SRI LANKA

NEW DEVELOPMENT STRATEGY

The interim Poverty Reduction and Growth Strategy document is a product of a consultative process initiated by the government through NCED and other Government organizations. The Ministry of Finance and Planning and NCED invites all stakeholders to participate in this consultative process to finalize the Government's Medium Term National Poverty Reduction and Growth Strategy.

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And participate in the consultative process though the NCED Clusters or though Professional Associations, Workshops or Business and Trade Chambers, Labour and Civil Society Groups.

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Acronyms

ARC	Administration Reform Committee
BA	Bangkok Agreement
BOI	Board of Investment
BIMST-EC	Bangladesh, India, Myanmar, Sri Lanka and Thailand - Economic Cooperation
CBSL	Central Bank of Sri Lanka
CEPA	Comprehensive Economic Partnership Agreement
DS	Divisional Secretariat
FDI	Foreign Direct Investment
FMRA	Fiscal Management (Responsibility) Act
FMRP	Fiscal Management Reform Programme
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
GSTP	Global System of Trade Preferences
HDI	Human Development Index
HIES	Household Income and Expenditure Survey
IDPs	Internally Displaced Persons
ISFTA	Indo-Sri Lanka Free Trade Agreement
IRD	Inland Revenue Department
KKS	Kankasanthurai
NGO	Non Governmental Organization
NCA	National Council for Administration
NCED	National Council for Economic Development
NPA	National Procurement Agency
NPAC	National Plan of Action for Children
NPRGS	National Poverty Reduction and Growth Strategy
PAL	Port and Airport Development Levy
PIDA	Participatory Institute for Development Alternatives
RRR	Re;ief Rehabilitation and Reconstruction
SAPTA	South Asian Preferential Free Trading Arrangement
SEMA	Strategic Enterprise Management Agency
SME	Small and Medium Enterprises
SSOE	Strategic State Owned Enterprises
STD	Sexually Transmitted Diescesses
TAFREN	Task Force for Rebuilding the Nation
TIFA	Trade and Investment Framework
UPFA	United Peoples' Freedom Alliance
VAT	Value Added Tax
VRS	Voluntary Retirement Scheme
WHT	Withholding Tax

SRI LANKA NEW DEVELOPMENT STRATEGY

Framework for Economic Growth and Poverty Reduction

PART I

1. Introduction

Sri Lanka's development policies are being reoriented under the stewardship of the United People's Freedom Alliance (UPFA) Government, aimed at acceleration of economic growth with special consideration given to pro-poor growth strategies. The development strategy consolidates positive elements of the policies followed over the past two decades and revisits the weaknesses, limitations and lapses in past policies in order to ensure equitable development in the country.

As stated in the Economic Policy Framework, 2004 -Creating our Future, Building our Nation 2004 - and further articulated in the budget 2005, the new development strategy is premised on pro-poor pro-growth income improvement and redistribution policies with complementary participation of a socially responsible private sector and a strong public sector.[1/] Higher economic growth alone is not sufficient to reduce poverty; instead it should focus on pro-poor growth strategies. A sustainable 6-8 per cent growth in real income is targeted over the next five years. This in turn requires raising investment to around 35 per cent of Gross Domestic Product (GDP). Such investments include domestic and foreign investment as well as public investment. The ultimate objective is to ensure that Sri Lanka steadily progresses towards an upper middle-income country status within the next ten years.

The National Poverty Reduction and Growth Strategy (NPRGS) of the Government is the major policy approach to navigate pro-poor pro-growth, income and redistribution strategies. The main objectives of the NPRGS are to facilitate poor groups to engage in productive economic activities while giving them income support during the transition period, reduce the poverty gap between different social strata, minimize regional variations in the incidence of poverty and to narrow regional disparities in development. In the process of the implementation of these policy interventions and their translation into development strategies, poor and other vulnerable groups need to be made active partners in the mainstream development process.

Mobilization of poor people through capacity building by formal and informal organizations, improvement and re-orientation of public sector delivery mechanisms, effective targeting of public assistance programmes and expanding employment and income opportunities are the major strategies which are being implemented for different categories of the poor. These approaches are expected to promote the participation of the poor in development projects and thereby empower them economically.

Economic development can promote peace. The conflict in the North and the East has taken a heavy toll on the resources of the country and has also weakened investor confidence. Therefore, promotion of a regionally balanced economic growth becomes necessary to secure peace and prosperity. As part of the regional development strategy of the Government, a substantial investment on infrastructure development in the North and the East will be reflected in the national growth strategy to promote lasting peace through economic progress and equal opportunities.

2. Challenges

Sri Lanka's recent history attests to the economy's resilience to adverse shocks. In the 1990s economic growth averaged 5.2 per cent despite a 20 year long conflict in the North and East. In 2004, despite the impact of adverse exogenous shocks, including the oil price hike and a drought, the economy sustained this pace, registering a 5.4 per cent growth and reached a per capita income level of US $ 1,030. However, Sri Lanka's growth pattern has not been adequate for significantly reducing poverty in the rural and the plantation economy.

Sri Lanka's social indicators, such as life expectancy, literacy and mortality rates, are well above those in comparable developing countries and are on par with many developed countries. In terms of the

1/ The Economic Policy Framework of the Government of Sri Lanka, Creating Our Future, Building Our Nation, 2004, Budget Speech, 2005, Statements under the Fiscal Management (Responsibility) Act, No. 3 of 2003 and Medium Term Macro Economic Framework, Dr. Sarath Amunugama, M.P., Minister of Finance and Planning.

Human Development Index (HDI) Sri Lanka ranked 96th with an index of 0.740 among 177 countries, in 2004. However, poverty still remains an issue affecting nearly one in four Sri Lankans on average. It is a major challenge in several provinces where the incidence of poverty is much larger in magnitute.

The sectoral composition of the economy has changed from that of an agriculture based economy to one dominated by the services sector. The services sector has been the highest contributor to GDP, at 56 per cent, followed by the industrial sector at 26 per cent and the agricultural sector at 18 per cent in 2004. Liberalization, private sector participation and increased competition have contributed to the expansion of the services sector, with buoyant performance in transportation, communications, financial services, trade and tourism. The performance in the agricultural sector is an important determinant of GDP, as this sector directly accounts for around one-fifth of national output and employs over one-third of the workforce. Its importance is larger than these figures indicate because of links between agriculture, manufacturing and services.

The manufacturing base is dominated by the apparel industry, although the production of food and beverages, as well as chemical and rubber based goods, is also important. Industrial exports are dominated by textiles and apparel, which contribute approximately 65 per cent of industrial exports. The phasing out of the Multi Fiber Agreement is a major challenge for most of the manufacturers competing in non quota markets and catering to niche markets. The structure of exports has changed over the years from a few traditional plantation crops to several industrial exports. The share of agricultural exports declined to about 20 per cent, while industrial exports now accounts for 78 per cent.[2/]

Sri Lanka's economy is predominantly a small and medium enterprise economy where over 50 per cent of GDP is produced by this sector. The Government gives significant emphasis for the development of Small and Medium Enterprises (SMEs). The SMEs are constrained by limited access to finance and pay significantly higher interest rates than the established corporate private sector. A high cost of reliability of the supply of electricity, and poor state of roads and transport services poses major obstacles for enterprise development.

Constraints to Development – Legacy

- Domestic resource limitations, infrastructure deficiencies and the internal conflict suppressed domestic investment during the past 20 years. Owing to the escalation of security related expenditure, particularly after the eruption the of ethnic conflict in 1983, public investment declined to low levels including in key areas needed to support a higher rate of economic growth.
- Monetization of successive fiscal deficits have resulted in inflationary pressures and high cost of finance that discouraged private investment, especially in SME sector.
- Infrastructure deficiencies in electricity, roads and transport have become a major impediment to investment and regionally balanced development activities.
- The continuous decline in the tax to GDP ratio has reduced and against increased the public debt has narrowed the fiscal space to accommodate development expenditure in the budget.
- A further challenge being faced by the Government is the increased vulnerability in the Balance of Payments caused by the high international oil prices and the possible effects of the ending of the Multi Fibre Agreement. The Government is taking strong measures on a number of fronts to face this.

2/ Sri Lanka's trade and tariff policy is moving towards a lower tariff regime. In the 2005 budget tariff lines were reduced in order to adopt a more liberal trade policy regime. In addition the country has entered into preferential and regional trade agreements and is well integrated regionally and internationally. Government will actively promote the development of regional links, while also being committed to the promotion of a restriction free multilateral trading system. Sri Lanka is a signatory to the South Asian Preferential Trading Arrangement (SAPTA), Bangkok Agreement (BA), Generalized System of Preferences (GSP), and Global System of Trade Preferences (GSTP) Schemes. In addition, Sri Lanka has entered into Free Trade Agreements with India and Pakistan, which are the two largest markets in the region. The Indo-Sri Lanka Free Trade Agreement (ISFTA) is being followed by a Comprehensive Economic Partnership Agreement (CEPA). A Trade and Investment Framework (TIFA) was entered into with USA. Sri Lanka is also a party to the Bangladesh, India, Myanmar, Sri Lanka, and Thailand - Economic Cooperation (BIMST-EC) Agreement.

The declining tax to GDP ratio, lower level of public investment and a relatively high level of debt to GDP ratio have been the major challenges in the fiscal sector in the recent past. A series of measures has been introduced to increase tax revenue, which include simplifying the system, expanding the tax base, rationalizing tax exemptions and improving tax administration. The Government is committed to raising the revenue/GDP ratio to 19-20 per cent of GDP by 2008 and supporting a higher public investment program with a view to providing a wide range of infrastructure facilitates, developing human resources, undertaking capacity building and reconstruction of the North and East provinces as well as tsunami affected areas. Public investment is expected to increase from 6.4 per cent of GDP in 2005 to 7.9 per cent in 2008.

3. Investment Needs

Inadequate infrastructure facilities remain one of the biggest impediments to Sri Lanka's progress. Reliable infrastructure is a paramount need for further economic development, especially for export oriented activities such as manufacturing and tourism. The build up of security expenditure and rising debt services during the past two decades crowded-out public investment in economic infrastructure, and human resource and skills development, which fell from 14 per cent of GDP in 1985 to about 5 per cent in 2004. The serious cut backs in investments in these vital areas has weakened the country's competitiveness and created growth impediments. In order to fast track reduction in poverty and rural development, it is important to improve rural infrastructure. The need for a reliable power supply, road network, transport systems, telecommunication capacity, urban infrastructure and port and aviation facilities is strong.

Strategies for Infrastructure Development

- High priority will be given to maintain and rehabilitate the existing road network. The road Sector Master Plan, systematic removal of black spots, attention to pedestrian safety, Preventive Maintenance Programme, 2005-2008, rural road maintenance programme for Pradeshiya Sabhas through community participation (Maga Naguma) and high mobility network are planned. The construction of the Colombo-Katunayake, and Southern Highway will be a priority.
- With regard to public transport, private and state buses will be operated in fair competition and in commuter friendly manner. The state bus companies will be restructured to operate efficiently.
- National coverage of safe drinking water will be increased through construction of new schemes and augmentation of the existing schemes.
- The railway sector also needs urgent upgrading. New services such as the Airport Express link, the carriage of fuel and containers and fast monorail services would be pursued to increase railway revenue.
- The main targets in the power sector is to expand the supply of electricity to 80 per cent of the population by 2008. Power generation, transmission and distribution are to be made efficient business operations to expand investment in the power sector to meet the rising annual demand through ongoing power sector reforms. The hydro and coal power projects, which are already behind schedule, will be implemented and alternative energy development will be formulated to reduce the dependency on oil based electricity.
- In keeping with international standards, Sri Lanka's port and aviation sectors needs to transformed as an air-sea hub and logistic centre, meeting customer requirements and ensuring a high quality service to trade and transport.

Public Investment

The reduction of public investment to reduce fiscal deficits is counter-productive. Therefore, a key element of the new policy regime is for a higher level of public investment. The medium term target is to reach a near 8 per cent of GDP level of public investment. The ongoing public investment strategies are reflected in the 2005-2007 Medium Term Expenditure Framework.

Figure 1: Public Investment Trends: 1990-2008

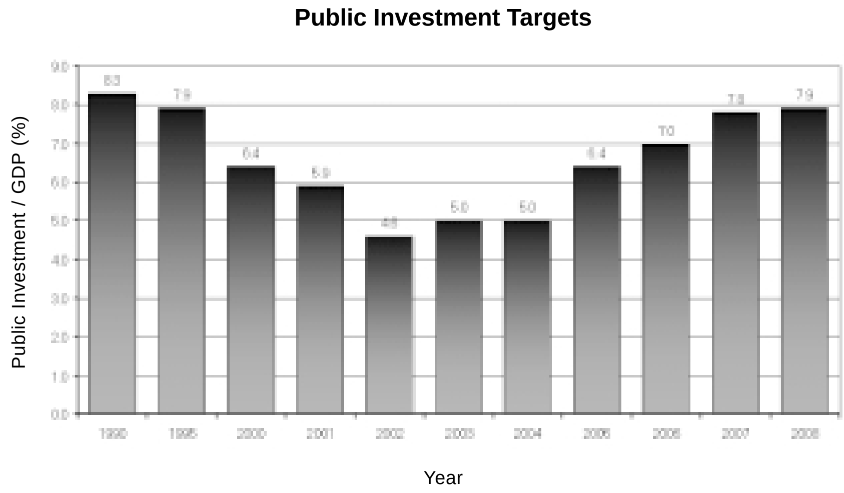


Table 1 : Public Investment : 2005 – 2007 – Activity Plan 2005

Category	Sector	National	Funding 2005 (Rs.Mn.)	Provincial	Funding 2005 (Rs.Mn.)
Human Resource Development	Education	National Action Plan for Children	100	Teacher Training and Deployment Project	226
		Special Education	88	Junior School Improvement Project	135
		Basic Education Sector Programme	46	Special Programme to Upgrade Education in Plantation Schools	41
		Special Education Project	88	Eastern Province Education	30
		Secondary Education Modernization Project	2,146	Distance Education Modernization Project	1,129
		Primary Education Project	393	Buddhist and Pali University Administrative Complex	168
		Secondary Education Project	1,031		
		Second General Education Project	581		
	Higher Education	Improving Relevance and Quality of Undergraduate Education	1,240		
		University Grants Commission	2,154		
	Vocational Training and Skills Develop-ment	Skills Development Project	1,257	Koika Project – Jaffna	33
		Tharuna Aruna	100		
		Vocational Training Programme for Displaced People	75		
		National Youth Corporation	492		
		World University Services	39		
		Dept. of Technical Education – Impl. of Technical Education	85		
National Infrastructure Development	Roads and Highways	Katunayake Expressway	1,315	Provincial Road Improvement Project	1,290
		Outer Circular Road (Engineering Design)	139	Southern Transport Development Project	5,893
		Road Sector Development Project I	371	Small and Medium Roads	2,600
		Road Network Improvement Project	3,216	Rehabilitation of Balangoda – Bandarawela Road	725
		Maintenance of Roads and Bridges	1,900	Maga Neguma Rural Road Development Programme	500
		Road Sector Development Project II	2,180	Reconstruction of 36 Bridges and Bypass Roads	420
		Ancillary Works & Items of RDA	750	Construction of Kinniya Bridge & Upgrading Roads, and Thambalagamam – Kinniya Road	203
		Road Sector Assistance Project	50	Rehabilitation of Ratnapura – Balangoda Rd.	90
				Baseline Road Project Phase III	90
				Feasibility Studies on Colombo – Kandy Expressway	70
				Manampitiya Bridge Reconstruction	55
				Thrid Road Improvement Project	110
				Rural Road Improvement Project	40

Category	Sector	National	Funding 2005 (Rs.Mn.)	Provincial	Funding 2005 (Rs.Mn.)
	Railway	Major Repairs to Rolling Stock	500	Rehabilitation of Rail Tracks from Valachchene – Batticoloa	325
		Minor Repairs to Rolling Stock	80	Matara - Kataragama Phase I up to Walasgala	100
		Rehabilitation of 50 Carriages	125		
		Rehabilitation of Permanent Way with Rails and Sleepers	1,757		
		Railway Bridges for Rail Extension Line	975		
		Buildings and Structures	70		
		Concrete Sleeper Production Unit	80		
		Maintenance of Signaling & Communication Systems	75		
	Ports	New North Pier Development Project	1,200	South Harbor Development Project	332
		Upgrading of Colombo Port (Yield Improvement of JCT 1 & 2)	122	Galle Regional Port Project	100
		Urgent Upgrading of Colombo Port (Enhancing of Container Handling)	60	Hambanthota Port Development	126
	Airports	BIA Terminal Project	3,700		
	Electricity	Upper Kottmale Hydro Power	2,500	Colombo City Electricity Distribution Development Project	323
		Power Sector Restructuring Project (Kerawalapitiya Kotugoda Transmission Line Project)	1,000	Diesel Storage Tanks at KPS	330
		Greater Colombo Transmission Development Project (Kfw)	1,765	Rural Electrification Projects 4-7 (Funded by Sida, Kuwait, ADB and China)	3,068
		Medium Voltage Distribution	783		
		Power Sector Development Projects (ADB)	538		
		Purchase of Track Machine – Track Motor Car	125		
	Water Supply	SIRUP Funded Water Supply Projects	1,500	IDA Community Water Supply Schemes	625
		NRW Reduction	1,100	Eastern Coastal Area – Phase II	1,700
		Towns North of Colombo	400	Rural Water Supply and Sanitation Project (ADB)	2,310
		Maintenance of Cannels	56	Kalu Ganga Project	1,970
				Greater Kandy	1,395
				Kelani River Conservation Barrage	270
				Lunawa Environment and Community Dev.	1,435
				Secondary Towns Water Supply	615
				2nd Community Water Supply and Sanitation	625
				Waste Water Disposal System to Moratuwa, Ratmalana and Ja-Ela Districts	100
				Improvement of Water Supply in the Matara District	540
				Greater Colombo Sewage Rehabilitation	330
				Greater Colombo Flood Control and Envi. Improvement Project	415
				Nawalapitiya – Ampara Koggala Project	470
				Greater Galle Augmentation Project	420
				Ambalangoda, Weligama, Kataragama WS	90
				Reactivated Community WS & Sanitation	270
	Telecommuni- cation	Telecommunication Network Expansion Project	1,250		
	ICT	E-Sri Lanka Project	500	IT Parks under Urban Dev. Programme	100
		Science and Technology Personal Development Project	89	IT Parks in North – East	29
	Posts	Construction of New Post Office Buildings	103	Rehabilitation and Improvement of Postal Buildings	39
				Provision of Call Metering Units to Sub Post Offices	88
	Housing / Construction	Housing Project for Public Servants	250	Urban Development and Low Income Housing	495
		NHDA	150		

Category	Sector	National	Funding 2005 (Rs.Mn.)	Provincial	Funding 2005 (Rs.Mn.)
Health	Health	Rehabilitation of Hospitals Implementation of Plan of Action for Children Triposha Programme Health Sector HR Development Programme Health Sector Development Project Rehabilitation of Operating Theatres and ICUs National STD/AIDS Control Programme Global Fund to Fight Against TB and Malaria Mother and Nutrition Programme Computerization of Drug Distribution System Water Supply and Sewage System for Hospitals Development of Blood Bank Project Neuro Trauma Unit at NHSL	1,003 120 585 25 925 1,110 635 260 205 50 30 532 800	Sirimavo Bandaranayeke Childrens' Hospital at Peradeniya Development of Jaffna Teaching Hospital Bio Medical Engineering Unit – Equipment MLT Unit at Colombo South Hospital Drug Stores at IDH Development of Kandy, Badulla and Kalmunai (North) Hospitals Nephrology Unit at Maligawatte New Building and Water Tanks at NTS Galle	1,148 100 1,500 40 69 75 75 30
	Indigenous Medicine	Community Health Facilities Cultivation of Medical Herbs Aurvedic Research Institute	35 8 5	Borella Aurvedic Hospital Improvement of Herbal Gardens – Girandurukoote, Haldummulla, Pattipola and Pallekele	64 15
Rural Development	Rural Industries	Handicraft Village Development Project Establishment of Economic Centres Rural Finance Sector Development Project IDA Renewable Energy for Rural Economic Development Project Rural Economy Resuscitation Fund Rural Area Development Project Supporting Infrastructure Maintenance to Reduce Poverty	100 130 100 2,088 150 143 47	Province Specific Development Grants 100 Villages Development Project Uva Wellassa Development Programme Monaragala Integrated Rural Development Programme North-Central Rural Development Project Southern Province Rural Economic Advancement Project	8,000 400 200 66 100 600
	Community Development and Estate Infrastructure	Estate Electrification Drinking Water and Sanitation Plantation Development Support Programme Education Reforms in Plantation Schools Estate Housing Programme Construction of Roads and Bridges Other Socio Economic Infrastructure Dev. Implementation & Development of Rural Infrastructure for Upcountry Area Programme to Improve Health Facilities Community Development Project	100 100 266 300 100 100 50 55 39 35	Matale REAP Plantation Development Project Tea Development Project	220 300 474
Industrial Development	Industries	Industrial Estates Productivity Improvement Programme Cleaner Production Centre (NORAD) EIB Credit Line Economic Reform Technical Assistance	91 67 32 1,350 200	Bata Atha Leather Complex	70
	SMEs	SME Bank SME Development Project SME Credit Assistance Project Services Support Facility Project Rural Finance Sector Development	5,000 707 2,290 180 1,350	Credit Line for SMEs in the North East	
Agriculture and Fisheries	Agriculture and Livestock	Agro Food Project 2nd Perenial Crop Development Peace Project Granary Area Project Japanese Food Production Grant Dev. of Agri Crops Assistance Programme Small Farmer Improvement Project Control of Contagious and Infectious Diseases Livestock Breeding Project Facilitate and Promotion of Liquid Milk Consumption	100 450 300 50 51 54 40 30 40 50	Dry Zone Livelihood Support Partnership Programme Vet. Research Institute Upgrading	470 105
	Fisheries and Oceanic Resources Development	Coastal Resources Management Project Aquatic Resources Development and Quality Improvement Project Deep Sea Fishing Assistance Visiri Nivasa Grant Delimitation of Continental Shelf Fish Transportation Vehicles Construction of New Ice Plant to increase the Capacity of the Present Plants	2,400 350 100 99 90 50 50	Deewara Gammana Programme Infrastructure Facilities to Fishing Villages Establishing 30 Fish Outlets in Colombo and other Main Towns Purchase of 450 Three-Wheelers with Refrigeration Facilities Upgrading Modara Cool Room Purchase of Vessels (Two Nos.)	166 100 10 53 30 100

Category	Sector	National	Funding 2005 (Rs.Mn.)	Provincial	Funding 2005 (Rs.Mn.)
Land	Land and Irrigation	Minor Tank Rehabilitation Land Acquisition for State Purposes Land Titling and Related Services Mahaweli Restructuring and Rehabilitation Water Resource Management Land Acquisition for State Purposes Land Titling and Related Services	40 50 500 200 190 765 79	Udawalawe Left Bank Rehabilitation Manik Ganga Reservoir Deduru Oya Reservoir SIRUP Projects – Existing Irrigation Projects SIRUP Projects – New Irrigation Projects Rehabilitation of 57 Irrigation Schemes Welioya Diversion Project Hambantota Irrigation Rehabilitation Project Dry-Zone – Minor Irrigation Schemes Improving the Kandy Lake Dambulla – Bakamuna System C Upgrading Project System B Left Bank Project Centenary Irrigation Development Project	1,517 170 270 282 145 30 113 200 200 65 200 550 137 40
Poverty Alleviation	Samurdhi	Livelihood Improvement Project Poverty Alleviation Micro Finance Project Labour Incentive Peoples' Project	376 346 54	Emergency Assistance for Flood Affected Areas	346
North East Development	North East Rehabilitation & Development	North-East Housing Reconstruction Programme (NEHERP) Coastal Community Development Project (NECCDEP) Irrigated Agriculture Project North East Emergency Reconstruction Programme I North East Emergency Reconstruction Programme II Special Projects for Rehabilitation of People Affected by War Payment of Compensation for Damaged Property Redevelopment of Infrastructure North East Community Restoration Project Rehabilitation of Bridges in North East Irrigated Agriculture Project II (NEIAP II) Rehabilitation, Reconstruction and Resettlement Conflict Affected Area Rehabilitation Project Rehabilitation of Religious Places in North East Drilling Machinery to Drill Tube Wells in North East	1,470 561 381 700 400 350 250 100 1,560 692 880 140 1,839 100 140	Mannar District Rehabilitation (MANRECAP) Food Security and Reconciliation in Batticaloa District Agriculture and Rural Development In Trincomalee Jaffana Water Conservation and Environment Management Accelerated Plan for Jaffna District Batticoloa District Development & Rehabilitation Project Court House for Jaffna and Trincomalee	77 58 35 60 155 146 107
Sustainable Development	Environment & Natural Resources Development	Natural Resources Management Project Upper Watershed Management Project Institutional Strengthening and Capacity Building Forest Resource Management Project Beire Lake Restoration Project	110 226 132 705 100	Protected Area Management and Wildlife Conservation	526

4. The Policy Direction

Agricultural Policy

Agriculture has been Sri Lanka's main livelihood from ancient times. However, the growth in this sector has been sluggish. Rapid agricultural productivity growth is fundamental for reducing poverty in Sri Lanka as nearly 90 per cent of the poor live in the rural agricultural economy. Therefore, rapid development in food production while protecting the environment, water resources, and bio-diversity needs to be given high priority in the development strategies. This includes removal of existing policy and regulatory constraints which have stifled growth in the agricultural sector. Fragmented land use, insufficient availability of water, credit, seed, technical know-how, technology, marketing, storage and transportation, poor farming practices continue to weaken productivity in agriculture. Short to medium term priorities include adopting policies to facilitate farmer access to wider markets and improved technologies, creating a stable trade policy regime with required safeguards and developing a regionally equitable infrastructure development strategy for rural development.

Industrialization Strategy

The pro-poor growth strategy Sri Lanka needs in the present global context is one which would actively favour agricultural production and manufacturing. There needs to be a gradual but a definite shift towards high value added domestic resource based production activities. Manufacturing activities offer opportunity for product diversification, expansion and productivity increases. Therefore, industrial policy should strengthen the existing export orientation of the country's manufacturing sector. On the other hand industrial policy need not completely ignore import substitution. The strategy will be to promote such industries in line with their own potential in terms of market size, liberalization commitments, and trade agreements in order to ensure competitiveness. Mass consumption items such as processed foods in fact offer chances for successful export and opportunities for penetrating world markets. Industry promotion requires a system of policy based financing and support of reliable and efficient infrastructure facilities.

Investment Policy

Foreign direct investment (FDI) provides capital and technology to catalyse the development process. Despite continuous emphasis of the importance of FDI in the development process, it still contributes only about 2-3 per cent of GDP and account for about 10 per cent of the country's aggregate investment of 28 per cent of GDP. Therefore, a rejuvenated effort to promote FDI is a priority. Public-Private partnership arrangements will be used to promote large-scale infrastructure projects. Sri Lanka wishes to move away from debt finance, to develop infrastructure and industry, and tap the vast private equity capital that is available globally.

The investment is predominantly undertaken by the domestic private sector. Infrastructure bottlenecks and regulatory shortcomings have constrained private investment. FDI is to be further promoted into strategic sectors and export industries, and those that use high local value addition, generate employment, use advanced technological methods and undertake high research and development methods. In addition to the manufacturing sector, FDI is sought for developing the tourism sector and funding infrastructure development projects across the island.

Sri Lanka's business environment favours foreign investment. There are no restrictions on repatriation of earnings and the safety of foreign investments is guaranteed by the Constitution. In addition Sri Lanka has investment protection agreements with over 20 countries and double taxation relief for over 30 countries. The Government has already adopted several measures for fiscal consolidation, creating a conducive macroeconomic environment. Human resource development (development of the education sector, enhancing IT skills etc.) and strengthening governance are being implemented. Restructuring the BOI, making it more pro-active and focused, and making it the only contact point for investment and strengthening its functions to ensure speedy clearance of investment approvals is being implemented.

Trade and Tariff Policy

Government trade and tariff policy will aim at providing a stable and predictable medium term policy framework. Given the increasing integration of the Sri Lanka economy with global markets, the policy framework will be geared to facilitate a fair-trading environment for both export and import sectors. In order to enhance a competitive policy environment, Sri Lanka will strengthen standards in health, environment, labour and safety standards to comply with international best practices. Compliance with such standards will assist Sri Lanka not only to meet the challenges of modern trade initiatives but will also ensure that the rights of global consumers are protected. It is proposed that an institutional mechanism to monitor such obligations is strengthened to ensure effective action against infringements of standards in respect of both locally produced and imported goods.

Education and Skills Development

The public expenditure in education has declined to about 2 per cent of GDP in 2004. This fall has constrained progress of the education system. Less than 20% was invested in quality inputs such as equipment and technology, furniture and tools. Many rural schools have empty classrooms, while urban schools are heavily congested. This is a serious constraint in equipping the future generation with modern knowledge, skills and competencies. The vision to increase access and progressively upgrade the education sector is based on restoring performance, maximizing available opportunities and enhancing the prospects for school and university students globally.

The education system must play a vital role in creating productive workforce, possessing appropriate knowledge and relevant skills. In order to achieve these goals a comprehensive education program, together with the process of transformation, is now in force. As a priority, strengthening the intake and output capacities of all primary, secondary and tertiary education institutions, including the much neglected technical and vocational schools, would be undertaken. New institutions will also be created to fill knowledge gaps. Streamlining admissions to schools and other administrative systems, introduction of modern class room teaching methods and resources such as IT infrastructure, computer laboratories, revised text books and e-libraries, are part of a package of extensive measures that will be implemented as immediate action.

Labour Relations

The development of a globally competitive economy requires a globally competitive workforce and the fostering of a highly favourable work-place environment. The establishment of strategic partnerships between Government, the private sector and unions and between employers and workers in the workplace can create a competitive advantage, since harmonious industrial relations attract quality investment and create higher value jobs. Such partnerships have to be based on trust and accountability arising from transparency and information. A modern legal framework governing labour relations that promote a sound business environment, job security and employment needs to be created to promote a decent work environment, productivity growth and corporate governance.

5. Medium Term Macroeconomic Framework

The medium term macro framework provides a road map towards consolidating the country's macroeconomic environment. This framework is built on 7 key pillars:

1. Enhancing effectiveness of public financial management and the efficiency of the delivery system to the people.
2. Transforming the economy to a knowledge and technology base as a catalyst for economic growth by ensuring a high value added production using domestic resources.
3. Improving access through infrastructure at provincial/national level, to attract public and private investment.
4. Making a production base that is largely owned by private small and medium enterprises will be made the nerve centre in the production process.
5. Strategic state enterprises and the public sector playing a complementary and pro-active role in making development more meaningful to the people.
6. Reducting poverty through rural sector development and employment creation.
7. Promoting a caring society and respect for cultural and religious values, leading to a stable democratic society.

Macroeconomic Strategies

- A GDP growth rate of 6-8 per cent is to be achieved through sound macroeconomic and structural policies and a diversified domestic resource based modern infrastructure and regionally balanced development.
- Private sector investment will be promoted by making available more domestic resources in the context of a fiscal framework aimed at keeping the RRR included budget deficit below 9.6 per cent of GDP in 2005 and a steady reduction thereafter to around 5 per cent of GDP by 2008, maintaining an appropriate balance between foreign financing and domestic borrowings.
- Implementing a sound monetary policy to contain inflation and encourage investment and domestic savings.
- The promotion of public-private partnership to attract private equity funds and foreign direct investment.
- Promotion of exports through further rationalization of tariff and trade policies and facilitation of a fair trading environment and trade and investments arrangements with partner countries.

Table 2 : Medium Term Macroeconomic Framework 2005 – 2008

Indicator	Units	2004 (a)	Projections 2005	2006	2007	2008
Real Sector						
GDP at Market Prices	Rs. Bn	2,029	2,344	2,667	3,010	3,387
Real GDP Growth	%	5.4	5.3	6.3	6.6	7.1
Inflation/GDP Deflator	%	9.2	9.7	7.0	6.0	5.0
Total Investment	%of GDP	25.0	39.0	31.0	32.8	33.9
Private Investment	%of GDP	20.2	22.6	22.9	24.2	25.4
Public Investment	%of GDP	4.8	6.4	8.1	8.6	8.5
Domestic Saving	%of GDP	15.9	17.9	19.7	22.2	24.8
Private Saving	%of GDP	19.8	19.9	19.7	20.1	21.4
Public Saving	%of GDP	-3.9	-2.0	0.0	2.1	3.6
National Saving	%of GDP	21.6	23.4	25.1	27.7	30.2
External Sector						
Trade Gap	US$ Mn	-2,243.5	-2,889	-3,349	-3,455	-3,367
Exports	US$ Mn	5,757	6,302	6,798	7,333	8,012
Imports	US$ Mn	8,000	9,190	10,147	10,788	11,378
Services	US$ Mn	419	354	482	521	593
Receipts	US$ Mn	1,526	1,526	1,767	1,928	2,107
Payments	US$ Mn	1,107	1,272	1,285	1,407	1,514
Current Account	US$ Mn	-648	-1,190	-1,452	-1,367	-1,085
Current Account Deficit	%of GDP	-3.3	-5.1	-5.7	-4.9	-3.6
Overall Balance	US$ Mn	-205	160	176	204	173
External Official Reserves (Months of Imports)	Months	2.8	3.0	3.0	3.2	3.2
Debt Service Ratio (b)	%	11.6	11.0	11.0	10.8	10.7
Fiscal Sector						
Revenue	%of GDP	15.4	16.5	17.9	18.9	19.6
Expenditure	%of GDP	23.5	24.7	26.0	25.4	24.4
Revenue (Deficit/Surplus)	%of GDP	-3.9	-2.0	0.0	2.1	3.4
Overall Budget Deficit	%of GDP	-8.2	-8.2	-8.1	-6.6	-4.8
Domestic Financing	%of GDP	5.8	4.5	3.4	2.6	1.6
Financial Sector						
Reserve Money Growth (c)	%	20.9	15.0	14.0	13.0	12.5
Broad Money Growth (M2b) (c)	%	19.6	15.0	14.0	13.0	12.5
Narrow Money Growth (M1) (c)	%	16.6	13.0	12.0	11.0	10.5
Growth in Credit to Public Corporations (c)	Rs. Bn	4.9	-15.0	-5.0	-5.0	-5.0
Growth in Credit to Private Sector (c)	Rs. Bn	114.8	114.9	121.9	128.8	145.0
Growth in Credit to Private Sector (c)	%	22.1	18.4	16.2	14.8	14.5

(a) Provisional
(b) Total debt service payments as a percentage of earnings from merchandise exports and services
(c) Point-to-point growth in end year values

The medium term macro fiscal policy framework of the Government is designed to achieve the following three key objectives keeping in line with the long-term policy direction provided in the Fiscal Management (Responsibility) Act;

- Transform the prevailing revenue deficit in the national budget to a surplus and generate Government savings of over 2 per cent of GDP by 2007.
- Augment public investment to over 7 per cent of GDP by 2006 in order to accelerate the national infrastructure development programme, rapidly expand provincial and rural infrastructure facilities as well as North and East infrastructure rehabilitation and reconstruction and upgrade and modernize human resource development facilities.
- Reduce domestic borrowings towards 2 per cent of GDP in order to enhance available resources for the development of Small and Medium Enterprise (SME) led private sector capital formation and income generating activities.

Operational and Policy Measures Underpinning the Medium Term Macro Economic Framework

1. Increase the rate of economic growth

- Promote private investment
- Encourage foreign investment and technology.
- Improvement of value added exports and export diversification.
- Improved SME sector performance.
- Improvement of public enterprises.
- Increase the value addition of the financial sector.
- Introduction of new and alternative technology to minimize the adverse impact of droughts and promote alternative energy sources.
- Promote tourism.
- Sustain the quality of public investment in infrastructure development.
- Maintain competitiveness through containing domestic inflation

2. Savings and Investments

- Increase Government savings through elimination of the revenue deficit
- Increase private savings by maintaining positive real interest rates for depositors
- Increase public private investment
- Increase foreign direct investments

3. Inflation

- In view of high oil prices and supply side shocks, inflation may remain high in 2005. However, the inflation is expected to decelerate in the medium term through supply side improvements and fiscal consolidation that aims at reducing demand pressure in the economy.

4. Fiscal Aggregates

- Revenue deficit would be phased out.
- Increased public investment will be largely financed by concessionary foreign funds and long term domestic institutional sources.
- Local financing of the deficit will be eliminated.
- Budgetary transfers to state enterprises will be phased out.

5. Monetary Sector

- Avoid demand-fueled inflation
- Facilitate required credit growth for sustained economic activity
- Further strengthening the financial sector to promote stability

The Government’s macro fiscal framework, while ambitious, shows the deep commitment to raising revenue, managing the economy and providing the right kind of incentives needed to ensure sustainable economic growth. Delays in implementing such measures would result in the country being unable to achieve its development goals.

6. Capacity Building Initiatives

National Council for Economic Development (NCED): The NECD is built on the concept of bringing together stakeholders from the private and state sectors to jointly develop national economic policies and action plans. It is involved in eliminating all administrative impediments obstructing or delaying progress and facilitating and assisting the Government in the effective implementation of its policies and development programmes (See NCED Activity Plan).

Strategic Enterprise Management Agency (SEMA): The SEMA facilitates and ensures the efficient management of 12 strategic enterprises in Sri Lanka. The aim is to improve the efficiency and effectiveness of the Sri Lankan economy by putting these enterprises on par with their private sector counterparts, while retaining state ownership. The functions of SEMA include re-engineering of the strategic state owned enterprises (SSOE) to be capable of generating investment surpluses whilst ensuring adherence to international accounting standards, commercial best practices and ensuring that they become a major source of high quality capital formation in the country. The SEMA is also tasked with ensuring that each of the SSOE’s will have commercially sound corporate structures. The twelve enterprises fall into six clusters namely, banking, energy, port services, transport, trading and manufacturing and water supply and sanitation.

Administrative Reforms Committee (ARC): The ARC is established to promote institutional reforms in the public sector in order to make the Government’s administrative machinery an efficient, citizen friendly and modern entity. Major areas of reform would be the rationalization of the functions of Government agencies to ensure that they are focused on function relevant to current needs, with special emphasis on transparency and the use of modern technology.

National Procurement Agency (NPA): The NPA is an independent regulatory body established to oversee procurement monitoring, capacity building and policy related matters and to strengthen and streamline the Government procurement system. It is mandated to prevent delays and inefficiencies through the formulation of simplified and harmonized procurement policies, guidelines and standards. In addition, the NPA engages in capacity building and monitoring to ensure accountability and transparency in procurement practices.

National Council for Administration (NCA): The NCA was created to review the recommendations of the Salaries Commission 2000 which called for the establishment of a permanent commission on administration with statutory powers. Some of the responsibilities of the council include monitoring of salary structures and making relevant recommendations to the Government, developing a national wage policy, cadre management in the public sector, identifying institutional shortcomings and taking measures to remove such constraints.

Inland Revenue Department Modernization (IRD): The taxation reform strategy of the Government aims to rationalize the tax concessions, tax policy development and institutional development. In this drive, modernization of the Inland Revenue Department is a core element. The IRD will be modernized through the introduction of modern administrative structure supported by technology and human resource development. The main reason for the modernization of the IRD is the weakening tax administration with outdated cadre and administrative structures, absence of human resource development, complexity in tax laws, and absence of technology and inadequate recognition of institution building. The IRD modernization initiatives have so far being the appointment of the Revenue Board to establish inter revenue department coordination and to empower CGIR, appointment of a steering Committee to promote staff involvement in reforms at all levels and provide solutions with a greater in-house ownership and establishing a new organizational structure.

Board of Investment (BOI): A re-orientation effort is in progress at the BOI which is the facilitator of foreign investment. The multifaceted functions that the BOI is entrusted with are being revisited to make it more pro-active and focused. In house capacity building and strategic planning have been given priority.

7. Reform Initiatives

Financial Sector and Capital Market Reforms

The regulatory framework in the banking, insurance and financial services industry needs to be further strengthened to foster competition and financial institutions to divert more funds to develop the production sectors and rural development and move away from the traditional bias towards trade financing. A single regulatory arrangement for the non-bank financial sector will be considered to rationalize the operations of multiple regulatory agencies. The financial sector strategy is directed towards achieving financial system stability and promoting access to finance.

Interest spreads continue to remain high, reiterating the necessity of financial sector reforms. Acceleration of these reforms will provide benefits to both savers and borrowers. Pressure on the interest rate will be contained in order to create new economic growth areas and promote SME led economic activities. Towards this end the Government will not only commit itself to a systematic reduction in the budget deficit, but also to maintain a proper balance in foreign and domestic borrowings in order to avoid undue pressure on interest rates and the exchange rate.

The state banks will be strengthened as strategic state enterprises to improve their financial viability and compete aggressively and effectively in the financial sector and remove market imperfections. The banking and financial institutions are being encouraged to expand their institutional network with technology to less developed areas in the country to make them effective partners in rural development.

In order to ensure financial stability and responsibility and to develop a strong and sound banking system that is resilient to internal and external shocks, the minimum capital requirements for all licensed banks has been enhanced.

For rural firms in Sri Lanka, private commercial banks play a very limited role. In addition, the cost of finance has been considered a major constraint for business start-ups and operations. Even in the urban sector small firms have to pay higher interest rates, limiting their access to finance. In addition, the collateral requirements by banks also impact small firms' access to finance. It is in this light that the SME banking concept was introduced.

A new SME Bank was set up with an initial capital base of Rs.5,000 million to provide direct credit guarantee schemes, equity and debt capital restructuring aid at concessionary rates of interest for SMEs, and to reduce the dependency on collateral for credit guaranteed to SMEs. The priority sectors for SME lending includes advanced technology, software and business process outsourcing, technological improvements, fisheries, gem and jewellery, agro based industries, the services sector and for SME exports which focus on value addition. Among the incentives for advanced technology is the duty free import of machinery with the SME Bank providing financial support to new or existing companies investing Rs.5 million and 2 million, respectively.

Table 3 : Proposed Amendments to Financial Sector Legislation

Name of the Bill	Purpose
1. Amendments to the Leasing Act, No. 56 of 2000	To provide for the securitization of leased assets.
2. Amendments to the Regulation of the Insurance Industry Act, No. 43 of 2000	To provide for the Insurance Board to determine the form of prudential investments of the technical reserved and the long-term funds of registered insurers other than in Government Securities.
3. Amendments to the Finance Companies Act, No. 78 of 1988.	To provide for the Monetary Board to determine from time to time, the required minimum capital to be registered as a finance company, as the present minimum capital of Rs. 5 Mn. as stated in law is considered grossly inadequate.
4. Payment Devices Fraud Bill	To provide for a legal frame work to deal with fraud relating to credit cards and other payment devices.
5. Securitization Law	Securitization provides an opportunity to raise funds for financial institutions and the law would provide the necessary regulatory frame work.
6. Payment and Settlement Systems Act	To provide for the introduction of a regulatory framework for CBSL to oversee Payment and Settlement Systems, and to enable electronic presentment of payment instruments.
7. Financial Transactions Reporting Act (Legislation on Anti Money Laundering)	To introduce legislation on anti money laundering, as part of preventing the financial system being used for undesirable transactions.
8 Repeal of the Employees' Provident Fund (Special Provisions) Act, No. 06 of 1975	To remove the prohibition on the establishment of private provident funds.

Fiscal Sector Reforms

In accordance with the Fiscal Management (Responsibility) Act (FMRA) and within the framework of the 2005 Medium Term Budget the Fiscal Management Reform Program (FMRP) as been initiated with assistance from the ADB. The goal of the FMRP policy components is to strengthen public finances by improving public recourse /expenditure management systems, promoting fiscal discipline and supporting fiscal decentralization. The policy objectives of the ongoing fiscal reforms include improving the effectiveness of tax administration, improving the budget framework, improving expenditure management and control systems, strengthening fiscal discipline and improving fiscal co-ordination.

Aid Utilization and Monitoring

Foreign aid utilization is still inadequate despite some improvements. Several bottlenecks that affect the smooth implementation of projects, such as procurement procedures, provision of adequate local resources, implementation capacities, accounting and administrative procedures, release of funds by the Treasury *etc*. have been examined and a new monitoring arrangement has been set up in the Ministry of Finance and Planning. This would ensure speedy implementation of major projects. The entire project profile and new projects are web based for easy monitoring. The new unit entrusted with budget monitoring and aid utilization, together with the National Procurement Agency, is working on execution schedules to facilitate this task.[3/] This is further strengthened by an Inter-ministerial Cabinet Sub-Committee headed by Her Excellency the President to ensure performance monitoring. The government proposes to introduce a reward mechanism based on the performance assessment of each project. The new system will rank each project in terms of its performance outcomes and will be linked to the 270 Divisional Secretariats.

Public Service Reforms

The public service, in its critical role of facilitator, nurture, pace-setter and standard bearer, will work with the rest of the nation to create the way forward. The entire perspective of the public service will have to focus on learning to anticipate change, include development and meet the demands of the future in innovative ways. The public's expectations of quality in the public service will also increase even as public sector activities will be increasingly restricted with tight constraints on financial, personnel and other resources.

3/ With regard to the monitoring of foreign aid projects, the National Procurement Agency (NPA) has been set-up especially due to the significant delay in finalizing public contracts, which has resulted in a low disbursement rate (around 9 per cent against an expected rate of 25 per cent) and also due to the low utilization rate in Government funded development projects. In the new policy under the NPA, the procurement activities are associated with the budget cycle. Also, the procurement activities are in two components – preparedness activities and pre and post contract activities.

Table 4 : Medium Term Measures Based on Budget 2005

Proposal
1. Reformulation of VAT to a 4 band rate structures
2. VAT exemption on large Investments
3. Exemption of income tax on Agriculture
4. Removal of income tax exemption on local sales of Gold, Gems and Jewellery
5. Rationalization of taxation of employment benefit
6. Simplification of personal income tax (revenue neutral)
7. Presumptive tax on NGOs
8. Rationalization of Corporate Tax ✶ Tax on Dividends not distributed ✶ Removal of deductions allowed on VAT payments on financial services in calculating taxable income. ✶ Rationalization of expenses allowed in travel abroad, entertainment expenditure & entertainment allowance, allowance on fuel or provision of vehicles, advertising expenditure, head office expenses of non resident companies.
9. Withholding tax on motor vehicles
10. New Tax Compliance measures ✶ Declaration of expenditure ✶ Rewarding honest tax payers by Gold Card – Lottery for Discounted prices / Special lounge at the BIA ✶ Tax Clearance Certificate mandatory for Government tender
11. Simplification of Economic Service Charge
12. 0.2% tax on transaction value of stock market transactions
13. Tax Administration ✶ Establishment of an appeals unit under a separate Commissioner ✶ Tax Charter ✶ Setting up of an information centre ✶ Codify the Income tax law ✶ Appointment of three member committee of Tax Commissioners to clarify refunds by the IRD ✶ Inaugurate dedicated Tax Courts in Colombo, Gampaha, Kandy, Galle ✶ Independent Tax Ombudsman ✶ Advance ruling for tax laws
14. Rationalization of Customs Tariff within a 5 rate band
15. 0.5% increase in Port and Airport Development Levy
16. Excise Tax on Liquor
17. Expansion of the coverage of commodities under Excise (Special Provision) Duty
18. Increase Levy on Betting and Gambling
19. Revision in Administrative fees and charges
20. Fines and Penalties
21. Dividend from Strategic Enterprises
22. Cess of 0.25 on taxes other than VAT, PAL, Debit Tax and WHT
23. Tax on Treasury Bill Transactions
24. Tax free allowance under VRS/retrenchment to be limited to Rs. 2 Mn.
25. Transfer Tax on Land

Public servants will need higher qualifications, have to be more intellectually independent and will have to have a greater capacity to anticipate and adapt to change.

Government agencies will have to adapt their rules and procedures to facilitate competitiveness. Since trade will be the primary vehicle for realizing the benefits of globalization, speed of response and time-to-market are going to be increasingly significant factors in achieving greater export competitiveness. Greater efficiency in logistics, customs, airport, aviation performance *etc*. will be essential to cut the lead time to send our goods to our main markets in the U.S. and Europe.

Legal and Regulatory Reforms

The modernization of the country's legal and regulatory framework is essential for the promotion of the business environment and to reduce the transaction costs of business operations. This Government will place a significant emphasis on commercial law reforms and capacity building in the judicial and legal profession through specialized training, modernization of physical infrastructure and technology to improve efficiency and quality of judicial and legal services. Commercial and financial statutes will be reviewed and new legislation addressing institutional aspects and their transactions will be introduced. The efficiency of the adjudication system will be improved to reduce delay in completion of legal suits. The increasing criminalization of society has to be reversed. Stronger law enforcement is necessary in order to ensure social justice. Alleged violations of human rights by individuals or groups require speedy investigation and remedial action.

The legal system will be geared to making justice accessible to all, regardless of class, language or faith. Existing legislation will be revised to promote legal equity, while improving Sri Lanka's competitiveness, attracting private investment and protecting and promoting citizen's rights. The legal system and procedures need to be simplified to expedite the settlement of civil suits and criminal investigations, provide alternative dispute resolution mechanisms and protect the innocent and the vulnerable. The penal system needs to be further modernized. Modern commercial laws to promote private sector oriented growth will be introduced.

An effective governance structure is critical for economic and social progress and sound development management. Improving the quality of governance makes institutions less corrupt, more transparent and accountable to ordinary people. The strengthening of appropriate mechanisms and their institutionalization are essential not only to realize economic goals but also to ensure social justice and socio-political stability.

8. New Corridors for Development

The civil conflict over the past two decades has denied the development in the Northern and Eastern provinces. The tsunami that occurred on the 26th of December 2004 severely destroyed the coastal belt of the Northern Eastern provinces as well as the Southern and Western provinces. Although the pre tsunami challenge for Sri Lanka was to place the economy on a pro-poor pro growth strategy within a public private partnership development framework, the destruction caused by the tsunami has added new dimensions to the country's socio-economic challenges. Large parts of the north and east coast and the south and west coast, which are the worst affected by the tsunami, represent high levels of poverty and unemployment and are now confronted with multifaceted challenges for rebuilding. Therefore the new challenge in growth and poverty alleviation is to focus on rebuilding both the Northern and Eastern and tsunami affected areas and bring them in line with the development efforts of the rest of the island as New Corridors for Development.

North East Development

The Government has identified the need for speedy implementation of the Triple "R" (Relief, Rehabilitation and Reconciliation) framework and meeting the needs identified in the Needs Assessment Survey (2002) of the North and East undertaken by the Government and donor agencies. The specified objective of the Triple “R” programme is to help strengthen the capacity of the Government to ensure that the basic needs of the people affected by the conflict are met, to build productive livelihoods and to facilitate reconciliation across ethnic lives. The total funding available for the development of these provinces is approximately US $ 500 million for the next few years. Various projects have been initiated with the funding from our development partners with the aim of uplifting the standards of the communities in these areas. Rebuilding of damaged infrastructure is of highest priority while providing measures to support livelihoods. All development efforts will focus on alleviating poverty giving due consideration to gender equality and protection of the rural environment. The participation of the NGO community and the private sector is encouraged in the whole development process in the North and East.

Livelihood Support

The livelihood of the population in the North and East depended mainly upon agriculture, livestock and fisheries. In this light various livelihood support programmes have been initiated for helping conflict affected communities with rehabilitation of irrigation schemes, agriculture related activities and capacity building for social and economic re-integration. In addition various coastal community development projects, poverty alleviation and micro finance projects and empowerment projects are in operation.

Health and Education

The two decade long conflict has pushed the health sector in the North East to the brink of collapse. It has completely reversed the earlier achievement of good health care. Some are closed for want of manpower and drugs or for security reasons. There is a shortage of almost all categories of health staff but more so with specialist for the secondary and tertiary care institutions, Family Health Workers and Public Health Midwives. This leads to increased mortality and rising infant and maternal mortality and the lack of preventive care measures.

The whole education system, including pre schools, primary, and tertiary schools and technical/ vocational institutions, have been severally damaged in the North East. Problems such as non-enrolment, dropouts, absenteeism, and poor learning quality have been aggravated by the displacement of persons, poverty, single headed households, damaged infrastructure and lack of human resources.

The objective of the educational reconstruction and rehabilitation effort is to provide every child with quality education in an environment which is conducive to effective teaching and learning. Particular attention is being given to the displaced children who are returning to their place of origin.

Infrastructure

The war has virtually destroyed all infrastructure facilities such as roads, irrigation, and water supply reduced production and efficiency. Reconstruction and rehabilitation of basic infrastructure facilities such as roads, bridges, power supply, telecommunications, housing, water supply and irrigation is priority.

The National Plan for Children has highlighted several areas for the development of education in conflict-affected areas at a total cost of Rs. 7,083 million between 2004-2008. The main objectives of this programme are:

- Ensure provision of infrastructure facilities to the needs of total student population
- Ensure the availability of human resources to provide quality instruction
- Ensure total participation of children between 5-14 age group of education
- Strengthen programmes to meet the educational needs of out of school children
- Enhance access and improve the quality of pre-school children

Table 5 : Strategies for the Development of Health, Education and Infrastructure in the North and East

Health	Education	Infrastructure
♦ Meet the shortage of human resources in the delivery of health services ♦ Provide quality water and sanitation facilities along with establishment of waste management systems ♦ Deliver the essential health services to both returning IDPs and host population ♦ Re-build the physical health infrastructures that were destroyed by the conflict ♦ Strengthen reproductive health care ♦ Strengthen health management capabilities and establish efficient integrated disease surveillance and health information systems	♦ Immediate filling of the teacher vacancies and training of the untrained teachers ♦ Building new schools and rehabilitating damaged classrooms, and proving of necessary facilities ♦ Providing hostels for children and quarters for teachers and principals ♦ Paying attention to the special needs of children predominantly affected by conflict. This includes catch up education, health and nutrition, awareness programme teaching learning materials kits, equipment and teachers training, multi-grade teaching and child friendly education ♦ Expansion of non-formal education to cover affected children who missed enrolment at the right time ♦ Expansion of school feeding programmes, which have already been successful on a pilot basis.	♦ Housing projects to resettle internally displaced persons and refugees from India ♦ Rehabilitate, reconstruct and improve the entire road network in the North East to the National Standard. With the capacity to meet the present and future traffic demand for post conflict period ♦ Replace the bridges which were damaged or destroyed ♦ Improve or construct drainage systems ♦ Improve the ferry and launch services through the provision of new equipment ♦ Relay-railway tracks and other infrastructure facilities from Vavuniya to KKS (160 km) and Madavachchi to Talaimannar (106 km) ♦ Develop the KKS harbour as regional harbour and uplift the facilities of the Jaffna harbour enable trade sector development and free movement of goods ♦ Rehabilitate and reconstruct the power generation and distribution system and reconnect the distribution lines with the national grid ♦ Encourage the private sector to set up power plants in the North East ♦ Meet future telecommunication demand with the participation of the private sector

Tsunami Affected Area Development

The tsunami left behind widespread destruction. This resulted in a loss of 38,900 lives, displacement of approximately 443,000 people with more than 900 children becoming orphans or separated from their parents. There was severe damaged to homes, people’s livelihoods, ecosystems and coastal infrastructure. Those who have born the brunt have been the most vulnerable groups of society, such as coastal communities and those in the North East region. The percentage of the coastal population affected ranges from an estimated 35 per cent in Kilinnochchi to 80 per cent in Mullaitivu and 78 per cent in the Ampara coastal district divisions and around 20 per cent of the coastal population in the southern districts of Galle, Matara, and Hambantota.

The loss of assets is estimated at US $ 1,000 million or 5 per cent of GDP. This consists of housing and private property, transport infrastructure, fisheries and harbours, hotels, restaurants, hospitals, schools, water and electricity supplies, telecommunications and the environment. The loss of housing, health facilities and schools and consequential dislocations has its own economic and social costs. The damaged to the tourism industry has also had its impact on the economy in terms of its impact on Government revenue, local businesses and most importantly on people who are dependent on this sector for their livelihoods.

Therefore the post tsunami period poses new challenges as well as new opportunities for growth and development of these areas.

Needs Assessment

The Needs Assessment undertaken by the National Planning Department and the Task Force for Rebuilding the Nation (TAFREN) through line ministries, provincial councils and district secretaries, to develop a reconstruction and rehabilitation strategy for the Tsunami stricken areas, provides basic information on the reconstruction challenges that the country is faced with.

The Government's policy highlights several important components in the context of the NPRGS:

- An immediate requirement is livelihood support for about 100,000 displaced families. This involves compensation for victims, provision of safety and health of women and children, food and temporary shelter, textbooks and uniforms for school children, basic health facilities, immediate livelihood support as well as the restoration of electricity, water, transport and road access. The overall funding requirement for this phase, which may involve a 3-4 month, period is estimated at approximately US $ 200 - 250 million. This is a vital element in the medium term pro-poor growth framework.

- A core element of the new corridors of development is reconstructing and rebuilding infrastructure facilities in underdeveloped areas. This process involves a 3-5 year period for the development of housing and townships, infrastructure for human resource development, assistance for agriculture, fisheries and tourism industries and infrastructure consisting of roads, railways, telecommunications, water supplies, ports, fisheries harbours, electricity, which is estimated to cost around US $ 2 billion. The joint Needs Assessment done by JBIC/ADB/World Bank has estimated the recovery cost at around US $ 1.5 billion, of which the financing requirement for the recovery and reconstruction work in 2005 is estimated at around US $ 500 million.

- The funding arrangements and sequencing of implementation is vital in order to ensure consistency with the economic policy objectives of the Government, *i.e.*, price stability, debt sustainability and external stability.

- Rebuilding will take time. This will pose issues pertaining to planning and implementation of reconstruction strategies, absorption of capacity, management of macro economic environment, mobilization of resources for reconstruction, supply constraints relating to labour skills, legal issues and governance aspects pertaining to the to the allocation of resources, their use and accountability and finally with regard to stakeholder participation in development.

Table 6 : Investment Needs of Post Tsunami Reconstruction Strategy

Sector	Required Investment (US $ million)
Road Development	353
Rail Transport	313
Telecommunications	18
Water Supply and Sanitation	205
Electricity	115
Education	170
Health	100
Housing and Urban Development	400
Fisheries	200
Livelihoods and Micro Financing	157
Tourism	58
TOTAL	**2,089**

Source: Rebuilding Sri Lanka, Post Tsunami Recovery and Reconstruction Strategy, TAFREN, May 2005

Table 7 - Donor Assistance for Post-Tsunami Rehabilitation and Reconstruction Activities

(US $ mn)

Donor Countries & Agencies	Expected donor assistance	Remarks
a. Bilateral Donors	**661**	
France	104	Agreements will be concluded in July
Germany	81	Agreements will be concluded in July
India	23	Negotiations underway to allocate US$ 100 mn for modernisation of Southern Railway line.
Italy	69	Three MOUs signed to use these funds
Japan	181	Grant Aid Agreements signed for US$ 81 mn. Minutes of Discussions were signed for the balance US$ 100 mn
Korea	35	Project Proposals have been submitted.
USA	65	Agreements signed for US$ 39 million
Denmark	8	Agreement signed.
China	18	MOU signed.
UK		
Switzerland	12	Two MOUs signed to use US$ 10.5 mn.
Canada		
Others	65	Negotiations underway
b. Multilateral Agencies	**631**	
ADB	157	Agreemetns signed
World Bank	150	Agreemetns signed
UN agencies	69	US$ 6 million has been committed for Strenthening of National to rural level capacities for Relief and Recovery. Proposals are being prepared to utilise the balance funds.
WFP	25	Agreement signed.
UNICEF	21	Agreement signed.
IFAD	35	Negotiations will be held in June.
EU	75	US$ 40 million will be concluded in June. Negotiations underway for using the balance funds
Others	99	Negotiations underway
Sub Total (a+b)	**1,292**	
c. NGO & INGOs	**853**	These are Pledges made in the proposals. Remittances up to now amounts to US$ 125 million.
***Grand Total (a+b+c)**	**2,145**	

* emergency relief not included

NATIONAL POVERTY REDUCTION AND GROWTH STRATEGY

PART II

9. Development Perspective

Introduction

The National Poverty Reduction and Growth Strategy (NPRGS) has evolved during 2004 and 2005. The initial document was the "Economic Policy Framework of the Government" – Creating Our Future Building Our Nation dealing with the macro-economic vision of the new government issued in July 2004. The next important phase was the 2005 Budget Speech of November 2004 where several important references were made to this Strategy, especially in paragraphs 98-105 titled National Poverty Reduction Strategy. The NPRGS is the elaboration of this Strategy.

Objectives

The NPRGS is an approach based on pro-poor and pro-growth assumptions. The main objectives of the NPRGS will be

- To create pro-poor growth to catalyse the poor to engage in productive economic activities using the Division as the micro level framework for poverty reduction.
- Satisfy basic human needs, reach/ surpass Millennium Development Goals and achieve a holistic improvement in the quality of life of the poor.
- Minimize the sharp regional variations and disparities in terms of wealth creation and poverty.
- Help the poor to understand the causes of their poverty, identify their needs and potentials and match needs with resources.
- Reform and synergize existing poverty alleviation programmes and projects.

The Millennium Development Goals

Sri Lanka has already taken necessary action to align country's development plans more closely with the MDGs. The National Council for Economic Development has established a separate MDG cluster to ensure that the MDGs are mainstreamed in the national development framework. The medium-term National Poverty Reduction and Growth Strategy will mainstream the long-term MDGs into the national development framework. This will be supported by the accelerated policy reforms, budget restructuring and international support. The new strategies will be closely linked to the Medium Term Expenditure Framework of the government.

Sri Lanka has achieved good progress in the areas of achieving universal primary education, reducing child and maternal mortality, and combating HIV, malaria and other diseases. Although Sri Lanka is most likely to achieve many of its national MDGs, the challenge is at the sub-national levels as inequalities and regional imbalances have posed serious threats. Much more remains to be done at the sub-national level.

Table 8 : Meeting the Challenges of Poverty Reduction

Target	Indicator	1990/1991	2000/2001	2005/2006	2010/2011	2015/2016
Poverty & Hunger						
Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.	Population below US $ 1 per day.	6.6% (1996)	n.a.	5.0%	3.0%	0
	Population below US $ 2 per day.	45.4% (1996)	n.a.	40%	30%	20%
Halve, between 1990 and 2015, the proportion of people who suffer from hunger.	Prevalence of underweight children (below 5 years).	38% (1993)	29 %	24%	19%	14%
Education						
Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.	The net enrolment ratio in primary education.	n.a.	97%	98%	99%	100%
	Gross primary completion rate.	100%	111%	105%	100%	100%
Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels of education no later than 2015.	Ratio of female to male enrolments in primary and secondary school.	99%	102%	100%	100%	100%
	The proportion of seats held by women in Parliament.	n.a.	4%	30%	30%	30%
Health						
Reduce by two - thirds, between 1990 and 2015, the under - five mortality rate.	Infant mortality rate	17.5%	12.2%	11%	9%	8%
	The under five child mortality rate per 1,000.	23	19	17	14	11
Reduce by three-quarters, between 1990 and 2015, the maternal mortality rate.	Maternal mortality ratio per 100,000 live births	60 (1995)	n.a.	40	30	20
	No. of births attended by skilled health staff, of total births.	85%	96%	98%	99%	100%
Have halted by 2015, and begin to reverse, the spread of HIV/AIDS	The % of prevalence of HIV males and females in the age group 15-24.	n.a.	0.05	0.03	0.02	0.01
Have halted by 2015, and begin to reverse, the incidence of malaria and other major diseases.	The number of deaths associated with malaria.	n.a.	9	5	0	0
	The incidence of new cases of tuberculosis.	6,174	8,639	4,000	2,500	1,500
Environment						
Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources.	Carbon dioxide emissions metric tons per capita.	0.2	0.5	0.58	0.67	0.78
Water Supply & Sanitation						
Halve, by 2015, the proportion of people without sustainable access to safe drinking water.	Population with access to safe drinking water.	67%	69%	74%	85%	90%
By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.	Population with access to improved sanitation facilities.	61%	65%	68%	70%	85%
Unemployment						
In co-operation with developing countries, develop and implement strategies for decent and productive work for youth.	Unemployment rate for 15-24 year olds.	n.a.	28%	22%	15%	9%

Pro-Poor Policy Framework

Increasing the income of the poor is a principle objective of the economic growth strategy of the Government. For growth to be pro-poor it must stimulate productivity which will attract the unemployed and the under employed as well as new entrants to the labour force. Therefore, our goal is to ensure productive employment to all who can work and to enable everyone to earn a reasonable income from their work. This is why consumption growth is equally important in achieving high economic goal.

The concept of pro-poor pre supposes the following core characteristics –

- Pro-poor growth is achievable within holistic parameters only through the practice of participatory development and not through delivered.
- The poor occupy the centre of their own development process and through strong concretization release their creativity, knowledge and efficiency and assert their right to development as subjects.
- On this basis they form positive development partnerships with stakeholders in the support system. The poor are perceived to form a third sector or a people's sector, which is independent of the conventional private and public sector. The poor generate their own accumulation process within, a capacity to contribute directly to national growth.
- Under the perspective of macro economic policy, there must be a net transfer of resources to the poor.

The pro-poor approach will focus on the obstacles that perpetuate poverty with the objective of removing them and enabling the poor to overcome their condition. Further this approach will see the poor as subjects and partners in the effort, and poverty eradication as a social and political act, which cannot be accomplished without the mobilization and active participation of the poor themselves.

There is a minority of the poor for whom the availability of jobs provides no solution because they have no family members who can work enough to support the family. They are too young or too old or are physically handicapped. For this group special income support programs are needed. There is a large group of low income families who are temporarily pushed into poverty through no fault of their own but through droughts, floods or other natural disasters. For them, there is a need for a safety net of temporary employment. Welfare payments need to be reserved for those who have only limited or no capacity to work and to help the groups have mentioned above during difficult times.

A major factor affecting the poor is the failure to reduce unemployment. Countries which have grown rapidly with employment creation are the ones that have maintained high per capita income growth by growing at least over 5 per cent in GDP above their population growth. The required rate of investment for such a level of economic growth has been around 30 - 40 per cent of GDP with domestic savings of 20 - 25 per cent. In Sri Lanka, investment has averaged around 25 - 28 per cent of GDP and domestic savings has been around 15-18 per cent. Foreign investment has been as low as of 1- 2 per cent of GDP.

In Sri Lankan context, a growth rate of less than 5 per cent is not sufficient either to absorb the excess labour or to develop the backward regions. In the near term, reaching GDP growth- rates of over 8 per cent is not practical. The Government has set a growth target of 6 - 7 per cent for the medium term. It is very necessary to set a sustainable growth path which will be realistic in the next 3 - 4 years and ensure a per capita growth in excess of 5 per cent. In a nutshell, the aim is to increase the income of the poor and the regions at a far more rapidly pace than in the last several years. Sri Lanka needs a ??? economic growth of 6-7 per cent and more labour intensive strategies that, create productive work for the unemployed, as well as, increase the productivity of those already employed.

Economic development can promote peace. The conflict in the North and the East has taken a heavy toll on the resources of the country and has also weakened investor confidence. Therefore, rapid economic growth becomes necessary to secure peace and prosperity. As part of the regional development strategy of the Government, a substantial investment on infrastructure development in the North and the East should therefore be reflected in the national growth strategy.

The poverty profile in the plantation community must also be addressed. Their health and education standards as well as access to basic sanitation are well below national levels. The adverse effects of heavy alcoholism, which has affected productivity by as much as 50 per cent is also seen. In this context, the national poverty reduction strategy must have well focused initiatives that will improve their basic education, health and skills standards, as well as address needs such as housing, drinking water, and electricity.

The pro-poor growth strategy requires a decentralized level of implementation of programmes in order to get the community involved in development. Local roads, irrigation, drainage, drinking water, health centres and primary schools could be developed with greater community participation. A core element of the strategy therefore would be to strengthen the Divisional Secretariats as the coordination centre for overall administration relating to poverty reduction programs. Towards this end certain public expenditure items at each Divisional Secretary level has been identified and they will be expanded further. This will help the Divisional Secretary to monitor and coordinate the use of resources made available at district level. The Government, private sector, social organizations, religious leaders, donors and, above all the community, would be partners in this process of poverty reduction.

Definition of Poverty

In general, a poor person is defined as someone who suffers from significant economic social and human deprivation. The World Bank sees poverty as deprivation of material well-being. In defining poverty, economists focus on material deprivation while sociologists and anthropologists consider deprivation of social, cultural and political rights. In defining poverty, the importance of a holistic approach must be emphasized.

Poverty Profile

Though having weaknesses the concept of Poverty Line and Head Count Index are the indices used widely to measure poverty in Sri Lanka. For 2004, the official Poverty Line, which is defined as real per capita monthly total consumption expenditure was an income of Rs.1,423. Accordingly, those who are living in the households whose real per capita consumption expenditure, is below Rs.1,423 are considered poor.

Where the sectoral dimension of the incidence of poverty is concerned, poverty is primarily a rural phenomenon. This means around 70 per cent of total population who live in the rural sector (including the estate sector) suffer from relatively high poverty when compared with the urban population.

Table 9 : Poverty Headcount Ratio by Sector

Sector	1995/1996 (per cent)	2002 (per cent)	
Urban	14.0	7.9	
Rural	30.9	24.7	
Estate		38.4	30.0
National	28.8	22.7	

Source: Dept. of Census and Statistics (2004 June)

In 2002, rural poverty was three times higher than urban poverty. When the estate sector, where the majority of population consists of plantation workers, is taken alone, the rate is four times higher than in the urban sector.

In terms of an income of US $ 1 per day as the criterion, around 7 per cent of the total population struggle with poverty. When the income of US $ 2 per day is considered as the criterion, approximately 44 per cent of the people belong to the category of those who suffer from poverty. In the rural sector, it has been estimated that well over 60 per cent of the people earn an income of below US $ 2 per day.

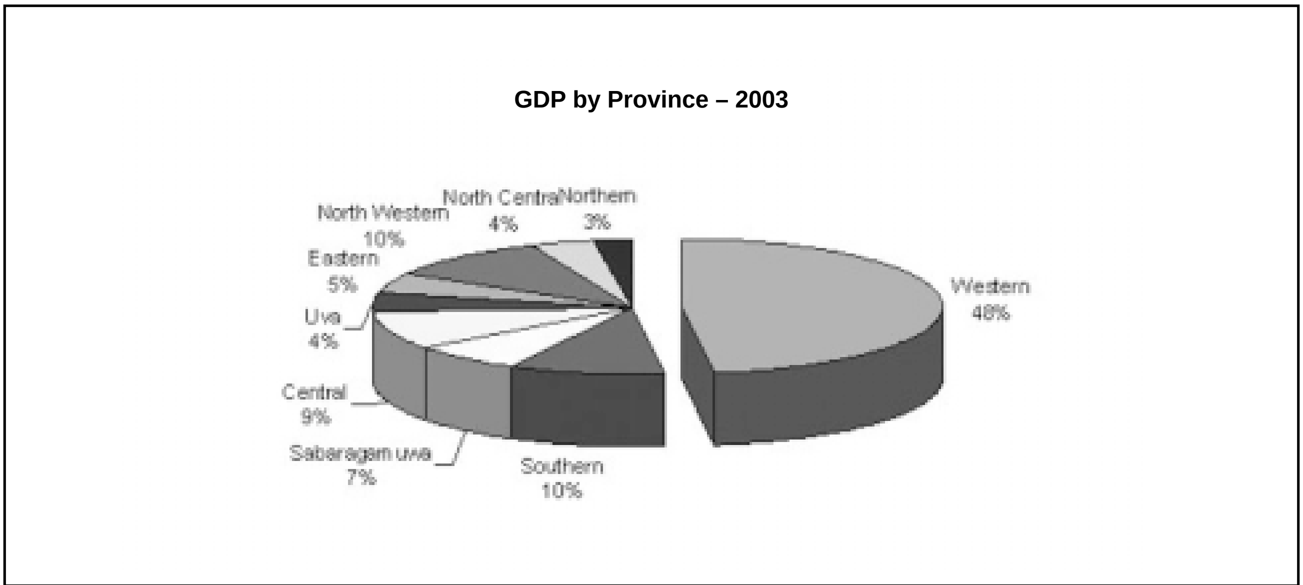
In the application of per capita income in dollar terms, in 2002 the Western Province recorded an income of US $ 1,470 which is 1.7 times higher than the national average (US $ 870). The corresponding income in the rural sector was US $ 400, which is 3.6 times lower than the country average.

Regional Variations and Disparities in Poverty and Development

A major policy consideration has been the issue of regional disparity in poverty. Currently, the quantitative bases for understanding the issue of regional variation and disparities is at a provincial level. However action has already been taken to quantify the figures for 25 Districts. Once this is done, figures will be computed for each of the 323 Divisions.

More than 50 per cent of the GDP comes from the Western Province, as most commercial activities are concentrated in this province. The Southern and Central Provinces together generate 18 per cent of the GDP. The Uva, North Central, Northern and Eastern provinces produce less than 5 per cent.

Figure 2 : GDP by Province – 2003



Source : Annual Report of the Central Bank of Sri Lanka, 2003

Poverty is predominantly concentrated in 8 districts in the North and East, 6 districts in the South including several plantation districts, and in a few other small areas. Therefore, successful poverty reduction must address specific poverty profiles in those areas by either creating productive jobs there or enabling people from these areas to move to productive jobs elsewhere.

The lowest level of poverty is in the Western Province. Poverty in the seven poorest districts namely, Badulla, Moneragala, Ratnapura, Kegalle, Puttalam, Hambantota and Matale has increased to between 30 and 37 per cent during the last decade.

As shown in the table below, in 2002 poverty was concentrated mainly in the Uva and Sabaragamuwa provinces, which cover four districts, namely Badulla, Moneragala, Ratnapura and Kegalle. The districts of Hambantota and Puttalam also show a higher incidence of poverty, recording rates above 30 per cent. The poverty level of two districts (Badulla and Moneragala) is six times higher than the level of the District of Colombo, which recorded the lowest rate.

Table 10 : District Level Poverty

District	Poverty Headcount Ratio (%)		% of Poor Households (based on Official Poverty Line)[4]	
	1990	2002	1990	2002
National	26.1	22.7	21.8	19.2
Colombo	16	6	13.1	5.0
Gampaha	15	11	11.7	9.2
Kaluthara	32	20	27.0	17.7
Anuradhapura	24	20	20.1	17.2
N'Eliya	20	23	15.6	18.2
Pollonnaruwa	24	24	21.2	20.1
Kurunegala	27	25	22.8	21.2
Kandy	36	25	30.9	20.9
Galle	30	26	25.0	21.7
Matara	29	27	23.3	23.2
Matale	29	30	24.3	24.5
Puttalam	22	31	18.6	24.5
Kegalle	31	32	27.3	27.5
Hambantota	32	32	26.3	27.8
Ratnapura	31	34	26.4	30.1
Badulla	31	37	26.8	31.5
Monaragala	34	37	27.4	32.4

Source: HIES 1990-91, 1995-96, and 2002, Department of Census and Statistics

Since the 2002 Census was not carried out in the North and East, the corresponding figures are not available. However, the available data suggests that the incidence of poverty is relatively higher in the conflict affected areas (North and East). This is clearly evident from the fact that around 97,000 families are still internally displaced. Of these, around 27,000 families are living in welfare camps without basic amenities. Even most of the resettled families are not engaged in productive economic activities due to lack of infrastructure and other support services.

The following table provide information on income distribution. The Gini coefficient has increased from 0.43 to 0.48 during the period 1980/81 to 2002, indicating an increase in inequality in the distribution of income. The share of the poorest 40 per cent in the national income has decreased from 21.4 to 13.9 per cent whereas the share of the richest 40 per cent has increased from 27.8 to 38.3 per cent. This reveals that the economic policies and strategies adopted during the period concerned have been more beneficial to the affluent classes despite the measures taken to reduce poverty through various subsidy programmes.

4/ For the year 2002 the official poverty line is Rs.1,423 – Official Poverty line is the real total food and non-food consumption expenditure per person per month.

Table 11 : Share of Household Income by Income Segments

Year	Gini Coefficient	Poorest		Richest	
		20 per cent	40 per cent	20 per cent	40 per cent
1990/91	0.47	5.2	14.8	51.3	36.5
1995/96	0.46	5.6	15.3	50.4	34.8
2002	0.48	5.0	13.9	53.7	38.3

Sources: Household Income and Expenditure Surveys, Dept. of Census & Statistics
Consumer Finance Surveys, Central Bank of Sri Lanka

The tsunami Areas

The destruction caused by the tsunami have added new dimensions to the socio-economic challenges of the country. About two thirds of the coastal belt of the island, including large parts of the north and east coast as well as of the south and west coast, which are the areas affected most by the tsunami already had a high level of poverty and unemployment. These areas include 12 districts; namely Jaffna, Killinochchi, Mullativu, Trincomalee, Ampara, Batticaloa, Hambantota, Matara, Galle, Kalutara, Colombo and Gampaha. About 257,700 families have been affected by the tragedy. About 35,100 houses were completely distroyed while another 47,500 were partly damaged. The livelihoods centred on fisheries, agriculture, SME and tourism have suffered heavily. There are around 1,330 affected fishing villages with about 12,400 fishing households. The loss of employment is estimated to be around 100,000 in the fisheries sector. This would have a considerable impact on poverty. The Government is adopting a multi faceted approach in terms of rebuilding affected areas and has already introduced a series of relief measures to restore the affected areas. In addition, this Strategy will cover the affected families as necessary.

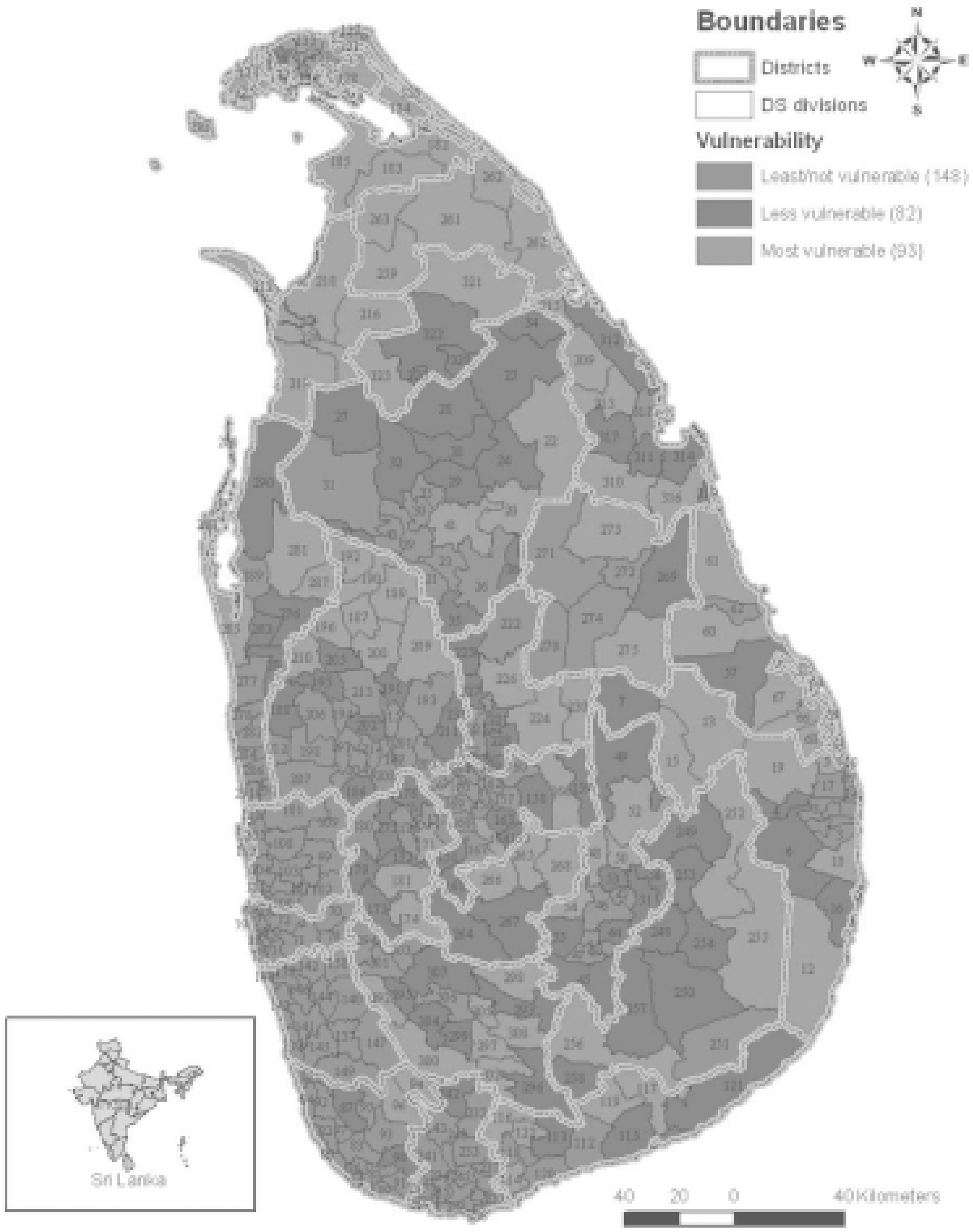
Map 1 : Indicative Map of Tsunami Affected Areas in Sri Lanka

Source: Dept. of National Planning

Food Insecurity and Vulnerability

In 2003, the Country Office of the United Nations World Food Programme (EFP) conducted a mapping exercise on vulnerability to food insecurity in Sri Lanka covering all Divisional Secretariat Divisions (323). In this study, food insecurity was defined as the limited or uncertain availability of nutritionally adequate and safe food or limited or uncertain ability to acquire acceptable foods in socially acceptable ways. The map below was prepared on the basis of the findings of the analysis of secondary data collected by surveys/censuses, administrative records and non-conventional data collection methods such as Geographical Information Systems and Statistical modeling.

Map 2 : Vulnerability to Food Insecurity in Sri Lanka (2003)



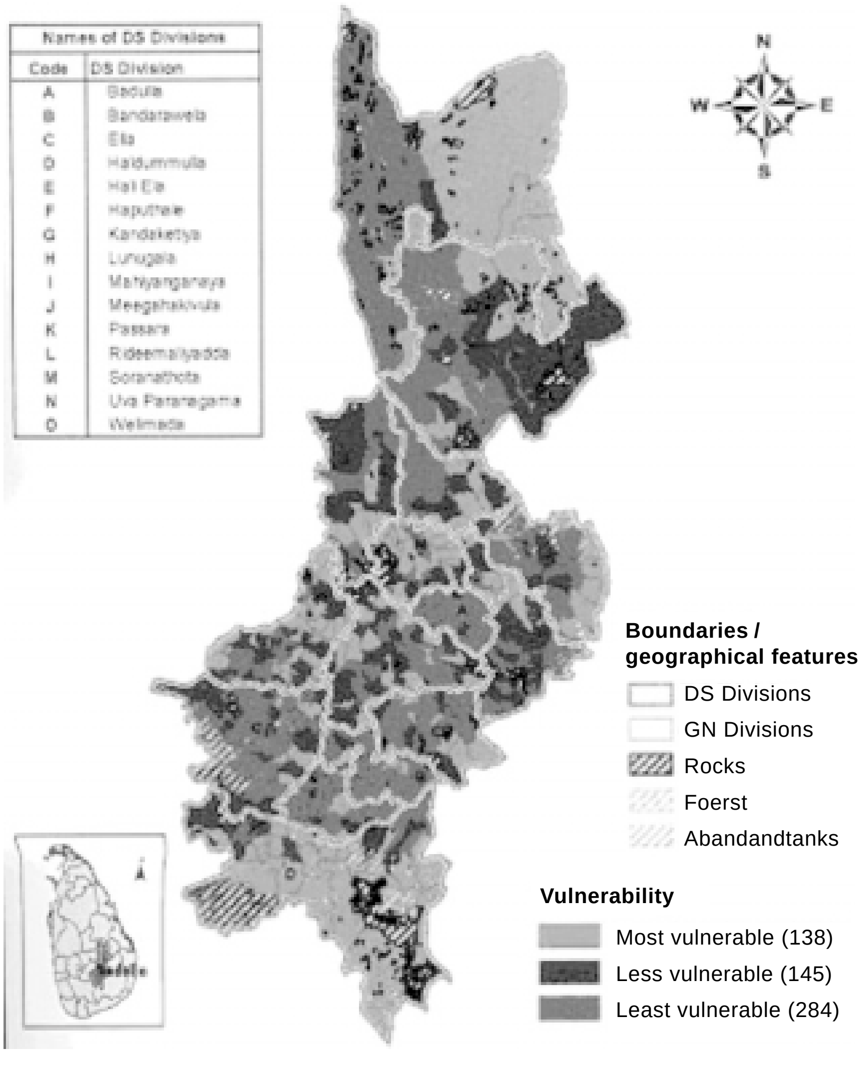
Source: VAM Unit, WFO, Colombo/ Dept of Census and Statistics

In this mapping exercise, all Divisional Secretariat Areas have been divided into three categories based on the degree of vulnerability in terms of food insecurity. For this purpose, a Vulnerability Index, which was the weighted average of scores of the 10 factors, extracted from the 24 indicators, has been used. All Divisional Secretariat Divisions were mapped as noted below.

(i)	Least / Not Vulnerable	148	(Green)
(ii)	Less Vulnerable	82	(Blue)
(iii)	Most Vulnerable	93	(Red)
	Total	323	

Further, a detailed mapping exercise was conducted for the Badulla District and 15 Divisional Secretariat Divisions in the district have been divided into the same categories based on the Vulnerability Index.

Map 3 : Vulnerability to Food Insecurity – Badulla District



This poverty mapping exercise will be extended to cover all 323 Divisions. It is considered that these maps will extremely helpful for all actors participating in the task of poverty reduction.

10. The Division: The New Micro Level Framework

A major dimension of the practice of the pro-poor approach is an intimate access to the grassroots level where the poor live and struggle against poverty. This translates directly into a focus on the micro level of policy, planning and implementation. It is this imperative of a devolved and local operational arena that has led the State to rethink the cutting edge framework of poverty reduction efforts. This search that has led to the identification of the Division as the vital new framework of development and poverty reduction at micro level.

> *"Our strategy therefore would be to strengthen the Divisional Secretariats as the coordination centre for overall administration relating to poverty reduction programs."*
>
> *(Dr. Sarath Amunugama,*
> *Minister of Finance and Planning, Budget Speech -2005)*

The emphasis will be based on promotion of sustainable economic development centred on Divisional Secretaries Division for pro-poor economic growth. There will be a mechanism in which the majority of communities will participate in decision making and planning to improve the economic and social status of the people.

The role of the Divisional Secretaries will be planning, coordinating, monitoring and evaluating the development agenda of the Division with the Planning Staff, in consultation with the people's representatives and officers of the relevant government agencies. They are also expected to play a catalytic role to facilitate and provide an enabling environment for socio economic development.

A development plan for each DS Division will be prepared with a poverty reduction plan. This approach will enable people in the area to identify their priorities and location specific strategies to realize their aspirations. The financial flows to DS Divisions from different sources will be utilized for this purpose.

Towards this end, certain public expenditure items at each Divisional Secretary level have been identified and will be expanded further. This will help the Divisional Secretary to monitor and coordinate the use of resources made available at district level. The Government, private sector, social organizations, religious leaders, donors and above all the community, would be partners in this process of poverty reduction.

The first step in moving in this new direction has already been taken. A separate document was tabled and distributed with the Budget in November 2004 titled **Budgetary Provisions on the Basis of Divisional Secretary Divisions – 2005,** prepared by the National Planning Department. The purpose was to reflect this new concern with resource plans available from different state sources converging on each Division.

11. Re-categorizing the Poor and Re-strategizing Development Opportunities

Re-categorizing the Poor

A key need of the new strategy was the re-categorizing the poor. The point of departure for this strategy is the resort to a needs-based approach. There is a big difference in approaching the poor as a heterogeneous group as opposed to a homogenous group. This chapter describes the strategies to alleviate poverty under these different groups. The new sixfold categories are as follows –

(*i*) Very Poor

(*ii*) Less Poor

(*iii*) Youth of Very Poor and Less Poor

(*iv*) Differently Abled Poor

(*v*) Conflict -Affected Poor

(*vi*) Tsunami Poor

The Poorest of the Poor and Less Poor

Households below the official poverty line are treated as poor. This segment accounts for 23 per cent of the total population in the country. Of this, about 10 per cent are chronically poor and the remainder is less poor. Both these segments need to be supported by a Public Cash Transfer Scheme. About 10 – 15 per cent of the population who are above the poverty line but close to the poverty line need to be supported with credit schemes and other rural development program such as micro financing, income generating activities and community infrastructure rehabilitation. Poor households in the North and East have to be treated separately and supported under the ongoing North and East rehabilitation programme.

Though the plantation workers do not come within any of the above categories of the poor, viewed holistically, they suffer from many deprivations. Hence there is a need to offer a separate sub-programme which will enable them to overcome their deprived condition. The key need is a programme of in-depth social mobilization. The Plantation Human Development Trust has pioneered a best practice in their Mahila Shakthi Programme. This is what they say,

> "We saw how plantation women went through a phased process of transformation, at collective/group/individual levels, from being the most excluded and marginalized among the human actors in the plantations. They had neither support from husbands nor control over family income. Transformation was the outcome of an interlinked process of awareness raising, conscientization and organization, where women graduate to new responsible positions of their own. This is a major transformation in their identity as human beings with positive implications for the family including children and the plantations themselves.
>
> This leads to improvements in public (as workers) and private productivity (as individuals) in a qualitative and quantitative sense. In mobilized families, the quality of life has improved and the children do well.
>
> The question was asked whether Mahila Shakthi detracts from priority concerns like plucking or tapping. The answer was an emphatic No. On the contrary, it's a win-win strategy leading to major improvements in **labour productivity** for both the estate and the family".

Youth

This category will target youths in Sri Lanka. The beneficiaries of this programme should be over 18 years and under 35 years. The main objective of this programme is to enhance the income of youth who do not currently have enough income for their livelihood, through the intervention of private, public and people's sectors, as well as to enable them to contribute to national economic development. This category was further subdivided into the following sub-categories based on their requirements –

- The youth group of school leavers who have not obtained any professional qualification and skills.
- The youth group of school leavers who have obtained considerable professional qualifications and skills.

– The youth group of school leavers who are already involved in self employment for livelihood but hvae low income

– The youth group of school leavers who have already completed their higher education in universities, technical colleges *etc*.

Differently Abled Poor

According the Census of 2001, there are 274,711 differently abled persons in Sri Lanka (excluding the North and East provinces). Of these, 58 per cent are male and 42 per cent are female. About 32 per cent have never attended school although there are several Departments, Ministries and other institutions under the national Government and Provincial Councils and NGOs, who deal with such a category, they have not been able to provide adequate services to differently abled persons. Therefore, there is the need for a new programme for them. The main objective of the proposed programme is to mobilize differently abled persons, empower them and make them partners in the development process. This new programme should answer and fulfill their short term and long term problems and needs.

The Conflict Affected Poor

The two decades of civil conflict in the North and East have resulted in at least 60,000 deaths. Manymore have been injured, incapacitated or internally displaced, losing physical assets, including homes, schools, hospitals, shops, vehicles, and machinery. A large part of agricultural land has been destroyed, abandoned, or mined, and public infrastructure has virtually collapsed.

Therefore poverty in the North and East is experienced in a dimension quite different from that in other parts of the nation. Peace is the key to reducing conflict related poverty. The restoring of peace is the single most important responsibility of the government. The relief and rehabilitation effort would be undertaken in the North and East with the common agreement of all stakeholders in the peace process. The government feels the need for the speedy implementation of the existing Relief, Rehabilitation and Reconciliation (RRR) framework to meet the needs identified in the Needs Assessment Survey. Priority will be given to projects and programmes for poverty reduction and reconstruction in order to strengthen the peace process on the ground.

Tsunami Poor

There is an obvious overlap between normal poverty and tsunami created poverty. But in certain respects, as in those cases where major resettlement and new areawise infrastructure provision are involved, there will be several additional reconstruction interventions. To that extent, there is also a defference.

Women and Children

They will be separately identified under each of the above main categories. Women constitute nearly 51 per cent of the population of Sri Lanka and they should be made to contribute meaningfully to the development efforts. There is no gainsaying the fact that women play a significant role in the decision making process of the family unit. Hence, the involvement of women in the development process through the poverty alleviation, should be exercised through a strategy, which is designed to ensure the maximum utilization of human resources. Their major characteristics are –

- Women unemployment rate is 22 per cent is double that of men in Sri Lanka.
- Women are still under-represented in many disciplines, and tend to find employment at the bottom of the employment pyramid.
- They find jobs which are usually in low-status, low-skilled and low-paying areas.

- The majority of jobs available for women are in the unorganized and informal sectors. Due to this, some women are prone to suffer physical disabilities directly linked to long hours of hard labour.
- Women represent 76 per cent of the unskilled migrant labour force
- Considerable numbers of women who are engaged in the cultivation sector are facing a growing threat due to the mechanization of agriculture.
- There are very wide imbalances in participation in vocational and technical education.

Categories of poor women are –

(*i*) Female heads of households subdivided as
  (*a*) Non widows and
  (*b*) widows / separated / divorced women.
(*ii*) Elderly women
(*iii*) Disabled women

Non Widows

It is estimated that 20 per cent of the households in Sri Lanka are headed by females, *i.e.*, one in every five households in Sri Lanka is headed by a female. The urban sector reported the highest proportion of female headed households (23.4 per cent) while the estate sector recorded the lowest (17.3 per cent). The average age of schooling among female-headed households was significantly lower than that of male-headed households. The main issues faced by female-headed households are financial instability and poverty and irregular and low wage employment.

Widows / Separated / Divorced Women

About sixty five per cent of female heads of households in Sri Lanka are widows. About 19,000 war widows are in the Northern peninsula and most of them relatively young. Widows were impoverished as they are deprived of their social security and family support. Not only the widows, but their children too are isolated, often in unhealthy conditions, sexually and physically abused, and without inheritance rights to property. Many widows in Sri Lanka have been hounded from their homes and denied access to essential resources such as shelter, food, clothing and clean water. It is quite apparent that due to abject poverty and misery, they have no status and social standing. No bank would give them loans to start gainful employment schemes, as they are unable to repay the loans.

Elderly Women

Sri Lanka’s old age dependency ratio has progressively increased over the last 20 years and is expected to double over the next 20 years. Retirement systems currently cover 25 per cent of Sri Lanka’s working age population; the vast majority of the population does not have formal social protection for old age. Futherof those who are covered, a large proportion are located in the top two income quintiles, suggesting that Sri Lanka’s retirement system does not adequately meet the needs of the poor. A large proportion of those not covered are outside the labour force, the majority (70 per cent) of them women.

Disabled Women

Disabled women comprise one of the most neglected, if not almost totally ignored segments of the population. Most of them are unemployed, isolated, marginalised, socially unaccepted and neglected – objects of pity, and considered to be a burden, barely borne out of sheer humanistic obligations. The vulnerability of disabled women are multiplied as she is mentally and/or physically unable to fend for herself in the face of sexual harassment, rape or other forms of physical violence.

Children

The main objective here is to create opportunities for Sri Lanka's children, consistent with their evolving capacities, to be in an environment that is safe, where they learn and develop physically, socially, emotionally and cognitively; and to provide an integration of interventions that benefit children while ensuring their consistency with Sri Lanka's cultural values, human rights and fundamental freedom.

The overall strategy setout in the Plan of Action for the Children (2004–2008) is to ensure universal access to the services that children require for their full and free development, as well as to provide them with the opportunity to develop their individual capacities in safe and enabling environments. It aims to satisfy identified short term urgent needs, as well and to provide a long term development perspective for children up to 18 years of age.

Children constitute a significant proportion of Sri Lanka's population of 20 million. Children under 18 years of age constitute about 36 per cent. Infants comprise 1.6 per cent and those under 4 years 7.2 per cent, making a total of 8.8 per cent for the under 5 age group. The school going population is about 21 per cent of the total population. Married women of child-bearing age also need to be covered by the Action Plan since the health status of pregnant women influences the growth and development of the unborn childrens.

Table 12 : Plan of Action for Education Development

Category	Objective	Strategy
Early Childhood Care and Education	1. Increase participation of children in the age group 3-5 years in pre school education. 2. Improve the quality of pre-school education. 3. Create awareness of the needs of pre school children among stake holders.	1. Provide incentives for providers of early childhood care and education to expand or start pre-school. 2. Quality assurance, teacher training, supervision and monitoring. 3. Awareness programmes through print and electronic media.
Provision of Universal Primary Education of good quality.	1. Ensure full participation of children in the age group 5-9 in primary education. 2. Ensure that 90 per cent of the children achieving primary education attain mastery level in essential learning competencies.	1. Enforcement of compulsory education regulations. Incentives for marginal groups and reduce drop outs, provision of physical facilities. 2. Effective deployment of teachers. Training of teachers. Develop instruments for testing learning achievement. Training of teachers in psycho-socio counselling.
Improve Quality, Access and Equity in Secondary Education.	1. Increase enrolment in secondary education. 2. Improve the quality of education at junior secondary level. 3. Enhance equity in provision of secondary education.	1. Enforcement of compulsory education regulations. 2. Improve learning achievement through mastery of essential learning competencies. 3. Development of schools in disadvantaged locations.
Non formal Education	1. Ensure out of school youth in the compulsory education age group receive functional literacy in appropriate alternate learning situations. 2. Develop opportunities for continuing education of out of school youth. 3. Expend vocational training programmes for income generation among youth.	1. Rationalise existing functional literacy centres and develop new centres. 2. Organise community learning centres. 3. Restructure existing courses

Table 13 : Plan of Action for Health Development

Category	Objective	Strategy
Unborn and newborn children	1. Reduction of maternal morbidity and mortality. 2. Improve nutritional status of mothers so that weight gain during pregnancy would increase from 8 kg to more than 10 kg. 3. Reduction of teenage and unwanted pregnancies by 25 per cent. 4. Prevent mother to child transmission for women with STD/HIV.	1. Early identification of risk factors and maternal morbidity and providing appropriate management. Provision of quality maternal care, making motherhood safe for all pregnant mothers. 2. Implement nutrition education and supplementary food programmes. 3. Ensure proper implementation of the National Strategy for Prevention and Control of Anaemia in pregnancy. 4. Actively discourage teenage pregnancies. 5. Actively promote child spacing and prevention of unwanted pregnancies. 6. Treatment of STD as well as education on STD/HIV/AIDS to be provided at Antenatal clinics.
Infant and Preschool children	1. Reduce morbidity and mortality among newborn infants and pre-schoolers. 2. Improve nutritional status of infants and preschool children and prevent micronutrient deficiencies. 3. Promote growth and development among children of all categories. 4. Reduce morbidity and mortality due to diarrhoea, acute respiratory infections, worm infestation and mosquito borne infections. 5. Provide better quality care at clinics and during home visits.	1. Improve facilities and new-born care practices in hospitals. Establish special care baby units in all secondary and tertiary care hospitals. 2. Actively promote exclusive breast-feeding for 4 months and correct complementary feeding practices thereafter. Provide nutrition supplementation to infants and children who are undernourished. 3. Provide appropriate nutrition education and micro-nutrient supplements. Strengthen growth monitoring and promotion programmes with greater attention to vulnerable groups. 4. Prevent diarrhoea and worm infestations by ensuring provision of safe water and safe sanitary facilities.
The School Children	1. Improve health and nutrition status of the school children. 2. Provide a healthy and safe environment in all schools. 3. Improve support services for adolescent health problems 4. Improve school dental care services so that more school going children could benefit. 5. Improve collaboration of education ministry officials at school level in school health activities.	1. Provide nutrition supplementation to needy children. Prevent micronutrient deficiencies by providing recommended supplementation. Early identification and correction of defects and disabilities. Ensure all children are properly immunised at entry to school. 2. Improve environmental sanitation, safe drinking water and sanitary facilities. 3. Provide more opportunities to adolescents to discuss their health problems. 4. Provide more service outlets so that more children with dental problems could be identified and treated early. 5. Revive the national co-ordination committee to improve co-ordination and responsibility of the Ministry of Education in school health activities.

Table 14: Plan of Action for Child Protection

Category	Objective	Strategy
Abused Childre	1. To contribute to the reduction of all forms of child abuse. 2. To rehabilitate abused children.	1. Conduct awareness programmes. 2. Effective implementation of programmes at grassroots level. 3. Legal reforms. 4. Proper investigation and monitoring.
Disabled Children	1. To contribute to an all round improvement of the coverage and quality of services available to disabled children so as to enable them to integrate into the mainstream of society	1. Set in motion a mechanism for early identification. 2. Provide special education, vocational training and rehabilitation in the community. 3. Reduce incidence of congenital disability, by providing better care, growth, monitoring and immunisation.
Street Children	1. To contribute to the provision of day-care and after school care to under five year and primary school going street children and improve the quality and availability of rehabilitation centres.	1. Early admission of street children to day-care and continuation of services until end of primary schooling. 2. Establish centres for literacy, life skills and vocational training. 3. Link families of street children to social welfare programmes.

Re-strategizing Development Opportunities

An assumption of this Strategy is that the committed practice of in-depth social mobilization will conscientiae the categories of the poor to clearly identify their felt needs in terms of individual and group/ community needs. Further, the same search will reveal the potential of each family and group/community of families. Once these have been clearly identified, the challenge is to link and match needs with development opportunities, which basically is what is meant by Restrategizing Development Opportunities. According to this line of thinking, close to twenty Ministries offer Development Opportunities through their respective programmes and projects.

(i)	Ministry of Samurdhi and Poverty Alleviation
(ii)	Ministry of Women's Empowerment and Social Welfare
(iii)	Ministry of Social Welfare in Provincial Council
(iv)	Ministry of Small and Rural Industries
(v)	Ministry of Sports and Youth Affairs
(vi)	Ministry of Rehabilitation
(vii)	Ministry of Fisheries and Aquatic Resources
(viii)	Ministry of Plantation Industries
(ix)	Ministry of Healthcare, Nutrition and Uva Wellassa Development
(x)	Ministry of Provincial Councils and Local Government
(xi)	Department of Land Commissioner and Provincial Land Commissioner
(xii)	Provincial Department of Agriculture, Animal Husbandry and Health
(xiii)	Department of Export Agriculture
(xiv)	Tea Small Holders Development Authority
(xv)	National Youth Service Council
(xvi)	National Apprentice Authority
(xvii)	Department of Health (Provincial Councils)

It is a fair assumption to make that a majority of their benefits are targeted to the poor. Experience on the ground indicates that though this is the stated purpose, a number of overt and covert interventions like elite capture, politicization and corruption prevent the poor from accessing the development opportunities offered to them. How does this Strategy address this structural problem?

Basically, the strategy responses to address this contradiction is threefold. The first is the process of conscientising the poor which will both make them aware of the poverty-creating causes and also the means of empowerment which will enable them to assert their right to opportunities and resources meant for them. This assertion process will be mediated by different levels of organizations of the poor. The second will be the strategy of facilitating the process of accessing their rightful opportunities and benefits by an innovative method of combining and clustering various opportunities and benefits into what are called Options Packages. Options Packages are clusters of closely knit Development Opportunities/ Benefits/ Resources available under two headings; Individual and group/community choices.

For example, this composing of options packages can be done sectorally. They can take the form of Agriculture, Animal Husbandry, Infrastructure, Housing and Settlement, Women and Children, Skill Training, Forestry, Small Holder Plantation and Health/Nutrition sectoral clusters.

In financial terms, an options package could contain grants and loans or a combination of grants and loans.

It is important to note the vital element of choice implicit in the Options Packages. Underlining the concept is the idea of poor families actively making their own choices for their own development, on the basis of personal and particular priority needs and unfettered by extraneous considerations like bias. Operationlizing this practice is further aided by the fact that the exercise of choosing is done by the groups of poor themselves interactively and in the open. Bureaucracy need only facilitate, while the deciding and doing is by the organized and conscientised poor themselves.

12. Reforms of the Samurdhi Programme

The Samurdhi Programme is being reconceptualised and fundamentally reformed. This internal rethinking has been long awaited – eleven years - and the subject of much debate, internally between advocates of participatory development and externally by concerned donors. This break from the past, hopefully, marks a new substantive change of direction. The change forms a major shift from being trapped in a narrow and internally disconnected micro credit straight jacket, to one holistically articulated and tightly conscientised by the poor in a widespread development process of re-engaging subjectively and objectively with base level production and productivity.

Sri Lanka did possess a legacy of good practice in Participatory Development historically associated with the Change Agent Programme of the Rural Development Training Institute and the work of PIDA (Participatory Institute for Development Alternatives) and the Human Development Centre for over twenty five years, and more recently with the Jansaviya Programme .

There is no gainsaying the fact that the Budget has allocated a massive Rs.13 billion for the Samurdhi Programme in 2005. Hence its claim to core programme status in the hierarchy of poverty projects of the state is uncontested. Given below are statements relating to the major features of reform.

Putting in place a solid under girding of social mobilization programmewide is a major priority of the reform. The assumption is that without a thoroughly conscientised community of the newly identified categories of the Poor ,there will be no credible poverty alleviation programme. Such a process will bring out the creativity and the knowledge systems of the poor. Poor communities so empowered will make them productive in terms of the new opportunities for development and producing for the market. It is these energies which will create pro poor growth at the base of society. The nature and composition of this growth, is fundamentally different from conventional growth. The retraining of the huge cohorts of Samurdhi change agents has already started in earnest. Reports indicate that their response to this new paradigm has been highly positive.

The reform process has identified what has been called a “fast track”, constituting what amounts to being the best organized and aware vanguard of the poor, who are ready to take off in terms of bankable and expandable projects. This component has been conceptualized as the Suwahas Jana Pubuduwa sub programme designed to catalyze 100,000 Samurdhi families through enhanced credit facilities for carefully prepared projects and 50,000 village level community infrastructure projects. As at the end of April 2005, the loan programme has reached 19,800 families and the number of community projects is of the order of 12,235.

Another important reform is in the institutional sphere. Each of the 323 Divisions in the country has a divisional level apex organization of the poor called the Samurdhi Maha Sangamaya. Prior to the reform process, these apex organizations of the poor were functional only in terms of their physical existence. They had no clear-cut and integrated role to play in the Samurdhi production mainstream. They were waiting for a role to be identified and entrusted to them. The absence of a vibrant social mobilization process meant that there was no possibility of such a role being generated from within. But with the reform, all the slack has been taken up. A dynamic new institutional role is envisaged for the Maha Sangamayas. They will become the divisional level institutional apex which will become the organization of the poor which will handle the planning, implementation and monitoring and self-correction of the divisional level Samurdhi development programme, the marketing of the production, the core training arm and think tank of the conscientised poor community, the savings and credit watchdog of the constituency and the primary independent civil society negotiating limb of the poor with their outside partners and interlocutors. Its ability to effectively play this role will depend on its ability to use its countervailing power as the apex institutional voice of the division's poor to safeguard their interests and engage with the outside market and governance forces.

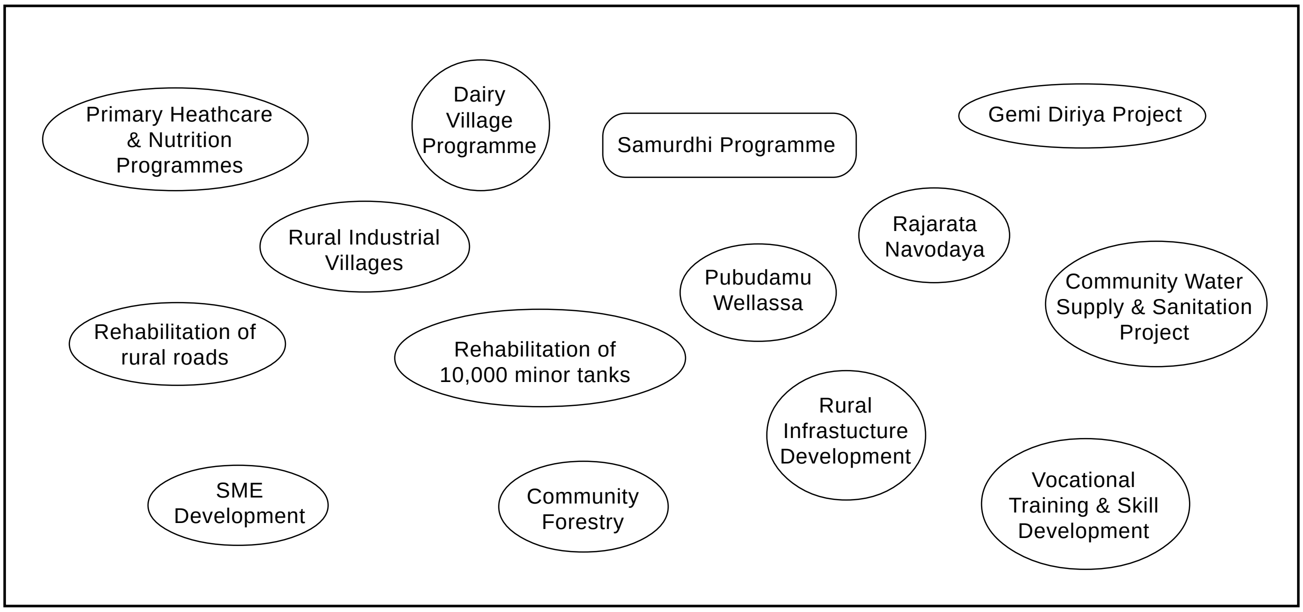
It is strongly felt that the momentum generated by the reform process will indicate the basis on which the exit and entry reforms issue should be handled. The matter requires careful thought and handling lest it backfires on the overall reform. There are also the provisions of the Welfare Benefits Board. What we can be said with certainty at this stage is that the issue has been acknowledged and will be addressed.

The Samurdhi Programme is already operational in the Vavuniya, Trincomalee, Batticaloa, and Ampara districts in the North and East regions. Action has been taken to extend it to the remaining four districts.

Finally, this reformed vision of the Samurdhi Programme, for the first time, enables it to venture on its legitimate role as the core programme of the state for poverty reduction, absorbing a massive Rs.13 billion from the budget. Its new core programme status and its clear policy articulation and framework create the condition for it to serve as the core round which the plethora of complementary rural development programmes can complement and supplement in their specific sectoral spaces. The challenge here is to synergize the thinking, the management, the resource and investment flows, the production and markets, the countervailing power and the learning, in order to generate its maximum momentum.

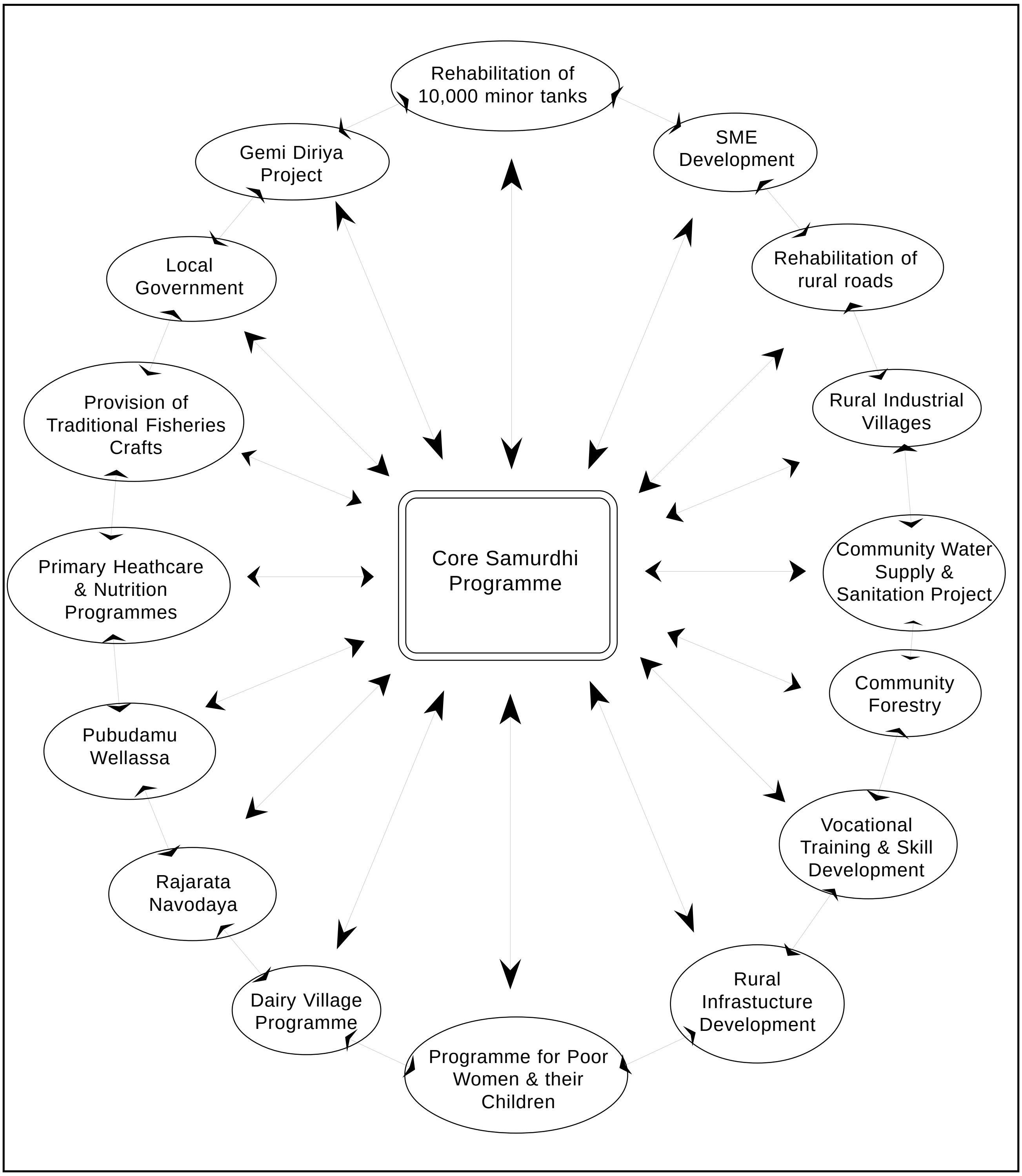
13. Synergizing with Support Sub Programmes - Revitalizing The Rural Economy

Though there are number of programmes and projects being implemented aiming poverty alleviation and rural development; these programmes and projects often stand apart without synergy. There is diffused jurisdiction of functions and uncoordinated actions by different implementing agencies. The following diagram summarizes existing situation.



These programmes and projects which were operated in an isolated environment will be mainstreamed through implementation of the new NPRGS. The proposed structure will comprise of a reformed Samurdhi Programme which will be the main and largest poverty alleviation programme and all other sub-programmes organized in a well planned and coordinated manner. This proposed new structure is given in the diagram below –

Proposed Sunergized Structure



Proposed Synergized Structure

The two diagrams above will amply clarify the two very different situations. Profiles of the large number of mutually supportive sub-programmes are listed below. These sub-programmes will cover the North-East region and the Plantation areas.

"Gemi Diriya" Project – The programme would focus on developing rural infrastructure, strengthening market facilities, credit and technical support services to the poorer communities, strengthening local governments' planning and implementation capacity, and ensuring effective involvement of the communities in the programming of investments and their implementation. At least 75 per cent of the households in the project area would benefit from increased income, improved access to social and economic infrastructure. At least 50 per cent of national, provincial and district budgetary resources for rural development are planned to channel directly to community organization for implementation of development programmes.

"Dahasak Vew" (Tank Rehabilitation) – This is a flagship project highlighted in the Economic Policy Framework of the government. The project recognizes the augmentation of water supply in basins, where water stress exists, by harnessing the rain water and storing it in existing and abandoned village tank systems. In addition, diversion of perennial water by means of anicuts to farm lands through supply canals for cultivation in the upcountry region is also recognized. It is proposed to develop identified tanks in an integrated manner.

Local Government – Over the years, Local Government has been a neglected area. Since the demise of the Village Councils, its replacement in the form of the Gramodaya Mandalas, has failed to produce local level bodies. There is now a major vacuum as far as governance goes at the bottommost village level. In this regard, the State is well served by the very wholesome set of recommendations made by the Presidential Commission on Local Government of 1999. "A New Vision for Local Government in Sri Lanka" contained in it is an excellent catalyst to the poverty reduction perspectives in this Strategy.

"Maga Neguma" (Rehabilitation of rural roads and minor extension) – The providing of transport facilities to the rural population and speedy transport facilities for agricultural products to the market are the objective of this programme. The total cost of this project is US$ 60 million.

SME Development – The Millennium Challenge Account has planned to expand and develop SMEs by implementing the following programmes concentrating on the poorer rural regions.

- SME Bank, Trust Fund and Venture Capital Fund
- SME Development of Federation of Chambers and International Executive Services Corporations.
- Set-up one district level SME Development Centre on an experimental basis.

Rural Industrial Villages- This scheme is implemented to develop rural small-scale industries by way of establishing industrial parks for local specialization. Under this scheme necessary facilities are provided in one location and training facilities provided on modern technology, marketing and management. The following Rural Industrial Villages are in operation at present.

- Panaluwa Printing Industry
- Pitipana Multi Purpose Footwear Village
- Muthiyammagama Leather product manufacturing Village
- Angulmaduwa gold, silver, bronze, reed products and domestic equipment manufacturing Village.

Dairy Village Program – This programme is to establish dairy villages based on farmer managed societies to help dairy farmers to take the leadership and ownership of the dairy sector and develop productivity, processing and marketing of milk and milk products on a sustainable manner.

"Gamata Thaakshanaya" (Technology to Village) – This technology transfer programme involves (*a*) establishing a computer linked Vidatha resource centre in each of the 320 Divisional Secretary areas, and (*b*) establishing Science and Technology Societies at village level

"Pubudamu Wellassa" – The objective of the programme is to implement an accelerated development program dedicated to the Badulla-Monaragala districts. The main focus is on providing rural infrastructure facilities. The total cost is estimated at Rs.1.2 billion.

"Rajarata Navodaya" – The objective of the programme is to implement an accelerated development program dedicated to the Anuradhapura and Polonnaruwa districts. The main focus is on providing infrastructure facilities including minor irrigation schemes, feeder roads, and basic health facilities and transport. The total cost is estimated at Rs 1.6 billion.

Community Water Supply and Sanitation Project – Safe water and sanitation for rural areas is an important element to reduce poverty. The objective of this project is to reduce the toll of diseases and hours now fetching for drinking water. The total cost of the project is US $ 35 million.

Expansion of Rural Electrification – The objective of this project is to provide low cost electricity by establishing low cost coal-fired plants and rural electrification schemes. The total cost of this project is US $ 500 million.

Dedicated Economic Centres – The main objectives of the programme are

- To provide opportunities for the rural producers to interact directly with customers, without going through collectors and middleman.
- To raise rural income levels by facilitating obtaining a competitive and remunerative price for rural producers.
- To create development centres around the dedicated economic centres by developing infrastructure facilities in surrounding areas.
- To increase employment opportunities.
- To provide opportunities for farmers to acquire a practical understanding of the market.
- To facilitate promotion of services such as transport, insurance, banking and communication.

At present five dedicated economic centres are operating in Embilipitiya, Meegoda, Keppatipola, Dambulla, and Thambuttegama. Eleven (11) economic centres are under construction and 10 economic centres have been proposed in different locations.

Provision of Traditional Fisheries Crafts – About 10,000 traditional oruwa and about 600 madel/ wallam will be distributed among tsunami created poor.

Rural Infrastructure Development – Government has been taken action to implement a number of projects to improve infrastructure facilities such as power, sanitation, irrigation facilities, health facilities, market facilities and education facilities in rural areas.

North and Reconstruction and Rehabilitation – Many programmes have been initiated to provide primary education, healthcare, water supply, reconstruction of houses and livelihood support.

14. Key Implementation Tasks And Need For Learning

It is important to be aware that the reform of the Samurdhi Programme and synergising this core programme with its mutually supportive sub-programmes, envisages nothing short of a paradigm shift in thinking and action. Given the fact that this entails changing eleven long years of conditioning, the challenge involved requires a quite intense process of learning and unlearning. This is best perceived as a combined implementation and action-research need.

To see more clearly the kind of shift entailed by the change in thinking we have attempted to depict this succinctly and graphically.

From	To
Delivery	Asserting and accessing resources by an aware poor
Resources unrelated to needs	Needs linked to resources and new potential
Being top heavy and macro	The spectrum from micro to mezzo to macro
Dominant orientation was welfare and consumptionist	Dominant orientation is asset-producing and asset owning.
Narrowly based on micro-credit	Micro-credit as one component in a holistic agenda.
Nil to minimal productivity	Raising productivity through value-addition and technology chains
Net negative transfer of resources out from the poor	Net positive transfer of resources to the poor.

While we would like to emphasize the importance of the challenge of thinking through the vision and mission of this National Poverty Reduction and Growth Strategy, we are quite confident that it is well within our capacities to realize it on the ground, provided we approach it with the necessary intellectual and theoretical clarity. Previous practice and experience shows that a national effort in poverty reduction means a massive process of liberating the creative energies and productive capacities of a society at its base .It is so rich and diverse in its output of ideas and practice that a major programme of research is needed to capture, analyze, troubleshoot and learn from its best practices. The study and analysis of this mass of practice has to be translated into lessons for reinvesting in the national programme. It is in this specific context that we see the need for implementation to go hand in hand with Action-Research.

As a pointer of what we have in mind, we would like to suggest some of the major areas of implementation and research.

A major new discourse is waiting to be developed out of the theory and practice of in-depth **social mobilization**. This becomes doubly important given the fact that there are over 25,000 staff involved in this process.

There is an urgent need to nurture and nourish the **Fast Track** of both the Samurdhi Programme and its synergized support sub-programmes in order to develop division wise models of best practice which can become powerful centers of extension learning.

Reorganizing and reorienting the Divisional Secretariats becomes a critical task because they are the new architects and prime movers of the national Poverty Reduction Strategy. Over the last decade and a half, the Divisional Secretariats have been developmentally weaken. The key staff of these bodies have to develop pro poor and pro growth attitudes .This requires them to clearly internalize this Strategy and its perspectives.

Equally key is the task of **Partnership Building**. This has to be done at several levels and on many fronts. First is to build partnership between the divisional support system and the poor. Then there is the need to develop mutually supportive linkages and relationships between the Samurdhi poor and established organizations of the poor, local governments, the small, medium and selected large private sector, non governmental organization, banks and cooperatives. Partnership building requires a level of enlightened, large-minded thinking on the part of the public service.

A major programme of **institutional designing and building** is basic to the success of the Strategy. Our past record of building such sustainable institutions is not especially bright. For the organizations of the poor to sustain their growth spirals in terms of making investment decisions and acquiring new value-addition and technology chains is not an easy transition.

A priority task is to experiment with designing different types of **Options Packages** based on the existing state of knowledge and then testing them on the ground. This task can be assigned to the centers of best practice on the ground.

Effective participatory **Poverty Monitoring** procedures and mechanisms need to be tried out and developed.

A sound and realistic **SME development strategy** needs to be worked out and implemented on the basis of the lessons learnt during the past two decades. Here there is a new partnership role to be played between the organizations of the poor and the different segments of the private sector.

There is major task of **research** to be done in terms of developing accurate data bases, poverty mapping and mapping trajectories of improvements, computing GDP growth at divisional levels and tracking resource flows in and out of the Division to realize a net positive transfer of resources.

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The Government of Sri Lanka invites all stakeholders to participate in this consultative process to finalize its Medium Term Growth and Poverty Reduction Strategies.

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Or participate in this process though the NCED Clusters or though Professional Associations, Workshops or Business and Trade Chambers, Labour and Civil Society Groups.