



ADB

# POVERTY AND HUMAN DEVELOPMENT IN SRI LANKA

Ramani Gunatilaka  
Guanghua Wan  
Shiladitya Chatterjee

Asian Development Bank

The logo of the Asian Development Bank (ADB), consisting of the letters 'ADB' in a white serif font centered within a solid black square.

ADB

# **POVERTY AND HUMAN DEVELOPMENT IN SRI LANKA**

Ramani Gunatilaka  
Guanghua Wan  
Shiladitya Chatterjee

Asian Development Bank

© 2009 Asian Development Bank

All rights reserved. Published 2009.  
Printed in the Philippines.

ISBN 978-971-561-798-7  
Publication Stock No. RPT090485

#### Cataloging-In-Publication Data

Asian Development Bank.

Poverty and human development in Sri Lanka.  
Mandaluyong City, Philippines: Asian Development Bank, 2009.

1. Poverty    2. Human development    3. Sri Lanka  
I. Asian Development Bank.

The views expressed in this publication are those of the authors and do not necessarily reflect the views and policies of the Asian Development Bank (ADB), its Board of Governors, or the governments they represent.

ADB does not guarantee the accuracy of the data included in this publication and accepts no responsibility for any consequence of their use.

By making any designation of or reference to a particular territory or geographic area, or by using the term "country" in this document, ADB does not intend to make any judgments as to the legal or other status of any territory or area.

ADB encourages printing or copying information exclusively for personal and noncommercial use with proper acknowledgment of ADB. Users are restricted from reselling, redistributing, or creating derivative works for commercial purposes without the express, written consent of ADB.

Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines  
Tel +63 2 632 4444  
Fax +63 2 636 2444  
[www.adb.org](http://www.adb.org)

For orders, please contact:  
Department of External Relations  
Fax +63 2 636 2648  
[adbpub@adb.org](mailto:adbpub@adb.org)

# Contents

<b>Executive Summary</b>	<b>vii</b>
<b>Introduction</b>	<b>1</b>
<b>Poverty and Inequality in Sri Lanka</b>	<b>3</b>
Income Poverty and Inequality	3
Non-Income Millennium Development Goal Indicators	6
<b>Correlates of Poverty</b>	<b>11</b>
Location-Specific Factors	11
Sector-Specific Factors	12
Attributes of Individuals and Households	14
<b>Government Policies and Initiatives</b>	<b>16</b>
The History of Pro-Poor Policy Initiatives	16
Current Approach: Mahinda Chintana	17
Institutional Constraints	21
<b>Human Development in Conflict-Affected Areas</b>	<b>23</b>
Introduction	23
Human Development Issues	25
Food, nutrition, and social protection	25
Education and health	25
Loss of identification documentation	26
Prospects for Resettlement	26
Prospects for Regeneration of Livelihoods	27
Institutional Arrangements for Relief, Rehabilitation, and Development	28
<b>Conclusions</b>	<b>30</b>
<b>References</b>	<b>32</b>

**List of Tables**

Table 1: Sri Lanka's Macroeconomic Indicators	2
Table 2: Poverty and Inequality in Sri Lanka	3
Table 3: Poverty Indices and Access to Infrastructure, by Province	4
Table 4: Progress Toward Millennium Development Goals	7
Table 5: Selected Human Development Indicators, by Sector and Province	10
Table 6: Poverty Rates by Industry, Education, and Occupation of Household Head, 2002	13

# Abbreviations

ADB	–	Asian Development Bank
CCHA	–	Consultative Committee on Humanitarian Assistance
GDP	–	gross domestic product
IDP	–	internally displaced person
LTTE	–	Liberation Tigers of Tamil Eelam
MDG	–	Millennium Development Goal
PMTF	–	proxy means test formula
SMEs	–	small and medium-sized enterprises
UAS	–	Unified Assistance Scheme
UN	–	United Nations
WFP	–	World Food Programme

Map Showing Sri Lanka's Provinces



# Executive Summary

**T**his report aims to summarize the current state of poverty in Sri Lanka by tracing its causes and recommending policies. Special attention is paid to human development issues in the conflict-affected areas. The ongoing conflict in the north and east remains both the principal cause for poverty and the most binding constraint to human development in Sri Lanka.

## Poverty Profile and Millennium Development Goals in Sri Lanka

Sri Lanka is an early achiever in the Millennium Development Goals (MDGs) of universal primary school enrolment, gender parity in school enrolment, under-five mortality, universal provision of reproductive health services, tuberculosis prevalence and death rates, and sanitation. Sri Lanka is on track to halve extreme poverty between 1990 and 2015. Nevertheless, 15% of all Sri Lankans remained poor in 2006 and differences by region and sector are large.

Poverty was significantly reduced in the urban and rural sectors between 1990 and 2006. However, poverty in the estates increased by over 50%.<sup>1</sup> In the estates, there is widespread child malnutrition and maternal mortality rates are exceptionally high. Western Province has performed much better than other regions. It accounts for half of national gross domestic product (GDP) while other provinces contribute 10% or less each.

Poverty reduction in recent years was entirely due to income growth as income inequality rose in all three sectors. The rise in inequality was driven by uneven access to infrastructure and education, and by occupational differences. Demographic factors such as gender composition of household labor and ethnicity contributed little to total inequality.

Sri Lanka did not achieve the kind of structural transformation that could have provided greater employment opportunities for the poor in the nonfarm sector. Since 1985, the share of manufacturing in total GDP has hardly changed. Low rates of job creation in the formal sector, plus high wages there because of collective bargaining, and periodic statutory directives lead to the rationing of formal jobs on the basis of class and connections, which the majority of the poor lack. This problem is compounded by the lack of labor mobility as labor markets are highly segmented with spatial, skills-related, and institutional barriers to the movement of labor within and between regions. Many are pushed into informal employment by greater distance from commercial centers; lack of access to roads, electricity, schooling, and health facilities; and by poverty which limits their investment opportunities.

Geographic isolation is particularly acute for the estates sector. Poverty reduced much faster in Western Province than elsewhere because the province had geographical

<sup>1</sup> Estates are tea plantations, mainly in southern and central Sri Lanka. The majority of the workers are ethnic Indian Tamils.



comparative advantages that enabled it to benefit from the macroeconomic liberalization of 1977. The factors that constrain investment and growth in poorer provinces appear even stronger at the district level. Holding other factors constant, the probability of a household being poor falls by almost 3% with a unit increase in the accessibility index of the district where the household is.<sup>2</sup>

Poor performance in agriculture is caused by the unintended fallout of government interventions to protect the rural sector. Agricultural research, carried out almost exclusively by public sector organizations, paid little attention to the profitability of rice production. Private sector investment in agricultural research has been hampered by the absence of intellectual property rights protection and restrictive seed and phytosanitary policies. Private sector research and development institutions face considerable hurdles for accessing funding schemes established by the government. The agriculture extension service was weakened by its devolution to the provincial councils and the reassignment of field agricultural extension workers as *grama niladharis*, or village administrative officials of the central government. Inadequate funding of operations and maintenance of irrigation systems led to the rapid deterioration of canal systems and poor quality of services. Agricultural tariffs have been subject to frequent change, driven by political imperatives to dampen the cost of living. This has increased price risks for farmers, consumers, and local entrepreneurs.

Poverty is also associated with low educational attainment. The education system has been based on rote learning, abstraction, and authority which have inculcated attitudes that avoid challenges. This has placed children from poor families at a disadvantage as they lack the means to obtain work-oriented skills from fee-levying institutions. Certain cultural factors such as male dominance, alcoholism, and high tolerance for domestic abuse make for poverty in some communities.

### Policy Initiatives on Poverty and Growth

Government preoccupation with poverty, inequality, and welfare goes back to the 19th century when sectarian conflicts forced the colonial government to intervene in the health and education sectors. The grant of universal franchise in 1931 and the influence of Marxist politics since the 1930s have ensured that this preoccupation remains largely in place. The post-liberalization era saw continued social conflict and greater political instability related to unequal income distribution in spite of faster economic growth. A violent youth insurrection that reached its heights in 1989 triggered growth and balance of payments crises which necessitated a second wave of economic reform.

The government increased expenditure on health and education and initiated other programs to increase consumption and self-employment among the poor. The old food stamps scheme was replaced by the Janasaviya (Self-Help) Programme, a targeted income transfer program. Credit facilities were provided through the World Bank-funded Janasaviya Trust. The government also sought to bridge the development gap between the urban and rural areas by providing incentives for industries to locate in rural areas. Following a change of government in 1995, the Janasaviya Programme was replaced by the Samurdhi (Prosperity) Programme, consisting of a small rural infrastructure component and a large income transfer component, and a series of pro-poor credit schemes including the Grameen-type Samurdhi Bank scheme.

<sup>2</sup> The accessibility index is defined and constructed as the reciprocal of the road network travel time to nearby town.

Recently, the government recognized that there are many correlates of poverty, which require an integrated development policy. The current policy framework is encapsulated in Mahinda Chintana (President Mahinda's Vision), a 10-year development plan. Its mission is to develop regionally dispersed urban growth centers and small and medium-sized townships, and to integrate them with well-serviced rural hinterlands, as well as with domestic and international markets, through provincial and rural access roads, highways, railways, and ports. Under the Mahinda Chintana, industrial export zones, techno parks, and industrial estates will be established on a build–operate–transfer or build–operate–own basis.

Nevertheless, problems remain. Several Mahinda Chintana programs are vulnerable to political capture by local elites. The Samurdhi income transfer program needs to be reformed so that it can target more support for those who really need it. Proposed credit lines to help small and medium-sized enterprises (SMEs) may be unsustainable in the long run. A better way to help entrepreneurs who have no collateral is to further develop the Samurdhi Bank system and provide credit plus services to members who have proved their creditworthiness.

## Human Development in Conflict-Affected Areas

Food and nutrition are serious issues in the conflict-affected areas. Restrictions on the transport of certain inputs that might be diverted to military use have depressed local production of essentials, thereby exacerbating shortages. Nevertheless, access to education for internally displaced persons (IDPs) has been relatively high. Also, coverage of basic health services such as immunization, antenatal care, and skilled attendance at childbirth in the IDP population was not much lower than elsewhere.

A major problem with human development in the conflict-affected areas is caused by the loss of identity documentation such as birth certificates and national identity cards, which severely constrains the mobility and security of IDPs. Restoration of livelihoods for IDPs depends mainly on the prospects of resettlement, which may be more difficult for those who lost their identification documentation.

Almost all young IDPs lack a working knowledge of Sinhala, which is essential for relocating to and working in southern Sri Lanka, where employment prospects are better and Sinhala is the lingua franca.

The government has recently adopted a coordinated approach to deal with rehabilitation and development in conflict-affected areas. Lack of resources is the main constraint. While planning and coordination of activities for the development phase in Eastern Province are progressing apace, they are still being developed for Northern Province.

## Future Outlook

The current global economic crisis is likely to curb future growth, making it hard to achieve a marked reduction in poverty. However, if the security situation in the conflict-affected areas improves, Sri Lanka may be able to weather the crisis better. For Sri Lanka as a whole and for conflict-affected regions in particular, urgent measures are needed to speed up rehabilitation of IDPs and further the peace process.

Sri Lanka's most pressing need is to generate a growth dynamic that would integrate markets and regions, engineer a more intensive structural transformation of

the economy and workforce, and see more rural poor move into better paying non-farm employment. Investment in human capital will generate expected returns only if the nonfarm sector generates more jobs at higher wages. This requires a massive infrastructure push to improve connectivity to domestic and international markets. Otherwise, better education in conjunction with limited job opportunities is a recipe for insurrection and violence, as forcefully demonstrated by Sri Lanka's experience over the last three decades.

Sri Lanka has the highest electricity tariffs for businesses in the region due to delayed development of power projects. The energy sector also faces underinvestment and delayed investment, poor reliability and quality of electricity supply, high debt, and high price of petroleum products. It is strongly recommended that the Asian Development Bank (ADB) and other development agencies continue their programs of assistance to develop infrastructure in Sri Lanka, but with an eye to integrating markets and regions and enhancing productive capacity in strategic growth centers. This is one of the most effective and efficient ways to reduce poverty in Sri Lanka.

# Introduction

Sri Lanka's complementary mix of growth-oriented and welfare policies over the last three decades have seen average incomes rising across the board and more people in higher income ranges than ever before (Gunatilaka et al. 2006). Nevertheless, rising income was accompanied by rising inequality and the decline in the poverty rate between 1990 and 2002 was modest (World Bank 2007). In 2006–2007, 15% of Sri Lankans were poor, compared with 23% in 2002. The significant reductions in poverty occurred in urban areas and in localities close to the metropolitan hub of Colombo (Department of Census and Statistics 2008). Poverty reduction in Sri Lanka appears to be largely attributable to the trickle-down effect.

In 2006, the Sri Lankan economy grew 7.4%, the highest in the last three decades (Table 1). This was followed by a respectable 6.8% growth in 2007. Vigorous private sector activity, strong export growth, and a resurgent agriculture sector powered growth in gross domestic product. However, inflation accelerated recently, spurred on by high food and energy prices, and fiscal expansion. Real wages, particularly in the private sector, have eroded despite declining unemployment. Even though expanded earnings

on the services account and increased remittances helped mitigate the inevitable widening of the current account deficit, rising oil prices and food import bills exerted relentless pressures on the trade deficit. In recent years, increased foreign direct investment, grants, and loans to government have helped balance the external payments, and some fiscal consolidation has been achieved. But overruns on recurrent expenditure—largely fuelled by increased defense expenditure, a higher wage bill, and energy subsidies—have been harder to rein in.

The international economic crisis will work against Sri Lanka achieving the economic growth targets envisaged in the 10-year development framework in the next few years. Greater defense expenditure may also crowd out much-needed public investment. However, if security in the conflict-affected areas improves, enabling investment and development in those areas and elsewhere, Sri Lanka may be able to weather the impact of global economic downturn more easily.

This report aims to summarize the current state of poverty in Sri Lanka by tracing its causes and recommending policies. Special attention will be paid to human development issues in the conflict-affected areas.

Table 1: Sri Lanka's Macroeconomic Indicators

Indicators	2000	2001	2002	2003	2004	2005	2006
<b>National Output</b>							
Nominal GDP (Rs billion)	1,258	1,407	1,582	1,761	2,029	2,366	2,802
Real GDP (1996 = 100)	857	843	877	930	980	1,039	1,116
Real GDP growth (annual % change)	6.0	(1.5)	4.0	6.0	5.4	6.0	7.4
Agriculture (% change)	1.8	(3.4)	2.5	1.6	(0.3)	1.9	4.7
Industry (% change)	7.5	(2.1)	1.0	5.5	5.2	8.3	7.2
Services (% change)	7.0	(0.5)	6.1	7.9	7.6	6.2	8.3
<b>External Sector</b>							
Export value growth (1997 = 100)	29.2	2.4	4.6	10.1	17.9	8.9	12.6
Current account balance (% of GDP)	(6.4)	(1.4)	(1.4)	(0.4)	(3.2)	(2.8)	(4.9)
Exchange rate (Rs-\$ period average)	76	89	96	97	101	101	104
FDI (\$ million)	173	82	181	171	217	234	451
<b>Prices, Wages, Unemployment</b>							
Inflation (SLCPI, 1995-1997 = 100)	1.5	12.1	10.2	2.6	7.9	10.6	9.5
Minimum real wage rate index (Wages boards trades)	94.0	86.6	84.9	85.4	81.3	78.5	70.7
Unemployment rate (%)	7.6	7.9	8.8	8.1	8.1	7.2	6.5
Males	5.8	6.2	6.6	6.0	6.0	5.5	4.7
Females	11.1	11.5	12.9	13.2	12.8	11.9	9.7
<b>Government Finance</b>							
Public expenditure (% of GDP)	26.7	27.5	25.4	23.7	23.5	24.7	25.4
Public investment (% of GDP)	6.4	5.9	4.6	5.0	4.8	6.3	6.3
Fiscal deficit (% of GDP)	9.9	10.8	8.9	8.0	8.2	8.7	8.4

( ) = negative value, FDI = foreign direct investment, GDP = gross domestic product, Rs = rupee, SLCPI = Sri Lanka Consumer Price Index, \$ = US dollars.

Source: Annual Reports of the Central Bank of Sri Lanka, various years.

# Poverty and Inequality in Sri Lanka

This section presents poverty statistics for 1990–2007. However, the analysis is limited to 1990–2002 and deals almost entirely with poverty and inequality in the areas outside the conflict-affected north and east where data collection has not been possible. Nevertheless, whatever information is available is used to discuss human development issues in conflict-affected areas in section 5.

## Income Poverty and Inequality

**Slow progress in poverty reduction between 1990 and 2002.** Sri Lanka is on track to halve the proportion of people whose income is less than \$1 per day between 1990 and 2015 (United Nations Economic Social Commission for Asia and the Pacific [UNESCAP] et al. 2007) Nevertheless, 15% of all Sri Lankans remained poor in 2006–2007<sup>3</sup> and the declines in poverty rates

**Table 2: Poverty and Inequality in Sri Lanka**  
(% of total population)

Poverty Indicators	1990–1991	1995–1996	2002	2006–2007
Poverty incidence	26.1	28.8	22.7	15.2
Poverty gap	0.056	0.066	0.051	0.031
Poverty severity	0.018	0.022	0.016	0.009
<b>Poverty incidence by sector</b>				
Urban poverty	16.3	14	7.9	6.7
Rural poverty	29.4	30.9	24.7	15.7
Estate poverty	20.5	38.4	30.0	32.0
<b>Poverty incidence by region</b>				
Western	21	18	11	8
North Central	24	24	21	14
Central	28	37	25	22
Northwest	25	29	27	15
Southern	30	33	28	14
Sabaragamuwa	31	41	34	27
Uva	33	49	37	24
<b>Inequality: Gini coefficient by per capita expenditure</b>				
National	0.32	0.35	0.40	0.40
Urban	0.37	0.38	0.42	0.43
Rural	0.29	0.33	0.39	0.38
Estates	0.22	0.20	0.26	0.26

Note: Data excludes Northern and Eastern provinces.

Sources: World Bank (2007) for 1990 to 2002; Department of Census and Statistics (2008) for 2006–2007

<sup>3</sup> Excluding Northern and Eastern provinces since the data used for the estimations excluded the conflict zone.

Table 3: Poverty Indices and Access to Infrastructure, by Province

Province	Poverty Headcount Ratio (%)	Employment by Industrial Sector (% of employed)				Average Accessibility Colombo <sup>b</sup> (min)	Average Travel Time to Colombo (min)	Enterprises Using Electricity (%)	Enterprises with Landline or Mobile Phone (%)	Enterprises Located in a Community with a Bank (%)
		2002	2003–2004	2003–2004	2003–2004					
Western	11	48.1	9.3	35.9	54.8	73	79	24	70	
Central	25	9.4	43.8	19.1	37.1	200	80	7	47	
Southern	28	9.7	39.8	24.1	36.1	229	68	18	62	
Northwest	27	10.1	28.5	32.5	39.0	177	61	15	70	
North Central	21	3.9	50.0	15.6	33.5	304	61	8	75	
Uva	37	4.3	63.7	9.2	27.2	295	62	23	78	
Sabaragamuwa	35	6.9	44.9	27.4	27.8	152	76	15	70	
Correlation with headcount					(0.62)	0.47	(0.32)	0.2	0.14	

GDP = gross domestic product, min = minutes, ( ) = a negative value.

Notes:

<sup>a</sup> Accessibility index is calculated for every point as the sum of the population totals of surrounding cities and towns, inversely weighted by the road network travel time to each town. The numbers show the mean of the access values for all points that fall into a given province.

<sup>b</sup> Average travel time to Colombo City is estimated travel time to each town based on geographical information of road network. The numbers show the mean travel time for all points that fall into a given province.

Sources: Central Bank of Sri Lanka (2007) for data on employment by industrial sector. Other indicators from World Bank (2007).

over time were modest (Table 2). Poverty rates fluctuated widely from one year to the next, suggesting considerable periodic shocks. Progress in poverty reduction differed across regions and sectors. Between 1990–1991 and 2006–2007, urban poverty more than halved and rural poverty declined by less than half. However, poverty incidence in the estates increased by over 50%.<sup>4</sup> While poverty in Western Province declined from 21% in 1990–1991 to 8% in 2006–2007, its decline in other regions was less pronounced.

**Rising income inequality.** While national mean per capita consumption increased by 29% in real terms between 1990 and 2002, the top quintile claimed half this consumption growth and the fourth quintile claimed a quarter. The second quintile experienced 6% growth and the first quintile only 2%. For the country as a whole, excluding the north and east, the Gini coefficient rose from 0.32 in 1990–1991 to 0.40 in 2006–2007 (Table 2). This increase is mirrored in all three sectors, with inequality in rural areas growing much faster than in either the urban or estate sectors. Mean per capita income grew by 26% between 1995 and 2002 compared to 3% annual growth between 1990 and 1995. However, inequality also grew faster and poverty reduction was due to income growth rather than redistribution (World Bank 2007).

The rise in inequality was driven by uneven access to infrastructure and education, and by occupational differences. Demographic factors such as gender composition of household labor and ethnicity contributed little to total inequality (Gunatilaka and Chotikapanich 2006). Semi-parametric analysis shows that the rightward shift in the concentration of people at higher income ranges that occurred between 1985 and 2002 was mainly attributable to the change in access to infrastructure (Gunatilaka et al.

2006). While there was considerable improvement in educational attainment over the period, the lower- and middle-income classes seem to have benefited the most. However, little changed in the composition of industry sectors from which households derived most income. For example, agriculture, mining, and fishing accounted for the major share, although the share decreased from 46% to 44% between 1985 and 2002. The share of manufacturing hardly changed, and that of trade, hotels, transport, finance, and real estate fell from 19% to 15%. Only the share of other services increased, from 24% to 30%. Consequently, changes in sector composition exerted little impact on the distribution of income. This shows why better education did not help the poorest classes increase earnings: Sri Lanka did not achieve the kind of structural transformation in employment that could have provided many earning opportunities in the nonfarm sector for these groups.

Interregional inequality grew much faster than within-region inequality from 1990 to 2002 (World Bank 2007). Table 3 sets out indicators of access to infrastructure by province along with poverty ratios and the contribution of each province to gross domestic product (GDP). It is a story of “the west and the rest”: Western Province accounted for half of total output in the country while all other provinces contributed 10% or less; Uva and North Central Province each contributed less than 5%. Also note that Western Province has the best access to business opportunities by any measure, whereas geographical isolation and high travel cost to Colombo seem to be most closely correlated with poverty in other provinces. The province also has the largest proportion of employed persons working in industry and services, notwithstanding the sizeable contribution of the public sector to total employment (not shown

<sup>4</sup> Estates are tea plantations, mainly in southern and central Sri Lanka. The majority of the workers are ethnic Indian Tamils.



in the table). In contrast, the overwhelming majority of employed persons in Uva and Sabaragamuwa work in agriculture, forestry, or fishing. The factors that constrain investment and growth in poorer provinces appear even stronger at the district level. Holding other factors constant, the probability of a household being poor falls by almost 3% with a unit increase in the accessibility index of the district where the household is (World Bank 2007).<sup>5</sup>

### Non-Income Millennium Development Goal Indicators

**Achievements.** Sri Lanka has fared quite well in non-income Millennium Development Goals (MDGs). The country is an early achiever of several MDG indicators such as universal primary school enrolment, gender parity in primary and secondary school enrolment, under-five mortality, universal provision of reproductive health services, tuberculosis prevalence and death rates, and access to safe water and sanitation (Table 4). These achievements are comparable to those of Malaysia and Thailand.

However, malnutrition remains prevalent especially among the poor, even though it has declined significantly. In 2000, 13.5% of under-fives were stunted, 14% wasted, and 29% underweight (Department of Census and Statistics undated). These problems appear to be caused by cultural practices such as not giving newborn infants colostrum, ending exclusive breast feeding after a short time, introducing solid foods early, and providing an insufficient and inadequate weaning diet (World Bank 2005).

**Regional variation in Millennium Development Goals.** National figures mask considerable gender-related, sec-

tor, and regional variation in MDGs. Table 5 sets out selected development indicators by sex, sector, and province. It can be seen that, while girls fare much better across the country in primary completion rates and under-five mortality rates, malnutrition rates among boys and mortality rates among male infants are lower. Clearly, intra-household discrimination exists against girls in the access to nutrition and health services, despite eradication of apparent gender disparities in schooling. In terms of sector, the urban sector is the best off and the estate sector by far the worst off. Data on child nutrition (not shown in the table) reveal that 37% of estate children were stunted as against 8.3% in urban areas and 14% in rural areas. Likewise, 46% of estate children were underweight compared with 18% in the urban sector and 31% in the rural sector (World Bank 2007). Maternal mortality rates in estates are also exceptionally high.

Western Province performs the best in all indicators except in infant mortality. Northern and Eastern provinces fare the worst in terms of primary education completion, obviously because of the disruptive impact of the conflict and displacement on schooling. But the region fares well in terms of infant mortality. Under-five mortality is worst in North Central Province, but Uva and Sabaragamuwa are by far the worst off in terms of all remaining indicators, except in access to electricity. Access to electricity in the north is limited mainly because of the destruction of transmission lines through Killinochchi to the Jaffna Peninsula. Central Province performs poorly in access to safe drinking water and sanitation, probably because of the predominance of the poorly served estate sector in that province.

<sup>5</sup> The index is defined and constructed as the reciprocal of the road network travel time to nearby town.

Table 4: Progress Toward Millennium Development Goals

Goals and Targets	Earliest Available Estimate	Latest Estimate	On track?
<b>Goal 1: Eradicate Extreme Poverty and Hunger</b>			
<b>Target 1:</b> Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day.			
Indicator 1: Percentage of population below \$1 a day (1993 PPP)	26.1 (90/91)	15.2(2006/07)	On track
Indicator 2: Poverty gap ratio	5.6 (90/91)	3.1 (2006/07)	
Indicator 3: Share of poorest quintile in national consumption	8.8 (90/91)	7.1 (2006/07)	Regression
<b>Target 2:</b> Halve, between 1990 and 2015, the proportion of people who suffer from hunger.			
Indicator 4: Prevalence of underweight children under 5 years	37.7 (1993)	21.6 (2006/07)	On track
Indicator 5: Proportion of undernourished population	50.9 (1990/91)	50.7 (2006/07)	Regressing
<b>Goal 2: Achieve Universal Primary Education</b>			
<b>Target 3:</b> Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.			
Indicator 6: Primary education completion	78.53 (1998)	88.2 (2006/07)	Early achiever
Indicator 7: Net enrolment ratio in primary education	88.0 (1991)	97.5 (2006/07)	Early achiever
Indicator 8: Youth literacy rate	92.7 (1994)	95.8 (2006/07)	On track
<b>Goal 3: Promote Gender Equality and Empower Women</b>			
<b>Target 4:</b> Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education not later than 2015.			
Indicator 9: Ratio of girls to boys (%)			
a. In primary education	—	99.0 (2006/07)	Early achiever
b. In secondary education	—	105.7 (2006/07)	Early achiever
c. In tertiary education		187.0 (2006/07)	
Indicator 10: Ratio of literate females to males (aged 15–24) (%)	100.9 (2001)	101.8 (2006/07)	—
Indicator 11: Share of women in wage employment in the nonagriculture sector	30.8 (1993)	31.0 (2007)	—
Indicator 12: Number of seats held by women in national parliament	4.8 (1989)	5.8 (2004–2007)	—
<b>Goal 4: Reduce Child Mortality</b>			
<b>Target 5:</b> Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.			
Indicator 13: Under-five mortality rate (per 1,000 live births)	22.2 (1991)	13.5 (2003)	Early achiever
Indicator 14: Infant mortality rate (per 1,000 live births)	17.7 (1991)	11.3 (2003)	Early achiever

continued on next page

Table 4 continued

Goals and Targets	Earliest Available Estimate	Latest Estimate	On track?
Indicator 15: Proportion of 1 year-old children immunized against measles	95.5 (1993)	97.1 (2006/07)	
<b>Goal 5: Improve Maternal Health</b>			
<b>Target 6:</b> Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.			
Indicator 16: Maternal mortality ratio	42.3 (1991)	19.7 (2003)	—
Indicator 17: Proportion of births attended by skilled health personnel	94.1 (1993)	98.5 (2006/07)	—
<b>Goal 6: Combat HIV/AIDS, Malaria, and Other Diseases</b>			
<b>Target 7:</b> Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.			
Indicator 19: Condom use rate of the contraceptive prevalence rate	5.3 (2000)	5.7 (2006/07)	On track
<b>Target 8:</b> Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.			
Indicator 21: Death rate associated with malaria (per 100,000 population)	0.1 (1990)	0.0 (2006/07)	—
Indicator 23: Death rate associated with TB (per 100,000 population)	2.4 (1990)	1.7 (05)	Early achiever
Indicator 24: Proportion of TB cases detected and cured under DOTS	37.3 (2000)	83.3 (2006)	Early achiever
<b>Goal 7: Ensure Environmental Sustainability</b>			
<b>Target 9:</b> Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.			
Indicator 25: Proportion of land area covered by forest	33.8 (1992)	32.2 (1999)	Regressing
Indicator 26: Ratio of area protected to surface area	11.1 (1990)	14.2 (2006)	Early achiever
Indicator 27: Energy use (kg. oil equiv) per \$1 GDP (PPP)	0.21 (1990)	0.07 (2006)	Regressing
Indicator 28: CO <sub>2</sub> emissions and consumption of ozone-depleting CFCs	—	—	—
a. CO <sub>2</sub> emission per capita (metric tons per capita) from all sources	0.2 (1990)	0.6 (2005)	Regressing
b. Consumption of ozone depleting CFCs (ODP tons)	220.1 (1990)	62.3 (2007)	Early achiever
<b>Target 10:</b> Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation			

continued on next page

Table 4 continued

Goals and Targets	Earliest Available Estimate	Latest Estimate	On track?
Indicator 30: Proportion of households with sustainable access to an improved water source	72.0 (1994)	84.7 (2006/07)	Early achiever
Indicator 30: Proportion of population with access to an improved water source - rural	—	84.6 (2006/07)	On track
Indicator 30: Proportion of population with access to an improved water source - urban	—	95.4 (2006/07)	Early achiever
Indicator 30: Proportion of population with access to an improved water source - estates	—	57.8 (2006/07)	
Indicator 31: Proportion of households with sustainable access to an improved sanitation	85.7 (1994)	93.9 (2006/07)	Early achiever
Indicator 31: Proportion of population with access to an improved sanitation - rural	—	94.8 (2006/07)	Early achiever
Indicator 31: Proportion of population with access to an improved sanitation - urban	—	91.5 (2006/07)	Early achiever
Indicator 31: Proportion of population with access to an improved sanitation - estates	—	85.1 (2006/07)	—
<b>Target 11:</b> By 2020, achieve a significant improvement in the lives of at least 100 million informal settlers.			
Indicator 32: Proportion of households with access to secure tenure	—	95.2 (2006/07)	—
<b>Goal 8: Develop a Global Partnership for Development</b>			
<b>Target 16:</b> In cooperation with developing countries, develop and implement strategies for decent and productive work for youth			
Indicator 45: Unemployment rate of 15–24 year-olds	34.9 (1993)	21.2 (2007)	—
<b>Target 18:</b> In cooperation with the private sector, make available the benefits of new technologies, especially information and communications			
Indicator 47: Telephone lines per 100 population	—	7.9 (2006/07)	—
Indicator 47: Cellular subscribers per 100 population	—	14.8 (2006/07)	—
Indicator 48: Personal desktop computers in use per 100 population	0.4 (1996/97)	8.2 (2006/07)	—

CFCs = chlorofluorocarbons, CO<sub>2</sub> = carbon dioxide, DOTs = directly observed treatment–short course, ODP = ozone depletion potential, PPP = purchasing power parity, TB = tuberculosis.

Source: Department of Census and Statistics 2009. *MDG Indicators of Sri Lanka: A Mid-Term Review*. Colombo: Department of Census and Statistics.

Table 5: Selected Human Development Indicators, by Sector and Province (%)

Item	Child Malnutrition		Primary Education Completion Rate		Under-Five Mortality Rate		Infant Mortality Rate		Maternal Mortality Rate	Households with Access to Safe Drinking Water	Households with Access to Improved Sanitation	Households with Access to Electricity
	2000	2002	Males	Females	Males	Females	Males	Females				
Sri Lanka	29	30	94.7	96.5	14.9	12.0	12.9	10.2	14.4	82.0	67.5	74.9
Sector												
Urban	—	—	—	—	18.7	14.9	16.9	13.1	13.3	95.9	77.8	—
Rural	—	—	—	—	7.6	6.4	5.2	4.6	13.8	81.2	67.5	—
Estate	—	—	—	—	22.1	20.6	16.4	15.7	88.1	61.0	43.2	—
Province												
Western	19	23	98.7	99.5	15.6	12.2	14.0	10.5	9.0	91.5	77.6	92.4
Central	37	38	95.2	96.7	18.2	14.5	16.1	12.4	18.1	78.3	56.6	72.7
Southern	24	33	94.4	96.9	10.3	7.4	9.3	6.7	14.8	80.5	72.3	78.4
Northern	—	—	88.6	90.7	10.5	8.7	7.6	6.1	13.3	—	—	63.6
Eastern	—	—	90.3	92.9	15.0	11.4	10.6	8.1	19.1	—	—	65.6
Northwest	31	33	95.1	97.6	12.5	11.1	10.8	9.6	10.3	87.9	69.6	68.5
North Central	28	33	96.2	98.1	20.3	17.5	18.6	15.8	13.1	80.5	49.7	62.0
Uva	40	38	92.8	94.7	16.0	12.2	14.4	10.8	28.7	67.9	50.9	56.7
Sabaragamuwa	39	22	95.3	96.1	15.0	13.6	12.7	11.4	17.0	63.8	66.1	64.7

Notes: Child malnutrition defined as percent of children who are moderately or severely underweight.

Sources: Child malnutrition rates from World Bank (2005); access to electricity from Central Bank of Sri Lanka (2007); other statistics from the Department of Census and Statistics (2005).

# Correlates of Poverty

In what follows, we analyze causes of poverty in terms of the following: location-specific factors, sector-specific factors, and specific attributes of individuals and households. These categories are not mutually exclusive.

## Location-Specific Factors

**Advantages of Western Province.** Location-specific characteristics are fundamental in explaining the uneven pattern of development and poverty reduction in Sri Lanka. Poverty reduced much faster in Western Province than elsewhere because the region had geographical comparative advantages that enabled it to benefit from the macroeconomic liberalization of 1977. The region had superior endowments of infrastructure facilities such as a port and an international airport, the concentration of human capital resources, electricity and telecommunications services, and proximity to large, diversified markets of consumers and firms. New industrial enterprises were encouraged to locate to the metropolitan hub, people followed jobs and jobs followed people, thereby setting in train a virtuous cycle. Increasing urban concentration raised rentals and wage rates in the hub and nearby. However, high transport costs between Western Province and most other regions discouraged new industries from locating very far away from the growth center. Also, high transport costs between the hub and periphery and the high cost of housing in the urban center constrained labor flow from surplus peripheral areas to metropolitan areas. Thus, regional imbalances between Western Province and the rest of Sri Lanka widened over the post-liberalization period.

**Labor market segmentation.** Spatial segmentation of the labor market perpetuates unemployment and poverty. Analysis of real wage trends of informal-sector workers suggest that regional labor markets are highly segmented, with possible spatial, skills-related, and institutional barriers to the movement of labor within and between regions (Gunatilaka 2003). Many are pushed into informal employment by greater distance from commercial centers; lack of access to roads, electricity, schooling, and health facilities; and by poverty which limits their investment opportunities (including investment in schooling and health) (Arunatilake and Jayawardena 2005).

**Underserved locations.** Lack of services correlate with high poverty rates. For example, the proportion of households without access to electricity in 101 of the 119 poorest divisional secretary divisions was much higher than the national average of 36%, with at least 11 poor divisional secretary divisions reporting no-access rates of 75% or higher. Schools in such areas are small, ill equipped, with few teachers, and most of the teachers are untrained (Department of Census and Statistics 2006). Divisional secretary divisions that are better connected to markets have a larger proportion of households with electricity, better educated household heads, and lower unemployment rates, and are less engaged in farming. The higher the accessibility index of a divisional secretary division, the lower its poverty incidence (World Bank 2007).

Geographic isolation is particularly acute for the estates sector. The majority of the estates population has minimal links with networks and the outside world, implying lack of information, which is critical for migration or

employment opportunities. Households in estates with passable roads to town all year tend to be better off (World Bank 2007). Estates located in poorer districts also had a higher incidence of poverty. Despite recent improvement in living standards because of government intervention, the estates still lag behind the rural sector on key indicators of health and education (Table 5).

Needless to say, regions subject to armed conflict and natural disasters such as landslides, drought, and tsunamis are the worst off in terms of geographical comparative advantages, with the crises destroying infrastructure, eroding human capital, creating security crises, and plunging people into poverty. The human development situation in the conflict-affected areas will be dealt with in more detail in section 5.

### Sector-Specific Factors

**Farming does not afford an adequate living.** As Table 6 shows, leaving aside those classified as miscellaneous laborer, the highest poverty incidence—40%—is among households where the head of the household works in agriculture (World Bank 2005). While real wages for female agricultural workers employed in tea and coconut production rose between 1980 and 1997, wages for laborers in the residual paddy sector remained stagnant, with national trends masking regional differences (Gunatilaka 2003; Gunatilaka and Hewarathna 2002). As agriculture still employs around a third of the workforce, the slow rate of structural transformation in the economy is a constraint to poverty reduction.

Agriculture suffers from low levels of productivity, although the export-oriented tree crops sector performs better. Poor performance in agriculture is caused not by a pronounced urban bias, but by the unintended fallout of government interventions to protect the rural sector. Agricultural research, carried out

almost exclusively by public sector organizations, paid little attention to the profitability of rice production. Private sector investment in agricultural research has been hampered by the absence of intellectual property rights protection, and restrictive seed and phytosanitary policies. Private sector research and development institutions face considerable hurdles for accessing funding schemes established by the government. The agricultural extension service was weakened by its devolution to the provincial councils and the reassignment of agricultural extension field workers as *grama niladhari*, or village administrative officials of the central government. Existing legislation which promoted equity in land ownership had the unforeseen effect of fragmenting landholdings, particularly when urban industry failed to take off sufficiently to ease employment pressure on the land. The proportion of holdings of less than 1 acre (0.4 hectares) jumped from 42% in 1982 to 63% in 2002 (World Bank 2007). Inadequate funding for operation and maintenance of irrigation systems led to the rapid deterioration of canal systems and to poor quality of services. At the same time, agricultural tariffs have been subject to frequent change, driven by political imperatives to dampen the cost of living. This has increased price risks for farmers, consumers, and local entrepreneurs (World Bank 2007).

**Nonfarm income.** Rural nonfarm enterprise is associated with higher welfare. The poverty rate for rural households involved in nonfarm activities is 13%; the poverty rate for rural households without additional nonfarm income is 23% (World Bank 2007). The importance of nonfarm activities as a source of income and employment has grown. In 2002, more than half of rural household income was derived from nonfarm sources. However, the growth of nonfarm enterprises is constrained by many factors: the poor quality or absence of transport and

**Table 6: Poverty Rates by Industry, Education, and Occupation of Household Head, 2002**

Item	Poverty Incidence (%)
<b>Industry of employment of household head</b>	
Agriculture, forestry, and fisheries	40
Manufacturing	21
Construction	27
Wholesale and retail trade	16
Hotels and restaurants	20
Transport and communications	16
Financial intermediation and real estate	10
Public administration and defense	5
Education	2
Health and social work	7
Miscellaneous labor work	45
Not adequately defined	27
<b>Education level of household head</b>	
No schooling	45
Primary (grades 1–5)	34
Junior secondary (grades 6–9)	21
GCE Ordinary Levels	7
GCE Advanced Levels	2
Graduate	1
<b>Occupation category of household head</b>	
Senior officials and managers	1
Professionals	3
Associate professionals	5
Clerks	5
Sales and service workers	11
Agricultural, forestry, and fisheries workers	34
Craft and related workers	25
Plant and machine operators	16
Elementary occupations	38

GCE = General Certificate of Education.

Source: World Bank (2005).

lack of connectivity to urban hubs, poor access to and high cost of finance, limited access and unreliable supply of electricity, marketing difficulties, and poor coverage in telecommunications (World Bank and Asian Development Bank [ADB] 2005). Few rural firms appear to be integrated into well-coordinated supply chains, and they have limited access to

new technology, financing options, and wider markets.

**Constraints on job creation.** The low rate of job creation contributes to the slow pace of poverty reduction. Many of the infrastructure constraints hampering nonfarm sector growth also adversely affect the formal sector. For



example, 40% of urban firms cited electricity as a major constraint in terms of access, high cost, and unreliability. Also, 20% held that transport was a severe constraint, citing traffic congestion and absenteeism because of unavailability of transport as key reasons for low productivity (World Bank and ADB 2005). It is likely that restrictive job protection legislation hinders job creation. For example, the Termination of Employment of Workmen's Act requires high compensation to laid-off workers in enterprises with more than 15 workers. It is discretionary nature and lengthy procedures restrict the ability of employers to lay off workers (Heltberg and Vodopivec 2004; Rama 2003). In the early 2000s, Sri Lanka's job creation rate was 8% and job destruction rate was 4%, markedly behind the average job creation rate of 14% and job destruction rate of 11% in a sample of 17 developed, transition, and developing countries (World Bank 2006). Low rates of job creation in the formal sector, plus high wages there due to collective bargaining and periodic statutory directives (Rodrigo and Munasinghe undated), makes for the rationing of formal jobs according to class and connections, which the majority of poor people lack (Amarasuriya 2006).

**The education sector has performed poorly.** The education system has been based on rote learning, abstraction, and authority which have inculcated attitudes that avoid challenges (Reinprecht and Weeratunge 2006). This has placed children from poor families at a disadvantage as they lack the means to obtain work-oriented skills from fee-levying institutions. Nearly two-thirds (63%) of school leavers had not mastered the mother tongue, 90% had not mastered English, and 62% had not mastered mathematics. These skills are essential for higher education and the job market (World Bank 2007). Although these problems have long been recognized,

reforms have been delayed and are only now beginning to bear fruit.

The quality of technical and vocational training programs has been variable with outdated curriculum, inadequate facilities, irrelevant industrial training, and insufficient practical work. Employability of people who have received technical and vocational training is generally low (Chandrasiri 2005). Efforts to reform the sector began only 2 years ago and will take some time to have an impact.

**The energy sector must expand.** Sri Lanka has the highest electricity tariffs for businesses in the region because of delayed development of power projects. This compelled the government to purchase emergency power at high cost from private power suppliers. Continued delays in bidding, financing, and contracting of the Kerawalapitiya 300-megawatt power plant meant that the generating system operated with a shortage of 200 megawatts in 2007. Sri Lanka has never had such low levels of reserve margin before. The energy sector also faces underinvestment and delayed investment, poor reliability and quality of electricity supply, high debt, and expensive petroleum products on which a large proportion of power generation capacity is dependent (Department of National Planning 2006a).

### Attributes of Individuals and Households

Even if the conditions for pro-poor growth were present, many Sri Lankans would remain in poverty or fall into poverty for the following reasons.

**The poor do not have inherited assets and usually cannot save.** In the absence of a social safety net, those who do not have sufficient assets to cope with shocks—such as the death of the principal income earner, illness or disability, loss of employment, natural disasters, or

conflict—fall into poverty. In addition, Sri Lankan society is rapidly ageing and poverty is likely to be increasingly associated with old age (World Bank 2006).

**Poverty is associated with disability.** Employment rates among the disabled are much lower than in the rest of the population, varying from 7% for those with psychiatric disability to 26% for those with mobility disability. Of those employed, most live below the poverty line. The poverty rate is 43% for the intellectually disabled and 88% for those with speech disability (Ministry of Social Welfare 2003). Meanwhile, safety nets for the poor, the elderly, and the disabled are both inadequately funded and inefficiently targeted (World Bank 2006).

**Poverty is also associated with low educational attainment.** Table 6 indicates an inverse correlation between the education level of household head and poverty. The poverty rate was 45% for households in which the head of the household was illiterate, whereas poverty for those with General Certificate of Education Advanced Level or degree was only 2% or less. Poorer individuals with low levels of formal education and English language skills, in particular, have less chance of obtaining necessary formal and technical education as they cannot meet the qualifying criteria of most technical and vocational education courses (Arunatilake and Jayawardena 2006).

Poor households tend to have more children, with serious implications for their education. School drop out rates are highest among the poor as the opportunity costs of education are high for their children. Further, intergenerational schooling mobility is low in Sri Lanka, implying limited social and economic progress across generations (World Bank 2006). Ranasinghe (2004) found that an additional year of parental education im-

plies an increase of nearly 0.6 years of schooling for children. If the parents are engaged in low-skilled occupations, they have weaker social networks and poorer prospects of placing their child in a good job, even if the child finishes education. This would lower the returns to the child's education, thereby discouraging investment in education (Arunatilake 2005).

**The poor lack powerful and widely dispersed social networks.** Social networks and power relationships are key determinants of access to food, shelter, finance, education or training, employment, and status. While these relationships of reciprocity with influential and powerful people provide some safety net and help mitigate risk, they can also maintain the poor in social structures that perpetuate poverty (Weeratunge 2001). For example, poor people can rarely hold corrupt local officials accountable for the services they are supposed to provide, as they (poor people) have no alternatives and are vulnerable to reprisals and abuse of power.

**Certain cultural factors such as male dominance, alcoholism, and high tolerance for domestic abuse make for poverty in some communities.** Alcoholism is a particular problem in the estates sector (World Bank 2007), where male dominance and geographic isolation prevent women from finding better paid jobs or greater independence. In contrast, in some rural areas where husbands settle in their wives' parental villages, women are more empowered and less vulnerable to male dominance and domestic abuse. They are active members of local self-help organizations and savings and credit groups, and have contrived to improve their families' earnings and living standards (Gunatilaka 2000). In certain urban slums, an environment of violence, alcoholism, and petty criminality traps families in poverty and prevents their emerging from their predicament.

# Government Policies and Initiatives

## The History of Pro-Poor Policy Initiatives

**G**overnment preoccupation with poverty, inequality, and welfare goes back to the 19th century, when sectarian conflicts forced the colonial government to intervene in the health and education sectors (de Silva 1981). The grant of universal franchise in 1931 and the influence of Marxist politics since the 1930s have ensured that this preoccupation remains largely in place. However, for a brief interval immediately after economic liberalization in 1977, the government looked to economic growth to take care of the issue of distribution while it cut back on welfare services. However, the government's growth-oriented policy framework frustrated achieving greater equality. While agglomeration forces and first-mover advantages, unleashed by trade liberalization, would have favored the urban sector in any case (Venables 2001), the government inadvertently reinforced these tendencies.<sup>6</sup> It encouraged industrialization near the urban metropolis on the one hand, and invested in mega irrigation projects, land settlement schemes, and rural infrastructure programs in rural areas on the other, without seeing the need to integrate the urban and rural sectors through increased connectivity.

As a result, the post-liberalization era saw continued social conflict and greater political instability related to unequal distribution of wealth in spite of faster eco-

nomical growth (Abeyratne 2004). A violent youth insurrection that reached its heights in 1989 triggered growth and balance of payments crises, which necessitated a second wave of economic reform. The crisis catalyzed a significant turnaround in the government's welfare policy. Recognizing that economic growth had failed to reach large sections of the population, the government increased expenditure on health and education, and initiated other programs to increase consumption and self-employment among the poor. The old food stamps scheme was replaced by the Janasaviya (Self-Help) Programme, a targeted income transfer program aimed to provide consumption support. At the same time credit facilities were provided through the World Bank-funded Janasaviya Trust Fund to help the poor start microenterprises. The government also sought to bridge the development gap between the urban and rural areas by providing incentives for industries to locate in rural areas under the 200 Garment Factory Programme (Dunham and Kelegama 1997). Following a change of government in 1995, the Janasaviya Programme was replaced by the Samurdhi (Prosperity) Programme, consisting of a large income transfer component, a series of pro-poor credit schemes, including the Grameen-type Samurdhi Bank scheme based on group savings and group collateral, and a small rural infrastructure component.

By the mid-1990s, policy makers realized that to achieve sustainable pover-

<sup>6</sup> "Agglomeration forces" are the factors that cause the concentration of firms in certain locations when there is imperfect competition and input-output links between firms and high transport costs between that location and those peripheral to it. "First-mover advantage" means the advantages of being first to get going; urban sectors with good infrastructure, for example, will have an advantage over rural areas not as well endowed.

## The Samurdhi Programme

As an income transfer program, the Samurdhi Programme has serious weaknesses: inefficient targeting, minimal impact, and high administrative costs. As it lacks explicit selection criteria, the program is riddled with significant targeting errors that exclude about 40% of the poorest people while spending 44% of the budget on households in the top three quintiles (World Bank 2007). Targeting errors are largely due to the capture of the program by local politicians (Gunatilaka et al. 1997). The program covers almost 45% of the population, spreading the benefits too thinly to have much impact. The real value of the income transfer has also been eroded over the years.

The Samurdhi Programme has a community infrastructure development component. While it aimed to select projects through participatory approaches, the selection process was often captured by local elites. The projects were not selected to generate synergies or maximize returns. Execution of the projects were often technically weak, usually without consideration for maintenance once completed (Gunatilaka et al. 1997).

The Samurdhi Bank system, however, has fared better, even though it too remains vulnerable to political capture. The system appears to reach large numbers of the poor excluded by other programs. If successfully insulated from capture, the system has the potential to be more sustainable than most other microfinance programs, as it is not donor dependent and is based entirely on members' savings for capital (Gant et al. 2002; Gunatilaka and Salih 1999). However, there is little hard evidence to show that the Samurdhi Bank system, like many other donor-funded microfinance programs, has made any significant impact on promoting the poor to higher-income growth paths.

Source: Author.

ty reduction it was necessary to increase investment, integrate markets, and develop infrastructure and service systems on a regional basis. But this invariably ran against constraints imposed by infrastructure bottlenecks in power and road transport, as the military demands of the secessionist conflict crowded out public investment. Also, the conflict took its own toll on investor confidence.

Recently, the government recognized that there are correlates of poverty which can only be effectively addressed through an integrated development policy framework. The current policy framework is encapsulated in Mahinda Chintana (President Mahinda's Vision), a 10-year development plan consisting of policies, programs, and projects formulated by the Department of National Planning with substantive contributions from line ministries and various stakeholders (Department of National Planning 2006a). The vision of Mahinda Chintana is to develop regionally dispersed urban

growth centers and small and medium-sized townships that are integrated with well-serviced rural hinterlands as well as with domestic and international markets through provincial and rural access roads, highways, railways, and ports. The strength of the framework lies in its overriding emphasis on reducing poverty and inequality. In particular, it stresses infrastructure development to reduce regional inequalities and enable lagging regions and localities to link up with the growth process.

In the next section, we assess the new policy framework in terms of its capacity to address the correlates of poverty set out in section 3.

### Current Approach: Mahinda Chintana

**Health care and education services.** A poor person's only resource is his or her body. Thus, ill health and disability

severely impair the income-earning capacity of not only the person affected, but also that of family members who have to look after him or her. Mahinda Chintana (President Mahinda's Vision) proposes upgrading facilities in the base hospitals of several districts; providing residential facilities for doctors, particularly in rural areas; developing hospitals in the estate sector; and recruiting and training necessary staff. It also proposes to extend nutrition programs for expectant mothers and strengthen the midday meal program targeted at malnourished school children.

Pro-poor education policies proposed in Mahinda Chintana include achieving 100% participation by reducing the number of out-of-school children. It introduces special measures to provide education to children from low-income neighborhoods, remote villages, plantations, and conflict-affected areas, as well as to working children, street children, and destitute and abandoned children. The Ministry of Education also proposed to develop high-quality secondary schools in the 100 poorest divisional secretary divisions, extending opportunities for science education especially in rural areas, and expanding opportunities for learning English at primary and secondary levels in all schools.

**Infrastructure.** Sri Lanka has a huge backlog of infrastructure development, and, as discussed in section 3, a massive infrastructure push is necessary to enable regions outside Western Province to share the growth benefits. This is particularly true for areas affected by conflict, which have virtually fallen off the economic development map over the last two decades.

**Military spending.** Military spending may crowd out funding for infrastructure development. The most recent phase of hostilities that began in 2006 is likely to erode development financing. While

donors (e.g., the Japan Bank for International Cooperation) may shoulder much of the cost of large infrastructure projects such as highways, the government must provide matching funds to receive donor assistance. Moreover, the amount of funding for certain projects is dependent on other supporting conditions. For example, many of the proposed policies and programs in the energy sector are contingent on the timely commissioning of certain power projects. If the power projects do not materialize, proposed reforms such as debt restructuring of the Ceylon Electricity Board and tariff rationalization will not be feasible.

**Agriculture.** Agricultural projects may be affected by government financial constraints. The Mahinda Chintana sets out detailed plans to increase productivity primarily through the introduction of technology. However, the proposed fund allocation devotes more than half the budget to credit (22%) and fertilizer (33%) subsidies, with little left for technology research (2%) or extension and education (4%). The Bim Saviya Program to register land titles and establish a digital land information system—vital to the development of a land market—may also face financial constraints as it is to be funded from the Consolidated Fund (Department of National Planning 2006b). Nevertheless, the Dry Zone Livelihood Support and Partnership Programme may fare better as it is jointly funded by the International Fund for Agricultural Development and the Government of Sri Lanka. This program aims to establish integrated rainfed upland agricultural development systems, and rehabilitate village tanks in the districts of Anuradhapura, Badulla, Kurunegala, and Monaragala.

**Industry development.** Industrial export zones, techno parks, and industrial estates will be established on a build–operate–transfer or build–operate–own

basis. Along with concessionary financing schemes of the World Bank and ADB, the government hopes to devote almost 50% of total investment in industry development in the next 10 years to support small and medium-sized enterprises (SMEs). Industry incubators and mini industrial estates will be established through public–private partnerships to assist start-ups and SMEs, which account for 70% of all industrial establishments. To support business development services (managerial, accounting, and technical skills) and to coordinate SME activities of provincial and central governments, Mahinda Chintana aims to establish an apex authority for SMEs. This is to be supplemented by the Small and Micro Industries Leader and Entrepreneur Promotion Project.

**However, sustainability of credit lines to the SME sector entirely depends on donor or government support.** Many years ago, financial institutions such as the National Development Bank and the Development Finance Corporation of Ceylon were set up to serve the SME sector. As concessionary financing dried up, these organizations were compelled to serve the higher end of the market and abandon the clientele they were set up to serve. Currently, the SME bank and the Lankaputhra Bank, both supposed to serve SMEs, are facing liquidity problems because of the lack of concessionary finance. They are also facing competition from private commercial banks and financial institutions which promote their own SME lending instruments, often with donor support. For example, Lanka Orix Leasing is providing credit lines for the SME sector in partnership with the United States Agency for International Development, which is providing credit guarantees. Even Hongkong and Shanghai Banking Corporation is operating an SME credit arm as one of its corporate social responsibilities.

**Role of the Samurdhi Bank system.** A better way to help SME entrepreneurs

who have no collateral is to further develop the Samurdhi Bank system and provide credit plus services to members who have proved their creditworthiness. The system was successful in generating a vast volume of investible funds and providing members with secure savings instruments and a reliable source of consumption and other small loans (Gant et al. 2002; Gunatilaka and Salih 1999). While membership of the Samurdhi Bank system was for many years confined to those who received the income transfer, changes were made to accommodate those who did not receive the transfer, as long as they progressed through the savings group system and proved their creditworthiness. The changes were partly motivated by the low absorption capacity of many poor for funding anything more than survival strategies, and partly in recognition of targeting errors in the income transfer component which excluded many deserving poor. Thus, the Samurdhi Bank system was gradually positioning itself to provide credit plus services for sustainable micro, small, and medium-sized enterprise development among members. Moreover, the system was moving toward financial sustainability, with reduced dependence on government finance. For example, at least half of Samurdhi Bank branches were breaking even by 2003 and were able to meet the staff costs of the banking program (verbal communication, S. Liyanwala, Samurdhi Banking Division, 2003).

Nevertheless, since the large volume of savings generated under the Samurdhi Bank system was invested in government bonds, local politicians argued that savings generated in a certain locality should be used for local development rather than being diverted to other areas through fiscal operations. They also criticized Samurdhi Bank officials' loan approval procedures, alleging that they were discriminatory. As a consequence, the government looked for ways to link loan disbursement rate with the amount

of savings generated in a locality. This approach misses the fundamental point that loan disbursement rates have been low in most rural areas because other inputs necessary for enterprise development (demand, infrastructure, etc.) have been lacking, making few project proposals viable. Rather than interfering with the loan disbursement process, it would make more sense to allocate an equivalent amount of funds generated in a district to infrastructure development in that district, and be transparent about such expenditure.

The government urgently needs to build on the Samurdhi Bank system's proven strengths, dispel the doubt and policy uncertainty that currently relates to the future of the system, and make it autonomous to prevent political capture. Failure to do so will jeopardize the sustainability of the system and discredit all such government-led poverty alleviation efforts in the future.

**Entrepreneurship training.** The Small Enterprise Development Division of the Ministry of Youth Affairs and Sports and the Industrial Development Board provides successful entrepreneurship training programs. The division has wide outreach to rural areas, long experience in implementation, well-trained trainers from within the same districts, and a well-established network of links with banks and other technical service providers. Many donors and nongovernment organizations also support entrepreneurship training, such as Start and Improve Your Business (supported by the International Labour Organization), and Competency-based Economies for the Formation of Entrepreneurs, supported by the German Agency for Technical Cooperation. There are also microfinance programs supported by Sarvodaya Economic Enterprise and Development Services and Agromart, and Shell LiveWIRE. While enterprising attitudes must be inculcated in all school children, only those

who are interested in and have an aptitude for business need full-scale entrepreneurship training. This needs to take the form of an enabling environment that integrates career guidance, training, and business support services (Weera-tunge 2006).

**Several Mahinda Chintana programs are extremely vulnerable to political capture by local elites.** In fact, certain structures and procedures of Gama Neguma—the village reawakening program—encourage political capture. For example, proposals for development projects under the program were to be submitted by elected members of the local governments, the Pradeshiya Sabhas, belonging to the ruling party. While the Jana Sabha, or community-based organizations, were proposed as a mechanism to provide the poor with a voice and ensure that benefits reach them, it is unlikely to achieve this objective; poor people cannot afford to antagonize village elites by questioning the latter's decision making or conduct. This is because of the patron–client dependency structures that provide the poor with informal safety nets in times of individual or community-wide shocks, but which tilt the balance of power in favor of patrons the rest of the time.

**Reform of the Samurdhi income transfer program has been slow.** The proxy means test formula (PMTF) developed to improve eligibility proved impractical to implement as the formula adopted a one-size-fits-all approach and did not take into account variations in local conditions. For example, the formula considered the size of land owned rather than productivity of the land as a criterion. Thus, the PMTF does not appear to be an appropriate methodology for heterogeneous communities, and high rates of economic growth like Sri Lanka has been experiencing in recent years, can make it unreliable. Given the limita-

tions of PMTF methodology, officials of the Samurdhi Commissioner General's Department in charge of implementing the income transfer component are developing more appropriate eligibility criteria based on family categorization and wealth ranking techniques developed through community participation and screening methods

**The new methodology has the key advantage of having a high degree of community acceptance as the indicators are first developed by the community and then used to decide who is poor and who is not.** But its success largely depends on the capabilities of the facilitator who must be able to withstand pressures from community elites. Proper guidelines to support the process are also needed. Another disadvantage is that it has poor "inter-rater reliability." Nevertheless, the methodology has proved difficult to implement outside the Eastern Province because of political economy factors such as (i) local politicians do not want their key supporters to be ejected from the program, (ii) Samurdhi development officers feel that they may lose their jobs if numbers decrease, and (iii) Samurdhi Bank officers are resisting change because the viability of the banking system depends on the participation of the nonpoor who have threatened not to repay their loans if they are removed from the income-transfer program.

While the beneficiary selection process for income-transfer programs for the poor remains unsatisfactory, the size of the grant cannot be increased in any meaningful way. In 2006, Samurdhi Programme cash grants were increased by 50% (Central Bank of Sri Lanka 2007). Nevertheless, this one-off increase is hardly sufficient when inflation increased by 142% (Colombo Consumers' Price Index) over the preceding decade. Meanwhile, other vulnerable groups, such as the disabled and the elderly, are inadequately covered (World Bank 2006).

## Institutional Constraints

**Endemic weaknesses in Sri Lanka's public administration system are likely to impede the effective implementation of pro-poor development policies and programs.** Some programs also perpetuate poverty. The public administration system is vast (employing 1.1 million workers) and amorphous, characterized by a proliferation of institutions, uncertain lines of command, confusion about responsibilities, and lack of accountability. Thus, diverse institutions are involved in doing the same thing, leading to overlap and duplication of effort, and lack of coordination. Sri Lanka currently has 56 ministries with considerable overlaps in functions.

**The recent transformation of the Ministry of Nation Building into a mega clearing house for all development projects is likely to do more harm than good.** The Ministry of Nation Building has 29 development-related functions. These include initiating and coordinating foreign aid projects, rehabilitating the north and east, providing social safety nets and microcredit (all matters pertaining to rural revival through the Gama Neguma and Maga Neguma rural road development programs), and implementing regional development programs. It has been allocated 65% of the total government budget. In addition to one cabinet minister, the ministry also has six non-cabinet ministers and a deputy minister. If the central government is so highly centralized within itself, it augurs ill for more participatory decision making, motivation, and accountability at all levels of government.

**Inability to insulate administrative decision making from political capture works against the equitable provision of key services.** For example, many rural schools lack teachers because teachers who are posted to such areas use political influence to change the appointment



to a posting in a less difficult area. At the same time, teachers remain vulnerable to punishment transfers if they do not comply with the demands of influential politicians. The culture of patronage and revenge that subverts many projects and programs at grassroots level is a cause of concern. Examples abound. Party affiliation was a key factor in the selection

of beneficiaries for the Samurdhi income transfer program and is an important factor causing targeting errors. In the 1980s and early 1990s, many villages remained islands of darkness while their neighbors were supplied with electricity because they supported the rival political party (Gunatilaka et al. 1997).

# Human Development in Conflict-Affected Areas

## Introduction

The ongoing conflict remains both the principal cause for poverty and the most binding constraint to poverty reduction and economic development in the north and the east. In these areas, the development process has to contend with exhausting and debilitating cycles of conflict. Each cycle includes displacement; loss of economic assets, human capital, and infrastructure; and disruption of livelihoods and market links, followed by resettlement, restoring livelihoods, rebuilding assets, and then, perhaps conflict again. (For a more elaborate discussion on the causes of the conflict, see ADB 2007a.)

The ceasefire of 2001–2006 provided some respite from hostilities which began in 1983. It enabled a resurgence of economic activity in the north and east, and facilitated the resettlement of significant numbers of conflict-displaced persons. Nevertheless, there was little change in factors that contributed to the outbreak of conflict, such as uneven patterns of development and institutional weaknesses of state structures (Goodhand and Klem 2005). The Liberation Tigers of Tamil Eelam (LTTE) pulled out of the peace negotiations in April 2003 on a spurious excuse but made use of the ceasefire to rearm and regroup. Consequently, in spite of the ceasefire, it was able to launch deadly attacks against the armed forces, culminating in the botched assassination attempt of the Sri Lankan Army commander in April

2006. Thus began the current phase of the conflict.

By the end of 2007, some degree of security was established in Eastern Province following military operations. Roughly 200,000 people displaced by the operations have largely been resettled. Prospects for bringing about a restoration of livelihoods and development in this area appear promising, even though it will take time to establish enduring peace. Incidents of violence between the armed combatants of the breakaway Tamil Makkal Viduthalai Pulikal faction of the LTTE and infiltrating LTTE cadres still take place. Nevertheless, there can be no suing for peace without rehabilitation and development, and there may now be a window of opportunity to bring this about. The government has contrived to provide a stable and secure environment for the holding of provincial council and local government elections in Eastern Province. A democratically elected civilian administration is in place to oversee and implement the massive donor-assisted development push currently under way.

Ongoing military operations are focused on clearing out the LTTE from Northern Province and restoring normalcy as in the east. As of 21–28 August 2008, the total number of internally displaced persons (IDPs) living in welfare centers or with host families in Northern and Eastern provinces was 238,805.<sup>7</sup> Roughly 10% of them are in Eastern Province, the rest in the five districts of Northern Province. IDPs

<sup>7</sup> United Nations Office for the Coordination of Humanitarian Affairs. 2008. Sri Lanka Situation Reports. 21–28 August. [www.ochaonline.un.org/srilanka/SituationReports/tabid/2583/language/en-US/Default.aspx](http://www.ochaonline.un.org/srilanka/SituationReports/tabid/2583/language/en-US/Default.aspx)

can be classified into four major groups according to duration of displacement and prospects for return: (i) IDPs living in camps for more than 3 months, (ii) IDPs living with family or friends outside camps, (iii) IDPs to be relocated to new locations, and (iv) IDPs who can return to origins. IDPs are also often classified as old IDPs (those displaced during the 1980s and 1990s), tsunami-affected IDPs, and newly displaced families suffering from the most recent outbreak of intensive fighting in the north and east. Although exact figures are not known, the overwhelming majority of displaced persons are Tamil, with sizeable numbers of Muslims in Eastern Province. In 2002, nearly two-thirds of IDPs were less than 30 years of age (Hingst et al. 2002).

In terms of population, around 1.14 million Sri Lankans lived in Northern Province and 1.5 million in Eastern Province in 2005.<sup>8</sup> Ethnic cleansing by LTTE has ensured that almost all residents in Northern Province are Tamils. The population of Eastern Province is equally divided among the three ethnic groups, Sinhala, Tamil, and Muslim.

The government has maintained the administrative apparatus in the conflict areas since the conflict began, operating and financing services such as district and division administration, education, and health. The government also provides humanitarian assistance and maintains the supply of essential food and other commodities via the administrative apparatus throughout the conflict-affected region. This task has turned out to be much more fraught in the northern theater of military operations in recent times than in Eastern Province. This is because of the terrain of the area, as well as the practice of

the LTTE deploying civilians as human shields, and preventing them from moving to welfare centers in government-held areas. In addition, other than one or two international agencies such as the International Committee of the Red Cross and the World Food Programme (WFP), all other humanitarian assistance organizations including the United Nations' (UN) organizations have moved to government-held areas as requested by the government.

Even so, the government has continued to send convoys of food and other essential commodities to civilians trapped in areas controlled by the LTTE. Distribution is handled by the government administrative machinery headed by the district secretaries. Supplies were maintained even when WFP officials refused to accompany the convoys which had to take a new route to avoid being caught in crossfire.<sup>9</sup> The government has also had to contend with problems caused by the LTTE's attempt to smuggle military equipment in some of the supply trucks destined for civilians caught up in the conflict. At the end of February 2009, an estimated 70,000 civilians remained trapped in 80 square kilometers in Mulaitivu District, the area yet to be liberated from the LTTE. This forced the government to send shipments of essential food and medicine to these civilians by sea. The government has also assisted the International Committee of the Red Cross to evacuate civilians needing medical attention from this area by sea and to transport them to government hospitals elsewhere.

Once military operations cease in the north, the next steps of rehabilitation, resettlement, and restoring livelihoods and infrastructure will require substantial resources.

<sup>8</sup> Humanitarian Information Centres and Partners. 15 May 2007. [www.humanitarianinfo.org/srilanka/catalogue/Files/MapCentre/Thematic/Maps/Demographic/Maps/LK00880\\_SL\\_Demography\\_15May07.pdf](http://www.humanitarianinfo.org/srilanka/catalogue/Files/MapCentre/Thematic/Maps/Demographic/Maps/LK00880_SL_Demography_15May07.pdf)

<sup>9</sup> Sri Lanka. Ministry of Defence. 16 October 2008. [www.defence.lk/new.asp?fname=20081016\\_02](http://www.defence.lk/new.asp?fname=20081016_02)

## Human Development Issues

### Food, nutrition, and social protection.

Food and nutrition are serious issues in the conflict-affected areas. Restrictions on the transport of certain inputs that might be diverted to military use have also depressed local production of essentials, thereby exacerbating shortages. During November 2007, prices in Jaffna were roughly 70% higher than those prevailing in Colombo (down from 400% in February) and depressed levels of economic activity in the Jaffna Peninsula have eroded people's purchasing power (RADA et al. 2007). Depressed levels of economic activity translate to low wages and employment opportunities. While the poor in the districts of Ampara, Batticaloa, Jaffna, Trincomalee, and Vavuniya receive the Samurdhi income transfer (the program is not operational in Killinochchi, Mannar, and Mulaitivu), at less than Rs500 per month the amount is inadequate for most families.

The WFP provides food for short-term IDPs while the government usually concentrates on longer-term IDPs. Both distribute food through the district secretaries to cleared and uncleared areas through the multipurpose cooperative societies. Nevertheless, at the height of the IDP influx in Batticaloa District in February 2007, food security was a serious issue as emergency services came under severe strain. Of 52 welfare centers surveyed, all received food assistance in the 2 weeks prior to assessment, but in 60% of the sites the food supply was insufficient (United Nations Office of Project Services [UNOPS] et al. 2007).

IDPs appear to fare the worst in terms of non-income MDGs too. A survey of IDPs in Anuradhapura, Mannar, Polonnaruwa, Trincomalee, and Vavuniya in 2006 found that, based on nutritional and anthropometric indicators, non-IDP households were modestly worse off than the national average but IDP chil-

dren do even worse, with higher levels of stunting and wasting (Health Policy Research Associates (Pvt) Ltd 2006).

**Education and health.** In conflict areas, children do not have a secure environment in which to attend school. Regular school attendance is curbed because of the fear of being abducted and recruited as child soldiers. In September 2005, the United Nations Children's Fund reported that the number of children recruited as LTTE soldiers was 5,198 (World Bank 2006). Frequent displacement also disrupts schooling and leads to dropping out. With the influx of displaced people, many schools have been used as welfare centers. At the same time, the displacement of teachers has created severe teacher shortages in the conflict-affected areas.

Nevertheless, access to education for IDPs has been relatively high and comparable with non-IDP neighbors in Anuradhapura, Mannar, Polonnaruwa, Trincomalee, and Vavuniya districts in 2006 (Health Policy Research Associates (Pvt) Ltd 2006). In some respects access was even better for IDPs than non-IDPs. Primary school enrolment rates were uniformly high and similar to national levels but literacy rates among young adults was lower than the national average, indicative of disrupted schooling due to conflict. Several schools were also upgraded after the 2004 tsunami and others upgraded following the North East Community Restoration Development Housing II Project.

The health care system has responded well in the conflict situation. For example, during the emergency situation of the Batticaloa District, the health services were able to respond particularly well because the central government's Ministry of Health sent in personnel and supplies funded by the World Health Organization. Upgrading of services and capacity enhancement following the tsunami has

been fundamental in Eastern Province. To date there have been no outbreaks of disease in welfare centers.

A 2006 survey of IDPs in Anuradhapura, Mannar, Polonnaruwa, Trincomalee, and Vavuniya found that coverage of basic health services such as immunization in the IDP population was as high as 80%, but still 10%–15% lower than in the non-IDP population surveyed. Access to antenatal care and skilled attendance at childbirth was also high, but slightly worse than for non-IDP mothers (Health Policy Research Associates (Pvt) Ltd 2006). However, while the curative and preventive aspects of health care are largely looked after, desperately needed psychosocial care and counseling services are underprovided.

**Loss of identification documentation.** Loss of identity documentation such as birth certificates and national identity cards severely constrains the mobility and security of IDPs. This prevents them from moving out of welfare centers. Without identity documents, they are unable to resettle or relocate through their own initiatives such as establishing proof of ownership of property, renting houses, or buying land, or from getting employment in surrounding areas or districts further away. It is also a problem for the government as it needs to distinguish between genuine IDPs and LTTE cadres.

Since October 2006, the Presidential Data Centre has set up four identity registration centers in Batticaloa to register all IDPs in welfare centers electronically. The fully automated system includes photograph, thumbprint, name, age, etc. of individuals. However, obtaining the National Identity Card remains a problem because of the need to establish the date of birth of the applicant. Many older people do not have the necessary information and documentation, while most IDPs have lost their birth certificates. Although the government is taking

steps to introduce biometric registration for everybody by the end of 2008 under the World Bank–assisted e-government initiative of the Information and Communication Technology Agency, documentation for date of birth is still required by the computerized system.

## Prospects for Resettlement

Whether IDPs can return to their place of origin depends primarily on the security situation, i.e., the easing of conflict-related hazard conditions and the establishment of law and order. If security can be assured, return is contingent on whether the property IDPs used to own is available and whether ownership can be established, because many IDPs have lost documentation relating to land ownership and personal identification papers. In some areas the land needs to be de-mined before IDPs can resettle. In other areas the property may be occupied by other groups. If the property is in a High Security Zone (as in parts of Jaffna, Mutur, and Sampur), IDPs may not be able to reclaim it at all. In such cases, they would need to be provided with alternative land with amenities or with compensation so that they can find accommodation. IDPs who were originally landless and want to return would have to be provided with places to settle and assistance to build. Where ownership of property can be established but the houses are damaged, assistance to rebuild needs to be provided.

Alternatively, IDPs may choose to relocate to where they are displaced or to other parts of the country because (i) the security situation remains hazardous in their places of origin, (ii) they have lived in their place of displacement for some time and have become accustomed to it, or (iii) they believe that economic prospects are better in other parts of the country. Such

families need assistance in terms of being allocated suitable land and assistance to establish their homes. Where state land is not available or is unsuitable, they need to be provided with a grant that will enable them to find their own accommodation.

Under the Unified Assistance Scheme, long-term IDPs are to be provided with new permanent housing, water supply, sanitation, a cash grant of Rs25,000 for household resettlement and business start-up expenses, and dry rations for 6 months after they leave their camps. However, the program has insufficient funds to provide such relief to all returning IDPs. Projects for rehabilitating housing in 2007 were meeting less than 15% of the total estimated need of reconstructing over 326,000 damaged houses. The situation of the Puttalam IDPs is somewhat better. Having opted to integrate locally, a large number of them have been provided assistance through an extension of the World Bank's North East Housing Reconstruction Project. The United Nations Development Programme Transition Project also provides assistance for housing reconstruction combined with construction skills development, microcredit, and food for work by the WFP.

In contrast, the homeowner-driven program for tsunami housing reconstruction funded by ADB, Kreditanstalt für Wiederaufbau (Credit Institute for Reconstruction), the Swiss Agency for Development Cooperation, and the World Bank, and was far more successful although the overall performance of ADB's operations in Sri Lanka is rated *partly successful* (ADB 2007b). Working through the banking system, the program gave grants for families whose housing was affected by the tsunami—Rs100,000 for repairs or Rs250,000 for rebuilding within 4 months. Nevertheless, many of the tsunami programs did not have to

contend with the shortage of materials and labor that the conflict areas have to contend with.

### Prospects for Regeneration of Livelihoods

Loss of livelihood was reported in 94% of sites surveyed in Batticaloa District in 2007 (UNOPS et al. 2007). This is to be expected as most IDPs depended on farming or fishing prior to displacement. Restoration of livelihoods for IDPs depends mainly on the prospects of resettlement. Although IDPs may choose to relocate and find work elsewhere, this may not be possible for those who have lost their identification documentation. Should the issue of identity be resolved, some IDPs can find jobs as long as they possess marketable skills. However, the majority of young IDPs do not have any skills, primarily because of frequent disruptions to their education by conflicts. Almost all young IDPs lack a working knowledge of Sinhala, which is essential for relocating to and working in southern Sri Lanka, where employment prospects are better and Sinhala is the lingua franca.

The security situation is the principal determinant of economic regeneration in the conflict zone. In addition, restoration of livelihood depends on the availability of credit, access to input and output markets, and the availability of skills. Critical shortages in inputs constrain local agriculture, fisheries, livestock, and small and medium-sized business. The shortage is usually caused by transport difficulties and restrictions imposed by the armed forces on goods such as nails and cement, which can be diverted to military use by the LTTE. Long delays at checkpoints increase transport costs and reduce competitiveness. Also, restrictions on fishing craft in certain areas and on the size of

outboard motors impede the regeneration process.

While many organizations, including the International Labour Organization Income Recovery Technical Assistance Programme, have worked out the technical modalities to provide conflict-affected Sri Lankans with decent work and economic opportunities, these microlevel interventions need to be supported by other interventions that can create appropriate conditions for economic growth at the level of large spatial units such as regions. Some progress is being made toward achieving this objective in Eastern Province where several highways and township development projects have been initiated with donor assistance.

### **Institutional Arrangements for Relief, Rehabilitation, and Development**

The government has only recently adopted a coordinated approach to rehabilitation and development. National and district interagency coordination committees have been established to coordinate relief activities. Within the government, three central government ministries are directly tasked with IDPs and humanitarian issues in the north and east:

- The Ministry of Nation Building is responsible for ensuring that the basic needs of resettled people are met and providing them with support services for livelihood regeneration. In practice, it is also responsible for the provision of food to IDPs inside and outside welfare centers; the provision of nonfood items to IDPs in welfare centers; the maintenance of services such as electricity, water supply, and sanitation to the centers; the maintenance of checkpoints; and the provision of housing and infrastructure for returning IDPs.
- The Ministry of Resettlement and Disaster Relief Services is responsible for paying compensation for those killed or injured; for housing and establishments that have been destroyed; the provision of water, sanitation, and electricity for returning IDPs; and carrying out community development activities.
- The Ministry of Disaster Management and Human Rights is responsible for coordinating disaster relief and rehabilitation activities.

Coordination of activities takes place at national and local levels. Two national coordination committees meet regularly to deal with relief, resettlement, and rehabilitation issues. The first is the Consultative Committee on Humanitarian Assistance (CCHA), which meets once a month to discuss important policy issues. Chaired by the minister of Disaster Management and Human Rights, the committee includes secretaries from the following ministries: (i) Defence, (ii) Foreign Affairs, (iii) Nation Building and Estate Infrastructure Development, and (iv) Resettlement and Disaster Relief Services. Committee meetings are attended by the presidential advisor, the commissioner general of Essential Services and the secretary-general of the Secretariat for the Coordination of the Peace Process. The international community is represented by (i) a cochair of the Tokyo Donors Conference; (ii) the head of the European Commission Humanitarian Office; (iii) the International Council of the Red Cross head of delegation; (iv) representatives of the UN Resident and Humanitarian Coordinator, the UN High Commissioner for Refugees, and the UN Office for the Coordination of Humanitarian Affairs; and (v) a representative of the Consortium of Humanitarian Agencies.

There are five subcommittees to facilitate the CCHA's work. They are co-chaired by a government representative

and a representative from a UN agency and address the following areas: logistics and essential services, livelihoods, education, health, IDPs' shelter, and resettlement. The subcommittees address all operational issues that fall within each area. They meet once a month to discuss and resolve any issues, and submit a monthly report to the CCHA indicating policy areas that the CCHA needs to address. The CCHA only addresses issues that cannot be implemented by the respective subcommittee. In order that reports are compiled and follow-up action taken, all subcommittees meet at least a week prior to the monthly CCHA meeting.

The second national committee for coordination is the IDP Coordination Meeting, which is held monthly and chaired by the minister for Disaster Management and Human Rights. The meeting takes up various practical issues arising from work related to IDPs. The membership of this committee is much wider and includes representatives of all the relevant government, the UN, and national and international nongovernment organizations. It also includes the respective district secretaries and the military coordinator for certain areas, who acts as a liaison officer between the military and the civil administration. When an issue is raised at the meeting, the chair seeks a response from the representative of the organization the issue relates to. Depending on the response, a solution

is determined and the agent responsible for implementation is identified. The next meeting then follows up on whether the necessary action was taken.

District, division, and village committees coordinate relief, resettlement and development activities in areas of displacement, and resettlement or relocation. To do this, the District Rehabilitation Coordinating Committee meets weekly to discuss sector issues and fortnightly to discuss policy-related issues. The process is led by the district secretaries who are primarily responsible for the implementation of relief and resettlement activities of the IDPs. They also call for and award tenders, and supervise and coordinate implementation in consultation with line departments and local government bodies. The decentralized administration conducts the registration system of IDPs, even though the United Nations High Commissioner for Refugees and nongovernment organizations do their own registrations.

It appears that relief activities are carried out fairly effectively, with lack of resources being the main constraint. While planning and coordination of activities for the development phase in Eastern Province are progressing apace, they are still being developed for Northern Province. Nevertheless, the experience gained in the east should make for faster progress in the north once the security situation permits rehabilitation and resettlement activities to commence.



## Conclusions

**S**ri Lanka is on track to halve income poverty by 2015. Even so, 15% of all Sri Lankans remain in consumption poverty. In terms of other MDG indicators, Sri Lanka performs well, but national figures mask considerable gender-related, sector, and regional variations.

While Western Province has benefited from geographical and infrastructure-related comparative advantages unleashed by the macroeconomic liberalization of 1977, underserved locations still have high poverty rates. Poor infrastructure contributes to the spatial segmentation of the labor market. Regions subject to armed combat and natural disasters are the worst off. On a sector-by-sector basis, agriculture must address the issues of low productivity and competitiveness. Nonfarm sectors face infrastructure—particularly high electricity costs—and other constraints, and the education and skills-development system is still in the process of gearing to the world of work. At the individual level, certain groups are particularly vulnerable to poverty, including those with ill-health, lack of social contacts, little education, and low social status of parents.

Reducing poverty and stimulating economic growth in the conflict-affected areas is the most daunting development challenge that Sri Lanka faces. Displacement of large numbers of people because of conflict is a serious human development issue. Even though access to health and education services by IDPs has been comparable with non-IDPs, the conflict-affected areas face shortages and high prices of food with serious implications for nutrition. In addition, new displacement creates immense obstacles to providing services while hostilities last. Loss of identity documentation se-

verely constrains the mobility and security of IDPs.

Over the last decade, the government's approach to poverty reduction has undergone a significant change. An integrated development policy is being instituted, with strong emphasis on infrastructure development, to reduce regional inequalities and enable poor localities to link up with growth centers. However, the culture of political patronage and revenge at the grassroots level may make pro-poor programs vulnerable to political capture and subversion at local levels. Proliferation of institutions in the public sector and fragmentation of the political system make it inefficient and difficult to coordinate. Ad hoc attempts at devolution have been ill-designed, poorly executed, and have actually made matters worse. On the other hand, centralizing development planning and implementation will work against participation and accountability.

The current global economic crisis is likely to curb future growth, making it hard to achieve a marked reduction in poverty. However, if the security situation in the conflict-affected areas improves, Sri Lanka may be able to achieve economic growth targets that will help reduce poverty significantly.

Sri Lanka's most pressing need is to generate a growth dynamic that will integrate markets and regions, engineer a more intensive structural transformation of the economy and workforce, and see more rural poor move into better paying nonfarm employment. Investments in human capital will generate expected returns only if the nonfarm sector generates more jobs at higher wages. This requires a massive infrastructure push to improve connectivity to domestic and international markets. Otherwise, better education in conjunction with limited job opportunities

is a recipe for insurrection and violence, as Sri Lanka's experience over the last three decades clearly demonstrates.

It is strongly recommended that ADB and other development agencies continue to assist Sri Lanka in the develop-

ment of infrastructure, but that they focus on integrating markets and regions, and on enhancing productive capacity in strategic growth centers. This is the most effective and efficient way to reduce poverty in Sri Lanka.

# References

- Abeyratne, S. 2004. Economic Roots of Political Conflict: The Case of Sri Lanka. *World Economy* 27, pp.1,295–1,314.
- Asian Development Bank (ADB). 2007a. *Country Assistance Program Evaluation for Sri Lanka: Evaluation of Operations in Conflict-Affected North and East*. Manila. [www.adb.org/Documents/Evaluation/CAPES/SRI/CAPE-SRI-Operations-Conflict-Affected.pdf](http://www.adb.org/Documents/Evaluation/CAPES/SRI/CAPE-SRI-Operations-Conflict-Affected.pdf)
- . 2007b. *Country Assistance Program Evaluation for Sri Lanka: Inclusive Development and Conflict Resolution: Major Challenges in the Future*. Manila. [www.adb.org/Documents/CAPES/SRI/2007/CAPE-SRI-2007.asp](http://www.adb.org/Documents/CAPES/SRI/2007/CAPE-SRI-2007.asp)
- Amarasuriya, H. 2006. *Discrimination and Social Exclusion of Youth in Sri Lanka*. Colombo: International Labour Organization (ILO)–Youth Employment Network.
- Arunatilake, N. 2005. *Education Participation in Sri Lanka—Why Are All Not in School?* Colombo: Institute of Policy Studies of Sri Lanka.
- Arunatilake, N., and P. Jayawardena. 2005. *Informality in the Sri Lankan Labour Market*. Colombo: Institute of Policy Studies.
- . 2006. *Analysis of Skills Mismatch and Recruitment Policies Based on Jobsnet Data* Colombo: ILO–Youth Employment Network.
- Central Bank of Sri Lanka. 2007. *Annual Report 2006*. Colombo: Central Bank of Sri Lanka.
- Chandrasiri, S. 2005. *Effect of Training on Labour Market Outcomes*. Colombo: ILO–Youth Employment Network.
- de Silva, K.M. 1981. *A History of Sri Lanka*. Oxford: Oxford University Press.
- Department of Census and Statistics. 2005. *Selected Millenium Development Goals (MDG) Indicators*. Colombo: Department of Census and Statistics.
- . 2006. *Socio-economic Indicators for Selected 119 Divisional Secretary's Divisions*. Colombo: Department of Census and Statistics.
- . 2008. *Poverty Indicators, Household Income and Expenditure Survey 2006–2007*. Colombo: Department of Census and Statistics.
- . 2009. *MDG Indicators of Sri Lanka: A Mid-Term Review*. Colombo: Department of Census and Statistics.
- Department of National Planning. 2006a. Mahinda Chintana: Vision for a New Sri Lanka A Ten Year Horizon Development Framework 2006–2016. *Discussion Paper*. Colombo: Department of National Planning.
- . 2006b. *Special Projects for Accelerated Development in Sri Lanka*. Colombo: Department of National Planning, Ministry of Finance and Planning.
- Dunham, D., and S. Kelegama. 1997. Does Leadership Matter in the Economic Reform Process? Liberalization and Governance in Sri Lanka. *World Development* 25, pp.179–190.
- Gant, R., de Silva, D., Atapattu, A., and Durrant, S. 2002. *National Micro-finance Study of Sri Lanka: Survey of Practices and Policies*. Colombo: Australian Agency in International Development (AusAID) and German Agency for Technical Cooperation (GTZ).
- Goodhand, J., and B. Klem. 2005. *Aid, Conflict and Peacebuilding in Sri Lanka: 2000–2005*. Colombo: The Netherlands' Ministry of Foreign

- Affairs, Swedish International Development Cooperation Agency (Sida), The Asia Foundation, Government of the United Kingdom, and The World Bank.
- Gunatilaka, R. 2001. Reducing Poverty Through Self-Organisation of the Poor: Sri Lanka's Change Agent Programme. *People's Bank Economic Review*. September.
- . 2003. Real Wage Trends and Labour Market Integration in Sri Lanka's Central Province. *Sri Lanka Economic Journal* 4, pp. 81–104.
- Gunatilaka, R. and Chotikapanich, D. 2006. Impact of Structural Change in Education, Industry and Infrastructure on Income Distribution in Sri Lanka. *Working Paper No. 6/06*, Business and Economics, Monash University.
- Gunatilaka, R., D. Chotikapanich, and B. Inder. 2006. Impact of Structural Change in Education, Industry and Infrastructure on Income Distribution in Sri Lanka. *Working Paper No. 21/06*, Business and Economics, Monash University.
- Gunatilaka, R. and R. Hewarathna. 2002. Real Wage Trends of Female Agricultural Workers and the Gender Wage Gap in Sri Lanka. *Sri Lanka Economic Journal* 3, pp. 1–31.
- Gunatilaka, R. and R. Salih. 1999. *How Successful is Samurdhi's Savings and Credit Programme in Reaching the Poor in Sri Lanka?* Colombo: Institute of Policy Studies.
- Gunatilaka, R., R. Salih, R. Perera, and C. de Silva. 1997. *The Samurdhi Programme: A Preliminary Evaluation*. Colombo: Institute of Policy Studies.
- Health Policy Research Associates (Pvt) Ltd. 2006. The Living Situation of Refugees, Asylum-seekers and IDPs in Armenia, Ecuador and Sri Lanka: *Millenium Development Indicators and Coping Strategies, Sri Lanka Country Report*. Colombo: Institute for Health Policy.
- Heltberg, R., and M. Vodopivec. 2004. *Sri Lanka: Unemployment, Job Security and Labour Market Reform*. Washington, D.C. Processed.
- Hingst, T., A. Schoenfelder, and S. Willborn. 2002. Statistical Handbook Survey of the Internally Displaced Persons (IDPs) Sri Lanka. Colombo: Ministry of Rehabilitation, Resettlement and Refugees, United Nations High Commissioner for Refugees.
- Ministry of Social Welfare. 2003. National Policy on Disability for Sri Lanka.
- Reconstruction and Development Agency (RADA), International Labour Organisation (ILO), and Food and Agriculture Organization (FAO). 2007. *Jaffna District: Findings on Livelihoods, Employment and Creation of Short Term Employment Opportunities*. Colombo: RADA, ILO, and FAO.
- Rama, M. 2003. The Sri Lankan Unemployment Problem Revisited. *Review of Development Economics* 7, pp. 510–525.
- Ranasinghe, R. 2004. *Intergenerational Educational Mobility in Sri Lanka*. Colombo: The World Bank. Processed.
- Reinprecht, K., and N. Weeratunge. 2006. *ILO Enterprise for Pro-poor Growth Project: Cultural Assessment*. Colombo: ILO.
- Rodrigo, C. and P. Munasinghe. (undated). *Outcomes of Wage-Setting Mechanisms and Options for Wage Policy Reforms in Sri Lanka*. Colombo: ILO.
- United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), United Nations Development Programme (UNDP) and ADB. 2007. *The Millenium Development Goals: Progress in Asia and the Pacific 2007*. UN ESCAP, UNDP, and ADB.

- United Nations Office of Project Services (UNOPS), United Nations Children's Fund (UNICEF), and DevInfo. 2007. *Emergency Assessment District Summary Report Batticaloa February 2007*. Colombo.
- Venables, A. J. 2001. *Trade, Location and Development: An Overview of Theory*. London School of Economics. Processed.
- Weeratunge, N. 2001. *Micro-entrepreneurs and Entrepreneurial Cultures in Sri Lanka: Implications for Poverty Reduction*. Colombo: Centre for Poverty Analysis.
- . 2006. *Reviewing and Analysing Projects and Programs on Youth Entrepreneurship*. Colombo: ILO–Youth Employment Network.
- The World Bank. 2005. *Attaining the Millennium Development Goals in Sri Lanka*. Colombo: The World Bank.
- . 2006. Sri Lanka: Underpinning Growth with Equity. Washington DC. Unpublished. The World Bank.
- . 2007. *Sri Lanka Poverty Assessment Engendering Growth with Equity: Opportunities and Challenges*. Colombo: The World Bank.
- The World Bank and ADB. 2005. *Sri Lanka Improving the Rural and Urban Investment Climate*. Colombo: The World Bank and ADB.

## Poverty and Human Development in Sri Lanka

This report traces the causes of poverty in Sri Lanka and provides policy recommendations, especially for areas of conflict. It argues that agriculture suffers from low productivity and competitiveness. Nonfarm sectors face infrastructure and other constraints, such as expensive electricity. Education and training are not geared to the labor market. Certain groups are particularly vulnerable to poverty, including those with poor health or little education, and those whose parents are of low social status or have few social contacts.

Location-specific factors hold the key to progress against poverty. An integrated development policy framework is needed that emphasizes infrastructure to reduce regional inequalities and help poor localities link up with growth centers.

## About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines  
[www.adb.org](http://www.adb.org)  
ISBN 978-971-561-798-7  
Publication Stock No. RPT090485



Printed in the Philippines