South Asian Association for Regional Cooperation (SAARC)

Regional Poverty Profile 2005

Country Report: Sri Lanka

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Contents

List of Tables and Graphs

Abbreviations & Acronyms

AIDS	Acquired Immune Deficiency Syndrome
A-Level	Advanced Level
ATC	Agreement on Textiles and Clothing
BMI	Body Mass Index
CDD	Community Driven Development
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CENWOR	Centre for Women's Research
CFA	Ceasefire Agreement
DCS	Department of Census & Statistics
DS	District Secretariat
DS	Divisional Secretariat
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
GCE	General Certificate of Education
GDCF	Gross Domestic Capital Formation
GDI	Gender Development Index
GDP	Gross Domestic Product
GEI	Gender Empowerment Index
HDI	Human Development Index
HIES	Household Income and Expenditure Survey
HIV	Human Immunodeficiency Virus
HPI	Human Poverty Index
IEC	Information, Education and Communication
ILO	International Labour Organisation
IT	Information Technology
LTTE	Liberation Tigers of Tamil Eelam
MDGs	Millennium Development Goals
NCED	National Council for Economic Development
NGO	Non-governmental Organisation
NRFC	Non-Resident Foreign Currency
ODA	Overseas Development Assistance
OECD	Organisation for Economic Co-operation and Development
O-Level	Ordinary Level
PPP	Purchasing Power Parity
Q4	Fourth Quarter
REAP	Rural Economic Advancement Programme
SAARC	South Asian Association for Regional Cooperation
SLBFE	Sri Lanka Bureau of Foreign Employment
SMEs	Small and Medium Enterprises
STD	Sexual Transmitted Disease
UAE	United Arab Emirates
UNDP	United Nations Development Programme
USD	United States Dollar
WFP	World Food Programme

Executive Summary

For the third consecutive year CEPA was involved in the preparation of the Sri Lanka report for the Regional Poverty Profile published annually by the SAARC Secretariat. The assignment was undertaken in collaboration with the Department of Census & Statistics and the Ministry of Samurdhi & Poverty Alleviation. This year's report focused on examining poverty in relation to employment. The publication comprises an extensive statistical annex and thematic and country based descriptions.

1 Trends in Poverty, Employment and Human Development

1.1 Trends in Poverty and Inequality

Poverty is a condition of deprivation characterised by an individual's inability to meet basic needs, which are consistent with the level of socio-economic development of her/his community. Two types of poverty have been discussed in the literature, i.e. relative poverty and absolute poverty. Sri Lanka has been using the concept of absolute poverty and this has determined the methodology developed for the measurement of poverty, as well as the range of poverty programmes developed for poverty alleviation.

There is now a consensus on the notion that poverty is experienced in multiple dimensions and that any single approach/indicator for measuring poverty will not suffice to capture all the dimensions of poverty. In Sri Lanka, the monetary approach, which assumes that income (or expenditure) is a proxy for other facets of poverty, currently dominates the definition, measurement and monitoring of poverty in Sri Lanka. However, measures of income shares such as the Gini coefficient have been used to indicate relative levels of poverty.

The internationally recognised poverty line of US$1 (PPP) per capita per day would give the proportion of the population in poverty as 6.6 per cent and the poverty gap ratio as 1 per cent for Sri Lanka. Setting the poverty line at US$2 (PPP) per capita per day would result in 45.4 per cent of the population being described as poor. Sri Lanka's own national poverty line gives poverty estimates that fall between these two lines.

The national poverty line has been derived by the Department of Census & Statistics (DCS) using minimum recommended nutritional norms. The cost of purchasing a consumption bundle with this nutritional content has then been inflated by a factor to allow for non-food expenditure. The poverty line is therefore defined by the level of expenditure required to buy this minimum consumption bundle. National, sectoral and district consumption poverty lines have been developed and applied to 1990/91 and 2002 data. These will form the basis of the analysis in the subsequent sections of this chapter.

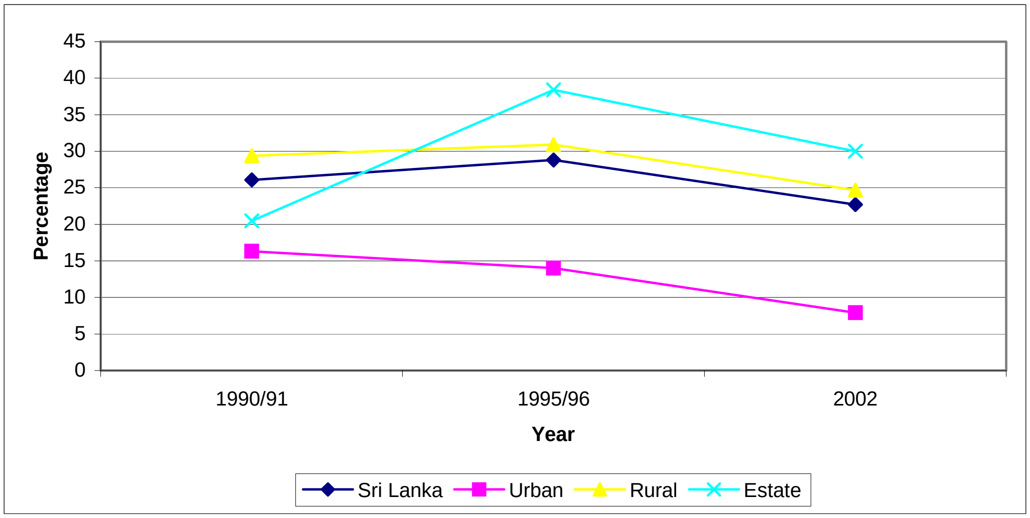
There was a decline of only 3 per cent in the percentage of the population in poverty during the period 1990 to 2002 (Table 1.1, Graph 1). It was in the urban sector that a substantial decline in poverty took place (8.4 per cent), with the rural sector benefiting to a lesser extent (4.5 per cent). However, the actual number in poverty grew slightly overall, especially in the rural sector (by 0.4 million).

Table 1.1: Distribution of Poor in Urban, Rural and Estate Areas, 1990/91, 2002

Year	Poverty (%)			Number of poor (Million)			
	Urban	Rural	Estate	Urban	Rural	Estate	Total
1990/91	16.3	29.4	20.5	0.5	3.0	0.2	3.7
2002	7.9	24.7	30.0	0.2	3.4	0.2	3.8

Note: Excluding Northern and Eastern Provinces
Source: Household Income and Expenditure Survey 1990/91, 2002, Department of Census & Statistics

Graph 1: Headcount index (%) based on poverty line of Rs.1423 (2002)



The overall decline in poverty has been accompanied by a gradual increase in income and consumption concentration. The Gini coefficient increased from 0.43 in 1990/91 to 0.48 in 2002 for income. The share of income of the bottom decile of households also declined from 2.0 in 1990/91 to 1.7 in 2002 (Tables 1.2, 1.3). Lack of access to infrastructure and education were the main drivers of income inequality (Gunatilaka 2005).

Table 1.2: Income Inequality by Deciles, 1995/96, 2002

	Share of income					
	Poorest 10%		Richest 10%		Ratio of richest to poorest	
	1995/96	2002	1995/96	2002	1995/96	2002
Sri Lanka	2.0	1.7	34.8	37.4	17.4	22.0

Note: Excluding Northern and Eastern Provinces
Source: Household Income and Expenditure Survey, Department of Census & Statistics

Table 1.3: Consumption Inequality by Deciles, 1995/96, 2002

	Share of consumption					
	Poorest 10%		Richest 10%		Ratio of richest to poorest	
	1995/96	2002	1995/96	2002	1995/96	2002
Sri Lanka	2.9	2.4	29.2	32.9	10.1	13.7

Note: Excluding Northern and Eastern Provinces
Source: Household Income and Expenditure Survey, Department of Census & Statistics

It is now generally accepted that consumption/expenditure is a better measure of long-term income status and living standards since it is not so prone to understatement in surveys. Ranking of households according to per capita expenditure invariably gives a smaller degree of inequality. In Sri Lanka's case, consumption data confirms the upward trend in inequality for the period 1990/91 to 2002. Gunatilaka (2005) converted data from the HIES to individual per capita adult equivalence and used regional price indices to obtain real per capita consumption estimates for the period 1980-2002; she obtained Gini coefficients of 0.31 for 1980, 0.32 for 1985, 0.31 for 1990, 0.34 for 1995 and 0.36 for 2002. Although income distribution was deteriorating, Gunatilaka also found that all quintiles had experienced an improvement in real mean monthly incomes between 1990 and 2002. While for the lowest two quintiles the gain was small, i.e. Rs.34.84 and Rs.60.30 respectively, for the highest quintile it was Rs.411.05.

The World Bank (2005b) estimates that between 1995/96 and 2002, the poverty headcount ratio would have fallen from 29 to 12 per cent, if the distribution of consumption had not changed during this period. This suggests that the sharp increase in consumption inequality during this period greatly reduced the poverty reducing impact of growth, i.e. the benefits of growth accrued mainly to the non-poor.

The Tsunami that struck Sri Lanka on December 26, 2004, also undoubtedly had an impact on the poverty and depth of poverty of the 3.3 per cent of the population directly affected (as well as those indirectly affected). It affected a relatively narrow strip, but extended over 1000km, i.e. approximately 70 per cent of the country's coastline. The waves penetrated up to 500 meters in some places and in others up to 3km, leaving behind few intact structures; 35,000 people were killed, 23,000 injured and 516,000 displaced. Coastal infrastructure systems, i.e. roads, railways, power, communications, water supply and sanitation facilities and fishing ports, were severely damaged. Overall damage was estimated to be around US$1 billion (4.5 per cent of GDP). The worst affected were the tourism and fishing sectors, but these contribute only 3 per cent to GDP.

Assistance to deal with the destruction wrought by the Tsunami, flooded into the affected areas immediately after the disaster struck. A minimum estimate of the value of the relief and rehabilitation donations comes to around US$500-600 million. Commitments for reconstruction had reached US$2,579 million by mid-May 2005. These two components total to over US$3 billion and would reach close to US$3.5 billion, if the value of debt relief were included. However, no assessment has yet been done on what the net effect on the poor has been.

1.2 Trends in Human Development

Since Independence in 1948 a concern for the poor has permeated public policy. Against the background of an egalitarian philosophy and a relatively prosperous economy, the strategy adopted was to reduce absolute poverty and try to ensure a minimum standard of living to all through free education and health services and a food ration and subsidy programme. These were supplemented by land distribution and colonisation programmes specifically targeted at the poor; a variety of subsidy schemes for agricultural inputs; a minimum wage mechanism; and a progressive tax system designed to cream off the surpluses generated by the plantation sector and use them to build up the necessary socio-economic infrastructure.

In the 1950s, 1960s and 1970s, despite major population increases and a faltering economy, this framework of policies was maintained. Targeting was not considered administratively feasible, since a large part of the population was still in the informal sector and the determination of income was difficult. Public expenditure on the free education and health services and the food subsidy and ration programmes reached 7.5 per cent of GDP in the 1950s, 9.96 per cent in the 1960s and 9.5 per cent in the 1970s. As a result of the early investments in human development, human development has improved substantially (Table 1.4).

Table 1.4: Fertility and Mortality Rates

	1980	1990	2000	2004
Total Fertility Rate (average number of alive births per women aged 15-49 years)	2.8 (1987) #	2.3 (1993) #	1.9 #	NA
Crude Birth rate (per 1,000 population)	28.4	19.9	17.6*	18.5*
Crude Death Rate (per 1,000 population)	6.2	5.7	5.8*	5.8*
Infant Mortality Rate	34.4	19.3	13.3*	11.2*+
Under 5 Mortality Rate	24.2	22.2(1991)	15.8*	12.0*+
Maternal Mortality Rate	0.6	0.3	0.2*	0.1*++

Notes: # Demographic and Health Survey, Department of Census & Statistics
Excluding Northern and Eastern Provinces
* Provisional
+ 2003 data
++ 2002 data
Source: Registrar General's Department

Sri Lanka has already achieved a literacy rate of 95.6 per cent for 15-24-year olds and is expected to reach 100 per cent by 2015. In 2002, the net enrolment ratio in primary school was 96.4 per cent; and 97.6 per cent of pupils in Grade 1 stayed on till Grade 5. The literacy rate of 14-24-year olds was 95.6 per cent in 2001 and shows only a slight variation between districts. Although compulsory education in Sri Lanka lasts nine years (5-14-year olds), about 6 per cent leave school at the end of Grade 6 and a further 10 per cent in the later years. At present, the completion rate at the end of junior secondary education is 79 per cent for boys and 86 per cent for girls.

Sri Lanka has also achieved levels of under five mortality and infant mortality, which are close to those achieved by OECD countries. Attention now needs to focus on the deaths in the perinatal (first week) and neonatal (first month) period, as the neonatal mortality rate has remained unchanged, at 12.9 per 1000 live births, since 1990.About 75 per cent of infant deaths take place in the first month of life, while 66 per cent take place in the first week. Newborns die or are disabled because of poor maternal health, inadequate care during pregnancy, inappropriate management of complications, poor hygiene practices during delivery and general lack of proper newborn care.

In line with the overall demographic and educational changes, there have also been beneficial changes in these characteristics of the poor. Household size in poor families has been declining, but is still larger than the average. On the other hand, the percentage of children under 15 years is larger, and the number of income earners in poor households is lower. The incidence of poverty in households where the principal income earner was female was slightly less than where it was a male in 2002, but this data excludes the Northeast Province (Table 1.5).

Table 1.5: Trends in Poverty by Gender of Principal Income Earner, 2002

Sex of principal income earner	Poverty Incidence, 2002	
	(%)	No. of Poor Households ('000)
Male	19.7	632
Female	17.1	143

Note: Excluding Northern and Eastern Provinces
Source: Household Income and Expenditure Survey 2002, Department of Census & Statistics

Poverty is increasingly concentrated among families whose household heads have 'no schooling' or only a primary education, particularly in rural areas. The incidence of poverty has declined for all educational levels in the urban areas. However, there has also been an improvement in education status among poor household heads, which is a reflection of the improvements in the overall education status that took place over the last few decades (Table 1.6).

There is a strong negative association between mother's schooling and child underweight rates and infant mortality rates. In 2000, the underweight rate among children whose mothers have no formal schooling was as high as 48 per cent, compared to 10 per cent among mothers who have completed their GCE A-Levels. Mothers with post-primary schooling have infant mortality rates of 9 per 1000 live births, compared to 24 deaths for mothers with no or only primary schooling (World Bank 2005b).

Table 1.6: Incidence of Poverty by Highest Educational Attainment of the Head of Household 1990/91, 2002

Highest educational attainment of the head of the household	1990/91			2002		
	Urban	Rural	Total	Urban	Rural	Total
No schooling	31.1	34.9	31.9	25.9	41.2	39.1
Up to Grade 5	21.0	30.2	27.6	15.6	31.6	29.6
Grade 6 – 9	11.6	20.8	18.4	6.5	19.1	17.7
G.C.E. (O.L) and above	2.1	7.5	5.6	0.9	5.3	4.4

Source: Household Income and Expenditure Survey 2002, Department of Census & Statistics Excluding Northern and Eastern Provinces

Child malnutrition pervades Sri Lanka, with a third of the children in the bottom 4 quintiles being underweight (World Bank 2005b). Protein-energy malnutrition is the most serious and widespread disorder, while three micronutrient deficiencies, i.e. iron, vitamin A and iodine are recognised as public health problems. There has been a sharp decline in under-nutrition among children under five years between 1993 and 2000 in areas outside the Northeast, i.e. stunting has halved (from 23.8 to 13.5 per cent and the percentage of children underweight has reduced from 38 to 29 per cent. However, declines in wasting have been irregular and marginal (from 15.5 to14 per cent), suggesting that short-term fluctuations in food availability are still substantial. Undernutrition in the Northeast is higher; 18 per cent of children are stunted, 22 per cent wasted and 37 per cent underweight (WFP 2005). The incidence of low birth weight is also relatively high, though declining; and varies from 9.8 to

28.8 per cent across districts and is particularly high in the Nuwara Eliya, Badulla, Moneragala, Batticaloa and Killinochchi districts.

A survey done by the Medical Research Institute (2002) found that stunting among school children varied between districts from 9-26 per cent and wasting from 10-22 per cent. The worst affected districts were Vavuniya, Ampara, Moneragala and Ratnapura. In fact, about 30 per cent of the children came to school without having any breakfast. The prevalence of underweight is also high among adults. Based on measurements of their Body Mass Index (BMI) 36 per cent of men and 33 per cent of women were found to be undernourished in 1994; 9 per cent of women and 5 per cent of men were found to be suffering from chronic energy deficiency.

Although maternal mortality is low in Sri Lanka, it is well above the national average in disadvantaged populations in the plantations, in conflict-affected areas, etc. due mainly to poverty and associated maternal malnutrition. Among these populations, low levels of education and access to health care compound poverty. The majority of maternal deaths in Sri Lanka are preventable. About 20 per cent of maternal deaths are due to medical causes aggravated by pregnancy, especially heart disease and anaemia. Hypertensive disorders of pregnancy are the second ranking cause, induced abortion the third and genital tract infection the fourth.

Access to safe water, sanitation and security of tenure are given the highest priority by poor households and considerable progress has been made in this area. In 2003/4, 93.5 per cent of the population had access to safe water supplies, 94.4 per cent had latrine facilities (water seal, pour flush, pit or bucket) and 89.2 per cent of all households had their own house. In the lowest income quintile, 87.6 per cent had access to safe water, 85.6 per cent to latrines and 85.7 per cent owned their houses (Central Bank 2005).

The Millennium Development Goals (MDGs) indicators developed for the health and education sectors show that access to these services is generally good in Sri Lanka, although data is not available for some of the war-torn parts of the Northeast.

1.3 Trends in Population, Labour Force and Employment

Sri Lanka's population was estimated to be 19.46 million in 2004, with 50.6 per cent being female. Population growth rates have been below 1.5 per cent p.a. since 1983 and were down to 1.2 per cent by 2003, due mainly to a rapid decline in fertility and high emigration. Between 1980 and 2004, the crude birth rate declined from 28.4 to 18.5. The total fertility rate had declined to 2.3 per cent during 1988-93 and reached 1.9 by 2000, mainly due to increase in the average age at marriage (to 25 years for women in 1993) and significant declines in marital fertility. Contraceptive prevalence had increased to 66 per cent by 1993 and was 70 per cent in 2000.

Crude death rates showed a slight fall from 6.2 (in 1980) to 5.8 per 1000 population in 2004, with declines affecting all age groups. Deaths are concentrated at the two ends of the age spectrum. Infant deaths are mainly in the perinatal (66 per cent) and neonatal periods (75 per cent). However, as life expectancy increases and aging of the population occurs, more deaths are likely to take place in the older age groups. At present, life expectancy at birth for males is 72 years and for females 76 years.

Net migration averaged 5.6 per cent during the 1971-93 period, when large-scale repatriation of Indian workers was taking place. It has continued at a lower level (2.7 per cent during the 1981-2000 period) due to labour migration for employment, mainly to the Middle East.

Due to the declines in fertility and mortality and increasing migration, the age composition of the population has been changing. The segment under 15 years has declined from 40 per cent in 1980 to 26 per cent in 2004, while those over 65 years have increased from 4 to 6 per cent. The number in the working age group was 13 million in 2004 and this group is expected to peak around 2026, creating a window of opportunity (demographically speaking) for development in the interim. The dependency ratio, which is around 45 at present, is expected to increase gradually, with the aging of the population, to 49 by 2026 and accelerate thereafter.

The total labour force in the fourth quarter (Q4) of 2004 was estimated to be about 8.1 million, 33 per cent being female. Male participation rates have been growing steadily from 65 to 67 per cent over the last decade, but female rates have been fluctuating between 31 and 36 per cent, suggesting that there is a section of the female labour force that moves in and out of the labour market, depending on economic conditions, the demand for labour, etc. Consequently, the overall participation rate has declined from 51.9 in 1990 to 48.9 in 2003 (excluding the Northeast) and 48.8 per cent in 2004 (Q4, including the Northeast).

Table 1.7: Employment Status of the Labour Force by Sex ('000)

	1993*	**2000***	**2004**
Employed			
Male	3602	4241	5049
Female	1600	2069	2345
Total	5202	6310	7394
Unemployed			
Male	388	260	323
Female	443	257	344
Total	831	517	667
Total Labour Force	6033	6827	8061

Source: Labour Force Survey, Department of Census & Statistics Excluding Northern and Eastern Provinces

Thus, although population growth has been falling since the 1960s, there was acceleration in labour force growth at this time, as a result of the high population growth rates experienced earlier. Labour force growth peaked at 3.5 per cent p.a. between 1963 and 1971 and then gradually declined to 1.4 per cent p.a. in the 1999-2002 period. However, employment growth rates reached their high of 2.9 per cent p.a. in the 1970s and averaged 2.3 per cent p.a. in the 1980s. Hence employment growth remained well below labour force growth rates until the 1970s, creating a substantial pool of unemployed with unemployment rates reaching 25 per cent in the mid-1970s. Unemployment declined gradually in subsequent years, as employment growth remained above labour force growth and had fallen to 8 per cent in 2004.

1.4 Progress in Attainment of MDGs

Sri Lanka will progress beyond many of the globally set targets for the Millennium Development Goals (MDGs) in 2015. More ambitious national targets have therefore been set for some goals. In other areas, meeting the targets will be a real challenge (NCED 2005).

Goal 1: Eradicate Extreme Poverty and Hunger

Poverty reduction has been a strategic consideration of successive governments. A multi-sectoral approach has been used, although not always well integrated. Considerable investment has been made in a range of pro-poor interventions, ranging from the provision of free education and health services, food subsidies, land distribution and settlement schemes, low-income housing and water supply, basic infrastructure and irrigation facilities, to direct income transfers combined with social mobilisation and micro enterprise development.

To halve the proportion of people below the national poverty line by 2015 and improve nutritional levels would require essentially the same strategy, since the nutritional levels of the poor are now very sensitive to their income levels. Action is being taken to:

- Resolve the conflict, which has drained the economy and the budget and created untold suffering for over 22 years;
- Develop a pro-poor, pro-growth strategy, which will improve the level of income generation in the rural and estate areas, where 80 per cent of the poor live;
- Improve productivity and wage-share in value-added in the agriculture and service sectors, where most of the poor work;
- Develop, upgrade and maintain rural infrastructure, including irrigation facilities; and
- Provide transparent and accountable governance structures that are built within equitable legal and institutional frameworks that are responsive to the poor.

Goal 2: Achieve Universal Primary Education

Since this goal has already almost been achieved, the current policy focus is on:

- The extension of the period of compulsory education of 5-14-year olds to 5-16-year olds;
- Ensuring that all children complete primary education with the required level of competencies: curricular reforms introduced in 1998 will be supported as they work their way through the system. This will be accompanied by the required upgrading of classrooms, retraining and deployment of teachers, improvement of facilities (water and sanitation) and training of special teachers for disabled children; and
- The continuation of ancillary services, such as free textbooks, uniforms, subsidised transport and scholarships; and free primary school meals extended to economically disadvantaged communities.

Goal 3: Promote Gender Equality and Empower Women

To promote gender equality further, the development strategy formulated needs to ensure that neither sex feels marginalized or excluded and both sexes benefit from the outcomes. This would entail:

- Sensitisation of politicians and policymakers on the need to ensure gender equality, accompanied by reservation for women of a minimum of places on nomination lists and one third of the seats in local assemblies;
- Incorporating the provisions of CEDAW and the Women's Charter into national laws;
- Providing women who enter the informal sector with access to credit, training and extension services to undertake production activities; in the formal sector, they need support in terms of day-care facilities, skills upgrading and empowerment training, in order to compete effectively and reach the higher echelons of their organisations;
- Recognising the different impacts of poverty and unemployment on men and women. Alcoholism, which is widespread and is one of the root causes of poverty, destitution and abuse, has to be dealt with; as well as the notion that suicide is a problem-solving measure; and
- Supporting women victims of violence and women survivors of the conflict and the Tsunami in rebuilding their lives, particularly catering to their legal and psychological needs.

Goal 4: Reduce Child Mortality

Since Sri Lanka has already achieved low levels of child mortality, it would be very difficult to further reduce under-5 mortality by two thirds. Clinic attendance of pregnant mothers and of infants receiving care at clinics has steadily increased. Therefore, to achieve further declines, improvement in the quality of care provided is required to ensure safe delivery and survival during the first month of life.

This includes:

- Regularly updating the skills of the health staff. Quality assurance for the services provided should be introduced;
- Strengthening facilities available for emergency care of the newborn;
- Filling the vacancies for health staff in underserved areas, such as the Northeast and the plantations. In the interim period, health volunteers should be provided with basic training and amenities and mobile clinics should be made available; and
- Paying greater attention to educating parents on the importance of cognitive, emotional and psychological development during childhood.

Goal 5: Improve Maternal Health

Sri Lanka's health services have good coverage in terms of antenatal care and most mothers receive trained assistance at delivery; but quality of care is of concern during delivery, and post-partum care is deficient in both coverage and quality. To improve maternal health, priority is being given to:

- Supporting families to have the number of children they desire, through better family planning education, counselling and improved contraceptive service quality;
- Addressing the reasons for seeking abortion;

- Providing an effective programme of pre-pregnancy counselling, which includes a general medical examination, which can identify other disease conditions, which could result in maternal deaths; and
- Improving health service delivery in several areas. For instance, training of medical officers during internship to provide emergency obstetric care; provision of transport services for transfer of emergency cases to higher level institutions; filling of vacancies for midwives (especially in the Northeast) and for midwifery-trained nurses in specialist units; improvement in the quality of facilities in labour rooms; and more effective postpartum counselling and follow-up.

Goal 6: Combat HIV/AIDS, Malaria, and Tuberculosis

Although Sri Lanka only had 614 cases and 131 deaths from HIV/AIDS by end 2004, the estimated number living with HIV is 3500. This situation is described as a low-level HIV/AIDS epidemic, since behavioural factors that facilitate the spread of the infection are prevalent in the country and pose the threat that the disease could become concentrated in highly vulnerable groups and then become generalised.

Malaria has been a major public health problem throughout the country's history, with the recurrence of major epidemics. By 2002, all-island incidence had been brought down to 42 (per 1000 population), although Killinochchi, Mullaitivu, Batticaloa and Vavuniya reported much higher morbidity and mortality.

Tuberculosis has become a major public health concern, due to the rising trend in reported cases and incidence from 1995 onwards, and its association with HIV/AIDS.

To curb the spread of Tuberculosis and HIV/AIDS infections and interrupt the transmission of Malaria, programmes are in place to:

- Strengthen the provincial/district health services so that they can provide effective diagnostic and treatment services, oversight and outreach;
- Enhance political commitment and develop stronger partnerships with the private sector and NGO partners to organise and implement social rehabilitation programmes for those affected by Tuberculosis and AIDS;
- Produce information, education and communication (IEC) material and awareness programmes to improve the knowledge, attitude and practice of patients and the general public so as to improve case-finding, compliance with treatment and treatment outcomes; and
- Sensitise general practitioners to the correct management of Tuberculosis and STD patients.

Goal 7: Ensure Environmental Sustainability

Sri Lanka possesses varied and extensive natural resources, ranging from lush rain forests, diverse flora and fauna, coral reefs and some of the world's finest beaches. However, due to relatively small land area, high population density and the current water and land use patterns, these resources are under stress, e.g. land degradation, siltation of water bodies, pollution of coastal waters and aggravation of flood effects.

Deforestation, uncontrolled and use/misuse and unplanned settlements have led to deterioration of watersheds. The haphazard dumping of solid wastes, untreated effluent and the drain-off of fertiliser and agro-chemicals has led to the pollution of water bodies and surface and ground water sources. Sand and gem mining have depleted riverbeds and eroded riverbanks, resulting in increased salinity intrusion and turbidity. Coastal erosion, aggravated by coral mining and the Tsunami, caused significant damage to property, buildings, roads and railways, etc. The discharge of ozone depleting substances is relatively miniscule and atmospheric pollution is mainly caused by vehicle fossil fuel consumption and industry; increasing reliance on fossil fuels for generating electricity is likely to aggravate this problem.

Ensuring environmental sustainability requires:

- The introduction of an environmental management system, whereby natural resources are used in more efficient and sustainable ways and which respects traditional knowledge and practices, is necessary. Existing legislation needs to be enforced, even as awareness of all aspects of the environment (its care and management) is increased. Solid waste management, especially in urban areas, is of primary concern;
- The un-served (mostly the poor and those in conflict affected and water-stress areas) and schools and hospitals without facilities, receive priority attention for future investment in water supply and sanitation. Infrastructure provision has to be complemented by education in good hygienic practices, pollution control and water resource preservation; and
- The programmes for regularising ownership of land for urban low income settlements will be continued, with the exception of those on road, rail and water reservations and will include the provision of common amenities. Those occupying land of high economic value are being voluntarily re-housed in upgraded accommodation on the same site (with security of tenure) in high-rise buildings on the same site, and the freed-up land sold for development.

Goal 8: Develop a Global Partnership for Development

Sri Lanka has opted for an open trading and financial system with external trade growing as a percentage of GDP from 58 per cent in 1990 to 65 per cent in 2003. The country has also become increasingly vulnerable to external shocks and has been severely affected by the rising price of fuel. Overseas Development Assistance (ODA) has been a major source of development finance for Sri Lanka, as well as closing the foreign exchange gap. However, during the last decade, ODA per capita has fallen drastically from US$42.9 per capita in 1990 to US$14.3 in 2000. Foreign Direct Investment (FDI) has been hovering between 1-2 per cent of GDP during the last decade, but is still narrowly based.

The outstanding debt stock has been climbing steadily due to government reliance on borrowing to finance fiscal deficits and the exchange rate depreciation from 1977 onwards. It had reached 105.9 per cent of GDP by 2003, restricting funds available for public investment and the future growth of the economy. However, foreign debt service ratio declined from17.8 in 1990 to 11.6 in 2003. Close to three quarter of a million workers are overseas and their remittances have become the highest foreign exchange earner, offsetting about 85 per cent of the trade balance in 2001.

In the medium term, Sri Lanka will gradually integrate with the larger markets of South Asia and increasingly participate in the global production and distribution systems, harnessing the advantages of its strategic location. This requires:

- A stable political situation;
- Improvements in productivity and competitiveness in all sectors, which entails technological upgrading, restructuring and modernisation. This is already taking place in the garment sector, in response to the end of the Agreement on Textiles and Clothing (ATC);
- Sri Lanka to continue to offer one of the most liberal business climates in Asia, with attractive incentives for local and foreign investors, with bilateral and regional trade and investment agreements providing market access;
- The accelerated acquisition of technology, particularly information technology, will be accelerated through the investment regime and FDI; and
- The coordinated upgrading of technical and vocational education to generate the right skills and manage the successful transition to higher value-added production. While the general education system aims to provide a good foundation for the acquisition of skills later on, the private sector has to become a strategic partner in pre-employment and post-employment training.

1.5 Main Findings and Conclusions

Despite GDP growth averaging 4.6 per cent per annum (p.a.) and a gamut of pro-poor programmes, one fifth of the population are still below the poverty line, although the lower deciles real income has improved marginally over the last two decades. Income concentration has been increasing.

Sri Lanka's rank has fallen slightly between 1997 and 2003 both in terms of the Human Development Index (HDI) and the Human Poverty Index (HPI). On the other hand, in terms of the Gender Development Index, both rank (from 76 to 66) and value (from 0.712 to 0.747) have improved during this period.

Due to the continuing conflict during the decade of the 1990s, expenditure on defence and the maintenance of public order and safety increased from 2.2 per cent of GDP in 1990 to 4 per cent in 2002. This resulted in inadequate funding for all the service sectors. The bilateral Ceasefire Agreement (CFA) entered into in 2002 has opened the path to peace and reduced the diversion of resources to military expenditure and destruction to 3.3 per cent of GDP in 2004. The cessation of hostilities has paved the way for acceleration of reconstruction and development, especially in the Northeast; and a greater focus on the achievement of development goals.

2 Country Profile: A Disaggregated Analysis

2.1 Poverty and Inequality

The poor, who are scattered among the non-poor, belong mainly to three groups:

- Landless labour in rural areas and those working in small-scale enterprises in the informal sector, particularly textiles, coir processing, wood products, food and tobacco processing and as domestic servants;
- Self-employed micro-entrepreneurs, including small farmers cultivating food crops (using mainly family labour); and
- Small-scale traders, weavers and those who live by household industry; and providers of services such as barbers and artisans.

There are also marginalised groups and communities, concentrated in pockets of poverty in each district:

- Social outcasts from depressed castes;
- Village expansion colonies;
- Marginal irrigation settlements, especially in frontier areas;
- Fishing communities in the coastal belt and around inland water bodies;
- Plantation (estate) communities;
- Hill-farming communities cultivating steep slopes; and
- Displaced/refugee settlements.

In general, poor households lack productive assets and training and are therefore dependent on the availability of unskilled or semi-skilled work, which is temporary, has low productivity, confines incomes at subsistence level and does not provide the basis for economic security or self-respect. Most of the poor household heads were wage earners (67 per cent) and 25 per cent were self-employed. In the rural sector, 74 per cent were wage earners, as uneconomic size of holding is compensated for by off-farm wage income, livestock and home-gardening: this diversifies risk and reduces vulnerability.

The rural poor are often located in isolated parts of a village or in hamlets away from main roads to which mechanised transport has no access. The urban poor live in congested inner-city neighbourhoods, characterised by deteriorating old buildings (slums) or in new communities, which have encroached on government lands along river/canal banks, railway tracks and beaches and have little access to services (shanties/underserved settlements). Slum and shanty dwellers comprise nearly 50 per cent of the total population resident in Colombo.

Poverty incidence in 1995/96 can be discounted, due to the distortion caused by severe drought, which would have impacted particularly on the incomes in the rural sector. This analysis therefore takes the data for 1990/91 and 2002 as indicating the trend in absolute poverty in Sri Lanka.

In urban areas there was a decline in incidence as well as numbers in poverty (Table 2.1); this may have been partly due to a change in the definition of urban areas in 1994, which reclassified Town Council areas as Pradeshiya Sabha areas and moved them into the rural sector. Despite the large increase in poverty incidence in estate areas, the number in poverty remained at 0.2 million in both years, suggesting that there was a substantial decline in the estate population during this period; estates are defined as landholdings of more than 20 acres with more than 10 resident labour, so that the break up of large holdings could have moved some of the resident labour on smallholdings into the rural sector. Rural areas, in fact, show a decline in incidence, although the number in poverty increased from 3 to 3.4 million.

Table 2.1: Population below Poverty Line by Location, 1990/91, 1995/96, 2002 (%)

	1990/91	**1995/96**	**2002**
Poverty Line (Rs.)	475	833	1420
National	26.1	28.8	22.7
Sector			
Urban	16.3	14.0	7.9
Rural	29.4	30.9	24.7
Estate	20.5	38.4	30.0
Province	15.6	13.0	9.2
Western	25.8	31.3	20.8
Central	24.7	27.0	23.6
Southern	21.6	23.6	22.3
North Western	20.4	20.4	18.1
North Central	27.0	40.2	31.8
Uva	26.8	36.1	28.9
District	16	12	6
Colombo	15	14	11
Gampaha	32	29	20
Kalutara	36	37	25
Kandy	29	42	30
Matale	20	32	23
Nuwara Eliya	30	32	26
Galle	29	35	27
Matara	32	31	32
Hambantota	27	26	25
Kurunegala	22	31	31
Puttalam	24	27	20
Anuradhapura	24	20	24
Polonnaruwa	31	41	37
Badulla	34	56	37
Moneragala	31	46	34
Ratnapura	31	36	32

Note: Data not available for the Northeast Province and its 8 Districts
Source: Department of Census & Statistics

Regional disparities in poverty incidence are wide, with 7 out of 25 districts having between 30-37 per cent of their populations in poverty in 2002, i.e. Badulla, Hambantota, Kegalle, Matale, Moneragala, Puttalam and Ratnapura. Almost all these districts got poorer during the 1990/91-2002 period; Hambantota was the exception, with the proportion in poverty remaining at 32 per cent in both years. Poverty incidence in Polonnaruwa remained static at 24 per cent and in Nuwara Eliya it increased from 20 to 23 per cent. In all other districts, there was a decline in poverty reaching very low levels in Colombo (6 per cent) and Gampaha districts (11 per cent) by 2002. However, Colombo had the highest population below the poverty line in 2002, i.e. 144,106.

DCS has been able to narrow down the area of focus still further to identify the poorest DS Divisions by applying the 'small area estimation method' to Census and Survey data. This method imputes consumption levels to Census (2001) households based on a model of consumption estimated from the Household Income and Expenditure Survey (HIES) 2002. The consumption model includes household characteristics that are available in both the Census and the survey. "By applying the estimated coefficients to the 'common' variables in the Census data, the consumption expenditures of Census households are imputed. Poverty and inequality statistics for small areas are then calculated using the imputed consumption of Census households" (World Bank 2005a).

Almost all districts experienced an increase in income concentration over this period, except Colombo, Kurunegala and Matara, where the Gini coefficient for income decreased. The poorest districts of Matale, Puttalam, Badulla, Moneragala and Kegalle also have the highest Gini coefficients (Table 2.2).

Table 2.2: Average Monthly Income, Median Income and Gini Coefficient for Household Income by Sector, Province and District, 2004

Sector, Province and District	Average monthly income		Median household income (Rs.)	Percentage of income received by poorest 40% of households to total income	Gini co-efficient
	Per household (Rs.)	Per person (Rs.)			
Sri Lanka	12803	3056	8482	13.9	0.47
Sector					
Urban	22420	4997	14061	13.4	0.48
Rural	11712	2835	8091	14.6	0.45
Estate	7303	1663	6250	19.6	0.34
Province					
Western	17732	4187	12000	14.6	0.46
Central	11175	2623	7475	14.4	0.46
Southern	11229	2598	7888	15.7	0.43
North Western	10918	2717	7386	14.9	0.45
North Central	9926	2437	7429	16.2	0.42
Uva	10388	2528	6680	13.8	0.50
Sabaragamuwa	8439	2036	6217	15.5	0.43
District					
Colombo	21088	4923	14000	14.3	0.46
Gampaha	16794	4013	11750	15.6	0.44
Kalutara	12907	3046	9429	15.1	0.43
Kandy	12674	2956	8003	13.5	0.50
Matale	10390	2568	6700	13.9	0.48
Nuwara Eliya	8973	2061	7048	17.5	0.40
Galle	12724	2975	8800	15.7	0.43
Matara	10529	2406	7370	15.9	0.43

Hambantota	9392	2165	7189	16.2	0.40
Kurunegala	10771	2695	7300	15.0	0.46
Puttalam	11222	2761	7500	14.8	0.47
Anuradhapura	10496	2602	7667	16.1	0.43
Polonnaruwa	8724	2098	6436	16.9	0.40
Badulla	10377	2544	7031	15.8	0.46
Moneragala	10411	2498	5617	10.5	0.56
Ratnapura	8518	2004	6267	15.6	0.41
Kegalle	8342	2079	6160	15.3	0.43

Source: Department of Census & Statistics

2.2 Human Development

Although less than a quarter of the population are below the national poverty line, more than half the population are not meeting their minimum calorie consumption needs. This suggests that (income) poverty is not the only factor governing food intake. Lack of knowledge, alcoholism, etc. also play a part. In this context, a marked reduction between 1973 and 2000 in the percentage of children suffering from stunting, wasting and underweight, with improvements taking place in urban, rural and estate areas (Department of Census & Statistics 1995, 2002) is noteworthy. The percentage of children born with low birth weight (an indicator of maternal nutrition) has also reduced from 18.7 to 16.7.

Table 2.3: Proportion of Population below minimum level of Dietary Energy Consumption, 1990/91, 2002

	Male*		**Female***	
	1990/91	**2002**	**1990/91**	**2002**
National	50.8	51.1	51.8	52.2
Sector				
Urban	56.3	58.4	62.4	58.6
Rural	51.3	51.7	48.7	52.1
Estate	30.0	28.6	39.7	31.4
Province				
Western	56.3	54.2	57.1	56.2
Central	49.6	45.1	47.8	44.2
Southern	57.0	54.5	54.7	55.9
North Western	43.9	52.6	41.7	53.4
North Central	49.0	42.3	42.6	43.4
Uva	47.2	47.1	51.2	43.6
Sabaragamuwa	48.8	52.2	54.5	53.3
District				
Colombo	54.7	54.9	65.1	58.1
Gampaha	50.2	54.7	46.4	54.3
Kalutara	56.8	52.1	54.4	56.6
Kandy	57.3	50.4	54.0	47.0
Matale	43.9	58.5	45.8	59.1
Nuwara Eliya	36.7	28.7	32.9	23.4
Galle	56.8	54.9	53.3	55.5
Matara	57.1	55.0	56.6	58.2
Hambantota	57.1	53.2	54.5	37.3
Kurunegala	40.7	49.1	38.2	52.8

Puttalam	51.7	59.3	50.1	63.2
Anuradhapura	51.0	44.7	45.2	45.1
Polonnaruwa	44.3	37.3	37.8	40.7
Badulla	49.4	47.7	52.9	45.1
Moneragala	43.1	46.0	46.1	39.6
Ratnapura	46.3	47.2	49.5	47.2
Kegalle	51.9	59.2	59.8	58.7

Note: * Sex of head of household; Data not available for the Northeast Province and its 8 Districts
Source: Department of Census & Statistics

Most of the education and health services were devolved to the Provinces in 1989 and have got embroiled on the uncertainties of jurisdiction and lack of funding, which has affected this process. Consequently, the quality of services has not improved in line with citizen expectations. Although wide disparities exist in the facilities available in schools and health institutions and in the quality of services provided, the improvement in education status has contributed substantially to lowering fertility and population growth, infant, child and maternal mortality and improving health status. Regional variations in access to primary education are low, with net primary enrolment ratios over 90 per cent in all districts (Table 2.4). Almost all Tsunami-affected children are now back in school.

Table 2.4: Net Enrolment Ratio in Primary and Junior Secondary School by Location, 1996, 2002

	6-10 Years				11-14 Years			
	Male	Female	Male	Female	Male	Female	Male	Female
	1996	2002	1996	2002	1996	2002	1996	2002
National	95.6	97.1	95.7	95.6	93.9	93.5	96.3	96.4
Sector								
Urban	94.9	96.5	97.2	95.2	93.2	92.2	94.1	95.7
Rural	95.8	97.2	95.5	95.7	94.0	93.8	96.5	96.5
Province								
Western	96.2	97.4	95.8	96.2	95.5	94.3	96.5	95.4
Central	92.5	95.8	94.7	95.6	94.1	89.9	96.6	97.2
Southern	96.1	97.2	95.9	95.5	95.8	97.1	95.8	98.1
North Western	98.8	99.2	99.1	97.3	91.2	96.9	94.8	95.9
North Central	98.7	97.5	93.9	95.8	93.8	96.0	98.3	99.3
Uva	95.1	97.1	95.5	92.7	93.7	95.2	96.4	96.4
Sabaragamuwa	93.8	94.9	94.1	94.0	90.7	86.6	96.5	94.1
District								
Colombo	96.7	95.5	96.2	95.2	95.4	92.2	94.1	93.1
Gampaha	95.5	98.6	93.8	97.0	94.1	96.6	98.6	96.4
Kalutara	96.5	98.9	98.6	96.7	98.9	84.2	96.7	97.3
Kandy	90.2	96.4	94.8	96.0	90.8	87.2	95.6	95.7
Matale	92.4	97.6	93.5	94.9	95.9	94.5	97.9	98.7
Nuwara Eliya	95.7	94.2	95.3	95.3	97.1	91.5	97.4	99.0
Galle	96.8	97.1	94.5	95.2	94.7	95.0	95.4	97.0
Matara	97.3	95.7	97.2	94.3	95.5	99.3	94.9	99.2
Hambantota	93.5	99.3	96.4	98.3	98.1	97.3	97.8	98.3
Kurunegala	98.4	99.6	99.5	97.5	89.8	97.2	96.3	96.5
Puttalam	99.6	98.6	98.1	96.8	94.5	96.3	92.4	94.7
Anuradhapura	98.4	98.0	95.1	95.7	96.5	97.6	97.7	100.0

Polonnaruwa	99.2	95.9	92.3	96.0	88.6	93.6	100.0	97.8
Badulla	92.0	95.7	94.7	91.6	93.6	95.0	96.2	95.7
Moneragala	99.1	100.0	96.8	95.3	93.8	95.0	96.9	98.1
Ratnapura	95.7	95.2	96.3	92.8	91.6	95.4	96.9	92.9
Kegalle	91.2	94.6	91.1	95.4	89.7	84.6	95.9	96.1

Note: Data not available for the Northeast Province and its 8 Districts
Source: Department of Census & Statistics, 2005

Regional disparities in infant and child mortality indicators and immunisation coverage are relatively small, suggesting that there is also near-universal access to health services. The infant mortality rate in the Northeast, at 14.1 per 1000 live births, is on par with the rest of the country; but immunisation coverage is much lower, i.e. 74.5 per cent, and there is increased incidence of vaccine-preventable diseases such as measles. The poor availability, accessibility and quality of healthcare in the Northeast have been exacerbated by the devastating impact of the Tsunami on the Eastern coast.

Table 2.5: Infant and Child Mortality rates by Sector and Province, 1991, 2002

	Infant Mortality Rate				Child Mortality Rate			
	1991		2002		1991		2002	
	Male	Female	Male	Female	Male	Female	Male	Female
National	19.9	15.4	12.9	10.2	24.3	20.0	14.9	12.0
Sector								
Urban	27.1	20.3	16.9	13.1	31.3	24.6	18.7	14.9
Rural	7.9	6.6	5.2	4.6	12.3	11.1	7.6	6.4
Estate	30.5	30.1	16.4	15.7	38.1	41.0	22.1	20.6
Province								
Western	23.2	18.2	14.0	10.5	26.7	22.0	15.6	12.2
Central	26.8	22.9	16.1	12.4	33.1	29.4	18.2	14.5
Southern	17.2	13.0	9.3	6.7	20.5	16.3	10.3	7.4
Northern	9.2	7.8	7.6	6.1	12.2	10.9	10.5	8.7
Eastern	10.4	8.1	10.6	8.1	16.3	14.6	15.0	11.4
North Western	23.4	15.3	10.8	9.6	27.4	19.9	12.5	11.1
North Central	18.9	14.2	18.6	15.8	22.9	18.5	20.3	17.5
Uva	13.4	10.5	14.4	10.8	18.4	16.1	16.0	12.2
Sabaragamuwa	22.5	16.9	12.7	11.4	27.1	21.0	15.0	13.6

Note: Urban mortality rates are much higher, because sick children from other areas also come to specialised units in tertiary level hospitals, which are located in urban areas
Source: Department of Census & Statistics, 2005

2.3 Main Findings and Conclusions

Marginalisation, geographically, economically or socially characterises the poor. This is aggravated by lack of access to administrative and capacity building services provided by the state, as well as infrastructure and productive assets. To achieve further improvement, the country is now looking beyond aggregate numbers and indicators to deal with critical issues such as regional and sectoral disparities in equity of access and the quality of the services provided. Good performance on quantitative national indicators tends to mask geographical and qualitative disparities in service provision. In deprived pockets and in conflict-affected areas, the indicators are far below the national average.

3 Employment and Labour Markets

3.1 Introduction

Employment growth overtook labour force growth in the 1990s and unemployment rates have continued to decline slowly. Domestic employment had reached 7.5 million by 2004 (Q4) and was supplemented by substantial migration for employment abroad. This resulted in a steady decline in unemployment during the 1990s from 15.9 per cent in 1990 to 7.6 per cent in 2004 (Q4) excluding the northern and eastern provinces, or 8.4 per cent if they are included. In 2004, 87 per cent of employment and 86 per cent of unemployment was in the rural sector.

3.2 Employment

There has been a significant change in the structure of employment over the last decade, with the proportion provided by agriculture, forestry and fisheries declining from 47 per cent in 1990 to 33 per cent in 2003 (excluding the Northeast) and 36 per cent in 2004 (including the Northeast). The service sector is now the largest employer, with 44 and 42 per cent in these years respectively. The growth in factory industry and in the service sector, together with opportunities abroad, have generated formal sector employment for youth, but mainly at the semi-skilled level. Nearly 80 per cent of jobs created in the Export Processing Zones (EPZs) were for young women.

Although the private sector has emerged as the key provider of employment, the government continues to act as the employer of last resort and still provides 12 per cent of total (Q4, 2004). Due to the significance of youth unemployment in generating civil strife in the country, the government recruits graduates and GCE A-Level school leavers into the public service from time to time, e.g. 40,000 graduates in 2004. Youth have been recruited to the armed forces, as administrative staff for island-wide poverty alleviation schemes and by way of its graduate recruitment programmes. The World Bank (1999) observed that in 1997, Sri Lanka had the highest number of public sector workers per thousand of population in most of Asia; however, it has to be recognised that Sri Lanka runs unique, universal, free public health and education systems, which are not provided by other countries.

Existing employment generating programmes fall into six categories:

- Employment-generating projects of the public works type, such as the construction of roads, irrigation facilities, etc;
- Employment generation through export promotion, e.g. EPZs, etc;
- Migration for employment abroad;
- Self-employment creation schemes through provision of micro-credit through the Samurdhi Programme, Janashakthi Banks and related rural development projects;
- Employment in the security forces; and
- Special employment schemes in the public sector to absorb unemployed graduates and GCE A-Level school-leavers.

While these schemes have assisted in halving the level of unemployment, their impact on poverty has been marginal. It is now realised that homogeneous programmes implemented earlier did not have sufficient impact. The poor need to be disaggregated into subgroups and specific programmes tailored to their different needs. The chronically poor and less poor will continue to be supported by cash transfers. Those just above the poverty line are to be supported by credit schemes for income generating activities, which will be facilitated by community infrastructure rehabilitation. Other categories identified for the development of special programmes are youth, the disabled and women (particularly the elderly).

The transfer of assets to the poor through land distribution programmes (which were prominent during the 1935 to 1990 period) and the provision of housing, which has now been confined to socially excluded groups, although improvement in property rights and land markets is being stressed. However, as a result of these major land distribution programmes specifically targeted at the poor, 85.5 per cent of the households in the lowest quintile owned an average extent of 117 perches in 2003/4, in contrast to 91 per cent for the country as a whole with an average of 138 perches. All quintiles were using 33-34 perches for their homesteads, but there was a large variation between quintiles in agricultural land ownership. Even the lowest quintile had unutilised land averaging 17 perches, indicating the availability of an asset, which could be used for economic development (Central Bank 2005).

Institutional credit has been made fairly accessible to the poor, although not to the poorest. In 2003/2004, the lowest quintile obtained 38 per cent of the number and 42 per cent of the value of its loans from institutional sources; and non-institutional sources (mainly family and friends) provided most of the balance. For the second quintile, the percentages were 42 and 60 respectively from institutional sources. However, three quarters of these loans were used for consumption and other non-investment purposes and two thirds of these loans were obtained without providing security or only a personal guarantee (Central Bank 2005).

Micro-enterprise development, the main strategy used by poverty alleviation programmes in Sri Lanka, have basically provided an income supplement that has taken some families above the poverty line, but not much beyond that. The lack of sustained growth in agriculture has depressed the demand for non-tradable products in rural areas. Consequently the market for the output of micro-enterprises is weak and one micro-enterprise may simply be taking market share from another.

The stimulation of small and medium enterprises (SMEs) development, on the other hand, will generate increased demand for labour. These enterprises may be more willing to migrate to areas where there is surplus labour, and will provide more job-entry work opportunities for school-leavers. They also generally have a better record in training new recruits. Development programmes aimed at poverty alleviation should therefore concentrate on stimulating growth centres in rural/semi-urban areas, increasing rural demand through commercially-oriented agriculture and industry, and encouraging SMEs to grow in a competitive environment and train and employ the poor.

The setting up of the Small and Medium Enterprise Bank in 2004, with a mandate to provide credit guarantees, equity and debt restructuring assistance etc. to these enterprises, will indirectly create employment for the poor. The SME Bank is to be more pro-active and innovative with regard to collateral requirements, shortfalls in equity financing, interest rates and loan application procedures, which currently stymie development in this sector. The Bank will facilitate the transfer of advanced technologies to SMEs.

3.3 Labour Markets

There has only been minor upgrading of the education levels of the employed during this period. Those with less than Grade 5 education have declined from 32 per cent in 1990 to 24 per cent in 2003 (excluding the Northeast, 25 per cent in 2004 including the Northeast) and those with GCE A-Level and above have increased from 7 to 13 per cent (excluding the Northeast, 14 per cent in 2004 including the Northeast). In fact, over half of the unemployed had GCE O-level (24 per cent) and 'A'-level or degree (31 per cent) qualifications in 2004. This suggests that most of the job creation has been in the semi-skilled category and the economy is not geared to absorbing the output of large numbers of better-educated GCE 'A'-level and degree holders.

Sri Lanka's entry into the globalisation and liberalisation process provided opportunities for middle-level professionals, as well as the semi-skilled and unskilled, to migrate and seek more lucrative employment overseas. The short-term employment of an additional 10 per cent of the labour force abroad, has dampened unemployment and alleviated poverty, in spite of its attendant social problems.

Unemployment, by the end of 2004, was still high at 666,816 (8.2 per cent of the labour force) and was almost equally divided between males and females. Female unemployment rates have traditionally been double that of males. At all educational levels, unemployment rates are highest for those in the 15-19 and 20-24 age groups, confirming that unemployment is primarily a problem of youth. Those with no schooling also show a similar pattern.

A notable feature is that although youth unemployment rates have fallen, together with the overall rates, they have continued to be more than three times as high as overall rates, i.e. as much as 32 per cent for the 15-24 age group in 1996 and 28 per cent in 2002. These youngsters constitute two thirds of the unemployed. The highest rates affect those few 15-19-year olds who do enter the labour market; unpaid family work is a major avenue of employment for them, but an increasing number are staying in school to complete their secondary education. Youth, who are seeking employment for the first time, have to wait a long time to find it, sometimes as long as 12 months.

Gunewardena (2005) found that 77 per cent of household heads in poverty were employed, 3 per cent unemployed and 20 per cent not in the labour force. However, members of poor households, who are in the labour force, are more likely to be unemployed. The educational attainment of the poor household head has increased, together with the general improvement in educational levels. Whereas in 1990, 62 per cent had primary or no schooling, in 2002, 55 per cent had a primary or lower secondary education and 30 per cent had upper secondary or GCE 'O'-level qualifications. However, being mainly in the occupational categories of 'unskilled or semi-skilled labour', 'small farmer' or 'small entrepreneur', they remain at a disadvantage in a surplus labour market and continue to be far more susceptible to unemployment and underemployment.

3.4 Wages

Gunewardena (2000) found that in 1995/96, poor urban households depended mainly on wage income (55 per cent), with a further 17 per cent having wage and self-employment income. Estate households depended on either wage income alone (45 per cent) or wages supplemented by self-employment (48 per cent). In the rural sector, households depending only on agricultural income are down to 16 per cent and those earning wages only are 25 per cent. Wages are therefore a significant source of income for around 72 per cent of urban, 93 per cent of the estate and 69 per cent of rural households; and provide around 50 per cent of total income for the poor, compared to 17 per cent from agricultural income and 11 per cent from Janasaviya/Samurdhi. Domestic and foreign remittances are quite insignificant for the poor (2 per cent), but more important for the non-poor; this suggests that they have succeeded in pushing these households over the poverty line, if not much further.

In the field of wage determination for organised sector workers, government plays an important role as the largest employer, as well as through its participation in the institutions set up for negotiation and reconciliation (especially the Wages Boards) between employers and employees. There are 36 Wages Boards, but only 31 are currently in operation. They set the minimum wage rates and working conditions for about 1 million workers. Estate wage rates are determined by the negotiation of a wage agreement every two years between the Employers Federation and the Trade Unions. Organised sector wages strongly influence those in the informal sector, especially those of unskilled workers. Data on earnings is not available for either organised or informal sector workers.

Overall, there has been a decline in minimum real wage rates for all categories of workers in the organised private sector as well as in the public sector during the 1990s, suggesting that there was a downward pressure on wages exerted by an excess labour supply. From 2000 to 2004 there was a marked improvement in the real minimum wages of government employees, while wages for those in the Wages Boards trades continued to decline. Daily wage rates in the informal private sector are higher and adjust more freely to movements in inflation, with less volatility exhibited over time. Wage rate data is not collected for all categories of workers by any agency.

Table 3.1: Minimum Real Wage Rate Indices and Average Annual Growth Rates for Workers in Wages Boards Trades and Government Employees, 1990–2004 (1978=100)

Period	Workers in Wages Boards Trades (a)				Government Employees (b)			
	Agriculture (c)	Industry & Com. (d)	Services (e)	All (f)	Non-Exec. Officers	Minor Employees	All Central Govt. (g)	School Teachers
1990	122.7	89.9	63.5	107.6	104.3	121.8	113.2	96.0
1995	121.1	94.8	66.5	107.7	109.2	120.6	115.4	110.8
1999	111.7	83.0	56.0	97.8	76.0	103.0	100.2	80.6
2004	92.2	68.9	49.5	81.3	112.5	134.3	123.3	94.1
Growth								
1990-95	- 0.3	1.1	0.9	-	0.9	-0.2	0.4	2.9
1995-99	- 2.0	-3.3	-4.2	-2.4	8.7	-3.9	-3.5	-7.6

Notes:

(a) The index numbers are calculated on fixed weights based on the numbers employed as at 31 December 1978. The wage rates used in the calculation of Index numbers are minimum wages for different trades fixed by the Wages Boards.

(b) The Index for Central Government employees has been revised based on the number of employees and total salaries as at 1 January 1986. The wage rates used in the calculation of Index Numbers are the initial salaries and wages in each respective scale.

(c) The Index refers to wage rates of tea growing and manufacturing, rubber growing and manufacturing, coconut, cocoa, cardamoms and pepper growing trades only.

(d) Including baking, brick and tile manufacturing, match manufacturing, biscuit and confectionary, tea export and runner export trades only.

(e) This includes cinema, motor transport and nursing home trades only.

(f) Combined index for workers in agriculture, workers I industry and commerce and services.

(g) A combined index for non-executive officers and minor employees

Sources: Central Bank of Sri Lanka, *Annual Reports* various issues.

3.5 Main Findings and Conclusions

Although the movements in the population variables have been favourable for Sri Lanka, this has not been fully translated into sectoral growth and expansion, drawing on an increasingly better-educated and mobile labour force. However, "in many ways, the recent employment experience of Sri Lanka has been a great success. The unemployment rate halved during the 1990s. In terms of international comparisons, Sri Lanka's unemployment rate at 8 per cent is below that of Chile, a much vaunted example of a high response rate of employment growth to output growth" (Richards 2001: 101).

The poor have participated in the demographic and educational changes, but they have not been adequate to improve their position in the labour market. The post-Tsunami situation is still not clear, in terms of the impact it had on the population, labour force, employment and unemployment; and how changes in these aspects, in these areas, would affect national figures; the quarterly surveys of the labour force could not be conducted during the first three quarters of 2005, due to the displacement of people.

Structural rigidities and the segmented nature of the labour market have maintained formal sector wages above market clearing levels, despite the large pool of unemployed youth. Improvements in income levels and wages can only be sustained by continuous improvements in labour productivity over time; and for the economy as a whole, it has been stagnating in the 2000-2004 period. In Sri Lanka, productivity in the agricultural sector it has been declining and in the industry and services sectors it has been fluctuating. The marginal increase in the elasticity of employment with respect to output in the industry and services sector in the 2000-2004 period indicates increased absorption of labour.

4 Growth, Employment and Poverty Reduction at the Macro Level

4.1 Introduction

Per capita real GDP growth has been fluctuating between 3 and 3.5 per cent p.a. since the 1950s and reached an average of 4 per cent in the 1990s. Despite strong growth during the first half of the 1990s, the global economic downturn and the East Asian crisis began to throw its shadow over Sri Lanka towards the end of the decade. Moreover, the country has been running unsustainable budget deficits for nearly two decades due to increased defence-related expenditure. The intensification of the war, sharply rising amortisation of official debt and a large public sector wage bill drained internal resources and reduced the country's ability to deal with external shocks, such as escalating oil prices and growth rates fell in the 2000-2004 period.

A significant part of the structural change in the economy took place during the 1990s. However, while data on output and employment is available by sector for Sri Lanka, data on investment is not. Moreover, the Northern and Eastern Provinces have been excluded from earlier poverty estimates. This chapter will therefore examine the relationship between the pattern of growth that took place over the last decade, investment, employment and trends in poverty within these data limitations.

4.2 Overall and Sectoral Growth

In 2001, the country experienced a negative growth rate for the first time after independence. A gradual recovery took place thereafter, spurred on by the Ceasefire Agreement in 2002; but the average for the 2000-2004 period was back down to 3.5 per cent (Table 4.1). Assisted by its very low population growth rates, Sri Lanka's per capita GDP had reached US$1035 in 2004.

Table 4.1: Average Annual Change in Per Capita GDP Growth, 1980-90, 1990-00, 2000-2004

	Annual Change in GDP Per Capita (%)		
	1980-90	**1990-00**	**2000-04**
In Nominal Terms	6.2	7.3	5.1
In Real Terms	2.9	4.0	3.5

Source: Department of Census & Statistics

The Ceasefire Agreement signed between the government of Sri Lanka and the Liberation Tigers of Tamil Eelam (LTTE), had a very positive impact on the GDP growth and poverty in the Northern and Eastern Provinces and (the adjacent) North Central Province (Abeyratne and Lakshman 2005). During the pre-CFA period of 1997-2001 and the post-CFA period of 2002-2003, the Northern Province's average annual GDP growth rates increased from 3.4 to 12.1 per cent; the Eastern Province's growth rates from 4.6 to 10.1 per cent; and the North Central Provinces growth rates from -0.2 to 8.2 per cent. Due to the huge disparity in the dispersion of economic activity in the country, these three provinces account for only 11-12 per cent, and the effect of these changes on national GDP growth rates may not be substantial, although undoubtedly they have made an impact on poverty in these, the poorest provinces. The Western Province, which accounts for 43-49 per cent of GDP, continued to grow at 6 per cent p.a. in both periods.

However, in general, the high-risk climate created by internal conflict has dampened foreign as well as domestic investment during the last two decades. Effective control of the second youth insurrection in the South in the early 1990s and the initiation of the structural reform agenda helped build public confidence and private domestic investment and savings started to grow from 1992 onwards.

Private savings grew steadily from 18 per cent of GDP in 1990 to 24.5 per cent in 1999 due to growing personal incomes (and falling unemployment) and higher real interest rates, but investment fluctuated between 17 to 20 per cent of GDP from 1992 for the rest of the decade. By 2004, private investment accounted for 91 per cent of total domestic investment, but had fallen to 20 per cent of GDP. Public investment declined over the decade, from 8 per cent in1990 to 6.6 per cent in 2000, increasingly constrained by the need to contain the budget deficit in the face of rising defence expenditure and debt repayments; by 2004, it had fallen further to 5.1 per cent of GDP, with dissaving of 3.8 per cent. The widening of the savings-investment gap in 2004 had to be financed through increased utilisation of foreign savings and official reserves.

Despite Sri Lanka's efforts to create a congenial investment climate over the last two decades, foreign direct investment and foreign portfolio investment remained cautious (Table 4.2). FDI accounted for just 4.5 per cent of Gross Domestic Capital Formation (GDCF) during 1990-1995 and 5.5 per cent during 1996-2002. The 11 largest privatisation transactions between 1990 and 2000 accounted for one third of the US$1791 million in FDI during this period. Joint ventures accounted for about 40 per cent of FDI by value. Portfolio investment flows became favourable after 2002, in anticipation of economic recovery after the cessation of hostilities and an improved environment for investors. A bull run started in 2003, after the successful donor conference in Tokyo and continued into 2004.

Table 4.2: Net Foreign Direct Investment Inflows as Percentage of Gross Domestic Investment

	1980 Rs. Mn.	**1990 Rs. Mn.**	**2000 Rs. Mn.**	**2004 Rs. Mn.**
Gross Domestic Investment	22,243	65,855	327,086	445,824
Net Foreign Investment	709	1,684	13,119	21,948
Total Investment	22,952	67,539	340,205	467,772
NFI as % of GDI	3.2	2.6	4.0	4.9

Source: Central Bank of Sri Lanka, Department of Census & Statistics

4.3 Production, Productivity and Employment

Significant structural change in the economy also took place during this period. Between 1990 and 2004, due to declining growth rates, agriculture's share of GDP declined from 22.9 to 14.3 per cent. Fluctuating performance in the industrial sector resulted in its share being barely maintained at around 27 per cent. However, with steady growth in the service sector, its share grew steadily from 49.8 per cent to 58.2 per cent (Table 4.3).

Table 4.3: Trends in Share of Sectoral GDP (%)

Sector	Year			
	1975=100	1990=100	1998=100	1975=100
	1980	1990	2000	1980
Agriculture	26.5	22.9	16.4	26.5
Industry	27.4	27.3	28.1	27.4
Services	46.1	49.8	55.5	46.1

Source: Department of Census & Statistics

Employment growth rates, however, showed an opposite trend; with very low rates of growth in the 1990-1995 period, accelerating to 3.2 per cent in the 1995-1999 and 3.8 per cent in the 1999-2004 period. This increase in labour absorption may be partly explained by the better identification of 'unpaid family workers' in the labour force surveys (from 1998 onwards) and the extension of the coverage of the surveys to include the Eastern (in 2003) and Northern (in 2004) Provinces.

If the data for the Northern and Eastern Provinces is included, the number employed in the agriculture was almost the same in 1990 and 2004, although its share dropped from 48 to 34 per cent of total employment. Service sector employment increased by 57 per cent, followed by increases in industrial employment of 53 per cent. The rapid growth of factory industry, trade transport personal services and related activities are the contributory activities to this upward trend.

Sri Lanka's National Accounts have been estimating output growth for the whole country (although employment and other statistics were not including the Northern and Eastern Provinces). Hence the data on productivity growth has been affected by the statistical changes in the employment figures, (in the second half of the nineties and especially in the 2003-2004 period).

Hence productivity growth overall and for all major sectors, was much higher in the first half of the nineties, due to a substantial movement of workers out of agriculture into higher growth sectors such as manufacturing and services. In the second half of the nineties, overall productivity growth halved (and turned negative in agriculture). For the decade of the nineties as a whole, real value added grew at 2.9 per cent. In the 1999-2004 period, average productivity growth fell to 0.2 per cent p.a., with negative rates for major sectors such as agriculture (-2 per cent) manufacturing (-3 per cent), trade (-3 per cent) and banking (-4 per cent). However, the output, capital ratio has been increasing since 1990.

4.4 Main Findings and Conclusions

During the nineteen nineties, growth performance was reasonable, but uneven across sectors and geographical areas; but this was not maintained in the 1999-2004 period. Agriculture, the main employer of labour, grew sluggishly due to poor performance in paddy, which was partly offset by increases in production and productivity in tea, fruits and vegetables and fishing. Manufacturing derived the greatest benefit from liberalisation, the rationalisation of the incentive structure and the improved investment climate with high and steady growth in production and productivity throughout the decade of the nineties, which halve during the 1999-2004 period. The service sector showed only moderate output growth and absorbed the labour that was moving out of agriculture into the 'freed-up' transport, communications, trade and finance activities.

Hitherto, there has been an insufficient level of investment to propel the economy onto a higher growth path. In order to reach growth rates of 7-8 per cent, Gross Domestic Investment would have to reach around 35 per cent of GDP (compared to the 25 per cent achieved in 2004). In the face of crawling domestic savings, the gap would have to be bridged by foreign savings, either official or private. The supply of official capital, as well as private transfers showed substantial increase in 2003 and 2004 and Tsunami assistance of close to US$3 billion is expected 2005 onwards. However, Sri Lanka has also been trying hard to attract larger volumes of foreign capital, but with limited success.

Growth was concentrated in the urban areas, where there was better infrastructure, especially in Colombo and Gampaha. The rural economy was left with limited diversification and income-earning opportunities in the non-farm sector. At the same time the openness of the economy and its trade dependence made it vulnerable to changes in international market prices for its exports and six main imports – oil, rice, flour, sugar, fertilizer and textiles. There was also an increasing drain on local and foreign resources due to the 17-year civil conflict. Towards the end of the decade, adverse movements on both these fronts, together with increasing budget deficits upset the precarious balance that had been established in economic terms and affected business confidence. This resulted in a slowing down of the economy during the early years of the twenty-first century.

5 Employment Intensity of Growth at the Sectoral Level

5.1 Introduction

Employment elasticity of growth is very low in Sri Lanka, averaging only 0.1 in the decades of the eighties and nineties. In the 2000 to 2004 period, it has shown some improvement, but this may be due to the inclusion of the employment data for the Northern and Eastern provinces (Table 5.1).

Table 5.1: Elasticity of Employment with respect to Output (GDP) by Sector

Country	1980-90	1990-00	2000-04	1980-90
Agriculture	0.1	-0.1	0.1	0.1
Industry	0.2	0.2	0.3	0.2
Services	0.2	0.2	0.3	0.2
Overall	0.1	0.1	0.3	0.1

Source: Estimated by Department of Census & Statistics

Poverty is mainly a rural phenomenon, partly due to the sluggish growth in agriculture and partly due to the regionally unbalanced growth that is taking place. In 2002, as much as 89 per cent of the poor were in the rural sector. Poverty rates are highest among individuals working in elementary occupations (38 per cent), agriculture forestry and fishery workers (34 per cent) and craft and related workers (25 per cent). By industry of employment, the highest poverty rates were experienced by household heads working in agriculture, forestry and fishing (40 per cent), construction (27 per cent) and manufacturing (21 per cent).

Linkages between employment, growth and investment and between employment, growth, real wages, and poverty reduction cannot be discussed due to lack of data on investment and real wages by sector.

5.2 Agriculture

Agricultural growth rates have lagged behind those of other sectors of the economy for the last two and a half decades, despite a vast array of public programmes aimed at supporting it, i.e. the provision of irrigation, subsidised fertiliser and credit, improved planting material, crop insurance and extension services, ensured minimum prices and government procurement. The average annual growth rate has remained around 2 per cent, with a sharp fall in the 2000-2004 period. Consequently, between 1980 and 2004, agriculture's share of GDP declined from 26.5 to 14.3 per cent and its share of employment fell from 45.9 to 34 per cent.

Agriculture labour productivity has been declining and had fallen to almost half the national average by 2004, i.e. Rs.69, 100 compared to Rs.134, 000. About 70 per cent of households live in the wet zone, which provides 30 per cent of the cultivable land area; as a result, operational holdings in this area are extremely small. Rain-fed cultivation and rotational and other types of tenure are widespread, possibly providing disincentives to increasing productivity. Moreover, landlessness, relatively low yields, escalating input costs and uneconomic size of holdings are significant factors in precipitating poverty.

Paddy is the largest crop (about 42 per cent of the cultivated area) in the agriculture sector and production has fluctuated between 2.6 and 2.8 million metric tons between 1995 and 2004, depending on the weather. Sri Lanka has almost reached self-sufficiency in rice and real producer prices have been declining over the last two decades. About 64 per cent of paddy holdings are less than 1 hectare (1982), although this category accounts for only 22 per cent of the land area under paddy; 87 per cent are rain fed, of low productivity and employ family labour. In 1995/96, in the paddy sector, the poor were mainly landless (79 per cent) or farmers who owned less than 1 hectare of land (11 per cent) (Gunewardena 2000).

Fertiliser use and paddy yields per hectare have been increasing from 2.9 (1980) to 4.0 tons (2004), mainly on account of larger farmers, who have assured water through irrigation and could therefore benefit from guaranteed selling prices and fertiliser subsidies (Table 5.2). The percentage of cultivated paddy land that is irrigated for both seasons has increased from 62 per cent in 1980 to 69 per cent in 2000 with large-scale investments in the Mahaweli Development Scheme, etc; the government provides free water for cultivation. However, the cost of irrigation has been escalating, making further expansion of irrigation for paddy cultivation uneconomical.

Table 5.2: Trend in Agricultural Inputs and Productivity

Fertilizer Consumption		**1980**	**1990**	**2000**	**2004**
Paddy	**Total Fertilizer used (000Mt)**	-	161	262	285
	Gross Extent (000Hec)	845	860	878	779
	Fertilizer Consumption (kg/hec)		187.47	298.41	365.85
Irrigation (% of cropped land)**					
Paddy		62.1	66.8	69.0	64.4
Average Cereal Yields (kg/hec)					
Paddy		2930	3452	3857	4080

Note: ** Percentage of irrigated area = (Total irrigated area under paddy for both seasons x 100) / Total sown area under paddy for both seasons
Source: Central Bank Report

Despite the government's efforts to diversify domestic agriculture and move cultivators on marginal lands out of paddy cultivation, non-rice crop areas decreased by 30 per cent from 1986 to 1996 and had halved again by 2004. This was mainly due to off-farm wage rates being higher than returns to family labour for all crops, except rice; rice requires less days of labour, allowing the farmer to engage in more lucrative off-farm work.

The commercialisation of the tree crop sector, however, has gathered momentum after the management of the nationalised state plantations was privatised. High yielding clones and better cultivation practices were adopted by large and smallholders. The level of profitability was restored in the organised plantation sector and smallholders began to play a prominent role, culminating in respectable growth rates for plantation crops as a whole. Although the land under tea and coconut cultivation has declined, production has increased substantially in tea and less so in coconut. Rubber production declined by 20 per cent during the 1990s and has been picking up slowly after that, as prices improved. The incidence of poverty among estate workers has increased substantially during the 1990-2002 period, possibly due to negotiated wage contracts, which do not keep up with the cost of living.

Fisheries were the fastest growing agricultural sub-sector in the 1990s (averaging 5.1 per cent p.a.) but the value of production has stagnated since then, to the detriment of the fishing communities. The development of inland fisheries has fluctuated due to inconsistent policies; and inadequate investment has hindered the rapid expansion of offshore fishing. Most of the fish production comes from coastal areas, though its contribution had declined to 60 per cent by 2004. Illegal prawn farming without adhering to environmental safety standards has resulted in heavy losses in the prawn farming industry in recent years.

The fisheries sector was almost destroyed by the Tsunami; nearly 80 per cent of active fishermen were affected and more than 75 per cent of the fishing fleet was damaged or destroyed. Ten fishing harbours were severely damaged, including breakwaters, buildings, machinery and equipment. Public and private utilities, such as ice plants, landing places, markets and housing of the fishing community were destroyed. Fishing communities are considered to be among the poorest, although they are not identified separately in the surveys conducted.

5.3 Industry

Benefiting from the liberalisation of trade and the export-oriented industrialisation policy, the industrial sector has been the fastest growing sector from 1977-1999, but has been overtaken by the services sector, thereafter. Its share of GDP has been maintained at around 27-28 per cent and in 2004, it accounted for 26.5 per cent of GDP and 21.4 per cent of employment. Labour productivity in the industrial sector is more than double that in the agriculture sector and has been steadily climbing to Rs.161, 700 per person in 2004.

The manufacturing sector maintained steady growth in production, employment and productivity in the 1980s and 1990s. In 2004, it contributed 25.7 per cent to the achieved GDP growth rate, while construction contributed 8.5 per cent and mining and quarrying 2.5 per cent. Factory industry accounted for around 59 per cent of the growth in industry in 2004 and grew at 6.1 per cent, while small industry declined by 0.6 per cent between 2003 and 2004. The third component of the manufacturing industry, i.e. tree crop processing (tea, rubber and coconut) is affected by the level of production of these crops and the vicissitudes of the weather and only managed a 1.2 per cent growth rate.

Improved productivity and competitiveness in the manufacturing sector was reflected in increases in the output: capital ratio and the output: labour ratio. In particular, exports increased at an average of about 17 per cent p.a. in dollar terms in the 1990s. Although garment exports accounted for about two thirds of total industrial exports, other industrial products, such as leather, porcelain, and wood products also became significant. However, the growth in value-added, after averaging 7 per cent p.a. in the 1990s, fell to 3.2 per cent between 1999-2004. Employment growth increased during the nineties and reached 6.5 per cent p.a. between 1999 and 2004. Food, beverages and tobacco contributed 31 per cent to industrial production, textiles, wearing apparel and leather products 39 per cent and chemicals, petroleum, rubber and plastic products 11 per cent.

The three Export Processing Zones (EPZs) and five export processing parks that have been set up have contributed substantially to export growth. The Industrial Promotion Act of 1990 encouraged decentralisation of industry and special incentives have been provided to encourage industry to go into rural areas. In particular, the 200 Garment Factory Programme was instrumental in providing employment for large numbers of young rural women and a steady source of income for families dependent on the vagaries of rain-fed agriculture. However, 78 per cent of industries are still located in the Colombo and Gampaha districts, since deficiencies in infrastructure make location close to the port/airport preferable for export-oriented industries. With the exception of a few manufacturing activities, the sector is heavily dependent on imported intermediate raw materials and inputs.

Labour intensive technologies were used in the fastest growing industrial sectors – food, beverage and tobacco and textiles and garments, with increasing labour productivity as indicated by an output: labour ratio which doubled in the 1980s, again in the 1990s and again in the 2000-2004 period. The capital: labour ratio also grew, but at a much slower pace. Sub-contracting arrangements with local food, beverage and tobacco processors and small-scale producers of industrial products would have channelled some of the benefits of this growth to the poor.

In the 1980s, soon after liberalisation, SMEs (defined as establishments employing less than 25 persons engaged in manufacturing) found it difficult to compete with imports; the annual growth rate in value-added averaged 0.7 per cent p.a. and employment contracted by 5.5 per cent p.a. There was some recovery in the 1990s, with value-added growing at 3.6 per cent p.a. and between 2000-2004, it reached 5.2 per cent p.a. Employment growth, turned positive in the 1990s and reached 2.3 per cent p.a. in the 2000-2004 period. Output: capital ratios have hardly changed since the nineties, though labour productivity is improving, as indicated by the output: labour ratio; and more capital is being employed, as indicated by the increasing capital: labour ratio.

5.4 Services

The services sector, which already accounted for 46 per cent of GDP in 1980, maintained a steady average annual growth rate of just over 5 per cent during the subsequent decades and was contributing 58 per cent to GDP by 2004. Much of the growth came from the liberalised financial sector, insurance, transport, telecommunications and the external trade sub-sectors. Most of those leaving the agricultural sector moved into these services and employment growth averaged 7 per cent p.a. in the 1990s. By 2004, services accounted for 44.5 per cent of employment and labour productivity was highest in this sector, at Rs.170, 000 per person.

Despite the gradual privatisation of the government's commercial activities, the government has continued to play a major role in the service sector, due to its ownership of a large share of the banking system, utilities, rail and bus services, port, airport, electricity generation, piped water and sanitation services, etc. and its commitment to provide free education and health services to the entire population. However, the increasing burden of the war and the repeated destruction of vital economic assets greatly restricted the funds available for public investment; and the uncertainty created discouraged private investment, leading to serious inadequacies in the coverage and quality of the infrastructure available. In fact, Gunatilaka (2005) found that consumption flows arising out of infrastructure endowments made the greatest contribution to inequality over the period 1980 to 2002.

For instance, the lack of highways linking up rural areas to different level urban centres has constrained the spread of industry to regions outside the Western Province. Markets continue to be segmented and small and medium entrepreneurs in rural areas and in the second and third tier urban centres remain isolated. Investment in coal power generating capacity has fallen behind schedule (bids were first called in 1992); this has increased the country's dependence on thermal generation and its vulnerability to oil price escalation. The growth of knowledge-based industries has been retarded by the inadequacy of the telecommunications facilities and unavailability of electricity.

5.5 Main Findings and Conclusions

The domestic food production sector has lost its growth momentum over the last 10-15 years and this has contributed to the stagnation of the rural economy. However, better prices and cultivation practices in the plantations have increased output and productivity and encouraged the increasing participation of smallholders in these crops. Fishing communities, estate workers and small farmers are the main groups experiencing poverty in the agricultural sector.

The impetus to industrialisation has been generated by three main sub-sectors: textiles and garments, food and beverages and chemicals, rubber and plastics. To meet the challenges generated by the fierce competition after the removal of the ATC (and globalisation in general), Sri Lanka will have to improve efficiency and productivity and move towards producing more technologically sophisticated and better quality products. The industry support base has to be better developed in areas such as the production of machine tools, machinery and intermediate goods, electrical, electronic and transport equipment. Sri Lanka's potential for growth in knowledge-based industries and her wide range of mineral resources also need to be exploited.

Transport, power and communications constitute the core economic infrastructure, which is vital for the operation of enterprises and act as a pull factor to attract investment, both foreign and local. The spread of communications facilities reduces the information and knowledge gaps that exist between the rural and urban areas. The economy is now experiencing the results of the low investment level in these sectors and these bottlenecks are becoming a binding constraint on growth and poverty. There is also, as mentioned above, a close correspondence between poverty and access to a road network in Sri Lanka.

6 Foreign Employment, Remittances and Poverty Reduction

6.1 Introduction

In Sri Lanka, immigration was a way of obtaining additional workers in the early part of the twentieth century; 538,842 of these workers were repatriated to India during the 1965-1993 period. Emigration first became significant with the 'brain drain' of professionals in the late 1960s and early 1970s. Korale (2004) estimated that 5,766 high-level professionals, i.e. accountants (28 per cent), engineers (27 per cent), managers (18 per cent) and others emigrated between 1995-2000. Most of them were permanent migrants, accompanied by their families; hence there was no reason to remit money regularly to Sri Lanka.

Migration for short-term employment abroad started after the liberalisation of the economy in 1977 and accelerated thereafter. In 1977, this number jumped to 5,633 (from 529 in 1976) and continued upwards to 15,093 in 1982, 172,489 in 1995 and 213,453 in 2004. These figures are probably underestimated, since up to 1995, about 50 per cent of these migrants did not register themselves with the Sri Lanka Bureau of Foreign Employment (SLBFE); there were also substantial movements of illegal and refugee migrants to Japan, Australia and Europe, on whom data is not available.

Emigration was not an intended consequence of liberalisation but the depreciation of the rupee with respect to the dollar and the lifting of restrictions on foreign travel made this option particularly attractive to low income groups. The SLBFE estimated that there were 1,003,600 Sri Lankans working abroad in 2003, 69 per cent of whom were female.

"Sri Lanka has been earning more foreign exchange from foreign employment than from all major agricultural crops since 2001. In 2003, net foreign private transfers, which are mainly worker remittances from the Middle East, accounted for 30 per cent of the national savings of the country" (Central Bank 2003:160). It has also eased unemployment and cushioned the poor against economic swings, inflation and natural disasters.

This chapter will look at the trends in foreign employment, focussing on the characteristics and behaviour of short-term migrants, to assess the extent to which the poor are benefiting from this process.

6.2 Foreign Employment

The composition of migratory flows plays a vital role in determining what impact it has on the domestic economy. The proportion of females in short-term migration, which was 47 per cent in 1979, grew to 79 per cent in 1994 and declined to 62 per cent by 2004. Between 1979 and 1995 there was also a change in the skill composition of migrants, i.e. housemaids and the unskilled increased from 39 to 66 per cent and 10 to 14 per cent respectively, while the professionals declined from 7 to 0.5 per cent, the mid-level from 9 to 4 per cent and the skilled level from 24 to 11.5 per cent. By 2003 housemaids accounted for 49 per cent, unskilled labour 21 per cent and skilled labour 23 per cent. Of the skilled category, about one third is garment and other factory workers (Table 6.1).

Table 6.1: Foreign Employment by Occupation, 2000, 2003

Type of Work	2000			2003*		
	Male	Female	Total	Male	Female	Total
Professional Level	897	38	935	1399	125	1524
Middle Level	3354	427	3781	5252	2217	7469
Clerical & Related	4828	997	5825	5312	1429	6741
Skilled	24344	12131	36475	31383	16092	47475
Semi-skilled			0			0
Unskilled	26370	9389	35759	30743	13437	44180
Domestic Help		99413	99413		101414	101414
Total	59,793	122,395	182188	74,089	134,714	208803

Note: * provisional
Source: Statistical Handbook on Migration 2003, Research Division, Sri Lanka Bureau of Foreign Employment, 61, Isipathana Mawatha, Colombo 5, Sri Lanka

Most of the women workers had not been in the labour force earlier and therefore had little impact on the local labour market; however, the growing number of migrant garment workers during the 1990s would have had some impact on the shortages of such workers experienced in Sri Lanka. On the whole, the labour market seems to have adjusted to the migration of unskilled labour, without major shortages and severe wage pressures.

On the other hand, the shortage of skilled workers in the local market has probably been aggravated and the wages of construction workers have been rising faster than other workers. However, in general, the country could not respond to the demand for skilled labourers in the construction sector, welders and drivers from abroad, especially the Middle East (Central Bank 2004). At present the country is also facing a shortage of middle-level managers, who are migrating to the West.

The oil price hike in the 1970s and subsequently, made the Middle East countries affluent and the resulting economic and construction boom attracted the greatest number of workers. In fact, the proportion going to these countries has increased from 81 per cent in 1979 to 94 per cent in 2004, despite all efforts to diversify countries of destination. Of the SAARC countries, only the Maldives and Pakistan were recipient countries and together accounted for 2,495 migrants in 2004. The only other countries of interest are Cyprus (3,123) and South Korea (1,304). Saudi Arabia, Kuwait, UAE and Qatar received 80 per cent of the migrant labour in 2004.

Most of the migrants are married (68 per cent of males and 79 per cent of females, in 1994), but go as single individuals, not family units. They are mainly (72 per cent) young adults in the age-group 20-40 years, with several years of schooling, but with no specialised skills. Since they leave during their peak reproductive period, migration may be having an effect on fertility, particularly among the low-income groups, where it is above average.

In the early years, most of the migrant workers came from the Colombo and Gampaha districts (73 per cent in 1979). However, labour migration for foreign employment has now expanded to all parts of the country and spread out from urban to rural and estate areas. The movement of women from remote areas into foreign countries has enabled them to participate in this opportunity to earn additional income and improve their living standards, despite the attendant hazards.

A study done by ILO (1988) in the mid-1980s found that the largest number of returnees had average employment duration of 13 to 24 months; between 20-25 per cent served more than one spell abroad and higher skill categories stayed longer. Dias and Weerakoon (1990) showed that these migrants, particularly women, are vulnerable to exploitation by recruiters as well as employers, as their contracts were not protected by bilateral agreements with recipient countries; irregularities included the non-payment of agreed wages, long working hours and lack of leisure, harassment and abuse. They had little access to training, child care services and advice on savings and investment; and did not acquire skills which would facilitate their upward occupational mobility when they return home.

6.3 Remittances and Poverty Reduction

Worker remittances have become the single largest inflow of foreign exchange after exports and had reached US$1564 million or 27 per cent of exports in 2004. They have stabilised the Balance of Payments, reduced the need for external borrowing and allowed greater monetary and fiscal independence. Private remittances have been contributing around 30 per cent of national savings since the 1980s.

From 2000 to 2004, the share of the Middle East remittances has been declining (from 62.9 to 55.5per cent) while the share of European countries has been increasing (from 19 to 26.5 per cent (Table 6.2). Although the numbers going to the Middle East are increasing, they are mostly unskilled workers with low rates of remuneration, while European countries pay better. However, a significant amount of worker remittances are still coming into the country through informal channels and are not included in these figures. Apart from remittances, migrants bring home a part of their foreign earnings when they return, as well as earnings converted into consumer durables and in some cases, gold.

In the mid-1980s, savings from remittances were on average over 40 per cent, but varied with the skill category. The average propensity to save out of remittances was low among the lowest income groups and high among the middle-income groups. A large part of the saving out of foreign earnings was spent in buying, constructing and repairing houses and in buying land. The price of real estate tended to rise faster than the general price level and in areas of high migration, the price rise was more marked. The bulk of the migrants who were unskilled or semi-skilled workers came from the lower income groups and these groups improved their position after migration. Few low-skilled migrants returned to their earlier employment and preferred self-employment in a non-manual capacity; but female workers returned to their earlier housewife status. Higher-skilled groups stayed abroad longer and returned to their earlier occupations (ILO 1988).

Table 6.2: Remittances Received from Foreign Employment (US$ Mn.)

Name of country from where remittances	1990	2000	2004

received			
Middle East	160.1	730	868
North America	58.2	78	105
South & Central America	-	11	15
European Union	33.7	156	286
Eastern Europe	0.1	4	7
Europe Other	7.5	59	122
South Asia	2.4	8	13
South East Asia	16.6	22	32
Far East Asia	14.4	68	76
Australia	1.7	12	23
South Africa	0.3	-	-
Other	-	12	18
Total	295.0	1,160	1,564

Source: Central Bank of Sri Lanka

Hettige (1991) found that the parents and husbands became more and more dependent on regular inward remittances for their daily subsistence; some gave up their income-generating activities. Almost every household spent money on new construction or improvement to their dwelling; but after meeting the construction costs and the basic consumption of the family, there was little left to invest in productive ventures. The returning migrant found no income source to fall back on at home; did not wish to revert to the earlier condition of poverty; and often opted to return for a further spell of employment overseas. This transformation of the woman into the sole breadwinner, in many cases, has been accompanied by social problems, misuse of money, neglect of young children and behavioural changes in husbands and children.

More recent micro studies done by the Centre for Women's Research (CENWOR 2001 2002a, 2002b) suggest that the majority of migrants were engaged in economic activities prior to migration; they were mostly in the age-group 25-44 years; about two thirds had been abroad more than once; and most returned to their former low-skilled occupations on their return, as the skills they had acquired could not be used on return. They were able to build a house only after several visits; but reintegration into family and community life did not present any problems. The initial loan taken for migration represented a heavy burden, as it was usually taken from informal sources, particularly if the migrant did not finish her term abroad. Those who went to more developed countries, such as Greece, Cyprus and Italy were better educated, better paid and had acquired substantial savings, on which they could subsist on return, without having to revert to unskilled labour.

6.4 Government Policy

The government has been actively promoting the migration of temporary contract labour. Sri Lanka is one of the few countries in Asia that has encouraged migration of women for temporary employment abroad. However, it has also not been able to discriminate between unskilled and skilled labour/professionals, despite emerging shortages in certain technical, professional and managerial areas.

The protection of migrant workers employed abroad is a major issue. Compulsory registration (and insurance) with the SLBFE was introduced in 1995 and training schemes made mandatory for housemaids in 1997. The SLBFE has also introduced a standard employment contract specifying the terms and conditions of employment and contractual obligations between the employer, employee and the agent. Procedures for registering labour contracts in receiving countries and agreements on a country-to-country basis are now being developed. Minimum wages are also stipulated and the employer is required to provide free food, accommodation, medical facilities and a return air ticket to Sri Lanka. Although the Bureau has tried to control the fees charged by recruitment agents, it has had little success. Labour attaches have been appointed to embassies in receiving countries for intervention in labour disputes and repatriation. The embassies also provide 'safe houses' for runaway domestic workers.

Unlike in the case of domestic workers, the labour laws of the receiving country, with the exception of minimum wages, apply to factory workers and it is possible to seek redress from the courts for breach of contract; but this is a tedious process. Consequently they have received less attention from the Bureau in terms of having their rights protected. For these workers, the role of the Bureau has largely been confined to registration and insurance and they are not entitled to use the Embassy 'safe houses'.

To encourage the flow of remittances, government has permitted the opening of special accounts (NRFC) in foreign exchange in commercial banks in Sri Lanka and interest is tax-free; these funds can be utilised without exchange control approval. A special loan scheme has also been provided by the two state banks for pre-migration expenses, housing and post-migration investment; the rate of interest is subsidised by the Bureau up to a certain loan limit.

CENWOR (2004b) found that only a small number had borrowed from this scheme for self-employment, since the migrant must have an NRFC account to qualify. The banks require additional collateral and this cannot be provided by poor households. Most of the borrowers were professional or skilled workers, who had migrated several times for employment, but had no previous experience in running a small enterprise. About a quarter of the enterprises, which had been started under this scheme failed and the profit margins of many others were low.

Incentives provided to encourage the return migration of talent include the provision of dual citizenship; and avoidance of double taxation, which allows returned migrants to benefit from the lower tax regime in Sri Lanka. However, no special schemes have been developed to attract funds from the professional long-term migrants.

6.5 Main Findings and Conclusions

Sri Lanka has become a labour exporting country, dependent on the foreign remittances of its workers; and is now unable to discriminate (on human rights grounds) between permanent, highly skilled migrants, whose skills are in short supply and unskilled or semi-skilled workers migrating on short-term assignments. Current policy has been designed mainly with the short-term migrant in view and more effort needs to be put into attracting the return of long-term migrants (even at retirement) and their funds. The protection of workers abroad is an area where regional cooperation among SAARC countries could yield significant results.

The policies and programmes for skilled short-term migrants also need to be strengthened, if Sri Lanka hopes to upgrade the skill levels of its overseas workforce and the level of their remittances. At present they are neglected in terms of policy, as well as receiving unequal treatment in terms of welfare measures.

Assuming that each migrant worker is supporting a family of five, their remittances would be assisting about 5 million people or 25 per cent of the total population, by adding about Rs.2, 600 to their per capita monthly income. This should put the migrant workers' families well above the official monthly per capita poverty line, which was Rs.1, 526 in May 2004. Migrant remittances have in fact pushed households over the poverty line, as borne out by the fact that domestic and foreign transfers played a very small part in the total income of the poor in 1995/96, i.e. 2 per cent, but were more important for the non-poor (4 per cent); but the potential to get out of poverty has been realised only with enormous difficulty, and usually after several visits.

Loans from informal sources play a significant part in the initial indebtedness of the worker and tilt the scales against successful completion of the migration process. If the worker is unable to complete her contract, this leads to even greater impoverishment. Hence, banks should play a greater role in financing pre-migration expenses.

The post-migration phase also needs to receive more attention from the state and NGOs. Agencies involved in SME development should cooperate with the banks and the Bureau to provide the extension services and technical and managerial support needed for first-time small entrepreneurs who are return migrants. In particular for women, the years spent abroad have increased their self-confidence and decision-making powers within the family. These traits could have a positive impact on post-migration economic experience, provided appropriate support is given to them.

7 Poverty Alleviation and Employment, Economic Policies/Strategies

7.1 Introduction

Sri Lanka is using a two-pronged approach to deal with the twin problems of poverty and employment. On the one hand, policy makers are looking to the process of economic growth to generate employment and incomes, which will reduce poverty. On the other hand, special programmes have been developed to generate employment and reduce poverty.

Although Sri Lanka has made significant progress in improving the human capacity of its population and providing for their basic needs, two areas where there has not been sufficient progress in the past are the reduction of poverty and the related sphere of malnutrition. Poverty reduction has been inadequate, partly due to slow economic growth, inadequate investment and increasing inequality.

The performance of the poor on the economic front has been less remarkable. They experience difficulty in translating their improved human development into economically remunerative employment and incomes. Moreover, they are not a group with homogeneous entrepreneurial ability. Only a small minority can be categorised as the 'enterprising poor', while the majority are simply 'coping' with their situation. Minority groups may be moving in and out of poverty, or becoming 'ultra-poor'. While the effectiveness of the current safety-net programmes should be improved, they are unlikely to propel the poor into an upward spiral that takes them out of poverty.

Current development strategy seeks to consolidate the positive elements of past policies, while reinforcing areas of weakness. It is premised on pro-poor, pro-growth income improvement and redistribution policies, with the complementary participation of a socially responsible private sector and a strong public sector. A 6-7 per cent growth in GDP is targeted, based on efforts to raise investment to 35 per cent of GDP. This growth is to be regionally balanced and will involve substantial investment in infrastructure. The poor are to be mobilised by building their capacity through private and public organisations, the reorientation and improvement of public sector delivery mechanisms, the effective targeting of public assistance programmes and the expansion of employment and income generating opportunities (Ministry of Finance and Planning 2005).

This chapter will set out the strategies and programmes which are to form the basis of future development based on 'Sri Lanka New Development Strategy: Framework for Economic Growth and Poverty Reduction' (Ministry of Finance and Planning 2005). Some best practices in terms of employment-mediated poverty alleviation are described at the end of this chapter.

7.2 Review of Macro-economic and Sectoral Policies in Sri Lanka

The central focus of the pro-poor growth strategy is to create employment opportunities, increase the productivity of those already in employment and remove the obstacles to moving out of poverty, particularly in the rural areas. Inadequate infrastructure has been recognised as seriously impeding poverty reduction and rural development and contributing to the unequal distribution of development.

Public investment is to be increased to 8 per cent of GDP by 2008, with most of it going into the infrastructure sectors at national and provincial level:

- The maintenance and rehabilitation of the existing road network as well as the construction of the Colombo-Katunayake and Southern Highways;
- Restructuring of state bus companies to operate efficiently and in competition with the private sector;
- Upgrading of rail services, including a new express link to the airport and facilities for the transport of fuel and containers and the provision of fast monorail services;
- Increasing access to safe drinking water and sanitation in line with MDG targets;
- Increasing access of the population to electricity to 80 per cent and initiating new hydro and coal power projects to reduce the unit cost of electricity; and
- Developing the port and the airport services to provide an air-sea hub and logistics centre for the region.

7.3 Employment Generation and Poverty Reduction Strategies

In the agriculture sector, improvement in productivity is being emphasised, (particularly in food production) and the removal of existing policy and regulatory constraints, i.e. poor farming practices, fragmentation of land holdings, inefficient use of water, lack of credit, quarantine constraints on import of good planting material. Better technology, marketing, storage and transport need to be introduced.

In the industrial sector, there has to be a shift towards high value-added, domestic resource-based production activities. Sri Lanka is looking to Foreign Direct Investment to provide capital and improved technology; but at present it only comes to 1-2 per cent of GDP and accounts for less than 10 per cent of the country's aggregate investment (28 per cent of GDP).

Substantial investment has also to be made in the war torn Northeast and the Tsunami-affected areas. Funding available for the Northeast is US$500 million, while US$3 billion has been pledged for the Tsunami-affected areas (including the Northeast). Rebuilding of damaged infrastructure and restoration of health and education services and livelihoods has been given highest priority. However, it is recognised that the institution of appropriate funding arrangements and sequencing of implementation is necessary in order to maintain price stability, debt sustainability and external stability.

As part of the strategy to bring about more equitable regional development, the needs of the plantation community also have to be addressed. At present their health, education and living standards are well below the national average; and high levels of alcoholism are also deemed to be affecting productivity.

Sri Lanka will institute health, environment, labour and safety standards, which comply with the best international practices. A modern legal framework governing industrial relations is to be developed to promote harmonious industrial relations, attract quality investment, create higher value jobs, promote productivity growth and improve corporate governance. The regulatory framework in the banking, insurance and financial services sector needs to be further strengthened to foster competition; encourage financial institutions to invest more in the production sectors and reduce their interest rate spreads.

The National Poverty Reduction and Growth Strategy, which evolved during 2004 and 2005 focuses on creating pro-poor growth by:

- Involving the poor in productive economic activities;
- Satisfying their basic needs, meeting/overtaking the MDGs and bringing about a holistic improvement in the life of the poor;
- Minimising the sharp regional disparities in wealth creation and poverty;
- Reforming existing poverty alleviation projects/programmes; and
- Ensuring a net transfer of resources to the poor

The poor have participated in the demographic transition and improved their educational levels and living standards, assisted by various safety-net programmes and the free education and health services provided by the state. Human asset development through better quality education and vocational training, technology transfer and entrepreneur development is currently considered to be the way forward for all groups. The education sector has to play a vital role in creating a productive workforce possessing relevant capacities and skills. Curricula, textbook and teaching reforms, as well as the provision of additional facilities, such as IT infrastructure and laboratories are to be given emphasis in the school system. The introduction of competency-based training into all technical and vocational training courses will upgrade the quality of output up to international standards.

The Divisional Secretary is to be the pivot for initiating and coordinating poverty reduction activities at the local level and in mobilising the active participation of the poor. Planning, coordination, monitoring and evaluation of the divisional programme will be carried out in consultation with the people's representatives and government officers.

Several major programmes have been developed to improve the asset-base and the purchasing power of the poor, such as the Janasaviya programme and its successor, Samurdhi. The Samurdhi programme, with an expenditure of nearly 1 per cent of GDP and a beneficiary group of almost 2 million households, is the largest. It has three main components (1) Income transfers which provide consumption support and a compulsory insurance scheme to deal with expenditures related to marriages, deaths, etc. (2) Community development investment in economic and social infrastructure, agriculture nutrition and small enterprises. (3) Compulsory and voluntary savings schemes, which fund financial institutions (Samurdhi Banks) and a variety of lending programmes. A wide range of other programmes has also been operating with poverty alleviation objectives. Small-scale rural infrastructure development, tank rehabilitation and agricultural development have been promoted through special programmes, as well as line ministries.

The Samurdhi programme is being reformed to fit into the above framework. Social mobilisation will be promoted as the key to empowering the poor and releasing their creativity, knowledge and energy to create pro-poor growth at the base of the society. The best organised and aware poor persons, who are ready to 'take-off' via bankable projects, will be put on a 'fast track' and given enhanced credit facilities under the Suwahas Jana Pubuduwa programme.

Social mobilisation and conscientisation of the poor will be one of the main thrusts of the new strategy. This will make the poor aware of the causes of their poverty and empower them to access the opportunities and resources meant for them. Different options will be made available (as packages) for individuals and groups. This strategy would enable poor families make their own development choices, based on personal priorities and needs. The choices are to be made by groups of the poor, interactively and in the open, but facilitated by the bureaucracy.

The divisional level apex organisation of Samurdhi recipients called the Samurdhi Maha Sangam is to have a dynamic new role, i.e. the planning, implementation, monitoring and evaluation of the divisional level programme; the marketing of produce; watching over the savings and credit dealings of the community; and negotiating on behalf of the poor with outside partners. Complementary rural programmes will support the core Samurdhi programme and benefit from the synergies generated.

The development policies of the newly elected government are based on the 'Mahinda Chintana', which contains the vision of the government towards promoting peace, equity and growth. The policy emphasises the diversion of additional resources to economically backward areas, especially the 119 poorest Divisional Secretariat divisions, through various projects and programmes. It also proposes to improve infrastructural facilities in remote rural regions of the country. It further emphasises the improved coordination of the implementation of development programmes and including community participation.

Further, it plans to improve the current nutrition programme that focuses on improving the nutrition levels of pregnant and lactating mothers, who are unable to afford nutritious meals. This strategy is aimed towards addressing problems related to protein and energy deficiencies. The policy also aims to improve family income to exceed Rs. 5,000 per month (equivalent to US$50) through various projects, increase the Samurdhi subsidy by 50 percent and increase the social security assistance.

The village up-liftman programme through the 'Gama Naguma' initiative is another programme under the 'Mahinda Chintana', that will establish 'Jana Sabha' (People's Village Councils) comprising religious leaders, village organisation members, Pradeshiya Sabha representatives and public servants (Mahinda Chintana 2005).

7.4 Sri Lankan Best Practices

The dependency mentality, discrimination against women and children, top down planning for village development by those who are not sensitive to village realities, lack of investments within the rural economy in productive ventures and poor social mobilisation are among the major elements contributing to poverty in Sri Lanka. The following projects were designed to address these issues and remove the obstacles to poverty alleviation in rural communities and have been identified as the most successful ones.

7.4.1 The Community Development & Livelihood Development Project, 'Gamidiriya'

This project commenced in 2004, with assistance from the World Bank, based on an innovative strategy for alleviating rural poverty, using the Community Driven Development (CDD) approach. The objectives of this project are to empower the village communities by:

- Transferring decision-making power and control over resources to them;
- Building their ability to engage in participatory appraisal, priority setting, planning, management of implementation, monitoring and evaluation of their programmes;
- Enabling them to negotiate access to resources and services from the various service providers in a transparent and accountable and cost-effective manner;
- Building accountable and demand-responsive local government; and
- Linking village communities with the organised private sector and local level development partners.

A pilot project was initiated in 2000 to test the institutional model developed in three villages. It demonstrated that these communities could articulate their needs and priorities and take responsibility for implementing and monitoring their village development. The pilot is now testing the second stage of institutional development, i.e. the federation of village organisations and the building of partnerships with the private sector. The project villages adopted an ethical framework of 10 golden rules as non-negotiable principles ensuring participation, inclusion, transparency, accountability, unity, trust and community contribution.

The model developed was further pilot-tested in 24 villages in twelve Divisional Secretariat Divisions in Badulla, Hambantota and Moneragala districts. As in the initial three villages, these village communities also made use of the facilitation services provided to set up 24 Peoples Companies under the Companies Act. People contribute 10 per cent in cash and 20 per cent in labour for all infrastructure projects and undertake maintenance.

The first phase of the program is to be implemented in 2005 in 143 villages in six districts, i.e. Badulla and Moneragala districts in the Uva Province, Galle, Hambantota and Matara districts in the Southern Province and Ratnapura district in the Sabaragamuwa Province. It will expand to cover about 1000 villages in 510 Grama Niladhari Divisions by 2008. Thirty-two village communities have registered their organisations as Peoples' Companies under the Companies Act. More than 50 per cent of the decision-making positions on the Boards of Directors, social audit committees, financial committees, procurement committees and village savings and investment committees are held by women.

Twenty-one village companies have already accessed funds for implementing their village development plans amounting to Rs.28.8 million through direct funding during the past four months. The communities take the resource management decisions. More than 650 small groups have already saved over Rs.1 million, forming their own savings and investment organisations to invest within the village economy. More than 3,000 families are engaged in planning for livelihood development to access the livelihood development funds. Training and capacity building have been undertaken through three capacity building agencies and ten village support organisations. They are at work in the field.

7.4.2 Gam Pubudu Programme

The objective of this programme is to improve rural infrastructure facilities through community participation. This year's target is to implement 12,988 rural infrastructure development projects in 22 districts with community participation, which include 684 drinking water projects, construction or improvement of 865 community wells, improvement of 6217 rural roads and payments, around 3000 small bridges, improvement or development of canals (352), side walls (835), 83 environment related projects and 462 other projects. Nearly 1.4 million families would benefit from these projects.

7.4.3 Jana Pubudu Programme

The main objective of this project is to expand income generation activities and to raise the income of the poor above the national poverty line. This project provides the venture capital needed for the poor to commence income generation activities.

The last year's target was to release 30,000 investment loans, especially for Samurdhi beneficiaries, in order to start small-scale industrial, enterprises, services, etc. Around 100,000 investment loans are expected to be initiated this year to commence income generation activities in agriculture, animal husbandry, fisheries marketing and other special projects.

In general, commercial banks charge very high interest rates, and impose several conditions that have to be fulfilled before obtaining a loan. In the Samurdhi Janapubudu Programme, the only condition is that they have to be a member of a "small savings group" to get an investment loan.

7.4.4 Labour Intensive People's Projects

The objective of this project is to develop and maintain agriculture infrastructure facilities in rural areas, in order to reduce rural poverty through enhancement of rural agriculture. The Samurdhi beneficiaries and rural community-based organisations are mobilised for the above construction work. Around 55 per cent of the project costs have been paid for their labour, which is an additional income for poor families to maintain their existing living standards.

Under this programme nearly 570 rural infrastructure facilities in 21 districts have been improved in 2004, namely renovation of 60 small tanks, 366 minor irrigation schemes, construction of 103 agro wells, 14 lift irrigation schemes, and 26 other projects.

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Annex 1: Provinces and Districts of Sri Lanka

Provinces	***Districts***
Central	Kandy, Matale, Nuwara Eliya
Eastern	Ampara, Batticaloa, Trincomalee, Vavuniya
North-Central	Anuradhapura, Polonnaruwa
Northern	Jaffna, Killinochchi, Mannar, Mullaitivu
North-western	Kurunegala, Puttalam
Sabaragamuwa	Kegalle, Ratnapura
Southern	Galle, Hambantota, Matara
Uva	Badulla, Moneragala
Western	Colombo, Gampaha, Kalutara

ANNEX 2: COMPUTATION OF THE NATIONAL POVERTY LINE

To obtain the official national poverty line, the Department of Census and Statistics calculated the average calorie requirement per capita per day for 2002 (derived by using the minimum daily calorie requirement stipulated by the Medical Research Institute). This was applied to the average cost per calorie of the households in the 2nd, 3rd and 4th deciles to obtain the food poverty line.

The non-food component was calculated by averaging upper and lower bound estimates, where

- The lower bound is the median per capita non- food expenditure of households, whose per capita expenditure is close to the food poverty line (+ or- 10 percent).
- The upper bound is the median per capita non-food expenditure of households whose per capita food expenditure is close to the food poverty line (+or- 10 percent).

The official poverty line derived for 2002 was then deflated by the Colombo Consumer Price index to derive the official poverty line for previous years and the Sri Lanka Consumer Price Index was used for subsequent years. District poverty lines were estimated by constructing spatial price indices(as Laspeyeres' indices), using the implicit prices of food items from the household surveys for the reference group of households belonging to the 2nd-4th deciles of nominal household consumption.