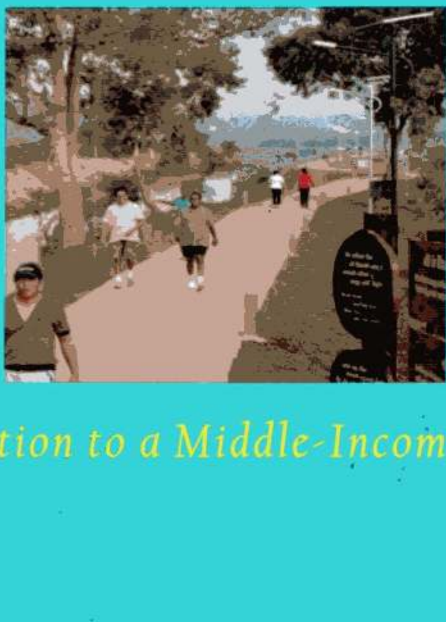
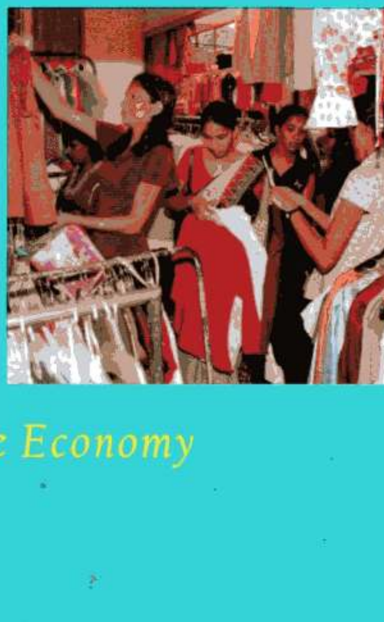
SRI LANKA
State of the Economy
2013

The Transition to a Middle-Income Economy

INSTITUTE OF POLICY STUDIES OF SRI LANKA

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ACRONYMS

ADB	Asian Development Bank
ALMP	Active Labour Market Programme
APTA	Asia Pacific Trade Agreement
ASEAN	Association of South East Asian Nations
AWPR	Average Weighted Prime Lending Rate
BDS	Business Development Service
BOI	Board of Investment
BOO	Build Own Operate
BOT	Build Own Transfer
BPO	Business Process Outsourcing
BRIC	Brazil Russia India China
CBSL	Central Bank of Sri Lanka
CCS	Climate Change Secretariat
CDM	Clean Development Mechanism
CEB	Ceylon Electricity Board
CECA	Comprehensive Economic Cooperation Agreement
CEPA	Comprehensive Economic Partnership Agreement
CER	Certified Emission Reduction
CIP	Climate Information Product
CMR	Colombo Municipal Region
COPD	Chronic Obstructive Pulmonary Disease
CPC	Ceylon Petroleum Corporation
CPC	Climate Prediction Community
CVD	Cardiovascular Disease
DCS	Department of Census and Statistics
DHS	Demographic Health Survey
DM	Department of Meteorology
DNA	Designated National Authority
DNP	Divi Neguma Programme
DOE	Designated Operational Entity
ECB	European Central Bank
EDB	Export Development Board
EFF	Extended Fund Facility
ENSO	El-Nino Southern Oscillation
EPF	Employees' Provident Fund
ETF	Employees' Trust Fund
ETI	Enabling Trade Index
EU	European Union
EU-ETS	European Union Emission Trading System
FAC	Fuel Adjustment Charge
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
FLFP	Female Labour Force Participation
GHG	Green House Gas
GoSL	Government of Sri Lanka
GSP	Generalized System of Preferences
HIES	Household Income and Expenditure Survey
ICT	Information Communic-ation Technology
IDA	International Development Association
IDP	Internally Displaced Person
IHD	Ischaemic Heart Disease
IMF	International Monetary Fund
INGO	International Non-Government Organization
IOD	Indian Ocean Dipole
IPCC	Inter-Governmental Panel on Climate Change
IPP	Independent Power Producer
IRD	Inland Revenue Department
ISFTA	India Sri Lanka Free Trade Agreement

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ITES	Information Technology Enabled Services
KPO	Knowledge Process Outsourcing
LCB	Licensed Commercial Bank
LDC	Less Developed Country
MCUDP	Metro Colombo Urban Development Project
MDG	Millennium Development Goals
MJO	Madden-Julian Oscillation
MYASD	Ministry of Youth Affairs and Skills Development
NCD	Non Communicable Disease
NCRE	non-Conventional Renewable Energy
NEC	National Education Commission
NGO	Non-Government Organization
NIE	Newly Industrialized Economy
NMS	National Meteorological Services
NVQ	National Vocational Qualification
NYSC	National Youth Services Council
OOPE	Out of Pocket Expenditure
OPL	Official Poverty Line
PAL	Port and Airport Levy
PAMA	Public Assistance Monthly Allowance
PAYE	Pay As You Earn
PC	Provincial Council
PDD	Project Design Document
PHCI	Poverty Head Count Index
PIN	Project Identification Number
PPP	Public Private Partnership
PPP	Purchasing Power Parity
PRGT	Poverty Reduction and Growth Trust
PSPS	Public Service Pension Scheme
PUCSL	Public Utilities Commission of Sri Lanka
REER	Real Effective Exchange Rate
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SATIS	SAARC Agreement on Trade in Services
SBA	Stand-By Arrangement
SDP	Strategic Development Project
SEMA	Strategic Enterprise Management Authority
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
SPF	Seasonal Precipitation Forecasts
SRR	Statutory Reserve Requirement
TEVT	Technical and Vocational Education and Training
TEWA	Termination of Employment of Workmen Act
TFR	Total Fertility Rate
TPR	Total Protection Rate
UNCTAD	United Nations Commission on Trade and Development
UNFCC	United Nations Framework Convention on Climate Change
UNIVOTEC	University of Vocational Technology
US	United States
VAT	Value Added Tax
VAW	Violence Against Women
VTA	Vocational Training Authority
WEF	World Economic Forum
WMO	World Meteorological Organization
WTO	World Trade Organization
YEN	Youth Employment Network

Towards Growth and Stability

1. Policy Perspectives

Nearly five years since the onset of the global economic downturn in 2008, the global economy is still faltering. While, it is not unusual for the recovery from a debt-fuelled crisis of this nature to be protracted, as households, firms and governments deleverage, what has been especially disconcerting is the continual unraveling of new crises which dampen confidence worldwide. Expectations of a smooth and linear recovery have been discarded. Questions are emerging about a 'new normal' setting in – a prolonged period of subdued growth in the developed world – where the underlying growth rate appears to be far below the trend rate seen before the financial crisis.

> ***Physical infrastructure is only part of the arsenal the Sri Lankan economy needs to make a strong middle income transition. Social infrastructure will determine the quality of the country's workforce that truly drives growth***

The sluggish recovery in 2012 was disrupted by intermitted crises on various fronts.

In the Euro area, austerity pressures, and sovereign debt problems coupled with political inertia resulted in a GDP contraction of 0.4 per cent. Many Euro zone governments, which have been compelled to push stronger austerity measures due to conditionalities of bailout packages, are facing stiff opposition from their citizens. The picture in Europe remains bleak. Unemployment across the region remains high, the region's economies continue to contract, and bank lending remains feeble. A major policy initiative that had contributed to improving confidence in the Euro – the European Central Bank's (ECB) Outright Monetary Transactions (OMT) scheme – is being challenged by German courts on constitutionality grounds.

Meanwhile, the United States (US) economy grew by 2.3 per cent in 2012 off a low base, but political gridlock remains a challenge to stimulating further growth. Yet, the US economy continues to show signs of recovery with job creation in the six months, to April 2013 being 50 per cent higher than in the previous six months, on average. Job creation has been steady in recent months and has helped bring down the unemployment level to 7.6 per cent, despite a decline in public sector employment. There is speculation that by the latter part of 2013, the US Federal Reserve is likely to begin cutting back bond sales, i.e., rolling back the third wave of quantitative easing (QE3) indicative of the Fed's confidence of US economic recovery.

In both these regions, the debate over austerity versus stimulus has created a challenging, and often acrid, political economy climate. This has further hurt medium term confidence among consumers, companies, and financial markets, that central banks and governments can 'put the economic show back on the road' after big global shocks.

Even emerging economies experienced a moderation of growth in 2012, although they demonstrated partial 'decoupling' in the recovery period prior to this. The dependence of emerging economies on weak markets in the West depressed economic growth in those countries too. Domestic policy issues also played a role, causing 'self-inflicted wounds' as in the case of India's back and forth on a new Foreign Direct Investment (FDI) regime. Compared to the highs in 2010 and 2011, China grew at 7.8 per cent in 2012, whilst India grew at a very weak 4.5 per cent. Meanwhile, the Middle East recovered from the growth disruptions faced in 2011 stemming from the political upheaval in that year, to grow at 5.2 per cent in 2012.

Some governments appear to be doing something more decisive about this than others. For instance, China's 12th Five Year Plan clearly indicates pro-market reforms and policies to generate greater domestic demand as a way to stimulate growth. It contains a focus on urbanization and services sector development, as well as a shift from the low-cost model to greater technological intensity and innovation. Around September 2013, there is likely to be important pronouncements by China regarding the future directions of economic policy – a customary event following a change of leadership. By contrast, India is in policy paralysis with the incumbent government unable to forge ahead on important structural reforms that would put the country on a sustained growth footing. The Indian economy has faltered recently, with growth slowing down, and fiscal and current account deficits running high amid persistent inflation. Meanwhile, the looming elections in 2014, with no clear outcome, adds to the current uncertainty.

This challenging external economic climate did place a drag on Sri Lanka's economy too, but the country remained an impressive performer amidst the highly subdued growth seen both in the developed and developing world.

After posting impressive growth rates of over 8 per cent in the two years following the end of the conflict, growth in 2012 moderated to 6.4 per cent. Following economic overheating in the second half of 2011 – evidenced mainly by a rapidly expanding trade deficit – the government undertook a series of adjustment measures in early 2012. These came in the form of higher interest rates (with a credit ceiling on bank lending), allowing flexibility on the exchange rate, tax hikes on a major import item (cars), and higher energy prices (through allowing greater pass-through and a cut in subsidies). Coupled with adverse weather that affected agriculture, growth moderated considerably.

As 2012 progressed, the country saw a sharp decline in both exports and imports. The former was due to the weak health of destination markets of Sri Lanka's exports and the lower prices of key commodities like cotton and rubber which depressed export prices. The latter was due to the rupee depreciation, tighter credit conditions and duty hikes which curbed import demand, and also lower world commodity prices. The tighter credit conditions were a central feature of the 2012 growth slowdown in the country. Credit to the private sector saw a sharp decline throughout 2012 in response to the credit ceiling imposed by the Central Bank of Sri Lanka (CBSL) and higher policy interest rates.

Before policy corrections took full effect, the policy rate was reduced by CBSL in December 2012, and the credit ceiling was lifted in January 2013. Credit demand by the private sector still remained highly subdued. The relatively high interest rates and temperate economic growth appears to have eased credit demand by the first quarter of 2013. Lending to the private sector in January 2013 of Rs. 9.7 billion was less than one-fourth that of a year earlier (Rs. 44.5 billion).

Policy rate cuts have remained so far 'sticky', i.e., not translated into lower bank lending rates. Commercial lending rates showed initial signs of declining as the Average Weighted Prime Lending Rate (AWPLR) stayed below 14 per cent since mid-March. It may not be surprising that commercial lending rates have been so sticky considering the significant volumes of government activity in the market, coupled with lacklustre private sector credit demand. In the first quarter of 2013, the government accepted Rs. 406 billion in bond and bill auctions, compared to Rs. 146 billion in the same quarter last year. This reduces supply of funds to lend to the private sector and keeps interest rates up. Since mid-March 2013, however, Treasury bill and bond auctions have been smaller in magnitude.

An emerging trend to watch, that would influence these rates, is commercial banks tapping cheaper off-shore sources of capital. In both early 2012 and again in early 2013, the CBSL steadily relaxed restrictions on foreign exchange transactions for Licensed Commercial Banks (LCBs) and local companies. By 2013, the CBSL had introduced an 'External Commercial Borrowing Scheme' to encourage foreign borrowings by companies for investment and business purposes. Several local banks took advantage of this and raised a total of US$ 973 million in long term dollar loans in 2012. While this no doubt helps address domestic credit shortfalls and supports private sector expansion as there is less competition for funds, it does throw up new risks associated with a greater exposure to external shocks by non-sovereign entities like commercial banks and private businesses. Additionally, the experience of the sudden rupee devaluation would have left a sour after taste among some of the private sector and it is unclear how many of them will seek to borrow from foreign sources. Many Sri Lankan corporate entities faced the impact of currency devaluation in early 2012 on the carrying value of their foreign currency denominated assets and liabilities.

While encouraging private sources of foreign borrowing in to the country, the CBSL has indicated that it will not tap foreign capital markets for borrowings this year. The recent strategy seems to be towards retiring short term debt and going for longer term debt, with over Rs. 13 billion worth of 20 and 30 year bonds issued in May 2013.

Higher domestic borrowing may cause further crowding out domestically, not to mention inflationary pressures. There is a heightened risk to inflation from both a demand and supply perspective. If market rates correct and the CBSL aggressively coerces private sector credit growth, demand side inflationary pressure would edge up.

On the other hand, the utilities price correction would heat up inflation from the supply side, albeit to a lesser extent.

For now, however, the CBSL appears to consider that there exists room for further relaxation of monetary policy on account of moderate inflationary pressure (aside from a one-off adjustment to prices from electricity tariffs), owing to subdued economic activity and a fairly stable rupee. In May 2013, it undertook a further policy rate cut of 50 basis points and by June market interest rates were seen to be edging downward. Yet borrowing costs remained sticky. Responding to this, the CBSL undertook further easing by cutting the Statutory Reserve Requirement (SRR) of commercial banks by 2 per cent in late June 2013, in a bid to boost liquidity.

However, attempting to use monetary policy to revive economic growth will come up against fiscal constraints.

At first glance, Sri Lanka's debt-to-GDP ratio has reduced from the highs of over 100 per cent in the early 2000s to around 80 per cent in the past three years. Yet, this is largely attributable to the rapid growth of nominal GDP in the immediate post-conflict period and an unrealistically pegged nominal exchange rate. While it remains below any alarming level, it is still relatively higher than many emerging market economies – China at around 20 per cent, India at around 70 per cent, Turkey at around 40 per cent, and Brazil at around 64 per cent. The slight edging up seen in 2012 to 81 per cent, from 78.5 per cent in 2011 is largely on account of the depreciation of the rupee in that year.

Within overall government debt, Sri Lanka's changing external debt profile warrants closer inspection. While Sri Lanka's external debt-to-GDP ratio has remained unchanged for the most part over the last few years (at around 36 per cent), the composition of this external debt matters. As noted in 'Sri Lanka: State of the Economy 2012' report, "the share of non-concessional loans and commercial borrowing in Sri Lanka's outstanding foreign debt has increased sharply". In fact, it rose from 7.3 per cent in 2006 to 50.5 per cent in 2012.

Following the conclusion of the Stand-By Arrangement (SBA) programme with the International Monetary Fund (IMF) in 2012, it appears that there will be no further financial support to Sri Lanka from the agency. The CBSL announced that it will not pursue an Extended Fund Facility (EFF) with the IMF. Whilst there is no need for further balance of payments support at this point in time, an extended formal relationship with the IMF could provide comfort and confidence to markets (particularly bond market investors).

Meanwhile, requests by the Treasury to the IMF for a 'budgetary support' programme, instead of an EFF, were declined. Subsequent to Sri Lanka's move into middle-income status, the World Bank's support too is increasingly coming in the form of 'budgetary support'. Yet, the IMF's traditional role is in providing balance of payments support and 'budgetary support' is typically an extraordinary form of assistance provided to countries during times of distress, when it is unable to tap international capital markets. The IMF's rejection of the request is not unusual, as Sri Lanka is not in such a position.

In fact, the situation is quite the opposite. Sri Lanka has been successful in tapping international dollar-denominated bonds. The strategy of CBSL up to 2012 has been to retire high cost domestic borrowings with cheaper foreign borrowings. Dollar-denominated bonds issued between 2009 and 2012 have been at around half the rate of domestic loans, and have regularly seen a reduction in yields – 7.4 per cent in 2009 (due in 2015), 6.25 per cent in 2010 (due in 2020), 6.25 per cent in 2011 (due in 2021), and 5.88 per cent in 2012 (due in 2022). The most recent bond in July 2012 at the low 5.87 per cent was substantially tighter than the initial price guidance of 6.12 per cent and lower than the 6.25 per cent rate on similar-dated debt a year earlier. Sri Lanka maintained its sovereign credit ratings by agencies like Fitch (BB- stable), Moody's (B1 positive) and Standard and Poors (B + stable) in 2012, when a host of other countries saw their ratings decline (for instance, South Africa, Cyprus, Spain, Portugal, and France). In early July 2013, though, Moody's downgraded its rating from B1 positive to B1 stable citing the lead reason as "a decline in the strength of the external payments position in the past two years".

With rising external liabilities, and resultant higher foreign debt service outflows, foreign exchange inflows need to rise to support it. But this requires a focus beyond remittance inflows to the critical role that export earnings play. This focus has been lacking recently and Sri Lanka's export performance is disconcerting.

An important part of sustaining growth through a transition to middle-income status and beyond is being more open to the global trading system. Sri Lanka was a leader among its regional peers when it liberalized its foreign trade regime in 1977. With crop processing like tea, rubber and coconut, as well as high quality ready-made garments leading the way, the trade-to-GDP ratio had increased to over 80 per cent by 2000. However, Sri Lanka seems to have regressed of late. By 2010, this ratio had almost halved, to 44 per cent. Sri Lanka's exports-to-GDP ratio fell from around 33 per cent of GDP in 2000 to 16.4 per cent in 2012. The Sri Lankan economy is now trading less and less with the world, and this has been accompanied by a fall of Sri Lanka's share of exports in total world trade.

Evidence suggests that Sri Lanka's total effective rate of protection is higher now than in any previous post-liberalization period. This substantial decline in trade openness has occurred at a time when the rest of the world is integrating more and more, global trade is accelerating, and most countries are making an aggressive push towards bilateral and regional preferential trading arrangements.

Recent trends do not bode well either. In 2012, Sri Lanka's exports contracted by 7.4 per cent across all segments (except mining). The latest results from the first half of 2013 showed a 4.5 per cent contraction, with industrial exports declining by 4.7 per cent. During the same period, Sri Lanka's competitors like Bangladesh and Vietnam increased their exports, by 16.2 per cent and 19.7 per cent, respectively. So, clearly, only a part of Sri Lanka's export performance can be attributed to the weak global economic climate, and depressed demand in Sri Lanka's key markets. The other half of the story is more ominous. Sri Lanka has not been successful in expanding its export markets through both bilateral and regional trading arrangements, as well as through enhanced competitiveness.

This focus away from export-led growth has manifested itself in a changing structure of the economy. Much of the sources of growth in the post-conflict years have been both directly from domestic non-tradable sectors like construction (infrastructure development) and retail, as well as the tourism sector, and indirectly through foreign worker remittances. It is understandable that following decades of constraint during the conflict, non-tradeables like construction and retail would see a natural boost. But literature suggests that countries which successfully navigated the middle-income transition, saw their tradeables sector grow much faster than non-tradeables.

Dependence on remittances, for instance, seems to be an on-going strategy of the government to bridge shortfalls from export income. Noteworthy, then, is the tapering down of the year-on-year growth in remittances since October 2012. In fact, in May 2013 remittances recorded a monthly decline of 3.4 per cent. This would certainly be an area to watch, when considering the country's balance of payments stability, as remittances alone were responsible for covering 64 per cent of Sri Lanka's overall trade deficit in 2012.

A report on sustained economic growth by the Independent Commission on Growth and Development (2008), highlighted some specific areas that helped a set of some thirteen countries achieve 8 per cent plus growth and sustain it over a long period. While it is not prudent to draw direct policy implications from the experience of these countries, some overall common characteristics are worth noting. A key ingredient of their sustained growth was a tempering of macroeconomic volatility and uncertainty during their most successful periods, which helped raise private sector investment rates (domestic and foreign). Macroeconomic uncertainty has long been a key source of concern for the private sector in Sri Lanka, and regularly ranks high on business climate assessments. This is especially true of public finances and the budget deficit.

Of course, Sri Lanka has made steady improvements in the past several years. Inflation has remained in single digits for over four years, and a commitment to maintaining a narrow budget deficit appears strong. Under the watch of an IMF SBA since 2009, the overall fiscal outcomes in the last few years have been positive. The fiscal deficit was reduced from 9.9 per cent of GDP in 2010 to 6.9 per cent of GDP in 2011. It was further reduced to 6.4 per cent in 2012 (albeit slightly above the targeted 6.2 per cent). Concerns over the country's fiscal footing still remain, however, stemming both from the expenditure and revenue sides.

It was assumed that a stronger economy and continued political stability will provide the strong incumbent government the necessary elbow room to undertake critical reforms, which would put public finances on a further healthier footing. Yet, it appears that the commitment to such reforms has been rather lacklustre, both on the expenditure and revenue sides.

On the expenditure side, the biggest drain on the exchequer continues to be the loss-making state-owned enterprises (SOEs). The SOEs in the energy sector are particularly under the spotlight at present, following controversial moves to substantially revise electricity tariffs in mid-2013. The financial position of the Ceylon Electricity Board (CEB) has deteriorated dramatically in the past five years – with losses increasing from around Rs. 15 billion in 2006 to over Rs. 60 billion in 2012. The amount the government spent propping up the electricity sector in 2012 is almost double the Rs. 36.5 billion spent on the largest explicit subsidy -- fertilizer. Unpaid dues by the CEB to the Ceylon Petroleum Corporation (CPC) worsen this, and result in the two energy SOEs being entangled in a vicious cycle of loss-making.

Although tariff increases requested by the CEB were approved by the multi-sector regulator, the Public Utilities Commission of Sri Lanka (PUCSL), would have considerably stemmed (but not eliminated) the hemorrhaging of public funds, much of it was reversed after early May 2013. This move was seen as a significant blow to the policy reform process, as the independent regulator tasked with bringing the energy sector back to cost-reflectivity and profitability was severely undermined. The initiative seen in early 2012, in introducing tough but necessary adjustment measures, was missing this time around as reform imperatives were overtaken by political ones.

Sri Lanka cannot keep postponing bold and essential reforms to the energy sector. Evidence both domestically and internationally suggests a strong relationship between electricity supply and economic growth. Sri Lanka's ambitions of rapid growth towards middle-income status would certainly be hampered by insufficient and costly energy supply. Estimates suggest that a further 100MW of electricity is required to be added to the grid each year to meet the annual demand of the country, which is set to nearly double from around 9,286 GWh in 2010 to 17,489 GWh in 2020. Household expenditure patterns suggest that electricity consumption is highest among those in the middle class income group. A growth in this group would no doubt put additional pressures on energy resources.

Aside from inherent inefficiencies in the CEB, high tariffs in the country are attributed also to the fact that successive governments have failed to implement long term generation expansion plans as scheduled. Much delayed coal plants are now finally coming on stream, and much of the future grid expansion is hinged on coal-powered generation. But this brings new risks. While less reliance on thermal-fired plants would mean the avoidance of adverse impacts of global oil price movements, coal prices have shown greater volatility in the past. Yet, coal is widely acknowledged as the way forward for Sri Lanka to power its growth ambitions. Therefore, ensuring that investments in coal plants are rational and productive is vital. Recent experience with the Chinese-built Norochcholai Coal Power Plant, with its frequent breakdowns and array of technical problems, should strike a note of caution when planning future investments.

On the revenue side, taxation continues to be a concern. Recognizing the taxation imperative in fiscal consolidation, the government appointed a Presidential Taxation Commission in 2009. Following the release of its final report in 2010, some significant tax reforms were undertaken through the 2011 Budget. This included slashing of corporate and personal income tax rates with a view to encouraging economic activity, removing the Pay-As-You-Earn (PAYE) tax exemption enjoyed by public servants since the late 1970s, rationalizing some border taxes, and streamlining the tax incentives regime. But these reforms are yet to deliver higher revenue. In fact, in 2012, the tax-to-GDP ratio declined to its lowest level in 20 years at 11.5 per cent. This is well below the average tax ratio of comparable lower middle-income countries at 18 per cent. Essential administrative reforms did not accompany the reduction in rates, which in turn impeded the widening of the tax base to offset the revenue loss. Meanwhile, Value Added Tax (VAT) exemptions and zero ratings have increased to accommodate political lobbies.

The concern over fiscal weaknesses is also reflected in recent commentaries by many international organizations, including sovereign ratings agencies. Reports by Standard and Poors, Moodys, etc., during 2012 and early 2013 all point to risks emanating from this, albeit of a medium term nature.

Contributing to meeting a lower fiscal deficit target in 2012 vis-à-vis 2011, was the strategy of shifting of payments to suppliers and delaying or scaling back on capital expenditure projects, as well as the fact that the debts of SOEs are not reflected in the deficit numbers as they are passed on to the balance sheets of state banks that keep financing the losses. These are not sustainable strategies. While fiscal consolidation is certainly an important objective, it should not come at the expense of enhanced public investment in areas that contribute to sustained growth, like social and physical infrastructure. The role that infrastructure investment can play in recovery from economic crises and to promote growth, has been recognized across the world. A large part of US President Barack Obama's recovery and growth strategy is hinged on plans to overhaul the country's connective infrastructure. Facing a situation similar to the recent global downturn during the East Asian financial crisis, China focused its fiscal stimulus investments on highways, railroads, port facilities, and electricity – areas that were bottlenecks to China's growth. Evidence suggests that infrastructure investment represents two-thirds of the growth increase in East Asia, and about half of the growth increase in Africa in the past two years.[1] Sri Lanka has clearly recognized this, and the infrastructure thrust in the past 5-7 years has been impressive. Two new container ports and a new international airport have been the epitome of this thrust. Most of the ongoing projects are foreign-funded, either on commercial loans or bilateral loans.

The next agenda needs to be private participation in infrastructure projects, to ease the financing burden on the government for the next raft of infrastructure projects. The opportunities are vast. The government estimates that, in port-related infrastructure alone, around US$ 10 billion of projects will open up for private investment over the next five-years. Mobilizing private capital for public projects is not easy. Recent experience in India amply demonstrates this. Despite a large infrastructure financing need, private capital in the form of private-public partnerships (PPPs) or infrastructure bonds have been slow to come in as investors are wary of tenuous processes and doing business with the state amidst concerns over corruption. This holds important lessons for Sri Lanka as well. While the rhetoric welcoming private investment into infrastructure has been clear and consistent by the Government of Sri Lanka (GoSL), murky procedures and political interference seem to have kept private investors away from any notable participation in public infrastructure projects. With a relatively small domestic private sector capable of undertaking such costly projects with long gestation periods, accompanied by their often risk-averse nature, foreign investment and joint ventures become ever more important. To what extent foreign investors are willing to navigate murky procedures and undertake long term commitments under Build-Own-Operate (BOO) or Build-Operate-Transfer (BOT) type of PPPs is still unclear. Meanwhile, for the domestic private sector, the recent relaxing of restrictions on overseas borrowing may ease the fundraising constraint faced by them, and could help position them to play a greater role in public infrastructure projects.

Physical infrastructure is only part of the arsenal the Sri Lankan economy needs to make towards a strong middle-income transition, and sustain growth over a longer period. Social infrastructure will determine the quality of the country's workforce that truly drives growth. While connective infrastructure has been getting much attention in Sri Lanka, sectors like education and health are beginning to show significant gaps resulting from under-investment in recent years.

Sri Lanka is continuing to reap the benefits of the impressive investments in education

[1] Lin, Justin (2011), "*Global Solutions to the Global Crisis: Beyond Keynesianism and the "New New Normal"*", text of speech delivered at Asian Society Hong Kong Center 2011, available at http://siteresources.worldbank.org/DEC/Resources/AsianSocietySpeech-Hongkong-JustinLin.pdf [accessed on 3rd February 2013].

and health in the post-independence period. However, the transition to middle-income brings with it new challenges to human development. Public expenditure in education has fallen from an average 2.3 per cent of GDP during the 2000 to 2010 period, to a 10-year low of 1.8 per cent of GDP in 2012. The average upper middle-income country spends 5 per cent of GDP, and the average lower middle-income country spends 4 per cent of GDP on education. Meanwhile, over 100,000 A/L graduates each year are not able to pursue higher education as state universities are unable to accommodate them, and the alternative of private higher education is affordable mainly to more affluent households. In 2012, 40,000 more were left out, than in 2011. The effects of Sri Lanka's waning demographic dividend are already manifesting itself in labour force participation rates. As much as 7 per cent fewer young people were in the labour force in 2010 compared to 2006. This means that with the demographic dividend on its way out, Sri Lanka is expecting to reach upper middle-income status and beyond, with fewer people working to get there. This necessarily means greater investment in education and skills development, so that the smaller cohort of young people still in the labour force generates more output per person.

Challenges in the health sector are also emerging, with changes appearing in the demographic and socio-economic character of the country, associated with the transition to middle-income. This is particularly true of Non-Communicable Diseases (NCDs) and malnutrition.

Along with lifestyle changes that accompany higher living standards, the epidemiological profile of the population will change, and it has already begun. Deaths due to NCDs, such as ischaemic heart disease, stroke, and cancer, are high and rising in Sri Lanka. Evidence suggests that nearly 90 per cent of the country's disease burden can be attributed to NCDs.[2] An ageing population will bring additional health care burdens too, as health demands of the old are generally higher than for other groups.

The ability of the state to provide improved health facilities to tackle these emerging challenges is compromised by low investment in the heath sector. Total expenditure on health has remained below 5 per cent of GDP between 1995 and 2008, and is low compared to the middle-income country average of around 8 per cent. This lower public investment has been accompanied by a rise in private expenditure on health, as aspirations towards advanced and conveniently accessible healthcare services emerge among the country's middle class. Expenditure on private hospitals and nursing homes has risen lately, mainly driven by this income group. The proportion of out-of-pocket expenditure (i.e., the individual cost borne by the patient) out of private health expenditure has grown over time. Sri Lankans spent Rs. 70 billion more out-of-pocket on healthcare in 2009, than 20 years ago. While much of this is driven by those who have higher spending power, this still has important equity implications. Higher private expenditure for health by individuals is inherently regressive, and breeds inequity and social exclusion in availing of quality health care services.

Meanwhile, gaps in nutrition are surfacing, and seem to be affecting the country's youth the most. The highest proportion of malnourished women is seen in the youngest age groups of 15-19 years (40 per cent) and 20-29 years (22 per cent). This 'adolescence nutritional deficiency' breeds a lifecycle of malnutrition, and would affect the country's productive potential.

Meeting these emerging human development needs will require greater state capacity, which comes largely in terms of tax revenue.

Higher domestic revenue will come to a great extent with higher economic growth. An important driver of this growth, then, is high rates of savings and investment. Countries that achieved 8 per cent plus growth and sustained it over an extended period, demonstrate the importance of high savings and investment. International literature as well as analysis for Sri Lanka, shows that a rising global middle class in a country is likely to spur more savings and investment.

Sri Lanka's domestic savings ratio stood at 17 per cent in 2012, rising from 15.4 per cent the previous year. As the 'Sri Lanka: State of the Economy 2011' noted, "a high inflationary environment has been a habitual feature of the economy, discouraging saving and rewarding borrowing". In addition to this, socio-cultural norms of Sri Lankans, like a lower propensity to save, along with rising domestic consumption expenditure add to the challenge. There was a ballooning of demand for imports of consumer goods following the end of the conflict. This had reached unsustainable levels, vis-à-vis foreign exchange earnings, and greatly contributed to the CBSL's stabilization measures introduced in early 2012. Yet the longer term trend is that national savings will not suffice investment demand and could stifle the country's ambitions of faster growth. This is where FDI plays a strong contributing role. FDI inflows to Sri Lanka have seen a significant increase in recent years, even during the time of the conflict, rising from US$ 223 million in 2004 to US$ 1,017 million in 2008. FDI inflows dropped to US$ 404 million in 2009 and US$ 478 million in 2010, largely due to the global economic downturn which slowed down investment flows worldwide. By 2011, inflows had picked up to US$ 956 million, driven almost entirely by investments in the hotel and leisure sector. By 2012, inflows amounted to US$ 898 million.

While the country has no doubt struggled to sustain the boost seen in the years immediately following the end of the conflict, this does not take away from the impressive gains in prosperity made in recent years. Unemployment has fallen from 5.8 per cent in 2009 to 4.0 per cent in 2012 and poverty nearly halved between 2006/07 and 2009/10. The traditional 'lagging regions' are catching up, with the Western Province GDP dominance falling from 50.8 per cent in 2005 to 44.4 per cent in 2011, and provinces like Southern, Northern, North Central, and Uva showing steady increases in their contribution to national output. All of these contribute to a changing scenario of social mobility in the country. Private consumption expenditure (PCE) has risen steadily in recent years, growing by 70 per cent between 2008 and 2012. With higher growth and falling poverty comes the potential for a rising middle class.

Sales of motor cars, motorcycles, and consumer durables – seen as luxury items in a low-income economy – have risen in line with this rising upward mobility. The pent up demand for these were clearly visible when 2010/11 witnessed a dramatic rise in demand following substantial cuts in import tariffs in mid-2010. Even prior to the duty cuts, demand for personal-use motor vehicles had been rising. Annual registration of new motor cars was over 40 per cent higher in 2008 than in 2002, and 65 per cent higher in the case of motorcycles.

While such rises in domestic consumption will boost non export-oriented enterprises, it alone cannot drive sustained growth. It is export-oriented enterprises and their efficiencies that will determine rapid growth.

As pressures on Sri Lankan enterprises rise, both from domestic concerns like rising factor prices as well as threats to external competitiveness, they will look to become more efficient and 'go lean' as well as adopt greater product and process innovation. This will see a change in the internal operating structure of these enterprises – towards greater adoption of technology combined with higher skilled labour. While the impact this has on job creation will be debated, it is clear that such a shift towards innovation is likely to benefit the skilled and educated. During the, albeit limited, industrialization period in Sri Lanka, a workforce which was generally very trainable owing to high literacy and health outcomes, was a definite advantage to typically lower-skilled manufacturing jobs. However, with the evolving pattern of growth, the future demand is likely to be for 'knowledge workers', possessing higher-order skills that go beyond basic education and literacy.

Moreover, with middle-income status come changes in aspirations on the type of employment sought by young people. Anecdotal evidence suggests that manufacturing enterprises are facing difficulties finding workers for the 'factory floor'. With a shifting of preferences away from blue-collar work, the pressure on the education system to deliver the required training and skills is immense. These changes seem to be influencing youth participation in the labour force. For instance, youth labour force participation rates in the estate sector saw the biggest decline between 2006 and 2010, falling by almost 12 per cent (compared to 7 per cent nationally). This could be a reflection of the changing aspirations of young people, away from the opportunities available in the estate sector, towards jobs elsewhere. With aspirations towards urban jobs (especially in the services sector, like retail) on the rise, and the consequent tighter competition for these jobs, urban unemployment among youth has shown an increase from 12 to 14 per cent between 2006 and 2010 – the only sector to see a rise in youth unemployment during this period.

While Sri Lanka's rate of urbanization has been quite tame compared to other developing countries, this could change as the country makes the transition to middle-income. Associated with this is the creation of new vulnerable groups, especially those who are urban unemployed and slip into urban poverty. Looking at just the Poverty Head Count Index (PHCI) may be misleading. Although it shows that urban poverty HCI is very much lower than, say, in the estate sector, the actual number of poor in urban areas is higher. Moreover, the depth of urban poverty is more acute than in other sectors. The amount of monthly transfers needed to bring an urban poor individual out of poverty is Rs. 680 compared to Rs. 587 for an average poor individual in the country.[3]

It is not just in the urban sector. The skill-biased technological change that is likely to be a feature of Sri Lanka's middle-income transition, can have an impact on overall wage dispersion. Rising income inequality could reduce both social mobility and future prosperity. At the aggregate level, more than a half of all income in the country is received by the richest 20 per cent of households, while the poorest 20 per cent receive just 4.5 per cent of the income.

While equipping workers with the skills to latch on to the economic changes and minimize the gap between them and emerging income opportunities, the flip side is to create a safety net for the poorest and those most likely to be 'left out'. An important part of moving towards a middle-income country is ensuring adequate protection for the most disadvantaged population groups and those that are most vulnerable to shocks. While Sri Lanka has made impressive gains in reducing poverty, the fact remains that a significant share of households are clustered just above the poverty line and various shocks -- be it at household level or macroeconomic – could easily push them back into poverty. Essential then, is a robust social protection system to address the emerging vulnerabilities. This is particularly important considering both Sri Lanka's rapidly ageing population, and also the high level of informal workers in the labour force, with little access to good safety nets. A high proportion of those employed in the construction, mining, and quarrying industry (83 per cent), hotel and restaurant industry (50 per cent), and manufacturing industry (45 per cent) are informal workers.[4]

While there are a multitude of social protection programmes currently operational, most of them deliver grossly insufficient benefits, are poorly targeted, and do not cover the risks and vulnerabilities adequately. This is most evident in the country's largest programme, Samurdhi. The maximum amount of income transfer delivered by Samurdhi to a household is Rs. 1,500, while the national poverty line dictates that a person requires at least Rs. 3,300 per month to meet his/her consumption needs. Better targeting in social protection schemes like Samurdhi can free up more funds to give to those who most need it. Estimates reveal that only around 15 per cent of Samurdhi recipient households are actually poor, as much as 49 per cent of households identified as poor do not receive any Samurdhi benefits. At a time when fiscal pressures are rising, the government will have to move away from a blanket-approach to social welfare towards a more targeted and effective social protection architecture.

Another source of vulnerability emanates from changing weather patterns, and natural disaster-related shocks. Severe adverse rainfall events in Sri Lanka's dry zone in early 2011 and late 2012 heavily impacted farmer livelihoods, while severe cyclonic conditions in an unusually strong monsoon season in June 2013 hit fishing communities across the Southern and South-Eastern parts of the country causing nearly 50 fatalities. While social protection schemes must expand coverage to these emerging types of risk, a big part of guarding against these vulnerabilities is to have better information and provide it to those who need it. Called Climate Information Products (CIPs), these can help communities, and the country at large, make adaptation decisions and be better prepared for the fallout from adverse climatic changes. In Sri Lanka, credible CIPs are scarce -- especially in the areas of agriculture, water resource management, energy generation planning, and disaster risk management. Consequently, most people do not rely on formal CIPs and it impacts their readiness to adverse changes. IPS research in the Anuradhapura district, for instance, shows that while nearly three-fourths of farmers regularly look for weather reports in the media, less than 3 per cent treat those as their main source of information. The overwhelming majority said they relied on personal judgment, observations, and peers. Yet, many of them acknowledged that their long-held beliefs in local weather patterns have become less reliable, even obsolete, and the need for better CIPs is greater than before. Agencies tasked with providing CIPs, like the Department of Meteorology, would need a stronger focus on quality, timely and credible information accompanied by investment in state-of-the-art technical facilities and high levels of expertise.

Overall, Sri Lanka is facing new challenges as it makes the transition to a middle-income economy as is clear from the preceding discussion. A key characteristic of other economies that have made, or are making, this change is a growing global middle class in their societies and the acknowledgement that this can have positive impacts on growth and development. Although according to global benchmarks, Sri Lanka's middle class measures up to less than 5 per cent of the total population, as highlighted throughout this report, there are signs of upward mobility and an emerging middle class in the country. This is evidenced by, *inter alia*, a sharp decline in the incidence of poverty, growing demand for advanced services, luxury and consumer durable products, greater spending on private health care and education services, as well as the proliferation of technology and services that connect more Sri Lankans to global information and commerce. With their more discerning consumer demands, a growing domestic middle class can spur service and process innovations in the country. They can also have an impact on public policy, as some literature has shown that as this group gets larger, social policies on education and health become more progressive.

The best means of growing this middle class is to strengthen what is at the heart of their emergence – access to secure, well-paying employment opportunities. This necessarily means that Sri Lanka must focus on expanding tertiary education and vocational training.

A distinguishing feature between the poor and the middle class is that as they are largely engaged in stable well-paying jobs, it gives them the space and resources to not only improve their living standards, but also be more engaged politically and demand better state services. So, for a government, a rising middle class can also bring with it, its own set of challenges. A growing middle class has greater demands on, and want a greater voice in, how they are governed and the institutions that govern them. This tendency has been seen in countries like India, with a rapidly growing middle class – whether it be demanding a change from police inaction against sexual abuse, protests against corruption (for instance, the Anna Hazare movement), or the increasing number of public interest litigation using the Right to Information Act. Similarly, in countries like Turkey, where years of steadily growing incomes fostered a large middle class, which became increasingly less tolerant of an overbearing state and ultimately erupted in the kind of dissent seen recently. The efficacy of institutions to meet the evolving needs of people and the quality of rule of law in protecting their rights would become increasingly more important to the upwardly mobile social class, and the government needs to be cognizant of this.

The rising socio-economic prosperity in Sri Lanka, if fostered cleverly and inclusively with progressive public policies, can spur economic dynamism, innovation, and social progress, and place the country on firmer ground, as it makes a decisive transition into a middle-income economy and beyond.

1. ප්‍රතිපත්ති පර්යාලෝක

2008 දී ගෝලීය ආර්ථික අවපාතය හට ගැනීමෙන් වසර පහක් ගත වුව ද තවමත් ගෝලීය ආර්ථිකය දුර්වල තත්වයක පවතී. ගෘහස්ථ, සමාගම් හා රාජ්‍ය ණය බර අඩු කරත්ම, ණය නිසා හටගත් මේ ආකාරයේ අර්බුදයකින් ගොඩ ඒමට කල් ගතවීම අසාමාන්‍ය දෙයක් නොවන නමුත් විශේෂයෙන්ම කණසල්ලට හේතු වන්නේ ලොව පුරාම විශ්වාසය පළුදු වන නව අර්බුද මතුවීමය. පහසු සහ ලේඛිය පිබිදීමක අපේක්ෂා ඉවත දමා ඇත. 'නව සාමාන්‍ය තත්වයක්' පිළිබඳව එනම් මූල්‍ය අර්බුදයට පෙර පැවති ප්‍රවණතාවයට වඩා බෙහෙවින් අඩු වර්ධන අනුපාත පවතින සංවර්ධනය වූ ලෝකයක දිගු කාලයක් මන්දගාමී වර්ධනයක් පැවතීමේ ප්‍රශ්න මතු වෙමින් පවතී.

2012 වසරේ පැවති මන්දගාමී යළි නැගිටීම විවිධ පෙරමුණුවල වරින් වර හටගත් අර්බුද නිසා අඩපණ විය.

යුරෝ කලාපයේ දේශපාලන කුසීතභාවය හා බැඳුණු වියදම් කපා හැරීමේ පීඩනය හා රාජ්‍ය ණය ගැටලු නිසා ද.දෙ.නි.ය සියයට 0.4 කින් හැකිළීමට හේතු විය. ආර්ථිකය මුදා ගැනීමේ යෝජනා වල කොන්දේසි අනුව වඩාත් ප්‍රබල වියදම් කපා හැරීමේ පියවර ගැනීමට සිදු වූ යුරෝ කලාපයේ රටවල් බොහොමයකට තම රටවැසියන්ගේ දැඩි විරෝධයට මුහුණ දීමට සිදු විය. යුරෝපයේ තවම ඇත්තේ අඳුරු තත්වයකි. කලාපය පුරාම විරැකියාව ඉතා ඉහළය. කලාපයේ ආර්ථික හැකිළෙමින් පවතී. බැංකු ණය නිකුත් කිරීම දුර්වල ය. යුරෝ කලාපයේ විශ්වාසය වැඩි දියුණු වීමට හේතු වූ ප්‍රධාන ප්‍රතිපත්ති මූල පිරුමක් වන යුරෝපීය මහ බැංකුවේ සම්පූර්ණ මූල්‍ය ගනුදෙනු කිරීම් (OMT) ව්‍යවස්ථාවට අනුකූල ද යන්න ජර්මනියේ උසාවි වලදී අභියෝගයට ලක්ව ඇත.

මේ අතරතුර එක්සත් ජනපදය ඉතා පහත් මට්ටමක සිට 2012 වසරේ දී සියයට 2.3 ක වර්ධනයක් වාර්තා කළ ද දේශපාලන වියවුල් තත්වය වැඩිදුරටත් දිරිගැන්වීමට බාධකයක්ව පවතී. එහෙත් රැකියා උත්පාදනය 2013 අප්‍රේල් මාසයෙන් අවසන් වූ හය මාසය තුළ ඊට කලින් හය මාසයට වඩා සියයට 50 කින් වැඩි විය. පසුගිය මාස 12 තුළ රැකියා උත්පාදනය ශක්තිමත්ව පැවති නිසා රාජ්‍ය අංශයේ සේවා නියුක්තියේ පහත වැටීමක් තිබුණ ද විරැකියා අනුපාතය සියයට 7.3 දක්වා පහත වැටිණ. 2013 අග භාගයේ දී එක්සත් ජනපද ෆෙඩරල් සංචිතයේ ආර්ථිකය යළි නැගී සිටීමේ විශ්වාසය පිළිබඳ දර්ශකයක් වශයෙන් ප්‍රමාණාත්මක ලිහිල් කිරීමේ (QE3) තුන්වැනි වටය නතර කිරීමට එනම් බැඳුම්කර අලෙවිය කපා හැරීම ආරම්භ කරනු ඇතැයි අපේක්ෂාවක් පවතී.

මෙම කලාප දෙකේම වියදම් කපා හැරීම සහ දිරිගැන්වීම් අතර පවතින විවාදය අභියෝගාත්මක සහ බොහෝ විට කර්කශ දේශපාලන ආර්ථික පරිසරයක් නිර්මාණය කළේය. ගෝලීය විශාල කම්පනයකින් පසුව මධ්‍යම බැංකු සහ රාජ්‍යයන් නැවතත්' ආර්ථික සන්දර්ශන' කරනු ඇතැයි පාරිභෝගිකයන්, සමාගම් හා මූල්‍ය වෙළඳ පොළ පැවති මධ්‍ය කාලීන විශ්වාසය තවදුරටත් හානි කරවිය.

නැගී එන ආර්ථික, මීට පෙර යළි නැගී සිටීමේ පරිච්ඡේදයේ දී අර්ධ වශයෙන් වෙන්වීමක් පෙන්නුම් කළ ද පසුගිය වසරේදී එහි වර්ධන වේගයේ පසුබෑමක් දක්නට ලැබිණ. නැගී එන ආර්ථික බටහිර දුර්වල වෙළඳ පොළ මත රඳා පැවැත්ම නිසා එම රටවල පවා ආර්ථික වර්ධනයේ පසුබෑමක් දක්නට ලැබිණ. ඉන්දියාවේ සෘජු විදේශ ආයෝජන නව නීති වල චංචලතාව මෙන් දේශීය ආර්ථික ගැටලු ද 'තමන් විසින්ම ඇති කර ගත් හානි වලට' හේතු කාරක විය. 2010 හා 2011 වසරවල පැවති ඉහළ මට්ටමේ වර්ධනය හා සසඳන විට චීනය 2012 දී වාර්තා කෙළේ සියයට 7.8 ක වර්ධනයකි. ඉන්දියාව වර්ධනය වූයේ ඉතා දුර්වල සියයට 4.5 කින් පමණි. මේ අතර 2011 පැවති දේශපාලන අර්බුද නිසා මුහුණ දුන් වර්ධන වේගයේ අඩාලවීම්වලින් මිදුණ මැද පෙරදිග 2012 දී සියයට 5.2 ක වර්ධනයක් අත් කර ගත්තේය.

සමහර ආණ්ඩු වෙනත් ඒවාට වඩා මේ පිළිබඳව තීරණාත්මක දෙයක් කරන බව පෙනේ. නිදසුනක් වශයෙන් චීනයේ 12 වැනි පස් අවුරුදු සැලැස්මෙන් වර්ධනය දිරිගැන්වීමේ මාර්ගයක් වශයෙන් වඩාත් ප්‍රබල දේශීය ඉල්ලුම ජනනය කෙරෙන වෙළඳ පොළ හිතවත් ප්‍රතිශෝධන හා ප්‍රතිපත්ති පැහැදිලිවම දක්වයි. එහි නාගරිකකරණය හා සේවා අංශයේ වර්ධනය ගැන අවධානය යොමු කරන අතර අඩු පිරිවැය ආදර්ශයේ සිට වඩාත් වැඩි තාක්ෂණ තීව්‍රතාවය හා නව්‍යකරණය කෙරේ යොමුවීමක් ඇතුළත් වේ. 2013 සැප්තැම්බර් මාසයේ දී පමණ චීනය ආර්ථික ප්‍රතිපත්තියේ අනාගත ගමන් මඟ ගැන වැදගත් ප්‍රකාශන කරනු ඇතැයි සිතිය හැකිය. ඒ නායකත්වයේ වෙනස්වීමක් සමග සාම්ප්‍රදායිකව කෙරෙන ප්‍රකාශනයකි. ඊට වෙනස්ව ඉන්දියාව, රට චිරස්ථායී වර්ධන පදනමකට පත් කෙරෙන වැදගත් ව්‍යුහාත්මක ප්‍රතිශෝධන ඉදිරියට ගෙන යෑමට නොහැකිව බලයේ සිටින රජය ප්‍රතිපත්ති අඩපණවීමකට ලක්ව සිටී. වර්ධන වේගය පසුබෑම හා උද්ධමනය නිරන්තරයෙන්ම පැවතීම නිසා මූල්‍ය හා වර්තන ගිණුම්වල හිඟය ඉහළ මට්ටමක පැවතීමෙන් මෑතකදී ඉන්දියානු ආර්ථිකය

ඇනහිටින තත්වයකට පත්විය. මේ අතර පැහැදිලි ජයග්‍රාහකයෙකු දැකිය නොහැකි එළඹෙන 2014 මහ මැතිවරණය පවතින අවිනිශ්චිත භාවයට රුකුලකි.

බාහිර අභියෝගාත්මක ආර්ථික වාතාවරණය ශ්‍රී ලංකාවේ ආර්ථිකය කෙරේ ද බලපෑමක් විය. එහෙත් සංවර්ධනය වූ සහ සංවර්ධනය වන යන කලාප දෙකේම දක්නට ලැබුණු බෙහෙවින් දුර්වල වර්ධනය හා සැසැඳීමේ දී ශ්‍රී ලංකාවේ ක්‍රියාකාරිත්වය සිත් ගන්නා මට්ටමක පැවතිණ.

ගැටුම් අවසන්වීමෙන් පසු වසර දෙකක දී සියයට 8 කට වැඩි සිත්ගන්නා වර්ධනයක් අත්කර ගත් ශ්‍රී ලංකාවේ ආර්ථිකය 2012 දී සියයට 6.4 ක් දක්වා සමනය විය. 2011 අග භාගයේ දී ශීඝ්‍රයෙන් පුළුල් වන වෙළඳ ශේෂයෙන් පෙන්නුම් කළ ආකාරයට ආර්ථිකයේ අධික ක්‍රියාකාරිත්වය නිසා 2012 මුල දී ගැලපුම් පියවර ගණනාවක් ගැනීමට රජයට සිදු විය. මෙය සිදු වූයේ (බැංකු-මත ණය සීමා පැනවීමත් සමග) පොලී අනුපාතය ඉහළ දැමීම, විනිමය අනුපාතයේ නම්‍යශීලීභාවය, ප්‍රධාන ආනයනය වූ කාර් සඳහා බදු ඉහළ දැමීම සහ (වියදම් පැවරීම හා සහනාධාර කපා හැරීම තුළින්) බල ශක්ති මිල ඉහළ දැමීම වැනි පියවර තුළිනි. කෘෂිකර්මයට බලපෑ අයහපත් කාලගුණයත් සමග පසුගිය වසරේ වර්ධනය සැලකිය යුතු ප්‍රමාණයකින් සමනය විය.

2012 වසර ඇරඹෙත්ම ආනයන හා අපනයන යන දෙකේම තියුණු පහත වැටීමක් දක්නට ලැබිණ. අපනයන පහත වැටුණේ ශ්‍රී ලංකාවේ අපනයන වෙළඳ පොළ පැවති දුර්වල ආර්ථික තත්වය හා ප්‍රධාන අපනයන දෙකක් වූ කපු සහ රබර් භාණ්ඩ මිල පසුබෑමෙනි. ආනයන පහත වැටීම සිදු වූයේ රුපියල අවප්‍රමාණයවීම, ණය කොන්දේසි දැඩිවීම, සහ ආනයන ඉල්ලුම සීමා කළ බදු අනුපාත ඉහළ දැමීම සහ වෙළඳ ද්‍රව්‍ය සඳහා ලෝක වෙළඳ පොළ පැවති අඩු මිල නිසාය. 2012 ආර්ථිකයේ පසුබෑමට මූලික හේතුව වූයේ ණය කොන්දේසි වඩාත් දැඩි කිරීමයි. ශ්‍රී ලංකා මහ බැංකුව පැනවූ ණය සීමාවන්ට සහ ඉහළ පොලී අනුපාතයන්ට ප්‍රතිචාර වශයෙන් 2012 වසර පුරාම පෞද්ගලික අංශය ලබා ගත් ණය ප්‍රමාණයේ තියුණු පහත වැටීමක් දක්නට ලැබිණ.

2012 දෙසැම්බර් මාසයේ දී ශ්‍රී ලංකා මහ බැංකුව පැන වූ ප්‍රතිපත්ති අනුපාත සංශෝධන සම්පූර්ණයෙන්ම බලපැවැත්වීමට පෙර 2013 ජනවාරි මාසයේ දී ණය සීමා ඉවත් කෙරිණ. පෞද්ගලික අංශයේ ණය ඉල්ලුම තවමත් බෙහෙවින් යටපත් වූ මට්ටමක පවතී. සාපේක්ෂ වශයෙන් ඉහළ පොලී අනුපාතය හා ආර්ථික වර්ධනයේ මධ්‍යස්ථභාවය 2013 මුල් කාර්තුවේ ණය සඳහා ඇති ඉල්ලුම පහසු කිරීමට හේතු වූ සේ පෙනේ. 2013 ජනවාරි මාසයේ දී පෞද්ගලික අංශයට ලබා දුන් ණය ප්‍රමාණය, රුපියල් බිලියන 9.7 වසරකට පෙර ලබා දුන් ණය ප්‍රමාණයෙන් (රු. බිලියන 44.5) න් හතරෙන් එකකටත් වඩා අඩුය.

ප්‍රතිපත්ති අනුපාත කපා හැරීම, අඩු බැංකු ණය අනුපාත බවට පත්වීම තවමත් ගැටලුසහගත තත්වයක පවතී. මාර්තු මාසයේ මැද සිට වානිජ ණය අනුපාතය සියයට 14 ට වඩා අඩුවෙන් පැවතීමෙන් සාමාන්‍ය බර තැබූ ප්‍රාථමික ණය අනුපාතය (AWPLR) පහත වැටීමේ මූලික ලක්ෂණ පෙන්නුම් කරයි. පෞද්ගලික අංශයේ උනන්දුවක් නැති ණය ඉල්ලුම හා බැඳුණු වෙළඳ පොළ රජයේ ක්‍රියාකාරිත්වයේ සැලකිය යුතු පරිමාණයත් සමග වානිජ ණය අනුපාත ගැටලුකාරී තත්වයක පැවතීම පුදුමයට කරුණක් නොවේ. 2013 මුල් කාර්තුවේ දී රජය බැඳුම්කර සහ භාණ්ඩාගාර බිල් පත් වෙන්දේසි මගින් රු. බිලියන 406 ක් ලබාගත් අතර පසුගිය වසරේ එම කාර්තුවේදී ලබා ගත්තේ රු. බිලියන 146 ක් පමණි. මින් පෞද්ගලික අංශයට ණය ලබා දීමේ අරමුදල් පහත වැටීමෙන් පොලී අනුපාත ඉහළ දමයි. කෙසේ වුවත් 2013 මාර්තු මැද සිට භාණ්ඩාගාර බිල් පත් හා බැඳුම්කර වෙන්දේසි කිරීම ප්‍රමාණයෙන් කුඩාය.

මෙම අනුපාත වලට බලපෑමක් විය හැකි පරික්ෂාවෙන් නිරීක්ෂණය කළ යුතු ප්‍රවණතාවයක් වන්නේ වානිජ බැංකු ලාභ ප්‍රාග්ධනය සඳහා විදේශ මූලාශ්‍ර සොයා යන ආකාරයයි. 2012 මුලදී සහ 2013 මුල දී ශ්‍රී ලංකා මහ බැංකුව බලපත් හිමි වානිජ බැංකු වලට සහ දේශීය සමාගම් වලට විදේශ විනිමය ගනුදෙනු කිරීමට පනවා තිබූ සීමාවන් ක්‍රම ක්‍රමයෙන් ලිහිල් කෙළේය. 2013 වන විට ශ්‍රී ලංකා මහ බැංකුව ආයෝජන සහ ව්‍යාපාරික කටයුතු සඳහා සමාගම් වලට විදේශ ණය ගැනීම් දිරිමත් කිරීමට 'බාහිර ණය ගැනීම් ක්‍රමයක්' හඳුන්වා දුන්නේය. දේශීය බැංකු කීපයක්ම මෙම ක්‍රමය යටතේ 2012 දී එ.ජ. ඩොලර් දශ ලක්ෂ 973 ක දීර්ඝ කාලීන ණය ලබා ගැනීමට සමත්ව ඇත. මෙය නිසැකයෙන්ම දේශීය ණය අරමුදල් ඌණතාවයට විසඳුමක් හා අරමුදල් සඳහා ඇති තරගය අඩුවීමෙන් පෞද්ගලික අංශයේ ව්‍යාප්තියට ඉවහල් වන නමුත් වානිජ බැංකු සහ පුද්ගලික ව්‍යාපාර වැනි රාජ්‍ය නොවන ඒකක බාහිර කම්පන වලට විවෘතවීමේ නව අවදානමක් ද ඇති කරවයි. ඊට අමතරව හදිසියේ රුපියල අවප්‍රමාණය කිරීම පෞද්ගලික අංශයේ සමහර අයට අමිහිරි අත්දැකීමක් වන අතර විදෙස් මූලාශ්‍ර වලින් ණය ලබා ගැනීමට ඔවුන්ගෙන් කී දෙනෙක් ඉදිරිපත් වන්නේ ද යන්න පැහැදිලි නැත. ශ්‍රී ලාංකික සමායතන බොහොමයක් 2012 මුල සිදු කළ මුදල් අවප්‍රමාණය කිරීමෙන් ඔවුන්ගේ විදෙස් මුදල් වලින් සඳහන් වන වත්කම් හා වගකීම් වටිනාකම් වෙනස්වීමකට මුහුණ දුන්හ.

විදෙස් ණය ලබා ගැනීමට පෞද්ගලික මූලාශ්‍ර දිරි ගන්වන ශ්‍රී ලංකා මහ බැංකුව මෙම වසරේ දී ණය ලබා ගැනීම සඳහා විදෙස් ප්‍රාග්ධන වෙළඳ පොළට නොපිවිසෙන බව දක්වා ඇත. මෑත කාලීන උපාය මාර්ගය වන්නේ කෙටි කාලීන ණය අවසන් කර දීර්ඝ කාලීන ණය ලබා ගැනීම බව පෙනේ. 2013 මැයි මාසයේ දී කාලය වසර 20 හා 30 ක් වූ රු. බිලියන 13 ක වටිනාකමක් ඇති බැඳුම්කර නිකුත් කෙරිණ.

ඉහළ මට්ටමක දේශීය ණය ලබා ගැනීමෙන් උද්ධමන අනුපාතය ඉහළයෑමේ පීඩණයට අමතරව දේශීය අරමුදල් හිස් කිරීමක් ද වේ. ඉල්ලුම හා සැපයුම යන අංශ දෙකින්ම උද්ධමනය ඉහළයෑමේ අනතුරක් පවතී. වෙළඳ පොළ අනුපාත නිවැරදි කරන්නේ නම් සහ ශ්‍රී ලංකා මහ බැංකුව ප්‍රබල ලෙස පෞද්ගලික ණය අරමුදල් වර්ධනය බල කරන්නේ නම් ඉල්ලුම පැත්තේ උද්ධමන පීඩනය තුනී වී යා හැකිය. අනෙක් අතට උපයෝගිතා මිල නිවැරදි කිරීමෙන් ඊට වඩා අඩු ප්‍රමාණයකට වුවත් සැපයුම් පැත්තේ උද්ධමනය වැඩි විය හැකිය.

කෙසේ වුවත් දැනට ශ්‍රී ලංකා මහ බැංකුව වේගය අඩාල වූ ආර්ථික ක්‍රියාකාරිත්වය සහ රුපියල සාමාන්‍යයෙන් ස්ථාවරව පැවතීම නිසා (විදුලි බල ගාස්තුව එක වරක් පමණක් ගැලපීමට අමතරව) මධ්‍යස්ථ ප්‍රමාණයේ උද්ධමන අනුපාතයක් පැවතීම නිසා මූල්‍ය ප්‍රතිපත්තිය තවදුරටත් ලිහිල් කිරීමක් සලකා බලන බව පෙනේ. 2013 මැයි මාසයේ දී මහ බැංකුව තවදුරටත් පදනම් ලකුණු (Basis Points) 50 ක් කපා හැරීමට සූදානම් වූ අතර ජූනි මාසය වනවිට වෙළඳ පොළ පොලී අනුපාත පහත වැටෙමින් පවතින බව දක්නට ලැබිණ. එහෙත් ණය ලබා ගැනීමේ පිරිවැය ගැටලුකාරී තත්වයක තිබිණ. ඊට ප්‍රතිචාර දක්වූ ශ්‍රී ලංකා මහ බැංකුව ද්‍රවශීලතාව වැඩි කිරීමේ උත්සාහයක් ලෙසින් 2013 ජූනි මාසයේ දී වානිජ බැංකු පවත්වා ගත යුතු ව්‍යවස්ථාපිත සංචිත අනුපාත (SRR) සියයට 2 කින් පහත දැම්මේය.

කෙසේ වුවත් ආර්ථික වර්ධනය නැවත ඇති කිරීම සඳහා මූල්‍ය ප්‍රතිපත්තිය යොදා ගැනීමට උත්සාහ කිරීමේ දී රාජ්‍ය බදු ප්‍රතිපත්ති සීමාවන්ට මුහුණ දීමට සිදු වනු ඇත.

බැලු බැල්මට ශ්‍රී ලංකාවේ ද.දේ.නි. හා රාජ්‍ය ණය අනුපාතය 2000 ගණන්වල සියයට 100 වැනි ඉහළ මට්ටමක සිට පසුගිය වසර දෙක තුන තුළ සියයට 80 දක්වා පහත වැටිණ. කෙසේ වුවත් මෙය යුද්ධය අවසන් වූ වහාම නාමික ද.දේ.නි. යේ ශීඝ්‍ර වර්ධනයට සහ නාමික විදේශ විනිමය අනුපාතයේ යථාර්ථවාදී නොවන මට්ටම නිසා ඇති වූවක්යැයි කිව හැකිය. එය අනතුරු හැඟවීමේ කිසියම් මට්ටමකට වඩා අඩුවෙන් පැවතිය ද නැගී එන ආර්ථිකයන් බොහොමයකට වඩා සාපේක්ෂ වශයෙන් ඉහළය. චීනයේ එම අනුපාතය සියයට 20 ක් වන අතර ඉන්දියාවේ සියයට 70 ක පවතී. තුර්කියේ සියයට 40 කි. බ්‍රසීලයේ සියයට 64 කි. 2011 දී සියයට 78.5 සිට 2012 දී සියයට 81 දක්වා ආන්තික වශයෙන් ඉහළයෑම එම වසරේ දී රුපියලේ අගය අවප්‍රමාණයවීමේ හේතුවෙන් ඇති වූවකි.

ශ්‍රී ලංකාවේ සමස්ත ණය තුළ රජයේ වෙනස් වන බාහිර ණය පැතිකඩ ගැන පරීක්ෂා කිරීම අවශ්‍යය. ශ්‍රී ලංකාවේ බාහිර ණය ද.දේ.නි. අනුපාතය පසුගිය වසර කීපය තුළ බොහෝ දුරට නොවෙනස්ව පැවති අතර (සියයට 36 ක් පමණ) බාහිර ණය සංයුතිය වැදගත් ය. 'ශ්‍රී ලංකාවේ ආර්ථික තත්වය – 2012' වාර්තාවෙන් දක්වන ආකාරයට ශ්‍රී ලංකාවේ ගෙවීමට ඇති විදේශ ණය වලින් අනුග්‍රහ නොවන ණය සහ වානිජ ණය ගැනීම් ශීඝ්‍රයෙන් ඉහළ ගොස් ඇත. එය ඇත්තෙන්ම 2006 සියයට 7.3 සිට 2011 දී සියයට 42.9 දක්වා ඉහළ නැග ඇත.

2012 දී ජාත්‍යන්තර මූල්‍ය අරමුදල සමග ඇති කර ගත් පොරොත්තු වැඩ පිළිවෙළට පසුව (Standby arrangement) එම ආයතනයෙන් තව දුරටත් මූල්‍ය සහායක් නොලැබෙන බව පැහැදිලිය. ජාත්‍යන්තර මූල්‍ය අරමුදල සමග විස්තීර්ණ අරමුදල් පහසුකම (EFF) පවත්වා ගෙන නොයන බව ශ්‍රී ලංකා මහ බැංකුව ප්‍රකාශ කෙළේය. මේ අවස්ථාවේ ගෙවුම් ශේෂ සහයෝගය තවදුරටත් අවශ්‍ය නොවන නමුත් ජාත්‍යන්තර මූල්‍ය අරමුදල සමග විධිමත් විස්තීර්ණ සම්බන්ධතාවයක් පවත්වා මගින් ගැනීම වෙළඳ පොළ (විශේෂයෙන්ම බැඳුම්කර ආයෝජකයන්ට) පහසුවක් හා විශ්වාසයක් ලබා දිය හැකිය.

මේ අතර විස්තීර්ණ අරමුදල් පහසුකම (EFF) වෙනුවට අයවැය සහාය වැඩ සටහනක් සඳහා භාණ්ඩාගාරයෙන් කළ ඉල්ලීම ජාත්‍යන්තර මූල්‍ය අරමුදල ප්‍රතික්ෂේප කර ඇත. ශ්‍රී ලංකාව මධ්‍යම මට්ටමේ ආදායම් ලබන රටක් බවට පත්වීමත් සමග ලෝක බැංකු සහාය වැඩි වශයෙන්ම ලැබෙන්නේ අයවැය සහාය ආකාරයෙනි. එහෙත් ජාත්‍යන්තර මූල්‍ය අරමුදලෙන් ගෙවුම් ශේෂ සහාය සහ අය වැය සහාය ලබා දීමේ සාම්ප්‍රදායික භූමිකාව ජාත්‍යන්තර ණය ප්‍රාග්ධන වෙළඳ පොළට පිවිසීමට නොහැකිව අපහසුවට පත් අවස්ථාවන් හි රාජ්‍යයන්ට ආධාර සැලසීමේ සුවිශේෂ ආකාරයකි. ශ්‍රී ලංකාව එවැනි තත්වයක නොසිටින නිසා ජාත්‍යන්තර මූල්‍ය අරමුදලේ ප්‍රතික්ෂේප කිරීම අමුතු දෙයක් නොවේ.

ඇත්තෙන්ම තත්වය ඊට හාත්පසින්ම වෙනස්ය. ශ්‍රී ලංකාව ඩොලර්වලින් අන්තර්ජාතික බැඳුම්කර නිකුත් කිරීමේදී සාර්ථක වී ඇත. 2012 වන තෙක් ශ්‍රී ලංකා මහ බැංකුවේ උපාය මාර්ගය වී ඇත්තේ පිරිවැය අධික දේශීය ණය ගැනීම්, වඩාත් ලාභදායී විදේශීය ණය ගැනීම් වලින් පියවීමය. 2009 හා 2012 අතර කාලයේ නිකුත් කරන ලද ඩොලර් බැඳුම්කර පොලී අනුපාතය දේශීය අනුපාතයෙන් අඩක් පමණ වූ අතර එම අනුපාතයන් ගේ ක්‍රමානුකූල අඩුවීමක් ද දැකිය හැකිය. 2009 දී සියයට 7.4 (2015 දී ගෙවිය යුතු) 2010 සියයට 6.25 (2020 දී ගෙවිය යුතු) 2011 දී සියයට 6.25 (2021 දී ගෙවිය යුතු) සහ 2012 දී සියයට 5.88 (2022 දී ගෙවිය යුතු) ඉතාමත් මෑතක 2012 ජූලි මාසයේදී නිකුත් කරන ලද බැඳුම්කර සඳහා වූ සියයට 5.875 මූලික මිල මගපෙන්වීම වන 6.125 ට වඩා සැලකිය යුතු ප්‍රමාණයකින් වැඩි වුවද වසරකට පෙර සමාන වූ ණය මුදලක් සඳහා නියම කල සියයට 6.25 ට වඩා අඩුය. වෙනත් රටවල් ගණනාවක රාජ්‍ය ණය ශ්‍රේණිගත කිරීම් පහත වැටෙන විට (නිදසුන් වශයෙන් දකුණු අප්‍රිකාව, සයිප්‍රසය, ස්පාඤ්ඤය, පෘතුගාලය හා ප්‍රංශය) ශ්‍රී ලංකාව 2012 දී ෆිට්ච් (B B ස්ථාවර) මූඩි (B1 Positive) ස්ටෑන්ඩර්ඩ් සහ පුවර් (B+ ස්ථාවර) වැනි ආයතනවලින් රාජ්‍ය ණය සඳහා ඉහළ ශ්‍රේණිගත කිරීම් අත් කර ගෙන ඇත. එසේ වුවත්

මූඩි ආයතනය 2013 ජූලි මාසයේ දී 'පසුගිය වසර දෙකක් තුළ බාහිර ගෙවුම් ශේෂ තත්වයේ ශක්තිමත් භාවය පහත වැටීම' ප්‍රධාන හේතුව ලෙස දක්වමින් ශ්‍රේණිගත කිරීම B 1 ධන මට්ටමේ සිට B 1 ස්ථාවර දක්වා පහත දමා ඇත.

බාහිර වගකීම් ඉහළ යෑම සහ එහි ප්‍රතිඵලයක් වශයෙන් විදේශ ණය සේවා ගලායෑම් වැඩිවීමත් සමග රට තුළට විදේශ විනිමය ගලා ඒම ඉහළ මට්ටමක පවත්වා ගත යුතුය. එහෙත් ඒ සඳහා ප්‍රේෂණ ගලා ඒමට ඔබ්බෙන් අපනයන ඉපැයුම් ඉටු කරන තීරණාත්මක භූමිකාව කෙරේ අවධානය යොමු විය යුතුය. මෑතකදී මෙම අවධානය දක්නට නොතිබූ අතර ශ්‍රී ලංකාවේ අපනයන ක්‍රියාකාරිත්වය කලකිරීමට පත් කරවන සුළුය.

මධ්‍යම ආදායම් මට්ටම සහ ඉන් ඔබ්බට චිරස්ථායී සංවර්ධනයක් තුළින් පරිවර්තනය වීමේ දී වැදගත් වන්නේ ගෝලීය වෙළඳ පද්ධතියට වඩාත් අනාවරණය වීමය. ශ්‍රී ලංකාව 1977 දී විදේශ වෙළඳ පද්ධතිය ලිහිල් කිරීමේ දී කලාපීය රටවල් අතර නායකයෙක් විය. තේ, රබර් හා පොල් වැනි භෝග සකස් කිරීමේ සිට ගුණාත්මකභාවයෙන් උසස් නිමි ඇඳුම් මුල් තැනට පත්වීමත් සමග වසර 2000 වන විට ශ්‍රී ලංකාවේ වෙළඳාම ද.දෙ.නි.යට සියයට 80ක අනුපාතයකින් ඉහළ ගියේය. කෙසේ වුවත් ශ්‍රී ලංකාව මෑතක සිට පසුබෑමකට ලක් විය. 2010 වන විට එම අනුපාතය සියයට 44 ක් වී අඩකින් පහත වැටිණ. ශ්‍රී ලංකාවේ ද.දෙ.නියට අපනයන අනුපාතය 2000 පැවති සියයට 33 සිට 2010 වන විට සියයට 16 වැනි මට්ටමකට පහත වැටිණ. ශ්‍රී ලංකාවේ ආර්ථිකය දූන් ලෝකයත් සමග වඩාත් අඩුවෙන් ගනුදෙනු කරන අතර එය සමස්ත ලෝක වෙළඳාමේ ශ්‍රී ලංකාවේ ප්‍රතිශතය පහත වැටීමට හේතු විය.

ශ්‍රී ලංකාවේ මුළු ඵලදායී ආරක්ෂණ අනුපාතය පශ්චාත් ලිහිල්කරණ සමයේ වෙන කිසිදාටත් වඩා වැඩි බවට සාක්ෂි දැකිය හැකිය. වෙළඳාමේ විවෘත භාවයේ සැලකිය යුතු පහත වැටීමක් සිදුව ඇත්තේ ලෝකයේ වෙනත් රටවල් වඩ වඩාත් අන්තර්ග්‍රහණයවීම, ගෝලීය වෙළඳාම වේගවත්වීම සහ බොහෝ රටවල් ද්විපාර්ශ්වික හා කලාපීය වරණාත්මක වෙළඳ වැඩ පිළිවෙළට වේගයෙන් පිවිසෙන පසුබිමක් තුළය.

මෑතක දක්නට ඇති ප්‍රවණතා සුභවාදී නොවේ. 2012 වසරේදී ශ්‍රී ලංකාවේ සියලු අපනයන (කැණීම් හැර) සියයට 7.7 කින් හැකිළිණ. මෙම පහත වැටීමට ප්‍රධාන වශයෙන් හේතු වූයේ කාර්මික අපනයන (සියයට 13 කින්) අඩුවීමය. 2013 වසරේ පළමු කාර්තුවේ නවතම සංඛ්‍යා අනුව කාර්මික අපනයන වඩාත් පහත වැටීමෙන් අපනයන සියයට 8 කින් පසුබෑමට ලක්ව ඇත. මෙම කාල සීමාව ඇතුළත ශ්‍රී ලංකාවේ තරගකරුවන් වන බංග්ලාදේශය හා වියට්නාමය පිළිවෙළින් සිය අපනයන සියයට 16.2 හා 19.7 කින් ඉහළ නංවාගෙන ඇත. මේ අනුව ශ්‍රී ලංකාවේ අපනයන ක්‍රියාකාරිත්වයට දුර්වල ගෝලීය ආර්ථික පරිසරය හා ශ්‍රී ලංකාවේ ප්‍රධාන වෙළඳ පොළ ඉල්ලුම පහත යෑම හේතු වී ඇත්තේ අඩ වශයෙන් බව පැහැදිලිය. මෙම කතාවේ අනිත් පැත්ත වඩාත් අනතුරුදායකය. ශ්‍රී ලංකාව සිය අපනයන වෙළඳ පොළ ද්විපාර්ශ්වීය හා කලාපීය වෙළඳ වැඩ පිළිවෙළ මෙන්ම තරගකාරිත්වය වැඩි දියුණු කිරීමෙන් ව්‍යාප්ත කර ගැනීමට සමත්වී නැත.

අවධානය අපනයන කෙරේ යොමු වූ වර්ධනයකින් ඉවත යෑම ආර්ථිකයේ ව්‍යුහාත්මක වෙනස්වීමක් තුළින් ද දැකිය හැකිය. පශ්චාත් ගැටුම් කාලයේ වසර තුනක වර්ධනයේ බොහොමයකට මූලාශ්‍ර වූයේ ඉදි කිරීම් (යටිතල පහසුකම් සංවර්ධනය) හා සිල්ලර වෙළඳාම මෙන්ම සංචාරක කර්මාන්තය වැනි වෙළඳම් කළ නොහැකි අංශ වල සෘජුවම හා විදේශ සේවක ප්‍රේෂණ වැනි අංශවල වක්‍ර දායකත්වයෙනි. දශක ගණනාවක් පැවති යුද්ධයේ සීමාවීම්වලින් පසුව ලෝක වෙළඳාමට අයත් නොවන ඉදි කිරීම් හා සිල්ලර වෙළඳාම වැනි අංශවල පිබිදීමක් දක්නට ලැබීම තේරුම් ගත හැකිය. එහෙත් මධ්‍යම මට්ටමේ ආදායම් තත්වයට පරිවර්තනයවීම සාර්ථක කර ගත් රටවල් තම වෙළඳාම් කළ හැකි අංශ වර්ධනය වෙළඳාම් කළ නොහැකි අංශ වර්ධනයට වඩා වේගයකින් පවත්වා ගත් බව තොරතුරු සමීක්ෂණයෙන් පෙනේ.

නිදසුනක් වශයෙන් අපනයන ආදායම් පහත වැටීමේ හිඩැස පියවීම සඳහා ප්‍රේෂණ මත රඳා සිටීම රජයේ දූනට පවතින උපාය මාර්ගය බව පෙනේ. සැලකිය යුතු වන්නේ 2012 ඔක්තෝබරයේ සිට ප්‍රේෂණ වර්ධනය ක්‍රම ක්‍රමයෙන් වියැකී යන බවක් පෙන්වීමයි. ඇත්තෙන්ම 2013 මැයි මාසයේ දී මාසික ප්‍රේෂණ සියයට 3.4 ක පහත වැටීමක් වාර්තා කෙරිණ. මෙය විශේෂයෙන් සැලකිල්ලට ගත යුතු වන්නේ ශ්‍රී ලංකාවේ ගෙවුම් ශේෂයේ ස්ථාවරත්වය සම්බන්ධයෙනි. 2012 දී ශ්‍රී ලංකාවේ සමස්ත වෙළඳ ශේෂයේ හිඟයෙන් සියයට 64 ක් ආවරණය වූයේ ප්‍රේෂණ වලිනි.

වර්ධනය හා සංවර්ධනය පිළිබඳ ස්වාධීන කොමිසම චිරස්ථායී ආර්ථික සංවර්ධනය (2008) ගැන සකස් කළ වාර්තාවකින් රටවල් 13 කට සියයට 8 කට වඩා වැඩි වර්ධන වේගයක් පවත්වා ගැනීම සහ එය දීර්ඝ කාලයක් පවත්වා ගැනීමට ඉවහල් වූ නිශ්චිත ක්ෂේත්‍ර හඳුනා ගෙන ඇත. මෙම රටවල අත්දැකීමෙන් සෘජු ප්‍රතිපත්ති බැඳීම් උකහා ගැනීම නුවණට හුරු නැති වුවත් සමහර සමස්ත පොදු ලක්ෂණ සටහන් කර ගැනීම වැදගත්ය. ඔවුන්ගේ චිරස්ථායි වර්ධනයේ මූලික අංගයක් වූයේ ක්ෂුද්‍ර ආර්ථික සංචලතාවයට මැදිහත්වීම හා පෞද්ගලික අංශයේ (දේශීය හා විදේශීය) ආයෝජන අනුපාත නගා සිටුවීමට ඉවහල් වූ ඔවුන්ගේ වඩාත් සාර්ථක කාල සීමාවන්හි අවිනිශ්චිතභාවයක් පවත්වා ගැනීමය. ශ්‍රී ලංකාවේ පෞද්ගලික අංශයට සාර්ව ආර්ථික අවිනිශ්චිත භාවය දිගු කලක් තිස්සේම කණසල්ලට කරුණක් වූ අතර ව්‍යාපාරික පරිසර ඇගයීමේ දී නිරන්තරයෙන්ම ඉහළ ශ්‍රේණියක පැවතිණ. මෙය රාජ්‍ය මුදල් හා අයවැය හිගය සම්බන්ධයෙන් විශේෂයෙන්ම සත්‍යයකි.

පසුගිය වසර කීපය තුළ ශ්‍රී ලංකාව ප්‍රබල වැඩි දියුණුවීම් අත් කර ගත් බව සැබවි. උද්ධමනය පසුගිය වසර හතර තිස්සේම එක ඉලක්කමකට සීමා වූ අතර අයවැය පරතරය පටු කිරීමට දැඩි කැපවීමක් පවතී. 2009 සිට ජාත්‍යන්තර මූල්‍ය අරමුදලේ සහ SBA හි පරික්ෂාව යටතේ පසුගිය වසර කීපය තුළ දී සමස්ත මූල්‍ය ප්‍රතිඵල සාධනීය මට්ටමක පවතී. 2010 දී ද.දේ.නි. යට සියයට 9.9 ක් වූ රාජ්‍ය මූල්‍ය හිඟය 2011 දී සියයට 6.9 දක්වා පහත වැටිණ. එය 2012 දි සියයට 6.4 දක්වා (ඉලක්කය වූ සියයට 6.2 කට මඳක් වැඩි වුවද) තවත් පහත වැටිණ. කෙසේ වුවත් රටේ මූල්‍ය පදනම, වියදම් හා ආදායම් යන දෙපාර්ශ්වයෙන්ම පැන නඟින විමසුම් සහගත තත්වයක් පවතී.

ප්‍රබල ආර්ථිකයක් හා දේශපාලන ස්ථාවරත්වයක් දිගටම පැවතීම රාජ්‍ය මුදල් තව දුරටත් ශක්තිමත් පදනමකට යොමු කිරීම සඳහා පවතින ප්‍රබල ආණ්ඩුවකට තීරණාත්මක ප්‍රතිශෝධන ක්‍රියාත්මක කිරීමට සුදුසු ඉඩ පහසුකම් සැලසනු ඇතැයි පිළිගැනීමක් තිබිණ. එහෙත් එවැනි ප්‍රතිශෝධන සඳහා ඇති කැපවීම වියදම් හා ආදයම් යන දෙඅංගයෙන්ම දුර්වලය.

වියදම් පැත්තෙන් භාණ්ඩාගාරයට දිගටම මහත් බරක් වන්නේ පාඩු ලබන රාජ්‍ය ව්‍යවසායන් ය. බල ශක්ති අංශයේ රාජ්‍ය ව්‍යවසායන් 2013 මැද භාගයේ දී සැලකිය යුතු ප්‍රමාණයකින් විදුලි ගාස්තු සංශෝධනය කිරීමේ අර්බුදකාරී පියවරත් සමග දැන් මහජන අවධානයට යොමුව ඇත. ලංකා විදුලි බල මණ්ඩලයේ මූල්‍ය තත්වය පසුගිය වසර පහ තුළ ශීඝ්‍රයෙන් පිරිහීමට පත්විය. 2006 දී රුපියල් බිලියන 15 ක පාඩුව 2012 වන විට රුපියල් බිලියන 60 ටත් වඩා ඉහළ නැග ඇත. 2012 වසරේ දී ආණ්ඩුව බල ශක්ති අංශය පවත්වා ගැනීමට වියදම් කරන ලද මුදල පැහැදිලිවම සහනාධාරයක් වූ පොහොර සඳහා වැය කළ මුදල වූ රුපියල් 36.5 මෙන් දෙගුණයකි. ලංකා විදුලි මණ්ඩලය ලංකා ඛනිජ තෙල් සංස්ථාවට නොගෙවා ඇති බිල්පත් වලින් මෙම තත්වය වඩාත් සංකීර්ණ වේ. බල ශක්ති අංශයේ රාජ්‍ය ව්‍යවසායන් දෙකක ඇති තත්වය පාඩු ලබන විෂම චක්‍රයක් නිර්මාණය කරයි.

විදුලි බල මණ්ඩලය විසින් ඉල්ලුම් කළ ගාස්තු වැඩි කිරීම් බොහොමයක් බහු අංශීය නියාමන, මහජන උපයෝගිතා කොමිසම අනුමත කළ අතර ඉන් මහජන මුදල් අපතේ යෑම බොහෝ දුරට අඩු කිරීමට (නැති කිරීමට නොවේ) ඉඩ තිබුණ ද එම වැඩි කළ ගාස්තු බොහොමයක් 2013 මැයි මුලදී ඉවත් කෙරිණ. මෙම පියවර ප්‍රතිපත්ති ප්‍රතිශෝධන ක්‍රියාවලියට සැලකිය යුතු පහරක් වන්නේ බල ශක්ති අංශය ආපසු පිරිවැය පිළිබිඹු වන හා ලාභදායී තත්වයට පත් කිරීම සඳහා වූ ස්වාධීන නියාමකගේ කාර්ය භාරය දැඩි ලෙස යටපත් කිරීමෙනි. 2012 මුල දී දැඩි එහෙත් අවශ්‍ය වූ පියවර හඳුන්වා දෙමින් ගත් මෙම මුලපිරුම මෙවර ප්‍රතිශෝධන වුවමනාව දේශපාලන අවශ්‍යතාවලින් ජයගැනීමෙන් දක්නට නැත.

ශ්‍රී ලංකාවට බල ශක්ති අංශයේ එඩිතර සහ අත්‍යවශ්‍ය ප්‍රතිශෝධන කල් දමමින් සිටිය නොහැකිය. දේශීය මෙන්ම විදේශීය තොරතුරුවලින් විදුලි බල සැපයුම හා ආර්ථික සංවර්ධනය අතර ඇති දැඩි සම්බන්ධතාව දැකිය හැකිය. මධ්‍යම ආදායම් තත්වය කරා වේගයෙන් වර්ධනය වීමේ ශ්‍රී ලංකාවේ අභිලාෂය අකාර්යක්ෂම හා මිල අධික බල ශක්ති සැපයුමෙන් නිසැකයෙන්ම අඩාල විය හැකිය. වාර්ෂිකව වැඩි වන විදුලි බල ඉල්ලුමට සරිලන සේ සැපයුම වාර්ෂිකව මෙ.වො. 100 කින් වැඩි කළ යුතු බව ගණනය කිරීම් වලින් පෙනේ. 2010 දී ගෙ.වො. පැය 9286 ක පැවති විදුලිය ඉල්ලුම 2020 වන විට ගෙ.වො. පැය 17,489 දක්වා දෙගුණකට ආසන්න ප්‍රමාණයකින් වැඩි වනු ඇතැයි අපේක්ෂා කෙරේ. ගෘහස්ථ වියදම් රටාව අනුව විදුලි පරිභෝජනය මධ්‍යම පංතියේ ආදායම් කාණ්ඩයේ ඉහළම වියදමයි. මෙම කාණ්ඩයේ වර්ධනයත් සමග බල ශක්ති මූලාශ්‍ර මත අතිරේක පීඩනයක් ඇති කරන බවට සැකයක් නැත.

විදුලි බල මණ්ඩලයේ නිසගයෙන්ම ඇති අකාර්යක්ෂමතාවට අමතරව ඉහළ විදුලි ගාස්තු වලට හේතු වන්නේ මෙතෙක් පැවති සෑම රජයක්ම සැලසුම් කළ ආකාරයට විදුලි බල සැපයුම ව්‍යාප්ත කිරීමේ යෝජනා ක්‍රියාත්මක කිරීමට අපොහොසත්වීමයි. බෙහෙවින් ප්‍රමාද වූ ගල් අඟුරු විදුලි බලාගාරය ක්‍රියාත්මක වන අතර අනාගත විදුලි බල සැපයුම වැඩි වනු ඇත්තේ ගල් අඟුරු බලාගාර ජනනයෙනි. එහෙත් ඉන් නව අවදානම් ඇති කරයි. තාප බලාගාර මත අඩුවෙන් රඳා පැවතීම ගෝලීය තෙල් මිල වෙනස්වීමේ අහිතකර බලපෑමෙන් මිදීමේ අවශ්‍යතාව නිසා වුවද ගල් අඟුරු මිල ද පසුගිය කාල සීමාවේ වඩාත් සංචලතාවයට ලක්විය. එහෙත් ශ්‍රී ලංකාවේ වර්ධනය ශක්තිමත් කිරීමේ මාර්ගයක් වන්නේ ගල් අඟුරු බවට පුළුල් පිළිගැනීමක් පවතී. එමනිසා ගල් අඟුරු බලාගාර සඳහා ආයෝජනය කිරීම තාර්කික මෙන්ම ඵලදායිවීම ද අත්‍යවශ්‍යය. අනාගත ආයෝජන සැලසුම් සැකසීමේ දී නොරොච්චෝලෙයි හි චීනය විසින් ඉදිකරන ලද ගල් අඟුරු බලාගාරය බිඳ වැටීම් වලට හා තාක්ෂණික ගැටලු වලට නිතර මුහුණ දීම සැලකිල්ලට ගත යුතු කාරණයකි.

ආදායම් පැත්තෙන් බදුකරණය තව දුරටත් කනසල්ලට කරුණක්ව පවතී. මූල්‍ය ස්ථාවරත්වයේ දී බදුකරණයේ ඇති වැදගත්කම පිළිගත් රජය 2009 දී බදු පිළිබඳ ජනාධිපති කොමිසමක් පත් කෙළේය. 2010 දී එහි අවසාන වාර්තාව නිකුත් කිරීමෙන් පසු 2011 අයවැය ලේඛනයෙන් සමහර වැදගත් බදු ප්‍රතිශෝධන යෝජනා කෙරිණ. ආර්ථික ක්‍රියාකාරීත්වය දිරි ගැන්වීමේ අදහසින් සමාගම් හා පෞද්ගලික ආදායම් බදු අනුපාත අඩු කිරීම, 1970 සිට රජයේ සේවකයන් භුක්ති විඳි PAYE බදු සහනය ඉවත් කිරීම, සමහර තීරු බදු වෙනස් කිරීම සහ බදු දිරි ගැන්වීමේ ක්‍රමය නව්‍යකරණය මෙමෙ ප්‍රතිශෝධනවලට අයත්ය. එහෙත් එම ප්‍රතිශෝධන වලින් මෙතෙක් අපේක්ෂිත ප්‍රතිඵලය ලැබී නැත. ඇත්තෙන්ම 2012 වසරේ දී පසුගිය වසර 20 තුළදී ද.දේ.නි. හා බදු ආදායම් අනුපාතය අඩුම මට්ටමට, සියයට 11.5, පහත වැටිණ. මෙය මධ්‍යම මට්ටමේ ආදායම් ලබන රටවල සාමාන්‍ය බදු අනුපාතය වන, සියයට

18 ට වඩා බෙහෙවින් අඩුය. බදු අනුපාත අඩු කිරීමත් සමග අත්‍යවශ්‍ය වූ පරිපාලන ප්‍රතිශෝධන සිදු නොකළ නිසා ආදායම් අඩුවීමට සරිලන ආකාරයට බදු පදනම පුළුල්වීමක් සිදු වූයේ නැත. මේ අතර දේශපාලන බලපෑම් වලට ඉඩ දී වැට් බදු සහන සහ බදු ඉවත් කිරීමට ඉඩ ලැබිණ.

මූල්‍ය දුර්වලතාව පිළිබඳව ඇති කනස්සල්ල බොහෝ ජාත්‍යන්තර සංවිධාන, විශේෂයෙන්ම බැංකු සහ රාජ්‍ය ණය ශ්‍රේණිගත කිරීමේ ආයතන මෑතක පළ කළ අදහස් වල දක්නට ඇත. 2012 වසර තුළ දී සහ 2013 මුල දී ස්ටෑන්ඩර්ඩ් සහ පුවර්ස්, මූඩීස්, ස්ටෑන්ඩර්ඩ් චාටර්ඩ් බැංකුව හා එච් ඇස් බී සී නිකුත් කළ වාර්තා සියල්ලෙන් මධ්‍ය කාලීන ස්වභාවයේ වුවත් මින් පැන නඟින අවදානම් තත්වය පෙන්වා දී ඇත.

2011 වසර හා සසඳන විට 2012 වසරේ දී පහත් මූල්‍ය ඌණතා ඉලක්ක සපුරා ගැනීමට දායක වූයේ සැපයුම්කරුවන්ට ගෙවීම් වෙනත් ආයතනවලට පැවරීම හා ප්‍රාග්ධන වියදම් ව්‍යාපෘති පරිමාණය අඩු කිරීම හෝ ප්‍රමාද කිරීම මෙන්ම රාජ්‍ය ව්‍යවසාය ණය එම ආයතන වල පාඩු මූල්‍යයන කරන රාජ්‍ය බැංකු වල ශේෂ පත්‍ර වලට පැවරීමෙන් එම ඌණ ප්‍රමාණ රාජ්‍ය ව්‍යවසාය වලින් ඉවත් කිරීමේ උපාය මාර්ගයෙනි. මේවා චිරස්ථායී උපාය මාර්ග නොවේ. මූල්‍ය ස්ථාවරත්වය නිසැකයෙන්ම ඉතා වැදගත් අරමුණක් වුවත් එය සමාජයීය හා භෞතික යටිතල පහසුකම් ක්ෂේත්‍රයේ චිරස්ථායී වර්ධනයට දායක වන රාජ්‍ය ආයෝජන අඩු කිරීමෙන් නොවිය යුතුය. ආර්ථික අර්බුදයන්ගෙන් යළි නැඟී සිටීමේ දී සහ වර්ධනය ප්‍රවේගවත් කිරීමේ දී යටිතල පහසුකම් වල ආයෝජනයේ භූමිකාව ලොව පුරා පිළිගැනීමට ලක්ව ඇත. එක්සත් ජනපද ජනාධිපති ඔබාමාගේ යළි නැගී සිටීමේ සහ වර්ධනයේ උපාය මාර්ගයේ වැඩි කොටසක් රැඳී පවතින්නේ එරට මාර්ග යටිතල පහසුකම් පිළිසකර කිරීමේ සැලසුම් මතය. නැගෙනහිර ආසියානු මූල්‍ය අර්බුදයේ දී සිදු වූ ගෝලීය පසුබෑමට සමාන තත්වයකට මුහුණ දුන් චීනය, එහි වර්ධනයට අවහිරයන්ව තිබූ මහා මාර්ග, දුම්රිය මාර්ග, වරාය පහසුකම් හා විදුලිය වැනි ක්ෂේත්‍රවල ආයෝජනය සඳහා මූල්‍ය දිරිගැන්වීම් කෙරේ යොමු විය. නැගෙනහිර ආසියාවේ වර්ධනයේ වැඩිවීමෙන් තුනෙන් දෙකක් ද පසුගිය වසර දෙක තුළ අප්‍රිකාවේ වර්ධනයේ වැඩිවීමෙන් අඩක් පමණ ද යටිතල පහසුකම් ආයෝජනයේ ප්‍රතිඵල බව දක්නට ඇත. ශ්‍රී ලංකාව මෙය පැහැදිලිවම හඳුනා ගෙන සිටී. පසුගිය වසර 5 – 7 කාලය ඇතුළත යටිතල පහසුකම් ක්ෂේත්‍රයේ ආයෝජන කැපී පෙනේ. නව බහාලුම් වරාය දෙකක් හා නව අන්තර්ජාතික ගුවන් තොටුපළක් මෙම ආයෝජන අතර උච්චතම අවස්ථායි. දැනට ක්‍රියාත්මක වන ව්‍යාපෘති බොහොමයක් වානිජ ණය හෝ ද්වි පාර්ශ්වික අනුග්‍රාහක ණය මත පදනම් වේ.

මෙම න්‍යාය පත්‍රයේ ඊළඟ අවශ්‍යතාව වන්නේ ඉදිරියට ඇති යටිතල පහසුකම් රාශියක මූල්‍යන බර රජය මත පැටවීමෙන් සහනයක් වනු සඳහා යටිතල පහසුකම් ව්‍යාපෘති වල පෞද්ගලික සහභාගිත්වයට ඉඩ සැලසීමය. එහි ඇති අවස්ථා ඉමහත්ය. වරාය සම්බන්ධ යටිතල පහසුකම් ව්‍යාපෘති වල පමණක් ඉදිරි වසර පහ තුළ එ.ජ. ඩොලර් බිලියන 10 ක ආයෝජන අවස්ථා පෞද්ගලික අංශයට විවෘතව ඇතැයි රජය ගණනය කරයි. රාජ්‍ය ව්‍යාපෘති සඳහා පෞද්ගලික ප්‍රාග්ධනය සංවිධානය කිරීම පහසු නොවේ. ඉන්දියාවේ මෑත අත්දැකීම් මෙය හොඳින් පැහැදිලි කරයි. යටිතල පහසුකම් ක්ෂේත්‍රයේ මූල්‍ය අවශ්‍යතා විශාල වුවද, පෞද්ගලික රාජ්‍ය සහයෝගිතාවය (PPP) හෝ යටිතල පහසුකම් බැඳුම්කර ආකාරයෙන් පෞද්ගලික ප්‍රාග්ධනය ඉදිරිපත්වීම පසුබට වන්නේ ආයෝජකයන් ක්‍රියාවලියේ ඇති දුබලතාව හා දූෂණ චෝදනා ඇති රාජ්‍ය ආයතන සමග කටයුතු කිරීමේ දී පරික්ෂාකාරීවීම නිසාය. මෙය ශ්‍රී ලංකාවට ද වැදගත් පාඩමකි. ශ්‍රී ලංකා රජයෙන් යටිතල පහසුකම්වල පෞද්ගලික ආයෝජන සඳහා අලංකාර වචන වලින් පැහැදිලිව සහ නිරන්තරයෙන් ආරාධනය කළ ද රාජ්‍ය යටිතල පහසුකම් ව්‍යාපෘතීන් හි සැලකිය යුතු ආකාරයෙන් සහභාගිවීමට පෞද්ගලික ආයෝජකයන් මැලි වන්නේ සැක සහිත ක්‍රියා පිළිවෙළ හා දේශපාලන මැදිහත්වීම් නිසායැයි පෙනේ. ස්වභාවයෙන්ම අවදානම් දරීමට ඇති අකැමැත්ත හා බැඳුණු ආදායම් ඉපිදවීමට දීර්ඝ කාලයක් ගත වෙන, පිරිවැය බෙහෙවින් අධික ව්‍යාපෘති භාර ගැනීමට හැකියාවක් ඇති දේශීය පෞද්ගලික අංශය සාපේක්ෂ වශයෙන් කුඩා නිසා විදේශීය ආයෝජන සමග ඒකාබද්ධ ව්‍යාපෘති වඩාත් වැදගත්ය. සැක කටයුතු ක්‍රියා පටිපාටි හරහා ගමන් කිරීමටත්, ගොඩනගා, හිමිකර ගෙන, මෙහෙයවන (BOO) හෝ ගොඩනගා, හිමිකරගෙන, පැවරීම (BOT) යටතේ කුමන ආකාරයේ පුද්ගලික රාජ්‍ය සහභාගිත්වයකට (PPP) විදේශීය ආයෝජකයන් කොපමණ දුරට කැමති වන්නේ ද යන්න තවම පැහැදිලි නැත. මේ අතර තුර මෑතකදී දේශීය පෞද්ගලික අංශයට විදේශීය ණය ලබා ගැනීමට තිබූ සීමාවන් ඉවත් කිරීම නිසා අරමුදල් රැස් කර ගැනීමට ඔවුන් මුහුණ දුන් බාධා ඉවත් වීමෙන් ඔවුන්ට රාජ්‍ය යටිතල පහසුකම් ව්‍යාපෘතින් හි විශාල භූමිකාවක් ඉටු කිරීමට අවස්ථාව ලැබෙනු ඇත.

භෞතික යටිතල පහසුකම් ශ්‍රී ලංකා ආර්ථිකයට ප්‍රබල මධ්‍යම මට්ටමට පරිවර්තනය වීමටත් වර්ධනය දිගු කාලයක් පවත්වා ගැනීමටත් අවශ්‍ය වැඩ පිළිවෙළක කොටසක් පමණි. සමාජ යටිතල පහසුකම් වර්ධනයේ සැබෑ ගාමක බලය වන රටේ ශ්‍රම හමුදාවේ ගුණාත්මකභාවය තීරණය කරයි. මාර්ග යටිතල පහසුකම් පිළිබඳව ශ්‍රී ලංකාවේ වැඩි අවධානයක් යොමු වුවත්, මෑත වසර වල ආයෝජනයේ අඩුවීමේ ප්‍රතිඵලයක් ලෙස අධ්‍යාපනය හා සෞඛ්‍යය වැනි අංශ වල කැපී පෙනෙන හිඩැස් දැකිය හැකිය.

ශ්‍රී ලංකාව තවමත් පශ්චාත් නිදහස් කාල පරිච්ඡේදයේ අධ්‍යාපනයේ සහ සෞඛ්‍යයේ කරන ලද සිත් ගන්නා සුළු ආයෝජනවල ප්‍රතිලාභ භුක්ති විඳිමින් සිටී. කෙසේ වුවත් මධ්‍යම ආදායම් මට්ටමට පරිවර්තනයත් සමග මානව සංවර්ධනයේ

නව අභියෝග මතු කරවයි. වසර 2000 සිට 2010 දක්වා කාල පරිච්ඡේදයේ දී ද.දේ.නි. යෙන් සියයට 2.3 ක් වූ රාජ්‍ය අධ්‍යාපන වියදම් 2012 දී ද.දෙ.නි.යෙන් සියයට 1.8 දක්වා පහත වැටිණ. අධ්‍යාපනය සඳහා සාමාන්‍යයෙන් ඉහළ මධ්‍යම ආදායම් ලබන රටක් සිය ද.දේ.නි.යෙන් සියයට 5 ක් වියදම් කරන අතර සාමාන්‍යයෙන් පහළ මධ්‍යම ආදායම් ලබන රටක් සිය ද.දෙ.නි.යෙන් සියයට 4 ක් අධ්‍යාපනය සඳහා වැය කරයි. මේ අතර උසස් පෙළ සමත් 100,000 කට අධික පිරිසකට රාජ්‍ය විශ්ව විද්‍යාලවල ඉඩ පහසුකම් නැති නිසා උසස් අධ්‍යාපනයට පිවිසිය නොහැක. විකල්පය වන පෞද්ගලික උසස් අධ්‍යාපනය ලබා ගත හැකි වන්නේ වඩාත් පොහොසත් පවුල් වලට පමණි. 2012 වසරේ දී 2011 ට වඩා 40,000 ක් අධ්‍යාපනයෙන් බැහැර කෙරිණ. ශ්‍රී ලංකාවේ ජනවිද්‍යා හීනවීමේ ප්‍රතිඵල දැනටමත් ශ්‍රම බලකා සහභාගිත්වයෙන් පෙන්නුම් කරයි. 2006 හා සසඳන විට 2010 දී ශ්‍රම බලකායට එක්වූ තරුණ සංඛ්‍යාව සියයට 7 කින් අඩු විය. මින් පෙන්නුම් කරන්නේ ජනවිද්‍ය සංයුතියේ තිබූ වාසිය හීන වෙමින් පවතින්නේය යන්නයි. ශ්‍රී ලංකාව මධ්‍යම ආදායම් මට්ටමට හා ඉන් ඔබ්බට යෑමට අපේක්ෂා කරන්නේ වැඩ කරන සංඛ්‍යාවේ පහත වැටීමක් සමගය. මින් අවශ්‍යයෙන්ම අදහස් වන්නේ අධ්‍යාපනයේ සහ කුසලතා සංවර්ධනයේ වඩාත් වැඩි ආයෝජනයක් කළ යුතු බවය. එවිට ශ්‍රම හමුදාවට එක් වන තරුණයන්ට ඒක පුද්ගල නිපැයුම වශයෙන් වශයෙන් වැඩි දායකත්වයක් ලබා දිය හැකිය.

ජන විද්‍යාත්මක වෙනස්වීම් හා මධ්‍යම ආදායම් මට්ටමට පරිවර්තනය හා බැඳුණු සමාජ ආර්ථික ලක්ෂණ වෙනස්වීම් සමග සෞඛ්‍ය අංශයේ ද අභියෝග මතු වෙමින් පවතී. මෙය විශේෂයෙන් දැකිය හැක්කේ බෝ නොවන රෝග හා මන්ද පෝෂණය සම්බන්ධයෙනි.

උසස් ජීවන තත්වය හා බැඳුණු ජීවන ශෛලියේ වෙනස්වීම් නිසා ජන සංඛ්‍යාවේ ලෙඩ රෝග ස්වභාවය ද වෙනස් වන බව දැනටමත් දක්නට ඇත. හෘද රෝග හා පිළිකා වැනි බෝනොවන රෝග නිසා මිය යන සංඛ්‍යාව ශ්‍රී ලංකාවේ වැඩි මට්ටම පවතින අතර එය තවත් ඉහළ යමින් පවතී. දිවයිනේ රෝගීන්ගෙන් සියයට 90 කටම වැළඳෙන්නේ බෝනොවන රෝග බවට තොරතුරු ඇත. වයස්ගත පුද්ගලයන්ගේ සෞඛ්‍ය අවශ්‍යතා වෙනත් කණ්ඩායම්වලට වඩා පොදුවේ වැඩි නිසා ජන සංඛ්‍යාව වයස්ගත වීමත් සමග සෞඛ්‍ය රැකවරණය ගැන අතිරේක බරක් දැරීමට සිදු වේ.

මෙම මතුවෙමින් පවතින අභියෝගවලට මුහුණ දීමට වැඩි දියුණු කළ සෞඛ්‍ය පහසුකම් සැපයීමට රජයට ඇති හැකියාව සෞඛ්‍ය අංශයේ ආයෝජන පහත වැටීමෙන් සීමා විය හැකිය. සෞඛ්‍ය සඳහා කරන මුළු වියදම 1995 සහ 2008 අතර කාල සීමාවේ දී ද.දේ.නි.යෙන් සියයට 5 ට වඩා අඩු මට්ටමක පැවතිණ. මධ්‍යම ආදායම් ලබන රටවල් සාමාන්‍යය වන සියයට 8 හා සසඳන විට මෙය පහත් අගයකි. රාජ්‍ය ආයෝජන අඩුවීමත් සමග වඩාත් දියුණු සහ පහසුවෙන් ලබා ගත හැකි සෞඛ්‍ය ආරක්ෂා සේවා සඳහා නැගී එන මධ්‍යම පංතියේ අපේක්ෂාව ඉහළ යත්ම සෞඛ්‍යය සඳහා වන පෞද්ගලික වියදම් ද ඉහළ යමින් පවතී. පෞද්ගලික රෝහල් සහ සාත්තු නිවාස සඳහා කරන වියදම් මෑතක සිට ඉහළ යෑමට හේතු වූයේ ප්‍රධාන වශයෙන් මෙම ආදායම් කණ්ඩායමයි. පෞද්ගලික සෞඛ්‍ය වියදම් සඳහා තමන්ගේම සාක්කුවෙන් කරන වියදම් ප්‍රමාණය (එනම් රෝගියා විසින් පෞද්ගලිකව දරණ වියදම) කාලයත් සමග ඉහළ ගොසිනි. ශ්‍රී ලාංකිකයන් 2009 දී ඊට වසර 20 කට පෙර සෞඛ්‍ය රැකවරණය සඳහා කරන ලද වියදම මෙන් රුපියල් බිලියන 70 ක් වැඩියෙන් අද වියදම් කරයි. මින් වැඩිම කොටසක් අයත් වන්නේ ඉහළ වියදම් මට්ටමක් ඇති අයට වුව ද ඉන් සමානත්වය පිළිබඳ වැදගත් බලපෑම් මතු කරයි. සෞඛ්‍යය සඳහා පුද්ගලයන් විසින් ඉහළ වියදමක් දැරීම නිසගයෙන්ම පසුගාමී වන අතර ගුණාත්මක සෞඛ්‍ය ආරක්ෂණ සේවා ලබා ගැනීමේ දී අසමානත්වය සහ සමාජයීය බැහැර කිරීම් ජනනය කරයි.

මේ අතර පෝෂණ තත්වයේ පරතරයක් මතුවෙමින් පවතින අතර එය වැඩියෙන්ම බලපාන්නේ තරුණයන්ටය. මන්දපෝෂණයෙන් පෙළෙන ස්ත්‍රීන්ගෙන් වැඩිම ප්‍රමාණය අයත් වන්නේ වයස 15–19 (සියයට 40) හා වයස 20 – 29 (සියයට 22) අතර තරුණ වයස් කණ්ඩායමයි. තරුණ පෝෂණ ඌණතාවයෙන් මන්දපෝෂණ ජීවන චක්‍රයක් ඇති කිරීමෙන් රටේ නිෂ්පාදන විභවතාවයට බලපෑමක් වේ.

මතු වෙමින් පවතින මානව සංවර්ධන අවශ්‍යතා සඳහා රජයේ හැකියාව වඩාත් වැඩි විය යුතුය. එය වැඩියෙන්ම ලැබෙන්නේ බදු ආදායම් වශයෙනි. ඉහළ දේශීය ආදායම් බොහෝ දුරට ලැබෙන්නේ ඉහළ ආර්ථික වර්ධනයත් සමගය. එවිට මෙම වර්ධනයේ වැදගත් ගාමක බලයක් වන්නේ ඉතුරුම් හා ආයෝජන මට්ටම් ඉහළ යෑමය. සියයට 8 වඩා වැඩි වර්ධන වේගයක් අත් කර ගත් හා එය දීර්ඝ කාලයක් පවත්වා ගත් රටවල් ඉහළ ඉතිරුම් හා ආයෝජන අනුපාත පවත්වා ගැනීමේ වැදගත්කම දක්වා ඇත. අන්තර්ජාතික තොරතුරුවලින් මෙන්ම ශ්‍රී ලංකාවේ විග්‍රහයන්ගෙන් ද රටක ගෝලීය මධ්‍යම පංතියේ නැගීම වඩාත් වැඩි ඉතුරුම් හා ආයෝජන වලට හේතුවිය හැකි බව පෙන්නුම් කරයි.

කලින් වසරේ සියයට 15.4 ක් වූ ශ්‍රී ලංකාවේ ඉතුරුම් අනුපාතය 2012 වසරේ දී සියයට 17 දක්වා ඉහළ නැංගේය. 'ඉහළ උද්ධමන පරිසරයක් පැවතීම ආර්ථිකයේ සාමාන්‍ය දෙයක්වීම නිසා ඉතිරි කිරීම අධෛර්ය කර ණය ගැනීම දිරිමත් කළ' බව 2011 ආර්ථික තත්වය සඳහන් කරයි. මීට අමතරව ශ්‍රී ලාංකිකයන්ගේ සමාජයීය හා සංස්කෘතික පැවතුම් අනුව ඉතිරි කිරීමට ඇති අඩු නැඹුරුවත් සමග ගෘහස්ථ පරිභෝජන වියදම ඉහළ යෑම අභියෝගයට තවත් එකතු කිරීමකි. යුද්ධය අවසානයේ දී ආනයන පාරිභෝගික භාණ්ඩ සඳහා වූ ඉල්ලුමේ පිබිදීමක් ඇති විය. මෙය විදේශ මුදල් ගලා ඒමත් සමග සසඳන විට පවත්වා ගත නොහැකි මට්ටමක් කරා ළඟා වීම නිසා ශ්‍රී ලංකා මහ බැංකුවට 2012 මුල දී

ස්ථායිකරණ පියවර හඳුන්වාදීමට හේතු විය. එහෙත් දීර්ඝ කාලීන ප්‍රවණතාව අනුව ජාතික ඉතුරුම්, ආයෝජන අවශ්‍යතාවන්ට ප්‍රමාණවත් නොවීමෙන් වේගවත් වර්ධනයක අභිලාෂයන් අඩාල කිරීමට හේතු විය හැකිය. විදෙස් ඍජු ආයෝජන වැදගත් භූමිකාවක් වන්නේ මෙවැනි තැනකදීය. ශ්‍රී ලංකාවට ඍජු විදේශ ආයෝජන ගලා ඒම මෑත වසර වල කැපී පෙනෙන වර්ධනයකි. ගැටුම් පැවති කාලයේ දී පවා මෙම ගලා ඒම් 2004 ඇමරිකන් ඩොලර් දශ ලක්ෂ 200 සිට 2008 දී ඩොලර් දශ ලක්ෂ 889 දක්වා වර්ධනය විය. ඍජු විදේශ ආයෝජන 2009 දී ඇමරිකන් ඩොලර් දශ ලක්ෂ 601 දක්වා පහත වැටුණ අතර 2010 දී දශ ලක්ෂ 516 ක් වූයේ ලොව පුරාම ආයෝජන ගලා යෑම් අඩාල කළ ගෝලීය ආර්ථික පසුබෑම නිසාය. 2011 වන විට ආයෝජන ගලා ඒම් එ.ජ. ඩොලර් දශ ලක්ෂ 1070 දක්වා ඉහළ ගිය අතර එය සම්පූර්ණයෙන්ම පාහේ හෝටල් සහ විවේක අංශයට සීමා විය. 2012 දී මෙම ප්‍රමාණය එ.ජ. ඩොලර් දශ ලක්ෂ 1,340 ක් විය. එහෙත් එම ප්‍රමාණය අපේක්ෂිත ඉලක්කයට වඩා ඩොලර් දශ ලක්ෂ 400 ක් අඩු ය.

යුද්ධය අවසන් වීමෙන් පසු ඒ ආසන්න වසර වල දක්නට ලැබුණු පිබිදීම දිගටම පවත්වා ගැනීමට නිසැකයෙන්ම අරගලයක් කළ නමුත් ඉන් පසුගිය වසර කීපයේ දී අත් කර ගත් සමෘද්ධියේ සිත් ගන්නා ජයග්‍රහණ මැකී යන්නේ නැත. විරැකියාව 2009 සියයට 5.8 සිට 2012 දී සියයට 4.0 දක්වා පහත වැටුණ අතර දරිද්‍රතාව 2006/07 හා 2009/10 අතර කාලයේදී අඩකින් පමණ පහත වැටිණ. සාම්ප්‍රදායිකව පසුගාමීව තිබූ ප්‍රදේශ ඉදිරියට පත්වෙමින් සිටී. 2005 දී ද.දේ.නි. යෙන් සියයට 50.8 ක් හිමි කර ගෙන ඉදිරියෙන්ම සිටි බස්නාහිර පළාතට 2011 දී හිමි වූයේ සියයට 44 ක් පමණි. දකුණ, උතුර, උතුරු මැද හා ඌව යන පළාත් ජාතික නිපැයුමට ප්‍රබල දායකත්වයක් ලබා දෙමින් සිටී. මේ සියල්ල රටේ සමාජ සංචලතාවයේ වෙනස් වන දර්ශනයට හේතු වේ. පුද්ගලික පාරිභෝජන වියදම (PCE) 2008 හා 2012 අතර කාලයේ දී සියයට 70 කින් ඉහළ ගොස් මෑත වසර වල ශීඝ්‍ර වර්ධනයක් වූ බව පෙන්නුම් කරයි. ඉහළ වර්ධනය හා පහත වැටෙන දරිද්‍රතාව මධ්‍යම පංතියේ පුළුල් වීමක් පෙන්නුම් කරයි.

අඩු ආදායම් ආර්ථිකයක සුඛෝපභෝගි අංග ලෙස සැලකෙන මෝටර් කාර් මෝටර් සයිකල් හා කල් පවතින පාරිභෝගික භාණ්ඩ අලෙවිය ඉහළ යන සංචලතාවයට අනුකූලව වැඩි විය. 2010 මැද භාගයේ දී මෙම භාණ්ඩ සඳහා වූ තීරු බදු සැලකිය යුතු ප්‍රමාණයකින් කපා හැරීමත් සමග 2010/11 කාලයේදී විස්මිත ලෙස ආනයනය ප්‍රසාරණය වීමෙන් යටපත් කර ගෙන සිටි ඉල්ලුමට නිදසුන් ය. තීරු බදු කපා හැරීමට පෙර සිටම පෞද්ගලික මෝටර් රථ සඳහා පැවති ඉල්ලුම ඉහළ යමින් පැවතිණ. අලුත් මෝටර් කාර් වාර්ෂික ලියා පදිංචිය 2002 ට වඩා 2008 දී සියයට 40කින් ඉහළ ගොස් තිබිණ. මෝටර් සයිකල් සම්බන්ධයෙන් එම වැඩිවීම සියයට 65 කි.

ගෘහස්ථ පරිභෝජනය සඳහා වූ මෙවැනි භාණ්ඩ ඉල්ලුම ඉහළ යෑමෙන් අපනයනය සඳහා නොවන ව්‍යවසාය පුළුල් වීමට හේතු වන නමුත් චිරස්ථායී වර්ධනයක් සඳහා එය පමණක් ප්‍රමාණවත් වන්නේ නැත. ශීඝ්‍ර වර්ධනයක් පවතින්නේ අපනයන ව්‍යවසාය හා එහි කාර්යක්ෂම තාව මතය.

ශ්‍රී ලාංකික ව්‍යවසාය සමාගම්වලට ඉහළ යන සාධක මිල මෙන්ම බාහිර තරගකාරීත්වය වැඩිවීමෙන් පීඩනය ඉහළ යත්ම වඩාත් කාර්යක්ෂම වීමට හා ප්‍රමාණය අඩු කිරීමෙන් මෙන්ම නිෂ්පාදන සහ ක්‍රියාවලීන් වඩාත් නව්‍යකරණ යොදා ගැනීමට ඇති පීඩනය වැඩි වෙනු ඇත. ඒ අනුව මෙම ව්‍යවසායන් හි අභ්‍යන්තර මෙහෙයුම් ව්‍යුහයේ වෙනස්කම් ඇති කිරීමට වඩාත් පුහුණු ශ්‍රමයත් සමග තාක්ෂණය වඩාත් පුළුල් ලෙස යොදා ගැනීමටත් යොමු වේ. මෙවැනි තත්වයක් රැකියා නිර්මාණය කෙරේ ඇති කෙරෙන බලපෑම විවාදයට හේතු විය හැකි නමුත් නව්‍යකරණය සඳහා වූ එවැනි මාරුවීමක් පැහැදිලිවම පුහුණු සහ අධ්‍යාපනය ලත් පිරිසකට ප්‍රතිලාභයකි. සීමිත ප්‍රමාණයකින් වුවද ශ්‍රී ලංකාවේ කාර්මික කරණ සමයේ ඉහළ සාක්ෂරතාව හා සෞඛ්‍ය තත්වය නිසා වඩාත් හොඳින් පුහුණු කළ හැකි ශ්‍රම හමුදාවක් සාමාන්‍යයෙන් අඩු පුහුණු නිෂ්පාදන රැකියාවලට වඩා නිශ්චිතවම වාසි සහගතය. කෙසේ වුවත් මතු වෙමින් පවතින වර්ධන රටාව අනුව අනාගතයේ ඉල්ලුම යොමු විය හැක්කේ මූලික අධ්‍යාපනය හා සාක්ෂරතාව ඉක්මවා යන උසස් මට්ටමේ පුහුණුවක් ඇති 'දැනුවත් ශ්‍රමිකයන්ට' ය.

කෙසේ වුවත් මධ්‍යම ආදායම් තත්වයත් සමග තරුණ ජනතාව අපේක්ෂා කරන රැකියාවල ස්වභාවයද වෙනස් විය හැකිය. නිදසුනක් වශයෙන් නිෂ්පාදන කර්මාන්තවලට කම්හල්වල සේවය කිරීමට කම්කරුවන් සොයා ගැනීමේ දුෂ්කරතා පවතී. 'දහඩිය පෙරන' වැඩ කිරීමට කැමැත්තක් නැතිවීමත් සමග අවශ්‍ය කරන පුහුණුව සහ කුසලතා ලබා දීමට අධ්‍යාපන පද්ධතිය කෙරේ ඇති බලපෑම තවත් වැඩි වනු ඇත. මෙම වෙනස්වීම් ශ්‍රම හමුදාවේ තරුණ සහභාගිත්වය කෙරේ බලපාන බව පෙනේ. නිදසුනක් වශයෙන් වැවිලි අංශයේ ශ්‍රම හමුදාවේ තරුණ සහභාගිත්වය 2006 හා 2010 අතර සියයට 12 කින් (ජාතික සාමාන්‍ය සියයට 7 කි.) විශාලතම පහත වැටීම පෙන්නුම් කෙළේය. මෙය තරුණ ජනයාගේ වෙනස් වන අපේක්ෂාවන් පිළිබඳ පිළිබිඹුවක් විය හැකිය. වතු කරයේ ඇති රැකියා අවස්ථා වෙනුවට වෙනත් තැනක රැකියා සොයා යෑමට ඇති පෙළඹීම වැඩිය. නගරයේ රක්ෂා සඳහා (විශේෂයෙන්ම සිල්ලර වෙළඳාම වැනි සේවා අංශ වල) ඇති අපේක්ෂා වැඩිවීම සහ ඒ සමග එම රැකියාවලට ඇති තරගකාරීත්වය වැඩි වීමෙන් නාගරික තරුණයන් අතර විරැකියාව 2006 හා 2010 අතර කාලයේ දී සියයට 12 සිට 14 දක්වා ඉහළ ගොස් ඇත. මෙම කාල සීමාවේ තරුණ විරැකියාව ඉහළ ගිය එකම අංශය මෙයයි.

වෙනත් සංවර්ධනය වන රටවල් හා සසඳන විට ශ්‍රී ලංකාවේ නාගරිකකරණ අනුපාතය බෙහෙවින් පහත් වුවද මධ්‍යම ආදායම් මට්ටමට පරිවර්තනය වීමත් සමග මෙය වෙනස් විය හැකිය. මේ හා බැඳී ඇත්තේ අවදානමක් ඇති නව කණ්ඩායමක්,

විශේෂයෙන්ම නාගරික දරිද්‍රතාවට පත්විය හැකි නාගරික විරැකියාවෙන් පෙළෙන කණ්ඩායමක් නිර්මාණය වීමයි. පුද්ගල දරිද්‍රතා දර්ශකය (HCI) දෙස පමණක් බැලීම නොමඟ යවන සුළුය. නාගරික පුද්ගල දරිද්‍රතා දර්ශකය නිදසුනක් වශයෙන් වතු කරයේ දර්ශකයට වඩා අඩු වුවද සැබැවින්ම නාගරික දරිද්‍රතාවය ඊට වඩා වැඩිය. වැඩි දුරටත් නාගරික දරිද්‍රතාවයේ ගැඹුර අනෙක් අංශ වලට වඩා තීව්‍රය. නාගරික දුප්පත් පුද්ගලයෙකු දරිද්‍රතාවයෙන් මුදා ගැනීමට මාසිකව පැවරිය යුතු මුදල් ප්‍රමාණය රු. 680 ක් වන අතර රටේ සාමාන්‍ය දුප්පත් පුද්ගලයෙකු සඳහා කළ යුතු පැවරීම රු.587 කි.

එය දකිය හැක්කේ නාගරික අංශයේ පමණක් නොවේ. ශ්‍රී ලංකාවේ මධ්‍යම ආදායම් පරිවර්තනයේ ලක්ෂණයක් වන පුහුණු නැඹුරුවක් ඇති තාක්ෂණ වෙනස්වීම සමස්ත වැටුප් විසරණය කෙරේද බලපෑමක් ඇති කෙරේ. ආදායම් අසමානතාවයේ ඉහළ යෑමත් සමග සමාජ සංචලතාව හා අනාගත සමෘද්ධිය අඩු විය හැකිය. සමස්ත මට්ටමේ දී රටේ සියලු ආදායම් වලින් අඩකට වඩා ලබන්නේ ධනවත්ම පවුල් සියයට 20 වන අතර දුප්පත්ම පවුල් සියයට 20 ට හිමි වන්නේ ආදායම්වලින් සියයට 4.5 කි.

ආර්ථික වෙනස්වීම් වලට ගැට ගැසී සිටීමට හා ඔවුන් හා මතු වෙමින් පවතින ආදායම් අවස්ථා අතර පරතරය අවම කිරීමට කම්කරුවන්ට පුහුණු ලබා දීමට අමතරව දුප්පත්ම හා 'මඟ හැරීමට ඉඩක් ඇති' අය සඳහා ආරක්ෂිත දැලක් නිර්මාණය කළ යුතුය. මධ්‍යම ආදායම් රටක් කරා යෑමේ දී ඉතාමත් වැදගත් කාර්ය වන්නේ වඩාත්ම අවාසිසහගත තත්වයක සිටින හා කම්පන වලට වඩාත්ම ගොදුරු විය හැකි ජන කණ්ඩායම් සඳහා ප්‍රමාණවත් රැකවරණ සහතික කිරීමය. ශ්‍රී ලංකාව දරිද්‍රතාව අඩු කිරීමේ දී සිත් ගන්නාසුළු ජයග්‍රහණ අත් කර ගෙන ඇති නමුත් පවුල් සැලකිය යුතු සංඛ්‍යාවක් දරිද්‍රතා රේඛාව අසළම ඒක රාශි වී ඇති නිසා පවුල් මට්ටමේ හෝ සාර්ව ආර්ථික මට්ටමේ ඇති වන කම්පනයකින් ඔවුන් නැවතත් දරිද්‍රතාවට පත්විය හැකි බව අමතක නොකළ යුතුය. අත්‍යවශ්‍ය වන්නේ ඇති විය හැකි අවදානම් තත්වයන්ට මුහුණ දීම සඳහා ශක්තිමත් සමාජ රැකවරණ පද්ධතියකි. මෙය විශේෂයෙන් වැදගත් වන්නේ ශ්‍රී ලංකාවේ ජන සංඛ්‍යාව ශීඝ්‍රයෙන් වයස්ගත වීම හා ශ්‍රම බලකායෙන් යහපත් රැකවරණ දැලකට පිවිසිය නොහැකි නොවිධිමත් සේවකයින්ගේ සංඛ්‍යාව ඉතා ඉහළ මට්ටමක පැවතීම සැලකිල්ලට ගැනීමේ දීය. ඉදි කිරීම්, පතල් හා ගල් කැඩීමේ කර්මාන්තයේත්, (සියයට 83) හෝටල් සහ ආපන ශාලා කර්මාන්තයේත් (සියයට 50) නිෂ්පාදන කර්මාන්තයේත් (සියයට 45) සේවයේ යෙදී ඇති අයගෙන් වැඩිම ප්‍රමාණයක් නොවිධිමත් සේවකයන්ය.

දැනට ක්‍රියාත්මක වන සමාජ රැකවරණ වැඩ සටහන් විශාල සංඛ්‍යාවක් තිබුණ ද ඉන් බොහොමයක් ප්‍රමාණවත් ප්‍රතිලාභ ලබා නොදෙන අතර ඒවායේ යොමුව ද දුර්වලය. එමෙන්ම අනතුරු සහ අවදානම් ප්‍රමාණවත්ව ආවරණය වන්නේ ද නැත. මෙය මෙරට ක්‍රියාත්මක වන විශාලම ව්‍යාපෘතියක් වන සමෘද්ධි වැඩ සටහනෙන් ද පැහැදිලිය. සමෘද්ධියෙන් පවුලකට පවරන උපරිම ආදයම් ප්‍රමාණය රු. 1,500.00 ක් වුවද ජාතික දරිද්‍රතා රේඛාව අනුව පුද්ගලයෙකුට තම පාරිභෝගික අවශ්‍යතා සඳහා මසකට අවම වශයෙන් රු. 3300.00 ක් ලැබිය යුතුය. සමෘද්ධිය වැනි සමාජ ආරක්ෂණ වැඩ සටහන් වඩාත් හොඳින් ඉලක්ක කරන්නේ නම්, වඩාත් අවශ්‍ය කරන අයට වැඩි මුදලක් ලබා දීමට අරමුදල් ඉතිරි කළ හැකිය. සමෘද්ධිලාභී පවුල්වලින් සැබැවින්ම දුප්පත් වන්නේ සියයට 15 ක් පමණ බවත් දුප්පතුන් ලෙස හඳුනාගත් සියයට 49 ක් කිසිම සමෘද්ධි ප්‍රතිලාභයක් නොලබන බවත් ගණනය කර ඇත. මූල්‍ය පීඩනය වැඩි වෙමින් පවතින කාලයක රජය සියලු දෙනාටම සැපයීමේ පිවිසුමක සිට හොඳින් තෝරා ගත් සහ කාර්යක්ෂම සමාජ ආරක්ෂණ ක්‍රමයක් කෙරේ සමාජ සුභ සාධනය යොමු කළ යුතුය.

වෙනස්වන කාලගුණික රටාවෙන් හා ස්වභාවික ආපදාවන් සම්බන්ධ හානිවලින් තවත් අවදානම් මූලාශ්‍රයක් මතු වෙමින් පවතී. 2011 මුල දී සහ 2012 අග දී ශ්‍රී ලංකාවේ වියලි කලාපයට ඇද හැලුණ ධාරානිපාත වැසි නිසා ගොවීන්ගේ ජන ජීවිතයට දැඩි බලපෑමක් වූ අතර 2013 ජූනි මාසයේ දිවයිනේ දකුණු සහ අග්නි දිග මුහුදු ප්‍රදේශයේ මෝසම් වැස්ස සමග ඇති වූ සුළි සුළං තත්වයෙන් ධීවර ප්‍රජාවට මහත් විනාශයක් ඇති කෙරිණ. ධීවරයින් පනහකට ආසන්න සංඛ්‍යාවක ජීවිත විනාශ විය. මතු වෙමින් පවතින මෙවැනි අනතුරු ආවරණය වන ආකාරයට සමාජ ආරක්ෂණය පුළුල් කළ යුතු අතර එවැනි අනතුරුවලින් ආරක්ෂාවීම සඳහා නිවැරදි තොරතුරු ලබා ගැනීමට හා ඒවා අවශ්‍ය අයට ලබා දීමට වැඩ පිළිවෙළක් ද තිබිය යුතුය. දේශගුණික තොරතුරු නිපැයුම් (CIP) යනුවෙන් හැඳින්වෙන මේවායින් අදාල ප්‍රජාවට මෙන්ම පොදුවේ රටටත් ඉමහත් සේවයක් වන අතර ඊට ගැලපෙන පියවර ගැනීමට හා අහිතකර කාලගුණික තත්වයන්ගේ බලපෑම් සඳහා සූදානම්ව සිටීමටත් හැකි කරවයි. ශ්‍රී ලංකාවේ දේශගුණික තොරතුරු නිපැයුම් විශේෂයෙන්ම කෘෂිකර්මය, ජල සම්පත් කළමනාකරණය බල ශක්ති ජනනය සැලසුම් කිරීම හා ආපදා අනතුරු කළමනාකරණය වැනි ක්ෂේත්‍ර වල විරලය. එහි ප්‍රතිඵලයක් වශයෙන් බොහෝ දෙනා දේශගුණික තොරතුරු නිපැයුම් කෙරේ විශ්වාස නොකරන නිසා අයහපත් තත්වයන්ට සූදානම් වන්නේ නැත. නිදසුනක් වශයෙන් ප්‍රතිපත්ති අධ්‍යයන ආයතනය අනුරාධපුර දිස්ත්‍රික්කයේ කරන ලද සමීක්ෂණයක් අනුව ගොවීන්ගෙන් හතරෙන් තුනක්ම මාධ්‍යයේ පළ වන කාලගුණ වාර්තා නිති පතා බලන නමුත් ඒවා ප්‍රධාන තොරතුරු මූලාශ්‍රයක් ලෙස භාර ගන්නේ සියයට තුනකටත් වඩා අඩු සංඛ්‍යාවකි. පෞද්ගලික අදහස, නිරීක්ෂණය හා අනෙකුත් අය ලබා දෙන තොරතුරු විශ්වාස කරන බව අති බහුතරයක් පවසයි. ප්‍රාදේශීය කාලගුණික රටාවන් ගැන දීර්ඝ කාලයක් තිස්සේ පැවති විශ්වාස සාවද්‍ය බවත් සමහර විට යල්පිනූ බවත් බොහෝ දෙනා පිළිගත්හ. එමනිසා වඩා හොඳ දේශගුණික තොරතු-රු නිපැයුම්වල අවශ්‍යතාව පෙරට වඩා වැඩිය. කාලගුණ දෙපාර්තමෙන්තුව වැනි

දේශගුණික තොරතුරු නිපැයුම් ලබා දීමේ වගකීම පැවරුණ ආයතන ගුණාත්මක භාවය, කාලීන හා විශ්වාස කටයුතු තොරතුරු ගැන දැඩි අවධානයක් යොමු කළ යුතු වන අතර නවතම තාක්ෂණ පහසුකම් හා උසස් මට්ටමේ විශේෂඥතාව ලබා ගැනීමට ආයෝජනය කළ යුතුය.

ඉහත සාකච්ඡාවෙන් පැහැදිලි වන ආකාරයට සමස්තයක් වශයෙන් ශ්‍රී ලංකාව මධ්‍යම ආදායම් ආර්ථිකයකට පරිවර්තනය වීමේ දී නව අභියෝගවලට මුහුණ දෙමින් සිටී. මෙම වෙනස්වීම සිදු වූ හෝ සිදු වෙමින් පවතින අනෙකුත් ආර්ථිකයන් හි වැදගත් ලක්ෂණයක් වන්නේ එම ආර්ථිකයන්හි වර්ධනය වෙමින් පවතින මධ්‍යම පංතිය හා එය වර්ධනය හා සංවර්ධනය කෙරේ ඇති කළ හැකි සාධනීය බලපෑමයි. ගෝලීය මිනුම් සලකුණු අනුව ශ්‍රී ලංකාවේ මධ්‍යම පංතිය මුළු ජන සංඛ්‍යාවෙන් සියයට 5 කට වඩා අඩු වුවද, මෙම පරිච්ඡේදය මුළුල්ලේම අවධාරණය වූ ආකාරයට ඉහළට යෑමේ සංචලතාවයක් හා රටේ මධ්‍යම පංතියේ මතුවීමක් පවතින බවට සලකුණු ඇත. මෙය වෙනත් කරුණු අතර දරිද්‍රතාවේ තියුණු පහත වැටීම, උසස් සේවාවන්, සුඛෝපභෝගී හා කල් පවත්නා පාරිභෝගික භාණ්ඩ සඳහා වැඩි වෙමින් පවතින ඉල්ලුම, පෞද්ගලික සෞඛ්‍ය රැකවරණය හා අධ්‍යාපන සේවා සඳහා වඩාත් වියදම් කිරීම මෙන්ම ශ්‍රී ලාංකිකයන් ගෝලීය තොරතුරු හා වාණිජ්‍යයට වඩාත් සම්බන්ධ කෙරෙන තාක්ෂණය හා සේවාවන් පැතිරයෑම යන කරුණු වලින් පැහැදිලිය. පුළුල් වන දේශීය මධ්‍යම පංතියේ වඩාත් විචක්ෂණ වූ පාරිභෝගික ඉල්ලුමත් සමග සේවා සහ ක්‍රියාවලීන්ගේ නව්‍යතාවයට රුකුලක් වනු ඇත. සමහර ලිපි ලේඛනවලින් පෙන්නුම් කරන ආකාරයට මෙම පංතිය වඩාත් පුළුල් වෙත්ම අධ්‍යාපනය හා සෞඛ්‍යය පිළිබඳ සමාජ ප්‍රතිපත්ති වඩාත් ප්‍රගතිගාමී වීමෙන් රාජ්‍ය ප්‍රතිපත්තිය කෙරේ බලපෑමක් විය හැකිය.

මෙම මධ්‍යම පංතිය පුළුල්වීමේ හොඳම මාර්ගය වන්නේ ඔවුන්ගේ මතුවීමේ කේන්ද්‍රය වන සුරක්ෂිත හා හොඳින් ගෙවීම් කරන රැකියා අවස්ථා සුලභ කිරීමය. මෙම අවශ්‍යතාවයෙන් පෙන්නුම් කරන්නේ ශ්‍රී ලංකාව තෘතීය අධ්‍යාපනය හා වෘත්තීය පුහුණුව පුළුල් කිරීම කෙරේ වඩාත් අවධානය යොමු කළ යුතුය යන්නයි.

දුප්පතුන් හා මධ්‍යම පංතිය අතර කැපී පෙනෙන ලක්ෂණයක් වන්නේ ඔවුන් ස්ථාවර හා හොඳින් ගෙවීම් ලබන රැකියා වල නිරත වන්නේ නම් තම ජීවන මට්ටම වැඩි දියුණු කර ගැනීමට වැඩි අවකාශයක් හා සම්පත් හිමි කර ගැනීමට අමතරව වඩාත් හොඳ රාජ්‍ය සේවාවන් සඳහා දේශපාලන වශයෙන් සම්බන්ධවීමටත් ඉල්ලා සිටීමටත් ඉදිරිපත්වීමය. ඒ අනුව රජයකට මධ්‍යම පංතියේ පුළුල්වීමත් සමගම ඉන් ඇති කෙරෙන අභියෝග රැසකට මුහුණ දීමට ද සිදු වේ. පුළුල් වන මධ්‍යම පංතියකට ඔවුන් පාලනය වන්නේ කෙසේද හා පාලනය වන ආයතන ගැන වඩාත් ඉල්ලීම් කිරීමට හා වැඩි හඬක් ලබා ගැනීමට ඉදිරිපත් වනු ඇත. ශීඝ්‍රයෙන් පුළුල් වන මධ්‍යම පංතියක් ඇති ඉන්දියාව වැනි රටවල ලිංගික අපහරණය ගැන පොලීසියේ නිහඬතාව වෙනස් කිරීමට ඉල්ලීම, දූෂණයට එරෙහි විරෝධතා (නිදසුනක් වශයෙන් අනා හසාරේ ව්‍යාපාරය) හෝ තොරතුරු ලබා ගැනීමේ පනත යටතේ මහජන සුභ සිද්ධිය සඳහා ඉදිරිපත් කෙරෙන පැමිණිලි සංඛ්‍යාවේ ඉහළ යෑමෙන් මෙම ප්‍රවණතාව දැකිය හැකිය. මේ ආකාරයටම වසර ගණනාවක් ප්‍රබල ආදායම් වර්ධනයක් පැවතීමෙන් ශක්තිමත් වූ මධ්‍යම පංතියක් ඇති තුර්කිය වැනි රටවල දරදඬු රාජ්‍යය නොඉවසීමේ ලක්ෂණ මතු වීමෙන් හා මෑතක ඇති වූ විරෝධතාවලින් පෙන්නුම් කරයි. ජනතාවගේ හැඩ ගැසෙමින් පවතින අවශ්‍යතා වලට මුහුණ දෙන ආයතනයන්හි කාර්යක්ෂමතාවයත්, ඔවුන්ගේ අයිතිවාසිකම් ආරක්ෂා කෙරෙන නීතියේ ආධිපත්‍යයේ ගුණාත්මකභාවයත් ඉහළට ගමන් කෙරෙන සංචලතාවයකින් යුත් සමාජ පංතියට වඩ වඩාත් වැදගත්ය. රජය මෙම තත්වය සැලකිල්ලට ගැනීමත් වැදගත්ය.

ශ්‍රී ලංකාවේ වර්ධනය වෙමින් පවතින සමාජ – ආර්ථික සමෘද්ධිය ප්‍රගතිගාමී රාජ්‍ය ප්‍රතිපත්ති සමග මනා ලෙස හා පූර්ණ වශයෙන් බැඳෙන්නේ නම් ආර්ථික ගතිකත්වය, නව්‍යකරණය හා සමාජ ප්‍රගමනය වේගවත් කොට රට මධ්‍යම ආදායම් ආර්ථිකයකට හා ඉන් ඔබ්බට පරිවර්තනය වීම තීරණාත්මක පදනමකට පත් කෙරෙනු ඇත.

1. கொள்கை முன்னோக்குகள்

2008 இல் உலகளாவிய பொருளாதாரச் சரிவு நிகழத் துவங்கியதிலிருந்து ஐந்து ஆண்டு காலமாக உலகளாவிய பொருளாதாரம் தடுமாறிக் கொண்டிருக்கிறது. இந் நிலையில் கடன் சுமை மிகுந்த பிரச்சினையிலிருந்து மீள்வதானது எதிர்பார்க்கப் பட்ட காலத்தை விட அதிகமான காலத்தை எடுக்கும் என்பதும் இதன் காரணமாக குடும்ப அலகுகள், நிறுவனங்கள் மற்றும் அரச அமைப்புகளது வளர்ச்சியையும் பாதிப்பதோடு வேறு பல புதிய பிரச்சினைகளையும் உருவாக்கி உலகளாவிய ரீதியில் தன்னம்பிக்கையையும் பாதிக்கிற நிலை விநோதமான ஒரு விடயம் அல்ல. இலகுவான, நேர்க் கோடான மீட்சி ஒன்றுக்கான எதிர்பார்ப்பு இப்பொழுது குலைக்கப் பட்டுள்ளது. நீண்ட காலமாக அமைதியாக நிகழ்ந்து வந்த அபிவிருத்தி அடைந்த நாடுகளது வளர்ச்சி வீதமானது பொருளாதாரச் சரிவு நிகழத் துவங்கியதிலிருந்து மிகவும் மந்த நிலைக்கு உள்ளாகியுள்ளதால் 'புதிய சாதாரண' அமைப்பு ஒன்று தொடர்பிலான கேள்விகள் மேலெழுந்துள்ளன.

2012 இல் மீண்டெழுதலானது பல்வேறு முனைகளிலிருந்து தோன்றிய பிரச்சினைகளது இடையூறுகளால் பாதிக்கப் பட்டதன் காரணமாக தடுமாற்றமுடையதாக மாறியது.

ஐரோப்பிய ஒன்றிய பிராந்தியத்தில் கடுமையான அழுத்தங்கள் மற்றும் கடன் சுமைகள் அரசியல் ஸ்திரத் தன்மையைப் பாதித்ததோடு மொத்த தேசிய உற்பத்தியை 0.4 சதவீதமாகக் குறைத்தது. பல ஐரோப்பிய ஒன்றிய அரசுகள் கடுமையான அழுத்தங்களை பிரயோகிக்க வேண்டிய நிலைக்குத் தள்ளப் பட்டமையால் அந் நாட்டு குடிமக்களது எதிர்ப்பை எதிர்கொள்ள நேரிட்டது. ஐரோப்பாவின் நிலைமை மிகவும் மோசமானதாகக் காணப் பட்டது. முழுப் பிராந்தியத்திலும் வேலையில்லாத் திண்டாட்டம் பாரிய அளவில் நிலவியது. பிராந்தியத்தின் பொருளாதாரங்கள் வீழ்ச்சி அடைந்ததுடன் வங்கிக் கடன் நிலைமைகள் பலவீனமாகக் காணப் பட்டன. ஐரோப்பிய ஒன்றிய பிராந்தியத்தின் முக்கியமான கொள்கை முன்னெடுப்பாகத் திகழ்ந்து வந்த ஐரோப்பிய மத்திய வங்கியின் (ECB) திறந்த நாணய கொடுக்கல் வாங்கல் திட்டம் ஜெர்மனிய நீதிமன்றில் யாப்பு அடிப்படையில் சவாலுக்கு உட்படுத்தப் பட்டது.

அதே வேளை, ஐக்கிய அமெரிக்கா 2012 இல் 2.3 சதவீதமான குறைவான வளர்ச்சியைக் கொண்டதாக இருந்தது. அரசியல் நிலைமை மேலதிக வளர்ச்சியைத் தூண்டுவதற்கு ஒரு சவாலாக அமைந்தது. எவ்வாறாயினும் 2013 ஏப்ரல் வரையான 6 மாதங்களில் தொழில் வாய்ப்பு உருவாக்கத்தில் அதற்கு முன்னரான 6 மாதங்களை விட 50 சதவீத அதிகரிப்பைக் காட்டியதால் ஐக்கிய அமெரிக்காவின் பொருளாதாரம் மீளெழுச்சி அடைவதைக் காட்டுவதாக அமைந்ததுடன் சராசரியாக இறுதி 12 மாதங்களிலும் உறுதியான தொழில் வாய்ப்பு உருவாக்கம் உடையதாகக் கொள்ளப் பட்டது. இதனால் பொதுத்துறையின் வேலைவாய்ப்பில் வீழ்ச்சி ஏற்பட்ட போதும் வேலையில்லாத் திண்டாட்டத்தை 7.6 சதவீதமாகக் குறைக்க முடிந்தது. 2013 இன் இறுதிப் பகுதியில் ஐக்கிய அமெரிக்க சமஷ்டி ஒதுக்குகள் பிணைய விற்பனைகளைத் தள்ளுபடி செய்வதன் மூலம் அளவுசார் இலகுபடுத்தலின் மூன்றாவது அலையினூடே ஐக்கிய அமெரிக்காவின் பொருளாதாரம் மீளெழுச்சி அடையும் என எதிர்பார்க்கப் படுகிறது.

இவ்விரு பிராந்தியங்களிலும் அழுத்தங்கள் எதிர் தூண்டல்கள் என்ற விவாதமானது ஒரு சவால் மிகுந்த அரசியல் பொருளாதார சூழலைத் தோற்றுவித்துள்ளது. மேலும் பாரிய உலகளாவிய

அதிர்ச்சிகள் காரணமாக இது மத்திய வங்கிகள் மற்றும் அரசுகளால் எடுத்துக் காட்டப்படக் கூடிய நுகர்வோர், கம்பனிகள் மற்றும் நிதி நிறுவனங்களினது மத்திய தவணையிலான தன்னம்பிக்கையையும் பாதித்துள்ளது.

வளர்முக நாடுகளது பொருளாதாரங்கள் சென்ற ஆண்டு மிதமான வளர்ச்சியினைக் கண்ட போதும் பகுதியளவிலான இணைப்பு நீக்கலை இதற்கு முன்னைய மீளெழுச்சி காலப் பகுதியின் போது வெளிக் காட்டின. வளர்முக நாடுகளது பொருளாதாரங்கள் பலவீனமடைந்த மேற்கு நாடுகளின் சந்தைகளில் தங்கியிருப்பதன் காரணமாக அந் நாடுகளின் பொருளாதாரங்களும் வீழ்ச்சியுற்றன. உள்நாட்டு கொள்கை விடயங்களும் இந்தியாவின் வெளிநாட்டு நேரடி முதலீடு போன்ற சுய பாடுறுத்தப் பட்ட காயங்களை உருவாக்கி இதில் பெரும் தாக்கத்தை ஏற்படுத்தியுள்ளது. 2010, 2011 ஆண்டுகளின் வளர்ச்சி வீதங்களுடன் ஒப்பிட்டுப் பார்க்கும் போது 2012 இல் சீனா 7.8 சதவீதமான வளர்ச்சியை அடைந்ததுடன், இந்தியா மிகவும் பலவீனமான 4.5 சதவீதமான வளர்ச்சியையே கொண்டிருந்தது. அதே வேளை, மத்திய கிழக்கு 2011 இல் ஏற்பட்ட அரசியல் புரட்சியின் காரணமாக வீழ்ச்சியுற்றாலும் 2012 இல் 5.2 சதவீதமான வளர்ச்சியை அடைந்தது.

சில அரசுகள் இது தொடர்பில் ஏனைய அரசுகளை விட உறுதிப்பாடு உடையனவாகக் காணப் பட்டன. உதாரணமாக சீனாவின் 12 ஆவது ஐந்தாண்டு திட்டம் தெளிவாக சந்தைக்கு சாதகமான சீர்திருத்தங்களை மேற்கொண்டதுடன் வளர்ச்சியைத் தூண்டுவதற்கு அதிக அளவிலான உள்நாட்டுக் கேள்வியை பிறப்பிக்கக் கூடிய கொள்கைகளையும் வகுத்தது. நகரமயமாக்கல் மற்றும் சேவைத் துறை அபிவிருத்தி என்பன தொடர்பில் அது உற்று நோக்கியது. அத்துடன் குறைகிரய மாதிரியிலிருந்து பாரிய அளவிலான தொழினுட்பம் மற்றும் புத்துருவாக்கல் நோக்கி நகர்ந்தது. 2013 செப்டெம்பர் மாதம் அளவில் எதிர்கால பொருளாதாரக் கொள்கைகள் தொடர்பில் -தலைமைத்துவ மாற்றத்தினது ஒரு உடனிகழ்வாக -சீனா முக்கியமான பிரகடனங்களை செய்யும் என எதிர்பார்க்கப் படுகின்றது. இதற்கு முற்றிலும் மாறாக இந்தியாவின் நடப்பு அரசு கொள்கைத் திட்டமிடலில் திணறி நிலைபேறான வளர்ச்சிக்கான முக்கியமான கட்டமைப்பு ரீதியான மாற்றங்களை மேற்கொள்ளத் தவறியுள்ளது. இந்திய பொருளாதாரம் சமீப காலமாக குறை வளர்ச்சி வீதம், நிதி மற்றும் நடைமுறைக் கணக்கு பற்றாக்குறைகள் மற்றும் பாரிய அளவிலான பணவீக்கம் போன்ற காரணங்களால் பெரிதும் பாதிக்கப் பட்டுள்ளது. இதற்கு மேலதிகமாக 2014 இல் நடைபெறவுள்ள தேர்தல் வேறு இந்த நிலைமையை மேலும் நிச்சயமற்றதாக ஆக்கியுள்ளது.

சுவால் மிகுந்த வெளியக பொருளாதாரச் சூழ்நிலை இலங்கையினது பொருளாதாரத்தையும் பாதித்துள்ளதெனினும் வளர்முக, வளரந்த நாடுகளினது குறை வளர்ச்சிக்கு மத்தியில் குறிப்பிடத்தக்க அளவு பயனுறுதி மிக்க செயற்பாட்டாளராக இருந்து வருகிறது.

யுத்தம் முடிவுக்குக் கொண்டுவரப் பட்டதிலிருந்து இரண்டு ஆண்டு காலம் குறிப்பித்தக்க அளவு வளர்ச்சி வீதத்தைக் காட்டியதன் பின் 2012 இல் வளர்ச்சி வீதம் 12 சதவீதமாகக் குறைவடைந்தது. 2011 இன் பின்னரைப் பகுதியில் ஏற்பட்ட பொருளாதார நெருக்கடியின் காரணமாக ஏற்பட்ட சென்மதி நிலுவையை ஈடுகட்ட 2012 முற்பகுதியில் அரசு சில சீர்ப்படுத்தல்களை மேற்கொண்டது. இவற்றுள் வட்டி வீதங்கள் அதிகரிக்கப் படுதல், மோட்டார் வாகனம் முதலான பிரதானமான இறக்குமதிப் பொருட்களுக்கான வரிகள் அதிகரிக்கப் படுதல், போன்றவை முக்கியமானவை. இது தவிர பாதகமான காலநிலை காரணமாக விவசாயத்துறையும் கடந்த ஆண்டு கணிசமான அளவு பாதிக்கப் பட்டது.

2012 ஆம் ஆண்டைக் கடக்கும் போது நாடு ஏற்றுமதி இறக்குமதிகளில் கணிசமான வீழ்ச்சியைக் கண்டது. ஏற்றுமதியில் ஏற்பட்ட வீழ்ச்சிக்கான காரணம் ஏற்றுமதி நாடுகளில்

ஏற்பட்ட பொருளாதாரச் சரிவு மற்றும் பிரதான ஏற்றுமதிப் பண்டங்களான பருத்தி மற்றும இறப்பர் போன்றவற்றின் விலைகளில் ஏற்பட்ட வீழ்ச்சி என்பன ஆகும். இறக்குமதியில் ஏற்பட்ட வீழ்ச்சிக்கான காரணம் ரூபாவின் பெறுமதியில் ஏற்பட்ட வீழ்ச்சி, தீர்வைக் கட்டடணங்களின் அதிகரிப்பு மற்றும் இறுக்கமான கடன் சூழ்நிலை என்பன ஆகும். 2012 ஆம் ஆண்டினது பொருளாதாரத்தின் வீழ்ச்சிக்கான முக்கிய அம்சம் இறுக்கமான கடன் சூழ்நிலை ஆகும். மத்திய வங்கியால் விதிக்கப் பட்ட கடன் உச்ச வரம்பு மற்றும் அதிக வட்டி வீங்கள் என்பன காரணமாக தனியார் துறைக்கான கடன் 2012 ஆம் ஆண்டு முழுதும் கணிசமான வீழ்ச்சியைக் கண்டது.

2012 டிஸம்பரில் இல் கடன் உச்ச வரம்பு மற்றும் அதிக வட்டி வீங்கள் ஆகிய கொள்கைச் சீர்திருத்தங்கள் மத்திய வங்கியால் முழுவதுமாக செயற்படுத்தப் படத் தொடங்கு முன் தனியார் துறை கடன் கேள்வி குறைவானதாகவே நிலவியது. ஓப்பீட்டு அளவில் அதிக வட்டி வீதங்கள் மற்றும் சரிப் படுத்தப் பட்ட பொருளாதார வளர்ச்சி 2013 இன் முதல் காலாண்டில் கடன் கேள்வியை இலகுவானதாக ஆக்கியது. தனியார் துறைக்கு வழங்கப் பட்ட கடன் ஜனவரியில் இலங்கை ரூபா 9.7 பில்லியனாக இருந்ததுடன் இது அதற்கு முந்தைய ஆண்டின் மொத்தமான இலங்கை ரூபா 44.5 பில்லியனது கால்வாசியாக அமைந்தது.

கொள்கை வீதங்களினது வெட்டுக்கள் அதுவரை கடினமாக இருந்தது. அதாவது, குறைந்த வங்கியியல் கடன் வீதங்களை விடக் குறைந்ததாகக் காணப் பட்டது. மார்ச் நடுப் பகுதி அளவில் 14 சதவீதமாக நிலவியதுடன் வர்த்தகக் கடன் வீதங்கள் சராசரி நிறுக்கப் பட்ட முதன்மை கடன் வீதங்களாகக் குறைகிற அறிகுறிகளைக் காட்டின். குறிப்பிடத்தக்க அளவு அரசின் செயற்பாடுகள் நிலவியதாலும் தனியார் துறை பலம் இழந்து காணப் பட்டதாலும் வர்த்தகக் கடன் வீதங்கள் மிக இறுக்கமானவையாகக் காணப் பட்டன. 2023 இன் முதல் காலாண்டில் அரசு இலங்கை ரூபா 406 பில்லியன்களை பிணையாகவும் திறைசேரி உண்டியலாகவும் ஏற்றுக் கொண்டது. இது ஒப்பீட்டு அளவில் கடந்த ஆண்டினது இதே காலாண்டுக்கான அளவான இலங்கை ரூபா 146 பில்லியன்களை விட குறிப்பிடத் தக்க அளவு அதிகமாகும். இது தனியார் துறைக்கு கடன் அளிக்கும் நிதி நிரம்பலைக் குறைத்ததுடன் வட்டி வீதத்தை உயர்ந்த அளவில் வைத்தது. 2013 மார்ச் நடுப் பகுதி முதல் பிணை மற்றும் திறைசேரி உண்டியல் என்பன அளவில் சிறியதாக உள்ளன.

மலிவான மூலதன மூலாதாரங்களான கடல் கடந்த வணிக வங்கிகள் இந்த வீதங்களில் குறிப்பிடத் தக்க அளவு தாக்கம் செலுத்துகின்றமை ஒரு புதிய அலையாகக் காணப் படுகின்றது. 2012 இன் முற்பகுதியிலும் பின்னர் 2013 இன் முற்பகுதியிலும் மத்திய வங்கி பதிவு செய்த வணிக வங்கிகள் மற்றும் உள்நாட்டுக் கம்பனிகளுக்கான வெளிநாட்டு வர்த்தக மாற்று விகித கொடுக்கல் வாங்கல்களின் மீதான கட்டுப்பாடுகளைத் தளர்த்தியது. 2013 இல் மத்திய வங்கி கம்பனிகள் வணிக நோக்கங்களுக்காக வெளிநாட்டுக் கடன் பெறுவதை ஊக்குவிக்கும் நோக்கில் 'வெளியக வணிகக் கடன் பெறுதல் திட்டம்' ஒன்றை ஆரம்பித்தது. சில உள்நாட்டு வங்கிகள் இதனைப் பயன்படுத்திக் கொண்டு 2012 இல் 973 மில்லியன் ஐக்கிய அமெரிக்க டொலர்கள் வரை நீண்டகாலக் கடன்களைப் பெற்றன. இது உள்நாட்டுக் கடன் வீழ்ச்சிகளைத் தீர்க்கவும் தனியார் துறை விரிவாக்கலுக்கும் உதவியது. அதே நேரம், ரூபாவின் பெறுமதியில் ஏற்பட்ட சடுதியான வீழ்ச்சி காரணமாக எந்த அளவுக்கு சில கம்பனிகள் வெளிநாட்டுக் கடனை நாடியிருக்கும் என்பது தெளிவில்லை. 2012 இல் ரூபாவின் பெறுமதியில் ஏற்பட்ட சடுதியான வீழ்ச்சி காரணமாக இலங்கையின் பல ஸ்தாபனங்களது சொத்துக்கள் பொறுப்புக்களிலான ஏந்து பெறுமதிகள் பாதிக்கப் பட்டன.

தனியார் துறை வெளிநாட்டுக் கடன் பெறுவதை ஊக்குவிப்பதோடு மத்திய வங்கி இந்த ஆண்டு வெளிநாட்டு மூலதன சந்தையிலான

கடன்களுக்கு எதுவித பாதிப்பையும் ஏற்படுத்துவதில்லை எனக் குறிப்பிட்டது. புதிய கொள்கையின் படி குறுங்காலக் கடன்கள் பெறுவதை விட நீண்டகாலக் கடன்களைப் பெறுவதில் அதிகம் கவனம் எடுத்துக் கொள்ளப் பட்டது. 2013 மே மாதம் 20, 30 ஆண்டுகளுக்கான 13 பில்லியன் ரூபா வரையான பிணைகள் விடுக்கப் பட்டன.

அதிக அளவான உள்நாட்டு கடன்கள் நெருக்கடியைத் தோற்றுவிப்பதுடன் கேள்வியிலும் நிரம்பலிலும் பணவீக்கத்தையும் ஏற்படுத்தக் கூடியதாக அமையும். சுந்தை நிலைமைகளும் மத்திய வங்கியும் தனியார் துறை கடன் வளர்ச்சியை வலுவில் தூண்டும் எனில், கேள்வி தரப்பில் பணவீக்கம் அதிகரிக்கும். அதே வேளை, விலைக் கட்டுப்பாடு அமுல் படுத்தப் படும் போது நிரம்பல் தரப்பில் பணவீக்கம் அதிகரிக்கும்.

தற்போதைக்கு மத்திய வங்கி பணவீக்க அழுத்தத்தைக் குறைக்க (மின் கட்டணத் தீர்வையைச் செம்மையாக்குவதன் மூலம்) நிதிக் கொள்கையில் மேலதிகத் தளர்வுகளை மேற்கொள்ளத் தீர்மானித்துள்ளதாகத் தெரிகிறது. அதனூடாக மந்தமான பொருளாதாரச் செயற்பாடுகளைச் சரிப்படுத்தி ரூபாவை கட்டுக்கோப்பாக வைத்திருக்க முடிகிறது. 2013 மே மாதம் கொள்கை வீதத்தில் மேலும் 50 அடிப்படைப் புள்ளி வெட்டு ஒன்றைச் செய்ததை அவதானிக்க முடிந்ததுடன் ஜூன் மாதம் அளவில் சந்தை வட்டி வீதங்கள் குறைவடைந்ததையும் அவதானிக்க முடிந்தது. இருப்பினும் கடன் பெறுதலிலான கிரயங்கள் கடினமானவையாகவே உள்ளன. இதற்கு பதிலளிக்கும் வகையில் மத்திய வங்கி ஜூன் பிற்பகுதியில் வணிக வங்கிகளுக்கான சட்ட ஒதுக்க விகிதத்தை 2 சதவீதமாகக் குறைத்து திரவத்தன்மையை ஊக்கப் படுத்த முயன்றுள்ளது.

எவ்வாறாயினும், நிதிக் கொள்கையில் சீர்திருத்தங்கள் செய்து பொருளாதாரத்தை வளர்க்க முற்படும் போது சில நிதியியல் தடங்கல்கள் ஏற்படும்.

ஒரே பார்வையில் பார்க்குமிடத்து 2000 ஆம் ஆண்டு 100 சதவீதமாக இருந்த இலங்கையின் கடன் - மொத்த தேசிய உற்பத்தி இடைத் தொடர்பு கடந்த மூன்று ஆண்டு காலப் பகுதியில் 80 சதவீதமாகக் குறைந்துள்ளது. இது யுத்தத்துக்குப் பின்னரான பாரிய பெயரளவு மொத்த தேசிய உற்பத்தியிலும் மாற்று விகிதங்களிலும் பெருமளவு செல்வாக்கு செலுத்துவதாக உள்ளது. அது அபாய நிலையை விடக் குறைவாக இருப்பினும், ஒப்பீட்டளவில் பல வளர்முக நாடுகளின் வீதத்தை விட அதிகமாகவே உள்ளது. சீனாவில் அண்ணளவாக 20 சதவீதமாகவும், இந்தியாவில் அண்ணளவாக 70 சதவீதமாகவும் துருக்கியில் அண்ணளவாக 40 சதவீதமாகவும், பிரேஸிலில் அண்ணளவாக 64 சதவீதமாகவும் காணப் படுகிறது. 2011 இல் 78.5 சதவீதமாக இருந்த இது ரூபாவின் பெறுமதி இறக்கம் காரணமாக 2012 இல் 81 சதவீதமாக சற்று உயர்ந்தது.

மொத்த அரச கடன்களைப் பொறுத்த வரையில், இலங்கையின் மாறிவரும் வெளியகக் கடன் நிலைமை அவதானிக்கத் தக்கது. இலங்கையின் வெளியகக் கடன் - மொத்த தேசிய உற்பத்தி இடைத் தொடர்பு விகிதம் கடந்த ஆண்டுகளின் அதிகமான பகுதிகளில் (அண்ணளவாக 36 சதவீதம்), மாற்றமடையாமல் இருந்தது. 'இலங்கை: பொருளாதார நிலைமை 2012' அறிக்கையின் படி, 'இலங்கையின் வெளிநாட்டுக் கடன்களில் தள்ளுபடி செய்யப் படாத கடன்கள் மற்றும் வணிகப் படுகடன்களது பங்கு கூர்மையாக அதிகரித்துள்ளது'. உண்மையில் 2006 இல் 7.3 சதவீதமாக இருந்த இது 2006 இல் 42.9 சதவீதமாக அதிகரித்துள்ளது.

2012 இல் சர்வதேச நாணய நிதியத்துடன் செய்து கொண்ட தயார்நிலை ஒழுங்கு (Stand-By Arrangement) நிகழ்ச்சியின் தீர்மானத்தின் பின்னர் இலங்கைக்கான மேலதிக ஆதரவுகள் எதுவும் கிடைக்காது எனத் தோன்றுகிறது. இலங்கை மத்திய வங்கி நீடிக்கப் பட்ட நிதிய வசதியை (Extended Fund Facility) சர்வதேச நாணய நிதியத்துடன் செய்து கொள்வதில்லை என அறிவித்துள்ளது. தற்போதைய நிலைமையில் மேலதிகமாக சென்மதி நிலுவை

உதவிகள் எதுவும் தேவைப்படாது எனினும் சர்வதேச நாணய நிதியத்துடனான உறவை நீடிப்பதன் மூலம் சந்தைக்கு (குறிப்பாக பிணை சந்தை முதலீட்டாளருக்கு) ஆறுதலையும், தன்னம்பிக்கையையும் வழங்க முடியும்.

அதே நேரம், திறைசேரியால் சர்வதேச நாணய நிதியத்துக்கு விடுக்கப் பட்ட நீடிக்கப் பட்ட நிதிய வசதிக்கு பிரதியீடான பாதீட்டு நிகழ்ச்சிக்கான விண்ணப்பங்கள் தள்ளுபடிக்கு உள்ளாயின. இலங்கை ஒரு மத்திய வருமான நிலைமைக்கு நகர்ந்ததன் விளைவாக மந்தநிலை காணப்படுவதன் காரணமாக சர்வதேச சந்தைக் கடன்களைத் தீர்க்க முடியாத நாடுகளைப் பொறுத்தவரை அசாதாரணமான, உலக வங்கியின் உதவிகள் பாதீட்டு உதவி என்ற போர்வையில் உள் வந்தன. சர்வதேச நாணய நிதியத்தின் மறுதலிப்பு வழமைக்கு மாறானதல்ல. ஏனெனில் இலங்கை அவ்வாறான ஒரு நிலைமையில் இல்லை.

உண்மையில் நிலைமை முற்றிலும் மாறுபட்டதாகவே உள்ளது. இலங்கை வெற்றிகரமாக சர்வதேச டொலர் சார்ந்த பிணைகளுக்கு முகங் கொடுத்து வருகிறது. 2012 வரை இலங்கை மத்திய வங்கியின் கொள்கையானது அதிக கிரய உள்நாட்டு படுகடனுடன் மலிவான வெளிநாட்டு படுகடன் சார்ந்ததாக இருந்து வந்தது. 2009 இலிருந்து 2012 வரை விடுக்கப் பட்ட டொலர் சார்ந்த பிணைகளில் அரைவாசிக்குக் கிட்டிய பெறுமதி பெரும்பாலும் குறைவான ஈட்டலைக் காட்டும் உள்நாட்டு படுகடனாக —2009 இல் 7.4 சதவீதமாகவும் (எல்லை 2015), 2010 இல் 6.25 சதவீதமாகவும் (எல்லை 2020), 2011 இல் 6.25 சதவீதமாகவும் (எல்லை 2021), 2012 இல் 5.88 சதவீதமாகவும் (எல்லை 2022) — காணப்பட்டது. மிகச் சமீபத்திய 2012 ஜுலை மாதப் பிணையினது வீதமான 5.875 கடந்த ஆண்டின் இதே காலப் பகுதியின் வீதங்களை விட மிகவும் இறுக்கமானதாகக் காணப் பட்டது. இலங்கை Fitch, Moody's, Standard and Poors ஆகிய முகவர்களுடனான சுயாதீனக் கடன் வீதங்களிலான தரப் படுத்தலில் நல்ல நிலைமையில் இருந்தது. இதே வேளை தென்னாபிரிக்கா, சைப்ரஸ், ஸ்பெயின், போர்த்துகல், பிரான்ஸ் போன்ற நாடுகளது தரப் படுத்தல்கள் குன்றிச் சென்றன. ஜுலை மாத ஆரம்பப் பகுதியில Moody's தமது தரப் படுத்தலை B1 positive இலிருந்து B1 stable ஆகக் குறைத்தது. இதற்கான காரணமாக கடந்த இரு ஆண்டுகளிலான வெளியக செலுத்துகைகளில் ஏற்பட்ட வீழ்ச்சியைக் காட்டிற்று.

அதிகரித்துச் செல்லும் வெளியகப் பொறுப்புகள் மற்றும் அதிக வெளிநாட்டுப் படுகடன்கள் சேவை வெளியேற்றங்கள் காரணமாக அந்நிய செலாவணியை உள்ளே ஈர்த்து அதனை ஈடு செய்ய வேண்டிய தேவைப்பாடு உள்ளது. எனினும் வெளிநாட்டு வருமானங்கள் உழைப்பதற்கு ஏற்றுமதிகளில் அதிக கவனம் தேவை. சமீப காலமாக இலங்கையினது ஏற்றுமதி நடவடிக்கைகள் ஸ்திரமற்றதாகக் காணப் படுவதனால் இந்த கவனம் குறைந்துள்ளது.

நடுத்தர வருமான நிலையை அல்லது அதைத் தாண்டிய ஒரு வளர்ச்சியை அடைவதில் முக்கியமான ஒரு பங்கை ஆற்றுவது உலக வணிக முறைமைக்கு திறந்து விடப் படுதல் ஆகும். தனது பிராந்திய சகபாடிகளுடன் ஒப்பிடுகையில் இலங்கை 1977 இன் தாராளமயமாக்கலின் மூலம் முன்னிலை வகித்தது. தேயிலை, இறப்பர், தேயிலை போன்ற பணப்பயிர்களும், தயார்நிலை ஆடைகள் ஆகியன இதற்கு உதவியுள்ளன. 2000 ஆம் ஆண்டளவில் வர்த்தகம் - மொ. தே. உ. இடையிலான விகிதம் 80 சத வீதமாக உயரந்து நின்றது. எவ்வாறாயினும் சமீப காலமாக இலங்கை இந் நிலையிலிருந்து ஏறக் குறைய அரைவாசியாக, அதாவது 44 சத வீதமாக, வீழ்ச்சியடைந்துள்ளது. இலங்கையின் ஏற்றுமதி வர்த்தகம் - மொ. தே. உ. இடையிலான விகிதம் 2000 – 2010 காலப் பகுதியில் 33 இலிருந்து 16 சத வீதமாக குறைந்துள்ளது. உலக வர்த்தக சந்தையில் இலங்கையின் பங்கு கணிசமாக குறைந்துள்ளதால் சர்வதேசத்துடன் குறைந்த அளவிலான வர்த்தகமே நடத்துகிறது.

முன் சென்ற தாராளமயமாக்கலுக்குப் பிந்தையதான காலப்பகுதிகளை விட தற்போது

இலங்கையினது மொத்த காப்பு விகிதம் சிறந்த நிலையில் உள்ளதாக சான்றுகள் உள்ளன.இத்தகைய வீழ்ச்சி ஏற்படுவதற்கான பிரதான காரணமாவது, தாராளமயமாக்கல் நிகழ்ந்த காலப் பகுதி ஏனைய உலக நாடுகள் பரஸ்பர மற்றும் பிராந்திய முன்னுரிமை வர்த்தக ஒப்பந்தங்களைச் செய்வதில் மும்முரமாக ஈடுபட்டப ஒரு காலப் பகுதியாக இருந்தமையாகும்.

அண்மைக் கால போக்குகள் சிறந்த பெறுபேறுகளைக் காட்டுவனவாக இல்லை. 2012 இல் இலங்கையின் ஏற்றுமதிகள் (அகழ்வு தவிர்த்து) 7.7 சதவீதத்தால் குன்றின. அத்துடன் இவ் வீழ்ச்சியின் பிரதான பங்கு கைத்தொழில் துறை சார்ந்ததாக இருந்தது (13 சதவீதம்). 2013 இன் முதல் காலாண்டு 8 சதவீதமான குறைவைக் காட்டியதுடன் அதில் பிரதான பங்கு கைத்தொழில் துறை சார்ந்ததாக இருந்தது. அதே கால கட்டத்தில் இலங்கையின் போட்டியாளர்களான பங்களாதேஷ், மியான்மர் ஆகிய நாடுகள் முறையே 16.2 மற்றும் 19.5 என்ற சதவீதங்களில் முன்னேற்றத்தைக் காட்டின. எனவே இலங்கையின் ஏற்றுமதி வர்த்தகத்தில் ஒரு பகுதி உலகப் பொருளாதாரச் சூழலின் வீழ்ச்சி காரணமாக இலங்கையின் ஏற்றுமதிச் சந்தையின் கேள்வியில் சரிவைச் சந்தித்தது. கதையின் அடுத்த பகுதி மிகவும் வெளிப்படையானது. இலங்கை பரஸ்பர மற்றும் பிராந்திய முன்னுரிமை வர்த்தக ஒப்பந்தங்களைச் செய்வதிலும், போட்டித் தன்மைக்கு முகங் கொடுப்பதிலும் வெற்றிகரமாக ஈடுபடாததே இதற்கான காரணம் ஆகும்.

ஏற்றுமதி வர்த்தகத்தில் குவிந்து காணப்பட்ட பொருளாதாரக் கட்டமைப்பானது யுத்தத்துக்குப் பின்னரான காலப் பகுதிகளில் மாற்றமடைந்தது. வணிகம் சாரா துறைகளான உட்கட்டமைப்பு அபிவிருத்தி மற்றும் சில்லறை, அதே போன்று சுற்றுலாத் துறை மற்றும் மறைமுகமாக வெளிநாட்டு ஊழியர் ஊதியம் போன்றவற்றுக்கு இக் கட்டமைப்பினது குவியம் இடம் மாறிற்று. யுத்த சூழ்நிலை காரணமாக தடைப் பட்டிருந்த வணிகம் சாரா துறைகளான உட்கட்டமைப்பு அபிவிருத்தி மற்றும் சில்லறை ஆகியவை யுத்தத்துக்குப் பின்னரான காலப் பகுதியில் திடீர் எழுச்சியைக் கண்டுள்ளது என்பதை இது புலப் படுத்துகிறது. ஏனினும் முன்னைய அறிக்கைகளின் படி நடுத்தர வருமானத்துக்கு மாறும் நாடுகள் வணிகம் சாரா துறைகளை விட வணிகம் சார் துறைகளின் வளர்ச்சியையே துரிதமாக அனுபவித்து வந்துள்ளதாகத் தெரிகிறது.

உதாரணமாக வெளிநாட்டு ஊழியர் வருமானத்தில் தங்கியிருத்தலானது ஏற்றுமதியிலான சரிவுகளை ஈடுகட்டுவதற்கு அரசு மேற்கொண்டிருக்கும் தந்திரோபாயமாக அமைந்துள்ளமை கண்கூடு. கவனிக்கத் தக்க விடயமாவது, 2012 ஒக்டோபரிலிருந்து அதன் வளர்ச்சி படிப்படியாக குறைந்து வருவதாகும். 2013 மே மாதம் வெளிநாட்டு ஊழியர் வருமானம் 3.4 சதவீதமாக வரலாறு காணாத மாதாந்த சரிவைக் காட்டியுள்ளது. இது மிகவும் கவனமாக அவதானிக்கப் பட வேண்டிய ஒரு துறை ஆகும். ஏனெனில் நாட்டினது சென்மதி நிலுவை உறுதிப்பாட்டைக் கருத்திற் கொள்ளும் போது 2012 இல் 64 சதவீதமான வியாபார பற்றாக்குறையை ஈடுகட்ட உதவியது வெளிநாட்டு ஊழியர் வருமானம் ஆகும்.

வளர்ச்சி மற்றும் அபிருத்தி பற்றிய சுயாதீன ஆணைக்குழுவின் நிலைபேறான பொருளாதார வளர்ச்சி பற்றிய அறிக்கையில் (2008) 13 நாடுகள் 8 சதவீதத்துக்கு மேற்பட்ட பொருளாதார வளர்ச்சியை அடைந்து நீண்ட காலம் அதனைத் தக்க வைத்துக் கொள்வதில் உதவிய துறைகள் பற்றி விதந்துரைக்கப் பட்டுள்ளது. அவற்றில் எல்லா கொள்கை அமுல்படுத்தல்களையும் மேற்கொள்வது சாத்தியமில்லை எனினும் சில பொதுவான அம்சங்கள் கவனத்துக்கு உரியன. ஆந் நாடுகளின் நிலைபேறான பொருளாதார வளர்ச்சியின் முக்கியமான ஒரு அம்சமாக பேரண்டப் பொருளாதாரத்தின் நிச்சயமற்ற தன்மையை மிக வெற்றிகரமான காலத்தில் உறுதியானதாக மாற்றிக் கொண்டமை ஆகும். அமன் மூலமாக (உள்நாட்டு மற்றும் வெளிநாட்டு) தனியார் முதலீட்டு வீதங்களை ஊக்குவிக்க முடிந்துள்ளது. பேரண்டப்

பொருளாதாரத்தின – குறிப்பாக பொதுமக்கள் நிதிகள் மற்றும் பாதீட்டுப் பற்றாக்குறை ஆகியவற்றிலான – நிச்சயமற்ற தன்மை இலங்கையின் பொருளாதாரத்திலும் முக்கிய கவனத்தைப் பெற வேண்டிய ஒரு அம்சமாகத் திகழ்கிறது.

உண்மையில் இலங்கை கடந்த சில வருடங்களாக உறுதியான முன்னேற்றங்களை எய்தியுள்ளது. பணவீக்கம் தொடரந்து நான்கு ஆண்டு காலமாக தனி இலக்கத்தில் நிலவி வருகிறது. பாதீட்டுப் பற்றாக்குறையும் குறைக்கப் பட்டதாகவே நிலவி வருகிறது. 2009 முதல் சர்வதேச நாணய நிதியத்தின் தயார்நிலை ஒழுங்கு கண்காணிப்பின் படி கடந்த சில வருடங்களின் மொத்த நிதிப் பெறுபேறுபகள் சாதகமானவையாகவே நிலவி வருகின்றன. நிதிப் பற்றாக்குறை 2010 இல் மொ. தே. உற்பத்தியின் 9.9 சதவீதமாக இருந்து 2011 இல் மொ. தே. உற்பத்தியின் 6.9 சதவீதமாகக் குறைவடைந்துள்ளது. 2012 இல் அது மேலும் குறைவடைந்து 6.4 சதவீதமாக மாறியுள்ளது. இது நாட்டின் நிதி நிலைமை உறுதியாகத் தடம் பதித்துள்ளதையே காட்டுகிறது.

புலம் மிக்க பொருளாதாரம் ஒன்றும் உறுதியான அரசியல் நிலைமையும் ஓர் அரசு முக்கியமான சீர்திருத்தங்களைச் செய்வதற்கு உதவும் எனக் கருதப் படுகிறது. எனினும் வருமானம் மற்றும செலவுகளைக் கருதும் போது அது மிகவும் சிரமமான ஒரு காரியம் ஆகும்.

செலவினங்களைக் கருதும் போது, அரசு கஜானாவிலிருந்து அதிகமான நிதி வெளியேற்றம் நஷ்டம் அனுபவிக்கும் அரச நிறுவனங்களினூடாகவே நிகழ்கிறது. வலுத்துறை அரச நிறுவனங்கள் தொடர்ந்தும் உன்னிப்பான கவனத்துக்கு உள்ளாவனவாகவே திகழ்கின்றன. இலங்கை மின்சார சபையின் நிதி நிலைமை கடந்த 5 வருட காலமாக மிகவும் பலவீனமான நிலையில் காணப் படுகின்றது. 2006 இல் 15 பில்லியன் இலங்கை ரூபாய்களாக இருந்த நஷ்டம் 2012 இல் 60 பில்லியன் இலங்கை ரூபாய்களாக அதிகரித்துள்ளது. இது அரசின் ஆகக் கூடிய மானியக் கொடுப்பனவான உர மானியத்தின் (36.5 பில்லியன் இலங்கை ரூபாய்கள்) அளவை விட ஏறக் குறைய இரு மடங்கு அதிகமாகும். இலங்கை பெற்றோலிய எரிபொருள் கூட்டுத்தாபனத்தின் இன்னும் தீர்க்கப் படாத கடன்கள் வேறு இந் நிலையை மேலும் சிக்கலாக்கியுள்ளன.

இலங்கை மத்திய வங்கியால முன்மொழியப் பட்ட தீர்வை அதிகரிப்புகள் பொதுப் பயன்பாடுகள் ஆணைக்குழுவின் பல்துறை கட்டுப்பாட்டாளரால் அனுமதிக்கப் பட்டு பொது நிதியத்திலிருந்து வெளியேறுதல் குறைக்கப் பட்டது எனினும் 2013 மே மாதத் துவக்கத்திலிருந்து இதன் நிலை தலைகீழ் மாற்றம் அடைந்துள்ளது. இது கொள்கைச் சீர்திருத்தத்தைப் பொறுத்தவரை ஒரு பாரிய அடியாகும். வலுத்துறையின் இலாப உருவாக்கம் சிரம தசையிலேயே உழல்கிறது. 2012 இல் முன்னெடுப்புகள் மேற்கொள்ளப் பட்டாலும் மிகக் கடினமான ஒரு பணியாகவே அது காணப் படுகிறது.

இலங்கை வலுத்துறையிலான அத்தியாவசியமான சீர்திருத்தங்களை இனிமேலும் பிற்போடுவது முடியாத ஒரு விடயம் ஆகும். மின் சக்திக்கும் பொருளாதார வளர்ச்சிக்கும் வலுவான தொடர்பு உள்ளது என உள்நாட்டு மற்றும் சர்வதேச அனுபவங்கள் சான்று பகர்கின்றன. அதிக விலை செலுத்தி மின் சக்தி பெறக் கூடிய நிலை நடுத்தர வருமான நாடாக மாறுவதற்கு இடைஞ்சலாக காணப் படும். அதிகரத்துச் செல்லும் கேள்வியை ஈடு செய்ய மேலதிக 100 மெகா வாட் மின்சாரத்தையேனும் வருடாந்தம் பிறப்பிக்க வேண்டிய தேவைப்பாடு காணப் படுவதாக கணக்கிடப் பட்டுள்ளது. 2010 இல் 9286 கிகா வாட் ஆக இருந்த வருடாந்த கேள்வி 2020 ஆம் ஆண்டளவில் 17489 கிகா வாட் ஆக அதிகரிக்கும் எனக் கணக்கிடப் பட்டுள்ளது. மத்திய வர்க்க மக்களது தொகை அதிகரித்துச் செல்வதனால் அவர்களது மின்சார நுகர்வுச் செலவுகளில ஏற்படும் அதிகரிப்பு சகதி மூலங்களின் மீது மேலதிக அழுத்தத்தைக் கொடுத்து வருகிறது.

இலங்கை மத்திய வங்கியின் வழமையான குறைதினுக்கு மேலதிகமாக உயர் தீர்வை விதிப்பனவுகளுக்கு ஏதுவான மற்றுமொரு காரணி யாதெனில், ஆட்சிபீடம் ஏறிய எல்லா அரசுகளும் நீண்ட கால அடிப்படையிலான திட்டங்களை அமுல் படுத்தத் தவறியமை ஆகும். மிகவும் தாமதமாக நிலக்கரி மின் உற்பத்தி நிலையங்கள் தற்போது தான் ஸ்தாபிக்கப் பட்டுள்ளன. எதிர்காலத்தில் நிலக்கரி மின் உற்பத்தியிலேயே பெருமளவு தங்கியிருக்க முடிவு செய்யப் பட்டுள்ளது. எனினும் அது புதிய சவால்களையும் தோற்றுவித்துள்ளது. நிலக்கரயின் விலைகள் கடந்த காலங்களில் அதிக மாற்றங்களுக்கு உள்ளாகியதாகத் தெரிகிறது. எவ்வாறெனினும் இலங்கையின் எதிர்கால மின் உற்பத்தியில் மிகவும் முக்கிய பங்கை ஆற்றவுள்ள நிலக்கரி மின் உற்பத்தி நிலையங்களில் முதலீடு செய்வது நியாயமானதும் முக்கியமானதுமான ஒரு தேவைப்பாடு ஆகும். சமீப காலமாக சீனாவால் நிறுவப் பட்ட நுரைச்சோலை அனல் மின் நிலையத்தில் அடிக்கடி ஏற்படும் தொழினுட்பப் பழுதுகளிலிருந்து பாடம் பயின்று எதிர்காலத் திட்டங்களை வழுக்கள் அற்ற முறையில் செயற்படுத்துதல் உசிதமானது.

வருமானங்கள் தொடர்பில் அசதானிக்கும் போது வரிவிதிப்பு தொடர்ந்தும் முன்னிலை வகிக்கிறது. நிதி உறுதிப்பாட்டில் வரி வருமானத்தின் முக்கியத்துவம் கருதி 2009 இல் ஜனாதிபதி வரி ஆணைக்குழு ஸ்தாபிக்கப் பட்டது. 2010 இல் வெளியிடப் பட்ட அதன் இறுதி அறிக்கையின் பின் 2011 வரவு- செலவுத் திட்டத்தில் சில முக்கியமான வரிச் சீர்திருத்தங்கள் மேற்கொள்ளப் பட்டன. இதில் பொருளாதாரச் செயற்பாடுகளை ஊக்குவிக்குமுகமாக தனியார் மற்றும் நிறுவன ரீதியான வருமான வரி வீதத்தைக் குறைத்தல் மற்றும் பொதுச் சேவையாளர்கள் 1970 ஆம் ஆண்டு முதல் அனுபவித்து வந்த PAYE வரிக்கான வரிவிலக்கை நீக்குதல், சில எல்லை வரிகழளைச் சீர்படுத்துதல் வரிச்சலுகைகளை முறைமைப் படுத்துதல் போன்றவை உள்ளடங்கின. எனினும் இந்த சீர்திருத்தங்கள் இன்னும் பேரளவு வருமானத்தை உழைக்கத் தொடங்கவில்லை. ஊண்மையில் 2012 இல் வரி – மொ. தே. உற்பத்தி இடையிலான விகிதம் கடந்த 20 ஆண்டுகளின் மிகக் குறைந்த அளவான 11.5 சதவீதத்துக்கு சரிந்துள்ளது. இது குறை நடுத்தர வருமான நாடுகளின் சராசரியான 18 சதவீதத்தை விடக் குறைவானது ஆகும். அத்தியாவசியமான நிர்வாக சீர்திருத்தங்கள் இந்த வீதங்களிலான சரிவுக்குக் காரணமா வில்லை. ஊண்மையில் அவை வரி மூலங்களை விரிவாக்கவே செய்தன எனினும் அரசியல் தலையீடுகள் VAT வரிவிலக்குகள் மற்றும் பூச்சிய வீதங்களை அதிகரித்தன.

நிதி நிலைமையிலான பலவீனங்கள் தொடர்பில் பல சர்வதேச நிறுவனங்களும் – குறிப்பாக வங்கிகள் மற்றும் நிதி முகவர்கள் – கருத்துக்களைத் தெரிவித்துள்ளன. Moodys, Standard Chartered வங்கி, HSBC வங்கி போன்ற நிறுவனங்கள் 2012 மற்றும் 2013 இன் முற்பகுதியில் இதன் மூலம் ஏற்படக் கூடிய சவால்கள் குறித்துப் பேசியுள்ளன.

2011 - 2012 காலப் பகுதியில் நிதிப் பற்றாக்குறையை குறைவான அளவில் வைத்துக் கொள்வதற்காகவே வழங்குநருக்கான கொடுப்பனவுகள் மாற்றப் படுத்தவும், மூலதனச் செலவினங்கள் ஏற்படும் திட்டங்கள் தாமதப் படுத்தவும் பட்டன. தொடர்ந்தும் நஷ்டம் அனுபவித்து வந்த அரச நிறுவனங்களது கடன்கள் பற்றாக்குறை இலக்கங்களில் காட்டப் படாமல் இருந்தன. இவை நிலைபேறான தந்திரோபாயங்கள் அல்ல. நிதி நிலைமை உறுதிப்பாடு முக்கியமான ஒரு இலக்காக இருப்பதனால் அது சமூக மற்றும் பௌதிக உட்கட்டமைப்பு முதலீடுகளிலிருந்து பெயர்க்கப் பட்டதாக இருப்பதில் சிறப்பில்லை. உட்கட்டமைப்பிலான முன்னேற்றம் நாட்டின் தொடர்புள்ள உட்கட்டமைப்பு சார்ந்ததாகவே காணப் பட்டது. பொருளாதாரப் பிரச்சினையிலிருந்து மீண்டு எழ உதவும். ஒபாமா அரசின் மீள் எழுச்சி இதே போன்ற ஒரு பொருளாதாரப் பிரச்சினை கிழக்கு ஆசியாவில் நிலவிய காலகட்டத்தில் சீனா பெருந்தெருக்கள், தணடவாளம், துறைமுக வசதிகள் மற்றம் மின்சாரம் போன்ற நிதி தூண்டல் முதலீடுகளை

மேற்கொண்டது. இவை சீனாவின் மிக முக்கியமான துறைகள் ஆகும். கிழக்கு ஆசியாவின் மூன்றில் இரண்டு வீதமான வளர்ச்சி உட்கட்டமைப்பு முதலீட்டிலேயே சார்ந்து நின்றது. கடந்த இரு ஆண்டுகளில் ஆபிரிக்காவின் வளர்ச்சியில் அரைவாசிக்கும் மேல் உட்கட்டமைப்பு முதலீட்டிலேயே சார்ந்தே நின்றது. இலங்கையும் சமீபத்திய 5-7 ஆண்டுகளாக இலங்கையிலும் உட்கட்டமைப்பு முதலீட்டில் சிறந்து விளங்குகிறது. இரு துறைமுகங்களும் ஒரு சர்வதேச விமான நிலையமும் இவற்றுள் முக்கியமானவையாக இருப்பதோடு பெரும்பான்மையான நடைமுறை திட்டங்கள் வணிகக் கடன்களாகவும் பரஸ்பர ஒத்துழைப்புகளாகவும் கிடைக்கப் பெற்ற வெளிநாட்டு நிதியுதவியுடன் கொண்டு நடாத்தப் படுகின்றன.

அடுத்த நிகழ்ச்சி நிரலானது அரசினது நிதிச் சுமையைக் குறைப்பதற்கு உட்கட்டமைப்பு செயல் திட்டங்களில் தனியார் துறையினது பங்களிப்பைப் பெற்றுக் கொள்ளுதல் ஆகும். வாய்ப்புகள் மிகப் பரந்த அளவில் காணப் படுகின்றன. அடுத்த 5 ஆண்டுகளில் துறைமுகம் சார் உட்கட்டமைப்பில் மட்டும் ஏறத்தாழ 10 பில்லியன் ஐக்கிய அமெரிக்க டொலர்கள் பெறுமதியான உட்கட்டமைப்பு செயல் திட்டங்கள் தனியார் துறை முதலீடுகளுக்காக திறந்து வைக்கப் படும் என அரசு அனுமானிக்கிறது. தனியார் துறையினது மூலதனத்தை பொது செயல் திட்டங்களுக்கு நகர்த்துவது என்பது அவ்வளவு எளிதானது அல்ல. இந்தியாவின் சமீபத்திய அனுபவங்கள் இதனை நன்கு எடுத்துக் காட்டுகின்றன. பெரும் அளவிலான உட்கட்டமைப்பு நிதி தேவைப் பட்டாலும் பொதுத் துறை – தனியார் துறை பங்குடைமை என்கிற அடிப்படையில் அல்லது உட்கட்டமைப்பு பிணைகள் என்கிற அடிப்படையில் உள் வருவது மிகவும் அரிது. ஊழல் தொடர்பிலான ஐயம் காரணமாக தனியார் முதலீட்டாளர்கள் இந்த விடயத்தில் மிகவும் சலிப்பு உடையோராய் காணப் படுகின்றனர். இது இலங்கைக்கும் ஒரு தக்க பாடமாக உள்ளது. அரசு மட்டத்தில் தனியாரது பங்களிப்புக்கு வரவேற்பு காணப் படினும், இழுவையான செயன்முறை மற்றும் அரசியல் தலையீடுகள் போன்ற காரணிகள் தனியார் பொது உட்கட்டமைப்பு செயல் திட்டங்களில் ஈடுபடுவதிலிருந்து தள்ளியே இருக்க ஏதுவாகின்றன. ஒப்பீட்டு அளவில் சிறியதான உள்நாட்டு தனியார் துறையால் அத்தகைய செலவு அதிகமான செயல் திட்டங்களில் ஈடுபடுவது சிரமம் என்பதால் வெளிநாட்டு முதலீடுகள் மிகவும் இன்றியமையாதவை ஆகின்றன. வெளிநாட்டு முதலீட்டாளர்கள் எந்த அளவுக்கு இழுவையான செயன்முறைக்கு மத்தியில் BOO அல்லது BOT அடிப்படையிலான நீண்ட கால தொழிற்பாடுகளில் ஈடுபடுவார்கள் என்பது தெளிவில்லை. அதே வேளை, வெளிநாட்டுப் படுகடன்கள் மீதான விதிமுறைகள் தளர்த்தப் பட்டிருப்பது காரணமாக உள்நாட்டு தனியார் துறையினர் நிதி திரட்டுவதில் எதிர்நோக்கிய கஷ்டங்கள் இலகு படுத்தப் பட்டிருப்பதுடன் அவர்கள் பொதுத் துறை உட்கட்டமைப்பு செயல் திட்டங்களில் பெரும் பங்கு ஒன்றை ஆற்றவும் உதவுகிறது.

பௌதிக உட்கட்டமைப்பு என்பது பிரதான ஆயுதங்களின் ஒரு பகுதி மாத்திரமே. இலங்கையின் பொருளாதாரத்துக்கு திடமான மற்றும் நிலைபேறான ஒரு நடுத்தர வருமான நிலைமாற்றம் தேவைப் படுகிறது. சமூக உட்கட்டமைப்பே உண்மையான வளர்ச்சியைப் புலப்படுத்தக் கூடியது. ஒருங்கிணைந்த உட்கட்டமைப்புக்கு அதிக கவனம் செலுத்தப் படுகின்றமையால் அண்மைக் காலமாக கல்வி, சுகாதாரம் போன்ற துறைகளில் குறிப்பிடத் தக்க அளவு இடைவெளிகளைக் காணக் கூடியதாக உள்ளது.

சுதந்திரத்துக்குப் பின்னராக காலப் பகுதியில் கல்வி, சுகாதாரம் ஆகிய துறைகள் பாரிய அளவு முதலீடுகளைப் பெற்று வந்தன. எவ்வாறாயினும் நடுத்தர வருமான நிலைமாற்றமானது மானிட அபிவிருத்தியில் புதிய சவால்களைத் தோற்றுவித்துள்ளது. கல்வித் துறையிலான பொது செலவுகள் 2000 இல் மொ. தே. உற்பத்தியின 2.3 சதவீதம் என்ற சராசரியில் இருந்தது 2010 இல் மொ. தே. உற்பத்தியின 1.8 சதவீதம் என்ற சராசரிக்கு

சரிந்துள்ளது. ஒரு சராசரி உயர் நடுத்தர வருமான நாட்டில் இது மொ. தே. உற்பத்தியின் 5.0 சதவீதமாகவும் ஒரு சராசரி குறை நடுத்தர வருமான நாட்டில் இது மொ. தே. உற்பத்தியின் 4.0 சதவீதமாகவும் காணப்பட வேண்டும். அதே வேளை, அரச பல்கலைக் கழகங்களில் போதுமான இடம் கிடைக்காததன் காரணமாக வருடாந்தம் 100000 உயர் தரம் கற்கும் மாணவர்களுக்கு உயர்கல்வியைப் பெற முடியாது போகிறது. மேலும் மாற்றீடான தனியார் உயர்கல்வி மேல்தட்டு குடும்பங்களால் மாத்திரமே பெறத் தக்கதாய் இருக்கிறது. 2012 இல் 2011 ஆம் ஆண்டை விட மேலதிக 40000 மாணவர்கள் மேலதிகமாக வெளியேறினர். இலங்கையின் குடிப் பரம்பல் தொழில் சந்தை பங்களிப்பில் பெரும் செல்வாக்கு செலுத்துகிறது. 2006 ஆம் ஆண்டை விட 7 சதவீதம் குறைவான இளைஞர்கள் ஊழியப் படையில் காணப் பட்டனர். இதன் படி இலங்கை உயர் நடுத்தர வருமான நாடாக மாற விழைந்தாலும் மிகவும் குறைவான ஊழியர்களே அதற்காக உழைக்கும் நிலை காணப் படுகிறது. ஆகவே கல்வியிலும் திறன் அபிவிருத்தியிலும் அதிக முதலீடு தேவைப் படுகிறது. ஏனெனில் அவ்வாறான பின்னணி உள்ள இளைஞர்களே தலா ஆள் வீத வெளியீட்டில் சிறந்து விளங்குகின்றனர்.

நடுத்தர வருமான நாடாக நிலை மாற்றம அடைவதோடு நாட்டினது குடியியல் மற்றும் சமூக அரசியல் காரணிகளில் ஏற்பட்ட மாற்றங்கள் காரணமாக சுகாதாரத் துறையிலும் பல சவால்கள் தோன்றியுள்ளன. குறிப்பாக தொற்றா நோய்கள் மற்றும் போசணைக் குறைபாடுகள் என்பனவற்றில் சவால்கள் தோன்றியுள்ளன.

உயர் வாழ்க்கைத் தரங்களுடனான வாழ்க்கை முறையுடன் சனத்தொகையினது தொற்றுநோயியல் விம்பமும் மாற்றத்துக்கு உள்ளாகியுள்ளது. இலங்கையில் தொற்றா நோய்களான இருதய நோய், இருதய அடைப்பு, புற்றுநோய் போன்றவற்றின் அதிகரிப்பைக் காணக் கூடியதாக உள்ளது. நாட்டின் 90 சதவீதமான நோய்ச் சுமைகள் தொற்றா நோய்கள் காரணமாகவே ஏற்படுகின்றன என சான்றுகள் கூறுகின்றன. மற்ற குழுக்களை விட மூத்தோர் சனத்தொகையினது சுகாதாரக் கேள்விகள் அதிகம் என்பதால் மூத்தோர் சனத்தொகையிலான அதிகரிப்பும் சுகாதார சேவையின் சுமையாக அமையும்.

சுகாதாரத் துறையில் குறைந்த அளவிலான முதலீடுகளே இடப் படுவதால் இந்த நிலைமைகளுக்கு முகங் கொடுப்பதில் நாடு சிக்கலைச் சந்திக்கறது. சுகாதாரத்துக்கான மொத்த செலவு 1995 – 2008 இடையிலான காலப் பகுதியில் 5 சதவீதத்துக்கும் குறைவாகவே இருந்து வந்தது. இது நடுத்தர வருமான நாடுகளது சராசரியான 8 சதவீத்தை விடக் குறைவானது ஆகும். சுகாதாரத் துறையின் குறைந்த அளவிலான பொது முதலீடுகளுக்கு இணைவாக சுகாதாரத் துறையிலான மத்தியவர்க்கத்தினரது தனியார் செலவினங்களில் அதிகரிப்பு காணப் படுகிறது. 2009 இல் இலங்கையர்கள் 20 வருடங்களுக்கு முன் இருந்ததை விட 70 பில்லியன் இல்ங்கை ரூபாய்களை அதிகமாக செலவிட்டுள்ளனர். எனினும் இதில் பெரும் பங்கு உயர் வருமானம் பெறும் வகுப்பினரால் செலவு செய்யப் பட்டது ஆகும்.

அதே வேளை, போசணைக் குறைபாடும் ஒரு முக்கியமான சவாலாகத் திகழ்வதுடன் குறிப்பாக இளைஞர் சமூகம் இதனால் பாதிப்புக்கு உள்ளாகியுள்ளதாகத் தெரிகிறது. 15 – 19 வயதுக் குழுவில் இந்நிலை 40 சதவீதம், 20 – 29 வயதுக் குழுவில் இந்நிலை 22 சதவீதம். இந்த பதின்ம வயது போசணைக் குறைபாடு முழு வாழ்க்கை வட்டத்துக்குமான போசணைக் குறைபாடாக அமைவதுடன் நாட்டின் உற்பத்தித் திறனையும் பாதிக்கும்.

மானிட அபிவிருத்தியில் முன்னேற்றத்தைக் காண வரி வருமானம் முக்கியமானது. அதிக உள்நாட்டு வருமானத்தை ஈட்ட உயர் வீதத்திலான சேமிப்புகளும் முதலீடுகளும் இன்றியமையாதவை. 8 சதவீதமான வளர்ச்சியையும் பெற்று குறிப்பிட்ட காலம் வரை அதனைப் பேணி வந்த நாடுகள் உயர் வீதத்திலான சேமிப்புகள் மற்றும் முதலீடுகளின்

முக்கியத்துவத்தை எடுத்துக் காட்டுகின்றன. இலங்கையினதும், சர்வதேச தரவுகளினதும் பகுப்பாய்வின் படி மத்தியதர வர்க்கத்தினரது அதிகரிப்பு உயர் வீதத்திலான சேமிப்புகளுக்கும் முதலீடுகளுக்கும் ஏதுவாகின்றது எனத் தெரிகிறது.

இலங்கையின் உள்நாட்டு சேமிப்பு விகிதம் 2011 இல் 15.4 சதவீத்திலிருந்து 2012 இல் 17 சதவீதமாக உயர்ந்தது. 2011 பொருளாதாரம் சேமிப்பை ஊக்குவிக்காத பணவீக்கம் நிலவிய ஒரு காலப் பகுதியாக இனங் காணப் பட்டது. இலங்கையின் சமூக கலாச்சார வழக்கங்களும் இதற்குக் காரணமாக அமைந்துள்ளது. யுத்தத்துக்குப் பின்னரான காலத்தில் நுகர்வுப் பொருளுக்கான கேள்வியில் ஒரு அதிகரிப்பு ஏற்பட்டது. வெளிநாட்டு உட்பாயச்சல்களும் நிகழ்ந்ததுடன் 2012 இல் அறிமுகப் படுத்தப் பட்ட இலங்கை மத்திய வங்கியின் நிலைநிறுத்தல் திட்டங்களுக்கும் பாரிய பங்களிப்பைச் செய்தது. எனினும் நீண்டகால போக்கின் படி தேசிய
சேமிப்பு முதலீட்டுக்கான கேள்விக்கு போதுமானதாக இருக்காததுடன் வேகமான வளர்ச்சிக்குத் தடையாக அமையும். இந்த இடத்தில்தான் வெளிநாட்டு முதலீடுகள் ஒரு பாரிய வகிபங்கை ஏற்கின்றன. இலங்கையில அண்மைக் காலமாக – யுத்தம் நிலவிய காலப் பகுதிகளில் கூட – வெளிநாட்டு நேரடி முதலீடுகளில் குறிப்பிடத் தக்க அதிகரிப்பைக் காண முடிகிறது. யுத்தம் நிலவிய காலப் பகுதிகளில் கூட 2004 இல் 200 மில்லியன் ஐக்கிய அமெரிக்க டொலர்களாக இருந்த வெளிநாட்டு நேரடி முதலீடுகள் 2008 இல் 889 மில்லியன் ஐக்கிய அமெரிக்க டொலர்களாக அதிகரித்துள்ளது. உலகப் பொருளாதாரச் சரிவு காரணமாக 2009 இல் 601 மில்லியன் ஐக்கிய அமெரிக்க டொலர்களாகவும் 2010 இல் 516 மில்லியன் ஐக்கிய அமெரிக்க டொலர்களாகவும் குறைந்த வெளிநாட்டு நேரடி முதலீடுகள் 2011 இல் மீண்டும் 1070 மில்லியன் ஐக்கிய அமெரிக்க டொலர்களாக அதிகரித்தது. இது பெருமளவு சுற்றுலாத் துறை சாரந்த வெளிநாட்டு நேரடி முதலீடுகளைக் கொண்டிருந்தது. 2012 இல் ஏறக் குறைய 1340 மில்லியன் ஐக்கிய அமெரிக்க டொலர்களாக வெளிநாட்டு நேரடி முதலீடுகள் அதிகரித்தது எனினும் அது எதிர்பார்த்த இலக்கை விட 400 மில்லியன் ஐக்கிய அமெரிக்க டொலர்கள் குறைவானதாகவே இருந்தது.

யுத்தத்துக்குப் பிந்தியதான காலப் பகுதியில் கிடைக்கப் பெற்ற எழுச்சியைத் தக்க வைத்துக் கொள்வதில் இலங்கை தடுமாறினாலும், அண்மைக் கால முன்னேற்றத்திலிருந்து குறிப்பிடத் தக்க சில நன்மைகளை பெறவே செய்தது. 2009 இல் 5.8 சதவீதமாக இருந்த வேலையில்லாத் திண்டாட்டம் 2012 இல 4.0 சதவீதமாகக் குறைவடைந்துள்ளது. அத்துடன் வறுமை 2006/07 இல் இருந்ததை விட 2009/10 இல் பாதியாகக் குறைவடைந்தது. மரபுரீதியான 'பின்தங்கிய பிரதேசங்கள்' முன்னேற்றமடைந்ததுடன் மொத்த உள்நாட்டு உற்பத்தியில் மேல் மாகாணத்தின் ஆதிக்கம் 50.8 சதவீதத்திலிருந்து 44.4 சதவீதமாகக் குறைவடைந்துள்ளது. தெற்கு, வடக்கு, வட மத்திய மற்றும் ஊவா மாகாணங்கள் தேசிள வெளியீட்டில் குறிப்பிடத் தக்க அளவ பங்களிப்பை ஆற்ற ஆரம்பித்தன. சமூக நகர்வு ஒன்றை இது வெளிக் காட்டுகிறது. துனியார் நுகர்வுச் செலவினம் 2008 இலிருந்ததை விட 70 சதவீத்தால் 2012 இல் அதிகரித்தது. வறுமை குறைந்து மத்திய வர்க்க மக்கட் தொகை அதிகரித்தது.

குறை வருமான பொருளாதாரம ஒன்றில் ஆடம்பரப் பொருட்களாகக் கருதப்படக் கூடிய மோட்டார் வாகனங்கள், மோட்டார் சைக்கிள்கள் மற்றும் நீடித்துழைக்கும் நுகர்வுப் பொருட்கள் என்பனவற்றின் விற்பனை அதிகரித்தது. 2010 நடுப் பகுதியில் இறக்குமதித் தீர்வை குறைக்கப் பட்டதன் பின் 2010/11 காலப் பகுதியில் கேள்வியிலான அதிகரிப்பு ஒன்றைக் காணக் கூடியதாக இருந்தது. இறக்குமதித் தீர்வை குறைக்கப் படுவதற்கு முன்னரும் கூட சொந்தத் தேவைக்கான மோட்டார் வாகனங்களுக்கான கேள்வி அதிகரிக்கவே செய்தது. வருடாந்த புதிய மோட்டார் கார்களுக்கான வாகனப் பதிவுகள் 2002 இல் இருந்ததை விட 2008 இல் 40 சதவீதம் அதிகரித்ததுடன் மோட்டார்

சைக்கிள்களுக்கான பதிவுகள் 65 சதவீதம் அதிகரித்தது.

இவ்வாறான உள்நாட்டு நுகர்வு ஏற்றுமதி அல்லாத வணிகங்களை முன்னேற்றினாலும், அது மட்டுமே நிலைபேறான அபிவிருத்திக்குப் போதுமானதல்ல. ஏற்றுமதி வணிகங்களும் அவற்றின் வினைத்திறனும் வளர்ச்சியில் பெரும் பங்கு ஆற்றுகின்றன.

இலங்கையின் வணிகங்களின் மீதான அழுத்தம் அதிகரிப்பதனால் காரணி விலைகள் மற்றும் வெளியக போட்டித் தன்மை ஆகியவற்றில் அதிகரிப்பைக் காணக் கூடியதாக உள்ளதுடன் அது விளைதிறனில் அதிகரிப்பைக் காட்டுவதோடு உற்பத்தி மற்றும் தொழிற்பாட்டில் புத்துருவாக்கத்தைக் கொண்டிருக்கிறது. இது தொழினுட்பம் மற்றும் பயிற்சி பெற்ற ஊழிய நிரம்பல் என்பனவற்றை இணைத்து தகவமைத்துக் கொண்ட ஒரு மாதிரிக்கு அமைவாக உள்ளக தொழிற்பாட்டுக் கட்டமைப்பிலும் மாற்றத்தை ஏற்படுத்துவதாக உள்ளது. இதில் தொழில் உருவாக்கம் தொடர்பில் கேள்விகள் எழுந்தாலும் புத்துருவாக்கம் நோக்கிய நகர்வானது பயிற்சி பெற்ற மற்றும் கல்வி கற்ற சனத் தொகைக்கு நன்மை பயப்பதாக அமையும் என்பது திண்ணம். மட்டுப் படுத்தப்பட்ட கைத்தொழில்மயமாக்கல் காலப் பகுதியில் பயிற்றுவிக்கத் தக்க எழுத்தறிவு மற்றும் சுகாதார பிரதிபலன்களுடைய ஊழியப்படை குறை திறனுள்ள உற்பத்தித் தொழில்களுக்குப் போதுமானதாக இருப்பினும் வளர்ச்சியின் புதிய போக்குகளுக்கு ஈடுகொடுக்க எதிர்காலத்தில் அடிப்படை எழுத்தறிவையும் தாண்டிய 'அறிவுசால் ஊழியர்கள்' தேவைப் படுவர்.

மேலும் நடுத்தர வருமான நிலையை எய்தும் போது இளைஞர் சமுதாயத்தின் தொழில் எதிர்பார்க்கைகளும் மாற்றத்துக்கு உள்ளாகும். தரவுகளின் படி உற்பத்தி நிறுவனங்கள் தொழிற்சாலை வேலைகளுக்கு தொழிலாளர்களைப் பெற்றுக் கொள்வதில் சிரமங்களை எதிர்நோக்கும் எனத் தெரிகிறது. நீலக் கழுத்துப் பட்டை உத்தியோகங்களுக்கான நாட்டம் அதிகரித்துள்ளமையால் கல்வி மற்றும் பயிற்சி தொடர்பில் அதிக அழுத்தம் கொடுக்கப் படுகிறது. இந்த மாற்றங்கள் ஊழிய நிரம்பலிலான இளைஞர்களது பங்கேற்பில் பெரும் செல்வாக்கு செலுத்துகின்றன. உதாரணமாக பெருந்தோட்டத் துறையில் இளைஞர்களது பங்கேற்பு 2006 – 2010 காலப் பகுதியில் 12 சதவீத வீழ்ச்சியைக் காட்டுகிறது. இது தேசிய அளவில் 7 சதவீதம் ஆகும். நகர்ப்புற வேலைவாய்ப்புகளிலான நாட்டம் (குறிப்பாக சேவைத் துறை, சில்லறை வியாபாரம் போன்றன) அதிகரித்திருத்திருப்பது மற்றும் போட்டித் தன்மை காரணமாக இவற்றிலான இளைஞர் பங்கேற்பு 2006 – 2010 காலப் பகுதியில் 12 சதவீதத்திலிருந்து 14 சதவீதமாக அதிகரித்துள்ளது. இதுவே இளைஞர்களது பங்கேற்பில் அதிகரிப்பைக் காட்டுகிற ஒரே துறை ஆகும்.

ஏனைய வளர்முக நாடுகளுடன் ஒப்பிடும் போது இலங்கையின் நகர்மயமாக்கல் வீதமாகது முற்றிலும் கட்டுக்கோப்பானதாக காணப் படுகிறது. நகர்மயமாக்கலானது புதிய அபாயத்துக்குள்ளாகும் குழுக்களை குறிப்பாக நகர்சார் வேலையின்மை காரணமாக நகர்சார் வறுமைக்கு உள்ளாகிற மக்களைத் தோற்றுவிக்கும். தலா ஆள்வீத சுட்டெண்ணை மாத்திரம் அடிப்படையாகக் கொண்டு இதனை அளவிடுவது பொருத்தமன்று. தலா ஆள்வீத சுட்டெண்ணின் படி நகர்சார் வறுமை பெருந்தோட்டத் துறை போன்ற ஏனைய துறைகளை விடக் குறைவானது எனினும், வறிய மக்களின் உண்மையான எண்ணிக்கை நகரத்தில் அதிகமாகவே உள்ளது. மாதாந்தம் வறுமையைத் தீர்த்துக் கொள்வதற்கான தேசிய சராசரி 587 ரூபாவாக காணப் படும் போது, நகர வறுமையைத் தீர்த்துக் கொள்வதற்கான சராசரி 680 ரூபாவாபக காணப் படுகிறது.

இந்த நிலை நகர்ப்புறத் துறையில் மாத்திரமன்றி ஏனைய துறைகளிலும் காணப் படுகிறது. தொழினுட்பத்திலான மாற்றங்கள் ஊதியப் பகிர்வில் பெரும் செல்வாக்கு செலுத்துகிறது. அதிகரித்து வரும் வருமான சமமின்மை சமூக நகர்விலும் எதிர்கால முன்னேற்றத்திலும்

குறைவை ஏற்படுத்த வல்லது. தேசிய வருமானத்தின் அரைவாசியை 20 சதவீதமான செல்வச் செழிப்புள்ள குடும்ப அலகுகள் பெற்றுக் கொள்ளும் போது, மீவறுமையில் உழலும் 20 சதவீதமான குடும்ப அலகுகள் தேசிய வருமானத்தின் 4.5 சதவீதத்தையே பெற்றுக் கொள்கின்றன.

பயிற்றப் பட்ட ஊழியர்களை உள்வாங்குவதன் மூலம் பொருளாதார மாற்றங்களை சரிப் படுத்தி வருமான வாய்ப்புகளை உருவாக்கும் அதே வேளை, பாதிக்கப் படக் கூடிய சனத்தொகைக் குழுக்களுக்கு தக்க பாதுகாப்பை வழங்குவதும் முக்கியமானதொரு தேவைப்பாடு ஆகும். இலங்கை வறுமையைக் குறைப்பதில் பாரிய வெற்றிகளை அடைந்தாலும், சனத்தொகையில் குறிப்பிடத் தக்க பங்கு வறுமைக்கோட்டை விட சற்று அதிகமாகவே காணப் படுகின்றது. இவை இலகுவில் மீண்டும் வறுமை நிலைக்கு தள்ளப் படக் கூடிய வாய்ப்பு உள்ளது. எனவே சமூகக் காப்பு முறைமை ஒன்றைச் செயற்படுத்துவது அவசியம் ஆகும். முதியோர் சனத்தொகை மற்றும் முறைசாரா ஊழியர்கள் தொகை இதில் குறிப்பிடத் தக்க குழுக்கள் ஆகும். கட்டடத் தொழில், சுரங்க வேலை, குவாரி கைத்தொழில் (83 சதவீதம்), ஹோட்டல் மற்றும் உணவு விடுதி கைத்தொழில் (50 சதவீதம்) மற்றும் உற்பத்திக் கைத்தொழில் (45 சதவீதம்) முறைசாரா ஊழியர்களாக உள்ளனர்.

பல்வேறுபட்ட சமூகக் காப்பு நிகழ்ச்சிகள் நடைமுறையில் இருந்தாலும், அவற்றுள் பெரும்பாலானவை குறைவான பெறுபேறுகளை வழங்குபவையாகவே உள்ளன. சமுர்த்தி நிகழ்ச்சி நிரல் இவற்றுள் குறிப்பிடத் தக்கது. சமுர்த்தி திட்டத்தின் படி தேசிய வறுமைக் கோடு நீக்கும் மிகக் கூடிய தொகை தலா 1500 இலங்கை ரூபாய்களாக நிர்ணயிக்கப் பட்டிருப்பினும், உண்மையில தேசிய வறுமைக் கோடு நீக்கும் மிகக் கூடிய தொகை தலா 3300 இலங்கை ரூபாய்களாகும். கணக்கெடுப்புகளின் படி 15 சதவீதமான சமுர்த்தி பெறுநர்கள் மட்டுமே உண்மையில் வறியவர்களாக காணப்படுகின்றனர். 49 சதவீதமான வறிய குடும்பங்கள் சமுர்த்தி நிதியுதவியைப் பெறுவதில்லை. இவ்வாறான நிலைமையில் சமூக நன்னிலை தொடர்பில் அரசு மேலும் இலட்சிய நோக்கமுள்ளத அணுகுமுறை ஒன்றைச் செயற்படுத்த வேண்டியுள்ளது.

இன்னுமொரு முக்கியமான பாதிப்பு நிலைமை மாற்றமடைந்து வரும் காலநிலை போக்குகளும் இயற்கை அனர்த்தங்களும் காரணமாக ஏற்படுகின்றது. 2011 மற்றும் 2012 பிற்பகுதியில் உலர் வலயத்தில் ஏற்பட்ட பாதகமான மழைவீழ்ச்சி விவசாய மக்களது ஜீவனோபாயத்தைப் பெருமளவு பாதித்தது. அத்துடன் 2013 ஜுன் மாத பருவப் பெயர்ச்சி தென் மற்றும் தென்கிழக்கு பகுதிகளில் 50 மரணங்களுடன் பலத்த சேதத்தை உருவாக்கியது. ஏற்படத் தக்க பாதிப்புகள் பற்றிய தகவல்களை அவை தேவைப் படும் மக்களுக்கு காலநிலை தகவல் தயாரிப்புகள் (CIP) போன்ற திட்டங்களின் உதவியுடன் உரிய நேரத்தில் அறிவிப்பது மிக முக்கியம். இலங்கையில் இது போன்ற திட்டங்கள் மிகவும் அரிது. முக்கியமாக விவசாயம், நீர்வள முகாமை, வலுசக்தி உற்பத்தித் திட்டமிடல் மற்றும் அனர்த்த முகாமை என்பனவற்றில் இது மிகவும் அரிது.

இதன் தொடரச்சியாக அநேகமானோர் முறைசார் CIPகளை நம்பியிருத்தலைக் கைவிட்டுள்ளனர். கோள்கை கற்றல் நிறுவனம் அனுராதபுரத்தில் மேற்கொண்ட ஆய்வுகளின் படி நான்கில் மூன்று பங்கு விவசாயிகள் வழமையாக ஊடகங்களில் ஒலி/ஒளிபரப்பப் படும் வானிலை அறிக்கைகளை அறிந்து கொள்ள விழைகிறார்கள் என்ற போதும் அவர்களுள் 3 சதவீதமானோர் மாத்திரமே அவற்றை பிரதான தகவல் மூலமாகக் கருதுகின்றனர். பெரும்பாலான மக்கள் சுய எதிர்வுகூறல், அவதானித்தல் மற்றும் சகபாடிகள் ஆகிய மூலங்களையே சார்ந்துள்ளனர். எனினும்0 பலரது கருத்துப் படி நீண்ட காலமாக நிலவி வந்த உள்நாட்டு காலநிலை வடிவங்களைக் குறித்ததான நம்பிக்கைகளின் நம்பகத் தன்மை குறைவானதாகவும் காலத்துக்குப் பொருத்தமற்றதாகவும் உள்ளதால் சிறந்த CIPகளின் தேவைப்பாடு முன்னிலும் பார்க்க அதிகமாக உள்ளது. இந்த விடயம் தொடர்பில் பணி ஏவப்பட்ட வானிலை அவதான

நிலையம் போன்ற திணைக்களம் போன்ற நிறுவனங்கள் தர உறுதிப்பாட்டைப் பேணி காலோசிதமான நம்பத் தகுந்த தகவல் வழங்குதல் தொடர்பில் மென்மேலும் கவனம் செலுத்துதல் வேண்டும். இதற்கு நவீன தொழினுட்பம் மற்றும் உயர்தர நிபுணத்துவம் ஆகியவை இன்றியமையாதன.

சுருங்கக் கூறின், இலங்கை நடுத்தர வருமான நாடாகப் பரிணமிக்கும் போது பல சவால்களுக்கு முகம் கொடுக்க நேர்ந்துள்ளது என்பதையே மேற்குறித்த உரையாடல் எடுத்துரைக்கிறது. இவ்வாறான மாற்றத்தை அடைந்த, அடைந்து கொண்டிருக்கிற பொருளாதாரங்களின் முக்கியமான சிறப்பியல்புகளில் ஒன்று யாதெனில், இதன் மூலம் வளர்ச்சி மற்றும் அபிவிருத்தியில் அடையும் சாதகமான விளைவுகள் ஆகும். உலக தரப்படுத்தல்களின் படி இலங்கையின் மத்திய வர்க்கம் 5 சதவீதத்துக்கும் குறைவானதாகக் காணப் பட்ட போதும், இவ் அத்தியாயத்தில் குறிப்பிட்டுள்ள படி, மேல் நோக்கிய நகர்வுக்கும் புதிய மத்திய தர வர்க்கம் தோன்றுவதற்குமான சாத்தியங்கள் இருப்பதாகப் புலப்படுகிறது. வறுமை நிகழ்வு வீழ்ச்சியுறல், மேம்படுத்தப் பட்ட சேவைகள், ஆடம்பரப் பொருட்கள் மற்றும் நீண்டகால பாவனைப் பொருட்களுக்கான கேள்வியிலான அதிகரிப்பு, கல்வி மற்றும் தனியார் சுகாதாரம் ஆகியவற்றுக்கான செலவுகளிலான அதிகரிப்பு மற்றும் தொழினுட்ப ரீதியிலான முன்னேற்றம் காரணமாக சர்வதேச தகவல் மற்றும் வணிகத்தில் இலங்கை இணைக்கப் படுதல் ஆகியவற்றை இதற்கான சான்றாகக் கூறலாம். வளரந்து வரும் மத்திய வர்க்கத்தின் நுகர்வுத் தேவைகள் நாட்டினுள் சேவைகள் மற்றும் செயற்பாட்டு புத்துருவாக்கங்களைத் தூண்டும். அது பொதுக் கொள்கையிலும் தாக்கத்தை ஏற்படுத்தும். சில தரவுகள் கூறுவதற்கொப்ப இந்த மத்திய வர்க்கம் கல்வி மற்றும் சுகாதாரம் ஆகிய சேவைகளில் பாரிய மாற்றத்தை ஏற்படுத்தும்.

இந்த வளரும் மத்திய வர்க்கம் தோற்றுவிக்கப் படுவதன் பின்னணியில் உள்ள மிக முக்கியமான அம்சம் யாதெனில், பாதுகாப்பான உயர் வேதனமுள்ள வேலைவாய்ப்புகள் கிடைக்கப் பெறுதல் ஆகும். இதில் மூன்றாம் நிலைக் கல்வி மற்றும் தொழில் பயிற்சி ஆகியவற்றில் மேலதிக கவனம் தேவைப் படுகிறது.

வறியவர்களுக்கும் மத்திய வர்க்கத்தினருக்கும் இடையிலான மிக முக்கிய வேறுபாடு யாதெனில், மத்திய வர்க்கமானது வறியவர்களை விட உறுதியான நல்ல வருமானம் உள்ள தொழில்களில் ஈடுபடுதல் ஆகும். இதன் மூலம் மத்திய வர்க்கத்தின் வாழ்வு நிலை உயர்வடைவதுடன் அரசியல் ரீதியாகவும் பலம் பெற்று மேலும் சிறந்த அரச சேவைகளைக் கேட்டுப் பெறவும் முடிகிறது. ஆகவே, வளரும் மத்திய வர்க்கம் ஒரு அரசுக்கு அழுத்தத்தைப் பிரயோகிக்க வல்லது எனலாம். இந்தியா போன்ற நாடுகளில் வளரும் மத்திய வர்க்கத்தின் குரலுக்கான மதிப்பு அதிகரித்துள்ளது. பாலியல் துஷ்பிரயோக வழக்குகளில் பொலிஸாரின் அசமந்தப் போக்குக்கு எதிராகக் குரல் கொடுப்பதும் மற்றும் லஞ்ச ஊழலுக்கு எதிராக மக்கள் அணிதிரள்வதும் (உ-ம்: அன்னா ஹஸாரே இயக்கம்) சமீபத்திய உதாரணங்கள். தகவல் தெரிந்து கொள்ளும் உரிமையை முறையாகப் பயன்படுத்தி மக்கள் ஈடுபாட்டை அதிகரிக்கும் நிலையைக் காணக் கூடியதாக உள்ளது. துருக்கி போன்ற நாடுகளிலும் பாரிய மத்திய வர்க்கம் இவ்வாறான செல்வாக்கு

2. Macroeconomic Performance and Outlook: 2012/2013

2.1 Introduction

Following two consecutive years of GDP growth in excess of 8 per cent, the Sri Lankan economy saw growth decline to 6.4 per cent in 2012. The slowdown was primarily the result of corrective macroeconomic policy revisions adopted in February 2012 to stem a growing imbalance in the country's external payments position. A less-than-favourable global economic environment that saw world trade volume growth dip to 2.5 per cent in 2012 from 6.5 per cent a year earlier, also had adverse impacts on Sri Lanka's already struggling export sector. In addition, inclement weather conditions in the third quarter of 2012 saw agricultural GDP growth slow sharply in the second half of the year.

> *'A monetary stimulus can kick-start a flagging economy, but for sustained high growth, meaningful reforms that address structural constraints in the real sectors of the economy are critical'*

By global standards, Sri Lanka's growth performance in 2012 still looks creditable. Indeed, even as most recent forecasts suggest that global economic conditions will remain difficult in 2013, Sri Lanka is expected to see an improvement in GDP growth in the year ahead. Official forecasts have set an ambitious 7.5 per cent GDP target in 2013, and recovery to 8 per cent growth in 2014. Clearly, the room to stimulate a recovery in GDP growth in the short term will depend on prudent management of the country's fiscal, monetary and exchange rate policies. While this will raise the probability that Sri Lanka can continue to experience higher growth in the medium to longer term, much will depend on whether the country tackles outstanding structural reforms that will spur productivity and efficiency in the economy, stimulating growth in tradeable sectors of the economy.

2.2 Growth and Sectoral Output

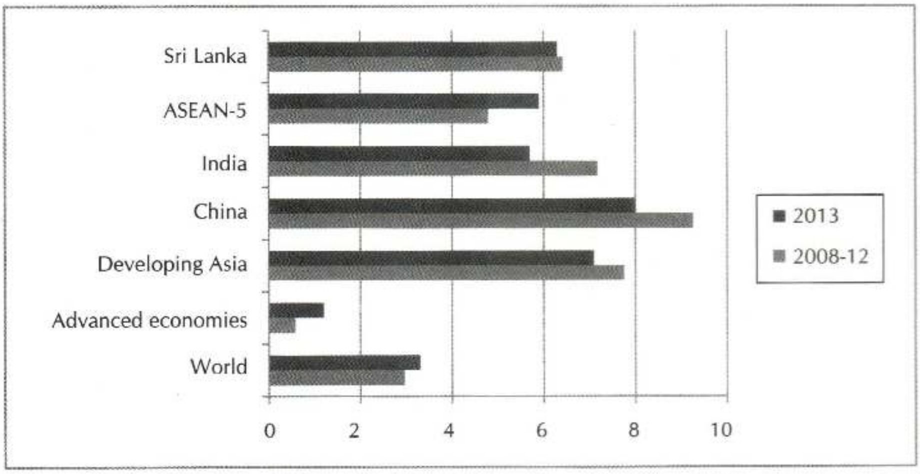
The Sri Lankan economy which grew at an annual average growth rate of 6.8 per cent during the period 2005-2008, showed a downturn in its growth in 2009 with GDP growth plunging to as low as 3.5 per cent. Unfavorable domestic factors such as the intensification of the armed conflict, adverse weather conditions, coupled with unfavorable conditions in major international markets due to the global financial crisis, caused the setback in growth during the year. With renewed investor confidence in the aftermath of the end of the conflict in May 2009, restoration of economic activities in the North and East of the country, and progress recorded in the external environment due to the gradual recovery of economies from the global downturn, Sri Lanka posted a sharp improvement in GDP growth averaging 8 per cent per annum during 2010-11. However, 2012 once again marked a slowdown in the country's growth momentum as GDP growth declined to 6.4 per cent, on the back of sluggish domestic demand and a weaker external environment.

Despite the volatility over the years, in a global comparison, Sri Lanka's GDP growth performance on average during 2008-12 has been creditable, even pulling ahead of its historically better-performing competitors in Southeast Asia (Figure 2.1). Indeed, Sri Lanka is also doing well relative to its South Asian neighbours, including the region's economic giant, India. India experienced a low growth rate of 4.5 per cent in in 2012, and is expected to see only a marginal improvement in 2013, with a GDP forecast of 5.7 per cent.

Even as Sri Lanka's overall GDP growth has been favourable in a global context, the sources of higher growth in the economy are of some concern. Not unexpectedly, agriculture's share in GDP has continued to decline despite a reasonable performance on average, albeit below the overall GDP growth rates achieved. Although the agriculture sector has continued to be subject to volatility in view of inclement weather conditions, the renewal of agricultural activities in the previously conflict-affected Eastern and Northern Provinces of Sri Lanka has helped. Indeed, there was a 25 per cent increase in the area sown for paddy between 2009 and 2011.

Despite the reasonable performance of the agriculture sector, the spur to Sri Lanka's GDP growth has come from elsewhere. At first glance, industrial sector growth appears to have done exceedingly well, exceeding over-

Figure 2.1
GDP Growth: A Global Comparison



Notes: ASEAN-5 includes Indonesia, Malaysia, Philippines, Thailand and Vietnam.
Source: IMF, *World Economic Outlook*, various years.

Table 2.1
Sectoral Growth and Composition of GDP

	Annual Average Growth (%)			Share (%)
	2006-08	2010-11	2012	2012
GDP	6.8	8.1	6.4	–
Agriculture	5.7	4.2	5.8	11.1
Tea	0.1	6.3	-1.2	0.9
Rubber	6.4	7.4	-6.8	0.2
Coconut	5.6	-5.7	6.0	1.0
Paddy	6.6	4.6	1.3	1.5
Industry	7.2	9.4	10.3	30.4
Manufacturing	5.6	7.6	5.2	17.1
Construction	8.7	11.8	21.6	8.1
Mining & quarrying	18.7	17.0	18.9	2.8
Electricity, gas & water	7.4	8.6	4.4	2.4
Services	6.8	8.3	4.6	58.5
Wholesale & retail trade	6.0	8.9	3.7	23.0
Transport & communication	10.4	11.6	6.2	14.3
Banking, insurance & real estate etc.	7.9	7.7	6.7	8.9
Government services	5.6	3.3	1.4	6.8

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

all GDP growth rates – by growing at an average of 9.4 per cent during 2010-11, and even at a faster rate of 10.3 per cent in 2012. However, much of this growth has come about as a result of rapid growth in the construction sector, as opposed to stronger growth in the key sector of manufacturing (Table 2.1).

Sri Lanka's key manufacturing sectors are food, beverages, and tobacco (47 per cent); textiles, wearing apparel and leather products (23 per cent); and chemical, petroleum, coal, rubber, and plastic products (16 per cent); together, they account for over 85 per cent of total manufacturing output in the country. Whilst all three sectors improved

Table 2.2
Manufacturing Sector Performance

Annual Average Growth (%)	2006-08	2010-11	2012
Food, beverages & tobacco products	5.9	7.0	5.1
Textiles, wearing apparel, & leather products	4.8	8.0	4.9
Wood & wood products	3.3	5.2	4.6
Paper products, publishing & printing	7.1	5.9	5.7
Chemical, petroleum, coal, rubber & plastic products	7.0	10.7	5.8
Non-metallic mineral products	7.5	9.3	6.5
Basic metal products	2.7	6.3	4.4
Fabricated metal products, machinery & transport equipment	5.2	7.3	5.1
Other manufactured products	9.4	6.9	6.2

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

Table 2.3
Services Sector Performance

Annual Average Growth (%)	2006-08	2010-11	2012
Wholesale & retail trade	6.0	8.9	3.7
Transport & communication	10.4	11.6	6.2
Banking, insurance, & real estate etc.	7.9	7.7	6.7
Government services	5.6	3.3	1.4

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

on their growth performance on average as seen in Table 2.2, it was not sufficient to increase the share of manufacturing in Sri Lanka's GDP over time. Indeed, the manufacturing share of GDP which stood at 17.7 per cent in 2006, had declined to 17.1 per cent by 2012.

Unlike in the case of manufacturing, Sri Lanka's services sector is more diversified with the top three dominant sectors made up of wholesale and retail trade (23 per cent); transport and communication (14.3 per cent); and banking, insurance and real estate (8.9 per cent). As evident from Table 2.3, transport and communication services has seen the strongest growth over recent years, not surprisingly in view of the related investments made in the transport sub-sector, which accounts for a share of 80 per cent of total public investment. Sri Lanka's rapid investments in improving the country's physical infrastructure viz. roads, ports, and airports, have clearly had a spill-over effect on related services sectors.

The boost to Sri Lanka's economic output from an expansion of non-tradeable sectors has been quite significant. The construction sector is a case in point, growing at an annual average of 11.8 per cent during 2010-11, and expanding sharply to 21.6 per cent in 2012. Besides, higher import expenditures by way of machinery and other capital goods, the construction sector expansion has fuelled imports of building material (including cement) which grew at an annual average of 30 per cent in 2011-2012. Much of this has been driven by a state-led infrastructure investment programme. Indeed, the distribution of value of construction work done by the public sector is estimated to have increased rapidly from 59 per cent in 2004 to 74 per cent in 2010,[1] reflecting increased public sector involvement in construction sector growth.

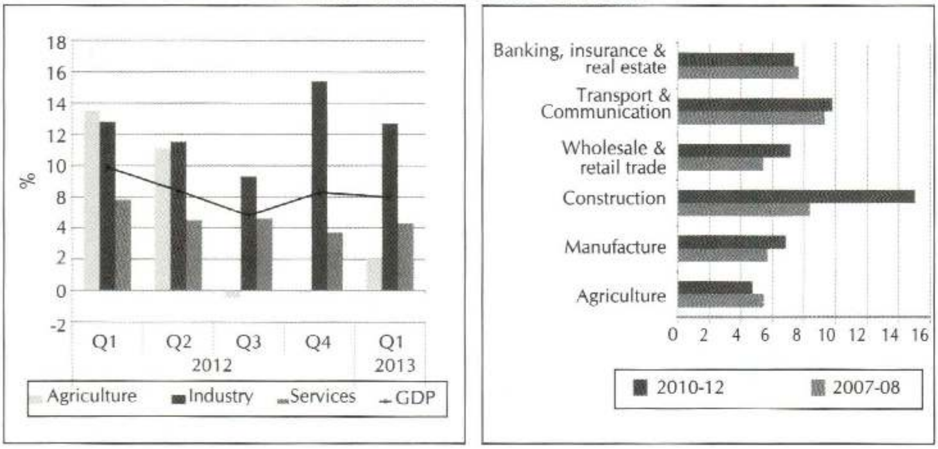
Thus, Sri Lanka's faster GDP growth of recent years has been driven largely by non-tradeable sectors such as construction, retail trade, transport and communication, etc., (Figure 2.2). The sources of growth have a strong bearing on the long term sustainability of the growth process. The tradeable sector of an economy is the sector that enables a country to earn necessary foreign exchange through the export of goods and services. A shrinking tradeable sector combined with a strongly growing non-tradeable sector can lead to increased borrowing and a ballooning current account deficit.

2.2.1 Growth and Employment

Higher growth has been accompanied by a persistent decline in Sri Lanka's rate of unemployment. In 2012, it fell to its lowest yet at 4.0 per cent, down from 4.2 per cent in 2011. The decline is largely explained by a drop in the number of entrants into the labour force, as a result both of migration as

[1] Department of Census and Statistics, "Survey of Construction Industries", various issues.

Figure 2.2
GDP and Sectoral Growth



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

Table 2.4
Labour Market Indicators

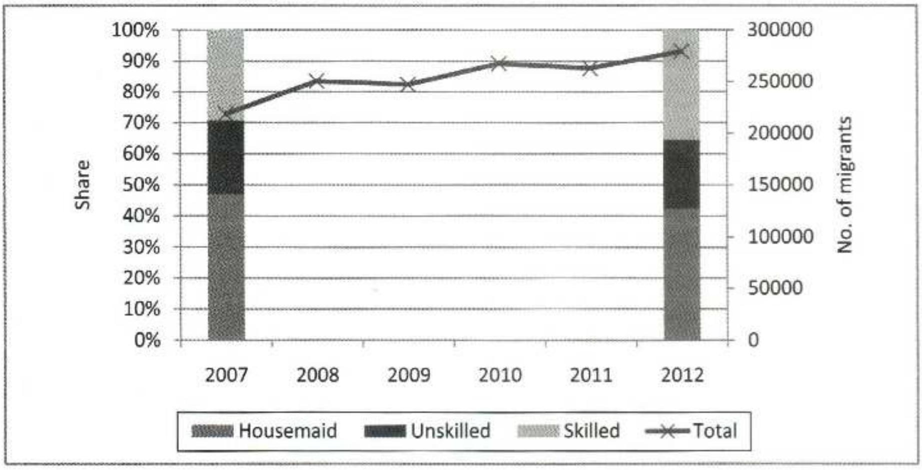
	2011	2012
Labour force ('000 persons)	8,555	8,465
Employed	8,197	8,129
Unemployed	358	336
Employment share by economic activity (%)		
Agriculture	33.0	31.0
Industry	24.1	26.1
Services	42.8	42.9
Status of employment (%)		
Private sector	40.5	41.3
Self employed	31.5	31.9
Public sector	14.4	15.1
Other[a]	13.7	11.7

Notes: a. Employers and unpaid family workers.
Source: CBSL, *Annual Report*, various years.

well as a growing economically inactive population, reflective of the country's demographic dynamics. The number of migrants increased by 6.3 per cent to 279,482 workers in 2012.

Not surprisingly, slower growth in 2012 saw the number of employed persons decline by 0.8 per cent, with the most severely impacted sectors, agriculture (-7.0 per cent) and services (-0.6 per cent), seeing a contraction in employment, whilst industry saw a significant growth of 7 per cent (Table 2.4). However, higher numbers employed in industry is unlikely to have come about in the manufacturing sector. Rather, the faster growing industrial sectors such as construction, and mining, and quarrying, would have absorbed lower skilled labour from the agriculture sector.

Figure 2.3
Trends in Migration



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

Sri Lanka also witnessed an expansion of employment in the public sector to record a share of 15.1 per cent, with the absorption of over 50,000 persons. By contrast, employment in the private sector grew by only about 30,000 in 2012, to a share of 41.3 per cent.

Thus, despite a persistent decline in Sri Lanka's rate of unemployment, questions remain on the productive nature of jobs that are being created in the current economic climate. Indeed, even as the numbers of Sri Lankan migrants seeking employment overseas is on the rise, a growing share of such migrants are skilled workers, indicative of the less-than-favourable domestic labour market conditions for such workers in the country (Figure 2.3).

2.2.2 Consumption and Investment

In line with lower GDP growth, consumption and investment growth declined quite sharply in 2012 (Table 2.5). Sri Lanka's economic growth is led by consumption, accounting on average for 80-85 per cent of GDP. This is in contrast to many fast growing emerging market economies in Asia that raised their investment and boosted the supply of goods to the rest of the world at the cost of consumption in their own economies.

Table 2.5
Consumption, Savings, and Investment

	2009	2010	2011	2012
Consumption (% change)	4.4	14.0	22.4	13.7
GDCF (% change)	-2.8	30.8	26.8	18.5
Domestic savings (% of GDP)	17.9	19.3	15.4	17.0
Investment (% of GDP)	24.4	27.6	30.0	30.6
Private	17.9	21.4	23.7	23.7
Government	6.6	6.2	6.3	6.9
FDI (% of GDP)	0.9	0.9	1.5	1.4

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

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

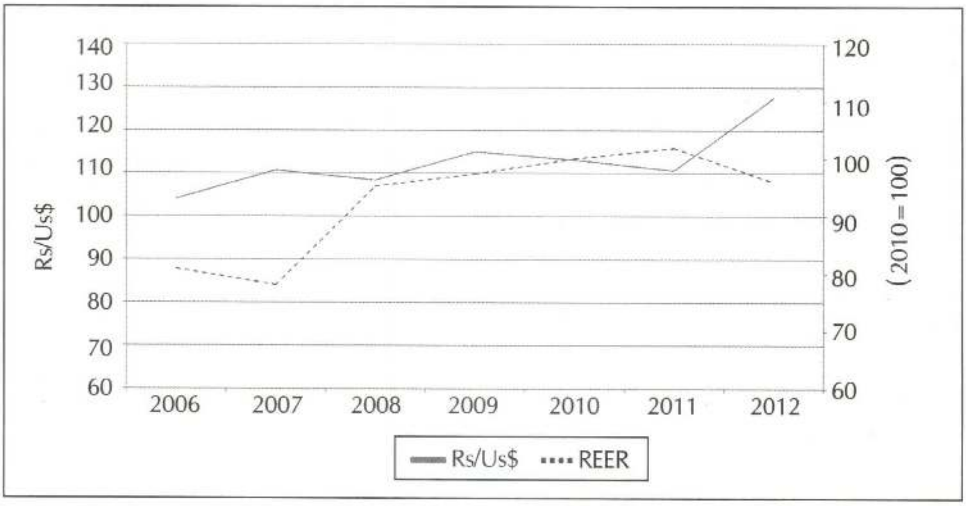
Thus, Sri Lanka needs more savings and appropriate levels of investment to support such consumption growth. Even though government investment levels have risen in the recent past, domestic private investment growth has not kept pace to bring about an overall swing from consumption to investment. Additionally, FDI inflows have also been disappointing. Whilst net FDI flows as a share of GDP had risen to a 1.4 per cent in 2012, much of this has been in infrastructure (44.6 per cent), with services (31.9 per cent) and manufacturing (23 per cent) drawing smaller shares. The low share of FDI into manufacturing is especially of some concern. With Sri Lanka's manufactured export sector lagging behind, efficiency-enhancing FDI – with accompanying managerial and technological skills transfer – is critical to raise productivity, tap into new markets and raise export volumes.

If, as planned, Sri Lanka is to achieve sustained high growth into the longer term, investment and exports need to be higher to maintain total demand. This calls for the implementation of fundamental reforms that will enhance productivity, and prudent management of the macroeconomic environment that is consistent with fiscal and external stability.

2.3 External Stability

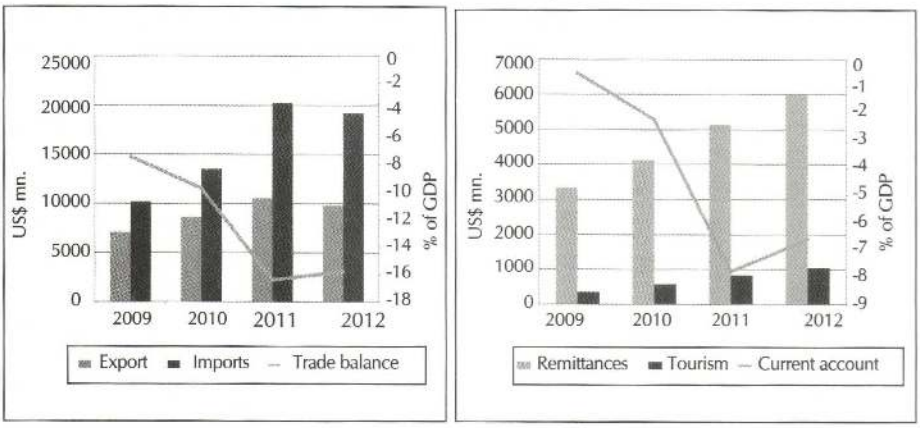
The demand for Sri Lanka's goods and services has been relatively weak in recent years. In 2012, earnings from exports contracted by 7.4 per cent, to bring Sri Lanka's exports-to-GDP ratio down to a low of 16.4 per cent. Higher GDP growth of recent years – driven by public investment in infrastructure – has come at the cost of a thriving export sector. The shift of resources from the tradeable to non-tradeable sectors, such as construction and related activities has also been encouraged by a distorted and uncompetitive real rate of exchange that has prevailed in the economy. The rupee was held steady against the US dollar during 2008-11 despite a weak

Figure 2.4
Nominal and Real Exchange Rate Trends



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

Figure 2.5
External Sector Developments



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

current account position, averaging 5 per cent of GDP per annum over this period (Figure 2.4). The Real Effective Exchange Rate (REER) – measured against a basket of 24 currencies – saw a steady appreciation, weakening the competitiveness of Sri Lanka's exports in international markets.

The combined impacts of an overvalued exchange rate that helped pull in imports and a relaxed monetary policy stance that saw high credit growth in the economy, also served to fuel Sri Lanka's import demand (Figure 2.5). A ballooning trade imbalance prompted policy intervention in February/March 2012 in the form of a ceiling on credit growth by commercial banks, re-imposition of high customs duties on motor vehicle imports, and relaxation of CBSL intervention in the foreign exchange market to keep the exchange rate within a pre-determined band. Whilst the policy measures began to exert a curb on import expenditure growth, Sri Lanka continued to run a significantly high trade deficit at nearly 16 per cent of GDP in 2012 for a second consecutive year.

Sri Lanka was able to bring its external current account deficit down to 6.6 per cent of GDP in 2012, from 7.8 per cent of GDP recorded in the previous year, because of continued favourable growth in earnings from worker remittances and tourism receipts. Indeed, worker remittances have been the mainstay in bridging Sri Lanka's external resource gap – growing by 16.3 per cent in 2012 to nearly US$ 6 billion – with a contribution averaging 8 per cent of GDP in recent years. However, the external environment determining demand for migrant workers from developing countries can change. One such instance was the introduction by Saudi Arabia of its Nitaqat law in April 2013, providing for mandatory recruitment of locals in the private sector. Moreover, Sri Lanka's own demographic trends militate against a continuous drain of its skilled workers overseas in the longer term. While remittances do hold out the benefits of greater stability and low cyclicality as compared with other private capital flows, they are not a long term substitute for sustained earnings growth from exports of goods and services.

2.3.1 Debt and External Stability

Sri Lanka has increasingly come to rely on foreign sources of funding to bridge its resource gaps (Table 2.6). Since obtaining its first sovereign credit rating in December 2005, Sri Lanka has issued five sovereign bonds beginning in 2007, the last being for US$ 1 billion issued in July 2012. There has also been an incremental opening up of the government securities market to foreign investors. The threshold limit of 5 per cent of Treasury bonds outstanding introduced in 2006, was relaxed to 10 per cent in 2007. In 2008, Sri Lanka opened its Treasury bill market to foreign investors with a threshold limit of 10 per cent. In December 2011, the threshold limit was further expanded to 12.5 per cent of outstanding Treasury bills and Treasury bonds stock.

Increasingly, regulations governing foreign borrowing by Sri Lanka's corporate sector have also been eased, whilst approval processes have been expedited to encourage private firms and commercial banks to tap foreign sources for funding. With the imposition of a ceiling on credit growth of 18 per cent by commercial banks in February 2012, the CBSL allowed a relaxation of credit growth to 23 per cent so long as the additional funds were borrowed from overseas. In the Budget 2013 presented in November 2012, these were further elucidated, permitting Licensed Commercial Banks (LCBs) to borrow up to US$ 50 million each year for three years without the approval from the Exchange Control Department. Similar treatment was offered to corporate entities, with a borrowing limit of US$ 10 million each year for three years without exchange control approval. Such moves have prompted many private entities to resort to foreign borrowing, including attempts by the state-owned National Savings Bank to issue a US$ 500 million international bond in mid-2013.

With the greater appetite by the government for foreign borrowing, Sri Lanka today is more vulnerable to external shocks than before. The associated risks of short term capital flows, and foreign private debt accumulation by the private sector, are well known. In the face of any sudden change in investor perceptions, the risks to the exchange rate are high, particularly in the context of a relatively thin foreign exchange market. Indeed, Lanka has witnessed such periodic stresses, notably in 2000/01, 2008/09 and in 2011/12, when the currency came under severe pressure amidst growing external payments problems. Countries that resort to higher volumes of foreign financing are better positioned to withstand external shocks to the economy, if there is a buffer provided by an accumulated stock of foreign reserves. As evident from a comparative perspective, Sri Lanka's ratio of external debt stock to exports is high, and compares poorly against the average for developing countries (Figure 2.6). Worryingly, the ratio of reserves to external debt also remains low vis-a-vis the average for developing countries.

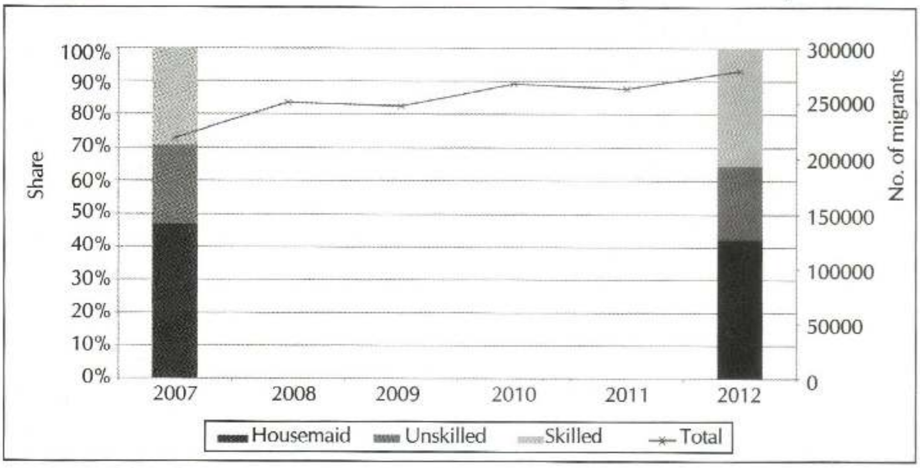
Table 2.6
Foreign Capital Flows

Capital Inflows to Government & LCBs			Sovereign Bonds		
	2011 (US$ mn.)	2012 (US$ mn.)	Issued	Amount (US$ mn.)	Tenure (Yrs.)
Commercial banks' long term foreign currency borrowings		973	2007	500	5
Inflows to government[a]	4,353	5,257	2009	500	5
Treasury bills and bonds	1,154	2,236	2010	1,000	10
Long term loans	3,029	2,869	2011	1,000	10
			2012	1,000	10

Notes: a: Includes capital and current transfers, inflows from Treasury bills and bonds and long term loans.

Source: CBSL, "External Sector Performance", December 2012.

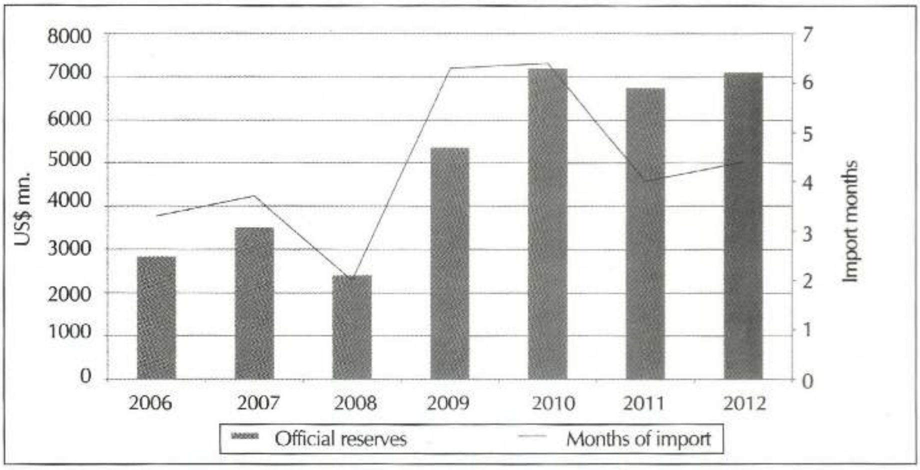
Figure 2.6
External Debt Stock 2011: Sri Lanka in a Comparative Perspective



Source: World Bank, *International Debt Statistics 2013*, World Bank, Washington, D.C.

The stability and composition of Sri Lanka's official reserves has been an area of some dispute. Official reserves declined to a low of US$ 1.3 billion in March/April 2009 as the CBSL attempted to support the currency by selling off reserves. Reserves dipped to provide cover for only 1.2 months of imports, well below the international benchmark of 3 months of imports. With the end of Sri Lanka's 30 year conflict in May 2009, the country began a gradual process of rebuilding its reserves through an IMF SBA, short term capital inflows to the government securities market, and the issuance of sovereign bonds at regular intervals. Reserves peaked at US$ 8 billion in July 2011 before once again dipping to US$ 5.5 billion in February 2012 with 3.2 months of import coverage, as the CBSL once again attempted to prop up the exchange rate. With the decision to allow the exchange to move freely, and issuance of a US$ 1 billion sovereign bond in July 2012, official reserves were once more built up to US$ 7 billion with 4.4 months of import coverage by end 2012 (Figure 2.7).

Figure 2.7
Official Reserves (Annual)



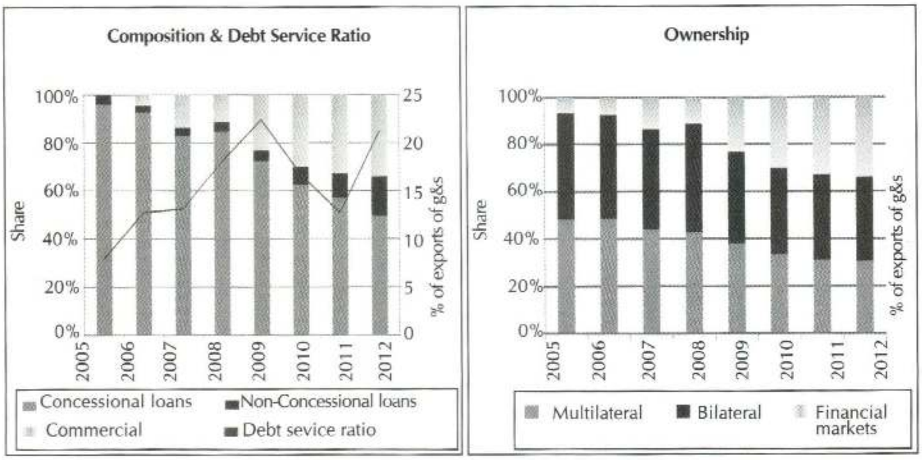
Source: CBSL, *Annual Report*, various years.

The bulk of Sri Lanka's reserves are made up of foreign borrowings, including funds raised through issuance of 10 year bonds. In issuing long term bonds and buying reserves, governments are likely to consider not only the current borrowing cost, but also future borrowing costs. Here, by simultaneously issuing long term bonds and buying reserves, governments accumulate resources that it can use in periods of higher borrowing costs. However, a cost is entailed in that the return may be considerably lower than the borrowing costs. At best, such costs can be off-set to some extent, depending on the extent to which future borrowing costs are likely to increase.

The strategy of buying reserves carries risks, particularly when a country's capacity to accumulate resources from non-borrowed sources by raising earnings from exports of goods and services is on the wane. Purchase of government debt by non-residents and purchase of international reserves by governments, are both pro-cyclical. During good times with lower default risk, governments may be tempted to borrow more. In the event of any shock to the economy, governments will be forced to cut down on borrowing and use available reserves to smooth out consumption. This can result in a collapse of both the purchase of government debt by foreign investors, as well as the ability by governments to raise foreign borrowings, leading to external crises.

Viewed at aggregate, Sri Lanka's external debt dynamics appear not to have changed very significantly, if only in terms of the external debt-to-GDP ratio. It increased slightly to 36.5 per cent in 2012, from 35.6 per cent in 2011, largely on account of the sharp depreciation of the exchange rate. However, the overall debt-to-GDP ratio masks the growing debt service obligations on Sri Lanka. As more foreign resources were raised on non-concessional terms, the ownership and composition of external debt has changed swiftly (Figure 2.8). Financial markets held a mere 6.6 per cent of Sri Lanka's external debt in 2006. By 2012, this figure had risen to 34 per cent.

Figure 2.8
External Debt Composition and Debt Service Ratio[a]



Notes: a. Debt service ratio taken as percentage of exports of goods and services.

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

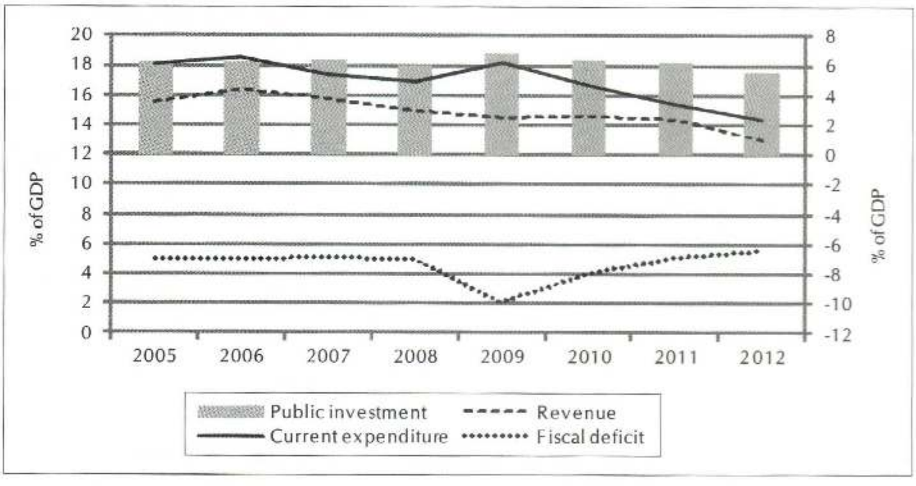
The change in the composition of Sri Lanka's external debt has been even swifter. The share of non-concessional and commercial borrowing has risen to 50.5 per cent of total external debt in 2012, from a share of only 7.2 per cent in 2006. The ratio of debt service to exports of goods and services shot up to 21.2 per cent in 2012 on the back of higher payments, particularly when the repayment of the first sovereign bond of US$ 500 million issued in 2007 came up for settlement in 2012.

Sri Lanka's external debt has grown at an annual average of 16.4 per cent during 2006-12, while earnings from exports of goods and services have grown at only 8.7 per cent during the same period. The spike in the debt service ratio in 2012 is indicative of the pressures that big repayments can exert. While long term bonds allow for hedging rollover risk, Sri Lanka will see a significant bunching of its external debt repayments during 2020-22 as the sovereign bonds issued from 2010-12 mature. Whilst there are no immediate plans to issue similar sovereign bonds in 2013, the uptake of foreign borrowing by state-owned banks and other private entities entail external sector risks for the country as a whole. The build-up of external payments stress is a cumulative process, where the lines between external public debt, public-guaranteed external debt, and private sector external debt become extremely blurred. The surest way of ensuring a degree of long term stability in the face of higher volumes of foreign debt accumulation, is to ensure that there is a healthy growth in earnings from exports of goods and services that allows a country to build a 'war chest' of non-borrowed reserves.

2.4 Fiscal Policy and Public Finances

The recourse to higher volumes of foreign borrowing to bridge Sri Lanka's resource gap has stemmed from decades of weak public finances. A costly war exerted significant pressure on limited financial resources, while holding down the country's growth prospects. The legacy of Sri Lanka's welfare-state, history of populist public spending programmes, poorly managed SOEs, and a bloated public sector bureaucracy have made rationalization of expenditures an uphill task. Most worryingly, whilst expenditure needs have risen, the country has faltered in addressing constraints in revenue mobilization, with the revenue-to-GDP ratio falling to its

Figure 2.9
Fiscal Trends



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

lowest yet of 13.0 per cent in 2012 (Figure 2.9).

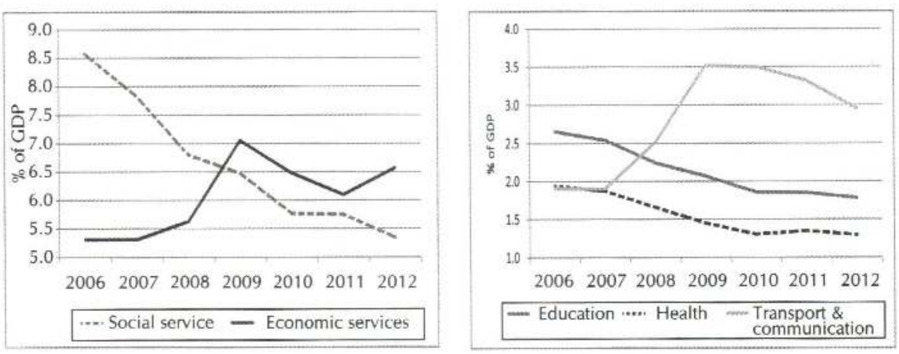
Despite the persistent weaknesses in revenue generation, current expenditures have been curtailed over time to allow higher spending on much needed public investment. In 2012, however, public investment was curtailed sharply to 5.5 per cent of GDP from the planned 6.6 per cent of GDP, in order to contain the fiscal deficit to manageable levels. As a result, the gradual reduction of the deficit from a high of 9.9 per cent of GDP in 2009 continued into 2012, with a recorded fiscal deficit of 6.4 per cent in 2012.

The re-orientation of fiscal expenditure to capital investment spending in infrastructure service improvements is a positive development. Infrastructure investment was long neglected, and is critical for long term growth. However, the productivity gains to be had from better economic infrastructure – in communication, transportation, distribution networks, energy supply, and financial institutions and markets – needs to be complemented by improved provision of social infrastructure. The latter includes investments in general education, science and technology, and healthcare delivery systems, that impacts on production activities and quality of life of households.

Sri Lanka's public expenditure has been somewhat skewed in above respects. Social spending as a percentage of GDP has seen a continuous decline, while spending on economic services has risen considerably (Figure 2.10). In the same vein, a breakdown of social spending indicates a sharp decline in spending on sectors such as education and health, whilst spending in transport and communication has risen as a share of GDP.

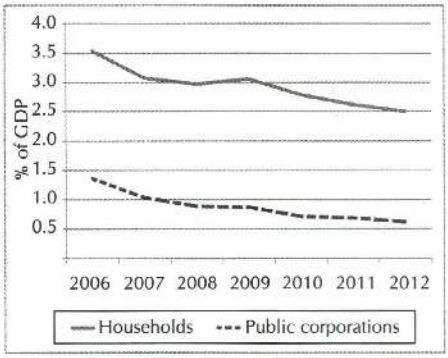
There are other areas of spending that are a heavy drain on public finances. Despite the fact that direct transfers to public entities has declined as a percentage of GDP, SOEs continue to post significant operational losses (Figure 2.11). The most significant of these are the CPC, CEB, and SriLankan Airlines (including Mihin Air). The combined operational losses of these three entities stood at over Rs. 170 billion in 2012, amounting to 2.3 per cent of GDP. Operational losses by SOEs not only dent government tax revenue enhancement efforts, but they are also a source of high government borrowing from

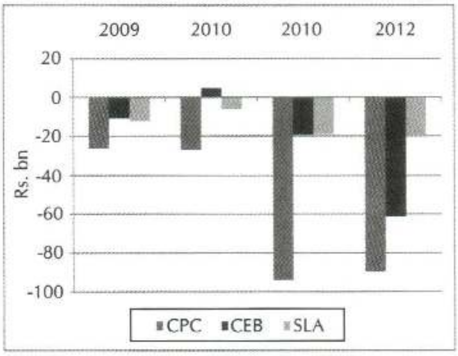
Figure 2.10
Economic and Social Spending



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

Figure 2.11
Transfers to State-Owned Enterprises and Operational Losses





Notes: CPC = Ceylon Petroleum Corporation, CEB = Ceylon Electricity Board, SLA = Sri Lankan Airlines.

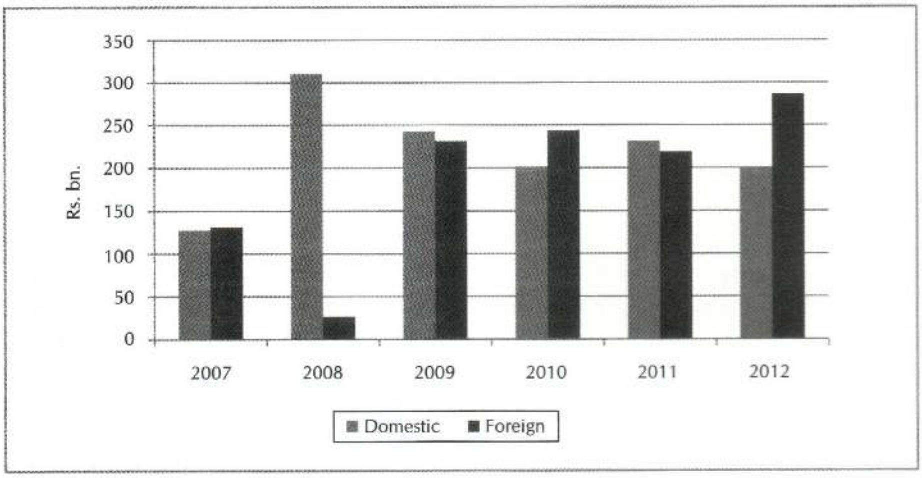
Source: CBSL, *Annual Report*, various years.

the banking sector. If the finances of SOEs were to be brought into government fiscal estimates, Sri Lanka's fiscal performance will look much weaker than they appear at present.

2.4.1 Deficit Financing

With low revenue mobilization, higher public investment in infrastructure has been financed almost in entirety through government borrowings. A significant departure in recent years has been that such borrowings have been sourced increasingly from abroad (Figure 2.12). Net foreign financing of the government fiscal deficit has increased significantly in recent years. More critically, much of the foreign resources have been ob-

Figure 2.12
Deficit Financing



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

Table 2.7
Major Sources of Foreign Borrowing and Infrastructure Projects Financed

Source (US$ mn.)[a]	2007	2008	2009	2010	2011	2012
Government of China	175	40	291	104		
Export-Import Bank of China				692	334	615
China Development Bank Corporation				153	75	229
Government of Japan	197	263	295	303	346	367
Government of India			30		201	261
ADB[b]	135	247	244	306	263	292
IDA[c]	74	95	148	145	196	166
Other	64	199	185	241	137	125
Major projects						
Government of China	Hambantota port Puttalam coal power plant					
Export-Import Bank of China	Hambantota port Puttalam coal power plant Colombo-Katunayake expressway					
China Development Bank Corporation	Development of priority roads					
Government of Japan	Upper Kotmale hydro power project Greater Colombo transport development Southern highway construction					
Government of India	Northern railway line					
ADB	Colombo port expansion National highways sector project					

Note: a: Amount disbursed, b. Asian Development Bank, c. International Development Association.
Source: CBSL, *Annual Report*, various years.

tained on non-concessional terms. In 2012, for example, the share of such non-concessional funding stood at 60 per cent of overall net foreign financing.

Foreign financing to bridge Sri Lanka's fiscal needs have come by way of international sovereign bond issues, foreign investment in rupee denominated government securities and receipt of project loans from bilateral and multilateral sources. Collectively, China has been the biggest source of foreign finance, with funds made available through the Government of China, the Export-Import Bank of China, and the China Development Bank Corporation (Table 2.7). Funds generated through foreign borrowing have supported major infrastructure development projects in ports, energy, roads, and railways.

Developing countries with weak public finances incur higher borrowing costs to finance infrastructure spending. This is particularly so in a context where infrastructure tends to be less extensive and of a poorer quality, where the efficiency with which infrastructure is used and managed may also be weaker, due largely to weaker institutional and regulatory capacity. As Sri Lanka opts for more and more of infrastructure financing from abroad, accessed on non-concessional terms, ensuring that such projects will boost overall productivity in the economy and enhance earnings from exports of goods and services to service foreign debt becomes critical. For now, the biggest reason to be hopeful is that it takes time for results from past investments to come through, and many such benefits have yet to materialize.

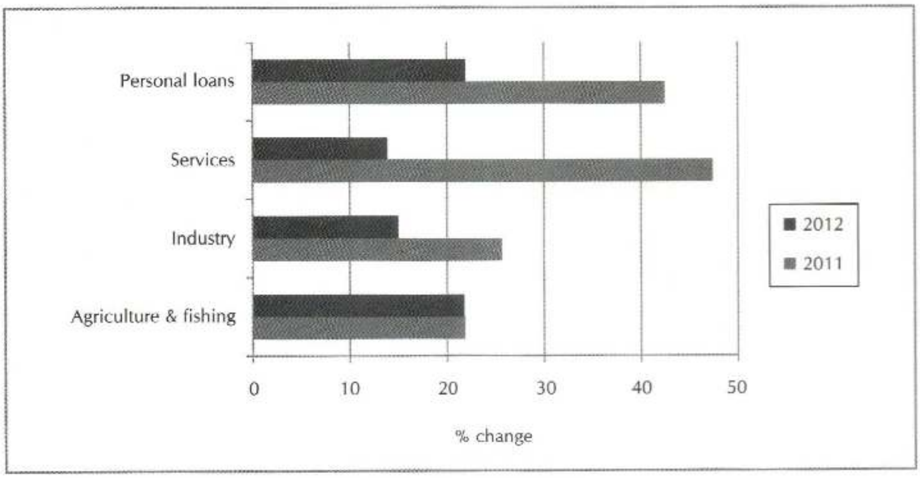
2.5 Monetary Policy and Financial Sector Developments

As more of the fiscal deficit financing was sourced from abroad, easing domestic borrowing by the government, the CBSL used moral suasion to encourage LCBs to lower lending rates and enhance credit growth to the private sector. Indeed, state-owned commercial banks were required to bring down their lending rates to ensure more private sector activity in Sri Lanka's post-conflict growth drive. However, it was clear by mid-2011 that credit growth to the private sector was endangering price stability as inflation rates began to edge-up, as well as contributing to an import surge that threatened external sector stability. Access to relatively cheap credit, an over-valued currency, and the halving of import duties on motor vehicles combined to release pent-up demand that saw a surge in import expenditures. Loans and advances by LCBs grew strongly in 2011 and saw the highest rate of growth in 2012 (Figure 2.13).

The CBSL reversed direction sharply in February 2012, imposing a ceiling on credit growth of LCBs to 18 per cent (relaxed to 23 per cent so long as additional funds were generated from foreign borrowing), and hiking policy rates by a cumulative 75 basis points by March 2012. With curtailed liquidity, lending rates began to climb steadily, slowing down credit growth to the private sector. From a peak of 35.2 per cent credit growth to the private sector in March 2012, it decelerated to 17.6 per cent by end 2012, allowing the CBSL to ease policy rates by 25 basis points in December 2012 (Figure 2.14).

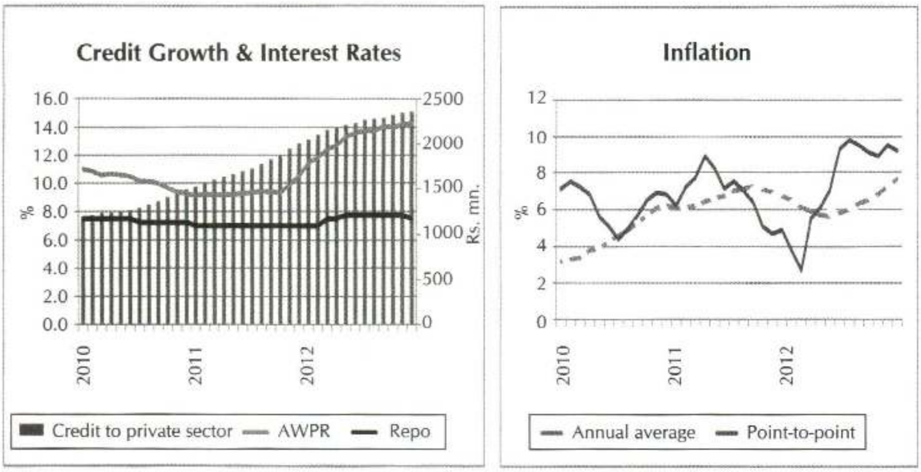
Rising food prices on account of inclement weather conditions that contributed to inflationary pressures in 2011 eased in 2012. However, the lagged effects of credit growth, a depreciation of the currency from February 2012, and sharp adjustments to fuel prices in March 2012, saw inflationary pressures pick-up once again, with point-to-point inflation peaking at 9.8 per cent in July 2012. Nonetheless, inflationary pressures in the economy have been largely moderate, with annual average inflation contained to 7.6 per cent by end 2012. Tighter monetary condi-

Figure 2.13
Loans and Advances by LCBs



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

Figure 2.14
Credit Growth, Interest Rates and Inflation



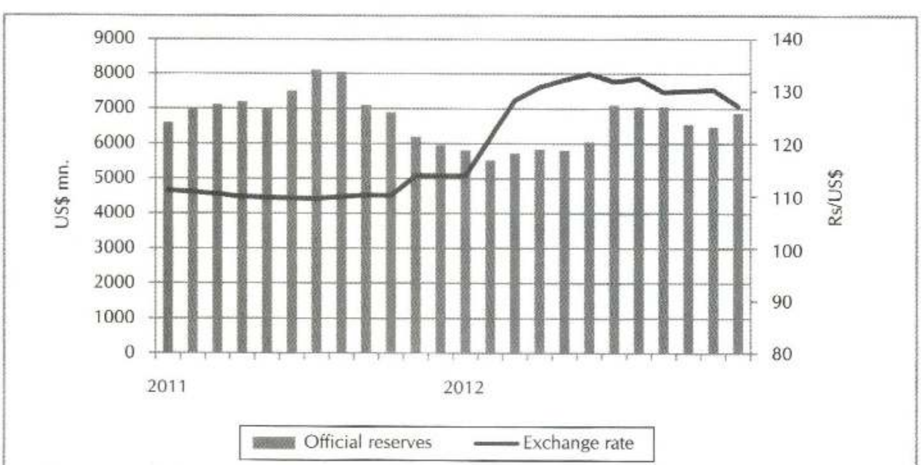
Source: CBSL, *Annual Report*, various years.

tions and the general slow-down in economic activity ensured that price stability was not an overriding concern for monetary authorities.

2.5.1 Exchange Rate Policy

Of more immediate concern in ensuring macroeconomic stability was the direction of exchange rate policy. Despite a sharp deterioration in external sector performance, with Sri Lanka's current account deficit plummeting to -7.8 per cent of GDP in 2011, the exchange rate continued to be held within a pre-determined band. The CBSL intervention in the foreign exchange market saw the country's official reserves dip before correc-

Figure 2.15
Official Reserves (Monthly)



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

tive measures were introduced in February/ March 2012, which included the decision to allow the exchange rate to move freely (Figure 2.15).

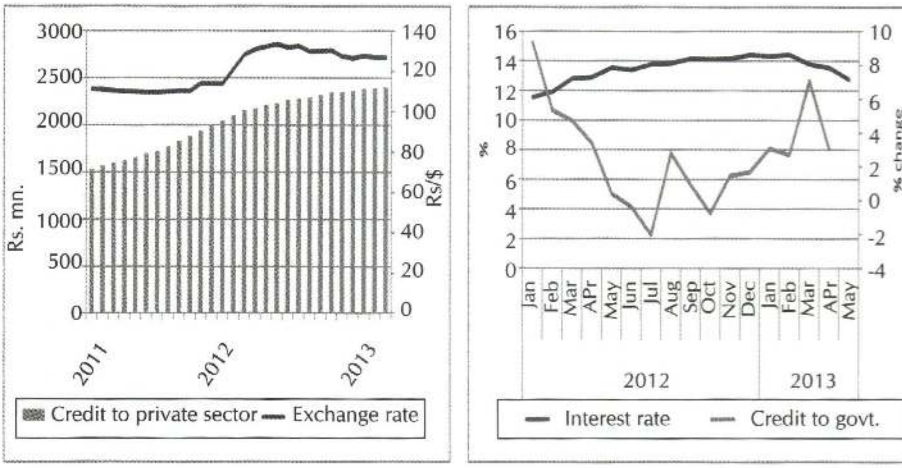
With the long anticipated adjustment to the exchange rate policy, there was significant volatility and overshooting in the foreign exchange market, with the rupee peaking at Rs. 133 to the US dollar by June 2012. As the country's import expenditures were curtailed through higher duties and economic activity began to slow down in general, the demand for dollars eased, allowing the exchange rate to adjust to Rs. 127 to the US dollar by end 2012.

2.6 Outlook

By early 2013, with inflationary pressures expected to remain moderate in view of subdued economic activity, better agricultural output, and stabilization of the exchange rate, the conditions to ease monetary policy and reset interest rates at a lower rate in support of higher GDP growth began to emerge (Figure 2.16). However, there were early signs of tension between fiscal financing needs and monetary policy setting. In a departure from recent years when foreign financing comprised a large chunk of the deficit financing requirement, the Budget 2013 opted to reverse this trend and rely heavily on domestic borrowing to bridge the deficit. With a targeted budget deficit of 5.8 per cent of GDP, the domestic financing share was estimated at 4.1 per cent of GDP. This, together with deferred payments, saw the bulk of new lending by banks finding its way to meet government financing needs. In the first four months of 2013, of Rs. 278.2 billion new loans issued by the domestic banking sector, new loans to the government and public corporations constituted 85 per cent or Rs. 236.5 billion.

Given the government's domestic borrowing spree, there was little room for a sharp decline in lending rates to spur private sector investment in support of higher GDP growth (Figure 2.16). The CBSL took further measures to ease interest rates by way of a 50 basis points reduction in policy rates in May 2013, followed by a decision to lower commercial banks' SRR by 2 percentage points – down from 8 per cent to 6 per cent – in June 2013. From August 2013, all LCBs

Figure 2.16
Credit Growth, Interest Rates and Exchange Rate Trends



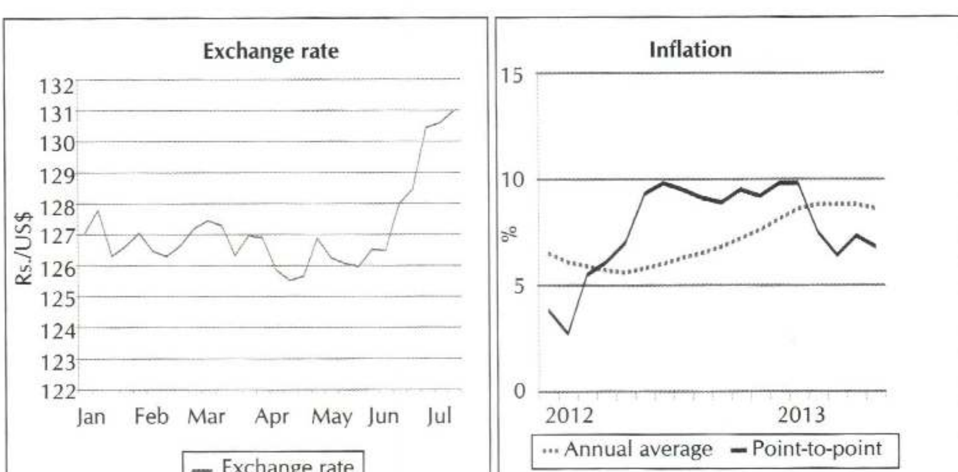
Source: CBSL, "Monthly Economic Indicators", various issues.

were requested by the CBSL to reduce the penal rates of interest charged on all loans and advances including credit facilities already granted to a level not exceeding 2 per cent per annum, whilst finance and leasing companies have been requested to reduce the penal rate of interest to 3 per cent per annum.

The aggressive push to stimulate economic activity through a credit push will clearly impact another contentious area in the macroeconomic policy arena – i.e., management of the exchange rate. Too much credit pumped into the economy will cause downward pressure on the exchange rate, and may tempt the CBSL once again to intervene at the cost of securing the country's foreign exchange reserves. Sri Lanka's forex market remains thin, with abrupt supply or demand changes resulting in high volatility. Indeed, the exchange rate saw some volatility from June 2013 due to a host of factors, including cross-currency movements as the US Federal Reserve withdrew its quantitative easing programme and foreign investors selling Treasury bonds in the wake of a general pull back from emerging markets.

Importantly however, the current aggressive monetary policy easing is also playing a role in determining exchange rate movements. Greater liquidity began to generate higher import demand, exerting pressure on the currency (Figure 2.17). Whilst CBSL intervention in the forex market to smooth undue volatility is permissible, Sri Lanka cannot afford a replay of sustained intervention to artificially 'peg' the currency to a pre-determined band. As at end June 2013, Sri Lanka's gross official reserves stood at US$ 6.3 billion, sufficient for 4.1 months of imports. But, with much of the country's reserves made up of borrowed funds, and with private foreign borrowing on the rise – with inflows to commercial banks alone standing at US$ 664.3 million during the first six months of 2013 – there is little room for policy maneuverability, and even less room for policy errors. Indeed, even as Fitch affirmed Sri Lanka's sovereign rating at BB- with a stable outlook in April 2013, Moody's changed its B1 sovereign currency rating for Sri Lanka from 'positive' to 'stable' in July 2013. While the rights and wrongs of the methodology adopted by sovereign rating agencies are open to debate, the bottom line

Figure 2.17
Exchange Rate and Inflation Rate Movements



Source: CBSL, "Monthly Economic Indicators", various issues; and CBSL, "Weekly Economic Indicators", various issues.

is that they do have an impact on a country's perceived risk-premium in international financial markets.

The expectation is that in the second half of the year, interest rates will ease sufficiently to encourage more private sector borrowing and help meet the government's GDP growth target of 7.5 per cent in 2013. Such a policy, however, runs the inherent risk of creating yet another 'bubble' if private sector credit growth veers towards consumption without adequate growth in the real economic sectors.

In this context, the continued poor performance of Sri Lanka's manufacturing export sector is a cause of concern. Export earnings contracted by 4.5 per cent in the first six months of 2013, at a higher rate than the contraction of 2.2 per cent seen in the comparable period in 2012. The trade deficit of US$ 4,556 during January-June 2013 has shrunk on marginally from a deficit of US$ 4,701 in the comparable period in 2012, inspite of suppressed import demand, partly through higher import duties imposed in March 2012 and subdued economic activity.

Worryingly, worker remittances has seen a growth in earnings of only 6.9 per cent during January-June 2013 relative to a much higher rate of 17.4 per cent growth seen in the comparable period in 2012. Sri Lanka has come to rely heavily on remittances as a stable and growing source of foreign exchange earnings. Remittance earnings, however, are subject to changing demand conditions and regulations in host countries which underlines the need for Sri Lanka to focus on securing its position in the global export market, particularly with regards to merchandise trade in goods and services.

Sri Lanka posted a reasonable overall GDP growth rate of 6 per cent in the first quarter of 2013, albeit down from 7.9 per cent in the corresponding quarter in 2012. Whilst industrial sector growth has remained strong – maintaining a steady growth rate of 10.7 per cent – it is still being led by non-tradeable economic sectors such as construction (18.2 per cent growth) and electricity, gas and water (10.4 per cent growth).

A monetary stimulus can be a useful tool to kick-start a flagging economy, leaning against the direction in which the economy is headed – i.e., to reverse falling consumer spending, business output and new investments, etc. While it may lead to the desired expansion of GDP in the short run, it can also fuel inflation. Thus, balancing price and output objectives must be the cornerstone of monetary policy. For sustained high growth in the medium to long term, Sri Lanka must rely on meaningful reforms that address structural constraints to growth in the real sectors of the economy.

Table 2.8
External Sector Performance (January-June 2013)

	Jan-June 2012 US$ mn.	Jan-June 2013 US$ mn.	Jan-June 2012 Growth (%)	Jan-June 2013 Growth (%)
Exports	4,965.0	4,661.0	-2.2	-4.5
Imports	9,666.5	9,217.6	4.2	-5.8
Worker remittances	2,942.4	3,207.7	17.4	9.0
Earnings from tourism	459.9	565.3	24.3	22.9
FDI	451.0	540.0	14.6	19.7

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

3. Global Developments and External Sector Competitiveness

3.1 Introduction

Over the last half century, developing countries around the globe, notably the 'Asian Tigers' (i.e., Singapore, South Korea, Taiwan and Hong Kong), Chile, Costa Rica, Malaysia, Thailand, Cambodia, Vietnam, India, Bangladesh and mostly saliently China – have increasingly benefited from integration into the global economy. In almost all these instances, export growth and diversification have played a pivotal role in spurring long term growth.

Since the late 1970s, Sri Lanka has also incrementally reaped the benefits of global integration through exports, though not on the same scale as the countries noted above. As of late, however, Sri Lanka's export performance has been relatively weak, both at home and abroad. The ratio of Sri Lanka's exports to GDP has dropped markedly to just 16.4 per cent in 2012; at the same time, Sri Lanka's exports have also been losing its global market share.

> ***'The undiversified nature of both Sri Lanka's exports and export markets are areas of concern, particularly in light of the global economic turmoil and increased competition from other late-industrializing countries'***

The undiversified nature of both Sri Lanka's exports and export markets are areas of concern, particularly in light of the global economic turmoil and increased competition from other late-industrializing countries. Weak export performance is raising concerns that Sri Lanka's export competiveness is deteriorating and that the country may not be in a position to reap the full benefits of globalization in the long run.

In light of the above, it is critical that the country bolsters export competitiveness to better exploit the opportunities presented by global integration to raise and sustain the country's long term growth and development. The need for attracting the right types of FDI in building export capacity is also paramount. In this context, this Chapter looks at emerging global challenges and Sri Lanka's recent performance in export earnings and FDI flows, and assesses the country's export competitiveness vis-à-vis other competitor countries in Asia.

3.2 Global Economic Outlook

Supported by strong policy actions of the European Union (EU) and US policymakers to mitigate two looming threats to global recovery in 2012 – a breakup of the Euro Zone and a 'fiscal cliff' in the US – 2013 is likely to see a gradual acceleration in major advanced economies. This is expected to be led by the US, which is projected to grow by 1.9 per cent in 2013, and by 3 per cent in 2014.[1] The US economy has shown several signs of recovery, including a pick-up in credit growth, rising house prices, and a gradual upturn in job creation with the unemployment rate being brought to below 8 per cent. A growth rate of 1.6 per cent is predicted for Japan, which is moderately higher than the October 2012 forecast, supported by a new policy package of aggressive quantitative easing, a positive inflation target, fiscal stimulus, and structural reforms. However, several risks still persist, while new threats have also emerged. Many risks relate to continued weak economic activity in the Euro Zone,[2] uncertainty about the consequences of events in Cyprus and political issues in Italy. High fiscal deficits and debt in the US and Japan also pose significant risks to global recovery, and call for strong medium term fiscal consolidation plans.

The economic performance of Asia as a region in 2012 was rather subdued owing to a broad-based weakening of exports, both within and outside the region, and the implementation of policies by China with a view to moderate and better balance growth. The outlook for 2013, however, is a bit more upbeat, with the IMF noting that economic activity in the region has stabilized in the first quarter of 2013.[3] Exports have recently picked up across the region, reflecting firmer demand in China and the advanced economies (notably the US). Economies across the region are expected to benefit from internal demand spillovers, particularly with growing demand by China and the policy-led pick-up in Japan. Notably, the depreciation of the yen is expected to pose both opportunities and challenges for other exporters of the region. Some exporters may face more direct competition from Japanese firms in world markets, while others may benefit through increased supply chain linkages with Japan.

The Asian Development Bank (ADB) forecasts growth in the Asian region to accelerate to 6.6 per cent in 2013 and 6.7 per cent in 2014, driven largely by domestic factors this year and by external demand and a strengthening global economy next year.[4] Whilst the region as a whole is expected to grow, growth amongst the various sub-regions is, however, anticipated to recover at various speeds. The growth rebound is anticipated to be largely founded on China, which is anticipated to grow at 8.2 per cent in 2013 and 8 per cent in 2014, up from 7.8 per cent in 2012, and the continued resilience in the Association of Southeast Asian Nations (ASEAN) which is projected to grow by 5.4 per cent in 2013 and 5.7 per cent in 2014. Growth prospects for South Asian economies on the other hand are largely dependent on India, and its commitments to implement needed structural reforms. Signs of recovery in India are still weak, with the Indian economy expected to record modest growth, owing to constraints on domestic investment and low optimism among investors. The sub region's growth outlook is anticipated to improve to 5.7 per cent in 2013 and 6.2 per cent in 2014 from an anaemic growth of 5 per cent in 2012, given the moderate outlook for India.

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[1] IMF (2013), *World Economic Outlook*, April 2013.

[2] The IMF has brought down their growth forecast for the EU for 2013 from 0.7 per cent in July 2012 to -0.3 per cent as of present.

[3] IMF (2013), *World Economic Outlook*, April 2013.

[4] ADB (2013), *Asian Development Outlook 2013*, Asian Development Bank, Manila.

Table 3.1
GDP Growth Projections: Selected Countries/Regional Groupings

Source	IMF			ADB			World Bank		
Country/Year	2012	2013	2014	2012	2013	2014	2012	2013	2014
US	2.2	1.9	3.0	2.2	2.0	2.6	2.2	1.9	2.8
Japan	2.0	1.6	1.4	2.0	1.2	1.4	1.9	0.8	1.2
Euro Zone	-0.6	-0.3	1.1	-0.6	-0.3	1.2	-0.4	-0.1	0.9
China	7.8	8.0	8.2	7.8	8.2	8.0	7.9	8.4	8.0
India	4.0	5.7	6.2	5.0	6.0	6.5	5.1	6.1	6.8
ASEAN-5	6.1	5.9	5.5	6.1	5.8	6.0	5.4	5.6	5.7

Notes: Growth Figures for 2013 and 2014 are projections/estimates; ASEAN-5 (Indonesia, Philippines, Thailand, Vietnam and Malaysia).

Sources: IMF, *World Economic Outlook*, April 2013; ADB, *Asian Development Outlook 2013*; World Bank, *Global Economic Prospects 2013*.

Mirroring the slowdown of economic activity in 2012, world trade growth decelerated from 6 per cent in 2011 to 2.5 per cent in 2012, significantly below the growth rate of 3.7 per cent projected by the World Bank in its 2012 'World Trade Report'. Export growth in advanced economies fell sharply from 5.6 per cent in 2011 to 1.9 per cent in 2012, while import growth also declined from 4.7 per cent to a mere 1 per cent in the same period. The spillover effects of this slowdown resulted in a similar drop in export growth in emerging and developing economies from 6.4 per cent to 3.7 per cent. World trade growth is expected to improve to 3.6 per cent in 2013 based on improved global economic prospects.[5]

Similar to the trend in trade growth, 2012 witnessed a sharp drop in global FDI flows. The slow recovery in 'greenfield investments' in 2011was short-lived,[6] with FDI growth grounding to a standstill in 2012, with a 16.4 per cent decline in FDI projects over the previous year since the onset of global recession.[7] The slowdown was felt the world over, with all global regions experiencing a decline in FDI. Lacklustre economic growth in Europe, Japan and Brazil, slower growth in China, political instability in the Middle East, and policy uncertainty in the US, all impacted adversely on the global FDI market. The Asia-Pacific region remained the leading regional destination for FDI in 2012, securing a global market share of 31.7 per cent.[8]

The implications of such global developments on Sri Lanka's external sector have been substantial. The export sector, which demonstrated notable growth in 2011, suffered a major setback in 2012, recording a contraction in export earnings of 7.4 per cent, and a continued contraction of 4.5 per cent in the first six months of 2013.[9] FDI inflows have also remained subdued throughout 2012. While the slowdown of global economic activity no doubt had a sizeable impact on Sri Lanka's poor performance, several internal factors constraining external sector competitiveness have also contributed to this situation, as will be discussed in subsequent sections of this Chapter.

[5] IMF (2013), *World Economic Outlook*, April 2013.

[6] This is a form of FDI where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

[7] fDi Intelligence (2013), *The fDi Report: Global Greenfield Investment Trends*.

[8] *Ibid.*

[9] CBSL, "External Sector Performance", June 2013.

3.3 Sri Lanka's External Sector Performance

3.3.1 Trade Performance: Export Growth

Contrary to the robust performance in export earnings in 2010 and 2011, 2012 saw a notable contraction in merchandise export earnings of 7.4 per cent, reflecting setbacks in both industrial and agricultural products. Industrial exports, which account for 75 per cent of total exports, recorded a contraction of 7.8 per cent, led by a near 5 per cent contraction in its key export category, garments (Table 3.2). The sizeable decline in garment export earnings has been attributed to a sharp decline in international cotton prices from the peak levels recorded in March 2011, and the dampened global demand in the context of the global economic downturn.[10] However, this decline could also be due to other factors, such as the loss of the Generalized System of Preference (GSP) + facility to the EU market in 2010, which has led to closures of some factories. The contraction in export earnings of tea by 5.3 per cent, contributed towards the overall decline in agricultural exports. Adverse weather conditions affected production volumes leading to lower prices.

Services export earnings showed a more positive picture, with net earnings from services exports recording an increase of 13.7 per cent to US$ 1,250 in 2012. This was mainly driven by improved performance in the transportation, and computer and information services sectors. The expansion of port and airport related activities led to increased inflows in freight, port, and airport related services, while increased earnings from information technology enabled services (ITES) such as business process outsourcing (BPO) and knowledge process outsourcing (KPO) contributed towards the growth of computer and information services exports.

The fall in absolute export earnings in 2012 has been preceded by a declining trend over the years in Sri Lanka's export share – both as a percentage of GDP and as a percentage of total world exports. The exports-to-GDP ratio which stood at 30 per cent in 2000 almost halved to 16.4 per cent by 2012, while Sri Lanka's share of global exports has re-

Table 3.2
Growth in Goods and Services Exports, 2012

	Annual Average Growth (%)	Share (%)[a]
Agriculture	-7.8	23.9
Tea	-5.3	14.4
Industrial	-7.8	75.4
Gems, diamonds and jewellery	5.2	5.7
Textiles and garments	-4.8	40.8
Services	31.0	
Transportation	21.1	37.0
IT	42.1	34.9

Note: a: In case of goods, values as a percentage of total earnings from goods exports, and in case of services, as a percentage of total earnings from services exports.

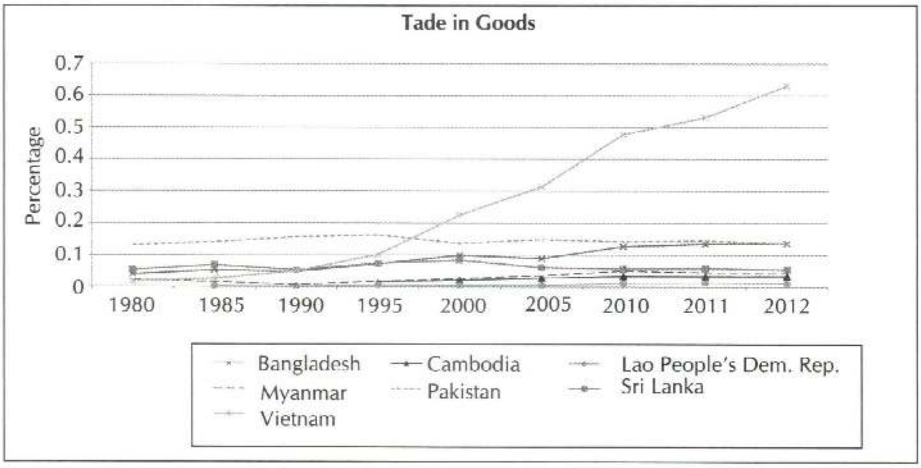
Source: CBSL, *Annual Report 2012*.

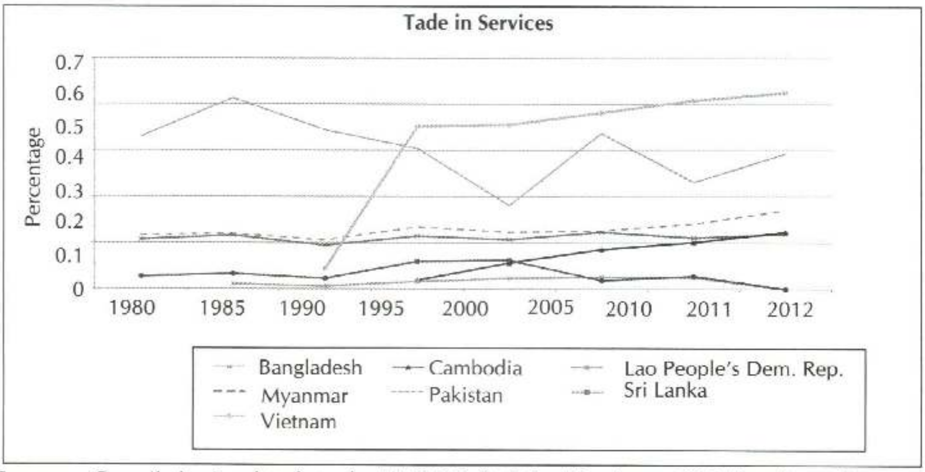
[10] CBSL, *Annual Report 2012*.

mained stagnant over the years. As shown in Figure 3.1, Sri Lanka's share of goods exports which rose marginally from 0.05 per cent in 1980 to 0.08 per cent in 2000, has fallen again in the post 2000 period, and has reverted back to 0.05 per cent in 2012. In contrast, Vietnam has demonstrated remarkable export growth, with its global share rising from a mere 0.02 per cent in 1980 to 0.63 per cent by 2012. Bangladesh which also started from a lower share than Sri Lanka in 1980, has surpassed Sri Lanka's share by 2012. While Sri Lanka has managed to increase its share of global services exports from 0.06 per cent to 0.09 per cent during the 1980-2012, this is a marginal increment compared to the rapid growth of market share in many other competitor countries.

Sri Lanka's export earnings have continued to contract by 4.5 per cent in the first six months of 2013 with industrial exports –

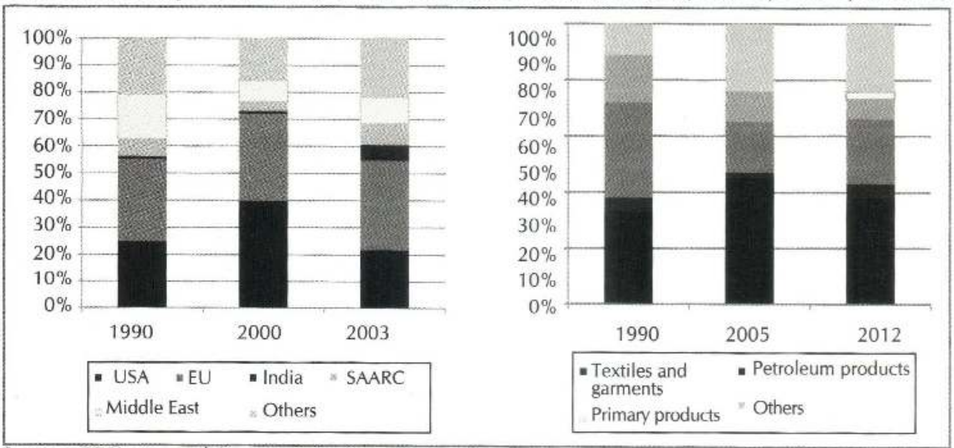
Figure 3.1
Global Export Share in Goods and Services, 1980-2012





Source: Compiled using data from the UNCTAD Statistical Database, 2013. [http:/unctadstat.unctad.org/ReportFolders/reportFolders.aspx].

Figure 3.2
Sri Lanka's Export Market and Product Diversification, 1990, 2000, and 2012



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

which account for the bulk of total exports – recording a 4.7 per cent decline.[11] This suggests that its global share is likely to deteriorate further unless immediate remedial action is taken to revive export performance.

3.3.2 Trade Performance: Export Diversification

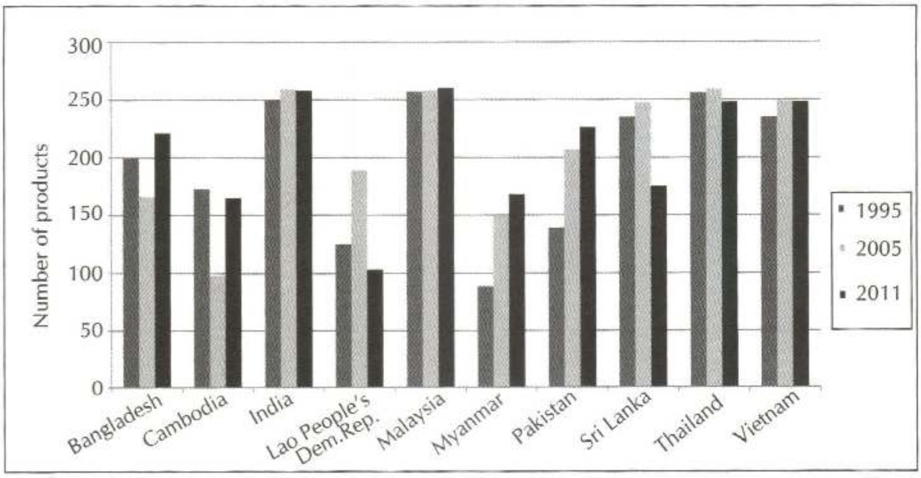
Whilst there has been a clear slowdown in Sri Lanka's export growth, Sri Lanka's export basket has also seen very limited diversification, both in terms of products and markets over the past two decades (Figure 3.2). The US and the EU have continued to be the major export destinations for Sri Lankan products, accounting for well over 50 per cent of total exports. More recently, there have been signs that exports have started to penetrate into India, primarily as a result of the India-Sri Lanka Free Trade Agreement (ISFTA) that came into operation in 2000. However, inroads into other South Asian Association for Regional Cooperation (SAARC) countries have not been significant. Likewise, in terms of Sri Lanka's export basket, only a very limited diversification can be observed; textiles, petroleum-based products and primary commodities such as tea, rubber, coconut, and fisheries products continue to account for well over 60 per cent of total exports, whilst Information and Communications Technology (ICT) based exports have made very modest strides into the world market.

More alarmingly, as depicted in Figure 3.3, there has been a dramatic decline in the number of products being exported by Sri Lanka to the world,[12] contrary to the trend observed in other second-tier exporting countries where the number of products exported has tended to increase as the economy and the industrialization process gradually matures. While Sri Lanka also showed improvement in this regard, specifically by increasing the number of products from 235 in 1995 to 247 in 2005, there has been a reversal of these trends in more recent years. Of significant concern is to note the substantial decline from 238 products in 2010 to 175 in 2011, a decline specific to Sri Lanka alone. Consequently, whereas both Sri Lanka and Vietnam exported the same number of products in 1995, Vietnam is high above Sri Lanka at 248 in 2011, compared to Sri Lanka's 175.

[11] CBSL, "External Sector Performance", June 2013.

[12] These are products based on the Standard International Trade Classification (SITC) revision 3 at the 3 digit level which either have a national export value exceeding US$ 100 or represent more than 0.3 per cent of total national exports.

Figure 3.3
Number of Products Exported to the World, 1995-2011

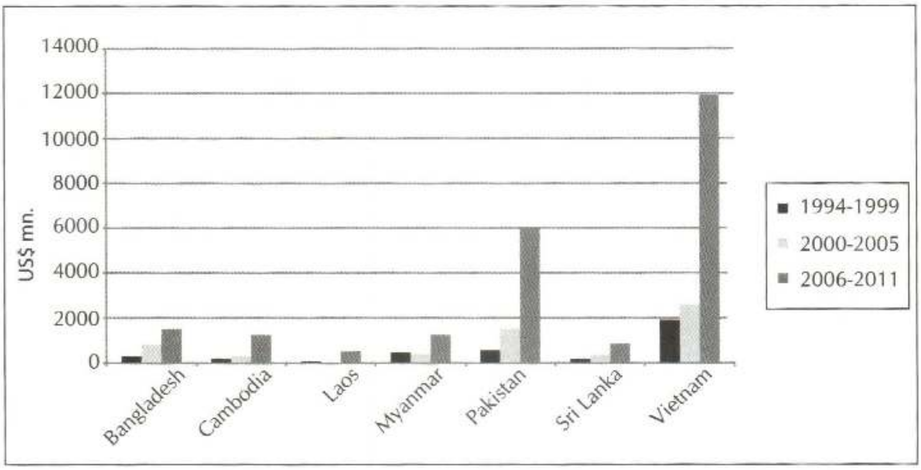


Source: UNCTAD Statistical Database, 2013.[http://unctadstat.unctad.org/ReportFolders/report Folders.aspx].

3.3.3 Foreign Direct Investment Performance

While realized inward FDI to Sri Lanka recovered from pre-crisis levels in 2011 to reach a record US$ 956 million, inflows in 2012 (US$ 898 million) have been subdued, and fallen short of the government's target of US$ 1.5 billion. Of the FDI realized in 2012, the infrastructure sector received the bulk (44.6 per cent) consisting of investments in ports and container terminals, telephone and telecommunication networks, power generation, and housing and property development; followed by investments in the services sector

Figure 3.4
Inward FDI Flows, 1994-2011



Source: UNCTAD Statistical Database, 2013 [http://unctadstat.unctad.org/ReportFolders/report Folders.aspx].

(31.9 per cent) driven by investments in tourism; whilst the manufacturing sector accounted for 23 per cent, with a major share of FDI into the food and beverages industry, and the textile, and wearing apparel industry.

In comparison with other competitor countries, Sri Lanka's performance in attracting FDI has been lacklustre, as shown in Figure 3.4. Especially over the last decade, late-industrializing countries in both South and Southeast Asia such as Bangladesh, Vietnam and Myanmar have been able to attract far greater volumes of FDI. Sri Lanka's poor performance has also been reflected in the FDI Attraction Index,[13] compiled by the UNCTAD, which measures and ranks the success of 181 countries in attracting FDI over a rolling three-year period. Sri Lanka's ranking in the index has deteriorated considerably over the last decade from 132 in 2000, to 158 in 2011. Bangladesh, Vietnam, Myanmar, and Laos are all ranked above Sri Lanka.

Box 3.1

Attracting FDI: Lessons from other Late Industrializing Countries

Over the last decade or so, a number of second-tier exporting countries in South and Southeast Asia have been able to attract impressive volumes of FDI.[14] Sri Lanka can draw lessons from these countries in designing a more attractive policy package to entice FDI. In recent times, Myanmar has witnessed a dramatic increase in inward FDI, highlighting the strong linkage between political stability and FDI. Political and economic reforms coupled with improved international relations have brought about vast improvements to the country's investment environment. Investors have responded positively to these developments, with FDI projects increasing from 10 prior to 2012 to 54 in 2012, which has also led to significant increases in capital investment (152 per cent) and job creation from FDI (157 per cent). Indonesia, the Philippines, and Bangladesh also all recorded impressive inward FDI growth of 7.6 per cent, 11.3 per cent, and 66.7 per cent, respectively. The impressive volume of FDI into Bangladesh indicates an emerging trend where a global shift is taking place with a re-allocation of efficiency-seeking FDI away from China and other emerging markets, and towards frontier markets such as Bangladesh with their vast untapped labour pools, low costs, and market opportunities. Whilst FDI flows to the BRIC (Brazil, Russia, India, China, South Africa) countries experienced a slowdowns, India, China, and Brazil remain amongst the top five destinations for FDI.

Source: fDi Intelligence, 2013, The fDi Report: Global Greenfield Investment Trends.

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13 UNCTAD (2012), "World Investment Report: Towards A New Generation of Investment Policies", United Nations Conference on Trade and Development, Geneva, Switzerland.

14 Refers to developing countries which are gradually orienting themselves towards specializing in manufactured exports in their attempt to replicate the success of the Newly Industrialized Economies (NIEs) of East Asia. Two alternative terms used in the literature are 'new exporting countries' and 'latecomers export-oriented industrialization'.

Despite the poor performance in the past, the UNCTAD in its FDI Potential Index – which captures four key economic determinants of the attractiveness of an economy for FDI – ranks Sri Lanka at 68 out of 181 countries overall. In the sub-category of attractiveness to low-cost and skilled labour, Sri Lanka stands out, ranked at 23 out of 181 countries, highlighting the country's attractiveness to export-oriented/efficiency seeking investments.

3.4 Sri Lanka's Export Competiveness: A Diagnosis

The ensuing section examines Sri Lanka's export competitiveness using a framework developed by the World Bank.[15] The framework examines the issues that affect a country's ability to compete in international markets under three intertwined components: (1) the presence of an overarching incentive framework for exports; (2) the reduction of trade-related costs; and (3) the efficient management of market and government failures. The strengths and weaknesses of each of the three components in relation to Sri Lanka are analyzed below.

3.4.1 Incentive Framework

A key policy challenge is to ensure that domestic resources are channeled to their most productive activities. Having the right kinds of incentives in place to ensure that factors of production are moving to sectors in which the country has a long term capacity to compete is, therefore, critical. Trade, investment, fiscal, and exchange rate policies must be geared towards providing the required incentives.

Trade Policy

A country's trade policy has a direct bearing on its ability to compete in an international environment. Sri Lanka's lacklustre performance in the export sector in the post 2000 period could in part be explained by changes in the country's trade policy over the years. Sri Lanka's decisive move away from the protectionist import-substitution trade policies in 1977, coupled with trade liberalization reforms – particularly, reductions in the average level of import tariffs – have been steadily reversed since the beginning of the decade.

Whilst the increase in tariff protection has been modest in the recent past, the imposition of para-tariffs over and above the standard customs duty rates has resulted in an increasingly complex and protectionist trade policy regime.[16] Estimates by the World Trade Organization (WTO) as set out in Sri Lanka's 'Trade Policy Review' of 2010, show that when both the standard customs duties and all other export taxes are taken together, the un-weighted average total protection rate (TPR) turned out to be as high as 31 per cent (compared to the standard customs duty rate of 12 per cent).

Pursell and Ahsan (2011) have undertaken a systematic comparison of Sri Lanka's recent tariff structures (Table 3.3).[17] The total protection rate (customs duty + para-tariffs) increased marginally between late 2002 and early 2004, but then more than doubled between 2004 and 2009. Nearly all of the sharp increase is due to the extra protection provided by para-tariffs. While average custom duties in 2009 were low compared to other

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[15] World Bank (2013), *Export Competitiveness: Key Elements of an Export Competitiveness Strategy*, Available at http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/EXTEXPCOMNET/0,,contentMDK:21781937~pagePK:64168445~piPK:64168309~theSitePK:2463594,00.html.

[16] Para-tariffs are taxes which are only applied to imports and there is no domestic equivalent, and hence add to whatever protection is provided to domestic production by customs duties.

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

Table 3.3
Unweighted Average Protection Rates,[a] 2002, 2004, 2009 and 2011

	Custom Duties	Para-tariffs	Total Protection Rate
November 2002			
Agriculture	21.1	5.2	26.3
Industry[b]	7.6	2.5	10.1
All tariff lines	9.6	2.9	12.5
January 2004			
Agriculture	24.6	3.5	28.1
Industry[b]	8.8	1.9	10.7
All tariff lines	11.3	2.1	13.4
December 2009			
Agriculture	24.6	25.0	49.6
Industry[b]	10.3	13.7	24.0
All tariff lines	12.4	15.5	27.9
January 2011			
Agriculture	25.4	21.4	46.8
Industry[b]	9.1	10.6	19.7
All tariff lines	11.5	12.2	23.7

Notes: a. All protection rates are percentages of cif import value; b. This predominantly reflects manufacturing protection. Mining accounts for a tiny share of industrial output (less than 3 per cent).

Source: Pursell, G. and F.M. Ziaul Ahsen (2011), "Sri Lanka's Trade Policies: Back to Protectionism," ASARC Working Paper 2011/03.

developing country standards, para-tariffs more than doubled this rate, thereby making the TPR far exceed the developing country average.

Each para-tariff has its own product coverage, with frequent changes in the product coverage, especially of the Cess. The extensive amount of taxes and the frequent changes in terms of product coverage makes it extremely difficult to calculate the TPRs applicable to individual products, and to assess the changes in trends overtime. Disaggregated data reported in Pursell and Ahsan (2011) show that para-tariffs have led to 75 different TPRs ranging from zero to more than 90 per cent. The TPRs for agricultural tariff lines are the worst, with almost 40 per cent within the range of 70-80 per cent.

Sri Lanka's increasingly restrictive trade policy regime is also reflected in the Enabling Trade Index (ETI) produced by the World Economic Forum (WEF). The ETI consists of four main sub-indices, one of which is the 'market access' sub-index. This measures the extent to which the policy framework of the country welcomes foreign goods into the country, and enables access to foreign markets for its exporters. In particular, it measures the level of protection of a country's markets, the quality of its trade regime, and the level of protection exporters face in target markets, using indicators such as average applied tariffs, the share of goods imported duty free, the variance of tariffs, the frequency of tariff peaks, the number of distinct tariffs, and the margin of preference in target markets negotiated through bilateral or regional agreements. Sri Lanka records a low score for this sub-index compared to its competitor countries, and is ranked fairly low at 103 out of 132 economies.

Regional and bilateral trading arrangements

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

The case of the ISFTA which became effective in 2000 provides a good example of a trade agreement that has served to stimulate trade flows between India and Sri Lanka. India has emerged as Sri Lanka's largest and most balanced trade partner, with exports from Sri Lanka to India rising from US$ 39 million during 1995-2000 to US$ 567 million in 2012. The number of export items has also shown a remarkable increase, with a visible shift from low-value added agricultural products to high value added manufacturing goods. Moreover, although the ISFTA covers only liberalization of goods, it has indirectly led to a significant amount of Indian investments in Sri Lanka, which has in turn strengthened Sri Lanka's supply capacities.

Another important example is Sri Lanka's penetration into the EU market through its GSP scheme. Sri Lanka's apparel exports in particular have benefitted under this scheme, receiving both tariff concessions under the general scheme and duty free entry under the GSP+ scheme. The fall in apparel exports to the EU in 2012 is in part attributed to the loss of GSP+ concessions in 2010.

Sri Lanka has also entered into a bilateral Free Trade Agreement (FTA) with Pakistan and is a member of the South Asia Free Trade Agreement (SAFTA) and the Asia-Pacific Trade Agreement (APTA), the latter being the oldest preferential trade agreement between developing countries in the Asia-Pacific region.[18] However, these agreements have delivered limited results in terms of stimulating export flows due to numerous problems, including low product coverage, thin margins of preferences, and non-tariff barriers.

The stalling of multilateral trade negotiations has led to the increasing proliferation of bilateral and regional trade arrangements in the recent past, particularly in the Asia-Pacific region. Table 3.4 provides a comparative sense of the different types of trade agreements some selected Asian countries have entered into as of January 2013. These include all agreements that are signed and in effect, signed but not yet in effect, negotiations launched and proposed/under consultation and study. As is evident, Sri Lanka's engagement in trade agreements is very low compared to its competitor countries. Out of the eight agreements listed below, only four are fully effective – the bilateral agreements with India and Pakistan, the SAFTA, and the APTA – which all together cover only 21 per cent of Sri Lanka's total trade.[19] Moreover, Sri Lanka's participation in these agreements is also not satisfactory. For instance, Sri Lanka is the only SAARC country that is yet to submit its revised sensitive list under SAFTA and its 'offer and request' list under the South Asia Trade in Services Agreement (SATIS).[20]

Alternatively, Southeast Asian countries show heavy involvement in all types of agreements, particularly in Comprehensive Economic

[18] The APTA, previously named the Bangkok Agreement, was signed in 1975 as an initiative of ESCAP and involved five member states, namely Bangladesh, India, Lao People's Democratic Republic (PDR), Republic of Korea and Sri Lanka. In 2000, China also joined APTA. The SAFTA, involving all SAARC countries came into effect in 2006.

[19] UNESCAP (2010), "Asia-Pacific Trade and Investment Report 2011: Post-crisis Trade and Investment Opportunities", United Nations, New York.

[20] The SATIS was signed in 2010 with the objective of liberalizing trade in services among SAARC countries, but has not become effective thus far.

Table 3.4
Trade Agreements -- Proposed, Negotiated, Signed, Signed and in Effect

Country	RTAs	Bilateral	Plurilateral FTAs/PTAs	CEPAs PTAs	CECAs	Total
Bangladesh	3	1	2	-	-	**6**
Cambodia	4			4	3	**11**
India	8	14	2	5	5	**34**
Lao PDR	6	1		3	3	**13**
Malaysia	9	7	1	5	4	**26**
Myanmar	6			3	3	**12**
Pakistan	6	18	2	1	-	**27**
Sri Lanka	3	4	-	1	-	**8**
Thailand	8	10	-	5	3	**26**
Vietnam	9	3	-	3	3	**18**

Notes: RTA: Regional Trade Agreement; FTA: Free Trade Agreement; PTA: Preferential Trade Agreement; CEPA: Comprehensive Economic Partnership Agreement; CECA: Comprehensive Economic Cooperation Agreement:

Source: Compiled from the Asia Regional Integration Centre, *Free Trade Agreements Database*. [http://aric.adb.org/ftatrends.php].

Partnership Agreements (CEPAs) and Comprehensive Economic Cooperation Agreements (CECAs), which cover a broad spectrum of goods, services, and investment liberalization. While India is steaming ahead with the negotiation of both bilateral agreements and comprehensive partnership agreements, Pakistan has also embarked on a significant number of bilateral deals.

Foreign Investment Policy

It has been increasingly recognized in many developing countries that FDI – in particular, export-oriented investments – can play a decisive role in diversifying a country's export-base. Sri Lanka's FDI policy regime since 1977 has increasingly been liberalized; complete 100 per cent foreign ownership has been permitted for investment in almost all areas of the economy, and restriction on foreign exchange transaction relating to current account payments have increasingly been relaxed. Constitutional provisions have been enacted to guard against expropriation of foreign owned assets. In addition, the GoSL to date has entered into 27 Bilateral Investment Treaties, and 38 Double Taxation Avoidance Agreements. In addition, Sri Lanka offers a host of fiscal incentives to attract FDI (Box 3.2). Export-oriented ventures qualify for special fiscal incentives such as customs duty, VAT and Ports and Airports Development Levy (PAL), exemptions on raw-material imports, upon meeting export performance requirements and meeting a minimum investment threshold. The investment threshold currently stands at US$ 500,000.

However, there are a number of other developing countries vying to attract similar types of FDI, and offering a lower investment threshold. For example, the threshold established in Malaysia is US$ 200,000, while Thailand has set it at US$ 92,800. By contrast, Sri Lanka's threshold level seems uncompetitive. Given the importance of FDI to spurring greater exports, projects should also be considered on the basis of their export and employment generation potential.

Exchange Rate Policy

The real exchange rate plays a pivotal role in determining a country's export competitiveness. Direct policies to sustain an overvalued or undervalued exchange rate in the long run may adversely impact export

Box 3.2
Overview for FDI Approval Process

The prevailing foreign investment approval process falls under two broad categories; namely (a) Section 16 and 17 of the Board of Investment (BOI) Law (Automatic Approval Route Projects); and (b) Strategic Development Projects Act of 2008. Projects approved under Section 16 of the BOI Law are permitted without any fiscal concessions, and are governed by 'normal laws' of the country. Such approvals are made merely to facilitate a foreign investor. The Budgets of 2012 and 2013, through the Inland Revenue Department offers a host of various fiscal incentives to promote both foreign and local investments.

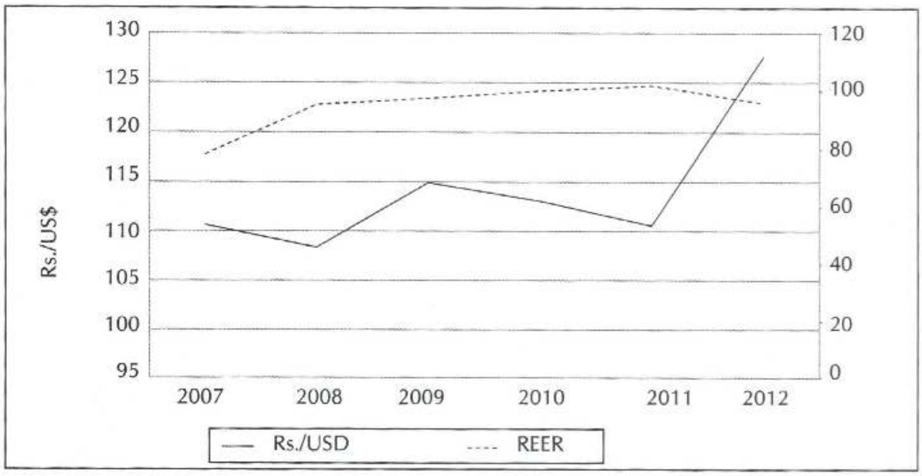
At present, nine broad sectors, namely tourism and leisure, infrastructure, knowledge services, utilities, apparels, export manufacturing, export services, agriculture, and education have been identified as key investment thrust areas. Eligible investments qualify for fiscal incentives ranging for tax holidays, tax concessions, and customs duty, PAL and VAT exemptions on imports of both capital goods and raw materials. The amount and nature of investment incentives offered are pre-determined and are based on the sector of investment and investment threshold.

Investments are lumped into three main categories based on the investment thresholds; small and medium scale investments, medium scale investments, and large-scale investments. The larger the investment, the more attractive the incentive package is, in terms extended tax holidays and special concessions. Incentives offered also vary with the sector of investment. Priority sectors, which the government aims to encourage investments in, are offered superior incentive packages and/or are subject to lower investment thresholds. Investments in the agriculture sector, namely fisheries and the production of seeds and planting material, cultivation of crops of renewable energy, and the manufacture of organic fertilizer and pesticides do not have to meet investment thresholds. Lower investments thresholds are also in place to encourage 'strategic import replacement' projects pertaining to the manufacture of fabrics, milk powder, cement and pharmaceutical products. Export-oriented ventures qualify for duty free facilitation for both raw-material and capital good imports, whilst only the large-scale non-export oriented ventures qualify for duty-free facilitation of capital goods.

The second category of investment approvals falls under the Strategic Development Projects Act No. 14 of 2008 and its subsequent amendments. As laid out in the Act, a Strategic Development Project (SDP) is defined as a project which is in the national interest, is likely to bring economic and social benefits to the country, and is also likely to change the landscape of the country, primarily through provision of goods and services which will be of benefit to the public, substantial inflow of foreign exchange, substantial employment, and technology transfer'. On identification of a prospective SDP, the BOI in consultation with the Minister of Economic Development may propose a project for consideration via gazette notification, publishing information relating to the proposed project, and the exemptions to be granted in respect of same. On the expiration of a 30 day period from the date of the gazette notification, the Minster together with the Minister of Finance must inform and seek approval of the Cabinet of Ministers. Projects deemed SDPs are eligible for a host of 'special investment incentives'.

competiveness. An overvalued exchange rate leads to exports becoming more expensive in foreign markets as a consequence of higher prices of exported goods and services in foreign currency terms. If the real exchange rate is overvalued as a consequence of a nominal appreciation, the foreign currency price of exports is higher than exports from competitor countries, thus reducing foreign demand for exported goods. On the other hand, if an overvaluation is due to excessively high domestic inflation relative to global inflation, then domestic costs of production would be artificially high, reducing profits from exporting and/or coerce firms to raise prices, leading to a loss in competitiveness.

Figure 3.5
Trends in Nominal and Real Effective Exchange Rate Movements, 2011-2012



Source: CBSL, *Annual Report 2012*.

As can be noted from Figure 3.5, in nominal terms, the rupee has experienced periods of appreciation as well as depreciation. However, in real terms, the rupee has been appreciating steadily. While the policy adjustment in February 2012 from a fixed exchange rate regime to a more flexible regime saw a sharp depreciation of the rupee in nominal terms, the accompanying real exchange rate depreciation has been rather modest. A persistently over-valued exchange rate adversely impacts export competitiveness as discussed earlier.

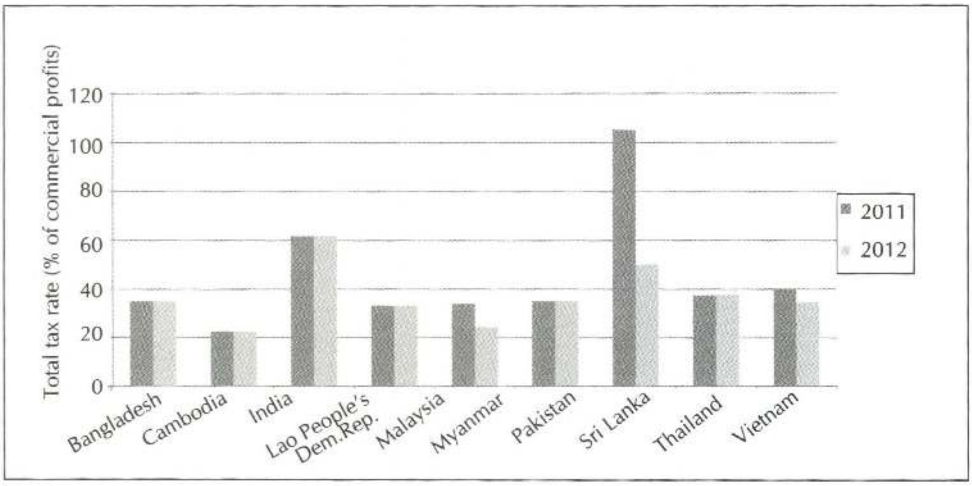
Fiscal Policy

Access to finance is critical to export competitiveness. New exporters are confronted with significant start-up costs as they gather information on foreign markets, develop marketing channels, adapt products and packaging to foreign tastes, and learn to deal with new bureaucratic procedures. Tax rates have a direct bearing on access to sufficient finance, especially in many late-industrializing countries such as Sri Lanka, where access to and the cost of credit is a major constraint, especially for smaller enterprises, where firms have to rely heavily on internally generated funds to finance investments. Taxation impacts investment in two ways: firstly, it reduces the expected after-tax revenue from a given investment project, and secondly, it reduces the availability of investment finance.

Sri Lanka's total tax rate as a percentage of commercial profits is reasonable in comparison to other South Asian countries (Figure 3.6). However, when compared to the tax rates of East and Southeast Asian economies, Sri Lanka has a much higher rate.[21] This has direct impacts on export competiveness given that exporters have to operate on very tight profit margins. It also stifles companies financially, and as discussed earlier, obstructs/discourages firms from exploring new export markets.

[21] Total tax rate measures the amount of taxes and mandatory contributions payable by businesses after accounting for allowable deductions and exemptions, as a share of commercial profit.

Figure 3.6
Total Tax Rate (% of Commercial Profits), 2011-2012



Source: World Bank, *World Development Indicators 2013.*

3.4.2 Reducing Trade Related Costs

In today's highly competitive globalized world, access to efficiently produced critical backbone services and inputs are pivotal to ensure that domestic firms remain competitive. Firms that have to incur more than their competitors for energy, telecommunications, customs services, transport and logistics, finance, and security costs will find it hard to compete in both the domestic and overseas markets.

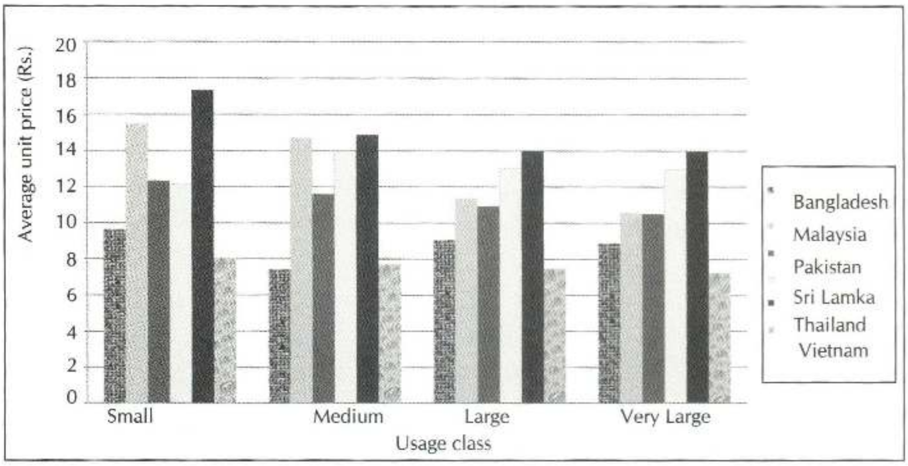
Energy

Energy costs, electricity in particular, most often constitute a major share of direct non-wage costs for firms. Rising electricity prices and supply reliability pose serious challenges to enterprises, given that it alters production cost structures, which in turn influence competitiveness. The relative importance of power costs and reliability will vary across sectors; power hungry capital-intensive industries will be far more reliant on power costs, as opposed light-manufacturing sectors and other professional services sectors, which are also reliant on adequate power supply. Unreliability in terms of power supplies may force firms to rely on more costly energy via generators, thereby increasing costs. The quality and reliability of electricity supplied in Sri Lanka is on or above par with other late-industrializing countries. However, when considering the electricity tariffs faced by Sri Lankan industrialists, local firms are at a disadvantage as they have to pay more for electricity compared to their competitors in other countries and as such lose out on their export competiveness (Figure 3.7).

Labour

Wages constitute a significant proportion of production costs. Access to cheap and/or more skilled labour significantly improves competitiveness. As can be noted from Table 3.4, Sri Lanka competes well in terms of wages and labour productivity, outperforming countries like India, Pakistan, Vietnam, and even Thailand. On the flipside, however, labour regulations currently in place, particularly relating to the redundancy dismissal may pose challenges to international competiveness. Under the Termination of Employment of Workmen (Special Provisions) Act (TEWA) of 1971, employers require consent from the Commissioner of Labour for

Figure 3.7
Industrial Electricity Tariffs, 2012



Source: Siyambalapitiya, T., (2013), "Five Year (2013-2017) Road Map for the Revival of the Electricity Industry."

the redundancy dismissal of even one worker, with the exemption of dismissal on serious disciplinary infraction. In this light, the dismissal process is viewed as cumbersome and long-drawn. Further, as can be noted from Table 3.5, the severance pay for redundancy dismissal seems excessive in Sri Lanka. Given this type of labour market rigidity, exporters that operate in a highly competitive global environment lose out on flexibility to restructure their labour force as required, which can severely constrain their export competiveness.

Table 3.5
Selected Labour Market Indicators

Economy	Year	Annual Wage (Current US$)	GDP per Person Engaged[a]	Third-party Notification[b]	Severance Pay[c]
Bangladesh	-	n.a	4,146	Yes	26.7
Combodia	-	n.a	5,449	No	11.4
India	2009	2,462	9,200	Yes	11.4
Laos	-	n.a	n.a	Yes	40.7
Malaysia	2009	7,662	24,857	No	17.2
Myanmar	-	n.a	7,670		
Pakistan	2006	2,335	8,483	No	22.9
Sri Lanka	**2010**	**1,556**	**17,985**	**Yes**	**54.2**
Thailand	2006	2,233	16,764	No	31.7
Vietnam	2010	2,010	6,272	No	24.6

Notes: a. At constant 1990 US$ at PPP; b. If one worker is dismissed; c. For redundancy dismissal (in weeks).

Sources: UNIDO (2013), "Competitive Industrial Performance (CIP) Index" database; World Bank, "Doing Business" 2007 and 2013; ILO (2013), "Key Indicators of the Labour Market" database.

Trade Facilitation

Weak trade facilitation, such as lack of and/or poorly maintained transport infrastructure, complex import and export procedures etc., results in increased transaction costs which in turn adversely impacts competitiveness. The 'Trading across Borders' indicator of the World Bank's 'Doing Business' report measures the time and cost (excluding tariffs) associated with exporting and importing a standardized cargo of goods by ocean transport. Table 3.6 presents this indicator for 2007 and 2013. As can be seen, Sri Lanka performs relatively well in all three sub indicators with respect to other South Asian countries. However, it still lags behind Southeast Asian countries. In the case of many Southeast Asian economies, what stands out is the

Box 3.3

Labour and Utility Costs as Impediments to Export Growth: Case of the Apparel Industry

The ability of Sri Lanka's apparel industry to successfully face global competition has been further dimmed by rising utility and labour costs. In particular, it has been stated that the recent hike in electricity tariffs will result in a 15 per cent tariff increase for apparel factories, with a significant cost increase for textile manufacturers' washing and dyeing plants.[22] This is a severe blow to firms already struggling to compete with competitors who have duty free access to the EU market.

The electricity tariff hike would translate into demands for price increases by all stakeholders in the supply chain. As it stands, the industry is not able to absorb any additional cost given the rising labour costs and lack of preferential treatment for its exports in major markets. There is evidence to suggest that apparel factory owners are considering relocating to other countries with more lucrative prospects such as Bangladesh, Myanmar and Vietnam – a trend that has already been observed after the removal of GSP+ concessions.[23]

On the other hand, employees are also heavily burdened by the increase in electricity rates, and as a result demand higher salaries. There is also the fear of employees leaving the industry in search of alternative job opportunities given the spiraling cost of living – which is a problem for an industry that has over 30,000 vacancies.[24] This situation has prompted the Apparel Exporters' Association to consider importing workers from Bangladesh, India and Bhutan to fill vacancies at lower costs.[25] However, there are also fears that foreign workers may be exploited in terms of both heavy work and lower salaries, thereby affecting Sri Lanka's reputation of good working conditions under initiatives such as "garments without guilt." A failure to maintain labour and other standards could also pose a threat to Sri Lanka's eligibility for standard GSP concessions in the EU – a concession the country cannot afford to lose at this point in time.

Sri Lanka's apparel industry, which successfully competed in a post-MFA environment by building an international reputation for quality and reliability, is now faced with the pressing need to develop a new strategy to remain globally competitive. A possible strategy is to conduct manufacturing activities in lower cost countries, add value and export the final product from Sri Lanka. However, the viability of such a supply chain management strategy would depend on ensuring the availability of a proper regulatory framework that facilitates trade, transshipment, logistics, and innovative manufacturing methods.

[22] Warushamana, G., (2013), "Apparel Industry will Overcome Challenges - Secretary General, JAAF," *Sunday Observer*, TR5 May 2013, Available at http://www.sundayobserver.lk/2013/05/05/fin26.asp.

[23] Interviews conducted among garment manufacturers, representatives from industry associations, and government officials between July - September 2012.

[24] Warushamana, G., (2013), "Apparel Industry will Overcome Challenges - Secretary General, JAAF," *Sunday Observer*, 5 May 2013, Available at http://www.sundayobserver.lk/2013/05/05/fin26.asp.

[25] *Ibid.*

Table 3.6
Trading Across Borders, 2007 and 2013

Country	Document's for Exports and Imports (No.)		Time to Export and Import (Days)		Cost to Export and Import (US$ per container)	
	2007	2013	2007	2013	2007	2013
Bangladesh	23	14	92	59	2189	2455
India	25	20	68	36	2108	2320
Pakistan	20	16	43	39	2002	1365
Sri Lanka	21	12	52	39	1586	1495
Malaysia	18	11	42	19	909	855
Thailand	21	10	46	27	1890	1335
Vietnam	15	14	71	42	1588	1210
Cambodia	20	19	81	48	1552	1655
Lao PDR	28	20	144	52	3110	4265

Source: World Bank, *'Doing Business'* 2007 and 2013.

significant reduction in the number of documents and the time required for exporting and importing over the two years under consideration. For instance, Laos has succeeded in cutting down the number of days required for the export/import procedure by more than half, from 144 in 2007 to 52 in 2013. Cambodia, Vietnam, and Malaysia have also shown remarkable progress in this regard. On the other hand, the progress made by South Asian countries, including Sri Lanka, is not as impressive. This indicates the need for Sri Lanka to undertake more aggressive policy measures at a pace comparable to its Southeast Asian competitors.

3.4.3 Managing Market and Government Failures

Market and government failures tend to afflict countries in the process of expanding exports and growth. The presence of market failures such as information asymmetry tends to constrain competitiveness, thus requiring specific interventions and institutions along the lines of export and investment promotion agencies, standards bodies, agencies to support innovation and clustering, etc. The presence of government failures in many developing countries is a key challenge in developing the necessary institutions, and hinders the capacity for effective policy formulation.

Export Promotion

Export promotion is a critical dimension of an export competitiveness strategy in a country, and the importance of a relevant export promotion policy cannot be overstated. While promotion of traditional exports is needed for export growth, promotion of new export products is essential for export development. In many countries, the government is the principal provider of export assistance to the business community. In Sri Lanka, the Export Development Board (EDB) functions as the apex organization for export promotion and development.

A main criticism of government promotion schemes in many developing countries is that they tend to be poorly targeted.[26] Most export promotion schemes appear to be more

[26] Gray, B.J., (1997), 'Profiling Managers to Improve Export Promotion Targeting', *Journal of International Business Studies*, Vol. 28, No. 2, pp. 387-420.

concerned with identifying and assisting particular types of companies, rather than particular types of managers who make export market development decisions. This, however, may not be a major issue for Sri Lanka, given that the manager and exporter is the same person in most Sri Lankan companies. Another issue, also relevant to Sri Lanka, is the need to identify companies at different stages of internationalization – pre-exporting, market entry, and export operations stages – rather than extending similar types of assistance to all firms. The types of services required, such as matching information, research, promotion, buyer introduction, and export finance or insurance services would differ depending on the stage of internationalization of a particular company. Obtaining a better understanding of the needs of managers and targeting segments of managers who share similar strengths and weaknesses is a possible solution.

A well developed and targeted export promotion strategy is also crucial in facilitating the process of market and product diversification, which involves taking advantage of different growth rates in different markets and products, and gaining stability by not being overly dependent on any particular market or product. Penetrating new markets would require adapting to new demand structures and cultural sensitivities, and the ability to survive in a less familiar environment in spite of higher transaction costs. Remaining competitive in such an environment thus requires a strong facilitating and supportive environment. Sri Lanka's failed attempts at both market and product diversification over the years stresses the need for a more active export promotion agenda.

As is the case with regard to many initiatives, the lack of coordination between government and private sector organizations, as well as among different levels of government, is a key weakness of Sri Lanka's current approach towards an export promotion strategy. Sri Lanka in fact currently lacks a concrete policy framework to boost export growth and development. There is thus a need for the government (through the EDB) and private sector to collaborate in formulating a national export promotion strategy to help firms overcome barriers to exporting, and involve more businesses in exporting. Such a strategy should take into account a comprehensive set of consistent policies and organizations that are responsive to market conditions, needs of business enterprises, and opportunities offered by new products and technologies.

Governance Quality

In economic literature, the quality of institutions and policies is decisive in determining whether countries can benefit from globalization. Whilst the institutional environment encompasses macroeconomic stability and openness to trade, they also encroach upon the enabling environment for markets to function efficiently, and cover areas such as the strength and quality of legal and judiciary systems, the financial system, taxation procedures, labour relations, investment procedures, land tenure, and customs administration.

Sri Lanka's standing in key governance indicators have been improving since the end of the hostilities in 2009. As can be observed from Table 3.7, while Sri Lanka performs reasonably across governance indicators such as rule of law, quality of regulation and government effectiveness, it scores poorly in indicators with regards to corruption, voice and accountability, and political stability and absence of violence, in comparison to other competitor countries. Weak governance in terms of poor property rights and their enforcement, red tape, and corruption, etc., adds to production costs, which in turn adversely impacts competitiveness.

Table 3.7
World Governance Indicators, 2011

Country	Political Stability and Absence of Violence	Voice & Accountability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Bangladesh	7.1	37.1	19.9	22.3	28.6	16.1
Cambodia	33	24.9	25.6	35.1	15.5	12.8
India	12.7	59.2	54.5	40.3	52.6	35.1
Lao PDR	47.2	5.6	17.1	19.4	18.3	13.7
Malaysia	52.4	33.8	81	74.4	66.2	57.8
Myanmar	13.7	2.3	2.4	1.4	4.2	0.5
Pakistan	0.5	26.3	22.3	29.9	20.7	15.6
Sri Lanka	28.3	31	52.6	50.7	53.1	40.8
Thailand	16.5	33.3	59.7	56.4	48.8	43.6
Vietnam	52.8	8.5	45	29.4	39.9	33.6

Source: World Bank, *World Governance Indicators, 2011.*

3.5 Conclusion

Sri Lanka's poor external sector performance in recent years does not bode well for a small economy aspiring to raise its per capita income, and sustain a high growth momentum. While the slowdown in world trade growth has had an inevitable impact on Sri Lanka's export performance, the sizeable decline of absolute export earnings in 2012 and in the first half of 2013 suggest that there are several domestic issues impeding export growth that require urgent attention.

An analysis of Sri Lanka's export competitiveness reveals that the country lags significantly behind neighbouring countries in the Asian region in terms of many competitiveness indicators. The incentive framework in place to promote export and investment growth is far from satisfactory. Sri Lanka's trade policy, which has been showing trends of increased protectionism over this decade – particularly in the form of proliferating para-tarrifs – is a significant concern. The country's limited involvement in regional and bilateral FTAs, especially in comparison with other Asian countries, has also restricted export competitiveness and market penetration. Moreover, the highly overvalued currency continues to adversely impact the competitiveness of Sri Lankan exports in the world market.

While Sri Lanka has made some progress in reducing transport and logistics costs over the years, there is scope for further improvement in comparison to many Southeast Asian economies. Additionally, high electricity costs and stringent labour regulations pose significant barriers on firms' ability to compete in the global market. Dealing with market and government failures is another essential area requiring priority attention. Overcoming problems such as information asymmetry, call for specific interventions and institutions. The role of a well-developed and targeted export promotion strategy is vital in this regard. Mitigating government failures is also vital if firms are to minimize production-related costs, and compete effectively in an international environment. In addressing numerous challenges in raising its external sector competitiveness, it is important for Sri Lanka to draw lessons from its competitor countries.

The Transition to a Middle-Income Economy

4. Driving Growth from the Middle: A First Look at the Middle Class in Sri Lanka

4.1 Introduction

The 2008 global recession depressed growth and reduced consumer spending in developed economies, but the Asian economies continued to grow, largely driven by expenditure by the up and coming middle class. This growing middle class wealth, and its size, are key factors that are steering the changing global economic landscape to be Asia-centric. In 2012, China surpassed the US as the world's leading market for personal computers (PCs); 69 million units of PCs were shipped to China, 3 million more than the number sold in the US.[1] China and India are also the world's first and second largest markets for mobile phones.[2] These are only some examples of the growing market power in China and India.

> *Sri Lanka has a small but growing global middle class. Balancing its growth with related demands on the economy can lead the way for sustained demand driven economic growth*

The middle class consumers have received greater attention in recent times due to the belief that a strong and large middle class is a prerequisite for sustained economic growth and development.[3] Demand led growth, as opposed to export led growth, has also been seen as a means of steering an economy out of the middle income trap - i.e., the phenomenon of an economy stagnating in the middle income level. The middle class is credited for stimulating growth in several ways. Primarily, the middle class drives economic growth through shifting aggregate demand. But that is not its only channel for promoting growth. Unlike the upper classes, the middle class source its income from labour. As such, the middle class consumers invest in education and skills development which leads to greater productivity.[4] The middle class consumers are also credited for supporting meritocratic systems of governance which allows them the opportunity for

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[1] Shaver, S.,(2013), "China Passes the United States as World's Biggest PC Market" http://www. upi.com/Science_News/2013/04/29/China-passes-the-United-States-as-worlds-biggest-PC-market/UPI-75121367281194/#ixzz 2TcN2nByv ', [accessed on 20th May 2013].

[2] ADB (2010), "The Rise of Asia's Middle Class: Key Indicators for Asia and the Pacific," Asian Development Bank, Manila.

[3] *Ibid.*

[4] Kharas, H., (2010), "The Emerging Middle Class in Developing Countries," Working Paper No. 285, OECD Development Center, Paris.

promotion and self-improvement through hard work.[5] Those in the middle class, being more selective consumers, have fostered innovation in affordable but efficient products. These attributes of the middle class are considered to be valuable for sustainable market-oriented economic growth and poverty reduction.

The size and the wealth of the middle class determine its power over the economy and governance structures. As such, the size of the middle class has become an important indicator, signaling growth and development of an economy. The middle class consumers of the US and other G-7 countries (U.K, France, Germany, Italy, Canada and Japan) have been the main source of aggregate demand in the world economy over the past fifty years.[6] The global middle class is estimated to grow from around 2 billion individuals, to nearly 5 billion individuals in the next two decades. Unlike in the earlier periods, this growth is estimated to be mostly driven by growth in middle class consumers in China and India, than due to the continual growth of the middle class in the G-7 countries. These changes to the size of the middle class are shifting the global demand patterns towards Asia. Greater purchasing power will also provide the background for emerging Asian economies to demand changes to the international governance and power structures.

However, the ability of the middle classes to drive economic growth over a long period will largely depend on the capacity of developing economies to face the challenges of countering the adverse effects of a growing middle class. The greater demand for better housing and durable goods brings with it a higher demand for electricity, energy, water, and other resources. Higher per capita consumption of energy and consumer goods generates more pollution and puts greater stress on natural resources. Unless countries are well prepared to meet these challenges, the positive effects of middle class expansion on the growth of the economy will be dampened.

In Sri Lanka too, there is evidence of a growing middle class. The incidence of poverty in the country has come down sharply over the past decade. There are indications of growing demand for advanced services and luxury products. Advertisements offering short holiday packages to foreign countries are common in daily newspapers. Car sales have risen markedly over the past decade. Luxury apartments in the city are increasingly being considered as housing options by, not only expatriates who opt for second homes in their native land, but also by young families who want the convenience of being close to the city. A growing number of newspapers are available online and they interact with their readers through social media – indicating a large and growing customer base with access to mobile phones and computers. These are luxuries that the poor or the near poor cannot afford, and the level of this demand is too large to be driven only by the rich. These clearly indicate that the middle class is growing in Sri Lanka.

The influence of a growing middle class on an economy and its people depend on particular country contexts. It also depends on the size, the growth, and the purchasing power of the middle class and the preparedness of the country to deal with the demands of a growing middle class. The purpose of this Chapter is to examine the size of the middle class in Sri Lanka, and to assess its

[5] Birdsall, N., *et. al.*, (2000) "Stuck in a Tunnel: Is Globalization Muddling the Middle?", Working Paper 14, Brookings Institution, Washington, D.C.

[6] Kharas, H., (2010), "The Emerging Middle Class in Developing Countries," Working Paper No. 285, OECD Development Center, Paris.

potential influence on the economy in the years to come.

4.2 What is the Middle Class?

The literature defines the middle class in a variety of ways. Historically, the middle class was a social class characterized by intellectuals that were neither capitalists nor workers. They were the well-educated service providers and small scale entrepreneurs, who were hard working and had relatively secure and substantial incomes that allowed them to own houses, demand better quality services, and enjoy comfortable lifestyles. Despite its initial classification on social terms, in recent times, economists have chosen to define the middle class using economic terms such as income or consumption, in order to better quantify its size. These definitions mainly take two approaches: the relative approach, and the absolute approach.

Those using the relative approach use two main means of defining the middle class. In one relative measure, the middle percentiles of the income distribution are used to measure the middle class. For example, using this approach, Easterly (2000) defines the middle class to be those between the 20th and the 80th percentile in the consumption distribution.[7] One major shortcoming in this approach of measuring the middle class, is that the size of the middle class is fixed by definition. In the second relative approach, the middle class is defined relative to the median per capita income. For example, Birdsall, *et. al.* (2000) define the middle class to be those earning 0.75 to 1.25 times the median income of an economy.[8] In both these relative approaches, the yard stick for defining the middle class changes from country to country. These relative measures of defining the middle class are sometimes referred to as the 'developing middle class' as these are consumers who are 'middle class' according to the standards of the developing world, but not necessarily according to that of the developed world.

The literature defining the middle class using an absolute approach defines the middle class as those earning some benchmark income range. For example, Bhalla (2007) defines the middle class to be those earning more than US$ 3,658 (in 2006 prices) a year, or US$ 10 a day, in purchasing power parity (PPP) terms.[9] Kharas and Gertz (2010), taking an absolute approach, defines the middle class as those households with daily expenditure between US$ 10 and US$ 100 per person per day in PPP terms.[10] Since this definition of the middle class is common to all individuals across countries, the middle class defined this way is also referred to as the 'global middle class'. There is much interest in the size and growth of this global middle class, as they are the consumers who influence global demand through their taste for branded goods such as designer clothes, latest technical appliances, and education and health services.

This Chapter will use an absolute approach to measure the middle class. Following Kharas and Gertz (2010), individuals living in households spending between (PPP) US$

[7] Easterly, W., (2000), "The Middle Class Consensus and Economic Development," Policy Research Working Paper 2346, World Bank, Washington, D.C.

[8] Birdsall, N., *et. al.*, (2000), "Stuck in a Tunnel: Is Globalization Muddling the Middle?" Working Paper 14, Brookings Institution, Washington, D.C.

[9] Bhalla, S., (2007), "Second Among Equals: The Middle Class Kingdoms of India and China," Peterson Institute for International Economics, Washington, D.C.

[10] Kharas, H. and Gertz, G., (2010), "The New Global Middle Class: A Cross-Over from West to East," Wolfensohn Center for Development at Brookings, Washington D.C.

10-100 per person in PPP,[11] will be defined as the 'global middle class'.[12] For ease of exposition, those individuals living in households spending (PPP) US$ 2 to (PPP) US$ 10 (not including (PPP) US$ 10) will be referred to as the 'local middle class', those individuals living in household spending less than (PPP) US$ 2 a day per person will be referred to as the 'poor', and those individuals spending (PPP) US$ 100 or more per person per day will be referred to as the 'rich'.

4.3 Characteristics of the Middle Class

4.3.1 Spending Patterns of the Middle Class[13]

As incomes increase, people's consumption patterns will also change. One main change is in the proportion of incomes spent on food. With a lower proportion of their income spent on food, the wealthier households have more disposable incomes to spend on other productive, as well as leisure activities. One main area where expenditure increases with higher incomes is on entertainment. Although the poor spent almost nothing on entertainment, those in higher income groups spend proportionally higher shares of their income on entertainment

Unlike with entertainment, the proportion of expenditure on education does not always rise with higher expenditure levels. In some countries, the proportion of expenditure on education remains constant for different income levels, while it increases for other countries. However, in urban areas, the middle class tend to spend more on educating their children. The correlation between expenditure on health and income is clearly positive for most countries, but again the magnitude of this increase varies from country to country. In particular, the middle class tends to spend more on health care. These differences in spending patterns on health and education partly reflect the nature of social infrastructure available in a country. In countries where social services are subsidized by the government, the need for out-of-pocket expenditure (OOPE) on those services would be less. However, it must be noted that these observations are made for households with daily per capita expenditure less than (PPP) US$ 10 per person. For higher expenditure groups, these observations could change.

Housing is also another major commodity on which private expenditures increase with income. Individuals in higher income classes own houses that are bigger. In general, those in the middle class own houses that have on average 1.5 more rooms than those in the poorest households. This is despite the fact that middle class households tend to be smaller. Further, houses owned by the middle class tend to have better facilities – such as electricity, running water, and latrines – compared to the houses owned by the poor.

With the growth of the middle class, consumer demand for durable goods such as cars, refrigerators, televisions, and mobile phones, have increased several folds. The middle class income elasticity of demand for durable goods and services are estimated to be greater than one, indicating that a small change in the incomes of the middle class can induce a large effect on their consumption patterns. As described in ADB (2010),[14] in absolute terms, these increases are mostly apparent in China and India, given their large markets,

[11] For comparisons across countries, local currencies are converted to purchasing power parity adjusted 2005 US dollars. In this Chapter these hypothetical units of currencies are referred to as (PPP) US$.

[12] Kharas, H. and Gertz, G., (2010), "The New Global Middle Class: A Cross-Over from West to East," Wolfensohn Center for Development at Brookings, Washington D.C.

[13] Unless otherwise noted, this section largely draws on Banerjee, A. V. and E. Duflo (2008), "What is Middle Class about the Middle Classes around the World?," *Journal of Economic Perspectives*, Vol. 22, No. 2, pp. 3-28.

[14] ADB (2010), "The Rise of Asia's Middle Class: Key Indicators for Asia and the Pacific," Asian Development Bank, Manila.

but the proportion of households owning these assets have increased in most countries. However, the patterns of demand vary widely across countries. For example, the proportion of households with televisions and refrigerators are much higher in China and the Philippines, compared to India. While the demand for cars are high in India and the Philippines, it is very low (2.7 per cent) even amongst the upper middle classes (those earning between (PPP) US$ 10 to (PPP) US$ 20 per capita per day) in China. These differences are only partly explained by taste differences. For the most part, access to electricity and other infrastructure are important determinants of these demand patterns.

4.3.2 Employment Patterns of the Middle Class

Banerjee and Duflo (2008) find that the occupational patterns are fairly similar across different income groups, with the one exception of agricultural engagement of the middle class in rural areas. They find that the middle class is less likely to be engaged in agriculture in rural areas than the poor. The middle class is less likely to own land and be self-employed, or work for wages in agriculture in rural areas. Conversely, the middle class is more likely to be engaged in non-agricultural self-employment activities in rural areas in most countries. However, in urban areas, there is not much difference between the occupational patterns of individuals across income groups. Banerjee and Duflo (2008) find that the businesses run by the middle class are generally very small. They are mostly run by the owner, working long hours, with the support of a couple of family members. As such, these enterprises are less likely to influence the general economy and are activities conducted for sustenance. The ADB (2010) also finds evidence to show that in rural areas, the middle class are less likely to be engaged in agriculture but are more likely to be engaged in production related enterprises. Further, this study finds that in urban areas, middle class consumers are more likely to be engaged in professional, technical, or office jobs.

Banerjee and Duflo (2008), defining middle class as those spending between (PPP) US$ 2-10 per person per day, find that the key difference between the poor and the middle class is who they are working for, and their terms of contract. Also, although the poor are more likely to be in temporary work situations that change often, and are more likely to migrate in search of temporary jobs, the middle class individuals are more likely to be in secure job situations and earning a salary. The poor are also more likely to do jobs that do not come with social security, partly because they tend to be temporary jobs, while the middle class will have more job protection. In particular, they find that the middle class entrepreneurs are strikingly similar to poor entrepreneurs, especially in urban areas. In both classes, enterprises are likely to be very small, they employ only a handful of workers – mostly sourced from within the household – and the enterprises have very little capital assets. According to them, this is partly due to poor access to credit and the high price of capital for both the poor and those in the middle class, although access to credit is somewhat better for those in the middle class. As such, even when the marginal returns to investments are high, the average returns remain low. They find that better paying secure employment to be one main characteristic that distinguishes the middle class from the poor. Further, the same study finds that those in the middle class are more likely to move to different places for employment, compared to the poor. The ADB (2010) – examining employment behaviour in India, China and the Philippines – finds evidence to support this theory. They find that the largest share of employment among the poor and the near poor (i.e., those earning less than (PPP) US$ 4 a day per capita) is self-employment, while the largest share of employment among those earning (PPP) US$ 4 a day is regular or permanent wage employment.[15]

4.3.3 Education Attainment of the Middle Class

The ADB (2010) finds that middle class individuals are much more likely to hold a university degree than the poor.[16] However, the shares of population with university degrees vary widely across countries. For example, while only 9 per cent of those in the middle class in Pakistan had a university degree, as much as one-third of those in the middle class in Indonesia had a university degree. Banerjee and Duflo (2008) find that the middle class consumers are likely to have smaller families and are more likely to invest in the health and education of their children.[17] They are also more likely to invest in their own health.

4.4 Factors Affecting the Growth of the Middle Class and its Influence on Growth and Development

4.4.1 Determinants of the Middle Class

Given that large middle classes are credited for sustained economic growth, good governance, better democracy, political and macroeconomic stability, and improved institutions, it is interesting to examine the determinants of a middle class.

As per poverty reduction, inclusive growth and reduced inequality has a key role to play in increasing the middle class. In addition to these, according to ADB (2010), two main factors influence the growth of the middle class: access to stable, well-paid, and secure employment; and access to higher education.

As described earlier, the most distinguished feature between the poor and the middle class is the fact that the middle class are engaged in regular wage jobs. Being in a stable well-paying job gives the middle class the space and the resources to improve their living standards, be more engaged politically and demand for better services. The ADB (2010) study showcases post-World War II US as evidence. The US saw a rapid growth of the automobile industry in the early 20th Century, and the resulting provision of a large number of middle class employment opportunities paved the way for the expansion of the middle class. However, the availability of jobs alone did not improve the living standards of the workers. In the late 1930s, with lobbying by strong unions, workers and employers came to an agreement where in exchange for commitment, productivity, and loyalty, the companies' ensured good wages, and job and social security to the workers.

The second most important factor in fashioning a growing middle class is access to education. The post-World War II Servicemen's Readjustment Act of 1944 of the US (informally referred to as the G.I. Act) paved the way for war veterans to enter university, which resulted in more than doubling the number of youth graduating from universities by 1950, from its pre-World War II levels.[18] The proportion of young adults attending university increased from 10 per cent before the end of the war, to 51 per cent after the introduction of the G.I. Act. This investment in higher education is credited for the improved professional authority in society, and for meritocratic social change.

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[15] ADB (2010), "The Rise of Asia's Middle Class: Key Indicators for Asia and the Pacific," Asian Development Bank, Manila.

[16] *Ibid.*

[17] Banerjee, A. V., and E. Duflo (2008), "What is Middle Class about the Middle Classes around the World?," *Journal of Economic Perspectives*, Vol. 22, No. 2, pp. 3-28.

[18] ADB (2010), "The Rise of Asia's Middle Class: Key Indicators for Asia and the Pacific," Asian Development Bank, Manila.

4.4.2 Influence of the Middle Class on Growth and Development

The middle class influences growth in several ways. Banerjee and Duflo (2008) find three main theories supporting the argument that the middle class has a positive influence on economic growth. The first is the theory that the middle class fosters entrepreneurship which leads to employment and productivity growth. However, examining the characteristics of the middle class, little support is found for the argument that it fosters entrepreneurism and, therefore, employment. As mentioned earlier, on the contrary, Banerjee and Duflo (2008) find that middle class entrepreneurs are more likely to be subsistence entrepreneurs who own small businesses. Indeed, the most distinguishing feature of the middle class consumers is that they have steady, well-paying jobs.

The second is the theory that the middle class promotes values such as savings and human capital accumulation which are beneficial for growth. Kharas (2011) finds support for this argument.[19] He shows that the middle class influences growth through the promotion of growth-enhancing values such as work attitudes, savings, and investments in human capital. Using the results of the 'World Value Survey', he shows that the values of Indians have changed over time. For example, Indians valuing doing an interesting job, as well as a job with security that pays well, has increased to 74 per cent in 2001, compared to 47 per cent in 1995. Further, the proportion of Indians thinking that using initiative is good in a job has risen from 46 to 64 per cent from 1995 to 2001. These are attributes which lead to greater labour productivity. The values parents think that children should have in order to be successful has also changed over time. Compared to 1995, a higher proportion of parents thought values such as independence, hard work, thrift and savings, and determination, and perseverance, are important for success in 2001.

The third is the theory that the middle class promotes growth through increasing the purchasing power of the economy. Further, being more conscious of quality, the middle class promote investments in value addition, product differentiation, and marketing, thereby creating employment and raising incomes. Several studies find support for the influence of the middle class on the economy through promoting demand, especially for better quality goods and services. The middle class consumers have a higher proportion of disposable incomes, and are more likely to demand better quality products and services, and luxury goods. As explained by Bhalla (2007), the poor and those that are just above poverty are too concerned about fulfilling their basic requirements that they are unlikely to have a large influence on global demand.[20] On the other hand, a large middle class that demands quality, and that has a preference for luxury goods, are more likely to shift out the aggregate demand curve. When the size of this middle class population is large, they not only influence the aggregate demand in their own countries, but also that in the global economy. For example, first China and then India, with the growth of their middle classes have gained the interest of international companies as places to market their products – a marked change from the subject of earlier interest in those countries as places for producing cheap goods.[21]

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[19] Kharas, H., (2011), "The Rise of the Middle Class," in E. Ghani, *Reshaping Tomorrow: Is South Asia Ready for the Big Leap*, Oxford University Press, India.

[20] Bhalla, S., (2007), "Second Among Equals: The Middle Class Kingdoms of India and China," Peterson Institute for International Economics, Washington, D.C.

[21] ADB (2010), "The Rise of Asia's Middle Class: Key Indicators for Asia and the Pacific," Asian Development Bank, Manila.

In addition to the above channels, the ADB (2010) study shows that the increased demand for quality products and services promotes investment in innovation. The rising middle class, especially the lower middle class has provided the necessary stimulus for enterprises and individuals to produce new innovative products that are both affordable to the lower middle classes, while being superior in terms of functionality and efficiency. These products range from service goods such as insurances and banking, to manufacture goods such as hygiene products. What is different about this new wave of innovations trends is that it caters to a more fastidious set of consumers who are harder to please. Examples of innovations spurred by this growing lower middle income classes abound. These include the US$ 2,200 and fuel efficient 'Nano car', and the US$ 70 battery-operated refrigerator.

Lastly, the middle class is credited for greater political stability. Countries with large middle classes are politically more stable - sometimes referred to as the middle class consensus – while countries with smaller middle classes tend to be polarized between the elite and the working classes in their struggles to remain in power. Easterly (2000) credits the middle class for improving human development through better governance and effectiveness of social institutions. Supporting this hypothesis, the ADB (2010) study gives the example of the 'Citizen's Report Card' in Bangalore, where public ratings of municipal services resulted in the improving of public services. Examining the links between poverty, the middle class, and the institutional outcomes across countries, other studies find that as the middle class becomes larger, social policies on education and health become more progressive, and the quality of governance improves (Loayza, Rigolini, and Llorente, 2012).[22] Further, these changes take place along with more market-oriented economic policies on trade and finance. They also find that these beneficial effects of having a middle class are more than those gained from poverty reduction, equity, or better per capita income.

4.4.3 Adverse Consequences of a Growing Middle Class

Along with the above mentioned beneficial effects of the middle class, a growing middle class can also challenge the economy in several ways. First, it can put a considerable stress on the natural resources of a country. The demand for better housing and other infrastructure will put pressure on land usage. Unless carefully planned and monitored, the extent of land available for forests and agriculture can be threatened by the increased demand for land for housing.

Second, along with greater demand for durable goods, cars and electronic goods, the demand for water, electricity and energy can increase substantially in a country. At present, the per capita water consumption in India and China are only a fraction of the amounts of water used by US consumers.[23] However, the level of water consumption is highly correlated with the family size, the education level of the wife of the head of the household, and the living standards of the household. These results indicate that with the growth of the middle class, the demand for water will also increase. Unless respective governments accurately predict the increasing demand for these resources, and take actions to plan for means of meeting this increasing demand in an affordable manner, the countries could face grave social and eco-

[22] Loayza, N., et. al., (2012), "Do Middle Classes Bring Institutional Reforms?", Policy Research Working Paper 6015, World Bank, Washington, D.C.

[23] Asian Development Bank (2010), "The Rise of Asia's Middle Class: Key Indicators for Asia and the Pacific," Asian Development Bank, Manila.

nomic consequences. The same is true for the demand for electricity and energy.

Third, greater consumption will also create larger amounts of waste. The carbon dioxide emissions in Asian countries are still substantially less than those in Europe and the US.[24] For example, the per capita carbon dioxide emissions in China and India are only 6 and 18 per cent, respectively, of that in the US at present. However, both the absolute and the per capita levels of carbon dioxide emissions have increased at much faster rates in Asia, compared to Europe and the US.

Lastly, along with life style changes that accompany improved living standards, the epidemiological profile of a country will change. Already there are indications that NCDs are on the increase in Asian countries. The increase in these diseases is commonly attributed to the rise in high-carbohydrate, high-fat diets, and the consumption of processed foods. Modern conveniences that restrict physical activities associated with traditional life styles are also responsible for the greater incidence of obesity, diabetes, and diseases such as cardiovascular diseases.

4.5 The Sri Lankan Middle Class

4.5.1 Purchasing Power of the Middle Class

Along with the rise in middle class consumers, their purchasing power will also change. For example, according to Kharas and Gertz (2010), by 2030, India (with the consumption of the middle class amounting to nearly (PPP) US$ 13,000 billion) will replace the US as the top middle class consumer, followed by China. Sri Lanka with a GDP of only 3 per cent of India's in 2010, is unlikely to make a substantial impact in global consumption patterns. Further, in Sri Lanka only 0.82 million people spent more than (PPP) US$ 10 per capita per day in 2009/10, indicating that the country's impact on the global economy is likely to be minimal.[25] This is only a small increase (30 per cent) from the 0.63 million who spent more than (PPP) US$ 10 per capita per day in 2002.[26] In comparison, the proportion of population spending more than (PPP) US$ 10 a day per capita increased by more than 300 per cent in China during the same period.[27] However, the Sri Lankan global middle class has the potential to make changes in the internal market, as discussed in the rest of this section.

4.5.2 Size and Income Distribution of the Middle Class in Sri Lanka

The middle class in Sri Lanka account for 4 per cent of the population, when calculated using Department of Census and Statistics (DCS) household income and expenditure survey (HIES) 2009/10 data.[28] As seen in Figure 4.1, a majority of the Sri Lankan population belong to the local middle class. Even among these, most are spending just above (PPP) US$ 2 a day per capita. The highest proportion of the population earned (PPP) US$ 2-3 per day per capita. Around 23 per cent of the population is spending less than (PPP) US$ 2 a day per capita, and a very small proportion (0.03 per cent) is rich. The global middle class situated at the tail end of the income distribution indicate that a majority of the global middle class are earn-

[24] *Ibid.*

[25] Calculated using DCS 2009/10 HIES data. These estimates are confirmed by the PovcalNet (the on-line tool for poverty measurement developed by the Development Research Group of the World Bank, http://iresearch.worldbank.org/Povcal Net/index.htm?2#).

[26] Estimated using PovcalNet.

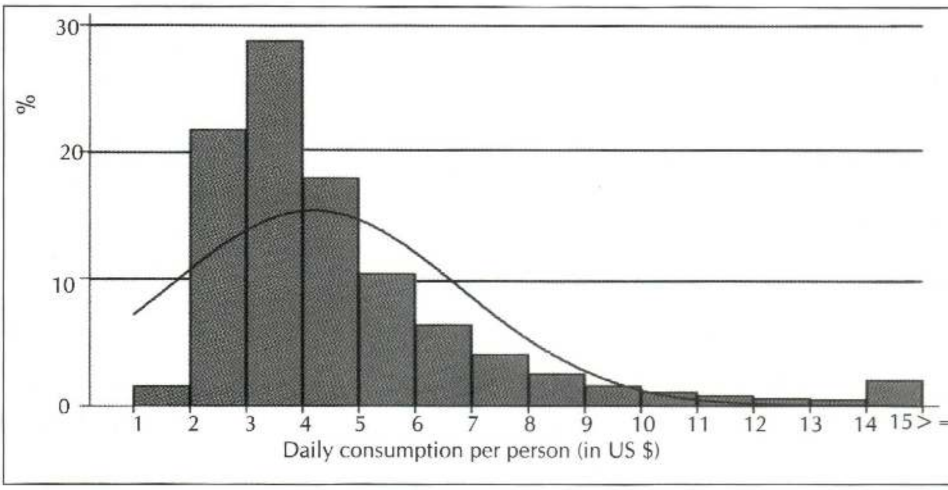
[27] Estimated using PovcalNet.

[28] The middle class is defined as those spending (PPP) US$ 10 to (PPP) US$ 100 per capita per day according to purchasing power parity adjusted 2005 international dollars.

Definition of Income Classes used in the Chapter

Poor	–	Households spending less than (PPP) US$ 2 a day per capita
Local middle class	–	Households spending (PPP) US$ 2 or more but less than (PPP) US$ 10 a day per capita
Global middle class	–	Households spending (PPP) $10 or more but less than (PPP) $100 a day per capita
Rich	–	Households spending more than (PPP) US$ 100 a day per capita

Figure 4.1
Income Distribution in Sri Lanka



Note: Each bar represents (PPP) US$ 1 and the final bar represents those spending (PPP) US$ 14 or more. All values are given in purchasing power parity adjusted 2005 dollars.

Source: Calculated using DCS, HIES 2009/10 data.

ing just above (PPP) US$ 10 per day per person, while only a very small proportion are earning more.

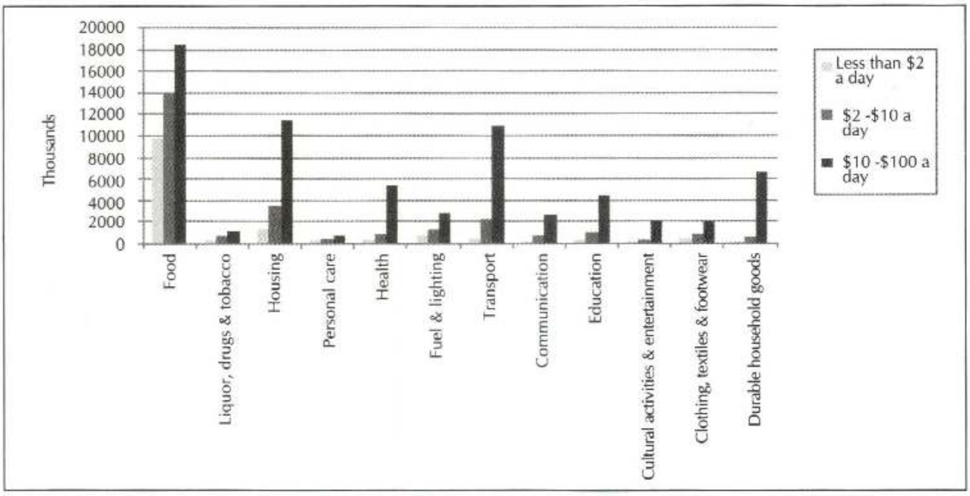
4.6 Characteristics of the Sri Lankan Middle Class

4.6.1 Consumption Patterns of the Middle Class

The poor spent (PPP) US$ 1.5 a day per head on average, while the local poor spent more than twice that amount [(PPP) US$ 3.9 per head per day],[29] and the global middle class spent (PPP) US$ 16 per head per day on average. Although the global middle class in Sri Lanka spent about four times the amount spent by the local middle class, the average is skewed towards the lower bound of their income class [i.e., closer to (PPP) US$ 10 than (PPP) US$ 100]. For all three groups, the main expenditure item was food (Figure

[29] All currencies are in purchasing power parity adjusted to 2005 US dollars in this paragraph.

Figure 4.2
Monthly Average Household Consumption, by Type of Expenditure and Income Class



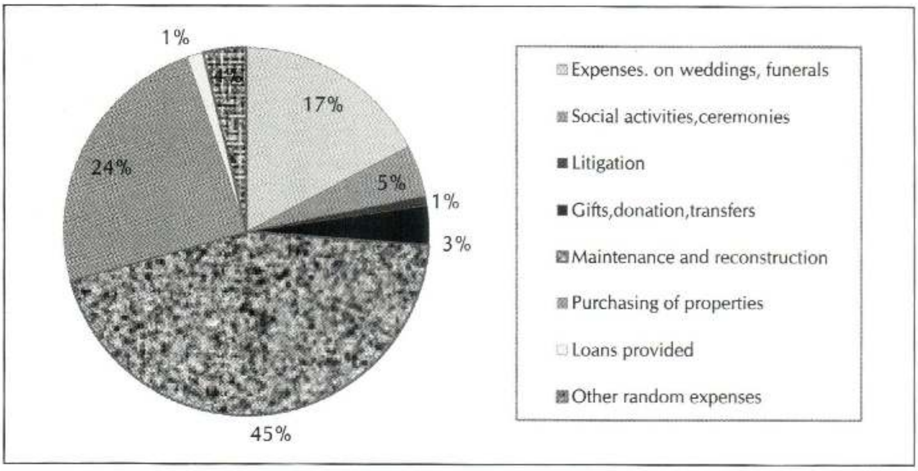
Notes: Expenditure on liquor, drugs and tobacco, and personal care are not shown as the expenditure on these items are small. Food excludes expenditure in narcotics; entertainment includes expenditure on cultural activities; housing expenditure includes estimated values for owner occupied houses; non-consumption expenditure incudes expenditure on payment of debts, social security, savings, taxes and insurance; ad hoc expenses include expenditure on maintenance and reconstruction, purchase of properties, expenditure on weddings and funerals, gifts, etc.

Source: Calculated based on DCS, HIES 2009/10 data.

4.2). However, while the poor spent 65 per cent of their expenditure on food, the local middle class and the global middle class spent only 45 per cent and 18 per cent on food, respectively. The higher expenditure on food is partly explained by the type of food consumed by different groups. Those in the global middle class spent more on fish, meat, and fruits, and processed foods, relative to the other two groups.

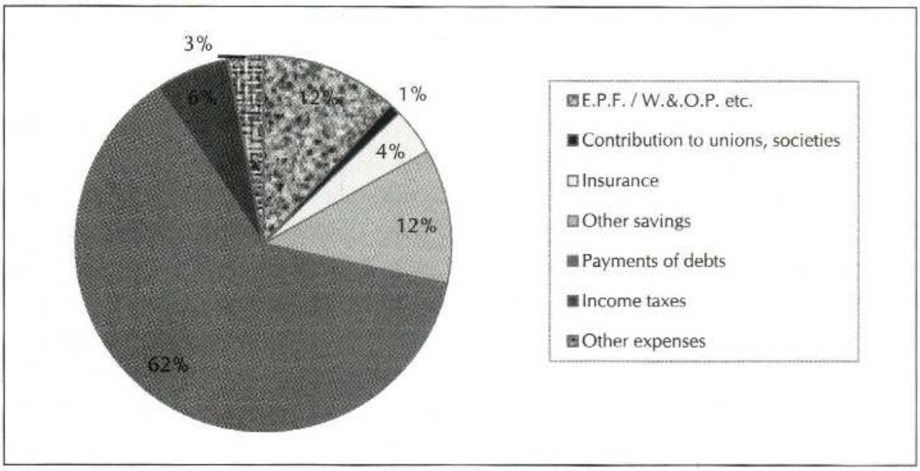
The poor spent only marginal amounts on other goods. The local middle class households spent more on other goods, but only marginally higher amounts than the poor. Only their expenditure on housing, non-consumption expenses and transport was markedly higher. In comparison, the global middle class spent considerably more on a variety of items. The main expenditure items for the global middle class included ad hoc expenses, non-consumption expenses, housing, transport, durable goods, health, and education.

Figure 4.3
Composition of Ad Hoc Expenses by the Global Middle Class in Sri Lanka



Source: Calculated based on DCS, HIES 2009/10 data.

Figure 4.4
Composition of Non-consumption Goods of the Global Middle Class in Sri Lanka

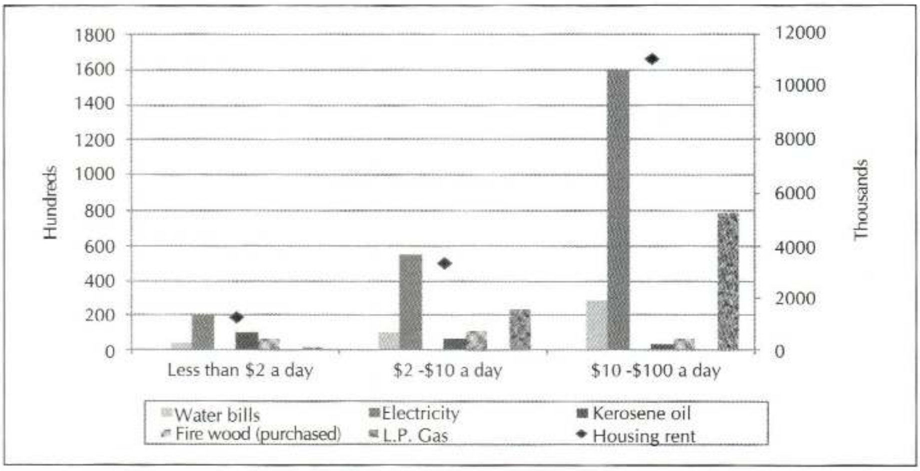


Source: Calculated based on DCS, HIES 2009/10 data.

The main expenditure under ad hoc expenses included expenditure on maintenance and reconstruction, purchase of properties, and weddings and funerals (Figure 4.3). The main expenditure under non-consumption expenses included the payment of debts, social security payments, and savings (Figure 4.4). These findings indicate that the global middle class is likely to invest more, as well as save more. Also, unlike with a largely subsistence economy, those in the global middle class open avenues for new service sectors in areas such as entertainment, other social activities, and insurance.

4.6.2 Expenditure on Housing

Figure 4.5
Expenditure on Housing, by Type of Expenditure and Income Class



Source: Calculated based on DCS, HIES 2009/10 data.

Both the local and the global middle class households in Sri Lanka spent about 11 per cent of their income on housing. The largest housing expense for all classes is rent (rent includes imputed values for those who own houses). The higher amounts spent on rent by the global middle class indicate that they live in more expensive locations, as well as in bigger houses with better facilities. This is somewhat confirmed by their expenditure on housing facilities (Figure 4.5). The second largest expenditure item under housing for the global middle class is electricity, followed by L.P. gas. Compared to the other two classes, the global middle class household also spent a higher amount on water bills. These statistics confirm the international findings that the global middle class will also increase the demand for utilities and natural resources.

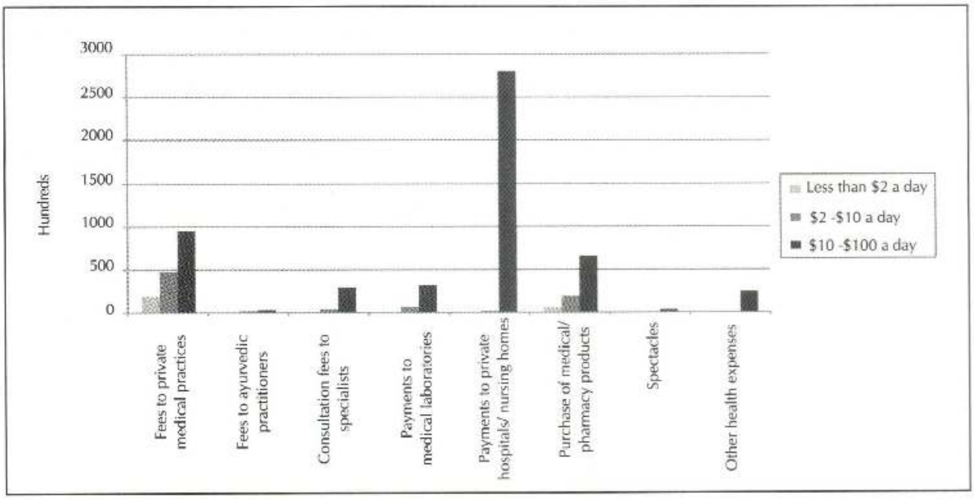
4.6.3 Expenditure on Transport and Durable Goods

The main expenditure on transport for the global middle class is on running, servicing, and licensing and insurance, and maintaining vehicles. The local middle class also spent a little on petrol. However, the main means of transport for the poor are trains and buses. Unlike the other two groups, the global middle class also, on average, spent a small amount of money on ships and airlines. The major component of durable goods for the global middle class consumer was vehicles. A fairly small amount (about Rs. 157 per month on average per household) was also spent by the global middle class on computers. Again these statistics confirm the findings of the other studies that the global middle class increases the demand for technology and durable goods. Also, unlike in other countries, the demand for durable goods in Sri Lanka is mainly concentrated on vehicles.

The expenditure on health by income group shows that the market for private nursing homes, consultation fees for specialists, and payment to laboratories, is mainly driven by expenditure by the global middle class in Sri

4.6.4 Expenditure on Health and Education

Figure 4.6
Expenditure on Health, by Type of Expenditure and Income Class

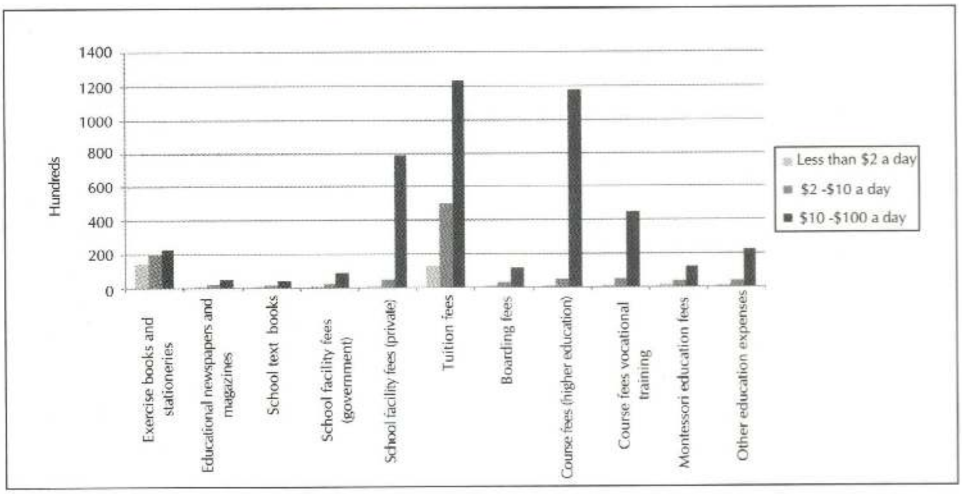


Note: Expenditure on spectacles not included as the amounts spent are small for all groups.

Source: Calculated based on DCS, HIES 2009/10 data.

Lanka. However, the market for private medical practitioners and medical and pharmacy products are also influenced by the local middle class and, to a lesser extent, by the poor (Figure 4.6).

Figure 4.7
Expenditure on Education, by Type of Expenditure and Income Class



Source: Calculated based on DCS, HIES 2009/10 data.

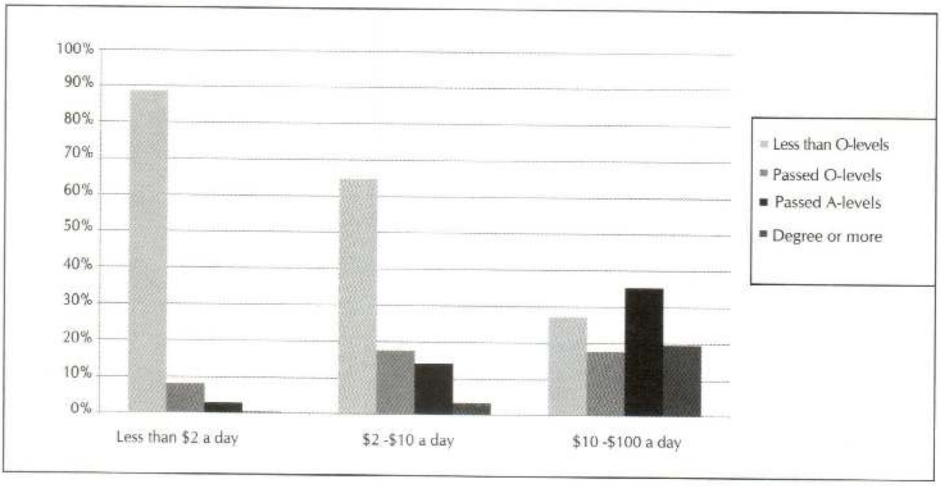
The main expenditure on education for all groups was on private tuition fees. The amount spent on these by the global middle class far exceeds the amounts spent by the other two groups (Figure 4.7). The second highest expenditure item for the local middle class and the poor is on stationary and exercise books, and this is partly because education is provided free of charge at public schools. For the global middle class, it is on course fees for higher education, followed by school fees for private schools and fees for vocational training.

4.6.5 Employment and Education

The data clearly shows that the employed global middle class is far more educated than those in the other two groups (Figure 4.8). Almost 90 per cent of the employed poor and close to 65 per cent of the employed local middle class, also have not passed O-Levels. In comparison, close to 55 per cent of the global middle class have at least passed A-Levels. Close to a fifth (19.7 per cent) of the global middle class employed were degree holders, and 6 per cent of those had obtained post-graduate qualifications. In comparison, only 3.4 per cent of the local middle class employed were degree holders, and only 0.6 per cent of them had post graduate qualifications. Less than 0.5 per cent of the poor were degree holders. These statistics suggest that either those in the global middle class value education more, or that they have better access, as they have more funds to spend on tertiary education.

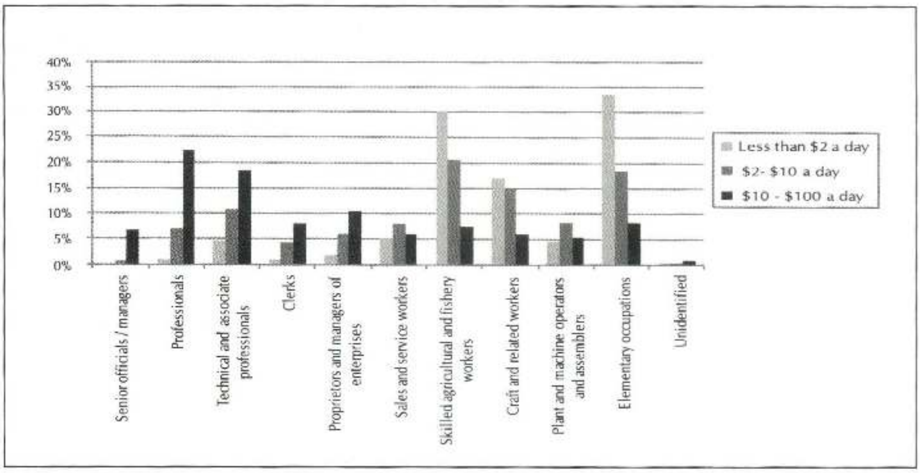
The main difference across employment status across income classes is the level of employment in public service. About a third of those in the global middle class were public employees, while just below a fifth of those in the local middle class were in the public service. For the poor, this proportion is only 6 per cent. Around 30 per cent of the poor and the local middle class are own account workers, but only 20 per cent of the global middle class are own account workers. However, a higher proportion of the global middle class were employers (7 per cent), compared to the local middle class (2 per cent) and the poor (0.3 per cent). The poor were more likely

Figure 4.8
Education of Employed, by Income Class



Source: Calculated based on DCS, HIES 2009/10 data.

Figure 4.9
Occupation, by Income Class



Source: Calculations based on DCS, HIES 2009/10 data.

to be private sector employees (58 per cent), followed by the local middle class (43 per cent), and the global middle class (37 per cent). While available data does not allow formal private sector employment and casual and contractual private sector employment to be differentiated, it is likely that the poor private employees are in less secure employment situations.

Among occupation categories, the largest category for the global middle class is professionals, followed by technical and associate professionals (Figure 4.9). For the local middle class, the largest occupation category is skilled agriculture and fishery workers, followed by elementary occupations and craft workers. The largest occupation category for the poor is elementary work, followed by skilled agriculture and fishery work, and craft related work.

4.7 Discussion and Conclusion

4.7.1 Size of the Global Middle Class and the Potential for its Expansion

The global middle class in Sri Lanka has increased over time, but its size is still less than 5 per cent of the population. Also, given the fact that even the local middle class in the country is still largely spending just above (PPP) US$ 2 a day, unless concerted efforts are made to increase the incomes of people, the proportion of the global middle class people in the country will not increase sharply in the near future.

International literature suggests that the best means of expanding the size of the global middle class is through the expansion of tertiary education and improved access to secure well-paying employment opportunities. The above analysis shows that those in the global middle class in Sri Lanka are professionals, and technicians and associate pro-

Poor planning and delays in the implementation of planned power generation solutions have led to supply shortages in the country. Short term solutions brought about to increase supply has made electricity very expensive, restricting its usage.[30] There are other areas where the country has to improve infrastructure fast, in order to avoid serious bottlenecks. Sri Lanka is losing large amounts of money in terms of increased travel time, increased usage of energy, road accidents, and pollution due to congestion on the roads. Challenges in improving solid waste management to meet growing demand have created environmental issues, which has led to increased incidences of diseases, such as dengue.

The expansion of the global middle class will put pressure on existing social infrastructure as well. This will be partly due to rising tastes for better quality and more convenient services. This is apparent in the higher expenditure on private medical services and private education services by the global middle class. This is partly also due to the changing demand for different types of services. For example, the incidences of NCDs have increased in recent decades with changing eating and life style habits. The global middle class is spending more on higher education and vocational training. This indicates that the need is not only for improving the quality of services, but also for the differentiation of services to meet changing demand patterns.

The expanding global middle class will open avenues for new businesses. For example, unlike the local middle class, the global middle class is seen to spend money on travelling overseas (expenditure on airplanes and ships), and new technology (computers). The global middle class demand for private medical facilities and professionals, as well as private education facilities, is also higher.

Sri Lanka has a small but growing global middle class. Its size is too small to make a dent in the global consumer patterns. However, the above analysis indicates that it can influence the local economy positively in several ways. The global middle class will open avenues for new markets, such as in entertainment, travel, and transport. There are already indications that there is pressure to improve the quality and coverage of education and health services in the country. Better education and better avenues for formal better-paid employment will pave the way to increase the global middle class in Sri Lanka. However, any plans to expand the global middle class will need to go hand in hand with plans for improving physical and social infrastructure in the country. In their absence, these will constrain potential growth, and lead to social disaffection in the country.

[30] See Chapter 7 of this report on "Sustaining Power Sector Growth for Economic Development".

5. Investing in the Future: Maximizing Sri Lanka's Youth Potential

5.1 Introduction

Youth are an important asset in realizing a country's development aspirations. If fully harnessed with access to quality education, healthcare, employment, and financial resources, the youth of a country can play an innovative role in furthering the human and economic development efforts of a country. Investing in youth, therefore, is critical. These investment commitments will yield a high return as the youth are essentially the future leaders of a nation.

Indeed, as Sri Lanka aims to work towards a transition to an upper middle income economy, many of the changes driving modern economies up the income ladder – technological innovation and globalization – benefit the skilled and educated youth of a country. At the same time, the youth have to be equipped with the necessary skills to enhance their capacity to engage in the development activities of the country. A constant monitoring and evaluation of progress is essential to ensure that youth are given the necessary access to the country's physical and social infrastructure so that they are full partners in the social mobility that comes with higher income growth. While there are many evaluation frameworks in place to look at these issues, the Millennium Development Goals (MDGs) stand as a popular and accepted universal framework. The purpose of such frameworks is to help galvanize development efforts and guide countries to achieve their national development priorities.

> ***Sri Lanka stands as an example of youth development for South Asia, especially in reducing youth poverty and unemployment, and addressing youth reconciliation***

The conventional MDGs cover all age groups. The goals are: eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, Malaria and other diseases; ensure environmental sustainability; and develop a global partnership for development. The youth are represented fessionals, and that they are also more likely to have passed A-Levels and gone on to do higher studies. This suggests that expanding education opportunities for tertiary and vocational training will play a key role in expanding the size of the global middle class in Sri Lanka. However, the above analysis suggests that a large proportion of the employed local middle class have not even passed O-Levels. Hence, to improve living standards of the current local middle class, along with expanding opportunities for tertiary and vocational training, the government will need to pay attention to improving the quality of education at lower levels, so that individuals will have the foundation for pursuing higher education. Further, the analysis on expenditure on education shows that while the global middle class spent large amounts on private tertiary and vocational training, the amounts spent by the local middle class on those education items are small. This suggests that there is a need for providing financial assistance for those with lower income levels to pursue tertiary and vocational training.

Along with better education, better avenues for formal sector employment opportunities with social protection will also pave the way for the expansion of the Sri Lankan global middle class. Given that the public sector in Sri Lanka is already fairly large, the expansion of formal employment will need to take place, especially in the private sector. The above analysis shows that the global middle class is more likely to be employers. Although the proportion of employers among the global middle class consumers is small, it is several times higher than the proportion of employers among the poor and the local middle class. This suggests that expanding the global middle class will also increase private sector employment. However, as the proportion of the global middle class employers are fairly small, at least initially, the government will need to encourage the expansion of productive formal sector employment.

The literature shows that a large middle class can influence governance structures and improve the provision of public services in the country. However, given the small size of the global middle class, it is unlikely that the global middle class in Sri Lanka will have a substantial influence on the governance and institutional structures of the country. This is evident by the resistance faced by the government in their attempt to introduce initiatives to expand opportunities and the scope of tertiary education, by allowing the private sector to enter the market.

The above analysis indicates that the global middle class saves and invests more than the other two groups, indicating that the expansion of the global middle class will also increase savings in the country. However, high levels of expenditure on electricity, L.P. gas, and fuel, restricts the purchasing power of the global economic class on other goods. These are mainly imported goods whose prices are determined in the global market, but have a strong bearing on the disposable income for other goods.

4.7.2 Consequences of the Global Middle Class

Already, there are signs that improving living standards in Sri Lanka are putting pressure on the physical infrastructure and natural resources of the country. The demand for electricity and energy in the country has increased in recent decades. The demand for electricity has grown at a much higher rate than envisaged. With the expansion of the global middle class, these demands for infrastructure will increase even further. To avoid constraints on economic development, the country will have to carefully study the increasing trends in demand for infrastructure and plan well ahead to meet this demand in the most effective manner.

in many of these MDGs. The most important and relevant are those that cover unemployment, poverty, education and health. It is not that other MGD areas are not as important, but these four MDG are the most important in providing access to youth to effectively contribute to the human and economic growth of a country.

The current MDG targets are set for 2015, and Sri Lanka is on track to achieve many of them. For example, Sri Lanka is on track to achieve the targets of halving of poverty, universal primary education enrolment, universal water supply and basic sanitation, promotion of gender equality and empowerment of women, targets on skilled birth attendance and antenatal care, reduction of tuberculosis prevalence, and reduction in the consumption of ozone-depleting substances.[1] However, it is important to also explore how these MDGs in the areas of unemployment, poverty, education and health, are realized by the youth of Sri Lanka.

The current 2015 MDGs are likely to be revised and new goals put in place for the post-2015 period. Therefore, while it is important to look at the realization of the MDGs related to youth focusing on the targets set for 2015, Sri Lanka needs to be mindful of the post-2015 development agenda as well. One of the interesting new goals for the post-2015 development agenda are in the areas of peace building and post-conflict recovery. Given Sri Lanka's country context, this is an important post-2015 agenda item. Recovering from 30 years of war, Sri Lanka needs to explore the ways in which it can achieve successful post-conflict recovery, while building peace in the previously conflict-affected Northern and Eastern Provinces of the country. The youth of these areas have a bigger role to play in making sure that the country's post-conflict development is achieved in a sustainable fashion, and that the North and East region makes an equal contribution to the human and economic development of the country.

The post-2015 agenda also has special emphasis on further reducing unemployment, eradicating poverty, increasing employability, promoting entrepreneurship, and also eradicating issues such as substance abuse and teenage pregnancy. These are again directly linked to youth as they fall within the key age group that will be targeted by these development priorities. Therefore, all these suggest that the post-2015 development agenda is also important for Sri Lanka, with youth as a key target group.

5.2 Youth Policies of Sri Lanka

Whatever the political regime, youth and their development have always been a priority of successive governments in Sri Lanka, offering universal free health care and education. Despite the many efforts, however, Sri Lanka witnessed violence related to youth-led social unrest in the early 1970s and the late 1980s. In many ways, perceptions of lack of access to economic opportunities fuelled these rebellions. Indeed, Sri Lanka has long suffered from high rates of educated youth unemployment in the country.

The GoSL has over time attempted to address issues of particular concern to youth. A National Youth Services Council (NYSC) has been in existence since 1969, and was strengthened through the National Youth Services Act 69 of 1979. A Ministry of Youth was also established in 1979, and a Presidential Commission on Youth was appointed in 1989 to examine the causes for youth discontent, disquiet and unrest that contributed to social unrest in the country during 1987-89, and to make suitable recommendations to resolve outstanding issues. The govern-

[2] IPS (2010), "Millennium Development Goals Country Report 2008/09", Institute of Policy Studies of Sri Lanka, Colombo.

ment also launched the "Tharuna Aruna" programme in 1997 to provide a subsidy to the private sector to hire graduates among other things. A National Youth Corps was established in 2003. Although Sri Lanka did not have a policy for youth, several youth focused initiatives have been in existence for several years. One such initiative is the Youth Employment Network (YEN), initially placed under the National Planning Department and later shifted to the Ministry of Labour Relations and Foreign Employment. At the moment, the YEN is under the Ministry of Youth Affairs and Skills Development (MYASD). The YEN serves as a coordination and information center consisting of government, employers' and workers' organizations, non-governmental organizations, and youth organizations. The YEN focuses on four priorities – employability, equal opportunities, entrepreneurship, and employment creation (known as the 'Four Es'). Initiatives such as YEN were intended to promote decent and productive work among the youth in Sri Lanka with the objective of eradicating poverty.[2]

However, given limited resources and multiple demands needing government attention, there have been constraints on budgetary allocations to direct programmes especially targeting the youth. In particular, when youth development is looked at, it is essential to bear in mind that Sri Lanka is only now coming out of a costly 30 year conflict. During the post-conflict development efforts, the GoSL has made provisions for special institutional set-ups to help develop youth and allow them to actively participate in policy development processes. The MYASD is the main government institution that is responsible for youth development in Sri Lanka. The ministry conducts its mandated activities with a view to formulating national youth policies to implement youth development initiatives. In turn, these are expected to help develop youth as future leaders. This is hoped to be achieved by providing access to vocational and technical training, improving the entrepreneurial and leadership skills of youth, and enhancing the socio-cultural activities of youth.

The MYASD is empowered by several other institutions that look at different aspects of youth development. These entities operate under the purview of the ministry and are, the NYSC, Vocational Training Authority (VTA), University of Vocational Technology (UNIVOTEC), Department of Technical Education and Training (DTET), Tertiary and Vocational Education Commission (TVEC), National Apprentice and Industrial Training Authority (NAITA), National Institute of Business Management (NIBM), Skill Development Fund Limited (SDFL), Ceylon-German Technical Training Institute (CGTTI), National Human Resource Development Council (NHRDC), National Youth Service Co-operative (NYSCO), National Institute of Fisheries and Nautical Engineering (NIFNE), Ocean University of Sri Lanka (OUSL), Sri Lanka Youth, National Youth Corps, and the Youth Service Company Ltd.

The MYASAD was successful in finalizing a draft of a 'National Youth Policy for Sri Lanka' in 2013. This aims to develop the full potential of young people to enable their active participation in national development for a just and equitable society. The draft policy is equipped with seven policy objectives: (1) build the capacity of young people to meaningfully engage in the national development process; (2) enhance the participation of youth in the economy; (3) instill a sense of social responsibility and social cohesion among young people, while recognizing and respecting diversities of ethnicity,

[2] YEN Secretariat (2006), 'Strategic Assessment and Policy Recommendations for National Action Plan for Employment", Colombo, Sri Lanka.

culture, religion, language and lifestyles in the country; (4) develop the potential of youth to challenge all forms of discrimination and exploitation; (5) develop supportive families and communities for the protection, growth and development of youth; (6) promote health and wellbeing among young people; and finally (7) facilitate a coordinated response to youth development and youth work among state, non-state organizations as well as families and communities. With reference to the first policy objective, the MYASD initiated the "Youth Parliament" in 2011, to enable youth to actively participate in policy debates and to groom future political leaders (Box 5.1).

Youth have significant attributes which makes them the pivotal in realizing the MDGs now and in the post 2015 agenda. Youth are energetic, they are motivated, and have the amazing ability to collate and organize. Youth societies are proof of these characteristics. Undoubtedly, Sri Lanka has one of the strongest NYSC in the region. The NYSC is home to many youth, and every year more than 15,000 youth register and are engaged in education and development activities. These youth stand as examples in many ways, especially in developing their characters as responsible citizens and future leaders that would guarantee the human and economic growth of the country. However none of these can be achieved without an effective institutional setup and policy framework.

The rest of the Chapter explores the realization of MDG indicators by youth, focusing

Box 5.1
Sri Lanka Youth Parliament

The year 1985 marked the beginning of a new era for youth, by having it declared as the 'Year of Youth'. As a part of the 25th celebration of this landmark, in 2011, Sri Lanka launched its first ever 'Youth Parliament'. Following the theme of 'Dialogue and Mutual Understanding', the Sri Lanka Youth Parliament held its first session on 16th July 2011, with the objective of building a platform for Sri Lankan youth to discuss and reason out critical policy issues facing the country. The first Youth Parliament comprised of 332 elected members. These representatives were elected to represent ministries, which are more or less similar to the ministries of the national Parliament. The ministries were named after consultations with the youth representatives. They identified the following subject areas as most important: Ministry of Vocational Technology, Ministry of Sports, Ministry of Innovation and Research, Ministry of Co-existence, Ministry of Cultural Affairs, Ministry of Citizens Relations, Ministry of Education, Ministry of Internal Youth Solidarity, Ministry of Planning, Ministry of Human and Capital Resource Provisions, Ministry of National Youth Policy Provisions, Ministry of Media and Information Technology, and finally, the Ministry of Protection of the Mother Earth.

Members of the Youth Parliament came through 'youth societies'. Therefore, they have well established links with the Sri Lankan youth, and had a sound understanding of youth related issues in the country. Thus, the Youth Parliament was conducive to the expression of diverse opinions, suggestions, and debate. Members of the Parliament were able to bring in different perspectives to the discussion, viz., urban and rural, gender, different ethnicities and religions, etc., and bring forward clear recommendations for future action. However, one major drawback of the first Youth Parliament as perceived by its members, was that the recommendations made by them were never published, and the national Parliament failed either to adopt or evaluate these recommendations. Therefore, one of the main objectives of the second Youth Parliament of 2013 is to publish the recommendations for public review as well as making them available for evaluation and consideration by the national Parliament.

on the areas of youth and unemployment, poverty, education, and health.

5.3 Youth and Unemployment

Sri Lanka has historically recorded a high rate of youth unemployment, well above the national rate of unemployment. Several explanations have been put forth to explain this phenomenon, the most common being that of a 'skill mismatch.[3] According to this explanation, the Sri Lankan education system produces skills that are not valued by employers, while raising the expectations of those who acquire them. Therefore, the unemployed are not attracted to the existing vacancies, and the employers are not interested in the existing work force. Another explanation is that the youth are more interested in public sector jobs compared to other sectors. The public sector jobs are more secure and are perceived to be more attractive in terms of benefits such as training and development, as well as the 'prestige' factor. Therefore, youth who have reasonable educational qualifications are more interested in public sector jobs and are willing to hold on until such job opportunities open. This explanation was proposed by Glewwe (1987) and was discussed in more detail by Dickens and Lang (1996).[4] The latter claim that Sri Lankan public sector jobs are actually created with the deliberate intention of alleviating the country's unemployment problem. It is also argued that labour market regulations such as the TEWA enacted in 1971 deters the expansion of formal private sector jobs whereby any absorption of more than 15 workers brings such firms into tighter labour market regulations.[5] Additionally, economic growth has not necessarily translated into the creation of productive employment opportunities for youth. The jobs created are considered to be of low quality in terms of benefits and job security, and hence are not attractive to many of the youth.[6]

The following section analyzes certain employment related youth indicators for Sri Lanka – i.e., youth unemployment, youth labor force participation, and youth at wage employment. All the indicators are computed using two data sets from the DCS – the HIES, and Labour Force Survey (LFS). Indicators are computed using data base of 2006/07 and 2009/10 for comparison purposes. While the 2009/10 HIES data set includes both the Eastern and Northern Provinces, the 2006/07 does not include the Northern Province. Additionally, qualitative information collected through focus group discussions (FGDs) done with youth from the North and East of Sri Lanka is also used for the analysis. These FGDs represented youth in reconciliation; youth in the estate sector; youth in secondary, university, and vocational education; disable youth; youth in entrepreneurship; and finally youth in the Youth Parliament. These FGDs was conducted by the IPS in collaboration with the MYASD, as a part of on-going research on "Commitment of Sri Lanka in Effective and Meaningful Participation of Youth in Realizing the MDGs".

5.3.1 Issues of Unemployment

The percentage of the total youth labour force that is economically inactive but actively seeking employment, and is willing to work, is referred to as the youth unemployment rate. The youth unemployment rate was recorded at 17 per cent during 2006, and was reduced to 15 per cent by 2010 (Figure 5.1). For the same periods, the youth unemploy-

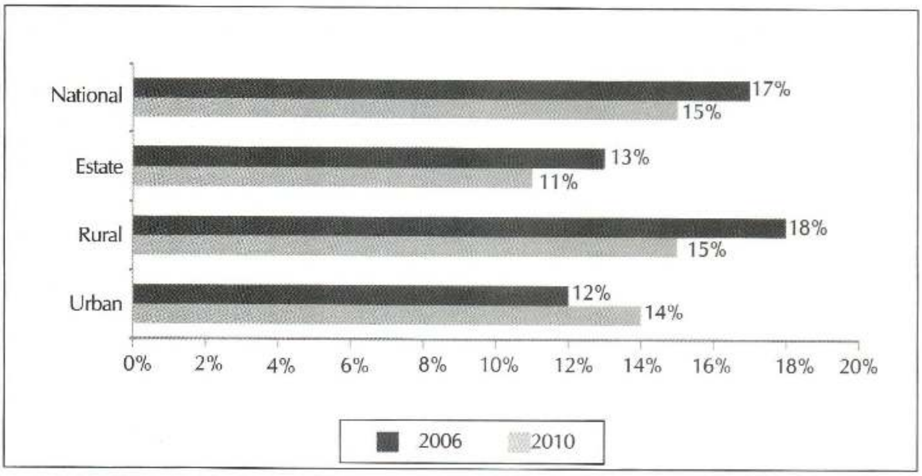
[3] Seers, D., (1971), "Matching Employment Opportunities and Expectations, International Labour Office, Geneva.

[4] See Glewwe, P., (1987): "Unemployment in Developing Countries: Economist's Models in Light of Evidence from Sri Lanka", *International Economic Journal*, Vol. 1, No. 4, pp. 1-17; Dickens, W.T and K. Lang (1996), "An Analysis of the Nature of Unemployment in Sri Lanka", *Journal of Development Studies*, Vol. 31, No. 4, pp. 620-636.

[5] Rama, M., (1999), "The Sri Lanka Unemployment Problem Revisited", The World Bank Development Research Group, Washington, D.C.

[6] Ibargun, C., (2004), "Poverty and Youth Issues in Sri Lanka", Briefing Paper Series No 4, Center for Poverty Analysis, Colombo.

Figure 5.1
Youth Unemployment Rate



Source: Compiled using data from DCS, HIES data for 2006/07 and 2009/10.

ment rate reduced from 13 per cent to 11 per cent in the estate sector, and from 18 per cent to 15 per cent in the rural sector. However, the youth unemployment rate rose from 12 per cent to 14 per cent in the urban sector. Youth unemployment rates have decreased from 2006 to 2010 for the Western, Southern, North Western, North Central, Uva, and Sabaragamuwa Provinces. However, the rates have increased over time for the Central Province.

Sri Lanka records an urbanization rate of 23-43 per cent,[7] and over the years many youth from the estates and rural sectors migrated to urban areas in search of work. However, it is not that easy to find employment and, specifically, permanent employment. Therefore, at any given time, there is a high number of unemployed youth in the urban sector. At the same time, youth that migrate to urban areas for education purposes is also high. With both state and private university education institutions which promote foreign external degrees, as well as vocational education centres clustered around urban areas, there is a higher proportion of youth in the urban areas who are not employed but instead engaged in studies, compared to other areas. For example, the VTA has many vocational training and education centers all around the country. However, demanding programmes such as food process technology, quantity survey, video production technology and mechatronics, is only available in the VTA centers in Colombo, Gampaha, and Kandy. Similarly, the UNIVOTEC is located in Colombo, and students must come there for the National Vocational Qualification (NVQ).

However, on a positive note, the government is at the moment in the process of establishing 25 university colleges under the UNIVOTEC, where students will have access to all the programmes in demand mentioned earlier. The UNIVOTEC currently offers both full time and part time programmes.

[7] DCS (2012), "Census of Population and Housing 2011 - Preliminary Report." Colombo.

A majority of the students at the UNIVOTEC are full time resident students and are not allowed to be employed until they finish the three year programme. At the same time, initiatives are in place to establish fully functioning vocational education centers in the North and East. Even though these initiatives reduce the number of youth being employed at a given time, it is a positive feature that youth invest time and money on education, since the acquisition of knowledge and skills is important for long term sustainable development.

> *"I came to UNIVOTEC from Badulla... a lot of my friends are from the Central Province. We are here for three years, and during that time we work only for six months, which is during our industrial training. We are all full time students and we are not allowed to be employed. If you want to be employed and work, then you have to follow the weekend classes and that programme is long and costly"*- A Student from UNIVOTEC.

Comparatively, youth unemployment was high in the estate sector during both 2006 and 2010. Since the Central Province accounts for a majority of the estate sector, this would explain the youth unemployment rates in the Central Province.

> *"Most of youth in the estate sector migrate to urban areas to look for jobs. They mainly go to work at textile factories, hotels, and as labour in households. There are some who migrate to the Middle East for jobs. The remaining youth, especially the females, are forced to go and work in the tea estates. Some youth have started their own business, such as cultivating vegetables, driving three wheelers, and operating boutiques. But still there are a lot who still do not have jobs"* - An estate sector youth representing Badulla District.

The FGDs among youth suggest that there is an issue of skill mismatch. The skills that youth acquire are not in line with job availability. For example, students who enter the arts stream at the universities have a hard time obtaining jobs since their curriculums are not up-to-date, and does not address what the job market requires. This is more dominant in the private sector compared to the public sector. The public sector seems to provide opportunities regardless of the educational stream that youth have followed. Being profit oriented, the private sector appears to be much more selective in skills that youth have obtained. The FGDs further suggest that university students are more concerned about government sector jobs simply because they are seen as more stable, offer better opportunities for training and development, and interestingly are also perceived to be less stressful. The students appear to be willing to hold out on employment opportunities in the private sector for future employment in the public sector, even though the pay may be less. Most youth see private sector employment as competitive, requiring hard work and not as secure, since most private organizations operate on contract basis. However, the FGDs also suggest that public sector opportunities have their own weaknesses such as low pay and mismatch between the educational qualifications and job responsibilities.

> *"I think youth like public sector jobs since they are less stressful and they give you enough time and flexibility to do other things. There are many holidays and you have a fixed eight hours to work. There is always the opportunity to deal with other family matters such as taking your children to school. I have seen graduates in government institutes who are doing jobs that do not cover their respective bachelor education. There are graduates who have left good private sector jobs since they are so demanding"*- A member of Youth Parliament representing Kalutara District.

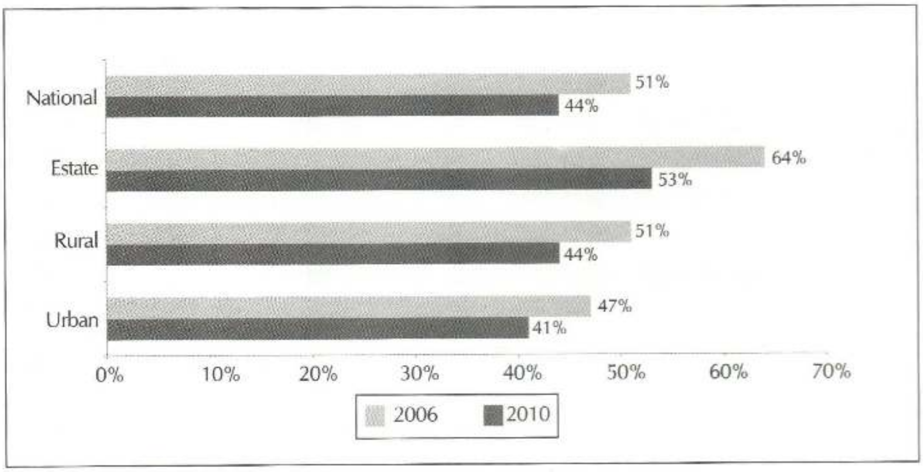
The FGDs among youth from the North and East suggest that youth have issues in finding employments in their localities. A majority of youth are reluctant to go back to agriculture or fisheries since it generates less economic rent. Many come to urban areas, but find themselves unemployed or holding poor quality jobs. Most youth stressed the point that they want to earn money as soon as possible, given that they have missed a lot of time and are not encouraged to go back to education. Therefore, youth who migrate out of the North and East, as well as those who stay back, are both facing a dilemma in securing quality employment.

The labour force participation rates among youth have declined from 51 per cent in 2006 to 44 per cent in 2010 (Figure 5.2). This trend extends across the sectors also. The youth labour force participation rates in the urban sector declined from 47 per cent to 41 per cent from 2006 to 2010, and the rate declined in the rural sector from 51 per cent to 44 per cent. The decline of the youth labour force participation rate is higher in the estate sector, where it dropped from 64 per cent to 53 per cent. Excluding the Northern Province, the lowest labour force participation rate (approximately 38 per cent) was recorded in the Eastern Province in 2010. The youth labour force participation showed a decreasing trend for all the other provinces during 2006 to 2010.

At the national level, the decrease in the labour force participation rate could be due to the low level of employment of youth as they spend more years in education instead of joining the work force. While this is decreasing the current level of the labor force participation rate, investing in education, as mentioned earlier, is a positive thing which could pay-off in the long run. However, other issues discussed earlier such as skill mismatch, and foregoing private sector jobs in favor of future public sector jobs, could also explain the reduced youth labor force participation.

"There is a growing interest among youth to pursue further study. Even though they cannot pass O/L they still go for educa-

Figure 5.2
Youth Labour Force Participation Rate



Source: Compiled using data from DCS, HIES data for 2006/07 and 2009/10.

tion through vocational training centres. Almost everyone who has done A/L and cannot go to the university is again engaged in vocational education and other types of professional training courses. Even the students who were selected for the universities are doing more courses until the university starts. Therefore, more youth are at study rather than working" - An undergraduate student representing the University of Colombo.

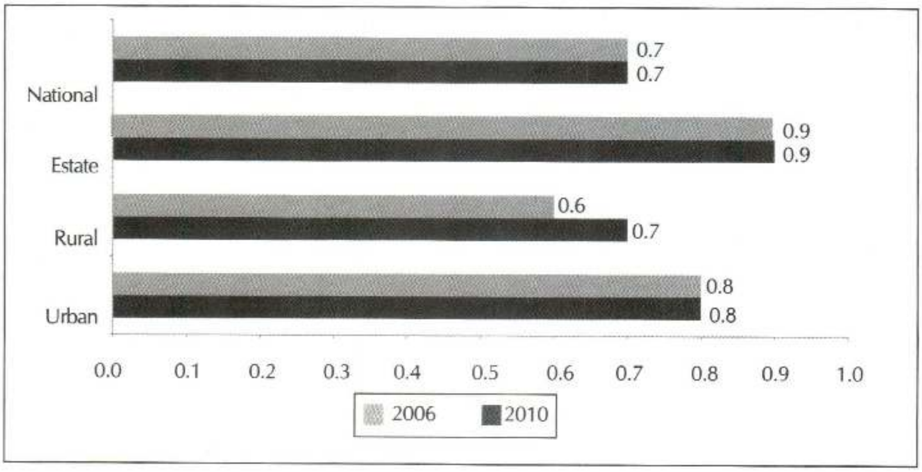
The estate sector youth, as suggested by the FGDs, seem to enter the labour force at a very early stage of their youth. This could be due to the income constrains that these families face.

The estate sector youth are confronted with limited earning avenues that constrain their income earning capacities, and with large family sizes, they tend to push young children to work at early stages.

"Estate sector youth are doing jobs in many areas. They are not necessarily working in the estate. Some cultivate vegetables and some migrate to urban areas for jobs. The youth drop out of school at very early stages to find employment so that they can support their families. Most of the time, the elder child will drop out from school and go to work if the family has more than three children. Therefore, it is common to see most of the youth trying to earn some money. The sustainability of these jobs and the earning capacity is in question, but anything is better than nothing. Therefore, they continue to start working at very early stages of their young lives" - An estate sector youth representing the Gampola District.

The youth at wage employment is defined as the proportion of youth who are working for a salary. Wage employment is important since it demonstrates some element of job security, guaranteeing a certain pay for a given time period. This time period varies, based on whether it is the private sector or public sector, where wage employment in the latter is more permanent. The youth in wage employment has not changed significantly over time, although a slight increase is evident in the rural sector (Figure 5.3).

Figure 5.3
Youth at Wage Employment to Total Youth Employed



Source: Compiled using data from DCS, HIES data for 2006/07 and 2009/10.

The youth who are at wage employment, especially those who are at the government, private and non-governmental organization (NGO) sectors increased after events such as the December 2004 Tsunami and the conclusion of Sri Lanka's armed conflict. For instance, many job opportunities were created by the NGO/INGOs after the Tsunami,[8] but these lasted only for a few years as related NGO/INGOs phased out their operations in Sri Lanka. Some of the organizations that started in Sri Lanka after the Tsunami continued their work in the post-conflict era. Significant numbers of employment opportunities were also created by the government, especially by recruiting unemployed graduates to government institutions. Wage employment also includes casual work. The availability of casual work for youth has also increased over time with the infrastructure development going on in the country. However, the overall changes in the youth on wage employment are not significant.

> *"The government gave a lot of job opportunities to graduates. Many of them were recruited for regional government institutions. However, there are mismatches in some of those jobs. Some graduates were not given appointment in areas where they have been trained through the university system. Yet, it is important that they were given the chance to participate in the development agenda of the country in one way or the other, rather than wasting their valuable education"* - A member of the Youth Parliament representing the Gampaha District.

The estate sector youth are keener on wage employment as opposed to entrepreneurship. This could be due to the financial and skills constraints that they have. With limited capital and collateral, the estate sector youth are moving more towards finding wage employment. However, a majority of these wage employment is not permanent and represent casual labor employment opportunities.

> *"In the estate sector, youth have only a few options. Either you work in the estate, do vegetable cultivation and farming, or else migrate to urban areas looking for jobs. The youth mainly migrate to work in hotels, houses as housemaids, and to work in textile factories. There is a proportion that migrates to Middle East also. Therefore, the youth who start up their own enterprises are very few and a majority are dependent on wage employment"* - An estate sector youth representing the Kandy District.

Small and medium enterprises (SMEs) are one of the main employment generators for youth at the urban, rural, and estate sectors. Today, there are better opportunities for youth to start-up their own businesses than before, especially since the end of the armed conflict. Whilst there is assistance extended towards improving SME opportunities for youth, there are also some bottle-necks. The FGDs suggest that youth in the North and East were optimistic about starting businesses just after the conflict ended, hoping that the government expenditure on road development, and outreach by the banking sector would help them. However, many youth believe that this has not been the case. The banking system is still heavily concentrated on collateral, and hence even if improved transport access carries goods produced in the North and East to Colombo, the SMEs are constrained by low availability of financing.

At the same time, the government has begun initiatives to start up new industrialized zones

[8] Rodrigo, C., (2010), "Employee Motivation: What Factors Motivate Employees to Work in Nongovernmental Organizations (NGO) in Sri Lanka: A Study According to Maslow's Hierarchy of Needs Model", *International Journal of Interdisciplinary Social Sciences*, Vol. 5, No. 4, pp.197-212.

such as the Achchuveli Industrial Zone, to facilitate SMEs in the Northern Province, and these efforts will be expanded in to the Eastern Province also. The objective of these interventions was to provide SMEs a chance to start-up business with the full support of the government, through both operational, as well as financial assistance. Further, government assistance is also envisaged by way of helping SMEs to establish marketing channels so that their produces could also be exported in the long run.

> *"The youth in the North are quite excited about the initiatives such as Achchuveli Industrial Zone. It will facilitate more than 50 SMEs in the area and will be a good opportunity for youth entrepreneurs to develop. These initiatives will develop the rest of the area also, with the provision of water, electricity, and infrastructure. The youth SMEs outside the zone can also develop new business ventures to supply materials and provide transportation. For example, there are SMEs in the zone that produce fruit drinks and pulps. This can be an opportunity for other youth to establish links to supply the required fruits"* - A youth representing Jaffna District.

There is an influx of educated youth starting their own enterprises. A majority of them have realized the importance of starting such ventures to ensure financial independence, as well as flexibility. Wage employment at the private sector is seen as less flexible, demanding and competitive, while government sector pay is considered to be lower. SMEs on the other hand are seen as providing youth with the opportunity to master what they like, and earn money in the process.

> *"There are many university students who have started SMEs in all parts of the country. They have got together and started their business while they were in the university, so by the time they graduate, their business is stable and they have paved their own path to earn money. This is now being introduced to schools also where students at O/L and A/L are encouraged to start up innovative enterprises. Examples are manufacturing CFL bulbs, website designing, and doing research. There are youth led enterprises which do data collection and analysis for major research companies in Sri Lanka"* - An entrepreneur still studying at the University of Moratuwa.

Vocational training is one of the key elements in the development of SMEs. This training helps youth to develop their skills which can be applied later to earn money in the form of an enterprise. This training is mainly given through the VTA by way of the NVQ qualification, and youth can even earn a degree from UNIVOTEC. However, it should be noted that the vocational training and education covers only a part of the SME sectors.

> *"Most students come to the VTA to get the skills they want to start their own business. For example, once a youth gets a NVQ qualification in motor mechanics, there is very little chance that he would go and work for a motor repair shop in Sri Lanka. Most of the time he would start his own enterprise, or else there is a pretty good chance that they migrate, since the NVQ certification is valid in foreign countries"* - A student representing the UNIVOTEC.

While there are positive aspects regarding the SME sector for youth, there are constraints as identified by the FGDs. First is the ability of youth to obtain financial assistance. Whilst it has already been mentioned that financing is an issue in the North and East, this is also common to the whole country. The FGDs suggest that most youth are keen to start businesses but are unable to do so due to this fact. Banks require collateral in order give financial assistance, but most youth entrepreneurs are not able to meet these conditions. Therefore, it has been a constant challenge for youth to secure finances from banks which pushes them towards informal sector finances with higher interest rates. In such an event, the sustainability of the enterprise becomes questionable. Additionally, youth entrepreneurs lack financial management capabilities, and are not able to ensure the sustainability of their ventures. Furthermore, the youth also tend to follow trends in starting up new businesses without doing proper feasibility studies. Youth entrepreneurs in this aspect fail to understand the viability of the enterprises and the potential competition it might face in reality.

5.4 Youth and Poverty

The youth play a significant role in the broad discussion on poverty in Sri Lanka. At the moment, poverty is estimated mostly in terms of income poverty. However, it should be noted that poverty is multidimensional, and should ideally be based on income as well as non-income terms. Therefore, poverty is not solely a function of income, but rather it is a function of income, health, education, gender, and many other factors.[9] However, the complexities in analyzing multidimensional poverty in quantitative terms have constrained studies to rely on income poverty alone. Yet, qualitative information allows the drawing of a broader picture incorporating other dimensions of poverty to a certain extent.

Studies show that only a small portion of unemployed youth comes from the most disadvantaged households. Therefore, poor youth are less likely to be unemployed. However, poor youth end up attracting low quality jobs with less pay, which push them towards a vicious cycle of poverty. Waiting for secure jobs, mostly in the government sector puts a greater burden on poor families. As a result, they tend to be attracted to whatever employment opportunity is available without much chance of bargaining for a higher pay. The inability to spend on education, at least to acquire vocational education, can also constrain poor youth from attracting secure and well-paid jobs.

Poor households are characterized by low levels of heath and sanitation. Malnutrition and exposure to other communicable diseases constrain poor youth from acquiring a proper education, while also weakening their physical strength. Furthermore, living in unsecure environments, especially in former conflict-affected areas, have caused poor youth to be less ready for the work force, and increased the levels of poverty among them.[10] Therefore, youth become poor not only because they are not capable of obtaining employment, but because their educational, health, and situational conditions might prevent them from acquiring the comparative advantages to attract quality jobs.

Based on HIES data, approximately 14.6 per cent of Sri Lankan youth were below the poverty line during 2006/07. This figure has reduced to 8.9 per cent by 2009/10, reflecting the overall poverty reduction in the country during these two periods (from 15.2 per cent in 2006/07 to 8.9 per cent in 2009/10). Again, reflecting national trends, youth poverty remains high in the estate sector, while urban poverty is the lowest. During 2006/07, the percentage of youth below the official poverty line in the estate sector stood at 29.4 per cent, 15.1 per cent in the rural sec-

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[9] Ibargun, C., (2004), "Poverty and Youth Issues in Sri Lanka", Briefing Paper Series No 4, Center for Poverty Analysis, Colombo.

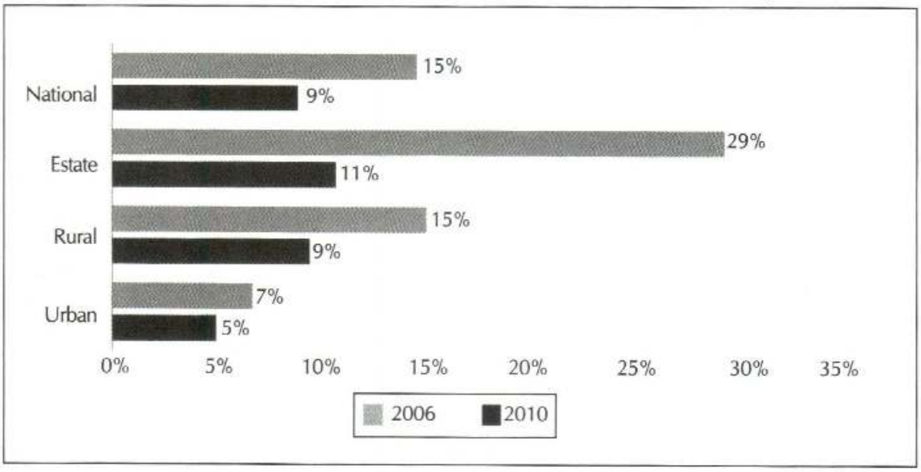
[10] Samaraweera, C.G., (2010), "Economic and Social Assessment of Poverty Alleviation Programmes in Sri Lanka, Special Reference to the Gemidiriya Community Development and Livelihood Improvement Project", *Journal of Emerging Trends in Economics and Management Science*, Vol. 1, No. 1, pp. 60-65.

tor, and 6.7 per cent in the urban sector. All these showed significant improvements by 2009/10. The percentage of youth below the official poverty line in the estate sector was reduced to 10.7 per cent, 9.5 per cent in the rural sector, and 5.1 per cent in the urban sector (Figure 5.4). Therefore, income poverty among youth has reduced over time in all the sectors. These results are attributable to the government's attempts to reduce poverty in the country as a whole, and it is satisfactory to see that the youth of the country also received the benefits of these efforts. However, especially in the estate sector, poor youth face far more challenges compared to youth in the urban and rural sectors. The involvement of politically influential characters such as 'thalevars' in the lives of estate sector youth can constrain them from receiving poverty related assistance and even engaging in entrepreneurial activities.[11]

"We appreciate the development that happened throughout the past decade to eradicate poverty in our areas. However, poverty in these areas is still high. More needs to be done. We have conveyed our situation to all the politicians personally and through 'thalevars.' However there are questions about the transparency, especially when thalevars' are involved in taking our message to the political leaders. We would appreciate to receive any assistance related to poverty through government officials" - An estate sector youth representing the Nuwara-Eliya District.

One important dimension of poverty is its regional disparity. Poverty across different areas vary based on many factors such as access to employment, access to health and education, infrastructure facilities, family size, etc. Like in any other country, poverty among youth in Sri Lanka varies based on the province. Comparing 2006/07 and 2009/

Figure 5.4
Percentage of Youth Living below the Official Poverty Line



Source: Compiled using data from DCS, HIES data for 2006/07 and 2009/10.

[11] Thalevars are political representatives of local politicians in the estate sector. They act as mediators between the local people and local politicians. Since they are appointed by local political leaders, there is a tendency to follow the political agendas of particular politicians.

10, poverty in all provinces, except the Eastern Province, saw a reduction over time. Among the provinces, the percentage of youth under the official poverty line is high in Uva, Sabaragamuwa, and Central Provinces. The percentage is lowest for the Western Province. During 2006/07, only Uva, Sabaragamuwa, North Central, and Central Provinces recorded poverty levels higher than the national level for that time period. However, in 2009/10, except for the Western Province, poverty levels of all the other provinces were higher than the national level. The Samurdhi and Gemidiriya programmes were the main interventions by the government to reduce poverty in Sri Lanka. However, the Eastern and Northern Provinces saw only limited interventions due to the on-going conflict during this critical period, exacerbating poverty among youth in these provinces.

As explained earlier, the poor and vulnerable in some sectors are eager to find employment, rather than spending money and time on acquiring education, mainly because their parents are not in a position to support them. This has pushed them to take on low quality jobs with less pay that will not allow them to save any money. Leaving education early and entering the workforce is common in the estate sector in particular, compared to other sectors.

> *"I wanted to do A/L or a vocational education but my parents could not support my education. Therefore, after O/L, I went to Kandy with my cousin to work in a construction site. I do not earn enough money to send home or save, but can manage my needs. I need to find a job soon where I can earn more money, otherwise I will not be able to have a family"* - An estate sector youth representing the Kandy District.

The rural and estate sector poor households are frequently faced with malnutrition and other communicable disease threats. Therefore, while income poverty might have reduced in these sectors, non-income poverty, especially related to heath is high in the estate and the rural sectors.

> *"Malnutrition is high among poor households in the estate sector and the rural sector. Youth in these poor households have gone through many episodes of these heath issues and they are physically affected. Therefore, sometimes they are not capable of holding on to jobs. They mostly get blue collar jobs that require them to work hard, but health issues from time to time have caused them to fail at their employment. They might have a job, but the quality of the job that they are doing is determined by their health conditions"*- A member of the Youth Parliament representing the Monaragala District.

Therefore, while government efforts over the past several years have helped to reduce income poverty among the youth of Sri Lanka across sectors, much more needs to be done. Even though income poverty has reduced, poverty caused by educational constraints, health conditions, and situational conditions such as exposure to conflict, is visible. Therefore, the youth of Sri Lanka are by and large victims of multidimensional poverty, in addition to income poverty.

5.5. Youth and Education

Youth is the period between childhood and adulthood. This period of life is considered as one of the most dynamic stages of life, turning one's vision into reality. The process of setting goals impacts the entire continuum of the lifespan. In achieving these goals, realistic, self-aware, critical thinking abilities, and decision-making skills are needed. Hence, a good education is a must. Sri Lanka's educational policies are quite comprehensive. The O/L and A/L examinations are very competitive and they are set to high standards, whereby the education system in Sri Lanka is well recognized among other developing and developed countries.

According to an adolescent survey in Sri Lanka, 72 per cent of adolescents (aged 14-19 years) had a future goal set.[12] More than a half of the adolescents wanted to enter traditionally popular professions such as teachers, doctors, engineers, and accountants. However, the survey findings suggest that the stated ambitions are mostly governed by parental influence and traditional norms that prevail in society, rather than decisions arrived at after considering their own talents. Only about a quarter of the respondents had considered their talents in setting their future goals.

The youth related educational indicators for Sri Lanka discussed in the following section are both qualitative as well as quantitative. They capture the educational aspects of youth, mainly the equal opportunity for education and school to work transition.

5.5.1 Educational Opportunities for Youth

Equitable quality education is essential if young people are to acquire the skills which they need to achieve their future goals. Sri Lanka has committed to providing free access to education for decades. It is clear that great progress has been made, indicated by Sri Lanka's position with regards to the 'Education for All' goals set by the MDGs. However, much remains to be done. While Sri Lanka has long been recognized for its achievements in access to education, it faces new challenges in providing quality education services that are relevant to the changing demands of a rapidly growing economy and life styles of people.

Although more than 50 per cent of the adolescents aspire to be teachers, doctors, engineers, etc., many students discontinue school education due to poor performance at the national level examinations. Each year, about 400,000 students sit for O/L, but only 50 to 60 per cent of them qualify to sit for A/L (Table 5.1). Those who have passed O-Levels continue on to A-Levels for two years. When selecting a subject stream in A/L, these students do not appear to have a proper idea about the type of job opportunities available in the labour market.

> *"When we were schooling, we were caught up by the trend. Most of the time, we selected the A/L subjects which were chosen by our friends. We were not aware about it. Sometimes, it might not be matched with our talents."* - A student studying at UNIVOTEC.

Each year, slightly above 200,000 students sit for A/L, but only 40 to 60 per cent of them qualify to enter public universities. Thus each year, about 200,000 and 90,000 students leave the school system without succeeding at the O/L and A/L examinations, respectively. This is further highlighted in Table 5.1.

The country's higher education system leaves out hundreds of thousands of young people from obtaining a higher education. Due to the limited number of placements in the state funded universities, only 17 per cent of those who qualify for university education gain admission to state universities. Each year, more than 100,000 qualified students are forced to abandon their ambitions to enter university. Youth, who cannot enter public universities, have few options for pursuing higher education.

Lack of avenues for higher education hampers the future goals of youth. Although there is no explicit legal barrier, the political

[12] UNICEF (2004), "National Survey on Emerging Issues among Adolescents in Sri Lanka", UNICEF, Colombo.

Table 5.1
National Examination Success Rates, 2003 and 2010

	2003	2010
Number sitting for O-Levels	434,131	433,673
Percentage qualifying for A-Levels	43	58
Number sitting for A-Levels	213,201	233,354
Number qualifying to enter university	93,292	142,415
Percentage qualifying to enter university	44	61
Number admitted to university	12,736	21,547
Percentage admitted to university	14	17

Source: DCS, "Statistical Pocket Book 2011".

economy context of the country makes it impossible to invest in private universities.[13] Only those from highly affluent families are able to obtain university education outside the country. Others are able to obtain external degrees from degree awarding institutions in Sri Lanka which are affiliated to private universities outside the country. However, these institutions have gained the attention of policy makers for at least two reasons recently: the high cost of these degree programmes, and the quality of education offered by these institutions. Thus, available opportunities for school leavers is a major issue of concern.

5.5.2 School to Work Transition

Due to the competitive nature of the O/Ls and A/Ls, a majority of youth leave the education system after these two exams. The best alternative for these youth to continue in the education system is to engage in vocational training and education. These children should be the prime target for specific training and skills development programmes in meeting the skills demand of the country. However, there is no proper career guidance system to these school leavers. As a result, most usually find unskilled jobs or go in search of casual jobs. This is partly due to the lack of a systematic technical education and vocational training (TEVT) link with the secondary education system, leaving a majority of school leavers with no access to skills development programmes.[14]

> *"If students can get information on different vocational opportunities through school, it will be helpful for them to build up their career path. In that case, the students are aware of the requirements for a particular employment opportunity, and how they can get those skills. This is very important for the school dropouts to draw their career plan."* - A student studying at UNIVOTEC.

Further, the general acceptance of the country's TEVT sector has been low due to poor recognition of the qualifications, low employability of graduates, and the ineffectiveness of the course in catering to the demands of the market. While the government, especially the MYASD and the Ministry of Education, is doing quite a lot of work in promoting vocational education – allowing students to acquire bachelor's degrees in technical and vocational education and training – the conventional university degree is still

[13] ADB (2005), "Technical Assistance to the Democratic Socialist Republic of Sri Lanka: Preparing the Education Sector Development Programme", Asian Development Bank, Manila.

[14] *Ibid.*

regarded as the pinnacle of educational qualifications.

"Society undermines vocational education. They believe that the students who are not good in education enter the technical colleges. These attitudes should change." - A student studying at UNIVOTEC.

There is a wide gap between school and the world of work. The quality of human capital produced by the general education system, mainly provided by the public sector, does not transmit any productive skills to pupils. As stated in the National Education Commission (NEC) sector review, the country's education system has failed to adequately promote quality and relevance of education, as well as individual orientation to the world of work.[15] This results in mismatches between the demands of the market, and the skills of school graduates.

A large proportion of youth who secure educational certificates also remains unemployed. A high unemployment rate among graduates has been a recurring issue for successive governments. There is a mismatch between the courses offered by higher education institutes and competencies needed by the private sector.[16] Key reasons for this mismatch are that university programmes are not updated over a long period of time, and lack interaction with the private sector when designing courses.[17] Inadequate linkages between the higher education system and the requirements of the private sector are a reason for the high unemployment levels amongst graduates.

"Our university curriculum does not include the practical aspects of the relevant subject. It provides all the theory based knowledge, but very few practical training opportunities. So we cannot get experience on what we are taught at the university." – Undergraduate student at University of Sabaragamuwa.

There is an inadequate information flow between youth and the labour market. The inadequate information flow on the type of job opportunities in the labour market limits the aspirations, attitudes, and life goals of youth. Due to the existing information gap in the system, some students spend two years unnecessarily following A/L without entering vocational training, after following O/L.

"If we were linked with vocational training programmes after O/L, we can get our technical degree at a younger age, and have more time to build up our career path. So, a proper career guidance programme is essential after O/L." - Student studying at UNIVOTEC.

Addressing the mismatch between skills acquired through the education system and the requirements of the labour market has been a key concern of the current education system.

5.6 Youth and Health

Improving nutrition contributes to productivity, economic development, and poverty reduction by improving physical work capacity, cognitive development, school performance, and reducing health care costs.[18] Nutrition is an input and foundation for health and development. Better nutrition means stronger immune systems, fewer illnesses and better health. Healthy children learn better; healthy people are stronger, are more productive, and more able to create opportuni-

[15] NEC (2003), "Proposal for a National Policy Framework on General Education in Sri Lanka", National Education Commission, Colombo.

[16] NEC (2009), "National Policy Framework on Higher Education and Technical and Vocational Education", National Education Commission, Colombo.

[17] *Ibid.*

[18] World Bank (2006), "Repositioning Nutrition as Central to Development", World Bank, Washington, D.C.

ties to gradually break the cycles of both poverty and hunger in a sustainable way. One of the main consequences of malnourished adults is reduced work capacity and absenteeism owing to illness or exhaustion, which in turn has an impact on economic productivity. Further, in the long run, they run increased risks of acquiring NCDs such as high blood pressure, diabetes, coronary heart disease, and cancer, in adult life. Epidemic of NCDs in adulthood reduce productivity and increase health care costs.

Youth related health indicators cover the areas of women's health, teenage pregnancy and knowledge on sexuality, and nutrition and youth wellbeing.

5.6.1 Women's Health and Nutrition

Women's health is central not only to their productivity in employment, but also more importantly in association with specific reproductive outcomes, and to the performance of their many other household tasks. To a large extent, the wellbeing of children depends on the health of their mothers. According to research findings on socio-economic determinants of child malnutrition in Sri Lanka, the mother's nutritional status was one of the main contributory determinants of having low weight babies as well as childhood malnutrition.[19] Further, when a mother is malnourished and sickly, their children face a higher risk of diseases. Repeated infectious diseases of family members will in turn increase health care costs and impact on the household's finances. In adolescence, a young woman's nutritional needs increase because of the spurt of growth during the transition from childhood to adulthood. An inadequate diet, illness and heavy physical demands during this period can jeopardize the health and physical development of young women, resulting in delayed or stunted skeletal growth and anaemia.[20]

In Sri Lanka, the prevalence of malnutrition is highest among adolescents and youth. According to the Demographic and Health Survey (DHS) carried out in 2006/07, one in six women of reproductive age (15-49 years) was malnourished. Further, as shown in Table 5.2, the highest proportion of malnourished women was observed in the youngest age group of 15-19 years (40 per cent), followed by the second lowest age group of 20-29 (22 per cent).

Nearly one-third of female youth were anaemic. On average, 39 per cent of reproductive aged women (15-49 years) were identified as anemic (Hb<11.0 g/dl). Adoles-

Table 5.2
Women's Nutritional Status

Age group	% Malnourished (BMI <18.5)	Anaemia (Hb < 11.0 g/dl)
15 19	40.1	31.4
20 29	22.0	32.0
30-39	14.4	36.8
40-49	13.3	46.0

Source: DCS, DHS 2006/07.

[19] Jayawardena, P., (2012), "Socio-Economic Determinants and Inequalities in Childhood Malnutrition in Sri Lanka", *Well-Being and Social Policy Journal*, Vol. 8 No. 1, pp. 1-22.

[20] World Bank (1994), "A New Agenda for Women's Health and Nutrition Development in Practice", World Bank, Washington, D.C.

cence nutritional deficiency is one stage of the life cycle of malnutrition. Thus, nutritional deficiency among young girls has an adverse effect on reproductive outcomes, as well as on the continuation of the life cycle of malnutrition in Sri Lanka.

5.6.2 Teenage Pregnancy and Knowledge on Sexuality

Research indicates that adolescent girls are not physically prepared for childbirth, since linear growth is not complete until 18 years, and the birth canal does not reach its mature size until 2-3 years later. As a result of this and other factors, teenage mothers face a high risk of serious pregnancy-related health complications. According to studies on the determinants of low birth weight babies, the latter is found to be positively associated with mothers who have started childbearing between 15-19 years.[21] According to the DHS 2006/07, there were 6.4 per cent teenage pregnancies in Sri Lanka. Further, teenage pregnancies were highest in the estate sector (9.6 per cent) whereas child malnutrition and low weight births were also highest in this region, when compared to urban and rural sectors. Poor knowledge on reproductive health among adolescents could be a major reason for these teenage pregnancies.

Adolescents' knowledge on conception and pregnancy in Sri Lanka is very poor. According to the adolescent survey findings, the overall knowledge among school-going adolescents (aged 14-19 years) on matters related to reproductive health was less than 50 per cent.[22] Further, less than 25 per cent of adolescents had comprehensive knowledge on menstruation, risk of conception, and signs of pregnancy. As teenage and young adult pregnancies are likely to result in small statured women giving birth to low weight babies, family planning measures must also focus on reducing pregnancies in this age group.

Further, knowledge on sexually transmitted disease and HIV/AIDS among adolescents was also found to be poor. Less than 50 per cent of adolescents had the correct knowledge on HIV/AIDS. Only about 57 per cent of adolescents had some awareness of the existence of sexually transmitted diseases in general.[23]

5.6.3 Wellbeing of Youth

Young people are in need of appropriate knowledge, life skills, and self-esteem to achieve their future goals. The wellbeing and happiness of youth is very important to en-

Table 5.3
Teenage Pregnancy

Sector	Have had a Live Birth (%)	Pregnant with First Child (%)	Begun Childbearing (%)
Urban	4.6	1.7	6.4
Rural	4.1	2.1	6.2
Estate	7.0	2.6	9.6
Total	4.3	2.1	6.4

Source: DCS, DHS 2006/07.

[21] Jayawardena, P., (2012), "Socio-Economic Determinants and Inequalities in Childhood Malnutrition in Sri Lanka", *Well-Being and Social Policy Journal*, Vol. 8 No. 1, pp. 1-22.

[22] UNICEF (2004), "National Survey on Emerging Issues among Adolescents in Sri Lanka", UNICEF, Colombo.

[23] *Ibid.*

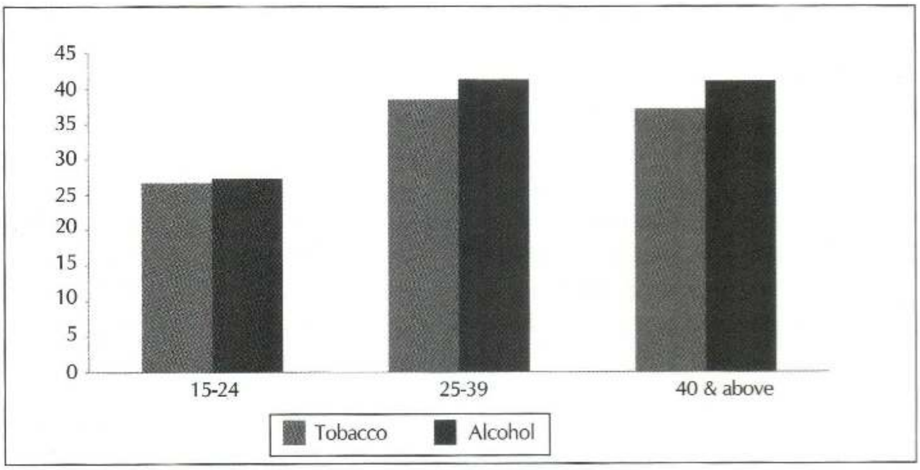
hance physical health, productivity, and quality of life. Poor levels of psycho-social competency will lead to anxiety, depression, substance abuse, and suicide among young people.

Smoking and alcohol use among youth is significant, and need careful attention. Usually, the first use of a cigarette or consumption of alcohol takes place during adolescence. Some youth continue with smoking and alcohol use from then on. According to a spot survey carried out by the Alcohol and Drug Information Centre (ADIC) in 2012, 33 per cent of respondents were current users of tobacco while 35.6 per cent were users of alcohol.[24] According to the responses, the highest prevalence of tobacco and alcohol use was in the age category of 25-39 years. Of current smokers and alcohol users' in the age 15-24 year group, the majority reported that the main reasons for use of substances are to be social with friends and to enjoy themselves.

These substances greatly impair mental abilities and physical skills of youth, and enhance the long term risks of developing cancers, lung diseases, ulcers, heart disease, and liver diseases. Further, the use of substances is a contributing factor to accidents, suicides, violence, and sexual abuse, among young people. While the substance abuse issue is directly linked to peer pressure, it can also be due to other stress factors. For example, substance abuse is high among youth who live in conflict-affected areas, compared to other parts of the country. This is mainly due to that fact that such youth face greater stress due to uncertainties related to their future. Sometimes, the lack of availability of guidance and employment, and educational opportunities, fuels the stress, and can push them towards smoking and drug usage.

The high incidence of homicides, other purposely inflicted injuries, and suicides, are major causes of death among youth in Sri

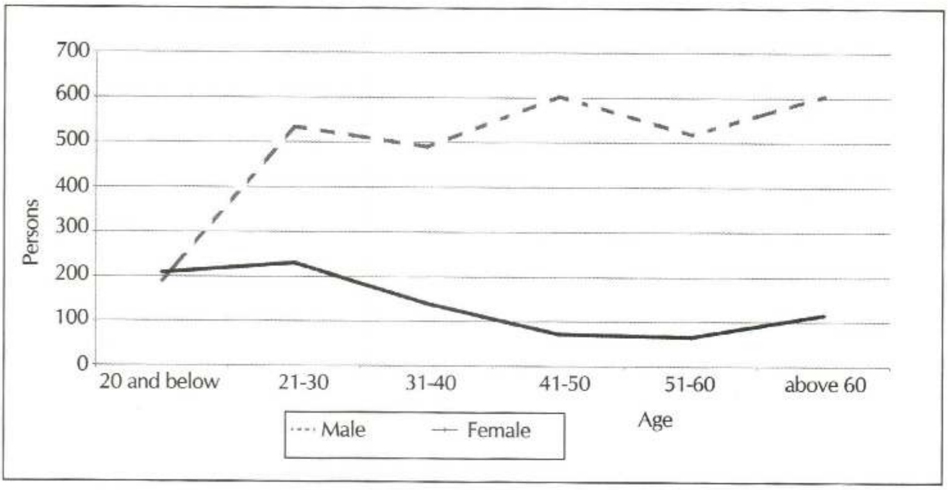
Figure 5.5
Use of Tobacco and Alcohol



Source: ADIC (2012), "Spot Survey on Tobacco Use", July 2012, Alcohol and Drug Information Centre, Colombo.

[24] ADIC (2012), "Spot Survey on Tobacco Use", July 2012, Alcohol and Drug Information Centre, Colombo.

Figure 5.6
Deaths due to Suicide (2011)



Source: Sri Lanka Police, Modes of Suicide, http://www.police.lk/index.php/crime-trends.

Lanka. According to Sri Lanka police records, 3,770 deaths were recorded in 2011 due to suicides. Further, deaths due to suicides was highest among females in the 21-30 year age group, followed by below 20 year age group (Figure 5.6). The highest male suicides were among the aged, but there were more than 500 deaths due to suicides, with nearly one-fourth of them being young males. There should be special educational measures to protect young people from all forms of physical and mental violence and injuries. Further, protective measures should include effective procedures for rehabilitation and socialization of victimized young people.

5.7 Conclusions and Way Forward

The youth are an important part of Sri Lanka's development agenda. A healthy and educated youth force that will actively participate in labour activities can benefit Sri Lanka's development process. Hence, this is an important population cohort that needs to be carefully nurtured for the betterment of the country. Sri Lanka needs to carefully look at the bottlenecks in employment, poverty, education, and health aspects, related to youth in order to make them ready to contribute towards the country's social and economic development.

The evidence suggests that the youth unemployment rate has fallen over time. The evidence further shows that their labor force participation rate has also fallen, while youth in wage employment shows a positive trend. Even though the youth unemployment rate has decreased over time, the current rates are still high. There are many reasons behind this, but the most prominent are skill mismatch, youth foregoing available private sector employment for public sector employment, and more youth staying on in education till late stages of their youth life. The skill mismatch is largely due to weaknesses in the education system. However, rather than blaming the system entirely, it is also important that the youth focus on making better decisions in selecting their educational paths. For example, rather than picking the popular medium of study, youth can evaluate their potential and match these with current job market demands. However, in order to do this successfully, the youth need to be carefully guided, and this can only be done by their teachers and parents.

There are always young people who are eager to take up challenges in dynamic work environments. These youth are likely to focus on competitive and stressful private sector jobs. At the same time, there is a proportion of youth that would look for more secure, less stressful, and less competitive jobs. These attitudes are hard to change since it is a personal decision whether to take up an employment offer or not. However, their attitudes and perceptions on permanent and secure jobs can, and need to, be changed. While spending more years studying lowers the youth labor force participation rate, in the long run, educated youth will be a positive advantage. However, the benefits will accrue only if they are more employable. Thus, the youth have to be certain of what they are acquiring as educational qualifications, and whether that is what employers are demanding in today's job market.

As identified by the FGDs, there is an increasing willingness for the establishment of SMEs among the youth. Especially after the end of the conflict, the youth in the North and East are presented with more opportunities. However, the inability to secure finances, lack of financial management capabilities, and most importantly, the inability to assess and understand business viability, has constrained youth entrepreneurs. While banks need to be encouraging young entrepreneurs with financial assistance, one way to tackle this issue is to encourage youth to develop partnerships. In this way, the business idea can come from the youth, while others can contribute the necessary capitals. There are initiatives such as the Young Entrepreneurs of Sri Lanka (YESL) and Youth Business Sri Lanka (YBSL), that are in the process of helping youth to develop their skills in the financial management of SMEs. However, more government involvement is needed to make these efforts sustainable, with government institutions taking the lead in training youth in these aspects. However, these institutions are likely to need additional financial assistance to enable them to take the initiative in providing such training.

The biggest threat to the poor youth is that they are engaged in low quality jobs. While income poverty rates among youth have reduced over time, the youth are facing constraints in areas of education and health that can increase their risks of being poor. Poor and vulnerable households lack the capacity to spend on education and health, aggravating the physical abilities of poor youth to be work force ready. Therefore, poverty alleviation programme should focus on financial assistance, as well as on eradicating educational and heath barriers faced by the youth.

In this instance, while Sri Lanka has a well-established education and examination system, a majority of students who sit for O/L fail. Even at A/L, only a very small percentage will succeed in obtaining university entrance, and the others fall out of the education system. Most of the students who could not get entrance to state universities will opt for a private certificate, diploma, or degree. However, those who drop out after O/L have limited options. The government tries to absorb most of the O-Level dropouts to vocational education and training. However, most students do not have adequate awareness of these opportunities presented by the institutes of vocational education and training. Therefore, creating this awareness is essential, and at the same time the capacities of these institutions need to be upgraded so that they can accommodate more students. Vocational education will address this issue only if the vocational education system is linked with the industries that can absorb these students. Therefore, public-private partnerships and schemes of recruitments through vocational education and training institutes directly to the industry, are essential. Whilst such linkages are being established gradually, awareness and absorptive capacities in the private sector, as well as in the education and training institutes need to be developed. Students that sit for O/L do not receive enough guidance on selecting their next stage of life if they do not pass the exam, or if they do not wish to sit for A/L. Therefore, career guidance and counseling needs to be set up. Some schools, especially the well-established ones, have career guidance and counseling centers at schools, but rural schools are left out in this regard. Therefore, both teachers and parents should help students in deciding what they would like to do with their education, if they fail in certain stages, and create awareness on the available options.

On a positive note, the MYASD and The Ministry of Education, collaboratively introduced vocational education in to the A/L stream recently. This will be in effect from July 2013. Initially, 225 schools have been selected to introduce this programme, where close to 300 teachers will be trained with the help of the ministry and the UNIVOTEC. However, training teachers, developing good curriculums and absorbing them to the UNIVOTEC system for a bachelor's degree, need to be carefully implemented. Therefore, policy initiatives like this must develop the necessary infrastructure in order for these programmes to be sustainable.

Health determines the capacity of youth to be in education and be work force ready, which would ultimately lift them out of poverty. Teenage pregnancy, especially in the estate sector, is a serious issue to be considered. One of the main reasons is a lack of awareness on reproductive health. Sri Lanka's education system does not support adequate knowledge on these aspects, and as a result, the youth must rely on their parents and peers for information on reproductive health and sexual behaviour. However, with media and access to information through internet, this information is no longer a secret to youth. But access to such information though such mediums can pose higher risks to the youth, as well as to society. These issues have been brought up by youth themselves though the NYSC discussions and Youth Parliament debates. One of the main suggestions that came out of these discussions is to integrate education on reproductive health and sexual behaviour into the education system, focusing on the youth cohort. Substance abuse is also a significant issue that relates to the health of youth. While peer pressure and stress are two of the most significant factors that drive youth towards substance abuse, it remains a personal decision. With proper knowledge and enforcement, such trends can be deterred. In most developed countries, retail outlets are prohibited from selling tobacco and alcohol to minors. However, this is not the case in developing countries. Access to these substances is easy for youth, and given peer pressure and stress, the probability of them being victims of substance abuse is high. Therefore, in order to steer the youth away from these habits, awareness creation of the negative outcomes should be a priority. At the same time, effective enforcement of law has to be in place to suppress the supply of these substances.

6. Social Protection: Filling the Gaps and Improving Coverage

6.1 Introduction

As Sri Lanka strives to accelerate the pace of growth and development, it is imperative that the country pays attention to the more vulnerable segments of its population. Apart from its social standpoint in regard to addressing issues of access to opportunities and equity considerations, inadequate provisions to ensure the welfare of the more vulnerable in society can in itself, lead to a drag on the country's growth and development aspirations.

Increasing global integration and a higher level of industrialization that often accompanies an accelerated economic growth agenda, expose countries to new forms of vulnerabilities. In addition, country-specific factors such as increased migration and urbanization, or demographic changes such as a rapidly ageing population, also increase the vulnerability of people. Such vulnerabilities pose challenges to the growth and development process of a country. Therefore, having a comprehensive social protection system in place to meet the rapidly changing needs in the transition to a middle income country status, is vital in sustaining medium to long term growth and development efforts. Such programmes can lead to risk-sharing, so that people are not adversely affected by negative shocks. Indeed, international experience suggests that people in countries with better social protection systems are more able to invest in personal improvements, and cope better with unanticipated shocks. Social protection mechanisms will also help countries to grow by making their population more productive – i.e., by getting people out of poverty so that they can concentrate more on being productive, as opposed to focusing on survival, improving their health conditions, lessening the burden to the household of caring for the elderly, etc.

> ***'A comprehensive social protection system to meet the rapidly changing needs in the transition to a middle income country status is vital in sustaining growth and development efforts'***

This Chapter discusses three key challenges related to social protection in Sri Lanka that has to be addressed in the transition from low, to upper middle income status: (i) poverty and vulnerability; (ii) growing informalization of work; and (iii) the rapid ageing of the population. Section 6.2 discusses the emerging issues in poverty and vulnerability. Section 6.3 follows with a discussion on challenges arising due to growing informalization of work. Section 6.4 discusses the challenges of a rapidly ageing population. Section 6.5 provides a brief overview of the existing social protection programmes in place to address the above challenges, and Section 6.6 discusses the limitations of the existing social protection programmes in addressing the key challenges. Finally, Section 6.8 provides conclusions and policy recommendations.

6.2 Poverty and Vulnerability

6.2.1 Vulnerability to Poverty

Sri Lanka has experienced a steady reduction of poverty during the last decade. Despite a fall in the poverty HCI, the vulnerability of households has not reduced extensively. Many households are still vulnerable to various shocks that may push them into poverty. Sri Lanka has a considerable proportion of households living within a 10 per cent band above the poverty line. As per the official poverty line (OPL) in 2009/10,[1] only an estimated 8.9 per cent of the population is in poverty. Yet, with a 10 per cent increase of the OPL, the poverty HCI rises to 12.8 per cent, while with a 20 per cent increase of the OPL, it rises further to 17.5 per cent (Table 6.1.). In terms of the share of households, 7 per cent of the households are recorded as poor according to the OPL (2009/10). However, with an increase in the OPL, a substantial share of households can fall into poverty. This shows that a significant share of households are clustered just above the poverty line and that various shocks – household level or macroeconomic – can easily push them into poverty.

Despite the reduction in the aggregate poverty level, the estate sector of the county has continued to be the poorest of the three sectors (viz., urban and rural). Although the poverty rate of the estate sector has declined over the years (in line with the aggregate figures), 11.4 per cent of the estate sector population still remains poor. Moreover, the vulnerability of the estate sector poor is higher compared to the other two sectors. For instance, a considerable share of the estate sector population is very close to the poverty line. A 10 per cent increase in the OPL would increase estate sector poverty HCI to 17.8 per cent. More strikingly, a 20 per cent increase in the OPL would increase estate sector poverty HCI up to 26.6 per cent, indicating that a higher share of the popula-

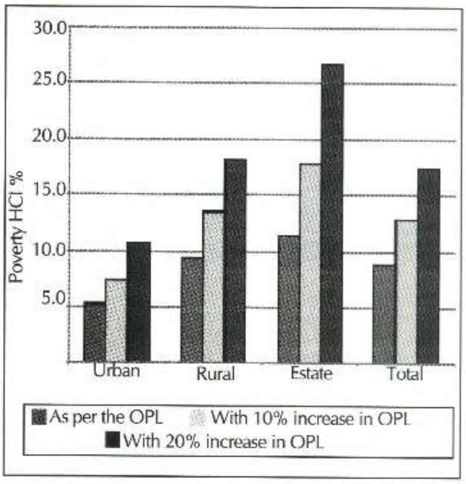
Table 6.1
Changes in Poverty Levels by Changes in the Poverty Line (2009/10)

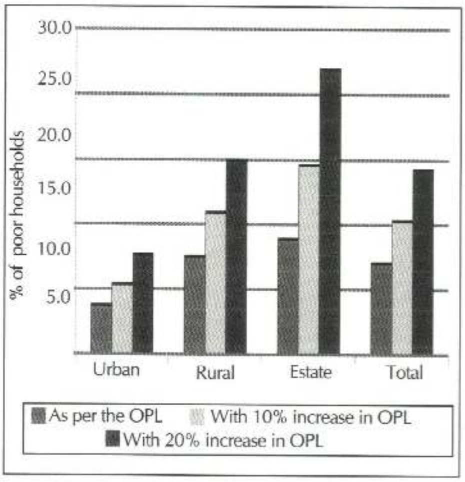
	Poverty HCI (Percentage of poor population)	Percentage of Poor Households
As per the OPL	8.9	7.0
With 10% increase in OPL	12.8	10.3
With 20% increase in OPL	17.5	14.3

Source: Calculated based on DCS, HIES 2009/10 data.

[1] World Bank (2009), "The Towers of Learning", World Bank, Washington, D.C.

Figure 6.1
Change in the (a) Poverty Head Count Index and (b) the Percentage of Poor Households with the Change in the Poverty Line (2009/10)





Source: Calculated based on DCS, HIES 2009/10 data.

tion in the estate sector is clustered just above the poverty line, compared to the other two sectors (Figure 6.1).

It should also be noted that the vulnerabilities of households due to climate change and natural disasters has been on the rise in recent years. Climate change leads to more frequent and intense natural disasters. For instance, in 2009/10, about 7 per cent of the households in Sri Lanka faced natural disasters. Floods and droughts are the natural disasters that most have experienced, at 37 per cent and 33 per cent, respectively. In addition, wild animal attacks also have been a quite common form of natural disaster faced by vulnerable households.[2]

6.2.2 Inequality

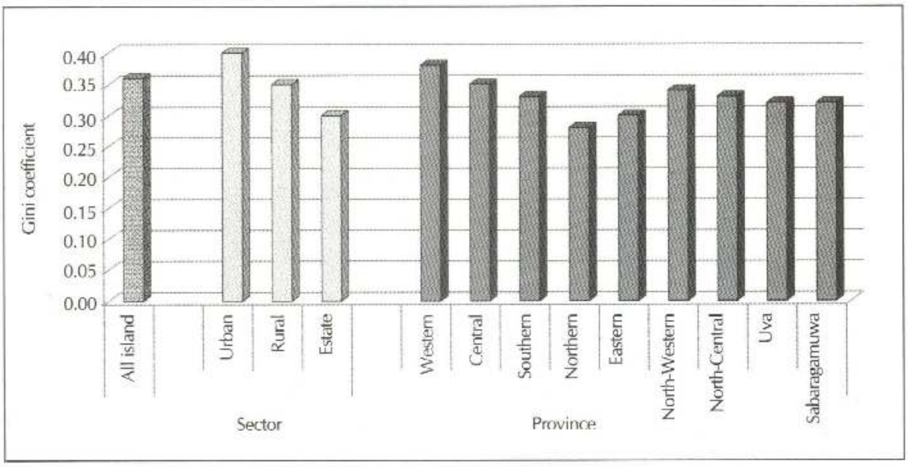
Despite the reduction in poverty, inequality in Sri Lanka remains high, with the country having a long way to go in achieving levels of equality in income, comparable to countries such as Indonesia, South Korea, and countries of the EU.[3] Even within the country, considerable levels of inequality are observed in certain sectors, despite the fall in their poverty rates. For instance, though the urban sector records the lowest poverty rate compared to the other two sectors, inequality in the urban sector remains the highest (measured by the gini coefficient). Similarly, the Western Province has the lowest poverty rate, but it records the highest inequality among the provinces (Figure 6.2). The income distribution pattern across different income groups (quintiles) shows the inequality of wealth concentration. At the aggregate level, more than a half of the income is received by the richest 20 per cent of households, while the poorest 20 per cent of households receive only 4.5 per cent of the income.[4] Similarly, in the urban and rural sectors, over a half (53 per cent) of the income is with the richest 20 per cent of households. Though the estate sector shows

[2] Calculated based on DCS, HIES 2009/10 data.

[3] IPS (2012), "Reducing Inequality amidst Fast Growth" in *Sri Lanka: State of the Economy 2012*, Institute of Policy Studies of Sri Lanka, Colombo.

[4] *Ibid.*

Figure 6.2
Gini Coefficient by Sector and Provinces (2009/10)



Source: Adapted from IPS (2012), "Reducing Inequality Amidst Fast Growth" in *Sri Lanka: State of the Economy 2012*, Institute of Policy Studies of Sri Lanka, Colombo.

a relatively low level of inequality compared to rural and urban sectors, close to a half of the income (49.4 per cent) of this sector is also concentrated in the hands of the richest 20 per cent of households.[5]

6.2.3 Rural Poverty

Despite the transition to a lower middle income economy in 2010, and subsequent efforts to accelerate growth and development in the country, around 80 per cent of Sri Lanka's population resides in the rural sector. Whilst poverty in the rural sector has fallen substantially in the past decade, poverty in terms of the number of poor remains high at about 1.5 million. Moreover, around 85 per cent of the total poor in the country belong to the rural sector (see Figure 6.3).[6] Hence, addressing rural poverty should be treated as a policy priority, as a considerable level of poverty in the rural sector could constrain the growth process of the country.

6.2.4 Urban Poverty

Transition to the upper middle income status could produce new sources of vulnerabilities, often in urban settings. The growth process associated with the transition to upper middle income status induces migration to urban cities from the rural areas, creating new vulnerable groups. They face numerous challenges in accessing services. The new types of livelihoods may also bring in challenges and increase their vulnerability. This is common for many transitioning countries.[7] However, the rate of urbanization in Sri Lanka is lower than that of countries like India, Pakistan, and Vietnam.[8]

Urban poverty remains an issue of great concern in the country. Although the urban poverty HCI in Sri Lanka is a half of that of the estate sector, the number of poor in the urban sector is slightly higher than the number of poor in the estate sector (Figure 6.3). This

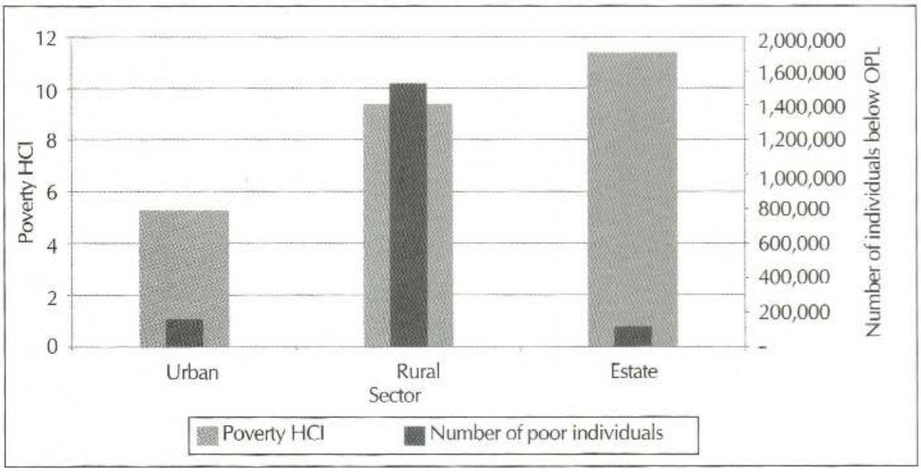
[5] *Ibid.*

[6] Calculated based on DCS, HIES 2009/10 data.

[7] World Bank (2010), "Vietnam: Strengthening the Social Safety Net to Address New Poverty and Vulnerability Challenges", World Bank, Washington, D.C.

[8] The rate of urbanization in Sri Lanka is only 1.1 per cent compared to the rate of urbanization in countries like Vietnam (3 per cent), Pakistan (3.1 per cent), India (2.4 per cent) - Central Intelligence Agency, 2013, "The World Fact Book", CIA, USA. - https://www.cia.gov/library/publications/the-world-factbook/fields/2212.html, last visited on 13th May 2013.

Figure 6.3
Comparison of Poverty Head Count and Number of Poor by Sector (2009/10)



Source: Calculated based on DCS, HIES 2009/10 data.

is because in Sri Lanka, the urban population is about three times that of the estate sector population. Using the poverty HCI alone can be misleading under such conditions.

The depth of urban poverty is more evident from estimates of the poverty shortfall by sector as shown in Table 6.2. Poverty shortfall is a measurement of the depth of poverty, and gives the amount of transfers required to get consumption expenditure above the poverty line – i.e., an estimate of how much is needed to be transferred to a person, to get him/her out of poverty. An analysis of the poverty shortfall for each of the three sectors shows that the urban poor are the poorest. On average, an urban poor person is Rs. 680 short of the poverty line per month, which is the highest amount among the three sectors. It is even higher than the average amount (Rs. 587) that should be transferred to take an average poor person in Sri Lanka out of poverty (Table 6.2).

6.3 Growing Informalization of Work

The transition up the ladder of middle income economies involves higher levels of integration with the global markets, which can bring in new types of shocks. Further, the share of informal work rise at times of shocks. The informal nature of work increases the vulnerability of the informal sector workers as they are the first to lose jobs, and experience depression of wages, with economic shocks. They are more likely to get locked – in to vulnerable situations. Without any form

Table 6.2
Poverty Shortfall by Sector (2009/10)

Sector	Poverty Shortfall – Average (Rs./Month)
Urban	680
Rural	578
Estate	569
Sri Lanka	**587**

Source: DCS (2011), Poverty Indicators - Household Income Expenditure Survey 2009/10.

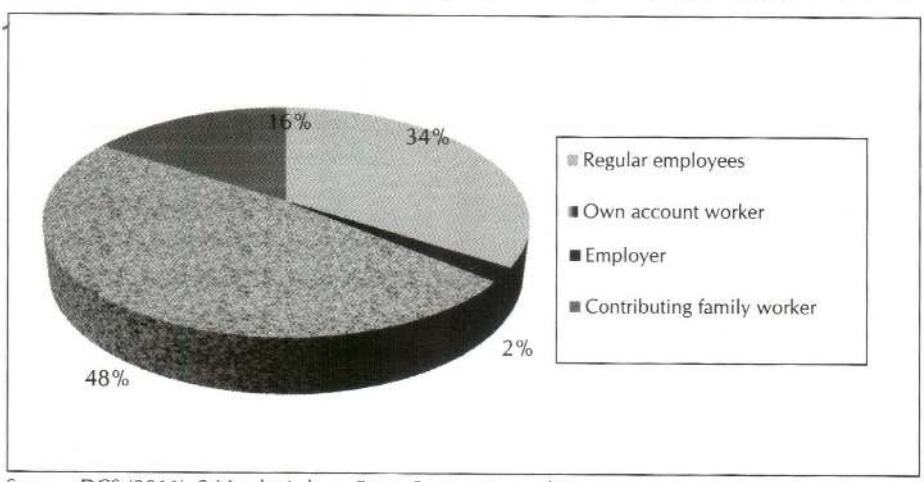
of social protection, many informal workers would be at a higher risk of falling into poverty.

Sri Lanka has a substantially large informal sector, although not as large as in other South Asian countries like India. Around 62.7 per cent of those employed are informal sector workers. This trend has been continuing for several years. In the agriculture sector in particular, 86.6 per cent of those employed are in the informal sector, while the share of the informal sector workers in the non-agricultural sector remains at around 51 per cent. However, some sub-sectors of the non-agricultural sector such as construction and mining, manufacturing, and hotel and restaurants, record a higher share of informal sector workers compared to the other sub-sectors. In the construction, mining, and quarrying industries, 83 per cent of the employed are informal sector workers, while the figure is 45 per cent in the manufacturing sub-sector, and around 50 per cent in the hotel and restaurant sub-sector.[9] Furthermore, there is a growing informalization of work in the formal sector enterprises due to various reasons such as strict regulations governing the labour market of the country. A recent study shows that these informal workers in formal enterprises account for almost 19 per cent of the workers in the country.[10]

The informal nature of employments reduces job security. In addition, due to the informal nature of working conditions, there are higher chances of such workers getting excluded from the formal social security cover and employment related legislations that exist for the formal workers. Indeed, the informal sector has only limited social security cover in Sri Lanka.

The composition of informal workers also shows that almost a half of the total informal sector workers are working as own account workers (who are mostly self-employed, small business operators), while another 16 per cent of informal sector workers are unpaid family workers, and 2 per cent are employers. Only 34 per cent are employees in the public or private sectors (Figure 6.4). This

Figure 6.4
Composition of Informal Sector Employment by Employment Status (2011)



Source: DCS (2011), Sri Lanka Labour Force Survey, *Annual Report*.

[9] DCS (2011), "Sri Lanka Labour Force Survey Annual Report 2011".

[10] World Bank (2012), "Demographic Transition and the Labour Market in Sri Lanka", Report No. 41, World Bank, Washington, D.C..

composition of informal sector workers poses further challenges to the social protection system of the country. In particular, the own account workers and unpaid family workers who often lack any employment-related social protection benefits, account for almost two-thirds of the informal workers in the country.

6.4 Rapid Population Ageing

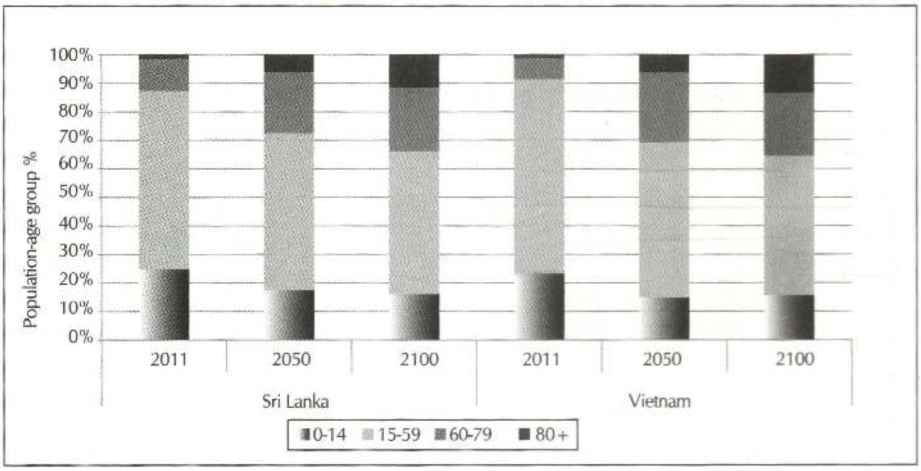
A rapid demographic transition is taking place in the world. While the world population has reached a record high level, the declining rate of growth of the population since about 1960 has led to a demographic transition. As such, the consequences are an unprecedented decline in mortality and in fertility. The rapid decline in fertility and increased life expectancy has resulted in population ageing. The next decade will be marked by the emergence of one billion old people in the world, which is projected to double by 2050. Further, women will form the majority of the older people. At present, for every 100 women aged 60 and above in the world, there are only 84 men. For every 100 women aged 80 and above, there are only 61 men.[11] Sri Lanka too is experiencing rapid demographic transition patterns.

6.4.1 Changing Demographic Characteristics of Sri Lanka

Sri Lanka is experiencing a rapid rate of demographic transition and population ageing. The percentage of children and elderly are increasing rapidly, as compared to the working age population. By 2050, the population over the age of 60 will be double that of the current numbers, making more than one-fourth of the population above the age of 60 years. As shown in Figure 6.5, demographic patterns in Sri Lanka are somewhat similar to that of countries like Vietnam.

The demographic transition and population ageing in Sri Lanka are apparent when the

Figure 6.5
Percentage Distribution of Population in Age Groups: Sri Lanka and Vietnam (2011-2100)

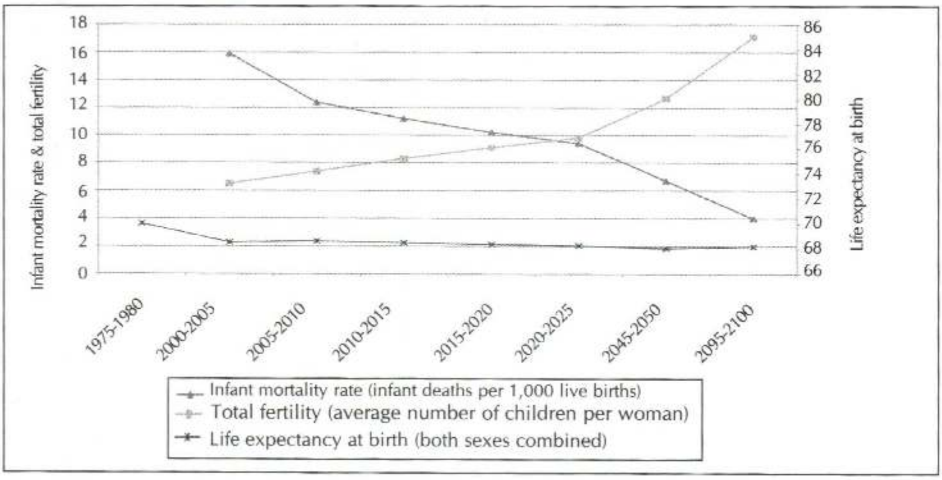


Source: Based on UN (2011), "World Population Prospects: The 2010 Revision," Volume I: Comprehensive Tables, United Nations, New York.

[11] UNFPA and HelpAge International (2012), "Ageing in the Twenty-First Century: A Celebration and A Challenge", United Nations Population Fund, New York and HelpAge International, London; World Bank (2009), "The Towers of Learning" World Bank, Washington, D.C.

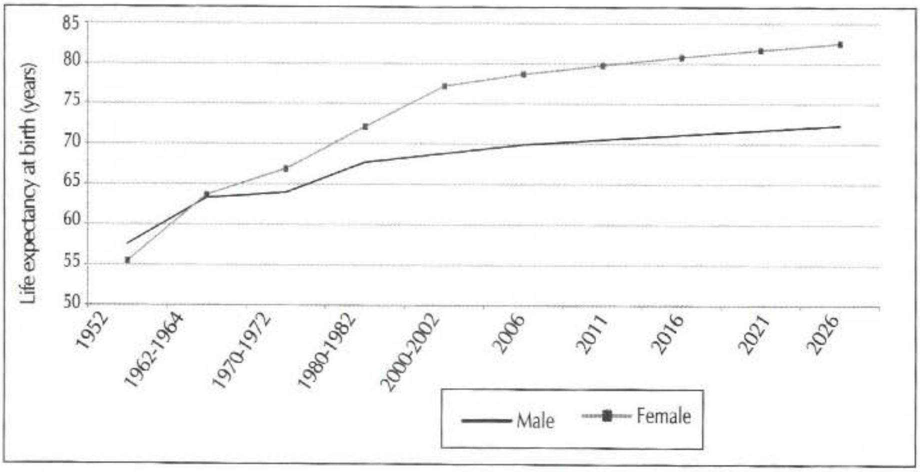
trends in key factors affecting the transition are observed. The infant mortality rate is considerably low in Sri Lanka, and is expected to come down sharply in the future. The fertility rate has also come down, and will continue to decline. Moreover, life expectancy at birth is increasing sharply, and a higher rate of increase is projected after 2020 (Figure 6.6). However, life expectancy for females is higher than that for males, and the gap is projected to widen further, leading to an increase in the share of females in the older age groups (Figure 6.7).

Figure 6.6
Changes in the Infant Mortality Rate, Fertility Rate and Life Expectancy at Birth in Sri Lanka (1975-2100)



Source: UN (2011), "World Population Prospects: The 2010 Revision," Volume I: Comprehensive Tables, United Nations, New York.

Figure 6.7
Life Expectancy at Birth, by Sex (1952-2026



Source: Based on Gunasekera, H.R., (2008), "Life Tables for Sri Lanka and Districts," DCS, Colombo.

6.4.2 Challenges Arising Due to Population Ageing

The demographic transition has important consequences in the form of both challenges and opportunities. An ageing population could bring in significant social and economic implications at individual, family, and society levels, which need to be addressed to sustain the higher economic growth aspirations of a country.

The percentage of older persons is currently much higher in developed countries, than in the developing countries. However, the pace of population ageing is faster in the latter, compared to the former. In developing countries, demographic transition from a young to an old age structure occurs much faster, and in a shorter time period; whereas it has been a somewhat slower process in the developed countries, providing ample time for adjustments. Thus, the time that developing countries have to adjust for such a demographic transition is much less, and they have to meet the challenges while at much lower levels of economic development.[12] Hence, an ageing population is undoubtedly a challenge for a country like Sri Lanka, when the country is on a higher growth track.

Population ageing raises concerns on the ability of the social protection system to provide adequate social protection and social security for the growing numbers of older persons. This could be mainly in terms of providing financial security through social protection, and social care at old age.

The financial security of older people is by far the most important concern of all. It is particularly important for them to have economic and social independence as older persons. Financial security will provide them access to basic services they would need in old age. Retirement income, monthly social assistance, and also employment at old age, would provide financial security.

As the longevity of females is expected to increase relative to men, it can be expected that there will be more single females in old age, than single men in old age. Having more females in old age becomes a cause of concern, as most of the females are less likely to have adequate social security at old age than males in Sri Lanka. This is primarily due to the low female labour force participation rate, and related to the fact that most retirement programmes in Sri Lanka are attached to employment. This situation can increase the vulnerability of women in their old age relative to men.

The care of older people is a cause of concern and a growing challenge for families and societies. In Sri Lanka, most of the elderly at present live with their families (77 per cent).[13] However, informal support systems for older persons are increasingly coming under stress. Some possible reasons for this could be the lack of time available for care giving by children due to education or employment, and the increasing number of nuclear families which are replacing the traditional extended families. Migration, both internal and external, also leads to families living apart, affecting care giving. Indeed, migration often leads to the abled elders looking after the children of migrants. The absence of family or the informal support networks at old age, will make the aged especially vulnerable.[14]

Health is another major concern in old age. Health demands of the old are generally higher than for younger age groups. Hence, a

[12] *Ibid.*

[13] World Bank (2008), "Sri Lanka: Addressing the Needs of an Ageing Population", World Bank, Washington, D.C.

[14] UNFPA and HelpAge International (2012), "Ageing in the Twenty-First Century: A Celebration and A Challenge", United Nations Population Fund, New York and HelpAge International, London.

considerable share of costs at old age is likely to be spent on health and related care. The rising tide of NCDs will be a threat at old age and will add to the health costs at old age. Sri Lanka's health system has to be ready to address resultant health issues arising from population ageing. Hence, current health expenditures need to be increased or redirected to meet the future health care needs of the country. Given the current trends and expenditure patterns, it has been estimated that population ageing itself may add up to one per cent of GDP by 2050.[15]

6.5 Existing Social Protection Programmes

The above discussed vulnerabilities raise the question as to what programmes Sri Lanka currently has in place to help address the identified challenges. The social protection system in Sri Lanka consists of a range of programmes implemented by the GoSL (e.g., through ministries and Provincial Councils), the non-governmental sector, and the private sector, targeted towards various vulnerable segments of the population such as the poor, elderly and disabled persons. These programmes include social assistance initiatives such as, cash or in-kind transfers; social insurance programmes such as pensions and micro insuarnce schemes; and various active labour market programmes that include, livelihood development initiatives.

6.5.1 Social Protection Programmes to Address Poverty and Vulnerability

The Samurdhi programme – the main social protection initiative for the poor in Sri Lanka – is designed with dual objectives: the short term objective of reducing vulnerability to various risks, such as consumption shortfalls and sicknesses; and the long term objective of poverty reduction through livelihood development and empowerment. Hence, the programme comprises of multiple components, including the subsidy programme, the social security programme, the nutrition programme (designed to achieve its short term objectives), and the microfinance programme and livelihood development, geared towards the long term objective of poverty reduction. Under the Samurdhi subsidy component, identified families receive a monthly cash transfer between Rs. 210 to Rs. 1500, depending on their family size (Table 6.3). Currently, the Samurdhi subsidy is received by around 1.5 million families. The Samurdhi social security programme (or the insurance programme) provides cover for the Samurdhi recipient households in the

Table 6.3
Benefits of the Samurdhi Subsidy Programme (2012)

Category of Samurdhi Beneficiary Families	Monthly Subsidy (Rs.)	Net Subsidy that can be Withdrawn (Rs.)	Compulsory Savings	Social Security Fund (Rs.)	Housing Fund (Rs.)
1-2 member families[a]	750	595	100	45	10
3-5 member families	1,200	945	200	45	10
6 or more member families	1,500	1,145	300	45	10
Empowered families	210	155	n.a.	45	10

Note: a. There is also a group of 3-5 member families who receive Rs. 750 per month since 2012.

Source: Tilakaratna, G., A. Galappattige, R. Jayaweera (2013), "Safety Nets in Sri Lanka: An Overview," report prepared for and submitted to the World Bank, Institute of Policy Studies of Sri Lanka, Colombo.

[15] World Bank (2008), "Sri Lanka: Addressing the Needs of an Ageing Population", World Bank, Washington, D.C.

event of child-birth, marriage, illnesses, death, and hospitalization. This social security programme also includes a scholarship programme aimed at providing benefits for the children of beneficiary families who pass the G.C.E. (O/L) examination. Social insurance benefits are provided from a Social Security Fund formed by deducting Rs. 45 from the monthly Samurdhi subsidy given to these families.

The long term aim of poverty reduction of the Samurdhi programme is sought to be achieved through its livelihood development and microfinance components. The livelihood development programme covers four main areas: agriculture, animal husbandry and fisheries, industries, and marketing. The microfinance programme that operates through a network of over 1,000 Samurdhi Banking Societies and over 34,000 village level societies, provides savings and credit facilities to over 2 million members at present for income generation activities, housing, consumption, etc.

In addition, there are many other types of programmes providing assistance for vulnerable groups such as disabled persons, single parents, widows, children, and other destitute families. The government carries out a disability assistance programme under which an allowance of Rs. 3,000 per month is given to the identified families with disabled persons. The Provincial Councils also carry out assistance programmes for vulnerable groups. A Public Assistance Monthly Allowance (PAMA), which is commonly known as the 'pin-padi'; is the main assistance programme carried out by Provincial Councils for low income destitute families. Vulnerable households belonging to the categories of elderly, disabled, widows with disability, and orphaned children below 16 years and who are not entitled for any other government assistance, are eligible for assistance under this initiative.

The Ministry of Disaster Management also carries out various programmes to assist families affected by natural disasters such as floods, landslides, droughts and cyclones. The disaster assistance provided under these programmes vary from cooked meals, dry rations, funeral assistance, compensation for housing damages, and crop damages due to various disasters.

The government is also involved in the provision of social assistance to internally displaced persons (IDPs) and to the resettling of families. Various forms of assistance including cooked meals, dry rations, shelter, water and sanitation facilities, are provided as relief for IDPs. At present, since the families are being resettled, the assistance is mostly in the form of feeding programmes for resettling families. These include provision of cooked meals for 3 days, followed by a dry food package, to facilitate resettlement. Until the livelihood activities are reestablished, the resettling families will be provided further food assistance (Vulnerable Group Feeding-VGF). They are provided with cash grants to construct temporary shelter, and non-food items to ensure provision of facilities other than food for the resettling families. These are followed by the workfare programmes such as Food for Work (FFW), or Food for Training (FFT).

6.5.2 Social Protection Programmes for Informal Sector Workers

Social protection for informal sector workers exists mainly in the form of retirement programmes. However, there is only a handful of government led retirement programmes for the informal sector. These include the Farmers' Pension and Social Security Benefit Scheme, the Fishermen's Pension and Social Security Benefit Scheme, and the Pension and Social Security Benefit Scheme for other employees (which was formerly known as the Pension and Social Security Scheme for Self-Employed). Though there are only three main retirement programmes for the informal sector, any worker who is not eligible for a government retirement income can get enroled with the Pension and Social Security Benefit Scheme. Under this scheme, there are various pension programmes that operate in concurrence with other ministries, departments, and boards. For instance, there are special schemes for migrants, artists, etc. In addition to pension benefits, these retirement schemes include social security benefits such as disablement gratuity, and death gratuity.

In addition to pensions and the social security benefits, a handful of contributory insurance programmes have been introduced by the government for specific informal sector occupations. For instance, there is a contributory personal accident insurance and a contributory health insurance for farmers. There are also three livelihood related contributory insurance schemes for farmers for crop, livestock and agricultural equipment. Recently, a boat insurance scheme and a life insurance scheme have been introduced for fishermen, while there is also a specialized insurance scheme for migrant workers.

6.5.3 Social Protection Programmes for the Elderly

Social protection for elders in Sri Lanka is mainly in the form of old age retirement schemes. The government employees are entitled for the Public Service Pension Scheme (PSPS), Widows/Widowers and Orphans Pension Scheme (W&OPS) and the Public Service Provident Fund (PSPF). The formal private sector employees are eligible for retirement benefits through the Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF). Moreover, as discussed in Section 6.5.2, there are a few government led retirement programmes for informal sector workers.

The PSPS is a non-contributory pension scheme for permanent workers in the public sector. In 2010, Sri Lanka spent around 1.3 per cent of GDP on government pensions and gratuities – at a considerable cost to the government.[16] The formal private sector also has reasonable old age retirement benefits, which they receive through the mandatory EPF and ETF, but where they have to contribute a certain percentage out of their salaries. However, the existing retirement programmes for informal sector workers are contributory and voluntary.

In addition, the elders who do not receive retirement income or any other income, and who are over the age of 70, are covered by an Elders' Assistance Programme implemented by the Ministry of Social Services. This is a new programme implemented from 2012, under which elderly persons over the age of 70 in a family receives a monthly assistance of Rs. 1,000. Moreover, elders (above the age of 60) who are not qualified for the above assistance, and who do not have any source of income, are often eligible for Samurdhi or assistance under the PAMA.

In addition to the direct income assistance for elders, there are a few welfare programmes carried out by the government, geared towards the protection of the rights of elders and to help improve their welfare. These include establishment of day centers for elders to encourage participation of the elderly in social activities and to ensure their independence, care, self-fulfillment, and dignity. The elderly can apply for grants for income generating activities, particularly to purchase necessary raw materials, through the day cen-

[16] Calculations based on the IPS, Social Protection Index (SPI) Database (2012), Prepared for Asian Development Bank, Manila

ters. Moreover, the government provides limited financial assistance for elders' homes and implements programmes to establish elders' committees at the village level. The elderly in an area can get together and form an elders' committee for social, economic, cultural, and spiritual development of the elders living in the rural community, and to protect their rights. These committees help the implementation of services for the welfare of elders, and get their participation for the development activities of the area. Special identity cards are issued for senior citizens above 60 years that provides them with various privileges in accessing services from government and private institutions, to obtain higher interest rates for deposits and when accessing certain health care services. There is also a Maintenance Board for the Elders (established under the Protection of the Rights of Elders Act, No. 9 of 2000) to assist elders who do not have sufficient means to meet their basic needs, and to claim maintenance funds from their children who have neglected them. Elders (above 60 years) who wish to claim maintenance from their children can submit a claim to the Maintenance Board that will examine the case and request their children to make monthly maintenance payments.

6.6 Limitations of the Social Protection Programmes in Addressing Challenges in Transition

6.6.1 Addressing Poverty and Vulnerability

One of the main limitations of social protection programmes (not limiting to the programmes for addressing poverty and vulnerability) is the limited coverage of risks or vulnerabilities. Households often face a range of different vulnerabilities. Despite the availability of a gamut of social protection programmes, a given household would often get covered for only one or two vulnerabilities. For instance, a disabled person receiving the disability assistance does not receive any additional social security cover, in the event of other vulnerabilities. However, programmes such as Samurdhi cover other vulnerabilities from its social security or insurance component. Yet, this programme also covers only four types of risks: death, hospitalization, marriage, and child birth.

The employment related retirement programmes often cover risks related to disablement and provides disablement gratuity and death gratuity. Hence, they cover occupational-related risks to a certain extent. However, since the retirement programmes cover mostly formal sector workers, the vulnerabilities of informal sector workers are not addressed adequately by these retirement programmes.

Though there are numerous social protection programmes, most deliver inadequate benefits. For instance, the maximum amount of subsidy received by a family under the Samurdhi programme is Rs. 1,500 per month, which is far below the minimum requirement of a family to meet their basic needs. According to the national poverty line, a person requires around Rs. 3,030 per month to cover his/her consumption expenditure (at a minimum)(DCS 2011, Poverty Indicators). Moreover, only a small fraction of beneficiaries receive this highest benefit amount of Rs 1,500 per month, while most receive between Rs. 210 and Rs. 1,200. The net cash value received by these beneficiaries is much lower than the above amounts, as there are various deductions for compulsory savings, social security fund, and housing fund.

The inadequacy of benefits is also an issue related to the PAMA programme carried out by the Provincial Councils. The benefits of the PAMA programme vary between Rs. 250 and Rs. 500, depending on the family size. Since this is the only source of income for the destitute, in particular for the elderly (who

Table 6.4
Distribution of Samurdhi Recipient Households by Deciles – 2009/10

Expenditure Decile	Mean Household Expenditure (Rs.)	Mean Household Income (Rs.)	Samurdhi Recipient Households (%)
Sri Lanka	**31,331.37**	**34,143.56**	**22.73**
1 (poorest)	13,231.65	14,460.02	47.42
2	16,926.42	17,870.90	41.52
3	19,488.45	19,283.59	32.44
4	21,695.01	22,624.21	29.65
5	24,349.65	23,848.04	21.99
6	26,661.05	26,936.85	20.60
7	30,530.05	34,071.06	14.82
8	35,482.83	33,968.43	9.91
9	43,677.18	41,994.55	5.82
10 (richest)	81,297.59	106,411.30	3.12

Note: Expenditure deciles are based on per capita household expenditure. Calculations are based on the DCS, HIES 2009/10 data.

Source: Tilakaratna, G., A. Galappattige, R. Jayaweera (2013), "Safety Nets in Sri Lanka: An Overview," report prepared for and submitted to the World Bank, Institute of Policy Studies of Sri Lanka, Colombo.

are not eligible for the new elderly assistance provided for selected vulnerable elders above the age of 70), this amount is far from adequate to cover expenses such as food and medical costs.

In contrast, the benefits offered by social insurance programmes that primarily consist of retirement programmes such as the PSPS are much higher than the benefits offered by the social assistance programmes discussed above. For instance, the average benefit amount from social insurance programmes is about 176.2 per cent of the poverty line, while the average benefit amount of social assistance is only 3.7 per cent of the poverty line expenditure.[17] This underlines the need to increase the value of benefits provided to families under social assistance programmes such as Samurdhi, PAMA, and the elders' assistance programmes.

Targeting errors is another common problem in social protection programmes in Sri Lanka. Most programmes suffer from both the inclusion error (inclusion of people who are not eligible for a programme) and the exclusion error (exclusion of the eligible persons). The Samurdhi programme – the largest social protection programme for the poor in the country – has also been criticized for its targeting issues. As can be seen from Table 6.4, only less than a half of the households (47.4 per cent in 2009/10) in the poorest decile receive Samurdhi benefits. By contrast, between 3 to 15 per cent of households in each of the top four deciles also receive these benefits. Moreover, the estimates reveal that on one hand, around 15 per cent of Samurdhi recipient households are poor (as per the national poverty line) while on the other hand, only 49 per cent of those households identified as poor (as per the official poverty

[17] *Ibid.*

line) are currently receiving Samurdhi benefits. These figures clearly indicate the severity of the targeting issues of the Samurdhi programme. The targeting errors of other programmes are difficult to measure owing to the lack of data.

The lack of a clearly defined eligibility criteria and lack of entry and exit mechanisms are two major reasons that have led to targeting errors in many safety net programmes in Sri Lanka. For example, even a programme like Samurdhi which has been in operation for almost two decades has no clearly defined criteria for selecting its beneficiaries. At the inception of the programme in 1995, families whose monthly income was less than Rs. 1,500 were considered as eligible for the Samurdhi subsidy, while in 2007 this was changed to a participatory targeting methodology where the beneficiaries were identified by the community members. However, there is no clearly defined eligibility criterion for this programme at present. Furthermore, the Samurdhi does not have a mechanism to continuously identify the households who fall into poverty due to various risks and vulnerabilities (i.e., to identify the so called 'new poor'), and to remove those households who move out of poverty over time.

Somewhat different to the Samurdhi programme, the disability assistance programme carried out by the Ministry of Social Services, has clearly defined eligibility criteria for selecting its beneficiaries.[18] However, the effective implementation of the programme is constrained by other issues such as budgetary limitations. Hence, the programme currently covers only a fixed number of beneficiaries per Divisional Secretariat Division, leading to an exclusion error. Moreover, this programme too has no mechanism to include new disabled, or people who become disabled due to occupational hazards, other accidents, or disasters. As Sri Lanka hopes to move ahead with a transition to higher GDP growth, this process will bring in new types of vulnerabilities and new vulnerable groups. Hence, it is important for the social protection programmes to develop mechanisms to identify those eligible for benefits on a regular basis.

6.6.2 Addressing Issues of the Informal Workers

Despite the considerable share of employment in the informal sector, social protection programmes available to them are limited. As discussed in Section 6.5.2, there are a handful of voluntary, contributory pension schemes designed for specific groups of informal sector workers, such as farmers and fishermen. Nevertheless, these programmes also suffer from a number of weaknesses such as low coverage, inactive membership, low old-age benefits, high administration costs, and weak financial sustainability.

In both the farmers' and fishermen's pension schemes, active membership remains much lower than their total enrolments. Due to the irregular contributions, a larger share of those who enrol for these schemes become ineligible to receive pensions at retirement. This is mainly due to the contributory nature of these programmes, and the irregularity of income earned by the informal sector workers. Although some programmes have made provisions to include defaulters back into the programmes, their coverage continues to remain low. Moreover, these programmes require a substantial level of government financing and are far from achieving financial sustainability. Such budgetary

[18] Families whose main income earner is disabled and whose monthly income is less than Rs. 3,000 are eligible to apply for the disability benefits.

constraints have also meant that retirement benefits remain at rather low levels.[19]

Little or no other social protection programmes exist at present to cover the vulnerabilities of the informal sector workers. As discussed earlier, even the existing social assistance programmes such assistance for the disabled, the PAMA, and the Samurdhi, do not have mechanisms to absorb 'new' poor or the vulnerable. However, the transition of a country to a higher income path could cause various changes in its employment patterns and may even cause more people to be pushed into informal employment, with little or no social security. This stresses the need for changes in the social protection system to accommodate such emerging vulnerabilities and changes in the economy.

6.6.3 Addressing the Issues of the Ageing Population

As discussed in Section 6.5.3, old age retirement schemes are the major form of social protection available for the elders. However, since these retirements benefits are often employment related, it is largely the formal sector workers who are covered by these programmes. While the permanent public sector workers are eligible for a monthly pension at retirement under the PSPS, the formal private sector workers are eligible for EPF and ETF. However, there are many instances where the formal private sector companies try to evade EPF and ETF payments, as there is a share of contribution by the employer. In addition, the EPF and ETF payments are one-off lump sum payments and do not provide annuity benefits as a pension. The limited available pension schemes for the informal sector workers too have not been very effective as retirement programmes, due to various issues discussed in the earlier section, such as low coverage, inactive membership, and lack of financial sustainability. The coverage of old-age retirement programmes in Sri Lanka remains low. Overall, these retirement programmes (including those for the formal and informal sector workers) cover only around 40 per cent of the elderly (over 60 years of age) in the country. Moreover, only around half of the labour force is currently participating in any type of retirement programme (either contributory or non-contributory).[20] Some of the elders who are not benefiting from the above retirement programmes may be covered under other social assistance programmes such as the PAMA, the new elderly assistance programme, or the Samurdhi programme. Nevertheless, it is evident that a considerable share of elders is not covered by any of these programmes at present. Furthermore, there are only a limited number of social protection programmes that cover other issues of old age, such as care services, health expenses of elderly from low income groups, and elders' homes. Moreover, the beneficiaries covered under these programmes are rather low at present, largely due to budgetary constraints.

6.7 Conclusion and Policy Implications

As Sri Lanka continues to push for a strong growth drive, it requires greater integration with regional and global markets, and higher levels of industrialization. There is an increasing consensus that social protection systems have to be developed concurrent to the growth drive in order to address emerging socio-economic vulnerabilities in the country. Indeed, Sri Lanka should take advantage

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[19] Gaminiratne, N., (2007), "Population Ageing, Policy Responses and Options to Extend Retirement Coverage: Case Study of Sri Lanka", Institute of Policy Studies of Sri Lanka, Colombo.

[20] Calculations based on the IPS, Social Protection Index (SPI) Database (2012), Prepared for Asian Development Bank, Manila

of the current demographic dividend,[21] and invest more on improving its social protection programmes to sustain higher rates of growth.

Despite declining poverty rates in the country, there are many emerging issues in poverty and vulnerability which needs to be addressed through social protection programmes. The growing informalization of work increases the vulnerability of workers, and creates new types of vulnerabilities. Moreover, an ageing population imposes challenges on social protection systems that need to be addressed to sustain higher economic growth.

In accordance with the rising challenges, social protection programmes need to be designed to cover new types of vulnerabilities and new vulnerable groups. The existing programmes need to be improved, to provide at least the bare minimum requirements of vulnerable groups. These can be addressed through the correction of targeting errors, establishing clearly defined eligibility criteria, and creating continuous entry and exit mechanisms in the social protection programmes. Adequate funding for the programmes is also necessary to improve the existing programmes, especially to expand them to include the new vulnerable groups, and increase benefit levels.

Social protection for the informal sector workers exists mainly in the form of retirement income schemes. However, they suffer from many weaknesses such as low coverage, high defaults, and low benefits. It is also important to extend these retirement schemes to cover all categories of the informal sector workers. Further, social protection for the informal sector workers have to be extended beyond retirement income, to include statutory benefits such as maternity benefits, sickness leave, etc.

Given the rapid ageing of the population and high life expectancy at birth in Sri Lanka, changes are required for the PSPS to reduce the burden on the government budget, and ensure its sustainability. A suggestion in this regard is to change the existing PSPS from a non-contributory scheme to a contributory scheme, which would help release funds for improvement of not only the other social protection programmes, but also the PSPS itself by offering higher benefits to all groups.

Social protection for elders has to be improved beyond financial assistance (beyond retirement income or elders assistance) given the rapidly ageing population and changing care structure. As such, the improvement of care services, elders' homes, health assistance, etc., have to become policy priorities.

[21] The demographic dividend in Sri Lanka (when working age is defined as 15-59 years) will end in 2017. For details, see De Silva, I. W., (2012), "The Age Structure Transition and the Demographic Dividend: An Opportunity for Rapid Economic Take-off in Sri Lanka", *Sri Lanka Journal of Advanced Social Studies*, Vol. 2, No. 1.

7. Sustaining Power Sector Growth for Economic Development

7.1 Introduction

Sri Lanka has recorded higher than average GDP growth rates in the range of 6-8 per cent in recent years, particularly in the years immediately after the end of the country's armed conflict in May 2009. Indeed, the GoSL has stated its intentions of pushing the economy from a lower middle income level to an upper middle income country through its medium to long term development efforts. This development drive has translated into a rapidly increasing demand for electricity that needs to be tackled by the power sector. Electricity demand in 2010 stood at 9,286 GWh and the projected demand for 2015 and 2020 are 12,941 GWh and 17,489 GWh respectively.[1]

Sustaining an efficient and reliable power supply that meets the demands of an economy is crucial because of the direct causal link between electricity supply and economic growth, as evidenced by international literature. For instance, Wolde-Raufael (2006) establishes that there is a long run equilibrium between electricity supply and economic growth, and finds that electricity supply is linked to GDP growth in 12 of the 17 African countries in the study.[2] A similar study for four ASEAN countries has established that there is a bi-directional causality between electricity consumption and GDP growth in Thailand and Singapore.[3] Electricity supply directly stimulates the growth of productive segments of the economy such as industrial and commercial consumers, and can lead to overall economic growth through its impact on household activities, such as education of children.

> *The lack of political will of successive governments remains the greatest hurdle for restructuring the power sector*

Statistical evidence available for Sri Lanka suggests that current as well as past changes in electricity sup-

[1] CEB (2011), "Long Term Generation Expansion Plan 2011-2025," Ceylon Electricity Board, Colombo.

[2] Wolde-Raufael, Y., (2006), "Electricity Consumption and Economic Growth: A Time Series Experience for 17 African Countries," *Energy Policy*, Vol. 34, pp 1106-1114.

[3] Yoo. S. H., (2006), "The Causal Relationship between Electricity Consumption and Economic Growth in the ASEAN Countries," *Energy Policy*, Vol. 34, pp. 3573-3582.

ply have a significant impact on the country's growth outcomes.[4] This trend can be observed where the power demand exhibits a similar pattern as GDP growth in Sri Lanka. Clearly any attempt to accelerate growth will also require a growth in energy supply in order to sustain a targeted level of economic activity and income. The government's policy framework – "Mahinda Chinthana: Vision for the Future" – has set a GDP growth target of 8 per cent and above for Sri Lanka, which would require that the country's energy supply expands adequately in the coming years. Indeed, the power sector is estimated to require an annual addition of 100 MW to the grid to meet the annual demand of the country.[5]

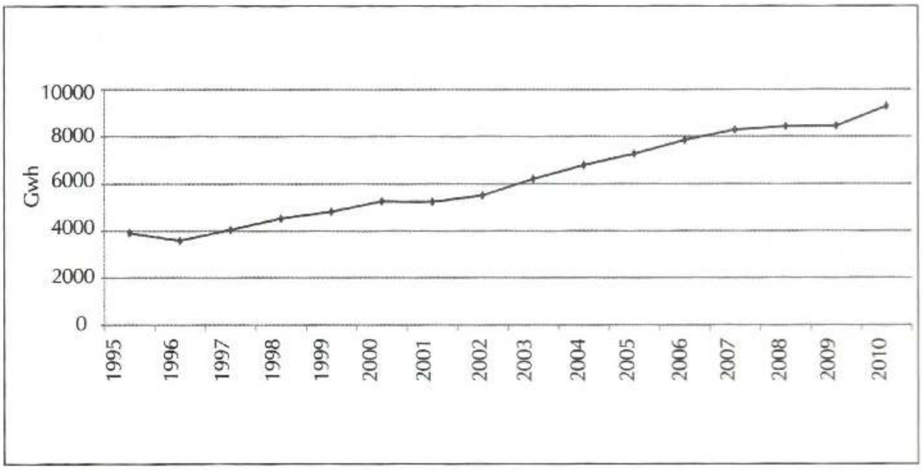
Given the significance of the power sector and its macroeconomic implications, this Chapter attempts to assess the current performance of the sector, and explore the issues plaguing the sector. Section 7.2 gives a snapshot of on-going policy issues in the power sector. Section 7.3 outlines the present status of the power sector, and Section 7.3 presents the recommendations and conclusions.

7.2 Policy Issues in the Power Sector[6]

As evident from Figure 7.1, Sri Lanka is seeing a rapid increase in the demand for electricity that can have a strong bearing on the country's medium to long term growth prospects. Demand for power exhibits a similar pattern as GDP growth in Sri Lanka (Figure 7.2).

However, despite the crucial role of the power sector, an efficient, reliable and affordable power supply in Sri Lanka has remained a mere aspiration, with the power sector functioning well below its optimum over a sustained period due to numerous reasons. Indeed, IPS (2008) highlighted the state of public enterprise reforms in Sri Lanka, analysing

Figure 7.1
Electricity Demand in Gigawatt Hours (GWh)



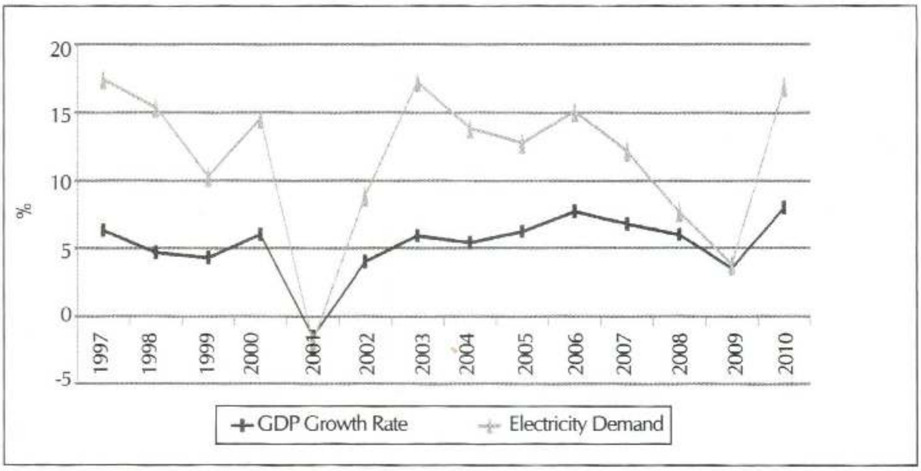
Source: CEB, "Long Term Generation Expansion Plan 2011 – 2025".

[4] Marimoto, R.C. and C. Hope (2001), "The Impact of Electricity Supply on Economic Growth in Sri Lanka," Research Papers in Management Studies, University of Cambridge, U.K.

[5] Wijayapala, A., (2013), "IPP Agreements, their Pricing Structure and other Thermal Power Plants," paper presented at "Workshop on Professional Approach to Electricity Costing and Tariffs," Sri Lanka Foundation Institute, May 22, 2013.

[6] This section draws on on-going research on the power sector at the IPS.

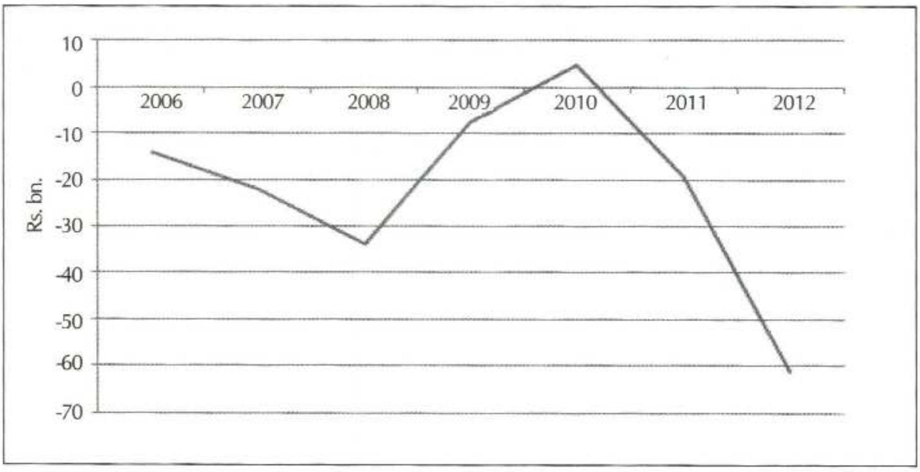
Figure 7.2
GDP Growth Rate and Electricity Demand in Sri Lanka



Source: Calculations based on CBSL, *Annual Report*, various years.

the reform process in relation to all the infrastructure providing SOEs, with a particular focus on the power sector.[7] The key issues highlighted are the mounting losses incurred by the CEB and its repercussions on other SOEs, such as the CPC. The discussion concludes by highlighting the urgent need to set the SOEs on a reform path and warns that the opportunity to set the sector back on course will be lost unless urgent action is taken. Other research studies have pointed out issues such as tariff manipula-

Figure 7.3
Financial Position of CEB



Sources: Ministry of Finance and Planning, *Annual Report 2011*; CBSL, *Annual Report 2012*.

[7] IPS (2008), "Reforming the State Owned Enterprise Sector: The Political Economy Dilemma" in *Sri Lanka: State of the Economy 2008*, Institute of Policy Studies of Sri Lanka, Colombo.

tion for political-economy reasons, shortcomings in the tariff structure which affects competitive sectors of the economy, and compromising the independence of the regulator through political interference.[8]

7.3 Current Performance of the Power Sector

The status quo has scarcely improved in recent years, with the reported financial losses of the CEB increasing exponentially in 2012. Losses incurred by the CEB were estimated at Rs. 61.2 billion in 2012, compared to Rs. 19.3 billion in 2011 (Figure 7.3).

The bulk of the losses made by the (CPC), a key energy utility crucially linked to the power sector, are incurred by selling subsidized heavy fuel to the CEB and Independent Power Producers (IPPs). The CEB then defaults on its dues to CPC, owing to heavy losses incurred by selling under-priced electricity. Unpaid dues by the CEB to the CPC stood at Rs. 46 billion as at 2009.[9] Thus, the two energy SOEs are entangled in a vicious cycle of loss making.

Moreover, the impact of the losses of the CEB and the CPC on Sri Lanka's external payments position, as well as on public finances, are critical areas of concern. The CPC is the single largest importer, with import expenditures amounting to 6 per cent of GDP in 2010,[10] a large portion of which consists of fuel imports for power generation. Financial stress has led to many SOEs, especially the CEB and the CPC, resorting to borrowing from state-owned commercial banks that puts a strain on the country's financial sector. These continuing problems are well recognized and acknowledged. Sri Lanka's SBA with the IMF signed in July 2009, made reference to the need to address the country's fiscal imbalances through SOE reform, especially of the CEB and the CPC, and to rationalize electricity tariffs and fuel prices.[11] The GoSL too has highlighted the urgent need for reforming the energy utilities.[12]

7.3.1 Electricity Pricing

A major factor leading to the dismal performance of the power sector is the lack of cost reflective prices. Half-hearted attempts have been made to rationalize the tariff structure in the past. A roadmap for tariff rebalancing was introduced in 2011 which consisted of a gradual five year process, which would have allowed the power sector to breakeven by 2015. However, it was not continued after its initial exercise in January 2011, with the government intervening in the functions of the PUCSL in an attempt to deliver on its short term assurance of not increasing the tariffs.[13]

Such policies have led to ad hoc tariff revisions when the financial burden on the Treasury becomes too high. As a result of the recent price hike of petroleum products introduced in February 2012, the government had to impose a 25 to 40 per cent surcharge on electricity tariffs. More comprehensive revisions were implemented in April 2012, as the CEB admitted that its losses were too

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8 IPS (2011), "Accessibility and Affordability in the Power Sector" in *Sri Lanka: State of the Economy 2011*, Institute of Policy Studies of Sri Lanka, Colombo; IPS (2012), "Reinforcing Growth with Better Institutions" in *Sri Lanka State of the Economy 2012*, Institute of Policy Studies of Sri Lanka, Colombo.

9 Department of Public Enterprises (2010), *Performance Report 2010*, URL: http://www.treasury.gov.lk/depts/ped/reports/ performance/ 2010/ped-performanceReport2010.pdf (accessed on January 31, 2013).

10 *Ibid.*

11 IMF (2010), "Sri Lanka: Letter of Intent and Technical Memorandum of Understanding." URL: http://www.imf.org/external/ np/loi/2010/ lka/061910.pdf (Accessed on Feruary 7, 2013).

12 CBSL (2011), *Annual Report 2011*, Central Bank of Sri Lanka, Colombo.

13 IPS (2012), "Reinforcing Growth with Better Institutions" in *Sri Lanka: State of the Economy 2012*, Institute of Policy Studies of Sri Lanka, Colombo.

massive to be bailed out by the government. The CEB filed its estimated cost of electricity supply to be Rs. 268 million in early April 2013,[14] requesting the PUCSL to revise tariffs in order to recover the cost. The PUCSL approved all tariff revisions proposed by the CEB, despite oral and written comments against the revision at a public consultation held in April 2013. This led to an increase in domestic tariffs from 13 to 67 per cent, and peak industrial tariffs between 54 to 79 per cent. Religious establishments saw a tariff reduction of 10 to 49 per cent.

Moreover, the domestic consumer categories consuming more than 90 units saw a tariff reduction ranging from 11 to 33 per cent. This is counter intuitive to the objective of promoting energy efficiency and conservation "through financial and other incentives" as stated in Section 3.3 of the 'National Energy Policy and Strategies of Sri Lanka'.[15] Similarly, religious institutions were granted a subsidy in the range of 10 to 48 per cent. The negative impact of such a price reduction on the economy will be twofold. Firstly, this reduction will be cross subsidized by the productive consumer groups of the economy, such as households and industrial categories. Secondly, such low tariffs will defy the objectives of energy conservation as stated above.

This tariff change was approved by the PUCSL in April 2013, leading to numerous protests and strikes from various segments of society such as trade unions, civil society organizations, political parties, and industrialists. As a result, the government was compelled to announce relief measures for the household category. Accordingly, in May 2013, the PUCSL announced that it will revert to the system of Block Tariff, as opposed to the Volume Differentiated Tariff (VDT) system, and apply no changes to consumers using under 60 units of electricity. Although it was announced through the media that households consuming more than 60 units would receive minor relief measures, the final tariffs announced by the PUCSL indicated that tariffs for consumers utilizing upward of 60 units have been increased even beyond what was stated in the initial proposal,[16] perhaps in an attempt to recover the loss of revenue incurred as a result of subsidies granted to consumers utilizing less than 60 units.

Moreover, the tariff system continues with the controversial fuel adjustment charge (FAC). The FAC was initially imposed in the late 1990s to recover the expenditure on fuel used for generation during periods of droughts, and repealed when the drought was over. However, the FAC was imposed again in February 2012 following a fuel price hike, despite the fact that fuel-fired generation is no longer an emergency measure. Therefore, continuous imposition of the FAC cannot be justified. Instead, the government should focus on introducing a proper pricing mechanism, or continuing with the methodology introduced in 2011, rather than imposjng arbitrary surcharges.

Sri Lanka's electricity prices are higher than other South Asian countries in many consumer classes, and comparable to emerging economies (Table 7.1). This burden is especially felt by the commercial consumer category (general purpose) under which whole-

[14] PUCSL 2013), "The Commission to Go for Public Consultation on the Proposed Revision of Electricity Tariff for the Year 2013," URL: http:/ /www.pucsl.gov.lk/english/news/the-commission-to-go-for-public-consultation-on-the-proposed-revision-of-electricity-tariff-for-the-year-2013/ (accessed on May 18, 2013).

[15] Ministry of Power and Energy (2008), "National Energy Policy and Strategies of Sri Lanka", Ministry of Power and Energy, Colombo.

[16] See tariffs announced on the official website of the PUCSL. URL: http://www.pucsl.gov.lk/english/industries/electricity/electricity-tariffscharges/

Table 7.1
Electricity Tariffs in Selected Countries

Customer	Class	Electricity Usage (kWh per month)	Maximum Demand (kW)	Average Unit Price in Equivalent LKR per kWh													
				Bangladesh	Kerala, India	Maharashtra, India	Tamil Nadu, India	Malaysia	Nepal	Pakistan	Philippines	Singapore	South Korea	Sri Lanka	Thailand	Hong Kong	
Household	Small	30	0.167	5.52	4.36	2.82	2.98	8.91	7.13	12.67	14.81	26.72	8.10	4.75	8.36	14.45	
	Medium	90	0.5	6.01	4.47	10.16	3.60	8.91	11.02	17.54	22.39	26.72	7.10	12.73	10.05	14.45	
	Large	180	1	6.90	5.30	12.93	7.95	8.91	12.24	18.87	27.58	26.72	10.32	29.63	11.09	15.58	
	Very Large	600	3.33	9.37	9.54	18.66	10.93	12.98	15.85	22.74	29.10	26.72	34.69	50.23	13.07	18.68	
Commercial	Small	1,000	4	14.82	20.74	22.08	16.19	17.57	14.73	18.98	27.15	26.72	11.49	27.12	13.58	21.78	
	Medium	58,000	232	11.35	15.17	31.71	18.34	16.98	14.53	23.56	25.12	26.72	12.92	28.83	12.85	20.75	
	Large	600,000	2400	10.79	12.23	30.44	18.34	16.98	14.18	23.56	22.92	19.83	13.46	27.13	12.31	20.69	
Industrial	Small	5,000	20	11.56	8.29	13.21	12.57	15.41	11.75	23.61	25.09	26.72	9.79	14.50	14.20	20.58	
	Medium	65,000	260	9.87	9.80	19.35	15.42	15.90	11.36	23.47	25.11	27.83	11.04	17.86	12.85	20.65	
	Large	270,000	1080	10.79	9.79	19.88	15.42	13.62	11.08	23.07	22.97	27.61	10.87	17.16	12.31	20.59	
	Very Large	1,050,000	4200	9.46	9.46	19.88	15.42	12.82	9.97	23.07	23.55	19.31	12.89	17.16	12.31	20.48	

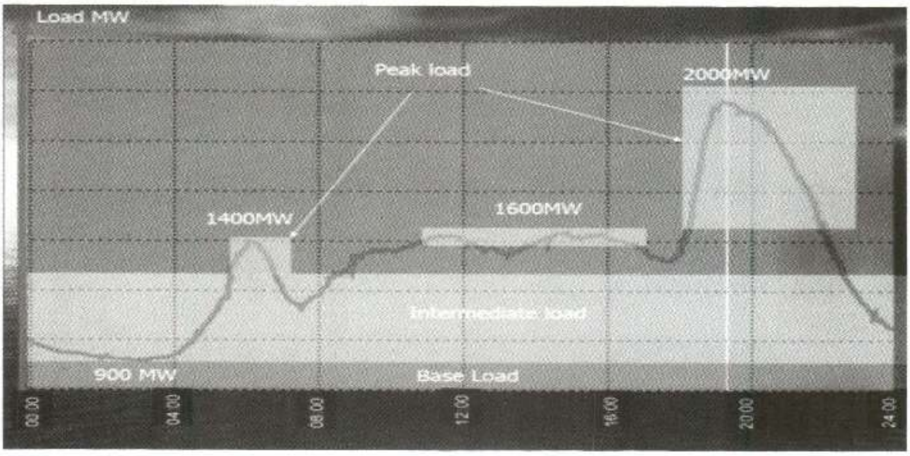
Notes:
1. Electricity use and maximum demand have been defined for typical customers. Thus, the average prices calculated reflect the price if each typical customer is located in different countries. Analysis is based on published tariffs. Whether the tariffs are cost-reflective or not and whether the utilities are profitable or loss making, has not been considered.
2. Sales taxes such as VAT are not included. Fuel surcharges, if any, are included. For Maharashtra and Kerala, Electricity Duty is included.
3. These are based on published tariffs. Special concessions given to identified customers or within special economic zones are not included.
4. Optional tariffs (such as time-of-use, TOU) are not included. When TOU tariffs are mandatory, a flat load profile has been assumed.
5. Unity power factor is assumed, where relevant.
6. Prices updated as of 1th June 2013.

Source: Prepared by W.M.K.S. Wijesundara/T. Siyambalapitiya.

sale and retail trade is classified – a sector which constitutes 23 per cent of GDP.[17] According to the PUCSL subsidy analysis for 2013, general purpose consumers provide cross subsidies worth Rs. 14.7 billion.[18] A part of it also goes to subsidize non-productive categories, such as the religious category.

Productive sectors other than general purpose consumers have agitated against the increased tariffs. Tourism, a targeted growth sector of the government, will be severely affected as hotel purpose consumers with round-the-clock operations will see an increase of tariffs between 42 to 46 per cent for peak demand alone. Most establishments shifted non-essential processes to off-peak hours when Time of Use (TOU) tariffs were first introduced in 2011, and find it difficult to make further adjustments.[19] The industrial sector is forecast to have a cost increase of 20 to 30 per cent,[20] which will severely affect the growth of exports and domestically traded goods. Sri Lanka's weakening merchandise exports sector is expected to be further hit by electricity tariffs, eroding the country's export competitiveness in international markets.

Figure 7.4
Average Daily Load Profile of Sri Lanka



Source: Weerasinghe, L., (2013), presentation at the "Workshop on Professional Approach to Electricity Costing and Tariffs," Sri Lanka Foundation Institute, May 22, 2013.

[17] CBSL (2012), *Annual Report 2012*, Central Bank of Sri Lanka, Colombo.

[18] PUCSL (2013), "Consultation Document on Proposed Electricity Tariff Revision 2013," URL:http://www.pucsl.gov.lk/english/wp-content/uploads/2013/03/Tariff-Proposal-2013-03-07-Final.pdf (Accessed on March 22, 2013).

[19] *Daily FT* (2013), "Tourism Industry Fumes over New Electricity Tariff," URL: http://www.ft.lk/2013/04/08/tourism-industry-fumes-over-new-electricity-tariff/ (Accessed on May 18, 2013).

[20] Ceylon Chamber of Commerce (2013), "The CCC Urges the CEB to Give Priority to Implementation of PUCSL Directions on Electricity Tariffs," URL: http://www.chamber.lk/news-a-events/284-statement-.html (Accessed on May 18, 2013).

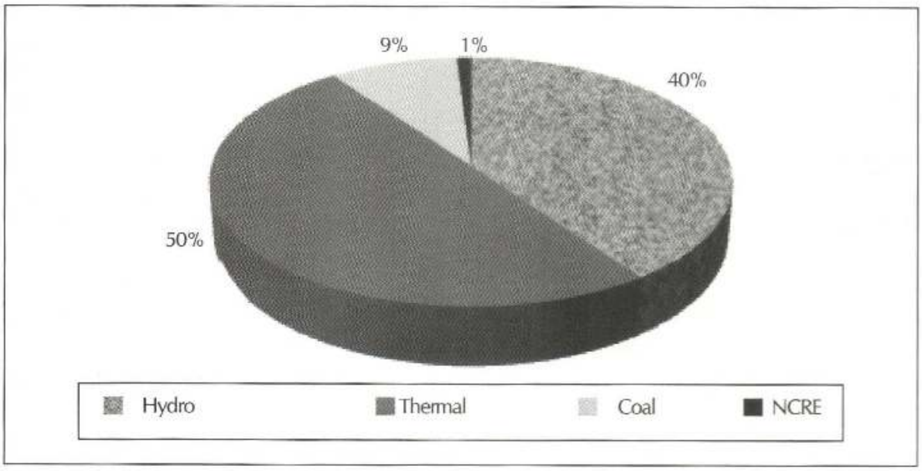
7.3.2 Planning for Power

High tariffs in the country are widely criticised, being the result of successive governments having failed to implement long term generation expansion plans as scheduled. While hydro power is the cheapest power source in Sri Lanka, it is vulnerable to weather conditions. Coal-fired thermal generation is the second cheapest option, and fuel-fired thermal is the most expensive power source. Sri Lanka was scheduled to have commissioned its first coal power plant in 2005, which would have reduced more expensive purchases from IPPs by about 60 per cent compared to 2005 levels. This, however, was not commissioned on time and the IPPs have negotiated power purchase agreements with the government to sell power at higher prices than the price at which the CEB distributes it to the consumers, rendering fuel-fired thermal power the most expensive source of generation.

Thermal generation is employed to cater to the peak demand in the country. The average daily load curve of Sri Lanka indicates a sharp increase in demand during the peak hours starting from 6 p.m. in the evening, and drops by 10 p.m. (Figure 7.4). Power supply to match this demand is generated by oil fired thermal power plants. Demand side management strategies can help reduce the extra cost incurred by supply of power at peak hours.

Also, Sri Lanka has to urgently address the diversification of its generation mix. The generation mix was dominated by oil in 2011 (Figure 7.5).

Figure 7.5
Generation Mix in 2011



Source: CEB, *Statistical Digest 2011*.

Table 7.2
Generation Expansion Plan 2011-2025: Base Case Capacity Additions

Year	Capacity Additions (MW)				
	Medium Term Diesel	Gas Turbines	Coal	Hydro	Total
2011	-	-	315	-	315
2012	-	75	-	150	225
2013	44	35	-	-	79
2014	-	-	630	-	630
2015	-	-	-	204	204
2016	-	-	-	-	0
2017	-	-	500	-	500
2018	-	-	250	-	250
2019	-	-	250	-	250
2020	-	-	-	-	0
2021	-	-	600	-	600
2022	-	-	300	-	300
2023	-	-	-	-	0
2024	-	-	600	-	600
2025	-	-	300	-	300
Total	**44**	**110**	**3745**	**354**	**4253**

Source: CEB, "Generation Expansion Plan 2011-2025."

Hydro capacity in Sri Lanka has been utilized almost fully, with planned additions to the grid amounting to only 354 MW. According to the CEB, the future grid will mainly be dominated by coal additions (Table 7.2). Although this can circumvent the unfavourable impact generated from oil price volatilities, coal prices have shown greater volatility in the recent past.[21] Therefore, it would be prudent to look for other alternatives in generation expansion. It is noteworthy that non-conventional renewable additions do not feature in the generation expansion plan, at least at the base case level. However, Sri Lanka has a vast potential to utilize renewable energy for power generation (Box 7.1).

[21] CEB (2011), "Long Term Generation Expansion Plan", Ceylon Electricity Board, Colombo.

Box 7.1
Renewable Energy for Power Generation

As stated in the 'National Energy Policy and Strategies' of 2008, the government seeks to obtain 10 per cent grid electricity from non-conventional renewable energy (NCRE) sources by 2015. The government policy framework – 'Mahinda Chinthana: Vision for the Future' – sets a target of 20 per cent by 2020. According to the CEB, the contribution of renewable energy to the grid according to the definition of NCRE stood at 6.3 per cent in 2011. This included solar, dendro, biomass and wind, and mini-hydro.

Around 80 per cent of NCRE generation consists of mini-hydro generation provided through numerous rural electrification schemes (RESs). A total of 219 RESs were completed by 2011 under the supervision of the CEB, and another 24 schemes in former conflict zones. However, the contribution from dendro, solar and wind remain minimal. As at end 2011, there were no dendro plants operating, and installed capacity for solar and wind in the grid was 1.4 MW and 33 MW, respectively.

There have been few comprehensive studies which assess resources for power generation potential in Sri Lanka. The National Renewable Energy Laboratory (NREL) of the US has conducted a potential assessment study on Sri Lanka and the Maldives. It indicates that Sri Lanka has fairly viable solar potential, and extremely good wind conditions. Accordingly, the Global Horizontal Radiation (GHR) in Sri Lanka varies from 4.5 to 6.0 kWh/m^{2}day, and the total wind power potential of the country at 50m hub height to be 55,850 MW shows good moderate to excellent wind resources. This is under the conventional assumption of an installed capacity of 5 MW per square kilometre. Technological advances have allowed this capacity density to be relaxed. A study currently being carried out by the IPS estimates the capacity density to be 6.3 MW, which allows the above estimate to be refined to around 70,000 MW of power.

Micro-siting exercises and resource mapping with higher resolutions are needed to arrive at an exact number for NCRE potential from various sources, but there is undeniably a vast potential to be tapped and used for the cheap supply of electricity. However, technological limitations of the grid investment shortages have hindered the development of NCRE in Sri Lanka.

The Sri Lanka Sustainable Energy Authority (SLSEA) and CEB are currently conducting resource assessment studies in biomass and wind, as well as a feasibility study to employ pumped storage systems in order to absorb wind power into the grid.

Sources: SLSEA (2011), "Sri Lanka Energy Balance 2011," Sri Lanka Sustainable Authority, Colombo; CEB (2011), "Long Term Generation Expansion Plan," Ceylon Electricity Board, Colombo.

7.3.3 Reforming the Power Sector

Financial mishandling and inefficiency within the CEB are also often cited as reasons for the deteriorating performance of the power sector. Over 65 out of 275 oral and written comments made on the 'Public Consultation Document on Tariff Revisions 2013' have requested for reduction of wastage and corruption, and increased accountability of the CEB.[22] The consultation also sheds light on

[22] PUCSL (2013), "Summary Report on the Public Consultation, Public Utilities Commission of Sri Lanka", URL: http://www.pucsl.gov. lk/english/wp-content/uploads/2013/04/Summary-Report-Public-Consultation-08-04-2013.pdf (Accessed on April 26, 2013).

the fact that the Kerawalapitiya power plant was negotiated at high prices, rather than commissioned through a competitive bidding process. A positive outcome of the said consultation was that it led the PUCSL to impose several conditions on the CEB, including greater financial accountability, and efficiency monitoring at CEB power plants.[23]

Similar controversies have surfaced about the inefficient manner in which the CEB negotiated the Sampur coal power plant, with India trying to back out from the agreement. Further, the CEB has been subject to chronic overstaffing similar to other SOEs,[24] and numerous proposals at the consultation highlighted the urgent need to rationalize the salary and benefit structure of CEB employees, along with a performance based evaluation.[25] The unique position of the CEB as a key utility provider has left significant power in the hands of certain factions within the CEB. These factions have proven to successfully resist interference in the operations of the CEB, as has been evidenced by the introduction of a new CEB Act being withdrawn in 2008 owing to protests from trade union members, which consist of only 10 per cent of employees.[26] Thus urgent and comprehensive reforms are necessary to address the highlighted issues in the electricity industry.

Sri Lanka's power sector has seen a few reform attempts but they have been sparse and halting. The Lanka Electricity Company (LECO) was established in 1982 as an attempt to diversify distribution, but remains a fully government owned company. The attempt at unbundling the power sector in 1996 has resulted in IPPs entering generation, but has failed to create competition in power generation. The IPPs are currently guaranteed all-inclusive prices over and above the average selling price as per the power purchase agreements (PPAs), rendering power generation merely a hybrid supply market.[27] All SOEs, including the CEB and the CPC, submitted business plans in 2004 to the Strategic Enterprise Management Agency (SEMA), which was established to improve the commercial viability of SOEs. The SEMA failed in its objective owing to the weak governance and accountability structures, and the failure to structure its incentives by factoring in the political economy dimension of reform.[28]

The lack of political will remains the greatest hurdle for restructuring the power sector. As pointed out above, successive governments have backtracked on key policy requirements, such as implementing generation expansion plans and cost reflective price mechanisms, and introducing timely institutional and regulatory reforms, that have seen success in other countries similar to Sri Lanka (Box 7.2).

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[23] PUCSL (2013), "Recommendations Pertaining to the Consultation on Proposed Electricity Tariff 2013", press release dated April 17, 2013.

[24] IPS (2008), "Reforming the State Owned Enterprise Sector: The Political Economy Dilemma" in *Sri Lanka: State of the Economy 2008*, Institute of Policy Studies of Sri Lanka, Colombo.

[25] PUCSL (2013), "Recommendations Pertaining to the Consultation on Proposed Electricity Tariff 2013", press release dated April 17, 2013.

[26] IPS (2008), "Reforming the State Owned Enterprise Sector: The Political Economy Dilemma" in *Sri Lanka: State of the Economy 2008*, Institute of Policy Studies of Sri Lanka, Colombo.

[27] See for instance SJ Associates (2001), "World Bank Impact Study of Infrastructure Privatization in Sri Lanka", mimeo; Bhattacharyya, S.C., (2006), "Power Sector Reform in South Asia: Why Slow and Limited So Far?", *Energy Policy*, Vol. 35, pp. 317-332; ADB (2005), "Asian Development Outlook 2005", Retrieved on February 7, 2013 from http://www.adb.org/sites/default/files/pub/2005/ado2005.pdf

[28] IPS (2008), "Reforming the State Owned Enterprise Sector: The Political Economy Dilemma" in *Sri Lanka: State of the Economy 2008*, Institute of Policy Studies of Sri Lanka, Colombo.

Box 7.2
International Reform Experience of Energy Utilities

Countries in the South Asian region have made various attempts at reforming the power sectors in their respective countries. Bangladesh allowed the entry of IPPs in 1992, and foreign investors in 1996, which enabled the country to attract foreign investment of 1200 MW capacity. Establishing an independent regulator for Bangladesh was in the pipeline since 1993, but was granted legislative approval only in 2003. However, the regulatory commission was not fully functional until 2006. Pakistan's regulator, legally established in 1997, also underperformed owing to frequent changes in management. On the other hand, Nepal attempted to reform its power sector by vertically integrating the numerous state-owned power entities by enacting the Nepal Electricity Authority Act in 1985, and allowing private and foreign participation through the 'Hydropower Development Policy' in 1992. However, the hydropower potential of the country still remains largely untapped despite these reforms. IPP entrance was facilitated in India in 1991, and vertical unbundling was carried out in 1995 with the single buyer model. Both these attempts did not deliver the expected results. The sector was bifurcated in 1998 into ownership and regulation. The Electricity Act of 2003 features measures such as bifurcating system and operation and transmission activities, de-licensing generation, and allowing multiple transmission and distribution licensing.

Other developing countries have employed various reform strategies depending on their socio-economic needs. China introduced IPPs in 2002 by decoupling generation and system operation, and facilitated greater competition by splitting the power SOE into independent generation companies and two separate grid systems. China has undergone multiple tariff revisions to facilitate the development needs of the country, with each revision being implemented with stakeholder consultation and consensus. On the other hand, reform efforts by African economies to establish competition in wholesale generation has resulted in hybrid generation markets consisting of SOEs and IPPs with little or no competition, a situation similar to Sri Lanka. A case study of four African nations, namely, Ghana, C^ote d'Ivoire, Morocco, and Tunisia, show that this model has not been able to guarantee sufficient capacity and timely power delivery. A more successful reform model was implemented by South Africa in reforming the state-run power utility, Eskom, which was restructured in the 1980s. Instead of resorting to traditional methods of unbundling and creating competition, the reforms aimed at improving financial performance and governance through corporatization, shareholder contracts, independent regulation, improved governance, and management.

Examples for other international reform models include the EU model and the Chilean model of reform, widely adopted in Europe and Latin America, respectively. The European model aims to achieve competition in generation with no entry barriers, competitive end-user markets, transmission unbundling, non-discriminatory tariffs across all consumer categories, and regulated electricity trade (Pollit, 2009). Available evidence from countries which adopted the EU model suggests that unbundling generation and transmission does not necessarily lead to lower prices, but that establishing competitive retail markets do (Steiner, 2001; Hatori and Tsutsui, 2004).

The Chilean model has focused on opening generation and supply to private competitors while the state regulates dispatch, transmission, and distribution. This model was followed by countries such as Peru, Bolivia, and Argentina. Chile managed to halve distribution losses within seven years of implementing reforms in 1982, while Argentina achieved this within three years after implementing reforms in 1992. Spot price per kilowatt hour in the northern Chilean market has fallen from over 80 to under 20 Chilean pesos, from 1983 to 1999. Improvements have been observed in these countries in labour productivity, and in the distribution and energy production per worker as well. Further evidence from developing country literature has shown that a combination of privatization, restructuring, and regulatory mechanisms, have led to improved performance in both transmission and distribution (Newbery and Pollit, 1997; Rudnik and Zolezzi, 2001).

Sources: Steiner, F., (2001), "Industry Structure and Performance in the Electricity Supply Industry", OECD Economics Studies, No. 32, OECD, Paris; Hattori, T and M. Tsutsui, M., (2004), "Economic Impact of Regulatory Reforms in the Electricity Supply Industry: A Panel Data Analysis for OECD Countries", *Energy Policy*, Vol. 32, pp. 823–832; Pollit, M.G., (2009), "Electricity Liberalization in the European Union: A Progress Report", Cambridge Working Papers in Economics 0953, Faculty of Economics, University or Cambridge; Newbery, D. and M. Pollitt, M., (1997), "The Restructuring and Privatization of Britain's CEGB - Was it Worth It?", *Journal of Industrial Economics*, Vol. 45, pp. 269-303; Rudnick, H., and J. Zolezzi (2001), "Electric Sector Deregulation and Restructuring in Latin America: Lessons to be Learnt and Possible Ways Forward", *IEEE Proceedings Generation, Transmission and Distribution*, Vol. 148, pp. 180-84.

7.4 Conclusion and Policy Recommendations

It is evident from the above discussion that the power sector in Sri Lanka is long overdue for an overhaul and the issues in the sector needs urgent attention, given its contribution to economic growth.

An immediate starting point would be to tackle the uneven demand through demand side management strategies such as the introduction of energy efficient equipment. The rapid popularization of Compact Florescent Lamps (CFLs) should be followed by the introduction and promotion of similar devices such as efficient refrigerators and air conditioners.[29] The Ministry of Power and Energy launched an awareness campaign at school level, and conservation promotion at domestic level, by waiving a portion of the electricity bill if the consumer managed to reduce consumption by 20 per cent. There was no follow up on these activities and they appear to be one off schemes. Continuation of such programmes is crucial for demand side management.

In terms of the supply, sufficient diversification of the generation mix in order to do away with the expensive oil-powered thermal generation is crucial. Future additions to the grid can be implemented as PPPs as this has been a successful model in other countries of the world. Reforming the CEB through appropriate organizational reform methods will help eliminate the structural inefficiencies within the institution. Unbundling the power sector to do away with the hybrid supply market would also lead to greater efficiency of the CEB and the sector as a whole. The Sri Lanka Resident Mission of the IMF has recently expressed its desire to assist the government in reforming the loss making SOEs, including the CEB. A key point in any reform agenda would be to implement cost-reflective tariffs in the power sector in order to alleviate the shortcomings of ad hoc price revisions that have manifested over the past few years. This calls for institutional strengthening in the power sector, and ensuring that the regulatory processes in place function optimally.

However, the key factor which would drive all successful reforms is the political will and commitment to see the changes through. The government would need to gather necessary political capital around the reform agenda to implement them successfully, without which the reforms would be completely halted or implemented only partially. It would then leave room for continued drawbacks in the power sector that hinders Sri Lanka's development goals.

[29] Wijeytunga, P.D.C. *et al.*, (2003), "Greenhouse Gas Emission Mitigation in the Sri Lanka Power Sector: Supply-side and Demand- side Options", *Energy Conversion and Management*, Vol. 44, pp. 3247-3265.

8. Facing Climate Change Threats: The Importance of Better Information

8.1 Introduction

Several thousand small farmers in the dry zone of Sri Lanka faced severe rainfall events with significant livelihood impacts in early 2011 and late 2012. More recently, there was a significant loss of life amongst the fishing community and damage to property in June 2013 as a result of stormy weather conditions. Against normal expectations of local climate conditions, these events undoubtedly took the affected farming and fishing communities by surprise, despite the fact that over the last few decades, such climate-related shocks have become more frequent and intense, impacting the livelihoods of many communities. Such adverse events have called public attention to the need for timely and reliable information on weather and climate. While various measures have been proposed to face such situations, their success depends largely on the availability of reliable climate information. Several studies and pilot projects undertaken in Sub-Saharan Africa and other developing countries, have underscored the importance of Climate Information Products (CIPs), such as seasonal forecasts as decision-support tools, to face rising incidents of climate shocks.

> ‘ ***Bridging the information gap on climate shocks can be considered as a priority issue in facing the threat of climate change*** ’

The threat of climate change, which is fast becoming a reality in day-to-day economic life, is increasingly becoming a key factor in emerging challenges that a developing country such as Sri Lanka faces. Adverse climatic events are a significant social and economic burden on a country. They are likely to be even more so when such events are precipitated as unanticipated shocks to an economy, with resultant disruptions and set-backs to growth and development targets. Whilst climatic related shocks cannot be subject to any degree of certainty, attention to developing tools and mechanism to be better informed of such impending threats is clearly the way forward.

The threat of climate change is a phenomenon that ought to be dealt with through scientific knowledge – i.e., essentially by an information driven process. In this context, a gap in information is a major constraint that needs to be addressed in all aspects of meeting this global challenge. The effective use of appropriate climate information products has a major role to play here.

Climate is inherently variable across temporal and spatial dimensions. It has never been a matter of certainty, and coping with climatic 'variability' has remained an eternal challenge faced by humanity. Rapid, broad sweeping 'change' of climate, due to anthropogenic causes has the potential to compound this situation further. There are two major strategies involved in facing the threat of climate change – mitigation and adaptation. Mitigation aims to reduce the level of greenhouse gas (GHG) emissions through cooperative actions. Adaptation constitutes actions that are taken to moderate, cope with, or take advantage of actual or expected change of climate and related shocks. It is a dynamic process of adjustment that involves decisions under risk and uncertainty.

The topic of climate information is examined here mainly from the perspective of adaptation decisions. For Sri Lanka, being a small island nation in the tropics with a high level of vulnerability to harmful impacts of climate change, it is logical to assert that the country's national climate change strategy should focus more on adaptation than mitigation.[1] As far as information on climate risks is concerned, countries like Sri Lanka are always at a disadvantage. The resolution of global circulation models (GCM) is still not sufficient to cover the details on small countries with complex topography, compared with larger geographic units. With limited scientific capacity to develop locally applied models or to downscale local effects from the global models, information on climate uncertainty is a major obstacle to be faced in making effective decisions on adaptation at all levels. Despite limitations in information availability, action against the rising threat of climate shocks cannot be delayed anymore. Therefore, bridging the information gap on climate shocks can be considered a priority issue in facing the threat of climate change. The primary purpose of this Chapter, therefore, is to examine the current situation with regards to climate information in Sri Lanka, and the measures that can be taken to bridge the existing information gap as the country strives to achieve its long term growth and development objectives.

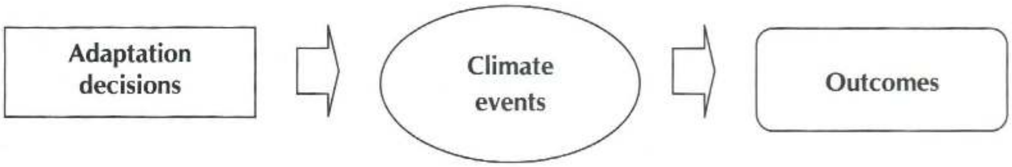
8.2 Climate Information Products: An Economic Commodity

Information is an economic commodity with scarce supply relative to demand. Climate information is not an exception to this. There are a variety of CIPs that cater to demand originating from a wide range of users. In this section, a broad review on CIPs is presented from the perspective of an economic commodity. It begins with an account of the nature of CIPs with relation to their role in adaptation as decision-support tools.

Climatic variability and change are sources of uncertainty that can lead to climatic events with unanticipated outcomes. Hence, adaptation decisions are necessarily risky choices. The choice is among options that can either moderate losses, or take advantage of the impacts of climatic events in different domains of human activity (e.g., agriculture, coastal fisheries, and disaster prevention). At any given point of time, deci-

[1] Sri Lanka's contribution to global GHG emissions is relatively low compared with industrial nations or emerging economic powers. Therefore, mitigation efforts have a limited role to play.

Figure 8.1
Nature of Adaptation Choices



sion-makers face the choice among options that could lead to different outcomes under many probable climatic events. Hence, adaptation decisions are made with imperfect information, and decision-makers have to arrive at expectations regarding the likely climatic events (e.g., rainfall expectations) when they make choices. The CIPs have an important role to play here by helping to reduce the uncertainty associated with adaptation decisions made by various stakeholders, that range from high level policy decision-makers to grass root level actors such farmers and fishermen. The essential nature of risky decisions of adaptation is shown in Figure 8.1.

There is a time gap between actual decisions and outcomes of decisions during which they are subject to uncertain climatic events. The CIPs have the potential to make positive contributions to decision outcomes by:

- Forewarning and helping to prepare for adverse events
- Enabling the potential to take advantage of favourable conditions

This can help to generate economic value by minimizing the losses due to climate shocks, and/or by generating value addition by making use of favourable climate events. This way, CIPs can make a positive economic contribution by lowering uncertainty in decision-making, if they are correctly formulated, assessed, communicated, understood, and successfully integrated into the decision-making process.

8.2.1 Nature of Climate Information Products

Climate information could range from advanced information products generated with the help of sophisticated forecast models, to laymen's oral interactions about local weather conditions based on personal experience. From an economic perspective, what is important is the decision-support role of information contained in a given information product. In this connection, forecast products that make predictions about future climate events are the most important form of climate information. As a result, climate forecasts and projections have attracted the most attention of climate change researchers. Hence, climate information can broadly be categorized as:

- Climate forecasts and projections
- Other CIPs.

Other CIPs may include information products such as classifications of agro-climatic zones, cropping calendars, sowing/planting windows etc., that provide useful information for planning and management of activities. Such products are usually based on the analysis of long term weather data on selected climatic parameters.

Climate Forecasts and Projections

Climate forecasts and projections provide useful decision-support information, and therefore play an indispensable role in modern economies faced with rising incidents of climate shocks. The purpose of climate forecasts and projections is the prediction of the future state of climatic parameters. They predict future climatic conditions with specified periods of lead time – usually probabilistic predications about selected parameters such as precipitation, temperature, or wind. They could be available in categorical or continuous probability forecast formats. As information products, climate forecasts usually have characteristics of public goods: non-divisible, non-excludable, and non-rival in consumption.

While both forecasts and projections provide predictions about future climate conditions, they have certain technical differences also. Forecasts attempt to generate a picture about the actual future evolution of climate parameters over a specific time scale such as daily, weekly, monthly, seasonal, annual, or supra-annual scales, with a certain level of confidence. The future time scale covered by a forecast is the lead time of a forecast. Typically, the level of confidence attached to predictions tends to decrease with the length of lead time. They are based on models which are abstract mathematical representations of the climate systems at varying levels of complexity. The most comprehensive models of the climate system are known as Atmosphere-Ocean General Circulation Models (AOGCMs).

One of the most widely studied forms of forecasts is Seasonal Precipitation Forecasts (SPF). They are also known as seasonal rainfall outlooks. The SPFs are designed to predict seasonal variations of rainfall with lead times, usually in the range of 1-6 months. They are based on computer models on atmospheric-oceanic circulation patterns that try to exploit ocean-atmospheric interdependencies, to predict the likely future events of rainfall. They particularly try to exploit anomalies caused by climatic phenomena such as El-Nino Southern Oscillation (ENSO), to recognized circulation patterns to make predictions about likely events of climate. The Madden-Julian Oscillation (MJO) and the Indian Ocean Dipole (IOD) are two other sources of anomalies that are being used for the prediction of climate in the tropics.

Projections also try to compute potential future evolution of climatic variables, but their predictions are subject to an identified set of assumptions about future conditions known as scenarios. Scenarios are based on assumptions about the future developments of technological/socio-economic conditions that could positively or negatively influence the levels of GHG emissions and atmospheric concentrations.[2] Such projections may provide vital information necessary for policy making. For instance, current concerns in climate change in small island nations such as the Maldives have largely originated from projections about the future sea level rise, under certain scenarios of GHG emissions. As in the case of climate forecasts, climate projections are also based on simulation models, and they usually try to cover longer term horizons (e.g., target projection years such as 2025, 2050, and 2100). The confidence levels attached to projections are described using a scale of likelihood connected to corresponding ranges of probabilities. Table 8.1 presents a scale of likelihood used by the Inter-Governmental Panel on Climate Change (IPCC) in global climate projections.

Disregarding the type of CIP, a major challenge faced in climate predictions is forecast uncertainty, referring mainly to variability of observations. The variability of climate observations could originate due to

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[2] For instance, the IPCC uses a standard set of scenarios known as Special Report Emission Scenarios (SRES) in climate projections.

Table 8.1
A Scale of Likelihood Used to Assess the Uncertainty of Projections

Terminology	Likelihood of the Occurrence/Outcome
Virtually certain	>99% probability of occurrence
Very likely	>90% probability
Likely	>66% probability
More likely than not	>50% probability
About as likely as not	33 to 66% probability
Unlikely	<33% probability
Very unlikely	<10% probability
Exceptionally unlikely	<1% probability

natural causes, as well anthropogenic processes such as global warming. With greater uncertainty, the more difficult it is to forecast, which lowers predictability as a result. In forecast modelling, researchers attempt to exploit sources of predictability associated with non-stationary patterns of climatic parameters, such as tropical atmospheric circulation and recognized patterns of anomalies (e.g., ENSO, MJO, and IOD).

8.2.2 Supply and Demand for Climate Information Products

As in the case of many economic commodities, value chains can be identified for CIPs based on supply and demand relations. The value chains of CIPs involve a range of stakeholders that include providers and users of information products. From the supply side, forecast providers represent the point of origin of CIPs in the value chain. There are global, regional, and national level providers of CIPs. Given the public good nature of CIPs, many providers are usually state, inter-governmental or non-profit agencies. At the national level, major providers of CIPs are national meteorological services (NMS) such as Meteorological Departments or Weather Bureaus (e.g., Department of Meteorology in Sri Lanka). Given the limited technical capacity of the NMS in developing countries, they usually have to depend on global and regional level information providers for the technical preparation of national and sub-national level CIPs. Such agencies include inter-governmental bodies [(e.g., IPCC, and World Meteorological Organization (WMO)], or technical agencies sponsored by developed nations. A few examples of such agencies are, the Commonwealth Scientific and Industrial Research Organization (CSIRO), National Centres for Environmental Prediction (NCEP) in the US, the Japan Meteorological Agency (JMA) and the International Research Institute for Climate and Society (IRI). Agencies and professionals involved in the provision of CIPs are sometimes known as the 'climate prediction community' (CPC). The CPC includes researchers on climate systems and forecast modelling, operational forecast providers, forecast application experts, and other academic/technical persons involved in different aspects of climate prediction. Members of the CPC from different countries share the know-how in forums, such as Regional Climate Outlook Forums (RCOF).

The demand for CIPs comes from users who are decision-makers at different levels. A range of users could be identified from grass root levels (e.g., rain-fed farmers, fishers,

Table 8.2
Adaptation Decisions and Types of Matching CIPs

Time Horizon of Decisions	Types of Adaptation Decisions	Types of Matching CIPs
Short term	Tactical	Daily, weekly, monthly forecasts.
Medium term	Strategic	Multi-year or multi-seasonal predictions
Long term	Structural	Long term climate/ impact projections

etc.) to national, regional, and global policy decision-makers (e.g., climate change policies, disaster management policies, irrigation/agriculture/fisheries management policies, etc.). A few broad categories of decisions taken by those user groups can be identified as:

- Long term structural adaptation decisions
- Medium term strategic adaptation decisions
- Short term tactical adaptation decisions

Outcomes of decisions that extend over decades or more are those related to structural adaptations. Decisions that involve time horizons from one to a few years can be called as strategic adaptation responses. Decisions concerned with short term intervals – seasonal or annual – are the tactical responses. This classification is based on time horizons usually attributed to human decision-making, rather than time horizons associated with impacts of climate change.

Different user categories typically need knowledge on the likely impacts of future climate events over short, medium, and long term horizons, when making decisions on adaptation, and their information needs may vary depending on the type of decisions they make. On the other hand, CIPs vary in terms of lead time of predictions. A crude matching of type of CIPS with different time horizons of adaptation decisions is given in Table 8.2.

8.2.3 Factors Determining Demand for Climate Information Products

The bottom line for demand of CIPs is that they should be able to improve the outcomes of decisions taken with the aid of forecasts, compared to outcomes of decisions taken without forecast information. This is the prime source of value of CIPs. However, the context of CIPs is relatively complex than many other economic commodities. As a result, the demand for CIPs could be affected by product-related characteristics, as well as a number of extraneous factors. Among the product related characteristics, quality and value of products are the most important.

Quality of CIPs

Both quality and value of forecast products have received wide attention. The quality of information is defined in relation to forecast performance – i.e., how well forecasts predict the observations. Several quality parameters have been identified, representing the desired characteristics in terms of product performance. Among the most widely examined parameters are: lead time, accuracy, reliability, and forecast skill.

Lead time refers to the time lag between the prediction and the predicted event. The desired characteristic here is the length of the lead time, the longer the better. The lead time of different CIPs may vary from a few hours (e.g., short term routine weather forecasts), through a few months (seasonal forecasts), to several decades (long term climate projections). When the lead time increases, as a rule, trade-offs have to be made in terms of other quality parameters such as accuracy, reliability, and forecast skill, that determine the level of confidence attached to the prediction.

Accuracy refers to the level of agreement between prediction and observations (data). It is measured in terms of the difference between the true value (observation) and the prediction. The difference is known as forecast error. In the same vein, reliability is defined as the average agreement between forecast values and observed values. From a decision-making perspective, it refers to how well forecasts will be able to improve outcomes of decisions. Finally, measures of forecast skill provide a statistical evaluation of the relative accuracy of a forecast over some reference forecast. The norms used for references are persistence (no change in condition) and climatology (typical conditions in a given month). The type of references used may vary according to the type of forecast: e.g., short term weather forecast (persistence); seasonal forecasts (climatology). Forecast skill is mainly concerned with the increase in accuracy due to smartness of the forecast system, rather than accuracy due to easiness of the prediction.

The improvement of quality parameters of CIPs needs employing best practices in forecast methodology. The forecast quality has to be measured through a process of validation and verification. Different verification systems can be used; the WMO standard verification system of long range forecasts is a widely used system.

Value of CIPs

The value of forecast information is assessed with reference to benefits accrued to users by decisions taken with the aid of an information product. The value of forecasts justifies the investment on CIPs. Assessing the value of forecast information involves several conceptual and analytical difficulties. The essence of the idea is how much value is added to decision outcomes achieved with the aid of forecast information, relative to decision outcomes achieved without the guide of forecasts. A variety of approaches have been used to estimate the value of climate information (forecasts). One measure of value is the expected value of forecast information (EVFI) – defined as the difference between the expected value of the outcome from a forecast-assisted decision, and the expected value of the outcome of a decision taken without the guidance of a forecast.

As already mentioned, CIPs are public goods in nature, and therefore limited incentives are available for private providers to supply them through a market driven mechanism. Hence, state or non-profit agents are usually involved in the supply and delivery of CIPs. Assessing the value of CIPs becomes an important step in the value chain, since it provides the main source of justification for making investments on CIPs in the absence of market based pricing mechanism to exchange products.

8.2.4 Delivery of Climate Information Products: Communication

Among the other factors that affect the demand for CIPs, factors connected to the delivery of products are the most important. Delivery implies the communication of information between providers and users. The delivery of CIP involves a two-way communication between providers and users. The primary path of communication is conveying the forecast message to users. Nevertheless, given the public good nature of CIPs, reverse feedback communication from users to providers can also be considered as highly important. Otherwise, due to the absence of a product exchange based on a price mechanism, there is no way to signal the important messages about quality and value of products.

There are a number of important issues involved in the delivery (communication) of CIPs. Among them are the format and content of the forecast message; availability, access, and targeting of products; and media of dissemination.

In terms of the format and content of forecast message, forecast products are probabilistic in nature and always carry some level of uncertainty. Hence, their usefulness is determined by the level of confidence attached to them. Overestimating (overconfidence) as well as underestimating (poor confidence) the accuracy and reliability of information could lead to erratic decisions with significant losses. Therefore, effective communication needs a balanced coverage of the level of uncertainty and applicability/limitations of CIPs. This is a matter of format and content of CIPs.

In terms of availability, access and targeting, the effectiveness of CIPs is determined by the availability of products, and easy access to them by users. Otherwise, even the information generated with sophisticated methods of forecasting could be wasted without being used by target users. Finally, the media of dissemination is closely associated with the issue of availability and access. Quite often, the CIPs are delivered through public media such as TV, radio, newspapers, and Internet. Research suggests that the relative importance of different media vary with the type of CIP. It seems that electronic media such as TV, radio and Internet has captured the highest attention. Pilot schemes are also being tested on specialized channels such as mobile phones (e.g., SMS messages), targeted at specific user categories in some countries.

8.2.5 Users' Forecasts and Beliefs: Substitutes or Complements?

Another important area is users' local forecasts and beliefs on the climate system as a guide to decision-making. Communities such as farmers and fishermen, have been facing climate uncertainty long before the current scientific knowledge about climate and forecasting methods more developed. Such communities were taking day-to-day decisions under the guidance of local forecasts, that helped them to form expectations regarding the climate events to come. These forecasts are based on indigenous systems of knowledge and methods of prediction about local climate, that have been shared by communities as local beliefs. They can be considered as farmers' models — generalized and simplified versions of experienced patterns of climate over long periods of time (over generations) — that give some predictability about local climatic variability, thereby helping to plan regular livelihood activities. Studies have found that such beliefs carry expectations about the beginning of rainfall (season), onset of rainfall, duration and distribution of rainfall events, dry spells, end of rains, and a knowledge of local indicators that help predict oncoming climate events. Some have called such beliefs as naïve forecasts, compared to climatological forecasts based on formal methods of analysis.

Studies on local beliefs suggest that they may contain many favourable characteristics that serve as a useful guide to decision-making. According to recent behavioural economic findings, the methods used by local communities appear to be based on heuristics — mental shortcuts or 'rules of thumb' commonly used to make probabilistic judgments by decision-makers. Heuristics have certain advantages, subject to limited information processing capacity of decision-makers. However, decisions based on heuristics are usually associated with cognitive biases, and local beliefs on climate are not an exception. Researchers have suggested such biases are analogous to cognitive 'illusions' — errors being made without knowing about them.

Research on local climate beliefs and forecasts has raised a few important points that are relevant in the case of CIPs.

- Such beliefs are founded on generations of experience about the local climate. Evidence from many developing countries indicates that farmers are still using them widely in their regular farming decisions.
- Recent behavioural studies suggest that they serve as an alternative system of decision tools, based on subjective processing of individual and group experiences (experiential processing), compared with analytical processing of systematically gathered weather data upon which CIPs are based.
- Local forecasts could serve either as complements or substitutes for CIPs. As complements, they can fulfil an important role by serving as prior subjective distributions to be updated by forecast information. This is an essential step in a heuristically-driven process of probabilistic decisions, usually practiced by non-expert decision-makers. On the other hand, in the case of CIPs which are not compatible with farmers' decision context, local forecasts may compete with formal forecasts and substitute them. They may be given preference over formal forecasts due to the appealing characteristics of local beliefs, in terms of compatibility with farmers' decision-making behaviour.

8.3 Climate Information in Sri Lanka

The Department of Meteorology (DM) is the nationally mandated CIP provider in Sri Lanka. It has a mandate for the provision of weather and climatological services for national development, general public, and stakeholders in sectors such as agriculture, energy, fishery, shipping, aviation, and insurance. These services are concerned with offering CIPs routinely on a daily/weekly, monthly, and seasonal basis. In addition, the DM issues warnings and advisories on bad weather situations due to events such as cyclones, heavy rains, lightning, and high wind. Its mandate also covers undertaking studies on climatology and climate change that lead to offering specialized products, such as long term projections of climate change. The DM has a country-wide network of own meteorological stations. It also maintains a large number of agro-meteorological units with the collaboration of other agencies dealing with sectors such as agriculture, plantations and irrigation. It is the national representative for the WMO, and the focal point for the IPCC. In addition, it is represented in a number of regional forums on climate, such as the Tropical Cyclone Panel for Bay of Bengal, SAARC Meteorological Research Centre, the Asia-Pacific Network for Global Change Research, and South Asia Seasonal Climate Outlook Forum (SASCOF). Overall, the DM can be considered as the primary source of all forms of CIPs originating in Sri Lanka. Hence, it is the primary source of supply in the value chain of CIPs in Sri Lanka.

The DM presently offers a limited portfolio of CIPs which are channelled via public media and through its own website. It routinely issues short term weather forecasts on a daily basis under three categories: public weather forecasts, sea-area forecasts, and city forecasts, which are updated regularly at intervals of a few hours. Public weather forecasts are concerned with short term prediction of likely events of showers, thundershowers, lightning, and wind, on a broad geographical coverage at province or district levels. Sea-area forecasts, targeting fishermen and naval operations in particular, cover likely events of showers/storms, with direction and speed of winds in selected areas in the coastal belt around the island and adjacent sea areas. City forecasts provide daily forecasts of minimum and maximum temperature, relative humidity and likely events of rainfall for major urban centres. Those forecast products are mainly based on information obtained from satellites, observations made at weather stations around the country, and model outputs of major global centres.

In addition, the DM has recently launched the 'Monsoon Forum' which is aimed at providing a seasonal outlook with a lead time of around 3-6 months in the two monsoons periods – south-west monsoon and north-east monsoon. The Monsoon Forum includes the participation of several state agencies, responsible for agriculture, plantation, irrigation/water management, disaster management, and defence. The major information products offered by the Monsoon Forum include: (i) overall forecast on total rainfall for a given monsoon season under three classes of climatological probabilities: below normal, normal and above normal; and (ii) experimental monthly rainfall forecasts (average rainfall in mm $\pm$10%) for all districts under the same three classes of climatological probabilities.

These predictions are based on multi-model forecasts published by international climate agencies on reviewing observations on global climate conditions such as ENSO, MJO, IOD, and other relevant phenomena. The forecasts are initially conveyed to stakeholder agencies bi-annually in the Monsoon Forum and their feedback is obtained. Subsequently, forecasts are made available to the agencies for their decision-making purposes.

The above are the core products of climate information currently available in Sri Lanka. In addition, some complementary products that play a supportive role in decision-making on climate related issues also are available. One of them is the classification of agro-metrological zones published by the Department of Agriculture. Based on long term records of local rainfall and elevation classes, the country has been divided into a number of agro climatic zones. This has become a standard CIP used by agricultural and irrigation agencies for decision-making, such as recommendations of crops/agronomic practices, and irrigation management.

The recent upsurge in climate change research has generated a number of research outputs that can be considered as specialized CIPs. Accordingly, locally downscaled versions of long term climate change projections for rainfall and surface air temperature have been developed under selected scenarios. The projections are available for target years such as 2025, 2050, and 2100. In addition, several studies that analyzed emerging trends in weather patterns based on historical records of meteorological data have also appeared. Information generated by such projections and trend analyzes have limitations in terms of confidence levels and applicability for practical decisions. Nevertheless, they can be considered as essential forward looking steps towards developing a viable system of CIPs in the long run.

While the research findings on actual use of available CIPs are scarce, a survey conducted by the IPS in village tank farmers in Anuradhapura district has shown that 73 per cent of farmers regularly look for daily weather reports in the public media. However, the share of farmers who ranked media

Table 8.3
Information for Climate Expectations in Farming Decisions of Village Tank Farmers

Source of information on climate for farming decisions	Ranking (%)		
	1	2	3
Expectations based on personal observations	86.7	10.5	-
Information acquired from interactions with fellow farmers	8.8	71.8	12.8
Weather information from media	2.8	12.2	70.2
Information from local officers	-	1.7	0.6

Source: Senaratne, A., (2011), "Survey on Farmers' Perceptions and Adaptation to Climatic Variability and Change in Village Tank Systems in Dry Zone of Sri Lanka", unpublished survey, IPS.

weather reports as the major source of information is only 2.8 per cent, falling far short of the numbers that ranked personal judgment/observations (86.7 per cent), or interactions with fellow farmers (8.8 per cent) as the major source (Table 8.3). The information given in Table 8.3 suggests that farmers mainly rely on climate expectations based on personal observations. They are further assisted by interactions with fellow farmers too. While many farmers look for weather information from media, their assessment of the role of media information in making actual decisions was low.

To some extent, the high rankings assigned to personal observations and interactions with fellow farmers indicate the importance of locally shared beliefs about climate in farmers' decisions. A study documenting some aspects of local beliefs on climate shared by village tank farmers suggest that many regular farming decisions are guided by local beliefs.[3] Accordingly, farmers' beliefs consisted of the following key components:

Beliefs about local seasons: A core component of farmers' beliefs on local climate is the seasonal agricultural calendar with two traditional farmer-defined seasons known as Maha and Yala. Local farming system activities are primarily centred on the two seasons. Beliefs on seasonality are associated with normal expectations about the onset of seasonal rains, duration and intensity of rainfall, dry spells and the end of rains. Farming activities are usually organized according to the beliefs about the seasonality of rainfall.

Beliefs on intra-seasonal distribution of rainfall: Farmers' beliefs also cover intra-seasonal events of rainfall and dry spells sequenced in order of calendar months (originally based on the local lunar calendar) connected to temporal milestones of religious and cultural events. Farmers had specific local terminology to describe the nature of events (i.e., intensity and time/duration).

Beliefs about local indicators that predict the oncoming climatic events: Farmers share a set of beliefs about local indicators on climate. It consists of observations on the local environment that are interpreted as signs of oncoming events of climate (rainfall). They constitute a local system of forecasting, with indicators having different lead times towards expected events. Such indi-

[3] Senaratne, A. (2013), "Shared Beliefs, Expectations and Surprises: Adaptation Decisions of Village Tank Farmers in Sri Lanka", unpublished PhD thesis, Deakin University, Australia.

cators include phenomena such as observations on wind, sky and clouds; local hydrological phenomena (e.g., spilling time of tanks); thermal changes in the environment; cosmological observations; resurgence of indicator species and observations on behaviour of animals and local fauna.

Interviews and discussions with farmers confirmed that they still use local beliefs in regular decision-making on farming and other aspects of daily life. However, a majority of farmers (89 per cent) expressed that established patterns of rainfall are changing, and the reliability of local forecasts could decline over the time.

8.4 Climate Information Gap

An assessment on the current situation helps to identify specific gaps in climate information in Sri Lanka. Gaps are identified and discussed using a value chain framework in the following sections.

8.4.1 Supply Gaps of CIPs

The current supply of CIPs in Sri Lanka can be considered as limited compared to demand available in various sectors where CIPs can be used to improve decision outcomes in a gainful manner. A few areas where the scarcity of climate information has been felt severely, are agriculture, water resources management, energy generation planning, and disaster risk management. The list is not exhaustive and decisions taken in several areas of economic activity could be expected to benefit from a rational use of CIPs. Overall, the gains in value expected from a sensible use of CIPs in various economic sectors appear to be significant, and compared to potential demand, the existing supply of CIPs can be considered to be strikingly low. The supply improvements can be expected in range, quality, and accessibility of products.

The supply gaps originate mainly from constraints faced by providers of CIPs that include the DM, and other relevant stakeholder agencies. The provision of CIPs is an advanced technical process that requires state-of-the-art technical facilities and a high level of expertise. To achieve the necessary levels of facilities and expertise, substantial investments are needed. As a result, establishing and maintaining reliable systems of forecasting is a challenge to many developing countries. Sri Lanka is not an exception. Even though the DM has made a conscious effort to upgrade its facilities and range of CIPs over the years, the limited availability of resources has constrained its capacity to meet the challenge. Overall, it is reasonable to assert that insufficient investment on facilities and skills development in the DM and other stakeholder agencies is a key reason for the current gaps in the supply of CIPs.

8.4.2 Credibility Gap of CIPs

The availability of CIPs alone is not sufficient to generate value from adaptation decisions. They need to be credible products, acceptable to users so that they can be effectively used for generating value. Two aspects that critically determine the credibility of CIPs are the compatibility and quality of products. Compatibility refers to the gap between coverage of existing forecasts and the information needs of users. Quality refers to the performance of forecasts in terms of the accuracy and reliability of predictions. Compatibility and quality issues jointly contribute to the credibility gap, which is concerned with how users assess the value of CIPs. If the credibility of products is high, expected value and demand for products increases, whereas the opposite applies for products with low credibility. The credibility gap, on one hand, is an issue which is closely related to supply constraints faced by providers.

Table 8.4
Farmers' Assessment of Issues/Problems of Media Climate Information

Problem/Issue	% Farmers
Failure of forecasts	24.9
Not locally focussed	3.4
Low confidence	7.2

Source: Senaratne, A., (2011), "Survey on Farmers' Perceptions and Adaptation to Climatic Variability and Change in Village Tank Systems in Dry Zone of Sri Lanka", unpublished survey, IPS.

Table 8.4 presents a summary feedback from village tank farmers regarding the CIPs currently available from the public media.[4] A few factors that contribute to low credibility on weather forecasts can be identified according to their responses. Farmers have observed failures in forecasts and have low confidence in them. A few farmers stated that lack of local geographical focus makes them less useful. This issue was particularly stressed in FGDs held with farmers. According to them, the media usually covers the province or district as a whole, but wide variations in rainfall could exist even within the province/district. As a result, weather forecasts in the media cannot be fully relied on for making regular farming decisions.

The discussions further revealed that farmers usually give relatively high attention to the media when events such as extreme rainfall events, floods, cyclones, and tropical storms take place. Such events normally cover wider geographical areas and often lead to hazardous consequences. They often occur as surprise shocks against normal expectations about climate, and farmers find that information from local observations/fellow farmers alone is not sufficient to face such incidents. Hence, farmers give a higher weightage for information from the media on such occasions.

Overall, it seems farmers use CIPs available from the media selectively, depending on the type of events they face, and the nature of decisions involved. They find routine weather information currently available from the media to be less reliable for usage in regular farm decisions. Nonetheless, they appear to rely more on information from the media when they face climate shocks.

8.4.3 Gaps in Communication (Delivery) of CIPs

Another gap in climate information can occur in communicating CIPs to target users. The communication gap refers to issues concerned with: (i) format and content – i.e., whether or/and how users understand the probabilistic nature of climate forecasts; (ii) availability, access and targeting – i.e., whether a given product is communicated to target users; and (iii) media of dissemination – i.e., how effectively products are communicated to target users.

Format and content is closely associated with the problems of compatibility and, therefore, connected to the credibility gap also. Communicating probabilistic forecasts has become an important research area and several studies have been conducted regarding formats and content suitable for specific user groups. Some of these studies have been focussed on users with low education and literacy levels in Less Developed Countries (LDCs), thereby demanding extra care in designing CIPs for illiterate users. The situa-

[4] Only about 35 per cent of farmers offered responses to the relevant questions.

tion in Sri Lanka can be considered somewhat favourable in this regard, due to a high level of literacy and formal education facilities available even in remote locations.

A second and third set of issues with regards to the communication gap are closely connected to the effective channelling of CIPs to users. Studies in certain countries have shown that electronic media has a major role to play in communicating CIPs. Radio and TV are the most widely used channels of communication of CIPs. The Internet also is becoming popular, especially among urban user groups. A survey conducted by the Ministry of Environment on public perceptions of climate change in Sri Lanka, has reported that TV is the main source of information for both urban (96 per cent) and rural (93 per cent) population, followed by the radio [urban (61 per cent), rural (79 per cent)], and newspapers [urban (79 per cent), rural (68 per cent)].[5] In the survey of village tank farmers, 89 per cent and 97 per cent farmers in the sample had TV and radios respectively, in their houses.

The above suggests that in Sri Lanka, TV can be considered as the most appropriate media for communicating CIPs, followed by the radio. Several TV and radio channels in Sri Lanka offer daily weather reports at the end of regular news bulletins based on the DM forecasts. In addition, both radio and TV channels report weather information as prominent news items on special occasions, such as extreme events. No studies have been conducted to assess the effectiveness of reporting climate information by electronic media in Sri Lanka. An area that needs research attention is on the communication gaps that can occur due to inaccurate, sensationalized coverage of climatic events and trends in the public media.

8.4.4 Declining Reliability of Local Belief Systems

Another aspect relating to the climate information gap is a gradual decline in the reliability of local beliefs on climate. Nearly 89 per cent of respondents in the sample of village tank farmers, expressed that they perceive long term changes in the local rainfall patterns. According to them, rainfall patterns in the area have undergone significant changes, and have become less predictable. As a result, some of the beliefs about local weather patterns have become obsolete and less reliable. In the FGDs, this view was particularly stressed by farmers with long term experience in farming in the area. They suggest that local weather patterns have become more random, and surprise events are more frequent than earlier. In addition, due to the commercialization of local economies, and the spread of modern agricultural technologies, the local environment has changed significantly. Due to changes such as clearing of local forest patches, some traditional indicators have become rare observations that cannot be relied upon for regular farm decisions. Overall, a decline on the reliance of local beliefs on climate, creates a vacuum that widens the climate information gap further. This extra gap has to be filled with suitably designed CIPs.

8.5 Bridging the Climate Information Gap

Bridging the climate information gap is an essential step in facing the threat of climate change. To achieve this, certain management and policy measures are necessary. In this section, a brief overview of essential major steps towards bridging the information gap is presented.

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[5] Ministry of Environment (2010), "Public Perceptions of Climate Change in Sri Lanka: Findings of a Country-wide Survey in Sri Lanka", ADB Technical Assistance Project 7326-SRI: Strengthening Capacity for Climate Change Adaptation, Climate Change Secretariat, Ministry of Environment, Colombo.

8.5.1 Overcoming the Supply Constraints of Providers

The primary step in bridging the climate information gap is overcoming the supply constraints faced by the providers of CIPs. The DM is the primary provider of CIPs in Sri Lanka. Therefore, building the technical capacity of the DM is an essential step to overcome the information gap. This requires investing funds for upgrading technical facilities of the DM, recruitment of additional staff, technical assistance for launching sophisticated forecast models, building skills of staff by training, networking with global/regional/national agencies operationally, and building its research and development capacity. Given the advanced technological components involved in capacity building efforts, technical assistance of developed nations, and international agencies is essential here.

8.5.2 Improving the Quality and Value of CIPs

Overcoming the credibility gap of CIPs is an area that requires special attention. The CIPs are imperfect products that require constant improvement. Range and product quality should be upgraded continuously. Hence, product development has to be linked with an effective validation and verification process. This cannot be achieved by improving the technical capacity for producing forecasts alone. It has a strong socio-economic component that covers areas such as assessment of user information needs, appraising users' feedback/acceptance, and estimation of the economic value of products. Several pilot projects and action research programmes have been conducted in developing countries and feedback from such studies are being used to improve the CIPs. This is a continuous process that has to be supported by an efficient research and development programme.

8.5.3 Developing Effective Communication Channels

Capacity building of information providers and product quality improvement should be complemented by developing effective communication channels. As far as the public media is concerned, widespread access to TV and radio even in rural areas is a definite advantage. Another advantage is the high level of literacy of users. These advantages should be exploited to communicate a credible range of products to end-users in an efficient and timely manner. The communication of forecast products has been a well-researched area. The necessity of norms and best practices of communicating probabilistic CIPs have been identified, and are being continuously developed. The communication of CIPs should be based on such norms and best practices, and also be supported by effective feedback mechanisms. Current research is also exploring the feasibility of communication channels that are targeting specific user groups. Connectivity through mobile phones is one potential way for channelling user specific information. The recent spread of mobile networks, and a rapid increase in phone users even in remote areas, provide a fertile ground for the growth of such experimental channels of communication.

8.5.4 Integrating Formal and Local Systems for Enhanced Performance

The strengths of forecast products should be integrated with local systems of user forecasts to achieve better outcomes from adaptation decisions. Despite the declining reliability of local belief systems due to changes in local weather patterns, such belief systems have developed in response to users' own experiences about the actual information needs of day-to-day decisions. Given that the information is developed based on the needs of actual decisions and personal experience, such beliefs may contain many desired characteristics as decision-support tools, in spite of certain biases that may be associated with them. On the other hand, CIPs based on climatological forecast systems are products of analytical processing of data by experts who are not the real users of the information. Therefore, some characteristics (e.g., format and content) of CIPs may not be behaviourally appealing to the actual users, as their own belief based forecasts. In essence, the CIPs based on scientific forecast systems and local forecasts based on shared beliefs have their strengths and weaknesses. If the strengths of both can be integrated by carefully studying them, a more effective system CIPs could be developed. Therefore, it is necessary to integrate formal and local forecast systems in ways that complement each other, so that better decision outcomes are achieved.

Policy Briefs

9. The Role of Taxation in Sustaining Public Investments

9.1 Introduction

While it is often assumed that the Sri Lankan state is still the primary financier of social services like education and health, this is rapidly ceasing to be the case. Having once been a generous provider, the Sri Lankan state has, over the years, become less generous compared with its peers. One major reason for this change is that it is collecting less in tax vis-a-vis the country's national income, which is affecting the state's capacity to spend more on human development needs.

For a country of Sri Lanka's per capita income, unparalleled welfare investments were made during the post-independence era, which reaped rich dividends in terms of human development. Sri Lankans enjoy basic human development outcomes better than many comparable countries – an adult literacy rate of 91 per cent, and a near universal primary enrolment rate; low infant mortality (13 per 1,000 live births, better than Indonesia and China at 30 and 17, respectively), maternal mortality (39 per 100,00 live births, better than Thailand and Philippines at 48 and 94, respectively) and high life expectancy (at 71 years, on par with Thailand and Malaysia, at 70 and 73 respectively, and higher than India and Indonesia at 65 and 68, respectively).[1] Yet, new challenges are now emerging in the education and health sectors, and state expenditure has not been able to fully keep up. Addressing these has now become vital in ensuring that the country has a productive population to capitalize on the post-conflict economic dividend. As emphasized in IPS (2012),[2] sustained faster growth as is envisaged in Sri Lanka will not be feasible without a healthy, educated workforce.

> ***Emerging expenditure needs, in the face of high fiscal deficits and outstanding government debt, provide a strong rationale to create more fiscal space through revenue mobilization, i.e., taxation***

[1] World Health Organization (2011), 'World Health Statistics'.

[2] IPS (2012), *Sri Lanka: State of the Economy 2012*, Institute of Policy Studies of Sri Lanka, Colombo.

Strengthening the financing capacity of the state, and thereby, better provision of these services is vital. This is particularly true in an era of heightened pressure on public finances with the massive, and no doubt vital, post-conflict reconstruction and rehabilitation efforts. Meanwhile, as Sri Lanka moves to the middle-income bracket, it has less access to cheap/concessionary funds from aid donors. Aside from large commercial borrowing, which comes with its own set of issues as highlighted earlier,[3] it is higher tax revenues that will strengthen the capacity of the state to address the critical health and education gaps that are emerging.

Sri Lanka's target is to double per capita income from US$ 2,057 in 2009 to US$ 4,114 by 2016. Lewis (1984) argues that an increasing share of tax revenue in national income or in GDP is an instrumental objective of economic development policy.[4] High-income countries have had rising shares of tax revenue and government expenditures as they have become more economically-advanced. However, in contradiction to the theory, it seems that there are problems in Sri Lanka in raising the tax ratio (total tax revenue as a percentage of GDP), in line with the increase of per capita GDP.

Much of the focus of public investment lately has been on the government's physical infrastructure spending (particularly connectivity infrastructure), and the raising of funds from foreign and domestic sources to support the immediate and large volume of financing needed for this. However, social infrastructure like health and education needs to improve alongside physical infrastructure for the efficiency gains of the latter to be maximized. Social sector spending is more heavily influenced by domestic revenue mobilization and the fiscal space that it avails to the government.[5]

9.2 Human Development Needs: Health and Education

9.2.1 Education

Historically, Sri Lanka has focused strongly on public investment in general education, enabling the country to attain higher levels of education achievement than most developing countries with comparable per capita income levels. Adult literacy is 91 per cent,[6] and Sri Lanka has almost achieved the MDG of universal primary education. However, wide disparities in access to, and quality of, education remain across the country, particularly at higher levels of education.

Investment by the Sri Lankan state in education is low, and has declined steadily over time. Public expenditure in education has averaged at 2.3 per cent of GDP during 2000-2010, falling to a 10-year low of 1.9 per cent of GDP in 2012 (Figure 9.1). Sri Lanka performs poorly globally too. In South Asia, India, Bangladesh, and Nepal, all invested a larger share of their GDP in education than Sri Lanka.[7] Investments in education by the Sri Lankan state were also smaller than the average of middle income countries (Table 9.1). As a percentage of GDP, the average upper middle income country spent 5 per

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[3] See Chapter 2 on "Macroeconomic Performance" of this report.

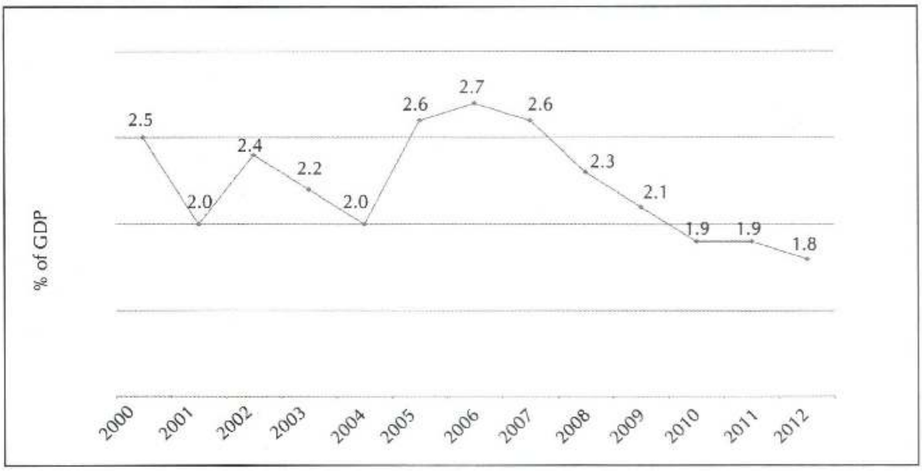
[4] Lewis, S.R. (1984), *Taxation for Development: Principles and Applications*, Oxford University Press, U.K.

[5] The discussion to follow draws on Wijesinha, A., and K. Amirthalingam, "Strengthening State-capacity for Development in Sri Lanka: The Taxation Imperative", ICTD Working Paper (forthcoming).

[6] World Bank, Education Statistics (EdStats) [http://databank.worldbank.org/ddp/home.do], accessed on 13 May 2011.

[7] The available information on public expenditure on education is not strictly comparable across countries, as they may use different definitions to measure public expenditure on education. For example, in Sri Lanka, expenditure by the Ministry of Education is considered as public expenditure on education for the most part. Expenditures incurred on the Kotelawala Defence University and the Vocational Education University, for instance, does not come under the public education budget.

Figure 9.1
State Spending on Education as a Percentage of GDP



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

cent of GDP, and the average lower middle income country spent 4 per cent of GDP on education, against Sri Lanka's 2.3 per cent of GDP.

Of course, one can argue that, unlike some other countries that undertook schooling investments much later, the existence of a well developed school infrastructure in Sri Lanka may mean that the country needs fewer investments in recent times. However, the limited investment in education has constrained access to tertiary education, as well as held back improvements to facilities in schools to gear them towards a knowledge-based economy.

Table 9.1
State Spending on Education in Sri Lanka vs. Selected Countries

	As % of GDP	As % of Total Government Expenditure
Malaysia	4.1	17.2
Singapore	2.6	15.3
Indonesia	2.8	17.9
Philippines	2.8	16.9
India	3.1[a]	n.a
Bangladesh	2.4	14.0
Nepal	3.8	19.0
Sri Lanka	2.3	10.0
Lower middle income countries	4.0[a]	n.a
Upper middle income countries	5.0[b]	13.0[b]

Notes: a. Data for 2006; b. Data for 2007; n.a. = not available.

Source: IPS/UNDP (2012), "Sri Lanka Human Development Report".

The availability of facilities in the country's schools varies widely across districts. For instance, the data reveals that aside from the districts of Colombo, Gampaha, Galle, and Hambantota, less than 40 per cent of schools in all other districts had a permanent library. Meanwhile in 24 out of 25 districts, less than a half of all secondary schools had science labs. Only 10 per cent of secondary schools country-wide have facilities to teach A-level science stream subjects.[8] The poor facilities and resource constraints have weakened the quality of education provided by schools, limited the number of students qualifying for more technical education, and reduced the geographical access to high school education of the type that is required for Sri Lanka to transition to a knowledge-based economy.

The declining state spending on education has also increased out-of-pocket expenditure (OOPE), which in turn has important equity implications. Although education in public schools is free, households need to still spend a considerable sum on education. The average household spends 3.2 per cent of its total expenditure on education – nearly Rs. 800 a month and comprises additional private tuition (45 per cent), stationery (23 per cent), and transport (22 per cent).[9]

The issue is more precarious at higher levels of education. While new higher education institutes have been established, existing universities have been expanded, and new faculties added in recent times, less than one-fifth of the students qualifying for tertiary education in state-run universities (based on performance at A-Levels exam), are able to secure admission. The situation appears to be worsening, because while in 2003, the number of students who qualified to enter university but could not be accommodated stood at 80,556, by 2010 this had risen to 120,868. Clearly, capacity remains a constraint for accessing university education in Sri Lanka.

9.2.2 Health

In the health sector too, similar issues prevail, as investments by the Sri Lankan state are low. Today, public health care is provided free of charge at government hospitals and dispensaries to all the citizens of the country, although the supply is unable to meet demand. Indeed, the public health sector serves nearly 60 per cent of the country's population, while OOPE on health is very high (as will be shown later).

Although Sri Lanka fares well in most basic health indicators compared to most developing countries, child nutrition is still a major problem in the country. Nearly a half of all women of reproductive age in the estate sector are educated below primary level, and 30 per cent of the women are malnourished. The Badulla district has the highest percentage of underweight children, followed by Trincomalee, Batticaloa, Monaragala, Polonnarura, Nuwara Eliya, Kandy, and Anuradhapura districts. More than a quarter of the children are underweight in each of these districts. Meanwhile, IPS research has shown that 51 per cent of multidimensional poverty in the country is explained by health and nutrition factors.[10]

Sri Lanka is faced with new and different challenges in the health sector, with recent changes in the demographic, epidemiologic and socio-economic character of the country. This is particularly true of NCDs. Deaths

[8] As of 2010, there were only 7,212 secondary schools (having classes from year 1-9, 1-11, 1-13 and 7-13).

[9] Arunatilake, N., and P. Jayawardena (2011), "Equity in Education and Health Services in Sri Lanka" in Hyun Hwa Son (ed.), *Equity and Well-being: Measurement and Policy Practice*, Routledge, London and New York.

[10] Nanayakkara, W., (2012), 'Eradicating Poverty in Sri Lanka: Strong Progress But Much Remains To Be Done' in IPS, "Talking Economics Special Report", available at http://www.ips.lk/talkingeconomics/2012/06/understanding-poverty-in-sri-lanka-does-the-multidimensional-poverty-index-hold-the-key/ [accessed on 15th March 2013].

Table 9.2
Health Expenditure as a Share of GDP (2000 vs. 2008)

	Sri Lanka		Global	
	2000	2008	2000	2008
Total expenditure on health as % of GDP[a]	3.7	4.1	8.3	8.5
General government expenditure on health as % of total expenditure on health	48.3	43.7	56.4	60.5
General government expenditure on health as % of total government expenditure	6.9	7.9	13.3	13.9
Private expenditure on health as % of total expenditure on health	51.7	56.3	43.5	38.4
OOPE on health as % of private expenditure on health[b]	83.3	86.7	50.7	50.7
Per capita total expenditure on health at average exchange rate (US$)	101	187	484	854

Notes: a. The sum of expenditures on health by prepaid plans and risk-pooling arrangements, firms' expenditure on health, non-profit institutions serving mainly households, and household OOPE;

b. The direct outlays of households, including gratuities and in-kind payments made to health practitioners and to suppliers of pharmaceuticals, therapeutic appliances and other goods and services. This includes household direct payments to public and private providers of health care services, non-profit institutions, and non-reimbursable cost sharing, such as deductibles, co-payments and fees for services.

Source: IPS/UNDP (2012), "Sri Lanka Human Development Report".

due to NCDs, such as ischemic heart disease, stroke and cancer, are high and rising in Sri Lanka – nearly 90 per cent of the country's disease burden is attributed to NCDs. During the past half-century, the proportion of deaths due to circulatory diseases (such as heart disease and stroke) has increased from 3 per cent to 24 per cent.[11] In all districts, over 10 per cent of the population suffers from chronic illnesses or disability, and over 20 per cent of household heads suffer from chronic illnesses.

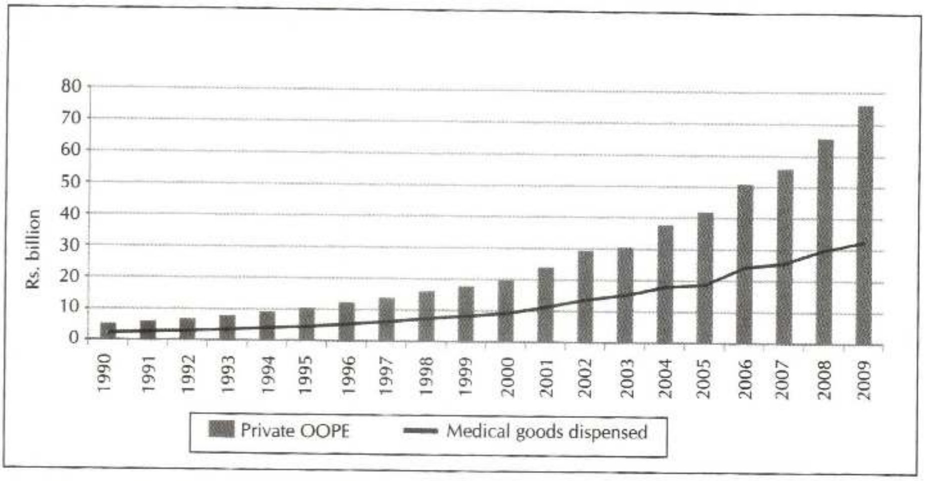
The ability of Sri Lanka to improve health facilities and personnel is compromised by low investment in the heath sector, after years of heavy investment. Total expenditure on health remained below 5 per cent of GDP between 1995 and 2008,[12] and is low compared to the global average of around 8 per cent (Table 9.2). Within this, the contribution from the state was only around 45.8 per cent (2009) – the rest came from private sources (private sector health providers as well as OOPE). A large proportion of the private financing comes from OOPE (i.e., the individual cost borne by the patient) which is around 85 per cent of total private expenditure on health, and 51 per cent of total health expenditure.[13] The proportion of OOPE on private health expenditure has grown over time, rising from about 83 per cent to 87 per cent between 2000 and 2008 (Figure 9.2). Sri Lankans spent Rs. 70 billion more out-of-pocket on healthcare in 2009, than 20 years ago.

[11] Engelgau, M., *et. al.*, (2010), 'Prevention and Control of Selected Chronic NCDs in Sri Lanka: Policy Options and Action', Health, Nutrition and Population Discussion Paper, World Bank, Washington D.C.

[12] Sum of general government expenditure on health and private expenditure on health.

[13] Bandara, S., (2011), "Emerging Health Challenges in Sri Lanka: More Money for Health and More Health for the Money," 'Talking Economics' http://ipslk.blogspot.com/2011/04/emerging-health-challenges-in-sri-lanka.html, April 17th, 2011 [accessed on 15th January 2013].

Figure 9.2
Rising Private Out-of-Pocket-Expenditure on Health by Sri Lankans (1990–2009)



Source: IPS, Sri Lanka National Health Accounts (2011) database.

9.3. Financing the Gaps amidst Contracting Concessionary Aid

The fiscal deficit in Sri Lanka has traditionally been high. Financing the deficit through money creation and domestic and foreign borrowing, as is the case in Sri Lanka today, comes with its own adverse repercussions. Reducing the deficit and expanding the state's 'fiscal space' would come about through two ways: a) expenditure cuts, and b) increasing tax revenue. The former is not easy – considering both the current infrastructure drive, particularly in reconstruction of conflict-affected areas, as well as the political imperatives related to subsidies and transfers. This makes the latter, taxation, ever more crucial. But in the past, it was easy to place less priority on it because of the generous concessionary aid flowing into the country.

Sri Lanka was considered a 'donor darling' as one of the first countries in South Asia to embark on market-oriented reforms following economic liberalization in 1977. Concessional loans from international aid donors soared for a time thereafter, playing a very substantial role in financing Sri Lanka's development needs. Yet, this situation is rapidly changing, driven by two factors. Firstly, the end of the armed conflict has meant that Sri Lanka is no longer a priority country requiring 'emergency' or 'humanitarian' assistance. Aid operations based on North and East recovery efforts are scaling down, with much of the work being mainstreamed into the government's own activities. Secondly, Sri Lanka has moved out of the low-income country status, to the middle-income bracket. The country becomes increasingly less eligible for concessionary loans from sources like the International Development Association (IDA) – which carries low interest rates, long tenors and grace periods, and a high grant element – and others to finance its social sector investments.[14]

[14] 'Sri Lanka to Get Funding from Higher Cost Window: World Bank', *Lanka Business Online* http://www.lankabusinessonline.com/fullstory.php?nid=1230609135, 18th December 2010 [accessed on 20th September 2012]

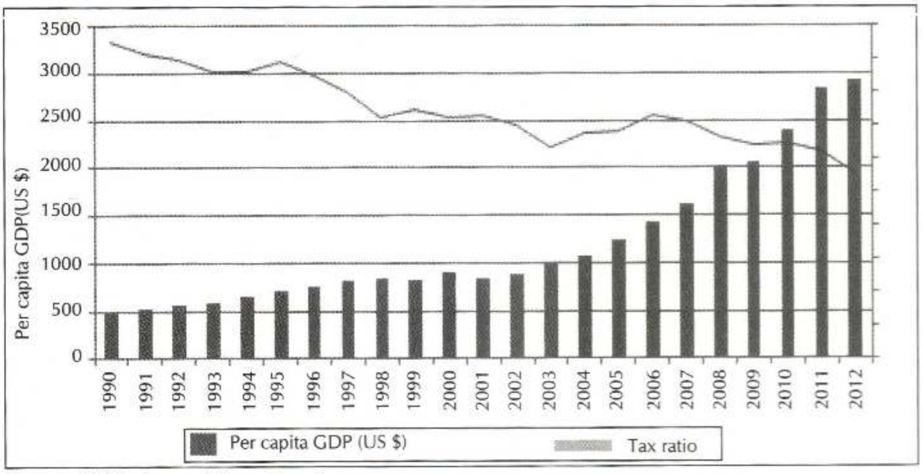
Based on a recent survey of local and international development agencies that rely on foreign funding, it is becoming clearer that Sri Lanka's access to concessionary funding from abroad is rapidly shrinking. Several of the bilateral aid missions surveyed noted that since 2010, Sri Lanka no longer qualifies for bilateral development assistance due to the low-middle income status of the country. Nearly all of those surveyed reported that in the last 2-3 years, there has been a reduction in their funding to Sri Lanka, and that this trend is likely to continue. The head of one UN agency reported that "*the funds we have traditionally accessed have contracted by 70 per cent;*" another remarked that "*in 2012, [institution name removed] we have only been able to mobilize less than one-third of what we mobilized from donor sources in 2009;*" while a leading European bilateral donor indicated a "*more than 60 per cent contraction in funds between 2009 and 2011.*"[15] Furthermore, they noted that the changes have been in: 'the volume of the funds received/disbursed'; 'the type of funding'; 'how the funding is being allocated and the nature of projects'; and 'the sources of the donors (countries/agencies) themselves'. The top reasons for these changes/reductions were: 'change in the country's economic situation, change in the types of needs', 'economic growth of the country', and 'status of the global economy'.

This contraction in concessionary donor aid, alongside the current heightened pressure on public finances on account of post-conflict reconstruction and broader development efforts, means that domestic revenue mobilization, i.e., taxation, is essential to strengthen the spending capacity of the state to finance development needs in health and education.

9.4 Performance of Tax Revenue in Sri Lanka

According to Gallagher (2005), the benchmark tax ratio for a low-income country is 18 per cent, and that for a middle-income

Figure 9.3
Tax Ratio and Per Capita GDP in Sri Lanka (1990–2012)



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

[15] In one-on-one interviews with IPS research staff.

country is 25 per cent.[16] Meanwhile, the seminal paper by Kaldor (1963) argued that for a country to become 'developed' it needed to collect taxes at up to 30 per cent of GDP.[17]

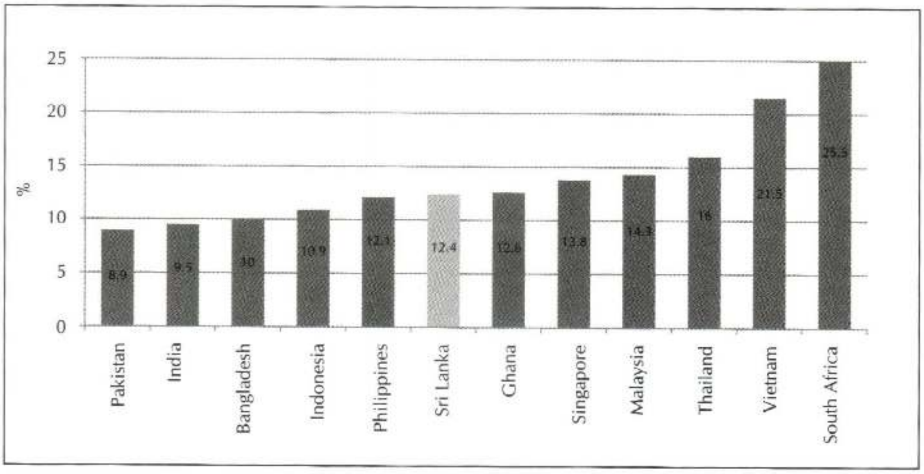
In recent decades, Sri Lanka has not managed to raise tax revenues in line with the growth in its economy, or the evolving needs of its people. Tax revenue as a proportion of GDP dropped to around 15 per cent during 2003-2008, compared to about 19 per cent prior to 1995. In 2012, Sri Lanka's tax ratio was just 11.1 per cent (down from 12.4 per cent in 2011), continually declining from a peak of 24 per cent in 1987 (Figure 9.3). Sri Lanka's performance compares poorly with countries like Vietnam, Thailand, Malaysia, Singapore, Ghana, and South Africa; but better than other South Asian neighbours, including India, Pakistan, and Bangladesh; and marginally better than Indonesia, and the Philippines (Figure 9.4).

Another important feature of Sri Lanka's tax performance is the mismatch between the tax ratio and per capita GDP. Figure 9.3 clearly illustrates that during 1990-2001, while GDP per capita increased continually, the total tax revenue as a percentage of GDP registered a declining trend (albeit with some fluctuation). An increase in per capita GDP essentially means that the increase in national income is greater than the growth rate of the population in a country. A continual increase in GDP indicates that economic activities are expanding each year. The question then is, why has Sri Lanka been unable to generate a simultaneous increase in tax revenue despite an expansion in economic activity over time?

9.5 Unravelling the Weak Revenue Performance

Sri Lanka's weak revenue performance has been characterized by poor direct tax collec-

Figure 9.4
Tax Revenue to GDP Ratio - Sri Lanka vs. Selected Countries (2009 -2011 average)



Source: IMF (2011), 'Revenue Mobilization in Developing Countries'.

[16] Gallagher, M., (2005), "Benchmarking Tax Systems", *Public Administration and Development*, Vol. 25, No. 2, pp. 125-144.

[17] Kaldor, N., (1963), "Taxation for Economic Development," *The Journal of Modern African Studies*, Vol. 1, No. 1, pp 7-23.

tion and the overreliance on indirect taxation. This is driven both by a clear administrative reason, but also by a more probable fundamental reason. The administrative reason is that while the former (corporate and personal income tax) requires more effort and effectiveness on the part of the revenue authorities (auditing tax returns, checking self-reporting, measures to expand base and improve compliance, etc.), the latter (VAT, Customs duty, etc.) is much easier to administer as they are mainly consumption based taxes, or taxes at the border which are collected easily at source. The more fundamental reason is probably the structure of the country's economy.

The economic structure of a country is an important determinant of revenue mobilization. A dependence on the agriculture and service sectors has a significant and negative effect on revenue levels. Like many developing countries, Sri Lanka (especially outside the Western Province) is characterized by a significant agriculture sector. Though the total output from agriculture in GDP has been declining (decreasing from 31 per cent in 1977 to 11.1 per cent in 2012), the employment share of agriculture has remained nearly the same over time (36 per cent in 1977 and 31 per cent in 2012). Tax collection among those in the agricultural sector (from farm or non-farm activities) is challenging owing to the high degree of informality. According to some studies, Sri Lanka exhibits one of the highest levels of informality, not only in comparison to the South Asian region but also in comparison to the neighbouring East Asian region, of around 45 per cent of GDP.[18] Meanwhile, Sri Lanka's services sector is gaining greater prominence in the economy. As noted at a recent forum,[19] tax administration is grappling with the challenges emanating from tax collection in a context where the structure of the economy is changing towards a greater services sector share of GDP, mainly driven by wholesale and retail trade. These sectors have been significant drivers of growth in the post-conflict period.

These characteristics impinge on the lower collection of direct (income) tax collection and compel tax collectors to depend more on indirect taxes.

In Sri Lanka, the source of tax revenues is heavily skewed towards indirect taxes. Between 1980 and 2011, an average of nearly 84 per cent of revenue was generated by indirect taxes,[20] while direct taxes, such as income tax (corporate and personal) and pay-as-you-earn (PAYE) tax, contributed an average of about 16 per cent.

Sri Lanka is conspicuous for its heavy reliance on indirect taxation. Governments of many comparator countries rely on direct taxes (taxes on income, profits, and capital gains), much more than indirect taxes for their revenue (Figure 9.5). Meanwhile, as Table 9.3 shows, Sri Lanka is conspicuous even among developing countries for its low collection of direct taxes. Looking at it over time as well, these countries have been able to steadily increase revenue coming in from these sources, as their economies have developed over time.

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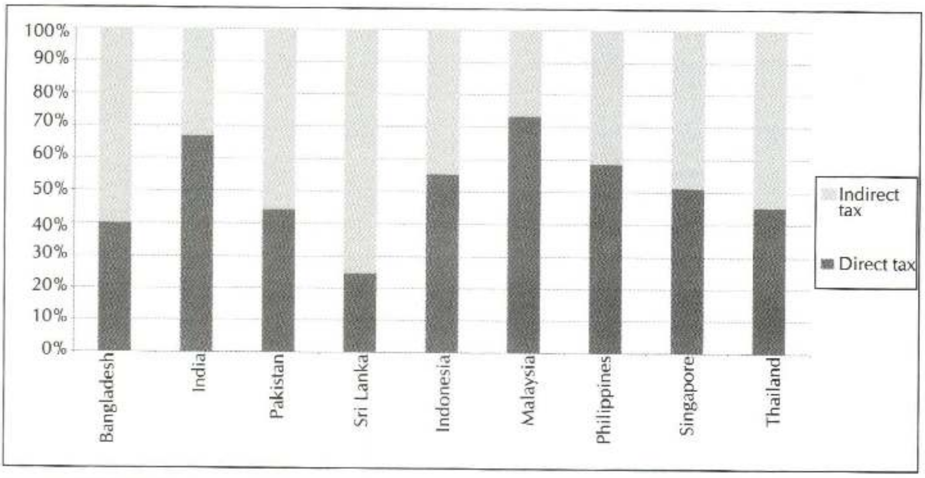
[18] Schneider, F., et. *al.*, (2010), "Shadow Economies All over the World: New Estimates for 162 Countries from 1999 to 2007," Policy Research Working Paper 5356, World Bank, Washington, D.C.

[19] Keynote Address by the Secretary to the Ministry of Finance and Planning at the "Sri Lanka Economic Summit 2013" organized by the Ceylon Chamber of Commerce, 9-10 July, 2013, Colombo.

[20] Indirect taxes in Sri Lanka include VAT, (previously a Goods and Services Tax - GST), Nation Building Tax (NBT), Customs duty and other border taxes like Port and Airport Levy (PAL), Regional Development Levy (RDL), Social Responsibility Levy (SRL), some of which have been abolished with the Budget 2011.

Figure 9.5
Direct vs. Indirect Taxes (% of Total Revenue) - Sri Lanka vs. Selected Countries (2010)



Source: IPS/UNDP (2012), "Sri Lanka Human Development Report".

Within indirect taxation too, the let-down of the performance of VAT as the main indirect tax, has contributed to the revenue decline. In keeping with developments in tax policy globally and the successful experiences of other countries, Sri Lanka has embraced VAT as its key indirect tax revenue tool, owing to its non-cascading effect. The country did away with a revenue-wise successful Turnover Tax (TT), in favour of a Goods and Services Tax (GST) in 1998, yet it is widely accepted that the revenue administration did not sufficiently modernize to cope with this change. The shift to VAT in 2002 placed further pressure on administration, and VAT performance has been sub-par. The VAT Productivity Ratio, calculated by dividing net VAT collections as percentage of GDP by

Table 9.3
Revenue from Taxes on Income, Profits and Capital Gains as percent of Total Tax Revenue – Sri Lanka vs. Selected Countries (1990 – 2008)

Country	1990	1992	1994	1996	1998	2000	2002	2004	2006	2007	2008
Sri Lanka	**12**	**14**	**15**	**16**	**14**	**15**	**17**	**15**	**19**	**21**	**21**
Thailand	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	39	44	45	48
Malaysia	43	47	44	46	60	55	62	n.a.	n.a.	n.a.	n.a.
India	19	23	29	30	32	36	38	43	47	51	52
Pakistan	13	18	21	20	29	28	31	28	28	38	37
Uganda	n.a.	n.a.	n.a.	n.a.	15	16	21	25	27	28	27
Kenya	n.a.	29	33	40	38	33	33	36	39	40	42

Note: n.a = data not available.

Source: World Bank, "World Development Indicators".

the general VAT rate, is a low 0.27 (2011). Aside from slightly improving in the mid-2000s to around 0.38, it is now back to the productivity level seen soon after its introduction. In other words, the country collected just 3.2 per cent of GDP in VAT revenue in 2011.[21] The closer this ratio is to one, the higher is the collection efficiency of the VAT. Sri Lanka's VAT let-down can be attributed to several reasons, chiefly, a complicated rate structure that existed for years, ad hoc and discretionary exemptions based on special interests/lobbying, and administrative weaknesses.

Overall, Sri Lanka's tax collection has not kept in step with the expansion of economic activity and GDP growth. This can be measured in terms of 'average buoyancy of revenue collection'– essentially, the responsiveness of revenue growth to GDP movements. Average buoyancy in Sri Lanka's tax system is extremely weak. For all South Asian countries except in Sri Lanka, average buoyancy over the past decade is at, or above 1 – which means revenue is growing faster than GDP. Yet in Sri Lanka, it is a very low 0.6.

9.6 Tax Policy Reforms

A report by the Presidential Commission on Taxation in 2010 identified many of the issues raised here, and provided comprehensive recommendations to address them in a phased manner – especially with the objective of expanding the tax base. However, full implementation of the recommendations, particularly those on drastically streamlining border taxes and a complete reform of tax administration to make it more effective and efficient, have not taken place due to competing stakeholder interests and political sensitivities. For example, the government may be hesitant to undertake a reform of tax administration (to improve collection and compliance) at this point in time because of a hesitation to tackle the heavily unionized workers in key revenue departments such as Customs and Inland Revenue.

Yet, some reforms aimed at expanding the direct tax base have begun. For instance, in an unprecedented reform measure, the Budget 2011 extended PAYE income tax to public sector employees, stripping away the income tax exemption that they enjoyed since the late 1970s. Additionally, a reduction of corporate and personal income tax (with a view to stimulating economic activity – particularly enterprises – and thus generating more total tax revenues, as well as to encourage greater compliance) were implemented via the 2011 Budget.

But the revenue effect of these reforms is still uncertain. For instance, a recent simulation study by the IPS showed that although adding the previously exempt public servants to the tax base corrects the previous horizontal inequity between public and private sectors employees, the structural changes that came with the new tax scheme may result in a decline in tax revenues.[22] According to the simulated results, the amount of tax revenues is reduced from Rs. 12.2 billion in 2007 to Rs. 6.3 billion in 2011. Two main reasons cited for the decline under the new 2011 tax system are: i) the new tax brackets induced an increase of the 'tax free' threshold from Rs. 300,000 in 2007 to Rs. 600,000 in 2011; and ii) the tax rates were also reduced to 4-24 per cent from 5-35 per cent in 2007.

9.7 Conclusion and Way Forward

As developing countries need to spend more on public infrastructure, education, health services and so on, they need to increase their

[21] Calculated at the standard VAT rate of 12 per cent in 2011.

[22] Arunatilake, N., P. Jayawardena and A. Wijesinha (2012), 'Tax Reforms in Sri Lanka: Will a Tax on Public Servants Improve Progressivity?', PEP Working Paper, December 2012.

tax ratio in order to grow and improve human development outcomes of its people.[23] As this Policy Brief has highlighted, much remains to be done in terms of investments in human development via the health and education sectors. Emerging expenditure needs, in the face of high fiscal deficits and outstanding government debt, provide a strong rationale to create more fiscal space through revenue mobilization, i.e, taxation. Sri Lanka must focus on getting the implementation of VAT right, in a way that lives up to its revenue-raising promise. This would involve gearing the tax administration with modern tools and staff capacity, as well as ending costly exemptions.

Meanwhile, efforts must be strengthened to raise more direct tax, especially in a new post-conflict era of private sector expansion. Undertaking a comprehensive effort to expand the direct tax base by 'stick' approaches like tighter compliance checks, smarter auditing, and higher penalties; as well as 'carrot' approaches like reforming the attitudes and approach of the Inland Revenue Department (IRD) staff to be more tax payer-friendly, and re-orienting IRD practices to encourage greater voluntary compliance, should be a priority. Sri Lanka cannot continue its overreliance on indirect taxes and must increase its direct tax effort. Higher dependence on indirect taxes is not an ideal scenario as it is well established that unlike direct taxes, indirect taxes are inherently regressive. They tax people's consumption of goods and services regardless of their income level, which in turn means they have a higher burden on poorer households than richer ones.

Although beyond the scope of this Policy Brief, it will be incomplete to not mention the complementary role that expenditure rationalization must play alongside the revenue raising effort. This must necessarily include, reducing lower-priority spending, make the subsidies and transfer schemes more cost-effective, and better utilization of existing and new funds. While greater tax revenue will increase the funding space that the state has to spend on education and health, it is only part of the story. An important complementary strategy must be the smarter utilization of funds through, for example, improved allocative efficiency and superior targeting.

Overall, in an economy that is aiming to place itself on a sustainable middle-income growth trajectory, the capacity of the state to deliver services to the broader population and address human development gaps is essential. For this, the state would need a greater availability of domestic financial resources, and stronger tax revenue generation can provide this fillip.

[23] Bird, R., et. al., (2008), "Tax Effort in Developing Countries and High Income Countries: The Impact of Corruption, Voice and Accountability," *Economic Analysis & Policy*, Vol. 38, No. 1.

10. Clean Development Mechanisms (CDMs)

10.1 Introduction: Climate Change and Green House Gas Emissions

Extensive research by climatologists and meteorologists has shown that the earth's climate is changing rapidly.[1] The impacts of these climate changes are cross-cutting and are affecting areas such as agriculture, fisheries, health, settlements, and infrastructure. Climate change poses its threats in the form of heavy rain falls, severe droughts, floods, heat waves, and rapid ice melts, and the outlook suggests that the frequencies of these events will increase in the future.[2] Recognized by the Kyoto Protocol, climate change will pose challenges to both developed and developing countries in achieving sustainable economic and social development, and poverty reduction. The emissions from countries will continue to grow as they strive to achieve their development goals, and poorer communities will be more affected.[3] The Kyoto Protocol has recommended three flexible mechanisms which allow industrialized countries, which are called Annex 1 Parties, to implement activities outside their boundaries that can help to offset the emission they make. These are, Joint Implementation (JI), International Emission Trading (IET) and CDM. Among these three, CDM is very important since it is the only mechanism that involves developing countries.[4]

> ***CDM creates many opportunities for Sri Lanka in reducing emissions, generating green employment, and promoting sustainable development***

10.2 Clean Development Mechanisms as a Way of Climate Change Mitigation

Developed as a market based mechanism, the CDM will allow the creation of saleable emissions, which are called certified emission reductions (CER) through projects in developing countries. The generated CER

1 United Nations Framework Convention on Climate Change (2012), "Clean Development Mechanism Booklet," Fourth Edition, United Nations.

2 Clean Development Mechanism Policy Dialog (2012), "Climate Change, Carbon Markets and the CDM: A Call to Action," Report of the High-Level Panel on the CDM Policy Dialog.

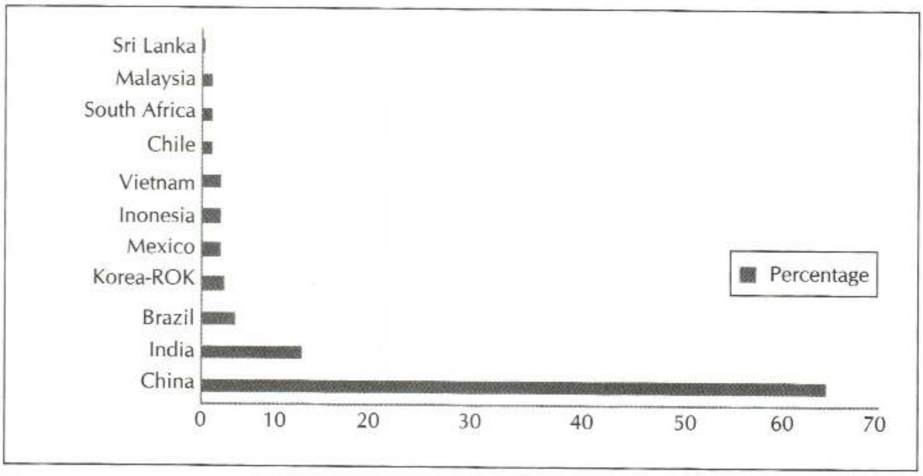
3 Freestone, D., (2001), "The World Bank's Prototype Carbon Fund: Mobilizing New Resources for Sustainable Development" in S. Schlemmer-Schulte and K. Tung (Eds.), *Liber Amicorum Ibrahim F. I. Shihata*, Kluwer Law International, The Hague, Netherlands.

4 Streck, C., (2004), "New Partnership in Global Environmental Policy: The Clean Development Mechanism," *Journal of Environment and Development*, Vol 13, No 3, pp. 295-322.

are equivalent to the CO_2 that these projects reduce or avoid.[5] As identified by the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol, developing countries are not bound to reduce their emissions yet. However, they are encouraged to participate in the climate change mitigation efforts, especially through the CDMs. The CERs generated by the CDM projects in developing countries can be bought by the industrialized countries to offset their own emission levels to achieve emission reduction commitments.[6] While achieving the main target of cost effective mitigation, the CDMs are also capable of benefiting developing countries through technology transfers and by achieving sustainable development objectives. These efforts will allow developing countries to make the transition to more climate friendly economies. There is a huge potential to generate CERs through CDM projects, and UNFCCC suggests that the amount of CERs generated by host countries would increase towards 2020. These expected CERs will be mainly accounted for by China and India. However, there are some other countries also in this equation, as further illustrated in Figure 10.1.

As suggested by the Marrakech Accord, a CDM project can have different structures. A bilateral CDM is where a CDM project in a developing country is financed by an industrialized country. Multilateral CDMs receive funds from more than one industrialized country, while unilateral CDMs get their funds to operate from a developing country that has agreed to finance the emission reduction before the CERs are traded to an Annex 1 country. Technology transfers to developing countries, profits gained by developing countries, and the impact on the transaction costs varies, based on these different structures.[7]

Figure 10.1
Distribution of CERs Issued by Host Country



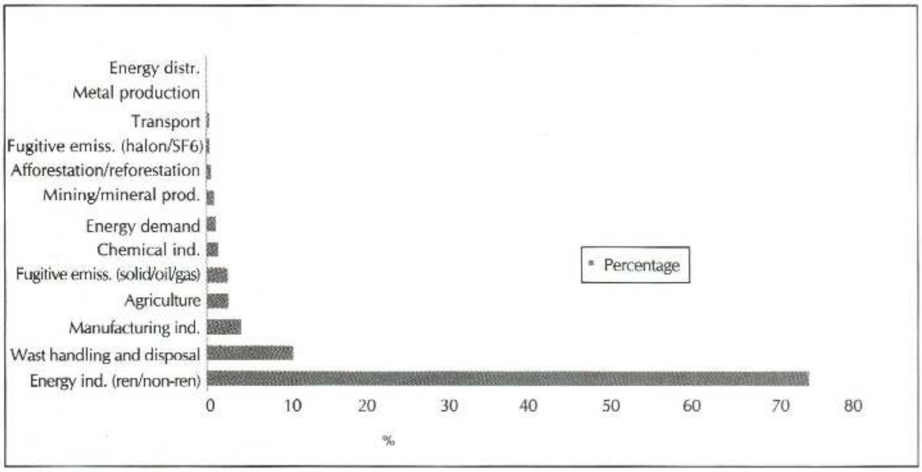
Source: UNFCCC, March 2013.

5 United Nations Climate Change Clean Development Mechanisms (2013), "Clean Development Mechanism: Fact Sheet," CDM press release.

6 Castro, P., (2010), "Climate Change Mitigation in Advanced Developing Countries: Empirical Analysis of the Low-hanging Fruit Issue in the Current CDM," Institute of Political Science and Center for Comparative and International Studies.

7 Lussis, B., (2004), "Unilateral CDM," Working Paper, Institute for Sustainable Development, Ottignies; Baumert, K. and Kate, N., (2000), "Designing the Clean Development Mechanism: Operational and Institutional Issues," Organization for Economic Cooperation and Development, Paris; Jahn, M., *et. al.*, (2003), "Unilateral CDM Chances and Pitfalls," GTZ; UNFCCC (2001), "The Marrakech Accords and the Marrakech Declarations: Decision 17/CP 7," United Nations Framework Convention on Climate Change.

Figure 10.2
Distribution of Registered Projects by Scope



Source: UNFCCC, March 2013.

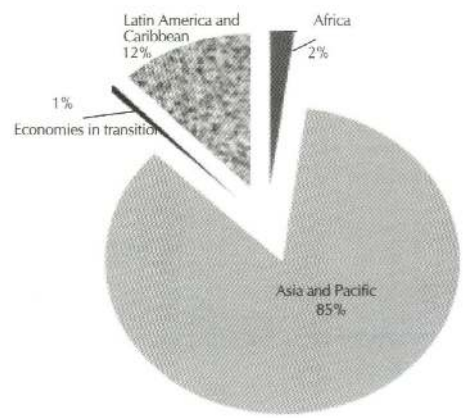
The 6000th CDM project was registered in January 2013, reaching a significant landmark in the CDM project development process.[8] Profits earned through CDMs, CDM project focus areas, and the technology transfer to developing countries, would greatly depend on the developing country characteristics such as population, GDP per capita, FDI, and most importantly, the knowledge stock. Germany, USA, Denmark, Japan, U.K., and France, are ranked amongst the top countries that transfer technology to developing countries through CDMs.[9] There are many areas that CDM projects operate on as shown in Figure 10.2.

The registered or soon to be registered CDM projects accounted for a total investment of US$ 215.4 billion as of June 2012. Approximately US$ 92.2 billion of investment is accounted by the projects that are already on the ground. The average investment per project is approximately US$ 45 million. China and India, representing East Asia and South Asia respectively, account for approximately 65 per cent of the total investments in CDMs, and approximately 45 per cent of the total number of projects. Most often, CDM projects have an average estimated cost of under US$ 10 per ton of CO_2 equivalent. By the end of 2011, the CDM registry showed over 750 million CERs transfers, with the revenue generated by these CERs estimated at a range of US$ 9.5-13.5 billion. While the number of countries entering into CDM activities shows an increasing trend as previously noted, only a few of them represent small emerging economies which have low GHG emissions. These countries include those from Africa as well as Asia. The Asia Pacific region accounts for the majority (85 per cent) of CDM projects. Nevertheless, UNFCCC encourages CDM initiatives from all the regions. The current distribution is shown in Figure 10.3.

[8] United Nations Framework Convention on Climate Change, Clean Development Mechanisms, (2013), "Kyoto Protocol's Clean Development Mechanism Surpasses 6,000 Projects," CDM press release.

[9] Amin, Rabiul (2005), "Technology Transfer for Sustainable Development through Clean Development Mechanism (CDM): The Bangladesh Perspectives," unpublished PhD thesis, Murdoch University.

Figure 10.3
Distribution of CDM Projects among UNFCCC Regions



Source: UNFCCC, March 2013.

10.3 CDMs in Developing Country Context

10.3.1 Developing Countries Engagement in CDMs

The developed country involvement on CDM activities with developing countries depend upon the cost of project implementation in the developing country. Developed countries always go for the cheapest option.[10] Developing countries share different views on engaging in CDM activities. One of the main issues in developing countries, especially poor countries in the African and Asian region, is that they are not clear on how the CDM process will help them to achieve sustainable development. One popular view is that the CDM is being used as a way of attracting funds by selling the concept of climate mitigation through CDM. Furthermore, developing countries have their own development agendas and priority areas for development. These may often not be the same areas that industrialized countries are keen to develop CDM projects. For example, reforestation is a major interest among developing countries that falls under CDM areas. However, a majority of industrialized countries are more interested in offering energy efficiency and hydropower and biomass related CDM projects.[11] Therefore, a consensus has to be arrived at between developed and developing countries, in the areas that the CDM projects need to be developed on.[12]

10.3.2 Window of Opportunity for Developing Countries

Research findings suggest that developing countries' emission levels will also increase over time even though their current emission rates are far below that of developed countries. The latter on the other hand need to critically act on reducing their emissions,

[10] Duic, N., et. al, (2002), "Potential of Kyoto Protocol Clean Development Mechanism in Transfer of Clean Energy Technologies to Small Isalnd Developing States: Case Study of Cape Verde," *Renewable and Sustainable Energy Reviews*, Vol 7, pp 83-98.

[11] Agus, P. Sari and S. Meyers (1999), "Clean Development Mechanism: Perspective from Developing Countries," Department of Energy, U.S. Environmental Protection Agency.

[12] Silayan, A., (2005), "Equitable Distribution of CDM Projects Among Developing Countries," Hamburg Institute of International Economics.

and compensate for the emissions that they make. Hence, the CDM projects are a good opportunity for both developed and developing countries to reduce their emissions and achieve the reduction targets.[13] However, the opportunities for CDM projects in developing countries are based on several important factors. The institutional set up, as well as the political will for clean energy production will greatly determine the engagement of developing countries in CDM projects. A huge amount of public spending is required to set up a Designated National Authority (DNA) and implement all the activities that a DNA is supposed to do. However, there is always some uncertainty whether the industry would work in the country context or not.[14] The CDM industry of a country needs to be backed up by proper policies guaranteeing that CDM projects can be implemented, CERs can be effectively generated and traded, and both social and environmental sustainability can be achieved. There is a probability that a policy could fail. A country could easily drop its CDM policies and focus more on adaptation as a way of fighting climate change. Yet, with increased emissions from developed as well as developing world, opportunities will be there for CDM in developing countries given the right mix of institutional set up and the political support.

For developing countries, CDM initiatives are a way of ensuring sustainable development and the achievement of MDGs in many ways. CDM project activities will help to generate environmental sustainability through reduction of GHGs and the efficient use of resources. Reforestation projects will help to build up the forest cover of developing countries, which would ultimately benefit bio diversity and the mitigation of disasters. Biomass projects will ensure that waste is managed efficiently and sustainably. Hydro-power projects will help developing countries to meet their electricity demands. On the other hand, CDM projects will result in generating a large number of employment opportunities, which can help to eradicate poverty in developing countries.[15] Transfer of technology will help to develop the social capital and the technological know-how of employees in developing countries. Under-developed sectors in developing countries such as electricity, forestry, and transportation present opportunities for developed countries to target their CDM activities, with the potential for a 'win-win' situation for both parties. While developed countries can secure CERs, developing countries can achieve their development targets, especially through sector based CDMs.[16]

10.4 CDM Process in Sri Lanka

10.4.1 CDM Interim Policy for Sri Lanka

The Climate Change Secretariat (CCS), under the Ministry of Environment and Renewable Energy, has completed a "Sri Lanka National Policy on Clean Development Mechanism", which is an interim policy. This interim policy represents a component of the National Climate Change Policy of Sri Lanka (NCCP). Even though Sri Lanka is not an Annex 1 country and has a low per capita emission of GHG, it is the objective of the

13 Heller, T.C, and Shukla, P.R., (2003), "Development and Climate: Engaging Developing Countries," Working Paper, PEW Center for Global Climate Change.

14 Streck, C., (2007), "The Governance of the Clean Development Mechanism: The Case for Strength and Stability," Lawtext Publishing Limited, London, U.K.

15 Cosbey, A., *et. al.* (2005), "Realizing the Development Dividend: Making the CDM Work for Developing Countries," Phase 1 of Report, International Institute for Sustainable Development.

16 Samaniego, J. and C. Figueres (2006), "Sectoral CDM: Opening the CDM to the Yet Unrealized Goal of Sustainable Development," *International Journal of Sustainable Development and Law*, Vol 2, No 1, pp 1-20.

GoSL to encourage private and public sector investments in climate friendly development activities, while contributing to the ultimate objectives of the UNFCCC. As suggested by the policy, all CDM projects should meet sustainable development criteria in terms of their contributions to improvement of the quality of life of the community, alleviating poverty, improving equity, facilitating transfer of technology, conserving local resources, improving health, and in using renewable energy sources. The National Policy on Clean Development Mechanism (NPCDM) provides directions and guidance in terms of institutional, legal, financial, capacity building, and technology, in facilitating the development of CDM projects.

There are several policy objectives: (1) to facilitate Sri Lankan private and public sector institutions to participate in CDM project activities; (2) to promote the transfer of appropriate technology that would contribute to GHG emission reductions; (3) to enhance national capacity for CDM project development, and finally; (4) to ensure that CDM projects contribute towards achievements of national goals on sustainable development. The CDM policy is guided by the climate change policy and the national environmental policy and has been prepared in line with the existing sectoral policies.

10.4.2 The Designated National Authority (DNA) and the CDM Process

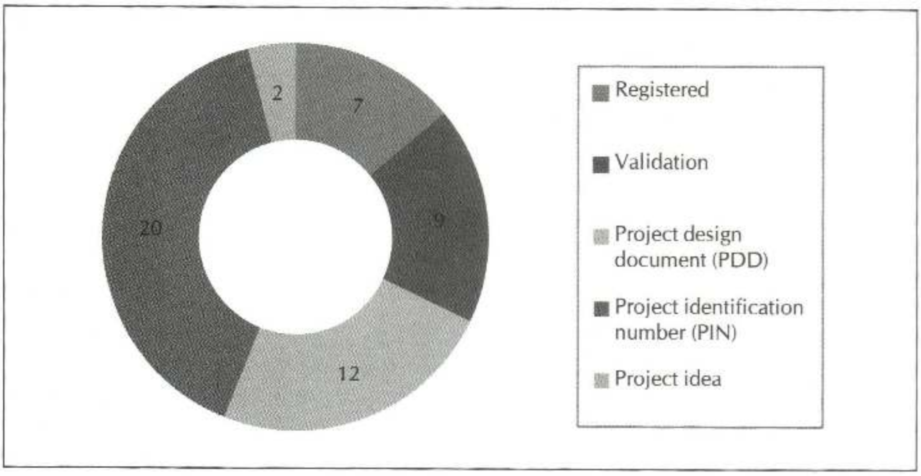
Under the Ministry of Environment and Renewable Energy, the CCS functions as the DNA of Sri Lanka. The main function of the DNA is to assess the potential CDM projects to determine whether they will assist Sri Lanka in achieving its sustainable development goals, and issue approval letters to project participants in CDM projects. In this regard, the DNA will perform the tasks of: 1) evaluation and approval of CDM projects; 2) capacity development for CDM projects; and 3) CDM market promotion.

The host country approval process starts with the issuance of a Project Identification Number (PIN) to the applicant. Then the application will be reviewed in detail, and based on the results of the evaluation process, the application could either be rejected, returned with a request for additional information, or could be accepted. If the application is accepted, the DNA will approve the CDM project, with a request for submission of the Project Design Document (PDD). The DNA will usually take 30 days for evaluating the PDD document once it is submitted. Again, the result could be a disqualification, request for additional information, or approval of the PDD. If the PDD is accepted, then the DNA will issue the host country approval for the CDM project. Host country approval is necessary for a CDM project to obtain the ultimate approval or registration from the UNFCCC. Once a project submits its host country approval to the UNFCCC, the CDM Executive Board under the UNFCCC will request a Designated Operational Entity (DOE) to validate the CDM project.[17] Once the DOE confirms the validity of the CDM project, the CDM Executive Board will issue the final registration of the CDM project. At this point, the CERs of the project are also certified and they can be effectively traded in a CDM market. The host country approval will arrive within 2-3 months, provided that everything goes right from the first attempt. However, the time taken for final registration by the CDM Executive Board varies greatly due to the complex nature of the registration process.[18]

[17] DOE is an independent auditor accredited by the CDM Executive Board (CDM EB) to validate project proposals or verify whether implemented projects have achieved planned greenhouse gas emission reductions (www.UNFCCC.int, visited inline 5th May 2013).

[18] United Nations (2013), "Procedure: Clean Development Mechanism Project Cycle Procedure," UNFCC, visited online on 30th April 2013.

Figure 10.4
CDM Projects at Different Stages of the Project Lifecycle



Source: Compiled using information from http://www.climatechange.lk/DNA Registered_Projects.html.

10.5 CDMs in Sri Lanka: Trends and Patterns

10.5.1 CDM Projects in Sri Lanka: Current Situation

Recent studies have suggested that Sri Lanka has the potential to claim about 6.2 million CERs. The Ministry of Environment and Renewable Energy and CCS have identified five main areas where CDM projects could be implanted: (1) energy sector (renewable energy and fuel quality improvements); (2) transport (low emission methods, alternative fuels and fuel efficiency); (3) waste management (methane recovery from landfill capping); (4) forestry (reforestation, REDD initiatives and bio-fuel plantations); (5) industry (enhancing fuel efficiency and energy conservation).[19]

Sri Lanka has several CDM projects which are at different stages of conceptualization and implementation. The CDM projects in Sri Lanka do not cover the whole range of project areas which the Ministry of Environment and Renewable Energy and CCS is recommending. Rather, it is focused only on a few areas such as hydropower, biomass generation, methane avoidance, energy efficiency, and wind power. Figure 10.4 shows the number of projects and the respective stages they represent in the CDM project lifecycle.

The majority of the CDM projects (20) are at the stage of obtaining a PIN. There are 12 projects at the PDD stage, and nine projects which are at the stage of validation. Only seven projects are at the registered stage and functioning, while two more are still at the project idea stage. Out of the seven registered projects, five are mini-hydro projects, and the others are biomass power generation projects. These projects are classified under the category of "small scale projects." The amounts of reductions vary from 5000 MT of CO2 to 45,000. The other parties involved in these projects are mainly Japan, Switzerland, and the Netherlands.

[19] Rodrigo, C., (2013), "Sri Lankan Perspective of the Clean Development Mechanism: Approach Towards Climate Change Mitigation," Climatenet Blog, Institute of Policy Studies, Sri Lanka, www.ips.lk, visited online 5th May 2013.

Whilst all registered projects are on-going at the moment, only the hydropower projects have been able to establish negotiations with CER buyers. Looking at the current approved projects, the majority of them are hydropower. This trend can be seen in all the other projects that are at other stages of the CDM project cycle. The majority of the projects that are at the stage of validation are hydropower, followed by biomass. The rest are on wind power and methane utilization/ recovery/avoidance. Furthermore, the majority of the projects in the PDD and PIN stages are also hydropower. Therefore, the trends in the CDM projects in Sri Lanka shows bias for hydropower and biomass energy generation. Five out of the nine CDM projects that are at the validation stage have started their operations, while the rest are at the planning stage. However, none of the projects at the validation stage have yet established a potential trading partner for CERs.

10.5.2 CER Trading for Sri Lankan CDM

As explained earlier, only three out of seven projects were able to establish agreements with buyers for CERs. A similar situation can be identified in the project validation stage, where none have been able to identify a potential buyer for CERs. Four out of seven registered projects have still not been able to establish a trading partner for CERs started in January 2008, January 2001, April 2005, and September 2005. This shows that identifying a CER trading partner is an issue for CDM projects at the moment, and could be aggravated in the long run. The CERs that are being traded from the CDM projects in Sri Lanka at the moment is done through the European Union's Emission Trading System (EU-ETS). In their 2013-2020 agenda, EU-ETS expects to further reduce their emissions by 21 per cent, which means that there will be more opportunities for CERs generated through CDM projects. However, among other changes, the EU-ETS has announced that these CERs should specifically come from LDCs. This could potentially have impacts on the CDM industry in Sri Lanka.[20]

10.6 Issues of Concern and Way Forward for Sri Lanka

In deciding the way forward for Sri Lanka, several important aspects need to be carefully evaluated. These aspects are not unique to Sri Lanka, and are shared by many other developing countries. However, these challenges need to be converted into opportunities if the CDM industry is to be successful in Sri Lanka. Key areas where Sri Lanka needs to focus on are: (1) overcoming market barriers; (2) compliance with the sustainable development criteria; (3) ensuring return on investment with small CDM projects; (4) financial and investment climate; and (5) small projects and programmatic CDMs.[21]

The CDM process involves high transaction costs and market barriers. While the initial cost is high in terms of project registration and set up, the benefits span across a long time period, and therefore, take a longer time to be realized. Furthermore, there is a high degree of uncertainty with regards to the benefits. All CDMs must complement criteria of sustainable development. These development criteria would come from national development agendas, as well as international agendas such as the MGDs. For example, the potential for a project to generate employment opportunities, eliminate gender disparities and empower women in project participation, increase youth employment

[20] Rodrigo, C., (2013), "Are Developing Countries in a Crisis? Certified Emission Reductions (CERs) Trading with EU Emission Trading System (EU-ETS)," *The Island*, 7th April 2013, www.island.lk, visited online 5th May 2013.

[21] United Nations (2003), "Implementation of the Clean Development Mechanism in Asia and the Pacific: Issues, Challenges and Opportunities," Economic and Social Commission for Asia and the Pacific.

opportunities, etc., needs to be looked at in addition to the CERs that the projects generate. During the CDM project life cycle, the price of the CERs fluctuates heavily. On the other hand, Sri Lanka has only a small number of CDMs that generate a very low amount of CERs. However, the establishment costs are very high. Therefore, there is always a question as to whether Sri Lankan CDM projects can generate enough return on investment, that would motivate others to come into the industry. This situation is aggravated by the fact that developing countries are no longer a part of the EU-ETS. Hence, Sri Lanka needs to look for other potential markets, while hoping that countries like China and India would develop their own emission trading markets, to which Sri Lanka would have better access.

Public-private partnerships are essential for securing funds for CDM projects in Sri Lanka. While FDI is essential to start up a CDM project, Sri Lanka needs to develop a better mechanism where financial institutions in the country are comfortable with financing CDMs. One of the major drawbacks is that the financial institutions lack the instruments to properly assess risks associated with CDMs. Therefore, such capacities need to be developed by transferring the necessary technologies to assess CDM project risks, so that financial institutions are motivated to provide assistance to CDM initiatives in Sri Lanka. Furthermore, implementation modalities such as bundling and Programme of Activities (PoA) should be implemented that could expedite the CDM project registration process, as well as minimize associated risks.[22]

Creating awareness among potential implementers of CDMs in Sri Lanka is quite important. Sri Lanka needs to develop a strategy where all the CDM implementers are linked together, and are given access to global information. The DNA lacks the necessary resources to fully undertake this role. Therefore, regional and international entities need to be connected with the DNA to support its information sharing activities. Sri Lanka needs to increasingly look at the possibilities of linking with regional and international entities to create GHG inventories at the national, sub-regional and regional level, development of least cost abatement measures, development of administrative and legislative measures, ensure dissemination and exchange of information, and finally share regional and international level consultancies on developing CDM projects in Sri Lanka.

Now that Sri Lanka has an interim policy on CDM, the policies need to be converted into strategies. Therefore, Sri Lanka has to develop a national CDM strategy that will include considerations such as: (1) training and capacity building in private and public sector; (2) preparation of a CDM project pipeline; (3) producing a list of non-eligible activities; (4) development of baselines for various sectors, initially in the plantation, energy and waste sectors; (5) develop a full programme to promote and actively seek out CDM projects; (6) provide information about project and financial opportunities to in-country project developers; and finally (7) facilitate the provision of financial support for CDM investors.

[22] Under Programme of Activities (PoA), a CDM initiative can be registered one time and components (which are called component project activities: CPAs) to that can be added anytime desirable without going through the whole CDM project registration process (www.UNFCCC.int, visited inline 5th May 2013).

11. Climate Resilient Urban Infrastructure

11.1 Introduction

As Sri Lanka invests large sums in infrastructure to support its long term growth and development objectives, the ability of the country's infrastructure stock to withstand emerging climate-related events needs to be mainstreamed into the planning process. With the frequency and scale of natural disasters on the rise, the impact of climate change effects on infrastructure need greater attention today than ever before. Whilst the vulnerability of infrastructure to natural disasters such as floods and earthquakes has always been at the forefront of infrastructure designers and builders, the increasing frequencies and intensities of climate change events such as rainfall, heat waves, etc., have made it essential that the risks are recognized when planning new infrastructure, as well as in the renovation and reconstruction of existing and damaged infrastructure. Infrastructure which is built by incorporating adaptation measures to climate change impacts will minimize the damages in extreme climate change events, minimizing both economic and social losses.[1]

> ***'Climate resilient infrastructure is an essential intervention to fight against climate change impacts, and increasing urbanization'***

In the construction and development of infrastructure, existing climate conditions, as well as climate variations that could occur in the next few decades, need to be carefully considered. For example, a substantial proportion of infrastructure built in the next five years, will still be in use long after 2030.[2] Therefore, to increase the resilience of both new and existing infrastructure, forward planning to mitigate the impacts of climate change is essential. This is an important aspect of the transition to a green economy. The sustainability of infrastructure, and its ability to withstand adverse climate change impacts such as floods, is a guarantee of the safety of the people who inhabit areas around such infrastructure.

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1 Department of Sustainability and Environment (2006), "Climate Change and Infrastructure: Planning Ahead," State of Victoria, Victorian Climate Change Adaptation Programme.

2 Wilbanks, T. and S. Fernandez (2011), "Climate Change and Infrastructure, Urban Systems and Vulnerabilities," Technical Report for the U.S Department of Energy In Support of the National Climate Assessment.

New infrastructure can be climate resilient by ensuring that it is located, designed, built, and operated, with the current and future climate change variations incorporated in to the design and planning process.[3] Existing infrastructure can be climate resilient by ensuring that maintenance regimes incorporate resilience to the impacts of climate change over the lifetime of an asset, especially by making the necessary adjustments to the structure of the infrastructure. For example, drainage canals constructed a few decades back may no longer be able to withstand the rainfall frequencies and intensities of today and in the future. Therefore, these canals must be cleaned and widened, and should be connected to the larger storages to ensure that floods and inundations will not occur.

The impact of climate change effects on infrastructure can be cumulative, and hence have snowball effects on the whole infrastructure set. A flood caused by the incapacitated storm water canals will cause cities to be flooded, affecting telecommunication, power generation and distribution, roads, transportation facilities, and domestic water use. These ripple effects have the capabilities to bring down cities and economic centers of a country within hours. Therefore, the design of storm water drainages, roads, railways, and power lines, and the management of the supply/demand balance through water infrastructure are critical. If today's extreme weather events become both more frequent and severe, so too will the level of disruption that they cause.[4]

The economic and social costs associated with infrastructure damage caused by climate change impacts are high. Repair costs to meet damaging effects of heavy rain falls, floods, coastal flooding and inundation with sea level rise can be very high.[5] The affected and displaced people need immediate assistance by way of food, housing, and health care, which is again an additional cost. Hence, the opportunity costs associated with damages to infrastructure from climate change events are very high. The impacts of climate change events on infrastructure are higher among urban areas compared to rural areas, given that infrastructure is heavily concentrated in urban centers of economic activity.[6] Urban centers also have high population densities. Here, studies have shown that the urban poor are much more vulnerable to impacts of climate change, than the rich. This situation is aggravated by the high rate of urbanization and income inequalities in urban areas of developing countries,[7] and can hold back their economic development.[8]

11.2 Climate Resilient Infrastructure in Developing Countries

Urban settlements are expanding rapidly in the developing world, with rising rural-to-urban migration.[9] Developing countries are more vulnerable to the climate change impacts on infrastructure, in view of the fact

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3 Government of UK (2011), "Climate Resilient Infrastructure: Preparing for a Changing Climate," Department of Environment, Food and Rural Affairs, UK.

4 Stewart, M., *et. al.* (2011), "Climate Change Impact and Risk of Concrete Infrastructure Deterioration," *Engineering Structures*, Vol 33, No 4, pp 1326-1337.

5 Neumann, J., (2009), "Adaptation to Climate Change: Revisiting Infrastructure Norms," Issue Brief, Resources For the Future, Washington D.C.

6 Bosher, L., *et. al.* (2007), "Built in Resilience to Disasters: A Pre-Emptive Approach," Department of Civil and Building Engineering, Loughborough University, UK.

7 OECD, (2008), "Competitive Cities and Climate Change," 2nd Annual Meeting of the OECD Roundtable Strategy for Urban Development, Milan, Italy.

8 Hasan A. et. *al.* (2005), "How to Meet the Millennium Development Goals (MGDs) in Urban Areas," *Environment and Urbanization*, Vol 17, No 1, pp 3-19.

9 Tomas, T., *et. al.* (2009), "Urban Governance for Adaptation: Assessing Climate Change Resilience in Ten Asian Cities," Institute of Development Studies, University of Sussex, U.K.

that urban cities in developing countries are poorly planned, over populated, and have higher concentrations of urban poor. Therefore, without effective, locally driven adaptation, these countries will be called on to bear high costs from potential threats. However, climate resilient infrastructure as an adaptation measure would always have its limits. No matter how resilient the infrastructure is, devastating climate change events can take it down within a matter of hours. How resilient the infrastructure is to such disasters is determined by the capacities of governments to implement and finance sound infrastructure construction in collaboration with international donors and the private sector. In this respect, developing countries are at a disadvantage compared to developed countries. Indeed, reductions in poverty, including improvements in housing and living conditions, and in provision for infrastructure and services, are central to adaptation. Successful, well governed cities greatly reduce climate related risks for low-income populations; unsuccessful, badly governed cities do not, and may greatly increase such risks.

Research has proved that the lives and livelihoods of hundreds of millions of people in developing countries will be affected by what is done and not done in urban centers in regard to climate change over the next 5-10 years. Approximately 6.4 billion people – nearly 50 per cent of the world population – live in urban centers today compared to less than 15 per cent in 1900.[10] Many aspects of urban change in recent decades are extraordinary, including not only the world's level of urbanization and the size of its urban population, but also the number of countries becoming more urbanized, and the size and number of very large cities. This is more evident among the developing countries in the Asian, Latin American and African regions. The populations of dozens of major cities in these regions have grown more than ten-fold in the last 50 years, and many have grown more than twenty-fold.[11] Not only the population sizes, but also significant demographic changes – rural to urban migration in search of employment and education – are also apparent in all developing nations over the last 50 years, influencing high urbanization.[12]

While being vulnerable to impacts of climate change, urban areas are also the major contributor to the emission of GHGs. Commercial industries and heavy use of fossil fuel based vehicles have contributed to urban areas becoming more polluted with GHGs.[13] Urban areas of developing countries have more than one-third of the world's total population, a majority of its urban population and most of the world's large cities. These urban areas contain the bulk of economic activities in these nations and most of the new jobs created over the last few decades. They are also likely to house most of the world's growth in population, in the next 10-20 years. At the same time, they share a high risk from extreme weather events and sea level rise.[14] In most of the urban areas of developing countries, high proportions of urban dwellers still live in settlements surrounded by infrastructure that is not ame-

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[10] Graumann, John V. (1977), "Orders of Magnitude of the World's Urban and Rural Population in History," United Nations Population Bulletin 8, United Nations, New York.

[11] Satterthwaite D., et. *al.* (2007), "Adapting to Climate Change in Urban Area: The Possibilities and Constraints in Low- and Middle Income Nations," Human Settlement Discussion Paper Series, International Institute for Environment and Development.

[12] Montgomery, Mark R., et. *al.* (2003), *Cities Transformed; Demographic Change and its Implications in the Developing World*, The National Academy Press (North America)/ Earthscan (Europe), Washington. D.C.

[13] Romero Lankao, Patricia (2007), "Are We Missing the Point? Particularities of Urbanization, Sustainability and Carbon Emissions in Latin American Cities," *Environment and Urbanization*, Vol. 19, No. 1, pages 157–175.

[14] United Nations (2006), "World Urbanization Prospects: The 2005 Revision," United Nations Population Division, United Nations, New York.

nable to withstand the impacts of climate change. In most developing country cities, close to 30-50 per cent of the population live in illegal settlements – slums or shanty houses – which are heavily vulnerable to climate change impacts. These illegal settlements tend to be built close to inland water bodies in urban areas, close to the ocean in coastal urban areas, and often close to infrastructure such as storm water drainage canals. These settlements, therefore, are in great danger in extreme climate change events.[15]

Most of the developing countries are making successful efforts to secure the lives of the urban dwellers, especially the urban poor. They are increasingly relying on climate resilient infrastructure such as storm water drainage systems, roads, and railways, that can withstand heavy rains and heat; inland water bodies within urban areas to collect rainfall water; buildings that can withstand heavy rain storms and winds; infrastructure to prevent soil erosion and sea level rise; and reliable power and telecommunication distribution channels.[16] However, it is often the case that the urban poor are not seen as critical parts of the city economy, but as holding back the city's success.[17]

However, such efforts by developing countries face financial constraints. Developing countries faced with the necessity to fight poverty and inequality among the urban poor, do not always have sufficient funds to construct climate resilient infrastructure. Furthermore, even with financing available, some developing countries face institutional and technological constraints to adopt climate resilient infrastructure. Therefore, most developing countries are in a dilemma, where the impacts of climate change are fully understood, but actions against it are constrained by budgets, institutional capacities, and other development priorities.[18]

11.3 Sri Lankan Context

11.3.1 Why Sri Lanka Needs to Look at Climate Resilient Infrastructure

The urban setting in Sri Lanka is characterized by small urban settlements which are concentrated along the coast. However, there are urban areas emerging within the country side, especially in the hill country. More than one-fourth of the population lives within 1 km of the coastal line. The coastal line represent close to 5 per cent of the country's land area.[19] All urban areas of Sri Lanka are small settlements, with 6 cities that consist of a population of more than 100,000. There are 34 intermediate and medium sized urban settlements, with a population ranging from 20,000-100,000. Further, there are 94 small settlement towns with a population less than 20,000.[20]

According to the census data of 2001, Sri Lanka has only a 15 per cent rate of urbanization which is relatively low compared to other urban settlements of developing countries. However, it is important to note that the demarcation of urban areas in Sri Lanka is based on the administrative boundaries and

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15 UN-Habitat (2003), "The Challenge of Slums: Global Report on Human Settlements 2003," Earthscan, London.

16 Satterthwaite D., *et. al.* (2007), "Adapting to Climate Change in Urban Area: The Possibilities and Constraints in Low and Middle Income Nations," Human Settlement Discussion Paper Series, International Institute for Environment and Development.

17 Hardoy, Jorge E., *et. al.* (2001), *Environmental Problems in an Urbanizing World: Finding Solutions for Cities in Africa, Asia and Latin America*, Earthscan, London, U.K.

18 Huq, S., *et. al.* (2007) 'Building Climate Change Resilience in Urban Areas and among Urban Populations in Low and Middle Income Nations', draft paper prepared for Rockefeller Foundation.

19 Samarappulli, Nihal, and L.D. Dickman (2010), "City Cluster Economic Development: Sri Lanka Case Study." Asian Development Bank, Manila.

20 World Bank (2010), "Sri Lanka: Reshaping Economic Geography – Connecting People to Prosperity," World Bank, Washington, D.C.

not on population densities.[21] Studies suggest that if the population densities are taken into consideration, Sri Lanka would have an urbanization rate that would range from 23-43 per cent. Therefore, Sri Lanka has a relatively high urbanization rate, and it is increasing.[22] The Colombo Municipal Region (CMR) records the highest urbanization in the country, characterized by high economic density. The CMR accounts for 35 per cent of the national population increase, with its population rising rapidly to 5.8 million in 2012, from 3.9 million in 1981. The CRM hosts close to 28 per cent of the country's population, but covers only 6 per cent of the land area.[23]

While all the urban areas of Sri Lanka are equipped with infrastructure to a varying degree, the CMR tended to benefit the most in view of its economic importance. More recently, however, efforts have been underway to extend infrastructure to all parts of the country, with the development of highways, harbours, and airports, in other parts of the country. Therefore, when looking at the importance of climate resilient infrastructure, the discussion can no longer be confined to the CMR alone, but also to other urban settlements, especially along the coastal belt. However, the CMR is still the most significant, since it is the economic center of Sri Lanka, with the highest concentration of urban poor, slums and shanty houses, and solid waste production.[24]

With the focus on climate change issues being relatively new in Sri Lanka – a climate change policy being formulated only in 2012 – the infrastructure that was built several decades back did not consider climate change impacts. In recent years, urban cities have been affected by the results of climate change, especially heavy rain storms and floods. These have caused many economic losses, including shutting down transportation, power, and telecommunication facilities, and disrupting economic activities. There have also been the social impacts by way of displaced families and the spread of communicable diseases. Besides losses incurred from disruption to economic activities, other expenses incurred include spending on rehabilitation and repairs, support to the displaced communities, etc.[25]

As climate change impacts such as heavy rains and floods are set to occur at higher frequencies, urban cities with high population densities need to adapt to climate resilient infrastructure. The latter will allow storm water to be drained into the sea and other water bodies, without causing floods and inundations; coastal areas to be protected from sea level rise; transportation facilities and power and telecommunications to be operated in extreme climate events.[26] It is encouraging to see that there are many climate resilient infrastructure initiatives by the GoSL, especially in the CMR. In addition, initiatives in the other coastal urban areas

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[21] Sri Lanka is urbanizing rapidly, with at least 50 per cent of its projected 22 million population expected to be living in urban local authorities by 2020. The estimated urban growth is 3 per cent annually, and the urbanization trends show a rapid transformation of rural areas to urban.

[22] Department of National Planning (2010), "Sri Lanka: The Emerging Wonder of Asia: Mahinda Chintana Vision for the Future," Ministry of Finance and Planning, Colombo.

[23] Department of Census and Statistics (2012), "Census of Population and Housing 2011 – Preliminary Report," Department of Census and Statistics, Colombo.

[24] Ministry of Environment and Natural Resources (2011), "Sector Vulnerability Profile: Urban Development, Human Settlements and Economic Infrastructure," Ministry of Environment and Natural Resources, Colombo.

[25] World Bank (2010). "Sri Lanka: Reshaping Economic Geography – Connecting People to Prosperity," World Bank, Washington, D.C.

[26] Rodrigo, C., (2013), "The Need for Climate Resilience in Urban Infrastructure: A Closer Look at Sri Lanka," *Daily News*, 20th February 2013, visited online 5th May 2012.

are also being taken, with the assistance of international organizations such as UNHABITAT and UNDP.

11.4 Climate Resilient Infrastructure Initiatives in Sri Lanka

The GoSL has taken some significant steps to build climate resilient infrastructure. The newly built infrastructure has already taken climate change impacts into consideration, as prescribed by the policy framework on climate change. New road and highway systems, airports, harbours, and even multi-storey building, have taken climate change impacts into their design and planning process. New highways and roads are constructed with proper storm water drainage facilities, and roads are capable of withstanding heavy rainfalls and heat waves at the same time. Airports and harbours are equipped with information regarding climate change events, including weather changes and sea water level rise.

At the same time, there are special projects being carried out by the GoSL to rehabilitate existing infrastructure to withstand climate change events. These are concentrated on rehabilitating water collection and drainage capacities of urban areas, where the CMR is being targeted as the primary location. The Ministry of Defense and Urban Development, with assistance from the World Bank, is undertaking the Metro Colombo Urban Development Project (MCUDP). This project has two main objectives: (1) reduce flooding in the catchment of the Colombo Water Basin, and (2) support local authorities in the Colombo Metropolitan Area to rehabilitate, improve, and manage, local infrastructures and services to minimize the impacts of adverse climate change impacts.[27]

The concept of climate resilient infrastructure and cities has now extended beyond the CMR, and there are new initiatives focusing on other urban settlements as well. The "Disaster Resilient City Development Strategies for Sri Lanka Cities" is such an initiative implemented by UNHABITAT, in partnership with the Urban Development Authority (UDA), Ministry of Local Government and Provincial Councils, and the Disaster Management Centre. The main objective of the project is to establish cities that are resilient to climate change impacts and can withstand disaster situations. The project is being implemented in four municipal council/local authorities in Eastern and Sabaragamuwa Provinces.

Another initiative that looks at improving the urban settlement's capability to withstand the impacts of climate change is the "Climate Resilient Action Plans for Coastal Urban Areas of Sri Lanka." This projects aims to bring in a multi stakeholder approach to promote climate resilient infrastructure, involving many parties who are experts on designing and implementing climate resilient infrastructure, such as the Norwegian Institute of Water Research (NIVA). The project aims to design and implement water resource management practices that involves climate resilient infrastructure that can withstand heavy rainfalls. It will also implement a multipurpose green belt, mangrove and coastal bio-diversity restoration programme, a GIS-based Rapid Response System, and Knowledge Management Centre.[28]

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[27] There are two main components to the activities involved. Under the first, activities such as improvements to main canals and lakes, secondary canals, improvements and rehabilitation to storm water drainage, road improvements and other social and physical infrastructure will be done. Under the second component, activities such as institutional strengthening for sustainable metropolitan and local infrastructure and service provision, and implementation support will be done with the aim of mainstreaming climate change into the planning and design of infrastructure at the local authority level.

[28] Climate Resilient Action Plan for Coastal Urban Areas for Sri Lanka (CCSL), http://www.climateresilience.lk/ visited on 5th Many 2013.

It is clear that while building climate resilient infrastructure, it is quite important to remove and relocate the urban poor from vulnerable environments. In this context, the Ministry of Construction, Engineering Services, Housing and Common Amenities of Sri Lanka initiated a programme to build 20,000 new houses for low income families in the CMR, that lived in areas vulnerable to climate change impacts. These areas and infrastructure are being rehabilitated under the MCUDP, and affected people are being offered better housing, such as those under the Colombo City Revival Project, where multistoried housing complexes are being constructed.

11.5 Challenges for Climate Resilient Infrastructure in Sri Lanka

As mentioned before, developing countries face three major constrains in engaging in climate resilient infrastructure: budgets, development priorities, and institutional and technological know-how. Sri Lanka as a developing country shares these same constrains to a varying degree. There are some other challenges as well that need to be addressed.

Sri Lanka finalized its policy on climate change only in 2012. Therefore, sectoral policies are yet to include elements of climate change in them, including the policy approach in infrastructure development. However, without waiting for a comprehensive climate resilient infrastructure policy, strategies and plans of infrastructure have already taken up the recommendations suggested by the climate change policy, which is a positive aspect. Nonetheless, a climate resilient infrastructure policy will help to mainstream climate change aspects into infrastructure in a consistent fashion, helping to identify relevant entities responsible for necessary action.

Public perception is very crucial in implementing action against climate change. People's perceptions of climate change impacts and the importance of climate resilient infrastructure will encourage active participation in actions related to climate change. For example, climate resilient infrastructure building might involve relocating people to some other place temporarily or permanently. In such instances, governments have to acquire lands. This becomes difficult unless people are willing to participate in relocation and land acquisition activities, and that will be driven by the people's perception.[29] The public has to look at these in terms of social welfare, and not in terms of private gains and losses. Therefore, raising public interest and awareness on climate resilient infrastructure and ensuring active public participation is a challenge for Sri Lanka.

Efforts of climate resilient infrastructure involve many organizations and they need to act in a coordinated manner. Urban infrastructure involves many government organizations: Road Development Authority, Urban Development Authority, Water Supply and Drainage Board, Central Environment Authority, Ministry of Power and Energy, and Ministry of Construction, Engineering Services, Housing and Common Amenities, etc. Climate resilient infrastructure plans need to be developed in consultations with all these organizations. In that way, the infrastructure will be built in such a way that it attempts to satisfy the criteria of relevant stakeholders, and does not have to be stopped or demolished half way. However, ensuring such a coordinated approach is clearly a challenge for Sri Lanka.

Sri Lanka is in rapid development mode. Infrastructure is being built all over the country. However, climate resilient infrastructure

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[29] Rodrigo, C., (2013), "Evaluating Public Interest on Climate Resilient Infrastructure," 4th International Conference on Evaluation, Sri Lanka Evaluations Association, Sri Lanka.

demands technology as well as expertise. Finding these technologies and expertise within the country is a challenge. At the same time, these efforts require larger chunks of budgets, higher than conventional infrastructure spending would require. This is mainly due to the technology and expertise that this infrastructure demands. Therefore, without further financial allocations, funding budgets for climate resilient infrastructure will be a challenge for Sri Lanka.

11.6 Way Forward for Sri Lanka

Effective, reliable infrastructure underpins sustainable economic activity. Recent impacts from flooding and severe weather events emphasize the risks that national infrastructure could face, and the significant economic damage such events bring. If today's extreme weather events become both more frequent and extreme, so too will the level of disruption that they cause, unless appropriate adaptation action is taken. To reduce the risks faced from climate change, planned but flexible adaptation responses are required. It is not about eliminating all risks from climate change or extreme weather; it is about making the necessary interventions to the development plans and practices to make sure that what is being built will withstand the adverse effects of any future event.

While Sri Lanka has not yet published a separate policy on climate resilient infrastructure, elements of it are appearing in national discussions and in development initiatives, with respect to urban areas. Most importantly, the government's vision document, the "Mahinda Chinthana - Vision for the Future", has also put a considerable emphasis on the importance of building cities that are sustainable, and are able to withstand the effects of climate change. Therefore, as a starting point, it is quite essential that climate change is mainstreamed into infrastructure development policy.

Currently, the "National Climate Change Policy of Sri Lanka" has placed emphasis on climate resilient infrastructure and has mentioned that integrated adaptive measures should be taken in designing, developing and maintaining infrastructure in Sri Lanka, regardless of being urban or rural.[30] However, these policies have to be incorporated into strategies of government institutions that are responsible for building infrastructure in urban as well as rural areas. Furthermore, these institutions have to act in a coordinated manner, developing the infrastructure plans together. Increasing public awareness on the importance of climate resilient infrastructure, and ensuring their participation in development efforts, is also a must. Infrastructure development can pose temporary disturbances such as relocation, and in such instances the public must put social welfare ahead of private gains and losses.

As mentioned before, the Ministry of Defense and Urban Development has already taken steps to incorporate climate resilient infrastructure into their development strategies and plans. At the same time, the Ministry of Construction, Engineering services, Housing and Common Amenities also has taken several very important steps in mainstreaming climate change and disaster management into their plans and strategies. Government institutions taking the problems in hand and addressing them is a positive development. Organizations such as UNHABITAT and other NGO/INGOs participating actively in building climate resilient infrastructures in urban areas, would add more confidence to the efforts of the government.

[30] Ministry of Environment (2012), "The National Climate Change Policy of Sri Lanka," Ministry of Environment, Colombo.

12. Changing Food Demand and Consumption Patterns

12.1 Introduction

Sri Lanka's food demand and consumption patterns may change in the near future as the country attempts to achieve higher GDP growth and graduate from its current lower middle income status to upper middle income category in the near future. International evidence suggests that the main determinants of the change in food consumption patterns are income growth, population growth and urbanization.[1] These three factors have led to significant shifts in food demand and consumption patterns in developed and developing countries around the world. Furthermore, improvements in transportation, changes in life style, and consumer preferences, will also affect dietary needs of people. On the food supply side, the main factors affecting the availability of food are the closer integration of global economies, which impacts the links between local production sources, liberalization of FDI, and the role of multinational corporations.[2]

> ***There is a need to prioritize production, processing and distribution of foods in the policy agenda in order to meet the future food demand***

Population and per capita income have been increasing in Sri Lanka for the last five decades. As a result of these two factors, the demand for major food categories has been constantly rising in Sri Lanka. Furthermore, changes in the demographic structure, increased urbanization along with the 'demonstration effect' from developed countries have led to increased consumption of several food items which are largely imported at present in Sri Lanka.[3]

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1 Delisle, H., (1990), "Patterns of Urban Food Consumption in Developing Countries: Perspective from the 1980s", Food and Agriculture Organization, Rome; Huang, J. and H. Bouis (1996), "Structural Changes in the Demand for Food in Asia", International Food Policy Research Institute, Washington, D.C.; Regmi, A. and J. Dyck (2001), "Effects of Urbanization on Global food Demand" in *Changing Structure of Global Food Consumption and Trade*, US Department of Agriculture.

2 Pingali, P., (2004), 'Westernization of Asian Diets and the Transformation of Food Systems: Implications for Research and Policy', EAS working paper, No.04-17, Food and Agriculture Organization, Rome.

3 Samaratunga, P., (2009), 'Multiple Facets of Food (in)Security in Sri Lanka", available at : www.ips.lk/.../2011/.../multiple_facets_of_food_security_in_sri_lLanka.pdf

In Sri Lanka, urbanization levels as of 2011 were estimated at 15.1 per cent, while the proportion of the total population living in rural areas is estimated at 84.9 per cent. However, there is no evidence that urbanization levels have increased rapidly in the recent past. Thus, this Policy Brief will mainly focus on per capita income growth and its impact on food demand and supply patterns in Sri Lanka.

There is an indication that there could be substantial impacts on food consumption patterns as Sri Lanka makes a transition from a low middle-income country to an upper middle-income country, with a growing middle class. These changes in food consumption patterns are expected to place significant pressure on the demand for certain food items, which may have major implications for policymakers entrusted with designing sustainable development programmes that tackle food insecurity. In addition, it is necessary to focus on efforts to increase production, processing, marketing, distribution, etc., of such foods in the future. This Policy Brief will make an initial exploration of these issues and resultant policy implications for Sri Lanka, as it attempts to bring about rapid changes in the country's income patterns through accelerated development initiatives. In addition, it will discuss several strategies that Sri Lanka could adopt to tackle future challenges which may arise due to changes in food demand and consumption.

12.2 Factors Driving Changing Food Demand and Consumption Patterns

A rise in per capita income is a key factor in driving demand for food. In India, for instance, it has been found that a rise in the per capita income of both urban and rural household has led to changes in food consumption patterns.[4] Looking at changes in food consumption patterns and expenditure elasticities of food demand, the study finds that an increase in the level of income has led to improved access to food items, accompanied by an increase in the relative consumption of livestock products, vegetables, and fruits and nuts, while relative consumption of cereals has not increased. Furthermore, given the rising demand for non-cereal based food and processed foods, the study suggests that there is a need to prioritize the production, processing, and distribution of such foods in the future.

Rising living standards in the urban sector have led to increased demand for such foods as fragrant rice, high quality wheat for breads, etc. Furthermore, a higher urban population share could reduce the demand for food grains, and increase the demand for meats and fish.[5] More generally, market developments, changing lifestyle and occupations are often found to contribute to food consumption pattern changes.[6]

Pingali (2004) has examined the implications of changing food consumption patterns and has identified several key areas of impact, including changes in trade patterns, and changes in the vertical integration of the food supply chain.[7] The author points out that as a result of rapid economic growth and increasing globalization, developing countries in many cases have transformed from being net exporters, to net importers of food commodities. In particular, a convergence to-

[4] Sharma, V.K., (2011), "An Economic Analysis of Food Consumption Pattern in India", *International Research Journal*, Vol. 2, No. 24.

[5] Hsu, H. *et. al.*, (2001), "How Will Rising Income Affect the Structure of Food Demand?" in *China's Food and Agriculture: Issues for the 21st Century*, Economic Research Service, Washington D.C.

[6] Huang, J. and H. Bouis (1996), "Structural Changes in the Demand for Food in Asia", International Food Policy Research Institute, Washington, D.C.

[7] Pingali, P. (2004), "Westernization of Asian Diets and the Transformation of Food Systems: Implications for Research and Policy", EAS Working Paper No.04-17.

wards Western diets has led to an expected increase in demand for temperate zone commodities, including wheat, potatoes, and temperate fruit and vegetables. Furthermore, changes in local tastes and preferences arising from increased globalization have led to a closer integration of the food supply chain to farm producers. For example, in Thailand and India, retailers have established supermarkets to cater to the growing demand for fruits and vegetables, and small farmers have been integrated directly into fresh food supply networks as a result.[8]

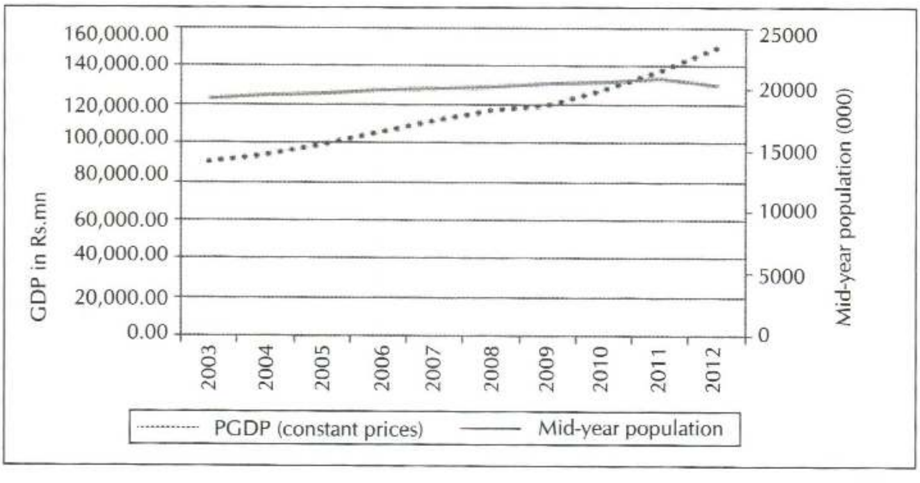
A study by the FAO (2012) confirms these findings, drawing on surveys conducted in 47 developing countries between the periods 1990-92 and 2007-09.[9] The results from these surveys reveal that diets among higher income groups within regions are more diversified, and that as income increases, the contribution of cereals, roots, and tubers to dietary energy supply decreases, while that of sugars, animal-source foods, fruits, and vegetables increases.

These changes in food consumption patterns are expected to place significant pressure on the demand for certain food items, particularly animal-derived products, including meat, eggs, and dairy items. The following section will examine the food demand and consumption patterns in Sri Lanka.

12.3 Food Demand and Consumption Patterns in Sri Lanka

According to Figure 12.1, both population and per capita income have been increasing in Sri Lanka over the past two decades. As explained earlier, these two factors are expected to increase food demand in the country.

Figure 12.1
Per Capita Income and Population Growth



Note: PGDP data based on 2002 prices.
Source: IPS, *Sri Lanka: State of the Economy 2012.*

[8] *Ibid,*

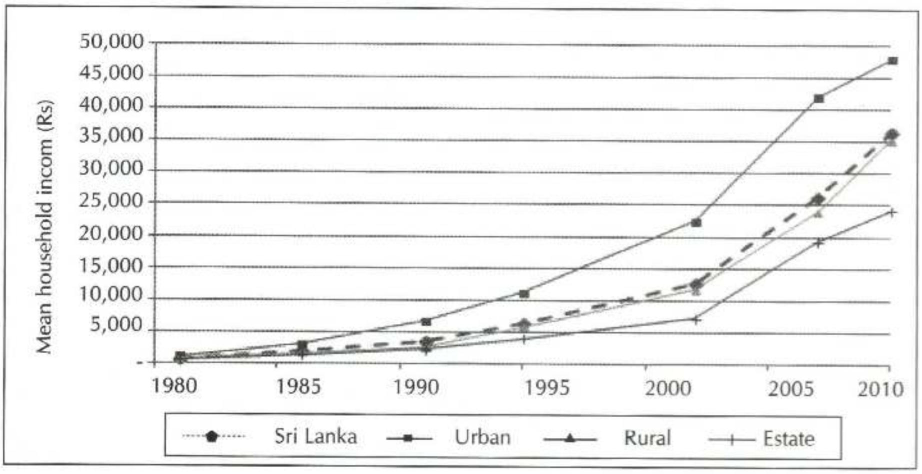
[9] FAO (2012), "Economic Growth, Hunger and Malnutrition: Income Growth and Changes in Food Consumption", Food and Agricultural Organization, Rome.

As suggested earlier, increases in household income have a strong bearing on shifting food consumption patterns. The DCS defines household income in Sri Lanka as the total income received by all members of a household, either in cash or in-kind. The sources of such income include wages and salaries, income from agricultural activities, and others. The HIES data on mean household income in various sectors of the economy are shown in Figure 12.2.

A comparison of the distribution of mean household incomes across sectors makes it clear that income has increased in all household sectors. As shown in Figure 12.2, mean monthly income on average across Sri Lanka has increased from Rs. 881 in 1981 to Rs. 36,451 in 2010. A breakdown of household income across sectors reveal that all three sectors, including urban, rural, and estate sectors, experienced increases in income during the period in question.

The DCS HIES data reveal some important features of food expenditure patterns in Sri Lanka. The relative share of food expenditure has declined over time, attributed to rising income, changing consumer preferences, relative price variations, supply condition variability, and changes in demographic conditions. In terms of expenditure patterns, Sri Lanka's food ratio – i.e., a measure of the expenditure on food and drink to total expenditure – has reduced over time (Table 12.1). This means households have tended to spend less than proportionately on food and drink, relative to expenditure on non-food items.[10] The reduction in the food ratio suggests that households spent more on non-food items such as housing, education, transport, electricity, health, etc. These trends are to be expected as countries see gradual increases in their levels of household income.

Figure 12.2
Mean Household Income in Sri Lanka by Sector, 1981 – 2010



Note: Mean household income taken as monthly average at current prices.
Source: DCS, HIES, various years.

[10] Expenditure on liquor and tobacco are not counted as a part of food and drink expenditure although it is counted in total expenditure.

Table 12.1
Proportion of Household Expenditure on Food

Year	1980/81	1985/86	1990/91	1995/96	2002	2006/07	2009/10
Mean HH expenditure per month	1232	2079	3905	6525	13147	22952	31331
Food ratio (%)	65.0	57.6	64.6	54.4	44.5	37.6	42.3

Source: DCS, HIES, various years.

Table 12.2 shows the changing pattern of expenditure on basic food items as a percentage of total expenditure, and quantity consumption of those food items from 1980 to 2010. During this period, the proportion of household expenditure spent on staple food items, including rice, decreased from 20.5 per cent to 7.3 per cent. Furthermore, the proportion of household expenditure spent on more expensive, non-staple foods, including meat, fish, and milk products, increased from 1.1 per cent to 1.7 per cent, 3.3 per cent to 3.7 per cent, and 2.2 per cent to 3.3 per cent, respectively. These changing food expenditure patterns indicate that a gradual increase in demand for animal-derived products has accompanied the increase in mean household income.

For a systematic analysis of changing food demand patterns, it is also important to evaluate the changes in food consumption in Sri Lanka, as addressed in the following section.

12.3.1 Food Consumption Patterns

The data also reveal noteworthy changes in the food consumption patterns in Sri Lanka. As evident from Table 12.2, the quantity intake of rice (the staple food in Sri Lanka) is reducing. In 1980/81, household consumption of rice was nearly 46.7 kg, but this had reduced to 36.3 kg by 2009/10. On the other hand, the consumption of meat, fish and eggs has increased in terms of quantity. This shows that the quantity of carbohydrate intake (including rice, wheat flour and bread) is re-

Table 12.2
Average Monthly Household Expenditure and Consumption of Major Food Items

	Monthly HH Expenditure (as a % of total expenditure)			Monthly HH Quantity Consumed (kgs.)		
Selected food items	1980/81	1990/91	2009/10	1980/81	1990/91	2009/10
Rice	20.45	15.62	7.33	46.7	44.3	36.3
Wheat flour	1.54	0.90	0.60	3.6	2.6	2.7
Bread	3.00	2.74	1.36	7.8	9.9	5.1
Pulses	1.54	2.94	1.75	1.4	2.6	2.8
Meat	1.14	2.05	1.65	0.8	1.2	1.4
Fish	3.25	3.51	3.71	3.5	2.4	3.8
Dried fish	2.27	2.59	1.57	1.4	1.3	1.3
Milk & milk products	2.19	3.12	3.31	2.7	1.4	1.9
Eggs	0.49	0.67	0.43	7.0	11.0	10.0

Source: DCS, HIES, various years.

Table 12.3
Average Monthly Household Consumption of Selected Food Items by Sector, 2002-2010 (kg.)

Year	2002/03			2006/07			2009/10		
Sector	Urban	Rural	Estate	Urban	Rural	Estate	Urban	Rural	Estate
Rice	28.2	36.7	42.5	28	37.8	40.8	27.5	37.4	40.8
Wheat flour	2.3	2.2	23.5	1.7	1.5	17.4	3.0	1.9	15.4
Bread	14.9	9.5	5.1	10.2	5.7	3.7	8.1	4.7	2.7
Meat	3.5	1.0	0.7	1.7	0.9	0.9	1.5	0.8	0.9
Fish	4.6	2.9	0.5	1.1	0.7	0.2	0.9	0.6	0.3
Milk	0.3	0.3	1.1	2.0	1.4	1.3	1.8	1.3	1.1

Source: DCS, HIES, various years.

ducing, while protein intake has increased slightly through the consumption of fish, meat, and eggs.

Data on food consumption patterns across sectors reveal unique characteristics specific to the urban sector, as shown in Table 12.3. The average monthly household consumption patterns show that the urban sector consumes a smaller quantity of staple foods, such as rice, and a larger quantity of non-staple foods, such as meat, fish, and milk, compared to rural and estate sectors. For example, in 2009/10, the urban sector consumed 26 per cent less rice than the rural sector and 33 per cent less rice than the estate sector, on average. On the other hand, the urban sector consumed 88 per cent more meat than the rural sector and 67 per cent more meat than the estate sector, on average. These figures suggest that there will be a greater demand for non-staple food items, especially from the urban sector.

Furthermore, a comparison of food consumption patterns across household expenditure deciles reveals a similar picture. Table 12.4 presents data relating to the quantities of daily per capita consumption of major food commodities in each household expenditure decile. Here too, households with the highest levels of income consume the least amount

Table 12.4
Daily Per Capita Consumption of Major Food Commodities by Household Expenditure Deciles (kg.)

HH Decile	Cereals	Roots and Tubers	Pulses	Meat	Fish
1	302.1	16.7	18.1	2.0	15.4
2	325.8	19.6	20.7	3.7	22.8
3	334.0	21.0	22.6	5.6	28.0
4	327.8	21.7	24.3	7.0	34.2
5	328.7	22.0	24.0	8.8	36.0
6	320.8	23.1	24.5	11.6	40.1
7	324.4	25.0	26.9	13.9	44.6
8	316.7	25.6	27.2	15.9	48.4
9	315.4	26.7	30.5	18.6	51.1
10	299.4	28.5	32.9	26.2	59.3

Source: DCS, 'Food Balance Sheets', various years.

Table 12.5
Calorie and Protein Consumption by Household Income Deciles

HH Decile Group	Mean Income (Rs.)	Consumption of Calories (Kcal)	Consumption of Protein (g)
1	1,231	1,615	36.4
2	1,987	1,867	43.0
3	2,554	1,985	46.6
4	3,095	2,006	49.3
5	3,699	2,108	51.1
6	4,460	2,180	53.0
7	5,399	2,242	56.5
8	6,792	2,304	58.4
9	9,346	2,379	62.0
10	26,068	2,497	60.5

Source: DCS, 'Food Balance Sheets', various years.

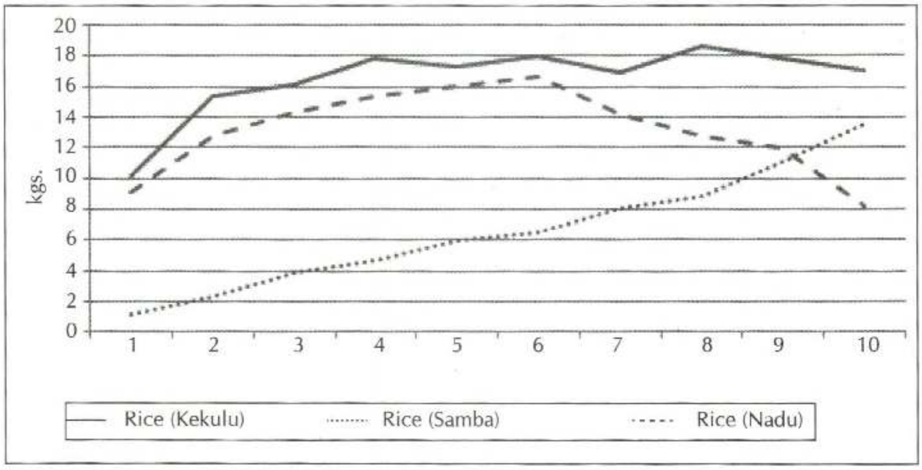
of cereal, and the highest amounts of meat and fish. Consumption of animal protein is lower in low household expenditure deciles, due to the high cost of such proteins.

As shown in Table 12. 5, the consumption of both calories and proteins increases from lower to higher income deciles. An important observation to be made is that protein consumption grows more than the calorie consumption, with increasing income. This indicates an increasing demand for high protein food products (fish, meat, milk products, etc.) when income increases.

12.3.2 Change in Quality of Foods

The quality and variety of food items also matter as incomes rise. In the case of Sri

Figure 12.3
Average Monthly Household Consumption of Rice Varieties by Household Expenditure Deciles – 2009/10



Source: DCS, HIES, various years.

Lanka's staple food item, this has led to the emergence of different quality rice in the market – for example, 'kekulu', 'samba', and 'nadu'. Samba rice is considered to be the highest quality rice among all the varieties. Rice consumption patterns in different income deciles illustrate that the high expenditure decile groups consume more of samba rice than other varieties (Figure 12.3). This clearly indicates that when incomes increase, the demand for quality food is also likely to rise, as suggested in other countries.

12.4 Conclusions and Policy Recommendations

In light of the above observations, it is clear that increases in income and population growth are expected to bring several changes in food consumption patterns in the near future. As such, there is a need to prioritize the production, processing, and distribution of foods in the policy agenda in order to reflect these changes. Furthermore, it is expected that there will be additional pressure on the supply of certain food items, particularly non-staple foods, as household income increases. It is also expected that there will be a shift in demand from cereals to animal-derived food, particularly for meat, fish, and milk, in the near future.

Is Sri Lanka ready to welcome these new changes in food demand? Presently, Sri Lanka is almost self-sufficient in its staple food (rice), producing approximately 97 per cent of the requirement. However, the country is dependent on imports for 100 per cent of its wheat requirements, 85 per cent of milk, 93 per cent of sugar, and 70 per cent of cereal.[11] Thus, the expected additional food demand may not be met with the current local production capacity alone. At least in the short run, the country may need to rely on imports, despite their high costs, to meet this new demand until domestic supply is accelerated. A well-planned strategy to meet this new demand is necessary, and engaging the private sector to increase local production on a large scale is highly recommended.

Furthermore, there is a need for a shift in the agenda for research and policy to reflect the potential changes in food consumption patterns in Sri Lanka. To help cope with the expected increase in demand for more non-staple foods, including fruits and vegetables, research into the possible generation of new technologies to improve productivity must be conducted. Both crop-specific research – including possible increases in yield potential, and better tolerance to pests – and system-level research – including better land management and tillage practices – need to be examined more closely. Such inputs will provide farmers the flexibility required to enable more diversified crop-selection and free movement between crops, as well as the increased productivity needed to cope with a growing demand for non-staple food products.

Current programmes in Sri Lanka are limited with regard to the extent to which they address shifting food consumption patterns. Programmes like Divi Neguma do in fact target livestock production, but it is more focused on increasing livestock production among household units to enable self-sufficiency among them, rather than targeting the private sector in order to increase production on a large scale.[12] Furthermore, the fertilizer subsidy programme, which provides subsidies to rural farmers for increasing their

[11] IPS (2010), "Challenges for the Food Crop Production Sector: A Post-conflict Perspective" in *Sri Lanka: State of the Economy 2010*, Institute of Policy Studies of Sri Lanka, Colombo.

[12] See "Divi Neguma Programme: A Means of Ensuring Employment?" in this report.

crop yields, aims to encourage farmers to switch from traditional rice varieties to high-yielding varieties which are more responsive to chemical fertilizers.[13] However, once again, this programme focuses more on promoting self-sufficiency among farmers rather than increasing production on a large scale. Given this lack of policy aimed at increasing production on a large scale, particularly for non-staple foods, it is important that policymakers design a set of programmes that encourage the participation particularly of the private sector, to cope with the expected rise in non-staple foods. If local farmers are unable to cope with this increasing and changing food demand, there will be a growing reliance on more expensive, imported foods, and a dependence on the world market.

Moreover, supermarkets also play an active role in accelerating and broadening the scope for diet diversification, while at the same time, consumers are expected to increase their demand for high quality and hygienically prepared foods. Thus, it is important to strengthen food safety standards and regulations. Supermarkets are in the ideal position to deal with changes in the urban food market, due to their increasingly close integration in the food supply chain with farm producers. Vertically integrated food supply chains that link suppliers of inputs, producers, processors, distributors, and retailers, become essential for meeting changing demand and consumption requirements. Therefore, the importance of linking backward and forward linkages in the food supply chain will also be essential in meeting future food demand requirements.

[13] Weerahewa, J., *et. al.*, (2010), "The Fertilizer Subsidy Programme in Sri Lanka", Cornell University.

13. The Emerging Health Challenge of Non-Communicable Diseases

13.1 Background

The transformation of a country's development status, together with a demographic transition on the one hand, and an epidemiological transition on the other, brings significant health challenges to an economy. Owing to the rapid decline of fertility and an increase in life expectancy, Sri Lanka is seeing an increase in the proportion of people in the age group of 60 years and above.[1] For instance, the total fertility rate (TFR)[2] in 1990 was 2.5,[3] and declined gradually to 2.3in 2010.[4] Life expectancy at birth for both sexes was 74 years in 1990, and increased to 77 years in 2009.[5] As a result, the population in median age is declining while the population aged 60 years and above is increasing. The percentage of population 60 years and above stood at 12.2 per cent in 2012,[6] and is expected to double to 24.4 per cent by 2040.[7] Sri Lanka's population is ageing faster than in many other developing countries. For instance, the increase in the 60 years and above age group in Sri Lanka was 12 per cent in 2010, while this figure stood at 8 per cent on average for the Asian region.[8]

> ***Policies and actions to mitigate the burden due to NCDs within the health sector are vital, particularly the implementation of an inter-sectoral action plan on health***

This epidemiological transition has brought about drastic changes in Sri Lanka's disease patterns over the past half century. In the past, the predominant morbidities in the country were infectious diseases, and maternal and child health. However, Sri Lanka has successfully overcome these health issues, largely as a result of the provision of free universal public health services through a network of government health

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1 Engelgau, M. *et. al.*, (2010), "Prevention and Control of Selected Chronic NCDs in Sri Lanka: Policy Options and Action," World Bank, Washington, D.C.

2 Total fertility rate represents the number of children that would be born to a woman if she were to live to the end of her childbearing years, and bear children in accordance with current age-specific fertility rates.

3 WHO (2009), "World Health Statistics 2009," World Health Organization, Geneva.

4 WHO (2012), "World Health Statistics 2012," World Health Organization, Geneva.

5 *Ibid.*

6 DCS, "Population and Housing Data 2012 (Provisional): Population by Sex and Age."

7 Engelgau, M. *et. al.*, (2010), "Prevention and Control of Selected Chronic NCDs in Sri Lanka: Policy Options and Action," World Bank, Washington, D.C.

8 *Ibid.*

institutions. At present, chronic NCDs have become the leading causes of mortality, morbidity, and disability,[9] accounting for almost 90 per cent of Sri Lanka's disease burden.[10]

13.2 Chronic NCDs and Risk Factors

As defined by the WHO, NCDs include cardiovascular disease (CVD), diabetes, cancer, asthma/Chronic Obstructive Pulmonary Disease (COPD), injuries, and mental health. Indeed, NCDs have become the leading causes of death globally. In 2008, of a total 57 million global deaths, almost two-thirds were due to NCDs.[11] The rapid increase in NCDs has occurred due to universal factors such as fast ageing populations, unplanned urbanization, globalization, and unhealthy lifestyles. In addition to the above factors, a set of country-oriented causes such as exposure to under-nutrition early in life, and improvement of economic status, have also influenced changes in a country's morbidity pattern from communicable diseases to NCDs.

Improvement to a country's economic status – i.e., per capita income growth that accompanies a transformation from a lower middle-income to an upper middle income country – can bring about significant life style changes. People may have less leisure time due to priorities given to their economic activities, and as a result could pay less attention to their physical and mental health. In order to cut down on time consuming activities, it can lead to greater consumption of fast foods that contain harmful fat and sugar, using vehicles for transport rather than walking, engaging in sedentary types of entertainment (such as television, video games, etc.), and using electric appliances for household chores. These lifestyles changes can lead to the increase of the risk factors of NCDs among all age groups.

NCDs by definition are very broad. However, four types of major chronic diseases – CVD, diabetes, asthma/COPD, and cancer – are identified as major leading causes of sickness and death nationally, and globally.[12] In addition, other chronic diseases such as chronic kidney disease, thalassaemia, and liver disease, have also become substantial contributors to the disease burden.

As major causes, four modifiable (behavioural) risk factors – unhealthy diet, tobacco use, lack of exercise, and harmful alcohol use – are identified for NCD morbidity and mortality.[13] In turn, these behavioural risk factors affect the rise of another set of risk factors: metabolic risk factors such as overweight/obesity, raised blood pressure, raised blood sugar, and raised blood cholesterol (hyper-lipidaemia). In addition, other risk factors such as infections, stress, and air pollution, are also contributors to the increase in NCDs. Importantly, socio-economic determinants – poverty, urbanization, illiteracy, globalization, and population ageing – are the foremost elements influencing the types of risk factors mentioned above. A report by WHO/SEARO (2011) argues that NCDs and their drivers are similar to an iceberg; the large and unseen portion represents the drivers of NCDs, while the small, visible part that is above water represents the different chronic diseases. Accordingly, these risk factors are known as shared factors among all the NCDs mentioned above (Figure 13.1).

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[9] Ministry of Health (2010), "The National Policy and Strategic Framework for Prevention and Control of Chronic Non-Communicable Diseases," Ministry of Health, Colombo.

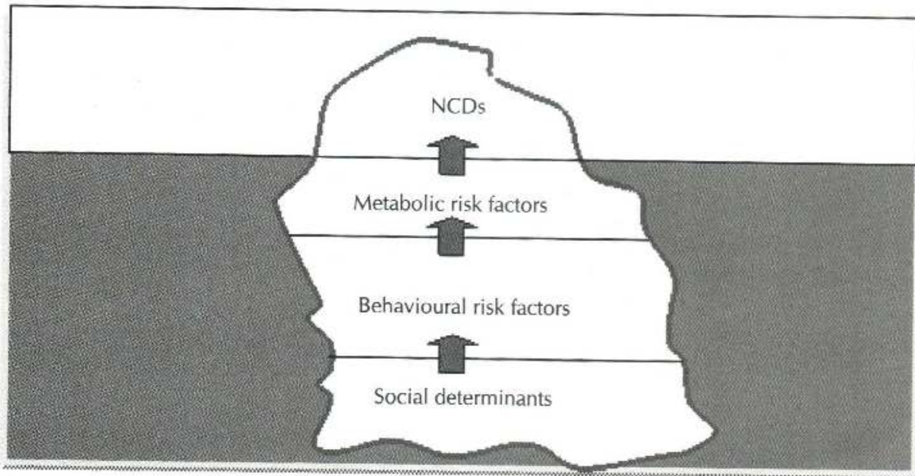
[10] Engelgau, M. *et al.* (2010), "Prevention and Control of Selected Chronic NCDs in Sri Lanka: Policy Options and Action," World Bank, Washington, D.C.

[11] WHO (2011), "Global Status Report on Non-Communicable Diseases 2010," WHO, Geneva.

[12] WHO/SEARO (2011), "Non-Communicable Diseases in the Southeast Asia Region: Situation and Response," WHO, Geneva.

[13] *Ibid.*

Figure 13.1
Chronic NCDs and their Risk Factors

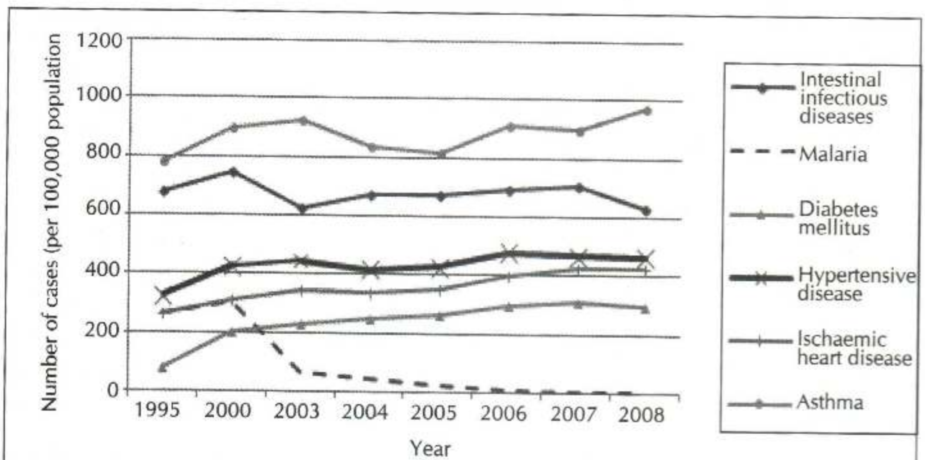


Source: WHO/SEARO (2011), "Non-Communicable Diseases in the Southeast Asia Region: Situation and Response," WHO, Geneva.

13.3 NCD Morbidity and Mortality

Currently, in terms of Sri Lanka's disease burden,[14] NCDs (including injuries) account for 85 per cent, while the rest of the burden (15 per cent) is represented by other diseases – maternal and child health, infectious diseases, and nutritional issues.[15] This is a result of the morbidity pattern having com-

Figure 13.2
Trends in Hospitalization by Selected Disease Groups, 1995 – 2008



Note: Jaffna, Killinochchi, Mullaitivu and Ampara Districts are excluded in the 1995 data.

Source: Ministry of Health (2008), Annual Health Bulletin.

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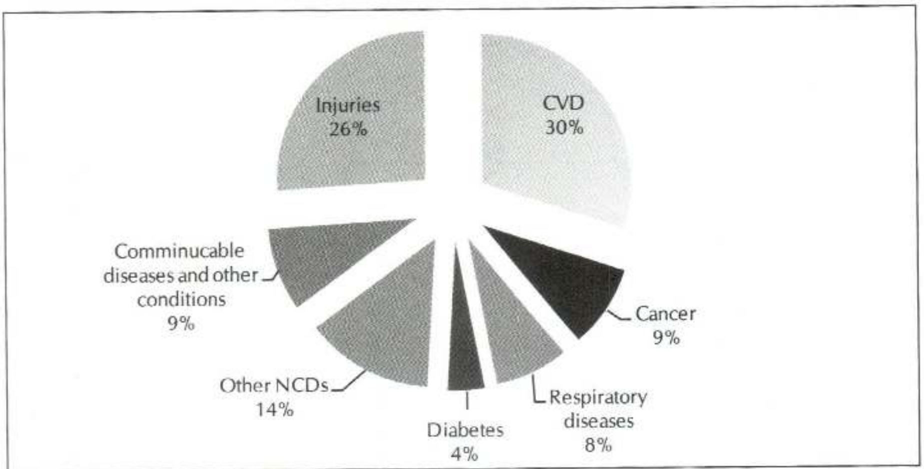
14 Disease burden refers to the proportion of forgone Disability Adjusted Life Years (DALYs) – this method measures the number of years lost to disability and premature mortality.

15 Engelgau, M. *et al*. (2010), "Prevention and Control of Selected Chronic NCDs in Sri Lanka: Policy Options and Action," World Bank, Washington, D.C.

Figure 13.3
Percentage of Total Mortality by Cause, 2008



Source: WHO (2011), "NCD Country Profiles," http://www.who.int/nmh/countries / lka_en.pdf, accessed on 10th April 2013.

pletely transformed from communicable diseases to NCDs over the years. For instance, indoor morbidities due to cancers in 1990 was at 142.1 cases per 100,000 population, and almost doubled to 329 cases per 100,000 population in 2007. Moreover, Figure 13.2 provides further evidence that the numbers hospitalized due to infectious diseases declined drastically, while hospitalization due to other chronic diseases has seen a steady increase.

Of all deaths in Sri Lanka, 65 per cent are due to NCDs.[16] The rest comprise of 26 per cent due to injuries, and 9 per cent due to communicable diseases, maternal, perinatal, and nutrition conditions. The breakdown of all NCD deaths by cause is shown in Figure 13.3.

Compared to developed countries, Sri Lanka's age standardized mortality rates for all NCDs are higher by 20-50 per cent.[17] Further, Sri Lanka's NCD prevalence is substantial when compared to countries in the South, and East Asian region. Sri Lanka is placed third in the ranking in terms of NCD mortality, while the first and second highest rates are to be found in the Maldives (79 per cent), and Thailand (71 per cent), respectively.[18] When considering the mortality trends in selected NCDs and infectious diseases, a drastic hike in NCD mortality is evident, while mortality due to infectious diseases has gradually decreased from 1995 to 2008 (Table 13.1).

The distribution of the NCD burden varies across the population because of differing socio- economic conditions. According to population projections for Sri Lanka, the proportion of the population between 60 and 69 years will increase from 5.3 per cent in 2000 to 12.2 per cent in 2040.[19] The prevalence of NCDs increases with ageing, and

[16] WHO (2011), "NCD Country Profiles" (http://www.who.int/nmh/countries/lka_en.pdf — Last accessed on 10th April 2013.

[17] Engelgau, M. et *al*. (2010), "Prevention and Control of Selected Chronic NCDs in Sri Lanka: Policy Options and Action," World Bank, Washington, D.C. The age-standardized mortality rate is a weighted average of the age-specific mortality rates per 100,000 persons, where the weights are the proportions of persons in the corresponding age groups of the WHO standard population.

[18] WHO/SEARO (2011), "Non-Communicable Diseases in the Southeast Asia Region: Situation and Response," WHO, Geneva.

[19] Engelgau, M. et *al*. (2010), "Prevention and Control of Selected Chronic NCDs in Sri Lanka: Policy Options and Action," World Bank, Washington, D.C.

Table 13.1
Trends in Hospital Deaths by Selected Causes (Per 100,000 population) 1995 – 2008

Disease	1995[a]	2000	2003	2004	2005	2006	2007	2008
Intestinal infectious diseases	1.0	1.0	0.6	0.9	2.2	0.4	0.4	0.4
Malaria	0.2	0.6	0.1	0.1	0.0	0.0	-	-
Diabetes Mellitus	3.8	3.7	2.9	2.5	3.4	3.0	2.7	2.9
Hypertensive disease	3.1	3.3	2.9	2.7	3.6	3.0	2.9	2.8
Asthma	3.7	4.4	3.6	4.3	4.3	3.8	3.6	4.1
Ischaemic heart disease	16.8	18.6	18.8	19.2	19.1	20.7	22.7	22.1

Note: a. Excludes: Jaffna, Killinochchi, Mullaitivu and Ampara Districts.

Source: Ministry of Health, Annual Health Bulletin 2008.

therefore, this age group is more vulnerable. There is also a significant difference in NCD morbidity and mortality by gender, as well as by age. NCD deaths for all causes by gender in 2008 were 66,765 for males, and 51,140 for females.[20] Particularly, the prevalence of CVD – which is the leading cause of NCD deaths in Sri Lanka – is higher for males than females. In addition, the proportion of indoor morbidity due to Ischaemic heart disease (IHD) for males in 2008 was 52.9 per cent, while the same indicator for females was 44.3 per cent.[21] Further, Sri Lanka's mortality rates due to hypertension, IHD, diabetes, and cancer, are substantially higher for those in the age groups of 50 years and above. Therefore, premature deaths and disability mostly occur in the working age, and near retirement age groups of people.

In addition, globalization, unplanned urbanization, and improvement of economic status are also major drivers for increasing the risk factors of NCDs. On the one hand, behavioural risk factors are associated with increasing metabolic risk factors. Particularly, global health risk estimates shows that the behavioural risk factors are responsible for 80 per cent of CVD. On the other hand, both behavioural and metabolic risk factors are attributed to an increase in the number of chronic diseases. For example, raised blood pressure (as a metabolic risk factor) is attributable to the highest number of deaths in the South Asian and East Asian region at 9.4 per cent,[22] and globally at 13 per cent.[23] Moreover, contrary to popular opinion, the correlation between economic status and NCD prevalence depicts a complex pattern. The fact that most chronic NCDs are concentrated among the poorest groups in high and middle-income countries, is well known. However, Sri Lanka's situation is different. Here, the people in the richest quintile are more vulnerable to death due to IHD, while the deaths due to asthma occur mostly in the poorest group.[24]

13.4 Economic Impact: Loss of Productivity and Health Care Costs

The economic consequences of the NCD burden are massive at both micro and macro levels. Premature deaths and disability early in life causes a loss of productivity, which

[20] http://apps.who.int/gho/data/node.main.A860?lang=en (Last access on the 9th May 2013).

[21] Ministry of Health, "Annual Health Bulletin 2008."

[22] WHO/SEARO (2011), "Non-Communicable Diseases in the Southeast Asia Region: Situation and Response," WHO, Geneva.

[23] WHO (2012), "World Health Statistics 2012."

[24] Engelgau, M. et. *al.*, (2010), "Prevention and Control of Selected Chronic NCDs in Sri Lanka: Policy Options and Action," World Bank, Washington, D.C.

impacts harmfully on labour supply, capital accumulation, and national income. Total loss of output in the world over the next two decades due to five selected NCDs – cancer, mental illness, cardiovascular disease, diabetes, and chronic respiratory disease – is estimated to amount to almost US$ 47 trillion, which is equivalent to about 5 per cent of global GDP in 2010.[25] Further, each year, the economic burden due to NCDs is expected to push 100 million people globally into poverty. Moreover, the estimates show that each 10 per cent increase in NCDs will cause a decrease of 0.5 per cent in annual economic growth.

In addition to this, total health expenditure due to the NCD burden is escalating all over the world, because NCDs need long term treatment and care, owing to the nature of the chronic condition. Consequently, the burden of providing universal care for cure and prevention for the rising number of cases of NCDs has become a primary priority for the health sector agenda at a national level, besides placing a significant strain on individual households. The government, at a national level, has to finance a rising cost burden to strengthen public health facilities, including the provision of adequate essential medicines and laboratory facilities, etc., within a limited fiscal space. At the same time, when public facilities are inadequate, individual families have to pay for their health care needs (particularly on NCDs) out of pocket. It is well known that health care treatment for NCDs like diabetes, cardiovascular diseases, asthma, etc., is extremely expensive. It is of particular concern given that those who are in lower socio-economic settings are more vulnerable to sickness. Therefore, this excessive burden on household income can force them towards catastrophic spending, and consequent impoverishment. Even more devastating is the fact that a vicious circle between NCDs and poverty is embedded, particularly in low and middle income countries. The reality of the cost of NCDs can be further elaborated by the fact that total global health spending in 2009 was US$ 5.1 trillion, which is significantly higher than the entire combined annual GDP of US$ 1 trillion of low income countries.[26]

13.5 Sri Lanka's Health Sector Capacities and Limitations for Addressing Emerging Issues on NCDs

The Ministry of Health has taken the first step by enforcing a policy on NCD prevention and control, called the 'National Policy and Strategic Framework for Prevention and Control of Chronic NCDs, 2010'. The objective of the policy is "to reduce premature mortality due to chronic NCDs by 2 per cent annually over the next 10 years," and mitigate risk factors through wide public service facilities in terms of curative, preventive, and promotion care.[27] However, the effectiveness of actions being taken is debatable. First, the imbalance in resource mobilization is the main cause of the many obstacles in the system. NCDs are largely managed by secondary and tertiary level facilities, most of which are located in urban areas. Second, due to the absence of a referral system, patients seek care often at higher level facilities. As a result, these facilities become overcrowded, and in turn, lower level facilities are idle. In terms of cost-effectiveness, the higher usage of high level facilities creates a larger burden on health expenditure, since the unit cost for high level facilities is prin-

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25 Bloom, D.E. *et al.*, (2011),"The Global Economic Burden of Noncommunicable Diseases" Geneva: World Economic Forum, Geneva.

26 *Ibid.*

27 Ministry of Health (2010), "The National Policy and Strategic Framework for Prevention and Control of Chronic Non-Communicable Diseases 2010," Ministry of Health.

cipally higher than that of lower level facilities.[28] The limited availability of essential medicine and diagnostic testing for prevention and control of NCDs at secondary and primary level facilities, is an area where urgent attention is yet to be given.

Another prerequisite organ of the system is a good health information system, because the availability of reliable and up-to-date information is essential to develop health policies and planning in a country. However, Sri Lanka is lagging behind in the routine collection of key information on variables such as newer morbidities, and patient characteristics, etc.

There is a disparity in spending on NCDs between the government and private sector, which shifts the burden to the patients. Of total health expenditure, the private sector accounts for more than 50 per cent each year.[29] The major source of private sector finance is OOPE, accounting for 89 per cent in 2009. As a percentage of total health expenditure, OOPE was 45 per cent in the same year.

This number is made up primarily of patients who seek out-patient care, and buy medicines for NCDs such as diabetes, asthma, and IHD, at private hospitals. Another notable characteristic of spending on NCDs is that patients tend to go to public facilities to seek care for conditions like cancer, because of the high cost involved and the severity of the condition. For instance, of total expenditure on asthma in 2005, the private sector spent 56.6 per cent, while the proportion of expenditure for cancers by the government was 91.9 per cent.[30] However, increasing OOPE in the country can lead to greater inequality in health and social conditions.

13.6 Policy Options and Action

Primarily, government health policies and actions need to give urgent attention to reduce the NCD risk factor prevalence, while screening health camps, and providing treatments to those who are at risk and already having NCDs. Toward this, two major policy options and actions – within the Ministry of Health and beyond – need to be taken into consideration. Mobilizing available resources within the Ministry of Health for curative, preventive, and promotion of NCD care effectively is vital. To accomplish this, two basic conditions need to be fulfilled. Firstly, a live health information system is critical, for instance, to analyze the epidemiological patterns at the moment, as well as a forecast for the future. Though a health information system is available in the Ministry, regular surveys or the routine management of a data base of patients' illnesses is absent. Therefore, enforcing a robust health information system in the country will benefit the whole system, to mitigate a variety of systemic issues.

Secondly, keeping the health facilities at public hospitals, particularly primary and secondary level care units, fully equipped in terms of trained human resources, drugs, and diagnostic testing facilities, is essential. It can be argued that the lack/slow supply of essential medicines currently existing at public hospital occurs due to the unavailability of a pharmaceutical management system in the country. Further, enforcing a referral system helps to manage the imbalance of ser-

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28 De Silva, A. et. *al*., (2005), "Review of Costing Studies," National Commission on Macroeconomics of Health, Ministry of Health.

29 IPS (2012), *Sri Lanka National Health Accounts 2005-2009*, Institute of Policy Studies of Sri Lanka, Colombo.

30 Engelgau, M. et. *al*., (2010), "Prevention and Control of Selected Chronic NCDs in Sri Lanka: Policy Options and Action," World Bank, Washington, D.C.

vices utilization between lower facilities and higher level facilities.

Once these conditions discussed above are met, a proper procurement system together with a robust health information system, and a referral system can enhance the efficacy of health planning and implementation for NCD prevention and management in the country.

In terms of action beyond the health sector, policies and actions taken in other sectors also have an influence on health. A variety of socio-economic factors – gender, education, poverty, working conditions, etc. – are contributing to the rise in chronic diseases across the country. Empirical evidence shows that the prevalence of risk factors would continue to push more people into poverty – a condition which is expected to rise. Therefore, an integrated policy and action plan within the health sector, with the partnership of other sectors, such as health, labour, environment, trade, etc., is needed to mitigate the prevalence of behavioural risk factors and metabolic risk factors of NCDs.

All in all, policies and actions to mitigate the burden due to NCDs within the health sector are vital. Particular attention should be paid by the Ministry of Health to beginning an inter-sectoral action plan on health, along with other ministries.

14. Making Women More Participatory in the Process of Economic Development

14.1 Introduction

As demographic changes and an ageing population slows down the number of entrants into the labour market in Sri Lanka, the role of women in the labour force will become a key driver of sustained high economic growth. At present, the female labour force participation rate remains low at 29.9 per cent, relative to 66.8 per cent for men as per 2012 data.[1] With high levels of education achievements, unemployment amongst women is high at 6.2 per cent, compared to a rate of 2.8 per cent for men. As Sri Lanka attempts the transition to an upper middle income economy, ensuring the active economic participation of women in the labour market will require searching questions on gender differences in the country's labour force – why Sri Lanka's young and educated females are choosing not to enter the labour force, and once they do enter, why they find it more difficult to find suitable employment relative to their male peers.

> ***If Sri Lanka is to have a demographic dividend now, this can be gained by more female labour force participation. This can be done if the enabling policy environment is created***

It is widely argued that gender is not so much about biological differences between men and women, but it is "the social differentiation of women and men through processes which are learned, change over time, and vary within and between cultures. At the economic level, gender appears as a sexual division of labour in which some types of work are strongly associated with women, and some types with men. The costs and benefits of the sexual division of labour are unequally shared between men and women to the disadvantage of the latter."[2] Gender, as a conceptual tool, is used to highlight various structural relationships of inequality between men and women as manifested in the households, in labour markets, in

[1] DCS, (2012), "Sri Lanka Labour Force Survey, Annual Bulletin 2012" http://www.statistics.gov.lk/samplesurvey/LFS_Annual%20Bulletin_2012-f.pdf accessed 23rd July 2013

[2] Elson, D., (1993), "Gender-aware Analysis and Development Economics," *Journal of International Development*, Vol. 5, No. 2, pp. 237-247.

personal relationships, in ideologies, and in socio-political structures. Traditional perceptions and beliefs of gender, segregate productive, reproductive, and community roles between men and women, and allocate responsibilities accordingly. This gender based division of labour places the problem of a 'triple burden' (created by productive responsibilities, reproductive responsibilities, and social responsibilities) on females.

14.2 Why Are Women Important to the Development Process?

There are efficiency reasons, as well as equity reasons, for ensuring that a country's economic development process is gender sensitive. The efficiency reasons are rooted in the fact that gender inequality is an obstacle to achieving many development goals. There are many circumstances in which gender inequality is an obstacle to increasing productivity, exports, and national income. For instance, research on gender inequality in the labour market has shown that eliminating gender discrimination in job opportunities and pay could increase not only women's income, but also national income.[3] The Food and Agriculture Organization (FAO) estimates that by giving women equal access to resources as men, they would achieve the same yield levels, increasing total agricultural output in developing countries by 2.5 - 4 per cent, and this extra yield could reduce the number of under-nourished people in the world by 12-17 per cent.[4] It has been estimated that raising female employment levels to that of male levels could have a direct impact on GDP, for example, of 5 per cent in the US, 9 per cent in Japan, 12 per cent in the UAE, and 34 per cent in Egypt.[5] In addition, women who are better educated, healthier, and have greater control over household financial resources are more likely to invest time in their children's health and education – i.e., an investment in the workforce of tomorrow.[6]

Thus, ensuring gender equality matters in many ways to the development process of a country. Gender equality matters in its own right and has been recognized as 'smart economics'.[7] Experiences from various countries confirm that gender equality enhances economic efficiency, and improves other development outcomes. This has been mainly achieved in three ways: firstly, greater productivity gains by removing barriers that prevent women from having the same access as men to education, economic opportunities, and productive inputs; secondly, through improved development outcomes for women and for their next generations by enhancing women's absolute and relative status; and thirdly, by empowering women as economic, political, and social actors through the creation of more opportunities for representation in decision making.[8]

However, the latest available data and indicators reflect that gender equality in Sri Lanka is not as satisfactory as its achievements in other human development indicators.[9] Sri Lanka is ranked at 74 among 187 countries in the Gender Inequality Index (GII),[10] which

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[3] Elson, D., et. al., (1997), "Gender Aware Country Economic Reports", Working Paper Number 1, Graduate School of Social Sciences, University of Manchester. U.K.

[4] FAO (2013), "The Female Face of Farming," http://www.fao.org/gender/infographic/en/ accessed 1st May 2013.

[5] Aguirre, D., et. al., (2012), *Empowering the Third Billion; Women and the World of Work in 2012*, Booz & Company Inc, New York.

[6] World Bank (2011), "*World Development Report 2012: Gender Equality and Development*," The World Bank, Washington, D.C.

[7] *Ibid.*

[8] *Ibid.*

[9] IPS/UNDP (2012), "*Sri Lanka Human Development Report 2012: Bridging Regional Disparities for Human Development*", United Nations Development Programme, Sri Lanka.

[10] GII is calculated using three dimensions of women's life: reproductive health, empowerment, and labour market participation.

Table 14.1
Gender Inequality Index and Related Indicators

	GII	Maternal Mortality Rate (per 100,000 Live Births 2008)	Adolescent Fertility Rate (2011)	Seats in the National Parliament (% Female 2011)	With at Least Secondary Education (% Ages 25 and Older 2010)	Labour Force Participation Rate (% Female 2009)
Very high human development	0.224	16	23.8	21.5	82.0	52.8
High human development	0.409	51	51.6	13.5	61.0	47.8
Medium human development	0.475	135	50.1	17.3	41.2	51.1
Low human development	0.606	532	98.2	18.2	18.7	54.6
World	0.492	176	58.1	17.7	50.8	51.5
Sri Lanka	0.419	39	23.6	5.3	56.0	34.2

Source: UNDP (2011), Human Development Report 2011, "Sustainability & Equity: A Better Future for All."

measures inequality in achievements between women and men.[11] Health and education indicators for Sri Lanka are as good as countries with 'very high' and 'high' human development, but indicators for female representation in the national Parliament and female labour force participation, are far below the global average (Table14.1).[12]

Global indices which assess women's economic opportunity, participation, and contribution, show that the potential of Sri Lankan women are not fully utilized. The Women's Economic Opportunity Index (WEO) 2012, which is calculated by the Intelligence Unit of *The Economist* magazine, measures progress in the economic advancement of women by looking beyond gender disparities to the underlying factors affecting women's access to economic opportunity in the formal economy. According to their calculations, Sri Lanka is ranked 84 out of 128 countries, with a score of 47.6. This in fact, is a 0.1 point decline in the score for the country, when compared to its 2010 score. The Third Billion Index, which combines the input factors (women's level of preparation for joining the workforce; the country's access-to-work policies; entrepreneurial support) and output factors (inclusion in the workforce; the degree of advancement in the national economy; equal pay for equal work in practice) of women's potential for economic participation, ranks Sri Lanka at 96th place among 128 countries in 2012.[13] Further, the Global Gender Gap Report for 2012 indicates that the gender gap for Sri Lanka has been deteriorating continuously since 2006 (Figure 14.1).

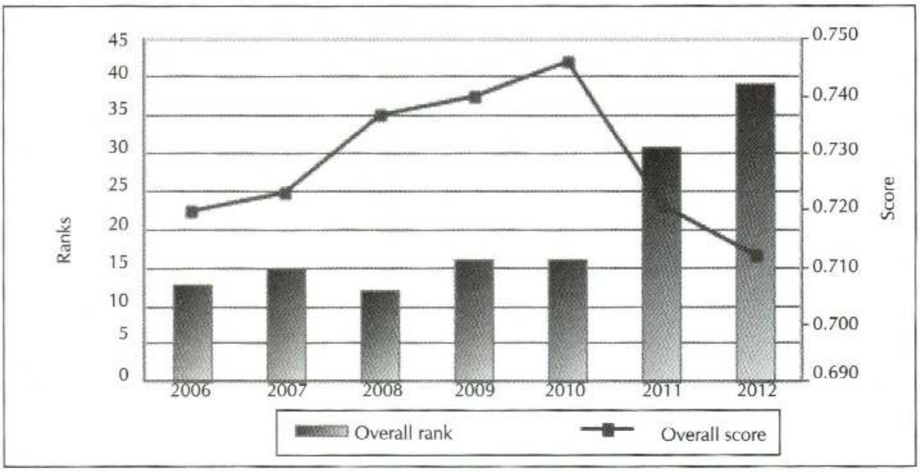
Removing these barriers to ensure higher gender equality is critically important in the path to economic development. In this Policy Brief, a few selected issues faced by Sri Lankan women (i.e., female labour force participation, political representation by women, fe-

[11] UNDP (2011), "Human Development Report 2011, Sustainability and Equity: A Better Future for All." United Nations, NY.

[12] Scores range from 0 to 100 where 100 = most favourable. Sweden ranked at number one with a score of 90.4 while Sudan ranked at 128 with a score of 19.2.

[13] Aguirre *et al.* (2012).

Figure 14.1
Global Gender Gap Index and Score – Sri Lanka (2006-2012)



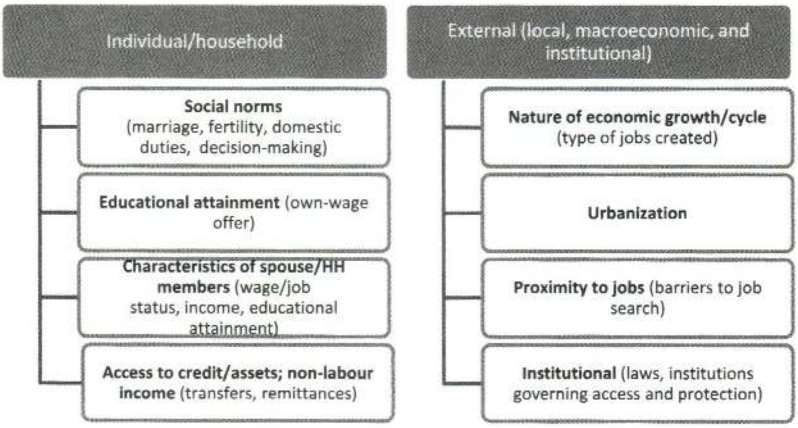
Source: World Economic Forum (2012), "Global Gender Gap Report 2012."

male entrepreneurship, and violence against women) will be highlighted. Addressing these issues is important if women are to actively participate in economic activities, which will be a crucial factor in the path towards achieving the status of a upper middle income country.

14.3 Female Labour Force Participation in Sri Lanka

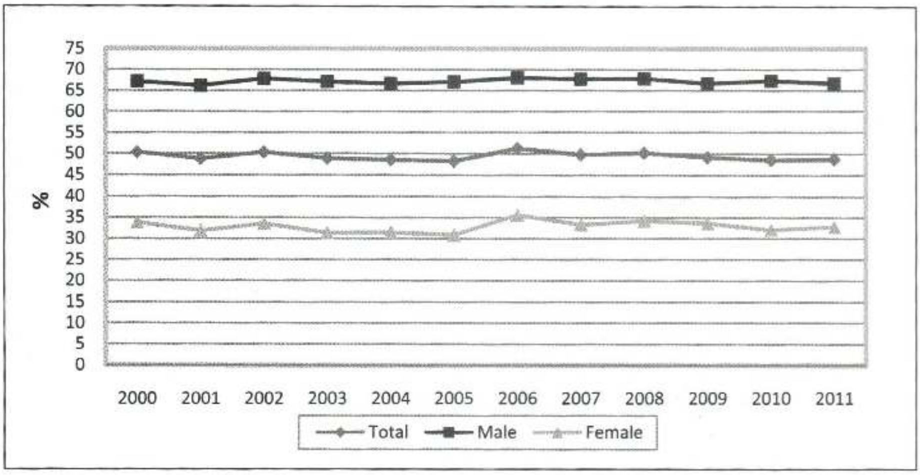
Female labour force participation (FLFP) is important for an economy for many reasons: it indicates the utilization of female labour in an economy, and possible growth potential the economy has; relates to income/pov-

Figure 14.2
Factors Driving Participation of Women



Source: Verick, S. (2013), "Female Labour Force Participation in South Asia and Beyond," presentation made at the consultative workshop on 'Improving Women's Labour Force Participation in Sri Lanka', organized by the World Bank, May 3rd 2013, Colombo, Sri Lanka.

Figure 14.3
Annual Labour Force Participation Rates 2000-2011

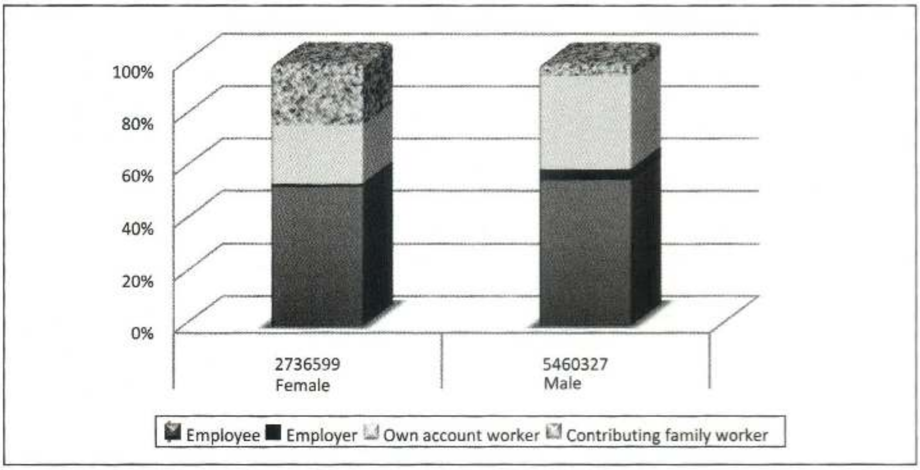


Source: DCS (2012), "Sri Lanka Labour Force Survey, Annual Report 2011".

erty status; and it acts as a signal of the economic empowerment of women (i.e., the higher labour force participation by women, the more investment in education and health, and hence, the inter-generational effect).[14] The FLFP, however, is affected by many factors that appear to have no effect on male participation (Figure 14.2).

With the introduction of economic liberalization measures in the latter part of the 1970s, female participation in the labour force increased significantly, especially in the manufacturing and service sectors. However, from the latter years of the 1990s onwards, the FLFP rate has stagnated in the range of

Figure 14.4
Employment by Employment Status 2011



Source: DCS (2012), "Sri Lanka Labour Force Survey, Annual Report 2011".

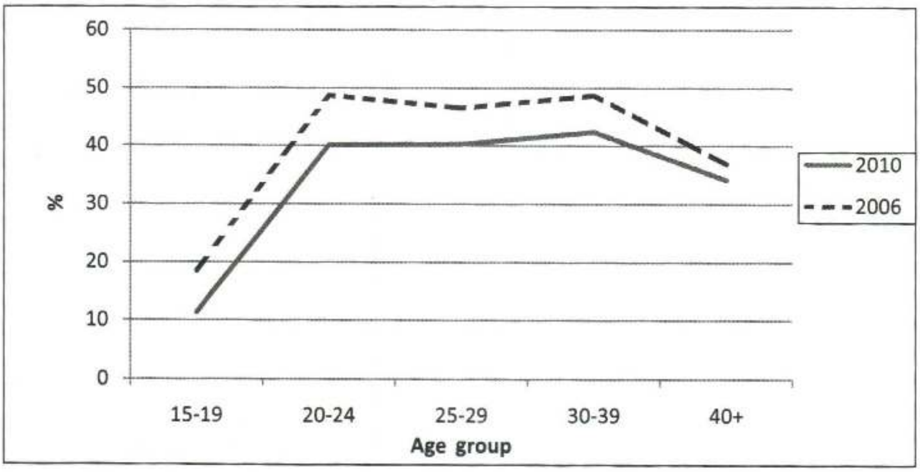
14 Verick, S., (2013), "Female Labour Force Participation in South Asia and Beyond," presentation made at the consultative workshop on 'Improving Women's Labour Force Participation in Sri Lanka,' organized by the World Bank, May 3rd 2013, Colombo, Sri Lanka.

30 to 36 per cent (Figure 14.3). With a male labour force participation rate of more than 65 per cent, female labour force participation in Sri Lanka lags significantly behind – a characteristic that appears to be persisting over time.

A recent study by the World Bank points out three possible explanations for low FLFP in Sri Lanka: gender norms and household responsibilities, especially care of young children; skill mismatch in the labour market; and weaker job networks from which they may face discrimination in the labour market.[15] Studies done in the developed economies,[16] as well as in the South Asian region,[17] affirm that most of these determinants are common for females in different societies with respect to their decision to participate in the labour force.

Often, working mothers face challenges in the work environment due to family responsibilities that adversely affects women's productivity, resulting in career related stress. Work related costs also tend to rise with marriage and children, thus adversely affecting the balance of benefits and costs for female employees forcing them to leave the labour force. Recent data on female labour force participation imply that an M-shaped curve is emerging for Sri Lanka similar to that already seen in countries such as Japan and South Korea,[18] in relation to the age groups 20 to 24 and 30 to 39 being the two peaks (Figure 14.5). This suggests that a majority of women in the age group of 25-29 quit their jobs due to their familial responsibilities (basically child caring) and re-enter the labor market when their children have grown up.

Figure 14.5
Female Labour Force Participation Rates by Age Groups 2006 & 2010



Source: DCS, "Sri Lanka Labour Force Survey, Annual Report, various issues".

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15 World Bank (2013), "Getting In and Staying In: Increasing Women's Labour Force Participation in Sri Lanka," presentation made at the consultative workshop on 'Improving Women's Labour Force Participation in Sri Lanka, organized by the World Bank , May 3rd 2013, Colombo, Sri Lanka.

16 Jaumotte, F., (2003), "Female Labour Force Participation: Past Trends and Main Determinants in OECD Countries", OECD Economics Department Working Papers, No. 376, OECD, Paris.

17 Sucharita S., (2013), "Factors Affecting Female Labour Force Participation in India", *The Romanian Economic Journal*, No. 48, June 2013; Faridi M. Z. *et al*., (2009), "The Socio-Economic and Demographic Determinants of Women Work Participation in Pakistan: Evidence from Bahawalpur District", *South Asian Studies*, Vol. 24, No. 2, pp. 353-369.

18 Lee, S., et. *al*., (2013), "It's More than an M-shape: The Political Economy of Female Non-Standard Workers in the Republic of Korea", *Asian Social Work and Policy Review*, Vol. 7, pp. 1-17.

Further, for employers, the costs related to maternity and child care benefits are regarded as a cost burden, and in turn could lead to a gender bias against female employment.[19] Employers see the benefits provided under the Maternity Benefit Acts as a disruption of the production process and a threat to their profits. While public sector administrators share their disapproval of what, in their view are long periods of troublesome absence,[20] women in the private sector and small firms are at higher risk of discrimination due to negative employer attitudes to pregnancy and maternity leave.[21]

There appears to be little awareness of the fact that the reproductive role of women is a national contribution, as well as a social responsibility to the whole community. In general, females are preferred for certain job categories (e.g., clerical support workers and elementary occupations) and males are preferred for certain job categories (e.g., jobs related to technical work). This segregation of job types (i.e., 'masculinization' or 'feminization' of specific jobs), is evident from the job vacancy advertisements appearing in national newspapers (Table 14.2).

14.4 Female Entrepreneurship

Women entrepreneurs have been designated 'the new engines for growth' and 'the rising stars of the economies in developing countries to bring prosperity and welfare,' yet female entrepreneurship remains an 'untapped source' of economic growth and development.[22] Women seek entrepreneurship for many reasons. While some women start a

Table 14.2
Percentage Distribution of Job Advertisements of Main Occupational Category (Based on ISCO 88) and Gender – 1st Half 2011

Main Occupation Category	Gender (%)			Total	
	Male	Female	Not Specified	%	No.
Elementary occupations	52.8	27.2	20.1	100	14,684
Craft & related workers	89.3	2.3	8.4	100	14,331
Technicians & associate professionals	34.8	6.1	59.1	100	13,514
Service workers & shop & market sales workers	57.0	13.8	29.2	100	12,993
Plant and machine operators and assemblers	89.4	4.4	6.2	100	10,236
Clerks	20.6	24.0	55.4	100	8,349
Professionals	8.3	15.2	76.5	100	6,110
Legislators, senior officials and managers	22.3	1.8	75.9	100	3,424
Skilled agricultural & fishery workers	61.1	0.4	38.6	100	280
Armed forces	42.9	0.0	57.1	100	21
Total	53.6	12.3	34.1	100	83,942

Source: Tertiary and Vocation Education Commission, (2011), "Labour Market Information Bulletin," Volume 01/11- June, 2011, Colombo

[19] ILO, (2013), "Decent Work: Protect the Future - Maternity, Paternity and Work" http://www.ilo.org/wcmsp5/groups/public/@dgreports/ @gender/documents/publication/wcms_106262.pdf accessed 23rd July 2013.

[20] Madurawala, D.S.P., (2009), "Labour Force Participation of Women in Child Bearing Ages," *Sri Lanka Journal of Population Studies*, Vol. 11, No. 1.

[21] Russell H. and Banks J., (2011), "Pregnancy and Employment: A Literature Review", HSE Crisis Pregnancy Programme and the Equality Authority, Dublin.

[22] Vossenberg S., (2013), "Women Entrepreneurship Promotion in Developing Countries: What Explains the Gender Gap in Entrepreneurship and How to Close It?" Working Paper No. 2013/08, Maastricht School of Management, The Netherlands.

business because of an idea or innovation, others do so because of employment experiences that have been unsatisfying, frustrating, with demanding and inflexible work environments, failure to break through the 'glass ceiling' to higher-paid managerial positions, etc. Some others are compelled to start their own business due to forced unemployment, either from a lay-off, or a lack of marketable skills.[23] Though the rate of new businesses formed by women has significantly outpaced the rate of new businesses formed by men across the developing world in recent years, women still manage significantly fewer businesses than men.[24] Research on female entrepreneurship in developing countries have found that access to financial resources, inadequate training and access to information, work-family interface, women's safety and gender based violence, lack of societal support, and legal barriers and procedures, are the main hindrances for females to start up and operate their own business.[25] In the case of Sri Lanka, of the total number of employers in the country, only 10 per cent are women. The corresponding figure to the total employed population (as of 2011) is at around 0.9 per cent.[26]

14.5 Political Participation by Women

In the last 60 years since independence, female participation and representation in politics and political institutions has been low in Sri Lanka.[27] Surprisingly, this is despite Sri Lanka's favourable performance on human development indicators and the national level commitment for equal representation under various conventions and agendas (e.g., Convention for the Elimination of All Forms of Discrimination against Women and Millennium Development Goals). Even though the majority of the country's population is female, there are only 13 female parliamentarians in the current Parliament, which constitutes less than 6 per cent of the total 225 seats, of which 3 are from the National List. This scenario is even worse at the district level. In 16 of 25 districts, the proportion of female representation at the national Parliament is 0.1 per cent.[28] The obstacles to women's equal representation in political institutions in Sri Lanka basically operates at three levels – i.e., at the personal level, at the level of political parties, and at the level of the electorate. As noted, this arises because "at a personal level, where fewer women than men self-select themselves for a career in politics due to socio-cultural, economic, and psychological barriers; at the level of political parties, where they are mostly ignored as candidates for elections; and at the level of the electorate, when voters have to vote for candidates."[29] It has been observed that the major political parties of the country have shown a limited commitment to the improvement of women's political participation, despite being the major instruments for bringing people into the political arena, and mediating their participation and involvement in politics.[30]

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23 Winn, J., (2005), "Women Entrepreneurs: Can We Remove the Barriers?," *International Entrepreneurship and Management Journal*, Vol. 1, No. 3, pp 381-397.

24 United Nations University (2013), "Examining the Entrepreneur Gender Gap" (http://unu.edu/publications/articles/examining-entrepreneur-gender-gap.html#info last accessed on 7th May 2013).

25 Vossenberg (2013).

26 DCS (2012), *Sri Lanka Labour Force Survey Annual Report 2011*, Department of Census and Statistics.

27 Kodikara, C., (2009), "The Struggle for Equal Political Representation of Women in Sri Lanka," United Nations Development Programme, Colombo.

28 IPS/UNDP (2012), "*Sri Lanka Human Development Report 2012: Bridging Regional Disparities for Human Development*," United Nations Development Programme, Sri Lanka.

29 Kodikara, C., (2009), "The Struggle for Equal Political Representation of Women in Sri Lanka", United Nations Development Programme, Colombo.

30 *Ibid.*

14.6 Violence against Women

Article 1 of the United Nations Declaration on the Elimination of Violence Against Women (DEVW), declared by the UN General Assembly in its resolution 48/104 of 20 December 1993, defines the term Violence Against Women (VAW) as: "any act of gender-based violence that results in, or is likely to result in, physical, sexual or psychological harm or suffering to women, including threats of such acts, coercion or arbitrary deprivation of liberty, whether occurring in public or in private life." VAW can come in the form of physical, emotional, verbal, sexual, economic, and digital (information and communication technology) abuse.[31]

Sri Lanka has ratified four major international instruments, which have relevance to rape and other forms of gender based violence [International Covenant on Civil and Political Rights (1966), Convention on the Elimination of All forms of Discrimination Against Women (1979), Convention on the Rights of the Child (1989), and the Convention on Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (1984)]. Further, Sri Lanka is a signatory to the Vienna Declaration on the Elimination of Violence against Women (1993). At the national level, the Prevention of Domestic Violence Act No. 34 of 2005 was passed, and the Forum against Gender Based Violence was set up in 2005. A separate ministry was set up to work on women's issues in 1983 (the Ministry of Women's Affairs – currently known as the Ministry of Child Development and Women's Affairs).

Despite all these commitments and initiatives, the prevalence of domestic violence in Sri Lanka is high.[32] According to the Gender Based Violence Forum in Sri Lanka, rape, domestic violence, sexual harassment, sexual violence, forced prostitution, and trafficking, are the most prevalent types of VAW in Sri Lanka.

The Economic costs related to VAW can come in the form of 'direct tangible costs' (e.g., health care costs), 'indirect tangible costs' (e.g., lower earnings due to lower productivity), 'direct intangible costs' (e.g., pain and suffering, and the emotional impairment due to violence), and 'indirect intangible costs' (e.g., negative psychological effects on children who witness violence which cannot be estimated numerically).[33] It has been estimated that in the US, the annual cost estimation of intimate partner violence amounts to US$ 5.8 billion.[34] The economic burden of VAW and their children to the Australian economy was estimated to be $13.6 billion in 2012.[35] As most cases related to VAW are hidden or untold, the real economic impact is likely to be much larger.

In Sri Lanka, tea, garments, and remittances, are the three major sources of foreign income earnings for the economy and women play a crucial role in all these sectors. In such a backdrop, it is rather alarming to observe that

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[31] Act Now, (2013), 'What is VAW?' [http://www.actnowsrilanka.org/en/vaw/whatisva], accessed on 26th February 2013.

[32] Madurawala S., (2013), "Broken Promises: The Plight of Women in Sri Lanka and its Economic Costs", *Talking Economics*, 8th March 2013 http://www.ips.lk/talkingeconomics/2013/03/broken-promises-the-plight-of-women-in-sri-lanka-and-its-economic-costs/ (last accessed on 9th May 2013).

[33] Day T., *et. al.*, (2005), "The Economic Costs of Violence Against Women: An Evaluation of the Literature," United Nations [http://www.un.org/womenwatch/daw/vaw/expert%20brief%20costs.pdf].

[34] WHO (2013), "Violence and Injury Prevention: 16 Days of Activism Against Gender Violence" [http://www. who.int/violence_injury_prevention/violence/global_campaign/16_days/en/index6.html] Last accessed on 26th February 2013.

[35] Australian Government, Department of Families, Housing, Community Services and Indigenous Affairs, (2013), "Economic Cost of Violence Against Women and their Children" [http://www.fahcsia.gov.au/our-responsibilities/women/publications-articles/reducing-violence/national-plan-to-reduce-violence-against-women-and-their-children/economic-cost-of-violence-against-women-and-their-children?HTML#1]Last accessed on 26th February 2013.

83 per cent of females in the estate sector are victims of gender based violence; 57 per cent of female garment workers experience sexual harassment at the work place; 11 per cent of returnee migrant women were sexually abused; and 62 per cent of female employees in the industrial sector have experienced unwanted and unwelcome sexual advances at the workplace at some point in their lives.[36] Exposure to VAW at the work place hinders the productivity of the worker, while also resulting in the discontinuation of the job and eventual withdrawal from the labour force.

14.7 The Way Forward

Sri Lanka has already missed the most attractive period of the demographic dividend (i.e., from 2006 to 2011 when the country had the lowest proportion of dependents).[37] If Sri Lanka is to have a demographic dividend now, it can do so by ensuring that more females participate in the labour force. At present, they remain an untapped reservoir of manpower. This can be done if an enabling policy environment is created.

When compared with most other countries, Sri Lankan women are well equipped with the potential to contribute to the economic growth of the country. They are literate, comparatively more educated, and healthy. Despite this, available data implies that women's economic participation levels and their contributions to the country's growth is not on par with their potential. Removing the barriers that prevent women's economic participation is pivotal in addressing this dilemma, and in the Sri Lankan context, it is a matter of creating an 'enabling environment' for women so that they could participate more in economic activities.

The stagnant FLFP rate suggests that given the current socio-economic and institutional environment and growth levels in the economy, a point of saturation in FLFP seems to have been reached. As pointed out earlier in this discussion, most of the time, females are constrained from labour market activities due to their child care responsibilities. More efficient interventions by the government in this regard, by regulating and monitoring existing day care centers and crèches, is a practical step that should be taken immediately. A more formalized regulatory framework would also encourage the private sector to make more investments on day care centers and crèches, thus closing the gap in supply. Research on female labour market issues also suggests that the provision of an allowance to working mothers in order to cover child care costs (for example, Child Care Benefit (CCB) payment in Australia and Universal Child Care Benefit (UCCB) in Canada) would be beneficial to employees as well as to the economy as a whole, as it would bring down the work related costs of working mothers and thus, encourage them to remain in employment.[38]

Issues like poor political participation and violence against women may mainly be social issues, but they have economic implications too. Though there have been several initiatives, including lobbying and advocacy by various parties to address these issues, the progress is rather slow. Community mobili-

[36] Perera, J., Gunawardane, N. and Jayasuriya, V. (eds.), (2011), *Review of Research Evidence on Gender Based Violence (GBV) in Sri Lanka*, Second Edition, Sri Lanka Medical Association Colombo[http://whosrilanka.healthrepository. org/bitstream/123456789/434/1/GBV.pdf] Last accessed on 26th February 2013.

[37] De Silva I., (2012), "The Age Structure Transition and the Demographic Dividend: An Opportunity for Rapid Economic Take-off in Sri Lanka", *Sri Lanka Journal of Advanced Social Studies*, Vol. 2, No.1, pp. 3-46.

[38] Madurawala, D.S.P., (2009), "Labour Force Participation of Women in Child Bearing Ages," *Sri Lanka Journal of Population Studies*, Vol. 11, No. 1.

zation along with government interventions (e.g., steps taken such as passing the new Local Authorities Election Amendment Bill, by which 25 per cent of nominations are allocated to women and youth, and setting up the Forum against Gender Based Violence in 2005) is critical in making women more participatory in the process of economic development.

15. The Divi Neguma Programme and Creating Rural Employment

15.1 Introduction

Active labour market programmes (ALMPs) are used to reduce the risk of unemployment and to increase the earnings capacity of workers. There are a number of ALMPs in Sri Lanka that can be categorized into three groups based on their main objectives – support employment creation, improve skills and employability, and facilitate the job search process.[1] These programmes are conducted by the government, private sector, and NGOs. Amongst ALMPs, the 'Divi Neguma' programme (DNP) can be viewed as one of the largest, government initiated ALMPs operating across the country.

The DNP is based on the concept "People Initiate; Government Facilitates." This programme is implemented through key government officials at the village level – Grama Niladhari officers, Samurdhi Development Officers, and Agriculture Research and Production Assistants. The main objective of the programme is to strengthen households' economic status by creating one million empowered household units, which would lead to a self-reliant household economy. The programme encourages people to cultivate in their back yards, engage in cottage industries and animal husbandry, and cultivate medium and long term crops. Based on its broader objective, the DNP is implemented in three phases: 1) agriculture, 2) fisheries and livestock, and 3) small enterprises.

> ***While employment creation and skills development should be objectives of programmes such as the DNP, they should focus mainly on lagging areas, where available opportunities are more limited***

The main objective of this Policy Brief is to examine the ALMP characteristics in the DNP and its potential benefits. The following sections will describe the main components of the DNP, examine the potential impacts of the programme, and offer some conclusions and policy implications.

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[1] Arunatilake, A., R. Jayaweera, and A. Wijesinha, (2008), "Review of Active Labour Market Programmes (ALMPS) in Sri Lanka", Institute of Policy Studies of Sri Lanka, Colombo, mimeo.

15.2 Three Phases in the Divi Neguma Programme

15.2.1 Agriculture and Food Production

Agriculture is the first phase of the DNP, with a focus on creating one million home gardens – i.e., 100 household units per Grama Niladhari Division (GND). Some specific objectives of this component are to increase nutritional levels of households, reduce their cost of living, increase food production in the country, and create new income avenues for households by selling the surplus production.

In this phase, the government provides agricultural inputs,[2] and plant nursery facilities. The Divi Neguma recipients are able to select suitable seeds, depending on the geography and the climate. The government also provides technical assistance for the use of scientific methods of cultivation, such as using organic fertilizers. Beneficiaries are then expected to maintain their home garden with their first allotment of seeds, and they have to improve on it by breeding their own varieties in the next stages. Over the course of four phases, the government has already spent around Rs. 1 billion for the distribution of vegetable seeds packets. In addition, during 2011-12, the government distributed 4,471 million coconut plants and 6,999 million fruit plants.[3]

The promotion of home gardening is aimed primarily at addressing issues of food security, as it is expected to increase not only food production, but also the quality of food in the country. Increased food production can reduce food prices, increase variety, and thereby, nutritional levels of households and their health outcomes. Additionally, home gardening is also expected to increase household income, as households can sell their excess produce.

15.2.2 Fishery and Livestock

The second phase of the DNP is fishery and livestock, again with the objective of ensuring food security, better nutrition, and improving livelihood and household income. Under this segment of the programme, government support is provided towards fishery, poultry and dairy industry, and bee keeping. Fishery projects are implemented through different government agencies such as the Ministry of Fisheries and Aquatic Resources Development, National Aquaculture Development Authority (NAQDA), Department of Fisheries and Aquatic Resources, and the Aquatic Resources Research and Development Agency (NARA). The DNP supports aquaculture, not just for food, but also for the ornamental aquatic industry. This programme supports the industry from the beginning through to completion, which includes pond preparation, pond fertilization, fish stocking, technical support and sample testing, market linkages, fish harvesting, monitoring and evaluation, and the re-start of the culture cycle. During 2011-2012, the government has spent Rs. 122 million for the development of the fisheries industry.[4]

In addition to its support of the fisheries sector, assistance has also been offered to the livestock sector, whereby the government has provided chicks, goats, and cows, to Divi Neguma beneficiaries. The estimated government spending on the distribution of poultry during 2011-12 has been Rs. 432 million.[5]

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[2] Vegetable seeds, vegetable plants, fruit plants, coconut plants, minor export crops, other plants (cereal crops, medicinal crops and permanent crops).

[3] Ministry of Economic Development.

[4] *Ibid.*

[5] *Ibid.*

15.2.3 Cottage Industry

The objective of this component in the DNP is to ensure sustainable income and employment to rural families in Sri Lanka. It is expected to create and sustain successful entrepreneurs across the country at the village level. This is implemented through different government agencies such as the Ministry of Traditional Industries and Small Enterprise Development, Ministry of Industry and Commerce, Ministry of Technology and Research, Ministry of Youth Affairs and Skills Development, and Ministry of State Resources and Public Enterprise Development.

Support is extended to small scale industries engaged in sectors such as food and beverages, handicrafts, leather based products, paper based products, beauty culture, cane and bamboo, palmyrah and coconut based products, etc. Support for cottage industries is done through a five step approach which will be discussed in detail in the next section.

15.3 Successful ALMP Characteristics in the DNP

ALMPs can be divided into three groups – i.e., those that support employment creation; improve skills and employability; and facilitate the job search process which includes counseling services, career fairs, job clubs, etc. Labour market training include direct provision of training, financial support for training, and infrastructure facilities for training programmes such as labour market information and licensing. These training facilities are expected to enhance the skills and employability of the target group. The programmes which support job creation are intended to create new jobs or maintain existing employment. Three types of programmes fall under this category. They are wage subsidies, public works, and support for self-employment. This can involve offering micro-financing for start-up business or to continue their own business, offering grants, or providing business development services (BDS).

Self-employment promotion measures range from the development of a business plan, support in accessing capital, training in entrepreneurial skills, as well as mentoring. The underlying motivation for providing this type of assistance is that entrepreneurship is prevented due to various issues. Some of them are marketing problems, input supply problems, enterprise management problems, legal and regulatory compliance issues, transportation issues, and limited access to business facilities and infrastructure.

While the first and the second phases of the DNP focus mainly on home gardening and food security issues of household members, the third phase of the DNP – cottage industry – focuses primarily on livelihood development. As explained in the previous section, this phase supports entrepreneurs to start up their own businesses. In this context, the third phase can be categorized as a programme which supports job creation through assistance for self-employment.

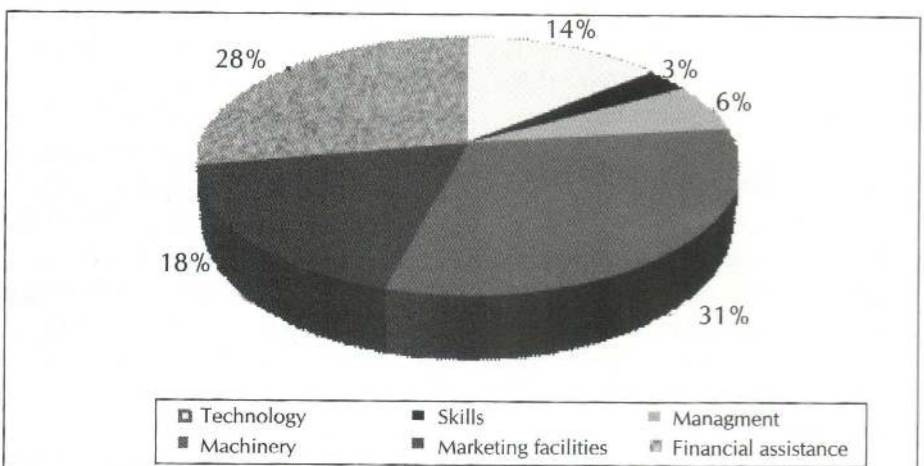
A specific feature of the DNP is that it provides a package of livelihood support, in contrast to many other programmes that provides only credit facilities or training. The DNP offers a wide range of facilities for its target group which include marketing assistance, training, technology and financial assistance. As previously noted, the process of livelihood support begins with a technology showcase and an awareness programme so that potential beneficiaries can select a suitable cottage industry. Beneficiaries are, therefore, better equipped to identify cottage industries suitable for them based on feasibility, their willingness, and the resources available to them.

In the second stage, the government conducts need assessments of beneficiaries. At this stage, beneficiaries can request for assistance from the DNP. In the third stage, beneficiaries are provided with necessary training and entrepreneurship skills development. These training programmes are conducted by existing vocational training institutes, such as the Small Enterprise Development Division (SEDD) of the Ministry of Youth and Skills Development, National Enterprise Development Authority (NEDA) and Vidatha Centres. The fourth step of the cottage industry development phase provides basic tools and raw materials to the value of Rs. 10,000 per beneficiary, as an outright grant. The final stage is to provide links with banks and financial institutions to assist in obtaining concessionary credit, and provide linkages to markets through sub-contracting arrangements and buy-back arrangements involving the private sector and NGOs to enhance the sustainability of the cottage industry. Private Banks such as DFCC and Hatton National Bank, and government bank such as Samurdhi Development Bank, Peoples' Bank and Bank of Ceylon, are involved in this programme. These banks provide loans with subsidized interest rates for cottage industries, including loans to purchase vehicles such as 'Dimo Batta' and three-wheelers for business purposes. This is an important component of the DNP, as a lack of capital has long been identified as a key barrier for many small businesses to start and expand over time.

Another important constraint has been the availability of market facilities for entrepreneurs. The DNP provides marketing facilities for its beneficiaries so that they can more easily sell their products through the development of market places ('Sathi Pola') at a village level.

Considering the five steps involved in the third phase of the DNP, it can be concluded that it provides a comprehensive cottage industry development package to its beneficiaries, ranging from the identification of needs to marketing facilities. As can be seen in Figure 15.1, a need assessment conducted in the Colombo district proves that access to growing markets, new technologies, and appropriate training are often as important as financial facilities. Therefore, unlike other ALMPs operating in the country, the DNP

Figure 15.1
Assistance Required by the DNP Beneficiaries: Colombo District



Source: Ministry of Traditional Industries and Small Enterprises Development.

Table 15.1
Available ALMPs in Sri Lanka for Promotion of Self-Employment

Institution	Type of Institution	Available Programme to Promote Self-employment	Type of Assistance
Small Enterprise Development Division-Ministry of Youth Affairs	Government	Training courses in entrepreneurship and development of small businesses	Training
Ministry of Labour	Government	Microfinance	Microfinance
		Agriculture development programme	
		Animal husbandry and fishery development programme	
Samurdhi Authority	Government	Industrial development programme	Microfinance, grants and training
		Marketing and services development programme	
Sarvoday Economic Enterpirses Development Sector (SEEDS)	NGO	Microfinance for self-employment and small business	Microfinance and BDSs
Arthacharya Foundation	NGO	Start and improve your business - SIYB programme	Microfinance and counselling and training programme

Source: Adopted from Arunatilake, A., R. Jayaweera, and A. Wijesinha, (2008), "Review of Active Labour Market Programmes (ALMPS) in Sri Lanka", Institute of Policy Studies of Sri Lanka, Colombo, mimeo.

can be identified as a well-structured ALMP which addresses all the important issues faced by entrepreneurs in Sri Lanka.

Another important feature of the DNP is that it operates through government agencies involved in these activities. This helps coordination between stakeholders and reduces the overlapping between programmes.

15.4 Potential Impacts of the DNP

The potential impacts of ALMPs can be divided into two categories: macroeconomic impacts and microeconomic impacts. At the macro level, participation in ALPMs can reduce unemployment in the country. In addition, there are other ways in which ALMPs affect labour markets. Participation in ALMPs can enhance the efficiency of the matching process so that a given number of job-seekers is associated with fewer vacancies. This increased efficiency can reduce the mismatch between the qualifications of job seekers and labour demand. It can also increase the productivity of the labour force. This is of course the explicit aim of training activities, but it can also result from on-the-job training in job creation measures, or subsidized employment. The effect of these productivity increases may extend beyond the participants in the programmes; there may be associated externalities that contribute to general productivity increases. On the other hand, ALMPs may help maintain the effective supply of labour and create more competition for available jobs, which will reduce wage pressures.

Sometimes, job creation programme may create the substitution effects on regular labour demand, as it becomes profitable for employers to replace one category of workers with another. This reduction in regular employment might offset the direct job creation effects of ALMPs.

The DNP focuses only on the development of self-employment as a means of addressing unemployment in the country. Therefore, most of these macro level outcomes cannot be expected from the DNP. For instance, an effective matching process cannot be expected from the DNP as it does not include the normal training component by which participants can find employment. The DNP only provides training programmes related to the selected self employment.

At the micro level, the objective of supporting a self-employment programme is to increase the number of persons starting small businesses and improve the survival rate of firms that have started-up. Assessing the impact of the DNP is difficult owing to limitations of data and the nature of its implementation plan. The fact that the implementation is carried out in several steps adds to the complexities. Existing literature shows mixed results with regards to the micro level impact of ALMPs. For instance, some studies show that self-employment is of interest to a small sub-group of beneficiaries, where most pursued their businesses, and a half of these received income above the 'break-even' level.[6] With regard to the survival rate of businesses, other studies show that the proportion of businesses started and are still operating stood at 42 per cent after one year and 29 per cent after two years.[7] This suggests that better monitoring mechanisms are needed for the survival of newly started businesses as they cannot compete with well-established businesses in the market.

15.5 Conclusion and Policy Implications

While employment creation and skills development should be objectives of programmes such as the DNP, they should focus mainly on lagging areas, where available opportunities are more limited. According to the Labour Force Survey (2011) carried out by the DCS, around 23 per cent of the employed population in Sri Lanka is working as skilled agricultural and fishery workers, while another 20.6 per cent are working in elementary occupations. Out of those who are engaged in the agriculture and fishery sectors, 96 per cent are working in the informal sector. According to the HIES 2009/10 data of the DCS, almost a half of the heads of households in Sri Lanka are involved in elementary occupations that are not economically sound, and are more vulnerable to risks. Therefore, it is important to provide sustainable employment opportunities for poorer people in these districts. It will not only increase their household income, but it will also encourage more inclusiveness in Sri Lanka's development prospects.

Though the overall unemployment rate is low in Sri Lanka, youth unemployment and unemployment among educated females are higher. According to the LFS (2011), around 17 per cent of youth who are between 15 to 24 years of age are unemployed, and around 9 per cent of those who passed G.C.E (A/L) and above are unemployed. This rate is more severe among educated females. For example, 13 per cent of females who passed G.C.E (A/L) and above are unemployed. On the other hand, according to the LFS (2011), there are some districts where the overall unemployment rate is high. Previously, conflict-affected districts such as Killinochchi and Mannar record a higher rate of unemploy-

6 Wander, S. (1992), "Self Employment Programmes for Unemployed Workers", United States Department of Labor, Washington, D.C.

7 Brummelaar, J. and P. Gatenby (1992), "NEIS Evaluation: Intergovernment Component of NEIS", Department of Employment, Education and Training, Canberra.

ment. Some other districts also record a high percentage of unemployed people. For example, the Kandy district recorded an unemployment rate of 8.1 per cent.

The promotion of cottage industries through the DNP is one way of reducing the unemployment rate and ensuring the provision of good jobs. It can enhance entrepreneurial skills through training programmes, which take beneficiaries out of elementary occupations and into self-employment. With these objectives, the DNP should focus more on lagging districts where the numbers in elementary occupations and unemployment rates are higher. For example, in districts like Batticaloa, engagement in elementary occupations among heads of households is high. All districts in the Northern and Eastern Provinces should receive more attention as households in these areas are attempting to rebuild their livelihood activities after the conflict. On the other hand, districts where the female labour force participation is lower can also be focused on, with the introduction of cottage industries and agriculture support.

A thorough monitoring and evaluation (M&E) system should be included in the DNP programme to monitor the progress of supported cottage industries. As mentioned earlier, newly started businesses need monitoring and continuous support until they are stable, so that they can survive in the market. In most of the ALMPs in Sri Lanka, M&E is limited.[8] According to the concept of microfinance, a one-time grant would not work in developing a business. Therefore, there should be a continuous process of financial services until newly started businesses are stable in the market. These financial services do not necessarily have to be in the form of a grant, but it can be a step-by-step loan process. Through this loan process, businesses can be monitored to better ensure their sustainability.

There should also be coordination between the DNP and other livelihood improvement programmes. As the DNP is already implemented through different government agencies that support livelihood development, overlapping with similar types of other programmes is minimal. There are a number of NGOs that are engaged in this field, especially in the Northern and Eastern Provinces. For example, to support self-employment and small businesses, there are a number of microfinance institutions and programmes such as the North and East Coastal Community Development Project and Promoting Women Economic Leadership Programme, conducted by the SEEDS. In addition, training programmes are also offered by many NGOs, for example, the Arthacharya Foundation provides vocational training programme for its clients. Therefore, the DNP should coordinate with these programmes in order to avoid the implementation of overlapping programmes as well as overlapping beneficiaries. Given that many of these NGOs are already working through government agencies, avoiding such overlaps can be possible.

According to the concept of the DNP, it will contribute to raise and improve livelihood opportunities among poor people in rural and urban areas. To achieve this objective, the implementation process should be more efficient. The selection of the beneficiaries for cottage industries should be based on the quality of the business proposals, and other capacities of the beneficiary. Conducting a needs assessment is important in order to identify the needs of potential beneficiaries. In addition to that, identification of market needs is also pivotal, so that beneficiaries can cater to existing needs through their cottage industries.

[8] Arunatilake, A., R. Jayaweera, and A. Wijesinha, (2008), "Review of Active Labour Market Programmes (ALMPS) in Sri Lanka", Institute of Policy Studies of Sri Lanka, Colombo, mimeo.

Prospects

16. Prospects

In January 2010, the IMF recognized Sri Lanka as a middle income emerging market, graduating it from the list of Poverty Reduction and Growth Trust (PRGT) countries. A country is considered ready for graduation from PRGT if it has an income per capita well above the IDA threshold for a number of years, shows capacity for durable and substantial access to international financial markets, and does not face serious short term vulnerabilities. Sri Lanka, at the end of a 30 year armed-conflict in 2009, having already crossed the per capita income of US$ 2,000 in 2008 subsequent to a continuous improvement over time, and with an IMF SBA facility approved in July 2009 was clearly in a better position to ensure a greater degree of economic stability in the medium term. Indeed, the country had already demonstrated international financial market confidence in the Sri Lankan economy as far back as 2007, with its first successful issuance of a US$ 500 million 5 year Sovereign bond.

> ***Sri Lanka has reasons to be hopeful for its long term growth prospects. A belief in reform and the strength of resolve to push them through will be the biggest hurdle to be overcome***

International experience suggests that graduation to a middle income status is the easier bit. Many countries in Latin America and the Middle East reached middle income status in the 1960s and 1970s. However, after the initial rapid ascent, the great majority have not made the transition to a high income status. In fact, it is estimated that only a handful of countries have done so successfully. A study by the World Bank indicates that of 101 middle income economies in 1960, only 13 countries – Equatorial Guinea, Greece, Hong Kong, Ireland, Israel, Japan, Mauritius, Portugal, Puerto Rico, South Korea, Singapore, Spain, and Taiwan – had managed the successful transition to a high income economy by 2008.[1]

According to thresholds set by the IDA, Sri Lanka with a per capita GDP of US$ US$ 2,923 in 2012 finds itself in the category of lower middle income

[1] Agénor, P., and O. Canuto (2012), "Middle-Income Growth Traps", World Bank Policy Research Working Paper 6210, World Bank, Washington, D.C.

and would need to cross a US$ 4,000 to be considered for graduation to upper middle income. It is the transition thereafter to a high income economy (approximately US$ 12,000 and above) that will be the most difficult. That, however, is too far ahead for serious analytical consideration. Of more immediate interest is the country's stated policy intension to double per capita GDP to US$ 4,000 by 2016, and thereafter to work up the ladder to an upper middle income economy. While it is helpful to set medium to long term economic goals, a targets-oriented approach must not drive policy to the exclusion of sound economic management.

After years of underachievement – witnessed by the relatively low growth economic equilibria that persisted for much of the conflict-affected decades – Sri Lanka seems set on a promising path in many ways, most notably with the dawning of both social and political stability, and significant government initiatives on the economic front – especially improving access to advanced infrastructure. If managed properly, the country and its people could see a prosperous period ahead in terms of rising living standards and the social mobility that comes with it.

When countries are growing fast there is a lot of absolute upward economic mobility. The changes emerging from these structural social changes would result in the formation of a potentially influential economic, social, and political middle class. This middle class is defined in both economic and political terms, and can often be a mixed blessing. A rising middle class can lead to a heavily consumption-led economy with repercussions for already strained resources. Yet, it can also be a necessity for further growth, especially driving demand in the services sector of an economy. The related social mobility that comes with a rising middle class is a key a factor conditioning its social and political behaviour. In turn, a large middle class can have a beneficent influence on a country's democratic institutions and governance structures. Thus, in many ways, a successful economic transition, and even development more broadly, requires the presence of a significant and stable middle class.

For a sizeable middle class to emerge, sustained economic growth and development is a must. In fact, studies indicate that economic volatility has detrimental effects on the formation of an incipient middle class.[2] For Sri Lanka, even as the economy is going through a tougher patch, the challenge is to manage a menu of economic reforms to boost confidence and raise investment and growth.

What could stop Sri Lanka on its march to growth? What is most worrying is the inexorable decline in the competitiveness of the country's manufacturing industrial sector, which has a direct bearing on growth. There have been sweeping changes in the world economy since the 1980s. Globalization, deregulation, and the IT revolution have brought about swift changes in trade, capital flows and production networks. Skill-biased technological change is a driver of productivity and economic growth in the new global economic landscape. For a country like Sri Lanka, undergoing a rapid demographic transition associated with an ageing population and dwindling numbers entering the labour force – at a comparatively low level of per capita income – the importance of productivity in driving growth cannot be overstated. This means equipping workers with the right sort of skills, within a context where

[2] Birdsall, N., (2007), "Reflections on the Macro Foundations of the Middle Class in the Developing World", Center for Global Development Working Paper, No. 130, Center for Global Development, Washington, D.C.

technological learning and research and development (R&D) are central to enhancing innovation.

To achieve more rapid growth Sri Lanka will need to introduce a series of economic reforms that will tackle major structural/supply bottlenecks. The critical initiatives needed include education reforms to enhance access to and the quality of education; reforming labor markets to reduce rigidities; deregulating and/or restructuring the public utilities sector, especially the energy sector; and overhauling the country's tax system.

These can be politically controversial and often painful reforms. But given that Sri Lanka at present has a political class with an enviable electoral mandate than at any time in recent history, a belief in reform and the strength of resolve to push them through will be the biggest hurdle to be overcome. Thereafter, the reform path will depend on persuading entrenched interests to accept them. The former, however, is the key: without leaders who really believe in what they are doing, it will cause good initiatives to fall at the last hurdle.

Without a reform effort, sustained economic stability will prove elusive. If the outlook for growth deteriorates, Sri Lanka will find it difficult to raise the volumes of financing needed for its long term physical and social infrastructure investments. Not only will there be a further deterioration of tax revenues, but access to all forms of foreign capital can either dry up or become exorbitantly expensive. Implementing tax reforms when the growth outlook for the country is positive is easier and more manageable than in a harsher economic climate. In the final analysis, a country that does not tax sufficiently to cover its spending faces the risk of eventually running into all manner of debt-generated trouble.

Instability on the growth front will also cause more volatility in the business climate. Indeed, Sri Lanka's private sector is yet to fully engage in the country's post-conflict growth revival efforts. To some extent, businesses have been fighting with one hand tied behind their backs. They have been subject to stop-go policies as the CBSL aggressively pushed private commercial banks to lower interest rates and support credit uptake by private entities in 2010. Consequent to emerging macroeconomic instability and corrective policy adjustments, the corporate sector was subject to a credit drought in 2012 just as the economy began to show sustained growth. By mid-2013, there are moral suasion attempts once again to persuade commercial banks to ease lending rates. Besides monetary policy swings, Sri Lanka's corporate entities, have also had to deal with significant uncertainty with regards to policy direction viz. the country's exchange rate.

Underpinning these developments has also been a trend towards greater state control over resources, including through SOEs, monopoly control of industries or through the financial sector. As the role of the state in an economy expands, it can often mean that the beneficiaries also tend to be close to state power. If the corporate sector is to play the role of a full partner in meeting Sri Lanka's post-conflict development aspirations, it must have confidence in the prevailing transparency and accountability mechanisms and rule of law in the country. Any weaknesses, if not effectively managed by deterring 'cronyism' that enriches insiders, can undermine the establishment of solid and durable institutions, and democratic governance and economic management in the country.

Sri Lanka has reasons to be hopeful for its medium to long term growth prospects. It takes time for results from recent investments in productive public investments that have passed cost-benefit tests to come through, and many such benefits have yet to materialize. These, coupled with the forces driving modern economies – technological innovation and globalization – benefit the skilled and educated of which the country has an aspirational young, urban and literate population. Given that skill-biased technological change can have a significant impact on wage dispersion, it is also encouraging that Sri Lanka is making strides in tackling poverty and inequality. Indeed, narrower income gaps themselves are more likely to spur both social mobility and future prosperity.

As Sri Lanka aims to revive GDP growth in the medium term in the midst of weak global growth, it must be recognized that monetary policy cannot fix problems in the real economy. Only policy changes affecting the real economy can address supply-side constraints to growth. Policy choices matter and the Sri Lankan economy is ready for reforms that are in fact overdue. The economic reforms made today will determine whether Sri Lanka will continue to enjoy rapid growth and stability, accompanied by a growing and stable middle class that will allow the country to successfully make the additional leap to become an upper middle income economy.

Appendices

Appendix A: Macroeconomic Indicators (Statistical Base)

Table A1: Socio-Economic Indicators

	Unit					
1. Basic indicator	**Unit**					
Area:	Sq. km.	65,610				
Mid year population (2012)	('000)	20,328				
Population growth rate (2012)	%	n. a.				
Life expectancy at birth (2012)	years	75.1				
Infant mortality rate (2009)	per 1000 live births	9.4				
Gross school enrolment ratio (2005)(a)	%	62.7				
Adult literacy rate (2011)	%	92.2				
Human development index (HDI) (2012)	Value	0.715				
Human poverty index (HPI) (2005)	Value	17.8				
		2008	**2009**	**2010**	**2011**	**2012(e)**
2. Output, labour force and employment						
GNP at current market prices	Rs. bn.	4,306.0	4,779.0	5,534.0	6,472.0	7,434.0
GDP at current market prices	Rs. bn.	4,411.0	4,835.0	5,604.0	6,544.0	7,582.0
GDP at current factor cost prices (k)	Rs. bn.	4,410.7	4,835.3	5,604.1	6,544.0	7,582.4
GDP per capita at current market prices	US$	2,014.0	2,057.0	2,400.0	2,836.0	2,923.0
Labour force	mn.	8.1 (h)	8.1(h)	8.1 (h)	8.6 (l)	8.5 (l)
Labour force participation	%	49.5 (h)	48.7 (h)	48.1 (h)	47.8 (l)	47.2 (l)
Unemployment	%	5.4 (h)	5.8 (h)	4.9 (h)	4.2 (l)	4.0 (l)
3. Real output growth						
GDP (g)	%	6.0	3.5	8.0	8.2	6.4
Agriculture, forestry, and fishing	%	7.5	3.2	7.0	1.4	5.8
Mining and quarrying	%	12.8	8.2	15.5	18.5	18.9
Manufacturing	%	4.9	3.3	7.3	7.9	5.2
Construction	%	7.8	5.6	9.3	14.2	21.6
Services	%	5.6	3.3	8.0	8.6	4.6
4. Prices & wages						
CCPI (2002 = 100) - annual average	% change	22.6	3.4	5.9	-	-
CCPI (2006/07 = 100) - annual average (n)	% change	-	3.5	6.2	6.7	7.6
WPI - annual average	% change	24.9	-4.2	11.2	10.6	3.5
Implicit GNP deflator (g)	% change	16.3	5.9	7.3	7.9	8.9
Real wage rates						
Workers in wages boards trades	% change	2.7	1.5	24.3	-2.0	13.8
Government employees	% change	-12.4	5.7	-2.7	0.0	-0.6
5. Consumption, investment, and savings (g)						
Consumption	% of GDP	86.1	82.1	80.7	84.6	83.0
Gross domestic capital formation	% of GDP	27.6	24.4	27.6	30.0	30.6
Gross domestic savings	% of GDP	13.9	17.9	19.3	15.4	17.0
Gross national savings	% of GDP	17.8	23.7	25.3	22.0	24.0
Net imports of goods and services	% of GDP	13.7	6.5	8.3	14.6	13.7
6. Government finance (g)						
Revenue	% of GDP	14.9	14.5	14.6	14.3	13.0
Expenditure & net lending	% of GDP	22.6	24.9	22.9	21.4	19.7
Current expenditure	% of GDP	16.9	18.2	16.7	15.4	14.4
Capital expenditure & net lending	% of GDP	5.7	6.7	6.1	6.0	5.3
Current a/c balance	% of GDP	-2.0	-3.7	-2.1	-1.1	-1.4
Budget deficit						
Primary deficit	% of GDP	-2.2	-3.5	-1.7	-1.4	-1.1
Overall deficit (before grants)	% of GDP	-7.0	-9.9	-8.0	-6.9	-6.4
Public debt						
External	% of GDP	32.8	36.5	36.1	35.6	36.5
Domestic	% of GDP	48.5	49.8	45.8	42.9	42.6

	Unit	2008	2009	2010	2011	2012(e)
7. External trade						
Terms of trade	% change	3.0 (j)	-2.7 (j)	27.4 (j)	-8.9 (j)	-1.3 (j)
Import price index	% change	5.2 (j)	5.2 (j)	10.2 (j)	22.0 (j)	-5.8(j)
Export price index	% change	8.4 (j)	2.4 (j)	40.4 (j)	11.1 (j)	-7.1(j)
Import volume index	% change	18.6 (j)	-31.2 (j)	19.6 (j)	23.6 (j)	0.5 (j)
Export volume index	% change	-2.0 (j)	-14.7 (j)	-13.3 (j)	10.2 (j)	-0.4 (j)
8. External finance (g)						
Trade balance	% of GDP	-14.7	-7.4	-9.7	-16.4	-15.8
Current account balance	% of GDP	-9.5	-0.5	-2.2	-7.8	-6.5
Capital & financial account balance	% of GDP	4.4	6.2	5.7	7.0	8.3
Foreign direct investments	% of GDP	1.7	0.9	0.9	1.5	1.4
Foreign portfolio investments	% of GDP	0.1	0.0	-0.5	-0.3	0.5
Import capacity	months of imports (d)	3.1	8.3	7.7	4.7	5.4
External debt	% of GDP	43.7	49.7	50.1	49.7	56.7
Debt-service ratio (m)	% of exports	18.0	22.4	16.7	12.7	21.2
9. Exchange rates (year end)						
U.S.A.	Rs./US$	113.1	114.4	111.0	113.9	127.2
U.K.	Rs./UK Pound	163.3	181.7	171.4	175.4	205.5
Japan	Rs./Yen	1.3	1.2	1.4	1.5	1.5
European Union	Rs./Euro	159.5	163.7	147.6	147.4	168.1
India	Rs./Rs. Indian	2.4	2.5	2.5	2.2	2.3
SDR	Rs./SDR	174.3	178.7	170.8	174.9	195.3
10. Money supply						
Narrow money supply (M1)	% change	4.0	21.4	20.9	7.7	2.6
Broad money supply (M2)	% change	8.5	18.6	15.8	19.1	17.6
Domestic credit	% change	18.0	0.5	18.6	34.3	21.7
External banking assets	% change	-65.9	417.2	-6.1	-74.0	-126.3
11. Interest rates						
Treasury bill yeild rates						
3 month	% per annum	17.3	7.7	7.2	8.7	10.0
12 months	% per annum	19.1	9.3	7.6	9.3	11.7
Call money rates	% per annum	14.7	9.0	8.0	9.0	9.8
Average prime lending rate	% per annum	18.5	10.9	9.3	10.8	14.4
Commercial banks saving	% per annum	16.5	10.5	9.5	8.5	10.5
NSB saving	% per annum	5.0	5.0	5.0	5.0	5.0
Commercial banks fixed deposits	% per annum	20.3	19.0	17.0	11.0	17.0
NSB fixed deposits	% per annum	15.0	9.5	8.5	8.5	12.5
12. Share market indicators						
Annual turnover	Rs. bn.	110.5	142.5	570.3	546.3	213.8
Companies listed	No.	235	232	242	272	287
Market capitalisation	Rs. bn.	488.8	1092.1	2210.5	2213.9	2167.6
Net purchases by non-nationals	Rs. mn.	13951	-789	-26335	-19039	38661
Share price indices						
CSE share	(Index, 1985 = 100)	1,503.0	3385.6	6,635.9	6,074.4	5,643.0
CSE sensitive(f)	(Index, 1998 Dec = 1000)	1,631.3	3849.4	7,061.5	5,229.2	5,119.1

Notes: (a): Combined first, second, and third level gross enrolment ratio.
(b): Excluding Northern and Eastern Provinces.
(c): Average of four quarters.
(d): Months of same year imports.
(e): Provisional.
(f): The Milanka Price Index (MPI) was introduced in January 1999, (1998 December = 1000) to replace the Sensitive Price Index.
(g): From 2003, data are based on GDP estimates compiled by the Dept. of Census and Statistics.
(h): Excluding Northern Province
(i): Excluding Mullaitivu and Killinochchi districts
(j): From 2007 onwards, trade indices have been calculated with a wider coverage using 2010 as the base year.
(k): Estimates from 2006 onwards are based on National Accounts data of the Department of Census and Statistics.
(l): Data covers the entire island
(m): The rebased CCPI (2006/07 = 100) has replaced CCPI (2002 = 100)
(n): Overall debt service ratios were reclassified to capture debt servicing"of government, short-term debt in accordance with the External Debt Statistics Manual (2003)"of the IMF."

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, 1990-2012

	Constant Prices (c)			Growth Rates		
	GDP	PGDP	POP(b)	GDP	PGDP	POP
	Rs. mn.	Rs.mn.	('000)			
1990	516,152.7	30335.2	17,015	6.2	5.0	1.1
1991	539,954.8	31270.9	17,267	4.6	3.1	1.5
1992	563,061.9	32311.6	17,426	4.3	3.3	0.9
1993	602,171.5	34125.1	17,646	6.9	5.6	1.3
1994	636,061.5	35552.0	17,891	5.6	4.2	1.4
1995	670,742.2	36984.0	18,136	5.5	4.0	1.4
1996	695,934.0	37954.5	18,336	3.8	2.6	1.1
1997	739,763.0	39840.7	18,568	6.3	5.0	1.3
1998	774,796.0	41247.7	18,784	4.7	3.5	1.2
1999	808,340.0	42419.2	19,056	4.3	2.8	1.4
2000	857,035.0	44866.2	19,102	6.0	5.8	0.2
2001	843,794.0	44889.8	18,797	-1.5	0.1	1.6
2002	877,284.0	46365.6	18,921	4.0	3.3	0.7
2003(d)	1,733,222.0	90399.1	19,173	5.9	4.6	1.3
2004	1,827,597.0	94036.4	19,435	5.4	4.0	1.4
2005	1,941,671.0	98843.0	19,644	6.2	5.1	1.1
2006	2,090,548.0	105274.9	19,858	7.7	6.5	1.1
2007	2,232,656.0	111415.5	20,039	6.8	5.8	0.9
2008	2,365,501.0	117005.5	20,217	6.0	5.0	0.9
2009	2,449,214.0	119766.0	20,450	3.5	2.4	1.2
2010	2,645,542.0	128094.8	20,653	8.0	7.0	1.0
2011	2,863,715.0	137223.4	20,869	8.2	7.1	1.0
2012(a)	3,047,277.0	149905.4	20,328	6.4	9.2	-2.6

Notes: (a): Provisional

(b): From 1997 the figures are based on "Statistics on Vital Events 2000-2010" published by Registrar General's Department in January 2011. 2001 figure is based on Census of Population and Housing-2001. From 2008 the figures are provisional.

(c): Up to 2002 data are based on 1996 prices and 2003 onwards data are based on 2002 prices.

(d): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

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

Table A3: Structure and Growth of Output, 2003-2012

	Unit	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)	2003-2012 (b)
1. Structure of output												
Agriculture, forestry, and fishing	% of total output	13.7	13.0	12.5	12.3	11.9	12.1	12.0	11.9	11.2	11.1	12.2
Agriculture	% of total output	12.3	11.7	11.7	11.3	10.8	10.9	10.9	10.7	9.9	9.8	11.0
Tea	% of agriculture	12.3	12.5	12.1	11.4	11.0	10.7	9.5	10.2	10.1	9.4	10.9
Rubber	% of agriculture	2.0	2.0	2.1	2.1	2.2	2.2	2.3	2.5	2.5	2.2	2.2
Coconut	% of agriculture	12.7	13.1	11.9	12.3	12.6	12.4	12.7	10.2	10.5	10.6	11.9
Paddy	% of agriculture	16.2	13.9	16.0	15.9	14.6	16.8	15.5	17.1	15.7	15.1	15.7
Mining and quarrying	% of total output	1.3	1.3	1.5	1.7	1.9	2.0	2.1	2.3	2.5	2.8	1.9
Manufacturing	% of total output	18.1	18.1	18.1	17.7	17.7	17.5	17.4	17.3	17.3	17.1	17.6
Export processing	% of manufacturing	4.1	4.1	3.9	3.7	3.6	3.6	3.5	3.5	3.2	3.3	3.7
Factory industry	% of manufacturing	89.7	89.7	89.9	90.0	90.2	90.2	90.3	90.5	90.7	90.7	90.2
Small industry	% of manufacturing	6.2	6.2	6.2	6.3	6.2	6.2	6.2	6.1	6.0	6.0	6.2
Construction	% of total output	6.0	6.0	6.2	6.3	6.4	6.5	6.6	6.7	7.1	8.1	6.6
Services	% of total output	58.6	59.3	59.4	59.5	59.6	59.5	59.3	59.3	59.5	58.5	59.3

	Unit	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)	2003-2012(b)
2. Real output growth												
Agriculture, forestry, and fishing	% growth	1.7	0.0	1.8	6.3	3.4	7.5	3.2	7.0	1.4	5.8	3.8
Agriculture	% growth	2.6	-0.1	6.9	3.5	2.3	7.3	2.8	6.4	-0.2	5.3	3.7
Tea	% Growth	-2.2	1.6	3.0	-2.0	-1.8	4.2	-8.4	13.8	-1.2	-1.2	0.6
Rubber	% growth	1.6	2.9	10.2	4.6	4.2	10.3	7.9	12.7	2.1	-6.7	5.0
Coconut	% growth	4.3	3.7	-2.9	6.4	5.1	5.2	5.3	-14.3	3.0	6.0	2.2
Paddy	% growth	7.4	-14.5	23.6	2.9	-6.2	23.1	-5.1	17.5	-8.4	1.3	4.2
Mining and quarrying	% growth	16.4	5.5	17.8	24.2	19.2	12.8	8.2	15.5	18.5	18.9	15.7
Manufacturing	% growth	3.9	5.2	6.2	5.5	6.4	4.9	3.3	7.3	7.9	5.2	5.6
Export processing	% growth	-4.7	4.5	1.4	0.8	2.4	5.3	0.7	5.8	0.9	6.5	2.4
Factory industry	% growth	4.3	5.2	6.4	5.7	6.7	5.0	3.4	7.5	8.3	5.2	5.8
Small industry	% growth	5.1	5.7	6.3	5.7	5.6	4.5	3.3	5.5	7.0	4.6	5.3
Construction	% growth	3.7	5.9	9.0	9.2	9.0	7.8	5.6	9.3	14.2	21.6	9.5
Services	% growth	7.6	6.7	6.4	7.7	7.1	5.6	3.3	8.0	8.6	4.6	6.6
GDP	% growth	5.9	5.4	6.2	7.7	6.8	6.0	3.5	8.0	8.2	6.4	6.4

Notes: Data are based on constant (2002) prices
(a): Provisional.
(b): Average annual growth rate.

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

Table A4: Value Added in Industry and Industrial Production, 2000-2012

	2000	2001	2002	2003 (b)	2004	2005	2006	2007	2008	2009	2010	2011	2012 (a)
1. Value added, current prices (Rs. mn.)													
Food, beverages and tobacco	49,031	54,282	61,550	136,058	158,229	202,785	241,854	282,843	348,358	397,244	458,151	537,691	610,891
Textile, wearing apparel and leather products	69,451	71,263	77,028	76,511	85,179	103,198	113,956	131,522	147,822	155,409	172,726	207,578	239,351
Wood and wood products (including furniture)	1,554	1,639	1,736	1,085	1,121	1,143	1,245	1,353	1,447	1,585	1,786	2,580	2,908
Paper and paper products	2,808	3,103	3,124	1,669	2,079	2,963	3,998	4,883	5,798	6,631	7,653	8,466	9,372
Chemicals, petroleum, coal, rubber and plastic products	17,771	19,245	22,653	46,133	58,912	72,089	95,346	112,915	135,447	142,935	170,000	207,654	235,515
Nonmetallic mineral products (except petroleum and coal)	14,240	16,010	17,273	11,388	13,432	15,805	17,930	20,352	22,776	24,653	27,865	32,167	35,991
Basic metal products	959	1,131	1,306	970	998	1,061	1,292	1,521	1,638	1,659	1,826	2,119	2,399
Fabricated metal products, machinery and transport equipment	7,714	8,731	9,698	28,339	30,217	34,480	38,872	47,947	55,185	62,013	72,990	82,852	93,261
Manufactured products n.e.s.	3,965	4,154	4,695	1,307	1,350	1,446	1,879	2,208	2,508	2,903	3,410	3,149	3,545
Total	167,493	179,558	199,063	303,460	351,517	434,970	516,372	605,544	720,979	795,032	916,407	1,084,256	1,233,233
2. Composition of industrial production (%)													
Food, beverages and tobacco	29.3	30.2	30.9	44.8	45.0	46.6	46.8	46.7	48.3	50.0	50.0	49.6	49.5
Textile, wearing apparel and leather products	41.5	39.7	38.7	25.2	24.2	23.7	22.1	21.7	20.5	19.5	18.8	19.1	19.4
Wood and wood products (including furniture)	0.9	0.9	0.9	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Paper and paper products	1.7	1.7	1.6	0.5	0.6	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Chemicals, petroleum, coal, rubber and plastic products	10.6	10.7	11.4	15.2	16.8	16.6	18.5	18.6	18.8	18.0	18.6	19.2	19.1
Nonmetallic mineral products (except petroleum and coal)	8.5	8.9	8.7	3.8	3.8	3.6	3.5	3.4	3.2	3.1	3.0	3.0	2.9
Basic metal products	0.6	0.6	0.7	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Fabricated metal products, machinery and transport equipment	4.6	4.9	4.9	9.3	8.6	7.9	7.5	7.9	7.7	7.8	8.0	7.6	7.6
Manufactured products n.e.s.	2.4	2.3	2.4	0.4	0.4	0.3	0.4	0.4	0.3	0.4	0.4	0.3	0.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes: (a): Provisional.
(b): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

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

Table A5: Major Agricultural Crops, Production and Prices, 1990-2012

	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)
1990	233.2	65.72	91.78	113.1	22.93	35.50	2,532	3.63	2,538	110.00
1991	240.7	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	259.0	103.88	139.56	112.5	67.88	79.73	2,546	9.42	2,061	155.00
1997	277.4	119.40	158.39	105.8	56.71	75.42	2,631	9.63	2,239	155.00
1998	280.7	134.35	184.94	95.7	49.83	67.72	2,504	8.31	2,692	155.00
1999	284.2	115.31	162.39	96.6	45.35	53.73	2,828	9.95	2,857	155.00
2000	306.8	135.53	184.73	87.6	54.91	66.87	3,096	7.35	2,860	155.00
2001	296.3	143.96	208.89	86.2	54.77	66.17	2,796	7.05	2,695	-
2002	310.6	149.30	216.26	90.5	68.76	69.53	2,392	12.06	2,859	-
2003	304.8	149.05	221.01	92.0	93.60	105.25	2,562	9.98	3,071	-
2004	309.4	180.74	248.38	94.7	127.20	127.26	2,591	11.03	2,628	-
2005(d)	317.2	185.84	263.81	104.4	140.99	147.98	2,515	13.04	3,246	-
2006	310.8	198.87	279.97	109.2	202.23	204.70	2,785	12.08	3,342	-
2007	305.2	279.10	364.28	117.6	234.22	234.48	2,869	16.26	3,131	-
2008	318.7	301.63	430.55	129.2	269.51	278.39	2,909	23.46	3,875	-
2009	291.0	360.85	470.11	136.9	211.65	202.30	2,853	18.23	3,652	-
2010	331.4	371.54	496.27	152.9	403.02	377.54	2,584	24.64	4,301	-
2011	327.5	360.68	510.41	158.2	508.80	535.40	2,808	39.15	3,894	-
2012(e)	326.3	392.40	563.94	152.0	416.47	420.74	2,940	28.80	3,846	

Notes: (a): Average export price of the three major coconut products only.
(b): Guaranteed price.
(c): 20.9 kg. of paddy = 1 bushel of paddy.
(d): Revised.
(e): Provisional.

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

Table A6: Labour Force Participation of the Household Population All Island, 2002-2012

	Household population (10 yrs. & over)	Labour force	Labour force participation	Labour force			
				Employed		Unemployed	
	No. mn.	No. mn.	rate (%)	No. mn.	Rate	No. mn.	Rate
2002							
q1	14.1	7.3	51.7	6.7	91.3	0.6	8.7
q2	14.2	7.0	49.5	6.3	90.2	0.7	9.8
q3	14.3	7.0	49.4	6.4	90.9	0.6	9.1
q4	14.3	7.2	50.6	6.7	92.5	0.5	7.5
2003 (a)							
q1	15.6	7.6	49.1	6.9	90.8	0.7	9.2
q2	15.6	7.5	48.3	6.9	91.9	0.6	8.1
q3	15.7	7.6	48.6	7.0	91.6	0.6	8.4
q4	15.8	7.8	49.6	7.2	92.1	0.6	7.9
2004							
q1 (b)	16.3	8.0	49.0	7.3	91.9	0.7	8.1
q2 (e)	16.5	8.0	48.6	7.3	91.0	0.7	9.0
q3 (e)	16.7	8.0	47.8	7.3	91.5	0.7	8.5
q4 (e)	16.7	8.2	48.8	7.5	91.8	0.7	8.2
2005 (c)	16.9	8.1	48.3	7.5	92.3	0.6	7.7
2006 (d)							
q1	14.8	7.6	51.7	7.1	92.8	0.5	7.2
q2	14.8	7.5	51.1	7.1	93.7	0.5	6.3
q3	15.0	7.6	50.7	7.1	93.6	0.5	6.4
q4	15.0	7.6	51.0	7.1	93.7	0.5	6.3
2007(d)							
q1	15.0	7.5	49.8	7.0	93.8	0.5	6.2
q2	15.0	7.4	49.0	6.9	93.5	0.5	6.5
q3	15.0	7.5	50.2	7.1	94.4	0.4	5.6
q4	15.1	7.6	50.1	7.2	94.5	0.4	5.5
2008 (a)							
q1	16.3	8.0	49.1	7.6	94.9	0.4	5.1
q2	16.3	8.0	49.0	7.6	94.5	0.4	5.5
q3	16.3	8.2	50.3	7.7	94.5	0.4	5.5
q4	16.4	8.2	49.7	7.7	94.6	0.4	5.4
2009 (a)							
q1	16.6	8.2	49.2	7.7	94.5	0.5	5.5
q2	16.5	8.0	48.3	7.5	93.8	0.5	6.2
q3	16.7	8.1	48.7	7.6	94.1	0.5	5.9
q4	16.6	8.1	48.5	7.6	94.3	0.5	5.7
2010 (a)							
q1	16.9	8.1	48.2	7.7	95.0	0.4	5.0
q2	16.8	8.1	47.9	7.6	94.6	0.4	5.4
q3	16.8	8.0	47.4	7.6	95.1	0.4	4.9
q4	17.0	8.3	48.8	7.9	95.5	0.4	4.5
2011 (a)							
q1	16.9	8.1	48.0	7.8	95.7	0.3	4.3
q2	17.2	8.3	48.3	8.0	95.8	0.4	4.2
q3	17.1	8.3	48.3	7.9	96.1	0.3	3.9
q4 (f)	-	-	-	-	-	-	-
2012 (e)							
q1 (f)	-	-	-	-	-	-	-
q2	17.8	8.3	46.4	7.9	96.1	0.3	3.9
q3	17.8	8.4	47.2	8.1	95.9	0.3	4.1
q4	18.1	8.7	48.1	8.4	96.1	0.3	3.9

Notes: (a) Including Eastern province but excluding Northern province.
(b) Excluding Vavunia,Mullaitivu ,Kilinochchi districts.
(c) Quarterly labour force survey was conducted as a one off survey in August 2005.
(d) Excluding Northern & Eastern provinces.
(e) All the districts are included.
(f) Labour Force Survey was not conducted for the 4th quarter of 2012.

Source: Department of Census and Statistics, *Quarterly Report of the Sri Lanka Labour Force.*

Table A7: Gross Domestic Fixed Capital Formation, 1990-2012

	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)	
1990	57,910	12,507	18.0	3.9	2895.5	625.4	-30.4	-58.0
1991	68,368	15,838	18.4	4.3	6215.3	1439.8	114.7	130.2
1992	86,407	13,632	20.3	3.2	8640.7	1363.2	39.0	-5.3
1993	105,305	20,570	21.1	4.1	11084.7	2165.3	28.3	58.8
1994	136,649	17,611	23.6	3.0	14693.4	1893.7	32.6	-12.5
1995	147,280	23,595	22.1	3.5	17533.3	2808.9	19.3	48.3
1996	160,181	23,328	20.9	3.0	13238.1	1927.9	-24.5	-31.4
1997	186,950	29,923	21.0	3.4	21738.4	3479.4	64.2	80.5
1998	221,754	33,960	21.8	3.3	26399.3	4042.9	21.4	16.2
1999	266,518	35,210	24.1	3.2	60572.3	8002.3	129.4	97.9
2000	311,460	41,132	24.8	3.3	46486.6	6139.1	-23.3	-23.3
2001	267,298	42,346	19.0	3.0	21556.3	3415.0	-53.6	-44.4
2002	298,731	31,812	18.9	2.0	35563.2	3787.1	65.0	10.9
2003(f)	318,909	46,285	17.5	2.5	62,531.2	9,075.5	75.8	139.6
2004	422,060	51,262	20.2	2.5	47,961.4	5,825.2	-23.3	-35.8
2005	478,917	94,347	19.5	3.8	46,049.7	9,071.8	-4.0	55.7
2006	624,972	105,938	21.3	3.6	55,307.3	9,375.0	20.1	3.3
2007	714,084	170,604	20.0	4.8	51,006.0	12,186.0	-7.8	30.0
2008	852,708	262,602	19.3	6.0	52,313.4	16,110.6	2.6	32.2
2009	838,629	308,811	17.3	6.4	142,140.5	52,340.8	171.7	224.9
2010	1,128,151	323,851	20.1	5.8	154,541.2	44,363.2	8.7	-15.2
2011	1,402,217	370,298	21.4	5.7	177,495.8	46,873.2	14.9	5.7
2012(d)	1,695,184	494,621	22.4	6.5	190,470.1	55,575.4	7.3	18.6

Notes:
(a): Private sector and public corporations.
(b): Government and public enterprises.
(c): Current series deflated by GDP deflator.
(d): Provisional.
(e): Up to 1995 data are based on 1982 prices. From 1996-2002 data are based on 1996 prices. 2003 onwards data are based on 2002 prices.
(f): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

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

Table A8: Saving and Investment, 1998-2012

	1998	1999	2000	2001	2002	2003 (c)	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)
(As % of GDP)															
Gross domestic capital formation	25.1	27.3	28.0	22.0	21.2	22.0	25.3	26.8	28.0	28.0	27.6	24.4	27.6	30.0	30.6
Gross domestic savings	19.1	19.5	17.4	15.8	14.4	16.0	16.4	17.9	17.0	17.6	13.9	17.9	19.3	15.4	17
Net imports of goods and non-factor services (b)	6.5	7.8	10.6	6.2	6.7	6.0	8.8	8.9	11.0	10.4	13.7	6.5	8.3	14.6	13.7
Net factor income from abroad	-1.1	-1.6	-1.8	-1.7	-1.5	-0.9	-1.0	-1.2	-1.4	-1.1	-2.4	-1.2	-1.2	-1.1	-2.0
Net private transfers	5.4	5.6	5.9	6.2	6.6	6.4	6.5	7.1	6.7	6.8	6.3	7.0	7.3	7.7	9.0
Gross national savings	23.4	23.5	21.5	20.3	19.5	21.5	22.0	23.8	22.3	23.3	17.8	23.7	25.3	22	24
Foreign savings	4.3	4.0	4.1	4.5	5.1	5.5	5.6	5.9	5.3	5.7	3.9	5.8	6.0	6.6	7.0

Notes: (a): Provisional.
(b): Also referred to as external inflow or the resources gap.
(c): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Sources: IPS database; Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A9: Summary of Government Fiscal Operations, 2000-2012

(As % of GDP)	2000	2001	2002	2003 (c)	2004	2005	2006	2007	2008	2009	2010	2011	2012 (b)
Revenue	16.8	16.7	16.5	15.7	15.4	16.1	16.3	15.8	14.9	14.5	14.6	14.3	13
Grants	0.4	0.4	0.4	0.5	0.4	1.4	1.0	0.9	0.7	0.5	0.3	0.2	0.2
Expenditure													
Current expenditure	20.2	21.6	20.9	19.0	19.2	18.7	18.6	17.4	16.9	18.2	16.7	15.4	14.4
Capital & net lending	6.5	5.9	4.6	4.7	4.3	6.0	5.6	6.1	5.7	6.7	6.1	6	5.3
Current account balance	-3.4	-4.9	-4.4	-3.3	-3.9	-2.7	-2.4	-1.6	-2.0	-3.7	-2.1	-1.1	-1.4
Primary deficit	-4.2	-4.1	-1.6	-0.9	-2.2	-3.6	-2.9	-2.6	-2.2	-3.5	-1.7	-1.4	-1.1
Overall deficit (before grants)	-9.9	-10.8	-8.9	-8.0	-8.2	-8.7	-8.0	-7.7	-7.7	-9.9	-8.0	-6.9	-6.4
Financing budget deficit													
Foreign financing	0.0	1.0	0.1	2.4	1.8	2.0	1.4	2.8	-0.1	4.8	4.4	3.4	3.8
Domestic financing	9.4	8.8	8.0	4.5	5.8	5.2	5.6	3.6	7.1	5.1	3.6	3.5	2.7
Market borrowings	9.2	8.7	8.0	4.5	5.5	5.0	5.6	3.6	7.0	4.9	3.4	3.6	2.7
Bank	4.5	3.5	-0.3	-1.2	2.1	1.1	2.7	0.4	4.4	1.0	-	2.9	1.7
Non-bank	4.7	5.3	8.3	5.7	3.4	3.9	2.9	3.1	2.6	3.8	3.5	0.7	0.9
Other borrowings	0.3	0.1	-0.1	-	0.2	0.2	-	-	0.1	0.2	0.2	-0.1	-
Privatisation proceeds(a)	-	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, 1993-2012

	Unit	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1. Financial depth											
Narrow money supply	M_1/GDP	11.9	12.2	11.3	10.2	9.6	9.5	9.8	9.4	8.7	8.8
Broad money supply	M^2/GDP	32.1	33.1	34.2	33.0	32.4	31.1	32.4	32.2	32.0	32.3
2. Monetary expansion/contraction											
Narrow money supply	% growth	18.6	18.7	6.7	4.0	9.8	12.1	12.8	9.1	3.2	14.0
Broad money supply	% growth	23.4	19.7	19.2	10.8	13.8	9.7	13.3	13.0	11.4	13.2
3. Causal factors											
3.1 External banking assets	Rs. mn.	48,119.0	64,467.0	66,532.0	61,861.0	89,292.0	93,724.0	83,892.0	59,448.0	80,019.0	101,717.0
	% growth	129.8	34.0	3.2	-7.0	44.3	5.0	-10.5	-29.1	34.6	27.1
3.2 Domestic credit	Rs. mn.	179,361.0	206,047.0	262,670.0	292,395.0	323,046.0	369,517.0	432,888.0	549,927.0	638,876.0	680,396.0
	% growth	6.8	14.9	27.5	11.3	10.5	14.4	17.1	27.0	16.2	6.5
3.2.1 Government	Rs. mn.	29,766.0	31,362.0	38,662.0	47,131.0	45,250.0	64,618.0	93,915.0	147,304.0	201,311.0	192,994.0
	% growth	-12.3	5.4	23.3	21.9	-4.0	42.8	45.3	56.8	36.7	-4.1
3.2.2 Private sector	Rs. mn.	134,181.0	163,278.0	210,703.0	229,773.0	263,198.0	294,868.0	325,927.0	364,369.0	396,754.0	444,371.0
	% growth	21.0	21.7	29.0	9.1	14.5	12.0	10.5	11.8	8.9	12.0
3.3 Other liabilities	Rs. mn.	-40,739.0	-50,501.0	-67,974.0	-66,813.0	-79,874.0	-97,425.0	-106,660.0	-136,035.0	-163,867.0	-168,544.0
	% growth	-6.7	-24.0	-34.6	1.7	-19.5	-22.0	-9.5	-27.5	-20.5	-2.9

Contd...

	Unit	2003(b)	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Financial depth											
Narrow money supply	M_1/GDP	8.9	9.0	9.4	8.8	7.4	6.3	7.0	7.3	6.7	5.9
Broad money supply	M_2/GDP	31.9	32.9	33.6	33.8	32.1	29.1	31.8	32.4	33.5	34.2
2. Monetary expansion/contraction											
Narrow money supply	% growth	16.0	16.6	22.4	12.6	2.7	4.0	21.4	20.9	7.7	2.6
Broad money supply	% growth	13.8	18.5	19.6	20.7	15.6	11.7	19.9	18.0	20.9	18.3
3. Causal factors											
3.1 External banking assets	Rs. nn.	129,487.0	129,152.0	167,147.0	185,005.0	225,989.0	88,760.0	358,554.0	390,284	150,916	112,395
	% growth	27.3	-0.3	29.4	10.7	22.2	-60.7	304.0	8.8	-61.3	-25.5
3.2 Domestic credit	Rs. mn.	731,872.0	895,942.0	1,067,385.0	1,382,004.0	1,607,786.0	1,897,500.0	1,907,748.0	2,262,861.0	3,037,970	3,696,131
	% growth	7.6	22.4	19.1	29.5	16.3	18.0	0.5	18.6	34.3	21.7
3.2.1 Government	Rs. mn.	176,236.0	220,462.0	249,565.0	357,289.0	374,100.0	582,907.0	640,326.0	627,185.0	833,610	1,045,232
	% growth	-8.7	25.1	13.2	43.2	4.7	55.8	9.9	-2.1	32.9	25.4
3.2.2 Private sector	Rs. mn.	519,444.0	634,310.0	801,149.0	993,159.0	1,184,519.0	1,267,601.0	1,194,189.0	1,491,099.0	2,005,860	2,358,421
	% growth	16.9	22.1	26.3	24.0	19.3	7.0	-5.8	24.9	34.5	17.6
3.3 Other liabilities	Rs. mn.	-181,111.0	-207,515.0	-246,438.0	-348,644.0	-431,759.0	-452,423.0	-503,460.0	-548,895	-644,287	-741,229
	% growth	-7.5	-14.6	-18.8	-41.5	-23.8	-4.8	-11.3	-9.0	-17.4	-15.0

Notes: Data have been reclassified starting from 1990. For more information, see *Annual Report 1995*, Central Bank of Sri Lanka.
(b) From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

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

Table A11: Interest Rates, 1999-2012

(%, end of period)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Bank rate	16.0	25.0	18.0	18.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Treasury bills, yield rates														
3 Month	11.8	17.8	12.9	9.9	7.4	7.3	10.1	12.8	21.3	17.3	7.7	7.2	8.7	10.0
12 Month	12.8	18.2	13.7	9.9	7.2	7.7	10.4	13.0	20.0	19.1	9.3	7.6	9.3	11.7
Repurchase rate	9.3	17.0	12.0	9.8	7.0	7.5	8.8	10.0	10.5	10.5	7.5	7.3	7.0	7.5
Call money rate														
Maximum	14.3	32.0	13.0	10.9	8.3	10.6	11.0	15.1	40.0	20.0	9.1	8.4	9.1	9.9
Minimum	9.8	20.3	12.5	10.3	7.4	9.5	10.5	12.8	16.0	13.3	8.0	7.8	8.8	9.5
Weighted average prime lending rate	15.2	21.5	14.3	12.2	9.0	10.2	12.1	14.7	17.0	19.2	11.1	9.3	10.5	14.3
Commercial bank saving														
Maximum	10.0	11.0	12.0	11.0	7.3	7.8	10.3	10.5	16.5	16.5	10.5	9.5	8.5	10.5
Minimum	2.0	2.0	4.0	3.5	2.1	3.0	3.0	3.0	3.0	3.0	1.5	1.5	1.0	0.8
NSB saving	9.2	8.4	8.4	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Commercial bank fixed deposit (one year)														
Maximum	12.5	15.0	14.5	11.0	7.8	9.8	11.5	14.0	20.0	20.3	19.0	17.0	11.0	17.0
Minimum	9.0	9.0	9.5	7.5	5.0	5.0	5.5	5.5	8.5	8.5	7.3	5.1	5.6	5.0
NSB fixed deposit (one year, paid on maturity)	11.5	15.0	13.0	10.0	7.0	8.0	9.0	11.0	15.0	15.0	9.5	8.5	8.5	12.5

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, 1992-2012

	CCPI (1952 = 100)	% change	CCPI (2002 = 100)	% change	CCPI (2006/07 = 100)	% change	WPI (1974 = 100)	% change	GDPD (1996 = 100)	% change
1992	1,260.4	11.4					773.0	8.8	68.8	10.0
1993	1,408.4	11.7					831.8	7.6	75.3	9.5
1994	1,527.4	8.4					873.4	5.0	82.3	9.3
1995	1,644.6	7.7					950.3	8.8	89.2	8.4
1996	1,906.7	15.9					1,145.1	20.5	100.0	12.1
1997	2,089.1	9.6					1,224.3	6.9	108.6	8.6
1998	2,284.9	9.4					1,298.7	6.1	117.8	8.4
1999	2,392.1	4.7					1,295.3	-0.3	123.1	4.4
2000	2,539.8	6.2					1,317.2	1.7	131.3	6.7
2001	2,899.4	14.2					1,471.2	11.7	147.6	12.4
2002	3,176.4	9.6	100.0				1,628.9	10.7	160.0	8.4
2003	3,377.0	6.3	105.8				1,679.1	3.1	168.2	5.1
2004	3,632.8	7.6	115.3	9.0			1,889.0	12.5	183.0	8.8
2005	4,055.5	11.6	128.0	11.0			2,105.9	11.5	202.1	10.4
2006	4,610.8	13.7	140.8	10.0			2,351.6	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	129.2		3,653.6	24.9	298.3	16.3
2009			206.8	3.4	133.6	3.5	3,500.9	-4.2	315.8	5.9
2010			219.1	5.9	141.9	6.2	3,893.0	11.2	338.9	7.3
2011			226.5	6.9	151.5	6.7	4,306.5	10.6	365.5	7.9
2012(a)			-	-	162.9	7.6	4,457.3	3.5	398.0	8.9

Notes: (a): Provisional.
(b): CCPI (2002 = 100) has been replaced since June 2011.
CCPI: Colombo Consumers Price Index
WPI: Wholesale Price Index
GDPD: GDP Deflator

Sources: Department of Census and Statistics.
Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A13: Wage Rate Indices, 1991-2012 (December 1978 = 100)

	Workers in wages boards trades(a)		Government employees(b)	
	Nominal	Real	Nominal	Real
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	107.7	792.5	115.4
1996	801.7	100.7	818.2	103.0
1997	849.1	97.3	906.5	104.0
1998	953.3	99.9	1,001.4	104.9
1999	977.6	97.8	1,001.4	100.2
2000	1,000.4	94.3	1,084.7	102.1
2001	1,049.3	86.6	1,310.8	108.1
2002	1,126.5	84.9	1,525.3	115.0
2003	1,205.2	85.4	1,525.0	108.1
2004	1,233.0	81.3	1,872.1	123.3
2005	1,329.7	78.5	2,417.5	142.7
2006	1,358.2	70.5	3,150.8	163.5
2007	1,648.8	73.6	3,828.4	171.6
2008	2070.4	75.5	4116.1	150.4
2009	2171.4	76.7	4502.8	159.0
2010	2865.3	95.3	4651.6	154.7
2011	2996.1	93.3	4964.5	154.7
2012(c)	3662.0	106.2	5304.7	153.8

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, 1995-2012

	Unit	1995	1996	1997	1998	1999	2000	2001	2002	2003
1. Exports to selected countries and groupings										
U.S.A	US$ mn.	1,354	1,396	1,666	1,890	1,792	2,193	1,926	1,764	1,777
U.K.	US$ mn.	345	389	525	530	604	737	576	590	640
Germany	US$ mn.	254	239	230	232	216	230	199	199	232
Japan	US$ mn.	200	256	234	196	159	230	186	140	162
EC	% of total exports	31.0	29.4	35.0	33.6	35.3	33.4	26.1	29.0	30.0
Germany	% of exports to EC	21.6	19.8	17.1	17.9	16.2	15.2	15.8	14.6	15.1
UK	% of exports to EC	29.3	32.2	39.0	41.0	45.0	48.5	45.8	43.3	41.6
ASEAN	% of total exports	3.7	2.8	3.4	3.0	3.1	3.5	2.9	2.6	2.5
Singapore	% of exports to ASEAN	52.3	52.0	43.7	38.1	37.9	38.7	51.4	63.6	61.8
Malaysia	% of exports to ASEAN	15.7	23.5	16.6	10.1	6.0	5.0	5.9	8.4	11.7
SAARC	% of total exports	2.7	2.6	3.1	3.0	3.8	4.2	3.3	5.5	6.8
India	% of exports to SAARC	31.3	39.6	37.0	33.2	33.7	30.6	45.6	66.5	70.0
NAFTA	% of total exports	37.3	35.6	45.5	51.5	49.8	50.5	42.1	39.6	36.6
USA	% of exports to NAFTA	95.4	95.6	95.3	95.4	95.1	95.4	95.1	94.6	94.6
Canada	% of exports to NAFTA	3.5	3.1	3.2	3.1	3.1	3.1	3.4	3.3	3.4
APEC	% of total exports	50.1	48.7	59.8	58.9	56.3	57.8	59.5	54.6	52.2
USA	% of exports to APEC	71.0	69.8	72.4	83.4	84.1	83.5	83.1	82.5	80.6
Japan	% of exports to APEC	10.5	12.8	10.2	8.6	7.5	8.7	8.0	6.6	7.4
Singapore	% of exports to APEC	0.1	0.1	0.1	1.9	2.1	2.3	2.5	3.1	3.0
2. Imports from selected countries and groupings										
Japan	US$ mn.	499	497	479	556	561	646	337	355	448
India	US$ mn.	469	562	560	539	512	600	709	853	1,073
Hong Kong	US$ mn.	357	354	411	411	459	516	500	491	560
U.S.A	US$ mn.	173	198	187	230	216	255	266	219	198
U.K.	US$ mn.	243	252	282	305	251	311	221	263	273
Taiwan	US$ mn.	286	288	372	379	347	390	323	288	276
EC	% of total imports	15.3	15.4	17.6	23.3	19.4	18.8	14.2	14.6	16.5
Germany	% of imports from EC	20.5	18.4	20.5	20.2	15.8	16.5	16.3	13.6	13.0
UK	% of imports from EC	29.8	30.1	31.6	30.3	29.1	32.8	26.0	29.5	24.8
ASEAN	% of total imports	12.8	12.6	14.7	19.6	21.1	21.0	19.4	19.1	19.8
Singapore	% of imports from ASEAN	36.6	37.7	38.3	36.8	48.2	46.7	44.8	46.0	46.2
Malaysia	% of imports from ASEAN	31.1	26.7	22.3	22.8	18.0	20.5	22.7	21.7	25.6
SAARC	% of total imports	10.2	11.9	13.1	15.1	14.2	14.0	11.9	15.6	17.6
India	% of imports from SAARC	86.1	86.9	83.9	83.3	81.4	84.8	84.4	89.4	91.5
NAFTA	% of total imports	3.6	4.3	5.7	7.1	5.5	6.0	4.9	3.8	3.5
USA	% of Imports from NAFTA	91.3	84.6	64.7	75.0	89	84.1	91.5	93.8	85.4
Canada	% of Imports from NAFTA	7.9	10.0	19.0	13.6	9.3	15.6	8.2	5.8	14.3
APEC	% of total imports	50.2	50.4	61.9	45.9	53.4	54.9	55.6	52.1	49.2
USA	% of imports from APEC	6.5	7.3	5.9	11.6	9.1	9.2	10.1	8.5	7.1
Japan	% of imports from APEC	9.4	9.2	9.4	28.1	23.6	23.2	12.8	13.8	16.0
Singapore	% of imports from APEC	9.3	9.5	9.1	15.7	19.0	17.8	15.6	16.8	18.7

Cont./

	Unit	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)
1. Exports to selected countries and groupings										
U.S.A	US$ mn.	1,869	1,988	2,006	1,970	1,869	1,576	1,701	2,145	2,126
U.K.	US$ mn.	779	777	880	1,018	1,090	1024	990	1,112	1059
Germany	US$ mn.	274	272	329	438	405	347	400	510	455
Japan	US$ mn.	158	145	164	160	159	139	171	223	217
EU	% of total exports	32.5	30.9	33.7	37.6	37.4	38.5	33.3	33.9	33.0
Germany	% of exports to EU	14.6	13.9	14.2	15.2	13.4	12.7	13.9	14.3	14.1
UK	% of exports to EU	41.6	39.6	37.9	35.4	35.9	37.6	34.4	31.1	32.8
ASEAN	% of total exports	2.6	2.9	3.4	3.0	3.2	3.9	8.8	7.0	3.9
Singapore	% of exports to ASEAN	67.9	52.2	39.0	34.8	29.7	31.2	67.1	55.5	26.1
Malaysia	% of exports to ASEAN	7.1	9.5	12.9	15.7	17.2	16.9	9.6	13.3	18.0
SAARC	% of total exports	8.8	10.3	8.7	8.5	6.9	6.2	7.2	6.6	7.8
India	% of exports to SAARC	77.3	86.7	81.6	79.8	74.5	73.0	76.8	74.1	74.4
NAFTA	% of total exports	34.4	33.3	30.9	27.6	24.9	24.1	21.6	22.4	24.3
USA	% of exports to NAFTA	94.5	94.1	94.2	93.3	92.4	92.2	91.5	90.5	89.6
Canada	% of exports to NAFTA	3.6	3.7	3.6	3.7	4.4	4.3	5.0	5.4	6.1
APEC	% of total exports	47.8	46.2	44.0	38.8	37.0	37.0	39.6	38.7	38.1
USA	% of exports to APEC	81.4	82.3	81.5	66.4	62.3	60.1	49.8	52.5	57.1
Japan	% of exports to APEC	6.9	5.9	6.6	5.4	5.3	5.3	5.0	5.5	5.8
Singapore	% of exports to APEC	3.8	3.3	3.0	2.7	2.5	3.3	14.9	10.0	2.7
2. Imports from selected countries and groupings										
Japan	US$ mn.	412	380	450	413	426	224	584	1025	552
India	US$ mn.	1,439	1,835	2,173	2,610	3,447	1,820	2,570	4,431	3,640
Hong Kong	US$ mn.	619	648	659	725	695	517	580	632	605
U.S.A	US$ mn.	240	205	201	412	279	259	168	266	234
U.K.	US$ mn.	312	277	303	230	250	254	267	304	297
Taiwan	US$ mn.	291	279	275	264	251	201	264	352	365
EU	% of total imports	15.7	14.5	13.7	12.4	12.5	12.6	10.9	9.2	9.3
Germany	% of imports from EU	15.4	13.9	15.8	16.4	16.0	19.3	17.2	18.3	17.9
UK	% of imports from EU	24.8	21.6	21.5	16.5	14.2	19.8	18.2	16.4	16.7
ASEAN	% of total imports	20.0	20.5	21.7	16.9	15.8	18.7	18.9	18.6	18.2
Singapore	% of imports from ASEAN	51.2	48.2	52.9	58.4	55.8	55.8	61.8	56.4	48.2
Malaysia	% of imports from ASEAN	24.1	25.7	23.7	14.8	16.1	15.1	15.2	18.2	23.2
SAARC	% of total imports	19.7	22.4	22.9	24.9	26.0	20.1	21.4	23.7	21.0
India	% of imports from SAARC	91.4	92.6	92.4	92.7	94.0	88.6	89.3	92.1	90.2
NAFTA	% of total imports	3.6	3.2	4.1	4.4	4.7	5.2	3.3	3.2	3.0
USA	% of imports from NAFTA	84.4	71.2	48.0	83.5	42.4	48.4	37.6	41.3	41.2
Canada	% of imports from NAFTA	15.3	28.0	51.5	16.1	57.6	51.6	62.4	58.7	58.1
APEC	% of total imports	46.4	44.0	43.8	46.1	43.0	47.8	46.3	46.6	48.7
USA	% of imports from APEC	7.6	6.2	5.3	7.9	4.6	5.3	2.7	2.8	2.5
Japan	% of imports from APEC	13.0	11.6	11.9	7.9	7.0	4.6	9.4	10.9	5.9
Singapore	% of imports from APEC	20.5	22.4	26.2	21.5	20.6	21.9	25.2	22.5	18.0

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, 1993-2012

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1. Consumer goods										
Value (US$ mn.)	774.5	930.6	982.0	1,030.0	1,084.0	1,128.0	1,131.0	1,261.0	1,126.0	1,189.0
Growth	5.4	20.1	5.5	4.9	5.2	4.1	0.3	11.5	-10.7	5.6
% of total imports	19.3	19.5	18.5	18.9	18.5	19.2	18.9	17.2	18.8	19.5
1.1 Food										
Value (US$ mn.)	415.9	483.9	522.0	597.0	642.0	596.0	551.0	566.0	545.0	566.0
Growth	-0.9	16.4	7.9	14.4	7.5	-7.2	-7.6	2.7	-3.7	3.9
% of total imports	10.4	10.2	9.8	11.0	10.9	10.1	9.2	7.7	9.1	9.3
1.2 Other										
Value (US$ mn.)	358.7	446.6	461.0	433.0	442.0	532.0	581.0	696.0	581.0	623.0
Growth	13.9	24.5	3.2	-6.1	2.1	20.4	9.2	19.8	-16.5	7.2
% of Total Imports	8.9	9.4	8.7	8.0	7.5	9.0	9.7	9.5	9.7	10.2
2. Intermediate goods										
Value (US$ mn.)	2,154.4	2,425.0	2,900.0	2,971.0	3,235.7	3,108.0	3,168.0	3,916.0	3,430.0	3,622.0
Growth	14.3	12.6	19.6	2.4	8.9	-3.9	1.9	23.6	-12.4	5.6
% of total imports	53.7	50.9	54.6	54.6	55.2	52.8	53.0	53.5	57.4	59.3
2.1 Petroleum										
Value (US$ mn.)	309.2	296.3	386.9	479.9	539.5	345.0	500.0	901.0	731.0	789.0
Growth	-2.8	-4.2	30.6	24.1	12.4	-36.1	44.9	80.2	-18.9	7.9
% of total imports	7.7	6.2	7.3	8.8	9.2	5.9	8.4	12.3	12.2	12.9
2.2 Textiles										
Value (US$ mn.)	865.1	1,038.1	1,158.5	1,168.8	1,386.9	1,397.0	1,320.0	1,471.0	1,320.0	1,321.0
Growth	13.0	20.0	11.6	0.9	18.7	0.7	-5.5	11.4	-10.3	0.1
% of total imports	21.6	21.8	21.8	21.5	23.7	23.7	22.1	20.1	22.1	21.6
3. Investment goods										
Value (US$ mn.)	1,046.8	1,366.5	1,189.0	1,203.0	1,324.0	1,477.0	1,565.0	1,737.0	1,081.0	1,169.0
Growth	23.0	30.5	-13.0	1.2	10.1	11.6	6.0	11.0	-37.8	8.1
% of total imports	26.1	28.7	22.4	22.1	22.6	25.1	26.2	23.7	18.1	19.1
4. Total imports										
Value (US$ mn.)	4,011.3	4,767.3	5,311.1	5,439.0	5,864.0	5,889.0	5,979.0	7,320.0	5,974.0	6,105.0
Growth	14.5	18.8	11.4	2.4	7.8	0.4	1.5	22.4	-18.4	2.2

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	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)
1. Consumer goods										
Value (US$ mn.)	1,344.0	1,440.0	1,503.0	1,782.0	1,665.0	2,006.0	1,565.0	2,476.0	3,654.0	2,995.0
Growth	13.0	7.1	4.4	18.6	-6.6	20.5	-22.0	58.2	47.6	-18.0
% of Total Imports	20.1	18.0	17.0	17.4	14.7	14.2	15.3	18.4	18.0	15.6
1.1 Food										
Value (US$ mn.)	564.0	596.0	611.0	757.0	803.0	1,089.0	933.0	1,322.0	1,567.0	1,304.0
Growth	-0.4	5.7	2.5	23.9	6.1	35.6	-14.3	41.7	18.5	-16.8
% of total imports	8.5	7.5	6.9	7.4	7.1	7.7	9.1	9.8	7.7	6.8
1.2 Other										
Value (US$ mn.)	780.0	844.0	891.0	1,024.0	862.0	918.0	632.0	1,155.0	2,087.0	1,691.0
Growth	25.2	8.2	5.6	14.9	-15.8	6.5	-31.2	82.8	80.7	-19.0
% of total imports	11.7	10.6	10.1	10.0	7.6	6.5	6.2	8.6	10.3	8.8
2. Intermediate goods										
Value (US$ mn.)	3,948.0	4,828.0	5,458.0	6,161.0	6,983.0	9,019.0	6,158.0	8,054.0	12,275.0	11,570.0
Growth	9.0	22.3	13.0	12.9	13.3	29.2	-31.7	30.8	52.4	-5.7
% of total imports	59.2	60.4	61.6	60.1	61.8	64.0	60.3	59.9	60.6	60.3
2.1 Petroleum										
Value (US$ mn.)	838.0	1209.0	1,655.0	2,070.0	2,516.0	3,392.0	2,184.0	3,041.0	4,795.0	5,037.0
Growth	6.2	44.3	36.9	25.1	21.5	34.8	-35.6	39.2	57.7	5.0
% of total imports	12.6	15.1	18.7	20.2	22.3	24.1	21.4	22.6	23.7	26.3
2.2 Textiles										
Value (US$ mn.)	1,372.0	1,514.0	1,531.0	1,546.0	1,724.0	1,788.0	1,529.0	1,812.0	2,321.0	2,266.0
Growth	3.9	10.3	1.1	1.0	11.5	3.7	-14.5	18.5	28.1	-2.4
% of total imports	20.6	18.9	17.3	15.1	15.3	12.7	15.0	13.5	11.5	11.8
3. Investment goods										
Value (US$ mn.)	1,320.0	1,670.0	1,869.0	2,246.0	2,597.0	2,852.0	2,093.0	2,758.0	4,286.0	4,590.0
Growth	12.9	26.5	11.9	20.2	15.6	9.8	-26.6	31.8	55.4	7.1
% of total imports	19.8	20.9	21.1	21.9	23.0	20.2	20.5	20.5	21.1	23.9
4. Total imports										
Value (US$ mn.)	6,672.0	8,000.0	8,863.0	10,254.0	11,296.0	14,091.0	10,207.0	13,451.0	20,269.0	19,183.0
Growth	9.3	19.9	10.8	15.7	10.2	24.7	-27.6	31.8	50.7	-5.4

Notes : (a): Provisional.
Categories are reclassified from 2007 based on National Import Tariff Guide - 2010

Sources: Central Bank of Sri Lanka, *Annual Report*, various issues; IPS database.

Table A16: Structure of Commodity Exports, 1993-2012

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1. Agricultural exports										
Value (US$ mn.)	655.3	702.1	829.0	961.0	1060.0	1088.0	947.0	1005.0	932.0	938.0
Growth	8.4	7.1	18.1	15.9	10.3	2.6	-13.0	6.1	-7.3	0.6
% of total exports	22.9	21.9	21.8	23.5	22.8	22.7	20.5	18.2	19.3	20.0
1.1 Plantation crops										
Value (US$ mn.)	534.61	572.73	695.00	829.00	916.00	918.00	783.00	850.00	796.00	771.0
Growth	8.8	7.1	21.3	19.3	10.5	0.2	-14.7	8.6	-6.4	-3.1
% of Total exports	18.7	17.8	18.3	20.2	19.7	19.1	17.0	15.4	16.5	16.4
1.1.1 Tea										
Value (US$ mn.)	412.7	424.2	481.0	615.0	719.0	780.0	621.0	700.0	690.0	660.0
Growth	21.4	2.8	13.4	27.9	16.9	8.5	-20.4	12.7	-1.4	-4.3
% of total exports	14.4	13.2	12.6	15.0	15.5	16.3	13.5	12.7	14.3	14.0
1.1.2 Rubber										
Value (US$ mn.)	64.0	72.5	111.0	104.0	79.0	44.0	33.0	29.0	24.0	27.0
Growth	-5.3	13.3	53.1	-6.3	-24.0	-44.3	-25.0	-12.1	-17.2	12.5
% of total exports	2.2	2.3	2.9	2.5	1.7	0.9	0.7	0.5	0.5	0.6
1.1.3 Coconut kernel products										
Value (US$ mn.)	38.3	50.1	69.0	81.0	82.0	56.0	84.0	77.0	41.0	41.0
Growth	-37.0	30.9	37.7	17.4	1.2	-31.7	50.0	-8.3	-46.8	0.0
% of total exports	1.3	1.6	1.8	2.0	1.8	1.2	1.8	1.4	0.9	0.9
1.2. Minor agricultural crops										
Value (US$ mn.)	120.7	129.2	134.0	132.0	145.0	170.0	165.0	155.0	136.0	168.0
Growth	6.7	7.0	3.7	-1.5	9.9	17.2	-2.9	-6.1	-12.3	23.5
% of total exports	4.2	4.0	3.5	3.2	3.1	3.5	3.6	2.8	2.8	3.6
2. Mineral exports										
Value (US$ mn.)	75.7	86.9	87.0	96.0	90.0	60.0	64.0	97.0	86.0	90.0
Growth	20.7	14.7	0.2	10.3	-6.3	-33.3	6.7	51.6	-11.3	4.7
% of total exports	2.6	2.7	2.3	2.3	1.9	1.3	1.4	1.8	1.8	1.9
3. Industrial exports										
Value (US$ mn.)	2,102.3	2,398.9	2,870.0	3,006.0	3,436.0	3,607.0	3,551.0	4,283.0	3,710.0	3,631.0
Growth	19.2	14.1	19.6	4.7	14.3	5.0	-1.6	20.6	-13.4	-2.1
% of total exports	73.4	74.8	75.4	73.4	74.1	75.2	77.0	77.6	77.0	77.3
3.1 Textile & garments										
Value (US$ mn.)	1,412.4	1,551.9	1,853.0	1,902.0	2,274.0	2,460.0	2,425.0	2,982.0	2,543.0	2,424.0
Growth	16.3	9.9	19.4	2.6	19.6	8.2	-1.4	23.0	-14.7	-4.7
% of total exports	49.3	48.4	48.7	46.4	49.0	51.3	52.6	54.0	52.8	51.6
3.2 Petrolium products										
Value (US$ mn.)	78.8	80.1	85.0	104.0	97.0	73.0	74.0	98.0	68.0	73.0
Growth	24.6	1.7	6.1	22.4	-6.7	-24.7	1.4	32.4	-30.6	7.4
% of total exports	2.8	2.5	2.2	2.5	2.1	1.5	1.6	1.8	1.4	1.6
4. Total commodity exports inc. petroleum										
Value (US$ mn.)	2,863.7	3,208.6	3,806.6	4,095.0	4,639.0	4,798.0	4,610.0	5,522.0	4,817.0	4,699.0
Growth	16.4	12.0	18.6	7.6	13.3	3.4	-3.9	19.8	-12.8	-2.4
5. Total commodity exports excl. petroleum										
Value (US$ mn.)	2,784.9	3,128.5	3,721.6	3,991.0	4,542.0	4,725.0	4,536.0	5,424.0	4,749.0	4,626.0
Growth	16.2	12.3	19.0	7.2	13.8	4.0	-4.0	19.6	-12.4	-2.6

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	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)
1. Agricultural exports										
Value (US$ mn.)	965.0	1065.2	1,153.8	1,292.7	1,507.2	1,854.8	1,690.3	2,306.4	2,527.80	2,331.50
Growth	2.9	10.4	8.3	12.0	16.6	23.1	-8.9	36.4	9.6	-7.8
% of total exports	18.8	18.5	18.2	18.8	19.7	22.9	23.9	26.7	23.9	23.9
1.1 Plantation crops										
Value (US$ mn.)	815.00	903.30	970.40	1,098.20	1,275.80	1,567.60	1,449.90	1,779.60	1,963.30	1,745.90
Growth	5.7	10.8	7.4	13.2	16.2	22.9	-7.5	22.7	10.3	-11.1
% of total exports	15.9	15.7	15.3	16.0	16.7	19.3	20.5	20.6	18.6	17.9
1.1.1 Tea										
Value (US$ mn.)	683.0	738.9	810.2	881.2	1,025.2	1,271.5	1,185.1	1,440.6	1,490.90	1,411.90
Growth	3.5	8.2	9.6	8.8	16.3	24.0	-6.8	21.6	3.5	-5.3
% of total exports	13.3	12.8	12.8	12.8	13.4	15.7	16.7	16.7	14.1	14.4
1.1.2 Rubber										
Value (US$ mn.)	39.0	51.3	46.9	93.1	109.4	125.1	98.6	173.2	206.4	125.1
Growth	44.4	31.5	-8.6	98.5	17.5	14.4	-21.2	75.7	19.2	-39.4
% of total exports	0.8	0.9	0.7	1.4	1.4	1.5	1.4	2.0	2.0	1.3
1.1.3 Coconut kernel products										
Value (US$ mn.)	48.0	58.6	48.8	52.8	60.3	82.4	58.2	55.4	-	-
Growth	17.1	22.1	-16.7	8.2	14.2	36.7	-29.4	-4.8	-	-
% of total exports	0.9	1.0	0.8	0.8	0.8	1.0	0.8	0.6	-	-
1.2. Minor agricultural crops										
Value (US$ mn.)	150.0	161.9	183.4	194.6	231.5	287.3	240.4	71.6	88.7	76
Growth	-10.7	7.9	13.3	6.1	19.0	24.1	-16.3	-70.2	23.9	-14.3
% of total exports	2.9	2.8	2.9	2.8	3.0	3.5	3.4	0.8	0.8	0.8
2. Mineral exports										
Value (US$ mn.)	84.0	120.0	143.3	119.9	127.8	97.8	88.7	24.2	32.9	61.3
Growth	-6.7	42.9	19.4	-16.3	6.6	-23.5	-9.3	-72.7	36.0	86.3
% of total exports	1.6	2.1	2.3	1.7	1.7	1.2	1.3	0.3	0.3	0.6
3. Industrial exports										
Value (US$ mn.)	3,977.0	4,506.1	4,948.4	5,401.1	5,967.3	6,158.0	5,305.4	6,096.1	7,991.70	7,371.20
Growth	9.5	13.3	9.8	9.1	10.5	3.2	-13.8	14.9	31.1	-7.8
% of total exports	77.5	78.3	78.0	78.5	78.1	75.9	74.9	70.7	75.7	75.4
3.1 Textile & garments										
Value (US$ mn.)	2,575.0	2,808.9	2,894.5	3,080.4	3,339.6	3,468.7	3,274.2	3,356.0	4,191.20	3,991.10
Growth	6.2	9.1	3.0	6.4	8.4	3.9	-5.6	2.5	24.9	-4.8
% of total exports	50.2	48.8	45.6	44.8	43.7	42.8	46.2	38.9	39.7	40.8
3.2 Petroleum products										
Value (US$ mn.)	65.0	99.6	130.9	188.4	168.9	254.9	134.7	263.4	552.7	463
Growth	-11.0	53.2	31.4	43.9	-10.4	50.9	-47.2	95.5	109.8	-16.2
% of total exports	1.3	1.7	2.1	2.7	2.2	3.1	1.9	3.1	5.2	4.7
4. Total commodity exports inc. petroleum										
Value (US$ mn.)	5,133.0	5,757.2	6,346.7	6,882.7	7,640.0	8,110.6	7,084.5	8,625.8	10,558.80	9,773.50
Growth	9.2	12.2	10.2	8.4	11.0	6.2	-12.7	21.8	22.4	-7.4
5. Total commodity exports excl. petroleum										
Value (US$ mn.)	5,068.0	5,657.6	6,215.8	6,694.3	7,471.1	7,855.7	6,949.8	8,362.4	10,006.1	9,310.5
Growth	9.6	11.6	9.9	7.7	11.6	5.1	-11.5	20.3	19.7	-7.0

Notes: (a): Provisional.

Sources: Central Bank of Sri Lanka, *Annual Report*, various issues; IPS database.

Table A17: Tourism, 1993-2012

	Unit	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Tourist arrivals	No.	392,250	407,511	403,101	302,265	366,165	381,063	436,440	400,414	336,794	393,171
Excursionist arrivals	No.	6,093	8,413	10,556	12,863	18,265	27,629	28,335	44,518	60,084	63,560
Tourist nights	000	4,148	4,251	4,024	2,947	3,680	3,944	4,479	4,056	3,342	3,989
Earnings	Rs. mn.	10,036.8	11,401.6	11,551.6	9,559.1	12,980.0	14,868.0	19,297.3	19,162.2	18,863.3	24,202.0
	US$ mn.	208.0	230.7	225.4	173.0	216.7	230.5	274.9	252.8	211.1	253.0
Receipts per tourist per day	US$	50.1	54.2	56.1	57.9	58.6	59.5	61.4	62.3	63.1	63.4
Average duration	Nights	10.6	10.4	10.0	9.8	10.1	10.4	10.3	10.1	9.9	10.1
Accommodation											
Rooms	No.	10,365	10,742	11,255	11,600	12,370	12,770	12,918	13,311	13,626	13,818
Beds	No.	20,242	20,929	21,680	22,040	22,944	23,373	24,216	24,953	25,595	25,956
Occupancy rate, graded	%	57.0	56.6	52.6	40.3	49.1	52.8	57.6	52.3	42.1	43.1
Sri Lanka nationals											
Arrivals	No.	375,740	422,367	459,441	488,055	482,850	481,793	521,073	514,448	487,356	493,947
Departures	No.	416,246	448,437	504,420	494,258	530,712	518,050	496,963	524,212	505,341	533,565
Employment											
Direct	No.	30,710	33,956	35,068	31,963	34,006	34,780	36,560	37,943	33,710	38,821
Indirect	No.	42,994	47,538	49,095	44,748	47,608	48,692	51,184	53,120	47,194	54,349

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	Unit	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)
Tourist arrivals	No.	500,642	566,202	549,308	559,603	494,008	438,475	447,890	654,476	855,975	1,005,605
Excursionist arrivals	No.	82,066	110,000	119,618	128,719	98,432	87,695	89,526	112,497	119,875	126,523
Tourist nights	000	5,093	5,742	4,754	5,793	4,940	4,166	4,075	6,548	8,560	10,056
Earnings	Rs. mn.	32,810.0	42,666.3	36,377	42,586	42,519	37,094	40,133	65,018	91,926	132,427
	US$ mn.	340.0	416.8	362.3	410.0	384.4	319.5	349.3	575.9	838.9	1038.3
Receipts per tourist per day	US$	66.8	72.2	74.6	83.4	79.1	76.7	81.8	88.0	98.0	103.0
Average duration	Nights	10.2	10.1	8.7	10.4	10.0	9.5	9.1	10.0	10.0	10.0
Accommodation											
Rooms	No.	14,137	14,322	13,162	14,218	14,604	14,793	14,461	14,714	14,653	15,510
Beds	No.	26,511	26,854	24,740	27,117	27,500	28,698	28,344	28,978	28,844	30,880
Occupancy rate, graded	%	53.2	59.3	45.4	47.8	46.2	43.9	48.4	70.1	77.1	71.2
Sri Lanka nationals											
Arrivals	No.	560,602	646,990	683,169	734,421	817,524	900,815	914,584	1,081,417	1,210,951	n.a
Departures	No.	561,126	680,248	727,301	756,735	862,011	966,337	962,786	1,122,212	1,239,290	n.a
Employment											
Direct	No.	46,761	53,766	52,085	55,649	60,516	51,306	52,071	55,023	57,786	67,862
Indirect	No.	65,465	75,272	72,919	77,909	84,722	71,828	72,899	77,032	80,899	95,007

Notes: (a): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report*, various issues; Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A18: Monthly Tourist Arrivals, 2001-2012

	2001		2002		2003		2004		2005		2006	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
January	44,187	2.0	28,296	-36.0	40,647	43.6	49,950	22.9	38,187	-23.5	52,103	36.4
February	46,575	7.6	31,683	-32.0	39,081	23.4	43,584	11.5	36,645	-15.9	52,687	43.8
March	44,290	10.4	33,084	-25.3	40,818	23.4	38,418	-5.9	50,418	31.2	54,746	8.6
April	36,906	9.7	27,057	-26.7	33,714	24.6	30,672	-9.0	42,261	37.8	49,776	17.8
May	26,924	15.0	26,661	-1.0	30,048	12.7	30,162	0.4	40,878	35.5	43,825	7.2
June	28,323	29.8	26,355	-6.9	31,836	20.8	32,119	0.9	45,699	42.3	44,066	-3.6
July	28,566	-14.1	35,742	25.1	43,743	22.4	50,525	15.5	56,745	12.3	55,354	-2.5
August	15,717	-54.3	35,475	125.7	42,111	18.7	48,675	15.6	51,216	5.2	52,931	3.3
September	11,758	-62.1	32,982	180.5	36,054	9.3	51,525	42.9	43,536	-15.5	38,485	-11.6
October	12,904	-51.6	36,258	181.0	49,922	37.7	59,442	19.1	44,095	-25.8	38,815	-12.0
November	17,344	-46.6	37,395	115.6	54,946	46.9	64,971	18.2	48,457	-25.4	37,591	-22.4
December	23,300	-37.0	42,183	81.0	57,722	36.8	66,159	14.6	51,171	-22.7	39,224	-23.3
Total	336,794	-15.9	393,171	16.7	500,642	27.3	566,202	13.1	549,308	-3.0	559,603	1.9

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	2007		2008		2009		2010		2011		2012(a)	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
January	56,553	8.5	56,916	0.6	38,468	-32.4	50,757	31.9	74,197	46.2	85,874	15.7
February	43,051	-18.3	40,551	-5.8	34,169	-15.7	57,300	67.7	65,797	14.8	83,549	27.0
March	35,031	-36.0	38,049	8.6	34,065	-10.5	52,352	53.7	75,130	43.5	91,102	21.3
April	33,039	-33.6	29,747	-10.0	26,054	-12.4	38,300	47.0	63,835	66.7	69,591	9.0
May	26,307	-40.0	31,140	18.4	24,739	-20.6	35,213	42.3	48,943	39.0	57,506	17.5
June	30,810	-30.1	27,960	-9.3	30,234	8.1	44,730	47.9	53,636	19.9	65,245	21.6
July	44,142	-20.3	32,982	-25.3	42,223	28.0	63,339	50.0	83,786	32.3	90,338	7.8
August	44,742	-15.5	30,672	-31.4	41,207	34.3	55,898	35.7	72,463	29.6	79,456	9.7
September	37,104	-3.6	29,529	-20.4	37,983	28.6	47,339	24.6	60,219	27.2	71,111	18.1
October	37,011	-4.6	35,103	-5.2	37,575	7.0	52,370	39.4	69,563	32.8	80,379	15.5
November	45,102	20.0	36,901	-18.2	44,311	20.1	72,251	63.1	90,889	25.8	109,202	20.1
December	61,116	55.8	48,925	-19.9	56,862	16.2	84,627	48.8	97,517	15.2	122,252	25.4
Total	494,008	-11.7	438,475	-11.2	447,890	2.1	654,476	46.1	855,975	30.8	1,005,605	17.5

Note: Monthly growth figures reflect percentage changes compared to the same month in the previous year.
(a): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report*, various issues and Monthly Statistical Bulletin, 2012.
Ceylon Tourist Board, Monthly Statistical Bulletion, 2012.

Table A19: Tourist Arrivals by Country of Residence, 2001-2012

	2001		2002		2003		2004		2005		2006	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
North America	15,983	-7.7	19,866	24.3	25,110	26.4	29,759	18.5	46,457	56.1	35,323	-24.0
Canada	7,609	1.4	8,301	9.1	11,164	34.5	14,633	31.1	21,185	44.8	14,623	-31.0
U.S.A.	8,374	-14.7	11,565	38.1	13,946	20.6	15,126	8.5	25,272	67.1	20,700	-18.1
Western Europe	203,984	-21.8	200,295	-1.8	255,169	27.4	284,440	11.5	227,191	-20.1	228,445	0.6
Germany	60,405	-14.4	55,170	-8.7	58,908	6.8	58,258	-1.1	46,350	-20.4	47,402	2.3
United Kingdom	67,830	-19.9	67,533	-0.4	93,278	38.1	106,645	14.3	92,629	-13.1	88,306	-4.7
France	20,949	-19.4	19,989	-4.6	28,585	43.0	29,996	4.9	26,653	-11.1	22,693	-14.9
Italy	12,074	-28.3	12,177	0.9	15,654	28.6	18,862	20.5	10,192	-46.0	12,424	21.9
Netherlands	12,569	-44.4	11,748	-6.5	18,197	54.9	21,455	17.9	15,156	-29.4	19,360	27.7
Asia	89,732	-2.0	143,064	59.4	177,351	24.0	198,068	11.7	223,351	12.8	242,132	8.4
Japan	9,237	-9.7	13,602	47.3	17,115	25.8	19,641	14.8	17,148	-12.7	16,189	-5.6
India	33,924	6.5	69,960	106.2	90,603	29.5	105,151	16.1	113,323	7.8	128,370	13.3
Pakistan	8,562	-14.4	6,756	-21.1	9,704	43.6	9,638	-0.7	11,029	14.4	11,145	1.1
Australasia	13,105	-28.1	13,209	0.8	22,965	73.9	26,540	15.6	29,738	12.0	25,127	-15.5
Australia	11,457	-30.3	11,217	-2.1	19,958	77.9	23,247	16.5	25,986	11.8	21,849	-15.9
Other(a)	13,990	11.7	16,737	19.6	20,047	19.8	27,395	36.7	22,571	-17.6	28,576	26.6
Total	336,794	-15.9	393,171	16.7	500,642	27.3	566,202	13.1	549,308	-3.0	559,603	1.9

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	2007		2008		2009		2010		2011		2012(b)	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
North America	28,355	-19.7	24,311	-14.3	24,948	2.6	40,216	61.2	49,057	22.0	59,236	20.7
Canada	11,869	-18.8	10,258	-13.6	10,707	4.4	21,123	97.3	24,671	16.8	29,329	18.9
U.S.A.	16,486	-20.4	14,053	-14.8	14,241	1.3	19,093	34.1	24,386	27.7	29,907	22.6
Western Europe	194,448	-14.9	167,187	-14.0	170,123	1.8	256,861	51.0	315,210	22.7	373,063	18.4
Germany	35,042	-26.1	30,625	-12.6	29,654	-3.2	45,727	54.2	55,882	22.2	71,642	28.2
United Kingdom	94,060	6.5	81,331	-13.5	81,594	0.3	105,496	29.3	106,082	0.6	114,218	7.7
France	8,091	-64.3	10,594	30.9	15,886	50.0	31,285	96.9	48,695	55.6	56,863	16.8
Italy	11,451	-7.8	9,126	-20.3	7,514	-17.7	11,423	52.0	13,527	18.4	15,871	17.3
Netherlands	17,526	-9.5	13,030	-25.7	11,291	-13.3	17,861	58.2	23,966	34.2	26,754	11.6
Asia	202,480	-16.4	173,039	-14.5	174,534	0.9	244,124	39.9	333,841	36.8	380,289	13.9
Japan	14,274	-11.8	10,075	-29.4	10,926	8.4	14,352	31.4	20,586	43.4	26,085	26.7
India	106,067	-17.4	85,238	-19.6	83,634	-1.9	126,882	51.7	171,374	35.1	176,340	2.9
Pakistan	10,204	-8.4	7,885	-22.7	7,373	-6.5	9,148	24.1	14,724	61.0	16,056	9.0
Australasia	22,924	-8.8	21,839	-4.7	26,068	19.4	37,290	43.0	46,467	24.6	57,776	24.3
Australia	20,241	-7.4	19,536	-3.5	23,239	19.0	33,456	44.0	41,728	24.7	51,614	23.7
Other(a)	45,801	60.3	52,099	13.8	52,217	0.2	75,985	45.5	111,400	46.6	135,241	21.4
Total	494,008	-11.7	438,475	-11.2	447,890	2.1	654,476	46.1	855,975	30.8	1,005,605	17.5

Notes: (a): Latin America & the Caribbean, East Europe, Africa, and Middle East.
(b): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report*, various issues and Monthly Statistical Bulletin, 2012.

Table A20: Balance of Payments, 2001-2012

	Unit	2001	2002	2003(c)	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)
1. Trade balance	US$ mn.	-1,157.0	-1,406.0	-1,539.0	-2,243.0	-2,516.0	-3,370.0	-3,657.0	-5,981.0	-3,122.0	-4,825.0	-9,710.0	-9,409.0
	% of GDP	-7.3	-8.5	-8.2	-10.9	-10.3	-11.9	-11.3	-14.7	-7.4	-9.7	-16.4	-15.8
2. Services balance	US$ mn.	204.0	295.0	399.0	419.0	338.0	257.0	302.0	401.0	391.0	707.0	1,099.0	1,250.0
	% of GDP	1.3	1.8	2.1	2.0	1.4	0.9	0.9	1.0	0.9	1.4	1.9	2.1
3. Income, net	US$ mn.	-267.0	-252.0	-172.0	-204.0	-299.0	-389.0	-358.0	-972.0	-488.0	-617.0	-647.0	-1,148.0
	% of GDP	-1.7	-1.5	-0.9	-1.0	-1.2	-1.4	-1.1	-2.4	-1.2	-1.2	-1.1	-1.9
4. Net private transfers	US$ mn.	984.0	1,097.0	1,205.0	1,350.0	1,736.0	1,904.0	2,214.0	2,565.0	2,927.0	3,608.0	4,583.0	5,339.0
	% of GDP	6.2	6.6	6.4	6.5	7.1	6.7	6.8	6.3	7.0	7.3	7.7	9.0
5. Net official transfers	US$ mn.	22.0	31.0	36.0	30.0	93.0	101.0	97.0	101.0	77.0	52.0	60.0	53.0
	% of GDP	0.1	0.2	0.2	0.1	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.1
6. Current account balance	US$ mn.	-215.0	-237.0	-71	-648.0	-650.0	-1,499.0	-1,402.0	-3,886.0	-214.0	-1,075.0	-4,615.0	-3,915.0
	% of GDP	-1.4	-1.4	-0.4	-3.1	-2.7	-5.3	-4.3	-9.5	-0.5	-2.2	-7.8	-6.6
7. Capital and financial a/c	US$ mn.	562.0	444.0	722.0	631.0	1,224.0	1,808.0	2,097.0	1,773.0	2,594.0	2,877.0	4,262.0	4,684.0
	% of GDP	3.6	2.7	3.8	3.1	5.0	6.4	6.5	4.4	6.2	5.8	7.2	7.9
Capital account	US$ mn.	198.0	65.0	74.0	64.0	250.0	291.0	269.0	291.0	233.0	164.0	164.0	130.0
8. Financial account	US$ mn.	364.0	379.0	648.0	567.0	974.0	1,517.0	1,828.0	1,483.0	2,361.0	2,713.0	4,098.0	4,554.0
Long-term	US$ mn.	163.0	326.0	722.0	680.0	798.0	907.0	1,251.0	1,016.0	1,304.0	2,379.0	3,308.0	2,872.0
Foreign direct investment	US$ mn.	82.0	181.0	171.0	217.0	234.0	451.0	548.0	691.0	384.0	435.0	896.0	813.0
Private long-term (net)	US$ mn.	-257.0	-21.0	-33.0	14.0	11.0	-35.0	31.0	74.0	79.0	149.0	175.0	562.0
Government long-term	US$ mn.	249.0	162.0	554.0	439.0	553.0	491.0	672.0	252.0	840.0	1,796.0	2,237.0	1,497.0
9. Short-term	US$ mn.	201.0	53.0	-75.0	-112.0	176.0	610.0	577.0	466.0	1,058.0	334.0	790.0	1,682.0
Foreign portfolio investment	US$ mn.	-11.0	25.0	2.0	11.0	60.0	51.0	101.0	60.0	-6.0	-230.-	-171.0	305.0
10. Other (b)	US$ mn.	-127.0	38.0	-148.0	-189.0	-72.0	-105.0	-165.0	728.0	346.0	-881.0	-708.0	-617.0
11. Overall balance	US$ mn.	220.0	338.0	502.0	-205.0	501.0	204.0	531.0	-1,385.0	2,725.0	921.0	-1,061.0	151.0
	% of GDP	1.4	2.0	2.7	-1.0	2.1	0.7	1.6	-3.4	6.5	1.9	1.8	0.3

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, 2001-2012

Currency	Unit	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Nominal exchange rates													
U.S.A.	S.L. Rs. per US$	93.16	96.73	96.74	104.61	102.12	107.71	108.72	113.14	114.38	110.95	113.90	127.16
Japan	S.L. Rs. per Yen	0.71	0.82	0.90	1.02	0.87	0.91	0.97	1.25	1.24	1.36	1.47	1.48
U.K.	S.L. Rs. per Pound	135.06	155.12	172.20	201.37	175.94	211.29	217.15	163.28	181.75	171.41	175.45	205.47
Europeon Union	S.L. Rs. per Euro	82.27	101.38	121.60	142.32	120.96	141.58	160.27	159.45	163.72	147.56	147.42	168.13
India	S.L. Rs. per Ind. Rs.	1.93	2.02	2.12	2.40	2.27	2.44	2.77	2.36	2.46	2.48	2.15	2.33
24 currency													
Nominal effective exchange rates (NEER)	NEER 2006 = 100 (a)	-	-	113.75	104.32	104.06	110.94	98.96	100.07	99.85	100.00	99.84	90.44
Real effective exchange rate (REER)	REER 2006 = 100 (a)	-	-	92.82	90.60	97.43	81.02	78.07	95.19	97.36	100.00	101.87	95.91

Notes: (a): From 2006 onwards, NEER 2010 = 100.

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

Table A22: Recent Developments in the Share Market, 2004-20112

		2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Number of companies listed		242	239	237	235	235	231	241	272	287
New listings		5	6	2	-	3	3	10	31	17
De-listings		7	-	4	2	2	6	1	-	2
2. Number of companies traded		241	242	232	231	232	231	238	265	280
3. Market capitalization	Rs. bn.	382	584	835	821	489	1092	2211	2214	2168
	US$ bn.	3.8	5.8	8.0	7.4	4.5	9.5	19.6	20.0	17.0
4. Price-earnings ratio times, year end		10.8	12.4	14.0	11.6	5.4	16.6	25.2	15.8	15.9
5. Number of shares traded (No. mn.)		2,752	5,128	3,912	2,887	3,155	4,763	18,489	24,544	9,691
Domestic	No. mn.	2,480	4,313	3,178	2,010	1,935	3,784	16,685	23,152	8,290
Foreign	No. mn.	273	815	734	877	1,220	978	1,805	1,392	1,402
6. Trades	No. '000	645	1,100	952	877	776	1,266	3,355	4579	1,857
Domestic	No. '000	611.7	1,038.5	908.2	831.7	730.4	1,190.8	3,225.0	44,63.4	17,96.9
Foreign	No. '000	33.4	61.9	44.2	45.3	45.8	75.5	130.1	115.9	60.5
7. Turnover:	Rs. bn.	59.1	114.6	105.2	105.0	110.5	142.5	570.3	546.3	213.8
US$ bn.		0.6	1.1	1.0	0.9	1.0	1.2	5.0	4.9	1.7
Domestic	Rs. bn.	48.3	90.0	70.7	63.8	50.8	99.0	464.7	487.0	160.5
Foreign	Rs. bn.	10.7	24.6	34.5	41.2	59.7	43.5	105.6	59.3	53.3
8. Liquidity-turnover / market capitalization ratio (%)		15.5	19.6	12.6	12.8	22.6	13.0	25.8	24.7	9.9
9. No. of new issues (No.)		–	–	–	–	–	–	–	–	–
10. Total no. of shares issued (mn.)		–	–	–	–	–	–	–	–	–
11. Value of shares issued (Rs. bn.)		–	–	–	–	–	–	–	–	–
12. Central depository:										
Domestic	(Rs. bn.)	140.4	179.8	248.7	260.5	162.3	387.7	942.0	1,245.2	1,365.5
Foreign	(Rs. bn.)	54.7	80.0	121.4	157.6	108.0	231.2	431.3	438.0	593.7
Total	(Rs. bn.)	195.1	259.8	370.1	418.1	270.3	618.9	1373.3	1,683.3	1,959.2
Percentage of market cap.		51.0	44.5	44.3	50.9	55.3	56.7	62.1	76.0	90.4
13. Non-national activity										
Net purchases	(Rs. mn.)	1,106.3	6,144.5	5,377.4	11,254.3	13,950.5	(789.0)	(26,335.4)	(19,039.2)	38,660.7
Purchases	(Rs. mn.)	11,278.0	27,712.4	37,167.3	46,796.8	66,632.2	43,057.3	92,425.5	49,776.8	72,614.2
Sales	(Rs. mn.)	10,171.7	21,567.9	31,789.9	35,542.5	52,681.7	43,846.3	118,760.9	68,816.0	33,953.6
14. Price indices										
All share	1985 = 100	1,506.9	1,922.2	2,722.4	2,541.0	1,503.0	3,385.60	6,635.90	6,074.4	5,643.0
Growth	% change	41.9	27.6	41.6	-6.7	-40.8	125.3	96.0	-8.5	-7.1
Sensitive	1985 = 100	2,073.7	2,451.1	3,711.8	3,291.9	1,631.3	3,849.40	7,061.50	5,229.2	5,119.1
Growth	% change	9.3	18.2	51.4	-11.3	-50.4	136.0	83.4	-25.9	-2.1

Note: 1000 Million = 1 Billion.

Source: Colombo Stock Exchange, *Fact Book*, various issues.

Table A23: Market Concentration
(% of total market capitalization)

	2012 (%)
JKH	8.64
Ceylon Tobacco	7.17
Carsons Cumberbatch	3.97
Nestle	3.95
Commercial Bank	3.71
SLT	3.71
Bukit Darah	3.28
Dialog	3.12
Distilleries	2.30
Aitken Spence	2.25
Total	42.09

Note: As at year 2012 the top ten of the 287 listed company account 42.09% of total market capitalization

Source: Colombo Stock Exchange , Fact book, various issues.

Table A24: New Equity Listings - 2007-2012

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 - 2007	-	-	-	-	-
2. Rights 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		
3. New listings-2008	No. of shares offered	Issue price Rs.	No. of shares subscribed by public	No. of shares devolved to underwriters	Date listed
Janashakthi Insurance Company Ltd.	33,000,000	12.00	33,000,000		21-Jul-08
Ceylinco Insurance PLC	8,500,000	175.00	6,414,480		14-Aug-08
4. Rights 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		
5. New listings-2009	No. of shares offered	Issue price Rs.	No. of shares subscribed by public	No. of shares devolved to underwriters	Date listed
Capital Reach Leasing PLC	3,100,000	18.00	3,100,000		22-Jan-09
Hemas Power PLC	31,300,000	20.00	31,300,000		8-Oct-09
6. Rights 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		
7. New listings-2010	No. of shares offered	Issue price Rs.	No. of shares subscribed by public	No. of shares devolved to underwriters	Date listed
Renuka Agri Foods	120,000,000	2.25	120,000,000		4-Jan-10
Ceylon Tea Brokers	14,000,000	2.00	14,000,000		16-Mar-10
Raigam Wayamba Salterns	80,000,000	2.50	80,000,000		29-Apr-10
Vallibel Finance	5,200,000	22.00	5,200,000		4-May-10
Odel	16,700,000	15.00	16,700,000		4-Aug-10
PC House	57,233,300	11.00	57,233,300		26-Aug-10
Hydro Power Free Lanka	35,000,000	10.00	35,000,000		25-Nov-10
Laugfs Gas (Voting)	75,000,000	23.00	75,000,000		8-Dec-10
Laugfs Gas (Non- Voting)	52,000,000	15.00	52,000,000		9-Dec-10
8. Rights issues - 2010 by sector	No.of issues	No. of shares	Value (Rs.)		
Banks Finance & Insurance	5	822,860,428	2,613,168,938.60		
Beverage Food & Tobacco	2	20,799,500	1,059,965,000.00		
Construction & Engineering	1	3,585,096,339	3,585,096,339.00		
Hotels & Travels	4	407,206,283	7,114,053,860.00		
Investment Trust	1	69,544,320	2,086,329,600.00		
Plantations	3	39,821,988	727,572,875.00		

Contd...../-

Rights issues - 2010 by sector	No.of issues	No. of shares	Value (Rs.)
Chemicals & Pharmaceuticals	2	144,428,286	382,285,457.40
Land & Property	2	290,070,253	4,751,949,795.00
Motors	1	1,013,813	50,690,650.00
Manufacturing	5	137,119,330	821,614,389.00
Footware & Textiles	1	12,500,000	912,500,000.00
Power & Energy	1	54,109,700	216,438,800.00
Total	28	5,584,570,240	24,321,665,704.00

9. New listings - 2011	No. of shares offered	Issue price Rs.	No. of shares subscribed by public	No. of shares devolved to underwriters	Date listed
Singer Finance Lanka PLC	26,666,667	15.00	26,666,667		17-Jan-11
Panasian Power PLC	200,000,000	3.00	200,000,000		7-Jan-11
HVA Foods PLC	19,928,598	16.00	19,928,598		15-Feb-11
Union Bank of Colombo PLC	15,000,000	25.00	15,000,000		29-Mar-11
Free Lanka Capital Holdings PLC	300,000,000	5.00	300,000,000		18-Apr-11
Expo Lanka Holdings PLC	172,000,000	14.00	172,000,000		13-Jun-11
Vallibel One PLC	21,311,870	25.00	21,311,870		8-Jul-11
Softlogic Holdings PLC	139,000,000	29.00	139,000,000		12-Jul-11
Browns Investments PLC	50,000,000	5.00	50,000,000		26-Jul-11
Textured Jersey Lanka PLC	80,000,000	15.00	80,000,000		9-Aug-11
Central Investment and Finance PLC	40,000,000	10.00	40,000,000		18-Aug-11
Trade Finance and Investments PLC	6,000,000	20.00	6,000,000		27-Oct-11
People's Leasing Company PLC	390,000,040	18.00	390,000,040		24-Nov-11

12. Rights issues - 2011 by sector	No.of issues	No. of shares	Value (Rs.)
Banks Finance & Insurance	9	789,428,608	20,409,212,876.00
Beverage Food & Tobacco	1	2,160,000	648,000,000.00
Construction & Engineering	1	103,500,000	2,587,500,000.00
Diversified	2	27,696,663	896,417,230.00
Hotels & Travels	4	80,405,159	2,932,263,130.00
Investment Trust	1	25,162,800	503,256,000.00
Chemicals & Pharmaceuticals	1	4,155,621	228,559,155.00
Land & Property	2	177,662,430	1,850,606,730.00
Manufacturing	1	8,038,800	305,474,400.00
Total	22	1,218,210,081	30,361,289,521.00

11. New listings - 2012	No. of shares offered	Issue price Rs.	No. of shares subscribed by public	No. of shares devolved to underwriters	Date listed
Kalpitiya Beach Resort PLC	16,200,000	17.50	16,200,000		3-Jan-12
Waskaduwa Beach Resort PLC	15,600,000	12.50	15,600,000		3-Jan-12
Asia Asset Finance Limited	170,160,129	2.50	118,316,000		12-Jan-12
Access Engineering Limited	20,000,000	25.00	20,000,000		27-Mar-12
Mackwoods Energy PLC	25,000,000	14.00	25,000,000		25-Apr-12
Hikkaduwa Beach Resort Limited	5,757,390	20.00	5,757,390		17-Dec-12

12. Rights issues - 2012 by sector	No.of issues	No. of shares	Value (Rs.)
Banks Finance & Insurance	6	402,942,603	3,949,278,628.00
Beverage Food & Tobacco	3	201,372,573	2,493,433,344.00
Hotels & Travels	1	3,039,153	110,929,085.00
Investment Trust	2	2,500,000	200,000,000.00
Plantations	1	26,976,745	323,720,940.00
Land & Property	1	1,619,163	129,533,040.00
Motors	1	1,515,682	197,038,660.00
Manufacturing	1	1,609,695	111,068,955.00
Footwear & Textiles	2	228,741,643	3,457,648,528.00
Power and Energy	1	44,391,593	155,370,576.00
Total (a)	19	913,193,168	10,930,983,095.00

Notes: New companies were not listed on the CSE during the year 2007

(a) Non Voting shares are not included in the calculation

Source: Colombo Stock Exchange, *Fact Book*, various issues.

Table A25: Listed Debentures, 2008-2012

Issuer	Issued (No.)	Par value (Issue price Rs.)	Interest (p.a.)	No.of debt subscribed	Date listed
1. Listings 2008					
Seylan Bank PLC	Up to 10,000,000	100	17.00%	2,089,550	14.01.08
		100	Floating	107,550	14.01.08
	Unsecured subordinated	100	Floating	433,350	14.01.08
	redeemable debentures	100	18.00%	2,962,400	14.01.08
LB Finance PLC	Up to 450,000	1000	21.00%	149,480	21.10.08
		1000	24.00%	296,570	21.10.08
	Unsecured subordinated	1000	Floating	2,500	21.10.08
	redeemable debentures	1000	Floating	1,450	21.10.08
Singer (Sri Lanka) PLC	Up to 6,000,000	100	Floating	280,000	28.10.08
	100	19.75%	2,720,000	28.10.08	
	Unsecured redeemable listed rated A+				
Bank of Ceylon	Up to 50,000,000	100	19.00%	3,451,900	19.12.08
		100	Floating	36,993,900	19.12.08
	Unsecured subordinated redeemable debentures	225	Zero	5,125,280	19.12.08
Nations Trust Bank PLC	10,000,000 Unsecured subordinated redeemable debentures	100	21.00%	10,000,000	06.11.08
2. Listings 2009					
Seylan Bank PLC	Up to 10,000,000	100	20.50%	3,954,450	10.02.09
		100	21.50%	2,316,100	10.02.09
	Unsecured subordinated	100	Floating	33,900	10.02.09
	redeemable debentures	100	Floating	1,200	10.02.09
Nations Trust Bank PLC	500,000 Rated Unsecured redeemable debentures	1000	20.53%	500,000	14.05.09
3. Listings 2010					
Bank of Ceylon	50,000,000	100	11.5	10,747,700	15.07.10
		100	Floating	39,252,300	15.07.10
	Unsecured subordinated redeemable debentures				
Urban Development Authority	100,000,000	100	11.00%	97,211,600	20.10.10
		100	Floating	7,300	20.10.10
	Fully secured redeemable	100	10.00%	2,781,100	20.10.10
4. Listings 2011					
Bartleet Finance PLC	2,040,000 Rated Unsecured redeemable debentures	100	13.00%	2,040,000	30.06.11
DFCC Vardhana Bank PLC	8,333,333 Unsecured subordinated redeemable debentures	100	11.50%	8,333,330	28.11.11
	1,666,667 Unsecured subordinated redeemable debentures	100	Floating	1,666,670	28.11.11

Despite a challenging external economic climate, the Sri Lankan economy has remained an impressive performer amidst the highly subdued growth seen both in the developed and developing world. As the country pushes ahead in the transition to a middle income economy, it will bring with it significant upward social mobility and an emerging middle class. With their more discerning consumer demands, a growing domestic middle class can spur service and process innovations that propel economic growth. A growing middle class can also positively impact public policy by making greater demands on, and wanting a greater voice in, how they are governed and the institutions that govern them. However, rising incomes and mobility will also bring additional pressure on already stretched resources and economic opportunities, from greater urbanization, environmental degradation, changes in aspirations on the type of employment sought by young people, and changes to the country's epidemiological profile.

The Sri Lanka: State of the Economy 2013 takes an exploratory look at the many promising development achievements, opportunities and challenges ahead for the country. The rising socio-economic prosperity in Sri Lanka, if fostered skillfully and inclusively with progressive public policies, can spur economic dynamism, innovation, and social progress, and place the country on firmer ground, as it makes a decisive transition into a middle-income economy and beyond.

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