

Poverty Reduction Strategy in Sri Lanka

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Foreword

This series of Poverty Briefs (No. 1 to 10) was produced for OXFAM Great Britain (GB) by the Centre for Poverty Analysis to provide a macro overview of key thematic areas relating to poverty, of relevance to Oxfam GB's work in Sri Lanka. They are specifically designed to provide Oxfam GB programme staff with insights into the major issues, concerns, and debates within these themes and their linkages and effects on poverty in Sri Lanka. They also aim to highlight potential areas for policy advocacy by Oxfam GB. This input was used in staff preparation for Oxfam GB's Strategic Review in August 2004.

Oxfam GB's mission is, to work with others to overcome poverty and suffering. Its current programme focus is on: Livelihoods and poor people's access to markets; Gender equality, empowerment and ending violence against women; Public health promotion and access to quality water and sanitation facilities; Emergency preparedness and response; Relationship building between and within communities; and Empowerment of the poor through building of Community Based Organisations.

The views and opinions expressed in the Poverty Briefs are those of the authors and do not necessarily reflect those of Oxfam GB or the Centre for Poverty Analysis.

This series of Poverty Briefs was prepared in mid 2004, prior to the events of the Tsunami on 26th December 2004. The context and issues discussed in some of the Briefs could have changed since then.

Poverty Reduction Strategy in Sri Lanka

1. Introduction

This brief seeks to provide an overview of the development of the Poverty Reduction Strategy (PRS) in Sri Lanka. It reviews its chronology, its process, the documents arising from the process, priority areas identified, monitoring and evaluation mechanisms, its current status and the challenges faced. It provides a review of the two documents evolving directly out of the PRS process, namely the Poverty Reduction Strategy and Regaining Sri Lanka (RSL). In addition, it highlights the National Framework for Relief, Rehabilitation and Reconciliation (Triple-R), which, while not part of the PRS, was an important outcome of the consultative process that took place parallel to the PRS.

2. Background to Poverty Reduction Strategy Papers

The debt write-off initiative strategy of Heavily Indebted Poor Countries (HIPC) launched in 1996 by the World Bank (WB) and the International Monetary Fund (IMF) stipulates that countries applying for HIPC write-offs must produce Poverty Reduction Strategy Papers (PRSPs) describing their macro-economic, structural and social policies / programmes to promote growth and reduce poverty, as well as associated external financing needs.

The preparation of PRSPs are guided by 5 core principles:

1. they must be country driven involving broad-based participation by civil society and the private sector in all operational steps;
2. they must be results-orientated, focusing on outcomes that would benefit the poor;
3. they should be comprehensive in recognising the multidimensional nature of poverty;

4. they require to be partnership-oriented, involving co-ordinated participation of development partners (bilateral, multilateral, and non-governmental); and
5. they have to be based on a long-term perspective for poverty reduction.

In essence, the primary objective of the PRPs is to create national-level policies and strategies, which can effectively reduce poverty.

PRSPs are required to include an overview of the poverty situation, a macro-economic framework, a public action plan, resource plan, structural and sectoral policies aimed at creating greater equity, governance and public sector management along with targets, indicators and a monitoring mechanism. The PRSP process is preceded by an interim PRSP, which lays the foundation for a full-fledged PRSP. The preparation of a full PRSP takes approximately two years. As it is recognised that countries may need assistance at an earlier stage, the interim PRSP is considered sufficient for obtaining donor assistance.

3. Poverty Reduction Strategy in Sri Lanka

Sri Lanka was not required to prepare a PRSP since it was not applying for HIPC debt-write-off. However, as a recipient of aid from the World Bank's International Development Association, the arm that lends to the poorest of the poor on highly concessionary terms, and the IMF's Poverty Reduction and Growth Facility (previously the Enhanced Structural Adjustment Facility), Sri Lanka was obligated to prepare a PRSP. This was further necessitated by the economic and fiscal crisis in 2000, which forced Sri Lanka to seek enhanced support from the multilateral institutions. In an effort to make a symbolic distinction from PRSPs, Sri Lanka termed its PRSP as a Poverty Reduction Strategy - minus the 'Paper', thereby differentiating it as its own government strategy rather than donor-enforced.

3.1 History and process of the PRS

The Poverty Reduction Strategy in Sri Lanka has been an evolving process influenced by domestic and donor policy shifts. The Poverty Reduction Strategy was embarked

upon in 1998 with the preparation of the Poverty Reduction Framework (PRF) in 2000. This was followed by the formulation of the Poverty Reduction Strategy (PRS) in 2001. A change in the ruling party in December 2001 from the Peoples Alliance (PA) to the United National Front (UNF) saw the document further modified and re-titled as 'Regaining Sri Lanka: Vision and Strategy for Accelerated Development' in 2003.

The Poverty Reduction Framework involved a 3-year consultation process with a cross section of stakeholders from government, non-government, private sector, civil society and donors. It aimed to draw up a set of policies and strategies for poverty reduction incorporating lessons learnt both nationally and internationally. A number of background papers were commissioned and produced by researchers to be incorporated into the PRS. In Sri Lanka the PRF was a substitute for the compulsory interim PRS required to be produced by HIPC countries.

The preparation of the actual Poverty Reduction Strategy was a continuation of the PRF with a shorter timeframe of one-year and did not involve the same degree of consultation, in particular with civil society. The focus of the PRS was on implementing the visions, strategies and reforms outlined in the PRF. The final draft PRS was finalised in late 2001.

Parallel to the PRF / PRS process, the government engaged with communities in the conflict affected areas in the north and east, to better understand the roots of the conflict and develop strategies for development and peace. The resulting National Framework for Relief, Rehabilitation and Reconciliation, (known as the Triple R process) provides a framework for relief and rehabilitation within a process of reconciliation involving aspects of peace building. The draft Triple R was also finalised in late 2001.

The year 2001 was a turbulent one, characterised by high profile attacks by the LTTE, economic deterioration and fiscal bankruptcy leading to political turmoil and the subsequent collapse of the PA government. The elections of December 2001 saw the United National Front (UNF) government coming into power after 7 years in opposition.

Initially the UNF government stayed with the draft PRS and the Triple R, presenting it to a high profile Development Forum attended by donors, government and civil

society in June 2002. Subsequently, however, in May 2003, the government published a modified PRS titled *Regaining Sri Lanka: Vision and Strategy for Accelerated Development* outlining its economic programme. The RSL integrated the 4-year PFP /PRS process with a more limited participatory process, called the Economic Reform Process (ERP) that predominantly involved the private sector and government representatives.

The publication of the RSL was cause for much confusion as the old PRS was amalgamated into the RSL as Part 2. Hence the situation arose that when referring to the PRS it was not clear if it was to Part 1 (RSL) or Part 2 (PRS). In addition to the confusion, sections of the donor community (notably the bi-laterals and INGOs) felt 'misled' since the PRS and Triple R document had been presented to the Development Forum as the basis for commitments.

With the government changing again following the general election in April 2004, the PRS process is set for yet another metamorphosis, as neither of the two documents (PRS and RSL) have been officially accepted. What is clear, however, is that a PRS is still required by the donors - and given the country's current cash-strapped condition - avoiding it is not an option. At the time of writing this Brief, senior government officials were reported to be in the process of preparing the PRS - although transparency, let alone consultation - have dropped to new lows.

The following section provides a brief overview of the three major documents; the PRS, the Triple-R and the RSL, which defined the two government's development strategies.

3.2 Key elements

The Poverty Reduction Strategy (June 2002): The overarching objective of the PRS is poverty alleviation through a basic strategy of mainstreaming the poor into the growth process. The PRS aims to create an enabling environment for poverty reduction, based on 6 strategic pillars:

- Building a supportive macro economic environment envisages fiscal and structural reforms (revenue, trade, investment, labour, financial and energy) to create a stable macroeconomic environment and enable greater private sector participation.

- Reducing conflict related poverty envisages a continuation of the Triple R process and implementation of recommendations for reconstruction and rehabilitation. Priority areas are removal of landmines, resettlement of IDPs and provision of essential services.
- Creating opportunities for pro-poor growth tries to connect 'pockets of poverty' to both national and international growth centres through improved infrastructure under a public-private partnership framework.
- Investing in people contains measures to build human resource capacity through the provision of quality essential services (education, healthcare, water and sanitation, solid waste management) and emphasises redressing regional disparities.
- Empowering the poor and strengthening governance, envisages putting in place a number of measures aimed at making government more accountable to people who are poor.
- Implementing an effective monitoring and evaluation system involves a cross section of stakeholders to monitor implementation of the PRS. The PRS amalgamates the targets of the Millennium Development Goals (MDG) to halve the number of poor by 2015. The monitoring of the PRS will be facilitated by the National Operations Room (NOR) and requires the preparation of a Poverty Reduction Progress Report (PRPR) to be submitted to the Ministry of Policy Development and discussed at an annual stakeholder meeting to review progress.

The National Framework for Relief, Rehabilitation and Reconciliation (June 2002):

The Triple-R framework was prepared parallel to the PRS, and both documents were presented at the Development Forum in 2002. The justification for a separate policy document for conflict affected areas came from the view that the nature and scale of war-related poverty requires a different set of development strategies from that elaborated for the rest of the country.

The main objective of the Triple-R is to ensure basic needs to those in conflict-affected areas, to rebuild livelihoods and facilitate reconciliation. The Triple-R framework arose from 52 consultative workshops in 13 districts and 12 thematic

workshops representing political and civil society actors. In addition a Triple R Steering Committee consisting of government, non-government, international relief organisations and donor communities was set up to address 4 critical elements; aid modalities, co-ordination and institution building, programme priorities and reconciliation and peace building.

Regaining Sri Lanka (May 2003): The main tenet of the RSL is to ‘regain Sri Lanka’ by accelerating growth through development led by the private sector. The RSL (as does the PRS) marks a clear departure from previous policies of ‘redistribution and transfers / subsidies to reduce poverty. The 13 pages of the RSL constitute a strong and aggressive proposal to remove policy and structural constraints that inhibit private sector activity.

The RSL identifies four challenges that need to be met:

- i. Increasing employment by creating 2 million new jobs
- ii. Overcoming the public debt crisis
- iii. Allocating resources for the reconstruction of the North East
- iv. Increasing income levels through increased productivity and investment

It further states that these challenges can be overcome only through accelerating growth to 10% per annum. The RSL Action Plan sets out a short and medium term implementation framework over a 3-year period that gives priority (short term targets) to policies aimed at kick starting the economy. The key elements of the Action Plan are:

- Macro policy framework includes reforms in fiscal, monetary and trade policies.
- Employment and labour seeks to increase the productivity of the labour force, by improving access to employment and removing barriers to efficiency and flexibility of the labour market.
- Education, manpower and science entails increasing labour productivity by creating better educational opportunities for those in school as well as those at transition points of employment.

- Finance and investment seeks to ensure private sector access to all sectors of the economy and increase efficiency in the financial sector with the aim of attracting foreign investment
- Infrastructure development aims to transform Sri Lanka into a regional hub of economic and transport activities by introducing reforms in areas such as communication, power, transportation, housing and natural resource management.
- Improving productivity aims to increase productivity through greater commercialisation of the industrial, agricultural and services sectors, including plantations and tourism.
- Public sector reform envisages major restructuring of the public sector through public sector reforms and privatisation to increase the productivity of the sector.

4. Analytical Overview of the PRS Process

In their basic approach, both the PRS and the RSL follow an ‘Efficiency Based Approach’ that relies on promoting economic growth through a host of reforms to remove structural impediments to economic activity at macro, meso and micro-level. The following analysis will look at three aspects; the documents themselves, the process that led to it and the practice.

i. Documents

A detailed review of the PRS and RSL shows that the targets contained in the 2002 PRS were incorporated into the Action Plan Matrices of the 2003 RSL. Where differences do emerge is in the ‘tone’ and implementation timeframe. The language of the RSL has a strident ‘can do’ flavour, for instance making reference to the East Asian powerhouses, which Sri Lanka could seemingly emulate.

As regards the implementation time frame, while the RSL recognises the importance of bringing the two parallel processes of the PRS and RSL together, it quite clearly states that ‘the sources of growth in sectors such as Tourism, Apparel, Plantations, Financial Services and others have been detailed out in the Action Plan Matrices and given a shorter time-frame for implementation’.

While the PRS identifies the necessity for accelerating growth, its emphasis is on pro-poor growth strategy that absorbs the poor into the growth process. This is done through 'Creating opportunities for pro-poor growth' through, for instance infrastructure development to improve rural connectivity and 'Investing in people' through enhanced social protection systems and quality education. The prioritisation of targets in the PRS places equal emphasis on the pro-poor growth targets as it does on the macro-level reforms.

The RSL, on the other hand, does not explicitly mention 'poverty' in its 13 page main report; it implicitly assumes that growth and job creation leads to poverty reduction. While job creation is indeed a vital aspect of poverty reduction, relying on a purely growth-oriented strategy for poverty reduction, does little justice to the body of literature that casts doubt on the assumption that growth automatically reduces poverty.

The RSL includes the Triple R targets in its annexes and identifies the necessity for reconstruction in the North and East as a major challenge to be addressed. However, it does not include the Triple R targets within its core Action Plan Matrices. The issue is tackled separately under the World Bank facilitated Subcommittee on Immediate Humanitarian and Rehabilitation Needs in the North and East (SIRHN).

ii. Process

The Poverty Reduction Framework (1998-2001), which was essentially a template for the PRS, followed a broad based participatory process. It was the outcome of numerous seminars and workshops held both at the national and sub national levels with representatives from the government, donor community, private sector, NGOs/CBOs, academia and civil society. The subsequent Poverty Reduction Strategy process (2001-2002) consisted of 3 stakeholder consultations. Two of the consultations included a similar cross-section to the PRF process but with limited participation of local NGOs, with the second seminar placing more emphasis on private sector participation. This led to criticism from local NGOs who felt left out of the process, leading to a third stakeholder gathering attended by NGOs. However, the seminar was held just a few months prior to the finalisation of the report and resulted in insufficient incorporation of their recommendations.

One line of argument is that greater participation of local NGOs would have added value to the PRS process as their work concentrates on the grassroots and provides insight into the needs of the poor. However, advocates of the PRS claim that there was no need for greater NGO participation in the PRS as this would be a duplication of efforts that had already taken place during the formulation of the PRF. Moreover, the main task of the PRS was seen as providing the implementation schedule for the PRF.

In contrast to the 4-year consultative process of the PRF/PRS the Economic Reform Process of the RSL spanned just 6 months from June-December 2002. It involved 19 working groups chaired by the Prime Minister and consisted mainly of private sector representatives and a few high-ranking government officials.¹ The domination of private sector was consistent with the private sector-led growth approach of the RSL and the prioritisation of sectoral strategies to stimulate the key sectors of the economy (e.g. tourism, apparel, plantations, financial services). Hence, in this respect the RSL was less a poverty reduction strategy, but more an economic policy document of the new government.

In its implementation schedule, measures to accelerate growth clearly gained precedence over direct poverty alleviation. This emphasis is regarded by many to blame for the premature downfall of the UNF government after just 2 1/2 years. In terms of ownership, though, one could argue that the RSL had a substantially higher ownership by the government leadership; including a signed preface by the prime minister. In contrast the PRF and the PRS only had the official government seal with not even a reference to a particular ministry or department - let alone a preface and signature.²

Both the PRS and RSL identify reconstruction in the North and East as priority areas. In light of the peace process in the North East and the negotiations, which were underway at this time, some critics have argued that it might have been appropriate to integrate LTTE representatives in the working groups of the RSL that dealt with the North and East. The first attempt at including the LTTE was made in early 2003 by incorporating them into the Needs Assessment for the North East co-ordinated by the UN at the request of the SIHRN.

¹ Several government officials also complained that they had not been party to the ERP

² In an indication of the exclusivity of the RSL in the immediate post-RSL period it was difficult to find government officials to make presentations on the RSL as the author of the RSL was a foreign consultant financed by the WB and the USAID.

iii. Practice

Most of the macro-economic policy recommendations identified in the PRS (especially macro-economic reforms) were implemented by the time of elections in April 2004. The recommended fiscal consolidation, revenue and expenditure reforms were incorporated into the budgets of 2002 and 2003.

In addition, there has been a large amount of investment in infrastructure, with the majority of funds generated towards the construction of the 'flagship' highways (e.g., Colombo-Matara, Colombo-Katunayaka). The Southern Highway (Colombo-Matara) has begun construction and the groundwork for the harbours in Hambantota and the east coast has taken place.³

The relatively stable political environment created by the cease-fire agreement helped the UNF to get a head start on the reforms during its first year of government. This, however, rapidly changed in its second year, which was beset by strikes, rising political agitation against the reform process spearheaded by the opposition including the Marxist JVP and a breakdown in communication between the Prime Minister and the President.

As regards the development of the conflict affected areas, the \$4.5 billion funds pledged at the Tokyo Conference remains unutilised because of the change in the political situation after April 2004 and ensuing uncertainty about the peace process. Some projects, which started soon after the cease-fire, such as the A9 Highway, reconstruction of physical capital such as housing, provision of essential services such as education and healthcare, communication services and the facilitation of the return of internally displaced persons are ongoing. However, critics argue that progress is slow and vulnerable to cease-fire violations and the lack of access to 'un-cleared' areas and high security zones.

The monitoring and evaluation process of the PRS failed to go beyond the proposal made in the PRS, which envisaged a multi-stakeholder monitoring mechanism. Monitoring of the RSL Action Plan was designated to the Ministry of Policy Development and Implementation (MPDI) and a small group of external consultants financed by the WB, hired to oversee its implementation and monitoring. The monitoring of the MDGs is steered by the UNDP and nominally co-ordinated

³ Progress on these projects have reportedly stalled since the election

by the MPDI. Critics say that this pays lipservice to the notion that MDGs have national ownership.

5. Challenges and Future of the Poverty Reduction Strategy

Poverty Reduction Strategies, by their very nature, are highly controversial documents as they are viewed as yet another instrument of donor control. In many countries, such as those in Sub-Saharan Africa, the entire PRS is written by consultants hired by the WB. In contrast, countries such as India have not produced a PRS and instead presented their own home-grown strategies for economic growth and poverty alleviation.

In Sri Lanka, what was attempted during the PRF /PRS phase was a combination of the two extremes. Sri Lanka made a symbolic gesture by producing a PRS rather than a PRSP, it involved substantial consultations and its production was financed by the UN instead of the WB. However, the thrust of the PRS was very much in line with the growth oriented poverty reduction model of WB and IMF. A look at the World Development Report 2000 'Attacking Poverty' shows where the PRS gets its signals. One could argue that it is a pragmatic document to 'get the job done' (secure aid) and the need for 'ownership' by a wide range of stakeholders is of secondary importance.

In contrast, the RSL had a high ownership by the government and matched the required policy agenda of the donors, thus obtaining high acceptance from donors. However, the absence of any effort to involve a multi-stakeholder participation, the neglect of communicating the implications of proposed reforms with those affected, combined with the strident private sector orientation of the document, led to a stunning blow to the UNF and its economic reform programme at the April elections.

A number of challenges for the continuation of the PRS lie ahead. The UPFA government is yet to present its' reformulated Poverty Reduction Strategy. At the time of writing of this brief, indications are that it would be a 'home grown' PRS, in keeping with the other economic policy documents of the government, and likely to be finalised in early 2005. What is clear is that this third version of the PRS will be the least 'consultative' of all three previous documents, written largely 'in-house'

with little or no input from funding agencies or civil society. Given its political make-up and 'populist' promises made at the April elections, some policy reversals - or delays - on macro-economic reforms identified in both the PRS (2001) and RSL (2003), are likely.

In formulating its PRS the challenge of the UPFA government will be to address the shortcomings of the PRS/ RSL by addressing the genuine concerns arising from some of the proposed reforms. These in particular relate to increased private sector participation in the provision of public services such as health and education and reforms relating to agricultural resources such as land and water.⁴

While accepting the need for reform of the public sector, the new government needs to avoid undermining Sri Lanka's acclaimed achievements in human and social development. An increasing body of evidence is available to show erosion in this area due to neglect by successive cash-strapped governments and gross mismanagement in a system that sorely lacks accountability. Public sector reforms should build in sound regulatory systems to ensure that users of basic services are not out-priced and that the quality of public sector service provision is maintained in the face of increased private sector participation.

Both the PRS and RSL documents stress the need to turn the agrarian economy to a high productivity service orientated sector. With approximately 33% of the country's labour force engaged in agriculture, it is essential that reforms are accompanied by measures such as a system of guaranteed prices, provision of access to markets and upgrading agriculture infrastructure especially the irrigation system. Given that the JVP controls the Ministries of Rural Industries, Agriculture and Lands, the danger is a return to populist policies that can only be financially and economically unsustainable in the long run. On the positive side, the rural peasantry is likely to receive more attention in policy making with specific programmes targeted towards revising the rural economy.⁵

Finally, peace is the key to development in Sri Lanka. This was recognised by the UNF government. While the present government has not disputed this, the nature

⁴ See Poverty Brief No. 4, on 'The Role of International Financial Institutions in Sri Lanka'

⁵ For instance programmes such as the Dahasak Wewa (10,000 irrigation tanks) and Maga Nagma (rural road rehabilitation) announced in the 2005 Budget in November.

of the coalition is proving a major obstacle to progress. The lesson for a future PRS is to garner more broad based support at an early stage - this might make progress slow, but it will create a greater likelihood of preventing dramatic policy reversals like those that occurred in the past.

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References / Further Reading

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