

PART II

ANNEXES

Annex 1: The PRS Stakeholder Consultation Process

Date/Venue	Participants	Topic of Consultation
May 1998	Steering Committee Technical Team, Consultative Committee	Working Groups Formed to Identify Key Topics for the Poverty Framework
February 1999	Steering Committee, Consultative Committee, Technical Team, World Bank,	Technical Reports Provided to the Poverty Framework Formulation Team, with feedback from the Expert Advisory Group
October 1999	Steering Committee Secretaries from Ministries, Consultative Committee Technical Team	Technical Reports provided by Experts from Central Bank, Census and Statistics, Samurdhi, World Bank and others, with review of a first draft of the Poverty Framework
May 2000	35 Leading NGO and CBO Representatives, hosted at the Ministry of Samurdhi and Sports Affairs	Discussion and Feedback Provided on the Second Draft of the Poverty Framework. Discussion focused on issues most relevant to NGOs and CBOs.
May 2000	Senior Government Officials, Steering Committee Members and Major Donor Representatives	Two day review to discuss and obtain final inputs into the Poverty Framework from expert stakeholders and steering committee members.
December 2000, Development Forum	Government Leaders and Major Donor Representatives	Poverty Framework Presented by President and discussed at high-level donor consultations.
October 2001, UNDP NGO Meeting,	Representatives of two largest NGO/CBO networks representing 150 organizations.	Consultations organized to provide civil society input into the identification of major actions for the PRSP.
November 2001	Technical Advisory Team and Steering Committee	Retreat held to discuss and obtain expert, stakeholder feedback on the first draft of the PRS.
February and March 2002	Meetings with small groups representing NGOs/CBOs, Private Sector and Agri-business councils	Specific consultations with key people in those sectors on the PRS draft
April 2002	Technical Advisory Team, Donor Representatives and Steering Committee	Retreat held to obtain stakeholder feedback and senior policy maker inputs into the draft PRS
May 2002	NGOs/CBOs	Retreat held to obtain the views of representatives of NGOs/CBOs on the draft PRS
June 2002	Development Forum	To present to donors the strategies laid out in the PRS in order to get their support for prioritized activities
February - September 2002	Private sector representatives, research organizations, NGOs, government agencies	Detailed action plans prepared for ERP/PRS
November 2002	Government agencies, ILO, employment groups, trade unions	Review and discussion of PRS

Annex 2: Poverty in Sri Lanka: An Assessment

Sri Lanka's human development index is by far the highest in South Asia and exceeds that of some wealthier countries. This level of human development has been achieved through the provision of universal access to health and education and continued investment in the social sectors. Economic development, however, has lagged consistently behind social development. Moreover, it appears to have largely bypassed the rural areas, where about 80 percent of the population reside.

I. A Poverty Profile

In the past, poverty was viewed primarily as a problem of economic insufficiency, but its meaning has now been broadened to encompass material deprivation, human deprivation, including low achievements in education and health, vulnerability, voicelessness, powerlessness and exposure to risk. Thus, in attempting to solve the problem of poverty in its totality, we have to consider not only the economic dimension, but also the social, cultural and political dimensions.

While it is recognized that the nature and causes of poverty are multidimensional, the most widely used macro-indicator of resource deprivation is that of income or consumption poverty, which is based on the distribution of income or expenditure. In this respect, there are two types of standards, the absolute and the relative. The former involves calculating a poverty line and defining those falling below that line as poor. In the latter case, the lowest segment of the income or expenditure distribution is defined as the poverty group.¹ Both measures provide valuable information.

a) Poverty Levels in the 1990s

Three household consumption surveys covering the entire nation, except the North and East (i.e., the conflict areas) were undertaken during the 1990s—two by the Department of Census and Statistics (DCS), entitled **Household Income and Expenditure Surveys** (HIES), and one by the Central Bank (CB), entitled **Consumer Finance and Socio-Economic Survey** (CFSES). All three defined the poverty line in terms of the estimated cost (per capita) of a minimum food and non-food consumption bundle. The DCS used a lower poverty line of Rs. 791 and a 20 percent higher poverty line of Rs. 950 while the CB used a lower poverty line of Rs. 860 and a 20 percent higher poverty line of Rs. 1,032 per person per month, to estimate the incidence of consumption poverty.

Annex 2, Table 1 shows how the head counts index behaved during the 1990s. The DCS data suggest that absolute poverty increased significantly between 1990/91 and 1995/96, i.e., from 33 to 39 percent according to the higher poverty line, and from 20 to 25 percent, according to the lower poverty line. It is important to note that weather conditions in 1990/91 were normal, whereas in 1995/96 they were abnormal. The 1995/96 drought was severe and led to acute hunger in many areas. This may have caused a sharp increase in the poverty level in the mid-1990s.

The 1996/97 CB estimated the head count index at 19 percent according to the lower poverty line, and at 31 percent according to the higher poverty line. Since the DCS and CB survey findings are not strictly comparable, it is not possible to determine whether the consumption poverty level increased or decreased in the 1990s. It is reasonable to conclude, however, that it remained more or less constant in the first half of the 1990s.²

Due to problems with data collection, the conflict areas were excluded from the above surveys. Hence, the picture is incomplete. It is likely that if these areas had also been surveyed, both the DCS and CB

¹ One can also measure the severity and intensity of income poverty using the poverty gap and squared poverty gap. As these measures have remained relatively stable over the last decade, they are not discussed separately in this text.

² If for reasons given above, the CB survey data are excluded from the analysis, we would have to conclude that there was a substantial rise in the consumption poverty level during the first half of the nineties and make no further inferences.

researchers would have come up with higher estimates of poverty incidence, considering that around 600,000 persons have been displaced by the armed conflict.³

Use of a higher poverty line implies a significantly higher level of poverty than does use of a lower poverty line. It is reasonable to assume that the majority of those living below the lower poverty line are victims of chronic (or long term) poverty, while those living in the income band between the lower and higher poverty lines are vulnerable to transitory (or short term) poverty. The 1995/96 DCS survey suggests that long term poverty affects around 25 percent of the population and that chronic and transitory poverty combined affects around 40 percent of the population, at any given time.

Other evidence also suggests that vulnerability affects a sizeable proportion of the poor. If a dollar a day is used as the poverty line (adjusted for purchasing power parity), only around 7 percent of the Sri Lankan population was poor. But when the poverty line is increased to \$2 a day, the poverty level increased to over 45 percent. The bulk of the rural population is engaged in such activities as small-scale agriculture and coastal fishing, which are greatly influenced by seasonal factors (rainfall, prices, pests and diseases). In a "normal" year this can provide a steady income stream whereas an "abnormal" year can produce disastrous results.

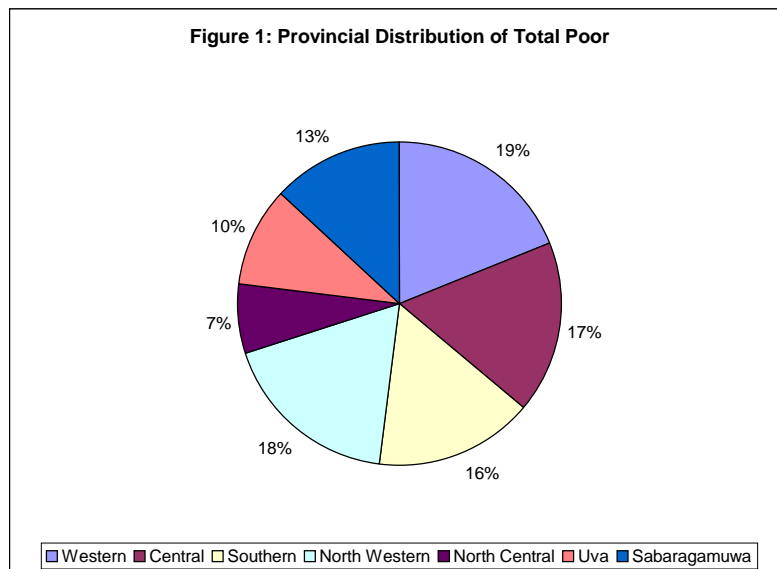
Despite this vulnerability, in countries experiencing steady growth of real per capita incomes, widely shared, the trend is for the absolute poverty level to decrease over time. But in the Sri Lanka case, even though per capita GDP growth averaged nearly 4 percent per annum during the 1990s, the expected decline in the poverty level did not occur. This suggests that growth strategies pursued during the past decade have not been sufficiently broad-based and that the bulk of the poor have failed to enter the mainstream of economic development.

b) Poverty by Province and Extent of Urbanization

Annex 2, Table 2 shows that the incidence of consumption poverty (head count index) varies significantly across provincial boundaries, with Uva, North Western and North Central Provinces having a significantly higher poverty level than the other Provinces. The highest incidence is in Uva Province (55 percent) and the lowest, in Western Province (23 percent). On the other hand, as Figure 1 shows, the Western Province has the largest share of the total poor (19 percent). Income inequality, however, within Provinces is relatively low (Annex 2, Table 3).

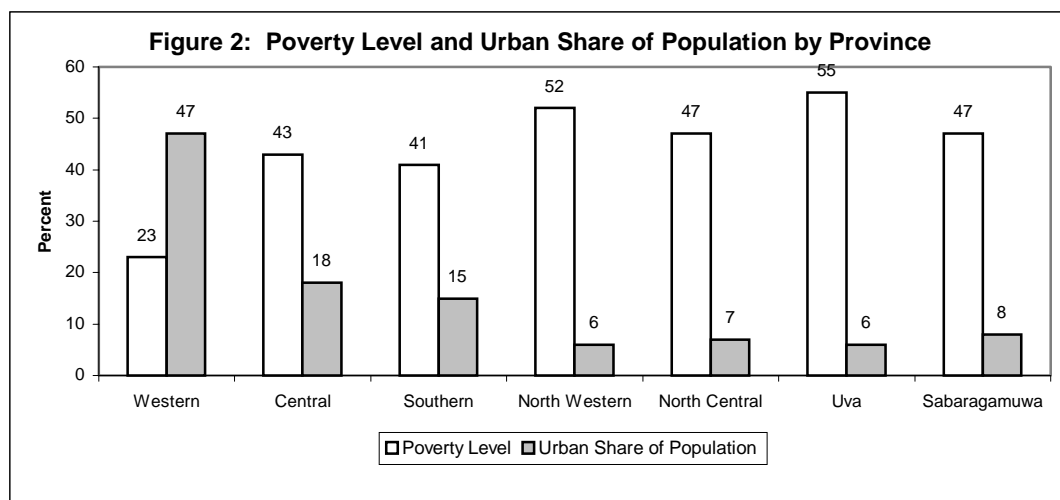
³ See United nations (2000), Sri Lanka: *Common Country Assessment*.

On the other hand, the 1999/2000 Sri Lanka Integrated Survey (SLIS) found that due to the safety net provided by foreign remittances and labor income from abroad, the level of per capita consumption in Northeast Province is higher than that of many other Provinces in the island (World Bank, Sri Lanka Poverty Assessment). This finding, however, should be treated with caution as the survey did not use a random sample in the North and East (unlike in the other Provinces), due to problems encountered with data collection. Moreover, it excluded the uncleared areas and the welfare centers, which house close to 200,000 internally displaced persons (IDPs). While highlighting the role that foreign remittances are playing in alleviating poverty in the North and East, the above report states with firm conviction that in the conflict-affected areas, the extent of material deprivation and human suffering is highest.



Source: Household Income and Expenditure Survey 1995/96, Department of Census and Statistics.

The more urbanized the Province, the lower the poverty level. The Western and Southern Provinces are the most urbanized but they have the lowest poverty levels. Conversely, the Uva and North Western Provinces are the least urbanized but they have the highest poverty levels (see Figure 2).



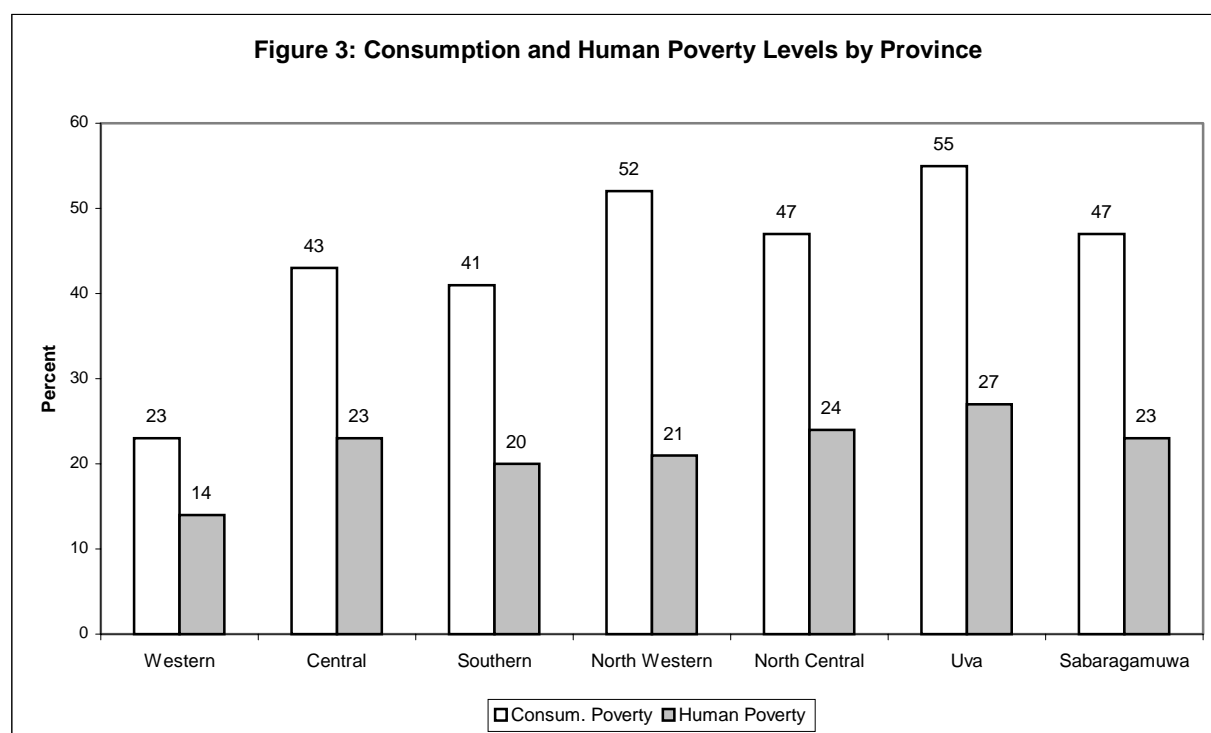
Source: Household Income and Expenditure Survey 1995/96, Department of Census and Statistics; Population Census 1981, Department of Census and Statistics.

Rural households who earn a higher proportion of their total income from non-farm employment are wealthier than those who earn a higher proportion of their total income from agriculture (Annex 2, Table 4). Areas that, over time, have become urbanized or semi-urbanized are more affluent than those that have remained predominantly rural.

Figure 3 compares the consumption poverty level with the human poverty index (HPI). The latter is a composite index of deprivation measured in terms of selected social indicators.⁴ The lower the HPI, the better off the district in terms of social development.

⁴ UNDP (1998), Sri Lanka: *National Human Development Report*. Indicators used included the following: Survival deprivation (the proportion of population dying before age 40); deprivation in knowledge, as measured by the proportion of adults who are illiterate, and the combined primary (grades 1-5) and junior secondary (grades 6-9) education non-enrolment rate; deprivation in access to safe drinking water; deprivation in access to safe sanitation; deprivation in access to adequate basic health care, as measured by the proportion of child births outside formal medical institutions, the proportion of children who do not receive

Both indices are lowest in the Western and Southern Provinces. While they don't exactly match in the other Provinces, they are significantly higher than in the West. This suggests that it is possible to reduce the level of human deprivation despite a relatively high level of income deprivation through the provision of basic social services, safe drinking water, safe sanitation, and immunization services.



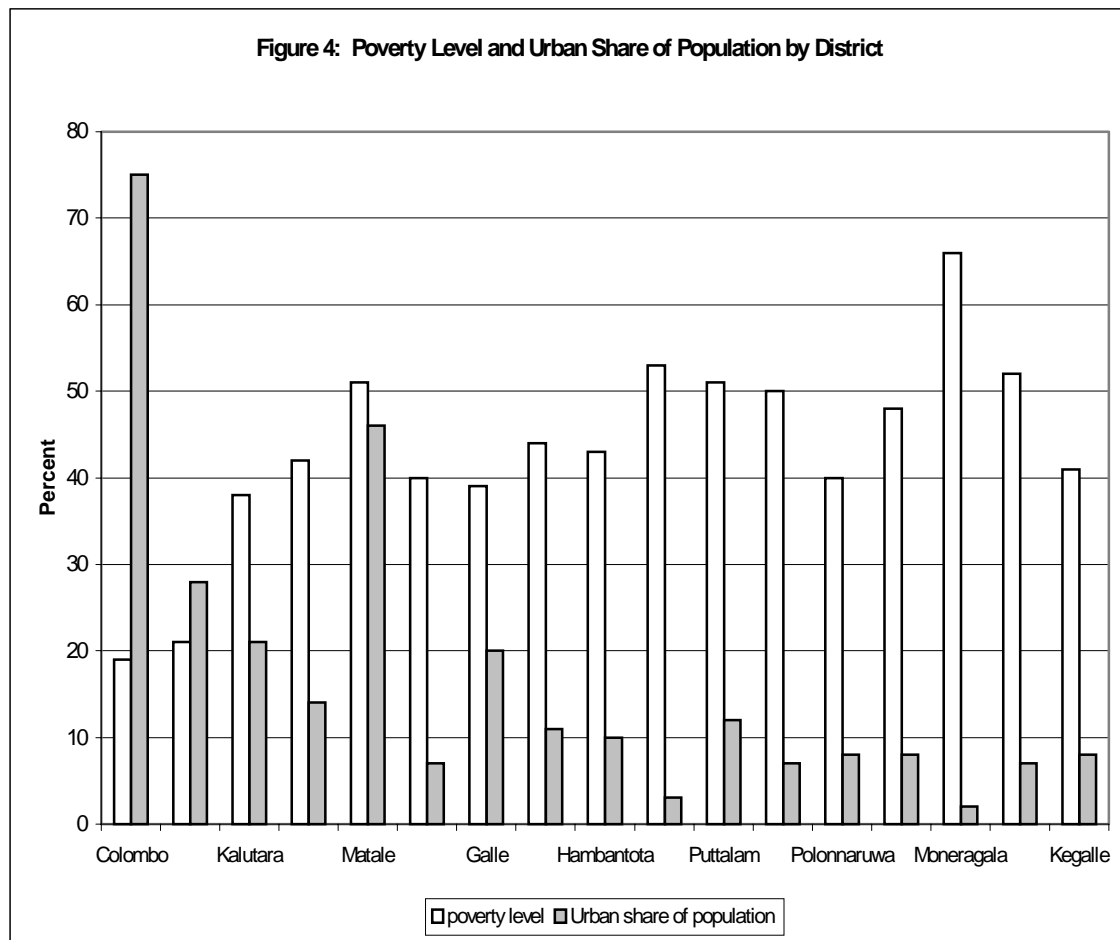
Source: Household Income and Expenditure Survey 1995/96, Department of Census and Statistics; Sri Lanka National Human Development Report 1998, UNDP.

c) Poverty by District

The districts also show the same inverse relationship between the extent of poverty and the degree of urbanization that the Provinces show (Figure 4). Colombo has the lowest incidence of consumption poverty (19 percent) and the highest rate of urbanization (74 percent), while Moneragala has the highest incidence of consumption poverty (66 percent) and the lowest rate of urbanization (2 percent). Kurunegala, Ratnapura, Puttalam, and Anuradhapura also have a high poverty level and a low rate of urbanization. The relationship between the consumption poverty level and the human poverty index at the district level (Figure 5) is similar to that which exists at the provincial level. The three adjacent districts comprising Western Province (Colombo, Gampaha and Kalutara) have the lowest consumption poverty level as well as the lowest HPI.

Annex 2, Table 5 combines the consumption poverty index and the human poverty index and ranks the districts in terms of the combined score. The overall ranking shows that the five most impoverished districts are Moneragala, Ratnapura, Badulla, Kurunegala and Matale. Large pockets of poverty exist in all three zones: dry (Moneragala, Kurunegala), wet (Ratnapura) and intermediate (Matale, Badulla).

immunization coverage in B.C.G; diphtheria, pertussis and tetanus, polio, and measles, and the proportion of pregnant women not immunized with tetanus toxoid vaccine; and deprivation in access to electric power and energy.



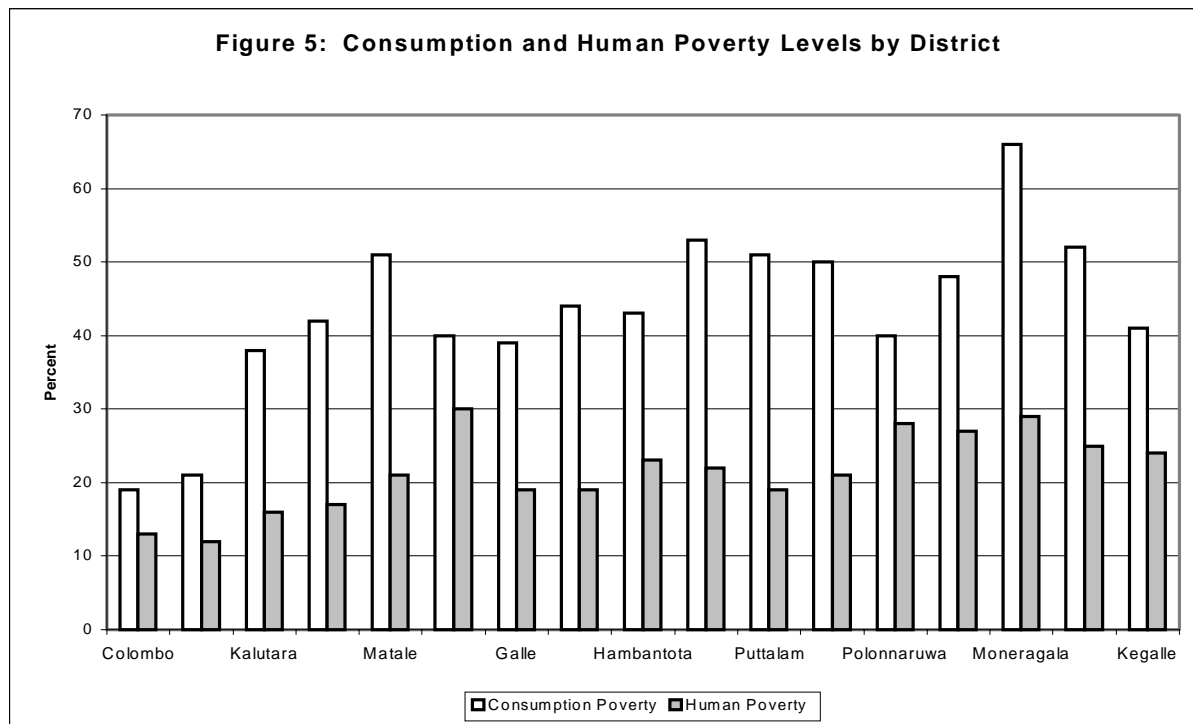
Source: Household Income and Expenditure Survey 1995/96, Department of Census and Statistics Population Census 1981, Department of Census and Statistics

d) Poverty by Sector

Poverty in Sri Lanka is a distinctly rural phenomenon.⁵ According to the 1995/96 DCS survey, 88 percent of the total poor (i.e., those falling below the poverty line) reside in the rural areas, compared with 8 percent in the urban areas and 4 percent in the estate areas.

If a higher poverty line is used, poverty incidence is highest in the estate areas (Annex 2, Table 6). A shift from the lower to the higher poverty line is accompanied by a substantial rise in the poverty level in all three sectors, the most pronounced being in the estate sector (25 to 45 percent). This would suggest that “borderline” poverty is a significant problem in all three sectors, with the estate sector showing the highest level of vulnerability.

⁵ Estimates of rural and urban poverty should be interpreted with caution as rural and urban boundaries were re-defined in the early nineties, with the result that the area under town councils, which was earlier classified as urban, is now classified as rural. Due to this change, a larger share of the population is classified as rural while a correspondingly smaller share of the population is classified as urban. We should keep this fact in mind when comparing the incidence of poverty across sectors.



Source: Household Income and Expenditure Survey 1995/96, Department of Census and Statistics; Sri Lanka National Human Development Report 1998, UNDP.

The level of human poverty is highest in the estate sector as well, given that in terms of social indicators, such as access to safe sanitation, safe drinking water, safe cooking fuel and electricity, it is the least developed of the three sectors (Annex 2, Table 7). However, the Estate Community does have reasonably stable employment, free housing (although of poor quality) and access to basic health facilities. A recent World Bank Study concluded that even though estate households account for only 4 percent of all poor households, they are among the poorest in Sri Lanka.⁶ The 2000 Demographic and Health Survey (Department of Census and Statistics) revealed that in terms of selected health indicators as well, the estate sector is more deprived than the other sectors. For instance, full immunization coverage for children under five with a health card is 71 percent in the estate sector, compared with 82 percent in the urban sector (excluding Colombo); and 81 percent in the rural sector and the percentage of children under five (3-59 months) suffering from underweight is 44 percent in the estate sector, compared with 21 percent in the urban sector (excluding Metro Colombo) and 31 percent in the rural sector.

About 43 percent of principal income earners in poor households are employed in agriculture. Sluggish agricultural growth in the 1990s (i.e., less than 2 percent per annum) certainly contributed to keeping poverty in the rural and estate areas at relatively high levels.

The available evidence shows that the bulk of the poor comprise: a) workers and self-employed individuals living in remote, isolated areas, which lack basic infrastructure facilities, including electricity and access roads; b) landless workers engaged in occupations that have low wage rates and irregular employment, such as agriculture, mining and quarrying, construction, petty trade, and informal sector work; c) farmers cultivating low-value crops, especially paddy, on very small holdings; d) plantation workers; e) workers in the fisheries and livestock sectors, which are experiencing low or declining growth rates; f) squatter settlers cultivating marginal rainfed or irrigated lands, especially in frontier areas; g) workers in cottage or small industries that cater to low-income markets and have low wage rates; h) petty traders and small businessman providing low-value services to low-income consumers; i) individual craftsmen, such as masons and carpenters, who do not have regular work and tend to lapse into

⁶ World Bank (2001), *Sri Lanka Poverty Assessment* (draft).

poverty during slack periods;⁷ j) internally displaced persons in both cleared and uncleared areas of the war zone; k) low-income urban and slum shanty dwellers; l) social outcasts from minority "depressed" castes; and m) pensioners who are entering the poverty group in increasing numbers due to the inability to maintain pensions in real terms.

e) Poverty and Child Labor

Children are more affected by the poverty of their families than any other segment of the population. A recent study estimated that out of a total of 4,344,770 children in the age group 5-17 years, 926,037 (21 percent) are engaged in some form of economic activity.⁸ Some 52 percent of child workers are below 15 years of age. 62 percent of all child workers are male, and 95 percent are rural. Of the estimated total of 4.3 million children in the age group 5-17 years, 432,000 (10 percent) are not attending school or any other educational institutions. Nearly 20 percent of the children not attending school have dropped out, due to poverty, in order to engage in an economic activity to boost family incomes and another 12 percent, due to financial difficulties (Annex 2, Table 8). In the North, large numbers of children have been directly involved in military conflict by virtue of having being conscripted by the LTTE at a young age.

f) Poverty and Ethnicity

The World Bank's Poverty Assessment found that the incidence of poverty varies little across the major ethnic groups (Sinhalese, Sri Lankan Tamils, Indian Tamils, and Muslims or Moors) with the exception of Indian Tamils, most of who are classified as poor. Indian Tamils (often referred to as estate Tamils) are among the poorest people in Sri Lanka. Living largely on tea, rubber, and other plantation estates, they suffer the highest degree of social and economic isolation due to a variety of factors, including the remote location of estates, language barriers (many speak only Tamil) and social stigmas attached to plantation labor. Income inequality is lowest among the estate Tamils, indicating that the majority of households are homogeneously poor (Annex 2, Table 9).

g) Poverty and Employment

The available data do not show a close link between poverty and unemployment. The 1995/96 HIES found that 34 percent of the individuals in households where the principal income earner was unemployed were poor, compared to 40 percent of individuals in households where the principal income earner was employed.

The poor, overwhelmingly, are the working poor, with 95 percent of principal income earners employed and only some five- percent unemployed. However, the mean consumption of those with an employed principal income earner is 13 percent lower than that of the unemployed, suggesting that the latter could 'afford' to remain unemployed, while those who were working were for the most part under-employed.⁹

Although there is no close link between poverty and unemployment, the data on youth unemployment are disturbing. In 1997/98, 71 percent of the unemployed in the country were youth. In the age cohort of 14-18 years, the unemployment rate is 36 percent, while in the age group of 19-25 years, the corresponding rate is 30 percent. Moreover, the rate of unemployment among educated youth, i.e. those with GCE (A.L.) qualifications, is 24 percent. Educated rural youth tend to queue up for white-collar jobs in the public sector and during the waiting period, they rely on an extended family network for sustenance.¹⁰

⁷ Foreign employment serves as an escape route for many unskilled and domestic workers from low-income families. The countries that attract Sri Lankan workers include Saudi Arabia, Kuwait, the United Arab Emirates, Turkey, Cyprus, Singapore and South Korea. The Sri Lanka Bureau of Foreign Employment (SLBFE) has estimated that about 800,000 Sri Lankan workers are currently employed overseas. (See Central Bank Annual Report 1999.)

⁸ Department of Census and Statistics (1999), Sri Lanka: *Child Activity Survey*.

⁹ Alailima, Patricia (2001), Sri Lanka: *Growth, Distribution and Redistribution* (draft).

¹⁰ World Bank, 1999, *Sri Lanka: the Labor Market*, Washington, D.C.

The rate of unemployment has been consistently higher among females than among males during the 1990s. Both male and female unemployment rates have been declining, with the latter declining at a faster rate than the former. However, the rate of female unemployment has been consistently around double that of males for around three decades. In 2000, the unemployment rate for men fell below 7 percent while the female unemployment rate was 12 percent.

The sectors with the highest levels of poverty are agriculture (51 percent) and mining and quarrying (59 percent). The former accounts for the highest proportion of principal income earners in poor households (43 percent), while the latter accounts for the lowest proportion (2 percent) (Annex 2, Table 10).

A breakdown of poverty by occupational category (Annex 2, Table 11) reveals that farmers have the highest incidence of poverty (52 percent), while managers have the lowest incidence (7 percent). These two categories also account for the highest and lowest proportion of principal income earners in poor households (40 percent and 0.3 percent, respectively). The poorest tend to work in paddy production or in plantations. The level of poverty among production workers is also quite high (38 percent). The majority of production workers have low skills and are engaged in providing low-value goods and services to small, low-income, informal markets.

h) Poverty and Education

There is clear evidence that the level of poverty declines as the level of education rises (Annex 2, Table 12). The incidence of poverty is highest in households whose principal income earner has no schooling (58 percent) and lowest in those whose principal income earner is a graduate (5 percent). However those persons with no schooling comprise only 8 percent of the total poor, which is higher than its share in the population (5 percent). Those with just primary schooling account for the highest share (35 percent) followed by those with lower secondary schooling (26 percent). Almost 90 percent of the total poor come from households whose principal income earner has left school at some stage prior to the GCE O/L. On balance, the data confirm that education is an important way out of consumption poverty.

i) Poverty and Gender

At the national level, the incidence of poverty is about the same in male-headed and female-headed households (39 percent and 38 percent, respectively). Of the total number of poor households, 83 percent are male-headed and 17 percent are female-headed. However, women migrants come mostly from poor households and, in certain cases, its negative impact (abuse, teen pregnancies) on girls in a growing social problem. In the rural and urban informal sector, women outnumber men as self-employed workers; they are trapped in poverty and unable to generate adequate income to maintain their families.

In the rural sector, 42 percent of male-headed households are poor, compared with 40 percent of female-headed households. In the estate sector, 46 percent of male-headed households are poor, compared with 44 percent of female-headed households. It is only in the urban sector that the poverty level is lower among male-headed households than among female-headed households (23 percent and 30 percent, respectively). However, data relating to female heads of households have not been analyzed by socioeconomic background or poverty indicators.

The gender development index (GDI), which is the human development index (HDI) differentiated by gender, shows that women have achieved 69 percent the level of human development achieved by men (Annex 2, Table 13). This is well above the average for all developing countries (55 percent), and above the world average as well (64 percent).

Certain categories of poor women face problems specific to a particular segment of the work force. A lack of adequate accommodations for rural women working in the Free Trade Zones has resulted in a range of nutrition, security, sexual harassment, and reproductive health concerns. Women working in the Middle East, as domestics and nannies, risk mal-treatment, are exposed to the threat of sexually transmitted diseases and are vulnerable to the breakdown of traditional family arrangements in their

absence. Poor women are especially vulnerable to the vicious cycle of poverty, addiction, malnutrition, poor environmental health, low education and poor health status.

Two new vulnerable groups of women have emerged in recent years: elderly women in low-income families and women coping with displacement and lack of services and livelihood in conflict areas.

In terms of the UN's gender empowerment index (GEM), Sri Lanka has fared poorly to date. This index shows that the level of economic and political decision-making power enjoyed by women relative to men is only 31 percent, which is lower than the average for all developing nations (37 percent).¹¹ Women are particularly under-represented in Parliament and at the senior-levels of Government decision-making. Although considerable efforts have been made to mainstream gender considerations in public policy and planning purposes, few government agencies explicitly include a gender perspective in their poverty reduction plans.

j) Nutritional Indicators

Malnutrition, though not associated exclusively with poverty, is generally regarded as a good indicator of the health status of the poor. Between 1993 and 2000, the prevalence of stunting among children (under 5 years) tended to decline, from 23.8 to 13.5 percent; the prevalence of wasting declined slightly from 15.5 to 14 percent; and the prevalence of underweight decreased from 37.7 percent to 29.4 percent.¹² The percentage of children born with low birth weight (an indicator of maternal nutrition) has also reduced from 19.7 to 16.6 percent.¹³ Despite improvement, the nutrition situation is not acceptable by any standards.

The small sample Nutrition and Health Surveys (NHS) carried out at the national level between 1993 and 1995 found that: (a) rural and estate areas have a higher prevalence of under nutrition than urban areas; (b) stunting and underweight are highest in the Central Province, while wasting is highest in the Sabaragamuwa Province; (c) under nutrition is related to low incomes, poor housing and sanitation; (d) under-nutrition is also related to low birth weight as well as age (one in five children are born with low birth weight), but not to gender; and (e) the critical period of human vulnerability for Sri Lankan children is during the first 18 months of life. Iodine deficiency disorders are also a major health problem. One out of every five children suffers from iodine deficiency disorders---the single most important preventable cause of physical and mental retardation. A more recent study identified poor caring and feeding practices, high morbidity, and poverty-related factors, such as lack of access to adequate food, adequate housing, clean water and safe sanitation, and maternal under nutrition as the key causes of child malnutrition.¹⁴

Maternal malnutrition is a chronic concern. In addition to the relatively large proportion of low birth weight babies, one out of every three women is stunted with height less than 148 cm. Some 36 per cent of women are anemic and the average weight gain during pregnancy is as low as 7.5 kg compared to the minimum requirement of 10 kg.

Data on anemia low birth weight and vitamin A deficiency are given in Annex 2, Table 14. There are substantial regional variations with regard to micronutrient deficiencies, but not with regard to low birth weight. The high prevalence of anemia and Vitamin A deficiency in several Provinces is further evidence that the nutritional status of preschool children is far from satisfactory.

¹¹ UNDP (1998), Sri Lanka: *National Human Development Report*. See also Annex 2 Tables 21 and 22 for Human Development Index rankings.

¹² Department of Census and Statistics (2000), *Demographic and Health Survey*.

¹³ Alailima, Patricia (2001), *op cit*.

¹⁴ Marga Institute (1998), *RETA Study on Reduction of Child Malnutrition*.

k) Poverty in the North and East

Sri Lanka has been immersed in war for the last 19 years. The humanitarian, social and economic impact of the war is felt most directly by populations in the North and East and the areas bordering it. The effects of the conflict have far reaching economic, social, and psychological repercussions that extend beyond the theatre of battle. Some of the effects of the conflict include: loss of civilian lives and psychological trauma, damage to infrastructure and homes, displacement, restricted mobility in some areas in the country, disruption of local economies, disruption of community and institutional networks, disruption of children's education, high dependence on relief, deterioration in the health status of the population, and widespread vulnerability and insecurity among the population. Qualitative reports suggest that income poverty, healthcare, education and economic conditions are far worse in areas racked by war than in other parts of the nation.

The Commissioner General of Essential Services has estimated that the number of persons internally displaced is around 600,000 (i.e., roughly one-third of the population in the conflict areas) and that the number of persons killed is around 60,000. The share of the population displaced exceeds 40 percent for all war-torn areas. UNHCR estimates that one-third to half of all homes have been damaged or destroyed in the Province. Death injury and displacement are ever-present realities in the North. One out of every 12 households reported a member killed as a result of the conflict, while among the poorest households, it was one in seven.

A large number of displaced persons (including Tamils, Muslims and Sinhalese) have sought shelter in welfare centers, which are characterized by inadequate access to basic health and educational facilities and over-crowded, unsanitary living conditions. The prevailing conditions are worse in the uncleared than in the cleared areas. Many peripheral health institutions have suffered extensive damage in the fighting and maternal and child health services have also deteriorated due to a variety of reasons, including shortage of qualified medical and para-medical officers, lack of field staff, transportation problems, loss of equipment, breakdown of water and sanitation facilities, and lack of electricity. Malaria is prevalent in the war zone and has the highest endemicity in the uncleared areas as control systems have broken down.

Among the worst affected groups are households that have been displaced, sometimes repeatedly, as a result of conflict in or threats to their home villages. Displaced families have lost productive assets (agricultural equipment, livestock, shops, and mills), including in some cases lands they had cultivated before being displaced. Some of the displaced remain in welfare camps, often for years. Those who eventually return to their home villages sometimes find that their lands have been appropriated by other households. The Sri Lanka Integrated Survey (SLIS) found that nearly all households in the Northeast (97 percent) that moved due to the war suffered loss of property.

According to a recent study¹⁵ conducted in the uncleared areas of the Wannu (Northern Province), the internally displaced persons (IDPs) in settlement villages and in settlements attached to existing communities are the most significant vulnerable group. They are food insecure year round, as they must depend on an inadequate ration for survival. While daily wage labor is the best option for increased IDP household income, opportunities are sporadic and/or seasonal, wages are low, and preference is given to residents over IDPs for the few jobs available. Not unexpectedly, the assessment results show a multitude of significant ways in which the conflict and restricted access are negatively affecting communities. Fishermen are excluded from productive fishing zones, cannot transport their catch to lucrative markets, must pay artificially high prices for gear and fuel, and live in communities that are periodically displaced by the conflict. Farmers cannot buy the agricultural inputs that their production depends on, cannot always send their produce to the most appropriate market, and must compete with the large influx of IDPs for scarce agricultural labor jobs. Virtually everyone in the Wannu suffers from the inadequate medical and educational services that the conflict has caused. The easing of movement restrictions in

¹⁵ WFP/CARE Sri Lanka (2000), *Household Livelihood Security Assessment in LTTE-controlled Areas of the Wannu*, Assessment Report, Colombo.

early 2002 is expected to widen employment opportunities and reduce the disparity in commodity prices between the North and the rest of the nation.

A survey of 515 households and 702 children carried out in Trincomalee district¹⁶ found that 27 percent of children under 5 were stunted, 26 percent were wasted, and 50 percent were underweight. All three indicators were considerably higher in the uncleared than in the cleared areas. For example, the prevalence of underweight was 69 percent in the former, compared with 51 percent in the latter. The study also found that while 48 percent of the women were malnourished in Trincomalee district, the level rose to 77 percent in the uncleared areas.

Although numerous qualitative studies have been undertaken in the conflict areas, there is no official estimate of the extent of poverty in the Northeast as it has been excluded from national consumption surveys during the past two decades. Considerable efforts have been made to conduct sample surveys in the Northeast, but these have not been terribly representative or accurate. Nonetheless, there is ample evidence from small-scale surveys and local government reports, that poverty conditions in the Northeast are as bad as in any other part of the country. For this reason, the Government's operating assumption is that poverty incidence in the Northeast is roughly the same as in Uva, the poorest Province in the South. This would imply that nearly half of the population, or some one million persons in the Northeast, could be considered poor. Moreover, it is well-recognized by Government that poverty in the Northeast is experienced in dimensions---fear, voicelessness, ethnic polarization, violence-related grief---that are incomparable to those in other parts of the nation.

Government transfers, foreign remittances and labor income from abroad are responsible for ensuring minimum consumption levels in the Northeast (Annex 2, Table 15). The disruption of economic activities has caused the contribution of the Northeastern Province to national GDP to fall from 15 percent in the 1980s to 4 percent in 1997.

A study conducted by the Institute of Policy Studies estimates the present value cost of the conflict during 1984-96 at nearly 170 percent of Sri Lanka's 1996 GDP. The 1999 annual report of the Central Bank of Sri Lanka estimates that the conflict has reduced Sri Lanka's economic growth by about 2-3 percentage points a year. The conflict has also contributed to a widespread feeling of despair and hopelessness among youth, an increase in violence, and brain drain.

The costs of the war have fallen disproportionately on the poor, who to a large extent are women. Faced with fewer opportunities to earn a living, the rural poor serve in the armed forces on both sides. Expenditures on the war effort, which have accounted for about 5 percent of GDP in recent years, crowd out a vast range of pro-growth and pro-poor public expenditures. The instability brought about by the war also reduces investment and job creation.

II. Determinants of Poverty

a) Inadequate Growth and Unequal Opportunity

GDP growth averaged 5.1 percent while per capita GDP growth averaged 3.9 percent during the 1990s. During the same period unemployment fell from 17 percent to 8 percent, private remittances from abroad more than doubled, and expenditure on health and education remained more or less constant (as a percentage of GDP), despite a sharp increase in defense expenditure. In spite of these achievements and the enormous efforts put into poverty reduction during the 1990s (including integrated rural development projects and a range of targeted welfare programs), poverty incidence showed little or no change. It is clear, therefore, that neither the GDP growth rate nor its distributive effects were sufficient to bring about a marked reduction in the poverty level. In other words, economic growth has not automatically trickled down to the poor. During the 1990s, the Gini coefficient, which is an indicator of income

¹⁶ Reinhard and Kraemer (1999), *Baseline Survey on Health and Nutrition: Integrated Food Security Program, Trincomalee, GTZ/Sri Lanka, Colombo.*

distribution, declined marginally for income receivers (from 0.52 to 0.50) as well as for spending units (from 0.46 to 0.45).¹⁷ A high economic growth rate (of 6-8 percent per annum) without significant income redistribution could sometimes have the same impact on poverty as a lower growth rate with substantial income redistribution. But neither of these two scenarios fit the Sri Lankan case in the 1990s, where a modest growth rate has been accompanied by little or no income redistribution.

Sri Lanka's current economic growth strategy is unlikely to achieve a sustained and broad-based reduction in poverty. The textiles and garments industry, which has provided employment for over 300,000 women from less-privileged backgrounds, is facing looming MFA problems. There about 400,000 persons employed overseas in low-paying jobs, but due to tighter immigration controls and regulations, it is becoming more difficult for poor workers to migrate to the Gulf and other areas that have served as an escape valve. About 200,00 persons are employed in the armed forces, but in the event of a negotiated settlement to the internal conflict, this number may decline. The number of persons employed in the public service is increasing rather than decreasing due to expansionary fiscal policy. The plantation workers represent a captive, low-wage market that is a perpetual source of poverty. These workers cannot be paid higher wages, as this will undermine the competitiveness of the plantation sector. Due to the armed conflict, the avenues for generating pro-poor labor-intensive growth in the near term (such as tourism and foreign direct investment in high-value agriculture) are limited. The evidence suggests that public and private income transfers to the rural areas have been the main source of poverty alleviation in the 1990s, a mechanism that cannot be sustained in the long run.

Macro-economic and structural policy constraints have inhibited a more robust, private-sector-led, pro-poor growth process. The main constraints include: a) large recurrent outlays caused by public sector expansion and escalation of defense expenditures; b) persistent fiscal deficits maintained at prohibitively high levels (8-11 percent in recent years), which have exerted upward pressure on interest rates and inflation and choked off private investment; c) volatile trade and tariff policies (especially with regard to agricultural raw materials); d) use of ad-hoc tax incentives and multiple tax instruments, which has driven the revenue to GDP ratio down from 20 percent in the 1980s to around 17 percent in the late-1990s; e) insufficiently flexible administrative pricing policies of the Government (in respect of state-owned enterprises), which are aggravating the fiscal deficit; f) a heavy burden of legal provisions, administrative controls and regulations that are distorting land, labor, product and financial markets; and g) inadequate policy responses to internal as well as external shocks through such macroeconomic instruments as the exchange rate, interest rate and administrative prices, which "have been a cause for continued vulnerability the country is experiencing at present".¹⁸

b) Armed Conflict

The Northeast conflict has resulted in at least 60,000 deaths and many more people have been killed, injured, incapacitated, or internally displaced. The human and economic costs of the war are felt most directly by populations in the North and East. According to Government estimates, the size of the overall economy of the Northern Province shrank from US\$ 350 to US\$ 250 million between 1990 and 1995, corresponding to a negative annual average GDP growth of 6.2 percent per annum. The Government's military expenditures increased from 1.3 percent of GDP in 1982, before the outbreak of the war, to about 5 percent of GDP in 2000. The IPS has estimated the economic cost of the conflict (for the period 1984-1996) at nearly 170 percent of total GDP for 1996.¹⁹ The Central Bank has stated (in its 1999 Annual Report) that the conflict is likely to have reduced Sri Lanka's GDP growth by about 2-3 percentage points a year.

The indirect costs of the war are at least as high. These costs represent the income lost as a result of foregone domestic investment, reduced tourism, the decline in foreign direct investment, and the human capital loss associated with death, injury and displacement. Security considerations have also limited Sri Lanka's ability to develop as a regional service sector hub. The conflict has prompted the out-migration

¹⁷ Kelegama, Saman (2001), *Poverty Situation and Policy in Sri Lanka* (mimeo).

¹⁸ Jayasundera, P.B. (2001), *Current Issues in Public Finance and the Future Direction of Fiscal Policy in Sri Lanka - Managing the Process* (mimeo).

¹⁹ Institute of Policy Studies (1999), *Sri Lanka: State of the Economy*, Colombo.

of large numbers of skilled and semi-skilled persons, depriving the economy of trained professionals, entrepreneurs and highly skilled civil servants that the nation so badly needs.

The socio-cultural consequences of protracted conflict weaken the nation's institutional capacity to address poverty. Political violence, violence against women, amongst youth, within families and suicide are all manifestations of the armed conflict setting. A tacit acceptance of violence adds a further dimension of physical insecurity to the lives of the poor. The reluctant accommodation to everyday violence is an enormous social cost for future generations to bear.

c) Isolation and a Lack of Economic Integration

People living in remote areas are subject to economic isolation due to lack of access to markets, information and basic infrastructure facilities, such as good roads, rail and port systems, and well-functioning bus networks, telecommunications and information technology. Isolation adds to vulnerability, since remote communities are both more susceptible to and likely to be impoverished by shocks, such as drought, floods, and famine. Given limited integration into the more dynamic national and international markets, semi-subsistence agriculture is the livelihood of the majority of these people. A lack of access to transport and the low frequency of the public transport available tend to reinforce the isolation of remote rural communities. The need for improved transportation is greatest in the Southern and Uva Provinces.

Due to their geographical and economic isolation, many poor communities are relatively untouched by the general rise in living standards. The poor can benefit from improved transportation and information systems. They benefit economically from improvements in transport prices and when such improvements result in reduced consumer costs, higher output prices and stimulated employment. Better transport and information systems bring improved access to outside health, education and public services; encourage the expansion of public services and commerce, and enable greater contact between people of different areas. A lack of access to economic infrastructure and modern information facilities is clearly linked to opportunities for more productive employment, higher incomes and the ability to participate in political processes.²⁰

Isolation and a lack of economic integration are reflected in the sharp regional variation in poverty levels. The Western Province and the greater Colombo municipal region exhibit much lower levels of income and human poverty than does Uva, Sabaragamuwa, North Western and North-Central Provinces. In districts such as Moneragala, Matale, Kurunegala, Anuradhapura and Ratnapura, the poverty incidence is close to four times that reported in Colombo. Even in areas in which heavy investment has been made to enhance agricultural productivity (i.e. Mahaweli), the links between production centers and the major urban and international markets are very weak indeed. Considerable investment has been made in transport over the past four decades, but the vast majority of this has been concentrated on small, rural access roads rather than roadways that provide efficient links to major urban markets.

Economic isolation contributes to social marginalization. Communication links are largely confined to the villages in which the poor reside. Few write letters and even fewer use telephones. A characteristic feature of isolated communities is the absence of spatial, occupational and social mobility.²¹

d) Limited Access to High Quality Education

It has been estimated that the poor attain approximately seven years of education.²² Every village in the country has at least a primary school. The government makes a special effort to attract poor children to schools by offering subsidized public transport and free school textbooks and uniforms (each child is entitled to one set of uniforms a year). The basic education enjoyed by the poor is likely to have produced

²⁰ Poverty Impact Monitoring Unit (2000), *Perceptions of the Poor: Poverty Consultations in Four Districts of Sri Lanka*.

²¹ Gunatilaka, Ramani (2000), *The Change Agent's Program: Reducing Rural Poverty by Catalyzing Economic Change* (draft).

²² Datt and Gunewardena (1997), "Some Aspects of Poverty in Sri Lanka:1985-90," Policy Research Working Paper 1738, Washington, D.C. World Bank.

several social benefits, including low fertility, low population growth, low infant, child and maternal mortality, and high literacy.

Out of the 10,000 schools, over 5,000 are “small schools” situated in remote rural areas, with fewer teachers where multi-grade teaching takes place. While basic education facilities are widely available (see Annex 2, Table 16), the quality of the education available to the poor is vastly inferior to that available to the better-off, urban households. Typically, the poor receive education in institutions where buildings are in poor condition, facilities such as water, electricity and toilets are not available, and poorly trained teachers do not come regularly to teach or when they do, they teach several grades simultaneously.²³ Long distances to school, a lack of opportunities to study English, science and maths, and a shortage of suitable textbooks and library facilities also have an adverse effect on the quality of schooling available to the poor. Malnutrition also adversely affects school attendance and learning of the children of the poor.

School net enrollment is relatively high. Evidence suggests that of the children who do not attend school, a higher proportion are girls (56 percent). The number of children not attending school is highest in the Sabaragamuwa Province and lowest in the North-Central Province (Annex 2, Table 17). The majority of children not attending school are likely to be poor.

The long-term impact of investment on education on poverty reduction depends on its effectiveness on enhancing human capital formation and labor productivity. Here again, the low quality of education has offset the efficiency impact of educational investment.²⁴ Rates of return at the primary-end of education are low. At the secondary and higher level, only 25 percent of students pass the GCE O/L, on average, which again reflects low educational quality.²⁵ The low quality of education affects all the Provinces, especially the Northern, North Central and Central Provinces, and impairs the potential benefits of education. The majority of poor children do not proceed beyond the O/L.

The country has a large number of public and private institutions offering vocational training and technical education, but the curriculum is outmoded and the programs offered are supply-driven and bear little relation to the needs of the private sector. At the same time, there are wide gender imbalances in enrollment. In rural areas, most government vocational training institutes provide training fields for which there is very little market demand. There are thirteen public Universities, serving less than three percent of the University-age population. The relevance and quality of public University training is of grave concern. The lack of a more robust pool of skilled tertiary graduates weakens Sri Lanka's entire education system and starves the labor force of the sorts of skilled-public servants and entrepreneurs needed to foster broad-based economic development

e) Limited Access to Basic Social Services

Sri Lanka has attained a good health status since independence, achieving developed country standards in death rates, maternal mortality and life expectancy by the late 1970s. Health care in Sri Lanka is relatively inexpensive, technically adequate and equitable. The nation has a widespread network of healthcare facilities and the public and private health care systems complement each other. Notwithstanding its overall good performance, the healthcare system faces several major challenges. In recent years there has been a resurgence of malaria and about 14 percent of the children under five are chronically undernourished.

As in other parts of Asia, HIV/AIDS could reach epidemic proportions unless vigorous prevention efforts are supported. There are many issues related to HIV/AIDS and poverty. Poor women are particularly

²³ The armed conflict has led to a serious disruption of the education system in the North and East (Aturupane 1998, Education and Poverty in Sri Lanka, mimeo). 135 schools have closed down and large numbers of children have been displaced. Drop out rates in the conflict areas are three times as high as the national average due to the closure of schools, displacement, lack of public transport, psychological trauma, and difficulties in deploying teachers to these areas.

²⁴ Kelegama, Saman (2001), op cit.

²⁵ The corresponding proportion for the GCE A/L is about 48 percent.

vulnerable to HIV/AIDS and other sexually transmitted diseases (STDS). Poor knowledge and access to health services increases their risk of contracting HIV/AIDS and STDS. Migrant women are especially at risk of having HIV positive babies and the lack of drugs at affordable prices to treat HIV/AIDS will increase the chances of the disease being transmitted to unborn children.

Lack of access to inclusive education for disabled children, especially from the poor families, is an issue which needs to be addressed. The aging of the population, as a result of the demographic transition, is leading to profound changes in disease patterns, with non-communicable, chronic, and degenerative diseases of adults becoming increasingly important. Even in poor communities, the nation faces a dual morbidity profile, characterized by persistent maternal and child health morbidity problems (respiratory and water born diseases) as well as adult diseases that reflect an advanced epidemiological transition²⁶.

The overall health environment warrants improvement. The lack of access to safe water and safe sanitation is too common (Annex 2, Table 18). Although the number of nurses increased from 9,000 in 1991 to 16,699 in 1997 and doctors from 2,900 to 5,200 during the same period, there is a shortage of qualified medical specialists and trained nurses. In rural areas where a high proportion of the poor live, the scarcity is felt more. Moreover, there is congestion in government hospitals, standards of hygiene are low and maintenance of facilities is poor. The available evidence shows that only a small share of government health expenditures reach the poorest 20 percent, the reason being that the wealthier districts have far better health services than the poorer districts, both quantitatively and qualitatively.

Inadequate drinking water, sewage and sanitation infrastructure in the urban and peri-urban areas is one of the leading causes of public health problems in poor communities. Piped water service is available to only 29 percent of the population and large-scale sewerage services are available only in the Colombo municipality. Solid waste disposal facilities are unable to cope with the rapid increase in municipal waste, and local authorities have neither the finance nor technology to manage this burden efficiently. Indeed, poor households in depressed areas consider the lack of potable and irrigation water, and the long (and sometimes expensive) journeys made (chiefly by women) to fulfill their water needs, as a major factor in their poverty.

Sickness, disability, old age and death of an income earner are precipitating causes of extreme destitution. The subsidized state health service is considered inadequate by many of the poor who use a large share of their income to buy medicine privately. Monthly payments from the state to the disabled, widows and the aged are insufficient to meet minimum needs. While Sri Lanka has a long legacy of welfare programs aimed at assisting the poor, these tend to be badly targeted, contribute to dependency and patronage, and exhibit high administrative costs.

f) Slow Growth in Agriculture

Agriculture accounts for roughly 40 percent of the work force and 18 percent of GDP. Low labor productivity in agriculture is a major contributor to persistent rural poverty.²⁷ Crop yields have either stagnated or declined during the 1990s. In the paddy sub-sector, the increase in production has resulted mainly from an expansion of the cultivated area under the Mahaweli Development Program.

The poverty situation in rural areas would have been further aggravated if not for income transfers to the rural areas, including: (i) transfer of remittances from Middle East migrants, (ii) income transfers from armed forces engaged in the North and East of Sri Lanka, and (iii) income transfers from rural young females employed in the garment factories located mainly in the Western Province. In 1997, the average per capita inflow of remittances and transfers were estimated to reach 65 percent of a poverty level household income in the rural areas.²⁸

²⁶ See de Silva, A, *Health and Poverty*, Poverty Framework Technical Report, 1999.

²⁷ Sanderatne, Nimal (2000), *Why Poverty Persists*, Poverty Impact Monitoring Unit, Colombo.

²⁸ Dunham and Jayasuriya (1998), "Economic Crisis, Poverty and War in Contemporary Sri Lanka: On Ostriches and Tinderboxes," *Economic and Political Weekly*, Vol. XXIII, No. 49, December.

The single most important impediment to agricultural prosperity is an overly restrictive policy regime. State ownership of some 80 percent of the lands, restrictions on technology imports and land use, pervasive input and credit subsidies, and frequent changes in agricultural trade policies combine to promote inefficient use of resources and restrict access to improved technologies. Other factors that reinforce agricultural under-development include a weak research and development (R&D) base, a lack of adequate infrastructure (access roads, market centers, rural electrification), poor soil and water management practices, limited post-harvest processing and value-addition, lack of access to investment finance and the disruption of agricultural markets due to armed conflict in the Northeast.

The food self-sufficiency focus of Government's agricultural policy may have, inadvertently, perpetuated poverty in rural areas.²⁹ Net returns from other field crops are considerably higher than net return from paddy, as shown in Annex 2, Table 19. Hence, a shift from low-value to high-value agriculture is one of the keys to poverty reduction within the agricultural sector. A parallel development of the rural non-farm sector is also necessary for absorbing the surplus labor from agriculture, thereby relieving pressure on agricultural holdings. Indeed, rural poverty reduction may actually need policies that favor planned urbanization.³⁰

g) Lack of Clear Land Tenure

One of the factors inhibiting rural development and rural to urban migration is the lack of clear private property rights in land. Most poor farmers operate land parcels for which they do not have clear title. As a result, land cannot be used as collateral for loans, reducing the creditworthiness of agricultural operations. More of the poor depend on land, and land-related activities, to secure their livelihood than on any other form of natural resource. Insecure land tenure affects the poor disproportionately because they cannot afford access to the high court and other costs involved in resolving ownership or boundary disputes. As a result of this insecurity and of government restrictions on land use, the poor are not empowered to make choices in land use and land allocation, and hence cannot use their lands to their most productive potential. Furthermore, under the Land Development Ordinance, women are not ensured the right to land settlement areas. Another aspect of land tenure and administration which affects the poor is the fact that land records are incomplete, not fully transparent or readily accessible, and as a result, vested interests use their favored access to take advantage of the most vulnerable groups.

Land management issues have been addressed from a variety of perspectives-the Soil Conservation Service Act, the Town and Country Planning Act, the Paddy Lands Act and many others. In practice, however, the institutional apparatus for managing land issues in Sri Lanka is highly fragmented. The twelve major pieces of legislation governing land management are implemented by 10 separate government agencies. Jurisdiction over land is complicated by legal provisions authorizing management or decision making to multiple agencies. The result is costly delay and inefficiency in decisions regarding alienation or management. Conflicting sectoral policies and priorities threaten the integrity of land use and reduce potential benefits of high-value land areas.

h) Environmental Degradation

Environmental degradation is an increasingly serious concern. In the rural areas, key problems include deforestation and soil erosion, encroachment of agriculture into protected areas with adverse effects on biodiversity, water pollution, coastal erosion, the mining of riverbeds and the use of wood as the main cooking fuel. In urban areas, high levels of ambient pollution associated with vehicle use and poor management of industrial wastewater discharge and solid waste discharges are the most serious problems.

²⁹ Kelegama, Saman (2000), "Food Security Issues in Sri Lanka," Hector Kobbekaduwa Felicitation Volume, Colombo.

³⁰ Gunatilaka, Ramani (2000), *Fiscal Decentralization, Rural Development and Poverty Reduction* (mimeo).

The nexus of poverty and natural resources has immense macro-level impacts. Non-sustainable resource use creates unaccounted costs that are estimated to be 2.5% of GDP³¹. Insecure land use and usufruct rights and uncontrolled access to natural resources are two of the major causes of resource degradation. Socially disadvantaged groups tend to move to areas where they can access land or marine resources, adding pressure to a fragile resource base.

Various strategies have been developed to safeguard the environment, but the resources and institutional capacity to put such strategies into effect has been lacking. Government has developed a national strategy for Agenda 21 and Sri Lanka does adhere to major global conventions on the environment, including the Biodiversity Convention, the Climate Convention, the Convention on Combating Desertification and the National Strategy for Sustainable Development. Reconciling Sri Lanka's limited domestic resources and institutional capacity with the many global environmental goals and initiatives is a persistent challenge.

i) Social Exclusion and Powerlessness

Powerlessness among the contemporary poor in Sri Lanka varies considerably – like in any other developing country. The socially excluded groups include: (a) the victims of the armed conflict, who are undergoing extreme deprivation and degradation; (b) the urban ultra-poor, the majority of whom live in slums and shanties and are driven by extreme poverty into crime and prostitution; (c) poor rural families settled under village expansion schemes, many of which are located in areas that do not have water, electricity, access roads, schools, shops, and health clinics; (d) social outcasts, who invariably come from a low-caste background and are drawn into the underworld by virtue of being deprived of their rights; (e) squatter settlers and poor fishing communities living in isolated areas, who are poorly integrated into society and have limited access to basic social amenities; and (f) estate workers of Indian Tamil origin, who are viewed as "aliens" and housed in "lines" that are cramped, over-crowded, dimly lit and poorly ventilated.

The first generation of mass social development programs, such as the Change Agent Program, followed by the Integrated Rural Development Projects (IRDP), had a major impact on the empowerment of the 'dynamic or the enterprising' poor through increased access to resources and participation. Other government programs aimed to empower large numbers of poor households. Janasaviya augmented the capacities of development NGO/CSOs to empower the poor. Samurdhi took a more community-based approach to empowerment, assisted by animators paid by the state. At its peak, the Sri Lankan government expended nearly two percent of GDP in programs such as Samurdhi. Despite good intentions, these projects and programs have failed to empower the poor to alleviate poverty due to dependency effects and patronage.

III. Other Impediments to Poverty Reduction

a) Politicization of Poverty Programs

The 1972 Constitutional Reforms weakened the independence of the Public Service Commission and brought the power of government appointments within the purview of the Cabinet of Ministers. Political considerations have tended to influence the regional (and location specific) allocation of public investment programs, the selection of beneficiaries to participate in Samurdhi, IRDPs, provincial capital projects and, most importantly, public sector employment.

Some poverty alleviation programs have been vulnerable to politicization, such as Janasaviya and Samurdhi.³² Various forms of bias influence the selection of program beneficiaries and the way in which the programs are implemented. Both weaken the allocative efficiency and effectiveness of various direct poverty program interventions.³³

³¹ M. Munasinghe et.al. (1998), *Linkages between economic policies and the environment in Sri Lanka*, Ministry of Forestry and Environment.

³² Gunatilaka, Ramani (1999), *A Note on Policy Issues Relating to the Samurdhi Program*.

³³ World Bank (2001), op cit.

The poor account for a large number of votes, and this explains why politicians are especially responsive to their needs. But the close ties between local political leaders and the poor have evolved over time into a complex set of patronage relations. This weakens Government's ability to respond impartially to the plight of the poor. It also pre-disposes local government to intervene directly in areas that might ultimately be more suitable for private sector activity or civil society intervention. Excessive political involvement in local development activity dulls the initiative of poor communities and results in ingrained patterns of economic and psychological dependency. Added to this is a lack of transparency, at all levels of Government, which enables the evolution of particularistic patronage relations while creating opportunities for waste and corruption.

b) Barriers to Urbanization

Structural change is a powerful engine for poverty reduction in Sri Lanka. But barriers to urbanization, planned or otherwise, impede the structural change process.³⁴ In urban areas, Government land ownership restricts the scope to expand urban housing and enterprises. Labor market restrictions reduce the attractiveness of enterprise development and weakens labor demand in the formal sector.

Sri Lanka has an over-regulated labor market, which reduces flexibility, discourages formal sector employment and provides incentives for enterprises to operate in the “unregulated” informal sector. Difficult procedures and extended delays in involuntary separation, the need for official approval for worker retirement, labor market protection against involuntary separation extended even to senior company management, complex and non-timely dispute settlement procedures, limited safety net coverage for displaced laborers and an administrative approach to managing labor market affairs in the Department of Labor are some of the factors that inhibit employment creation and weaken the effective functioning of the labor market. These problems are compounded by difficulties in the way in which wage boards operate, a lack of uniformity in holidays and leave between government and the private sector, a lack of clarity within industrial dispute legislation, and weak employer-employee relations leading to excessive strikes and rivalries among unions.

c) Problems of Governance

During the 1990s, government employment rose from 650,000 persons to around 850,000 persons, a period in which public sector responsibilities were reduced. Seventeen percent of the total labor force are employed in the public sector (including state enterprises), giving Sri Lanka the highest ratio of public sector employees in Asia. The government wage bill is estimated to account for 87 percent of Provincial Government expenditures, leaving few resources for supplies, operations and capital investments at a local level.³⁵

Government is closely linked to a public sector that is managed in an administrative fashion, characterized by long procedures, rule-enforcement and top-down implementation, rather than by what is termed the “new” public sector management approaches. In only a few areas of Government (and its parastatals) has the management of government been transformed to reflect a greater customer orientation, more of a focus on results and devolved responsibilities to front-line service providers.

The public service is fragmented into many Ministries and layers of Government. The past has been characterized by frequent changes in the number and allocation of central and provincial Ministry functions. A large and fragmented public service makes cooperation, coordination and cohesion difficult to achieve.

Weak legislative scrutiny of public expenditures, out-of-date accounting, antiquated internal controls and auditing procedures, and a highly complex tender and public procurement procedure characterize Sri

³⁴ Lall, Sanjaya et al. (1996), *Building Sri Lankan Competitiveness: A Strategy for Manufactured Export Growth*, Report for the National Development Council, Colombo.

³⁵ World Bank (2000), *Sri Lanka: Recapturing Missed Opportunities*, Washington, D.C.

Lanka's public finance controls. This contributes to extensive delays in implementing public investment programs, over-spending and frequent recourse to subsidies, tax incentives and off-budget outlays. A lack of open public scrutiny implies that little is known about, public waste, corruption and fraud.³⁶

Progress in poverty reduction hinges on the degree to which the poor have a voice in decision-making. Democracy is critical, as it empowers the people to fight for the eradication of poverty and protect the fundamental rights of poor people. Under a non-responsive system of governance, the freedom of expression is denied and the voice of the poor is not heard.

d) Problems of Rural Development

For several decades, Government has tried to foster improved rural development through area-specific agriculture and community development initiatives. The persistence of rural poverty suggests that this strategy has not been a success. Agglomeration forces unleashed by economic liberalization policies alongside equity-oriented rural development policies may have reinforced urban-rural differentials in Sri Lanka, perpetuated dualism, encouraged low agricultural productivity, and helped transform the rural economy into a remittance and transfer economy.

Persistent rural poverty is due to both over-dependence on low-productivity agriculture and the inadequate availability of infrastructure facilities in rural areas.³⁷ Clearly, development of commercial agriculture faces multiple constraints. The major impediment to creating off-farm employment in rural areas is the lack of proper infrastructure. Only 44 percent of rural households had access to electricity in 1994, and in some areas only 30 percent benefited from it. Less than 15 percent of rural population have access to telecommunication services or sub-post offices. Capital grants provided to the Provinces for the purpose of alleviating regional disparities have remained at less than 0.2 percent of GDP.

Often, rural development projects tend to benefit the non-poor, since they have other inputs, such as irrigated land, necessary to benefit from such projects. Given the unequal power relations that typify rural communities, the local elite is usually well-placed to capture decision making about development projects, frequently working through decentralized structures of government themselves, and the poor are often unable to challenge the established social organization and hierarchy.³⁸

e) Incomplete Decentralization

Under the 13th Amendment to the Sri Lankan Constitution in 1987, decentralization of finance was supposed to come into operation and poverty programs were supposed to be decentralized. But, in practice, many programs remain under the Central government's control.

Incomplete decentralization has resulted in high levels of complexity and fragmentation of the system, an unwieldy and inefficient system of financing, national treatment of certain classes of infrastructure and assets, cumbersome and inequitable personnel management procedures, and complex and frequently conflicting parallel systems of administration in the Provinces. The "transaction costs" of the system have been, and continue to be, high. The reasons for incomplete decentralization include a lack of cohesive and directed political will at the center, insufficient and poorly managed financial resources, insufficient power delegated to the Provinces by the center and by the Provinces to local authorities, poorly functioning accountability mechanisms, gaps in the legal framework and insufficient utilization of existing technical and management capability.

³⁶ Fernando, R.K.H.M. (1998), "Fifty Years Decline in Public Financial Control," Daily News, July 1, 1998.

³⁷ Kelegama, Saman (2001), op cit.

³⁸ Gunatilaka, Ramani (2000), op cit.

Annex 2, Table 1: The Incidence of Consumption Poverty 1990/91-1996/97 (percent)

	1990/91	1995/96	1996/97
Lower Poverty Line	20	25	19
Higher Poverty Line	33	39	31

Source: Household Income and Expenditure Survey 1990/91 and 1995/96, Department of Census and Statistics (DCS), Consumer Finances and Socio-Economic Survey 1996/97, Central Bank, Central Bank estimates are not strictly comparable with DCS estimates.

Annex 2, Table 2: Incidence of Poverty by Province (percent)

Province	Lower Poverty Line	Higher Poverty Line
Western	14	23
Central	28	43
Southern	26	41
North Western	34	52
North Central	31	47
Uva	37	55
Sabaragamuwa	32	47

Source: Household Income and Expenditure Survey 1995/96, Department of Census and Statistics.

Annex 2, Table 3: Gini Coefficient of Consumption Inequality, All Provinces, 1995/96 and 1999/2000

Province	1995/96	1999/2000
Western	.339	.358
Central	.297	.349
Southern	.294	.325
North Western	.268	.292
North Central	.284	.264
Uva	.287	.297
Sabaragamuwa	.280	.331
North East	-	.235
Sri Lanka	.33	.35

Notes: Gini coefficients not strictly comparable due to differences in the definition of expenditures in the 1995/96 and 1999/2000 surveys.

Sources: 1995/96: Gunewardena 2000, based on 1995/96 Household Income and Expenditure Survey, Department of Census and Statistics; World Bank - based on 1999/2000 Sri Lanka Integrated Survey.

Annex 2, Table 4: Rural Incomes Vs. Non-farm Share

Rural Income (Rs/month)	Non-farm Share (%)
1000	25-30
2000	35-40
3000	50-55
4000	65-70
5000	75-80

Source: Based on World Bank, World Bank Integrated Survey, preliminary findings.

Annex 2, Table 5: Consumption and Human Poverty Levels by District (percent)

District	Consumption Poverty	Human Poverty	Combined Score	Rank
Colombo	19	13	32	1
Gampaha	21	12	33	2
Kalutara	38	16	54	3
Kandy	42	17	59	5
Matale	51	21	72	13
Nuwara Eliya	40	30	70	10
Galle	39	19	58	4
Matara	44	19	63	6
Hambantota	43	23	66	8
Kurunegala	53	22	75	14
Puttalam	51	19	70	10
Anuradhapura	50	21	71	12
Polonnaruwa	40	28	68	9
Badulla	48	27	75	14
Moneragala	66	29	95	17
Ratnapura	52	25	77	16
Kegalle	41	24	65	7

Source: Household Income and Expenditure Survey 1995/96, Department of Census and Statistics, Sri Lanka National Human Development

Annex 2, Table 6: Incidence of Poverty by Sector (percent)

Sector	Lower Poverty Line	Higher Poverty Line
Urban	15	25
Rural	27	41
Estate	25	45

Source: Household and Income Expenditure Survey 1995/96, Department of Census and Statistics.

Annex 2, Table 7: Average Consumption and Access to Basic Infrastructure Services by Consumption Quintile, Sector, and Ethnicity, 1999/2000 (percent, except where otherwise indicated)

Item	Monthly average Consumption per Capita (SL Rupees)	Access to Safe drinking Water	Latrine	Safe Sanitation	Safe Cooking Fuel	Electricity
1.23	Consumption Quintile					
Poorest	821	61	84	55	2	38
Second	1211	74	85	67	5	49
Third	1537	78	89	75	8	60
Fourth	1986	82	90	82	22	67
Richest	3860	89	94	89	51	82
1.24	Sector					
Urban	2809	97	94	91	51	84
Rural	1816	74	88	72	14	57
Estate	1449	72	76	60	3	43
1.25	Ethnicity					
Sinhalese	1925	76	92	75	19	61
Tamil	1920	75	69	63	11	45
Estate Tamil	1396	76	81	73	4	43
Moor	2061	91	81	79	23	78

Note: A household has access to "Safe Drinking Water" if it obtains its drinking water from protected well, public tap, tube well, tap within unit, and tap outside unit). A household has access to "Safe Sanitation" if the type of latrine it uses is either water seal or flush toilet. A household has access to "Safe Cooking Fuel" if it uses either gas or electricity for cooking

Source: World Bank, based on 1992/200 Sri Lanka integrated Survey.

Annex 2, Table 8: Distribution of Children by Reason for Not Attending School and Sex

Reason	Total	Male	Female
Total	431670	230335	201335
	(100.0)	(100.0)	(100.0)
To engage in economic activity	85906	54631	31275
	(19.9)	(23.7)	(15.5)
To engage in housekeeping activity	18589	4355	14234
	(4.3)	(1.9)	(7.1)
Dropped out due to financial/other difficulties	53312	27626.0	25686
	(12.4)	(12.0)	(12.8)
School is too far	4335	2824	1511
	s(1.0)	(1.2)	(0.8)
Not happy with the facilities in school	478	261	217
	(0.10)	(0.10)	(0.10)
Does not think the higher education will bring any result	48358	30780	17578
	(11.2)	(13.4)	(8.7)
Studying for G.C.E. (O/L) or G.C.E. (A/L) at home	5220	2075	3145
	(1.2)	(0.9)	(1.6)
Awaiting G.C.E. (O/L) or G.C.E. (A/L) results	64035	26324	37711
	(14.8)	(11.4)	(18.7)
Other	151434	81459	69975
	(35.1)	(35.4)	(34.8)

Source: Sri Lanka Child Activity Survey 1999, Department of Census and Statistics

Annex 2, Table 9: GINI Coefficient of Consumption Inequality in Sri Lanka, by Ethnicity 1995/96 and 1999/2000

Ethnic group	1995/96	1999/2000
Sinhalese	.327	.325
Lankan Tamil	.344	.265
Indian Tamil	.219	.249
Moor	.312	.291

Source: Gunawardena 2000, based on 1995/96 Household Income and Expenditure Survey; World Bank 2000, based on 1999/2000 Sri Lanka Integrated Survey.

Annex 2, Table 10: Incidence of Poverty by Sector of Employment (percent)

Sector	Index*	Contribution**
Agriculture	51	42
Mining and Quarrying	59	2
Manufacturing	36	11
Construction	44	7
Wholesale and Retail Trade	30	9
Transportation	26	4
Finance	10	0.4
Communications	23	10
Unclassified	67	10
Unemployed/Non-labor Force Participants	28	5

* Head count, based on higher poverty line.

** Share of total poor, based on higher poverty line.

Source: Household Income and Expenditure Survey 1995/96, Department of Census and Statistics.

Annex 2, Table 11: Incidence of Poverty by Occupation (percent)

Group	Index*	Contribution**
Professional	12	2
Managerial	7	0.3
Clerical	15	2
Sales Workers	30	8
Service Workers	32	4
Farmers	52	41
Production Workers	45	37
Unidentified	29	0.4
Unemployed/Non-labor Force Participants	28	5

*Head count, based on higher poverty line.

** Share of total poor, based on higher poverty line.

Source: Household Income and Expenditure Survey 1995/96, Department of Census and Statistics.

Annex 2, Table 12: Incidence of Poverty by Education (percent)

Group	Index*	Contribution**
No Schooling	58	8
Primary	55	35
Lower Secondary	47	26
Upper Secondary	37	19
GCE O/L	20	9
GCE A/L	13	2
Graduate and Above	5	0.3

* Head count, based on higher poverty line.

** Share of total poor, based on higher poverty line.

Source: Household Income and Expenditure Survey 1995/96, Department of Census and Statistics.

Annex 2, Table 13: Sri Lanka's Gender Development Performance Compared to International Levels, 1994

Country Group	Life Expectancy at Birth (years)		Adult Literacy Rate %		Combined Primary, Secondary and Tertiary Gross Enrolment Ratio %		Earned Income Share		GDI Value
	Female	Male	Female	Male	Female	Male	Female	Male	
Sri Lanka	75	70	87	93	68	65	34	65	0.69
All Developing Countries	63	61	60	78	52	60	32	68	0.55
Least Developed Countries	51	49	35	57	31	40	33	67	0.32
Industrial Countries	78	70	98	98	84	81	38	62	0.86
World	65	62	71	83	57	64	33	67	0.64

Source: Sri Lanka National Human Development Report 1998, UNDP.

Annex 2, Table 14: Provincial Variations in Child Malnutrition (percent)

Province	Anemia among children under five years a)	Low Birth Weight b)	Vitamin A Deficiency c)
Western	47	17	24
Central	36	18	22
Southern	48	20	42
North Western	57	19	46
North Central	55	16	57
Uva	36	16	35
Sabaragamuwa	43	18	51
Sri Lanka	45	18	36

Source: a) Mudalige, R and P. Nestle (1996), Prevalence of Anemia in Sri Lanka, Ceylon Journal of Medical Science; b) Nutrition and Health Status of Children 1993, Nutrition and Poverty Policy Division, Ministry of Policy Planning and Implementation; and c) Medical Research Institute (1998) Vitamin A Deficiency: Status of Children, Sri Lanka 1995.

Annex 2, Table 15: Monthly per Capita Income and Expenditure in Sri Lanka, by Province, 1999/2000 (Rs.)

Province	Per capita Income		Per capita Expenditure	
	Average	Bottom Quintile	Average	Bottom Quintile
Western	2,464	1,126	2,728	875
Central	1,741	1,545	1,783	815
Southern	1,459	1,136	1,680	847
North Eastern	2,026	1,185	2,027	897
North Western	1,376	863	1,655	845
North Central	1,375	756	1,533	928
Uva	1,068	636	1,740	955
Sabaragamuwa	2,231	945	2,201	890

Source: World Bank, based on 1999/2000 Sri Lanka Integrated Survey.

Annex 2, Table 16: The General Education System, 1997

Province	Square Land Area (km)	Number of Schools	Number of Students	Number of Teachers	Schools per Square km	Average School Size	Student Teacher Ratio
Western	3,593	1,476	885,128	36,538	2	600	24
Central	5,575	1,530	564,415	25,724	4	369	22
Southern	5,383	1,216	557,584	26,225	4	459	21
Northern	8,290	848	265,120	8,618	10	313	31
Eastern	9,361	947	351,375	13,150	10	371	27
North Western	7,506	1,301	498,920	23,730	6	383	21
North Central	9,741	778	276,544	12,194	13	355	23
Uva	8,335	835	305,657	14,092	10	366	22
Sabaragamuwa	4,921	1,189	419,365	19,318	4	353	22
Sri Lanka	62,705	10,120	4,124,365	179,589	6	408	23

Source: Aturupane, H. Education and Poverty in Sri Lanka, 1998.

Note: Calculated from Ministry of Education and Higher Education Statistics and Surveyor Generals Department.

Annex 2, Table 17: Numbers of Children not Attending School, Age 6-14, by Province

Province	Female	Male	Total
Western	2,986	2,108	5,094
Central	1,979	2,425	4,404
Southern	3,862	3,022	6,884
North Eastern	1,508	1,817	3,325
North Western	3,360	2,087	5,447
North Central	1,514	1,029	2,543
Uva	2,025	1,441	3,466
Sabaragamuwa	4,358	2,972	7,330
Sri Lanka	21,592	16,901	38,493

Source: Survey on Non-schooling Children, Ministry of Education and Higher Education, 1998.

ANNEX 2, TABLE 18: ESTIMATED COSTS AND RETURNS FROM SELECTED CROPS (RS PER ACRE PER SEASON)

Cost of Production*	Paddy (Irrigated)	Pole Bean (Rainfed)	Bitter Gourd (Irrigated)	Okra (Irrigated)
Labor	7,038	21,125	26,399	19,167
Power	3,164	-	5,102	4,090
Material Input	3,638	18,166	21,279	4,496
Total Cost	13,840	39,291	52,780	27,753
Yield	2,065	3,160	5,766	4,822
Farmgate Price	9.70	22.41	17.27	12.33
Gross Returns	20,007	70,816	99,579	59,455
Net Returns	6,166	31,525	46,799	31,702

*Including imputed cost of farmer-owned input.

Source: Department of Agriculture, Cost of Cultivation of Agricultural Crops, Maha 1999-2000.

Annex 2, Table 19: Income and Human Poverty by Province (Percentage of population)

	Population 1994 (millions)	Population density per sq. km (1997)	Income poverty incidence	Deaths before age 40	Adult illiteracy	No access to safe water	Children not fully immunized	Births not in institutions	No access to electricity	No access to safe sanitation	No access to hygienic toilet facilities (1994)	Road density (km/1000 population) rural roads (1995)
Western	4.7	1327	14	0.09	6.2	18.2	14.4	3.0	35.3	11.2	19	1.89
Central	3.9	422	28	0.10	15.3	26.1	13.8	21.5	65.0	24.4	40	3.60
Southern	2.6	449	26	0.07	11.2	35.0	10.4	8.6	59.2	20.3	37	2.50
N. Western	2.0	295	34	0.09	8.1	34.6	3.8	12.8	68.7	30.3	42	5.80
N. Central	1.3	116	31	0.15	9.6	48.0	2.1	20.0	72.2	31.7	56	8.84
Uva	1.0	137	37	0.10	17.1	44.6	12.3	36.1	73.5	34.1	57	4.58
Sabara-gamuwa	1.1	362	32	0.07	11.2	32.1	12.0	16.9	74.4	22.7	57	3.58

Sources: Kelegama, Saman (2001), Poverty Situation and Policy in Sri Lanka (mimeo).

Asian Development Bank (2001), Poverty Reduction in Sri Lanka: Maximizing the Asian Development Bank's Contribution

Annex 3a: Gross National Product at Constant (1996) Factor Cost Prices (Growth rates)

	2001	2002	2003	2004	2005	2006
	Provisional Projections					
Agriculture, Forestry and Fishing	-3.3	1.7	2.0	1.7	2.0	2.0
Agriculture	-4.1	1.5	1.5	1.2	1.7	1.7
Tea	-3.5	2.4	1.5	0.5	1.5	1.5
Rubber	1.0	4.4	2.0	1.0	2.0	2.0
Coconut	-8.3	-13.1	3.0	2.0	3.0	3.0
Paddy	-5.8	6.2	2.0	0.5	2.0	2.0
Other	-2.2	2.1	1.1	1.5	1.4	1.4
Forestry	5.0	3.0	3.0	2.0	2.0	2.0
Fishing	-3.8	2.5	4.0	4.2	3.8	3.5
Mining and Quarrying	1.4	-1.3	7.8	9.6	9.7	9.7
Manufacturing	-4.1	2.6	4.5	4.9	5.2	5.9
Construction	2.5	2.0	8.0	9.8	9.9	9.9
Electricity, Gas, Water and Sanitary Services	-3.0	-1.9	7.6	7.6	7.9	7.9
Transport, Storage and Communication	5.0	7.1	8.9	10.2	10.2	10.1
Wholesale and Retail Trade	-6.4	3.2	8.7	10.6	9.9	9.0
Imports	-10.3	5.1	8.9	12.8	11.5	9.3
Exports	-8.1	3.6	7.0	8.4	9.0	9.7
Domestic	3.5	3.5	9.0	9.0	8.5	8.5
Banking, Insurance and Real Estate	5.0	3.9	4.3	4.9	5.4	6.2
Ownership of Dwellings	1.4	1.4	1.5	1.6	1.7	1.8
Public Administration and Defense	1.0	0.2	0.2	0.2	0.2	0.2
Services, (n.e.s.)	2.2	2.4	3.6	6.2	9.9	12.1
Gross Domestic Product	-1.5	3.0	5.5	6.5	6.8	7.0

Source: Central Bank of Sri Lanka, December 2002

Annex 3b: Monetary Program 2001 to 2006 (Rs. Billion)

	2001	2002	2003	2004	2005	2006
	Provisional Projections					
Broad Money (M2b)	549	632	717	817	925	1,038
Narrow Money	122	138	154	174	195	217
Quasi Money	427	493	563	643	729	821
Net Foreign Assets	77	127	186	255	328	388
Monetary Authority	88	126	175	244	316	376
Commercial Banks	-10	7	11	11	12	12
Net Domestic Assets	472	504	531	562	597	651
Reserve Money	113	128	144	165	186	209
Money Multiplier	4.88	4.94	4.96	4.96	4.96	4.96
Income Velocity, end year	2.55	2.48	2.49	2.49	2.49	2.49

Source: Central Bank of Sri Lanka, December 2002

Annex 3c: Sri Lanka: Balance of Payments (US\$ million, including FCBU in Commercial Banks)

	2001	2002	2003	2004	2005	2006
	Provisional	Projections				
A. Trade Balance	-1157	-1245	-1525	-1683	-1817	-1797
Exports	4817	4793	5310	6052	6913	7765
Imports	5974	6039	6835	7736	8730	9561
B. Services, net	206	149	148	103	93	81
Receipts	1366	1063	1140	1228	1339	1456
Payments	1160	914	992	1124	1246	1375
C. Income, net	-280	-250	-265	-301	-308	-318
Receipts	93	86	123	164	186	204
Payments	373	337	388	465	495	522
D. Goods, Services and Income, net	-1231	-1346	-1642	-1880	-2033	-2034
E. Current Transfers, net	959	1007	1051	1098	1137	1172
Private Current Transfers, net	938	982	1028	1073	1113	1151
Official Current Transfers, net	22	26	24	25	24	21
F. Current Account	-272	-339	-590	-783	-896	-862
G. Capital Account	197	57	54	55	67	61
Private Capital Transfers, net	9	9	9	10	11	12
Of which: Debt forgiveness	4					
Official Capital Transfers, net	40	48	44	46	56	49
Acquisition/disposal of non financial/non produced assets	148					
H. Financial Account	338	524	593	830	913	880
Long-term (net):	163	499	631	767	836	820
Direct Investment	172	233	380	312	351	354
Foreign Direct Investment, Net	82	228	230	262	301	329
Privatization Proceeds	90	5	150	50	50	25
Private Long-term, net	-258	103	98	161	89	153
Inflows	44	220	236	324	268	362
Outflows	301	117	138	163	179	209
Government, Long-term, net	248	162	153	294	396	314
Inflows	575	575	500	632	722	659
Outflows	327	412	347	338	326	346
Short-term:	175	25	-38	63	77	60
Portfolio Investment, net	-11	30	40	51	60	60
Private Short-term, net	-18	25	22	12	17	0
Commercial Banks, net	254	-80	-100	0	0	0
Government Short-term, net (vi)	-50	50	0	0	0	0
I. SDR Allocations	0	0	0	0	0	0
J. Valuation Adjustments	0	0	0	0	0	0
K. Errors and Omissions	-43	0	0	0	0	0
L. Overall Balance	220	242	57	103	83	79
M. Financing	-220	-242	-57	-103	-83	-79

Change in Net Official Reserves	-220	-242	-511	-561	-545	-416
Change in Gross Official Reserves	-320	-319	-451	-467	-482	-400
Use of Fund Credit	53	77	-61	-94	-63	-15
Purchases	131	126	0	0	0	0
SBA	131	126	0			
CFF	0	0	0	0	0	0
SAF I, II, III, ESAF	0	0	0	0	0	0
Repurchases	78	49	61	94	63	15
Change in CBSL foreign liab. (ACU, Bilateral Balances, SAF a/c)	47	0	0	0	0	0
Financing Gap	0	0	455	458	462	337
N. Overall Balance (with required financing to fill the gap)	220	242	511	561	545	416

Source: Central Bank of Sri Lanka, December 2002

Annex 4a: Summary of Government Fiscal Operations (Rs. Billion)

	2001 Prov	2002 Revised Budget	2003 Budget	2004 Estimated	2005 Estimated	2006 Estimated
Total Revenue	231.5	262.1	303.9	366.0	433.2	500.9
Tax	204.7	226.4	264.8	325.5	385.0	452.0
Non-Tax	26.7	35.7	39.2	40.5	48.2	48.9
Total Expenditure & Net Lending	(383.7)	(402.0)	(438.4)	(493.7)	(550.7)	(612.4)
Recurrent	(300.4)	(330.1)	(344.6)	(367.7)	(391.6)	(424.5)
Capital & Net Lending	(83.2)	(71.9)	(93.8)	(126.0)	(159.1)	(188.0)
o/w Public Investment	(82.7)	(71.5)	(95.0)	(128.6)	(162.5)	(191.3)
Current Account Balance	(69.0)	(68.0)	(40.7)	(1.7)	41.7	76.5
Primary Balance	(57.9)	(22.3)	(4.3)	7.2	19.5	28.1
Overall Balance (Before Grants)	(152.2)	(139.9)	(134.4)	(127.7)	(117.5)	(111.5)
Financing	152.2	139.9	134.4	127.7	117.5	111.5
Foreign Grants	5.5	7.5	9.0	11.5	13.0	13.0
Foreign Borrowing	14.5	32.2	24.7	41.7	48.0	56.9
Disbursements – Concessional	42.5	46.0	60.0	86.9	94.7	101.7
Commercial Borrowings		24.2				
Disbursements – Defence						
Amortization	(27.9)	(38.1)	(35.3)	(45.2)	(46.8)	(44.7)
Net Domestic Borrowings	123.6	93.2	73.3	69.6	52.5	36.5
Non-Bank	75.0	98.1	87.3	69.6	52.5	36.5
Bank	48.6	(4.8)	(14.0)			
Privatization	8.6	7.0	27.5	5.0	4.0	5.0

Summary of Government Fiscal Operations as a % GDP

Total Revenue	16.5	16.8	17.1	17.9	18.7	19.1
Tax Revenue	14.6	14.5	14.9	15.9	16.6	17.2
Total Expenditure & Net Lending	(27.4)	(25.7)	(24.6)	(24.2)	(23.7)	(23.4)
Recurrent	(21.5)	(21.1)	(19.3)	(18.0)	(16.9)	(16.2)
Capital & Net Lending	(5.9)	(4.6)	(5.3)	(6.2)	(6.9)	(7.2)
o/w Public Investment	(5.9)	(4.6)	(5.3)	(6.3)	(7.0)	(7.3)
Current Account Balance	(4.9)	(4.3)	(2.3)	(0.1)	1.8	2.9
Primary Balance	(4.1)	(1.4)	(0.2)	0.4	1.0	1.1
Overall Balance	(10.9)	(8.9)	(7.5)	(6.3)	(5.1)	(4.3)
Foreign Grants	0.4	0.5	0.5	0.6	0.6	0.5
Foreign Borrowings	1.0	2.1	1.4	2.0	2.1	2.2
Domestic Financing	8.8	6.0	4.1	3.4	2.3	1.4
Bank Financing	3.5	(0.3)	(0.8)	0.0	0.0	0.0
Privatization Proceeds	0.6	0.4	1.5	0.2	0.2	0.2

Source: Ministry of Finance, Fiscal Policy Department, November 2002.

Annex 4b: Government Revenue as a % of GDP

	2001 Prov	2002 Revised Budget	2003 Budget	2004 Estimated	2005 Estimated	2006 Estimated
I. Tax Revenue	14.6	14.5	14.9	15.9	16.6	17.2
1. Income Tax	2.5	2.5	2.7	2.9	3.1	3.5
Non Corporate	0.9	0.9	0.8	0.9	1.0	1.2
Corporate	1.5	1.2	1.1	1.2	1.3	1.5
Withholding/Save the Nation	0.1	0.5	0.8	0.8	0.8	0.8
Contribution						
2.1 Stamp Duty and Property Transfer	0.6	0.1				
2.2 Debit Tax		0.1	0.2	0.2	0.2	0.2
2.3 Port devt Levy		0.2	0.3	0.3	0.3	0.3
3. Taxes on TBs held by CBSL						
4. Taxes on Goods & Services	9.7	9.7	9.7	10.7	11.2	11.5
4.a Turnover Taxes/GST/VAT	3.3	4.6	6.8	7.7	8.1	8.3
Manufacturing	0.9	1.0	1.4	1.6	1.6	1.7
Non Manufacturing	1.0	1.4	1.7	1.9	2.0	2.1
Imports	1.3	2.1	3.5	4.0	4.3	4.3
VAT on Retail Sector				0.1	0.1	0.1
VAT/TT on Banking and Finance	0.1	0.0	0.2	0.1	0.1	0.1
4.b Excise	3.2	3.3	2.8	2.8	2.9	3.0
Liquor	0.7	0.7	0.6	0.6	0.7	0.8
Tobacco/Cigarettes	1.4	1.4	1.2	1.2	1.2	1.2
Other	1.1	1.3	1.0	1.0	1.0	1.0
4.c License Fee/Motor Vehicle Tax/Other	0.1	0.0	0.2	0.1	0.1	0.1
4.d National Security Levy	3.1	1.8				
5. Tax on External Trade	1.9	1.8	1.9	1.8	1.8	1.8
5.a Imports	1.9	1.8	1.9	1.8	1.8	1.8
5.b License Fee on Import/Exports			0.0	0.0	0.0	0.0
II. Non Tax Revenue	1.9	2.3	2.2	2.0	2.1	1.9
6. Property Income	1.1	1.5	1.3	1.3	1.5	1.3
CB Profits	0.4	0.6	0.6	0.6	0.6	0.5
Interest	0.4	0.6	0.5	0.5	0.4	0.4
Surplus of Telecom						
Profits and Dividends	0.2	0.2	0.1	0.2	0.4	0.4
Rent	0.1	0.1	0.1	0.0	0.0	0.0
7. Fees and Charges	0.3	0.3	0.3	0.2	0.2	0.2
8. Other	0.5	0.6	0.6	0.4	0.4	0.3
Social Security Contribution	0.3	0.2	0.2	0.2	0.2	0.2
Non Industrial Sales	0.1	0.2	0.1	0.1	0.1	0.1
Fines and Forfeitures	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.1	0.1	0.2	0.0	0.0	0.0
III. Total Revenue	16.5	16.8	17.1	17.9	18.7	19.1

Source: Ministry of Finance, Fiscal Policy Department, November, 2002.

Annex 4c: Government Current Expenditure as % of GDP

	2001	2002	2003	2004	2005	2006
	Prov	Revised Budget	Estimate	Estimate	Estimate	Estimate
I. Current Expenditure	21.5	21.1	19.3	18.0	16.9	16.2
1. Purchase of Goods & Services	10.1	9.0	7.7	7.4	7.2	7.0
Salaries and Wages	5.6	5.7	5.1	5.2	5.0	5.0
(o/w Civil – Central Government)	(1.6)	(1.5)	(1.4)	(1.5)	(1.5)	(1.5)
(o/w Civil – Provincial Government)	(1.8)	(1.9)	(1.7)	(1.8)	(1.8)	(1.9)
(o/w Defence)	(2.2)	(2.2)	(2.0)	(1.9)	(1.7)	(1.6)
	(4.9)					
Other Good & Services	4.5	3.2	2.6	2.2	2.2	2.1
(o/w Civil – Central Government)	(1.7)	(1.3)	(1.1)	(1.0)	(1.1)	(1.1)
(o/w Civil – Provincial Government)	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)
(o/w Defence)	(2.7)	(1.8)	(1.5)	(1.2)	(0.9)	(0.9)
2. Interest Payments	6.7	7.5	7.3	6.6	5.9	5.3
Domestic	5.5	6.4	6.1	5.5	4.8	4.3
Restructuring Bonds	0.4	0.4	0.3	0.3	0.3	0.2
Foreign	0.8	0.7	0.8	0.8	0.8	0.8
3. Subsidies and Transfers	4.7	4.6	4.3	4.0	3.8	3.8
Public Corporations	0.3	0.3	0.3	0.3	0.3	0.3
(o/w Railways & Postal)	(0.2)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Public Institutions	0.5	0.8	0.7	0.7	0.6	0.6
Payments to local Authorities	0.1	0.0	0.0	0.0	0.0	0.0
Households	3.7	3.4	3.2	2.9	2.8	2.8
Pensions	1.9	2.0	1.9	1.8	1.8	1.8
Payments – Disabled Soldiers	0.2	0.2	0.2	0.2	0.2	0.2
School Meal/Nutrition/Jansaviya	0.0	0.0	0.0	0.0	0.0	0.0
School Uniforms	0.1	0.0	0.0	0.0	0.0	0.0
Samurdhi	0.9	0.6	0.5	0.4	0.4	0.4
Fertilizer Subsidy	0.3	0.1	0.1	0.1	0.1	0.1
Internally Displaced Persons/Refugee	0.2	0.1	0.1	0.1	0.1	0.1
Other	0.2	0.3	0.3	0.2	0.2	0.2
Private Inst/Abroad/Other	0.1	0.0	0.1	0.1	0.1	0.1

Source: Ministry of Finance, Fiscal Policy Department, November, 2002.

Annex 4d: Government Capital Expenditure & Net Lending as % of GDP

	2001 Prov	2002 Revised Budget	2003 Estimate	2004 Estimate	2005 Estimate	2006 Estimate
I. Capital Expenditure	4.8	3.8	4.6	5.4	5.9	6.2
1. Acquisition of Fixed Assets	2.4	2.3	2.9	3.3	3.6	3.7
2. Capital Transfers	2.5	1.4	1.7	2.1	2.4	2.5
Public Corporations	0.6	0.3	0.4	0.5	0.6	0.6
Public Institution	1.3	0.8	1.0	1.2	1.4	1.5
Local Governments/Pro Councils	0.6	0.3	0.3	0.3	0.4	0.4
Other	0.0	0.0	0.0	0.0	0.0	0.0
3. Under Expenditure						
II. Lending Minus Repayments	1.1	0.8	0.7	0.8	0.9	1.0
On Lending – Government Corporations	1.1	0.8	0.7	0.9	1.1	1.1
On Lending – Private Sector Development						
Advance Account Net Lending	0.1	0.1	0.1	0.0	0.0	0.0
Restructuring Costs	0.3	0.3	0.3	0.3	0.3	0.2
Repayment of on Lending	(0.4)	(0.4)	(0.5)	(0.5)	(0.4)	(0.4)
III. Total Expenditure	27.4	25.7	24.6	24.2	23.7	23.4

Source: Ministry of Finance, Fiscal Policy Department, November, 2002.

Annex 4e: Government Current Expenditure by Functional Classification % of GDP

	2001 Prov	2002 Revised Budget	2003 Estimate	2004 Estimate	2005 Estimate	2006 Estimate
Current Expenditure	21.5	21.1	19.3	18.0	16.9	16.2
1. Economic Services	1.1	1.0	0.9	0.8	0.9	0.8
Agriculture, Fisheries & Irrigation	0.6	0.5	0.4	0.4	0.4	0.4
Industry	0.0	0.0	0.0	0.0	0.0	0.0
Transport & Communication	0.4	0.3	0.2	0.2	0.3	0.3
Other Economic Services	0.1	0.1	0.2	0.2	0.2	0.2
2. Social Services	6.3	6.9	6.1	5.8	5.5	5.5
Education	1.7	2.1	1.8	1.8	1.8	1.9
Health	1.1	1.3	1.1	1.1	1.1	1.2
Welfare & Community Services	3.6	3.5	3.2	2.9	2.6	2.4
3. General Public Service	5.9	5.4	4.8	4.2	3.9	3.7
4. Other	8.2	7.9	7.6	7.1	6.6	6.1

Source: Ministry of Finance, Fiscal Policy Department, November, 2002.

Annex 4f: Government Capital Expenditure & Lending by Functional Classification as % of GDP

	2001 Prov	2002 Revised Budget	2003 Estimate	2004 Estimate	2005 Estimate	2006 Estimate
Capital Expenditure & Lending	5.9	4.6	5.3	6.3	7.0	7.3
1. Economic Services	3.9	2.9	3.7	4.2	4.5	4.7
Agriculture, Fisheries & Irrigation	0.5	0.5	0.6	0.6	0.8	0.8
Industry	0.0	0.1	0.0	0.0	0.0	0.0
Water Supply	0.2	0.2	0.1	0.2	0.3	0.3
Energy	0.9	0.6	0.6	0.7	0.8	0.9
Transport & Communication	1.5	1.1	1.1	1.4	1.5	1.7
Other Economic Services	0.8	0.5	1.3	1.1	1.0	0.8
2. Social Services	1.0	1.2	1.4	1.8	2.1	2.2
Education	0.3	0.5	0.5	0.6	0.8	0.8
Health	0.3	0.3	0.4	0.5	0.5	0.6
Housing	0.2	0.1	0.2	0.3	0.3	0.3
Welfare & Community Services	0.2	0.2	0.2	0.3	0.3	0.3
3. General Public Service	0.5	0.3	0.2	0.3	0.3	0.4
4. Other	0.5	0.2	0.0	0.0	0.0	0.0

Source: Ministry of Finance, Fiscal Policy Department, November, 2002.

Annex 5: Priority Actions for Relief, Rehabilitation and Reconciliation, 2002 to 2005

Area	Objective/Strategy	Priority Actions	Reforms Initiated Starting
Reducing Conflict-Related Poverty	a) Forge a lasting Peace	<ul style="list-style-type: none"> • Cease-fire agreed • Negotiation of a political settlement • Set up Interim administration • Evolve an inclusive political and constitutional framework based on democracy, respect for human rights and rule of law • Undertake peace building efforts utilizing effective and culturally appropriate strategies 	2002 2003 2004 2003 2002
	b) Consolidated Peace Process	<ul style="list-style-type: none"> • Launch post-conflict participatory planning exercise inclusive of strategies for integration of demobilized soldiers and ex-combatants into civil society and mainstream economy • Strengthen de-mining capacities and action for civilian purposes including safe return of IDPs • Move towards acceding to Ottawa convention • Prepare plans for reconstruction of economic and social infrastructure in NE • Ensure freedom of movement of people • Maintain RRR dialogue in search for more effective partnerships for peace also involving interim administration 	2002 2002 2004 2002 2002 2002
	c) Deliver more effective relief to the victims of ethnic conflict	<ul style="list-style-type: none"> • Continue relief and other humanitarian assistance to affected populations in conflict areas based on need • Allow freedom of movement of goods except for prohibited items with a view to lessening civilian hardships • Increase the frequency and capacity of transport services to and from conflict affected areas 	2002 2002 2002
	d) Foster better institutional coordination so as to improve relief delivery and rehabilitation efforts	<ul style="list-style-type: none"> • A high-level national Coordinating Committee for Relief, Reconstruction and Reconciliation will be established • Government to establish national, provincial and district coordinating committees on relief and rehabilitation 	2002 2002
	e) Ensure that conflict-affected people can meet basic needs	<ul style="list-style-type: none"> • Review, revise and implement relief and assistance packages taking into account cost increases since 1990 • Better coordination and rationalization of services by different agencies and work towards unified assistance programs 	2003 2003
	f) Promote voluntary resettlement of all IDPs by 2005	<ul style="list-style-type: none"> • Provide incentives for inhabitants in welfare centers to move to resettlements/relocations by restructuring assistance packages • Develop policies towards better integration of re-settlers and re-locatees with surrounding communities • Accelerate the de-mining program, with UN support • Resettle as many internally displaced persons as possible, with financial support for both resettlement and initial funding to restore livelihoods • Skill development of resettled/relocated people 	2003 2003 2002 2002 2002
	g) Fostering Rehabilitation in Conflict-Affected Areas	<ul style="list-style-type: none"> • Government agencies and others to undertake projects to restore essential economic and social services and foster income generation for the poor and displaced • Improve capacities and resources of relevant agencies 	2002 2002

Area	Objective/Strategy	Priority Actions	Reforms Initiated Starting
	g) Fostering Rehabilitation in Conflict-Affected Areas	<ul style="list-style-type: none"> • Undertake projects to develop agriculture, fisheries and other economic activities as well as social services in the affected areas • Drinking water, primary health care and schooling to be given priority in initial sectoral reconstruction efforts • Provide incentives for qualified personnel to serve in the conflict affected areas • Conduct projects only with full consultation and participation of civil society and parties to the conflict • Establish a post-conflict trust fund for emergency rehabilitation needs 	<p style="text-align: center;">2002</p> <p style="text-align: center;">2002</p> <p style="text-align: center;">2003</p> <p style="text-align: center;">2002</p> <p style="text-align: center;">2003</p>
	h) Promote Post-conflict Development planning	<ul style="list-style-type: none"> • Help develop appropriate data bases • Capacity building of planning/development personnel for post-conflict planning exercise • A Needs Assessment for Reconstruction of the North and East will be undertaken with the assistance of the donor community • A special meeting of the donor community will be held to mobilize extraordinary financing to rebuild the North and the East • Major, grant-financed, reconstruction programs will be mounted in the North and the East, in accordance with priorities identified in the Needs Assessment, and in line with locally identified priorities and procedures for reconstruction efforts. 	<p style="text-align: center;">2003</p> <p style="text-align: center;">2003</p> <p style="text-align: center;">2002</p> <p style="text-align: center;">2003</p> <p style="text-align: center;">2003</p>
	i) Foster social harmony	<ul style="list-style-type: none"> • Strengthen human rights commission and establish human rights ombudsman • Expedite the issue of valid identity documents through computerization of services • Promote multiculturalism in schools • Textbook Review Committee to review books for biased treatment of ethnic issues • Promote social harmony and mutual understanding among different ethnic groups via teacher training and university teaching and research • Improve bilingualism among public servants • Strengthen the role of English as a link language • No. of qualified interpreters and translators to be increased • Govt., NGO and private sector partnerships in promoting ethnic harmony • Expand number of trained court interpreters and translators • Government and the private sector to sponsor NGO/CBO inter-cultural social and business promotion events to foster ethnic understanding and national identity 	<p style="text-align: center;">2003</p> <p style="text-align: center;">2003</p> <p style="text-align: center;">2002</p> <p style="text-align: center;">2004</p> <p style="text-align: center;">2003</p> <p style="text-align: center;">2003</p> <p style="text-align: center;">2002</p> <p style="text-align: center;">2003</p> <p style="text-align: center;">2002</p> <p style="text-align: center;">2003</p> <p style="text-align: center;">2003</p>

Annex 6a: External Assistance for Poverty Reduction: Anticipated Disbursements from Existing Major Project Commitments, 2002 to 2006 (*)

Sector	Donor/Project Name	Projected Disbursement (US\$ Mn)				
		2002	2003	2004	2005	2006
Agriculture & Rural Development	Matale Regional Economic Advancement Project	1	2	2	2	2
	North East Irrigated Agriculture	3	7	7	6	-
	Mahaweli Restructuring & Rehabilitation Project	6	10	6	-	-
	Walawe Left Bank Irrigation, Upgrading & Extension Project (II)	6	10	15	20	18
	Mahaweli System C Upgrading Project	2	4	8	10	4
	2nd Perennial Crops Dev. Project	2	4	5	1	-
	Tea Development Project	5	7	7	5	-
	Protected Area Management & Wildlife Conservation Project	1	2	2	2	2
	Upper Watershed Management Project	2	4	4	3	-
	Forest Resources Management Project	1	3	5	5	5
	North - East Community Restoration Project	1	4	6	10	4
	Southern Province Regional Economic Advancement Project	-	2	4	8	8
	Hambantota Irrigation Rehabilitation Project	1	2	2	2	2
	Emergency Reconstruction Program	-	8	8	8	7
	31	69	81	82	52	
Industry	Small & Micro Industries Leader and Entrepreneur Promotion Project 2 (SMILE)	10	6	-	-	-
	Environmentally Friendly Solution Fund (E-FRIENDS)	5	7	-	-	-
	Poverty Alleviation Micro Finance	-	1	3	3	3
	SME Sector Development Program	10	1	3	3	-
	SME Credit Assistance	1	15	30	30	39
	26	30	36	36	42	
Transport & Communication	Baseline Road II	6	6	-	-	-
	Southern Provincial Roads Improvement Project	7	7	-	-	-
	Road Network Improvement Project	6	13	14	17	18
	Southern Transport Development Project	1	33	52	72	90
	Ratnapura – Bandarawela Road Rehabilitation Project	6	6	2	-	-
	Bridges Reconstruction and Rehabilitation Project	1	4	4	3	-
	Port of Colombo North Pier Development Project	8	7	5	-	-
	Port of Colombo North Pier Development Project II	-	3	10	10	14
	Urgent Upgrading of Colombo Port	7	7	2	-	-
	Colombo Port Expansion TA	-	5	5	-	-
	Bandaranaike International Airport Development Project	-	10	15	15	20
	Telecommunication Network Expansion Project	10	10	12	-	-
	Telecommunication Network Expansion Colombo Metro Project II	-	-	30	50	27
	52	111	151	167	169	
Energy	Colombo Grid Substation	-	7	11	11	12
	Kukule Ganga Hydropower Project	20	20	20	20	6
	Kelanitissa Combined Cycle Power Project	17	7	8	-	-
	Transmission & Substation Development Project I	8	7	2	-	-
	Transmission & Substation Development Project II	2	4	5	6	7
	Medium Voltage Distribution Network Reinforcement project	7	8	8	8	9
	Colombo City Electricity Distribution Project	-	2	8	10	10
	Upper Kotmale Hydro Power Project	-	3	10	40	40
	Samanalawewa Hydro Power	1	5	6	8	-
	Renewable Energy for Rural Economic Development	-	8	10	15	15
Muthurajawela Oil Tank Farm Project	10	30	18	-	-	
	65	101	106	118	99	

Other Economic Services	Indian Line of Credit	6	30	30	32	-
	Private Sector Infrastructure Development Project	16	12	3	3	3
	The Greater Colombo Flood Control & Environment Improvement Project (III)	5	8	10	10	4
	Lunawa Environment Improvement and community Development Project	-	2	5	8	8
	Urban Dev. & Low income Housing Project	15	16	10	10	-
	Coastal Resource Management Project	3	9	10	12	3
	Water Resources Management Project	-	4	6	6	4
		45	81	74	81	22
Education	General Education II	13	15	16	-	-
	Secondary Education Modernization Project	2	6	12	16	18
	Teacher Education and Teacher Development Project	7	7	8	-	-
	Science & Tech. Personnel Dev. Project	2	4	4	3	3
	Skills Development Project	1	4	6	8	9
		25	36	46	27	30
Health	National Blood Transfusion Service Project	-	1	2	3	3
	Development and Health facilities in Colombo	-	1	3	4	4
		0	2	5	7	7
Water Supply	Town North of Colombo Water Supply Project	5	10	10	10	6
	Kaluganga Water Supply Project	13	20	25	25	4
	Greater Kandy Water Supply Project	1	3	8	8	8
	3rd Water Supply & Sanitation Sector Project	10	12	12	14	14
	Reduction of Non Revenue Water Project	-	3	5	6	8
	Greater Galle Water Supply Project	2	7	10	10	-
		31	55	70	73	40
Services	Legal and Judicial Reform Project	1	3	5	6	-
	Central Bank of Sri Lanka Strengthening Project	10	3	6	7	-
	Private Sector Development Program II	25	50	-	-	-
	Program Loan Agreement - India	-	20	-	-	-
		36	76	11	13	0
Grand Total		311	561	580	604	461

* Only those projects/programs which have an estimated undisbursed loan/grant amounts in excess of \$ 10 million as at the end of 2002 are listed in this table

Source: Ministry of Finance, External Resources Department

Annex 6b: External Assistance for Poverty Reduction: Anticipated New Major Project/Program Commitments, 2003 to 2006

Sector	Project Name	Anticipated year of Commitment	Total Value of Contributions US\$ Mn.	Projected Disbursements			
				2003	2004	2005	2006
Agriculture & Rural Development	Land & Water Resources Administration	2006	50	-	-	-	5
	Estate/Rural Integrated Development Project	2004	10	-	1	2	2
	Dry Zone Irrigated Rehabilitation Project	2003	40	-	3	7	12
	Plantation Development Project	2003	60	5	8	10	12
	Aquatic Resource Management Project	2003	20	2	4	4	5
	Rural Poverty Reduction Program	2004	40	-	1	5	11
				7	17	28	47
Industry	Rural Finance Sector Development Project	2003	40	1	3	9	14
	E Friendly II	2006	40	-	-	-	-
	Small & Medium Enterprise Development	2006	50	-	-	-	3
	SMILE II	2004	50	-	1	8	14
	Industrial Estate Development	2006	50	-	-	-	-
				1	4	17	31
Transport & Communication	Colombo Kandy Expressway (*)	2005	250	-	-	-	-
	Baseline III	2004	35	-	-	4	9
	Road Sector Development Project	2003	65	3	8	15	25
	Primary Road Development	2004	110	-	-	5	15
	Outer Circular Road	2005	150	-	-	-	8
	Provincial Roads	2003	50	-	4	10	15
	Colombo Traffic Infrastructure & Management	2006	60	-	-	-	-
	Bridge Rehabilitation in the Northern Region	2003	30	5	10	10	5
	Railway PPP (*)	2004	200	-	-	-	-
	Colombo Port South Harbor Development (*)	2005	400	-	-	-	-
	Galle Port Development	2004	150	-	-	5	20
	Oluvil Harbour Development	2004	20	-	3	6	8
				8	25	55	105
Energy	Laxapana Rehabilitation Stage III	2004	12	-	2	4	4
	Rural Electrification Program	2004	70	-	3	7	16
	Power Sector Development Program	2003	120	60	60	-	-
	Transmission & Distribution Network Development	2006	40	-	-	-	-
	Power Sector Development Project	2003	70	3	8	15	20
	Kerawalapitiya Power Development (*)	2003	200	-	-	-	-
	Transmission connection to Kerawalapitiya plant	2003	25	-	5	9	11
	Coal Power Development (*)	2005	350	-	-	-	-
				63	78	35	51
Other Economic Services	Regional infrastructure development	2005	70	-	-	2	10
	Sustainable Eco-management Project	2005	40	-	-	5	10
	Eastern Province Coastal Community Development Project	2003	20	1	3	5	7
	Environment friendly tourist infrastructure and community development project	2004	35	-	-	4	8
	Road & Water Supply Program Loan	2005	100	-	-	50	50
	Services for the Urban Poor	2005	40	-	-	2	6
	Municipal Services	2006	50	-	-	-	-
	Infrastructure Rehabilitation/Capacity Building in the North East	2005	40	-	-	2	6
	North East Road & Irrigation Rehabilitation	2006	40	-	-	-	3
				1	3	70	100

Education	Post-Secondary Education Development Program	2003	45	2	7	10	14
	Secondary Education computerization Project	2004	40	-	2	8	15
	Modernization of Undergraduate Education	2003	30	1	2	5	10
	Education Sector program	2005	50	-	-	20	20
	Skill Development Program	2006	20	-	-	-	-
				3	11	43	59
Health	National HIV/AIDS Prevention Project	2003	10	1	2	3	3
	Health Sector Program	2004	50	-	20	20	10
	Srimavo Bandaranaike Childrens' Hospital Project	2003	13	5	5	3	-
	Teaching and Base Hospital Equipment	2003	15	2	5	5	3
				8	32	31	16
Water Supply	Secondary Towns & Rural Community Based Water Supply & Sanitation	2003	60	4	8	15	20
	Second Community Water Supply Project	2003	25	3	6	8	8
	Secondary Town PSP	2004	30	-	3	8	9
	Greater Colombo Sewerage Project	2006	120	-	-	-	3
	Kandy Sewerage project	2004	20	-	-	3	7
	Kaluganga Water Supply II	2006	60	-	-	-	-
	Solid Waste Management	2005	20	-	-	-	3
	Towns North of Colombo Water Supply II	2005	40	-	-	-	4
	Integrated Water Supply Scheme in the East	2003	75	10	12	15	18
				17	29	49	72
Services	Private Sector Development II	2004	100	-	25	75	-
	Public Sector Resource Management	2004	30	-	3	8	10
	Public Sector Financial Management and Accounting IT Network	2004	25	-	3	6	8
	Sector Program Loan	2003	100	50	50	-	-
	Economic Reform TA	2003	15	5	5	3	-
	ICT for Development	2003	50	2	8	15	20
	Poverty Reduction Restructuring Credit (PRSC) I -	2003	110	110	-	-	-
	Private Sector Development						
	Poverty Reduction Restructuring Credit (PRSC) II -	2004	90	-	50	40	-
	Public Sector Reform						
	Poverty Reduction Restructuring Credit (PRSC) III -	2005	90	-	-	50	40
	Welfare & Rural Development Reform						
	Poverty Reduction Restructuring Credit (PRSC) IV-	2006	90	-	-	-	50
Public Administration Reform							
Public Sector Reforms Assistance	2005	15	-	-	3	5	
				167	144	200	133
Grand Total				275	343	528	614

Note: This table refers only to those foreign assisted projects/programs which have an estimated loan/grant amount exceeding \$ 10 million

Source: Ministry of Finance, External Resources Department

(*) Financing for these projects are mainly from the Private Sector

Annex 6c: Projected Disbursements of Ongoing and New Projects/Programs by Sector (\$ million), 2003 to 2006

Sector	2003	2004	2005	2006
Agriculture & Rural Development	76	98	110	99
Transport & Communication	119	176	222	274
Energy	104	124	153	150
Industry & Other Economic Services	97	116	140	127
Education	41	48	121	124
Health	10	37	38	23
Water Supply	72	99	122	112
Services	63	80	98	43
Sub-total	517	711	871	901
Total Projected Disbursements, including local costs	670	920	1130	1280
Domestic and Smaller Foreign-funded Projects, Mainly in Social Sectors and Rehabilitation	280	330	390	480
Total Projected Capital Expenditure	950	1250	1520	1760
Capital Expenditure as of % GDP	5.3	6.2	6.8	7.2

Source: Ministry of Finance, December 2002

Annex 7: Main Donor Partners by Poverty Reduction Strategic Thrust

Strategic Thrust	Main Donor Partners
1) Economy-wide Policy for Poverty Reduction	
a. Revenue Reform	IMF, ADB
b. Public Expenditure Reform	IMF, ADB, World Bank, Japan
c. Stemming Quasi-fiscal Losses	ADB, World Bank, IMF
d. Monetary Policy	IMF
<u>Structural Policy Reform</u>	
a. Trade and Investment Policy	ADB, World Bank
b. Labor Market Reform	ILO, ADB, World Bank, IMF
c. Financial Sector Reform	IMF, ADB, Sweden, World Bank
d. Public Enterprise Reform	ADB, World Bank, Japan
e. Power Sector Reform	ADB, World Bank, Japan, Germany
2) Reducing Conflict Related Poverty	
a. Forging Peace	Norway, India
b. Providing More Effective Relief	UNDP, ICRC, UNHCR, bilateral donors
c. Fostering Rehabilitation	Germany, ADB, World Bank, UNDP, EU, bilateral donors
d. Investing in Social Harmony	Netherlands, UNDP, Canada, UK, World Bank, EU, UNICEF
3) Creating Opportunities for Pro-Poor Growth	
<u>Connecting Poor with Dynamic Regions</u>	
a. Developing Ports	Japan, ADB
b. Building a Modern Road Network	Japan, ADB, Sweden, Korea
c. Fostering Road Safety	Sweden, ADB
d. Enhancing Performance of the Bus System	India
e. Modernizing the Railways	Japan, World Bank, India
f. Improving Access to Telecommunications Services	Japan, World Bank
g. Transforming the Postal System	World Bank
h. Bringing internet connectivity	Japan, Sweden, Norway, World Bank
<u>Revitalizing Rural Development</u>	
a. Land Resources Management	World Bank, Sweden
b. Agricultural Development	ADB, World Bank, Japan
c. Transforming Plantations	Netherlands, ADB, Japan, Norway, World Bank
d. Upgrading the Agricultural Marketing System	IFC, World Bank
e. Water Resources Management	ADB, Norway, Japan, Netherlands, EU, World Bank
f. Rural Electrification	Japan, ADB, Sweden, Norway
<u>SME Development</u>	ADB, Japan, Germany, Sweden
<u>Assisting Ultra-Poor Communities Directly</u>	Japan, ADB, World Bank, UNDP, bilateral donors
<u>Mainstreaming Poverty Reduction in Sectoral Development Strategies</u>	
a. Poverty Reduction and Industrial Policy	Japan, Germany, ADB, USAID, Sweden, Norway
b. Poverty Reduction and Tourism Policy	UNDP, WTO
c. Poverty Reduction and Overseas Employment	ILO, UNDP

Strategic Thrust	Main Donor Partners
4) Investing in People	
a. Improving education	World Bank, ADB, UK, Japan, Germany, Norway
b. Improving health and nutrition	Japan, Korea, China, France, Austria, World Bank, Japan, WHO, UNFPA, UNICEF, UNAIDS
c. Better water supplies, sewage and sanitation	ADB, UNDP, Japan, Germany, World Bank
d. Solid waste management	ADB, Germany, Norway, Japan
<u>Social Protection</u>	
a. Caring for the poorest groups	WFP, UNDP, UNICEF, Australia
b. Samurdhi reform	World Bank
<u>Improving Under-served Settlements (USS)</u>	
a. Affordable housing/USS improvement	ADB, Japan, World Bank, Netherlands, Norway
b. Reducing urban pollution	World Bank
5) Pro-poor governance and empowerment	
a. Developing public sector human capital	ADB, World Bank, UNDP, Sweden, Norway, Japan, Australia
b. Decentralization and governance reform	UNDP, Norway, Sweden
c. Community-driven development and environmental sustainability	
-coastal conservation and fisheries	ADB, Netherlands, Norway
-forest management	ADB, Australia
-eco-tourism and wildlife preservation	ADB, Netherlands
d. Making the law accessible to the poor	World Bank
e. Combating gender discrimination	UNDP, ILO, Canada
f. Developing micro-credit services to empower the poor to better manage risk	Japan, ADB, Canada
6) Poverty Monitoring and Evaluation	UNICEF, UNDP, World Bank, Germany

Annex 8a: Poverty Reduction Target Figures

PRIORITY OBJECTIVES AND PERFORMANCE INDICATORS	TARGET FIGURES								
	Year	Unit	Baseline	2001	2002	2003	2004	2005	
Reduce Poverty Incidence									
National headcount index (lower poverty line) *	1995	%	25	25	24	23	22	20	
Real rural wage index (2001=100)	2001	index	100	100	103	107	111	114	
Real plantation wage index (2001=100)	2001	index	100	100	103	107	111	114	
Accelerate Economic Growth									
GDP growth rate	2000	%	6.0	-1.4	3.7	5.5	6.5	6.8	
Per capita GDP	2000	US\$	901	838	866	942	1024	1114	
Investment/GDP ratio	2000	%	28	22	23	24	27	28	
Preserve Macroeconomic Stability									
Rate of inflation	2000	%	6.2	12.0	9.3	7.5	6.5	6.0	
Expenditure/GDP ratio	2000	%	27	27	26	25	24.2	23.6	
Revenue/GDP ratio	2000	%	17	16.5	16.8	17.1	17.9	18.7	
Budget deficit/GDP ratio	2000	%	-9.9	-10.9	-8.9	-7.5	-6.4	-5.1	
Current account balance/GDP Ratio	2000	%	-6.4	-1.7	-2.7	-3.3	-4.1	-4.2	
Gross reserves (in months of importation)	2000	-	1.7	2.5	3.3	3.7	3.9	3.9	
Improve Overall Level of Education									
Net enrollment rate in primary education*	2000	%	96	96	97	98	99	99	
Net enrollment in secondary education	2000	%	75	75	77	80	83	85	
Schools with computer facilities	2000	%	5	6	7	8	9	10	
Schools with library facilities	2000	%	15	25	35	40	45	50	
Students qualifying for A.L. at O.L. exam	2000	%	40	41	41	42	43	44	
Students completing primary school education (up to Grade 5)	2000	%	96	97	97	98	99	100	
Achieve gender equity in primary and secondary schooling*	2000	% female share	52	52	52	52	52	52	
Improve Overall Health Situation									
Reduce infant mortality rate*	1998	per 1,000	17	17	16	16	15	15	
Reduce maternal mortality Rate*	2000	Per 100,000	23	23	22	21	20	19	
Reduce prevalence of under-nutrition among children under 5 years (weight-for-age)	2000	%	29	28	27	26	25	24	
Improve access to reproductive health services (contraceptive prevalence)*	2000	%	72	74	76	77	78	80	
Increase in number of trained nurses	2000	#	19,000	19,000	20,000	20,000	21,000	21,000	
Increase Access to Drinking Water									
Households with safe drinking water	2000	%	70	72	74	75	77	79	
Improve Living Standards In Rural Areas									
Poverty headcount (rural)	1995	%	27	27	26	25	24	22	
Agricultural growth rate	2000	%	1.7	-3.3	1.7	2.0	1.5	1.8	
Access to electricity (households)	2000	%	60	65	68	72	76	80	

*These are the Millenium Development Goals agreed to under the OECD/DAC Guidelines.

Annex 8b: PRS Progress Monitoring Indicators

Area	Input/policy change	Output/Intermediate Indicators	Outcome
Monetary and Fiscal Policy for Poverty Reduction	Fiscal Consolidation Increase revenues, reduce expenditures, contain quasi-fiscal losses and reduce contingent liabilities	Reduce fiscal deficit to 7.5% of GDP in 2003, 6.4% in 2004 and 5.1% in 2005.	Lower inflation
	Of which:		
	a) Increase the equity, efficiency and administrative simplicity of the tax system	Increase domestic revenues from 16.8 % in 2002 to 18.7% of GDP in 2005 by broadening the GST tax base and simplifying the tax system.	Reduced deficit and inflation, Lower government borrowing from the banking system
	b) Phase out multiple tax exemptions and transform BOI into a promotional authority	BOI Transition Plan prepared by 2003; number of BOI tax concession schemes reduced; no new BOI concessions awarded by 2005	Greater uniformity in the enterprise tax regime
	c) Improve efficiency and effectiveness of public expenditures	Public expenditures estimated at 25.7% in 2002 and will be gradually reduced to 23.6% by 2005; Defense expenditures contained at 3% of GDP in 2005; Samurdhi outlays will be reduced in real terms	Lower inflation, Lower budget deficit and reduced government borrowing from the domestic banking system
	d) Eliminate waste and duplication in public spending	By 2005, program budgeting system, medium term expenditure framework and public expenditure information system operable	Greater correspondence between public spending and desired development results
	e) Stem quasi-fiscal losses in the state-enterprise	Financial losses of the major state enterprises reached 2% of GDP in 2000. Financial to be reduced to near zero by 2005; Restructuring program underway for five largest state enterprises	Lower inflation, lower net lending by government, reduced borrowing by state enterprises from domestic banks. Competition in service delivery to reduce costs
	Maintain price stability and a sustainable balance of payments		
	By means of:		
	a) Maintain exchange rate on a market-determined free float as of 2001	Stable real exchange rate achieved by 2004	Economy-wide competitiveness maintained and stable external balance
	b) Ensure expansion of monetary base consistent with price stability	Open market operations used for monetary management and the Monetary Policy Committee expanded	Stable expansion of the money supply; Greater public accountability and awareness of monetary policy decision-making
	c) Enhance capital flows and rebuild reserves	Reserves have fallen to under 3 months of import cover in 2001, raised to nearly 4 months of import cover by 2005	
	d) Reduce short-term domestic borrowing	Public debt to be reduced from 110% of GDP in 2002 to 87% by 2005	Lower inflation and reduced government borrowing from the domestic banking system
Reform Structural Policy to Support Pro-Poor Growth	Trade and Investment Policy Reform		
	Enhance global integration through a liberal trade and foreign investment regime	Existing import monopolies eliminated and protection reduced Uniform and stable protection regime for food products introduced	Increase in the growth rate of imports and exports of goods and services

Area	Input	Output/Intermediate Indicators	Outcome
Reform Structural Policy to Support Pro-Poor Growth	Trade and Investment Policy Reform		
	Enhance consumer's legal protection from unfair market activity instead of relying on direct government market controls	Consumer Protection Authority established by 2003	Increase in consumer welfare
	Widen scope for business entry and exit	New Companies Act and Bankruptcy legislation promulgated by 2005	Decrease in market imperfections
	Labor Market Reform		
	Expand employment opportunities and the flexibility of the labor market	Adoption of new involuntary separation procedures Revision of the Industrial Disputes Act, Factory Ordinance, Termination of Employment of Workman's Act	Increased mobility and productivity of the labor force
	Promote harmonious labor relations	Passage of an Employment and Industrial Relations Act	Increased productivity of the labor force
	Financial Sector Reform		
	a) Improve performance of the two large state banks	People's Bank restructured	Greater stability of the financial system
	b) Improve the soundness of the financial system	New Monetary Law, Banking Law and Exchange Management Law enacted	Increase in the domestic savings rate
	c) Expand investment opportunities in the financial sector	Full foreign ownership of brokerage companies	Increase in equity investment
	d) Expand and enhance the soundness of the pension system	Superannuation Regulatory Commission Established	Cost of the pension system reduced
	Public Enterprise Reforms		
	a) Encourage remaining SOEs to operate as competitively as possible	Liquidation of unviable SOEs	Lower budget deficit and reduced government borrowing from the domestic banking system
	b) Open scope for greater private initiative and public-private partnerships in areas hitherto assigned to SOEs	Independent multi-sector infrastructure regulatory authority established for water supply, power and ports	Increased private investment in physical infrastructure
	c) Stem losses in major SOEs and reform Government's ownership and exclusionary service role in these sectors	Tariffs set to reflect economic costs in major SOEs; Enterprise restructuring and reform program mounted in Posts, CEB, CWE, CPC and rails	Lower budget deficit and reduced government borrowing from the domestic banking system
	Power Sector Reform		
	a) Meet national power demand in an affordable and efficient manner	New Electricity Act Promulgated	Enabling environment created for the power sector
	b) Reform the energy utilities and create greater scope for private sector initiative in energy	Government power companies unbundled into generation, transmission and distribution companies	Increased private investment in the power sector
	c) Maintain a lifeline tariff policy to ensure that a basic allotment of affordable electricity is available to the poor	Lifeline subsidy on first electricity block to be financed through the budget by 2005	Improved access by the poor to power and energy
	d) Ensure that CEB, after unbundling and restructuring, can continue to play a positive role in power sector development	CEB/LECO financially restructured by 2003	Lower budget deficit and reduced government borrowing from the domestic banking system
Reduce Conflict-Related Poverty	a) Forge a lasting Peace	Mutual ceasefire in 2002, followed by peace talks	Pre-conditions satisfied
	b) Consolidating Peace	Establish post conflict planning and mine action by 2003	RRR process facilitated
	c) Deliver more effective relief	Free movement of goods	Increased labor mobility
	d) Ease, within bounds posed by security concerns, restrictions inhibiting private and public relief delivery	Restrictions on currency, food, transport services and civilian crossing days largely eliminated by 2002	Decrease in incidence of poverty and malnutrition in conflict areas

Area	Input	Output/Intermediate Indicators	Outcome
Reduce Conflict-Related Poverty	e) Foster better institutional coordination on relief delivery	National and district coordinating committees on relief and rehabilitation established by 2003	Decrease in incidence of poverty and malnutrition in conflict areas
	f) Promote voluntary resettlement of internally displaced persons to reduce the numbers of those in welfare centers	Mount an emergency relocation program involving funding for mine clearing, resettlement allowance and post-resettlement assistance for sustainable livelihoods.	Decrease in extent of deprivation, isolation and alienation in conflict areas. Clear the backlog of internally displaced households and returnees by 2004.
	h) Fostering Rehabilitation in Conflict-Affected Regions	Rehabilitation projects mounted to improve economic and social services	Increase in quality of life in conflict areas
	i) Foster social harmony by investing in ethnic reconciliation	Identify cards issued to all plantation workers and IDPs by 2005	Process of social integration facilitated
	j) Implement RRR Framework	Establish RRR Secretariat fully functional by 2003	Coordination of RRR activities facilitated
Create Opportunities for Pro-Poor Growth	Connect Poor Regions to Dynamic Markets		
	a) Ensure the poor can efficiently reach dynamic global markets	SLPA restructured by 2004; Southern Port initiated by 2006; Funding Secured for the Galle Port	Increased export opportunities for SMEs
	b) Build a modern expressway network to lower the transport and marketing costs faced by the poor	Construction of southern highway initiated by 2003; Colombo-Kandy expressway and outer circular ring road initiated by 2006	Expansion of income-generating opportunities for the poor
	c) Repair, maintain and rehabilitate strategic roads to lower farm-to-market costs	Private sector to be provided some Rs. 4 billion to maintain roads by 2004	Expansion of income-generating opportunities for the poor
	d) Reduce road safety risks facing the poor	Road safety secretariat fully operational by 2004	Reduced number of road accidents in poor areas
	e) Improve the bus system	Explicit subsidies to be provided for uneconomic bus routes in rural areas by 2004	Increased labor mobility in poor areas
	f) Modernize the railways	Evidence of private sector involvement in operating specific lines; Adjustment in tariffs to reflect costs	Increase in labor mobility among the poor
	Bridging information to the poor: closing the digital divide		
	a) Make telecommunications facilities accessible to the poor	Telephone access raised from 6.4 per 100 in 2000 to 13 per hundred by 2005 through private provision	Improved access by the poor to information
	b) Transform the postal system into an information and finance portal	Postal services restructured and commercialized by 2005	Improved access by the poor to information
	c) Bringing internet into the countryside	Internet penetration raised to 6 per 1000 by 2005 and computer training centers established in all districts by 2005	Improved access by the poor to information
	Revitalizing Rural Development to Reduce Rural Poverty		
	a) Promote welfare-increasing rural to urban migration	5 to 10 percent increase in urban share by 2005	Increase in standard of living of the poor
	b) Improve property rights and the management of rural lands	Implementation of new land titling pilot program; Deregulation measures introduced into the Land Development Ordinance, the Land Grants Act and the State Land Ordinance	Improved land market in rural areas
	c) Raise productivity and incomes in small-holder agriculture	Tea output to reach 310 mn kg, rubber output to reach 110 mn kg; and coconut output to reach 3000 million nuts by 2004; Private sector participation in dairy, agro-input provision and extension services improved through divestiture and other public reform	Increased growth of real incomes in rural areas
d) Transform tree crop plantations into engines for regional development and poverty eradication	Target programs for combating alcoholism and indebtedness reach a majority of the estate work force by 2005	Improved social and economic welfare of the estate labor force	

Area	Input	Output/Intermediate Indicators	Outcome
Create Opportunities for Pro-Poor Growth	Revitalizing Rural Development to Reduce Rural Poverty		
	e) Modernize the Agricultural Marketing System	New dedicated economic centers established and Dambulla market expanded with private investment	Environment created for high-income agriculture in rural areas
	f) Improve water resource management	Water use entitlement system is operable by 2005	Increase in yields of irrigated crops
	g) Foster off-farm employment by enhancing access to sustainable rural electrification.	Electricity reaching 80 percent of all households by 2005	Expansion of rural industries and employment opportunities for the poor
	Foster SME Development		
	a) Improve the policy setting for SMEs	Deregulation committee operable	Increased trade and investment
	b) Improve business support services aimed at SMEs	Public funding provided to link SMEs with private sector business service providers	Improved competitiveness through technology transfer
	Assist Ultra-Poor Communities with Direct Interventions		
	a) Increase private sector participation in rural development activities	CBOs actively involved in designing and implementing sustainable income and employment generating projects in selected ultra-poor regions	Enhanced pro-poor growth
	Mainstream Poverty Reduction Objectives in Sector Development Strategies		
a) Integrating Poverty Reduction and Industrial Policy	Industrial zones to be expanded in secondary cities	Growth of non-farm income and employment opportunities	
b) Integrate Poverty Reduction and Tourism Policy	Vocational training to be competency based; private sector participation rises by 2005 to reach more than half of total vocational training support	Development of skills required for high-value tourism	
c) Integrate Poverty Reduction and Overseas Employment Promotion	Migrant housing, insurance and self-employment schemes introduced	Improved welfare of migrant labor force	
Investing in People	Equip all students with the necessary knowledge and skills to suit the modern employment market		
	By: improving the quality of the basic education system	At least 80% of schools serving poorer areas have been staffed with trained teachers by 2005	Higher level of human capital accumulation among rural poor
	Modernize the secondary schools	At least 60% of in-service teachers receive appropriate training in subject content and pedagogy in accredited, continuing teacher-education institutions by 2005	Regional disparities in education reduced
	Better match vocational training and labor market demands	Government institutions restructured to focus on small business development	Increased employment opportunities for educated youth
	Expand access and improve the quality and relevance of tertiary training	University Competitive Funds Created & Accreditation system established for quality control by 2004	Increased employment opportunities for university graduates
	Instill the ideals of ethnic harmony and democratic pluralism among the younger generation	Social harmony programs introduced in secondary and tertiary curriculum	Prospects for future ethnic conflicts minimized
	Promote increased knowledge of health and nutrition among the poor	Public health awareness programs mounted for target groups	Increase in share of population with access to health insurance
	Expand access to affordable health care for the poor	National Health Sector Program adopted by 2003	Increase in health standards of rural and urban poor
	Rationalize medical care delivery to focus more resources on the needs of the poor	Public spending on health maintained at 8-10 percent of total expenditures	Increase in health standards of rural and urban poor
	Improve the health and nutritional status of children under five years	Improved MCH programs implemented nation-wide with focus on nutrition	Increase in nutritional standards of rural and urban poor

Area	Input	Output/Intermediate Indicators	Outcome
Investing in People	Provide safe water and suitable sewage and sanitation systems to all		
	Improve access to safe water in rural areas	RWSSP rural drinking water supply expansion policy adopted & implemented	Increase in share of population with access to safe drinking water
	Improve access to sewage and sanitation systems	Sewage improvement projects in Greater Colombo and industrial parks implemented; Private-public partnerships in local municipal landfills implemented	Quality of environment in industrial zones improved
	Restructure the Social Protection System, by:		
	Improve access and quality of care for the poorest groups	Spending for social services to increase by 30 percent from Rs.1.4 billion in 2002 by 2004	Increase in health and nutritional standards among hardcore poor and socially excluded groups
	Sharpen the focus and impact of the Samurdhi Program	Exit mechanism introduced and limited to deserving beneficiaries by 2004	Type I and Type II errors reduced or eliminated from targeted assistance
	Improve urban habitats for the poor	Community-led development of under served settlements to deliver a range of services: target coverage of >10%	Increase in share of urban poor with adequate shelter and sanitation
	Expand the supply of affordable, quality housing for the poor	Provision of 200,000 housing units in township clusters to estate workers	Increase in share of estate population with adequate shelter and sanitation
	Reduce urban air pollution	Clean Air Action Plan Implemented	
Reforming Governance and Empowering the Poor	Reform public service to make it more accountable to the poor	Establishment of independent commissions for police, judiciary, elections and public service	Foundation laid for democratic pluralism
	Foster decentralization to tap local knowledge for poverty reduction	Increased volume of concessionary loans and grants awarded to local government for poverty reduction	Decrease in the incidence of poverty in the provinces
	Foster sustainability In the area of coastal preservation	Community groups established to inventory and manage coastal zones; Coastal erosion control investment mounted on southwest coast	Mechanisms for facilitating sustainable pro-poor growth established in coastal areas
	Foster sustainability In the area of forestry	Leases provided to poor farmers to farm and maintain protected forest buffer zones	Mechanism for facilitating sustainable pro-poor growth established in remote rural areas
	Involve communities in eco-tourism and wildlife preservation	Buffer communities formed; CBOs participate in park management	Sustainable pro-poor growth generated through community development
	Empower the poor by enhancing their legal rights	Increased number of legal aid centers	Scope for broad-based social development expanded
	Gender Development		
	Combat gender discrimination	Increased support for women's micro-credit through the EDP; Increased number of guidance and counseling centers for victims of violence against women	Gender biases reduced in micro-enterprise development
	Expand Opportunities for Micro-Enterprise Development		
	Promote micro-credit facilities to help the poor effectively manage risk	Increased number of programs linking micro-credit organizations to commercial banks	Pro-poor growth promoted through sustainable micro-enterprise development