

**Country Assistance Program
for
the Democratic Socialist Republic of
Sri Lanka**

Government of Japan

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Country Assistance Program for Sri Lanka

1. Recent Political, Economic, and Social Situation

1.1 Political Situation

1.1-1 Sparked by the killing of Sri Lankan government soldiers in Jaffna in July 1983, anti-Tamil violence erupted throughout the country, particularly in Colombo, which saw large-scale riots. Subsequently, ethnic conflict between the Sinhalese and Tamils intensified, with the Tamil extremist organization the Liberation Tigers of Tamil Eelam (LTTE) demanding a separate state in the northeast and military actions against the government growing increasingly violent. After nearly twenty years of civil war, efforts to realize a peace settlement finally resulted, through the mediation of the Norwegian government, in the reaching of an indefinite ceasefire agreement in February 2002, and full-fledged peace negotiations began in September of the same year.

1.1-2 Regarding Sri Lanka's domestic political situation, the United National Party (UNP), led by Prime Minister Ranil Wickremasinghe, emerged victorious in the parliamentary elections held in December 2001. As a result, the political picture in the country has been distorted as President Chandrika Kumaratunga comes from the opposition People's Alliance (PA) coalition. This is the first time for Sri Lanka, which has firmly adhered to a democratic political system, to experience an actual "government of cohabitation," and this situation has exerted a great impact on the government's peace negotiations with the LTTE since September 2002.

1.1-3 The peace process subsequently showed steady progress, but capitalizing on the fact that it was not permitted to attend a seminar on Sri Lanka hosted by the United States government in April 2003, the LTTE stepped up its criticism of the Sri Lankan

government. Further peace negotiations were not only suspended, but the LTTE also declined to attend the Tokyo Conference on the Reconstruction and Development of Sri Lanka held in June of the same year (see 2.3-3).

1.1-4 At present (as of August 2003), although peace negotiations have not been resumed, there is continuing contact between the Sri Lankan government and the LTTE and other parties aimed at moving the peace process forward.

1.2 Economic Situation

In 2001, Sri Lanka recorded negative real GDP growth of 1.5 percent, the country's first economic contraction since it gained independence, as agricultural production declined due to a drought, the performance of export manufacturing industries sagged in line with the global economic slowdown, and the tourist industry fell sluggish due to the LTTE's terrorist attack on Colombo International Airport. In 2002, the favorable impact of the ceasefire agreement between the government and the LTTE, the strengthening of the global economy, the stabilization of power supplies, and other factors boosted economic growth, which was led by the services sector. With a moderate rise in the performance of the country's slumping manufacturing industries and an increase in agricultural production favored by stable weather conditions, the real GDP growth rate for 2002 expanded by 4 percent. However, unemployment, particularly among young workers, rose slightly, and increases in commodity prices caused by rising oil and energy costs and higher prices for imported goods have put added pressure on the lives of Sri Lanka's citizens as the country's severe economic condition persists. The government's fiscal deficit, which increased in 2001 to 10.9

percent of GDP due to increasing expenditures, including an increase in military spending and payments of subsidies to mitigate damage from the drought, fell to 8.9 percent of GDP in 2002 (although the government's target was 8.5 percent) as a result of the streamlining of the country's tax system and the widening of the tax base.

1.3 Social Situation

Around 30 to 40 percent of the total population in Sri Lanka is considered poor. Of that number, 90 percent live in rural areas, the reasons for the great number of poor people living in such regions stemming from the instability of people's incomes due to the weakness of the agriculture, forestry, and fisheries industries—the main industries in rural areas—and the lack of development of regional industries. Moreover, poverty in the war-torn northern and eastern regions of the country appears to be worse than in other regions.

Medical care and education are provided free in Sri Lanka. This policy continues at present, even though the government is facing severe fiscal difficulties, but the results of this policy are manifested in the 91.4 percent literacy rate, birthrate of 18 per 1,000 persons, average lifespan of 72.7 years (all figures for 1999), and other social indicators. On the other hand, there are large disparities in the benefits received in urban versus rural areas and in the fiscal burdens borne by different regions. In addition, the provision of free social services may create circumstances that induce the lowering of the quality and degree of services.

2. Development Issues

2.1 Current Development Plan

The government of Sri Lanka announced in December 2002 its “Regaining Sri Lanka” plan, a policy guideline for revitalizing and accelerating Sri Lanka’s economic growth that presents a framework for development for the next five years (see 3.2-2). This plan is targeting an annual economic growth rate of 8-10 percent through the increase of domestic productivity, the strengthening of international competitiveness, and the promotion of investment. Committed to the need to effectively reduce poverty, the government is also aiming at improving the country’s macroeconomic environment, reducing poverty, which is caused by its internal conflicts, broadening the participation of all citizens in the country’s economic growth, investing in human resources development to develop the latent capabilities of Sri Lanka’s people, activating opportunities for the poor, and enhancing its governance capabilities.

2.2 Major Issues for Development

2.2-1 Creation of employment opportunities

With non-full-time workers included as workers in labor statistics and an excess supply of workers in the public sector being created, the actual situation of Sri Lanka’s labor market is very unclear, and the labor market itself is inefficiently structured. Trying to come to grips as closely as possible with the realities of the labor market, the Sri Lankan government is hoping to respond to the demands of the market by attempting to create new job opportunities for two million people over the next several years in its efforts to combat unemployment and activate the labor market.

2.2-2 Overcoming the fiscal crisis

As Sri Lanka experiences chronic fiscal deficits, the government is working to reduce expenditures and increase revenues, while still attending to the needs of the socially vulnerable, by making the public sector more efficient through, among other reforms, the privatization of public corporations. In light of Sri Lanka's fiscal condition and debt-bearing capacity (Sri Lanka's fiscal deficit is around 10 percent of GDP, its debt service ratio [DSR] stands at 13 percent, and total external debt is 60 percent of GDP [all figures for 2002]), it is imperative for Sri Lanka to strengthen its preparedness and implementing capacity for receiving assistance and to improve its debt management capabilities so that the reconstruction of the conflict-torn regions does not put an excess burden on the fiscal condition of the government and on the economy as a whole. It is also vital for Sri Lanka to make all efforts to put its fiscal situation on a sound footing through decreases in military spending afforded by the maintenance of peace, increases in tax revenues that will come with economic growth, and other means.

2.2-3 National recovery

Sri Lanka is promoting investment and striving for economic growth to rebuild the entire country. To realize a lasting peace, the government is promoting its 3R process of Relief, Rehabilitation, and Reconciliation.

2.2-4 Raising incomes, boosting productivity, and expanding investment

Through the improvement of productivity in all industrial sectors, including the public sector, Sri Lanka is seeking to attract investment, promote economic growth,

and increase national income.

2.3 Relations with Major International Organizations/Efforts of Other Donor Countries and NGOs

2.3-1 Relations with international organizations

(a) The major donors to Sri Lanka are Japan, the Asian Development Bank (ADB), and the World Bank, with shares of assistance of approximately 47 percent, 19 percent, and 8 percent respectively. The share of assistance provided by U.N. organizations, including the UNDP, UNHCR, UNICEF, FAO, WFP, and UNFPA, is around 1.6 percent. (The above figures, based on Sri Lankan government statistics, are calculated on a disbursement basis for 2001.) Accordingly, cooperation among Japan, the ADB, and the World Bank is particularly meaningful, and it is hoped that donors will collaborate with each other by focusing on those areas in which each has a comparative advantage.

(b) The ADB's assistance priorities focus on six areas: agriculture and natural resources, energy, private sector development, social sector development, transport, and governance. Japan's Japan Bank for International Cooperation (JBIC) has mainly focused on providing co-financing for infrastructure projects, but recently it has also been participating in discussions on reform of the power sector and been providing financing through its program loans for power sector reforms. JBIC also concluded a poverty reduction partnership agreement with the Sri Lankan government, and it is currently extending assistance for poverty reduction and rehabilitation projects in the northeast. At present, Japan is reviewing its future programs for Sri Lanka. (Japan

announced at the Tokyo Conference that it would extend a total of one billion dollars to Sri Lanka over the next three years.)

(c) The World Bank's areas of focus are the consolidation of peace (improvement of infrastructure in the north and east in the areas of health care, education, and irrigation) , growth (improvement of legislation on labor and land market) and the promotion of equality (improvement of access to public services for education, health care, and water supply). The World Bank is currently planning programs for these areas and will extend upwards of from 800 million to 1 billion dollars for them over the next four years. In particular, in the area of public sector reforms, attention is being focused on the World Bank's formulation of its Country Financial Accountability Assessment (CFAA), which is used as a basis for fiscal reforms, its Country Procurement Assessment Review (CPAR), and its Public Expenditure Review (PER). In addition, the World Bank will act as administrator of the newly established North East Reconstruction Fund (NERF).

2.3-2 Efforts of other donor countries

Other major bilateral donors are Germany (8%), China (3%), United States (2.6%), South Korea (2.2%), and Sweden, Netherlands, and Norway (each under 1%). (The shares of assistance from all donors are calculated on a disbursement basis for 2001 and based on statistics from the government of Sri Lanka.)

2.3-3 Conference on Reconstruction and Development of Sri Lanka

Japan hosted the two-day Tokyo Conference on the Reconstruction and Development of Sri Lanka (Tokyo Conference) on June 9-10 with the participation of

51 countries and 22 international organizations. At the Tokyo Conference, the international community demonstrated its unified and resolute commitment to the promotion of the peace process in Sri Lanka, adopting the Tokyo Declaration on Reconstruction and Development of Sri Lanka. As the biggest donor to Sri Lanka, Japan announced that it was prepared to extend up to one billion US dollars (approximately 120 billion yen) over the next three years (which exceeds the past in the pace of assistance). According to totals by the World Bank, donors as a whole at the conference indicated they would provide a cumulative amount of approximately 4.5 billion US dollars (540 billion yen) in assistance over the next four years, conditional on progress of the peace process, to Sri Lanka, including the northern and eastern regions which particularly suffered damage over the nearly 20 years of civil war.

2.3-4 Efforts of NGOs

Domestic Sri Lankan NGOs such as Sarvodaya and Sewa Ranka and international NGOs such as Care International and World Vision are providing positive and active inputs throughout the country, including in the northern and eastern regions. In the north, Halo Trust, MAG and other groups are carrying out demining activities. Among Japanese NGOs, the Japan Center for Conflict Prevention, Bridge Asia Japan, and AMDA have also opened offices.

2.4 Evaluation of Japan's Assistance to Sri Lanka

2.4-1 Beginning its foreign assistance based on technical cooperation with its entry into the Colombo Plan in 1954 and commencing its provision of yen loans in 1958 and

grant aid cooperation in 1969, Japan has since been making constant efforts to develop and improve its overseas economic cooperation. Japan has also been providing economic cooperation to Sri Lanka, which voluntarily waived its claims for war reparations from Japan after the World War II. Through its many years of assistance to respond to the various development needs of Sri Lanka, Japan has contributed significantly to Sri Lanka's achievement and maintenance of high social development indicators.

2.4-2 On the other hand, Japan's economic cooperation began from its payment of war reparations, and Japan has basically maintained a politically neutral stance regarding the domestic political affairs in recipient countries. With the problem of ensuring the security of personnel engaged in the actual implementation of assistance also a concern, Japan adhered to this fundamental policy of neutrality in its assistance to Sri Lanka. Hence, even as the restraints on the Tamil people continued with the making of Sinhalese the official language in 1956, the subsequent concerted efforts to settle Sinhalese in Tamil-populated areas in the north and east by successive Sinhalese governments, and other actions, non-economic issues such as the settlement of the civil war and the resolution of ethnic and social problems were separated from development issues and treated as internal political problems that should be handled by the recipient government itself. These problems were not considered as development issues that should come under the purview of Japan's economic cooperation.

2.4-3 Regarding Sri Lanka's economic development, Japan's economic cooperation has steadily contributed to the achievement of the country's strong social indicators and the expansion of its economic activities through assistance for the improvement of a

wide range of economic infrastructure, human resources development, technical cooperation, and so on. However, income-related policies aiming at the equitable distribution of the fruits of economic growth to all levels of society had been treated as issues that should be managed by the administration of the recipient country and had not been included among those policy issues in which Japan should be actively engaged in.

2.4-4 A look back at the historical progress of Japan's assistance to Sri Lanka, however, suggests that at the present time, when an indefinite ceasefire agreement has been reached in the country, the "consolidation of peace" is clearly one of the most important issues that Japan's official development assistance should take up. This country assistance program considers the consolidation of peace to be an indispensable part of the assistance program for Sri Lanka, and this recognition turns a new page in the history of Japan's assistance to Sri Lanka.

3. Japan's Sri Lanka Assistance Policy

3.1 Significance of assistance to Sri Lanka

3.1-1 Since its independence from Britain in 1948, Sri Lanka has been a leading country among developing countries in firmly adhering to the political system of a democratic state. For Japan, similarly a democratic nation, Sri Lanka's efforts in pursuing socio-economic development under shared political values (democracy) should be highly evaluated. The promotion of Sri Lanka's social and economic development through the extension of assistance can greatly contribute to the consolidation of democracy and political stability in the entire South Asian region.

3.1-2 Sri Lanka is also known as a traditional friend and supporter of Japan. Right

after World War II, Sri Lanka voluntarily waived any right to receive war reparations from Japan under the San Francisco Peace Treaty, and it was one of the countries that greatly contributed to creating an international environment favorable both politically and economically to the recovery and development of post-war Japan.

3.1-3 Moreover, Sri Lanka was the earliest country in South Asia to initiate economic liberalization and structural adjustment reforms. Despite various complications, Sri Lanka has been making continuous and repeated efforts directed at economic liberalization and the opening of markets since the country changed its name to the Democratic Socialist Republic of Sri Lanka in accordance with its constitution adopted in 1978 and after the general elections held in 1977. Positively and actively supporting these kinds of self-help efforts is very much in accordance with Japan's ODA Charter, and from this perspective, Japan's assistance to Sri Lanka has great significance.

3.1-4 Within the region of South Asia, Sri Lanka possesses several special characteristics from a geographic and strategic point of view. First, it is a connecting point between South Asia and Southeast Asia. Situated in the mainly continental South Asia and surrounded by the sea, Sri Lanka is a confluence of Southeast Asian cultural influences (e.g., Buddhists make up a large majority of the population and rice is the basis of the Sri Lankan diet), and hence it can play an important role in promoting regional ties between South Asia and Southeast Asia. Next, although Sri Lanka asserts a policy of nonalignment, its diplomatic axis, because of its geography, is set in its relations with its neighbor India. Sri Lanka has entered into a trade pact—the Indo-Lanka Free Trade Agreement—with India, and Sri Lanka's establishment and maintenance of good bilateral relations with the great power of South Asia, India, will

lead to stability in the Indian Ocean, which directly translates into the securing of safe sea lanes for the oil that Japan imports from the Middle East and thus should be welcomed by Japan for the sake of its own security.

3.1-5 Sri Lanka's social indicators (length of average life span, high literacy rate, low infant mortality rate, etc.) are generally excellent and stand out among not only other countries in South Asia but also all other developing countries. As long as evaluation is based on these indicators, Sri Lanka appears to have reached levels approximating those of advanced industrial countries. Thus, high outcomes from assistance can be expected should the opportunity afforded by the indefinite ceasefire agreement be capitalized on to consolidate peace and the quality of the Sri Lankan government's economic management be improved.

3.2 Desired Direction of Japan's Economic Cooperation to Sri Lanka

3.2-1 Assistance for the "consolidation of peace" and the reconstruction process

(a) In spite of the fact that Sri Lanka has recognized important factors essential for economic development such as the firm rooting of a democratic system, the promotion of economic liberalization, social and cultural openness and flexibility, and the achievement of high levels of social indicators, Sri Lanka's economic development has not reached a satisfactory level relative to the country's latent potential. Compared with South Korea and Singapore, Malaysia, and Thailand in Southeast Asia, countries which were at about the same socioeconomic level as Sri Lanka in the 1960s, large economic and income gaps have opened up between those countries and Sri Lanka. The main reasons for these disparities can be found in the internal conflicts that have torn the

country for over 20 years, the delay in reforming the bloated public sector, and failures in the country's development strategy. Sri Lanka's development strategy has succeeded in raising social indicators to high levels, but from the viewpoint of economic growth, it cannot be said the strategy has always proved successful. Moreover, it has not equitably distributed the benefits of economic growth to all levels of society.

(b) With the mediation of Norway, the two sides in the civil war, the Sri Lankan government and the LTTE, agreed to an indefinite ceasefire agreement in February 2002, and peace negotiations were commenced in September of the same year. In light of Sri Lanka's tremendous latent potential, the cost of the civil war that rocked the country for 20 years is incalculable. Not only was the country's political and social stability threatened, but it can also be said that the waste of human resources and the damage to the country's sound economic development very adversely affected the evaluation of Sri Lanka in the international community. In the midst of all of the sudden changes in the world since the September 11, 2001 terrorist attacks in the United States, expectations in and out of Sri Lanka have never been higher as they are today for the achievement of peace and the reconstruction of the country. The international community is being called upon to seize this opportunity to work together to positively contribute to the peace-building and rehabilitation efforts in Sri Lanka.

(c) Recognizing the assertive actions being taken for the resolution of the civil war in Sri Lanka, Japan has decided to commit itself to a course of providing active support to the "consolidation of peace" in Sri Lanka. It goes without saying that, from a long-term perspective, a peaceful environment is a pre-condition for the effective and efficient implementation of development assistance; but not only that, the assistance for the

consolidation of peace is in itself also an effective form of development assistance. The achievement of a lasting peace will not only allow the Sri Lankan government to reduce its military expenditures and alleviate its chronic fiscal deficits, but it will also have the direct and indirect effect of making it possible for the Sri Lankan government, under its own self-help efforts, to commit more of its limited human and financial resources to tackling a greater number of those development problems that are difficult to resolve. Since in the consolidation of peace and rehabilitation process, there will be times when both cautious and bold action are required, it will be necessary to respond promptly and flexibly to the various problems facing Sri Lanka, while monitoring very attentively the progress of the peace process.

(d) Moreover, in order to boost the peace process, it will be necessary to give appropriate consideration to assistance for the underdeveloped southern region, where there are voices of concern and opposition to the Sri Lankan government's course in the peace negotiations. As a regional imbalance in the provision of development assistance can become a factor in enlarging regional disparities and creating antagonisms, ensuring balanced assistance that keeps in view the development of all regions in Sri Lanka is one indispensable condition for making the "consolidation of peace" possible.

(e) Although constant efforts are necessary for maintaining and securing the strong momentum of the current peace process, which is being supported by a wide range of groups and social strata in the country, including in the north and east, as actual political negotiations are usually accompanied by uncertainty, various complications are expected for the peace process in the future. Because of that, considerable time and effort should be spent for promoting confidence-building between the negotiating

parties. In supporting the peace negotiations, while Japan is being requested to clearly express its commitment before a peace agreement is reached, in the actual implementation of this support, which is based on the Tokyo Declaration, Japan will have to carefully consider and respond to the substantial progress of the peace process. Regarding the implementation of reconstruction assistance to the North and East, Japan will firmly adhere to its basic principle of carrying out its assistance in accordance with the pledges made to the Sri Lankan government.

3.2-2 “Regaining Sri Lanka”: the Sri Lankan government’s framework for mid- and long-term development

On December 5, 2002, the Sri Lankan government adopted by Cabinet decision its mid- and long-term policy for development outlined in a report entitled “Regaining Sri Lanka: Vision and Strategy for Accelerated Development,” which is a basic framework for development that covers the next five years. Running to 222 pages, “Regaining Sri Lanka” is a fundamental explanation of Sri Lanka’s development strategy. The document is composed of three parts: Part I: “Vision for Growth”; Part II: “Connecting to Growth: Sri Lanka’s Poverty Reduction Strategy”; and Part III: “Action Plan Matrices.” In the Preface, Prime Minister Wickremesinghe states that “there is a direct, inextricable relationship between building a lasting peace and substantially improving economic conditions.” He also stresses that “we must succeed in both areas if we are to fulfill the aspirations of the people of Sri Lanka.”

(a) In Part I, the report stresses that, first, Sri Lanka must solve its massive public debt problem by achieving an annual growth rate of 8-10 percent. Moreover, in order to

accelerate growth, it will be essential for Sri Lanka to raise productivity in all sectors of the economy by removing all barriers impeding the productive use of its resources. The report then raises four challenges that Sri Lanka must overcome: (i) the creation of two million jobs over the next several years; (ii) overcoming the public debt crisis; (iii) laying the foundation for economic growth by investing in reconstruction efforts in all regions of the country; (iv) increasing people's income levels by raising productivity and increasing investment in all sectors of the economy, including the public sector. The report then goes on to emphasize the role of the private sector for supporting and driving economic growth.

(b) The "Action Plan Matrices" cover six areas: (i) macro policy framework; (ii) employment labor and human resources development; (iii) financial services; (iv) infrastructure development; (v) improving productivity, and (vi) public sector reforms.

(c) This Country Assistance Program covers a period of around five years. Based on the "Regaining Sri Lanka" report, the Sri Lankan government's basic framework for development, the Program sets the course described below for Japan's development assistance to Sri Lanka.

3.2-3 Clarifying a vision for development: the process toward the creation of an export-oriented and tourism cum environment-oriented state

(a) From the viewpoint of visibility and immediacy of effect, Japan's positive commitment to Sri Lanka's peace and reconstruction process manifested through the framework of Japan's development assistance has been requested for the provision, at first, of emergency humanitarian aid to the conflict-affected regions in the North and

East. At the same time and in parallel, Japan will carry out an assistance program based on a mid- and long-term vision for development that presupposes the model for the future that Sri Lanka is aspiring to.

(b) The future of Sri Lanka's economy greatly depends on the continual improvement of Sri Lanka's capability to attract and acquire foreign currency. The best policy for the geographically small Sri Lanka to improve this capability is to establish its position as an export-oriented and tourism cum environment-oriented state (ETES). In the formulation of assistance plans on a project level, the lessons learned from the experiences of Asian NIES and ASEAN countries that have achieved high economic growth through the implementation of export-oriented industrialization strategies should be effectively utilized.

(i) One vital area that needs to be incorporated into this assistance policy, which should be carried out through bilateral policy consultations, is the planning of a bold and systematic export-led development strategy and the aggressive seeking out of foreign markets. Such an export-led strategy should be formulated sequentially, which leads to the raising of the level of technology in Sri Lanka and the enhancement of the added value of Sri Lanka's products, with an eye on world markets. For this, the dispatch of policy advisors and other assistance will be useful. From the aspect of employment generation, an export-led strategy is also generally a very effective development strategy. However, even if such slogans as "balanced growth" and "growth for the creation of jobs" are touted, if a liberalized management of the economy is not actually adopted, the creation of an inefficient economic system, the slackening of growth, and the leveling off of employment opportunities may result, and social

discontent toward the government's plans may then increase. If careful government intervention under this export-led development strategy is successfully carried out, it will be widely understood and recognized that economic growth and the equitable distribution of gains are not necessarily mutually exclusive.

(ii) In conjunction with this export-led strategy, a strategy for developing the tourism and environment sector is also expected to improve Sri Lanka's capacity to acquire foreign currency. Although it is a small country, Sri Lanka greatly abounds with tourism resources. From some time ago, the Sri Lankan government has put considerable emphasis on the development of tourism to utilize Sri Lanka's advantages in the international tourism market, but because of the long period of the civil war, the tourism industry has not been able to reach its anticipated targets, and, depending on the region, the country's tourism infrastructure—hotels, resorts, the souvenir industry, etc.—has suffered definite damage. With Sri Lanka's rich store of natural attractions, pre-eminent even by world standards, as a foundation, it will be desirable in the future for Sri Lanka to promote environment-oriented tourism development, which puts priority on the conservation of the environment, while also ensuring safety from the threat of natural disasters.

(iii) More than anything else, at first the consolidation of peace and the beginning of the reconstruction process must begin in order to move forward with the process of developing an export-oriented and tourism cum environment-oriented state. Moreover, it will not be sufficient for the government to promote only deregulation and liberalization measures for the economy; from the viewpoint of the equitable distribution of the gains from economic growth, the benefits of deregulation and

liberalization must also be made visible to the nation's people and widely shared by all.

For this, at the very least, the following four points are important:

First, the improvement of economic infrastructure in conjunction with systemic reforms in order to enable Sri Lanka to realize an ETES.

Second, the active utilization of foreign investment and the promotion of technology transfers from abroad in all sectors.

Third, the promotion and utilization of information technology (IT) to increase productivity.

Fourth, capacity building focusing on educational reform.

(iv) From the experience of Sri Lanka's past, it is recognized that the inadequate distribution of the fruits of economic growth was a major factor that aggravated the civil war and that the undercurrent of dissatisfaction and feeling of exclusion that only certain groups (privileged classes or regions) profited from economic growth permeated into the consciousness of many people in all levels of society and in all regions. The ETES development process must deal with the causes of this dissatisfaction, which have been festering within the populace for many years and been created by the widening disparities and discrimination in Sri Lankan society, and it must also give due regard to the fact this dissatisfaction can become the simmering embers for re-igniting renewed conflicts in the future. From the viewpoint of the development of Sri Lanka in its entirety, development assistance that is fairly balanced among all ethnic groups and regions and based on the fundamental precepts expressed in Japan's ODA Charter is extremely important. In particular, it will be necessary not only to provide priority assistance to the war-torn North and East but also to give consideration and appropriate

support to the impoverished regions in the South that have lagged behind in their development.

(v) In addition, it will also be important to carefully formulate and implement poverty-reduction programs targeting not only the Tamils in the North and East but also Muslims, Indian Tamils living in the plantation zones, Sinhalese who have been abandoned to poverty, non-elite classes, women, and other socially vulnerable groups that have not received the benefits of development up to now.

3.3 Priority Areas for Assistance (direction of assistance for the next five years)

As should be clear from the discussion above, there should be two pillars of assistance to Sri Lanka: (i) assistance to support the “consolidation of peace” and reconstruction, and (ii) assistance that is in line with the country’s long-term vision for development. It should be understood, however, that these two issues do not constitute a simply dichotomy. If peace does not take root, long-term development cannot evolve, and, conversely, if the vision for long-term development is not realized, the consolidation of peace will remain precarious. With the above in mind, Japan’s assistance program to Sri Lanka for the next five years will be formulated and implemented on the premises of (i) assistance to support the consolidation of peace and reconstruction, and (ii) assistance that is in line with the country’s mid- and long-term vision for development, while also taking into account Japan's commitment at the Tokyo Conference, and paying sufficient attention towards securing an appropriate variety of assistance projects which will contribute to a nationwide development and do not risk exacerbating regional/sectorial imbalances (however priority will be given to

projects that will have immediate effect such as humanitarian and rehabilitation assistance).

3.3-1 Assistance for the consolidation of peace and reconstruction

To support consolidation of peace and reconstruction, what are required of Japan's official development assistance are to link both of (i) immediate and effective humanitarian and rehabilitation assistance, and (ii) assistance to contribute to long-term nation building, together. It will be appropriate to respond to these issues based on the needs assessments carried out by the World Bank, the ADB, and various U.N. organizations.

(a) Humanitarian and rehabilitation assistance

Humanitarian and rehabilitation assistance covers: the removal of landmines and unexploded bombs in the northern and eastern war zones; promotion of resettlement of returning refugees from India and internally displaced people; care for people wounded in conflict, members of households headed by surviving wives, war orphans, and other socially vulnerable people; provision of food; improvement of social infrastructure (provision of safe water supplies, rehabilitation of public sanitation and medical facilities, rehabilitation of primary education facilities, measures against the spread of infectious diseases, etc.); educational assistance for people whose education was cut short by the civil war; diffusion of education promoting peace and human rights, and so on. Ensuring an environment in which people can live securely is the first aim that should be achieved.

For the consolidation of peace, an extremely important element is the building of trust and confidence among the peoples of Sri Lanka. For this confidence-building, it is important to make the results of assistance, no matter how small the scale of that assistance is, immediately visible to people as dividends of peace. Promoting collaboration with international organizations and NGOs (both domestic and international NGOs) is beneficial for this. In addition, assistance should be provided to improve the daily lives of the poor (recovering means of livelihood), and, at the same time, assistance for rural and fisheries development that will lead to the recovery of the agriculture and fisheries industries, the basic industries in Sri Lanka, is indispensable. With many returning refugees and internally displaced people being compelled to depend solely on the agriculture and fisheries industries to survive, assistance is vital for the rehabilitation of agriculture-related infrastructure and facilities such as agricultural land, irrigation facilities (repair and construction of reservoir facilities), warehouses, and markets, and for the rehabilitation of fisheries-related facilities such as fishing ports and fish refrigeration and freezing facilities. Extension services for disseminating agricultural and fisheries techniques should also be reestablished. In addition, assistance targeting the poor (assistance utilizing micro-credit for instance) and ensuring the access of peoples in the North and East to financing organs cannot be neglected.

Moreover, it should be recognized that human resources development (capacity building) of local administrators working in the North and East is also one of the most critical issues for the effective implementation of development assistance.

(b) Assistance for nation building

As the peace process makes favorable progress, the size of the military will be able to be reduced in phases, the various types of urgent assistance will be able to achieve their expected results and trust and confidence among the people will be recovered. Depending on the degree of these progress which has been achieved, development assistance for nation building should be promptly carried out. Capacity building and the improvement of economic infrastructure are important initial targets for assistance. Support for various kinds of vocational and management training that focuses on the development of rural industries, the rehabilitation and improvement of electricity supply, roads, ports, telecommunications, and other infrastructure that links urban and local areas are priority areas.

3.3-2 Assistance in line with Sri Lanka's mid- and long-term vision

In order to bring Sri Lanka's mid- and long-term development vision to fruition, two extremely difficult challenges—improving Sri Lanka's capability to gain foreign currency and achieving equitable development—need to be met at the same time. The realization of both these objectives, while maintaining a proper balance between them, will allow Sri Lanka to unleash its latent development potential. From this perspective, Japan should place priority on three general areas for its development assistance: (i) the improvement of economic infrastructure, (ii) raising the capability to attract and acquire foreign currency, and (iii) poverty alleviation.

(a) Assistance for systemic reforms and the improvement of economic infrastructure

As it develops its economic infrastructure, it will be essential for Sri Lanka to place greater importance on the balanced development of the northern, eastern, and southern regions. The improvement of Sri Lanka's economic infrastructure, if carefully planned and carried out, will be beneficial not only for alleviating poverty but also for reducing inequalities. In particular, the development of power sources is an urgent task. In this regard, the efficient development of power sources—for example, the selection of optimal sites that considers the development of Sri Lanka as a whole—is vital. Moreover, as part of the development of a nationwide network, the improvement of transportation and telecommunications grids that systematically connect the North/East and the South, increasing the efficiency of international ports, and enhancing foreign currency earning capabilities are all necessary. At the same time, in order to help Sri Lanka meet these challenges, it will be important to provide support for systemic reforms to remove various regulatory and other restrictions.

(b) Assistance for raising foreign-currency acquisition capabilities

(i) Assistance for export promotion

Specifically, assistance programs should be developed to: (a) support the diversification of manufactured products intended for export, add higher value to export products, and improve manufacturing technology; (b) promote exports of agricultural, mineral, and marine products (while considering the impact on Japan's own agricultural and marine products); (c) help establish a "Sri Lankan brand" for the tea, spice, and gem

industries that can meet world standards; and (d) find new market for export. All of these programs should aim at the improvement of productivity.

To help achieve these objectives, a system for facilitating assistance that unites the public and private sectors should be created. In addition to the setting of industrial standards, the raising of productivity, and the offering of marketing guidance through the extension of technical assistance, the utilization of management guidance and information provided by business groups and associations, trading companies, the Sri Lanka Chamber of Commerce, and so on, as well as the promotion of South-South cooperation to utilize the experiences of ASEAN countries and China are important. Ways should also be found to integrate the technical cooperation provided by the Japan International Cooperation Agency (JICA) and the activities of JBIC (particularly those of its international financial departments) and the Japan External Trade Organization (JETRO).

(ii) Assistance for the promotion of foreign investment

The present number of foreign companies with production bases in Sri Lanka is not as great as has been expected up to now. However, those companies operating in Sri Lanka are favored with skilled work forces and have been successful in producing high-quality industrial goods for export. However, a key point for foreign companies considering investment in Sri Lanka is whether labor problems can be smoothly resolved; it is a sensitive issue that requires attention.

By adding greater value to its products and services, Sri Lanka will be in a very promising position to establish its own Sri Lankan brand in world markets not only

for its manufactured products, tea, spices, flowers and fruit, marine products (shrimp cultivation, etc.), and gems and precious stones, but also for its service industries, including the hotel, restaurant, and travel industries. Sri Lanka should seek not only foreign investment and “hard” technology for these areas but also the transfer of “soft” technology like management know-how (marketing capability, quality control, product planning, etc.). As these efforts will basically be realized through cooperation on a private-sector basis, the improvement of Sri Lanka’s economic infrastructure and the formulation of institution-building programs should be carried out to support this private-sector cooperation.

(iii) Assistance for the promotion of IT

As IT spreads throughout the world, the utilization of IT should not be limited only to administrative, educational, and other public sectors; IT is also indispensable for the private sector to allow it to respond to changes in world markets. However, in Sri Lanka the spread of IT has not been adequate, and efforts in this area should be bolstered in order to activate the economy. Sri Lanka should not only strengthen its competitiveness in the field of IT software development by taking advantage of the language ability of Sri Lankans but also explore the possibility for the future of creating an environment for the manufacture of IT hardware products for export. Moreover, means should be found for the utilization of IT in the extension of assistance in each sector in order to improve project management and implementing capabilities.

(iv) Assistance for capacity building

Assistance in the field of capacity building is essential to make the creation and promotion of employment opportunities by private enterprises a reality. At present, Sri Lanka's educational and vocational training institutions are not supplying enough of the human resources necessary for the country's development, while employment opportunities in the private sector are also limited. The desire to enter the civil service still dominates thinking in Sri Lanka's labor culture. In order to cope with the problem of unemployment, which will become more pronounced in the future as many more young people enter the labor market and structural reforms are advanced by the government, increasing numbers of human resources that are suitable for filling job opportunities that promise adequate salaries and rewarding work in the private sector must be developed. For this, systematic curriculum reforms (strengthening of science, math, and computer education in primary and secondary education, emphasis on science and engineering education in higher education), the modernization, qualitative improvement, and expansion of vocational training programs, which should also include computer education, and reforms of teacher training programs that are all clearly directed toward the future socio-economic development of Sri Lanka are useful.

(v) Assistance for environment-oriented tourism development

Sri Lanka's rich tourism resources and natural environment have been, and will continue to be, major sources for the acquisition of foreign currency. The development of the type of tourism that protects the natural environment and historical assets (including the promotion of traditional culture and arts) is itself one way to make

the most of Sri Lanka's advantages in the international tourism market. The development of eco-tourism also holds great promise and potential for the future, and the knowledge and expertise of international NGOs that have abundant experience in this area should be actively utilized.

Moreover, the promotion of environment-based tourism development should also entail the improvement of urban infrastructure and the preservation and protection of human and social environments (improvements in water supply and sewerage, air pollution control, waste disposal, etc.) Assistance programs and projects should be formulated to assist in the realization and preservation of a "Beautiful Sri Lanka."

(c) Assistance for poverty alleviation

(i) More efficient and effective assistance for poverty alleviation

For some time, Sri Lanka's expenditures for social welfare have been very large, and as a result, this has allowed Sri Lanka to achieve exceptionally strong social indicators for a low-income country. On the other hand, however, these accomplishments have been accompanied by certain negative aspects such as a lowering of the will to work and the prevalence of an attitude of dependence on the government to meet daily life needs. Moreover, the massive expenditures for social welfare programs overwhelmed the financial resources of the government and became one of the causes for the government's chronic fiscal deficits. Hence more rational, efficient, and effective poverty alleviation programs should be designed so that the government can reduce gaps in the allocation of social welfare benefits and maintain over the long run the strong social indicators that Sri Lanka has already achieved.

(ii) Improvement of social and economic infrastructure

Sri Lanka's poor are mainly found in rural areas and fishing villages or among laborers on plantations. What is of essential importance in poverty alleviation programs is assistance that is well-balanced among ethnic groups and regions in its support for the improvement of both social infrastructure (potable water, public sanitation, health and medical care, primary education, reconstruction of agricultural and fishing villages, etc.) and economic infrastructure (agricultural and fisheries industries, other rural industries). Positive assistance must not only be given to the war-torn North and East but appropriate support must also be considered for the less-developed areas in the South. Poverty alleviation programs must also be carefully formulated and implemented to provide assistance to Muslims, Indian Tamils living in the plantation zones, Sinhalese living in impoverished areas in the southern region, non-elite classes, women, and other socially vulnerable groups that have not adequately benefited from development.

For over 1,000 years, irrigation water has been utilized in Sri Lanka not only for agriculture but also for daily life needs, and the role that related projects play for the alleviation of poverty is very great. With careful study of the effects of, and lessons learned from, past projects and serious consideration of the appropriate distribution of water throughout the entire country, assistance for related programs and projects should be provided to further regional development and the reduction of poverty.

The privatization of the tea industry is also progressing in the plantation areas. Assistance is now being extended to help increase the efficiency of the tea industry and improve the lives of plantation laborers; such cooperation should be continued in the

future.

(iii) Assistance for health and medical care

With the high performance of the Sri Lankan side, Japan's cooperation in the field of health and medical care has produced many results. Benefiting from the assistance it receives from donors, beginning with Japan, Sri Lanka has made great efforts to improve and expand its health care system, for example, by providing guidance to pregnant women through house calls by midwives, achieving a high in-hospital/clinic delivery rate, setting up supply systems for necessary medicines, implementing effective countermeasures against infectious diseases, establishing blood supply systems, and so on. These successful examples can become models for not only neighboring countries but also African countries in the future. Japan will continue to provide needed cooperation to Sri Lanka so that it can be recognized as a focal point for South-South cooperation in Southwest Asia in the field of health care. In addition, among developing countries, Sri Lanka's population is aging exceptionally quickly, and assistance for the expansion of social welfare services for the aged and the handicapped is necessary.

(iv) Assistance for regional industries

Regional industries bear an important role as creators of job opportunities, and their promotion is a vital means for alleviating poverty as well as reducing regional economic gaps. Policy measures should be examined and considered for actively fostering regional industries through the expansion of policy-based financing programs

and the extension of micro-credit schemes that include capacity building programs.

(v) Participatory development

The formulation of assistance programs should be based on the needs and conditions of the target areas, and securing the participation of local governments and communities in the planning of such programs is important. Moreover, during the execution of the programs, implementing agencies should make efforts to cooperate with the local community, NGOs, and other stakeholders so that they can implement the programs as efficaciously as possible.

3.4 Points for consideration in the implementation of economic cooperation

3.4-1 Strengthening implementation systems

Extending nearly 50 percent of the total amount of development assistance that Sri Lanka receives each year, Japan has been maintaining its position as Sri Lanka's top assistance donor, providing an overwhelming share of the international community's assistance to Sri Lanka. Japan recognizes that providing leadership for the coordination of assistance to Sri Lanka is an important role that Japan should play as Sri Lanka's top donor. The coordination of assistance involves two basic areas: one is the building of a strong partnership between donors and the Sri Lankan government, and the other is the promotion of dialogue with other donors.

As emphasized throughout this document, assistance for the consolidation of peace and reconstruction and support for Sri Lanka's economic growth over the mid- and long-term function like both axles of a vehicle for Japan's Country Assistance

Program for Sri Lanka. In order for this assistance to be implemented smoothly, sufficient consideration of the balance of interests and needs among the different ethnic groups and regions in the country based on the precepts expressed in the ODA Charter is essential. Moreover, to really ensure that Japan's development assistance is efficiently carried out, the clear demonstration of ownership and the maintenance of a consistent policy by the Sri Lankan side are greatly desired.

As the peace and reconstruction process progresses, aid coordination is becoming an increasingly important issue. Assistance aiming at improving policy implementation capabilities based on support for policy formulation and institution building should be particularly strengthened, and it is essential that personnel who are capable of handling these roles be assigned.

Japan recognizes that its current aid implementing system in Sri Lanka is not adequate for dealing with the problems mentioned above. In addition to the fact that there is not a sufficient number of people involved in the coordination of aid, the personnel who are involved do not have adequate authority and lack expertise in this area. To address this issue, in 2003, Japan organized a Local ODA Task Force in Sri Lanka to strengthen coordination between the Japanese embassy and the local offices of JICA and JBIC, which handle on-site assistance implementing functions. Firstly, Japan will make additional efforts to improve its aid implementing system, through such means as promoting closer working relationship between the Local ODA Task Force, as well as enhancing collaboration between the local JETRO office and NGOs to effectively co-ordinate our know-how and information. Secondly, while the Japanese embassy will mainly consult with the Sri Lankan government, it will also secure a

channel that will enable it to contact the LTTE whenever necessary, as well as making full use of JICA North and East Project Office in Vavunia, due to the specific conditions of Sri Lanka particularly in the North and East. This is also the need to further strengthen its aid coordination and policy consultations to be able to respond quickly and flexibly various assistance needs.

Regarding assistance for the consolidation of peace and reconstruction in the North and East, it is also essential to fully consider collaboration and cooperation with NGOs (particularly local NGOs with proven records and international NGOs). Moreover, as local language problems can become obstacles to the implementation of assistance at the grassroots level, the possibility of cooperation utilizing Japan Overseas Cooperation Volunteers or former JOCV personnel who are proficient in the local languages will be studied as one more means for strengthening Japan's aid system.

For the smooth and effective implementation of the various plans mentioned in this Country Assistance Program, however, Sri Lankan efforts to build a sound body to receive and implement aid. In this regard, Prime Minister Ranil Wickremasinghe has promised to introduce a completely new organization to implement foreign funded projects, upon recognizing the shortcomings of the Sri Lankan government to implement foreign assistance and the fact that it constituted a liability in its negotiations with the LTTE. The Japanese government has high hopes that this organization will be immediately established in a form that gives due consideration to the inclination of the LTTE, so that Japan can effectively extend assistance to the entirety of Sri Lanka.

3.4-2 Improvement of project/program design capabilities in terms of system planning

In the implementation of assistance to Sri Lanka an essential point is not only the amount of assistance but also the improvement of the quality of aid projects and programs. Substantial improvement of the capacity of the Sri Lankan government to manage its public expenditures is essential, and it is also necessary for the government to improve its macroeconomic management (above all, sound finance). Japan must endeavor in both its projects and programs to make its assistance to Sri Lanka over the next five years as concrete and tangible as possible, paying special attention that the most important factor in those fields such as systemic infrastructure reforms, educational reforms, reforms in the employment and occupational skills development systems, social welfare program reforms, and poverty alleviation is the improvement of the quality of system planning. It is expected that there will be improvements in the implementing system and capabilities of Sri Lanka's project implementing organs. As one example, the reason why disbursement rate of assistance is stalled at around 20 percent, which shows problem in aid absorption capacity of Sri Lanka, is because tendering policies regarding procurement are complicated and unclear. A decided improvement in the tendering system is therefore needed. Regarding the improvement of Sri Lanka's macroeconomic management, further collaboration with the IMF and the World Bank is recommended.

3.4-3 Consideration of environmental and social factors

As negative environmental and social impacts can easily occur during the

course of improving economic infrastructure such as the development of power resources, it is essential to give adequate consideration to environmental and social factors in the formulation and implementation of each project.

3.4-4 Strengthening publicizing activities

Getting the understanding and support of Sri Lanka's citizens regarding the significance and importance of Japan's assistance to Sri Lanka is extremely important. Hence, efforts should be made to utilize appropriate opportunities to actively disseminate information about Japan's assistance to Sri Lanka through the Japanese embassy, the resident offices of JICA and JBIC, and the local media.

Matrix of Goals for Country Assistance Program for Sri Lanka

Annex 1

| | <u>Assistance policy goals</u> | <u>Strategic goals</u> | <u>Goals of priority sectors</u> | <u>Goals of sub-sectors</u> |
|--|--------------------------------|--|---|---|
| Building of a healthy and peaceful society | A. Consolidation of peace | Post-conflict reconstruction Improvement of lives (Human Security) | (1) Post-conflict reconstruction | (a) Improvement of human environment 1. Removal of landmines and unexploded bombs 2. Promotion of resettlement of returning refugees and internally displaced people 3. Care of socially vulnerable people (war wounded, women, war orphans, etc.) 4. Food aid 5. Rehabilitation of basic social services (drinking water supply, public health, medical facilities, educational facilities, measures against infectious diseases) 6. Assistance to persons whose education was cut short by the war (b) Confidence-building 1. Reconstruction and development of agricultural villages 2. Reconstruction and development of fishing villages 3. Diffusion of education to promote peace and human rights (c) Capacity building for local administrators in the North and East |
| | | | (2) Improvement of lives | (a) Improvement in basic social services (b) Capacity building (vocational training, management guidance) (c) Development of economic infrastructure (power supply, roads, telecommunications, ports) (d) Micro-credit for the poor (e) Access to financing |
| | B. Lasting growth | Improvement of capability to acquire foreign currency Well-balanced development | (1) Development of economic infrastructure | (a) Development of power sources (b) Building of nation-wide infrastructure network (trunk road network, telecommunications network) |
| | | | (2) Improvement of capability to acquire foreign currency | (a) Promotion of exports 1. Diversification of products, greater product added-value, improvement of technology 2. Promotion of exports of agricultural and marine products 3. Establishment of Sri Lankan brand in the tea, spice, and gem industries 4. Finding and developing export markets (b) Promotion of foreign investment (c) Promotion of IT (d) Capacity building (e) Environment-oriented tourism development 1. Eco-tourism 2. Recycling-oriented urban development |
| | | | (3) Poverty alleviation and regional development | (a) Development of social/industrial infrastructure (b) Improvement of medical and health care services (c) Fostering of regional industries |

(Note: Some of the expressions differ from the main text because this diagram is made for evaluation purpose)

Key Macroeconomic Indicators of Sri Lanka

Annex 2

| Year | 1999 | 2000 | 2001 | 2002 (provisional) | 2003 (projection) |
|---|--------|--------|--------|-----------------------|----------------------|
| Real GDP growth (%) | 4.3 | 6.0 | -1.4 | 3.3 | 5.5 |
| Gross investment/GDP (%) | 27.3 | 28.0 | 22.0 | 22.3 | 24.2 |
| National saving/GDP (%) | 23.5 | 21.5 | 19.5 | 20.3 | 20.4 |
| Consumer price index (end-period, %) | 4.0 | 10.8 | 10.8 | 11.3 | 7.0 |
| Overall fiscal balance/GDP (%) | -7.5 | -9.9 | -10.9 | -8.9 | -7.5 |
| Trade balance (Million US\$) | -1,369 | -1,798 | -1,157 | -1,391 | -1,755 |
| Exports (Million US\$) | 4,610 | 5,522 | 4,817 | 4,622 | 5,138 |
| Imports (Million US\$) | 5,979 | 7,320 | 5,974 | 6,013 | 6,893 |
| Gross official reserves (Million US\$) | 1,530 | 911 | 1,181 | 1,566 | 1,924 |
| Total external debt/GDP (%) | 63.2 | 60.8 | 62.9 | 59.6 | 58.7 |
| Total debt-service ratio (%) | 15.2 | 14.7 | 15.5 | 13.5 | 11.7 |

Source : IMF

Key Social Indicators of Sri Lanka

Annex 3

* = Provisional

GENERAL INDICATORS

| | | 1998 | 1999 | 2000 | 2001 |
|---|--|----------------------------|----------|----------|----------|
| Population ('000) | Both sexes | 17,935 | 18,208 | 18,467 | * 18,732 |
| | Male | 8,913 | 9,035 | 9,150 | * 9,267 |
| | Female | 9,022 | 9,173 | 9,317 | * 9,465 |
| Population density (per km ²) | | 286 | 290 | 295 | * 299 |
| Infant mortality rate (per 1,000 live births) | | 14.3 | 13.4 | * 13.3 | N/A |
| Crude birth rate (per 1,000 population) | | 18.4 | 18.16 | 16.78 | 16.58 |
| Crude death rate (per 1,000 population) | | 5.96 | 6.02 | 6.43 | 6.43 |
| Dietary energy supply (kcal/person/day) | | 2,351.82 | 2,464.72 | 2,329.90 | N/A |
| Malnutrition | % of under-five suffering from underweight | 33% (2002) | | | |
| | % of under-five suffering from stunting | 17% (2002) | | | |
| Life expectation at birth (years) | Both sexes | 72.55 | 72.67 | 71.83 | 72.09 |
| | Male | 69.82 | 69.89 | 69.33 | 69.58 |
| | Female | 75.41 | 75.59 | 74.45 | 74.73 |
| Adult literacy rate (%) | | 90.2 (1995) / 91.4(1999) | | | |

Source : Registrar General's Department, Sri Lanka / Department of Census and Statistics, Sri Lanka
: UNICEF Statistical Data

POVERTY

| | | 1985-86 | 1990-91 | 1995-96 | 1996-97 |
|---|--|--------------|---------|---------|---------|
| National poverty rate (%) ^{*1} | | 40.6 | 20.0 | 25.0 | 19.0 |
| International poverty rate (%) | Population below \$1 a day ^{*2} | N/A | N/A | 6.6 | N/A |
| | Population below \$2 a day ^{*2} | N/A | N/A | 45.4 | N/A |
| Human poverty index (HPI) (%) ^{*3} | | 18.3 (2003) | | | |

^{*1} **National poverty rate** is the percentage of the population living poverty line. National estimates are based on population-weighted subgroup estimates from household surveys.

^{*2} **Population below \$1 a day** and **population below \$2 a day** are the percentages of the population living on less than \$1.08 a day and \$2.15 a day at 1993 international prices (equivalent to \$1 and \$2 in 1985 prices, adjusted for purchasing power parity).

^{*3} **Human poverty index** is a composite index measuring deprivations in the three basic dimensions captured in the human development index, long and healthy life, knowledge and a decent standard of living.

Source : World Bank, World Development Report 2000/2001 / 2002 World Development Indicators/ Household Income & Expenditure Survey, Department of Census and Statistics, Sri Lanka
: UNDP, Human Development Report

LABOUR AND EMPLOYMENT

| | | 1998 | 1999 | 2000 | 2001 |
|---|-------------------|-------|-------|-------|-------|
| Labour force ('000) | Total | 6,674 | 6,827 | 6,773 | 7,296 |
| | Employed | 6,083 | 6,310 | 6,236 | 6,663 |
| | Unemployed | 591 | 517 | 537 | 633 |
| Labour force participation rate (%) | Total | 50.7 | 50.3 | 48.8 | 51.7 |
| | Males | 67.7 | 67.2 | 66.2 | 67.9 |
| | Females | 34.1 | 33.9 | 30.9 | 35.9 |
| Unemployment rate by sex (%) | Total | 8.9 | 7.6 | 7.9 | 8.7 |
| | Males | 6.7 | 5.8 | 6.2 | 6.5 |
| | Females | 13 | 11.1 | 11.5 | 12.8 |
| Distribution of employed persons by industry (%) | Agriculture | 36.3 | 36 | 32.6 | N/A |
| | Manufacturing | 14.8 | 16.6 | 17 | N/A |
| | Trade & Services | 12.1 | 12.7 | 13 | N/A |
| | Personal services | 18.4 | 17.5 | 18.5 | N/A |
| | Others | 18.4 | 17.2 | 18.9 | N/A |

source : Department of Census and Statistics, Sri Lanka / Department of Labour, Sri Lanka

EDUCATION

| | | 1998 | 1999 | 2000 | 2001 |
|---|----------------------------------|-----------|-----------|-----------|-------------|
| General schools | Total number of schools | 10,722 | 10,694 | 10,615 | * 10,548 |
| | Government schools ^{*1} | 10,088 | 10,057 | 9,976 | * 9,887 |
| | Private schools | 79 | 77 | 78 | * 78 |
| | Pirivenas ^{*2} | 555 | 560 | 561 | * 583 |
| Teachers | Total number of teachers | 194,808 | 194,589 | 194,718 | * 203,035 |
| | Government schools | 186,484 | 186,184 | 186,097 | * 194,104 |
| | Private schools | 3,990 | 4,154 | 4,332 | * 4,330 |
| | Pirivenas | 4,334 | 4,251 | 4,289 | * 4,601 |
| Pupils | Total number of pupils | 4,279,315 | 4,277,064 | 4,340,447 | * 4,335,125 |
| | Government schools | 4,136,029 | 4,134,082 | 4,193,908 | * 4,184,957 |
| | Private schools | 91,370 | 93,325 | 95,383 | * 97,262 |
| | Pirivenas | 51,916 | 49,657 | 51,156 | * 52,906 |
| Pupil/Teacher ratio | Government schools | 22 | 22 | 23 | * 22 |
| | Private schools | 23 | 22 | 22 | * 22 |
| | Pirivenas | 12 | 12 | 12 | * 11 |
| Universities | Number of universities | 12 | 12 | 13 | * 13 |
| | Number of university students | 38,594 | 41,584 | 48,296 | * 48,061 |
| | Number of university teachers | 3,050 | 3,228 | 3,241 | * 3,268 |
| | New admissions to universities | 10,779 | 11,309 | 11,805 | * 11,962 |
| Government expenditure on education (Rs. Mn.) | | 26,694 | 29,294 | 30,930 | * 28,286 |

^{*1} Functioning school only

^{*2} **Pirivenas** are educational institutes attached to Buddhist temples

Source : Ministry of Human Resources Development, Education and Cultural Affairs, Sri Lanka

TOURISM

| | | 1998 | 1999 | 2000 | 2001 |
|---------------------------------|-------------------------------|---------|---------|---------|---------|
| Tourists arrival by nationality | North America | 18,450 | 18,534 | 17,352 | 16,304 |
| | Latin America & the Caribbean | 378 | 336 | 342 | 400 |
| | Western Europe | 240,876 | 275,871 | 261,011 | 204,510 |
| | Eastern Europe | 7,098 | 6,255 | 6,840 | 7,045 |
| | Middle East | 3,876 | 4,815 | 4,347 | 5,364 |
| | Africa | 750 | 1,236 | 891 | 902 |
| | Asia | 97,083 | 114,261 | 91,409 | 89,343 |
| | Australia | 12,552 | 15,132 | 18,222 | 12,926 |
| Tourists arrival | Total | 381,063 | 436,440 | 400,414 | 336,794 |
| | Pleasure | 354,742 | 384,378 | 360,887 | 300,420 |
| | Business | 15,625 | 22,670 | 19,346 | 22,565 |
| | Others | 10,696 | 29,392 | 20,181 | 13,809 |
| Average duration of stay nights | | 10.4 | 10.3 | 10.1 | 9.9 |
| Annual employment | Total | 83,472 | 87,744 | 91,063 | 85,063 |
| | Direct | 34,780 | 36,560 | 37,943 | 35,443 |
| | Indirect | 48,692 | 51,184 | 53,120 | 49,620 |

Source : Ceylon Tourist Board, Sri Lanka