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## Country Analysis 2002

# Sri Lanka



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# 1. Introduction

In 1998 Swedish development co-operation with Sri Lanka shifted focus from rural development and education to peace/democracy and pro poor growth. The build-up of the new areas of co-operation, in particular peace/democracy, took some time and the project portfolio was developed only recently. With regard to the priorities of the Sri Lankan Government and Sida's assessment that these areas continue to be crucial for the development of the country, it has been decided that peace/democracy and pro poor growth shall continue to be the main areas of co-operation. Therefore this analysis is limited to look into issues relevant to these areas.

The country analysis presents the political, economic and social situation in Sri Lanka with emphasis on opportunities, challenges and constraints for sustainable development.

## 2. Executive Summary

Sri Lanka early recognized the multi-dimension of poverty and has achieved high social indicators through strong social policies since the 1950's. Welfare spending for the poor, including social safety net measures and development programs, has been higher than in many other countries and development indicators are relatively good even for the poorest. High levels of access to education and health services have resulted in widespread literacy, high primary and secondary school enrolment and an impressive health record with high life expectancy, low rates of infant and maternal mortality and low population growth. Furthermore, there is no significant gender inequality either in access to health and education services or in economic welfare and income poverty levels. However, despite many efforts poverty has not reduced during the 1990s. About seven percent of the population live below one USD per day and about 45 percent live below two USD per day. These figures, nevertheless, exclude the North and the East where poverty is estimated to be widespread. Moreover, the progress in human development has slowed in recent years. The quality of social services such as education and health are slipping. The situation is worse in areas affected by the conflict but regional disparities increase in other parts as well. A major challenge for Sri Lanka is to reduce poverty and maintain and improve on levels of human development.

Sri Lanka is a relatively open economy moving ahead since 1977 on the path of economic reform by removing barriers to trade and investment. Despite the conflict the country has achieved an economic growth of around five percent per year during the last decade and macro economic fundamentals have been maintained at a moderate level.<sup>1</sup> Growth has, however, been concentrated to the Western Province (area around Colombo) and not been broad based enough to improve the situation of the poor. In addition to the conflict – calculated to have reduced growth by two percentages points per year – structural issues such as an inefficient agricultural sector, insufficient infrastructure in poor areas and an over-regulated environment for the private sector inhibit pro poor growth. A major problem, creating tension and instability, is unemployment among youth. A challenge in the future is to create employment opportunities, not only for those who are unemployed today but also for the thousands of

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<sup>1</sup> In 2001, growth was negative 1,3%.

people that in the event of peace and reforms of the public sector will be unemployed. This is crucial not only for improving people's living conditions but also in order to prevent new conflicts. The private sector has an important role to play in the creation of employment.

Sri Lanka is a longstanding democracy with an active multiparty system, regularly held elections and a well-developed and well-structured legal system. There are many elements of good governance but there are also weaknesses that impede development. The World Bank has described the public sector as over staffed, costly and poorly performing.<sup>2</sup> Since independence a few families dominate political life, and despite a democratic system, other groups feel that they have limited possibilities to influence. The relation between the elite and other groups sometime takes the features of patron-client relations and poverty programmes have been used more for political purposes than for poverty reduction.

The armed conflict between the army and the Liberation Tigers of Tamil Eelam (LTTE) constitutes a threat to poverty reduction, democracy and human rights. It causes enormous suffering for the people and inhibits social- and economic development. About 60 000 people have lost their life and hundreds of thousand have been displaced. Every part of the country bears the scars and burden of the conflict. All segments of the society have suffered and massive human rights violations have taken place. During the 1990s the Government has made several efforts to improve the human rights situation. It has ratified all major instruments within the UN-system and set up its own mechanisms to address the problem. However, many problems remain and in LTTE controlled areas, human rights issues are of particular concern.

With the installation of a new Government in December 2001, the engagement of Norway as facilitator, a permanent cease-fire and peace talks between the parties, prospects for an end to the conflict have increased. However, the peace process is fragile and many difficult issues need to be resolved before sustainable peace can be achieved. A long period of pre-peace but post conflict is likely to take place. A major challenge for donors will be to support the peace process and have a "whole country approach" to development efforts. This means bringing benefits to all parts of the country with particular focus on conflict-affected populations but taking into account the impact of the war in the south witnessing widespread poverty, militarization of society and economic decline. If all Sri Lankans share the dividends of peace, the peace process is more likely to be broadly supported and sustainable.

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<sup>2</sup> World Bank Country Report Sri Lanka Recapturing Missed Opportunities, June 2000.

# 3. Background

## 3.1 Population

Sri Lanka is a multicultural and multireligious country. The majority (about 74 percent) is Sinhalese and there are two minority Tamil communities. Of the latter, one comprises Sri Lanka Tamils (about 13 percent) who settled in the island many centuries ago, and the Indian Tamils (about six percent) who first arrived during the 19<sup>th</sup> and early 20<sup>th</sup> centuries to work on the tea plantations. There are also Moors, Malays and Burghers. The principal religions are Buddhism, Hinduism, Islam and Christianity. The Sinhalese are mainly Buddhists, the majority of the Tamils are Hindus and the Moors and Malays are Muslims. Nevertheless, all groups are multi-religious and the substance of ethnicity between the groups is linguistic rather than racial.<sup>3</sup>

## 3.2 History

Sri Lanka, or Ceylon, has an old history. Religion, social structures, political institutions language, and agricultural economy derive from India. The actual origins of the Sinhalese and Tamils are shrouded in myth. Many believe that the Sinhalese arrived in Sri Lanka from northern India during the 6<sup>th</sup> century BC and that Tamils settled the northern part of the island during the 3<sup>rd</sup> century BC. In 1505 Portuguese traders, in search of cinnamon and other spices, seized the island's coastal areas. The Dutch supplanted the Portuguese in 1658 and the British ejected the Dutch in 1796. In 1815 the British defeated the king of Kandy, last of the local rulers, and created the Crown Colony of Ceylon. The British granted Ceylon limited self-rule and universal franchise in 1931. Ceylon became independent in 1948 and the Republic of Sri Lanka was formed in 1972. Since 1983 an armed conflict is fought between the Government and armed Tamil groups.

## 3.3 The Armed Conflict

The roots of the conflict are related to the colonial era (Sri Lankan Tamils were privileged during the British period) but the situation deteriorated after independence when ethnic nationalism was established and policies of ethnic preferential treatment were introduced. To minimize the hegemony of the English speaking westernized elite, the Government

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<sup>3</sup> With the exception of Muslims who mainly speak Tamil.



promoted Sinhala-Buddhist nationalism and a “Sinhalisation” of the state apparatus. Both Tamil and Sinhala nationalism increased after independence. The Official Language Act passed in July 1956 made Sinhala the sole official language, which limited employment opportunities for Tamil speakers. Changes were also made in the university admission policy with the introduction of quota system making children from rural districts at an advantage and therefore making academic merit insufficient. This frustrated in particular Jaffna Tamils who had specialized in higher education. Tamils living in North Central and East Sri Lanka were most affected by the discriminatory land allotment policies or colonization schemes of the 1970s and 1980s.

From 1956 to 1972 Tamil leaders responded to the Sinhala Buddhist domination of politics by asserting federalist demands and through non-violent resistance. However, stronger tactics and demands marked the 1970s. In the context of a parliamentary system dominated by parties that primarily represented Sinhalese interests and a political failure to address the Tamil grievances, radical solutions were born. A new militancy emerged within Tamil politics. The Tamil United Liberation Front (TULF) declared that all attempts to co-operate with the Government had failed and that only a separate state could meet Tamil grievances. At the same time LTTE and other groups of militant Tamil youth emerged with the belief that violence was the measure of last resort to be employed in order to ensure Tamil rights. Tamil actions provoked counter action by Sinhalese activists and ethnic tension increased.

In July 1983 the situation further deteriorated when anti-Tamil violence on a large scale erupted in the South<sup>4</sup> in retaliation of an LTTE attack near Jaffna killing 13 soldiers. The violence against Tamils started in Colombo but spread elsewhere. Hundreds of people were killed and thousands of homes destroyed. Since 1983 the conflict has continued with a varying degree of fighting in the North and East and sporadic attacks on military, economic and civilian targets all over the country. The magnitude of the conflict has expanded over time. In the early years of the conflict the LTTE and other armed groups carried out guerilla activities. However, since the period of the intervention of the Indian Peace Keeping Force in 1987 the armed conflict has taken the features of a conventional war.

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<sup>4</sup> In this document the South is referred to as all regions of the country excluding the Northern and Eastern Province.

# 4. Poverty

## 4.1 Poverty in Sri Lanka

This chapter presents briefly the different dimensions of poverty (based on the concept used in the DAC guidelines) in Sri Lanka including human, economic, socio-cultural, political and protective capabilities. The different dimensions are further discussed in the following chapters.

### *Human Capabilities*

Since the 1950s Sri Lanka has made impressive progress in reducing the incidence of poverty reflected in improvements in human development and consumption. Welfare spending to assist the poor has consistently been higher than in other developing countries. Efforts to combat poverty include policies aimed at promoting free basic health care and education leading to high levels of human and social development even for the poorest. The average Sri Lankan can expect to live 73 years and have access to education and health services. According to the 2002 Human Development Report, the Human Development Index for Sri Lanka was 89, which is by far the highest in South Asia. The health record is good with low rates of infant, child and maternal mortality and a fertility rate around the replacement level. There is virtually no starvation or real destitution. Literacy is widespread (92 percent) and primary and secondary school enrolment is high. There is no significant gender inequality either in access to health and education services or in economic welfare and income poverty levels. The country's Gender Development Index was 70 in 2001. However, Sri Lanka's progress in improving human development has slowed in recent years. The quality of some social services such as education and health is slipping, especially in areas more directly affected by the conflict. The shortage of medical specialists is large in poor rural areas, malnutrition and stunting remain high and malaria is a problem. Access to safe water and sanitation is inadequate. About 28 percent of the households lack safe drinking water, 24 percent lack adequate sanitation and 56 percent do not have electricity.<sup>5</sup> The poor suffer the most from low-quality social services, with disparities especially prominent in rural and estate areas where health, education, housing and safe water and sanitation services are far below the national average.

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<sup>5</sup> UNDP ([www.undp.lk](http://www.undp.lk))

### *Economic Capabilities*

Poverty in Sri Lanka is more related to income and consumption than to access to social services. Despite a per capita growth averaging nearly five percent per annum, and the high priority successive Governments have attached to poverty reduction, the consumption poverty level did not decline during the 1990's. About seven percent of the population live below one USD per day and 45 percent live below two USD per day.<sup>6</sup> When using a local poverty line (estimated at Rupees 791 person/month, based on a daily nutritional threshold of 2500 calories) about 25 percent of the population live below the poverty line.<sup>7</sup> Income poverty is primarily a rural phenomenon. The incidence of poverty (based on the local poverty line) in rural areas is estimated to be almost double that of poverty in the urban areas.<sup>8</sup> Nearly 90 percent of those living below the poverty line live in rural areas whereas the total rural population is around 80 percent.<sup>9</sup> A majority of these are farmers cultivating small plots of land and with no other source of off-farm income. Inequitable access to economic infrastructure, limited income-earning opportunities, low profitability of small holder rice production and exposure to external shocks are major causes of persistent rural poverty. However, despite the fact that the incidence of urban poverty is lower, the urban poor seem to be more vulnerable to certain psycho-social strains. They are for example more prone towards marital instability, crime, domestic violence, drugs and alcoholism than are the rural poor. Moreover, drop out from schools is higher in urban slum than average.

Child labour is not an alarming issue in Sri Lanka compared to other countries in the region. However, approximately 21 percent of the children in the age group of 5–17 years are engaged in some form of economic activity.<sup>10</sup> About 52 percent are below 15 years of age. Some 10 percent of the children are not attending school or any other educational institution. A high birth rate among the poor contributes to inter-generational transmission of poverty.<sup>11</sup>

### *Socio-Cultural Capabilities*

Poverty is related to physical and social isolation. The socially excluded groups include victims of armed conflict, disabled, the urban ultra poor, poor fishing communities living in isolated areas, estate workers. The caste system has less impact than in India but plays a hidden role in the social organisation of Sri Lanka. Furthermore, language plays an important role in the society. English is the language of the elite. Tamils or Muslims not speaking English or Sinhala, living in the South, are somewhat isolated and have limited access to employment as well as political and social life. Incidences of poverty vary little across the major ethnic groups with the exception of Indian Tamils living in plantation areas being the poorest people in Sri Lanka.<sup>12</sup> Many of them live on estates and face constrained access to education and to economic opportunities

<sup>6</sup> UNDP Human Development Report 2002 ([www.undp.org](http://www.undp.org))

<sup>7</sup> WB Sri Lanka Poverty Assessment p. 64. This local poverty line is considered more reliable than the international poverty line of USD 1 a day.

<sup>8</sup> UNDAF 2002–2006 p. 13.

<sup>9</sup> PRS s. 11.

<sup>10</sup> PRS p. 13.

<sup>11</sup> UNDAF 2002–2006 p. 14–15.

<sup>12</sup> PRS p. 13.

and employment outside the estate sector due to language barriers, low social status, or lack of national identity card. Disabled people are often excluded from education and employment. Adolescents, youth and migrant women are particularly vulnerable to poverty. Alcoholism, domestic violence and child abuse are significant social problems.

#### *Political Capabilities*

Despite a democratic system and many elements of good governance, poor people, especially women and young people, have limited possibilities to participate in political life due to an incomplete system of decentralisation. The conflict severely affects people's freedom and human rights are severely curtailed. The situation is worse in the conflict areas but the whole country has been affected. In areas controlled by the LTTE the human rights situation is of grave concern.

#### *Protective Capabilities*

The Government assists the poor primarily through a combination of social safety net measures and a great number of area-based economic development projects and programmes. Financial assistance is provided to orphans, poor widows, disabled, poor elderly, and disaster victims. Moreover, assistance has consistently been delivered in the form of food, medicine, and essential supplies to the conflict-affected areas, including the ones controlled by the LTTE. However, the social safety net for the poor has limited effects and the mistarget is large. The programmes have not been successful in effectively reducing poverty due to a combination of structural (skills, infrastructure, capital, and technology) reasons, and the politicised nature of the programmes leading to mistargeting. The armed conflict creates enormous insecurity and severely affects the protective capabilities of the poor.

## **4.2 Regional Disparities in Poverty**

Regional disparities in poverty persist and widen. The Western Province (Colombo) has seen a decline in poverty while all other provinces have experienced a worsening between 1990–96 (mainly due to drought)<sup>13</sup>. The situation is worse in the north-east, in particular the conflict-affected districts. Since the security situation in the north-eastern Province precluded the inclusion of the province in the national households surveys, the extent of poverty in these areas is unknown but estimated to be significantly higher than in the rest of the country.

Despite the fact that the north-east is badly affected by the conflict, it is important to underline that the impact of the conflict goes beyond the war-affected areas to affect the rural poor in particular. Faced with less opportunity to improve their living situation, poor rural youth make up a substantial share of the soldiers fighting the conflict.

In addition to the North and the East, there are other areas with high rates of poverty.<sup>14</sup> These provinces have the highest proportions of inhabitants without access to safe water and sanitation (30–50 percent) and electricity (65–75 percent) in the country. They also have the highest rates of adult illiteracy, and premature deaths. One of the reasons for the

<sup>13</sup> WB Recapturing Missed Opportunities p. 33.

<sup>14</sup> Examples of poor provinces are Uva, North Western, Sabaragamuwa, North Central and Central.

great disparities in regional poverty levels is that the poorer parts of the country tend to have a greater share of the population engaged in small-scale, rain-fed agriculture. Another reason is that many of these parts are relatively isolated from dynamic domestic and international markets. Links between production centres and the major markets are often weak.

#### *4.3 Determinants of Poverty*

Poverty reduction in Sri Lanka relates to a number of often interlinked and mutually reinforcing factors – some of the most significant being the armed conflict, democratic governance, pro poor economic growth, quantity and quality of social services, and the environment. Deficiencies in these aspects may explain why poverty remains high.

##### *The Armed Conflict*

The armed conflict negatively affects all dimensions of poverty. The most pervasive deprivation arises from the loss of lives, physical and psychological trauma, internal displacement, the breakdown of community and institutional networks, disruption of children's education and deteriorating health conditions. The possibilities to earn an income, to consume and to have assets are severely curtailed, in particular in the conflict-affected areas. The restriction on the movement of people and goods, including fishing restrictions and lack of access to fields, poor transport facilities, and taxes imposed by armed groups on profits of entrepreneurs, contribute to the serious poverty situation in conflict areas.

##### *Democratic Governance*

Some aspects of governance obstruct the political capabilities of the poor. Since independence a few families control social and political life in Sri Lanka and other castes/groups have limited possibilities to political participation and the labour market. This has led to frustration among certain groups and is one of the roots to today's armed conflict. An incomplete system of decentralisation also inhibits people's possibilities to influence. According to the World Bank, public institutions are ineffective and politicised and close ties between political leaders and the poor have often evolved into patron-client relations. Successive poverty alleviation programmes in Sri Lanka have been designed more as vehicles for political leverage than as mechanisms to create opportunities for the poor. The political bias in the implementation of poverty programmes makes the poor highly vulnerable to political changes and affects their right to vote freely.<sup>15</sup>

##### *Pro Poor Growth*

Sri Lanka faces some poverty-related structural problems that are reducing the economic capabilities of the poor.

Agriculture, the mainstay of the Sri Lankan economy, still retains a large proportion of the poor who find it difficult to improve their living conditions. Growth in agriculture has been slow due to lack of reforms in the sector and a long-term decline in the prices of agricultural products around the world. An important impediment to agricultural prosperity is an *overly restrictive policy regime*. State ownership of about 80 percent of the

<sup>15</sup> WB Recapturing Missed Opportunities p. 36.

land, 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. Low labour productivity in agriculture is a major contributor to rural poverty. Distorted rural factor markets and weak infrastructure are constraints to agricultural diversification and rural industrialisation. Furthermore *lack of clear property rights* inhibits rural development. The majority of poor farmers operate land, for which they do not have clear title and therefore cannot use as collateral for loans, reducing the creditworthiness of agricultural operations.

Another structural problem obstructing propoor growth is that people living in remote areas are subject to *economic isolation due to lack of access to markets, information and infrastructure facilities* such as roads, rail and port systems, bus networks, telecommunications and information technology. Hence their access to the national and international markets is limited.

Another impediment to pro-poor growth is an over regulated environment for the private sector including a *strictly regulated labour market* reducing the creation of employment. On the other hand, free trade zones providing job opportunities especially for women are excluded from labour laws, which affect workers negatively.

#### *The Quantity and Quality of Social Services*

As mentioned above the human capabilities of the poor are relatively good. However, the quality of these services is slipping. Despite a relatively widespread network of health care facilities, access to quality health services is limited, in particular in poor districts where the shortage of medical specialists is large.

Basic education facilities are available for the majority but the quality of education is low, especially for those living in poor areas. The vocational training and technical education offered by public and private institutions do not respond to the needs of the private sector. The relevance and quality of the public University training is of grave concern.

#### *The Environment*

Population growth and *degradation of fragile natural resources* affect the poor negatively. Deforestation, soil erosion, fertility depletion, water scarcity, water pollution, coastal erosion, waste water treatment and vehicle pollution take a heavy toll on the poor. The rural poor, and notably the landless, depend on their surrounding ecosystems – forests, wetlands and coastal fisheries – to meet their needs for food and fuel. Therefore they are directly threatened by resource degradation.

### **4.4 Strategies to Combat Poverty**

In order to effectively alleviate poverty, the Government is developing a Poverty Reduction Strategy based on an earlier Poverty Framework. The Government of Sri Lanka (GOSL) and its stakeholders, especially the development partners, have made an assessment of what has contributed to poverty reduction in the past and the factors that constrain future progress.

*The Framework for Poverty Reduction* is the result of a three-year analytical and consultative process from 1998 to 2001 involving a large number of Government agencies, donors, research institutes and NGOs. Based on

an analysis of the poverty situation, the Framework advocates a strategy of three main thrusts: i) reducing poverty by creating opportunities for propoor growth, ii) strengthening the social protection system, and iii) empowering the poor and strengthening governance.

The first thrust signals a fundamental shift in the role of the Government with regard to poverty reduction. Its new role is to create an enabling environment for poverty reduction, not to attempt to solve poverty directly through public spending. The Framework provides an array of measures aimed at enhancing opportunities for the poor to participate in the growth process including connecting poor regions to the dynamic markets (improve infrastructure and transports) and revitalising rural development (land resource management, create off-farm rural employment etc).

As part of the second thrust, the Framework calls for a social safety-net reform to reduce the mistargeting and adverse incentive effects that have characterised past programs, including better protection for those displaced by the conflict and a shift from cash grants to social insurance. The third thrust focuses on the need to transform governance and empower the poor. Institutional governance is to be strengthened by upgrading management practices in public service. Macroeconomic governance will be improved by tightening financial accountability. Decentralisation is to be promoted, while regional fiscal imbalances are addressed and procedures for local government public expenditure management are improved. Community-based initiatives will still be supported, but with greater local cost sharing and in clear response to initiatives articulated by the poor. The Framework also proposes asset redistribution to enable hard-core socially excluded groups to rejoin the economic mainstream.

In 2001, the GOSL prepared a *2010 Vision* to guide development planning and policy reform in the first decade of the 21<sup>st</sup> century. Its principle development objectives are to transform Sri Lanka into a strong, modern economy that can sustain seven to nine percent annual growth through higher investment and productivity gains, generated by a dynamic private sector in a competitive market setting. A number of strategies are stated and will be pursued to achieve the *2010 Vision*. This includes (i) accelerated development of infrastructure through increased investment by both public and private sector; (ii) reaching global markets through competitive, export-oriented enterprises; (iii) adoption of modern methods of agricultural cultivation; (iv) sustainable exploitation of marine resources; (v) environmentally-friendly growth; and (vi) private sector led growth and investment.

The focus of the *Poverty Reduction Strategy* (PRS) is on how to put into operation the visions, strategies and reforms identified in the Poverty Framework and *2010 Vision*. In doing so, the PRS builds on these two documents, while also incorporating key lessons and recommendations generated from recent poverty assessments prepared by several of Sri Lanka's development partners e.g. United Nations, World Bank and Asian Development Bank. The PRS also builds on the results of a three-year, island wide, consultative process aimed at improving relief and rehabilitation and ethnic reconciliation in conflict-affected areas.

GOSL's priorities for external assistance will be clearly defined in the PRS, and it is expected that broad sectoral focus of the main external donors, and the comparative advantage of the different donors, will be used to create synergy between multilateral and bilateral finance.

If successfully implemented, the PRS will greatly improve the impact of the efforts of the Government, international agencies, and civil society to reduce poverty.



# 5. The Armed Conflict

## 5.1 Consequences of the Conflict

The conflict causes enormous suffering for the people. About 60 000 persons have lost their lives in the conflict, vast numbers have been injured and traumatized. Hundreds of thousand are displaced and many have sought shelter in overcrowded welfare centres where the living conditions are poor and restrictions on freedom of movement precluded.<sup>16</sup> Each part of the country bears the burden from the conflict but the situation is worse in the conflict-affected areas where approximately two and a half million people live. In the wake of the conflict human rights violations take place including disappearances, torture and rape. The impact of the conflict on children is a cause of grave concern. There are estimated 400 000 displaced children in the conflict areas.<sup>17</sup> The rights to health, education and protection are violated and in LTTE dominated areas, the forced recruitment of children by the LTTE has according to several reports been a severe problem. The proportion of female-headed households in the region has increased and many young widows with children are forced to depend on the state or NGOs for assistance. The conflict also hampers economic development, causing large-scale destruction of economic and social infrastructure, deters private sector investments, frightens tourists and diverts a large proportion of national resources into military activities. Defense expenditures have increased from 1.3 percent of GDP in 1980 to about six percent in 2000 and 2001. It has been estimated that the conflict has reduced Sri Lanka's economic growth by about two to three percentage points per year.<sup>18</sup> The prolonged conflict has also created deep distrust between different groups in society.

An indirect result of the conflict is a tendency towards increased violence in society. The availability of arms due to the war and desertations from the army contribute to a culture of violence. There are many armed groups in addition to the LTTE that are not totally under the Government's control, including Tamil militant groups, army deserters, the armed bodyguards of members of parliament and police commandos. In the South of the country 20 000–30 000 deserters create a serious law and order problem. Furthermore parliamentarians are given

<sup>16</sup> A total of 348 Government-run welfare centers host about 185 000 persons.

<sup>17</sup> UNDAF p. 14.

<sup>18</sup> UNDAF 2002–2006 13–15.

weapons for protection purposes which contribute to violence between political rivals. Violence during elections has increased during recent years. The election on 5 December 2001 is estimated to be Sri Lanka's most violent ever, leaving at least 60 people dead in election related violence. Violence against women, violence amongst youth, suicide and violence within families are other issues of grave concern.

In addition to the Tamil-Sinhalese conflict there are other tensions in society. One serious issue is the youth in the South, frustrated by the Government's inability to create sufficient employment for Sinhala-educated youth. The violence of 1971 and 1989 led by Janata Vimukti Peramuna (JVP) are examples of expression of such discontent. There is also intra Tamil violence. The LTTE has systematically eliminated rival Tamil political groupings or individuals. Furthermore there are clashes between Tamils and Muslims and Sinhalese and Muslims.

## **5.2 Major Obstacles for Peace**

The continuation of the conflict has been due to LTTE's claim to a separate state in the North East and the Government's refusal to divide the country. The major obstacles to peace have been the deep distrust between the Governments and the LTTE, and the inability of the Government and the opposition parties to work together on conflict resolution. Due to the political parties' refusal to co-operate, necessary political reform, in particular devolution of power, has failed. Vested interests due to political and economic gains have also contributed to the continuation of the conflict. Another problem is the lack of democratic tradition within the LTTE. Rival Tamil militants groups have been marginalized, often through violent methods.

Another obstruction to peace is the deep distrust and lack of interconnection between different groups in society caused by the prolonged conflict. The segregation of Sinhalese and Tamil students according to language streams, and a media that in the past has been driven by nationalistic interests has contributed to a lack of mutual understanding of religious and cultural diversities. Intra-cultural activities have been limited due to a weak democratic culture and at times diminished democratic space.

## **5.3 Earlier Negotiation Attempts**

There have been several efforts to resolve the conflict. *The Indo-Lanka Accord* signed between the Sri Lankan and the Indian Government in July 1987 was an attempt to meet the Tamil grievances. It offered a new system of devolution and gave Tamil the status of an official language. However, the Tamil parties were excluded from the negotiations and the LTTE did not accept the Accord imposed on them.

*Chandrika Kumaratunga and the People's Alliance (PA)* came to power in 1994–95 on a commitment to peace and took immediate steps to start negotiations with the LTTE. However, the differences and distrust between the Government and the LTTE soon emerged. One reason for the setbacks was the diverged approach to the process. The Government preferred a multi-track approach to negotiations, including not only confidence-building measures and a reconstruction program but also a framework for a political solution. The LTTE on the other hand wanted

a staged process with the free passage of materials and people to and from the conflict areas before any other issues were discussed. Distrust grew and the LTTE withdrew from the negotiation process in April 1995 and resumed hostilities. This in turn led to a new Government strategy termed “peace through war” implying that the Government aimed to weaken the LTTE militarily before a political solution could be reached. An intensification of the conflict began. After years of heavy fighting there was a new window of opportunity in 2000 with the involvement of Norway as a facilitator. However, the peace process broke down.

While the Government carried out offensives against the LTTE it also sought to find a political solution to the conflict. The idea was to accommodate Tamil nationalist aspirations within a united Sri Lanka by devolution of powers to the regions. However, the inability of the Government and the opposition parties to co-operate (a 2/3 majority is required to change the Constitution) and opposition from many Sinhala Buddhist nationalists refusing any transformation of the power of the state, hindered the work on devolution.

#### **5.4 The Current Step-by-Step Peace Process**

The proclaimed priorities of the Government are to bring peace to the country, to revive the economy and to strengthen democracy. Several steps have been taken since the Government came to power in December 2001 to move the peace process forward. The Norwegian Government is reengaged in the peace process, a permanent cease-fire between the Government and the LTTE has been signed, Nordic observers monitor the implementation of the cease-fire and negotiations started in September 2002.

In contrast to the former Government, the new Government uses a step-by-step strategy based on non-confrontation. It is seeking to normalize the situation in the country and has carried out several confidence-building measures. The Government and the LTTE seem to have similar approaches to the peace process and there seems to be more confidence between the parties than before. The involvement of Norway as facilitator strengthens the peace process.

The Government seems very committed to achieve peace and the public opinion is very much in favor of peace. The main opposition party, the People’s Alliance (PA), has given support “in principle” to the peace-process, but has had reservations about the modalities. The lack of co-operation between the government and the opposition parties, not least the relation between the President and the government endangers the peace process. The JVP (People’s Revolutionary Front) is more nationalistic and opposes the process as it sees it as the beginning to the end of Sri Lanka as a united country. Sections of the Buddhist clergy are other groups that can threaten the peace process. So far only small groups have publicly expressed opposition since the UNF came to power.

The LTTE seem more committed to bring peace to the country than before. It is possible that the LTTE, being dependent on Tamils abroad for its legitimacy and funding, has been affected by the international work on fighting terrorism. Moreover, it cannot be ruled out that the people in the uncleared areas are warweary to the extent of being unwilling to give support to the military mission of the LTTE. However, many people are skeptical about the sincerity and intentions of the LTTE.

## 5.5 Main Challenges Ahead

The main challenges ahead are to *continue the cease-fire and to negotiate a political solution to the conflict*. A transition to sustainable peace will most likely take years. It will take long time to restore confidence and to address complex issues fundamental for a lasting settlement. However, experiences clearly show that solving this conflict is a very complex task and that negotiating attempts can have abrupt endings leading to intensified fighting. Many complicated issues need to be addressed and there is a danger that the process will suffer setbacks.

One very complex question is *power sharing* at national level and the degree of devolution of power and resources from central to local level. The protection of civil and political rights, in particular of Muslims and Sinhalese in the North and East and Tamils in the South is another sensitive issue. The proposed interim administration to be run by the LTTE in the North and the East, while waiting for a real political settlement, raises certain concerns to what extent human rights and democratic principles will be respected by such an administration. Moreover it should be added that many Eastern Tamils and Muslims fear domination by Jaffna Tamils. Therefore it could be a mistake to lump the North and East together.<sup>19</sup>

Another difficult question is the *future of the LTTE leadership*, in particular the leader of the organisation, Mr Vellupillai Pirabhakaran, who is accused of having been behind several murders including that on Mr. Rajiv Gandhi, the former Prime Minister of India.

A large number of *internally displaced* as well as some refugees are expected to return to their original homes. These people need assistance to normalize their situation. Often, new families have moved in to the houses that were left. Land ownership and compensation for lost properties are issues that have to be dealt with in order to prevent the development of new tensions.

In order to discourage further conflict and help strengthen the peace and development process, *demobilization, disarmament, and reintegration* of soldiers and ex-combatants into civilian life are critical issues. Very few have employable skills and training and employment are critical for successful reintegration in society.

*Mine-awareness programs and mine clearance* are other important issues. Both the Government forces and the LTTE have been using landmines in the conflict. There are estimated one million mines in the conflict-affected areas.

One major issue during a period of transition to peace will be the *reconstruction and rehabilitation of the conflict-affected areas*. The needs are fundamental. A large number of homes have been destroyed and many schools and health centers are damaged. Railway and trunk road connections through the Northern Province are broken, power supply from the national grid is cut off and telephone links are non-existent in areas where the Government does not have full control. In the conflict-affected areas poverty incidences are estimated to be the highest in the country. Poverty alleviation programs need to be accelerated and social services and safety nets need to be restored. Exposure to physical abuse, bombing, shelling, displacement, loss of loved

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<sup>19</sup> Bush Putty to Stone p. 22.

ones, house, and property has caused enormous individual physical and psychological trauma. Health care support and education for these people is essential.

## **5.6 The Road Towards Relief, Rehabilitation and Reconciliation**

During the second half of the 1990's The Government of Sri Lanka had an ambitious plan for peace to alleviate the suffering of the war affected populations. This ambition ran parallel to that of combating the LTTE militarily. Those two concerns resulted in contradictions between rehabilitation objectives and security concerns, and the latter tended to take over, restricting any rehabilitation work.

Government authorities and donors that were involved in the relief and rehabilitation work became increasingly frustrated with the limitations that security concerns put on the work. There was also limited knowledge in the system about the rights of internally displaced persons and a lack of policies on how to deal with humanitarian emergencies. Furthermore, the communication with the affected groups of people, local authorities and the Ministries was not developed.

All these and many more issues prompted the Government of Sri Lanka to initiate the *Relief, Rehabilitation and Reconciliation Framework* process in July 1999. Its objectives are to help strengthen Sri Lanka's capacity 1) to ensure that the basic needs of people affected by conflict are met; 2) to rebuild productive livelihoods where feasible and 3) to facilitate reconciliation across ethnic lines. The Government sees the RRR Framework as part and parcel of the Government's poverty reduction strategy.

The peace-process, with its cease-fire agreement of February 2002, has changed the situation quite a lot. Some recommendations of the RRR-framework are already implemented and others are on the way to be implemented, but the majority of the recommendations still remain to be dealt with. One weakness with the framework is that it lacks priorities.

## **5.7 Donor Considerations**

### *Pre-peace but post-conflict scenario*

In case of a pre-peace but post-conflict, Sri Lanka will increasingly be dependent on foreign assistance in order to support the peace process, reconstruct the conflict areas, reduce poverty, strengthen institutions and implement infrastructure projects. Reconstruction issues will need more focus than before while the need for support to peace, democratic governance, and human rights as well as pro poor economic development will remain high in order to address the roots of the conflict and promote sustainable peace. However, given the fragile nature of the peace process, the donor community has to act attentively. It has to consider the danger of backlashes or a breakdown of the peace process why smaller projects in the north and east are more suitable than larger ones. Inter and intra group tensions have to be handled carefully. If the north is seen to be gaining disproportionate from the peace, there is a danger that discontent in the south will lead to new tensions. Therefore, it is of outmost importance that development efforts benefit to all parts of the country, not only the north and the east but also the south where poverty is widespread. Another challenge for donors is how to work with the north and the east

including the relation to the LTTE and how to work with local NGOs in LTTE administered areas, known to be closely linked to the LTTE.

The peace process should be supported with short term as well as medium-long term assistance involving both humanitarian funds and country allocation funds. The acute need is assistance to returning refugees and their host communities (basic social services and infrastructure, demining, food income generation etc). A further step would be infrastructural reconstruction of the conflict areas and integrating these areas into development programmes. If the situation allows, support to demobilisation, disarmament and reintegration of ex-soldiers is important in order to promote and maintain peace.

The peace process can also be supported with assistance to promote reconciliation between groups, democratic governance and respect for human rights.

#### *Breakdown of peace process scenario*

In case of a total breakdown of the peace process, Sri Lanka will continue to depend on foreign development assistance to reduce poverty, strengthen institutions and implement infrastructure projects. The need for support to institutions, good governance, peace, democracy and human rights will remain high and it will be relevant to continue supporting these areas. However, depending on the situation, and the reasons for the breakdown of the peace process, there might be reason to reconsider the areas of co-operation and the dimension.

#### *Peace Scenario*

In case of true peace – a lasting political solution to the conflict formalised in a peace agreement – Sri Lanka is initially likely to be dependent on foreign assistance in order to consolidate peace, reconstruct the conflict areas, reduce poverty, strengthen institutions and implement infrastructure projects. However, given Sri Lanka's potentials for development, it is possible that development assistance will not be necessary in the long term. However, it is not likely that Sri Lanka reaches this stage during the period of the Country Strategy.

# 6. Democratic Governance Including Civil and Political Rights

## 6.1 Democratic Governance

Sri Lanka is a longstanding democratic republic with an active multi-party system.

Along with proportional representation, strong presidential powers were introduced in the 1978 Constitution, with the president, directly elected for a 6-year term, as the chief of state. The president is responsible to Parliament and may be removed from office by a two-thirds vote of Parliament with the concurrence of the Supreme Court. Parliament is a unicameral 225-member legislature elected by universal suffrage and proportional representation to a 6-year term. The president may dissolve Parliament. The introduction of the presidential system weakened the decision-making powers of the parliament. The combination of strong presidential power and the Emergency Law has during certain periods eroded democratic principles.

Chandrika Bandaranaike Kumaratunga was elected president in 1994 and reelected in 1999. She is from the main opposition party, Sri Lanka Freedom Party (SLFP). Since the parliamentary elections in December 2001, Ranil Wickremasinghe, leader of the United National Front, a coalition consisting mainly of the United National Party and the Muslim Congress, is Prime Minister.

Sri Lanka has a well-developed legal system and a well-structured but old-fashioned, police force. The Constitution provides for an independent judiciary, and the Government mostly respects these provisions in practice. Most court proceedings in Colombo and the south are conducted in English or Sinhala, which, due to a shortage of court-appointed interpreters, has restricted the ability of Tamil-speaking defendants to get a fair hearing. Trials and hearings in the north and east are in Tamil and English, but many serious cases, including those having to do with terrorism, are tried in Colombo.

In Jaffna LTTE threats against court officials have disrupted normal court operations.

In the LTTE controlled areas, the LTTE has its own court system, composed of judges with little or no legal training. The courts operate without codified or defined legal authority and essentially operate as agents of the LTTE rather than as an independent judiciary. The courts reportedly impose severe punishments, including execution.



There are many elements of good governance in Sri Lanka but there are also aspects of governance that clearly impede sustainable development. Below the major problems with regard to governance are presented.

*The armed conflict* has broken down the administration system in the North-East and contributed to increased violence and loss of trust between different communities.

#### *Weak Public Sector Institutions*

Public sector institutions and governance are gradual weakening and characterized by increased politisation and a bloated bureaucracy. The public sector is hierarchic, centralized, over-staffed, costly and suffers from low effectiveness and efficiency. Sri Lanka has the largest bureaucracy per capita in Asia with 12 percent of its labor force employed in Government. Policy makers and professionals are insufficiently compensated. Therefore it is difficult to attract and retain skilled expertise in the public sector. The lack of trained professionals negatively affects the Government's ability to redress regional inequity, absorb external assistance and provide quality services. The dominance of the Sinhala language in administration restricts Tamils in employment and reduces the quality of services for Tamil speaking people.

#### *Politization of Public Administration*

Deepening politization in certain aspects of public administration and Government service delivery erodes the objectivity and professionalism of the state and weakens public trust. The politization has also been associated with patron-client relationships, a rise in corruption, a weakening in checks and balances and disregard for the rule of law.

#### *Politization of Judicial System and Impunity*

There are two major and interlinked problems relating to the law enforcement area, that of politization of the system and impunity. A well-known lecturer at the faculty of law categorises the system as "soft". Secondary problems are lack of capacity, the tendency to overload the courts with cases regarding promotions, land disputes etc., while severe cases of a critical nature (politically motivated violence, corruption etc.) drag on endlessly until they wither away.

#### *Insufficient Devolution of Power*

In 1987 Sri Lanka devolved authority to the provinces. Eight provincial councils are directly elected for 5-year terms. They function in all areas except for the north and the east. The leader of the council majority serves as the province's chief minister; the president appoints a provincial governor. The central government retains the right to make national policy over all subjects while the provincial councils are entrusted with limited powers to pass legislation and to raise revenue. The provincial councils possess powers in education, health, rural development, social services, agriculture, security, and local taxation. The political system is, however, very centralised. Many of the above mentioned powers are shared, or subject to central Government oversight and the devolution process is unclear. For the most part the provincial councils are dependent on central government grants for their functioning, to be



allocated after the deliberations of a independent finance commission. Legislation is lacking and power and resources are not sufficiently devolved.

#### *Limited Political Participation*

Vital decision-making processes remain largely devoid of participation. Since independence a few families dominate social and political life in Sri Lanka and other groups have limited possibilities to influence. The relations between the elite and other groups have taken the features of patron-client relations. Many in the private and non-Government sector depend on Government patronage for their survival. Despite a democratic system, many castes/groups feel they are excluded from political participation and the labour market. Women's under-representation within the political system contributes to an inability to mainstream gender considerations in public policies and programs.

## **6.2 Corruption**

In a UNDP survey in 1999, the Sri Lankan bureaucracy was found to be one of the most corrupt in the South Asian Region. The continued monopoly position of providing utility services by Government agencies (power, water) and the existence of numerous licenses (liquor sale etc.) and controls (exchange control) contribute to the high level of corruption. Facilitating the competitive provision of services by private sector and reducing the level of controls could perhaps lead to a reduction in the level of corruption.

The economically disadvantaged are the worst affected by corruption since they are dependent on public services but unable to pay for the corruption associated with its provision. There is a need for facilitating and strengthening the civil society to ensure that the poor are able to obtain the services with dignity.

The major political parties in Sri Lanka have been vociferous supporters of anti-corruption measures, but successive Governments have not supported this through affirmative actions. The Commission to Investigate Allegations of Bribery or Corruption, established in 1995 with the support of all parties of the parliament, has become ineffective due to political interference. It is also reported that the Government did not support the actions taken by the World Bank to assess the level of corruption in Sri Lanka.

## **6.3 Civil and Political Rights**

Human Rights violations of a serious nature have taken place on a massive scale during certain periods after independence, partly due to civil unrest. During the last ten years there has been a gradual improvement regarding serious Human Rights violations, but much needs to be done to address what has happened in the past as well as to sustain the recent positive development.

In the Southern part of the country there has been two violent insurgencies, in the early 70-ties and 1988. Especially during the latter period, there were tens of thousands of disappearances of mainly Sinhala youth and extreme forms of torture was practised. Between 200 and 300 of those previously detained- mostly JVP members- were

convicted under criminal law; some remain incarcerated. In many cases, human rights monitors question the legitimacy of the criminal charges brought against these persons.

Pogroms against the Tamil population living in the South in 1983 was the spark that gave the nationalistic armed Tamil groups support enough to enter into a more consistent armed struggle. Due to the conflict there have been tough security-measures, long periods of emergency regulations in place and very strict control of the Tamil population. The conflict has also resulted in disappearances, torture, rape and other forms of harassment and abuse. The Government claims that all persons held under the emergency regulations and the PTA are suspected members of the LTTE and, therefore, legitimate security threats.

In the areas that are not under Government control people live under harsh conditions in terms of freedom of movement and freedom of expression, and are forced to participate in the military and political campaigns of the LTTE. They hold a number of political prisoners. The number is impossible to determine because of the secretive nature of the organisation. The LTTE has also terrorised people in the South by bomb-attacks in Colombo, which in turn have resulted in Tamils being looked upon as suspects.

All this has created a culture of violence that permeates the legal enforcement bodies, especially the police, which also is responding to the political needs of whoever is in power. Combined with the weakness of the judicial system (above), this constitutes a major problem for solving many Human Rights issues in the country.

Another type of problem is those that relate to the traditional feudal values in society – authority, hierarchy, etc. This is reflected in the violations of children's and women's rights. Violence against women and children from those in authority, such as parents, caretakers and teachers is not unusual. Children, esp. poor children, easily become victims of abuse such as child-labour (mostly as domestics) and child-prostitution. Many children are suffering from abuse because their mothers have gone to work in the Gulf States. Children have also been conscripted as combatants by the LTTE. Organisations of children and youth are not developed and lack effective and democratic leadership.

Sri Lanka has been subject to international and internal criticism for the human rights violations. In response the Government has ratified all major human rights instruments within the UN system and has received a number of rapporteurs and working groups from the UN Human Rights system. Sri Lanka remains tardy in fulfilling its reporting obligations but the quality of the reports has improved. Sri Lanka has also set up its own mechanisms to deal with the situation e.g. the Ombudsman, the National Human Rights Commission, the National Child Protection Authority and a special committee at the Ministry of Foreign Affairs to reply to queries from the international treaty bodies. Human Rights Education is conducted to some degree within the armed forces, the police and the education system. At the moment efforts have been made to improve the outreach and quality of Human Rights education.

The Government of Sri Lanka is also working in different ways to address Human Rights issues of a systematic nature, such as the discrimi-

nation of the Tamil-speaking population by the authorities, issues relating to citizenship, identity cards, PTA (see above) and public forms in Tamil language.

#### *Torture*

The conflicts in the country and the way the Government has chosen to deal with them has fostered a culture of torture and abuse within the police. Certain police commanders have systematically used torture on suspects under the PTA. Torture and abuse has also become frequent in criminal cases. In spite of improvements, there is still room for much work in this area.

#### *Disappearances*

Four commissions have been set up to deal with the disappearances that took place before 1994. The reports have been published and have verified almost 20.000 disappearances, but little has been done to punish those responsible. Furthermore, there are reports on disappearances taken place in the North and the East after 1994. There is a gradual improvement in the way these violations are dealt with, but also here much remains to be done.

#### *Election violence*

The single largest problem with elections is the violence that surrounds them. A large number of these violent actions (among them several deaths) are not dealt with once the election period is over.

#### *Death Penalty*

Death Penalty is still meted out in Sri Lanka and there are hundreds of convicts that are sentenced to death. However, no execution has taken place since the 1980's.

### **6.4 Civil Society**

There are many thousands of non-governmental organisations in Sri Lanka. The general picture is that of fragmentation, which might be natural in a society divided on religious and ethnic lines and with a political culture of polarisation. Most membership-based organisations, like trade unions, are hierarchical and top heavy, in the sense that the leadership decides. Another segment is the foreign funded organisations that work with social mobilisation, development, human rights etc. Among them are some very professional think-tanks. Others are servicing and supporting community based organisations, which exist around the country. Many of them are achieving results and there may be a gradual change of society towards more participation, awareness of human rights etc and economic improvements thanks to these efforts.

There are, however, very few instances of nation-wide campaigns that make a visible impact. On the other hand civil society can be very vocal and, at times, violent. Trade unions may obstruct work and cause, for instance the railway, or a hospital to stop functioning.

During election times the local monitoring organisations have become very important, both as watchdogs and as awareness building groups but are yet to make an impact due to the weak judiciary.

## **6.5 Media**

Sri Lanka has a rather well-developed print media and several radio and television stations. The media operate in three languages, Sinhala, Tamil and English. Daily and weekly newspapers and the radio are the most important as they are accessible to a large proportion of the population. Internet is increasingly important as a source of information, and sometimes newspapers publish material from web-sites.

The Government controls the most important papers as well as some radio and TV-channels. This is sometimes seen as an obstacle for media freedom. During periods censorship has been implemented under Emergency Regulations. The law on defamation is regarded as another problem for freedom of the press.

The conflict has caused the media to be a tool for ethnic divide, i.e. the Tamil and the Sinhala media interpret the reality very differently.

Another problem with the media is that most journalists lack proper training and that the media themselves are not aware of or practising basic journalistic ethics.

# 7. The Economy

## 7.1 Economic Overview

Sri Lanka has had a number of changes in its economic policies, oscillating between import substitution and liberalised economy. The open market economy was introduced in 1977. Since the 1990's both major political parties in Sri Lanka accept the open economic policy as the way forward with the private sector as the "engine of growth." The post independence average growth rate has been around 4.3 percent. Despite armed conflict, Sri Lanka has been able to achieve a satisfactory economic growth and maintain macro economic fundamentals at a moderate level. Economic growth has, however, been concentrated to the Western province and has not been broad based enough to reach the poor. In 2001 the global slowdown, internal political uncertainty, drought, shortfall in power generation, the attack on the International Airport of Sri Lanka and the attacks on the USA in September 2001 resulted in a negative growth of 1.3 percent.

The decline in official reserves forced the Government to adopt a floating exchange rate regime in 2001. The International Monetary Fund provided a standby arrangement<sup>20</sup> to prop up the reserve situation and support the Government's economic program. The agreement's implementation was suspended due to the non-achievement of the economic targets by Sri Lanka. The agreement has been renegotiated based on the proposals made in the 2002 budget and MUSD 60 has been released under the programme. The IMF approved the release of the final part of the stand-by agreement of MUSD 64 in September 2002.<sup>21</sup>

The high military expenditure, the lower than expected revenue and increasing interest payment on public debt have contributed over the years to high budget deficits amounting to 9–11 percent of GDP. This in turn has contributed to higher interest rates. The inflation has continued to be in double digits resulting from upward revisions in the administered prices due to increases in international prices of crude oil, wheat flour and other food items, depreciation of Sri Lankan Rupee due to free flotation and tariff increases by public utilities.

The Sri Lankan economy was predominantly an agricultural economy at independence. The structure of the economy has undergone

<sup>20</sup> 14-month standby arrangement (about \$253 million) in April 2001.

<sup>21</sup> (source: <http://www.imf.org/external/np/sec/nb/2002/nb0292.htm>)

vast changes during the ensuing period and in 2000 the service sector made the largest contribution of 54 percent, followed by agriculture, the manufacturing and construction sectors. The greater portion of the employment is yet concentrated in agriculture with around 37 percent employed in this sector, raising concerns of productivity in the agricultural sector.

The targets for the development of the economy as espoused in the “Budget At A Glance – 2001” is as table 1.

**Table 1. Direction of the Economy**

	2000	2005	2007
Economic Growth ( percent )	6.1	7.5	7.5
Investment/GDP ( percent )	30.1	32.4	33.5
National Savings/GDP ( percent )	24.7	30.3	35.8
Budget Deficit/GDP ( percent )	9.8	4.4	4.0
Inflation ( percent )	5.5	4.0	3.5
Unemployment ( percent )	7.5	4.0	4.0

## 7.2 Trade and Investment

Sri Lanka is moving ahead on the path of economic integration by removing barriers to trade and investment, supported by regulatory and supervisory mechanisms.

Sri Lanka is a relatively open economy, as measured by the ratios of exports, imports and foreign direct investment to GDP. Exports and imports of goods and services have accounted for some 80 percent during most of the 1990s. In line with the recovery in global trade, Sri Lanka’s trade share to GDP jumped to 90 percent in 2000. Over the same period, foreign direct investment (net) progressively increased to 1.2 percent of GDP in 2000 from a low of 0.1 percent in 1995.

The United States and the European Union are Sri Lanka’s main export markets, accounting for about 40 percent and 27 percent, respectively, of merchandise exports in 2000.<sup>22</sup> Since 1980, the textiles and garments industry has emerged as the country’s main export earner (54 percent of merchandise exports in 2000). Sri Lanka’s sources of imports are relatively diversified with the European Union accounting for about 15 percent of total merchandise imports in 2000 and Japan for another 10 percent.

Building on its major trade reforms initiated in the late 1980s, Sri Lanka has continued to liberalise its trade regime. Today, the country has moved far ahead of its neighbours in the area of trade reforms. As a WTO member, Sri Lanka has pursued a wide range of reforms in the area of tariffs and non-tariff barriers (such as customs valuation, technical regulations and standards, sanitary and phytosanitary measures, intellectual property rights, and services). These reforms also reflect bilateral and multilateral arrangements, such as those reached with the European Union (suspension of quantitative restrictions on Sri Lanka’s textiles and clothing’s exports), India, Ukraine, the South Asian Preferential Trading Arrangement (SAPTA), the Bangkok Agreement, and the

<sup>22</sup> The data in the paragraph is based on IMF data for the period January to November (IMF (2001).

Agreement on the Global System of Trade Preferences (GSTP) among developing countries. Within the framework of the Generalised System of Preferences (GSP), non-reciprocal improved market access for Sri Lanka's exports is provided on a number of developed countries markets. Strict rules of origin may, however, render it difficult for exporters to benefit from the preferences.

The tariff system has been simplified and lowered, while the number of items subject to quantitative restrictions has been reduced. The 2000 Budget introduced a tariff system of two (non-zero) tariff bands with a highest rate of 25 percent.<sup>23</sup> However, a few items remain outside the two-band tariff system. The rate for agricultural goods is 35 percent allowing the domestic agricultural sector to adjust to a lower tariff regime, while some items are imported under a concessionary rate (of 5 percent). Regarding import controls, the Government has liberalised most controls and by the end of June 2000 some 296 items remained restricted.<sup>24</sup>

Among future challenges is how Sri Lanka will adapt to new competition facing its main export items textiles and clothing. Within the multi-lateral WTO framework, the quota system for textiles and clothing are to be abolished by January 2005. As a result, the market will be opened up to low cost manufactures, increasing future international competition in the global markets.<sup>25</sup> Mexico, with a geographical proximity to the U.S. market and an advantageous position conferred under NAFTA (North American Free Trade Agreement), is likely to become a major competitor for Sri Lanka's exports to the United States. Other important export items include tea. Export performance of tea critically depends on the economic situation in Russia, which is the main importer of tea from Sri Lanka. Increased value-added in the export of tea is also critical for the future export performance.

Regarding the investment environment, Sri Lanka has gradually moved away from a policy of economic independence relying on domestic investors to carry out import-substituting activities. Today, foreign investment is welcomed as a vehicle for export-led economic expansion and foreign ownership of up to 100 percent is allowed in most areas of the economy.<sup>26</sup> Among the more recent liberalization measures are the increased limits in 2000 on foreign ownership in commercial banks and in the insurance business, to 60 percent and 90 percent, respectively.<sup>27</sup>

In parallel with an improvement of the investment climate, foreign direct investment in Sri Lanka has increased since the mid-1990's. After having reached a low of US\$16 million in 1995 when the security situation deteriorated, net inflows of foreign direct investment has increased every year and reached USD 202 million in 2000.

### 7.3 The Private Sector

With correct strategies and effective management Sri Lanka has potentials to improve its competitiveness. This requires a productive and

<sup>23</sup> Central Bank of Sri Lanka (undated b), part 3, page 64.

<sup>24</sup> At the HS-six digit level (Central Bank of Sri Lanka (undated b), part 3, page 64).

<sup>25</sup> Central Bank of Sri Lanka (undated b), part 2, page 33.

<sup>26</sup> See the web-site of the Board of Investment – the Government agency responsible for investment promotion – for details on restricted sectors (<http://www.boisrilanka.org/>).

<sup>27</sup> Central Bank of Sri Lanka (undated a).



knowledgeable worker-force, adequate infrastructure and innovative entrepreneurship.

The Sri Lankan Government has designated the private sector as the engine of growth and the public sector to play a facilitating role. The Government is continuing its privatisation process to reduce its role in the economy while increasing private sector participation to improve the efficiency of the economy. The private sector has been requesting to keep the privatisation process transparent to ensure a level playing field. It has also requested that the public sector re-orient itself to its new role by reengineering/restructuring those public institutions which are providing services to the private sector to improve their efficiency.

The Ministry of Industries has identified 13 industries as “thrust industries” for priority attention. These are: apparel, leather, plastic, electric and electronic, general machinery, coir, information technology, jewellery, tea, spices, tourism, rubber and ceramic. The private sector has expressed the need to develop individual policies for these sectors. In addition, facilitation of technology transfers and the active participation of research and training institutes are necessary for these sectors to develop.

The private sector faces numerous problems in its operations. The major problems adduced by the private sector include inadequate infrastructure facilities, especially in power, highways and ports, over-regulation by the Government, high cost of capital, labour market rigidities, lack of skilled labour and the high cost of training and high taxation impeding investment.

As the existing labour laws impede the flexibility of the private sector due to its restrictions on termination of employees, it is proposed to revise the relevant laws and create a social safety net and employment location service. Middle management in the private sector needs to develop their skills especially in the areas of strategic planning, project management, financial management and marketing. Technical experience/training (international exposure) gained from more advanced countries in the same industry would widen the horizons and improve the efficiency and the effectiveness of technical staff. The development of educational centres of excellence is necessary to ensure that relevant knowledge is available.

The Sri Lankan private sector consists mostly of the small and medium enterprises (SMEs). These enterprises operate mostly at the regional level without much effort being devoted to increase sales growth, market shares and new product development. It is important to assist these enterprises with a well-planned effort to change SMEs from production for survival to production for long-term profits, market orientation and efficiency in managing their resources, through basic entrepreneurship training and other technical and financial support.

The Board of Investment (BOI) operates export promotion zones and a number of incentives have been offered to attract foreign direct investment to these zones. To reduce the concentration of industries in the Western Province and to spread industrialisation to all parts of the country it is proposed to create five economic zones in the country with appropriate investment incentives to attract local and foreign investors to these regions and develop industries, tourism, trade and agriculture in an integrated manner.



A number of chambers exist in Sri Lanka promoting the causes of various industries. The chambers at the central level have actively promoted the concerns of the private sector and proposed various policy initiatives for the private sector to play its role in the development of Sri Lanka. The chamber movement at the sub-national level has been poor and needs to be developed to actively lobby the concerns of the industries in the provinces and districts.

## **7.4 The Financial System**

The finance sector of Sri Lanka comprises a large number of financial institutions. However, in spite of the impressive number of banks, Sri Lankan users currently suffer from poor access to the formal financial system. The two key obstacles to access are that the poor and start-up companies lack of collateral and that lenders costs can be prohibitive for small-scale financial contracts and transactions.

The lack of access to the formal financial sector has forced small-scale or poor individuals and firms to informal or semi-formal financial arrangements. Pawnbrokers, moneylenders and providers of trade-related and tied credits are used extensively. As a result, micro finance programmes have been very successful in Sri Lanka. Though fairly small in terms of rupees lent these schemes are important in terms of the number of beneficiary households.

Since the early 1990s, the banking system has undergone extensive reforms. Interest rates have been liberalised and central bank refinancing of direct credits has been almost fully phased out. Banking regulations and supervision has been strengthened and capital standards raised. Steps have been taken to strengthen the legal framework in support of loan recovery. Private and foreign banks now compete freely and there are no restrictions on domestic branching.

The banking system and specialised financial institutions are overseen by the *Central Bank of Sri Lanka*. The capacity of the Banking Supervision Department has been strengthened by increasing the number of qualified bank supervisors and the ability to process and analyse data. Nevertheless, there is still an immediate need for improvement of the supervisory and regulatory base in order to meet international standard of supervision.

The state-owned banks continue to dominate the banking system and the financial market is heavily regulated, with emphasis on ensuring the stability of the system. The Bank of Ceylon and the People's Bank account for about 55 percent of banking system assets. Three major private banks (Hatton National Bank, Commercial Bank and Sampath) account for almost 30 percent of bank assets. The foreign banks operate mainly in the niche areas of business and account for 10 percent of bank assets. Government ownership of banks and financial institutions is a major impediment to growth in the Sri Lankan financial sector. Operational inefficiencies in the banking sector are reflected in high intermediation spreads (between five to eight percent). Intermediation costs are not declining as there is little competition in this field and managers have no performance incentives to reduce inefficiency.

The Central Bank's operations focus on maintaining stability in financial markets. The bank is currently in a process of restructuring and

re-focusing on Core Functions (Price Stability and Financial System Stability) and devolving non-core activities like Exchange Control, Public Debt Management and the management of the Employees Provident Fund in order to transform the bank into a fully modernised Central Bank.

Government requirements and regulations have weakened the incentives for lending based on commercial considerations. Political interference has affected individual loans and this sort of interference is responsible for a major portion of under-performing loans made by state banks and low repayments are common characteristics of loans made in this manner.

The Colombo Stock Exchange (CSE), founded 1984, is the only stock exchange in Sri Lanka. At the end of 2000, the exchange had 239 listed companies with a market capitalization of about USD 2,5 billion in equity and debt. However, equity performance has fallen sharply and market capitalization and turnover have shrunk in 2000 and 2001 as a result of the circumstances of the Sri Lankan economy, in particular the sharp rise of interest rate and low level of foreign investments in 2001. The peace talks have improved market sentiments.

The Government is in the process of implementing a financial sector reform to improve the efficiency of the system. The reforms that are being considered, include relaxation of exchange control of capital account transactions, amendments to the Banking Act and Monetary Law Act, establishing an independent Government Debt Office, strengthening bank supervision, development of debt instruments, the creation of a longer term yield curve, establishing a Revenue Authority and Tariff Commission and broadbasing the ownership of the Colombo Stock Exchange (CSE).

In terms revenue to the government taxes amount to around 86% of the its total revenue and of the total tax revenue 84% was generated by indirect taxes. The total number of taxpayers in Sri Lanka is only 350,000 and is very low when compared to the potential tax base. Though a myriad of taxes and surcharges exist, the revenue mobilisation has fallen far below the potential collection levels reflecting inadequacies in the tax structure and deficiencies in tax administration. In the budget presented by GOSL the following major changes to the administration of the government revenue collection effort has been proposed.

Proposal	Objective	Time Frame	Status
Introduce VAT and abolish Defence Levy and Goods and Services Tax	Better collection of revenue	July 2002	Introduced in August 2002, due to cases filed in courts against introduction of VAT
Transform the Customs Department And the Inland Revenue Service into a Revenue Authority	<p>Co-ordinated collection of taxation including customs and excise taxation</p> <p>Eliminate the excessive use of <i>ad-hoc</i> tax incentives and distortionary multiple tax exemptions,</p> <p>Broaden the tax-base, and streamline the tax administration system.</p> <p>Reduce reliance on indirect taxation and improve direct tax collection</p>	April 2003	
A permanent Tariff Commission	Establishing a competitive customs regime to examine tariffs, and address representations made by importers and exporters		

The Asian Development Bank (ADB) and the Government of Sri Lanka signed an agreement in August 2002 for a study to improve public sector resource management including support for the establishment of the Revenue Authority.

## 7.5 Infrastructure

### *Roads*

The road network's contribution to national development, economic growth and poverty reduction is under the current situation limited. In fact, the insufficient road infrastructure capacity and the inefficiently managed sector is acknowledged by the Government as a major impediment to the development of poorer regions of the country.

While Sri Lanka's road network is extensive, most roads were built more than 50 years ago. Road maintenance, rehabilitation and new construction have not kept abreast of the rapid growth in demand for transport. With more than 90 percent of the domestic transportation, both passengers and freight, the road network is by far the most utilized mode of transport in the country. The rapid expansion in the vehicle population have led to traffic levels now far exceeding the design capacity of many roads, resulting in heavily congested roads and a steep increase in accidents with fatal or serious consequences, the victims often being the unprotected road users. Due to neglect of road maintenance, road

condition is often poor. Uncontrolled roadside development has also reduced the capacity of the network. This has negative consequences for, not only road safety, but also for road user costs, and the quality and frequency of transport services. The negative consequences affect the population as well as existing and emerging industries and businesses.

In order to give rural people an opportunity to participate in the nation's growth process, and thereby enhance livelihoods, increase incomes and ensure mobility and access to essential services, it is important to link the poorer regions to dynamic economic areas, such as Colombo. For this reason the Government has embarked upon the building of a national highway system and a strategic, integrated road network.

In order to halt the negative development of road safety, Sri Lanka has also recently embarked upon a Road Safety Action Plan. For the programme to be successful the National Road Safety Secretariat needs to improve its capacity and effectively co-ordinate with the other agencies such as police and vehicle inspection units.

The public investments to improve transport efficiency can only be sustainable through an efficiently managed sector. The Government has identified the need for institutional and policy reform, private sector participation and stable national funding, to strengthen the performance of the sector. The Road Development Authority, at central and provincial level, needs to strengthen its role in a growing road sector and focus on its main tasks. Most of the road rehabilitation has so far been done by a parastatal company, the Road Construction and Development Company (RCDC), and road maintenance has been carried out by the Road Development Authority itself, with no competitive private sector involved. Further, little funds have been made available from the national budget for maintenance and rehabilitation, leading to severe deterioration of the network. In particular the provincial and local roads have suffered from lack of funds over the years.

#### *Power Sector*

Sri Lanka has long depended on hydropower for the generation of the electricity. The fluctuations in the rainfall has affected the power generation negatively. The utilisation of the relatively expensive thermal power and the lack of flexibility to increase the tariffs have left the Ceylon Electricity Board (CEB) with an overdraft.

The implementation of the large-scale thermal and hydro power plants proposed by CEB, which would have enabled Sri Lanka to overcome the present power crisis and ensure sufficient electricity supply to meet the increasing power demand (8–10 percent annually), have been stalled mainly due to environmental considerations. To augment the power supply, the Government of Sri Lanka (GoSL) has been promoting private sector participation in generation of power through medium-scale thermal plants and mini-hydro plants. At present eight percent of the total electricity requirement is supplied by mainly thermal based private sector power generators. In addition, alternative renewable power sources such as solar and wind are also being looked at as possible sources for future power generation.<sup>28</sup>

<sup>28</sup> 3-MW wind power pilot project currently is operating at Hambantota in southern Sri Lanka.

About 55 percent of Sri Lanka is electrified and electrification projects in rural areas are being undertaken by the GoSL with the assistance of donors to improve the coverage. In terms of transmission and distribution, an area of major concern is the large amount of system losses, estimated to be around 20 percent, due to the ageing infrastructure.

To make the power sector more dynamic and responsive to the emerging situation and to improve the quality and reliability of the service, it was decided in 1998 to unbundle CEB with specialised separate companies for generation, transmission and distribution. All institutions will be initially Government owned and will later depending on the need, divest stocks to raise funds, broad base ownership etc.

#### *Telecommunication*

The teledensity for Sri Lanka is 25.5 per thousand persons for fixed phones and together with the cellular phones it is around 37.3 per thousand persons. However, the density is higher in the Colombo area with much lower density in the rural areas.

The Sri Lankan telecommunication market is very competitive with one fixed line operator, two wireless local loop operators and four cellular phone operators. The fixed line operator, Sri Lanka Telecom (SLT) is partly owned by the Sri Lankan Government and managed by NTT of Japan. The Government of Sri Lanka is making arrangements to divest its shareholdings from this entity. The international communication is yet the monopoly of SLT and another player would be allowed to enter the market in 2002 allowing competition in this sector too.

The regulatory authority in the telecommunication sector is the Telecommunication Regulatory Authority.

There are still major problems to be addressed, some of the identified issues are;

- Reformulation of the regulatory body to ensure independence, dependence of the public good, uniform enforcement of regulation and liberal view on open market competition
- Allowing open competition on international, undersea bandwidth for both voice and data with the lowering of costs
- Rationalising the cost of local dial access

The overall electricity system in Sri Lanka is still inadequate to meet today's needs to support the telecom sector.

Telecommunication is an integral requirement in today's world and it contributes immensely to economic development by bringing the world closer. Access to telephones increases the possibilities to communication and information exchange with other areas of the country and abroad.

#### *Information Technology*

The development of ICT has over the last decade been one of the sectors prioritised by the Government. With the spectacular development of IT in Bangalore, Sri Lanka aspires to replicate the model. A number of new ICT-companies have recently emerged in the country. The primary focus of most of these companies has been to develop software for foreign companies. Several efforts have been made to make a strategy

for the development of ICT in Sri Lanka; however, most of these studies have primarily centered on the area of interest of those organizations, which carried out the study. A real *holistic* approach for ICT-development on a countrywide basis has not been developed yet.

For a systematic development, a number of shortcomings must be dealt with including the following:

- The lack of well-educated ICT graduates, trained ICT personnel and experienced ICT professionals. This critical shortage affects the industry and has also resulted in a shortage of qualified teachers for the higher level IT curriculum. The traditional university system is unable to produce such numbers, and the private sector training is “ad-hoc” and often do not meet the requirements of the industry.
- A great digital divide persists within the country, e.g., the access to IT and Internet in relation to geographic, demographic and social parameters. A very high concentration of ICT activity is centered to Colombo, in part due to the low access to electricity and connectivity in the rural areas. The lack of high-quality telecommunications in remote areas restrains the introduction of ICT to these areas.
- There are many “islands” of achievements, but there is a serious lack of understanding of how to put these pieces together through collaboration and the application of appropriate overall policies and market signals.

## 7.6 Unemployment

The unemployment rate dropped from 16 percent in 1990 to eight percent in 2000.<sup>29</sup> In an international context this ratio is not high, but since the majority of the population is engaged in small-scale farming and informal sector production, working hours, pay and seasonality varies and underemployment is widespread. The degree of unemployment is higher for women (11 percent) than for men (six percent).<sup>30</sup> For the last two decades, however, employment opportunities have grown faster for women than for men. In order to reduce unemployment the Government has promoted foreign employment. About 10 percent of the labour force work abroad, in particular in the Middle East.<sup>31</sup>

A major problem, and a historically very sensitive issue in Sri Lanka, is *unemployment amongst the youth* which has created tension and threatened the stability of the country. Disadvantaged youth from rural areas, especially the Southern province where unemployment traditionally has been highest, have been behind two upsurges during the 1970's and 1980's. New disturbances cannot be excluded unless the situation for unemployed youth is addressed.

Surveys estimate that more than every third person in the age group below 25 is unemployed compared to only four percent for those over 30. Nearly 80 percent of the unemployed are under 29 years. A serious problem is the mismatch between the skills of the population, the expectations and the jobs available. The majority of the new jobs are in the informal sector or in manufacturing, with the recruitment of mainly

<sup>29</sup> ADB 2002. (<http://www.adb.org/Countries/Highlights/SRI.asp>) Unemployment.

<sup>30</sup> Central Bank of Sri Lanka (<http://www.adb.org/Countries/Highlights/SRI.asp>)

<sup>31</sup> World Bank A fresh look at unemployment p.x.

semi-skilled women, while the entrants into the labour market, with generally more than ten years of schooling, expect different kind of jobs.

The exceptionally large public sector (12 percent of the labour force) has traditionally been the main formal employer absorbing educated youth. By offering employment in the public sector (particularly in teaching, public enterprises and the operation of poverty programs), the Government is seeking to keep down frustration among educated youth. Public sector jobs are very attractive as they are more secure and lucrative than non-public sector jobs (60–100 percent), especially for workers at low levels. A recruitment system into the public sector based on political patronage rather than on merit was the main reasons for the youth rebellion according to the Presidential Commission on Youth established in 1990 to examine the causes of the youth unrest.<sup>32</sup>

The Government is under pressure to downsize the public sector, something that is met with resistance by the workers and the unions. Therefore reforms have been slow. If the Government goes ahead with its intentions to reform the public sector, many people will face unemployment.

Military employment is a rational economic decision for youth facing limited employment opportunities and life options. Among the poor in rural areas army recruitment and compensation is extensive and constitutes a larger source of income than the official poverty alleviation programme of the Government. If the peace process moves forward it is likely that the army will be downsized and that LTTE cadres and other armed groups will be disarmed. One major challenge for Sri Lanka is to create employment opportunities, not only for those who are unemployed today, but also for the thousands of people that in the event of peace and reforms of the public sector will be unemployed. The private sector has an important role to play in the creation of employment.

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<sup>32</sup> World Bank A Fresh look on Employment p. ii-iii.



# 8. Human Development and Social Economic and Cultural Rights

## 8.1 The Right to Education

Compared to other South Asian countries Sri Lanka is unique in its ability to provide universal education. The primary school enrolment is almost 100 percent, the literacy rate is 92 percent and the ratio of enrolment in secondary schools is about 75 percent for both girls and boys. The Government maintains a strong monopoly on the provision of education services following the nationalisation of private schools in 1961.

The strong record on school enrolment is however diluted by the inadequate quality of education services at all levels. Curricula and pedagogical methods are outdated and unable to equip graduates with the broad analytical and linguistic skills needed for a modern economy.<sup>33</sup> Learning levels show wide regional disparities and are weakest among poor, marginalized social groups and conflict-affected communities. Other problems, in particular in the conflict-affected areas, are the lack of qualified teachers and poor condition of school buildings. Corporal punishment is widely used in schools.

The educational reform initiated in 1997 promotes learning to be together, tolerance and democratic skills. However, curriculum, teacher training and promotion of innovation in these fields are still lacking.

The relevance and quality of the public university training is of grave concern. There is a large gap between the education offered by the public institutions and the needs of the private sector. University enrolment in the art faculties is the highest in spite of limited demand for such degrees while only a limited number of faculties of science and commerce are available. Another major problem is that the school system produces many school leavers with few possibilities to higher education since the number of university entrance places are limited (the university intake is only two percent). This creates frustration among the youth who face limited employment opportunities.

Investment in education in Sri Lanka was only 2.6 percent of GDP in 1998, which is well below the 3.5 percent average for Asia. Educational expenditures are also relatively low in proportion to the overall Government budget – 10 percent for the same year compared to the 14 percent average for Asia.

<sup>33</sup> World Bank Sri Lanka Social Services A Review of Recent Trends and Issues p. ii.



Priority given to education in mother tongue implies segregation of students on the basis of the two national languages (Sinhala and Tamil). This affects national reconciliation negatively. Moreover, many textbooks contain material that sometimes is biased in terms of their treatment of ethnicity and religion. Teaching in history and civics are sometimes biased and used for nationalistic purposes rather than the building of tolerance.

Since 1996 the Government has taken steps to address the situation. The Ministry of Tertiary Education has initiated a new reform programme for all universities including introduction of staff development units and resource persons for student career guidance. Additional items of the programme are curriculum reforms and attempts to create linkages between the private sector and the universities. The main challenges are to improve the low learning outcomes of students, especially among poor, to make the education more demand driven, especially from the private sector, to create an integrated school system (not divided on language or ethnic basis) and to ensure that curricula, teaching methods and school text books reflect the respect of diversity and equal rights.

## **8.2 The Right to Health**

Since the 1950's Sri Lanka has established an impressive health record including substantial achievements in health, nutrition and family planning with relatively low levels of public expenditure (3.2% of GDP) on health.<sup>34</sup> The health programme has been successful in targeting infant and maternal mortality (in the 1990s, the maternal mortality rate declined from 80 to 30 per 100,000 live births) and infectious and communicable diseases. Infant mortality is about 15 per 1000 births, fertility is near replacement level, and the population growth rate is less than one percent. However, the quality of health care delivery appears to have declined, the incidence of malaria has increased and child malnutrition slightly worsened. Delivery of health services has deteriorated, in particular in the conflict areas, border villages and welfare camps, where in addition to malaria and malnutrition, physical and psychological trauma constitute acute problems. Because life expectancy has increased and the population is ageing, non-communicable, and degenerative diseases among adults such as heart disease, cerebrovascular disease, and diabetes are becoming more common and must be addressed. The Presidential Task Force on Health Reform will provide guidance on reforms needed to address these challenges. The five priority areas identified for health sector reforms include: i) to expand access to curative health services at the district level in order to make these services more accessible in poor rural areas, ii) to expand the health care services to meet the needs of specific groups such as the elderly, victims of war, and to promote specific areas of health care such as occupational health problems, mental health care and estate health service, iii) to develop health promotional programmes, with special emphasis on outreach through the schools and v) to rationalise the development of human resources. These reforms have gradually been implemented since 1998 and will continue during the coming years.<sup>35</sup>

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<sup>34</sup> PRS p. 72.

<sup>35</sup> PRS p. 72-73.

The Government has encouraged expansion of private health care to keep pace with increasing demand for hospital-based care and higher quality services.

### 8.3 HIV/AIDS

The number of HIV/AIDS cases in Sri Lanka is still relatively low. UNAIDS estimates that the HIV infection rate among adults, between the ages of 15 and 49, is 0.07 percent.<sup>36</sup> The number of women infected almost equals the number of men (the current ratio of HIV positive men to women is 1.4 to 1). It should be added, however, that women comprise the majority of emigrant labour to the Middle East who are required to be tested for HIV. The risk factors and behaviour patterns which facilitate rapid spread of the infection are nevertheless widespread and make Sri Lanka highly vulnerable to an HIV/AIDS epidemic. The risk factors include low use of condom, high rate of commercial sex, high rate of sexually transmitted diseases, high mobility (promoting unsafe sexual practises) and unsafe injecting behaviours. The capacity for voluntary counselling and testing is limited and there is a prevailing fear of being identified or detected as HIV positive. The Government has established a National AIDS Control Programme (NACP) under the Ministry of Health. NACP is the main co-ordinating body for HIV/AIDS prevention and control efforts, which are implemented in collaboration with provincial directors of health services, the national Blood Transfusion Service, and NGOs. The Government is currently reformulating a national strategic plan. The work of local as well as international NGOs has so far been limited and their collaboration with the Government needs to be expanded. Vigorous action is needed in order to prevent a widespread epidemic. Areas of priority include to heighten political commitment, scale up behavioural change activities and health promotion interventions, emphasise HIV/AIDS as a development issue, highlight the need for collaboration and co-ordination between public and private sectors and promote awareness.<sup>37</sup>

### 8.4 Non Discrimination of Women

Compared to the rest of South Asia, Sri Lankan women are relatively well off enjoying high life expectancy (76 years), a high literacy rate (88 percent), and access to economic opportunities. Sri Lanka ranks 84th among 174 countries on the gender development index. The introduction of free primary, secondary and tertiary education in 1945 led to a rapid expansion of educational opportunities and to equal access for boys and girls, and of men and women to general education. The wide network of health services, especially maternity and child health services established at independence has contributed significantly to the improvement in the health status of women. However, one weakness in the approach to women's health has been the almost exclusive focus on young children and pregnant mothers. Consequently, less attention has been given to the health needs of the adolescent girls, the occupational

<sup>36</sup> UNAIDS Epidemiological Fact Sheets 2000, data from 1999. ([www.unaids.org](http://www.unaids.org)). It should be noted however that these data are somewhat old and that statistics from UNAIDS are based on data from the Government of Sri Lanka.

<sup>37</sup> UNGASS Regional Updates HIV/AIDS in South Asia- Sri Lanka ([www.worldbank.org/ungass/srilanka.htm](http://www.worldbank.org/ungass/srilanka.htm)). Data from December 2000.

health hazards of women workers and the needs for geriatric care and other services for a growing ageing population group.<sup>38</sup>

Women in Sri Lanka have access to employment opportunities and income but they are mainly employed in semi-skilled labour-intensive industries irrespective of their educational level, without opportunities for upgrading skills. There is wide disparity in income and employment. Male per capita GDP (purchasing power parity) is over twice that of females, and the female unemployment rate is substantially higher than that of males. The quality of employment available to women has deteriorated since the end of the 1970's. Women have tended to be pushed out of stable employment in the formal sector to marginal economic activities and to unviable self-employment. Female labour force participation in the formal sector is about 35 percent – mainly in lower-skilled jobs – and their wages are consequently significantly below those of men. Despite the entry of a few women to new areas of employment, the majority of women are concentrated in domestic and plantation agriculture, traditional local industries, in the education and health sub-sectors and in domestic service. Long working hours, exposure to occupational health hazards, vulnerability to job insecurity, inequitable gender division of labour and gender subordination in the labour market are characteristic features of women's work in Sri Lanka. Only a few women have reached high-level decision-making positions in the public and private sectors. In political decision-making women are highly underrepresented although they have reached the highest level in decision making (the president is a woman). Not more than five percent of the members of parliament are women.

Many women from low-income families, attracted by relatively high remunerations, are migrant workers in the Middle East. The majority of these women are between 21 and 35 years and many have young children. The absence of employment contracts and adequate support service result in exploitation of many women by agents and employers, sexual abuse, family dislocation and children in crisis.

Plantation women are a disadvantaged group in terms of both economic and social development. Women face physical insecurity and problems with domestic violence and spousal abuse associated by alcoholism and traditional paternalistic family patterns. International trafficking is not a problem in Sri Lanka but trafficking takes place within the country.<sup>39</sup>

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<sup>38</sup> ADB Women in Sri Lanka p. ix.

<sup>39</sup> Ministry for Foreign Affairs. Trafficking in Women and Children in Asia and Europe p. 22.

# 9. The Environment

## 9.1 Overview of the Environmental Problems Facing Sri Lanka

The high population density and the continuing effort to improve people's living standard has created a tremendous pressure on the natural environment of the country.<sup>40</sup> Sri Lanka faces a wide range of environmental challenges tied to its economic development. In the State of the Environment Sri Lanka 2001<sup>41</sup> and the report presented at the 1992 Rio Earth Summit a number of different key environmental issues has been presented.

### *Land degradation and deforestation*

Sri Lanka has relatively stable and fertile soils and a moderate climate with plentiful monsoon rain. However, soil erosion is severe in many parts in the mid country. Increased soil salinity, salt-water intrusion and water logging are issues that have to be dealt with. The incentive to invest in long-term land management and sound land use practices are curtailed mainly due to distortions in the land and credit markets.

At the turn of the 19<sup>th</sup> century 70 per cent of the island was covered by natural forest. By 1981 this had shrunk to about 20 per cent. Unsustainable agricultural and forestry practices are causing bio-diversity loss, severe soil erosion on sloping lands and reduced productivity of irrigated lands. Agricultural chemicals and agro processing by-products are polluting soil, air and water.

### *Water pollution*

The quality of the groundwater is good in most areas. However, the increased demand for water has been met by heavy investments in irrigation, while rain fed farming has been largely neglected. This has resulted in inefficient rationing of water by the state, sub-optimal allocation between different users and conflicts over water at the local level. In many urban areas, particularly Colombo, there is high organic pollution of wastewater from households, which lack disposal facilities. Industry causes chemical pollution of water in some areas. Agricultural run-off containing pesticides and fertilizers is affecting water quality in other areas. In order to provide a rational system for of water allocation, a Water Resources Council has been established and a Water Resources

<sup>40</sup> Between 1946 and 1971 the population of Sri Lanka doubled. By 2040 it is estimated 25 million people will be living on the island. (UNDP [www.undp.lk](http://www.undp.lk)).

<sup>41</sup> By the United Nations Environment Programme, p 3.

Management Plan has been developed. At the micro level greater efficiency in water use is being promoted by increasing tariffs for water consumption. Water pollution is being addressed by improving sanitation, by reducing the use of pesticides in agriculture and by encouraging industry to install clean technology.

As competition over water intensifies, efficient allocation measures must be devised to share the available water among its different uses, principally irrigation, industry, power generation, base flow rivers and domestic supplies. Increasing water pollution caused by industrial effluents further complicates this situation.

#### *Loss of biological diversity*

Biological resources are being rapidly lost as rich ecosystems are converted to other uses which yield higher financial returns. The main failure to protect ecosystems is that the present economic returns from protecting bio-diversity are too low, leaving local communities and Government agencies with no incentive to promote biologically diverse land uses. Monocrop agriculture is made more profitable by current crop based subsidies.

#### *Solid and hazardous waste*

Solid waste is a growing problem in urban and industrial areas as systems for collection and disposal are weak. Solid and hazardous waste is unloaded into open dumps causing serious health hazards, burnt in open air where they cause land and water pollution. The main issue is that no proper management strategy has been developed to co-ordinate the many public and private agencies involved in solid waste generation, collection, recycling and disposal.

#### *Air pollution*

Concern for air pollution is focused mainly on Colombo where vehicle emissions are the main source of pollution. However, Colombo's air pollution is less than in many Asian cities because of the sea breeze and the relatively few vehicles. The situation will nevertheless worsen as the number of vehicles is growing rapidly. Air pollution and other threats to urban environmental quality must be addressed as industrial growth fuels migration to urban areas.

#### *Depletion of coastal resources*

The pressures on coastal resources are e.g. caused by: concentration of population in coastal areas, the tiger prawn export industry (particularly in the north-west coast the industry has caused severe damage to mangrove and other ecosystems), collection of non-edible aquarium species harvested for export. Rivers, damming, sand-mining, collection of coral rubble and removal of coastal vegetation erosion of coastal areas has caused adverse erosion of the coastal area (about one meter per year).<sup>42</sup>

## **9.2 Economic Development and the Environment**

Although the country has enacted comprehensive environmental laws, their enforcement is observed to be poor. The need arises for the integration of environment as an important component of development plan-

<sup>42</sup> State of the Environment Sri Lanka 2001, p 5-6.

ning and the effective implementation of such plans to achieve sustainable development. The alleviation of poverty, provision of employment opportunities and strict enforcement of restricting regulations will prevent the environment from further degradation.

Greater public awareness, the commitment and will of decision makers and implementers are a sine quo non reaching the goals of sustainable development.

# 10. Multilateral and Bilateral Development Co-operation

The total amount of loans and grants disbursed in 2000 by all donors and creditors amounted to MUS\$ 513. Out of this amount 86 percent constituted loans and 14 percent grants. The three major donors, viz. Japan, ADB and World Bank, accounted for a disbursement of MUS\$ 330,3 representing 64 percent of total loan disbursements. Disbursements were thus: ADB (15 percent), the Japanese external assistance (40 percent) and World Bank (9 percent). Among the leading donors 2000 were Germany (5 percent), China (4 percent), Norway (0,7 percent), Sweden, (1 percent), Netherlands (0,5 percent), UK (0,7 percent), Australia (2 percent), EC (no disbursements recorded for 2000), Korea (2 percent), UN (2,2 percent), and USA (1,4 percent). Although the UN is partly a donor, most of its funding comes through bilateral donors with UNDP as the lead agency for UN's development activities in Sri Lanka and as elsewhere, it works primarily through the GOSL. Its development work in the south focuses on governance, poverty alleviation, human rights and gender.

There are broadly three types of development co-operation which support different, but sometimes inter-related activities. Most of it is channelled through the GOSL with primary objectives related to macro-economic reform, expansion of the private sector, reform of the Government, infrastructural investment and poverty alleviation. Japan devotes two-thirds of its development co-operation to energy, transport and telecommunications. In recent years they have broadened their portfolio to include social infrastructure and the environment. The ADB concentrates on agriculture, natural resources and education. Out of ten projects in Sri Lanka six have economic growth as the primary development objective and five have poverty as a secondary objective. For the World Bank, the energy sector accounts for the largest share followed by agriculture, transportation and education. The emphasis in co-operation between the EC and Sri Lanka has shifted over the years from traditional development assistance to economic cooperation. Although the bulk of foreign development co-operation is focused on supporting macro economic stability and growth there is also a growing emphasis on poverty reduction. The World Bank, ADB, UNDP and a number of bilateral donors (e.g. Sweden, UK and Netherlands) have in recent years placed a greater focus on poverty reduction.

Through the 1990s, bilateral donors increased the proportion of development co-operation directed towards NGOs and civil society. This partly reflected international policy shifts towards governance and state-civil society partnerships. Donors support NGO activities in a range of sectors including small-scale livelihoods programmes, human rights, peace and reconciliation, the media, and election monitoring.

Humanitarian assistance to the North East is funded by UN, the World Bank, EC, bilateral donors and international NGOs. The main bilateral donors are Germany, Sweden, UK, Norway, Netherlands and the US. Although most assistance for the North East comes from humanitarian budget lines, the operating conditions and types of activities are very diverse, ranging from relief and welfare assistance to displaced populations in the Vanni to major reconstruction efforts in Jaffna. Although other aid flows have generally declined, humanitarian aid to the North East has remained more or less constant, fluctuating in line with the extent of humanitarian needs.

As is the trend globally, major donors are moving from large technical projects to re-focus on strengthening institutions. As bilateral assistance dwindles, Sri Lanka will become increasingly dependent on direct investment from foreign sources. The World Bank and IMF are pressing more actively for reform through loan programmes. The Japanese in particular remain committed to funding the GOSL. With the trend towards performance based lending, concessional aid is likely to decrease as is the proportion of grants to loans.

The principal donor coordination mechanism in Sri Lanka is the Development Forum, presently chaired by the World Bank. The Development Forum is normally held every 1–2 years and facilitates the overall coordination of development co-operation policy and implementation. In-country, donor coordination and co-financing are receiving increasing attention. The ADB and others are encouraging sectoral planning. The World Bank with UNDP, helps the GOSL to develop a Poverty Reduction Framework and plays a key role in the development of the Framework for Relief, Rehabilitation and Reconciliation. There tends to be close coordination between the largest three donors and also informally between a group of like-minded bilateral donors such as Sweden, Norway, Germany, Netherlands and the UK. There is also a monthly meeting of EU member states (including the delegation of the EC in Colombo) on development co-operation with Sri Lanka.

The Donor Forum provides an opportunity for informal meetings of multilaterals, bilaterals and NGOs. Within the UN a recent initiative has been the Common Country Assessment (CCA) and the UN Development Assistance Framework (UNDAF), which aim to encourage a common analysis and response from the UN agencies.



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*Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.*



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