

[14] World Bank, "Independent Evaluators' Report on Mahaweli Ganga Development", accessed at http://lnweb90.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/0D869807701D1EEE852567F5005D8903.

[15] See Silva, K.T., 2005, "Politicization of Ethnicity, Ethnification of the Stage and Challenges for Post-conflict Transformation in Sri Lanka", in Raghavan, V. and K. Fischer (eds.), *Conflict Resolution and Peace Building in Sri Lanka*, McGraw-Hill; and Gunatilake, G., 2001, "The Ethnic Dimension of Socio-economic Development", Marga Institute.

there was a large influx of donor aid directed at restoring the fishery sector. However, due to insufficient data on pre-tsunami levels of participation in the fishery sector, donors ended up providing fishing boats and tools to households that were not previously employed in the sector. For instance, studies have found that 52 per cent of fishing households that lost their boats in the tsunami did not receive the boat aid transfers that they were eligible for.[16] This led to over-fishing which subsequently dampened domestic prices. The poor targeting of donor activities experienced after the tsunami highlights the importance of social consultation, especially in the absence of micro-level data. In addition to this, had there been adequate harmonization of donor projects, the over-provision of boat transfers could have been avoided. Poor targeting of donor projects following the end of the conflict can be detrimental to peace, especially if, as in the post-tsunami experience, transfers are misdirected and fail to reach those eligible for them.

Maintaining peace and developing social capital is understood as being an essential prerequisite from which economic development can ensue. Conflict sensitive development is understood as:[17]

- Assisting those directly affected by the conflict and reducing the economic disparity between populations in the conflict regions and the rest of the country
- Ensuring that aid is distributed evenly amongst varying regions and social groups, so as not to fuel regional inequality and grievances
- Safeguarding ethnic ratios in the conflict regions to avoid further aggravating ethnic conflict
- Greater consultation of those who are to be directly affected by development proposals
- Greater monitoring and transparency of the effect of development projects on conflict dynamics

In the early experiences of Sri Lanka's post-conflict development, particularly in the Eastern Province, the extent to which donors exercise conflict sensitive programming varies from donor to donor. The World Bank is an institution that has demonstrated their commitment to conflict-sensitive development, through passing all proposed projects through a 'conflict filter' before they are approved. The filter assess whether or not the project consulted a broad range of stakeholders, established independent grievance mechanisms, management and administration is sensitive to inter-ethnic relations, identifies conflict-generated needs, and has identified opportunities for inter-ethnic reconciliation.[18] Similarly, the ADB consults a specialist from an external organization to advise them on conflict sensitive procedures and also subjects conflict area programmes to special reviews in order to ensure sensitivity to conflict related particularities.

However, a report on post-conflict development in the Eastern Province suggests that many international donors are poorly informed on the scope of conflict sensitive development and what it entails.[19] The report comments on the redundancy of donor consultations in having an impact on the beneficiaries and the type of development that is implemented in the East. Furthermore, the report discussed the lack of transparency of aid-funded projects, with donors showing a

[16] Gunawardena, A., 2010, "Targeting and Distribution of Post-Disaster Aid", IPS (forthcoming).

[17] International Crisis Group, 2009, "Development Assistance and Conflict in Sri Lanka: Lessons from the Eastern Province", Asia Report No. 165.

[18] World Bank, "Sri Lanka Country Assistance Strategy 2009-2012".

[19] Ibid.

lack of commitment to monitoring progress and disseminating information. Not only does this impair donors' ability to assess the impact of projects on the conflict dynamics of the country, but it may further add to the political market imperfections that hinder post-conflict development.[20]

## 9.6 Institutional Factors

Given the risks inherent in failing to address sensitivities relating to the distribution of aid, and the imperfections among donors in their ability to address this issue themselves, it is essential that the government takes the lead in the design of institutions for the effective delivery of aid in a manner that is sensitive to post-conflict social structures. Ensuring that resources are efficiently distributed requires strong institutions which demonstrate a high degree of transparency and the ability to communicate well with ground-level, central government and international actors. Within a post-conflict context, the creation of new institutions can help in overcoming animosity felt amongst society towards old institutions which may impede progress in reconstruction.[21] More importantly, inclusive institutions can help alleviate concerns regarding capture of aid by elites or particular social groups, and this will be important in terms of ensuring medium term peace.

Institutional capacity constraints are one of the main impediments to enhancing the effectiveness of aid. As outlined in the Paris Declaration (PD), increasing domestic ownership of development can help in overcoming these constraints by heavier employment of local resources in the design and implementation of development projects. This is especially important in a post-conflict economy as the use of domestic resources can assist in the normalization of development processes. Therefore, there is likely to be less resistance to development, which can be helpful to the restructuring of social capital.

The potential benefits of decentralizing reconstruction remain important, such as its role in helping to foster greater interaction between social groups directly affected by the redevelopment process and the authorities in control of redevelopment - the principle of subsidiarity. This will allow for more inclusive policies to be implemented, which in a post-conflict context is vital to maintaining peace and supporting effective development. This raises interesting questions about the applicability of the Paris Declaration in Sri Lanka's context. Whilst there is currently strong national ownership of development at the central government level - embodied by the 'Mahinda Chinthanaya'- ownership at the sub-national level is less prominent due to relatively weak regional institutions. It is therefore important to create avenues for greater sub-national ownership of the developmental agenda.

The problem regarding decentralization is the issue of limitations in institutional capacity at the sub-national level. Capacity is a greater issue within the Northern and Eastern Provinces wherein the conflict has adversely affected the establishment of local institutions. Such features may be the cause for the heavy donor presence in the implementation process of many donor-funded projects. However, this can further exclude domestic participation, fostering capacity constraints in the process. The extensive use of foreign workers over the employment of local experts, and donor processes were major criticisms of the post-tsunami recovery

[20] Keefer, P., 2008, "Foreign Assistance and the Political Economy of Post-conflict Countries", World Bank, Washington, D.C.

[21] International Crisis Group, 2009, "Development Assistance and Conflict in Sri Lanka: Lessons from the Eastern Province", Asia Report No. 165.

**Box 9.1**
**Paris Declaration on Aid Effectiveness (2005) and Accra Agenda for Action (2008)**

The Paris Declaration (PD) on Aid Effectiveness is the result of the Second High Level Forum held in Paris, France, in 2005. The agreement recognized the need for reforms in aid deliverance so as to increase the likelihood of achieving the Millennium Development Goals by 2015.

The Declaration consisted of 5 principles which, if satisfied, were believed to enhance the effectiveness of aid. These principles are:

- *Ownership* – partner countries take greater control over development activities with a clear agenda.
- *Alignment* – donors align their development priorities to the priorities of the government as specified in their development plan.
- *Harmonization* – donors use common arrangements for planning, disbursement and reporting so as to reduce transaction costs.
- *Managing for results* – improving the country assessment and monitoring of national development strategies.
- *Mutual accountability* – increasing the transparency of both countries and their development partners' roles in aid decisions.

As an adjunct to the PD, the Accra Agenda for Action (AAA) was developed at the Third High Level Forum held in Accra, Ghana, in 2008. The intention behind the AAA was to accelerate the implementation of the PD through greater emphasis on the following principles:

- *Country ownership* – need for greater government leadership in development plans, which consult both the Parliament and the public. Donors should remain committed to assisting with these plans whilst using local resources.
- *Building more effective and inclusive partnerships* – engaging with all stakeholders in the design of policies, such as the private sector, global funds and civil society.
- *Achieving development results and enhancing accountability* – increasing transparency and provision of tangible results so as to enhance accountability to all stakeholders of development.

effort. Whilst it may not be feasible to wholly rely on local institutions for undertaking development activities, they should be adequately incorporated so as to ensure that development is sustainable through the transfer of skills.

In the PD evaluation report conducted in Sri Lanka, 50 per cent of donors interviewed used Parallel Implementation Units (PIUs) in their operations. Such systems can work to create parallel institutions, with development work being conducted separately from the government, reducing the scope for domestic institutions to benefit from such activity. Furthermore, in a post-conflict society, parallel institutions have the potential to negatively affect social cohesion.

With regard to alignment, while there is a strong alignment between many of the major multilateral donors and the government, this is less so amongst some of the bilateral donors. Following the cessation of the war, much of the bilateral aid has been directed towards the immediate rehabilitation effort,

whereas the government has focused development efforts in infrastructure - of which there is a longer time span associated with the realized benefits. Such misalignment of activities could create a perception that rehabilitation is donor driven and this could undermine the credibility of the government, which in turn is detrimental to longer term peace efforts. It is therefore important in this context that donor agencies take extra care to prevent the creation of perceptions of donor driven rehabilitation efforts.

Increasing the tangibility of development outcomes of donor funded projects is another priority specified in the PD and one that is of great relevance to post-conflict development in Sri Lanka. Enhancing the transparency of projects is a key component that can help to monitor and, subsequently, augment the ease with which development outcomes can be achieved. The Department of Foreign Aid and Budget Monitoring has taken steps towards greater transparency through publishing reviews of donor-funded projects and the achievement of Paris Declaration goals in Sri Lanka on their website. These reviews outline the effectiveness of past projects and provide lessons learned on how effectiveness can be improved. Increased transparency combined with monitoring and evaluation creates the correct incentives for both donors and governments to ensure greater effectiveness of donor funded projects. For monitoring and evaluation to be more successful, it is important to invest greater resources in domestic institutions that would carry out evaluation of projects whilst at the same time encouraging the involvement of independent institutions to take part in such evaluations.

To maximize the impact of monitoring and evaluation, it is necessary to create avenues for the communities affected by donor projects to contribute to evaluations. It is both the responsibility of donors and domestic institutions to increase both consultation of stakeholders and accessibility to project evaluations. Stakeholder consultations are of particular importance in post-conflict situations. However, there are many logistical challenges that undermine the feasibility of such consultations - particularly issues such as displacement and time constraints. Hence, with regards to the immediate post-conflict recovery period, the scope for effective consultation may be limited, resulting in a much more ad hoc approach to development processes. This reality puts greater emphasis on the importance of monitoring and accountability in reducing any potential negative externalities of reconstruction, as greater transparency is another measure that can facilitate inclusive development.

The lack of capacity of sub-national level institutions in effectively managing donor activity was evident during the post-tsunami recovery period. Whilst development partners were effective in providing relief in the immediate aftermath of the disaster, their efforts in the medium term were called into question for having many negative externalities which further dampened economic growth. The previously discussed over-provision of boats and restrictive housing policies was partly the fault of a lack of coordination of donor interests, budgets and time-constraints.[22] The poor levels of harmonization between donor activities can also be attributed to the lack of a clear, medium term government plan which restricted the ability with which government institutions were able to coordinate the reconstruction process. The difficulty experienced with designing and implementing successful policies for redistribution was compounded by a lack of micro-level data. Some of this data had been

[22] Gunawardena, A., 2010, "Targeting and Distribution of Post Disaster Aid", IPS (forthcoming).

lost in the event of the tsunami; however, the inability of government institutions to supplement this loss of information reflected their insufficient capacity. Such information is imperative to the ability with which the government and development partners can restore pre-disaster conditions. In a post-conflict context, the redistribution of assets must be done with the utmost sensitivity so as to not further evoke social tension and conflict. This would require a high degree of information on pre-conflict asset ownership so that policy makers can address the grievances of those members of society who have lost land during the war.

The benefits of decentralizing reconstruction remain important. It can help to foster greater interaction between the social groups directly affected by the redevelopment process and the authorities in control of redevelopment - the principle of subsidiarity. This will allow for more inclusive policies to be implemented which, in a post-conflict context, is vital to maintaining peace and supporting effective development. Establishing a formal conduit through which the central government is informed of region-specific needs of the population can help to harness the authority with which they devise inclusive policies and, thus, the likelihood that proposed projects will receive donor support with minimal imposed conditionalities. Whilst the international debate on aid reform is focused on ownership of aid at a national level, in the post-conflict scenario, ownership becomes important at more disaggregated levels.

## 9.7 Conclusion

At the end of a three decade long conflict, Sri Lanka finds itself at a crucial juncture in its development. Accelerated economic development is required to lock in sustainable long term peace. The role of external finance in supporting this economic development is important given the fiscal constraints faced by the government. Nonetheless, the absorption and delivery of this aid will have to be conducted in a carefully managed manner in order to prevent discord in macroeconomic balances, and also to maintain sustainable peace in the country through the development of appropriate institutions that can effectively distribute aid. The discussion has outlined some of the potential pitfalls in post-conflict aid in Sri Lanka, and some of the priorities in terms of ensuring an effective contribution to post-conflict development.

# 10. Infrastructure Challenges in Post-conflict Development

## 10.1 Introduction

In post-conflict Sri Lanka, there is a clear need for the rapid development of infrastructure facilities for the country to accelerate economic growth and deliver improved standards of living. This is particularly important in the context of the rehabilitation and reconstruction of the previous conflict-affected regions of the Northern and Eastern Provinces. These regions demand fast recovery from decades of conflict-induced deprivations that have created socio-economic inequities with the rest of the country. Improved infrastructure is, therefore, necessary not only to bolster the medium to long term economic growth prospects for the country, but also as a short term palliative to develop and improve livelihood opportunities in the North and East (N&E) of the country.

Amidst the wide range of infrastructure demands covering almost all aspects of basic infrastructure facilities, Sri Lanka faces the biggest challenge in financing these investments with continuously tight fiscal constraints. With the end of the military conflict, the government has launched a massive infrastructure drive to bridge the urban-rural infrastructure gap and meet the reconstruction needs of the Northern and Eastern Provinces of the country. This policy brief attempts an assessment of the direction of infrastructure development in Sri Lanka, focusing on key programmes and sectors of infrastructure initiatives. In particular, it pays special attention to government initiatives directed at rural infrastructure development and on the conflict-affected areas of the country.

## 10.2 Policy Context

The current infrastructure development policy of Sri Lanka attempts to support the government's thrust to achieve a regionally balanced economy that gives special attention to address economic and social disparities across the urban and rural areas. This was brought in with the launch of the Ten-Year Horizon Development Framework (2006-2016) which included the initiation of the 'Randora' (infrastructure development) programme at the national level. In addition to these, the government also introduced the 'Gama Neguma' (village development), 'Gemidiriya' (village strengthening) and 'Maga Neguma' (road development) programmes operating at the regional level.

Randora covers a wide array of infrastructure services, including economic infrastructure, irrigation, education and health, industries, and urban development and development of townships. Implementation of these projects is taking place at the national and regional levels. National level projects encompass development of expressways, power generation, transmission systems, large-scale water supply and sanitation projects, sewerage systems, major aviation and port development projects.

Gama Naguma is an accelerated development programme for rural upliftment and village re-awakening which gives priority to unsolved problems in areas where development is lagging behind vis-à-vis other areas. Its main objective is a comprehensive development of villages through active community participation. It has a wide spectrum of

**Table 10.1**
**Government Investment in Infrastructure**

| Year | Economic Services | | Social Services | | Total | |
|---|---|---|---|---|---|---|
| | Rs. bn. | % of GDP | Rs. bn. | % of GDP | Rs. bn. | % of GDP |
| 2006 | 106.8 | 3.6 | 48.4 | 1.6 | 155.2 | 5.3 |
| 2007 | 141.2 | 3.9 | 55.0 | 1.5 | 196.2 | 5.5 |
| 2008 | 168.9 | 3.8 | 60.2 | 1.4 | 229.1 | 5.2 |
| 2009 | 256.4 | 5.8 | 53.9 | 1.2 | 330.4 | 7.0 |

Source: CBSL, *Annual Report 2009*.

priority areas including infrastructure. The programme aims to mobilize all rural development efforts to one development programme through a spectrum of initiatives including, ensuring good governance at the local level and widening the scope of service delivery of the local authorities; bringing ICT to the village; conservation and management of forest resources; facilitating construction and improvement of the standard of housing in villages; and small and cottage industry development. The infrastructure component is intended to carry out projects for the provision of rural roads, electricity and water, reconstruction of canals, construction of small scale rural buildings, and small scale infrastructure development which can make direct and indirect contributions towards economic activities in villages.

The Maga Neguma programme was initiated with the objective of assisting local government bodies to develop rural roads. It consists mainly of building community based feeder roads to address pressing problems of transport. The programme is implemented with community participation. About 90 per cent of the project cost will be financed by the government and remaining 10 per cent will be borne by the beneficiaries.

The Gemidiriya is aimed at building accountable and self-governing local institutions that can manage sustainable investments, using the Community Driven Development (CDD) approach. It has a long-term objective of supporting the strategy of rural poverty reduction, promoting sustainable and equitable rural development through improving access for the poor to basic social and economic infrastructure and services, and providing necessary support for productive activities. Its infrastructure component is primarily geared to improving access for the poor to basic social and economic infrastructure and services. While many of the above programmes are to be phased in to cover the N&E, infrastructure development in the former conflict-affected provinces are given special emphasis through the 'Negenahira Navodaya' and 'Uthuru Wasanthaya' programmes.

Government efforts to raise financing infrastructure have clearly been significant over the period 2006-09, despite the constraints imposed by spending for a heightened military conflict. Private sector participation has been slow but this is to be expected. Active participation of the private sector will inevitably be linked to the progress by the government in restoring large scale infrastructural needs in energy, transportation, communication, etc. To this end, public investments to improve economic services in particular have been marked in recent years. By contrast, spending on social infrastructure has declined as a percentage of GDP. Thus, the overwhelming focus has been on efforts to improve constraints in areas such as energy and transportation, as opposed to higher

**Table 10.2**
**Sector-wise Investments on Roads (Rs. million)**

| Item | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Expressway development | 6,767 | 7,706 | 14,922 | 24,672 |
| Construction of bridges and flyovers | 1,108 | 1,759 | 9,916 | 16,263 |
| Highways development | 5,434 | 8,737 | 11,278 | 16,073 |
| Rehabilitation of tsunami-affected roads | 1,443 | 6,302 | 8,848 | 10,316 |
| Roads | 966 | 3,628 | 7,082 | 8,711 |
| Widening and improvement of roads | 3,001 | 4,582 | 6,053 | 5,449 |
| Maintenance of roads and bridges | 2,933 | 3,410 | 3,103 | 3,049 |
| Land acquisition | 2,320 | 3,021 | 2,718 | 2,999 |
| Maga Neguma rural roads development | 1,800 | 2,442 | 3,796 | 2,987 |
| Bridges | 477 | 2,674 | 1,765 | 1,605 |
| Other roads | 1,065 | 1,911 | 2,792 | 3,492 |

Source: Ministry of Finance and Planning, *Annual Report 2009*.

allocations for infrastructure investments in schools and hospitals. Undoubtedly, fast-tracking poverty reduction and rural development requires improvements in power supply, road networks and transport systems, telecommunication capacity, port and aviation facilities, etc. Nonetheless, investment in developing the country's social capital - through improved education and health facilities - are as important.

A breakdown of public investments by key areas of investment highlights that the priority areas receiving the largest chunks of financing are national infrastructure development projects consisting of roads, bridges, power generation, ports, irrigation, water supply, etc. (Table 10.2). Investments in roads and bridges alone accounted for 25 per cent of the budgetary allocation in 2009. By contrast, allocations for health and education together accounted for only 8.5 per cent of the total. The government's commitment to uplift rural infrastructure is also apparent, with over 17 per cent of total public investment earmarked for this purpose in 2009.

## 10.3 Overall Infrastructure Plan

The overall infrastructure plan of the government has two directions; first, the rural infrastructure plan that focuses on developing the lagging regions of the country, and second, the infrastructure plans intended to rehabilitate the conflict-affected N&E regions of the country. Overarching these is the national infrastructure plans for the country as a whole.

### 10.3.1 National Level Infrastructure Development

As previously mentioned, road development is given high priority by the government. It has been estimated that about 33 per cent of the fuel consumption of the country is wasted due to the poor road conditions.[1] Besides such costs, a poor road network hampers not only access to markets - particularly the connection of rural villages to urban cities - but also adds to transport costs, and ultimately to the international competitiveness of Sri Lanka's export industries.

[1] *Business Today*, January 2010.

**Table 10.3**
**Major Investments in Curative Healthcare (Rs. million)**

| | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Hospital development projects | 1,802 | 2,468 | 4,269 | 5,194 |
| Hospital rehabilitation | 1,685 | 1,983 | 1,831 | 2,899 |
| Medical equipment and machinery | 1,767 | 1,825 | 902 | 3,241 |
| Hospital furniture | 92 | 101 | 65 | 250 |
| Vehicles to hospitals | 94 | - | 168 | 96 |
| Total | 5,440 | 6,377 | 7,235 | 11,680 |

Notes: Includes only central government expenditure.
Source: Ministry of Finance and Planning, *Annual Report 2009*.

During the last few years, the development of the road sector - especially the rural road development network - has received considerable attention. In addition, the construction of several national highways has also been initiated. The Southern highway with four lanes is set to be open for public transport in 2013, the Colombo-Katunayake highway will commence transport in 2012, while the construction of the Colombo Outer Circular road which is under way will connect the Southern highway and the Colombo-Katunayake highway. Several flyovers at the entry points to Colombo city were constructed during the last two years. Under the Maga Neguma programmes, the provincial road network is being developed. It has supported the construction of many entry roads, reconstruction of damaged roads, carpeting of roads, and repairing of tsunami destroyed roads.

Although there seems to be continuous development in the road network, there are deficiencies. Lack of coordination among implementing agencies that can create overlapping and duplication of development work, inadequate capacity of implementing agencies and contractors that lead to cost overruns and insufficient funds for maintenance and improvement of the quality of the road network are some of the key areas of concern. Thus, lack of adequate planning for an integrated road and transport system in the country remains a key challenge that needs to be addressed.

By contrast, capital investment in the key social sectors of health and education remain limited, despite rising demand for improved services. In health services, the challenges in the fields of both preventive and curative health care are on the rise. Changing epidemiological trends, the rising trend of non-communicable diseases such as diabetes, hypertension, heart diseases, etc., and resurgence of certain communicable diseases such as dengue and swine flu are several key challenges that Sri Lanka faces.

Despite the rising demands, total public investment in health amounted to 1.5 per cent of GDP and 6 per cent of total government expenditure in 2009. This is of course in addition to the steady growth in investment by the private sector in the health sector that has taken place over the years. Much of the public investment has been confined to hospital development projects and rehabilitation of existing hospitals.

The development of human capital is recognized as one of the key factors needed for sustained high economic growth in a coun-

[2] Ministry of Finance and Planning, *Annual Report 2009*.

**Table 10.4**
**Expansion of Educational Facilities**

| | 2005 | 2008 |
|---|---|---|
| No. of schools | 9,723 | 9,662 |
| No. of national schools | 324 | 330 |
| No. of provincial schools | 9,399 | 9,332 |
| No. of navodya schools | 388 | 515 |
| Fee-levying private schools | 26 | 36 |
| Non fee-levying private schools | 34 | 34 |
| Special schools | 25 | 24 |
| No. of schools with computer labs | 1,147 | 2,431 |
| No. of schools with English medium classes | 359 | 449 |

Source: Ministry of Education, *Annual Report 2009*.

try. With the liberation of the Northern and the Eastern Provinces, the need for recommencing general education for all school aged children who were affected by the conflict has been identified as a priority. The Ministry of Education has already allocated Rs. 40 million for the rehabilitation of schools in Vavuniya and Mannar districts.[2]

In addition, programmes under the Education Sector Development Framework continued its operations to promote equitable access to basic and secondary education to improve the quality of education and enhance quality of resource allocation within the education sector. Investment in general education is mainly aligned under four major themes; promoting equitable access to basic and secondary education, improving quality of education, enhancing efficiency and equity of resource allocation and maintaining an effective system of service delivery. Funds are channelled primarily under these themes.

Although the education sector in Sri Lanka in the recent past has shown marginal improvements, there are important challenges that need to be addressed. Promotion of equitable access to quality education with required infrastructure facilities, teaching tools, equipment and with better qualified teachers in under-served areas, development of motivation, skills and commitment of teachers ensuring delivery of quality education equally in all schools, ensuring good governance and management in delivery of education at the provincial level, rehabilitation and reconstruction of education and infrastructure of the Northern and Eastern Provinces to address education needs of the children affected by war, etc., are key areas.

### 10.3.2 Rural Infrastructure

The policy focus of developing the economy by strengthening villages as a centre of development has been the thrust of the rural infrastructure initiatives of the government. The main programme - Gama Neguma - has expanded to nearly 13,000 Grama Niladari (GN) divisions by implementing about 30,000 projects at a cost of Rs.13 billion. The rural road development programme - Maga Neguma - has involved the rehabilitation of around 1,350 km of rural roads in 2008/09, with most roads being concreted to ensure durability.[3] The government also continued to develop several small scale infrastructure projects in the rural sector through programmes such as Gami Pubuduwa,

[3] *Ibid*.

**Table 10.5**
**Summary of Public Investment on Rural Infrastructure (Rs. million)**

| | 2008 | 2009 |
|---|---|---|
| **Rural Infrastructure** | 50,130 | 57,000 |
| Gama Neguma | 11,695 | 13,294 |
| Provincial grants | 9,104 | 9,660 |
| North and East community development | 7,472 | 7,385 |
| Uthuru Wasanthaya | 0 | 4,050 |
| Gemidiriya/Samurdhi | 1,674 | 1,772 |
| Tsunami area developments | 1,439 | 1,616 |
| Jathika Saviya | 1,670 | 1,400 |
| Decentralized budget | 1,034 | 1,080 |
| Fishing community development | 666 | 724 |
| Plantation community development | 901 | 677 |
| Trinco integrated project | 497 | 550 |

Source: Department of National Budget.

Gemidiriya and fishing community development, etc.

The Gama Neguma programme has taken the bulk of capital investment in rural infrastructure development since its inauguration in 2006 in 119 GN divisions. It was launched country-wide in 2008 and expected to cover all 14,034 GN divisions in three stages. Individual projects are prepared through the 'Jana Sabha' in each GN division and implemented adhering to an annual plan. These are phased in according to the priority accorded by a village development plan. In 2009, for example, 27,772 projects were approved for implementation in 13,440 GN divisions. Of these, 26,530 projects were estimated to have been completed during the year at a cost of Rs. 9,023 million benefiting over 5 million people.[4] (Ministry of Finance and Planning, *Annual Report 2009*).

**Table 10.6**
**Expenditure on Gemidiriya Sector-wise Development (2009)**

| Sector | Expenditure (Rs. mn.) | People's Participation (Rs. mn.) | Beneficiaries (Nos.) |
|---|---|---|---|
| **Infrastructure Development** | **8,099** | **1,773** | **4,860,312** |
| Roads and bridges (2840.3km) | 5,965 | 1,387 | 3,491,686 |
| Housing | 306 | 83 | 141,656 |
| Power and energy | 584 | 35 | 188,905 |
| Irrigation | 323 | 106 | 375,051 |
| Social and sports | 202 | 32 | 224,599 |
| Water supply and sanitation | 309 | 82 | 196,882 |
| Others | 410 | 48 | 241,533 |

Source: Ministry of Nation Building and Estate Infrastructure Development.

[4] *ibid.*

**Table 10.7**
**Estate Infrastructure Development (2009)**

| | Expenditure Rs. mn. |
|---|---|
| Housing | 213 |
| Roads and bridges | 81 |
| Water supply | 6 |
| Education | 2 |
| Cultural | 18 |
| Social development | 19 |

Source: Ministry of Nation Building and Estate Infrastructure Development.

Given the high incidence of poverty in the estate sector relative to most other parts of the country, several focused programmes are implemented in this sector. The objective is to improve the living standards of the people in plantations in lagging districts such as Nuwara Eliya, Ratnapura, Kegalle, etc. These include programmes to upgrade health and education facilities, estate housing, roads and bridges, and access to water supply and sanitation, vocational training, etc. These programmes are typically carried out with community participation. In 2009, a sum of Rs. 339 million was set aside with the bulk of expenditures intended to improve housing conditions in the estate sector.

### 10.3.3 Infrastructure Development in N&E

The 'Negenahira Navodaya programme' was launched in 2007 with short to medium term goals for implementation. In the short term, the focus was on de-mining, livelihood recovery, reconstruction of damaged social and economic infrastructure, and industrial development. In the medium term, attention is to be on ensuring sustainable development of the region.

Table 10.8 shows the budgetary requirements for the four years under six key strategies with total estimated funds worth Rs. 197,219 million, out of which 52 per cent is intended to be funded by foreign aid.

**Table 10.8**
**Financing Negenahira Navodaya**

| Sector (Rs. mn.) | Total | GOSL | Foreign Aid | Private |
|---|---|---|---|---|
| Resettlement of returnees | 21,466 | 5,366 | 16,099 | |
| Revitalizing productive sectors and regional economy | 33,850 | 19,687 | 6,562 | 7,600 |
| Improving economic infrastructure | 83,850 | 20,951 | 62,855 | |
| Strengthening social infrastructure and fostering social services | 17,895 | 4,473 | 13,421 | |
| Human settlement development | 38,047 | 7,085 | 2,361 | 28,600 |
| Public institution capacity building | 2,154 | 539 | 1,615 | |
| Total | 197,219 | 58,102 | 102,915 | 36,200 |
| Share of financing (%) | 100 | 29 | 52 | 18 |

Source: Ministry of Nation Building and Estate Infrastructure Development, "Eastern Revival Programme".

Economic infrastructure development has been a major component of the programme. The focus has been on improvement of electricity supply, roads, transport, ports, water supply and sanitation and rural infrastructure. Most of the other infrastructure programmes - such as Gama Neguma, Maga Neguma, etc., - have been extended to the Eastern Province initiatives. According to the latest progress review of the programme, 70 per cent of the foreign aid has been utilized for development work which is a relatively high ratio as compared with the foreign aid utilization rate for the rest of the country.[5]

The 'Uthuru Wasanthaya' programme is being implemented in two stages; a 180-day programme and a medium term plan for 2010-11. Presently, the 180-day programme is operational with a focus on de-mining, resettlement of IDPs, reconstruction of damaged economic and social infrastructure, livelihood recovery and employment generation.[6] In this programme, priority is given to Jaffna, Mannar and Vavuniya districts for the resettlement of IDPs.

The strategies introduced under the programme are:

- Construction of an environment suitable for resettlement of the displaced persons
- Generation of livelihood and employment
- Allocation of resources to all communities for balanced regional development
- Reconstruction and rehabilitation of infrastructure facilities
- Poverty alleviation

**Table 10.9**
**Expected External Assistance for Select Sectors in N&E: 2010/11**

| Sector | Donor | Amount US$ Mn. | Province |
|---|---|---|---|
| Roads | China | 423 | North |
| | EDCF/Korea | 102 | North |
| | World Bank | 40 | N&E |
| | ADB | 154 | N/NCP |
| | JICA | 43 | East |
| Railways | India | 733 | North |
| Energy | ADB | 90 | East |
| Water & sanitation | Australia | 119 | East |
| | JICA | 53 | East |
| | ADB | 90 | North |
| Health | India | 1 | North |
| | JICA | 25 | North |
| Education | India | 2 | East |
| | KOICA/Korea | 2 | East |
| | KOICA/Korea | 2 | East |

Source: Ministry of Finance and Planning, *Annual Report 2009*.

[3] *Business Today*, May 2010.

[4] Kelegama, S., 2010, "Reconstruction and Rehabilitation of the North and East of Sri Lanka: Programmes and Constraints", *Economic Review*, Feb/Mar 2010.

The major ongoing infrastructure projects under the programme are the rehabilitation of harbours, roads, and tanks. Unlike in the case of the Eastern Province, the programme for the Northern Province is funded primarily by the government - at a cost of Rs. 3,907 million of a total budgetary requirement of Rs.6,556 million. The balance is expected to be funded by foreign assistance.

## 10.4 Foreign Financing

The improved economic outlook for Sri Lanka in its post-conflict phase - together with the reconstruction and rehabilitation of the N&E - can be expected to see the country mobilizing an increased volume of foreign capital inflows. These may be in the form of foreign direct investment (FDI), bilateral and multilateral loans, overseas development assistance (ODA), etc.

Indeed, new foreign financing disbursements reached US$ 2.2 billion in 2009, surpassing the previous highest level of US$ 2 billion recorded in 2008. Over 75 per cent of the new commitments in 2009 were for infrastructure development, such as power generation, port development, roads and bridges. Besides multilateral assistance from agencies such as the Asian Development Bank (ADB) and the World Bank, Sri Lanka has depended heavily on bilateral assistance from countries such as China and India. For instance, China is funding large scale infrastructure projects in energy, harbours, airports and railways. India too is funding improvements to railways, power, etc. Some of the foreign assistance is earmarked in particular for the N&E (Table 10.9). Again, it is clear that much of the emphasis of foreign assistance is in line with government priorities, concentrating in sectors such as roads, as opposed to capital investment in social sectors such as health and education.

## 10.5 Conclusion

Sri Lanka faces twin challenges of reconstruction and rehabilitation of the N&E whilst addressing infrastructural deficiencies in the rest of the country. Bottlenecks in basic facilities including roads, energy, health, education, etc., have been accumulating due to lack of investment over many years. Having recognized significant regional imbalances, the policy thrust on infrastructure development has been focused on strengthening linkages between rural and urban sectors through better quality infrastructure services.

Infrastructure development in the country requires large volumes of investment. Public investment at present stands at around 6.5 per cent of GDP - relatively high by recent historical standards and set to remain high over the medium term. Undoubtedly financing infrastructure development will pose a heavy burden on government finances. To date, private participation has been very limited, confined to some sectors such as energy, telecommunications and ports. This is despite the introduction of various initiatives such as tax concessions to the private investors for investment in rural areas, especially outside the Western Province.

Getting the private sector into areas such as roads is more difficult. Involving private investors in such infrastructure investments has proven to be difficult in the past, not least because investors are uncertain whether they can earn a reasonable return on their investments. The extent to which the government can successfully encourage public-private partnerships will also depend to an extent on implementing regulatory reforms to protect the interests of both investors and consumers.

# 11. Post-conflict Tourism Development in Sri Lanka

## 11.1 Introduction

Tourism is one of the economic sectors that was hardest hit by the nearly three decade-long conflict in Sri Lanka. There have been heavy fluctuations in tourist arrivals in line with the state of the conflict. Although there was a lack of progress in expanding the tourism sector during the conflict period, the industry had been able to maintain its position as the fourth largest contributor to foreign exchange earnings until the latest phase of the conflict (2006-09). During the latter phase of the military effort, several countries issued negative travel advisories on Sri Lanka that adversely impacted on tourist arrivals. In addition, the global economic downturn also contributed to the decline in tourist arrivals, with the result that tourism earnings dropped to sixth place among other foreign exchange earners in 2008-09.[1] Nonetheless, in 2009, tourism generated around US$ 326 million, and provided employment opportunities to around 52,000 directly and to another 73,000 indirectly.

Following the cessation of the armed conflict in May 2009, the dawn of a peaceful environment and the removal of negative travel advisories saw Sri Lanka experiencing an unprecedented growth in tourist arrivals. It is expected that tourist arrivals will increase to around 575,000 by end 2010, while tourism earnings are forecast to be around US$ 500 million. The current post-conflict environment presents a unique opportunity to develop Sri Lanka as a tourist destination in a sustainable manner and thereby to set an example of how tourism can be a vital source of overall development of a conflict-affected economy. However, having suffered the consequences of a devastating conflict for nearly three-decades, meeting the development needs of the anticipated tourism boom is inevitably a challenging task for Sri Lanka. Therefore, it is opportune to look at how Sri Lanka can take policy initiatives to maximize the advantages of a post-conflict tourism boom and thereby its contribution to support the overall growth momentum of the country in the coming years.

## 11.2 Prospects for Tourism Development

The tourism industry in Sri Lanka has begun to face far better prospects than ever before in its recent history. The country undeniably possesses enormous advantages that make it ideally suited for tourism. An excellent mix of natural and cultural attractions can be used as a basis for development of a variety of tourism activities ranging from small scale tourism to mass tourism. In addition, Sri Lanka is blessed with a wide-ranging ecological and favourable climatic diversity, located within a small geographical area. Almost all regions of the country can be visited within a short duration and, therefore, is ideal for compact holidays. Thus, the future prospects for tourism in post-conflict Sri Lanka stems from both supply and demand side factors.

### 11.2.1 Supply Side Factors

Tourism was virtually non-existent in the North and East (N&E) of Sri Lanka during the conflict period. Following the end of the

[1] Sri Lanka Tourism Development Authority, *Annual Report*, various issues.

conflict, the provinces are now open for commencement of economic activities, including tourism. Out of the total land area of the country, the Northern Province comprises of around 14 per cent while the Eastern Province accounts for approximately 15 per cent. This significant portion of untouched land carries rich natural resources which can be used for tourism. The most striking attraction is long stretches of unpolluted sandy beaches. The provinces are also characterized by a diversity of different ethnic and religious groups. Thus, there are a number of cultural and religious attractions in the areas including temples, mosques and churches.[2] Also, cultural and religious festivals which have been long traditions are important driving factors to attract both foreign and domestic tourists.

Tourism development is highly dependent on existing infrastructure and therefore it is a supply side prerequisite, not only in previously conflict-affected areas, but also in the rest of the country. Lack of quality road infrastructure was a major problem for tourism developments in the N&E even before the commencement of the conflict.[3] Good quality roads, inter-connectivity between roads, rail, and air transport help to reduce travel time of weary tourists who may spend long hours of air travel. The ongoing infrastructure development activities, mainly the improvements in road networks, will create positive spill-over impacts on tourism in the N&E. The massive development projects, such as the establishment of a second international airport at Mattala in the Hambantota district, are expected to create a more conducive environment for increased tourist visits to the N&E. In addition, construction of the Hambantota harbour which is currently under way will pave the way for development of new tourism products such as cruise tourism. The Galle harbour has been identified as having the potential to offer alternative attractions as opposed to conventional beach tourism. In addition, the Sri Lanka Tourism Development Authority (SLTDA) is in the process of establishing necessary basic tourism infrastructure to meet the needs of increased arrivals following the end of the conflict. The tourism developments in the rest of the country will have spill-over impacts on the N&E, which are newly open for tourism.

The peaceful environment has presented a new beginning for tourism development in the rest of the country as well. Arrivals to popular tourist places in the areas bordering the former conflict zone, such as Anuradhapura, Polonnaruwa, Dambulla, etc., were also adversely affected due to perceived security and safety risks. However, with the existing peaceful environment, these areas are also expected to record a notable increase in both foreign and domestic tourism. The national parks which also faced security issues during the conflict period, such as Yala, Wilpattu and Kumana are now open for tourism. As a whole, the favourable peaceful setting will be the most important factor to attract visitors to all tourism regions across the country.

### 11.2.2 Demand Side Factors

With the dawn of peace, Sri Lanka is viewed as a prime tourist destination. For instance, the prestigious New York Times newspaper in its issue on 10 January 2010, listed Sri Lanka as the number one destination among the "Thirty One Places to Go in 2010".[4] In addition, the National Geographic magazine

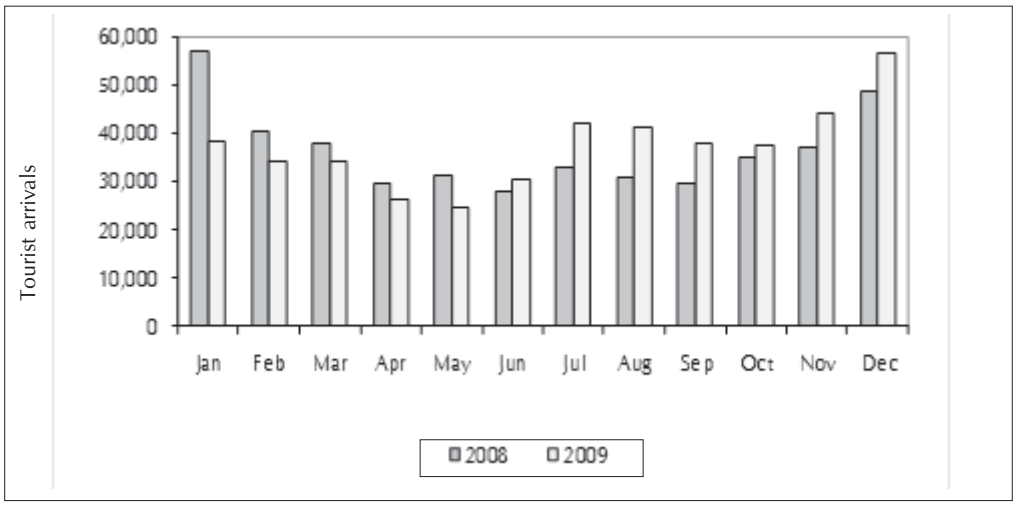
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[2] Such as Seruvila temple, Girihandu Seya, Fort Fredrick in Trincomalee, Thirukoneswaram, Velgam Raja Maha Viharaya, etc., in the Eastern Province and Nagaviharai, Naguleswaram temple, Mulvil Krishnan kovil, etc., in the Northern Province.

[3] Eastern Province Tourism Development Action Plan 2010-2012.

[3] http://www.nytimes.com/2010/01/10/travel/10places.html?em.

**Figure 11.1**
**Tourist Arrivals by Month (2008-09)**




Source: Sri Lanka Tourism Development Authority.

of November 2009 rated Sri Lanka as one of "The 25 Best New Trips for 2010".[5] Such international recognition will have a significant positive impact on tourist demand for visiting Sri Lanka.

The resultant improvement in the climate for tourism since the cessation of the conflict is an encouraging sign, recording a notable increase in tourist arrivals following the end of the conflict in May 2009 (Figure 11.1). As a result, despite a significant drop in tourist arrivals during the first few months of 2009 due to a heightened conflict situation, tourism earnings in 2009 recorded a 2.2 per cent growth when compared to that of 2008.[6] Following the increasing trend in 2009, tourism arrivals in the first three months of 2010 also recorded a remarkable growth.

Foreign tourist arrivals in January, February and March of 2010 have shown a 32, 68 and 54 per cent increase respectively, when compared with that of the same months of 2009. Accordingly, the rate of growth in tourism arrivals during the period January-March 2010 shows around a 50 per cent increase when compared with the same period of 2009.[7] Arrivals from Middle East countries show a 106 per cent increase during the first three months of 2010 as compared to that of 2009. In addition, arrivals from North America, Western Europe, East Asia and South Asia have increased by more than 50 per cent during the same period.

In order to capitalize on the above-mentioned potential and prospects for tourism, Sri Lanka should have an effective tourism policy and strategies in place. The policies and strategies are expected to play an important role in guiding tourism development which is expected to take place with the involvement of a number of stakeholders.

## 11.3 Present Tourism Policies and Strategies

Sri Lanka has set ambitious targets for its tourism development in the coming decades. As envisaged in the 'Mahinda Chinthana' policy

[5] http://adventure.nationalgeographic.com/2009/11/best-new-trips-2010/trips-text.

[6] Central Bank of Sri Lanka, *Annual Report 2009*.

[7] Sri Lanka Tourism Development Authority, *Monthly Bulletin*, March 2010.

**Table 11.1**
**Tourism Forecasts (2010-2020)**

| Year | Arrivals | Employment | | Foreign Exchange Earnings (US$ mn.) | Average Spending per Tourist per Day (US$) |
|---|---|---|---|---|---|
| | | Direct | Indirect | | |
| 2010 | 575,000 | 62,739 | 87,835 | 506.1 | 90.3 |
| 2011 | 700,000 | 68,182 | 95,455 | 600.0 | 97.1 |
| 2012 | 910,000 | 104,545 | 146,363 | 980.0 | 103.9 |
| 2013 | 1,183,000 | 140,908 | 197,271 | 1360.0 | 110.7 |
| 2014 | 1,537,900 | 177,271 | 248,179 | 1740.0 | 117.5 |
| 2015 | 1,999,270 | 213,634 | 299,088 | 2120.0 | 124.3 |
| 2016 | 2,500,000 | 250,000 | 350,000 | 2500.0 | 130.0 |
| 2017 | 2,625,000 | 286,363 | 400,908 | 2880.0 | 134.5 |
| 2018 | 2,756,250 | 322,726 | 451,816 | 3260.0 | 139.2 |
| 2019 | 2,894,063 | 359,089 | 502,725 | 3640.0 | 144.1 |
| 2020 | 3,038,766 | 395,452 | 553,633 | 4020.0 | 150.0 |

Source: Sri Lanka Tourism Development Authority.

statement, Sri Lanka aims to attract 2.5 million tourists by 2016. Accordingly, foreign exchange earnings are expected to rise to around US$ 2,500 million from the current levels of under US$ 500 million (Table 11.1). The set target is expected to bring in significant economic benefits to the country by way of employment generation both directly and indirectly, especially in the Northern and Eastern Provinces.

The present level of arrivals as recorded in 2009 is less than 0.5 million. Therefore, achieving a target of 2.5 million arrivals by 2016 is a challenging task. However, this is viewed as being possible with the present peaceful environment if a proper strategy is undertaken. In this backdrop, it is vital that Sri Lanka has effective and comprehensive policies for tourism development and implementation.

### 11.3.1 Post-conflict Tourism Policies

A national level plan for tourism development is much more important today than ever, in order to undertake the initiatives in a carefully planned and integrated manner. The last Tourism Master Plan had been prepared in 1992 for a period of 10 years. Although there is a pressing need for a national level plan, there is no formal master plan in place at present for Sri Lanka's tourism sector. However, initiatives have been taken to prepare a master plan for tourism for the period 2011-2020. The Sri Lanka Tourism Development Authority (SLTDA) has been assisted by the World Tourism Organization (UNWTO) and initial discussions have already taken place with the involvement of government and private sector stakeholders. The master plan, which is expected to be in operation by 2011, hopes to identify tourist generating markets, demand for diverse types of tourism products, and human resource development needs.

A short term plan - the National Strategy for Tourism - which has been prepared for the period 2009-2012 recommends a set of activities on a four-year rolling programme under ten key strategic targets. The targets are:

- to build a more diverse product range,

- to make Sri Lanka more accessible,
- to attract 1.5 million tourist arrivals per annum,
- to increase yield per tourist from US$ 80 to US$ 130 per day,
- to create an additional 7,000 rooms by 2016 with the right conditions,
- to further develop the East and North-West with the development of existing sites and cities,
- to help traditional markets to grow and open up new markets,
- to exceed world-class service levels and hospitality,
- to increase domestic tourism, and
- to help the micro, small and medium enterprise (MSME) sector to grow.

The private sector is expected to play a prominent role in overall tourism development in post-conflict Sri Lanka. From a regulatory aspect, it is commendable to note that the Tourism Act No. 38 of 2005 which came into operation in 2007 has set the background for bringing together public and private sectors in a close working partnership. This is indeed a good sign for future tourism initiatives in Sri Lanka, where the private sector is given an equal stake in the decision-making process. The Act has made provisions to establish four agencies under the Ministry of Tourism, namely; (i) Sri Lanka Tourism Development Authority, (ii) Sri Lanka Tourism Promotion Bureau, (iii) Sri Lanka Institute of Tourism and Hotel Management, and (iv) Sri Lanka Conventions Bureau. All four agencies are expected to play an effective role in tourism development.

The Board of Investment of Sri Lanka (BOI) has given tax incentives for projects related to tourism. Accordingly, a full tax holiday of 5 years, a concessionary tax of 10 per cent for a further 2 years, and an import duty exemption on capital goods is given to tourism projects with a minimum investment of US$ 500,000. In order to encourage private sector investments in tourism projects in the N&E, the BOI has announced a new initiative of a 15-year tax holiday for investments in hotels, with a minimum investment level of US$ 400,000 and provision of employment to at least 25 persons.[8]

### 11.3.2 Post-conflict Tourism Projects and Initiatives

Several tourism projects are now in place in the Eastern Province which became conflict-free in 2007, although some developments have been delayed due to the necessity of clearing land, given encroachments and abandonment. The major tourism developments are now taking place in Passikudah and Kuchchaveli as per the master plan prepared for each by the SLTDA. Tourism developments in the Northern Province are to commence following the ongoing de-mining process. The SLTDA has indicated that the private sector has shown a keen interest in tourism investments in both provinces, which is indeed an encouraging sign. Short term tourism infrastructure development projects are now under way to provide basic facilities for tourists.

Post-conflict tourism developments have not been confined to the East only, but are taking place in bordering districts such as Puttalam. For instance, the Kalpitiya Dutch Bay Resort Development Project was launched in 2008 to capitalize on the available investment opportunities there. Kalpitiya is of significant historical importance which can be marketed internationally, and is ideal for activities such as whale and dolphin watching. The proposed tourism develop-

[8] Board of Investment of Sri Lanka, 'Incentives for Eastern and Northern Provinces', www.boi.lk.

ment zone of the project consists of 14 islands, of which 9 are state owned and the rest comprised of private and state lands. The state lands are being franchised to private sector investors on long leases. It is proposed to establish 17 hotels with 5,000 rooms and 10,000 beds, and generate 15,000 direct and 22,500 indirect employment opportunities through the project. It is a good sign that the proposed activities under the project include innovative alternate tourism products to traditional mass tourism products such as fishing tourism, deep sea diving, nature-based tourism, beach tourism, sport and adventure tourism, agro tourism, culture tourism, village tourism and event tourism due to its easy access to the airport.

## 11.4 What Should be the Way Forward?

The dawn of peace and resultant prospects for tourism should be treated as a key opportunity to launch sustainable tourism initiatives, rather than relying on unplanned tourism activities targeted only on monetary returns. Sufficient consideration has to be paid to avoid ad hoc tourism developments which took place in some tourism areas in the South of the country, such as Hikkaduwa, and increasingly in Unawatuna.

As highlighted by a number of studies and acknowledged in existing policy documents, diversification of tourism products should receive utmost consideration. The development of a range of tourism products which span from large scale mass tourism to small scale tourism has to be promoted. It is important that tourism products are carefully designed and developed depending on the nature of attraction, and take on board social and environmental aspects of the site under consideration. Accordingly, development of products with regard to ecotourism, community tourism, etc., would be able to attract high end tourists and derive tangible benefits to local communities. Sri Lanka possesses a natural advantage and prospects for ecotourism development,[9] and the potential is much higher with the opening up of the N&E for tourism. There are several conflict-affected countries in the world which have set examples for the adoption of community-based models of tourism during post-conflict periods. Community-based tourism development in Cambodia is one such case (Box 11.1). In this context, it is an encouraging sign that ecotourism development has been one of the targeted actions in the Kuchchaveli tourism project.

There is a greater opportunity to promote tourism in the areas which had direct restrictions on accessibility during the conflict period. Tourism activities have already begun in the Wilpattu and Kumana parks. Some of the wildlife national parks in the country have been over-crowded during the peak months of the year.[10] The development of tourism facilities in the re-opened wildlife areas in the N&E will help to minimize the problem of over-crowding. It is an appropriate time to adopt environmental standards in tourism activities which take place in fragile natural areas in order to minimize negative impacts on the natural environment, and thereby ensure sustainability in the long run.

## 11.5 Conclusions and Policy Implications

It is important to have a holistic and integrated approach for tourism development in the conflict-affected areas of Sri Lanka. Thus, it needs close collaboration amongst all the

[9] Wickramasinghe, K. , 2009, "Ecotourism for Sustainable Forest Management in Sri Lanka", Environmental Economic Policy Series No.12, Institute of Policy Studies, Colombo.

[10] Steele, P., N. Sivakumar, N., H.M.B.C. Herath, 1998, "A Strategy for Nature Tourism Management in Sri Lanka", Environmental Economic Policy Series No. , Institute of Policy Studies, Colombo.

**Box 11.1**
**Community-based Tourism in Post-war Cambodia**

Cambodia had been affected by a civil war for nearly three decades. As in the case of most war-torn countries, the war had seriously damaged most of the social and economic infrastructure, particularly in remote areas. The Cambodian government has paid special attention on tourism in their post-war development programmes with the objectives of promoting rural development and facilitating conservation of natural resource management in war-affected areas. Community-based tourism has been identified as an important tool in this regard. Accordingly, steps were taken to develop ecotourism in a number of selected regions, where the development activities were guided by aaster plans prepared using a participatory approach. The community-based ecotourism initiated in the Kirirom National Park of Kampong Speu province of Cambodia presents a successful example of such tourism initiatives undertaken by the government. The project contained several key features which include construction and renovation of infrastructure and facilities, building the capacity of members and service providers, establishment and marketing of income generation services, keeping the ecotourism site environment-friendly, establishment of a women's association to coordinate livelihood development, etc.

The project has been able to benefit rural communities who were negatively affected by the war. Accordingly, around 500 households in 9 villages were benefited. Direct benefits were accrued to tourism service providers including entrance fee collectors, tour guides, ox-cart drivers, home-stay owners and coordinators, restaurant workers and souvenir vendors. The rest of the community benefited through renovation of infrastructure facilities through a community fund established through ecotourism activities, and from increased access to forest resources. However, the project faced multiple challenges of low level of education among the villagers and lack of experience on ecotourism. The challenge has been met to a large extent through repeated capacity building and education programmes. To date, the project is viewed to be a best practice model of ecotourism in post-war Cambodia since it has been able to contribute towards rural livelihood development and environmental conservation through a community involved approach.

Sources: Khanal, B. R., J. T. Babar (2007), "Community Based Ecotourism for Sustainable Tourism Development in the Mekong Region", Policy Brief, Cuts International, and; Moeurn, V., L. Khim, C. Sovanny, "Good Practice in the Chambok Community-Based Ecotourism Project in Cambodia" (http://www.earthscan.co.uk).

agencies of respective economic sectors. Most importantly, tourism development initiatives should necessarily be combined with ongoing development programmes. At the national level, this can be considered as a component in poverty alleviation, livelihood development and infrastructure development projects.

Lack of infrastructure, including roads, telecommunication, etc., is also a major issue that has to be addressed immediately, not only with regard to tourism, but also for all economic activities of the country. In order to meet the needs of increasing tourist arrivals, it is important to undertake short and medium term plans to provide tourists with at least basic tourist infrastructure in the N&E, where infrastructure development activities

had not been carried out for decades due to the prevailing conflict.

Private sector participation in the tourism industry should be further encouraged. The private sector is playing a major role in Sri Lanka tourism, and it is important to eliminate constraints on private sector investments. In addition, it is important to actively involve local communities in tourism developments from planning to implementation. This will allow the government to minimize possible negative social implications and deliver needed economic benefits to local stakeholders.

Environmental sustainability should necessarily be ensured in the post-conflict tourism developments. The Environment Act provides legal provisions for large scale hotels only, whereas there are no such regulations for small-scale tourism activities. It is urgent that a sound regulatory framework be introduced for tourism (capturing large as well as small tourism businesses), in order to make sure that tourism takes place in an environmentally and socially sustainable manner.

Finally, Sri Lanka should adopt a sustainable approach for the development of its tourist destinations. The initiatives have to be necessarily backed up with effective and careful planning thereby avoiding negative cultural and environmental impacts which have taken place in some of the tourism areas. The sustainable approach has to be embedded in all the tourism initiatives from policies to implementation and monitoring.

# 12. Fishery Sector and Post-conflict Development Challenges

## 12.1 Introduction

Sri Lanka's fishery sector is a major source of livelihood, especially for those residing in coastal areas of the country. Approximately 650,000 people are employed in the sector: 150,000 are engaged in fishing, 100,000 are involved in fishing related services and another 400,000 are estimated to be engaged in fish trade.[1] The sector also contributes to the food security of the country by providing 60-70 per cent of the animal protein requirement.[2] Despite the fact that the fishery sector's contribution to Sri Lanka's GDP remains less than 2 per cent, it has emerged as a dynamic export oriented sector earning foreign exchange to the country. The export earning of the sector was about US$ 185 million in 2009.[3]

This policy brief focuses on the post-conflict development challenges faced by the fishery industry in Sri Lanka. The following sections briefly discuss the impact of the conflict on the fishery sector and emerging post-conflict opportunities and challenges. It addresses the initiatives taken to develop the fishery sector in the post-conflict period and assesses the progress achieved so far. Finally, the discussion concludes with some suggestions to improve the post-conflict development process in relation to the fishery sector.

## 12.2 Fishery Resource Base Sub-sectors

Sri Lanka is endowed with a diverse resource base including territorial sea of 21,500 sq. km and an Exclusive Economic Zone (EEZ) of 517,000 sq km. The country has a narrow continental shelf (22 km of average width) with an extent of about 300,000 sq. km. In addition, Sri Lanka has brackish water (lagoons and estuaries scattered around the island) and fresh water resources comprising large, medium and small irrigation reservoirs, seasonal village tanks, flood lakes, upland reservoirs and river basins. Depending on the diversity of the resource base, spatial differences and differences in fishing methods, the fishery sector is divided into three main sub-sectors: coastal, offshore and inland fisheries.

Coastal fishing is largely a small scale industry, characterized by multi-species and multi-gear fishing, taking place within the continental shelf with the use of different types of fishing crafts (small canoes, beach seine, traditional motorized, traditional non- motorized, fibreglass reinforced plastic boats and one-day boats). The fish catch received from coastal fishing goes mainly towards local consumption. This sub-sector has been the major contributor to national fish production. However, its contribution has been reducing gradually from 90 per cent in 1980 to 52 per cent in 2008, with a marginal increase in 2009 to 53 per cent (Figure 12.1). Fishing pressure on coastal fishing has been increasing and has led to comparatively low fish catches in certain coastal areas. However, there has been a gradual increase more recently, particularly in 2008-09

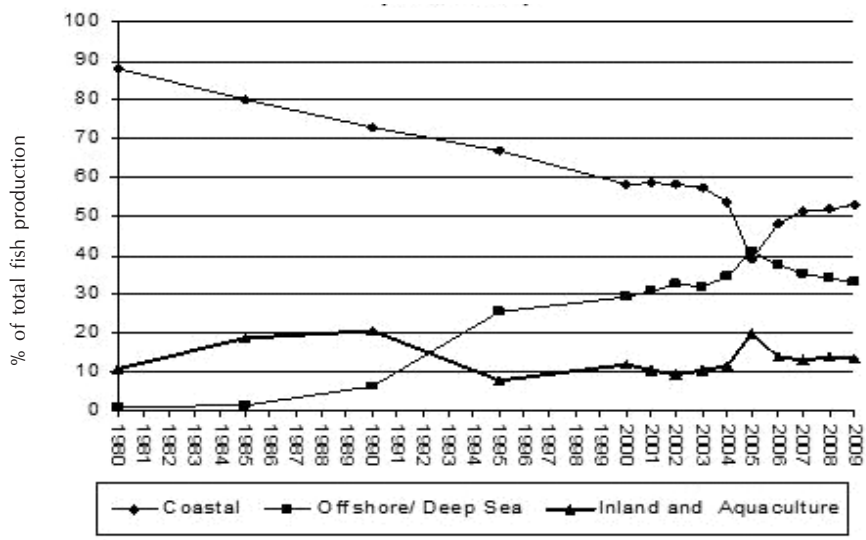
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[1] Ministry of Fisheries and Aquatic Resources, 2007, " Ten Year Development Policy Framework of the Fisheries and Aquatic Resources Sector: 2007-2016".

[2] Department of Census and Statistics, Food Balance Sheets.

[3] Ministry of Fisheries and Aquatic Resources.

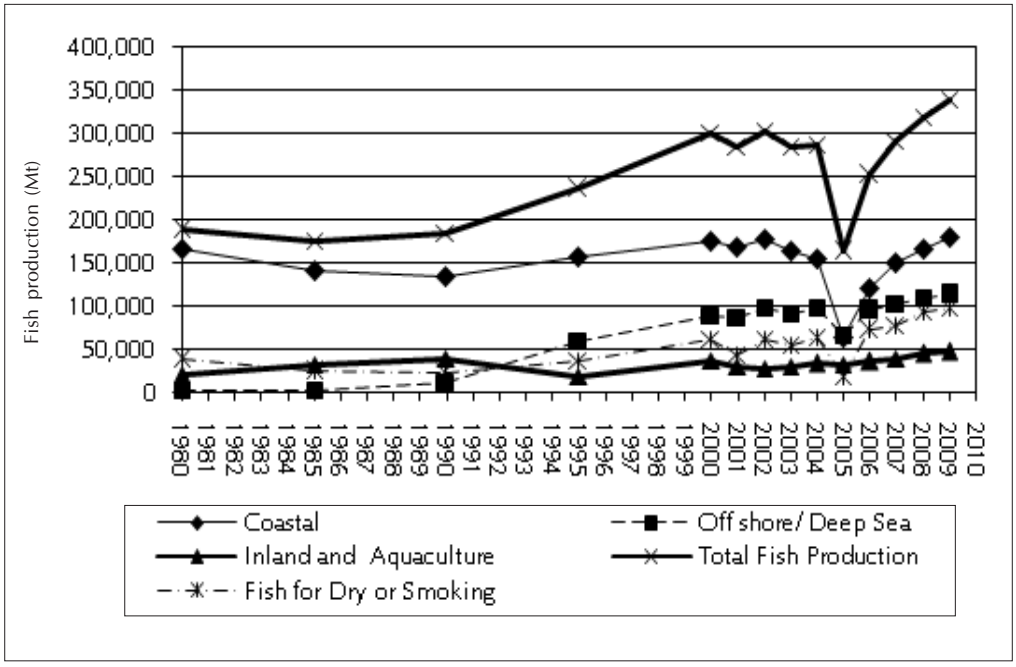
**Figure 12.1**
**National Fish Production by Sub-sector (1980-2009)**




Source: Ministry of Fisheries and Aquatic Resources.

due to the relaxation of fishing restrictions (on fishing time and engine power of boats) in the Northern and Eastern (N&E) areas of the country.

**Figure 12.2**
**National Fish Production by Sub-sector (1980-2009)**

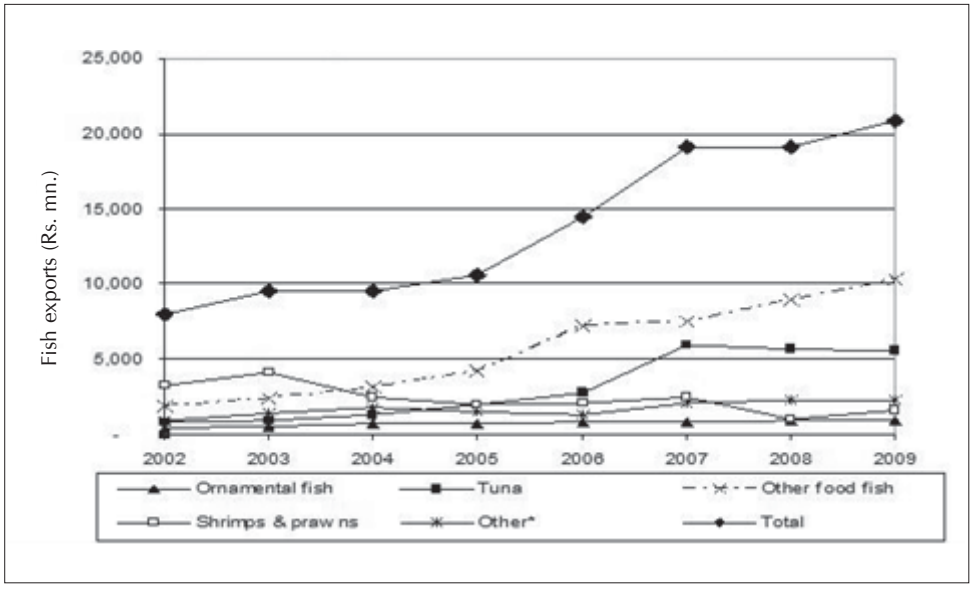



Source: Ministry of Fisheries and Aquatic Resources.

Offshore/deep sea fishing is the most dynamic sector that largely contributes to national fish exports. Offshore fishing takes place outside the continental shelf and beyond, extending to the edge of the EEZ with the use of multi-day boats. In 2008, this sub-sector's contribution to the total national fish production was 34 per cent, with a marginal decrease to 33 per cent in 2009 (see Figure 12.1). Offshore fishing has been facing new challenges due to the global economic downturn, and the suspension of concessions received by Sri Lanka under the EU GSP-plus scheme despite its potential for further expansion. There has been a slight reduction of tuna export earnings in 2008-09. However, it is important to note that total earnings from fish exports have been increasing over the years (see Figure 12.3). In addition, illegal poaching of foreign vessels in Sri Lankan offshore waters has also been a challenge which demands sophisticated systems to monitor such vessels. Further expansion of the sector demands heavy initial investment (to buy multi-day boats) and high operational and maintenance costs which are not affordable by the average fisher folk. In addition, most of the existing multi-day boats are also not equipped with advanced technology to maintain a high quality of captured fish, and for efficient use of fuel. Modernizing the available boats with high technology - for example, by fixing onboard cold rooms instead of transporting tonnes of ice cubes - needs more investment. Also such improvisations are not possible with some existing boats.

Inland fisheries (and aquatic resources) have been identified as a sub-sector which has a vast potential to expand given the availability of inland water bodies throughout the country. In 2008, its contribution to total fish production was 14 per cent (see Figure

**Figure 12.3**
**Export Value of Fish and Fishery Products**




Source: Sri Lanka Customs; and Ministry of Fisheries and Aquatic Resources.

12.1). Ornamental fish is also one of the growing sectors that come under inland fisheries, exhibiting a significant potential to improve in terms of expanding exports. Sri Lanka accounts for 3-4 per cent of the market share of world ornamental fish exports. The sub-sector has been maintaining a healthy growth in the past decade despite slight fluctuations. The industry consists of fresh water, marine and brackish water species collected from the wild.

Apart from sub-sector specific challenges, the overall challenges that face the fishery industry are low productivity, inadequate infrastructure facilities (harbours, landing sites, road network, and transport) and supporting services (supply of fuel, water and ice) at local and regional level, and poor availability of credit facilities. The quality of fish has become a prime concern, and a notable amount of fish catch goes for dried fish production due to poor quality.[4] The quantity of fish used for drying and smoking has been increasing over the years (see Figure 12.2).

## 12.3 Impact of Conflict on the Fishery Sector

Historically, fisheries and agriculture have been the two main economic activities in the N&E of Sri Lanka. The coastal areas in these provinces are rich in marine resources. Before the outbreak of the conflict, the N&E accounted for two-thirds of total national fish production in the country. In 1980, the Northern Province was the dominant contributor (49 per cent) to national fish production while the contribution of the Eastern Province was much less (15 per cent). One of the main impacts of the conflict on the fishery sector was the reduction in the total potential fish yield due to underutilization of available marine resources, especially in the Northern Province which was the main contributor to total national fish production prior to the onset of the conflict.

The total length of the coastal line in the Northern Province is about 480 km. It is estimated that there were about 234 fishing villages with more than 30,000 fishing households in 2007.[5] The province experienced a drastic reduction of fish catch from 1980 to 2000, resulting in its contribution to national fish production dropping to only 10.8 per cent.[6] In 2005, the Northern Province accounted for 15 per cent of the total national fish catch. Thereafter, the fish catch from this province has further declined to 5 per cent (see Table 12.1). The reduction of fish catch was mainly due to massive destruction of boats and fishing equipments due to the tsunami of 2004 as well as disruptions caused by military operations in the region thereafter. There had been restrictions on fishing time at night in most of the coastal areas, as well as a complete ban on fishing in certain areas and water bodies, especially in Jaffna. In addition, there were restrictions on the deployment of distance boats (boats with high engine power). Fishing was prohibited in the northern sea and fishermen were forbidden from venturing into the deep sea. Therefore, offshore/deep sea fishing had not been practised in the Northern Province resulting in underutilization of high productive marine resources. A slight increase of the province's share is observed in 2009 mainly due to an increase in coastal fish production as a result of the gradual relaxation on fishing restrictions.

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[4] The amount of fish that goes for drying and smoking is about 29 per cent of the total national fish production.

[5] MFAR, 2009, "Accelerated Fisheries Sector Development Plan for the Northern Province in Sri Lanka".

[6] Sarvanathan M., 2007, "Economy of the Conflict Region in Sri Lanka: From Embargo to Repression", Policy Studies 44, EAST-WEST Center., Washington.

During the conflict period, most of the fishing families were displaced, especially from the Northern Province to other parts of Sri Lanka and to South India. Many houses of fishing families were destroyed due to the war and the tsunami. As a result, local fishing families were deprived of their livelihoods. In addition to economic hardships and social disturbances, many fishing families and individuals sought refuge in other neighbouring areas. These factors also have resulted in a drastic decline of fish catches from the Northern districts, especially from Jaffna which supplied the lion's share of fish harvest from the Northern Province. The total national fish yield would have been significantly higher if there had been no conflict prevailing in the Northern districts. Under such an environment, increased fish supply would have resulted in comparatively low fish prices and less volatility of fish prices in the country.

The Eastern Province accounts for approximately 20 per cent of the length of Sri Lanka's total coastal line (361 km). According to 2007 estimates, the province had 550 fishing villages consisting of 51,610 fishing households.[7] However, the Eastern Province experienced a different pattern compared to the Northern Province in terms of fish production over the years. The province accounted for 16.7 per cent of the total fish production in 1990. Although the fish catch dropped in 2000-01 and 2005, the fish catch has been on the rise due to the migration of experienced fishermen from the Mannar and Mulaittivu districts of the Northern Province to the Trincomalee district in the Eastern Province.

Apart from economic losses due to the drop in fish catch, especially in the Northern Province, the large scale destruction of infrastructure facilities was highly significant. There was damage to the fishery infrastructure as in the instance of the CENOR complex in Jaffna that employed 1500 people in boat building and fishing gear production which was destroyed during the conflict.[8] Other infrastructure facilities also suffered at the meso, micro and macro levels. The absence of strong institutions with management and

**Table 12.1**
**Fish Production in Eastern and Northern Province (2005-09)**

| | Eastern Province | | Northern Province | |
|---|---|---|---|---|
| | Fish Production (MT) | As a % of Total Fish Production | Fish Production (MT) | As a % of Total Fish Production |
| 2005 | 28350 | 17 | 23880[a] | 15 |
| 2007 | 39760 | 14 | 15530[a] | 5 |
| 2008 | 70520 | 22 | 14480[a] | 5 |
| 2009 | 77310 | 23 | 21880[b] | 6 |

Notes: a: Fish catch from inland and aquaculture fisheries is negligible in Mulaittivu and Kilinochchi districts; b: Marine fish catch data was not available for Mulaittivu and Kilinochchi districts.

Source: Ministry of Fisheries and Aquatic Resources.

[7] Ministry of Fisheries and Aquatic Resources, "Fisheries Statistics 2007".

[8] Siluvaithasan, A.S. and K. K. Stokke, K, 2006, "Fisheries under fire: Impacts of War and Challenges of Reconstruction and Development in Jaffna Fisheries, Sri Lanka", *Norwegian Journal of Geography*, Vol. 60, pp. 240-248.

administrative capabilities to manage fishery resources pose several complex challenges in post-conflict development, especially in the Northern Province.

In addition to economic losses, loss of social capital in the N&E also pose additional challenges in rebuilding the affected communities. Fishery cooperatives in these two provinces remained comparatively strong. However, due to deaths, displacements and migration of fishing individuals and families, fishing communities lost such community based social capital which is very important for those who need collective action as they depend on open access resources such as fisheries.

## 12.4 Post-conflict Development Opportunities, Potential and Challenges

The post-conflict environment provides several opportunities for further development of the country's fishery industry. The removal of the ban on fishing in the night and lifting of restrictions on boats with high engine power have already resulted in a marginal increase in coastal fish catch in both provinces (see Table 12.1). In addition, fish resource stocks in the N&E are likely to have increased due to underutilization of fishery resources in these areas during the conflict period. Optimum exploitation of fishery resources in these areas will provide opportunities for employment as well as a significant increase in the fish supply for the country, provided that the necessary infrastructure and supporting services are available. Offshore fishing in the Northern Province has not been practised for the last two decades. Therefore, Northern districts have ample potential for offshore/deep sea fishing which will eventually help to enhance foreign exchange earnings. Both offshore and coastal fishing are seasonal. Therefore, migrating into other parts of the country during the off-season has been the practice of many fishermen. However, due to the conflict situation that prevailed in the N&E areas, such seasonal migrating activities have been limited only to certain areas. Since there are no such limitations at present, migratory fishers can move into different parts of the country for fishing in order to enhance their income. Additionally, the availability of many lagoons and fresh water irrigation tanks in the N&E also has the potential to improve inland fisheries and aquaculture to a great extent.

The devastating impacts of the conflict also pose several complex challenges in developing the country's fishery industry in a sustainable manner. Devastation of fishery and other related physical infrastructure is the main challenge as reconstructing these facilities demand high capital investments and comparatively long time horizons to complete. Infrastructure facilities at meso, micro and marco level are prerequisites for the development of the sector from landing site till the fish reaches the end market, either local or foreign. Development of required supporting services and of extensive network of fish sale centres and transportation facilities with required storage facilities also have become challenging in the absence of physical infrastructure facilities. The absence of such facilities raises several issues in terms of improving fish quality and reducing the wastage of fish catch in these areas. Upgrading the existing fishing fleet with modern technology for offshore fishing in the Eastern Province to improve fish quality and wastage also pose challenges due to high cost and practical difficulties of modifying existing boats.

The loss of fishing assets such as fishing craft, gear, and nets were identified as one of the main impacts of the conflict on the fishery sector. Most of these destroyed assets in the Eastern Province had been replaced as a result of post-tsunami donations. However, most of the fishing gear received for small boats as well as one-day boats is not up to

the required quality. Some are old and need to be replaced to avoid frequent breakdowns. The cost of maintaining boats with such engines is comparatively high. On the other hand, fishing in the Eastern Province has been increasing steadily over the years (see Table 12.1) and fishing pressure in the eastern coast has been increasing. Therefore, there is only limited room to expand coastal and offshore fishing by increasing the fishing fleet. However, there is considerable room for improving the quality and reducing the wastage of the fish caught in coastal areas of the Eastern districts. In addition, the fishing fleet used for deep sea fishing in the Eastern Province has not been updated with modern technology. This is mainly due to upgrading of one-day boats into multi-day boats with certain adjustments by the fishermen in these areas in order to reach the deep sea. Fixing modern facilities such as cold rooms is not possible in such boats. Poor handling of fish and lack of modern technology have resulted in a large percentage of fish being of poor quality, while only a small percentage of the fish catch ends up in the export market. On the other hand, since there is more pressure on coastal fishing, inland fisheries and aquaculture practices have to be promoted as alternative income generating activities given the availability of inland water bodies and irrigation tanks. Creating awareness, changing attitudes, training to carry out new activities, feasibility testing and planning are some of the challenges in promoting such new fishing activities in the province.

Post-conflict development of the fishery sector in the Northern Province poses several different challenges. Lack of information on fishery households, fishing fleet, fish stock, other fishery related resource stock, geo-physical information, etc., make post-conflict development more difficult and complex. The issues that arise from the absence of information are many, including difficulties in planning development interventions, testing feasibility of introducing non-conventional fishery activities, selection of right beneficiaries to provide required fishing assets, deciding the optimum number of fishing assets to be provided for each district, etc.

The available data on fish catch from the Northern Province shows a drastic decline of its contribution to the national fish production (see Table 12.1). Massive destruction of fishing assets and lack of access to fishing sites have been the primary causes. Thus, there is scope to expand the coastal fishing sector to a certain extent by providing craft for the fishers who do not currently own any. However, due to poor availability of information, it is difficult to decide on the optimum levels. Targeting and selecting the right beneficiaries to provide fishing assets has been challenging due to poor availability of systematic information, displacement and migration of fishers and fishing families. Given this challenge in the Northern Province, beneficiaries have been selected with the consultation of fishery inspectors (FI), Grama Niladhari officers, community based organizations (CBOs) and fishery co-operatives.[9] It is important to note that there can be severely affected, displaced and marginalized sections of the communities who are needy, but have no access to community level social networks. Delays in resettling fishery households also pose problems in identifying and delivering fishing assets to the affected fishers.

Offshore fishing in the Northern coast has not been practised for many years due to security restrictions imposed during the conflict period. Provision of multi-day boats is essential for the exploitation of offshore re-

[9] See section 12.5.2.

sources which have high potential due to underutilization over the years. Identification of beneficiaries to provide expensive multi-day boats with modern technology to promote offshore fishing in the Northern Province is more challenging due to high maintenance costs as a majority of fishers cannot afford to maintain such boats. Poor availability of formal credit facilities for fishery households due to the risky nature of the activities and difficulties in finding collateral are also constraints.

Building social capital, especially in the Northern districts pose several challenges in terms of identifying communities with common interests, leadership skills, facilitating cooperation, accessing the local level capacity building requirements and empowering them in decision making.

## 12.5 Post-conflict Development Initiatives

This section briefly discuses the main programmes that have been implemented by the Ministry of Fisheries and Aquatic Resources (MFAR) in collaboration with other fishery related institutions and relevant stakeholder institutions to develop the fishery industry in previously conflict-affected areas.

### 12.5.1 Fisheries Sector Development Project in the Eastern Province

The development of the Eastern Province is being carried out by the government under the Eastern Revival Programme (2007-2010) with the coordination of government agencies, donors and other relevant stakeholders.[10] The programme consists of plans to resettle internally displaced persons (IDPs), revitalize productive sectors, improve economic and social infrastructure, develop human settlements, rebuild the capacity of public institutions, etc. Under revitalizing productive sectors, fishery sector development in the Eastern Province is to be carried out by the MFAR in collaboration with other fishery related government institutions, donors, and local and international NGOs. The main objective of this programme is on diversification of fish production in the Eastern Province by focusing on exploiting aquatic resources in a sustainable manner, encouraging deep sea/offshore fishing with more efficient fishing methods and reducing pressure on coastal fishing. In addition, use of modern technology to reduce post-harvest losses, and rehabilitating and rebuilding infrastructure facilities such as fish landing and harbour facilities, transport storage and market facilities in the area are also key objectives. Several projects have been initiated such as development of culture based fisheries in perennial tanks and seasonal tanks in three districts in the East, development of cage culture of sea bass (in Nawalady, Batticaloa) and fry fingerlings (in all three districts), establishment of shrimp hatcheries and a model farm in Batticoloa, preparation of a zonal plan for shrimp farming in Trincomalee, etc. Several projects on improving fish landing sites in the three districts have been implemented and a few of them have been already completed,[11] while land clearing has taken place in some places.[12] Rehabilitation of fishery harbours (Valachchinai, Cod Bay), construction of anchorages, construction of fish retail outlets, provision of facilities at the Trincomalee fishery harbour, supply of fibreglass fish boxes (Trincomalee), provision of ice plants and cold rooms have been implemented under this programme. In addition, strengthening fishery cooperatives, establishment of a fishery bank and development of alternative income generating opportunities

[10] Eastern Revival Programme - http://www.neweast.lk/development/fisheries.html.

[11] For example, Nindavur in Ampara, and Mutur and Kinniya in Trincomalee.

[12] In Paameenmadu, Kallar in Batticaloa , Ulla in Ampara and Pattiduwa in Trincomalee.

have also been carried out. It is interesting to note that more than 90 per cent of projects planned under fishery sector development in the Eastern Province have been completed.

### 12.5.2 Fishery Sector Development Programme in the Northern Province[13]

In the Northern Province, the fishery sector programme is being carried out under two main components: a short term 180 day accelerated programme and a two year medium term development programme. The main objectives are re-establishment of socio- economic and environmental losses that occurred due to the conflict, re-establishment and strengthening of the institutional set up related to fisheries, restoration of livelihood activities of IDPs and war affected communities, increasing fish production and ensuring food security, rebuilding and modernizing fishery infrastructure, promoting sustainable utilization of fishery and coastal resources and promoting exports. Planning and implementation of this programme is being done with the use of an integrated institutional mechanism where all fishery related government institutions,[14] CBOs and fishery cooperatives take part in the process by identifying gaps, and programmes. The MFAR coordinates with district and divisional secretariats, the Ministry of Finance and Planning and other relevant authorities. Activities under the 180 day accelerated programme are provision of fishing gear and craft, financial assistance to repair existing boats, provision of boxes to store fish and bicycles (Mannar), cold storage facilities, and commencement of fish purchasing/selling centres. In addition, re-establishment and strengthening of local level institutions under the MFAR, fishery cooperatives (Mannar and Jaffna) and provision of short term training (Mannar, Jaffna and Vavuniya) on skill development and stocking of fish fingerlings in seasonal and perennial tanks (Vavuniya and Kilinochchi) are also important projects that have been implemented. Research on non-traditional aquaculture on sea bass, mollusk, sea cucumber, sea weeds are also being carried out to identify suitable locations in Jaffna and Mannar. The medium term two-year development plan has proposed several projects such as the rehabilitation of fishery harbours, anchorages, introduction of multi-day boats, conducting a fishery census, registration of fishing boats and issuing fisher identity cards, preparation of zonal plans for shrimp farming and establishment of fish breeding.

## 12.6 Conclusions and Recommendations

While implementing several macro level development projects such as constructing new fish markets and harbours in many districts of the N&E, the MFAR in collaboration with other fishery related institutes, donors and NGOs have been making progress in post-conflict revival of the fishery sector. It is important to note that most of the projects planned under the fisheries sector in the Eastern Province have been effectively targeted to bridge the required gaps and have been completed. In addition, initiatives to promote non-conventional commercial level fishing activities in both provinces is also an important and timely step taken by the MFAR as the fishing pressure in most of the areas is high. However, efforts should be made to further improve the quality of fish. Conducting more research on post-harvest handling, reducing wastage, conducting training programmes for the fisher community regarding the quality and upgrading of existing ves-

[13] MFAR, 2009, "Accelerated Fisheries Sector Development Plan for the Northern Province in Sri Lanka".

[14] Department of Fisheries and Aquatic Resources (DFAR), National Aquatic Resources Research & Development Agency (NARA), Ceylon Fishery Corporation (CFC), Ceynor Foundation Ltd (CEYNOR), National Institute of Fisheries and Nautical Engineering (NIFNE), Ceylon Fishery Harbour Corporation (CFHC), Coast Conservation Department (CCD), National Aquaculture Development Authority ( NAQDA).

sels as far as possible, and providing support for fishers - especially multi-day boat owners to obtain credit facilities to upgrade their boats - are steps that can be taken to improve fish quality.

Post-conflict development of the fishery industry in the Northern Province is more challenging. It requires more financial resources and will likely take longer to recover due to the absence of supporting infrastructure and marketing facilities. The planning and implementation mechanism put forward by the MFAR in the North is well suited to the existing context. However, consulting more communities and households at various stages of the development process is essential in order to select beneficiaries for development interventions without leaving poor vulnerable groups marginalized. In this regard, data collection agencies have to make a concerted effort to establish mechanisms to collect data. This should include past data where available as well as ensuring the regular collection of current and future data. Socio-economic surveys on fishery households, fishing fleet and existing fishery activities have to be undertaken as early as possible as such information will be valuable inputs to shape and modify existing plans and ongoing development activities. In addition, the fishery industry needs more information on available resource stocks and the potential in both marine and inland water resources, especially in the Northern Province. Such information provides the basis for planning and deciding on the increase of the fishing fleet and the introduction of new fishery activities. Surveys on resource stocks and research on the feasibility of new non- conventional fishing activities are of prime importance to be undertaken without further delay.

Efforts to develop and strengthen CBOs, such as fishery cooperative societies, are also important given the lack of availability of formal credit facilities. However, it should go beyond by strengthening CBOs to perform more tasks such as sustainable fishery resource management, information and knowledge sharing, resource sharing, collective decision making, etc. Strong fishery cooperatives would be potential beneficiaries of multi-day boats in expanding offshore fishing in the Northern Province.

# 13. Policy Challenges for Industrial Development in Post-conflict Sri Lanka

## 13.1 Introduction

Emerging out of a protracted conflict, and moving in to a new era of economic progress, Sri Lanka is now ready to place a stronger focus on developing its industrial capacity in contributing to its broader development objectives. Without the stifling effects of political instability and with the dawning of a peaceful environment, Sri Lanka can seize on this opportune moment to re-energize its manufacturing potential.

As a result of the unfavourable environment that prevailed for nearly thirty years, industrial development in Sri Lanka did not reach the heights that many of its regional competitors did. Although the country did grow its manufacturing base to some extent during this time, particularly in textiles and garments, rapid industrialization was not possible. The volume of foreign direct investment (FDI) that the country attracted into the industrial sector was largely of the 'footloose' type, and not the high-value type, such as electronics and automobiles industries. Multinational corporations (MNCs), which often lead these types of investments, were unwilling to set up in Sri Lanka, mainly due to the instability related to the conflict. As a result of not being able to attract this 'right' type of FDI that was desired, the manufacturing sector did not have the impetus to move further and further up the value chain.

However, in the current post-conflict environment, Sri Lanka has a renewed opportunity to build its higher-value industrial potential, attract better foreign investments, and boost its production of higher income-earning exports. Yet, while the uncertain security and political environment did have a stymieing effect on industrial progress, various other issues also did, and continue to contribute to the lacklustre performance of the manufacturing sector. These include inadequate infrastructure, regulatory impediments including rigid labour laws, lack of clarity in industrial policies, high cost of finance (in part due to crowding out by state borrowing), unavailability of skilled workers, deficiencies in technological capability, and institutional inefficiencies.

This policy brief will examine these historic and existing issues, and provide an outline of policy challenges for the future.

## 13.2 Industrial Sector Performance

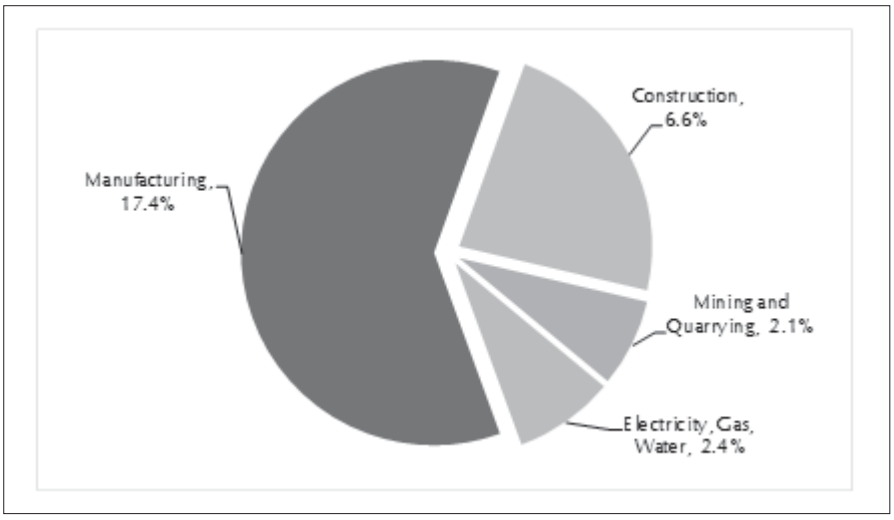
### 13.2.1 Contribution to the National Economy

The share of industry in GDP has grown modestly in the last several decades, from 26 per cent in 1990, to 29.7 per cent by 2009.[1] In recent times, the structure of GDP has changed only marginally in favour of the manufacturing sector, but it continues to employ around 25 per cent of the labour force. The industry sector had not progressed as quickly as the services sector has, which has grown from contributing 47.7 per cent to GDP in 1990 to 57.7 per cent in 2009.

As for its contribution to growth, in 2009 the industrial sector contributed towards 40

[1] Latest estimate following the 2002 base year revision by the Department of Census and Statistics.

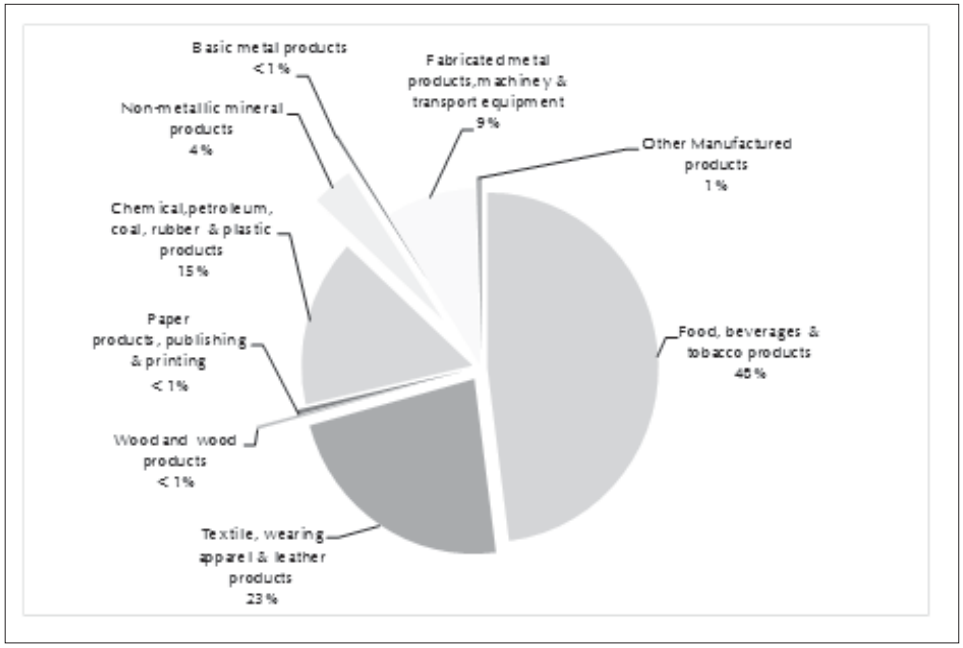
**Figure 13.1**
**Composition of Industry Sector in 2009 (percentage share of GDP)**




Source: Central Bank of Sri Lanka, *Annual Report 2009*.

per cent of GDP growth. Its contribution to overall exports has also grown steadily, from 33.8 per cent in 1980 to 54.2 per cent in 1990 and to 75 per cent by 2009. By 2009, the sub-category of 'factory industry' contributed around 15.8 per cent to GDP.

**Figure 13.2**
**Value Added in Manufacturing by Activity in 2009 (2002 constant prices)**




Source: Central Bank of Sri Lanka, *Annual Report 2009*.

Although more recently other industries have emerged, much of the industrial sector has been, and continues to be, led by the apparel industry which benefited from a quota regime and preferential market access, as well as comparatively low labour costs. As some of these advantages gradually diminish, it is now imperative that the industrial base is expanded and moves towards industrialization in other categories.

It is widely recognized that the manufacturing industry sector can make a more significant contribution to Sri Lanka's economic development process, as it has a more pronounced employment-generation potential vis-à-vis other sectors such as services, and in meeting the changing aspirations of the youth. Faster growth in the sector can also lead to more export income for the country. Fast-tracking industrial development, therefore, becomes an important component in propelling the country towards lowering unemployment and rapid economic progress in the post-conflict phase.

### 13.2.2 Lacklustre Industrial Growth during the Conflict Era

The volatile political and security climate that characterized a large part of the last thirty years was largely responsible for the lack of rapid growth in significant private sector undertakings across the country. While private enterprises – particularly those based in the Western Province and largely unaffected by the direct fighting – continued to operate and grow modestly, the private sector was hesitant in moving to other regions due to the various other business climate impediments that prevailed then, and continue to prevail today. A cursory look at the provincial growth figures over the last three decades reveals the heavy bias of production towards the Western Province, with all other regions lagging behind. While this is changing gradually, industrial development has the potential to fast-track the 'catch-up' of the lagging regions to the level of the Western Province.

The uncertain climate was a disincentive to private investment in general and capital-intensive industrial investment in particular. It is widely acknowledged that the perceptions of uncertainty do govern the spirits of the private sector to a large extent. This was evident by the surge in stock market activity, IPO listings, and new expansion undertakings in the months following the end of the conflict. Security issues affect the long-term decision making of firms, impact on present and future profitability, and thus lead to hesitation to undertake any significant new or expansionary investments.

The political environment is a crucial determinant of industrial development, and the importance of promoting a business climate generally conducive to entrepreneurship, investment, production, and innovation cannot be stressed upon enough. Economic policy plays an important signalling role in attracting investments to the industrial sector. The speed and nature of industrial progress in a country is often influenced by the effectiveness of policy measures which impact industrial activity in the country - from the regulatory framework to tax policy and investment incentives.

In summary, the growth of the industrial sector during the years of the conflict were hampered primarily by the unstable security environment, government attention being placed elsewhere (i.e., on tackling the armed conflict), and thus, the state machinery having limited policy space to promote industrial development in a sustained and strong manner.

## 13.3 Sri Lanka's Industrial Development Journey

The quest for greater industrialization in the Sri Lankan economy has been an area of fo-

cus by nearly all governments since the country attained independence. Various policy prescriptions were attempted towards fulfilling this, each with differing degrees of success. Industrialization in the period between independence and 1977 was characterized by import-substitution industries producing basic industrial products, mainly by state-run manufacturing companies. This was coupled with high import tariffs and other protectionist measures. These policies, however, failed to deliver. By 1977, most import substitution industries had become largely import-dependent, not saving any foreign exchange and functioning at below capacity level.[2]

Following the 1977 liberalization of the economy, there was a sustained focus on export-oriented industrialization, accompanied by various incentives. The open trade regime was allowed to dictate industrial development, and so trade policy became the main instrument of industrial promotion in the country until the late 1980s.[3] FDI played a major role in export-led industrialization and firms with FDI contributed substantively to the export expansion.[4] There was a notable rise in industrial output in general, and manufactured exports in particular. Yet, in the decade following liberalization, industrialization was very much urban-biased, with nearly 80 per cent of industrial output concentrated in the Western Province. It also remained relatively undiversified with 60 per cent of industrial output originating from the textile and garment sector alone.[5]

To address some of these issues, in 1989 Sri Lanka released its first industrialization policy statement. To implement this, an Industrial Promotion Act was enacted in 1990 which created an 'Industrialization Commission' tasked with devising suitable policies and addressing identified impediments. These efforts were bolstered by a second wave of liberalization in the early 1990s which included liberalizing FDI flows, supported by a reconstituted Board of Investment (BOI). Incentivized schemes such as the '200 Garment Factory' programme were initiated to take industries to rural areas. On the whole, however, geographically-spread industrial development was slow to take off due to the unsuitable business environment that existed, mainly characterized by a lack of suitable infrastructure.

Sri Lanka's experience with export-oriented industrialization was often referred to as a 'late comer's story' compared to most East Asian countries,[6] as Sri Lanka transitioned to this strategy around a decade 'late'. However, unlike the Newly Industrialized Economies (NIEs) of East Asia, with their skills and technology upgrading and industrial diversification, Sri Lanka's manufactured exports consisted mainly of low value-added products that utilized low-skill/low cost labour.

Market liberalisation has certainly led to a greater 'internationalization' of Sri Lankan industries, with many manufactured exports enjoying valuable positions in foreign markets. In many manufactures like apparels, rubber products, fabricated metals and ceramics, Sri Lankan industries have improved their technological capability, skills, and product quality to match international standards. However, this is limited to a small

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[2] Athukorala, P., 1986, 'The Impact of 1977 Policy Reforms on Domestic Industry', *Upanathi*, Vol.1, No.1.

[3] Kelegama, S., 1992, "Liberalization and Industrialization: The Sri Lankan Experience of the 1980s", Industrialization Series No.2, Institute of Policy Studies, Colombo.

[4] *Ibid*.

[5] Kelegama, S., 2006, *Development Under Stress: Sri Lankan Economy in Transition*, Sage Publications, New Delhi.

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

**Box 13.1**
**An Overview of Recent Policy Thrusts for Industrial Development**

The 1995 Policy Statement of the People's Alliance (PA) had a considerable industrial development component that was spearheaded by the Ministry for Industrial Development. Plans were instituted to established 20,000 small and medium industries, employing over 250,000. There were also several divestitures of state-owned industries during this regime. There was a focus on expanding the labour-intensive manufacturing sector, while pursuing technology-intensive manufacturing. It was in this era that the National Productivity Decade was launched, the National Productivity Secretariat was set up, and several initiatives to improve productivity in the country's industry sector were championed. Alongside this, the need for skills upgrading to cater to the industrial sector was identified, and the Skills Development Fund was launched, to provide incentivized grants to private firms undertaking skills training programmes for the workforce.

Under the 'Regaining Sri Lanka' vision of the United National Front (UNF) elected in December 2001, the policy focus shifted to promoting private investment in general (including FDI), improving Sri Lanka's competitiveness and productivity in all spheres. However, there was no specific focus for industrial development, and especially none to promote industries in the regions outside the Western Province. However, a clear recognition of the contribution that productivity improvement can make in enhancing Sri Lanka's manufacturing competitiveness was made. Productivity improvement was recognized as not only an issue of labour productivity, but one that permeated the power sector (high energy costs), lands (restrictive land use policy) and business regulatory frameworks (complex and archaic tax laws and other regulatory constraints). To action this, a Productivity Programme was initiated, and the National Competitiveness Council was mobilized as the thrust forum to push for required reforms, be it in industry or in other sectors. However, within the industry sector much of the focus, at least in terms of the stated plans, was towards the apparel industry.

The 'Rata Perata' vision of the United People's Freedom Alliance (UPFA) government in 2004 also had an industrial development focus, and continued on the work that began in 1995, but more importantly it saw the setting up of the National Council for Economic Development that consisted of industry clusters to improve competitiveness of several thrust industries (garments, ceramics, gem and jewellery, etc.).

Under the 'Mahinda Chinthana' vision set out by the UPFA in 2005, a plan to set up 12 new industrial investment zones in 12 small townships was envisaged. Additionally, 300 new industries in each Divisional Secretariat, with five year tax holidays for such investments exceeding Rs. 50 million was proposed. Policies to promote greater industrialization in the minerals sector, and expansion of the apparel industry were to be pursued. A particular focus of the policy framework was the emphasis placed on promoting the domestic production base, and giving priority to domestic industrialists, including those in the small and medium sector. Domestic export-oriented industries which source 75 per cent of their raw materials locally were to be granted a 5 year tax holiday.

number of firms, and the key is to propagate this more broadly.

While there has been an expansion of the import-substitution industry sector, with a focus on quality - particularly in the categories of instant food products, biscuits, confectionery, beverages, milk food, clothing, plastic items, paints and ceramics - the limited size of the domestic market remains a constraint to rapid growth of this sub-sector. Nevertheless, there are a large number of imported consumer items that still have the potential to be produced by import-substituting industries in Sri Lanka.

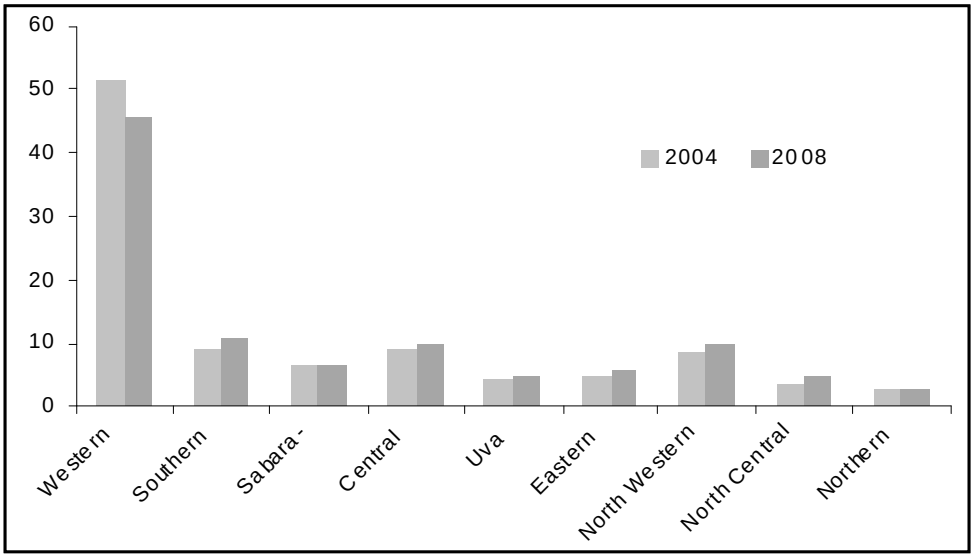
In the near term, however, the growth in the industrial sector is likely to come largely from the growth of industrial exports. Despite the end of the quota regime in 2005, apparel exporters have successfully managed to exploit domestic design and product development capabilities to carve lucrative niches abroad. It will be increasingly important to replicate this success in other export-oriented industries, as the country's manufacturers attempt to move from low value-added to high-value added export products.

### 13.3.1 Current Industrial Development Policy Framework and Ongoing Strategies

The current industrial development policy framework has been broadly set out under the government's latest vision statement 'Mahinda Chintana: Idiri Dekma', and moves along similar strategies set out in 2005 as highlighted in Box 13.1.

To lead this vision, there are several government agencies involved in industrial promotion in varying capacities, but is principally spearheaded by the Ministry of Industries. The main focus of the development strategy at present is broad-basing growth by stimulating growth in lagging regions. For decades, the Western Province has dominated the country's economic geography, contributing to half of the country's GDP. However, there has been a marginal shift with some of the other regional economies making inroads in more recent years (Figure 13.3).

**Figure 13.3**
**Provincial GDP Shares - 2004 vs. 2008 (percentage)**




Source: Central Bank of Sri Lanka, *Annual Report 2009*.

In the industrial sector particularly, there is an ongoing thrust to take industries to other regions, under the present development vision. A joint scheme recently launched by the Ministry of Industries and the BOI - 'Gamata Karmantha' (or 300 Enterprise Programme) - is aimed to develop industrial potential in rural areas, by mapping the unique resource and skill advantages inherent in each area and then leveraging on them to develop relevant industries.

Finance has been a perennial stumbling block for domestic industrialists in their growth efforts, either due to its cost, or in the case of regional businesses a lack of access to large loans. The state-run Lankaputhra Development Bank has been mandated to provide this finance on sub-market rates to domestic industrialists. Moreover, state banks, private development banks and also donor re-financed concessionary loan schemes have been mobilized to provide finance for industries in lagging regions. There also exist some special loan schemes for the revival of, and establishment of new industries in the Northern and Eastern Provinces.

The small and medium enterprise (SME) sector has often been touted as the backbone of the private sector in the country, and is being given priority under the current policy framework. The National Enterprise Development Authority (NEDA) was set up to assist this sector, and ease the constraints that are holding it back. Together with the Industrial Development Board (IDB), NEDA is involved in encouraging small scale industrialists to adopt a product-based cluster approach to build scale economies and improve technical capacities, and then help these industries 'internationalize' - i.e., link up with regional and global supply chains. Moreover, recently a committee for Small and Medium Industry (SMI) development was appointed and was tasked with looking into the problems of, and prospects for expanding this sector and increasing its contribution to overall industrial sector growth. Having rightly identified 'access to finance' as a key impediment to SMI growth, this committee includes representatives from the banking sector as well.

## 13.4 Opportunities and Constraints in Post-conflict Industrial Development

Infrastructure remains a constraint to industrial development country-wide, and as a result, much of the large industrial production facilities are concentrated in the Western Province. As a second-best solution to expanding industries to other regions, several Export Processing Zones and Industrial Estates have been established, which offer improved infrastructure within the zone and good road connectivity to the country's international port and airport. The Achchuveli Industrial Zone in the Jaffna district, which is being developed under a partnership between the United Nations Office for Project Services (UNOPS) and the Ministry of Industries, and the Kappalthurai Industrial Zone in the Trincomalee district, offer much encouragement in the prospects for industrial development in these previously conflict-torn regions. Already some industries have begun setting up in both these zones. As physical infrastructure in these areas requires much improvement, the rapid development of infrastructure-ready zones like these will undoubtedly be an important first step in reviving the industrial potential and in creating employment opportunities. However, relevant skills development must go hand in hand, so that the labour force is able to take advantage of the opportunities arising from these developments.

Additionally, there is vast untapped capacity in the agriculture and fisheries sectors in the Northern and Eastern regions. Following the dawning of peace, restrictions both in fishing (fishing areas, durations, permitting radio tracking, multi-day fishing, high-speed

out-board motors, etc.) and agriculture (lands becoming unlocked after de-mining) in these areas have been dismantled. With production capacities increasing, there are opportunities for related industries in agro-processing (spice products, fruit and vegetable canning, jams, cordials, food products, etc.) and fish-processing and related activities (fish canning, ice production, etc.) to take off.

While recent investments in commercial water supply and wide-scale electrification programmes have relieved many operational constraints, energy costs still remain high compared to Sri Lanka's regional competitors. Countries like China benefit from nuclear power, which is inexpensive to the end-user, and Thailand, Bangladesh and others in the region benefit from vast natural gas deposits.

Connective infrastructure in many parts, particularly in the N&E remain a constraint, with road transport from Batticaloa in the East taking as much as 8-9 hours. Highways and high-speed rail connectivity will certainly ease this constraint. The latter is particularly useful, and it is encouraging that Sri Lanka Railways has expressed willingness to grow its rail cargo services.

Although currently any export-oriented industries setting up in the N&E would have to make this long and expensive journey to transfer its goods to the only container port in Colombo, the proposed redevelopment of the Trincomalee and KKS ports as industrial ports will certainly improve the prospects for industrial development in these areas. It will also enhance the cost-competitiveness for industries in the border regions like the North Central Province.

Owing to both the connectivity constraint and also a skills constraint, industrial sector undertakings in the N&E, in the short to medium term, are likely to cater mainly to the domestic market, i.e., as import-substitution industries. As mentioned earlier, with agriculture and fisheries sectors demonstrating a fast recovery, there is strong potential for agro and fisheries-based industries to thrive. Capacity for export-oriented industries may take more time to develop and mature.

Constraints in the enabling environment in areas besides infrastructure also require attention. As highlighted previously, a conducive business environment effected by appropriate policy fixes are vital to spur industrial development. Key business climate constraints like labour laws, tax regulations and time and costs associated with licensing and permits, etc., prevail. Sri Lanka is at a disadvantageous position in many of these indicators relative to its competitors. Selected issues are shown in the comparative figures as set out in Table 13.1.

## 13.5 Policy Priorities: Key Areas Requiring Attention

### 13.5.1 Infrastructure

A key priority for the government is providing the requisite infrastructure base to spur industrial development in all regions. This process has already begun, with several roads, highways, port and airport projects ongoing island-wide. Connective infrastructure, alongside improvements in commercial water and electricity, are vital. However, while building and improving the quality of existing regular roads is useful, it is important to fast-track investments in high-speed rail and motor highways to better connect industries across regions, as well as with external markets via the new and existing ports and airports.

Port access is an important pre-requisite to creating strong industrial capacity in a region, and currently only the Western Province enjoys that advantage. However, with the construction of the Hambantota port, and

**Table 13.1**
**Competitor-country Comparison of Key Business Climate Issues for Industrialists**

| Country | Paying Taxes | | Construction Permits | | Electricity Tariffs |
|---|---|---|---|---|---|
| | No. of Payments | Time (hours) | No. of Procedures | Duration (days) | (US$/KWh) |
| Sri Lanka | 62 | 256 | 21 | 214 | 0.18 |
| Singapore | 5 | 84 | 11 | 38 | 0.09 |
| Thailand | 23 | 264 | 11 | 156 | 0.08 |
| Bangladesh | 21 | 302 | 14 | 231 | 0.05 |
| Indonesia | 51 | 266 | 18 | 176 | 0.06 |
| Vietnam | 32 | 1050 | 13 | 194 | 0.09 |

Source: BOI, Statistics and Policy Advocacy Unit.

the proposed industrial zone linking with it, Sri Lanka will be able to create its second industrial hub. Moreover, with a natural deep-water harbour and airport, Trincomalee appears ideally poised to become another new industrial trading hub of the country, providing the linkage to international markets for industries in the Northern, Eastern and North-Central Provinces. The Trincomalee harbour has a natural depth sufficient to cater to the newest range of deep-hull industrial goods vessels. While many prominent ports around the world are having to gradually undertake dredging and other upgrades for this purpose, the Trincomalee port enjoys a natural advantage in this aspect.

### 13.5.2 Labour Regulations

Existing rigid labour market regulations place Sri Lankan industries, especially those employing large numbers, at a disadvantage relative to competitor countries. Thus, there is a need to reform these labour laws in line with global changes in this area, while maintaining adequate protection for workers. Currently in Sri Lanka, the average cost of severance payments for a worker, as mandated by law, is 178 weeks of wages. This is the 4th highest level in the world.[7]

Within a liberalized and dynamic global environment, it is important to allow for industries to adjust its factor positions to cope with market changes; this is particularly applicable to the factor labour. Sri Lankan industries need to compete with larger economies like China, Indonesia, Thailand and Malaysia who enjoy scale economies and countries like Vietnam and Bangladesh which enjoy lower costs of labour. Export-oriented industries often report of difficulties in attracting potential foreign investors to expand their production due to preconditions of having to streamline the workforce, and this bearing a restrictively high cost of severance.

### 13.5.3 Investment Incentives Structure

Investment incentives via various income tax breaks and import duty concessions have been a feature of Sri Lanka's industrial promotion strategy implemented through the BOI. Although generous incentives have been continuously offered under the BOI regime, rapid industrial development has been slow to materialize. This can be largely attributed to the security climate which was a disincentive for private investment in industries, particularly those that require significant capital commitments. Foreign collaborations in the industry sector were also slow to materialize during this time. During the period of

[7] World Bank/IFC, "Doing Business Survey 2009".

uncertainty, some industrial development did take place despite this, but was confined mainly to labour-intensive industries.

Now it is important to re-visit the current incentive structure, and revise and rationalize it in line with a broader industrial development policy. Industries face high capital costs, and the initial expenditure on facilities, machinery and equipment poses significant cash flow challenges. To tackle this, there is a need to reform the existing investment incentive structure which focuses only on tax breaks that come into effect years after set-up, and instead introduce alternative incentive tools like accelerated depreciation, up-front capital write-offs, and investment credits that reduce initial capital costs. These tools are also more attractive to those industries with FDI that have to still pay taxes in their home country despite enjoying tax breaks in the host country. Instead of tax breaks which erode future tax revenue, the government could also consider granting government land at concessionary prices. The BOI should also actively promote foreign 'anchor investments' for large, ready-to-use industrial zones. Under a Build-Own-Operate (BOO) model, the concessionaire is granted tax holidays to develop the zone, and is then responsible for drawing in industries to operate in it. Similar models have been successfully followed in other industrialized countries in the region, and there are indications that such an arrangement is proposed for the Muttur region in Trincomalee.

### 13.5.4 Skilled Labour

Building a skilled talent pool to feed into industries remains a constraint. Although Sri Lanka boasts near universal primary education, achievements at higher levels of learning like O/Ls and A/Ls, particularly in science and mathematics streams remain weak. Additionally, the graduates passing out from local universities remain unattractive to industrial enterprises, as they lack the management and technical capabilities as well as soft skills which private enterprises place heavy emphasis on. Overall, there needs to be greater investment in vocational training, skills-for-work for school leavers, and measures to grow the science and engineering talent pool. Enrolments for science and engineering subjects in Sri Lankan universities are low, compared to other subjects in the Arts and Commerce streams. While this is indicative of the general lack of science, engineering and technology teaching in the universities, it is also a consequence of the fact that the number of schools across the country that offer science and maths streams at A/Ls is very limited.

Sri Lanka has been unable to preserve its science and engineering talent due to the conflict-related instability, and also due to the unappealing potential for advancement in the innovation industry in the country. Sri Lanka is second only to the Philippines on the extent of brain drain in this sector.[8] The Indian diaspora has been touted as being a key reason for India's IT and R&D boom. The Indian diaspora actively sought contracts for science, engineering and IT firms back home. They were also linked with the academia and research organizations in India. Sri Lanka too enjoys a similar position. There are many Sri Lankan scientists and engineers, graduating from local institutes and now well qualified, but are domiciled abroad. Sri Lankan experts in the diaspora range from NASA scientists to globally-recognized ISO certificators. This potential must be tapped by introducing innovative mechanisms to create diaspora-local linkages, with knowledge exchanges between them and local research and

[8] Radwan, I., N. Perera, A. Wijesinha, 2007, *Building Sri Lanka's Knowledge Economy*, World Bank, Washington D.C.

training institutes, as well as leading local firms.

Developing industry-oriented skills improve worker's employability, productivity and labour mobility. Thus, there is a need to expand industry-specific vocational training programmes, once future growth industries are identified under an industrial development policy. Moreover, there needs to be better re-training and re-skilling programmes to enable re-deployment of labour, to help mitigate the impact of large-scale layoffs, and dampen the impact of changes in sectoral structure over time. This would also make the country's workforce more dynamic and able to move with global changes.

It is encouraging that a high proportion of production-sector workers (compared to managers and professionals) in Sri Lanka receive training, and is far ahead of countries like Bangladesh, India and Pakistan.[9] This augurs well for the availability of workers for the industrial sector. However, a problem experienced by the majority of SMIs looking to grow is that they are constrained by the availability of technical as well as managerial talent, with the right soft-skills.

Considering the previous conflict-affected regions particularly, the potential for industrial development will be fairly contingent on the labour force there acquiring the requisite skills suited for manufacturing sector jobs.

### 13.5.5 Productivity, R&D and Technology

There needs to be a stronger productivity-improvement programme to support industrial sector growth. Governments have had several initiatives to improve awareness on productivity improvement in the last decade. The most wide-ranging was the National Productivity Decade 1996-2006, which provided Sri Lankan industries practical information and supported firm-level productivity improvements. Such a scheme needs to be re-introduced, especially as the government's priorities now focus on economic growth following the end of the conflict. A Presidential Task Force on Productivity has also been established, but there has been little movement with this so far and its needs to be revived. It is indeed encouraging that 'productivity' features in a Cabinet ministerial portfolio for the first time in 2010 - the Ministry of Labour and Productivity Improvement. However, associating productivity improvement with the labour sphere alone is insufficient. Productivity is a much more holistic concept that requires a focus in every sphere of activity, from the firm-level to mezo and macro level state institutions.

Sri Lanka has made little advances in the area of research and development (R&D) recently, and a focussed effort is required to arrest this trend. According to various indicators that measure this, such as the number of researchers in R&D per million people, scientific and technical journal articles per million people, patents granted to Sri Lanka by the United States Patent and Trademark Office (USPTO), etc., Sri Lanka has made little progress in the last decade. Sri Lanka lags behind regional competitors in many of these indicators.

At the 1979 Vienna Conference on Science and Technology for Development it was advocated that countries looking to achieve faster growth rates should spend at least 1 per cent of GDP on R&D activities. Possibly owing to the heavy burden of the war, Sri Lanka has spent only a small percentage of its GDP on R&D work, amounting to

[9] World Bank, *Investment Climate Survey*, various issues.

around 0.14 per cent of GDP annually.[10] This has remained largely stagnant; the corresponding figure for 2001 was 0.19 per cent, with a similar figure for 1996. In contrast, India spends around 0.85 per cent annually, and China, a clear outlier, allocates 1.44 per cent.[11] It is commendable that the current policy framework has set a target of raising spending on R&D up to 1.5 per cent of GDP by 2016.

Sri Lanka is home to several impressive research institutes, like the Industrial Technology Institute (formerly the CISIR), and the National Engineering Research and Development Centre. They continue to play an important role in developing national and firm-level technology capabilities. Their potential needs to be further harnessed, and their scope needs to be expanded to be more relevant to the needs of the industrial community.

Forging industry-research linkages and public-private partnerships for R&D are important in advancing this field, and a model initiative that has engendered this idea is the Sri Lanka Institute of Nanotechnology (SLINTEC). Nanotechnology is increasingly gaining prominence, not only in the R&D field per se, but more importantly in the industrial sector where nanotechnology can benefit in new product developments and efficiency improvements. The SLINTEC has brought together key innovators from the private sector and scientific community to find new ways of feeding nanotechnology into broader industrial development.

### 13.5.6 Access to Credit

Due to the need to finance growing defence expenditure, while also maintaining humanitarian relief efforts, government borrowings continuously rose during the peak war years, and often crowded out private investment. Additionally, consistently high budget deficits brought on to an extent by continuing welfare schemes, and support for loss-making public enterprises led to high borrowing costs for the private sector. While interest rates have fallen since reaching a peak of over 20 per cent in 2008, maintaining a low interest rate regime will be a challenge in view of ongoing heavy public spending in post-war reconstruction and on a wide range of public works programmes throughout the country.

## 13.6 Way Forward and Future Prospects

In the quest to expand Sri Lanka's industrial sector, the need now is to diversify the country's industrial exports by enabling the shift from labour-intensive products to more skilled and technology-driven products. Sri Lanka is gradually losing its low-cost labour advantage, and is already at a disadvantage with regard to energy costs. Thus, the debate that needs to be brought to the fore, and factored into industrial development strategies, is one of low cost versus higher value. In mapping out a strategy for export-oriented industrial development, a key question that needs an answer is whether Sri Lanka is able to continue to compete on the labour cost advantage that it has so far exploited fairly successfully, or whether the country is rapidly losing this to competitors such as China, on labour costs, and to countries like Thailand, Vietnam and Bangladesh on both labour and energy costs.

There is a clear need to re-evaluate Sri Lanka's market position, and discover where the country's strengths truly lie. If Sri Lanka intends to move away from the labour-cost fo-

[10] Radwan, I., N. Perera, A. Wijesinha, 2007, *Building Sri Lanka's Knowledge Economy*, World Bank, Washington D.C.

[11] *Ibid.*

cus, what strategies need to be employed to ensure Sri Lankan industries can move towards higher technology utilization, increased efficiency and productivity, and tap into more value-added and possibly niche product categories? In the services sector this is taking place already, and it holds valuable lessons for the industrial sector. Sri Lanka, unable to compete with India's cost and scale in standard business process outsourcing (BPO) activities, has successfully shifted to more knowledge process outsourcing (KPO) activities and niche market software development. Sri Lankan IT firms are global market leaders in stock trading software, mobile phone applications and e-commerce applications.

Attracting more and better FDI is also a strong need, as highlighted earlier. Although the debate surrounding the 'technology spillover from FDI' continues inconclusively, it is clear that Sri Lankan industrialists can gain from being more exposed to global best practices and technology-enhancement opportunities. Meanwhile, it is vital that the effort towards greater internationalization, higher value-addition and new product development is bolstered by an appropriate mix of government policy, which is transparent, consistent and investor-friendly.

While the literature on industrialization lists several factors that underpin successful industrial development -- country size, political and macroeconomic stability, availability of natural resources, human capital and skills, physical infrastructure, previous industrial experience, entrepreneurial appetite, and external sector stability – development economists broadly agree that the prevailing policy regime of the country (relating to trade, industry, investment and macroeconomic management) is probably the single-most important factor. Understandably, much of this took a policy 'back seat' during the conflict years. In the post-conflict environment, the government needs to now focus heavily on creating the right policy regime conducive for private enterprise growth. As the industrial sector faces many challenges in an increasingly competitive global trade arena - which has moved towards greater liberalization and preferential arrangements - the key policy priority is to provide industrialists with the right business environment to grow and compete more effectively - i.e., an environment favourable to investment, entrepreneurship, production, and marketing.

This policy brief has attempted to highlight some of the key constraints in developing the industrial sector, and provided an indication of where the way forward may lie for Sri Lankan industries. On one hand, a coherent industrial development strategy, coupled with a liberal trade regime, will encourage entrepreneurs to engage in industries; while on the other, a stable macroeconomic environment, coupled with the right economic incentives, will create a conducive business environment that encourages savings and promotes investment in new industries. It must be continuously borne in mind that for an industrial development policy to be strategic and successful, it requires more than just a focus on industries per se, but rather, a holistic approach that encompasses reforms and improvements in infrastructure, labour, education, governance and state regulations.

# 14. Adoption of ICT in Agriculture for Post-conflict Development

## 14.1 Introduction

Agriculture is one of the key sectors of the Sri Lankan economy with significant contributions to GDP, employment and income. Although its contribution to the GDP has declined over the years, agriculture is still the most important source of employment in rural areas. Almost 33 per cent of the employed persons are estimated to be engaged in agriculture at present. Attaining sustainable agricultural development is a worldwide strategic concern and Sri Lanka is no exception to this. Policy concerns related to agricultural development in the country has been subject to continuous debate as issues change over time, following the transformations that the sector has gone through in the past.

Intensification of agricultural productivity and improved market orientation are the main challenges that have to be overcome in order to enhance the future viability of the sector. Reducing agrarian poverty, ensuring food security, enhancing public investment in technological and institutional innovations, adapting to climate change and integrating agriculture in dynamic markets are considered to be the major issues relating to agricultural development. In this context, information and communication technologies (ICT) have the potential to contribute to achieving significant economic, social and environmental benefits by addressing most of the above issues either directly or indirectly.

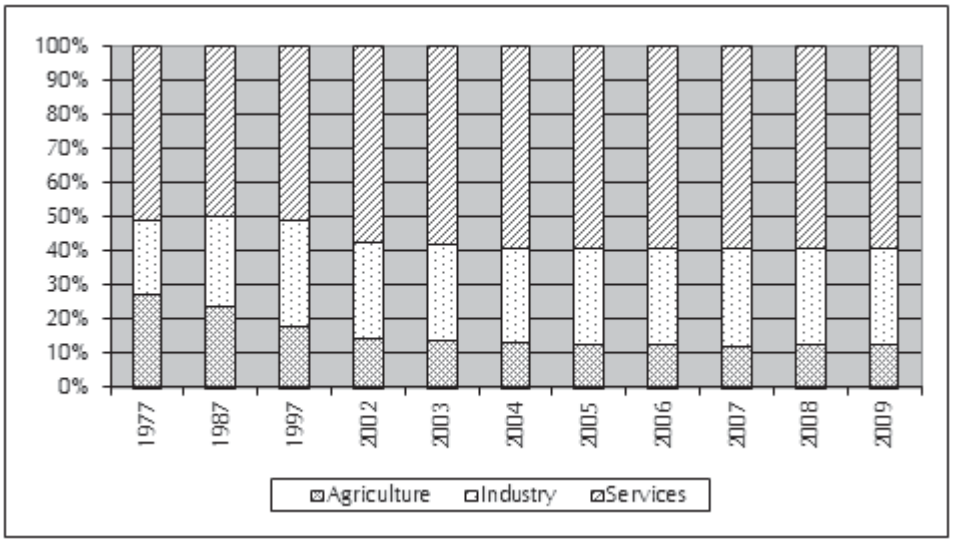
Allocation of public resources for adoption of technological innovation that contribute to overall development is an undisputable global policy priority. Rapid advancements that have taken place in ICT have had their impact on the agricultural sector as well, demonstrating the important role it can play in enhancing food security and supporting rural livelihoods. Recently, Sri Lanka also promoted the utilization of ICT in agriculture with a view to development of the sector. This discussion will set out an initial exploration of ICT application in Sri Lanka's agriculture sector, giving emphasis to the potential and challenges in the post- conflict milieu.

## 14.2 Problems in Agriculture: Where Do We Stand?

While Sri Lanka has traditionally been an agrarian economy with significant contribution to GDP, employment and income, the relative contribution of agriculture to GDP has declined sharply over the years - from 26.7 per cent in 1977 to only 12 per cent in 2009 (Figure 14.1). Nonetheless, agriculture remains important considering the share of the population dependent on it for livelihood opportunities.

Though the main occupation of the rural population is agriculture, development in other sectors and high off-farm wages have led to the movement of labour out of the agricultural sector since late 1980s. Thus, the importance of agriculture in providing employment has gradually dwindled. Nonetheless, the sector still employed 32.6 per cent of the total labour force in 2009 (Figure 14.2). Most importantly, almost 70 per cent of the rural population is involved in agricultural

**Figure 14.1**
**Contribution to GDP by Industrial Origin (1977-2009)**

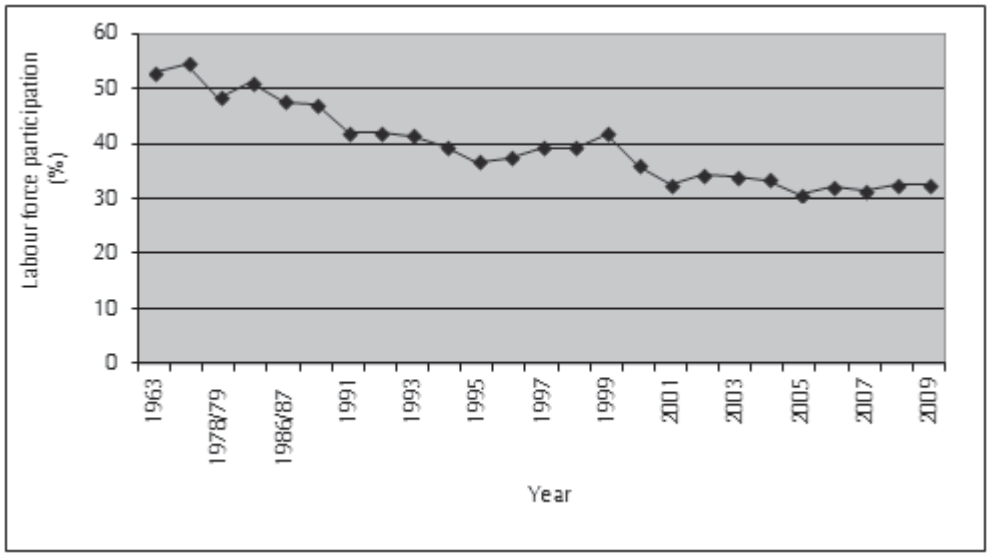



Notes: In constant prices.
Source: Department of Census and Statistics; and Central Bank of Sri Lanka.

activities of some form or the other. One of the important implications of the above is that one-third of the labour force is utilized to produce just over 10 per cent of GDP.

On the other hand, even though a large amount of government finances is spent on agriculture as subsidies (such as on fertilizer) which can be invested on some other thriv-

**Figure 14.2**
**Labour Force Participation in the Agricultural Sector**




Source: Department of Census and Statistics.

ing sectors, poverty continues among rural people who are engaged in agriculture. According to the 2006/07 Household Income and Expenditure Survey, an estimated 22 per cent of agricultural households were in poverty. This is much higher than the national average poverty headcount ratio of 15.4 per cent. As a share of all households in poverty, the agriculture sector accounts for as much as 45 per cent of the poor. These numbers indicate the importance of addressing agricultural poverty in order to lower overall poverty in the country.

Even though the causes of agrarian poverty and the means available to overcome it vary across regions, the poor basically suffer from a set of common issues such as low resource endowment, low skills, and poor access to technology and inadequacy of institutional support. On the other hand, long run measures to empower farmers by providing improved technology through research, extension services and training programmes on agricultural activities as well as non-agricultural activities is another serious issue that needs attention. A clear implication that can be drawn is that there is a problem of poor productivity within the agriculture sector that needs immediate policy attention.

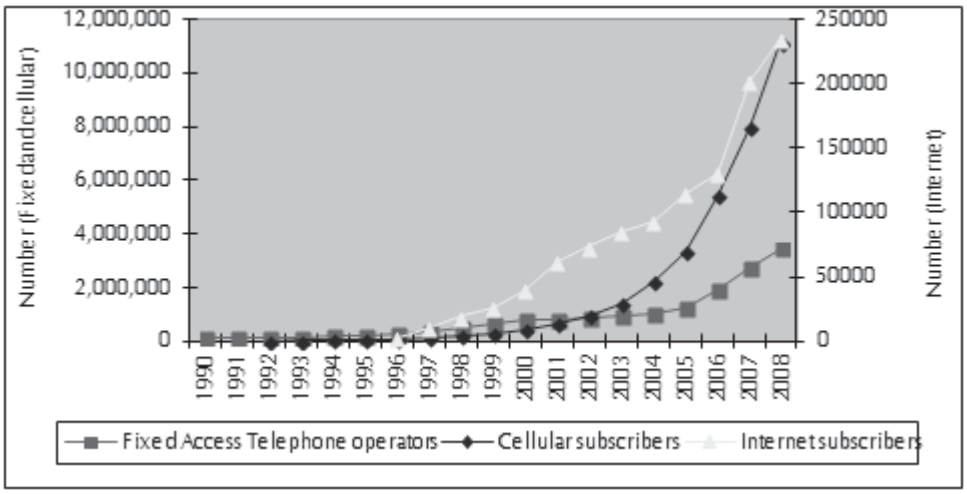
## 14.3 ICT Coverage in Sri Lanka

The rapid developments in information and communication technology (ICT) have greatly contributed to enhancing human living standards worldwide, and Sri Lanka is no exception in this regard. Most of the key economically effective environments are increasingly ICT dominant and, therefore, investing on ICT developments in the present era has become a compulsory requirement for the development and survival of the country.

In Sri Lanka, there has been a significant increase in cellular and fixed line telephone subscribers from the mid-1990s following a gradual increase prior to that. In addition, the number of internet subscribers has been accelerating since its introduction to Sri Lanka in 1996.

However, while Sri Lanka has made significant progress in ICT coverage, regional distribution remains inadequate and inequitable. For example, in 2009, 41 per cent of fixed-line subscribers were found to

**Figure 14.3**
**ICT Coverage in Sri Lanka (1990-2008)**




Source: Telecommunication Regulation Commission of Sri Lanka (TRC).

be from the Western Province followed by Southern and Central Provinces (at 11 per cent each). The figures were much worse in the case of Internet usage. However, the Information and Communication Technology Agency of Sri Lanka (ICTA) has launched sustained efforts more recently to popularize ICT in rural areas under various initiatives such as 'e-Society Development Programme' and 'Information Infrastructure Development' programmes.

## 14.4 Agricultural Productivity: How Can ICT Fit In?

There are many factors such as the policy environment, legal framework, technology, knowledge, marketing, research and development, etc., to be considered while attempting to improve agricultural productivity. However, there is vast potential for information and communication technology (ICT) to act as a catalyst in all the above factors. ICT refers not merely to computers and the Internet but includes traditional means of communication such as TV and radio, as well as the more recent developments in mobile phone technology and geographic information systems (GIS). Even though ICT application in the traditional-oriented Sri Lankan agricultural sector is a novel concept, there are several positive initiatives of applying ICT by the government, NGOs and the private sector (Box 14.1).

One of the major issues of concern in the Sri Lankan agriculture for some time has been poor information dissemination or poor 'agricultural extension'. Extension is often regarded as a combination of communication activity (transmission of technical information to farmers) and educational activity (development of skills to make use of the technical information). Governments have traditionally taken the lead role in the provision of agricultural extension services because of its important contribution towards agricultural development. However, certain state policies such as the transfer of over 2000 front line extension workers known as 'Krushi Viyapthi Sewaka Niladharis' (KVSNs) of the Department of Agriculture (DOA) to the Ministry of Public Administration as Grama Niladharis in 1990 resulted in the collapse of the extension services at the village level. This created a large void in the extension system, hampering the regular information flow from researchers to farmers and vice versa. The weak inter and intra sectoral linkages among research, extension, training and service sectors like marketing have left the farming community relatively destitute.

The general perception of traditional Sri Lankan agricultural practices - which is very much practice based and undocumented - is that they are stable and environmental friendly, but not economical. On the other hand, Sri Lanka is adapting various modern technologies for agriculture. Though there are a number of initiatives to disseminate agricultural knowledge in Sri Lanka, the general farmer community, except for a few professional farmers, is not fully conversant with them. Thus, there is a problem of integration of agricultural services and products at the grass root level. This has a serious impact not only on productivity, but also on the marketing of agricultural products. The latter in turn creates various other challenges for farmers.

Sri Lankan farmers come across a wide range of market related problems, such as low prices during harvest time. Lack of guidance, and hence difficulties in arriving at decisions pertaining to time, extents, crops and

[2] A cultivar is a cultivated variety of a plant that has been deliberately selected for specific desirable characteristics (such as the colour and form of the flower, yield of the crop, disease resistance, etc.).

cultivars[2] to be grown, manifest as the major features of such problems. This situation can be rectified by coordinating market forces more effectively, by improving information to producers, and operating the entire system in an integrated mode making producers aware of potential market opportunities and vice versa. Under such circumstances, wholesalers can go directly to producers without getting involved with a large number of unnecessary intermediaries.

ICT can play a leading role in this context, not only in domestic agricultural marketing but also in international trade by providing reliable and accurate information about buyers and producers. This will enable producers to identify buyers who require products of certain specific quality standards at a particular time in definite quantities, and buyers can identify producers who grow crops targeting international markets. Moreover, farmers will be able to obtain information on input suppliers and prices of inputs without unnecessary delays.

Climate change is widely recognized as one of the most complex challenges that humankind has been facing. Sound adaptation processes are required to sustain the agriculture sector which is the sector that suffers the most from climate change. There is significant potential to manage information as an important factor determining adaptation mechanisms to cope with climate related risks. Thus ICT can play an important role in this regard as well.

Sustained agricultural growth through some level of commercialization has the ability to reduce poverty by raising farmer incomes, and indirectly by generating employment and reducing food prices. However, the major challenge in a country like Sri Lanka where the agriculture sector is dominated by small scale subsistence farmers is the high transaction cost associated with this transformation. ICT become important in the context of reducing high transaction costs that farmers find difficulty in meeting. Not only does it reduce the information search costs, but also it ensures timeliness and accuracy of information.

## 14.5 Predicaments in ICT Application in Agriculture

Even though the role of ICT is obvious and important for the development of the agriculture sector, its application is not an easy task that can be done overnight. There are a number of interwoven challenges which are discussed in this section.

A sharp widening of the 'development gap' between urban and rural areas in Sri Lanka in terms of telecommunication, electricity, education, etc., that has emerged over the past few decades has become a major barrier for ICT application, not only in agriculture but also in most of the other sectors.[3] Though successive governments launched a number of development activities in rural areas, these have contributed only marginally towards bridging the rural urban divide. This has been further aggravated by Sri Lanka's protracted conflict that served to further widen gaps between provinces of the country.

Rural accessibility to ICT has been limited due to poor connectivity and non-availability of Internet service while the Internet use remains very low due to the high cost of computers, low bandwidth and low computer literacy. There is also an acute urban/rural disparity with respect to access to the Internet, and public Internet facilities are also

[2] Withanage, D.,2003, "e-Sri Lanka-The Use of ICTs for Poverty Reduction", paper presented at the "Global ICT Forum", Bangkok, Thailand, 27-28 November, 2003.

[3] Reddi, U.V. and V. Sinha, 2003, "ICT Use in Education: Meta-survey on the Use of Technologies in Education", UNESCO.

**Box 14.1**
**ICT Application in Agriculture**

A web based Wikipedia and e-learning system that contains specific information related to all major local crops with audio, video and flash animation has been established (http://www.goviya.lk) in order to facilitate farmer training. This content will be further developed and expanded with knowledge and information added, edited, changed or deleted on a continuing basis. It is expected that with time it would develop into a comprehensive compilation of agricultural and agriculture related information. The system is structured with pre-defined levels of rights and privileges. The login page of this Wikipedia can only be edited by the Administrator while the Cyber Units Agriculture Instructors (AIs) will have their own pages which constitute the community portal. These pages can be edited by the agricultural instructors as well as farmer and their family members. The unique feature of this project is the concept of interlinking of the e-learning system with a community driven dynamic agricultural data base - the Agricultural Wikipedia. Farmers enrich the site with their own ideas, and practical experiences. It is then open to other farmers who can learn from it, or improve on it or edit it as they think fit.

**Nava Goviya (CIC Agrochemicals Ltd.)**

This project focuses on five districts - Anuradhapura, Matale, Badulla, Moneragala and Kandy. It seeks to improve agricultural productivity and product quality through a modern on-line agriculture knowledge learning portal and is developed both in Sinhala and Tamil languages. The curriculum is specially designed with inputs from agricultural professionals. It provides modern farming knowledge on crop selection, land use planning, pest control, fertilizer application, farm management, harvesting, post-harvest technologies and food processing. It also addresses the development of farm business skills like market reach, banking and commodity exporting. The content is enriched with case studies and made attractive and user friendly with video, animation and graphics. The content encourages sustainable agriculture, recycling of natural wastes, use of appropriate technology, planned use of fertilizers and chemicals to enable better yields combined with increasing soil fertility and an improved environment.

**SMS Enabled Commodity Trade Matching Portal (Sarvodaya-Fusion)**

This project leverages on the convergence of mobile phones and an on-line trading platform to improve the rural commodity trading environment. The SMS enabled Commodity Trade Matching Portal contains details of requests from buyers for bulk purchases of various crops, as well as details of sellers who have on offer various produce. Sellers and buyers can send their requests and offers to this portal via coded SMSs. When a seller and buyer are matched by commodity and district, the system will generate SMSs to both parties with contact information in order to facilitate the actual transaction. A daily summary of requirements is also sent via SMS to all parties registered with the portal. This gives them a clear understanding of the market situation. All the main activities and reports in the portal are available to buyers and sellers via SMS, but if they so wish, they can also log on to the site to view the trading activity. The initial pilot of this project has been launched in Kandy and Nuwara Eliya districts.

**Crop Price Tracker (ICTA)**

The Information and Communication Technology Agency of Sri Lanka (ICTA) developed a Crop Price Tracker (CPT) as a means of supporting farmers in making informed decisions with regard to choice of crop at the time of cultivation, when to harvest and at what prices to market the crop. It can also help traders in making decisions with regard to sales and purchases; agricultural economists in analyzing market trends and making projections; and the general public in understanding day-to-day fluctuations in market prices. The CPT has at is back end, a data base on crop prices updated directly from commercial centres. The system provides for uploading of prices from multiple locations. Currently, prices are being uploaded from the Dambulla Economic Centre. The CPT is accessible from the website of the Department of Agriculture. One of the key features of this is the SMS gateway which enables the retrieval of prices via short code messages sent through a mobile phone.

Source: Mubarak, C., 2009, "e-Sri Lanka: What is in it for Agriculture?", Proceedings of the Joint National Conference on Information Technology in Agriculture, 16th July 2009, University of Moratuwa.

limited. Even though internet services have been available in Sri Lanka since 1996, popularization of it throughout the country has been inadequate and biased towards urban areas. Lack of English knowledge to handle and operate computers has contributed to low level of computer literacy and non- acceptability of computer education, especially amongst rural poor people. This has been further aggravated by limited availability of content in local languages. Thus, lack of ICT skills and resultant ambiguous feelings towards technology may hold back farmers from accessing available information.

Additionally, the sustainability of ICT application projects related to agriculture has become a serious issue of concern in a country like Sri Lanka as there is no continuous funding mechanism to sustain such projects.[5] Given budgetary constraints, it is unrealistic to expect long term state intervention, while NGO involvements have been limited to pilot projects. Being more profit oriented, sustainability of private sector participation is uncertain too, in a situation where the majority of farmers are poor smallholders with a subsistence orientation who would not be able to afford the cost.

A noticeable feature of all the efforts is that there is no cohesion in the approach of incorporating ICT in agriculture. The absence of an ICT policy for agriculture, coupled with a lack of clear appreciation of the objectives has resulted in an ad hoc nature in available initiatives. On the other hand, lack of awareness within the farming community, as well as of stakeholders on the opportunities and benefits that can be reaped through ICT initiatives is another stumbling block.

## 14.6 Post-Conflict Challenges and Opportunities

The previous conflict-affected Northern and Eastern Provinces have traditionally been high potential agricultural areas, providing livelihood to a community of hard working and resilient farmers. The development of rural agriculture is a key priority in reducing conflict-induced poverty, increasing rural incomes, reducing vulnerability and ensuring food security. These need a development strategy that envisages shifting from subsis-

[4] Most of the donor funded ICT projects related to agriculture are pilot projects with no assurance of continuity.

tence agriculture to commercially oriented agriculture, cultivating high-value items for the domestic and export markets, and establishing agro-industries. As a start, increasing the availability of more fertile lands for agricultural production in the North and East (N&E) has created a major opportunity that has to be harnessed in conjunction with the rest of the country.

However, the ending of conflict does not necessarily mean that constraints to making use of new opportunities do not exist. Although the challenges other agrarian areas are facing are more or less similar in nature, they are much severe in the N&E. A major challenge for post-conflict rehabilitation related to the agricultural sector is physical and institutional infrastructure recovery. Physical infrastructure includes irrigation, transport, storage and ICT, while institutional infrastructure entails revival of the organizational set-up for service provision.

The prolonged conflict has weakened agricultural productive capacity in the N&E, and displaced most of the agriculturally productive segment of the population. Hence, improving food security to prevent hunger and malnutrition is basic to post-conflict agricultural rehabilitation. This includes measures to improve agricultural productivity, access to markets and to stabilize farm-gate prices. The substantial increase in supplies of agricultural commodities in these regions is likely to exert downward pressure on prices, creating a beneficial effect for consumers. Therefore, managing extra production in order not to create adverse consequences on farmers is very important from the farmers' point of view. But, it is unlikely to happen immediately as much remains to be done to regain the supremacy it had before the war. However, infrastructure recovery including transportation, storage, processing has to be given more emphasis in these situations..

Connectivity is a key driver of economic growth and better marketing can reduce poverty among communities occupied in agricultural activity. Thus, improving market linkages to facilitate movement of physical and information resources from surplus to deficit areas is very important to revive the agricultural sector in the previous conflict-affected areas. Lack of market information and isolation from supply chains remain significant barriers for trade operations and very few operators are integrated into well-coordinated supply chains. This has limited their access to wider markets and their capacity to respond adequately and in time, to additional demand. A vast majority of firms sell their goods directly to consumers or traders in their locality, whereas access to wider markets is very rare.

Thus, farmers in the N&E require information on efficient utilization of farming capacity, including new seed varieties, modern fertilizer application and better livestock management. Enhancing their productivity by disseminating lessons learnt in other areas of the country will also be useful, since the farmers in the N&E areas are unaware of modern developments and techniques in the rest of the country such as new seed/planting varieties, fertilizer application techniques, agricultural machinery irrigation practices and post-harvest technology. ICT has the potential to meet many of the information challenges that the post-conflict agriculture sector faces in the N&E.

## 14.7 Conclusion and Policy Recommendations

Agriculture is one of the key sectors of the Sri Lankan economy with a significant contribution to GDP, employment, and income. Thus, agricultural development has been a subject of continuous policy discussion. Despite the intense policy focus, the sector suffers still from various long-standing prob-

lems related to productivity, income and marketing. These have placed the Sri Lankan agricultural sector well behind many comparative countries in the region.

The end to a protracted conflict that hampered agricultural development in a very fertile and productive region of the country has created fresh opportunities in agriculture. However, if the sector is to undergo a comprehensive revival, existing barriers have to be addressed in order to harness opportunities in a post-conflict environment. Knowledge, information and data, and the related social and physical infrastructures are widely recognized as key building blocks for a more commercially oriented and sustainable agriculture sector. Here ICT has the potential to play a lead role as a catalyst in the revival process, while facilitating agricultural development in the N&E and re-integrating it with the rest of the country.

It has been proven through such initiatives that there is an excellent potential for Sri Lanka to effectively use ICT in the agricultural sector. There are a number of key challenges to be faced during the process of incorporating ICT in agriculture, primarily as agriculture is not fully equipped for advanced technologies. Thus, filling the existing gaps needs more concerted effort from the government, private sector and other stakeholders. There should be a well coordinated and conducive ICT policy environment that foster the use of ICT to enhance rural livelihoods and encourage rural people to reap the benefits of the introduction of ICT. It is necessary to incorporate ICT into national agricultural policies which is lacking at present.

The use of standard and common systems is beneficial to make information easily accessible to end users. Appropriate communication systems are needed to ensure that the information reaches the farmer effectively, in an accurate and clear way - i.e., farmers need to be able to access reliable information on time and in a clear manner. Thus, any knowledge transfer mechanism should take into account the farmers' point of view as well. It is necessary to encourage software developments in local languages in order to increase the availability of content in local languages.

Awareness creation has to be done on the potential benefits of ICT on improving agricultural production and generating increased incomes, complemented by training on ICT usage in order to empower rural masses. Most critically, what has to be done immediately is to develop new infrastructure and upgrade the existing infrastructure facilities to improve rural ICT penetration, especially mobile penetration which is far higher than Internet penetration. Development of applications with convergence of the mobile with the Internet can be regarded as more successful than using one alone.

[6] For example, more than 60 per cent growth was recorded from 2006 to 2008 in usage of the 'Toll Free Agricultural Advisory Service' established by the DOA.

# 15. Protecting the Education Rights of Conflict-affected Children

## 15.1 Introduction

In a crisis, providing even the most basic educational services to school going age children who have dropped out of school is an enormous challenge. In Sri Lanka, the disruption to the education of thousands of children ended with the termination of a prolonged military conflict in the country. Education was disrupted through displacement, loss of family members, psychological impact, loss of school materials as well as the destruction of school buildings and infrastructure. In these circumstances, simply providing basic service delivery of education is often a major challenge. But there is a need to move beyond that; education competencies appropriate for particular ages are an essential component of reintegrating into the regular school curriculum. Effective provision of education can also serve to deliver stability and long lasting peace. Therefore, protecting the education rights of conflict-affected children should be a key part of programming and planning under post-conflict development.

School going children of returnee internally displaced persons (IDPs) and conflict-affected families are in need of humanitarian assistance. The UNICEF estimates that more than 48,000 school-going children have returned to their home towns by February, 2010.[1] These children need substantial educational assistance to offset the long term consequences of missed education. Further, there are still thousands of children still remaining in IDP camps. For instance, in the largest IDP camp alone (Menik Farm), there are more than 25,000 registered students to be found.[2]

While the government has taken several measures to establish or restore the basic education facilities in resettled areas as well as temporary learning centres in IDP camps, there are complex areas to be considered. For instance, there are several issues which could arise in service delivery of education in emergencies - reintegrating to school curriculum, dealing with ex-child-combatants, providing educational infrastructure, ensuring adequate human resources (such as qualified teachers, teaching and learning kits, transport, etc.,) along with provision of accelerated education programmes and psychosocial support for war affected children. This policy brief discusses common issues and possible implications for protecting the education rights of conflict-affected children in Sri Lanka's post-conflict development.

## 15.2 Difficulties of Restoring Education in Post-conflict Situations

Conflict has a devastating impact on education, in terms of school-going aged pupils dropping out, as well as deterioration of the education system and its infrastructure. Therefore, major challenges have to be overcome to restore education systems in post-conflict situations.

Reintegrating school drop-outs is an important issue. Generally, during periods of intensified conflict, school enrolment declines at all levels. In periods of conflict, children

[1] http://www.irinnews.org/report.aspx?ReportId = 88218 (accessed on April 20, 2010).

[2] Ibid.

might be internally displaced, become refugees, be orphaned, become separated from their parents, or be traumatized by violence. Additionally, students closer to conscription age are frequently recruited as armed combatants, with obvious detrimental consequences on their education.

One major issue of post-conflict education is failure to reintegrate children whose education was interrupted or not begun during the conflict into mainstream national education systems. Sometimes, returnees may have to re-enter the system at lower levels in the last grade they completed and this creates problems as they feel the humiliation of studying with younger children. Further, as a consequence of decades of conflict, there can be large numbers of conflict-affected school-going age children, ex-combatants and young people who have not even completed basic education.

Another common experience of reintegrating school drop-outs in post-conflict situations is one of exclusion. Stigmatization and rejection from teachers and other students contribute to school absenteeism and school drop-outs, especially for ex-child-combatants. Therefore, in post-conflict situations, repetition, absenteeism, and over-age students can constrain improvements to long term enrolment rates.

**Box 15.1**
**Accelerated Learning Programme in Iraq: School Drop-outs Get a Second Chance**

**The Purpose**

Accelerated learning programme is a USAID funded pilot intervention for Iraqi children who have dropped out from school. The programme aims to give a second chance to out-of-school children aged 6-14 years by bringing them into the mainstream school system. Different teaching methods and condense learning materials are employed to accelerate teaching - two years of schooling in only one school year.

**Compressing the Syllabus:**

The programme is delivered using well-designed, relevant lessons and activities. A booklet was produced compressing the syllabus of two years into one. Related special-purpose teaching materials, charts and maps were also developed as needed.

**Training the Teachers:**

Accelerated learning focuses on upgrading teachers' skills and teaching methods through pre-service education. The programme conducts continuous in-service training and mentoring as needed. Teachers are trained in both a central location and in their regional localities.

**Conducting the Programme:**

- Around 100-150 students in each location are grouped for 4-6 classes, with 2-3 Iraqi teachers in each class. Grades are combined and classes are conducted along grade 1-2, grade 3-4, grade 5-6, and grade 7-8.
- A master trainer is assigned in each location to assist a team of 8-14 teachers.
- Community outreach staff are deployed in each location to encourage attendance and prevent drop-outs.

Source: USAID, 2004, "School Drop-outs Get a Second Chance - Accelerated Learning Programme", www.usaid.gov/iraq/.

Ex-child-combatants pose another problem. In a post-conflict environment, educating child soldiers constitute a special challenge for education systems. School-going age children are often recruited by armed combatants. Child combatants might have engaged in atrocities, and sometimes been influenced by administering of narcotics, etc. Even as ex-child-combatants are demobilized under post-conflict conditions, they are likely to have known only violence and become socially isolated. Mainstreaming these ex-combatants into the education system poses many difficulties. For instance, if they are re-admitted to school, they can continue to feel excluded and rejected by other students and teachers. Some schools refuse to admit ex-child-combatants for fear of violence that could arise.

Special needs of children of conflict-affected situations have also to be addressed. Children caught up in violent conflicts have special needs, including the need for counselling. In post-conflict situations, it can be difficult to create an atmosphere which is conducive to learning. Most of the conflict-affected children are physically and psychologically damaged, and might have experienced maltreatment and/or massacre of their family members.

Another common issue is financial constraints. Although education services in Sri Lanka are provided by the government free of charge, other expenses - stationery, uniforms, etc., - often prevent children from attending school. Further, many have to work after school or quit school altogether to contribute to the family income or to look after their younger siblings. In many instances, these children are lacking adequate health care and suffer from malnutrition. Children in IDP camps in particular might be at a higher risk of malnutrition and ill health. Their health problems can be exacerbated by generally poorer living conditions in temporary shelters, such as adequate access to food, sanitary facilities or drinking water. Children, suffering from hunger or ill health, are less assiduous in school.

The damage to schools and associated infrastructure during conflicts poses another set of problems. Often, a major challenge in restoring the educational system is the reality that there are not enough schools in conflict-affected areas to absorb the great influx of school-going age children. Most of the functioning schools are concentrated in town areas, overcrowded, and have very limited capacity to take new entrants. The destruction of educational infrastructure and buildings is one of the most serious set-backs that a country can face. Other than the direct damage caused by violent conflict, school infrastructure may also suffer damage as public buildings are often commandeered as barracks, IDP camps, storage points, etc. Further, some schools will not be usable as a result of long neglect over a period of time during the conflict, or as a result of having been prohibited and flagged as no-go areas due to landmines and unexploded devices in these areas. Therefore, post-conflict reconstruction invariably requires extensive capital investment to restore educational physical infrastructure. In post-conflict situations, countries often face difficulties in funding reconstruction, as many do not have sufficient domestic revenue buoyancy to generate additional resources.

Another major challenge in restoring education is the chronic shortages of qualified teachers in previous conflict-affected areas. Many may have fled or vacated the post. Even existing teachers in conflicted-affected areas are affected by the violence, with little or no knowledge on how to overcome the difficulties. The challenge is not always the recruitment of new teachers, but improving the quality of the teaching force in terms of qualifications, experience, and competence.

The quality of education also suffers in conflict times. Indeed, the most profound and lasting impact of conflict on education is on quality, rather than on access. Quality of education tends to deteriorate as qualified teachers disperse, as learning materials become unavailable and school curricula are shortened to overcome the missed education of school drop-outs. Therefore, inappropriate curricula, unqualified teachers, collapsed monitoring and supervision services continue to undermine the quality of education for many years even after the issues of access have been addressed.

There can also be significant coordination and planning challenges. Instability and disruption created during conflict periods have very serious impacts on planning and service delivery in education. The decline and collapse of civil administration in conflict-affected areas results in large gaps in planning education. This creates a problem in planning for the future in the absence of reliable data on the numbers of schools, teachers and students. Further, as education involves donor agencies and humanitarian action, there is often a coordination problem. Poor record keeping, corruption and lack of transparency lead to serious set-backs in education governance in post-conflict situations.

## 15.3 Post-Conflict Education in Sri Lanka

### 15.3.1 Measures for a Second Chance in Education

Restoring schools is a priority need. According to the school census of 2008, there were 877 functioning schools in the Northern Province.[3] However, with the intensification of fighting in the Northern Province, most of these schools were damaged or gradually shut down. At present, many of these schools lack essential materials such as furniture, and teaching and learning aids. In the Northern Province, 392 schools and 10 Divisional and Zonal Education Offices are estimated to be in need of fairly extensive repairs and rehabilitation.[4]

The government has initiated measures to provide the basic needs of service delivery in education under its post-conflict development programmes. Schools have been re-opened in resettlement areas to service the education needs of school-going age children in the previous conflict-affected areas. According to the Northern Province Department of Education, 115 schools out of the 326 existing schools are estimated to have been re-opened as of end March 2010. Some children stay in boarding schools in the Vavuniya, Mannar or Jaffna town areas where schools are considered to be better. Approximately 19,000 students out of 82,800 students recorded in 2008, have returned to their areas of origin, while 7,385 students who are in host family accommodation, attend in-community schools.[5] Transport difficulties, engagement in household economic activities, as well as the care of younger siblings are also attributed for the relatively low enrolment.

The provision of education in IDP camps is proceeding. Temporary Learning Centres (TLCs) have been established in camps to service the education needs of displaced children. For instance, in Vavuniya and Mannar districts, a total of 21 TLCs are providing

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[3] Ministry of Education, 2008, School Census 2008, Ministry of Education.

[4] http://www.humanitarianinfo.org/srilanka_hpsl/Files/Situation%20Reports/Joint%20 Humanitarian%20Update/LKRN036_100102-100115-SL-IA-Sitreps-External-Joint_Humanitarian_Update-17.pdf.

[5] http://www.humanitarianinfo.org/srilanka_hpsl/Files/Situation%20Reports/Joint%20 Humanitarian%20Update/LKRN041_100312-100326-SL-IA-Sitreps-External-Joint_Humanitarian_Update-22.pd.

continual education services for IDP students. As of April 2010, 26,749 students were reported to be present in the IDP camps.[6]

Schools may be potential targets for recruitment activities by armed groups. Therefore, measures must be taken to prevent the cycle of violence and retribution in schools and ensure that schooling helps towards peace building. Most of the IDP camps were shifted from schools which had been used to house IDPs suspected of affiliation with armed groups. However, nine schools (students and staff) continue to share premises and facilities within such camps, guarded by the armed forces.[7] This kind of arrangement is not conducive to learning and can have an adverse impact, including concerns regarding the safety of students and teachers.

Deploying teachers in the previous conflict-affected areas also poses problems. Some teachers find it difficult to commute to schools in the resettled areas due to various reasons, such as the inability to commute daily, pregnancy, etc. Teacher shortages have a serious impact on the provision of education in IDP camps.[8] For instance, there are only 308 teachers for the 23,695 remaining students in Menik Farm and Tharmapuram camps. The problem of service delivery in education for those remaining in the camps worsens as more teachers return to their areas of origin. Although teachers are advised to travel from Vavuniya due to irregular transport availability, late arrivals and early departures hinder service delivery.[9] Further, the quality of education is also compromised in instances due to the lack of teachers for key subjects such as English, mathematics and science. Therefore, issues of both teacher shortages and teacher training need to be addressed.

The government has deployed additional buses to cater to the needs of school children and teachers in Vavuniya and Mannar areas to address the difficulties that teachers in the Northern Province encounter. Further, free season tickets have been approved for teachers to travel from Vavuniya and Jaffna to their schools in Kilinochchi, Thunukkai, Madhu and Mulankavil. Furthermore, line ministries have been requested to enhance and develop zonal and district level education activities.

Gaps in education of children in previously conflict-affected regions have also emerged. The prolonged conflict affected the school attendance of a considerable number of school-going children directly and indirectly. If programmes to bridge such educational gaps are not introduced, there is a risk that affected children may permanently leave the school system, leading to future social problems. The re-integration of these children in the school system in grades that are appropriate for their ages require special education programmes.

Catch-up education (CUE) in Sri Lanka is a programme which provides extra support or help to school-going children in order to enable them to join the mainstream school system (see Box 15.2). The necessity and the importance of CUE were identified during 1989-1990, in the midst of social unrest in the country.[10] These CUE programmes were introduced in the Northern and East-

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[6] Ibid.

[7] http://www.humanitarianinfo.org/srilanka_hpsl/Files/Situation%20Reports/Joint%20 Humanitarian%20Update/LKRN040_100227-100312%20-%20SL%20-%20IA%20-%20Sitreps%20-%20Joint%20Humanitarian%20Update%20-%2021.pdf

[8] http://www.humanitarianinfo.org/srilanka_hpsl/Files/Situation%20Reports/Joint%20 Humanitarian%20Update/LKRN036_100102-100115-SL-IA-Sitreps-External-Joint_Humanitarian_Update-17.pdf.

[9] http://www.humanitarianinfo.org/srilanka_hpsl/Files/Situation%20Reports/Joint%20 Humanitarian%20Update/LKRN038_100130-100212%20-%20SL%20-%20IA%20-%20Sitreps%20-%20External%20-%20Joint%20Humanitarian%20Update-19.pdf.

[10] UNICEF, 2003, "Catch-up Education in Sri Lanka: A Review".

ern Provinces to help children who missed schooling on account of the conflict.

Psychological impact and life risks that arise out of conflict need to be addressed as well. Education in an emergency must be more than a stop-gap education and should be designed to address the needs of conflict-affected children. In order to address the psychological impact of prolonged periods of stress on such children, a psycho-social component should be added to education. Further, children are especially at risk of landmines, fleeing into unknown territory to play in nearby fields and paths. Sometimes, children may not recognize warning signs

**Box 15.2**
**Catch-up Education (CUE ) Programmes in Sri Lanka**

**Purpose**
CUE provides extra support to school drop-outs to help them reintegrate with the education system.

**Target group:**
The programme targets students in the compulsory age group (5-14 years) who are not in school - i.e., those who have dropped out or have missed some part of their education.

**Curriculum and learning material:**
In 2004, the Ministry of Education, the National Institute of Education and the North-East Provincial Department of Education initiated the development of standardized material to use for CUE. This includes a curriculum and related teachers' guides and student work books for mathematics and both languages (Sinhala and Tamil).

**Programme functioning:**
Since 2007, implementation of CUE programmes has come under the purview of the Non-Formal Education (NFE) unit of the Ministry of Education, with the support of UNICEF, Save the Children of Sri Lanka and other national and international NGOs.

**Programme outcome:**
There are a variety of CUE programmes, which have varying levels of effectiveness. Some key issues of CUE programmes are as follows.

- There is no national vision or plan for CUE programme. Provision is made independently by partners.
- Most of the CUE classes are under-resourced and lack the basic requirements needed to provide good quality service to children.
- The qualifications and training programmes for instructors are inadequate for the task of preparing them for teaching children from a variety of age groups.
- Monitoring and evaluation systems are weak in all programmes.
- There is no sound evidence to show that CUE classes help school drop-outs to go back into the school system.
- CUE material is not systematically used by most of the CUE programmes.

Source: Arunatilake. N, P. Jayawardena, C. Dharmadasa and D. Hirimuthugodage, 2009, "Catch-up Education in Sri Lanka", IPS, mimeo.

around mined areas. Therefore, psycho-social support and landmine awareness should be integrated into the curriculum of education programmes under emergencies. At present, in 7 schools of Vavuniya-North DS division, psycho-social projects are supported by education partners for students and IDP children.[11]

### 15.3.2 Some Issues and Challenges Ahead

Mainstreaming school drop-outs is important. Reintegrating different types of school drop-outs affected by the conflict - ex-child-combatants, IDPs, orphans, disabled, etc. into the mainstream education system poses challenges under the existing education system. It does not have the required capacity to handle this additional burden and respond adequately.

Programmes have also to be effectively coordinated. There should be proper coordination among the different entities involved in conducting CUE classes, teacher training and in reintegrating children within formal schools. In some cases, while donor humanitarian interventions commenced, these interventions have not been sustained, especially once the immediate emergency is over. A part of the problem is that donors typically reduce their aid after their initial humanitarian support. Decreasing funds impact the expected outcome of these programmes.

Proper needs assessments have also to be carried out. Although much effort has been made in restoring education in previously conflict-affected areas, there has been insufficient coherent analysis of children's needs in giving a second chance to education. For instance, surveys on school-going children, access to schools, registered teachers, need for catch-up classes - especially for resettled children - along with the psycho-social support and need for additional class rooms, furniture, learning materials, stationery kits, transport, etc., have not been carried out coherently. Therefore, needs assessments on resettled students and temporary learning centres in camps should be conducted to identify the key problems prevailing in service delivery in emergencies.

Mechanisms for monitoring and evaluation have also to be put in place. Supervision and monitoring of education services is a challenge in an emergency situation. There are different entities involved in providing education services. However, little evidence exists of children's learning achievements, progress of conducting classes, and reintegrating children to the formal school system.

## 15.4 Conclusion and Policy Implications

In conflict situations, displacement makes it difficult to obtain information on whether children have access to even basic services - food, shelter, as well as psycho-social support. Therefore, in an emergency situation schools can help monitor the status of displaced children and protect their rights. School systems should be encouraged to keep track of the needs of students and facilitate screening for children who need special assistance. Implications for education priorities under the post-conflict development in Sri Lanka include many of these aspects.

An area of urgent attention is the reintegration of different types of school drop-outs affected by the conflict - such as ex-child-combatants, IDPs, orphans, disabled, etc., - into mainstream education systems. There is a need to strengthen institutional capacity

[11] http://www.humanitarianinfo.org/srilanka_hpsl/Files/Situation%20Reports/Joint%20 Humanitarian%20Update/LKRN042_100327-100409%20-%20SL%20-%20IA%20-%20Sitreps%20-%20Joint%20Humanitarian%20Update%20-%2023.pdf.

within the Ministry of Education, and other local and international authorities to develop a comprehensive policy and strategy for inclusion of school drop-outs into the mainstream school system.

An initial step is to establish 'learning spaces' - i.e., safe and healthy places to teach, even if such accommodation is temporary, while steps are taken to reconstruct schools. Other initiatives should tackle the delivery of whatever useful materials are available for teachers and students, while taking steps to ensure procurement and distribution of student and teacher textbooks. Curriculum reforms, teaching methods and new approaches to address the gaps in education should also be undertaken.

Teachers should be deployed from among the displaced population to assist in organizing schooling. An immediate roll-out of basic teacher training workshops and building a teacher training system is helpful. Teachers should be trained to make them competent in adopting the curriculum according to the student's standard. Special training could be given to teachers so that they would be able to recognize the signs of psychological needs of children. Schools can serve as entry points for psycho-social programming and to provide a sense of security. Schools and temporary learning centres in camps for IDPs should be encouraged to provide services and protection for displaced children. Schools can also ensure nutritional needs by serving meals to students.

Education in emergencies can give the support and guidance children need to be proactive within their communities. For instance, landmine awareness, child rights, life skills and emergency skills should be integrated into education programmes in post-conflict conditions. Girls in particular should also be made aware of the risks of abuse, exploitation and sexual violence.

Monitoring and evaluation of programmes are essential to analyse the impact of the programmes. Comprehensive evaluating systems should be carried out to evaluate student's performance and mainstream them to formal schools. For many of the activities discussed above, the Ministry of Education should be provided with technical assistance in planning and assessing the availability of funds and other resources. Encouraging private sector participation with relevant measures to coordinate the programmes and projects can also be useful.

# 16. Post-conflict Sustainable Environmental Financing: Forestry Sector

## 16.1 Introduction

The ending of a three-decade prolonged conflict has placed many a valuable development opportunity before Sri Lanka. However, as the country gears to exploit these opportunities and target a speedier economic development process along the way, environmental concerns may get overlooked. Rapid economic development in the short run at the expense of environmental damage would itself pose a significant threat to economic development in the longer run. Hence, making post-conflict development a sustainable effort requires the attention of all actors at every sphere of governance. Despite the best efforts, there is a tendency for finances being directed towards development measures to take precedence over environment conservation efforts. It is in this context that environmental financing becomes a key concern under the environmental conservation aspect of sustainable development.

In a post-conflict development scenario, the forestry sector is likely to be the most vulnerable among any other environmental sector given the higher likelihood of forest clearing to accommodate pressing land needs for resettlement and development projects in conflict-affected areas. The Northern and Eastern Provinces of Sri Lanka account for 41 per cent of the total forest cover in the country,[1] the largest forest area at provincial level, which suggests that higher priority in regard to forest management efforts should be given to these regions. Conversely, 41 per cent of the land in the region being covered by forests suggests that they are more exposed to threats such as forest clearing and degradation where post-conflict development efforts are concerned. Thus, striking an appropriate balance between the conflicting objectives of forest conservation on the one hand and the use of forests for post-conflict development needs on the other, pose a challenge that requires careful analysis. In this context, an effective financing mechanism in forest management could be used to bring about a fair balance in the conflicting objectives, where a part of forest land could be transformed for resettlement and development projects, while investments could be made to produce a higher forests yield.

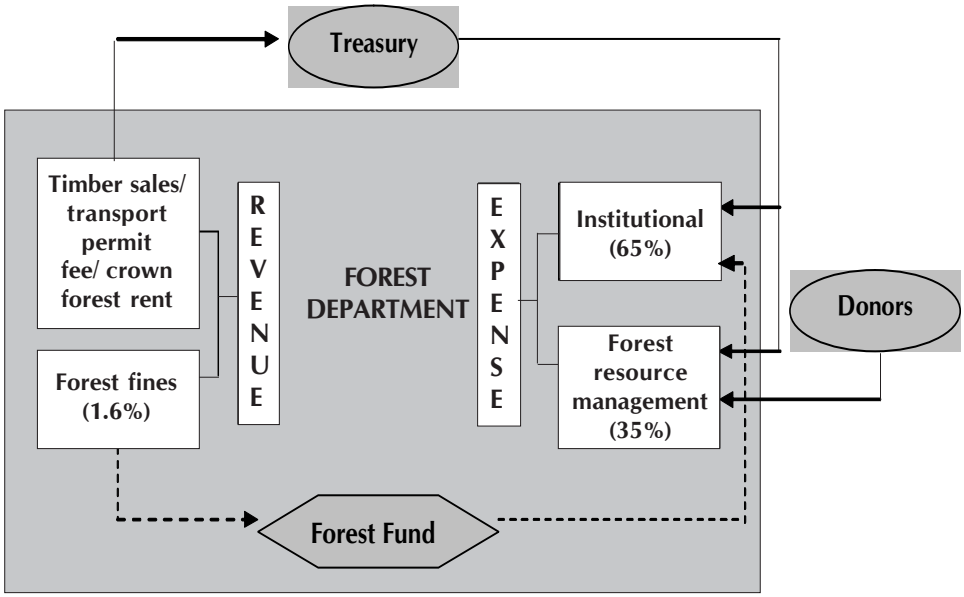
The discussion in the following sections explores the current situation in forest financing, followed by the challenges in financing and the potential for revenue generation in post-conflict forest management. It further presents policy suggestions on improving the existing forest financing mechanism and other measures that can be linked to iron out financing challenges faced by the sector.

## 16.2 Current Financing Mechanism in the Forestry Sector

The activities of the regulatory body for forests management, the Forest Department (FD), are currently financed by two sources; namely, budgetary allocations and donor funds. The revenue generated from forest resources (a share of over 95 per cent), except from the fines on forest offences, is directed to the 'Consolidated Fund' of the Treasury as per regulations (Figure 16.1).

[1] Estimated forest cover in 1999, according to the Forest Department.

**Figure 16.1**
**Financing Mechanism in the Forestry Sector**




Note: The percentages in parentheses relate to 2008.

The major sources of forestry revenue are permit fees from private timber transport, sale of timber and crown forest rent, among which, on average nearly 70 per cent is generated through sale of timber.[2]

The expenditure of the FD can be broadly categorized into institutional expenditure (recurrent expenditure required to run the institution: personal emoluments, travelling and supplies, maintenance and services) and resource management expenditure (rehabilitation and improvement of assets including reforestation and plantations, acquisition of capital assets and capacity building), which is directly invested on natural resource conservation and development. The budgetary provisions over the years are allocated between both institutional expenditure and resource management expenditure, while donor funds are directed entirely for forest resource management projects.

### 16.2.1 Forestry Financing: Sources and Expenditure Categorization

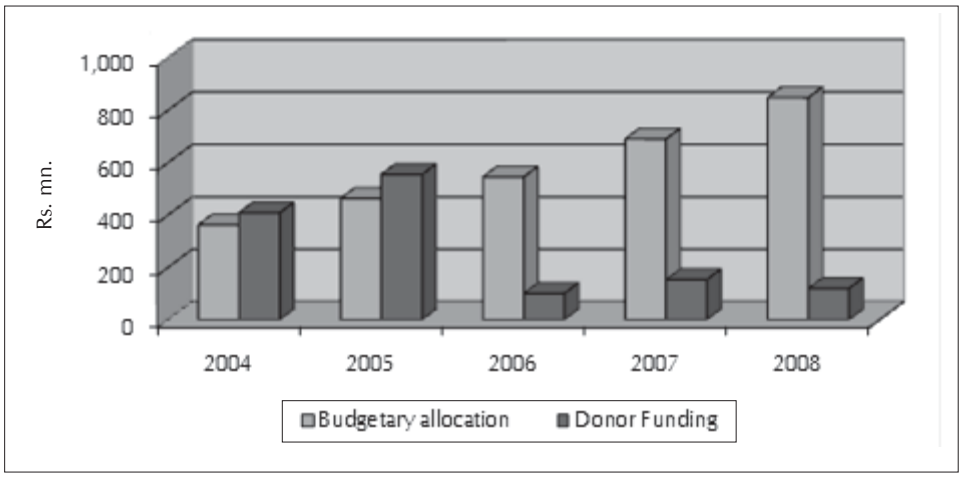
As evident from Figure 16.2, the financing sources on forestry expenditure reveal that budgetary allocations have risen over the years while the donor share has recorded a significant decline after 2005 with the ending of several donor funded projects.[3] The donor share which accounted for 53 per cent of total financing in 2004 had dropped to 12 per cent by 2008. As a result, the total provision for financing was severely affected in 2006, with a 36 per cent fall compared to 2005, but has since seen a gradual recovery with the increase in budgetary allocations.

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[2] Information based on a discussion with the Director - Finance, Forest Department.

[3] *Ibid.*

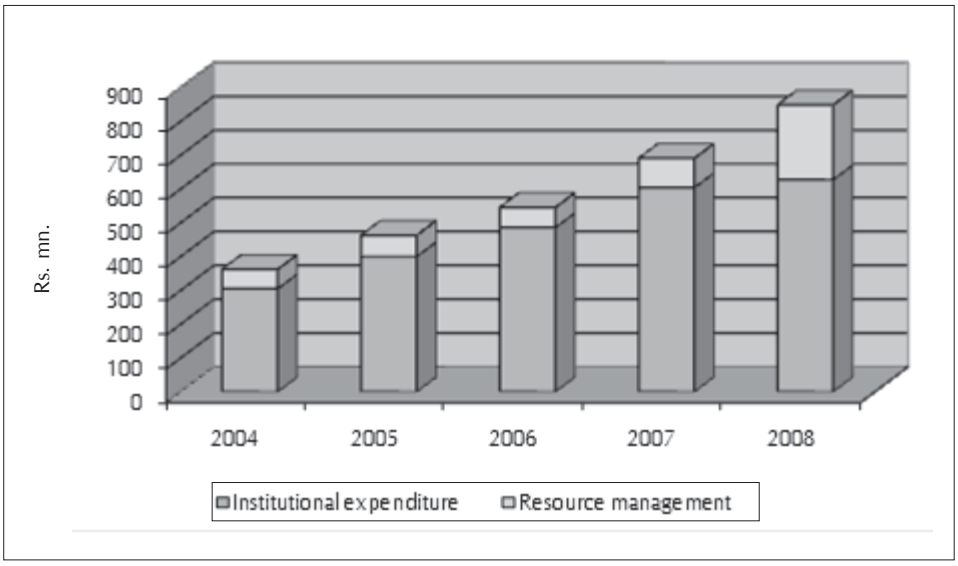
**Figure 16.2**
**Comparison of Forestry Financing Sources (2004-08)**




Source: Forest Department, *Annual Report*, various issues.

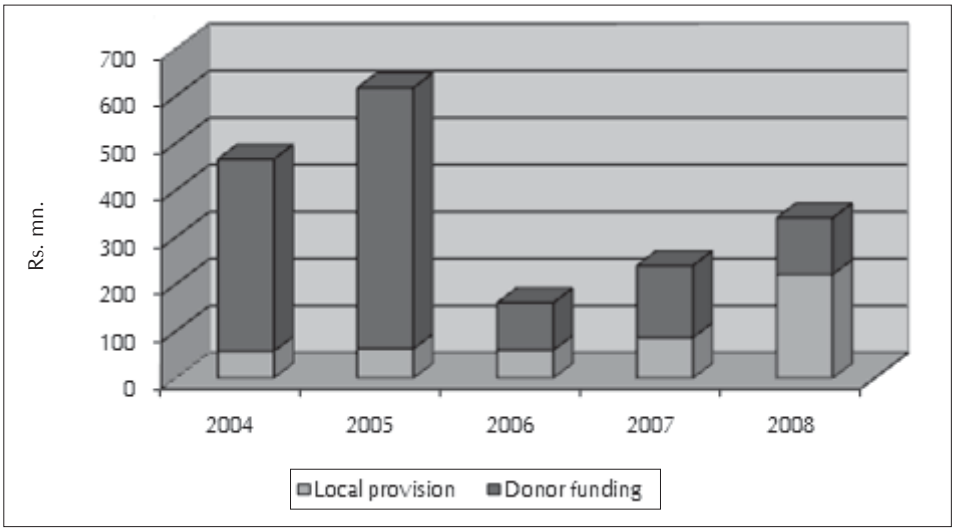
According to Figure 16.3, the budgetary allocation for resource management has been extremely low over the years. In 2008, it accounted for only 26 per cent of total expenditure. Nonetheless, the increase in the share allocated for resource management over time is a positive sign. Arguably, the increase could be due to the usual course of increasing allocations to a sector when donor funds dry up and vice versa. However, even appropriate maintenance of existing resources calls for immediate action to raise financing in resource management.

**Figure 16.3**
**Categorization of Budgetary Allocation on Forestry Expenditure (2004 - 2008)**




Source: Forest Department, *Annual Report*, various issues.

**Figure 16.4**
**Expenditure on Resource Management of Forest Department (2004-2008)**




Source: Forest Department, *Annual Report*, various issues.

The composition of budgetary allocation and donor financing in resource management as depicted in Figure 16.4 shows that except for 2008, donor funds have accounted for the larger share over time. Budgetary allocations are usually utilized for smaller activities such as school awareness raising programmes, and work involving the community such as forest extensions and wood lots. Alternatively, donor funds cover capital intensive projects which consume large amounts of finances such as surveying that costs nearly Rs. 60,000 per km.

The forest sector has attracted donor funds in the past few years. The normal procedure has been that when donor funds are received, budgetary allocations are reduced and directed to other priority areas. Similarly, Treasury allocations are increased when the sector is short of donor funds, including allocations for the continuation of donor funded projects. The increasing trend in Treasury allocation for resource management signals a notable improvement. A very high dependence of forests conservation and development programmes on donor funds could be unfavourable and risky in a state of discontinuation of funds. It thus calls for improving existing sources of revenue as well as planning for newer sources to generate funds locally, within the scope of the FD's activities.

Overall, the present financing mechanism in the forestry sector faces the issues of a very low share of budgetary allocation being utilized for resource management as opposed to institutional expenses, and heavy dependence of resource management programmes on donor funds, which will have to be addressed amidst the forests management measures within post-conflict development.

### 16.2.2 Revenue Generation in the Forestry Sector

The relatively high ratios of revenue to budgetary provision over the years indicate the FD's lessening burden on the Treasury by recovering a larger share of its budgetary provision. In fact, in 2004 and 2007 it had contributed a surplus to the Treasury.

**Table 16.1**
**Revenue vs. Budgetary Provision of Forest Department**

| | Revenue (Rs. mn.) | Budgetary Provision (BP) (Rs. mn.) | Revenue as a % of BP |
|---|---|---|---|
| 2004 | 477.5 | 362.3 | 131.8 |
| 2005 | 312.9 | 462.8 | 67.6 |
| 2006 | 491.3 | 545.5 | 90.1 |
| 2007 | 790.2 | 690.6 | 114.4 |
| 2008 | 795.3 | 848.4 | 93.7 |

Source: Forest Department, *Annual Report*, various issues.

It must be noted thus, that if given the autonomy for the FD to use its own funds, the institution is not only able to cover its expenditure, but also to make profits which can be effectively utilized to a certain extent to replace the shortage of donor funds.

## 16.3 N&E Forest Financing: Plans and Issues[4]

According to the forest cover mapping carried out in 1999, the North and East (N&E) of Sri Lanka accounted for 41 per cent of the total cover, the largest province-wise forest cover. It is now being re-estimated again after a lapse of ten years and the changes in the forest cover are yet to be identified. Whilst only a marginal change in the size of the forests in the N&E is expected, a significant change in the quality is anticipated. This is largely due to the possibility of forest degradation - quite likely when the probability of internal logging by the LTTE for bunkers and other settlements during the conflict period is considered. With the conclusion of the war, preliminary data suggests that high forest clearing as anticipated in a post-conflict scenario has not taken place, although small cleared patches are expected to be disclosed. It is yet too early to estimate the possible level of forest clearing as development work is still being initiated in the N&E. However, with the government's emphasis on eco-friendly post-war development, forest clearing can be expected to remain at a very minimum.

As an assessment of forests in the N&E is still to be carried out, making an estimation of its possible monetary benefits is also too early a task at present. However, generation of a direct income can be expected only from plantation forests by sale of timber, as felling is legally prohibited in natural forests. The benefits of natural forests are largely enjoyed by the communities living in the forest peripheries, which are not directed towards forestry revenue. However, the potential for nature based tourism should not be ignored. The tourist revenues from forests, excluding that in the Northern and Eastern Provinces, has recorded a significant growth of 58 per cent from Rs. 5.6 million to Rs. 8.9 million within just five years during 2003-08.[5] Hence, if forests that are rich in bio-diversity are found in the N&E, it will form a valuable income source to be exploited. Improving tourist facilities and infrastructure would enhance such opportunities.

[4] Information based on a discussion with the Conservator-Operations, Forest Department.

[5] FD, *Annual Report*, various issues.

As regards expenditure on forests, a high expenditure related exercise undertaken on natural forests during the past 5-6 years has been boundary marking and fencing. This has in part covered boundary markings in the Eastern Province. In fact, during the conflict period, small projects such as nursery management have been carried out in Vavuniya. In the case of most projects, the Northern Province had been completely excluded due to problems of accessibility, as well as resistance by donors to invest in the area due to difficulties in monitoring progress. However, now that the entire region is free of conflict related problems of the past, effective financing would be vital in initiating forest management activities in the N&E.

### 16.3.1 Plans for Forestry Financing and Management

The initial exercise in the N&E region forests is to restore administration. This requires the assigning of administrative resources which has to be accommodated within the normal functions of the FD. In the immediate post-conflict environment, the N&E was found to be short of field officers. This has been partly addressed by establishing offices in the East where the usual functions are now being performed. In the North, only Vavuniya and Jaffna districts are administered, while the forests in Mannar, Mullaittivu and Kilinochchi are still in the process of being cleared and the resumption of the usual FD functions are expected to take some time.

Management plans for the cleared forests are expected to be prepared with the assistance of the communities in nearby villages. Accordingly, problematic issues such as incidents of encroachments, illegal felling and forest fires will be identified. Based on the outcome, plans will be made incorporating mitigation measures. Once the management plans are completed, an estimate of the expenditure will be determined, upon which the activities will be prioritized considering the availability of finances. Hence, for a successful implementation of the plans, proper management of donor funds and budgetary provisions will be a prerequisite.

A strategic Environmental Assessment is currently under way to identify which forest areas should be protected considering the level of development projects now coming into the previously neglected, yet highly prospective Northern Province. Hence, an assessment will be made to determine what forest patches are to be conserved and how. The activities will include both a finance-required component such as boundary marking and measures needed to settle problems like encroachments, and those requiring the professional input that falls under the usual duties of the FD, such as the preparation of management plans for forests.

Forestry is not confined to the activities of natural forests alone. High income generation is associated with plantation forests as well. Prior to the conflict, the N&E regions were well known for large-scale commercial planting, which came to be neglected with the outbreak of war. Delays in felling had resulted in trees maturing which had later been used during the conflict period for various purposes. There is a high potential for reforestation and even for commercial plantations, once the land plots are declared to be legally protected, which can guarantee a high income source. Moreover, activities that benefit the community, such as community and social forestry, are expected to return. The availability of large unused arable land outside the forests in the N&E will pave the way for many community/private sector participation programmes such as tree planting, reforestation and woodlots, and even commercial plantations, which will bring an income to the FD as well. In this regard, the FD's timely step of amending the Forest Ordinance facilitating active third-party involvement (including private sector, NGOs,

**Box 16.1**
**Forest (Amendment) Act No.65 of 2009**

The Amendment to the Forest Ordinance in 2009 has been yet another winning step towards making forestry financing efficient by way of enhancing third party involvement.

The Amendment approved in November 2009, empowers the Conservator-General of Forests to enter into agreements with third-parties/stakeholders (community, private sector, NGOs, etc.) to carry out programmes for the development of forests. Factors such as which stakeholders can enter into these agreements, on what type of forest development activities, procedures for benefit sharing, etc., may vary depending on the nature of the management plan activities of the different forests. This Amendment constitutes the legal provision to enter into binding agreements which will create a win-win situation where the FD receives the benefit of saving labour expenses, while the third parties gain by way of a share of income and other benefits from forests.

Programmes of such nature where the community is involved in cultivating government lands have been carried out by the FD for many years which have been similar to long term, annually renewable permits. Under these participatory programmes, home garden development, canal bank planting, tank catchment rehabilitation, and rehabilitation of degraded mangrove forests have been carried out in the Eastern Province, and 877 hectares reforested in 2009.

Source: Forest Department; Central Bank of Sri Lanka, *Annual Report 2009*.

etc.,) in forest management is important (Box 16.1). In fact, at present there are 858,000 hectares of home gardens which cater to meet nearly 42 per cent of total demand for timber in the country. Thus, the contribution to forestry income of even a 1 per cent growth in its productivity would be immense.

Direct physical or financial aid to forestry management in the N&E is very unlikely, given that issues such as resettlement and rehabilitation of internally displaced persons (IDPs) will draw more donor attention. However, unlike earlier, where donors proposed activities for which their funds were to be used, at present, the funds are allowed to be used on the priority areas identified in the annual forestry management plans which come under the Forestry Master Plan. On one hand, this allows finances to be directed for priority areas, such as where boundary marking was initially done in the wet zone which was more threatened by encroachments and illegal felling. On the other hand, it allows government finances to be utilized on areas that are not covered by donor interests.

### 16.3.2 Issues and Challenges in Post-conflict Forest Financing

A major hurdle with regard to human resource requirement in restoring forestry administration in the Northern Province is the lack of Tamil speaking field officers in the FD. The current system of recruitment, a national level competitive exam, has resulted in a lower number of Tamil applications coming in due to the language constraint. However, as a remedial measure a new program has now been approved to conduct a special examination in the Tamil medium, and again the problem that follows would

be to provide the recruits with training by Tamil trainers. Hence, these new activities of recruitment and training in the FD's agenda would require extra financing.

Forestry related activities in the N&E will have to be accommodated within the grants coming in to the FD. With a trend of lower donor funds coming into the sector as experienced in the past couple of years, managing funds to cover all the needs of the sector would pose a challenge.

A major expense towards natural forest management in the N&E regions would be boundary marking, which will require a steady flow of finances once initiated. This burden can be partly offset by getting community participation in labour provision. In fact, one significant problem in the Northern forests is that the cover is too spread out, in that fencing would be too tough and too expensive a task. Therefore, community involvement could be encouraged if combined with other programmes. For instance, in a forestry activity in Ampara, the World Food Programme provides food for villagers who volunteer.

## 16.4 Conclusion and Policy Recommendations

The forestry sector is financed by budgetary allocations and donor funds where the annual revenues are directed to the Treasury. The larger share of budgetary allocations has been expended for the administration of the institution, while forests development and conservation measures have been heavily dependent upon donor funds. Thus, focus will have to be drawn to raise local provision for forests resource management through exploration of effective alternative sources of income generation within the sector, as well as improving the efficiency of present sources such as tourism. Considering the richness of biodiversity in Sri Lanka's forests, the avenues for raising tourist income are numerous.

The FD has managed to generate revenue to cover a high share of its budgetary allocation, posting even a surplus in some years. However, the absence of a legal provision for the FD to re-inject the revenue to the sector acts as a constraint on improving revenue generation. If at least a part of the revenue can be allowed to be invested back on the activities of the FD, the challenge of continuing forest resource management - which is at risk due to a decline in donor funds - will be addressed to a certain extent.

The forest cover in the N&E, which has to be accommodated within the forestry management plans in post-conflict Sri Lanka, requires special attention to attract community involvement as a measure to reduce the financial burden. Social forestry can be improved if the government gets actively involved in the provision of material and knowledge for planting in private lands. These activities can be expedited if professional input in terms of forest mapping and preparation of sustainable forest management plans are provided. Then the finances, be it local or donor funds, can be allocated on a prioritized basis initially. Further, the government can assess the possibility of providing land for commercial planting for the private sector or promoting private enterprises to be 'custodians' in forest management by contributing financially and facilitating in benefit sharing.

The government's focus in incentivizing private sector participation and community involvement in forestry financing and management is a step in the right direction. It will provide more effective solutions for the many hurdles that the forestry sector faces at present.

# Appendix A: Macroeconomic Indicators (Statistical Base)

## Table A1: Socio-Economic Indicators

| | | | | | | |
|---|---|---|---|---|---|---|
| **1. Basic indicator** | **Unit** | | | | | |
| Area: | Sq. km. | 65,610 | | | | |
| Mid year population (2009) | ('000) | 20,450 | | | | |
| Population growth rate (2009) | % | 1.1 | | | | |
| Life expectancy at birth (2007) | years | 74.1 | | | | |
| Infant mortality rate (2006) | per 1000 live births | 10.0 | | | | |
| Gross school enrolment ratio (2005)(a) | % | 62.7 | | | | |
| Adult literacy rate (2005) | % | 91.3 | | | | |
| Human development index (HDI) (2007) | Value | 0.74 | | | | |
| Human poverty index (HPI) (2005) | Value | 17.8 | | | | |
| | | **2005** | **2006** | **2007** | **2008** | **2009(e)** |
| **2. Output, labour force and employment** | | | | | | |
| GNP at current market prices | Rs. bn. | 2,423.0 | 2,898.0 | 3,540.0 | 4,306.0 | 4,769.0 |
| GDP at current market prices | Rs. bn. | 2,453.0 | 2,939.0 | 3,579.0 | 4,411.0 | 4,825.0 |
| GDP at current factor cost prices | Rs. bn. | 2,098.0 | 2,484.2 | 2,233.0 | 2,365.0 | 2,449.0 |
| GDP per capita at current market prices | US$ | 1,241.0 | 1,421.0 | 1,634.0 | 2,014.0 | 2,053.0 |
| Labour force(b) | mn. | 7.3 | 7.6 | 7.5 | 8.0 | 8.1 (C) |
| Labour force participation (b) | % | 48.3 | 51.2 | 49.8 | 49.5 | 48.7 (C) |
| Unemployment (b) | % | 7.7 | 6.5 | 6.0 | 5.4 | 5.8 (C) |
| **3. Real output growth** | | | | | | |
| GDP | % | 6.2 | 7.7 | 6.8 | 6.0 | 3.5 |
| Agriculture, forestry, and fishing | % | 1.8 | 6.3 | 3.4 | 7.5 | 3.2 |
| Mining and quarrying | % | 14.1 | 24.2 | 19.2 | 12.8 | 8.2 |
| Manufacturing | % | 6.0 | 5.5 | 6.4 | 4.9 | 3.3 |
| Construction | % | 8.9 | 9.2 | 9.0 | 7.8 | 5.6 |
| Services | % | 6.4 | 7.7 | 7.1 | 5.6 | 3.3 |
| **4. Prices & wages** | | | | | | |
| CCPI (annual average) | % change | 11.6 | 13.7 | 17.5 | 22.6 | - |
| New CCPI (2002 = 100) | % change | 11.0 | 10.0 | 15.8 | 22.6 | 3.4 |
| WPI (annual average) | % change | 11.5 | 11.7 | 24.4 | 24.9 | -4.2 |
| Implicit GNP deflator | % change | 10.4 | 11.2 | 14.0 | 16.3 | 5.7 |
| Real wage rates | | | | | | |
| Workers in wages boards trades | % change | -3.5 | -9.9 | 4.4 | 2.6 | 3.8 |
| Government employees | % change | -7.0 | -11.8 | 5.0 | -12.4 | 7.8 |
| **5. Consumption, investment, and savings** | | | | | | |
| Consumption | % of GDP | 82.1 | 83.0 | 82.4 | 85.9 | 81.9 |
| Gross domestic capital formation | % of GDP | 26.8 | 28.0 | 28.0 | 27.5 | 24.5 |
| Gross domestic savings | % of GDP | 17.9 | 17.0 | 17.6 | 14.1 | 18.0 |
| Gross national savings | % of GDP | 23.8 | 22.3 | 23.3 | 18.2 | 23.8 |
| Net imports of goods and services | % of GDP | -8.9 | -11.0 | -10.4 | -13.4 | 6.5 |
| **6. Government Finance** | | | | | | |
| Revenue | % of GDP | 15.5 | 16.3 | 15.8 | 14.9 | 14.6 |
| Expenditure & net lending | % of GDP | 23.8 | 24.3 | 23.5 | 22.6 | 24.9 |
| Current expenditure | % of GDP | 18.1 | 18.6 | 17.4 | 16.9 | 18.2 |
| Capital expenditure & net lending | % of GDP | 5.8 | 5.6 | 6.1 | 5.7 | 6.7 |
| Current a/c balance | % of GDP | -2.6 | -2.4 | -1.6 | -2.0 | -3.7 |
| Budget deficit | | | | | | |
| Primary deficit | % of GDP | -3.6 | -2.9 | -2.6 | -2.9 | -3.4 |
| Overall deficit (before grants) | % of GDP | -8.4 | -8.0 | -7.7 | -7.0 | -9.8 |
| Public debt | | | | | | |
| External | % of GDP | 39.0 | 38.4 | 37.1 | 32.8 | 36.5 |
| Domestic | % of GDP | 51.6 | 50.3 | 47.9 | 48.3 | 49.8 |

Contd..../-

| | Unit | 2005 | 2006 | 2007 | 2008 | 2009(e) |
|---|---|---|---|---|---|---|
| **7. External trade** | | | | | | |
| Terms of trade | % change | -4.2 | -3.5 | -1.0 | -11.8 | 24.0 |
| Import price index | % change | 7.8 | 8.0 | 5.9 | 20.0 | -19.7 |
| Export price index | % change | 3.3 | 4.2 | 4.8 | 5.8 | -0.4 |
| Import volume index | % change | 2.7 | 7.1 | 4.1 | 4.0 | -9.8 |
| Export volume index | % change | 6.6 | 4.1 | 7.3 | 0.4 | -12.3 |
| **8. External finance** | | | | | | |
| Trade balance | % of GDP | -10.7 | -11.5 | -11.3 | -14.4 | -20.8 |
| Current account balance | % of GDP | -2.8 | -5.3 | -4.3 | -9.5 | -0.5 |
| Capital & financial account balance | % of GDP | 2.8 | 6.7 | 6.5 | 4.4 | 6.2 |
| Foreign direct investments | % of GDP | 1.0 | 1.7 | 1.7 | 1.7 | 1.0 |
| Foreign portfolio investments | % of GDP | 0.03 | 0.19 | 0.31 | 0.2 | 0.0 |
| Import capacity | months of imports (d) | 5.7 | 4.7 | 5.3 | 3.1 | 8.3 |
| External debt | % of GDP | 53.3 | 50.3 | 51.0 | 43.7 | 49.8 |
| Debt-service ratio | % of exports | 7.9 | 12.7 | 13.1 | 15.1 | 19.0 |
| **9. Exchange rates (year end)** | | | | | | |
| U.S.A. | Rs./US$ | 102.1 | 107.7 | 108.7 | 113.1 | 114.4 |
| U.K. | Rs./UK Pound | 175.9 | 211.3 | 217.1 | 163.3 | 181.7 |
| Japan | Rs./Yen | 0.86 | 0.90 | 0.97 | 1.3 | 1.2 |
| European Union | Rs./Eoro | 120.96 | 141.58 | 160.27 | 159.5 | 163.7 |
| India | Rs./Rs. Indian | 2.27 | 2.40 | 2.76 | 2.4 | 2.5 |
| SDR | Rs./SDR | 145.90 | 162.00 | 171.60 | 174.3 | 177.2 |
| **10. Money supply** | | | | | | |
| Narrow money supply (M1) | % change | 22.4 | 12.6 | 2.7 | 4.0 | 21.4 |
| Broad money supply (M2) | % change | 19.1 | 17.8 | 15.6 | 11.7 | 18.6 |
| Domestic credit | % change | 18.7 | 25.9 | 16.3 | 18.0 | 0.5 |
| External banking assets | % change | 20.3 | -15.0 | 33.2 | -65.9 | 417.2 |
| **11. Interest rates** | | | | | | |
| Treasury bill yeild rates | | | | | | |
| 3 month | % per annum | 10.1 | 12.8 | 21.3 | 17.3 | 7.3 |
| 12 months | % per annum | 10.4 | 12.9 | 19.9 | 18.6 | 9.3 |
| Call money rates | % per annum | 10.3 | 11.5 | 12.0 | 11.0 | 9.7 |
| Average prime lending rate | % per annum | 12.2 | 15.2 | 17.9 | 18.5 | 10.9 |
| Commercial banks saving | % per annum | 10.2 | 10.5 | 16.5 | 16.5 | 10.5 |
| NSB saving | % per annum | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Commercial banks fixed deposits | % per annum | 11.5 | 14.0 | 20.0 | 20.25 | 19.0 |
| NSB fixed deposits | % per annum | 9.0 | 11.0 | 15.0 | 15.0 | 9.5 |
| **12. Share market indicators** | | | | | | |
| Annual turnover | Rs. bn. | 114.6 | 105.1 | 104.9 | 110.4 | 142.5 |
| Companies listed | No. | 239 | 237 | 235 | 235 | 231.0 |
| Market capitalisation | Rs. bn. | 584.0 | 835.0 | 821.0 | 489.0 | 1092.1 |
| Net purchases by non-nationals | Rs. mn. | 6,143.0 | 5,377.0 | 11,254.0 | 13,950.5 | -789.0 |
| Share price indices | | | | | | |
| CSE share | (Index, 1985 = 100) | 1,922.2 | 2,722.4 | 2,541.0 | 1,503.0 | 3385.6 |
| CSE sensitive(f) | (Index, 1985 = 100) | 2,451.1 | 3,711.8 | 3,291.9 | 1,631.3 | 3849.4 |

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, 1987-2009

| | Constant Prices (c) | | | Growth Rates | | |
|---|---|---|---|---|---|---|
| | GDP | PGDP | POP(b) | GDP | PGDP | POP |
| | Rs. mn. | Rs.mn. | ('000) | | | |
| 1987 | 462,949.6 | 28,295.9 | 16,361 | 1.5 | -0.1 | 1.5 |
| 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 | 111,563.6 | 20,010 | 6.8 | 6.1 | 1.1 |
| 2008 | 2,365,500.0 | 218,161.0 | 20,217 | 6.0 | 4.9 | 1.0 |
| 2009(a) | 2,449,304 | 119,770 | 20,450 | 3.5 | 2.4 | 1.1 |

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, 2001-2009

| 1. Structure of output | Unit | 2001 | 2002 | 2003 (c) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 (a) | 2000-2009 (b) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture, forestry, and fishing | % of total output | 20.1 | 20.5 | 13.2 | 12.5 | 11.8 | 11.3 | 11.9 | 12.1 | 12.0 | 12.6 |
| Agriculture | % of total output | 16.0 | 16.6 | 14.7 | 14.3 | 14.3 | 13.4 | 10.8 | 10.9 | 10.9 | 12.2 |
| Tea | % of agriculture | 9.0 | 7.2 | 10.9 | 11.6 | 11.4 | 10.5 | 13.6 | 11.0 | 9.4 | 9.5 |
| Rubber | % of Agriculture | 2.4 | 1.2 | 2.6 | 3.2 | 3.8 | 6.1 | 5.9 | 5.4 | 2.3 | 3.3 |
| Coconut | % of Agriculture | 10.0 | 8.4 | 13.4 | 11.9 | 11.3 | 10.1 | 11.2 | 12.5 | 12.6 | 10.1 |
| Paddy | % of Agriculture | 20.1 | 18.0 | 14.8 | 13.7 | 14.8 | 13.1 | 12.3 | 19.1 | 15.5 | 14.1 |
| Mining and quarrying | % of total output | -1.8 | 1.8 | 1.4 | 1.4 | 1.5 | 1.6 | 1.6 | 1.6 | 2.1 | 1.1 |
| Manufacturing | % of total output | -16.9 | 15.8 | 18.6 | 18.7 | 19.5 | 19.2 | 18.5 | 18.0 | 17.4 | 12.9 |
| Export processing | % of Manufacturing | 11.7 | 11.3 | 4.2 | 4.0 | 3.4 | 3.1 | 3.3 | 4.1 | 3.5 | 4.9 |
| Factory industry | % of Manufacturing | 80.8 | 77.2 | 89.6 | 89.8 | 90.9 | 91.4 | 91.5 | 91.0 | 90.3 | 79.2 |
| Small industry | % of Manufacturing | 7.5 | 7.6 | 6.3 | 6.2 | 5.7 | 5.5 | 5.3 | 4.9 | 6.2 | 5.5 |
| Construction | % of total output | 7.6 | 7.2 | 6.0 | 6.1 | 6.8 | 7.4 | 7.4 | 7.4 | 6.6 | 6.3 |
| Services | % of total output | 53.9 | 54.9 | 58.3 | 58.8 | 58.0 | 58.0 | 58.4 | 57.3 | 59.3 | 51.7 |

| 2.Real output growth | Unit | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 (a) | 2000-2009 (b) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture, forestry, and fishing | % Growth | -3.5 | 2.5 | -54.9 | -5.5 | -6.1 | -4.3 | 3.4 | 7.5 | 3.2 | -5.8 |
| Agriculture | % Growth | -4.3 | 1.9 | -12.9 | -2.8 | 0.0 | -6.7 | 2.3 | 7.3 | 2.8 | -1.2 |
| Tea | % Growth | -3.5 | 5.1 | 33.9 | 6.4 | -2.3 | -8.7 | -1.8 | 4.3 | -8.9 | 2.4 |
| Rubber | % Growth | -1.5 | 5.0 | 53.2 | 20.5 | 15.8 | 37.7 | 4.2 | 10.3 | 7.8 | 15.3 |
| Coconut | % Growth | -13.5 | -13.6 | 37.3 | -12.4 | -5.2 | -12.1 | 5.1 | 5.2 | 5.2 | -0.4 |
| Paddy | % Growth | -5.7 | 5.1 | -21.9 | -7.6 | 7.4 | -13.2 | -6.2 | 22.9 | -5.1 | -2.4 |
| Mining and quarrying | % Growth | 0.7 | -1.1 | -28.5 | 2.8 | 1.6 | 6.8 | 19.2 | 12.8 | 8.2 | 2.3 |
| Manufacturing | % Growth | -4.2 | 2.1 | 15.0 | 0.7 | 4.1 | -1.5 | 6.4 | 4.9 | 3.3 | 3.1 |
| Export processing | % Growth | -6.7 | -0.9 | -170.6 | -3.4 | -19.3 | -7.9 | 2.4 | 5.3 | 0.7 | -20.0 |
| Factory industry | % Growth | -3.9 | 2.5 | 13.8 | 0.3 | 1.2 | 0.6 | 6.7 | 5.0 | 3.4 | 3.0 |
| Small industry | % Growth | -3.5 | 2.1 | -21.3 | -1.8 | -7.4 | -4.8 | 4.5 | 5.6 | 3.3 | -2.3 |
| Construction | % Growth | 2.5 | -0.8 | -19.2 | 1.1 | 10.8 | 7.2 | 9.0 | 7.8 | 5.6 | 2.4 |
| Services | % Growth | -0.5 | 6.1 | 5.9 | 0.8 | -1.5 | 0.1 | 7.1 | 5.6 | 3.3 | 2.7 |
| GDP | % Growth | -1.5 | 4.0 | 5.9 | 6.9 | 7.9 | 8.9 | 6.8 | 6.0 | 3.5 | 5.0 |

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, 1997-2009

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 (b) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 (a) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Value added, current prices (Rs. Mn.) | | | | | | | | | | | | | |
| Food, beverages and tobacco | 35,585 | 40,452 | 44,503 | 49,031 | 54,282 | 61,550 | 136,058 | 158,229 | 202,785 | 241,854 | 282,843 | 348,358 | 397,244 |
| Textile, wearing apparel and leather products | 40,581 | 47,482 | 55,263 | 69,451 | 71,263 | 77,028 | 76,511 | 85,179 | 103,198 | 113,956 | 131,522 | 147,822 | 155,409 |
| Wood and wood products (including furniture) | 1,258 | 1,313 | 1,390 | 1,554 | 1,639 | 1,736 | 1,085 | 1,121 | 1,143 | 1,245 | 1,353 | 1,447 | 1,585 |
| Paper and paper products | 2,633 | 2,578 | 2,664 | 2,808 | 3,103 | 3,124 | 1,669 | 2,079 | 2,963 | 3,998 | 4,857 | 5,789 | 6,631 |
| Chemicals, petroleum, coal, rubber and plastic products | 10,745 | 14,274 | 13,832 | 17,771 | 19,245 | 22,653 | 46,133 | 58,912 | 72,089 | 95,346 | 112,915 | 135,447 | 142,935 |
| Nonmetallic mineral products (except petroleum and coal) | 11,600 | 12,463 | 13,817 | 14,240 | 16,010 | 17,273 | 11,388 | 13,432 | 15,805 | 17,930 | 20,352 | 22,776 | 24,653 |
| Basic metal products | 598 | 710 | 777 | 959 | 1,131 | 1,306 | 970 | 998 | 1,061 | 1,292 | 1,521 | 1,638 | 1,659 |
| Fabricated metal products, machinery and transport equipment | 5,924 | 6,779 | 7,367 | 7,714 | 8,731 | 9,698 | 28,339 | 30,217 | 34,480 | 38,872 | 47,947 | 55,185 | 62,013 |
| Manufactured products n.e.s. | 3,157 | 3,426 | 3,799 | 3,965 | 4,154 | 4,695 | 1,307 | 1,350 | 1,446 | 1,879 | 2,208 | 2,508 | 2,903 |
| Total | 112,011 | 129,477 | 143,412 | 167,493 | 179,559 | 199,063 | 303,460 | 351,517 | 434,970 | 516,372 | 605,544 | 720,979 | 795,032 |
| 2. Composition of industrial production, % | | | | | | | | | | | | | |
| Food, beverages and tobacco | 31.7 | 31.2 | 31.0 | 29.3 | 30.2 | 30.9 | 44.8 | 45.0 | 46.6 | 46.8 | 46.7 | 48.3 | 50.0 |
| Textile, wearing apparel and leather products | 36.2 | 36.7 | 38.5 | 41.5 | 39.7 | 38.7 | 25.2 | 24.2 | 23.7 | 22.1 | 21.7 | 20.5 | 19.5 |
| Wood and wood products (including furniture) | 1.1 | 1.0 | 1.0 | 1.0 | 0.9 | 0.9 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 |
| Paper and paper products | 2.4 | 2.0 | 2.0 | 1.7 | 1.7 | 1.6 | 0.5 | 0.6 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 |
| Chemicals, petroleum, coal, rubber and plastic products | 9.6 | 11.0 | 9.6 | 10.6 | 10.7 | 11.4 | 15.2 | 16.8 | 16.6 | 18.5 | 18.6 | 18.8 | 18.0 |
| Nonmetallic mineral products (except petroleum and coal) | 10.4 | 9.6 | 9.6 | 8.5 | 8.9 | 8.7 | 3.8 | 3.8 | 3.6 | 3.5 | 3.4 | 3.2 | 3.1 |
| Basic metal products | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | 0.7 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 |
| Fabricated metal products, machinery and transport equipment | 5.3 | 5.2 | 5.1 | 4.6 | 4.9 | 4.9 | 9.3 | 8.6 | 7.9 | 7.5 | 7.9 | 7.7 | 7.8 |
| Manufactured products n.e.s. | 2.8 | 2.6 | 2.6 | 2.4 | 2.3 | 2.4 | 0.4 | 0.4 | 0.3 | 0.4 | 0.4 | 0.3 | 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, 1987-2009

| | 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) |
| 1987 | 213.0 | 38.06 | 52.97 | 121.8 | 19.87 | 27.63 | 2,291 | 2.64 | 2,128 | 70.00 |
| 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(e) | 289.8 | 360.85 | 470.11 | 136.9 | 211.65 | 202.23 | 2,762 | 18.23 | 3,652 | - |

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, 1999-2009

| | 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 |
| 1999 | | | | | | | |
| q1 | 12.9 | 6.7 | 52.3 | 6.2 | 91.4 | 0.6 | 8.6 |
| q2 | 13.1 | 6.5 | 49.5 | 5.9 | 91.5 | 0.6 | 8.5 |
| q3 | 13.2 | 6.7 | 50.8 | 6.1 | 90.9 | 0.6 | 9.1 |
| q4 | 13.5 | 6.8 | 50.2 | 6.1 | 90.8 | 0.6 | 9.2 |
| 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 |

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, 1987-2009

| | 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) | |
| 1987 | 34,536 | 11,216 | 17.6 | 5.7 | 89,958.6 | 29,215.2 | -1.3 | 8.8 |
| 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(d) | 838,629 | 308,811 | 17.4 | 6.4 | 147,127.9 | 54,177.4 | 158.2 | 208.8 |

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, 1995-2009

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 (c) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 (a) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| As % of GDP | | | | | | | | | | | | | | | |
| Gross domestic capital formation | 25.7 | 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 | 24.5 |
| Gross domestic savings | 15.2 | 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 | 18 |
| Net imports of goods and non-factor services (b) | 10.4 | 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 |
| Net factor income from abroad | -1.0 | -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 |
| Net private transfers | 5.2 | 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 |
| Gross national savings | 19.5 | 19.0 | 21.5 | 23.4 | 23.5 | 21.5 | 20.3 | 19.5 | 21.5 | 22.0 | 23.8 | 22.3 | 23.3 | 18.2 | 23.9 |
| Foreign savings | 6.2 | 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 |

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, 1997-2009

| (As % of GDP) | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 (c) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 (b) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 18.5 | 17.3 | 17.7 | 16.8 | 16.7 | 16.5 | 15.7 | 15.4 | 16.1 | 16.3 | 15.8 | 14.9 | 14.6 |
| Grants | 0.8 | 0.7 | 0.6 | 0.4 | 0.4 | 0.4 | 0.5 | 0.4 | 1.5 | 1.7 | 1.6 | 1.6 | 0.5 |
| Expenditure | | | | | | | | | | | | | |
| Current expenditure | 20.8 | 19.6 | 18.7 | 20.2 | 21.6 | 20.8 | 19.0 | 19.2 | 18.7 | 18.6 | 17.4 | 16.9 | 18.2 |
| Capital & net lending | 5.7 | 6.7 | 6.5 | 6.5 | 5.9 | 4.5 | 4.7 | 4.3 | 6.0 | 5.6 | 6.1 | 5.7 | 6.7 |
| Current account balance | -2.2 | -2.4 | -1.0 | -3.4 | -4.9 | -4.4 | -3.3 | -3.9 | -2.7 | -2.4 | -1.6 | -2.0 | -3.7 |
| Primary deficit | -1.7 | -3.8 | -1.9 | -4.2 | -4.1 | -1.6 | -0.9 | -2.2 | -3.6 | -2.9 | -2.6 | -2.2 | -3.4 |
| Overall deficit (before grants) | -7.9 | -9.2 | -7.5 | -9.9 | -10.8 | -8.9 | -8.0 | -8.2 | -8.7 | -8.0 | -7.7 | -7.7 | -9.8 |
| Financing budget deficit | | | | | | | | | | | | | |
| Foreign financing | 1.9 | 1.7 | 0.7 | 0.4 | 1.4 | 0.6 | 2.9 | 8.2 | 3.4 | 2.5 | 3.7 | 0.6 | 4.8 |
| Net borrowings | 1.1 | 1.0 | 0.1 | 0 | 1.0 | 0.1 | 2.4 | 1.8 | 2.0 | 1.4 | 2.8 | -0.1 | 4.7 |
| Grants | 0.8 | 0.7 | 0.6 | 0.4 | 0.4 | 0.4 | 0.5 | 0.4 | 1.4 | 1.0 | 0.9 | 0.7 | 0.5 |
| Domestic financing | 3.4 | 7.1 | 6.8 | 9.4 | 8.8 | 8.0 | 4.5 | 5.8 | 5.2 | 5.6 | 3.6 | 7.0 | 5 |
| Market borrowings | 4.5 | 7.1 | 6.8 | 9.2 | 8.7 | 8.0 | 4.5 | 5.5 | 5.0 | 5.6 | 3.6 | 7.0 | 4.9 |
| Bank | -0.2 | 1.9 | 2.5 | 4.5 | 3.5 | -0.3 | -1.2 | 2.1 | 1.1 | 2.7 | 0.4 | 4.4 | 1 |
| Non-bank | 4.7 | 5.2 | 4.4 | 4.7 | 5.3 | 8.3 | 5.7 | 3.4 | 3.9 | 2.9 | 3.1 | 2.6 | 3.8 |
| Other borrowings | -1.1 | -0.1 | -0.1 | 0.3 | 0.1 | -0.1 | - | 0.2 | 0.2 | - | - | - | 0.2 |
| Privatisation proceeds(a) | 2.5 | 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, 1990-2009

| | Unit | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **1. Financial depth** | | | | | | | | | | | |
| Narrow money supply | M1/GDP | 12.3 | 12.5 | 11.8 | 11.9 | 12.2 | 11.3 | 10.2 | 10.7 | 10.5 | 10.9 |
| Broad money supply | M2/GDP | 28.1 | 29.7 | 30.5 | 32.1 | 33.1 | 34.2 | 33.0 | 35.9 | 34.6 | 36.0 |
| **2. Monetary expansion/contraction** | | | | | | | | | | | |
| Narrow money supply | % growth | 12.1 | 17.7 | 7.4 | 18.6 | 18.7 | 6.7 | 4.0 | 9.8 | 12.1 | 12.8 |
| Broad money supply | % growth | 18.5 | 22.1 | 17.4 | 23.4 | 19.7 | 19.2 | 10.8 | 13.8 | 9.7 | 13.3 |
| **3. Causal factors** | | | | | | | | | | | |
| 3.1 External banking assets | Rs. Mn. | 3,419.0 | 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 |
| | % growth | -27.7 | 258.5 | 70.8 | 129.8 | 34.0 | 3.2 | -7.0 | 44.3 | 5.0 | -10.5 |
| 3.2 Domestic credit | Rs. Mn. | 115,964.3 | 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 |
| | % growth | 13.3 | 10.2 | 12.7 | 4.6 | 15.3 | 28.8 | 12.7 | 8.1 | 14.3 | 20.1 |
| 3.2.1 Government | Rs. Mn. | 35,358.0 | 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 |
| | % growth | -2.1 | 0.1 | -6.6 | -18.4 | 4.3 | 25.1 | 37.8 | -4.5 | 26.4 | 46.6 |
| 3.2.2 Private sector | Rs. Mn. | 80,606.3 | 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 |
| | % growth | 21.8 | 14.6 | 20.1 | 11.5 | 17.7 | 29.3 | 8.2 | 11.1 | 11.8 | 13.9 |
| 3.3 Other liabilities | Rs. Mn. | -28,838.0 | -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 |
| | % growth | -5.8 | 2.1 | 19.4 | 10.0 | 20.5 | 32.6 | -1.3 | 21.0 | 20.9 | 12.1 |

Contd…

| | Unit | 2000 | 2001 | 2002 | 2003 (b) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **1. Financial depth** | | | | | | | | | | | |
| Narrow money supply | M1/GDP | 10.5 | 9.8 | 8.8 | 8.9 | 9.0 | 9.4 | 8.8 | 7.4 | 6.286556336 | 6.3 |
| Broad money supply | M2/GDP | 36.0 | 36.0 | 32.2 | 31.9 | 32.9 | 33.6 | 33.8 | 32.1 | 29.06823849 | 29.1 |
| 2. Monetary expansion/contraction | | | | | | | | | | | |
| Narrow money supply | % growth | 9.1 | 3.2 | 14.0 | 16.0 | 14.2 | 18.3 | 11.2 | 2.7 | | 4 |
| Broad money supply | % growth | 13.0 | 11.4 | 13.2 | 15.3 | 15.6 | 16.4 | 17.1 | 16.6 | | 8.5 |
| 3. Causal factors | | | | | | | | | | | |
| 3.1 External banking assets | Rs. Mn. | 59,448.0 | 82,966.0 | 101,717.0 | 129,487.0 | 129,152.0 | 167,147.0 | 185,005.0 | 225,989.0 | 273,000.0 | 88,760.0 |
| | % growth | -29.1 | 39.6 | 22.6 | 27.3 | -0.3 | 22.7 | 9.6 | 22.1 | 18.1 | -60.7 |
| 3.2 Domestic credit | Rs. Mn. | 469,084.0 | 513,457.0 | 548,578.0 | 602,898.0 | 734,605.0 | 864,392.0 | 1,138,805.0 | 1,607,800.0 | 1,607,800.0 | 1,897,500.0 |
| | % growth | 25.4 | 9.5 | 6.8 | 9.9 | 21.8 | 11.6 | 24.1 | 44.9 | 12.6 | 43.0 |
| 3.2.1 Government | Rs. Mn. | 134,484.0 | 161,735.0 | 153,171.0 | 143,444.0 | 181,111.0 | 249,565.0 | 357,289.0 | 374,100.0 | 273,312.0 | 572,000.0 |
| | % growth | 56.6 | 20.3 | -5.3 | -6.3 | 26.3 | 11.6 | 30.1 | 10.5 | -30.7 | 13.0 |
| 3.2.2 Private Sector | Rs. Mn. | 334,599.0 | 351,722.0 | 395,407.0 | 430,575.0 | 526,236.0 | 680,693.0 | 856,842.0 | 1,184,500.0 | 1,029,993.0 | 1,278,500.0 |
| | % growth | 16.1 | 5.1 | 12.4 | 16.2 | 22.2 | 22.7 | 20.0 | 33.1 | 16.8 | 29.0 |
| 3.3 Other liabilities | Rs. Mn. | -123,863.0 | -145,696.0 | -139,899.0 | -151,638.0 | -175,793.0 | -208,608.0 | -330,545.0 | -431,800.0 | -381,552.0 | -472,000.0 |
| | % growth | 23.9 | 17.6 | 4.0 | 8.5 | 15.9 | 15.7 | 36.8 | 12.1 | 13.4 | 10.7 |

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, 1996-2009

| (%, end of period) | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank rate | 17.0 | 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 |
| Treasury bills, yield rates | | | | | | | | | | | | | | |
| 3 Month | 17.5 | 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 |
| 12 Month | 17.4 | 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 |
| Repurchase rate | 12.8 | 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 |
| Call money rate | | | | | | | | | | | | | | |
| Maximum | 31.0 | 20.0 | 16.5 | 14.3 | 32.0 | 13.0 | 10.9 | 8.2 | 10.6 | 11.1 | 15.1 | 40.0 | 19.0 | 9.0 |
| Minimum | 13.0 | 9.0 | 11.3 | 9.8 | 20.3 | 12.5 | 10.2 | 7.4 | 9.5 | 10.5 | 12.7 | 16.0 | 13.0 | 8.0 |
| Weighted average prime lending rate | 18.4 | 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 |
| Commercial bank saving | | | | | | | | | | | | | | |
| Maximum | 13.0 | 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 |
| Minimum | 4.5 | 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 |
| NSB saving | 12.0 | 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 |
| Commercial bank fixed deposit (one year) | | | | | | | | | | | | | | |
| Maximum | 17.8 | 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 |
| Minimum | 12.0 | 8.5 | 9.0 | 9.0 | 9.0 | 9.5 | 7.5 | 5.0 | 5.0 | 5.5 | 5.5 | 8.5 | 8.5 | 7.2 |
| NSB fixed deposit (one year, paid on maturity) | 15.0 | 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 |

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, 1989-2009

| | CCPI (1952 = 100) | % change | CCPI (2002 = 100) | % change | WPI (1974 = 100) | % change | GDPD (1996 = 100) | % change |
|---|---|---|---|---|---|---|---|---|
| 1989 | 830.2 | 11.6 | | | 532.9 | 9.0 | 46.9 | 9.6 |
| 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 | 3.4 | 3,500.9 | -4.2 | 315.3 | 5.7 |

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, 1989-2009 (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(c) | 2171.4 | 76.7 | 4502.9 | 159.0 |

Notes: The wage rates used in the calculation of index numbers are minimum wages.
(a): Combined index for workers in agriculture, industry and commerce, and services.
(b): Combined index for non-executive officers and minor employees.
(c): Provisional.

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

## Table A14: Sri Lanka's Direction of Foreign Trade, 1992-2009

| | Unit | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **1.Exports to selected countries and groupings** | | | | | | | | | | |
| U.S.A | US$ mn. | 837.6 | 1,006.8 | 1,115.3 | 1,353.5 | 1,395.8 | 1,666.4 | 1,890.2 | 1,791.8 | 2,192.5 |
| U.K. | US$ mn. | 170.2 | 203.5 | 285.4 | 345.3 | 388.6 | 525.4 | 530.4 | 604.2 | 736.7 |
| Germany | US$ mn. | 211.8 | 227.5 | 222.5 | 254.3 | 239.3 | 230 | 231.9 | 215.7 | 230.2 |
| Japan | US$ mn. | 128 | 148 | 165.3 | 200.4 | 256.4 | 234.2 | 196.1 | 159.1 | 229.7 |
| EC % of total exports | | 32.8 | 31.2 | 31.3 | 31 | 29.4 | 35 | 33.6 | 35.3 | 33.4 |
| Germany | % of exports to EC | 26.3 | 25.5 | 22.2 | 21.6 | 19.8 | 17.1 | 17.9 | 16.2 | 15.2 |
| UK | % of exports to EC | 21.1 | 22.8 | 28.4 | 29.3 | 32.2 | 39 | 41 | 45 | 48.5 |
| ASEAN | % of total exports | 2.4 | 2.9 | 3.9 | 3.7 | 2.8 | 3.4 | 3 | 3.1 | 3.5 |
| singapore | % of exports to ASEAN | 56.5 | 58.6 | 60.6 | 52.3 | 52 | 43.7 | 38.1 | 37.9 | 38.7 |
| Malaysia | % of exports to ASEAN | 7.7 | 4 | 4.6 | 15.7 | 23.5 | 16.6 | 10.1 | 6 | 5 |
| SAARC | % of total exports | 2.3 | 2.5 | 2.7 | 2.7 | 2.6 | 3.1 | 3 | 3.8 | 4.2 |
| India | % of exports to SAARC | 20.3 | 27.6 | 27.2 | 31.3 | 39.6 | 37 | 33.2 | 33.7 | 30.6 |
| NAFTA | % of total exports | 36.4 | 37.1 | 36.8 | 37.3 | 35.6 | 45.5 | 51.5 | 49.8 | 50.5 |
| USA | % of exports to NAFTA | 93.5 | 94.9 | 94.4 | 95.4 | 95.6 | 95.3 | 95.4 | 95.1 | 95.4 |
| Canada | % of exports to NAFTA | 4.3 | 3.4 | 4.3 | 3.5 | 3.1 | 3.2 | 3.1 | 3.1 | 3.1 |
| APEC % of total exports | | 47.6 | 48.7 | 49.6 | 50.1 | 48.7 | 59.8 | 58.9 | 56.3 | 57.8 |
| USA | % of exports to APEC | 71.5 | 72.3 | 70.1 | 71 | 69.8 | 72.4 | 83.4 | 84.1 | 83.5 |
| Japan | % of exports to APEC | 10.9 | 10.6 | 10.4 | 10.5 | 12.8 | 10.2 | 8.6 | 7.5 | 8.7 |
| Singapore | % of exports to APEC | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 1.9 | 2.1 | 2.3 |
| **2. Imports from selected countries and groupings** | | | | | | | | | | |
| Japan | US$ mn. | 415.6 | 452.6 | 526.6 | 498.6 | 497.3 | 479.3 | 555.9 | 560.9 | 646 |
| India | US$ mn. | 301.9 | 342.9 | 404.4 | 469.2 | 561.9 | 559.8 | 539.4 | 511.6 | 600.1 |
| Hong Kong | US$ mn. | 241 | 312.4 | 316.6 | 357.4 | 354.1 | 411.3 | 411 | 459.1 | 515.9 |
| U.S.A | US$ mn. | 159.4 | 131.3 | 284.7 | 172.7 | 198.3 | 186.6 | 229.5 | 216.2 | 254.9 |
| U.K. | US$ mn. | 172.8 | 184.8 | 247.6 | 242.6 | 251.7 | 282.4 | 304.8 | 251.1 | 311.4 |
| Taiwan | US$ mn. | 214 | 225.7 | 250.2 | 286.4 | 287.8 | 372.1 | 378.7 | 347.1 | 390.1 |
| EC % of total Imports | | 14.7 | 15.8 | 16.3 | 15.3 | 15.4 | 17.6 | 23.3 | 19.4 | 18.8 |
| Germany | % of imports from EC | 24.7 | 21.9 | 21.8 | 20.5 | 18.4 | 20.5 | 20.2 | 15.8 | 16.5 |
| UK | % of imports from EC | 33.5 | 29.2 | 31.8 | 29.8 | 30.1 | 31.6 | 30.3 | 29.1 | 32.8 |
| ASEAN | % of total imports | 15.1 | 14.5 | 13.2 | 12.8 | 12.6 | 14.7 | 19.6 | 21.1 | 21 |
| Singapore | % of imports from ASEAN | 44.8 | 35.8 | 37.2 | 36.6 | 37.7 | 38.3 | 36.8 | 48.2 | 46.7 |
| Malaysia | % of imports from ASEAN | 24.1 | 29.5 | 28.8 | 31.1 | 26.7 | 22.3 | 22.8 | 18 | 20.5 |
| SAARC | % of total imports | 11.8 | 10.7 | 10.3 | 10.2 | 11.9 | 13.1 | 15.1 | 14.2 | 14 |
| India | % of imports from SAARC | 72.7 | 80.1 | 82.7 | 86.1 | 86.9 | 83.9 | 83.3 | 81.4 | 84.8 |
| NAFTA | % of total imports | 5.2 | 3.7 | 6.3 | 3.6 | 4.3 | 5.7 | 7.1 | 5.5 | 6 |
| USA | % of imports from NAFTA | 87 | 89.4 | 95 | 91.3 | 84.6 | 64.7 | 75.0 | 89 | 84.1 |
| Canada | % of imports from NAFTA | 11.6 | 10.1 | 4.6 | 7.9 | 10 | 19 | 13.6 | 9.3 | 15.6 |
| APEC % of total Imports | | 57.1 | 55.7 | 55.4 | 50.2 | 50.4 | 61.9 | 45.9 | 53.4 | 54.9 |
| USA | % of imports from APEC | 8 | 5.9 | 10.8 | 6.5 | 7.3 | 5.9 | 11.6 | 9.1 | 9.2 |
| Japan | % of imports from APEC | 11.9 | 11.3 | 11 | 9.4 | 9.2 | 9.4 | 28.1 | 23.6 | 23.2 |
| Singapore | % of imports from APEC | 11.9 | 9.3 | 8.8 | 9.3 | 9.5 | 9.1 | 15.7 | 19 | 17.8 |

Cont../

| | Unit | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009(a) |
|---|---|---|---|---|---|---|---|---|---|---|
| **1. Exports to selected countries and groupings** | | | | | | | | | | |
| U.S.A | US$ mn. | 1,925.9 | 1,764.0 | 1,777.4 | 1,869.3 | 1988.1 | 2,005.5 | 1,970.0 | 1,869.3 | 1,576.0 |
| U.K. | US$ mn. | 576.4 | 590.3 | 640.4 | 779.2 | 777.3 | 880.1 | 1,018.0 | 1,090.4 | 1,024.3 |
| Germany | US$ mn. | 198.5 | 199.3 | 232.4 | 274.1 | 271.8 | 328.8 | 437.9 | 405.3 | 347.2 |
| Japan | US$ mn. | 185.8 | 140.3 | 165.4 | 157.6 | 144.6 | 163.6 | 159.6 | 159.0 | 139.0 |
| EU % of total exports | | 32.3 | 35.2 | 35.9 | 38.3 | 37.2 | 40.7 | 37.6 | 37.3 | 38.5 |
| Germany | % of exports to EU | 15.8 | 14.4 | 15.3 | 14.9 | 13.9 | 14.5 | 15.2 | 13.4 | 12.7 |
| UK | % of exports to EU | 45.8 | 42.8 | 42.2 | 42.3 | 39.9 | 38.7 | 35.4 | 35.9 | 37.6 |
| ASEAN | % of total exports | 2.9 | 2.6 | 2.5 | 2.6 | 2.9 | 3.4 | 2.8 | 2.9 | 3.7 |
| singapore | % of exports to ASEAN | 51.4 | 63.6 | 61.8 | 67.9 | 52.2 | 39.0 | 37.6 | 31.8 | 32.7 |
| Malaysia | % of exports to ASEAN | 5.9 | 8.4 | 11.7 | 7.1 | 9.5 | 12.9 | 16.7 | 18.6 | 17.7 |
| SAARC | % of total exports | 4.1 | 6.5 | 8.3 | 10.5 | 12.5 | 10.7 | 8.5 | 6.9 | 6.2 |
| India | % of exports to SAARC | 45.6 | 66.5 | 70.0 | 77.3 | 86.7 | 81.6 | 79.8 | 74.6 | 73.0 |
| NAFTA | % of total exports | 52.0 | 47.6 | 44.5 | 41.2 | 40.4 | 38.1 | 27.6 | 24.9 | 24.1 |
| USA | % of exports to NAFTA | 95.1 | 94.6 | 94.5 | 94.5 | 94.1 | 94.2 | 93.3 | 92.4 | 92.2 |
| Canada | % of exports to NAFTA | 3.4 | 3.3 | 3.4 | 3.6 | 3.7 | 3.6 | 3.7 | 4.4 | 4.3 |
| APEC | % of total exports | 59.5 | 54.6 | 52.2 | 47.8 | 46.2 | 44.0 | 37.1 | 35.0 | 34.0 |
| USA | % of exports to APEC | 83.1 | 82.5 | 80.6 | 81.4 | 82.3 | 81.5 | 69.4 | 65.6 | 65.3 |
| Japan | % of exports to APEC | 8.0 | 6.6 | 7.4 | 6.9 | 5.9 | 6.6 | 5.6 | 5.6 | 5.8 |
| Singapore | % of exports to APEC | 2.5 | 3.1 | 3.0 | 3.8 | 3.3 | 3.0 | 2.8 | 2.7 | 3.6 |
| **2. Imports from selected countries and groupings** | | | | | | | | | | |
| Japan | US$ mn. | 336.9 | 355.3 | 448.1 | 411.7 | 379.7 | 449.6 | 413.2 | 424.5 | 224.0 |
| India | US$ mn. | 709.3 | 852.9 | 1,073.2 | 1,439.1 | 1,835.4 | 2,172.9 | 2,610.1 | 3,443.0 | 1,820.3 |
| Hong Kong | US$ mn. | 500.3 | 491.0 | 559.5 | 619.4 | 648.2 | 659.1 | 724.8 | 694.6 | 517.0 |
| U.S.A | US$ mn. | 265.6 | 218.7 | 188.3 | 240.1 | 204.5 | 200.6 | 412.1 | 272.6 | 259.2 |
| U.K. | US$ mn. | 220.6 | 262.9 | 272.9 | 312.1 | 276.2 | 303.4 | 229.8 | 243.2 | 254.0 |
| Taiwan | US$ mn. | 322.8 | 288.0 | 276.1 | 290.8 | 278.7 | 274.8 | 263.6 | 251.2 | 201.4 |
| EU % of total Imports | | 18.0 | 18.0 | 18.8 | 18.2 | 16.7 | 15.9 | 12.4 | 12.4 | -12.6 |
| Germany | % of imports from EC | 16.3 | 13.5 | 13.4 | 15.7 | 14.3 | 16.2 | 16.4 | 16.2 | 15.9 |
| UK | % of imports from EC | 26.0 | 29.3 | 25.5 | 25.2 | 22.2 | 22.1 | 16.5 | 14.0 | 19.7 |
| ASEAN | % of total imports | 19.4 | 19.1 | 19.8 | 20.0 | 20.5 | 21.7 | 16.7 | 15.7 | 18.8 |
| Singapore | % of imports from ASEAN | 44.8 | 46.0 | 46.2 | 51.2 | 48.2 | 52.9 | 59.3 | 56.7 | 55.6 |
| Malaysia | % of imports from ASEAN | 22.7 | 21.7 | 25.6 | 24.1 | 25.7 | 23.7 | 15.0 | 16.3 | 15.0 |
| SAARC | % of total imports | 15.1 | 19.1 | 19.9 | 23.1 | 26.6 | 27.2 | 24.9 | 26.1 | 20.1 |
| India | % of imports from SAARC | 84.4 | 89.4 | 91.5 | 91.4 | 92.6 | 92.4 | 92.7 | 94.1 | 88.6 |
| NAFTA | % of total imports | 6.2 | 4.7 | 4.1 | 4.1 | 3.9 | 4.8 | 4.4 | 4.7 | 5.2 |
| USA | % of imports from NAFTA | 91.5 | 93.8 | 85.4 | 84.4 | 71.2 | 48.0 | 83.5 | 41.6 | 48.0 |
| Canada | % of imports from NAFTA | 8.2 | 5.8 | 14.2 | 15.3 | 28.0 | 51.4 | 16.1 | 57.9 | 51.6 |
| APEC | % of total imports | 55.6 | 52.1 | 49.2 | 46.4 | 44.0 | 43.8 | 42.5 | 39.4 | 46.9 |
| USA | % of imports from APEC | 10.1 | 8.5 | 7.1 | 7.6 | 6.2 | 5.3 | 8.6 | 4.9 | 5.4 |
| Japan | % of imports from APEC | 12.8 | 13.8 | 16.0 | 13 | 11.6 | 11.9 | 8.6 | 7.7 | 4.7 |
| Singapore | % of imports from APEC | 15.6 | 16.8 | 18.7 | 20.5 | 22.4 | 26.2 | 23.3 | 22.5 | 22.1 |

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, 1990-2009

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| **1. Consumer goods** | | | | | | | | | | |
| Value (US$ mn.) | 709.4 | 782.1 | 734.6 | 774.5 | 930.6 | 982.0 | 1,030.0 | 1,084.0 | 1,128.0 | 1,131.0 |
| Growth | 22.0 | 10.3 | -6.1 | 5.4 | 20.1 | 5.6 | 5.2 | 4.9 | 4.0 | 0.3 |
| % of totalilmports | 26.4 | 25.5 | 21.0 | 19.3 | 19.5 | 18.5 | 19.0 | 18.5 | 19.2 | 18.9 |
| 1.1 Food | | | | | | | | | | |
| Value (US$ mn.) | 390.0 | 404.9 | 419.7 | 415.9 | 483.9 | 522.0 | 597.0 | 642.0 | 596.0 | 551.0 |
| Growth | 7.0 | 3.8 | 3.7 | -0.9 | 16.4 | 7.8 | 14.3 | 7.5 | -7.2 | -7.6 |
| % of total imports | 14.5 | 13.2 | 12.0 | 10.4 | 10.2 | 9.8 | 11.0 | 11.0 | 10.1 | 9.2 |
| 1.2 Other | | | | | | | | | | |
| Value (US$ mn.) | 319.4 | 377.2 | 314.9 | 358.7 | 446.6 | 461.0 | 433.0 | 442.0 | 532.0 | 581.0 |
| Growth | 47.1 | 18.1 | -16.5 | 13.9 | 24.5 | 3.1 | -5.8 | 1.8 | 20.6 | 9.2 |
| % of total imports | 11.9 | 12.3 | 9.0 | 8.9 | 9.4 | 8.7 | 8.0 | 7.5 | 9.0 | 9.7 |
| **2. Intermediate goods** | | | | | | | | | | |
| Value (US$ mn.) | 1,391.7 | 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 |
| Growth | 10.9 | 11.6 | 21.3 | 14.3 | 12.6 | 19.6 | 2.6 | 8.9 | -3.9 | 1.9 |
| % of total imports | 51.8 | 50.7 | 53.8 | 53.7 | 50.9 | 54.6 | 54.6 | 55.2 | 52.8 | 53.0 |
| 2.1 Petroleum | | | | | | | | | | |
| Value (US$ mn.) | 358.7 | 311.5 | 318.0 | 309.2 | 296.3 | 386.9 | 479.9 | 539.5 | 345.0 | 500.0 |
| Growth | 54.4 | -13.2 | 2.1 | -2.8 | -4.2 | 30.6 | 24.1 | 12.4 | -36.1 | 44.9 |
| % of total imports | 13.3 | 10.2 | 9.1 | 7.7 | 6.2 | 7.3 | 8.8 | 9.2 | 5.9 | 8.4 |
| 2.2 Textiles | | | | | | | | | | |
| Value (US$ mn.) | 335.8 | 498.2 | 765.5 | 865.1 | 1,038.1 | 1,158.5 | 1,168.8 | 1,386.9 | 1,397.0 | 1,320.0 |
| Growth | 21.3 | 48.3 | 53.7 | 13.0 | 20.0 | 11.6 | 0.9 | 18.7 | 0.6 | -5.5 |
| % of total imports | 12.5 | 16.3 | 21.9 | 21.6 | 21.8 | 21.8 | 21.5 | 23.7 | 23.7 | 22.1 |
| 3. Investment goods | | | | | | | | | | |
| Value (US$ mn.) | 584.4 | 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 |
| Growth | 75.3 | 23.2 | 18.2 | 23.0 | 30.5 | -13.0 | 1.5 | 10.0 | 11.3 | 6.0 |
| % of total imports | 21.7 | 23.5 | 24.3 | 26.1 | 28.7 | 22.4 | 22.1 | 22.6 | 25.1 | 26.2 |
| 4. Total imports | | | | | | | | | | |
| Value (US$ mn.) | 2,689.0 | 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 |
| Growth | 20.8 | 13.8 | 14.5 | 14.5 | 18.8 | 11.4 | 2.6 | 7.7 | 0.4 | 1.5 |

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| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009(a) |
|---|---|---|---|---|---|---|---|---|---|---|
| **1. Consumer goods** | | | | | | | | | | |
| Value (US$ mn.) | 1,261.0 | 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 |
| Growth | 11.5 | -10.7 | 5.6 | 13.0 | 7.1 | 4.4 | 18.6 | -0.8 | 23.0 | -21.6 |
| % of Total imports | 17.3 | 18.9 | 19.5 | 20.1 | 18.0 | 16.9 | 17.4 | 15.6 | 15.5 | 16.8 |
| 1.1 Food | | | | | | | | | | |
| Value (US$ mn.) | 566.0 | 545.0 | 566.0 | 564.0 | 596.0 | 611.0 | 757.0 | 831.0 | 1,130.0 | 987.0 |
| Growth | 2.7 | -3.7 | 3.9 | -0.4 | 5.7 | 2.5 | 23.9 | 9.8 | 36.0 | -13.3 |
| % of total imports | 7.8 | 9.1 | 9.3 | 8.5 | 7.5 | 6.9 | 7.4 | 7.3 | 8.1 | 9.7 |
| 1.2 Other | | | | | | | | | | |
| Value (US$ mn.) | 696.0 | 581.0 | 623.0 | 780.0 | 844.0 | 891.0 | 1,024.0 | 937.0 | 1,044.0 | 726.0 |
| Growth | 19.8 | -16.5 | 7.2 | 25.2 | 8.2 | 5.6 | 14.9 | -8.5 | 11.4 | -30.6 |
| % of total imports | 9.5 | 9.7 | 10.2 | 11.7 | 10.6 | 10.1 | 10.0 | 8.3 | 7.5 | 7.1 |
| **2. Intermediate goods** | | | | | | | | | | |
| Value (US$ mn.) | 3,916.0 | 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 |
| Growth | 23.6 | -12.4 | 5.6 | 9.0 | 22.3 | 13.0 | 12.9 | 9.6 | 29.1 | -32.0 |
| % of total imports | 53.5 | 57.4 | 59.3 | 59.2 | 60.4 | 61.6 | 60.1 | 59.8 | 62.2 | 58.1 |
| 2.1 Petroleum | | | | | | | | | | |
| Value (US$ mn.) | 901.0 | 731.0 | 789.0 | 838.0 | 1209.0 | 1,655.0 | 2,070.0 | 2,501.0 | 3,368.0 | 2,167.0 |
| Growth | 80.2 | -18.9 | 7.9 | 6.2 | 44.3 | 36.9 | 25.1 | 20.8 | 34.7 | -35.6 |
| % of total imports | 12.3 | 12.2 | 12.9 | 13.7 | 15.1 | 18.7 | 20.2 | 22.1 | 24.0 | 21.2 |
| 2.2 Textiles | | | | | | | | | | |
| Value (US$ mn.) | 1,471.0 | 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 |
| Growth | 11.4 | -10.3 | 0.1 | 3.9 | 10.3 | 1.1 | 1.0 | 5.6 | 4.3 | -15.1 |
| % of total imports | 20.1 | 22.1 | 21.6 | 20.6 | 18.9 | 17.3 | 15.1 | 14.5 | 12.2 | 14.1 |
| **3. Investment goods** | | | | | | | | | | |
| Value (US$ mn.) | 1,737.0 | 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 |
| Growth | 11.0 | -37.8 | 8.1 | 12.9 | 26.5 | 11.9 | 20.2 | 19.5 | 10.9 | -19.6 |
| % of total imports | 23.6 | 18.1 | 19.2 | 19.8 | 20.8 | 21.1 | 21.9 | 23.8 | 21.3 | 24.0 |
| **4. Total imports** | | | | | | | | | | |
| Value (US$ mn.) | 7,320.0 | 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 |
| Growth | 22.4 | -18.4 | 2.2 | 9.3 | 19.9 | 10.8 | 15.7 | 10.2 | 24.0 | -27.6 |

Notes: (a): Provisional.

Sources: Central Bank of Sri Lanka, *Annual Report*, various issues; IPS database.

## Table A16: Structure of Commodity Exports, 1990-2009

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **1. Agricultural Exports** | | | | | | | | | | | |
| Value (US$ Mn.) | 721.0 | 641.4 | 604.7 | 655.3 | 702.1 | 829.0 | 961.0 | 1060.0 | 1088.0 | 947.0 | 1088.0 |
| Growth | 17.9 | -11.0 | -5.7 | 8.4 | 7.1 | 18.1 | 16.1 | 10.3 | 2.6 | -13.0 | 2.6 |
| % of Total Exports | 36.3 | 32.3 | 24.6 | 22.9 | 21.9 | 21.8 | 23.5 | 22.9 | 22.9 | 20.6 | 22.9 |
| 1.1 Plantation Crops | | | | | | | | | | | |
| Value (US$ Mn.) | 617.7 | 538.5 | 468.1 | 514.9 | 546.8 | 660.9 | 801.3 | 882.1 | 878.1 | 738.0 | 878.1 |
| Growth | 19.1 | -12.8 | -13.1 | 10.0 | 6.2 | 20.9 | 21.2 | 10.1 | -0.4 | -16.0 | -0.4 |
| % of Total Exports | 31.1 | 27.1 | 19.0 | 18.0 | 17.0 | 17.4 | 19.5 | 19.0 | 18.0 | 15.8 | 18.0 |
| 1.1.1 Tea | | | | | | | | | | | |
| Value (US$ Mn.) | 494.8 | 431.9 | 339.8 | 412.7 | 424.2 | 481.0 | 615.0 | 719.0 | 780.0 | 621.0 | 780.0 |
| Growth | 30.5 | -12.7 | -21.3 | 21.4 | 2.8 | 13.3 | 28.2 | 17.0 | 8.5 | -20.4 | 8.5 |
| % of Total Exports | 24.9 | 21.7 | 13.8 | 14.4 | 13.2 | 12.6 | 15.0 | 15.5 | 16.4 | 13.5 | 16.4 |
| 1.1.2 Rubber | | | | | | | | | | | |
| Value (US$ Mn.) | 76.9 | 63.8 | 67.5 | 64.0 | 72.5 | 111.0 | 104.0 | 79.0 | 44.0 | 33.0 | 44.0 |
| Growth | -10.9 | -17.0 | 5.8 | -5.3 | 13.3 | 53.8 | -6.6 | -24.4 | -44.3 | -25.0 | -44.3 |
| % of Total Exports | 3.9 | 3.2 | 2.7 | 2.2 | 2.3 | 2.9 | 2.5 | 1.7 | 0.9 | 0.7 | 0.9 |
| 1.1.3 Coconut Kernel Products | | | | | | | | | | | |
| Value (US$ Mn.) | 46.0 | 42.8 | 60.8 | 38.3 | 50.1 | 69.0 | 81.0 | 82.0 | 56.0 | 84.0 | 56.0 |
| Growth | -13.7 | -7.0 | 42.2 | -37.0 | 30.9 | 37.1 | 17.7 | 2.0 | -31.8 | 50.0 | -31.8 |
| % of Total Exports | 2.3 | 2.2 | 2.5 | 1.3 | 1.6 | 1.8 | 2.0 | 1.8 | 1.2 | 1.8 | 1.2 |
| 1.2. Minor Agricultural Crops | | | | | | | | | | | |
| Value (US$ Mn.) | 79.9 | 82.4 | 113.1 | 120.7 | 129.2 | 134.0 | 132.0 | 145.0 | 170.0 | 165.0 | 170.0 |
| Growth | 19.5 | 3.2 | 37.3 | 6.7 | 7.0 | 3.5 | -1.4 | 9.9 | 17.7 | -2.9 | 17.7 |
| % of Total Exports | 4.0 | 4.1 | 4.6 | 4.2 | 4.0 | 3.5 | 3.2 | 3.1 | 3.6 | 3.6 | 3.6 |
| **2. Mineral Exports** | | | | | | | | | | | |
| Value (US$ Mn.) | 87.0 | 61.9 | 62.7 | 75.7 | 86.9 | 87.0 | 96.0 | 90.0 | 60.0 | 64.0 | 60.0 |
| Growth | 16.4 | -28.8 | 1.3 | 20.7 | 14.7 | -0.1 | 10.3 | -6.7 | -33.1 | 6.7 | -33.1 |
| % of Total Exports | 4.4 | 3.1 | 2.5 | 2.6 | 2.7 | 2.3 | 2.3 | 1.9 | 1.3 | 1.4 | 1.3 |
| **3. Industrial Exports** | | | | | | | | | | | |
| Value (US$ Mn.) | 1,036.1 | 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 | 3,607.0 |
| Growth 31.2 | 19.4 | 42.5 | 19.2 | 14.1 | 19.6 | 5.0 | 14.3 | 3.2 | -1.6 | 3.2 | |
| % of Total Exports | 52.2 | 62.3 | 71.7 | 73.4 | 74.8 | 75.4 | 73.4 | 74.1 | 74.9 | 77.0 | 74.9 |
| 3.1 Textile & Garments | | | | | | | | | | | |
| Value (US$ Mn.) | 628.1 | 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 | 2,460.0 |
| Growth | 28.4 | 28.0 | 51.0 | 16.3 | 9.9 | 19.4 | 2.9 | 19.6 | 8.2 | -1.4 | 8.2 |
| % of Total Exports | 31.7 | 40.5 | 49.3 | 49.3 | 48.4 | 48.7 | 46.4 | 49.0 | 52.0 | 52.7 | 52.0 |
| 3.2 Petrolium Products | | | | | | | | | | | |
| Value (US$ Mn.) | 99.2 | 79.5 | 63.2 | 78.8 | 80.1 | 85.0 | 104.0 | 97.0 | 73.0 | 74.0 | 73.0 |
| Growth | 59.5 | -19.9 | -20.5 | 24.6 | 1.7 | 5.9 | 22.4 | -6.3 | -25.9 | 1.4 | -25.9 |
| % of Total Exports | 5.0 | 4.0 | 2.6 | 2.8 | 2.5 | 2.2 | 2.5 | 2.1 | 1.5 | 1.6 | 1.5 |
| **4. Total Commodity Exports Inc. Petroleum** | | | | | | | | | | | |
| Value (US$ Mn.) | 1,983.9 | 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 | 4,871.0 |
| Growth 27.3 | 0.2 | 23.8 | 16.4 | 12.0 | 18.6 | 10.3 | 12.8 | 2.9 | -3.8 | 2.9 | |
| **5. Total Commodity Exports Excl. Petroleum** | | | | | | | | | | | |
| Value (US$ Mn.) | 1,884.7 | 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 | 4,725.0 |
| Growth | 26.0 | 1.2 | 25.7 | 16.2 | 12.3 | 19.0 | 7.2 | 13.8 | 4.0 | -4.0 | 4.0 |

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| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007(a) | 2008 | 2009 (b) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **1. Agricultural Exports** | | | | | | | | | | | |
| Value (US$ Mn.) | 947.0 | 1005.0 | 932.0 | 938.0 | 965.0 | 1065.2 | 1,153.8 | 1,292.7 | 1,507.2 | 1,854.8 | 1,689.6 |
| Growth | -13.0 | 6.1 | -7.3 | 0.6 | 2.9 | 10.4 | 8.3 | 12.0 | 16.6 | 23.1 | -8.9 |
| % of Total Exports | 20.6 | 18.2 | 19.3 | 20.0 | 18.8 | 18.5 | 18.2 | 18.8 | 19.7 | 22.8 | 23.8 |
| 1.1 Plantation Crops | | | | | | | | | | | |
| Value (US$ Mn.) | 738.0 | 806.0 | 755.0 | 728.0 | 770.0 | 849.0 | 905.9 | 1,027.1 | 1,194.9 | 1,479.0 | 1,449.3 |
| Growth | -16.0 | 9.2 | -6.3 | -3.6 | 5.8 | 10.3 | 6.7 | 13.4 | 16.3 | 23.8 | -2.0 |
| % of Total Exports | 15.8 | 14.3 | 15.5 | 15.3 | 14.8 | 14.5 | 14.0 | 14.4 | 15.6 | 18.2 | 20.4 |
| 1.1.1 Tea | | | | | | | | | | | |
| Value (US$ Mn.) | 621.0 | 700.0 | 690.0 | 660.0 | 683.0 | 739.0 | 810.2 | 881.2 | 1,025.2 | 1,271.5 | 1,184.7 |
| Growth | -20.4 | 12.7 | -1.4 | -4.3 | 3.5 | 8.2 | 9.6 | 8.8 | 16.3 | 24.0 | -6.8 |
| % of Total Exports | 13.5 | 12.7 | 14.3 | 14.1 | 13.3 | 12.8 | 12.8 | 12.8 | 13.4 | 15.6 | 16.7 |
| 1.1.2 Rubber | | | | | | | | | | | |
| Value (US$ Mn.) | 33.0 | 29.0 | 24.0 | 27.0 | 39.0 | 51.0 | 46.9 | 93.1 | 109.4 | 125.1 | 98.5 |
| Growth | -25.0 | -12.1 | -17.2 | 12.5 | 44.4 | 30.8 | -8.0 | 98.5 | 17.5 | 14.4 | -21.2 |
| % of Total Exports | 0.7 | 0.5 | 0.5 | 0.6 | 0.8 | 0.9 | 0.7 | 1.4 | 1.4 | 1.5 | 1.4 |
| 1.1.3 Coconut Kernel Products | | | | | | | | | | | |
| Value (US$ Mn.) | 84.0 | 77.0 | 41.0 | 41.0 | 48.0 | 59.0 | 48.8 | 52.8 | 60.3 | 82.4 | 166.1 |
| Growth | 50.0 | -8.3 | -46.8 | 0.0 | 17.1 | 22.9 | -17.3 | 8.2 | 14.2 | 36.7 | 101.6 |
| % of Total Exports | 1.8 | 1.4 | 0.9 | 0.9 | 0.9 | 1.0 | 0.8 | 0.8 | 0.8 | 1.0 | 2.3 |
| 1.2. Minor Agricultural Crops | | | | | | | | | | | |
| Value (US$ Mn.) | 165.0 | 155.0 | 136.0 | 168.0 | 150.0 | 162.0 | 183.4 | 194.6 | 231.5 | 287.3 | 240.3 |
| Growth | -2.9 | -6.1 | -12.3 | 23.5 | -10.7 | 8.0 | 13.2 | 6.1 | 19.0 | 24.1 | -16.4 |
| % of Total Exports | 3.6 | 2.8 | 2.8 | 3.5 | 2.9 | 2.8 | 2.9 | 2.8 | 3.0 | 3.5 | 3.4 |
| **2. Mineral Exports** | | | | | | | | | | | |
| Value (US$ Mn.) | 64.0 | 97.0 | 86.0 | 90.0 | 84.0 | 120.0 | 143.3 | 119.9 | 127.8 | 76.2 | 68.9 |
| Growth | 6.7 | 51.6 | -11.3 | 4.7 | -6.7 | 42.9 | 19.4 | -16.3 | 6.6 | -40.4 | -9.6 |
| % of Total Exports | 1.4 | 1.8 | 1.8 | 1.9 | 1.6 | 2.0 | 2.3 | 1.7 | 1.7 | 0.9 | 1.0 |
| **3. Industrial Exports** | | | | | | | | | | | |
| Value (US$ Mn.) | 3,551.0 | 4,283.0 | 3,710.0 | 3,631.0 | 3,977.0 | 4,506.0 | 4,948.4 | 5,401.1 | 5,967.3 | 6,159.5 | 5,302.9 |
| Growth | -1.6 | 20.6 | -13.4 | -2.1 | 9.5 | 13.3 | 9.8 | 9.1 | 10.5 | 3.2 | -13.9 |
| % of Total Exports | 77.0 | 77.6 | 77.0 | 77.3 | 77.5 | 78.3 | 78.0 | 78.5 | 78.1 | 75.7 | 74.8 |
| 3.1 Textile & Garments | | | | | | | | | | | |
| Value (US$ Mn.) | 2,425.0 | 2,982.0 | 2,543.0 | 2,424.0 | 2,575.0 | 2,809.0 | 2,894.6 | 3,080.4 | 3,339.6 | 3,468.7 | 3,117.9 |
| Growth | -1.4 | 23.0 | -14.7 | -4.7 | 6.2 | 9.1 | 3.0 | 6.4 | 8.4 | 3.9 | -10.1 |
| % of Total Exports | 52.7 | 54.0 | 52.8 | 51.6 | 50.2 | 48.8 | 45.6 | 44.8 | 43.7 | 42.6 | 44.0 |
| 3.2 Petrolium Products | | | | | | | | | | | |
| Value (US$ Mn.) | 74.0 | 98.0 | 68.0 | 73.0 | 65.0 | 100.0 | 130.9 | 188.4 | 168.9 | 254.8 | 134.7 |
| Growth | 1.4 | 32.4 | -30.6 | 7.4 | -11.0 | 53.8 | 30.9 | 43.9 | -10.4 | 50.9 | -47.1 |
| % of Total Exports | 1.6 | 1.8 | 1.4 | 1.5 | 1.3 | 1.7 | 2.1 | 2.7 | 2.2 | 3.1 | 1.9 |
| **4. Total Commodity Exports Inc. Petroleum** | | | | | | | | | | | |
| Value (US$ Mn.) | 4,684.0 | 5,620.0 | 4,885.0 | 4,772.0 | 5,198.0 | 5,856.7 | 6,477.6 | 7,140.3 | 7,640.0 | 8,136.7 | 7,085.0 |
| Growth | -3.8 | 20.0 | -13.1 | -2.3 | 8.9 | 12.7 | 10.6 | 10.2 | 7.0 | 6.5 | -12.9 |
| **5. Total Commodity Exports Excl. Petroleum** | | | | | | | | | | | |
| Value (US$ Mn.) | 4,536.0 | 5,424.0 | 4,749.0 | 4,626.0 | 5,068.0 | 5,657.6 | 6,215.8 | 6,882.7 | 7,740.5 | 7,881.9 | 6,950.3 |
| Growth | -4.0 | 19.6 | -12.4 | -2.6 | 9.6 | 11.6 | 9.9 | 10.7 | 12.5 | 1.8 | -11.8 |

Notes: (a): Revised.
(b): Provisional.

Sources: Central Bank of Sri Lanka, *Annual Report,* various issues; IPS database.

## Table A17: Tourism, 1990-2009

| | Unit | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Tourist Arrivals | No. | 297,888 | 317,703 | 393,669 | 392,250 | 407,511 | 403,101 | 302,265 | 366,165 | 381,063 | 436,440 |
| Excursionist Arrivals | No. | 3,954 | 2,665 | 5,651 | 6,093 | 8,413 | 10,556 | 12,863 | 18,265 | 27,629 | 28,335 |
| Tourist Nights | 000 | 3,225 | 3,633 | 4,055 | 4,148 | 4,251 | 4,024 | 2,947 | 3,680 | 3,944 | 4,479 |
| Earnings | Rs. Mn. | 5,303.3 | 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 |
| | US$ Mn. | 132.0 | 156.8 | 201.4 | 208.0 | 230.7 | 225.4 | 173.0 | 216.7 | 231.5 | 274.9 |
| Receipts per tourist per day | US$ | 41.1 | 42.8 | 49.7 | 50.1 | 54.2 | 56.1 | 57.9 | 58.6 | 59.5 | 61.4 |
| Average Duration | Nights | 10.8 | 11.4 | 10.3 | 10.6 | 10.4 | 10.0 | 9.8 | 10.1 | 10.4 | 10.3 |
| Accommodation | | | | | | | | | | | |
| Rooms | No. | 9,556 | 9,679 | 10,214 | 10,365 | 10,742 | 11,255 | 11,600 | 12,370 | 12,772 | 12,918 |
| Beds | No. | 18,669 | 18,947 | 19,907 | 20,242 | 20,929 | 21,680 | 22,040 | 22,944 | 23,373 | 24,216 |
| Occupancy Rate, Graded | % | 47.2 | 48.4 | 55.3 | 57.0 | 56.6 | 52.6 | 40.3 | 49.1 | 52.8 | 57.6 |
| Sri Lanka Nationals | | | | | | | | | | | |
| Arrivals | No. | 306,367 | 237,424 | 339,109 | 375,740 | 422,367 | 459,441 | 488,055 | 482,850 | 481,793 | 521,073 |
| Departures | No. | 296,884 | 310,373 | 420,749 | 416,246 | 448,437 | 504,420 | 494,258 | 530,712 | 518,050 | 496,963 |
| Employment | | | | | | | | | | | |
| Direct | No. | 24,964 | 26,878 | 28,790 | 30,710 | 33,956 | 35,068 | 31,963 | 34,006 | 34,780 | 36,560 |
| Indirect | No. | 34,950 | 37,629 | 40,306 | 42,994 | 47,538 | 49,095 | 44,748 | 47,608 | 48,692 | 51,184 |

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| | Unit | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007(a) | 2008 | 2009(b) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Tourist Arrivals | No. | 400,414 | 336,794 | 393,174 | 500,642 | 566,202 | 549,308 | 559,603 | 494,008 | 438,475 | 447,890 |
| Excursionist Arrivals | No. | 44,518 | 60,008 | 63,560 | 82,066 | 110,000 | 119,618 | 128,719 | 98,432 | 87,695 | 89,526 |
| Tourist Nights | 000 | 4,056 | 3,435 | 3,989 | 5,093 | 5,742 | 4,754 | 5,793 | 4,940 | 4,165 | 4,075 |
| Earnings | Rs. Mn. | 19,162.2 | 18,863.3 | 24,202.0 | 32,810.0 | 42,666.3 | 36,377 | 42,586 | 42,519 | 37,094 | 37,506 |
| | US$ Mn. | 252.8 | 211.1 | 253.0 | 340.0 | 416.8 | 362 | 410 | 384 | 319 | 326 |
| Receipts per tourist per day | US$ | 62.3 | 63.1 | 63.4 | 66.8 | 72.2 | 74.6 | 83.4 | 79.1 | 76.7 | 81.8 |
| Average Duration | Nights | 10.1 | 9.9 | 10.1 | 10.2 | 10.1 | 8.7 | 10.3 | 10.0 | 9.5 | 9.1 |
| Accommodation | | | | | | | | | | | |
| Rooms | No. | 13,311 | 13,626 | 13,818 | 14,137 | 14,322 | 13,162 | 14,218 | 14,604 | 14,793 | 14,461 |
| Beds | No. | 24,953 | 25,595 | 25,956 | 26,511 | 26,854 | 24,740 | 27,117 | 27,500 | 28,698 | 28,344 |
| Occupancy Rate, Graded | % | 52.3 | 42.1 | 43.1 | 53.2 | 59.3 | 43.6 | 39.8 | 46.2 | 43.9 | 45 |
| Sri Lanka Nationals | | | | | | | | | | | |
| Arrivals | No. | 514,448 | 487,356 | 493,947 | 560,602 | 646,990 | 683,169 | 734,421 | 817,524 | 900,815 | 914,584 |
| Departures | No. | 524,212 | 505,341 | 533,565 | 561,126 | 680,248 | 727,301 | 756,735 | 862,011 | 966,337 | 962,786 |
| Employment | | | | | | | | | | | |
| Direct | No. | 37,943 | 33,710 | 38,821 | 46,761 | 53,766 | 52,085 | 55,649 | 60,516 | 51,857 | 62,071 |
| Indirect | No. | 53,120 | 47,194 | 54,349 | 65,465 | 75,272 | 72,919 | 77,909 | 84,723 | 71,821 | 72,899 |

Notes: (a): Revised.
(b): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report,* various issues.

## Table A18: Monthly Tourist Arrivals, 1998-2009

| | 1998 | | 1999 | | 2000 | | 2001 | | 2002 | | 2003 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth |
| January | 37,224 | 14.0 | 44,379 | 19.2 | 43,311 | -2.4 | 44,187 | 2.1 | 28,296 | -36.0 | 40,647 | 43.6 |
| February | 35,283 | 0.8 | 41,526 | 17.7 | 43,287 | 4.2 | 46,575 | 7.6 | 31,683 | -32.0 | 39,081 | 23.4 |
| March | 32,256 | -5.4 | 41,022 | 27.2 | 40,110 | -2.2 | 44,290 | 10.4 | 33,084 | -25.3 | 40,818 | 23.4 |
| April | 25,578 | -4.9 | 34,443 | 34.7 | 33,642 | -2.3 | 36,906 | 9.7 | 27,057 | -26.7 | 33,714 | 24.6 |
| May | 20,394 | -9.0 | 25,212 | 23.6 | 23,404 | -7.2 | 26,924 | -15.0 | 26,661 | -1.0 | 30,048 | 12.7 |
| June | 22,410 | -3.2 | 26,184 | 16.8 | 21,825 | -16.6 | 28,323 | 29.8 | 26,355 | -6.9 | 31,836 | 20.8 |
| July | 29,529 | -4.3 | 33,288 | 12.7 | 33,267 | -0.1 | 28,566 | -14.1 | 35,742 | 25.1 | 43,743 | 22.4 |
| August | 31,446 | -1.8 | 39,081 | 24.3 | 34,422 | -11.9 | 15,717 | -54.3 | 35,475 | 125.7 | 42,111 | 18.7 |
| September | 31,653 | 6.2 | 33,915 | 7.1 | 31,035 | -8.5 | 11,758 | -62.1 | 32,982 | 180.5 | 36,054 | 9.3 |
| October | 31,767 | 12.2 | 35,112 | 10.5 | 26,658 | -24.1 | 12,904 | -51.6 | 36,258 | 181.0 | 49,922 | 37.7 |
| November | 38,421 | 20.1 | 41,952 | 9.2 | 32,469 | -22.6 | 17,344 | -46.6 | 37,395 | 115.6 | 54,946 | 46.9 |
| December | 45,102 | 15.9 | 40,326 | -10.6 | 36,984 | -8.3 | 23,300 | -36.9 | 42,183 | 81.0 | 57,722 | 36.8 |
| Total | 381,063 | 4.1 | 436,440 | 14.5 | 400,414 | -8.3 | 336,794 | -15.9 | 393,171 | 16.7 | 500,642 | 27.3 |

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| | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | | 2009(a) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth |
| JJanuary | 49,950 | 22.9 | 38,187 | -23.5 | 52,103 | 36.4 | 56,553 | 8.5 | 56,916 | 0.6 | 38,468 | -32.4 |
| February | 43,584 | 11.5 | 36,645 | -15.9 | 52,687 | 43.8 | 43,051 | -18.3 | 40,551 | -5.8 | 34,169 | -15.7 |
| March | 38,418 | -5.9 | 50,418 | 31.2 | 54,746 | 8.6 | 35,031 | -36.0 | 38,049 | 8.6 | 34,063 | -10.5 |
| April | 30,672 | -9.0 | 42,261 | 37.8 | 49,776 | 17.8 | 33,039 | -33.6 | 29,747 | -10.0 | 26,054 | -12.4 |
| May | 30,162 | 0.4 | 40,878 | 35.5 | 43,825 | 7.2 | 26,307 | -40.0 | 31,140 | 18.4 | 24,739 | -20.6 |
| June | 32,119 | 0.8 | 45,699 | 42.3 | 44,066 | -3.6 | 30,810 | -30.1 | 27,960 | -9.3 | 30,234 | 8.1 |
| July | 50,525 | 15.5 | 56,745 | 12.3 | 55,354 | -2.5 | 44,142 | -20.3 | 32,982 | -25.3 | 42,223 | 28.0 |
| August | 48,675 | 15.6 | 51,216 | 5.2 | 52,931 | 3.3 | 44,742 | -15.5 | 30,672 | -31.4 | 41,207 | 34.3 |
| September | 51,525 | 42.9 | 43,536 | -15.5 | 38,485 | -11.6 | 37,104 | -3.6 | 29,529 | -20.4 | 37,983 | 28.6 |
| October | 59,442 | 19.1 | 44,095 | -25.8 | 38,815 | -12.0 | 37,011 | -4.6 | 35,103 | -5.2 | 37,575 | 7.0 |
| November | 64,971 | 18.2 | 48,457 | -25.4 | 37,591 | -22.4 | 45,102 | 20.0 | 36,901 | -18.2 | 44,311 | 20.1 |
| December | 66,159 | 14.6 | 51,171 | -22.7 | 39,224 | -23.3 | 61,116 | 55.8 | 48,925 | -19.9 | 56,862 | 16.2 |
| Total | 566,202 | 13.1 | 549,308 | -2.9 | 559,603 | 1.9 | 494,008 | -11.7 | 438,475 | -11.2 | 447,890 | 2.1 |

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, 1998-2009

| | 1998 | | 1999 | | 2000 | | 2001 | | 2002 | | 2003 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth |
| North America | 17,529 | 10 | 18,477 | 5 | 17,319 | -6 | 15,983 | -8 | 19,866 | 24 | 25,110 | 26 |
| Canada | 7,542 | 16 | 7,905 | 5 | 7,503 | -5 | 7,609 | 1 | 8,304 | 9 | 11,164 | 34 |
| U.S.A. | 9,987 | 5 | 10,572 | 6 | 9,816 | -7 | 8,374 | -15 | 11,565 | 38 | 13,946 | 21 |
| Western Europe | 238,959 | 13 | 275,796 | 15 | 260,824 | -5 | 203,984 | -22 | 200,295 | -2 | 255,169 | 27 |
| Germany | 74,058 | 24 | 77,259 | 4 | 70,584 | -9 | 60,405 | -14 | 55,170 | -9 | 58,908 | 7 |
| United Kingdom | 66,432 | 5 | 80,919 | 22 | 84,693 | 5 | 67,830 | -20 | 67,533 | 0 | 93,278 | 38 |
| France | 26,874 | 6 | 34,458 | 28 | 25,992 | -25 | 20,949 | -19 | 19,989 | -5 | 28,585 | 28 |
| Italy | 15,867 | 10 | 19,815 | 25 | 16,833 | -15 | 12,074 | -28 | 12,177 | 1 | 15,654 | 29 |
| Netherlands | 22,977 | 44 | 29,670 | 29 | 22,618 | -24 | 12,569 | -44 | 11,748 | -7 | 18,197 | 55 |
| Asia | 99,702 | -12 | 114,375 | 15 | 91,521 | -20 | 89,732 | -2 | 143,064 | 59 | 177,351 | 24 |
| Japan | 13,785 | 3 | 16,332 | 19 | 10,226 | -37 | 9,237 | -10 | 13,602 | 47 | 17,115 | 26 |
| India | 37,356 | -21 | 42,315 | 13 | 31,860 | -25 | 33,924 | 7 | 69,960 | 106 | 90,603 | 30 |
| Pakistan | 10,782 | -6 | 11,421 | 6 | 10,005 | -12 | 8,562 | -14 | 6,756 | -21 | 9,704 | 44 |
| Australasia | 12,159 | 4 | 15,159 | 25 | 18,228 | 20 | 13,105 | -28 | 13,209 | 1 | 22,965 | 74 |
| Australia | 10,329 | -1 | 13,218 | 28 | 16,443 | 24 | 11,457 | -30 | 11,217 | -2 | 19,958 | 78 |
| Other(a) | 13,092 | 1 | 12,633 | -4 | 12,522 | -1 | 13,990 | 12 | 16,737 | 20 | 20,047 | 20 |
| Total | 381,063 | 4 | 436,440 | 15 | 400,414 | -8 | 336,794 | -16 | 393,171 | 17 | 500,642 | 27 |

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| | 2004 | | 2005 | | 2006(b) | | 2007 | | 2008 | | 2009(c) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth | No. | Growth |
| North America | 29,759 | 19 | 46,457 | 56 | 35,323 | -24 | 28,355 | -20 | 24,311 | -14 | 24,948 | 2.6 |
| Canada | 14,633 | 31 | 21,185 | 45 | 14,623 | -31 | 11,869 | -19 | 10,258 | -14 | 10,707 | 4.4 |
| U.S.A. | 15,126 | 8 | 25,272 | 67 | 20,700 | -18 | 16,486 | -20 | 14,053 | -15 | 14,241 | 1.3 |
| Western Europe | 284,440 | 11 | 227,191 | -20 | 228,447 | 1 | 194,448 | -15 | 167,187 | -14 | 170,123 | 1.8 |
| Germany | 58,258 | -1 | 46,350 | -20 | 47,402 | 2 | 35,042 | -26 | 30,625 | -13 | 29,654 | -3.2 |
| United Kingdom | 106,645 | 14 | 92,629 | -13 | 88,306 | -5 | 94,060 | 7 | 81,331 | -14 | 81,594 | 0.3 |
| France | 29,996 | 5 | 26,653 | -11 | 22,693 | -15 | 8,091 | -64 | 10,594 | 31 | 15,886 | 50.0 |
| Italy | 18,862 | 20 | 10,192 | -46 | 12,424 | 22 | 11,451 | -8 | 13,030 | 14 | 7,514 | -42.3 |
| Netherlands | 21,455 | 18 | 15,156 | -29 | 19,360 | 28 | 17,526 | -9 | 9,116 | -48 | 11,291 | 23.9 |
| Asia | 198,068 | 12 | 223,351 | 13 | 242,132 | 8 | 202,480 | -16 | 173,039 | -15 | 174,534 | 0.9 |
| Japan | 19,641 | 15 | 17,148 | -13 | 16,189 | -6 | 14,274 | -12 | 10,075 | -29 | 10,329 | 2.5 |
| India | 105,151 | 16 | 113,323 | 8 | 128,370 | 13 | 106,067 | -17 | 85,238 | -20 | 83,634 | -1.9 |
| Pakistan | 9,638 | -1 | 11,029 | 14 | 11,145 | 1 | 10,204 | -8 | 7,885 | -23 | 7,373 | -6.5 |
| Australasia | 26,540 | 16 | 29,738 | 12 | 25,127 | -16 | 22,924 | -9 | 21,839 | -5 | 26,068 | 19.4 |
| Australia | 23,247 | 16 | 25,986 | 12 | 21,849 | -16 | 20,241 | -7 | 19,536 | -3 | 23,239 | 19.0 |
| Other(a) | 27,395 | 37 | 22,571 | -18 | 28,576 | 27 | 45,801 | 60 | 52,099 | 14 | 52,217 | 0.2 |
| Total | 566,202 | 13 | 549,308 | -3 | 559,603 | 2 | 494,008 | -12 | 438,475 | -11 | 447890 | 2.1 |

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, 1998-2009

| | Unit | 1998 | 1999 | 2000 | 2001 | 2002 | 2003(c) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009(a) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Trade balance | US$ mn. | -1,092.0 | -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 |
| | % of GDP | -6.9 | -8.7 | -10.8 | -7.4 | -9.5 | -8.1 | -10.9 | -10.3 | -11.9 | -11.3 | -14.4 | -7.4 |
| 2. Services balance | US$ mn. | 145.0 | 147.0 | 38.0 | 175.0 | 295.0 | 399.0 | 419.0 | 338.0 | 257.0 | 302.0 | 402.0 | 391.0 |
| | % of GDP | 0.9 | 0.9 | 0.2 | 1.3 | 2.0 | 2.1 | 2.0 | 1.4 | 0.9 | 0.7 | 1.0 | 0.9 |
| 3. Income, net | US$ mn. | -180.0 | -254.0 | -305.0 | -267.0 | -253.0 | -172.0 | -204.0 | -299.0 | -389.0 | -358.0 | -972.0 | -488.0 |
| | % of GDP | -1.1 | -1.6 | -1.8 | -1.9 | -1.7 | -0.9 | -1.0 | -1.2 | -1.4 | -1.1 | -2.4 | -1.2 |
| 4. Net private transfers | US$ mn. | 849.0 | 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 |
| | % of GDP | 5.4 | 5.6 | 5.9 | 7.0 | 7.5 | 6.3 | 6.5 | 7.1 | 6.7 | 6.8 | 6.3 | 6.9 |
| 5. Net official transfers | US$ mn. | 52.0 | 26.0 | 24.0 | 22.0 | 31.0 | 36.0 | 30.0 | 93.0 | 101.0 | 97.0 | 101.0 | 7.7 |
| | % of GDP | 0.3 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.1 | 0.4 | 0.4 | 0.3 | 0.2 | 0.2 |
| 6. Current account balance | US$ mn. | -226.0 | -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 |
| | % of GDP | -1.4 | -3.6 | -6.4 | -1.7 | -1.6 | -0.4 | -3.1 | -2.7 | -5.3 | -4.3 | -9.3 | 0.5 |
| 7. Capital and financial a/c | US$ mn. | 413.0 | 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 |
| | % of GDP | 2.6 | 2.4 | 2.7 | 4.0 | 3.0 | 3.8 | 3.1 | 5.0 | 6.4 | 6.5 | 4.4 | 6.2 |
| Capital account | US$ mn. | 80.0 | 80.0 | 50.0 | 198.0 | 65.0 | 74.0 | 64.0 | 250.0 | 291.0 | 269.0 | 291.0 | 233.0 |
| 8. Financial account | US$ mn. | 334.0 | 293.0 | 393.0 | 364.0 | 379.0 | 648.0 | 567.0 | 974.0 | 1517.0 | 1828.0 | 1483.0 | 2,361.0 |
| Long-term | US$ mn. | 398.0 | 435.0 | 304.0 | 164.0 | 326.0 | 722.0 | 680.0 | 798.0 | 907.0 | 1251.0 | 764.0 | 463.0 |
| Foreign direct investment | US$ mn. | 137.0 | 177.0 | 173.0 | 82.0 | 181.0 | 171.0 | 217.0 | 234.0 | 451.0 | 548.0 | 691.0 | 384.0 |
| Private long-term (net) | US$ mn. | 2.0 | 196.0 | 82.0 | -257.0 | -21.0 | -33.0 | 14.0 | 11.0 | -35.0 | 31.0 | 74.0 | 79.0 |
| Government long-term | US$ mn. | 203.0 | 62.0 | 47.0 | 249.0 | 162.0 | 554.0 | 439.0 | 553.0 | 491.0 | 672.0 | 252.0 | 840.0 |
| 9. Short-term | US$ mn. | -64.0 | -142.0 | 88.0 | 201.0 | 53.0 | -75.0 | -112.0 | 176.0 | 610.0 | 577.0 | 679.0 | -311.0 |
| Foreign portfolio investment | US$ mn. | -24.0 | -13.0 | -45.0 | -11.0 | 25.0 | 2.0 | 11.0 | 60.0 | 51.0 | 101.0 | 60.0 | -6.0 |
| 10. Other (b) | US$ mn. | -116.1 | -101.0 | 174.0 | 71.0 | -145.0 | -2.0 | 202.0 | 323.0 | 293.0 | 364.0 | 728.0 | 346.0 |
| 11. Overall balance | US$ mn. | 37.0 | -263.0 | -522.0 | 220.0 | 338.0 | 502.0 | -205.0 | 501.0 | 204.0 | 531.0 | -1385 | -2,725.0 |
| | % of GDP | 1.4 | -1.7 | -3.1 | 1.6 | 2.3 | 2.6 | -1.0 | 2.1 | 0.7 | 1.6 | -2.9 | 6.5 |

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, 1998-2009

| Currency | Unit | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Nominal exchange rates | | | | | | | | | | | | | |
| U.S.A. | S.L. Rs. per US$ | 67.78 | 72.12 | 80.06 | 93.16 | 96.72 | 96.74 | 104.60 | 102.12 | 107.71 | 108.72 | 113.14 | 114.38 |
| Japan | S.L. Rs. per Yen | 0.59 | 0.71 | 0.70 | 0.71 | 0.82 | 0.90 | 1.02 | 0.87 | 0.90 | 0.97 | 1.25 | 1.24 |
| U. K. | S.L. Rs. per Pound | 112.62 | 116.72 | 119.37 | 135.06 | 155.12 | 172.19 | 201.37 | 175.94 | 211.29 | 217.15 | 163.28 | 181.74 |
| 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 | 163.71 |
| India | S.L. Rs. per Ind. Rs. | 1.59 | 1.66 | 1.71 | 1.93 | 2.02 | 2.12 | 2.40 | 2.27 | 2.44 | 2.77 | 2.36 | 2.46 |
| 24 currency | | | | | | | | | | | | | |
| Nominal effective exchange rates (NEER) | NEER 2006 = 100 | - | - | - | - | - | 110.31 | 97.57 | 104.77 | 94.35 | 87.79 | 93.71 | 89.52 |
| Real effective exchange rate (REER) | REER 2006 = 100 | - | - | - | - | - | 92.01 | 89.64 | 100.15 | 99.26 | 105.64 | 125.47 | 120.85 |

Sources: Central Bank of Sri Lanka, *Annual Report,* various issues.

# Appendix B: Capital Market

## Table B1: Sri Lanka's Capital Market Structure, 2004-2009

| | | 2004 | 2005 | 2006 | 2007 | 2008 | 2009(a) |
|---|---|---|---|---|---|---|---|
| 1. | Equity Market: | | | | | | |
| | Market Capitalization | 382,100 | 584,000 | 834,800 | 820,700 | 488,812 | 1,092,100 |
| | of which Central Depository | 195,032 | 259,780 | 370,076 | 418,088 | 488,813 | 1,092,100 |
| 2. | Debt Market: | 1,165,491 | 1,266,802* | 1,460,644* | 1,507,698 | 2,140,228 | 2,400,955 |
| | (i) Private | 48,000 | 29,060* | 42,260* | 50,320* | | |
| | (ii) Public | 1,117,491 | 1,237,742 | 1,418,384 | 1,457,373 | | |
| | (a) Short-term(TBs) | 243,886 | 234,174 | 257,732 | 307,012 | 402,600 | 560,646 |
| | (b) Medium & Long term | 873,605 | 1,003,568 | 1,160,652 | 1,351,999 | 1,623,863 | 1,840,309 |
| 3. | Total debt and equity (Rs. Mn) | 1,547,591 | 1,850,802* | 2,295,444 | 2,328,393 | 2,629,040 | 3,493,055 |
| | as a percentage of GDP(%) | 86.07 | 88.20 | 78.11 | 65.09 | 34.35 | 72.39 |
| | of which actually traded through the Central Depository | 209,532 | 270,680 | 393,576 | 449,288 | | |
| | As a share of Total (%) | 13.5 | 14.6 | 17.1 | 19.3 | na | na |
| 4. | Foreign participation in the Central Depository as a per cent of market capitalization (%) | 14 | 14 | 14 | 19 | 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, 2001-2009

| | | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. | **Number of companies listed** | | 238 | 238 | 244 | 242 | 239 | 237 | 235 | 235 | 231 |
| | New listings | | 2 | 9 | 8 | 5 | 6 | 2 | - | 3 | 3 |
| | De-listings | | 3 | 9 | 2 | 7 | 9 | 4 | 2 | 2 | 6 |
| 2. | **Number of companies traded** | | 225 | 231 | 236 | 241 | 242 | 232 | 231 | 232 | 231 |
| 3. | **Market capitalization** | Rs.bn. | 124 | 162 | 263 | 382 | 584 | 835 | 821 | 489 | 1,092 |
| | | US$ bn. | 1.4 | 1.7 | 2.7 | 3.8 | 5.8 | 8.0 | 8.0 | 4.3 | 9.6 |
| 4. | **Price -earnings ratio times, year end** | | 7.5 | 12.1 | 11.1 | 10.8 | 12.4 | 14.0 | 11.6 | 11.3 | 15.3 |
| 5. | **Number of shares traded** | No. mn. | 747 | 1,220 | 2,255 | 2,752 | 5,128 | 3,912 | 2,952 | 3,155 | 4,763 |
| | Domestic | No. mn. | 607 | 1,035 | 1,932 | 2,479 | 4,313 | 3,178 | 2,049 | 1,935 | 3,784 |
| | Foreign | No. mn. | 140 | 185 | 323 | 273 | 815 | 734 | 902 | 1,220 | 978.6 |
| 6. | **Trades** | No. '000 | 159.7 | 283.2 | 481.3 | 645.1 | 1100.4 | 952.4 | 876.9 | 776.2 | 1,266 |
| | Domestic | No. '000 | 152.8 | 273.2 | 460.9 | 611.6 | 1038.5 | 908.2 | 831.7 | 730.4 | 1,190 |
| | Foreign | No. '000 | 6.8 | 10.0 | 22.0 | 33.4 | 61.9 | 44.2 | 45.3 | 45.8 | 75.5 |
| 7. | **Turnover:** | Rs. bn. | 14.1 | 30.5 | 73.8 | 59.0 | 114.6 | 105.1 | 105.0 | 110.5 | 142.5 |
| | | US$ bn. | 0.2 | 0.3 | 0.7 | 0.6 | 1.1 | 1.0 | 1.0 | 1.0 | 1.2 |
| | Domestic | Rs. bn. | 11.4 | 24.3 | 59.9 | 48.3 | 89.9 | 70.7 | 63.8 | 50.8 | 99 |
| | Foreign | Rs. bn. | 2.6 | 6.2 | 13.8 | 9.8 | 24.6 | 34.5 | 41.2 | 59.7 | 43.5 |
| 8. | **Liquidity- turnover / market** | | | | | | | | | | |
| | Capitalization ratio (%) | | 11.4 | 18.8 | 28.1 | 15.4 | 19.6 | 12.6 | 12.8 | 22.6 | 26.3 |
| 9. | **No. of new issues** | | _ | 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.) | 50.9 | 66.5 | 98.2 | 140.4 | 179.8 | 248.7 | 260.4 | 162.3 | 248.7 |
| | Foreign | (Rs. bn.) | 12.2 | 19.5 | 37.8 | 54.6 | 79.9 | 121.4 | 157.6 | 108.0 | 121.4 |
| | Total | (Rs. bn.) | 63.1 | 86.0 | 136.0 | 195.0 | 259.7 | 370.1 | 418.0 | 270.3 | 370.1 |
| | Percentage of market cap. | | 50.9 | 53.1 | 51.7 | 51.0 | 44.5 | 44.3 | 50.9 | 55.3 | 33.9 |
| 13. | **Non-national activity** | | | | | | | | | | |
| | Net Purchases | (Rs. mn.) | -1,024.8 | 2,441.5 | 209.3 | 1,106.3 | 6,144.5 | 5,377.0 | 11,254.3 | 13,950.5 | -789 |
| | Purchases | (Rs. mn.) | 2,111.9 | 7,477.7 | 13,943.9 | 11,278.0 | 27,712.4 | 37,167.0 | 46,796.8 | 66,632.2 | 14,057.30 |
| | Sales | (Rs. mn.) | 3,136.7 | 5,036.2 | 13,734.6 | 10,172.0 | 21,567.9 | 31,790.0 | 35,542.5 | 52,681.7 | 43,846.30 |
| 14. | **Price Indices** | | | | | | | | | | |
| | All Share | 1985 = 100 | 621.0 | 815.1 | 1,062.0 | 1,506.9 | 1,922.2 | 2,722.4 | 2,541.0 | 1,503.0 | 3,385.60 |
| | Growth | % Change | 38.7 | 31.2 | 30.2 | 41.9 | 27.6 | 41.6 | 6.7 | 40.9 | 125.3 |
| | Sensitive | 1985 = 100 | 1,031.0 | 1,374.6 | 1,898.0 | 2,073.7 | 2,451.1 | 3,711.8 | 3,291.9 | 1,631.3 | 3,849.40 |
| | Growth | % Change | 47.6 | 33.3 | 38.1 | 9.3 | 18.2 | 51.4 | 11.3 | -50.4 | 136.0 |

Note: 1000 Million = 1 Billion.

Source: Colombo Stock Exchange, *Annual Report,* various issues.

## Table B3: Market Concentration
**(% of total market capitalization)**

| | 2009(%) |
|---|---|
| JKH | 19.85 |
| SLT | 9.86 |
| Dialog | 6.93 |
| Carsons | 4.17 |
| Commercial Bank | 3.67 |
| Aitken Spence | 2.83 |
| Ceylon Tobacco | 2.38 |
| HNB | 2.01 |
| Distilleries | 1.72 |
| Bukit Darah | 1.68 |
| Total | 46.09 |

Note: As at 2009 the top ten of the 231 listed company accounted 46.09% of total market capitalization.

Source: Colombo Stock Exchange , *Annual Report*, various issues.

## Table B4: New Equity Listings - 2006-2009

| 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 listing-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 listing-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 |

Source: Colombo Stock Exchange, *Annual Report,* various issues.

## Table B5: Structure of Debt Market, 2005-2009

| (Rs.bn) | 2005 | 2006 | 2007 | 2008 | 2009(a) |
|---|---|---|---|---|---|
| **1. Private Debt:** | | | | | |
| (a) Commercial paper(year end) | 10.90 | 23.50 | 30.00 | 24.00 | 21.50 |
| (b) Certificates of Deposit | 18.16 | 18.76 | 19.10 | 19.10 | 19.62 |
| (I) Commercial Banks | 17.06 | 17.70 | 17.76 | 17.76 | 17.25 |
| (ii) Finance Companies | 1.10 | 1.06 | 0.86 | 0.91 | 1.07 |
| (c) Debentures (Listed) | ** | ** | ** | ** | ** |
| Total Private Debt | 29.06* | 42.26 | 50.30 | 50.30 | 41.12 |
| **2. Public Debt:** | | | | | |
| (a) Short Terms | | | | | |
| (i) Treasury Bills | 234.17 | 257.73 | 307.01 | 307.01 | 441.03 |
| (ii) Central Bank Securities | – | – | – | – | – |
| (b) Medium & Long Term | | | | | |
| (i) Treasury Bonds | 751.57 | 885.97 | 1018.85 | 1018.85 | 1513.51 |
| (ii) Rupee Securities | 140.56 | 116.71 | 131.51 | 131.51 | 112.29 |
| (iii) Certificates of Deposit | – | – | – | – | – |
| Total Public Debt | 1,126.30 | 1,260.41 | 1,456.37 | 1,457.37 | 2,066.83 |
| **3. Total Debt** | 1,155.36* | 1,302.67* | 1,507.67* | 1,507.67* | 2,107.95 |

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, 2006-2009

| 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 | | | | |
| Nation 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 | |
| Nationla 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 | | | | |

Source: Colombo Stock Exchange.