

Sri Lanka Strategy for Sustainable Development



Ministry of Environment and Natural Resources



February 2007

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Message of the Hon. Minister of Environment & Natural Resources



The World Summit on Sustainable Development held in Johannesburg, South Africa in 2002 was a landmark event in the annals of Sustainable Development. It gave a new impetus to the development process and promoted the concept of Middle Path on Sustainable Development.

Sustainable Development (SD) is not a new concept to Sri Lanka. It is deeply embedded within our society and is integrated in the life styles of the Sri Lankan people, their culture, habits and value systems. The unique hydraulic civilization which has flourished for more than 1500 years was the high watermark reached by our forefathers in applying ecological checks and balances to counter adverse human interventions in land and water use.

Sustainable Development (SD) is a process which stands on three pillars namely economic growth, social equality and environment conservation. The SD process ensures balanced consideration of all three pillars. This concept was originally put forward by Sri Lanka at the 1992 World Summit. It is a process that facilitates wide participation of the people as stakeholders and development of a local agenda enabling the local communities to become the true partners in Sustainable Development. More than ever before, Sri Lanka needs to strike a balance between rapid economic growth and the demands of a growing population.

In this context, I have great pleasure in presenting the **Sri Lanka Strategy for Sustainable Development (SLSSD)** to the people of Sri Lanka. I find that this document is both a critical and comprehensive document. I recommended this report to the world community as a document worthy of consideration and emulation.

Patali Champika Ranawaka, M.P.
Minister of Environment & Natural Resources

Foreword

The goal of Sustainable Development originates from international concerns dating back to the 1972 UN Conference on Human Environment held in Stockholm, and subsequent international efforts to address issues of conservation and development. At the World Summit on Sustainable Development (WSSD) held in Johannesburg in 2002, countries of the world including Sri Lanka committed to developing road maps for achieving sustainable development.

More than ever before, Sri Lanka needs to strike a balance between rapid economic growth and the demands of a growing population. The country needs also to be more resource efficient in the face of increasing pressure on a limited natural resource base. Given the context, it is imperative that the country adopts sustainable development strategies, not just as an international requirement, but also as a serious national concern for ensuring transfer of intra-generational equity. The need for integrating the various development, social and environment-related concerns and possible solutions is felt much more now than ever before reaffirming the urgent requirement for developing a comprehensive and all-encompassing sustainable development strategy for mainstreaming sustainable development principles into the overall policy framework of the country.

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In this context, I have great pleasure in presenting the "Sri Lanka Strategy for Sustainable Development " to the people of the nation. We are posed with a challenge of translating the concept of sustainable development into strategic actions for putting into effect the strategy. The value it attaches to the pursuit of that strategy would depend on the context and the aspirations of the citizens of that nation. The concept of sustainable development has been historically entrenched in the culture of Sri Lanka. The Sri Lanka Strategy for Sustainable Development has attempted to outline the sustainable development vision, goals, strategies and targets for a thirty-year period, viz., 2007-37. It has been prepared through a series of consultations reflecting the ownership of the strategy by a wide set of stakeholders.

I wish to thank the World Conservation Union (IUCN), Sri Lanka, the local collaborating agency and all those who worked tirelessly towards developing this nationally significant strategic document.

M.A.R.D. Jayatillake
Secretary
Ministry of Environment and Natural Resources
Government of Sri Lanka

February 2007

Executive Summary

The development efforts of successive governments during the last several decades have led to growth in per capita incomes, increase in standard of living of the people and decrease in overall poverty levels. However, Sri Lanka faces a host of environmental problems such as land degradation, pollution and poor management of water resources, loss of biological diversity, coastal erosion, increasing scarcity of water for agriculture, waste disposal in urban areas, and traffic congestion in the main cities.

Although the growth in per capita incomes over the last decade have been associated with a decrease in overall poverty levels, there is growing regional disparity in incomes and poverty levels. The ongoing ethno-nationalistic conflict continues to have a serious impact on the socio-economic situation in the country, and has inflicted considerable damage to natural resources.

As an emerging economy, the challenge for Sri Lanka is to achieve sustainable high economic growth with greater equity, whilst integrating in the process of globalization, achieving permanent peace and rehabilitating and reconstructing the tsunami affected areas. A sustainable high level of economic growth must be ensured without causing irreversible damage to the environment. Macro economic policies for sustainable development must be developed through an environmentally sensitive macroeconomic framework. Sri Lanka's vision for sustainable development is *"Achieving sustained economic growth that is socially equitable and ecologically sound, with peace and stability"*.

The Sri Lanka Strategy for Sustainable Development (SLSSD) seeks to achieve this vision through eradication of poverty, ensuring competitiveness of the economy, improving social development, ensuring good governance, and a clean and healthy environment. These five goals prioritise the challenges that have to be addressed in the path to achieving sustainable development. Seventeen objectives and 65 strategies with targets and indicators have been identified under the SLSSD goals. These are detailed in Chapters 5 – 9 of the report. The key issues and objectives for each of the SLSSD goals are summarised below.

1. Eradication of Poverty

- Overall, population below the national poverty line has decreased over the last decade from 26% (1993) to 23% (2002) along with the growth in per capita incomes. Yet, there are wide regional disparities. Further, poverty in the 7 poorest districts has increased during the last decade though national per capita income rose during this period; while urban poverty halved, poverty in the estate sector increased 50%.
- Most of the poor live in rural areas and engage in agriculture related activities. Small farm size and tenurial issues that prevail in the food crop sector restrict growth of farm incomes, leading to natural resource degradation, and perpetuate poverty. Over half the population are below the minimum level of dietary energy consumption, and there is a higher prevalence of under-nutrition in rural and estate sectors than in urban areas.
- Agricultural productivity of small-scale farms has declined over the past decades due to irregular rainfall, recurrent drought and neglect in maintaining irrigation infrastructure. Food security in terms of availability, accessibility and affordability is uncertain notably in the estates. Food security remains uncertain among many victims of the ethno-nationalistic conflict.

Objectives for Eradication of Poverty

1. Establish the infrastructure for regionally balanced development.
2. Achieve high productivity and profitability in agriculture.
3. Enable effective social safety nets

2 Ensuring Competitiveness of Economy

The macro-economic framework to create an enabling environment for achieving a higher rate of economic growth and competitiveness include the achievement of a low and stable inflation environment through prudent monetary policy actions, gearing fiscal policy towards containment of budget deficit and maintaining proper foreign and domestic borrowing mix to reduce pressure on interest rates, exchange rate and resource allocation, and improvement of infrastructure to facilitate supporting services such as transport, roads, electricity, water etc. for efficient utilization of resources.

- Despite GDP growth rates of around 5% during the past two and a half decades, and increasing per capita incomes, high fiscal deficits have raised the level of public debt to more than 100% of GDP, hampering private investment by raising expectations of higher future taxes and heightening macroeconomic risks.
- Sri Lanka has been gradually changing from an agricultural based economy to an industrial based one over the last few decades. The industry, agriculture, and services sectors contribute 27%, 17%, and 56% of the GDP respectively. The agriculture sector employs 33% of the total labour force and sustains the majority of the population. The share of industrial exports stands at 78.3% as against 18.2% for agricultural exports. The emergence of the SME sector as a major contributor to economic development calls for measures to ensure environmental compliance in its growth.
- Gross earnings from tourism amounted to USD 416 million during 2004 from peak tourist arrivals of 566,200. Sri Lanka's rich biodiversity offers ample potential to support the government's current tourism related policy aimed at maximising potential for nature-based tourism and cultural tourism, which have the capacity to provide employment opportunities to rural youth and motivate communities to protect the natural environment that provides their livelihood.
- There has been an average annual growth of 68% of vehicle ownership. The active vehicle population in Sri Lanka was 1,660,685 at the end of year 2005, out of which 45% is two-stroke motor cycles and 14% three wheelers with the latter consuming relatively higher percentage of petrol. Air quality in the city of Colombo has deteriorated due to vehicular emissions. A key concern is the failure of vehicle importation policies and fuel subsidies to account for environmental impacts.
- Large scale infrastructure development programmes which include highways, air and sea ports have significant potential environmental impacts and social implications which need to be addressed.
- The installed electricity generation capacity at present comprises 56% hydropower, 46% thermal power, with less than 5% from other sources (wind etc). The capacity has to be augmented by 200 MW per annum to meet the growing demand for general purpose consumption and industry. Electricity generation which has been dominated by hydro-power over many years is now turning into thermal power domination with 61% thermal generation, with oil as the source, in 2005. Transmission and distribution losses in the national grid system are presently 17-18%.
- Biomass, which is still considered as a non-commercial energy source, is used for domestic cooking in more than 80% of the households, and the industrial sector accounts for about 28% of the biomass consumption. Most of the domestic cooking activities are very inefficient leading to substantial waste of biomass and increased indoor air pollution. With the rising oil prices there is an increasing trend in switching fuels from petroleum fuels to biomass in industrial heating applications.
- The petroleum consumption in the country has been rising exponentially due to increased use of petroleum fuels in the transport and electricity sectors.

Objectives for Ensuring Competitiveness of Economy

1. Develop small and medium industries to be a significant part of a vibrant and internationally competitive industrial sector.
2. Enhance the physical infrastructure and services to cater to a growing economy and trade.
3. Meet the energy needs of a growing economy with minimum environmental cost.

4. Establish internationally recognized principles of sustainable development and standards in industries.
5. Incorporate green principles in public management.

3. Improving Social Development

Sri Lanka has a long history of being a welfare state. Current expenditure on social welfare by the government for providing food subsidies, free education and health etc is about 4% of national GDP. About two million benefited directly from the *Samurdhi* income supplementary programme in 2005. The government spent approximately 43% of total health expenses of the country amounting to 1.9% of GDP in 2005. The annual subsidy on fuel and fertilizer is about 1.4% of GDP.

- Large investments on social welfare have produced positive and commendable achievements in health indicators. The Infant mortality rate and maternal mortality rate are ahead of other developing countries, and Sri Lanka is on track to realising MDG 4: to reduce child mortality. However, malnutrition has been increasing among children and married women – 17% of children under 5 years are born underweight; 22% of married women in the reproductive age group are malnourished (2000) which has debilitating effects on the mental and physical development of the unborn child and in turn on human capital development.
- There are wide regional disparities in the conditions of human welfare: social indicators such as literacy rate, educational attainment, nutrition, and fertility levels are lower in the estate sector, compared to other segments. Mortality rates are relatively high in the estate sector where one in every 20 babies died in the first year of life. 'Under 5 mortality' is highest in the estate sector compared to rural and urban sectors.
- Changes in demographic profile, over-exploitation of the environment, and displacement of people have contributed to increasing non communicable diseases such as cancer, diabetes and cardiovascular and respiratory diseases. Malaria has recently re-emerged as a problem. Incidence of dengue has also increased in the recent past. The incidence of vector borne diseases is expected to rise due to impacts of climate change. Problems related to aging, and, deteriorating healthcare for the elderly and the disabled are emerging issues.
- Although Sri Lanka has achieved high school enrolment and literacy rates, the country spends less than 5% of its GDP on education. Non availability of adequate funds has deprived particularly the rural schools of facilities and denied them the equal education enjoyed by their urban counterparts. The extremely poor educational facilities in the estate sector and the lack of attention paid to education by the estate community have placed them at the very bottom in school education from primary to university level.
- Although Sri Lanka ranks high in general literacy, it is still lagging behind in functional literacy required for a modern developing society. The prevalence of unemployment and underemployment among the graduates is a major issue. The country lags significantly behind other countries in university enrolment; less than 1% of the school graduates find placements in the University system.
- The country's urban population has been steadily increasing over the past few years to its present level of over 30% of the population. Colombo's slum dwellers have increased three-fold from the early 1990s to 2000. Unplanned urban population growth has exerted pressure on land and water resources in the cities as well as surrounding areas, with impacts on the water supply, sewage disposal, waste management, surface drainage and environment related health problems. The urban population is expected to increase from the present 30% to 45% of the population in 2015.
- The construction sector contributes 8% of the GDP. The demand for new houses in Sri Lanka is rising at around 100,000 units per year. Growing urbanisation has led to unchecked construction of houses without integrating environmental aspects related to siting, construction materials, etc. The demand of the construction sector leads to injudicious extraction of natural resources from rivers, quarries and clay pits.
- On-site systems for sewage disposal are in use in almost all urban and suburban areas except a part of Colombo. At present the sewage handling system in the Colombo municipality area which dates back to the colonial period has reached its full capacity and requires urgent investment. Similar investments are required even in most other urban centres across the country.
- The solid waste presently collected by the municipal councils is generally dumped openly without proper management. The municipal waste collection which was about 2,560 tons per day in 2000 is projected to

increase to about 2,885 tons per day by year 2010 and therefore the environmental problems associated with it will intensify.

- Recurrent disasters, mainly landslides, floods and drought, have caused losses to human life, property and the environment and have often eroded development gains. Though considered as "natural" disasters it is known that improper land use and other human activities are predisposing factors. The tsunami of December 2004 resulted in the loss of 31,000 lives, displacement of approximately 443,000 people with more than 900 children being orphaned, and severe damage to peoples' livelihoods, coastal ecosystems and infrastructure.

Objectives for Improving Social Development

1. Build a healthy society with equitable access to healthcare services.
2. Develop human capital for a knowledge based society.
3. Empower communities for full participation in development decisions.
4. Provide the required utility services in urban centres in compliance with environmental and health standards.
5. Minimise the impact of natural disasters on the community.

4. Ensuring Good Governance

Governance cuts across all sectors of development activity. The current politico-administrative arrangement for performing public functions is based on central Ministries, Departments, and Public Enterprises at the apex operating a de-concentrated district and divisional network of sub-national offices. The centralized structure is modified by Provincial Councils that provides for a devolved political system. Devolution introduces a multi-level (three-tiered) system of government with Local Government as the third tier. It posits decision making regarding service delivery in respect of devolved functions at the provincial and local levels.

Key concerns in ensuring good governance and achieving the aspirations of all citizens are:

- Despite devolution of powers under the Thirteenth Amendment the administration remains centralized and suffers from a tradition of politicization and patronage.
- Lack of clarity at the policy level in the demarcation of authority, responsibilities and functions at the three levels of government affects the efficiency and effectiveness in the delivery of public services as well as undermining its focus on and relevance for poverty reduction. There is a lack of appropriate mechanisms for policy coordination and focusing upon trans-sectoral issues. In the absence of mechanisms for ensuring coherence in policy, operational service delivery practices tend to be *ad hoc* and unpredictable.
- Lack of continuity in public policies arising from the changes in the governing political regimes and changes in policy direction add to unpredictability and uncertainty about the future, a necessity for the private investor.
- Inadequate system oversight and a weak regulatory framework affect the legitimacy of, and confidence in, public actions. As far as the citizen is concerned the problem is aggravated by the absence of alternate dispute resolution mechanisms closer to the communities where they live in seeking speedy redress from the legal and regulatory system.
- The debilitating effects of corruption add to the crisis in credibility of the government. Corruption imposes numerous handicaps on the poor in terms of accessing the entitlements they have a right to receive. The work of the Commission to Investigate Allegations of Bribery and Corruption is hampered by its legal authority and staffing.
- Devolution and sharing of political power are inseparably linked with the resolution of the ethno-nationalistic conflict.

Objectives for Ensuring Good Governance

1. Improve the governance framework for sustainable development.
2. Ensure peace with justice for all communities.

5. Ensuring a Clean and Healthy Environment

Sri Lanka is endowed with valuable biological resources, abundant water resources, fertile soils, minerals, and a conducive climate. The country has one of the highest numbers of plants and animal species per unit area and it is amongst the biodiversity "hotspots" in the world due to the tremendous pressure exerted on its limited natural resource base. Demographic pressures exacerbated by continuing economic development have led to a plethora of environmental problems, such as the excessive exploitation of the land (especially sloping land), deforestation, loss of biodiversity, water pollution and water scarcity, destruction of coral reefs, urban pollution, and solid waste and poverty.

- Land degradation is one of the most acute problems with it being manifested in the following manner: decline of arable land, decrease in land fertility and agricultural productivity, loss of irrigation and hydropower generation capacity due to silting of reservoirs and tanks, floods, and landslides. Although Sri Lanka enjoys plentiful rainfall, some parts of the island face acute water scarcity. Increased demand for water from the expanding industrial sector, rapid urbanization and the consequent generation of waste, industrial effluents, increasing use of agricultural chemicals, fertilizer, herbicides, and increasing salinity in irrigated paddy lands are causing water pollution.
- Low-intensity multi-crop agricultural regimes which supported natural ecosystems and preserved soil fertility have been largely replaced by plantation agriculture, reducing national forest cover to 22% by 2002. Large quantities of pesticides and herbicides are used in farmlands close to pristine forest reserves; their impact on non-target organisms and on the environment needs urgently to be assessed, and mitigatory actions taken accordingly.
- The coastal area has the highest population pressures and contains a number of critical habitats (some 80% of fish are harvested through near-shore fishing), and some of the richest biodiversity reserves. Coral mining, clearing of coastal vegetation, clearing of mangroves, sand mining in beaches and coastal dunes, haphazard construction, and the dumping of waste have led to pollution, coastal erosion and degradation of habitats. These critical habitats are small and highly vulnerable to exploitation and degradation, and need to be managed sustainably.
- Biodiversity is being increasingly eroded as a result of excessive habitat fragmentation and destruction of ecosystems due to deforestation, filling of wetlands, over exploitation of biological resources such as timber for commercial purposes, destruction of coral reefs, and the pollution of inland and coastal waters.
- Solid waste is a growing problem in urban and industrial areas, and also at the level of the village. At present, collection of waste by local authorities reaches more than 3,000 tons per day. The main problem is the absence of satisfactory measures for the collection and disposal of solid waste in properly engineered landfills and the lack of facilities for safe disposal of hazardous and clinical waste.
- Air pollution is as yet an urban problem largely restricted to Colombo where vehicular emissions is the main source of pollutants. This problem is aggravated by the current fuel pricing policy that promotes the use of diesel over petrol, the inadequacy of the road network and the high concentration of vehicles in Colombo, resulting in heavy traffic congestion.

Objectives for Ensuring a Clean and Healthy Environment

1. Sustainable management of natural resources.
2. Mainstream environmental dimensions into the sectoral development planning process.

6. The Way Forward

The stakeholders had identified their own versions of appropriate modalities for implementation and monitoring of the SLSSD. These were in the form of three specific models based on existing institutional mechanisms in the country. One model was to develop a structure for the implementation mechanism based on the structure and modalities of the Committee on Environment & Policy Management (CEPOM) established in the Ministry of Environment, aiming at integrating environmental policies and action plans in other sectors. The second suggestion was to study and align the implementation body with the National Council for Economic Development (NCED) that had been established under

the Ministry of Finance as a body comprising of private and government sectors to provide advice on development of economic policies and programmes. The final suggestion was to establish the implementation body as a policy making, approving and implementation monitoring body under the leadership of H E the President.

In addition, existing models from the Asia-Pacific region could also be explored for developing the appropriate SLSSD implementation model for Sri Lanka. One of the models is of the Mongolian National Council for Sustainable Development, which is an advisory body to the President of the country on sustainable development policy and strategy. It also has a clear mandate of leading the process of developing the Mongolian Action Programme for the 21st Century. It is further supported by the Management and Coordination Working Group (MCWG), created for coordinating the inputs of different Ministries and government agencies. The MNCSD is decentralized in the form of local branches at the district level in the country.

The Philippines Council for Sustainable Development (PCSD) was established through a Presidential Executive Order in 1992 for charting direction and coordinating overall implementation of sustainable development policies in the country. The PCSD is further supported by four committees addressing viz., social and economic dimensions, conservation and management of resources, strengthening role of groups and implementation of Agenda 21. It is also served by a secretariat comprising of two components, one for coordinating the policies and operations of the government on sustainable development, and secondly for coordinating the activities of NGOs and civil society. The PCSD also promotes decentralization and so far has established 16 local councils for implementing Agenda 21.

The National Council on Competitiveness and Sustainable Development (NCCSD) for Thailand was established through a process of restructuring the Agenda 21 implementing mechanism, the National Environment Board (NEB). The NCCSD is an empowered and expanded form of the sub-committee of the NEB on sustainable development which is chaired by the Prime Minister with one fourth of the membership being drawn from the NGO sector. It is further served by a Secretariat comprising of one Secretary General, one Deputy Secretary General responsible for sustainable development indicators, and another Deputy Secretary General having jurisdiction over Office of Economic Competitiveness Development and Office of Natural Resources, Science and Technology Planning.

Acknowledgement

The Ministry of Environment and Natural Resources would like to express its gratitude to The World Conservation Union (IUCN) Sri Lanka Country Office, which functioned as the local collaborating center responsible for coordination and preparation of this document.

We are extremely grateful to the reviewers, sector experts and other contributors that have shaped this document.

We would like to express our thanks to the large number of stakeholders that participated in the stakeholder workshops representing government departments and institutions, intergovernmental organizations, academic institutions, NGOs and experts who have lent direction and contributed towards the development of this Sri Lanka Strategy for Sustainable Development.

We thank the United Nations Environment Programme and the Norwegian Development Agency (NORAD) for providing technical and financial support for the development of the SLSSD.

Abbreviations

BOI	Board of Investment
CAASL	Civil Aviation Authority of Sri Lanka
CARP	Sri Lanka Council for Agricultural Research Policy
CBO	Community Based Organization
CEA	Central Environmental Authority
CEB	Ceylon Electricity Board
CEPOM	Committee on Environment Policy and Management
CIEDP	Committee on Integrating Environment and Development Policies
CITES	Convention on International Trade in Endangered Species
CMC	Colombo Municipal Council
CPC	Ceylon Petroleum Corporation
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee (of OECD)
DCS	department of Census and Statistics
ESEC	Economic, social and Environmental Committees
EIA	Environment Impact Assessment
EPI	Environmental Performance Index
EPL	Environmental Protection License
EU	European Union
FCCISL	Federation of Chambers of Commerce & Industry of Sri Lanka
GDP	Gross Domestic Product
GERIAP	Green House Gas Emission Reduction from Industry in Asia and the Pacific
HACCP	Hazard Analysis and Critical Control Point
ICT	Information and Communication Technology
IPPC	International Plant Protection
IPRP	Industrial Pollution Reduction Programme
IPS	Institute of Policy Studies
ISO	International Standards Organization
IT	Information Technology
ITI	Industrial Technology Institute
IUCN	The World Conservation Union
JPOI	The Johannesburg Plan of Implementation
MC	Municipal Council
MCWG	Management and Co-ordination Working Group
MDG	Millennium Development Goals
MEA	Multilateral Environmental Agreement
MOE	Ministry of Environment
MNCSD	Mongolian National Council for Sustainable Development
MAP 21	Mongolian Action programme for the twenty first century
MTEF	Medium Term Expenditure Framework
MW	Mega Watt
NEB	National Environment Board
NCCSD	National Council on competitiveness and sustainable Development
NCED	National Council for Economic Development
NCPC	National Cleaner Production Centre
NCSD	National Council for Sustainable Development
NEA	National Environmental Act
NEAP	National Environmental Action Plan
NEP	National Environment Policy

NESAC	National economic and Social Advisory Council
NGO	Non Government Organization
NPL	National Poverty Line
NPRGS	National Poverty Reduction and Growth Strategy
NSDS	National Sustainable Development Strategy
NWSDB	National Water Supply & Drainage Board
OECD	Organization for Economic Co-operation and Development
PCAF	Pollution Control Abatement Fund
PCSD	Philippine Council for Sustainable Development
PIU	Project Implementation Unit
PPP	Purchasing power Parity
PUCSL	Public Utilities Commission of Sri Lanka
RDA	Road Development Authority
SEA	Strategic Environment Assessment
SLSI	Sri Lanka Standards Institute
SLTB	Sri Lanka Tourist Board
SME	Small and Medium Enterprise
SMED	Small & Medium Enterprise Developers
SNA	System of National Accounts
SP	Sessional Paper
TEU's	Twenty-foot Equivalent Units
UDA	Urban Development Authority
UN	United Nations
UNCED	United Nations Conference on Environment and Development
UNEP	United Nations Environment Programme
USD	US Dollars
WCED	World Commission on Environment and Development
WSSD	World Summit on Sustainable Development

Table of Contents

Forward	iii
Executive Summary.....	iv
Acknowledgement	x
Abbreviations	xi
1. Background	01
2. Developing the SLSSD	04
3. Framework For Sri Lanka SLSSD.....	06
4. Country Analysis	08
4.1. Profile	08
4.2. Challenges to Sustainable Development.....	17
4.3. General Strategies in the Path to Sustainable Development.....	27
5. Eradicating Poverty.....	31
5.1. Status and Trends	31
5.2. Policy and Legal Framework.....	33
5.3. Objectives and Strategies	35
5.4. Targets and Indicators.....	37
6. Ensuring Competitiveness of Economy	39
6.1. Status and Trends	39
6.2. Policy and Legal Framework.....	44
6.3. Objectives and Strategies	50
6.4. Targets and Indicators	52
7. Improving Social Development	54
7.1. Status and Trends.....	54
7.2. Policy and Legal Framework.....	63
7.3. Objectives and Strategies	67
7.4. Targets and Indicators	69
8. Ensuring Good Governance.....	71
8.1. Status and Trends.....	71
8.2. Policy and Legal Framework.....	74
8.3. Objectives and strategies	77
8.4. Targets and Indicators	77
9. Ensuring Good Governance.....	79
9.1. Status and Trends	79
9.2. Policy and Legal Framework.....	81
9.3. Objectives and strategies	82
9.4. Targets and Indicators	84
10. Way Forward	85
References	89

Annexes

Annex I : T The List of Sector Writers/Expert Committee.....	91
Annex II : The List of Sector Paper Reviewers	93
Annex III : NSDS Workshop I: List of Participants	96
Annex IV : NSDS Workshop II: List of Participants.....	101
Annex V : NSDS Panel Meeting : List of Participants.....	107
Annex VI : NSDS Workshop III: List of Participants	109

List of Tables

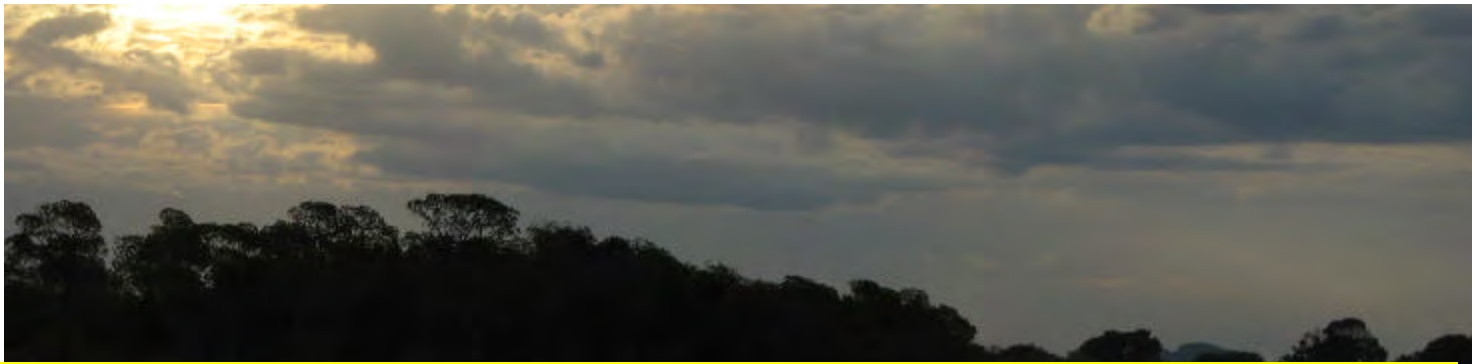
Table 1 : Economic Indicators.....	09
Table 2 : Agricultural Productivity Growth, 1990-2000	34
Table 3 : Sri Lanka Growth Accounting Decomposition (annual average in percent).....	40
Table 4 : Value and Volume of Tourism 1997-2005	44
Table 5 : Relative Importance of Tourism as a Foreign Exchange Earner	45
Table 6 : Selected Indicators, Sri Lanka and Other Countries	55
Table 7: Sri Lanka MDG Targets	57
Table 8 : Key Socio-economic Indicators by Province.....	61
Table 9 : Selected Indicators of Human Capital Development and Governance.....	72
Table 10 : Environmental Indicators.....	80

List of Figures

Figure 1 : Population and Population Growth.....	08
Figure 2 : GNI per capita, 1962 – 2002 (current US\$).....	11
Figure 3 : Annual Rates of Growth and Poverty Reduction in the 1990s (present).....	18
Figure 4 : Poverty Head Count Trends in Sri Lanka, 1990-2002	19
Figure 5 : Annual Growth Rate of Gini Coefficient and Poverty Head count Rate.	22
Figure 6 : Poverty levels and Urban share of Population by Province.....	29
Figure 7: GDP by Provinces	31
Figure 8 : Accessibility Index and Average Driving Distance to Colombo Correlated with District Poverty Head counts.....	32
Figure 9 : Poverty reduction in South Asia Associated with Economic Growth.....	36
Figure 10: The Economy in 2005.....	39
Figure 11 : Annual Sector Growth Rates	41
Figure 12: Market Share of Public Transport.....	47
Figure 13 : Average Tariff and Cost of Electricity	48
Figure 14 : Electricity Distribution and Transmission Losses	49
Figure 15 : Sri Lanka Investment Climate	50
Figure 16 : Mortality Rate Under 5 years by Province.....	54
Figure 17 : Government Expenditure on Health and Education	56
Figure 18 : Samurdhi Recipients and Expenditure	65
Figure 19 : Service Provision Relations	75
Figure 20 : Structure of Government Administration.....	76

List of Maps

Map 1 : Priority Ecosystems and Protected Areas	16
Map 2 : Poverty Map of Sri Lanka.....	30
Map 3 : Poverty Head Count Ratio	30
Map 4 : Accessibility Potential	48



Background

The origin of the current stream of international concerns on sustainable development can be traced back to the 1972 UN Conference on Human Environment held in Stockholm. Rooted in the environmental problems of northern Europe, the conference led to the formation of a number of national environmental protection agencies in the region. It also helped to establish the United Nations Environment Programme (UNEP).

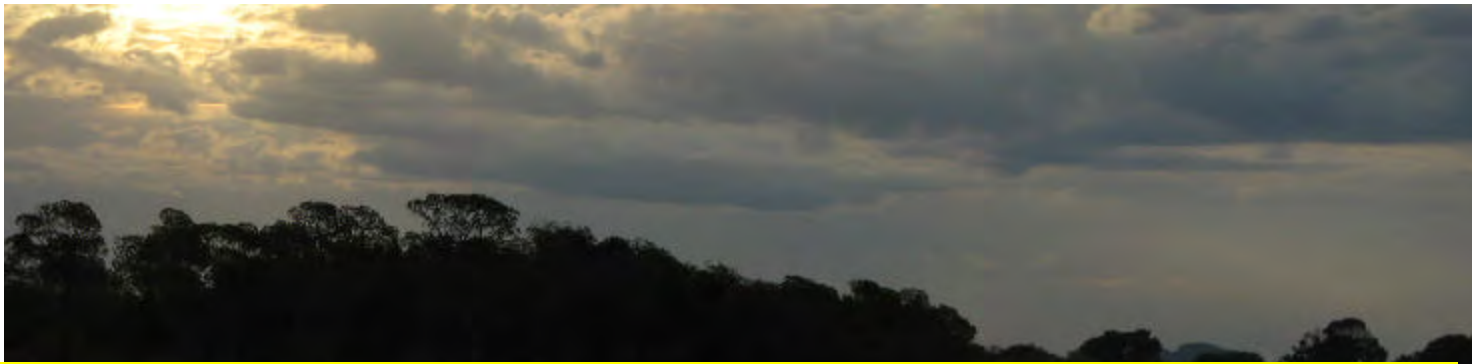
In 1980, the World Conservation Strategy, prepared by the World Conservation Union (IUCN), further clarified the concept of sustainable development and advanced it as a central theme in the development discourse¹. With the main focus on conservation, it suggested that economic development and growth should be used to enhance the ability of societies to conserve nature. It promoted the kind of development that provides real improvements in the quality of human life and at the same time conserves the vitality and diversity of the Earth.

The international efforts that continued thereafter reached another important landmark in 1987, when the World Commission on Environment and Development, popularly known as the Brundtland Commission, put out its report titled, “Our Common Future”. The Brundtland report introduced the concept of sustainable development as, “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”². This is the definition of sustainable development that is currently used in analyses, and it forms the conceptual basis for many guidelines prepared by international agencies in promoting sustainable development strategies.

The 1992 UN Conference on Environment and Development (UNCED) held in Rio de Janeiro built upon the Brundtland framework to move forward the idea of sustainable development. In addition to developing agreements and conventions on a number of critical issues such as loss of biodiversity, climate change, and desertification, the UNCED or the “Earth Summit” also agreed upon a broad action plan to promote sustainable development, also referred to as the Agenda 21. Particularly, the Agenda 21 emphasized the need for every country to set up national coordinating structures to fulfil their aspirations for sustainable development. By 2002, when the World Summit on Sustainable Development (WSSD) was held in Johannesburg, very few countries in the region had established these coordinating mechanisms.

¹ World Conservation Strategy: Living Resource Conservation for Sustainable Development, IUCN-UNEP-WWF, Gland, Switzerland.

² World Commission on Environment and Development (WCED) 1987 *Our common future*. Oxford: Oxford University Press, p.43



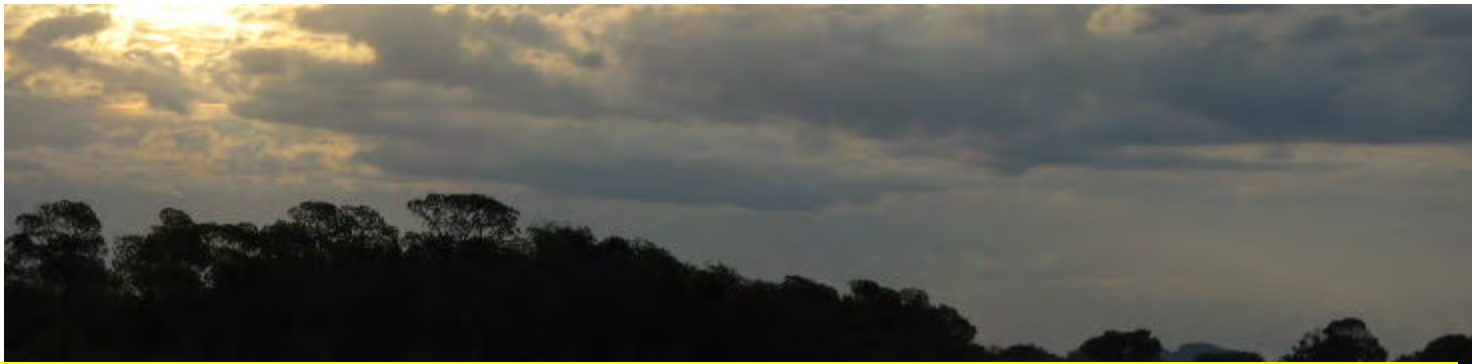
Background

A global commitment to reduce world poverty and improve quality of life was made in the Millennium Declaration in 2000. This declaration was translated into the Millennium Development Goals: a set of eight goals and 18 targets to be achieved by 2015, along with indicators for each of the identified targets. Goal 7, Target 9, specifically addresses integration of the principles of sustainable development into the policy framework and reversing the loss of environmental resources.

The outcome of the WSSD in 2002, characterized by the preparatory processes of stakeholders including governments, inter-governmental agencies and civil society groups, led to the reaffirmation of commitment to the Rio Principles and the Millennium Declaration resulting in the formulation of a plan of implementation to further build upon the achievements since UNCED and reinforce the commitments in the MDGs.

At the WSSD, countries were called upon to achieve the needed coordinating mechanisms by way of formulating the recommended National Sustainable Development Strategies (NSDS) by 2005, and establishing National Councils for Sustainable Development (NCSD) to give effect to these strategies. The Johannesburg Plan of Implementation (JPOI), which followed the Summit, stressed the timetable for action.

Sri Lanka made commitments to environmental protection and sustainable development by adopting the main instruments agreed at the UNCED and WSSD, and by ratifying the Millennium Declaration. Moreover Sri Lanka is a party to several multilateral environmental agreements including many which pre-date UNCED. Among these are: International Plant Protection Convention (IPPC), Convention on Wetlands of International Importance (Ramsar Convention), Convention on International Trade in Endangered Species (CITES), Vienna Convention for the protection of the ozone layer, and the Montreal Protocol. Sri Lanka ratified the UN Conventions on Biological Diversity, Climate Change, and the Convention to Combat Desertification in 1993, 1994, and 1998 respectively. Sri Lanka is also a party to the Kyoto Protocol under the Framework Convention on Climate Change, and the Biosafety Protocol under the Biodiversity Convention. Since UNCED in 1992, the government has taken several initiatives towards sustainable development, particularly the need for environmental conservation. Institutional arrangements for coordination of actions under the MEAs were set up, and many activities and programmes were launched in this regard.



Background

Selecting a way in which the concept of sustainable development is translated into a strategy of actions in a given country, and the value it attaches to the pursuit of that strategy would depend on the context. For Sri Lanka, the need to ensure sustainable development is not a mere fulfillment of an international obligation; it is a serious national concern.

On the one hand, Sri Lanka needs to accelerate economic growth in order to meet the rising expectations of a growing population, about a quarter of which is still below the poverty line, and on the other, there is a need to be judicious in resource use in view of the alarming rate at which the resource base is being depleted. A recent government report summarized Sri Lanka's current problems related to environmental sustainability³.

"Sri Lanka is one of the most populous countries in the world at present, despite successful control of population growth in recent years. This has brought in its wake a plethora of environmental problems. Chief among these are severe land degradation, pollution and poor management of water resources, impacts of large scale deforestation in the past, loss of biological diversity due to non-sustained extraction of resources that exceed the recuperative capacities of ecosystems and species, coastal erosion, increasing scarcity of water for agriculture, inadequate facilities for waste disposal in urban areas, traffic congestion in the main cities, and increasing loss of agricultural productivity".

Thus, a contextually appropriate and commonly agreed national sustainable development strategy is an urgent requirement for Sri Lanka.

The SLSSD will aim to meet the country's various development needs as well as its development challenges, and to mainstream environmental considerations in policy-making and policy implementation. The system should enable the setting of national level priorities in order that the country is able to select and act on those actions that support poverty reduction, economic development and environmental protection.

³State of the Environment in Sri Lanka, Ministry of Environment and Natural Resources, January 2002, p.1



Developing the SLSSD

The global initiatives for mainstreaming environment into the development agenda and preparation of country specific strategies for sustainable development culminated in the World Summit on Sustainable Development (WSSD) held in Johannesburg in 2002. At the WSSD, the countries were called upon to achieve the needed integration by formulating the National Sustainable Development Strategies (NSDS) by 2005, and establishing National Councils for Sustainable Development (NCS) to help implement these strategies. Accordingly, each country is required to develop the NSDS adopting a participatory process involving key stakeholders.

The Ministry of Environment (MOE) was designated as the focal point for developing the NSDS with financial support provided by United Nations Environment Programme (UNEP). In order to achieve this task the Ministry of Environment appointed the Sri Lanka Country Office of the World Conservation Union (IUCN) as the Local Collaborating Center to coordinate the preparation of the NSDS. An Oversight Committee was appointed to direct the process and to provide guidance.

An Inception workshop to initiate the preparatory process was held in March 2005, to which diverse stakeholders were invited. The participants identified ten strategic thrusts or priority areas for the NSDS.

The first stakeholder workshop was organized in June 2006 by the MOE, jointly with IUCN, with representation from all stakeholders including government ministries and agencies, research institutes, NGOs, and the business sector. The aims and objectives of the workshop were to discuss the identified preparatory process for the NSDS and NCS, obtain wider consensus on the identified strategic thrust areas, obtain stakeholder inputs on the thrust areas, establish the vision, mission and objectives of NSDS and to identify information sources.

At the workshop, the participants identified ten key sectors for the assessment of sectoral issues pertaining to sustainable development. These sectors were to constitute the focus of the NSDS. The identified sectors were: financial services, infrastructure, utilities, agriculture, industries, rural economy, social welfare, governance, human resource development and culture and environment

Ten experts in the respective sectors were identified and an expert committee was appointed to draft the sector assessment papers. The sector assessment papers provided an analysis of the sectors with regard to sustainable development concerns and identified areas for future interventions. Comments received through a series of review meetings were incorporated by the sector writers into their respective papers. In



Developing the SLSSD

In addition, information was gathered from a large number of published and unpublished documents. The members of the Expert Committee and reviewers is provided in detail in annexes I & II.

The NSDS was then drafted based on the information derived from the sector papers and other relevant published and unpublished documents.

The draft report was tabled at the second stakeholder workshop convened by the Ministry of Environment in November 2006. Participants included officials from government ministries, departments, institutions and NGO representatives (Annex II - VI). Dr Subrato Sinha, Senior Programme Officer/Head Assessment and Reporting, Regional Support - UNEP-RRCAP (UNEP Regional Resource Centre for Asia and the Pacific) and Ms Aida Karazhanova, Programme Officer, UNEP were also present and provided inputs to the workshop.

At this workshop the participants agreed that an integrated approach would be adopted based on five broad sustainable development goals incorporating the ten strategic thrust areas.

Finalization of the report was undertaken with advice and guidance of the Oversight Committee.



Framework for SLSSD

A NSDS has been defined as “a co-ordinated set of participatory and continuously improving processes of analysis, debate, capacity-strengthening, planning and investment, which integrates economic, social and environmental objectives of society, seeking trade-offs where this is not possible”⁴

The NSDS can also be understood as “the policies, plans, processes and actions that a country is taking to move towards sustainable development”. In this sense, NSDS is an umbrella strategy that brings together existing strategic planning processes and related actions. It provides a platform for consultation and negotiation among multiple stakeholders of national development, including the government, private sector and civil society. It should necessarily have access to a feedback mechanism to monitor and evaluate policy development and implementation.

The guidelines for establishing National Sustainable Development Strategies (NSDS) state that an NSDS is not just a document, but also a country-based and country-owned system. The strategy provides a framework for an iterative learning system, not a one-off exercise, to develop and achieve a shared vision for sustainable development.

Comment: Redundant to use iterative and continuous together.

THE MAIN OBJECTIVES OF THE NSDS

- Link the sustainable development vision of the country, with achievable targets in the medium and short-term;
- Link the sectors “horizontally” so that there is a coordinated approach to development, integrating the three elements of sustainable development: economic, social and environmental;
- Link “vertically” the local, provincial and national level policies, actions and governance so that they are mutually supportive; and
- Promote genuine partnership between government, business and community organizations to ensure their collective efforts towards sustainable development.

The concept of sustainable development is, however, not new to Sri Lanka. The country has had a long tradition of living in harmony with nature in the course of harnessing natural resources dating back to the middle of the first millennium BC. The ingenious system of tanks supported by intricate systems of irrigation canals built by the ancient kings sustained an agricultural economy over many hundreds of

⁴ The DAC Guidelines: Strategies for Sustainable Development. OECD, 2001.



Framework for SLSSD

years. The land use patterns associated with tank cascades, which essentially transformed natural ecosystems into sustainable agro-ecosystems, demonstrated a profound knowledge of resource management in a challenging environment. Life was centred traditionally in villages and revolved around the tank, village and the temple. In the course of time, with changes in centres of population and colonial rule by foreign powers, the tradition of living in harmony with nature was not sustained.

Today Sri Lanka faces a host of environmental problems: severe land degradation; pollution and poor management of water resources; impacts of large scale deforestation in the past; loss of biological diversity due to non-sustained extraction of resources that exceed the recuperative capacities of ecosystems and species; coastal erosion; increasing scarcity of water for agriculture; inadequate facilities for waste disposal in urban areas; traffic congestion in the main cities; and, increasing loss of agricultural productivity.

Although the growth in per capita incomes over the last decade has been associated with a decrease in overall poverty levels, there is a wide regional disparity in incomes and poverty levels. This inequitable socio-economic development poses the biggest challenge to the development of the country aimed at raising the living standards of all segments of society. Furthermore, Sri Lanka is in the midst of a three-decade long civil conflict, which continues to have a serious impact on the socio-economic situation in the country, and has inflicted considerable damage to natural resources.

“Achieving sustained economic growth that is socially equitable and ecologically sound, with peace and stability” is thus the vision for sustainable development in Sri Lanka.

The following goals have been identified in the path to achieving the vision of sustainable development:

GOAL 1: ERADICATE POVERTY

GOAL 2: ENSURE COMPETITIVENESS OF ECONOMY

GOAL 3: IMPROVE SOCIAL DEVELOPMENT

GOAL 4: ENSURE GOOD GOVERNANCE

GOAL 5: ENSURE A CLEAN AND HEALTHY ENVIRONMENT

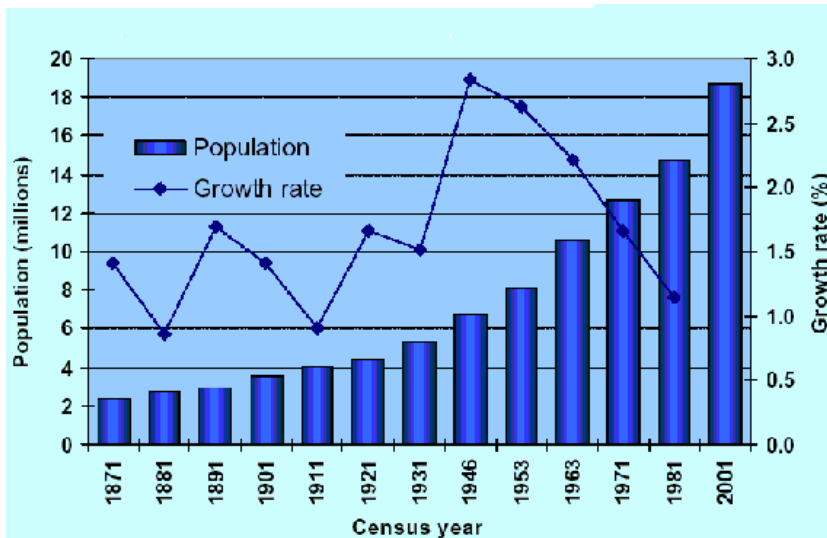


Country Analysis

4.1 Profile

Sri Lanka is a tropical island situated in the Indian Ocean to the south of India between latitudes 6–10° north and longitudes 80–82° east. The island has a land area of 65,610 km² and a coastline of approximately 1,600 km. Since the declaration of the 200 nautical miles Exclusive Economic Zone in 1978, Sri Lanka has sovereign rights over 517,000 sq km of the ocean, which is almost 7.8 times the size of the land area of the country. The country has an irregular, dissected topography comprising a broad coastal plain and a central mountainous area rising to elevations of 2,500 m.

Figure 1: Population and Population Growth



Source: DCS

The country's total population is around 20 million and its population density of 314 persons per sq km is one of the highest in the world. Over 40% of the people are engaged in activities directly dependent on the environment and about 25% of the population lives in urban or semi urban areas. The development efforts of successive

governments during the last five decades have led to an increase in the standard of living of its people. Sri Lanka's GDP per capita is USD 1197 (estimated according to Atlas Method) which is ahead of most South Asian countries. The high population density and sustained efforts to improve living standards have exerted tremendous pressure on the natural environment of the country. It is expected that, while the population will stabilize at 23 million by 2025, the urban population will increase to 60%, double the present level.



Country Analysis

Sri Lanka has made substantial gains in reaching several of the Millennium Development Goals, including achievements in education, gender equality, and safe water and sanitation facilities. With a Human Development Index of 0.751 (2005) Sri Lanka is ranked 93^d among 177 countries.

Economic context

The economy of Sri Lanka grew at a rate of 4-6 % during the last five years, except in 2001 when national GDP declined by 1.5%. Per capita incomes rose from USD 841 to 1197 (provisional, 2005) during the same period. However, high fiscal deficits have raised the level of public debt to more than 100 % of GDP, hampering private investment by raising expectations of higher future taxes and heightening macroeconomic risks. The fiscal deficit averaging close to 9.5% since the mid 1970s, declined to 8.2% (2004).

Table 1: Economic indicators

	2001	2002	2003	2004 Est.	2005 Proj.
GDP and inflation (in percent)					
Real GDP growth	-1.5	4	6	5.4	5.3
Inflation (Sri Lanka CPI; average)	12.1	10.2	2.6	7.9	14
Inflation (Sri Lanka CPI; end-of-period)	13.4	6.6	1	16.8	10.5
Public finances (in percent of GDP)					
Revenue	16.6	16.5	15.7	15.3	15.7
Expenditure	27.5	25.4	24	23.5	23.9
Primary balance (excluding grants)	-4.1	-1.6	-1.2	-2.2	-3.1
Overall balance (excluding grants)	-10.8	-8.9	-8.3	-8.2	-8.2
Overall balance (including grants)	-10.4	-8.5	-7.8	-7.7	-7.4
Domestic financing	8.8	8	4.8	5.8	4.4
Government debt (domestic and external)	103.2	105.6	105.8	105.4	100.7
Money and credit (percent change end of period)					
Reserve money	7	12.3	11.9	20.9	15
Board money	13.6	13.4	15.3	19.6	15
Domestic credit	16.2	6.5	7.6	22.4	13.2
Private sector credit	8.9	12	16.9	22.1	21
Public sector credit	30.6	-2.6	-10	23.2	-5.7
91-day T-bill rate (in percent end of period)	12.9	9.9	7.4	7.3	10



Country Analysis

Balance of payments (in millions of U.S. dollars)					
Exports	4817	4699	5133	5757	6098
Imports	5974	6105	6673	8000	9178
Trade balance	-1157	-1406	-1540	-2242	-3073
Current account balance	-179	-236	-74	-648	-1257
Current account balance (in percent of GDP)	-1.1	-1.4	-0.4	-3.2	-5.6
Overall balance	229	3339	502	-205	-126
Export value growth (percent)	-12.8	-2.4	9.2	12.2	5.9
Imports value growth (percent)	-18.4	2.2	9.3	19.9	14.6
Gross efficient reserves (end of period)					
In millions of U.S. dollars ^{1/}	1183	1560	2146	1833	2083
In months of imports	2	2.4	2.8	2.1	2.2
As a percent of short-term debt ^{2/}	57	80	109	81	93
External debt (public and private)					
In billions of U.S. dollars	9.5	10.3	11.7	12.8	13.3
As a percent of short-term debt ^{2/}	60.8	62.6	64.1	62.8	58.9
Memorandum item					
Nominal GDP (in billions of rupees)	1407	1582	1761	2029	2345

Sources: Data provided by the Sri Lankan authorities; and staff estimates and projections cited in IMF Country Report No. 05/337, September 200

1/ Excluding Central bank Asian Clearing Union (ACU) balances

2/ As reserves exclude ACU balances, they are also excluded from short term debt to compute this ratio

Sri Lanka's macroeconomic policies are pro-growth and pro-poor, while continuing to uphold market based economic policies. The country's economic growth and poverty alleviation programmes focus on regionally balanced growth with rural and small and medium sector development; with the medium-term objective of macroeconomic stability and a regionally balanced economic growth rate of about 6.8 percent. These policies and strategies have been clearly articulated in recent policy documents, chiefly the Sri Lanka New Development Strategy – Framework for Economic Growth and Poverty Reduction 2005, Medium Term Expenditure Framework 2006-2008 (MTEF), and Budget Speeches for 2005 and 2006. The MTEF is the implementation strategy of the current government policy statement '*Mahinda Chinthana*'. Among the key policies and strategies derived from the above documents, which encompass economic, social and environmental dimensions, are the following.

- Pursuit of negotiated settlement to prevailing ethnic conflict for lasting peace.

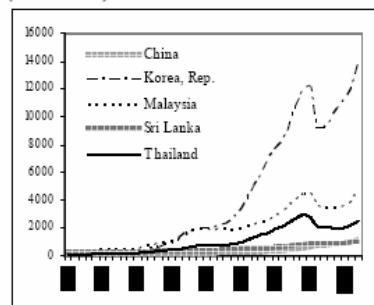


Country Analysis

- Modernizing legal and regulatory framework to promote the business environment.
- Improving law and order, safety, property rights and effective enforcement.
- Improving policy stability, consistency, transparency, accountability and governance.
- Protecting, upgrading and empowering vulnerable groups and disadvantaged persons.
- Promoting sustainable development with due emphasis to environment protection.
- Enhancing production capacity in all sectors of the economy by promoting public, private and foreign investment.
- Improving the quality and relevance of education at all levels, and enhancing access to education.
- Providing high quality, equitable, cost effective, modern and sustainable health care services.
- Building modern, high quality and efficient infrastructure facilities to expand access to input and output markets; includes roads, railways, ports, power & energy, and safe drinking water.
- Promoting application of modern technology and research & development to enhance competitiveness.

Figure2: GNI per capita, 1962– 2002 (current US\$)

Figure 1-2: GNI per capita, 1962–2002 (current US\$)



Source: World Bank, WDI (2005).

Source: World Bank 2007, Sri Lanka Poverty Assessment

Sri Lanka has been gradually changing from an agricultural based economy to an industrial based one over the last few decades and presently follows a liberalized economic policy. At present the industry, agriculture, and services sectors contribute 27%, 17%, and 56% of the GDP respectively. The service sector, which includes electricity and water, has the highest labour productivity, while the agriculture sector employs 33% of the total labour force and sustains the majority of the population. Export agriculture, which is based on the island's bio resources, makes a substantial contribution to the economy; particularly tea, rubber and several other minor export crops.



Country Analysis

The thrust of the industrial policy in Sri Lanka has been the development of private sector-led, export-oriented industries with sufficient diversification in relation to both products and geographical location. The current economic policy envisages prominent roles for both public and private sectors. It also targets modernisation of the ruraleconomy by enhancing science and technology in rural areas, and by providing credit for small and medium enterprises to increase productivity. However, relatively little attention has been paid in the past to ensure environmentally sustainable development in the sector. A positive factor has been that Sri Lanka's early industrial expansion was in the garment industry, which is relatively non-polluting compared to chemical and leather-based industries, and in the tourist industry, which is low polluting and dependant on a high quality environment for sustenance.

Sri Lanka's diverse bio resources serve to maintain a range of economic activities within the island. Foremost among these are agriculture, the marine and brackish water fisheries and tourism. Agriculture, forestry, and fisheries contributed 14%, 1.7%, and 1.3% respectively, and a total of 17% of the GDP at Constant (1996) Prices. Both agriculture and fisheries continue to be important sources of foreign exchange. The marine fishery provided approximately 88% of the total fish production in Sri Lanka in 2004. Prior to the tsunami which struck the coast of Sri Lanka in December 2004, the fisheries sector provided direct employment to about 150,000 people, and sustenance to at least a million. Fish also constitutes the top source of animal protein for Sri Lankans.

Tourism is a top income earner in Sri Lanka with the gross earnings amounting to USD 416 million during 2004 from peak tourist arrivals of 566,200. The industry faced a setback in 2005 as a result of the tsunami devastation with 20% lower earnings from 3% lesser arrivals. Sri Lanka's rich biodiversity offers ample potential to support the government's current tourism related policy aimed at maximizing potential for nature-based tourism and cultural tourism. Both eco tourism and culture tourism have the capacity to provide conducive employment opportunities to rural youth, and thereby motivate communities to protect the natural environment that provides their livelihood, and also serve the dual purposes of environmental protection and employment generation.

The economic policies of the country encourage foreign investments as it provides foreign exchange and employment opportunities and catalyses the development process. Public-private partnerships or arrangements are encouraged to promote large-scale infrastructure projects.



Country Analysis

Social context

Sri Lanka has relatively high standards of health care, and the national health indicators are comparable with those of developed countries. The country has made considerable progress on life expectancy at birth for both males and females, which are respectively 71.7 and 76.4 years (2001). The present Death rate is 6.5 per '000, and Infant mortality rate 11.1 per '000 (2003).

Sri Lanka has a high adult literacy rate of 92.5%. Gender wise the literacy rate is 94.5% for males and 90.6% for females. The participation of boys and girls in primary education is now similar, but there is lower literacy among females in the older age groups. District wise literacy rates range between 82.6 and 94.7% (except in the north and east where the 2001 census was not completed) indicating that literacy is high even in rural and more sparsely populated areas.

Per capita income in Sri Lanka had surpassed the USD 1000 value in 2004, but regional disparities remain. The Western Province accounts for 51% of the GDP, while all the other provinces have individual shares of less than 10%, three accounting for less than 5% of GDP. Lifestyles are changing with increased household income and household consumption expenditure patterns shifting from food to communication, education, recreation, housing and utilities. About 70% of households now own a radio or TV and 30% own a refrigerator. Household access to motorized transport and telephone facilities stand at 22% and 25% of households respectively. Notwithstanding the positive trends in socio-economic development, poverty reduced by only 3% overall between 1991 and 2002. In addition there is increasing inequality between the poor and the rest of the population, and between urban and rural areas. Only 40% of rural areas have access to basic infrastructure, such as electricity and roads.

Environmental context

The natural resource base

Land: About two-thirds of the land area comprises the Dry Zone where very dry conditions prevail for about five months of the year. The Wet Zone is in the southwest quarter, and a good part of it is hilly or mountainous. The Intermediate zone falls between the two. Sri Lanka's society has been agrarian-based for over 2500 years. About 1.8 million families are engaged in paddy cultivation alone. Hence, land as a resource, and in particular the soil, is of prime importance in sustaining the economy of the country.



Country Analysis

The main mineral resources are: graphite; mica; gemstones; rock phosphate; limestone and dolomite; brick, tile and ceramic clays; iron ore (low grade); quartz and feldspar; salt; zirconium, monazite, ilmenite and thorium; granite; and construction materials (sand, gravel).

Water: Sri Lanka is richly endowed with water resources. The annual rainfall provides a total of nearly 13 million-hectare meters of water. It has been estimated that about 40% of the water goes off as surface run-off, about 20% seeps into the soil and replenishes soil moisture and ground water, and the balance is returned to the atmosphere as evaporation and transpiration. Of the surface run-off, a part is harnessed for irrigation and hydropower leaving about 3.3 million-hectare meters, which finally drains into the sea. The groundwater resource availability in the country is around 7250 million cubic meters per year, which is about 15% of the surface water resource.

Water resources are of critical importance in all spheres of development. It sustains agriculture, is the source of a large part of power generation, and is indispensable for the functioning of many industries, besides providing water for drinking and other domestic uses.

Atmosphere: The atmosphere is a vital component of the earth's environment that is essential for the survival of all forms of life. Anthropogenic changes to the atmosphere arising from discharge of greenhouse gases and ozone-depleting substances are a concern at the global level. Sri Lanka's emission of these substances into the atmosphere is minuscule compared to the industrialized countries and the potential emissions of the large developing nations. Nevertheless, the impact of global atmospheric changes, in relation to global warming and sea level rise, can have serious impacts on coastal areas (fisheries, tourism, livelihoods etc) and on the agriculture, plantations, energy and health sectors. Atmospheric pollution in the urban areas, particularly Colombo has increased considerably due to vehicular emissions.

Biodiversity: For a country of its size, Sri Lanka is richly endowed with biological resources manifested in a wide range of ecosystems: rain forests, monsoon forests, savannah, grasslands, inland wetlands, mangroves, estuaries, lagoons and coral reefs. The rain forests contain a high proportion of plants and animals that are endemic to Sri Lanka. Overall, Sri Lanka has high ecosystem and species diversity on land as well as in the coastal and marine areas. Endemism is particularly high among flowering plants, freshwater fish, amphibians, reptiles, and some invertebrate groups that have been studied to a considerable extent. Most endemics are, however, under threat and found mainly in the fragmented wet



Country Analysis

zone forests. Accordingly, Sri Lanka has been selected as one of the world's 34 biodiversity hotspots due to high endemism and threats to biodiversity.

The natural forest cover is now around 31% of the island's 65,610 sq km, and natural closed canopy forests have dwindled to about 22 % of the total land area from 44 % in 1956. Moreover, tropical humid forests - which are the biologically richest vegetation type – are confined to about 9.5% of the island's ever-wet southwestern quarter. Although much of the endemic species among both fauna and flora are concentrated in the wet zone, lowland rain forests in this region comprise only 1.9% of the island's land area. Wet sub-montane and montane forests, which cover a further 1.01 % and 0.05% respectively, are heavily fragmented with only a few more than 10,000 ha in extent. Although about 9,462 sq km of natural forest and scrubland amounting to around 15% of the island is declared Protected, only about 18% of this network occurs in the biologically rich wet zone.

Many people still depend on forests for subsistence and commercial use of products. Forests are the source of timber as well as a wide range of non-timber products including food and medicinal products. Of a total of 3368 species of flowering plants in the island, nearly a thousand are used for treating various ailments in traditional medicine, and most of these are collected from forest and wilderness areas by local people. Besides their productive function, forests play a vital role in conserving soil and regulating water flow.

Home gardens and farmer's fields are valuable storehouses of agricultural germplasm. Together with the wild relatives of cultivated plants found in forest areas, these constitute a vital resource for genetic improvement of cultivated plants.

The coastal and marine living resources sustain the fisheries of the country. Many reef fishes are also much sought after in the ornamental fish trade. The coral reefs in the southwest of the island play a vital role in mitigating the impact of waves on the coast, so reducing coastal erosion.



Country Analysis

Map1: Priority ecosystems and protected areas



Source: www.unep-wcmc.org

Constitutional provisions and policy

The commitment by the State for environmental conservation is enshrined in the Constitution of the Democratic Socialist Republic of Sri Lanka, which was adopted in 1978. Article 27(14) of the Constitution decrees that “The State shall protect, preserve and improve the environment for the benefit of the community”. Article 28f states, “The exercise and engagement of rights and freedom is inseparable from the performance of duties and obligations, and, accordingly, it is the duty of every person in Sri Lanka to protect nature and conserve its riches.”

A major shift in government policy to decentralize and devolve many functions of the Central Government to the Provinces was effected with the passing by Parliament in 1987 of the 13th Amendment to the Constitution. This introduced Provincial Councils as a new level of governance between the Central Government and Local Government. Provincial Councils are empowered with legislative and executive powers over several subject areas including the environment, and for intra-provincial projects relating to irrigation, land development, road development, transport, agricultural services, health and education. A Provincial Council may, thus, enact laws pertaining to the environment within the area under its control, provided these do not supersede or contravene laws passed by Parliament.



Country Analysis

Sri Lanka is committed to ensuring environmental sustainability by 2015 as part of its commitment to achieving the Millennium Development Goals. The National Environmental Policy enunciated in 2003, with the aim of ensuring sound environmental management within a framework of sustainable development, provides the direction for the necessary measures to conserve and manage Sri Lanka's environment. The objectives of the policy are

- To promote the sound management of Sri Lanka's environment in its entirety without compromise, balancing the needs for social and economic development and environmental integrity, to the maximum extent possible while restricting inimical activities;
- To manage the environment by linking together the activities, interests and perspectives of all groups, including the people, non-government organizations and government at both the central and the local levels;
- To assure environmental accountability.

The major environmental issues faced include land degradation, deforestation, loss of biodiversity, air pollution, declining availability of fresh water, degradation of marine and coastal habitats, and inadequacy in solid waste disposal measures. Notwithstanding these environmental challenges, it is noteworthy that a recent assessment of environmental performance based on computation of an Environmental Performance Index (EPI) has ranked Sri Lanka at 67 out of 133 countries, ahead of other South Asian countries.

4.2 Challenges to Sustainable Development

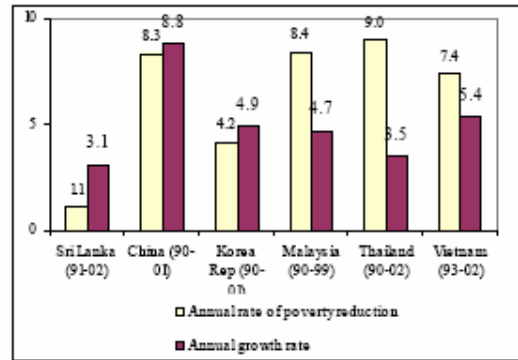
Sri Lanka has made substantial progress in economic development over the past few decades with per capita income levels rising from USD 473 in 1990 to USD 1197 and achieved social indicators such as life expectancy, literacy and mortality rates that are at par with many developed nations.



Country Analysis

Figure 3 : Annual rates of growth and poverty reduction in the 1990s (present)

Figure 1-4: Annual rates of growth and poverty reduction in the 1990s (percent)



Source: Real per capita GDP data:- World Bank, WDI, (2005a). Poverty headcount ratios: Sri Lanka:-DCS (2004); China:- Ravallion and Chen (2004); Korea:-World Bank (2004a); Malaysia:-World Bank (2004b); Thailand:-S. Jitsuchon (2004); and Vietnam:-Glewwe et al (2000) and Carolyn Turk (2005).⁴

Poverty

Sri Lanka has made impressive gains in providing access to basic social services that has resulted in significant human development compared to other developing countries. However poverty still remains an issue affecting nearly one in four Sri Lankans. According to policy statement by the government of Sri Lanka⁵ "absolute poverty in the country increased significantly between 1990/91 and 1995/96, i.e., from 33 to 39 percent according to the higher poverty line, and from 20 to 25 percent, according to the lower poverty line". The national poverty head count ratio (22.7) is significantly higher compared with the per capita GDP 1010 \$ of the country⁶.

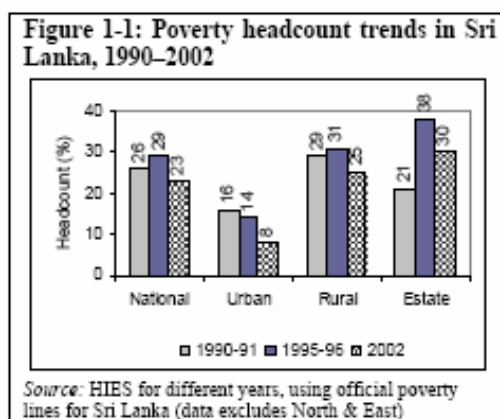
⁵ New Development Strategy, Ministry of Finance and Planning, May 2005 (p. E1)

⁶ Department of Census and Statistics (DCS)



Country Analysis

Figure 4: Poverty head count trends in Sri Lanka, 1990-2002



Source: World Bank 2007, Sri Lanka Poverty Assessment

A key challenge facing Sri Lanka today is not only how to improve growth to increase the pace of poverty reduction, but also to ensure that the benefits of growth spread to the lagging regions and sectors of the economy. In the last decade, reduction in income poverty has been modest and uneven, with the gains being largely limited to urban areas. It has seen a marginal reduction of poverty in Sri Lanka of about 3 percentage points, in spite of a relatively healthy growth performance – annual per capita GDP growth averaged around 3.5 percent between 1991 and 2002. Regional disparities compounded this situation, where poverty in the seven poorest districts, in fact increasing during the last decade. Poverty in urban areas was halved while rural poverty ratios declined by 5 percentage points and poverty in the estate sector increased by 50 percent. The tsunami disaster in year 2004, which hit hardest in the north, east and south, has also reportedly aggravated the unequal poverty trend. This in-equitable socio-economic development poses the biggest challenge to the development of the country aimed at raising the living standards of all sections of society throughout the country.

Poverty also has linkages to environment where poor depend on fragile ecosystems due to lack of incentives and delineation of property rights pose pressures on the natural resource base. These issues are discussed in chapter five under the goal of eradicating poverty.

Peace, Conflict Resolution and Reconciliation

The on going ethno-nationalistic conflict is a major impediment to sustainable development. The internal conflict has contributed to environmental degradation, increased the number of poor, slowed economic



Country Analysis

growth and devastated the economy. Nearly 20 years conflict has affected economic growth through several channels, most through the loss of human lives, destruction of property and infrastructure. Large numbers of people in conflict areas are internally displaced due to the conflict. It has absorbed large amount of resources for defense, reconstruction and rehabilitation that could have been used more productively in other sectors. In particular, government spending on defense rose by more than 2 percent of GDP during the conflict years compared with pre-conflict levels⁷.

This has had a negative impact towards development due to less investments and led to the under utilisation of valuable human resources. Higher costs of doing business—for instance, on transportation and insurance premiums as well as a result of the general disruption of economic activity—also lowered total factor productivity and the incentives to invest. The conflict had the largest impact on certain economic activities such as tourism and economic activities in conflict affected areas (the North and East and the areas bordering this region). For instance, tourist arrivals, which had reached 400,000 in 1982, fell to 150,000 in the late 1980s and only recovered to the pre-conflict level in 2003 after the ceasefire was signed.

The conflict has inflicted considerable damage to natural resources and also has a far-reaching negative impact on investments in environmental activities. Due to security reasons, a vast amount of forests are inaccessible and management is not possible. Large extents of illegal felling and poaching have had a direct impact on biodiversity in these areas.

This is further elaborated in Chapter 8 dealing with ensuing good governance.

Land degradation

Land degradation has been recognized as the most serious environmental problem in the country. A high population density, presently over 300 per km², and lack of off-farm livelihood opportunities leads to excessive land exploitation.

Besides causing loss in productivity of agricultural lands, soil erosion sets off a host of off-site adverse environmental impacts – sedimentation of streams and water bodies, pollution of coastal waters, flood effects etc – which cause serious economic losses. The sustenance of the agriculture sector, domestic

⁷IMF Country Report No. 05/337, September 2005



Country Analysis

food production as well as export oriented, depends on sustainable land management. Illicit clearing and encroachment of land as well as land settlement schemes have affected the quality of watersheds. Deforestation and the deterioration of watersheds results in reduced dry weather flows, increased sedimentation and a host of attendant implications.

A related phenomenon is the occurrence of landslides. Evidence suggests that the frequency and magnitude of landslides have increased in recent years. Landslides have major social and environmental impacts: displacement of families, disruption of transport, and damage to life and property. Though primarily influenced by natural factors such as geological instability, topography and climate, and triggered by intense and continuous rainfall, human activities such as deforestation and poor land use, and construction of buildings and roads in vulnerable locations contribute to their incidence.

Realization of Social Well being

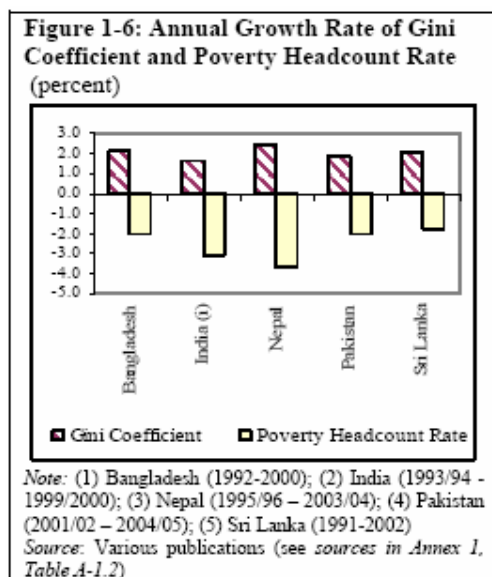
Social well being is one of the three elements inherent in sustainable development. It refers to the general condition of health, happiness, creativity, and responsible fulfillment. Healthcare, education, housing & urban development, safety nets, care for aged, good governance and the rule of law, all contribute positively or negatively to social well being.

Progress in the human development policies of successive Governments has led to improvements in health indicators such as mortality rate and fertility rate which are far ahead of other developing countries. Sri Lanka is on track to realizing MDG 4 i.e., to reduce child mortality. However there are regional disparities, with higher mortality rates in the estate sector compared to rural and urban sectors.



Country Analysis

Figure 5: Annual growth rate of Gini Coefficient and poverty head count rate.



Source: World Bank 2007, Sri Lanka Poverty Assessment

Changes in demographic profile, over-exploitation of the environment, and displacement of people have contributed to increasing non-communicable diseases such as cancer, diabetes and cardiovascular and respiratory diseases. Malaria has recently re-emerged as a problem; the prevalence of tuberculosis is on the rise, while the incidence of vector borne diseases is expected to rise due to impacts of climate change. Another serious trend with implications for human capital development is that malnutrition has been increasing among children and married women.

Unplanned urban population growth has exerted pressure on land and water resources in the cities as well as surrounding areas, with impacts on the sewage disposal, waste management, and environment related health problems. The urban population is expected to increase from the present 30% to 45% of the population in 2015. The proper disposal and management of waste is a major challenge in urban centers. Almost all solid waste presently collected by MCs is dumped openly without proper management. Municipal waste collection, which was 2560 tons/day in 2000, is projected to increase to 2885 tons in 2010. Thus the environmental problems will intensify. Sewage handling systems in most urban centers, particularly in the CMC area, have reached full capacity, and need investments to improve the system in keeping with the increasing sewage loads.



Country Analysis

Air pollution due to vehicle emissions, noise pollution, proliferation of slums and shanties on state land due to high land prices, lack of water supply, sewage disposal, health and sanitation facilities, increased flooding due to wetland filling, lack of surface drainage, flood control, provision of recreation areas and solid waste disposal are the major urban issues that need to be addressed so that urbanization will proceed sustainably without major health, social and environmental problems.

Sustainability of water supply

In Sri Lanka, water sustains agriculture, is the source of a large part of power generation, and is indispensable for the functioning of many industries, besides providing water for drinking and other domestic uses. The irrigation sector, which is the major user of water and accounts for about 85% of the water withdrawn by artificial means, is plagued by water wastage and inequity of distribution. As much 40% of irrigation water is estimated to be lost in conveyance due to leakage from substandard or poorly maintained canals and infrastructure. Excessive water use by paddy farmers and cultivation of paddy on soils better suited for other crops adds to the wastage of water. Both constructional imperfections and poor management of the system cause inequity of water distribution. Overuse is a result of the free distribution of unchecked quantities of water by the state. Poor operation and maintenance, on the other hand, is a consequence of technocratic/bureaucratic inefficiency and lack of financial resources. Both inequity and waste reduces the productivity of land and irrigation water, leading to poverty and food insecurity. The use of groundwater has expanded rapidly in recent years, but this has largely been on an *ad hoc* basis. Also, there is no mechanism for regulating the use of groundwater.

Issues such as who pays for the cost of distributing irrigation water, the right to groundwater extraction and the sharing of water resources between provinces are contentious issues that need to be addressed in the policy process. An increase in agricultural production with greater water use efficiencies is a necessity for sustainable development.

The rapid growth of industry has increased the demand for water in this sector. The demand for household water supply is also increasing especially with urbanization. Water supply schemes providing piped distribution of water are faced with problems of water shortages during prolonged periods of dry weather.



Country Analysis

Sound ecosystem management and clean environment

The high proportion of the poor and the growing population (currently at the rate of 1.1%), combined with unequal distribution of benefits from natural resources tend to make sustainable development in a developing country such as Sri Lanka a very challenging task. Sustainable use of natural resources is integral to sound ecosystem management. Sri Lanka is endowed with a wide range of ecosystems: forests, coastal ecosystems including mangroves, estuaries & lagoons, and coral reefs, and inland wetland ecosystems.

The natural forests were once a rich source of high quality timber, but many decades of exploitation have reduced both the area of forest and the quality of the remaining forests. The forest cover, which was 44% of the land area in 1956, has dwindled to 22.3% (dense forest). Forests are also a source of food and medicinal products, most of which are collected directly from the forest by the local people. Besides their productive function forests play a vital role in conserving soil and regulating water flow. These are particularly important functions in Sri Lanka where rainfall of high intensity is common and where erosion hazards are high.

Although the total forest cover is 22%, in the Wet Zone, where the forest cover is most needed from the point of view of conservation of biodiversity, water and soil, it is only 15% of the area of the zone. Selected felling of the better timber species has also led to the depletion of the preferred species leaving the remaining forests with depleted resources. However, it is noteworthy that recent years have seen several interventions aimed at promoting the conservation of forests.

Wetlands are ecologically important ecosystems whose environmental functions have not been properly appreciated. They could be divided into three broad categories, *viz*, inland freshwater wetlands, salt-water wetlands, and man-made wetlands, covering a total extent of 274,000 ha. Wetlands face severe threats due to habitat deterioration/degradation, direct loss/exploitation of species, spread of invasive alien species and natural phenomena such as droughts. The tsunami of December 2004 resulted in the degradation of coastal wetlands. Filling up of land for housing and other development and dumping of garbage are major causes of wetland habitat degradation in urban areas.

The coastal and marine living resources are of considerable importance because of their contribution to the fisheries of the country. Besides the food fish, many reef fish species are sought after in the



Country Analysis

ornamental fish trade. Ornamental fish stocks are being depleted as a result of excessive capturing for export as well as habitat destruction due to coral mining.

As Sri Lanka is considered one of the global biodiversity hotspots, the loss of biodiversity due to environmental degradation and destruction of natural resources due to population pressure and developmental activities are serious concerns.

The construction sector is growing at a rate of over 14% annually. This requires natural resources ranging from the land itself right down to all the construction materials, which cause tremendous pressure on the resources and the environment. The problems caused due to excessive sand mining and coral mining for the production of lime are illustrative of the complex interplay of economic and social factors i.e., livelihoods of people, depletion of natural resources and sustainability.

Air pollution in Sri Lanka is currently primarily an urban problem, and largely restricted to Colombo where it has been established that vehicular emissions are the main source of pollutants. This problem is aggravated by the current fuel pricing policy that promotes the use of diesel over petrol, the inadequacy of road network for vehicular traffic and the high concentration of vehicles in Colombo resulting in heavy traffic congestion. Although the power sector is not a major contributor to air pollution in the country as yet, a higher emission rate is expected with the trend for increased reliance on coal and oil based thermal power generation in the future.

Water pollution is becoming one of the major environmental problems in Sri Lanka. The main causes are toxic chemical release by industries, non point source pollution sources such as fertilizer and pesticide runoff from agricultural lands, inadequacy of existing sewage systems in urban areas (esp. Colombo) and poor sanitation in urban slums and rural areas leading to contamination of inland waters by faecal matter. Among the industries of particular concern with regard to discharge of effluents and waste products are the textile dyeing & bleaching, paints, cement, asbestos, leather tanning, rubber processing, food processing, distilleries, manufacture of agro-produce & mineral products, and metal preparation, finishing & engineering industries. Although there has been a considerable time lag in putting into place the legal instruments and institutional mechanisms for controlling environmental pollution, this issue has been addressed by Government through the use of policy instruments, introduction of incentives, regulatory measures, and participating with the private sector in dealing with the problem of pollution control. The



Country Analysis

enforcement and implementation of the regulatory measures without eroding the financial viability and sustainability of the enterprise is a challenge that must be faced.

Energy security

Energy has become a key resource that affects all three dimensions of sustainable development: economic, social and environmental. In economic terms, energy is considered a major driving force behind overall national development. Energy production and use are strongly related to their impact on the environment. Energy is also a basic human need, which helps human development, improves quality of life and promotes technological advance. Energy supply in Sri Lanka is mainly based on three primary sources, namely hydroelectricity, biomass and petroleum. Rapidly increasing energy demand is often linked with local air pollution and global climate change, which poses an unprecedented challenge to humankind. The potential impacts of energy production and consumption on sustainable development are diverse and numerous and therefore their linkages need to be carefully analyzed. The major energy issues that impinge on the country's efforts on sustainable development are basically two-fold: inequitable access to the resources, and the environmental implications of shifting to alternate sources for ensuring wider availability of energy supplies.

Development in power and energy is being driven by the increasing demand from industry and domestic sectors amounting to 11% annually. The share of thermal power in electricity generation has been increasing, and accounted for 61% of total electricity generation in 2005. Increased use of thermal power with oil as the source is a major sustainability challenge in view of the high cost of generation and consequent subsidy provided to consumers by the Government and the environmental impacts of effluent gases. With the installation of coal power plants (one initiated in 2006, another planned) it is envisaged that the pricing will be sustainable.

Heritage and culture

In addressing the critical need for economic growth and alleviation of poverty and to provide a better quality of life, policies and programmes must be adopted so as not to pose a threat to heritage and culture. Development paradigms and value systems (e.g., western concept of gender equality) transplanted from developed countries can erode the cultural values of our society. With the development of the tourist industry, vigilance against irresponsible behaviour of tourists (admittedly, by a very small minority of tourists) is needed. Instilling moral and human values through our education system, the home environment and religious and cultural values will act as a safeguard against negative influences.



Country Analysis

Traditional knowledge should be safeguarded and wherever possible modern and traditional knowledge should be blended to develop technological solutions. For instance, the horizontal crop diversification practiced in traditional chena cultivation, that reduces risk and improves food security, may provide clues needed for more sustainable production systems.

Governance

The promotion of good governance and sound public management are integral to a strategy for sustainable development. The core principles that define good governance are:

- Guarantee of rights and obligations of all through **equity** and **universality** in citizens' transactions
- Adherence to the **rule of law** to ensure legitimacy of actions
- Ensuring predictability of decisions and actions through **transparency, accountability** and **participation**.

The incorporation of a social and environmental dimension into development requires a focus on regions and communities for which Provincial Councils and Local Authorities should play a crucial role. The territorial de-concentration and delegation roles of central agencies that currently prevail must be harmonized with the devolved role of the provincial administration in the delivery of services and development.

Discontinuities in the policy framework and changes in policy direction arising from the changes in the governing political regimes add to unpredictability and uncertainty about the future, and is another challenge for sustainable development. The debilitating effects of corruption add to the crisis in credibility of the government and impose numerous handicaps on the poor in terms of accessing the entitlements they have a right to receive.

4.3 General Strategies in the Path to Sustainable Development

The concept of sustainable development is not new to Sri Lanka, though the term itself has come into prominence only recently. Our ancestors have had a long tradition of living in harmony with nature in the course of harnessing natural resources for more than 2500 years.

After the Rio summit in 1992, the government of Sri Lanka began to follow a more focused and comprehensive policy towards sustainable development. Realizing the need to strike a balance between



Country Analysis

environmental conservation and economic development, the National Environmental Policy (2002) has been developed with the vision “to achieve a healthy and pleasant environment sustaining nature for the well being of people and the economy”. Successive National Environmental Action Plans (NEAP) has provided a broad environmental policy framework for sustainable development in the country.

Creating an economy for sustainable development

As an emerging economy, the challenge for Sri Lanka is to achieve a sustainable high economic growth with greater equity, whilst integrating in the process of globalization, achieving permanent peace and rehabilitating and reconstructing the tsunami affected areas. A sustainable high level of economic growth must be ensured without causing irreversible damage to the environment. Macro economic policies for sustainable development must be developed through an environmentally sensitive macroeconomic framework. A greater understanding of the relationship between economic and sectoral development policies and the environment is a must.

Strengthening institutional structure for sustainable development

A large number of institutions are involved in addressing sustainable management issues, resulting in insufficient co-ordination. Frequent changes in institutional structure have made the situation worse, hindering the proper implementation and co-ordination of national strategies. Inter agency co-ordination is essential in environmental management since it involves a large number of government institutions. Environmental institutions must be set up and strengthened at the provincial levels to cater to increased devolution and decentralization. Community based institutions and non-governmental organizations have to be recognized as key players of collaborative management. The government must provide legal support for co-management of natural resources. The private sector is recognized as the engine of economic growth. Environmental concerns must be institutionalized within the private sector as well as in associations representing large, small and medium enterprises.

Creating a policy framework for sustainable development

A large number of environmental related policies are available. However there is a need to ensure complementarities among them, and effective implementation will occur only if the involved agencies take ownership. Government agencies lack capacity and skills, making resource contributions from the NGOs, CBOs and the private sector even more important.

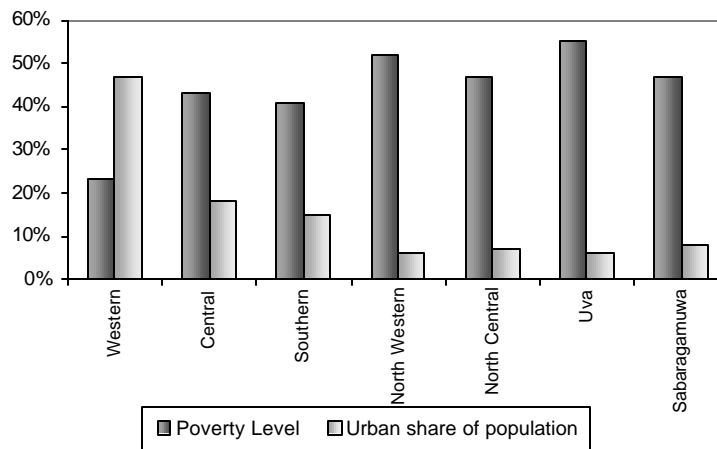


Country Analysis

Creating a regulatory framework for sustainable development

Environmental legislation is often scattered in many over-lapping statutes. Most of them are not enforced. In some sectors legislation is redundant and over-lapping and in some sectors no legislation is available. Regulations should be clear and consistent and uniformly enforced with effective dispute resolution mechanisms. Environmental standards should be developed after full consultation with those affected and must be enforceable. A reward scheme should be established for providing information and other assistance in detecting and preventing environmental offences.

Figure 6: Poverty levels and urban share of population by province



Source: DCS, HIES 95/96, Population Census

Creating a knowledge base for sustainable development

It is recognized that the pursuit of sustainable development requires that all parties such as legislators, policy makers, law enforcement officers, developers, professionals and all other players in civil society are well informed, sensitized on the issues, problems, solutions, choices and alternatives. This can be achieved through information management, dissemination of research, formal education, training, media coverage and awareness creation.

Sri Lanka is one of the 191 signatories to the Millennium Declaration, which emerged from the New York summit in September 2000. It is only by prudent management of all living species and natural resources that the immeasurable riches provided by nature could be preserved and passed on to our descendants.



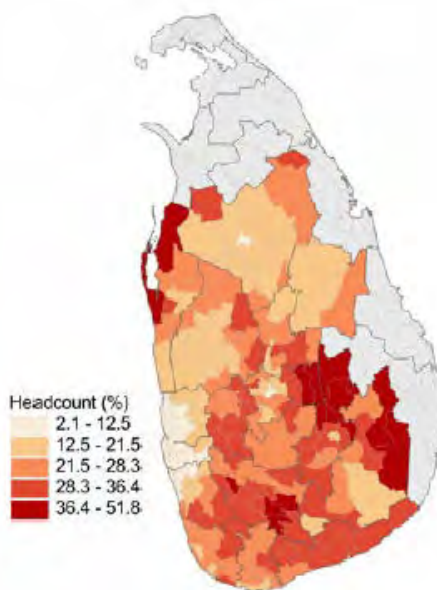
Country Analysis

The current unsustainable patterns of production and consumption must be changed in the interest of our future welfare and that of our children.

Map 2: Poverty map of Sri Lanka



Map 3: Poverty head count ratio



Source: DCS

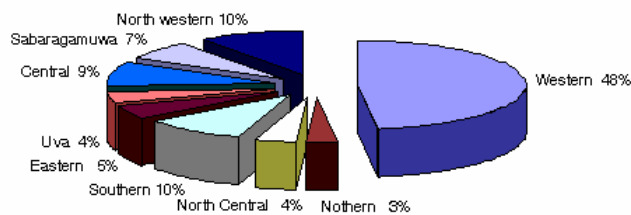


Eradicating Poverty

5.1 Status and trends

Overall, the population below the national poverty line has decreased over the last decade from 26% (1993) to 23% (2002) along with the growth in per capita incomes. Yet, poverty remains a major issue. Fifty per cent of the GDP comes from the Western Province, while the Uva, North Central, Northern and Eastern provinces produce less than 5%. District-wise poverty level assessments show that the poverty level of two districts, Badulla and Moneragala, is 6 times higher than the level of 6% poverty headcount ratio in the Colombo District. Further, poverty in the 7 poorest districts has increased during the last decade though national per capita income rose during this period. Further, while urban poverty halved, poverty in the estate sector increased 50%. Over half the population is below the minimum level of dietary energy consumption, and there is a higher prevalence of under-nutrition in rural and estate sectors than in urban areas. This wide regional disparity in incomes and poverty levels and the inequitable socio-economic development poses the biggest challenge to the development of the country aimed at raising the living standards of all segments of society.

Figure 7: GDP by Provinces



Source: DCS, GDP 2003

Most of the poor live in rural areas and engage in agriculture related activities. Small farm size and tenurial issues that prevail in the food crop sector restrict growth of farm incomes, lead to natural resource degradation, and perpetuate poverty.

Rice is the staple food of the people of Sri Lanka with the current per capita consumption being around 100 kg per year.

Sri Lanka now produces about 3071 thousand metric tons of rough rice per year, which meets 98 percent (2003) of the country's domestic requirement. 128,000 ha of land is under cultivation of other field crops including over 100 agricultural crop varieties such as cereals, grain legumes, spices and oilseeds consumed as food also play a vital role in the nation's food security. Home gardens are also sources of food such as vegetables, spices and fruits to a larger number of households significantly contributing to the households' food security. There are around 1.33 million home-gardens in Sri Lanka, accounting for

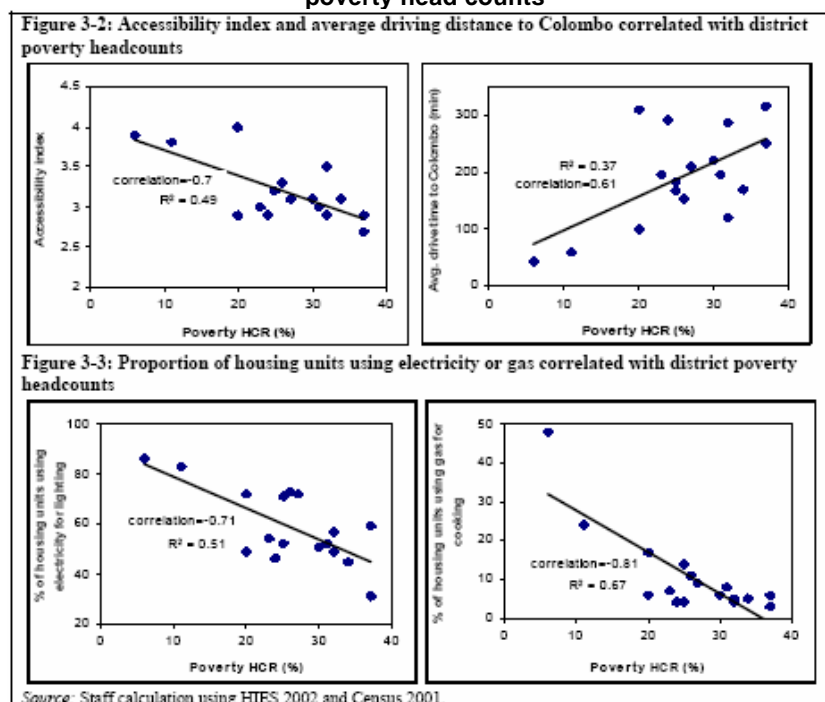


Eradicating Poverty

about 367,800 ha of cultivated land. The current per capita availability of fruits and vegetables is estimated to be about 8 Kg/year and 38 Kg/year respectively, although the recommended rates are 40 Kg/year and 75 Kg/yr respectively. Home gardens are however dwindling rapidly due to land fragmentation caused by the changing socio-economic scenario in the country.

The majority of poor households, predominantly small-scale farmers and landless labourers, are still experiencing seasonal food shortages. Their food security is highly dependent on rainfall patterns, and due to irregular rainfall, recurrent drought and neglect in maintaining irrigation infrastructure; the agricultural productivity of small-scale farm has declined over the past decades. In order to achieve poverty alleviation and food security, assistance to agricultural sector to improve farmers' livelihoods is of prime importance. Food security in terms of availability, accessibility and affordability is uncertain notably in the estates due to irregularities in stocks of supplies as a result of poor transportation facilities and poor retailing supply chains. Food security remains uncertain among many victims of the ethno-nationalistic conflict.

Figure 8: Accessibility index and average driving distance to Colombo correlated with district poverty head counts



Source: World Bank 2007, Sri Lanka Poverty Assessment



Eradicating Poverty

5.2 Policy and Legal framework

Public investment on poverty alleviation, health care and education sectors has been consistently recognized in the government's investment programmes since independence. The more recent development policies are, Vision 2010, National Poverty Reduction and Growth Strategy (NPRGS), Regaining Sri Lanka, *Rata Perata*, and the current *Mahinda Randora* programme. These policies have especially looked at safeguarding and empowering vulnerable groups and disadvantaged people in society by a whole host of measures including involvement in productive economic activities, improving quality of essential services, improved care for disabled and senior citizens. Other than the dedicated poverty alleviation programmes, sectoral projects and programmes address poverty aspects within the respective sector. One such example is the National Plan of Action for Children to address the issues of children particularly of less privileged sections of society.

After the year 2000, several steps were taken to evolve rural economic development-focused and largely project-based development-oriented institutions. The *Gemi diriya* project, *Maga Neguma* and, *Gama neguma* are recent initiatives as special entities of rural development. Other proposals include *Yovun Diriya*, *Diriya Katha*, *Kantha Pilisarana*, *Jana Sevana*, *Jana Sabha*, etc. which over the next several decades can be developed into very powerful institutions dealing with the expansion of the rural economy.

The policy interventions in the agriculture sector are aimed basically at self-sustainability in food through productivity enhancement and safeguarding the livelihood of agricultural producers. There are a number of crop specific policies, most of which are paddy specific while a limited number is common to several crops. The National Seed Policy introduced in 1996 is aimed at reducing cost of production of seed paddy, encouraging private sector participation in seed production and marketing, concentrating government involvement in breeding, testing and quality certification with the legal basis being provided by the National Seed Act of 2003 and Plant Protection Act of 2000. The national agricultural research policy was promulgated in early 1980 for fostering the agricultural research system, while the Sri Lanka Council for Agricultural Research Policy (CARP) Act no.47 of 1987 established the legal and institutional basis.

The Agricultural credit policy and agricultural insurance policy, under which credit and insurance were provided to safeguard farmers from inherent risk, date back to the 1970s. The New Comprehensive Rural Credit Scheme of 1986 forms the basis of current subsidized agricultural credit, which is handled by the



Eradicating Poverty

People's Bank and Bank of Ceylon. In 1995 the government also introduced a farmer pension scheme to be implemented under the same institutional set up for farmers and fisherman. Presently the agricultural insurance scheme covers paddy subsidiary food crops, betel, sugar and livestock.

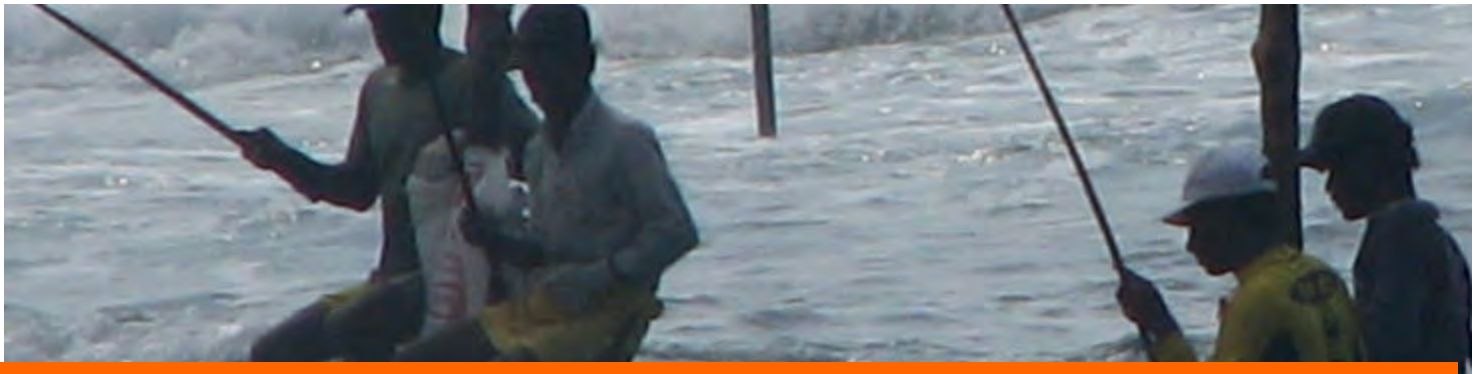
The Agrarian services and farmer organization policy, and Agrarian Services Department were established to coordinate all agricultural activities and provide services at grass-root level. The major objectives of the present land policy are to hold untitled land under government ownership, distribute such crown lands as smallholdings for agricultural production purposes and to prevent further subdivision of such holdings with the policy objective to achieve self-sufficiency in rice. A slight improvement in recent years to alienate state land further under *Swarnabhoomi* and *Jayabhoomi* programmes and the Agrarian Services Act of 2000 removed the restriction partially and conditionally. In the Irrigation sector, provision of irrigation facilities to Dry Zone farmers has been a major development activity, commencing with the River Valleys Development in 1949. The major irrigation facilities have been brought under the purview of the Mahaweli Development programme.

Table 2: Agricultural productivity growth, 1990 -2000

Country	Percentage
Sri Lanka	0.65
China	3.51
Korea, Rep.	5.89
Malaysia	1.62
Thailand	1.35
Vietnam	2.80
India	1.13
Pakistan	2.56

Source: World Bank 2007, Sri Lanka poverty assessment

The government had taken measures in terms of protecting and regulating the Agriculture sector through tariff, subsidies, price supports, credits and other forms of support such as research, extension and promotional programmes. Price support has been given for paddy and milk. The *Mahinda Chinthanaya* suggests further support to the milk sector on farm gate prices. Fertilizer subsidies have been in effect in



Eradicating Poverty

Sri Lanka for a long time with the total value of subsidies being Rs 12 billion/year at present. Currently, the fertilizer subsidy is only for urea and for paddy, vegetable and coconut cultivation. A subsidy scheme exists for tea, rubber and coconut small holders for new planting and replanting.

5.3 Objectives and strategies

Objective 1: Establish the infrastructure for regionally balanced development

Strategies:

- Developing the micro-finance sector to provide sustainable and poverty focused financial services to micro and small enterprises as well as to poor households.
- Developing selected towns as economic centres (similar to Dambulla, Hingurakgoda, Embilipitiya etc), based on strategic locations, with necessary infrastructure.
- Improving infrastructure in plantation areas and other backward regions – roads, electricity, schools, water supplies, health and sanitation facilities, communication, housing etc.
- Rationalisation of import duty on industrial inputs and provision of fiscal incentives for re-location of industries away from main cities and for environmental compliance
- Improving access by rural areas to commercial energy forms such as electricity and petroleum-based fuels.

Objective 2: Achieve high productivity and profitability in agriculture

Strategies

- Development and transfer of agricultural technologies for higher productivity, reduced post harvest losses, and sustainable land use.
- Transforming low productive subsistence farming to high productive advanced agriculture including agro-based industries
- Enhancing agricultural productive efficiency through mechanization and technological transformation whereby labour could be released for off-farm employment as an improved livelihood strategy



Eradicating Poverty

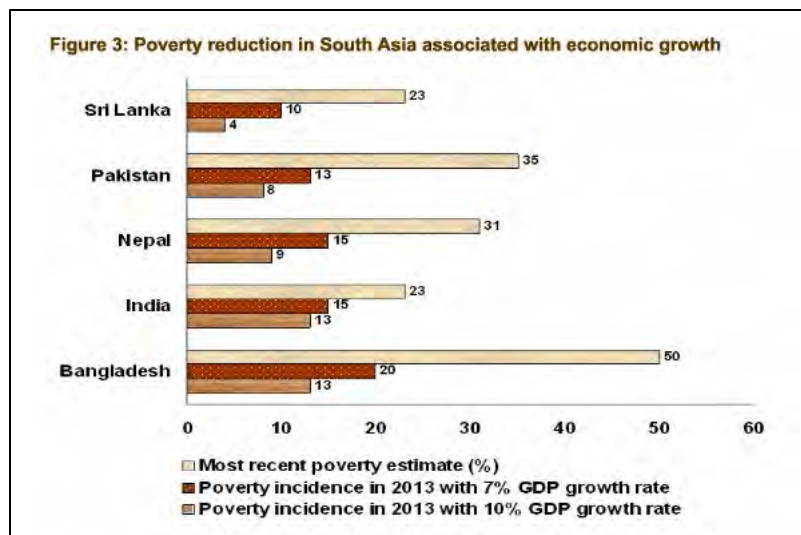
- Adoption of a stable trade policy and a tariff structure on agricultural imports to ensure price stability and predictability
- Improving efficiency and equity in water distribution and use for irrigation
- Sustainable management of fisheries
- Development of safeguards for farmers by adopting a *sui generis* system for breeders' rights in the face of global trade related regimes affecting agriculture

Objective 3: Enable effective social safety nets

Strategies

- Effective targeting of beneficiaries of social welfare programmes
- Rationalising flow of welfare benefits (a) directly and indirectly to rich and the poor, (b) with respect to rural and urban imbalances
- Targeting subsidies for rural sanitation directly to poor and/or less privileged families, while recognizing the need for parallel comprehensive awareness and capacity building and creation of self funding mechanisms

Figure 9: Poverty reduction in South Asia associated with economic growth



Source: Shanthayanan Devarajan and Ijaz Nabi (June 2006)



Eradicating Poverty

5.4 Targets/ Indicators

Indicator	Targets				Monitoring
	2005/06	2010	2015/16	2035/36	
1. By 2015, halve the proportion of population, below NPL compared to the 1990 level. Poverty Headcount Index	23% (2002)		12%	2%	MDG monitoring mechanism - NCED & DCS
2. By 2015 halve proportion of population below \$1 (PPP) per day compared to the 1990 level					
3. Poverty Gap Index (NPL)	5.1% (2002)				
4. Share of Poorest Quintile in national consumption	6.2% (2002)			12%	
5. Proportion of population having access to secure financial services in rural areas			50%	100%	
6. Number of towns developed on the basis of strategic location			12%	30%	
7. Number of rural households with access to commercial energy forms				100%	
By 2015 halve the proportion of people who suffer from hunger 8. Prevalence of underweight children under-5 years	29% (2000)		19%	2%	MDG monitoring mechanism - NCED & DCS



Eradicating Poverty

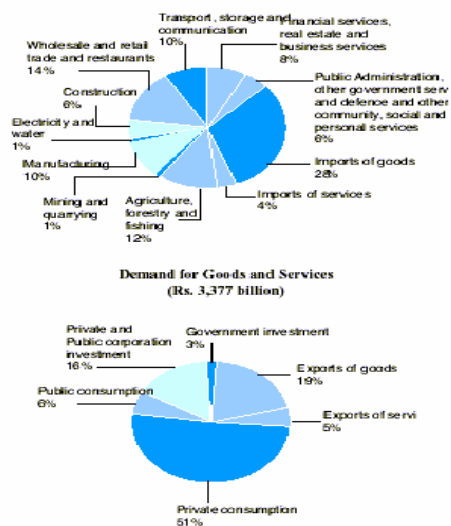
Indicator	Targets				Monitoring
	2005/06	2010	2015/16	2035/36	
9. Proportion of population below minimum level of dietary energy consumption	51.3% (2002)		15%	0%	
Pre-school Children Underweight 10. Prevalence of underweight children under-5 years	25%	22% (2009)	15%	1%	
11. Agricultural productivity indicator: 5% average annual growth in productivity (Rs '000 per person) during the next 10 years			116		Agriculture Ministry, DCS
12. Water productivity (a) in major irrigation schemes (b) in minor schemes		+20% +10% (2011)			Irrigation Ministry
13. Proportion of inland fisheries sustainably managed				65%	
14. Reduce the proportion of Samurdhi beneficiaries			12%	0%	Samurdhi and Finance Ministries

Ensuring Competitiveness of Economy

6.1 Status and trends

The economic policies implemented during the past two and a half decades have contributed to an average annual GDP growth rate of around 5%, lagging behind the growth rates achieved by the dynamic emerging economies in East Asia. Per capita incomes rose from USD 841 to 1197 during the last five years. However, high fiscal deficits have raised the level of public debt to more than 100% of GDP, hampering private investment by raising expectations of higher future taxes and heightening macroeconomic risks. The fiscal deficit averaging close to 9.5% since the mid 1970s, declined to 8.2% (2004).

Figure 10: The economy in 2005



Source: CBSL, Annual Report 2005

Sri Lanka has been gradually changing from an agricultural based economy to an industrial based one over the last few decades and presently follows a liberalized economic policy. At present the industry, agriculture, and services sectors contribute 27%, 17%, and 56% of the GDP respectively. The service sector, which includes electricity and water, has the highest labour productivity, while the agriculture sector employs 33% of the total labour force and sustains the majority of the population. Export agriculture, which is based on the island's bio resources, makes a substantial contribution to the economy; particularly tea, rubber and several other minor export crops.

Ensuring Competitiveness of Economy

Table 3: Sri Lanka growth accounting decomposition (Annual average in percent)

	Real GDP Growth	Contributions from:		
		TFP	Capital	Employment
	3.1	0	1.8	1.3
	6.2	0.8	3.8	1.6
	3.7	0.6	2.6	0.6
	5.5	3	2	0.6
	3.9	0.1	2.3	1.6
	5.1	0.7	1.1	3.3
	4.8	1.1	2.4	1.3
	5.9	1.9	2.5	1.5

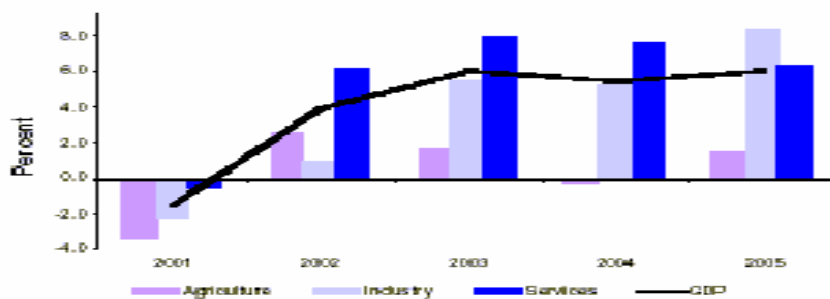
Source: CBSL, Annual Report various issues and IMF staff estimates

Industry and Tourism:

A policy of export-oriented industrialisation was followed since economic liberalization in 1977. As a result, the share of industrial exports increased compared to agricultural exports and stands at 78.3% as against 18.2% for agricultural exports. The industry sector contribution to GDP has increased over the years. The sector consisting of manufacturing, construction, mining & quarrying, electricity and water sub-sectors, presently contributes 27% to GDP and employs 25% of the labour force. The manufacturing sub-sector accounted for 16% of GDP. Sri Lanka's early industrial expansion was in the garment industry, which is relatively non-polluting compared to chemical and leather-based industries, and in the tourist industry, which is low polluting and dependant on a high quality environment for sustenance. Although environmental concerns did not receive high priority initially, with the growing emphasis on sustainable development, these concerns have been integrated into the industrial development strategies. The emergence of the SME sector as a major contributor to economic development calls for measures to ensure environmental compliance in its growth.

Ensuring Competitiveness of Economy

Figure 11: Annual sector growth rates



Source, CBSL Annual Report, 2005

Tourism is a top income earner in Sri Lanka with the gross earnings amounting to USD 416 million during 2004 from peak tourist arrivals of 566,200. The industry faced a setback in 2005 as a result of the tsunami devastation with 20% lower earnings from 3% lesser arrivals. Sri Lanka's rich biodiversity offers ample potential to support the government's current tourism related policy aimed at maximizing potential for nature-based tourism and cultural tourism. Both ecotourism and culture tourism have the capacity to provide conducive employment opportunities to rural youth, and thereby motivate communities to protect the natural environment that provides their livelihood, and also serve the dual purposes of environmental protection and employment generation.

Transportation and Communication:

An efficient transportation and communication infrastructure are vital for a competitive economy. Transportation contributes an average of 8% to the GDP and has strong linkages to economic and social development by providing access to input and output markets and public services throughout the country. There has been an average annual growth of 6% to 8% of vehicle ownership. The active vehicle population in Sri Lanka was 1,660,685 at the end of year 2005, out of which 45% is two-stroke motorcycles and 14% three wheelers with the latter consuming relatively higher percentage of petrol. A key concern is the failure of vehicle importation policies and fuel subsidies to account for environmental impacts. The average age of a vehicle is 4-6 years for petrol vehicles, and 7-10 years for diesel vehicles, thus contributing to low fuel efficiency and high emission. Railways currently serve 5.6% of the total passenger market in Sri Lanka (as at 2005) and 0.45% of the total freight market and 17% of total



Ensuring Competitiveness of Economy

Colombo passenger market. The use of inland waterways is not a popular public transport mode at present though the potential exists.

There are four seaports in the country namely, Colombo and Galle in the southern region, and Trincomalee and Kankasanthurai in the East. The Colombo port is commercially more important and handled 2.5 million twenty-foot containers (TEUs) in 2005 out of which 70% was transshipment cargo. The only significant airport operating at the present time is the Bandaranaike International Airport located 32 km north of Colombo. The average growth of the passenger and cargo markets of the Colombo International Airport was around 12% and 9% respectively per annum during the last five years.

The large-scale infrastructure development programmes have significant potential environmental impacts and social implications, which need to be addressed.

Energy:

Increased provision and use of energy services is an integral part of enhanced economic development. The installed electricity generation capacity in Sri Lanka has increased at the rate of 3% to 2,407 MW, which was the result of both Government and Private sector investments. The composition at present is Hydropower 1,287 MW (56%); Thermal power 1,115 MW (46%); and Other (wind etc) 5 MW. Electricity generation, which has been dominated by hydropower over many years, is now turning into thermal power domination with 61% thermal generation, with oil as the source, in 2005. There have been considerable delays in the implementation of the planned power projects such as the combined cycle power plant at Kerawalapitiya, (300 MW) and the Upper Kotmale hydropower plant (150 MW). As at present, all large thermal power stations in the country are oil-fired stations. It is expected that this situation will change with the addition of coal-fired stations in the west coast as well as in the east coast. The average growth of domestic and general-purpose consumption grew by 11% whereas industrial demand amounts to 8%. To meet the growing demand, electricity-generating capacity has to be augmented by 200 MW per annum. The electricity sector contributed 1.5% towards the economy of Sri Lanka in 2005. Transmission and distribution losses in the national grid system, presently at about 17-18% is planned to be reduced to about 14% within the next five years. About 75% of the households in the country had been electrified by the end of 2005 mainly through the national grid, and another hundred thousand households through off-grid systems such as village-hydro, wind power and solar home systems.



Ensuring Competitiveness of Economy

Further, it is planned to increase the use of non-conventional renewable energy based electricity generation in the system to 10% of the energy by 2015 from the present level of 2.5%. Special focus will be given to dendro thermal, wind power and mini-hydro power development in this regard.

Major energy sources in Sri Lanka are biomass (47%), petroleum (45%) and hydro electricity (8%). Out of these, biomass, which is still considered as a non-commercial energy source, is used for domestic cooking in more than 80% of the households, and the industrial sector accounts for about 28% of the biomass consumption. Most of the domestic cooking activities are very inefficient leading to substantial waste of biomass and increased indoor air pollution. With the rising oil prices there is an increasing trend in switching fuels from petroleum fuels to biomass in industrial heating applications.

The petroleum consumption in the country has been rising exponentially due to increased use of petroleum fuels in the transport and electricity sectors. Preliminary exploration of offshore petroleum resources has given encouraging indications of oil and gas deposits amounting to about 7 years of supply at today's consumption level. Any natural gas extracted may be used in power generation replacing some of the proposed coal power stations avoiding a significant level of gaseous and particulate emissions.

Communication services:

The reforms introduced since 1981 have made telecommunications one of the most liberal, competitive and fast growing infrastructure services in the country. The Posts and Telecommunication sector contributed 6% to the National GDP in 2005. The fixed line telephone density of the island is 6.3 per 100 persons while cellular phone density is 23.6 per 100 persons; 5.9 out of 1000 persons have internet and email facility. The average population served by a post office is 4,100.

The macro-economic framework to create an enabling environment for achieving a higher rate of economic growth and competitiveness include the achievement of a low and stable inflation environment through prudent monetary policy actions, gearing fiscal policy towards containment of budget deficit and maintaining proper foreign and domestic borrowing mix to reduce pressure on interest rates, exchange rate and resource allocation, and improvement of infrastructure to facilitate supporting services such as transport, roads, electricity, water etc. for efficient utilization of resources. Mutual consistency in policies needs to be maintained to reduce friction among policies and to promote predictability.

Ensuring Competitiveness of Economy

6.2 Policy and Legal framework

The policies and strategies to achieve macroeconomic stability and a regionally balanced economic growth rate of about 6-8 percent in the medium-term have been clearly articulated in the following recent policy documents: Sri Lanka New Development Strategy – Framework for Economic Growth and Poverty Reduction 2005, Medium Term Expenditure Framework 2006-2008 (MTEF), and Budget Speeches for 2005 and 2006. The MTEF is the implementation strategy of the current government policy statement *Mahinda Chinthana*. The Budget Speech for 2007 and the annexed Development Framework 2006-2016, sets a target of 8% GDP growth for the next six years and 9-10% thereafter.

Industry:

Prominent among the legislation which guides the sustainable industrialization process are - Industrial Promotion Act No. 46 of 1990, National Environment No. 47 of 1980 as amended by Act No. 56 of 1988, Coast Conservation Act No. 56 of 1980, Mines and Minerals Act No. 33 of 1992, Tourism Development Act No. 14 of 1968, amended by Act No. 2 of 1987 and Sri Lanka Tourism Act of 2005.

Table 4: Value and volume of tourism 1997-2005

Indicator	1997	1999	2004	2005
Tourist arrivals	366,165	436,440	566,202	549,308
Excursionist arrivals	18,265	28,335	11,509	119,618
Official receipts Rs. Mn	12,980.3	19,297	42,666.3	36,377.3
US\$ Mn.	216.7	274.9	416.8	362.3
Receipt per tourist per day (US\$)	58.6	61.4	72.2	74.6

Source: Ten year horizon development framework (2006), Department of National Planning, Ministry of Finance

The Environment Impact Assessment (EIA) Scheme and the Environment Protection License (EPL) Scheme established under the National Environment Act No. 47 of 1980 are the monitoring and regulatory mechanisms to address environmental concerns. Under this system prescribed projects have to undergo an EIA. The most effective tool in environment protection in the industrial sector is the EPL Scheme.

Ensuring Competitiveness of Economy

Table 5: Relative importance of tourism as a foreign exchange earner

Sector	FE earnings, 2005 (Rs. Mn.)	Percentage of total FE earnings 2005
Textile & garments	291,090	29
Private foreign remittances	191,849	19.1
Tea	81,481	8.1
Tourism	36,377	3.6
Other agriculture	18,439	1.8
Precious stones	19,170	1.2
Petroleum products	11,400	1.9
coconut	4,724	1.1
rubber	337,432	0.5
other		33.6

Source: Ten year horizon development framework (2006), Department of National Planning, Ministry of Finance

Tourism development activities are strictly monitored and regulated under the Coast Conservation Act, which has jurisdiction over development within 300 meters from the high water line. This area is generally termed the coastal zone. The Ministry of Tourism also has power, under the Tourism Development (Amendment) Act No. 2 of 1987 to declare designated "Tourism Development Areas" where tourism development activity will not be permitted without the prior approval of the Sri Lanka Tourist Board (SLTB). Currently new legislation has been passed providing for the establishment of the Sri Lanka Tourism Development Authority, Sri Lanka Institute of Tourism and Hotel Management, Sri Lanka Tourism Promotion Bureau, and the Sri Lanka Convention Bureau as separate entities.

The Industrial Pollution Reduction Programme (IPRP) was started in 1993 by the Central Environmental Authority to facilitate the metal finishing, textile, distilleries and leather tanning industries. Low interest environment related credit facilities for improvement of environment performances and minimization of waste in industries and service sector commenced in 1997. The Pollution Control & Abatement Fund



Ensuring Competitiveness of Economy

(PCAF) credit scheme was followed by the E-friends scheme, both managed by National Development Bank with funding from donor agencies. Under the E-friends 1 scheme 281 industrialists benefited from 16 districts and under E-friends II Scheme, 46 projects have been approved to date and funding up to Rs. 557 Mn. has been committed.

In 2002 the National Cleaner Production Centre was established as a project under the Ministry of Industrial Development. At present the Centre is preparing investment guides on paper recycling, plastic recycling and composting to facilitate the future investors on starting resource recovery projects. The *Pavithra Ganga* (Clean River) Programme, organized by the Ministry of Environment has been operational since 2002. Under this programme, quick scan audits were carried out in respect of a large number of industries operated by Small & Medium Enterprise Developers (SMED) and National Cleaner Production Centre (NCPC). The UNEP sponsored Green House Gas Emission Reduction from Industry in Asia and the Pacific (GERIAP) programme, where training and assessment in selected industries and assistance in implementing energy efficiency measures for identified energy waste streams are provided, was coordinated by SMED.

Sustainability Reporting (Triple Bottom Line), eco-labelling and certification, and waste exchange programmes are emerging areas. At present 12 industrial ventures have obtained ISO 14000 certification and 8 have obtained Hazard Account Critical Control (HACCP). There are more than 30 industries in line for obtaining these certifications showing a significant positive trend to obtain environmental certifications for industry related products. Another area of operational activities was the obtaining ISO 17025 for laboratory accreditation. The ITI, SLSI, Textile Training & Service Centre, Lindel Industrial Estate and certain other private laboratories have obtained this certification.

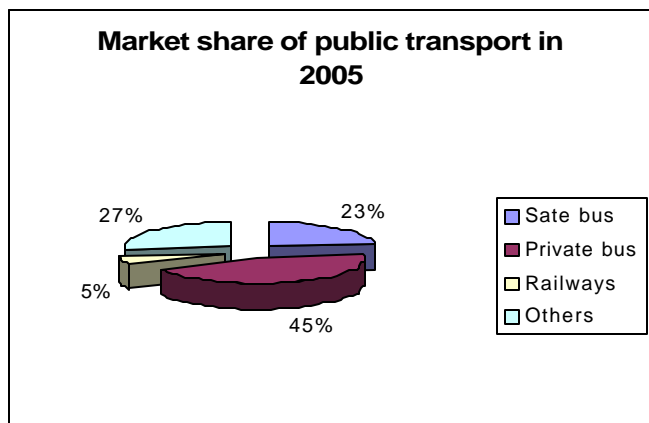
Initiatives have been taken by business chambers (CCC, FCCISL) to recognize firms who incorporate a higher level of Corporate Social Responsibility (CSR) into their business activities. A CSR club is also being formed with the involvement of the National Agri-Business Council and leading businessmen/professionals in the country.

Ensuring Competitiveness of Economy

Transportation:

The National Road Policy (2002) aims to improve the quality of life of people provided with greater mobility, adequately meeting the transport needs of the people both passengers and freight, giving the emphasis to the present and future economic development policies and plans. While the Ministry of Highways is the line Ministry responsible for policy formulation for roads at National level, the Road Development Authority (RDA) is empowered by an Act of Parliament since 1982 for national road construction and maintenance. Provincial Councils are empowered to pass Statutes for provincial road construction and maintenance under the 13th Amendment to the Constitution. The Motor Traffic Act of 1954 (and subsequent amendments) is responsible for administration of all motor vehicles. The Sri Lanka Transport Board Act No. 22 of 2005 was enacted to establish Public Sector Bus System in order to upgrade and to meet the new challenges of competitive road passenger market. The Railway Ordinance is the legislation under which the Railways currently operate. However, the act is being reviewed by the government, with a view to enact appropriate amendments to mobilize capital for modernizing the system. Aviation services and airports are regulated and managed by the Civil Aviation Authority of Sri Lanka (CAASL) established in 2002 replacing the Department of Civil Aviation. Policy changes were directed towards deregulation and adoption of bilateral liberalization agreements to attract more international carriers and tourists to the country. The Government has made a firm policy decision to build a second international airport at Weerawila at Hambantota, which will be developed to meet all international aviation norms, to cater as a regional airport hub.

Figure 12: Market share of public transport



Source: Ten year horizon development framework, Department of National Planning, Ministry of Finance

Power and Energy:

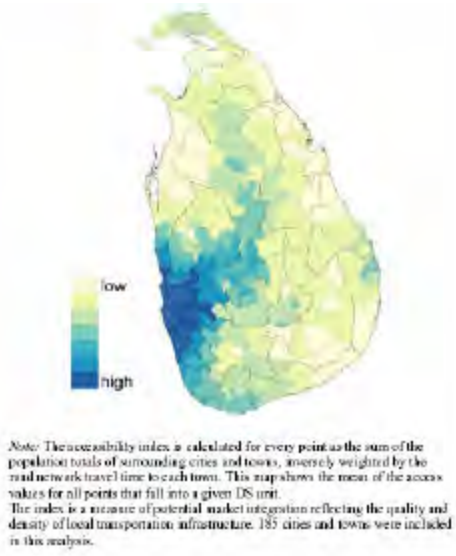
The new energy sector policy of 2006 "Energy Policy and Strategies of Sri Lanka" has appropriately modified the previous policy objectives (Power Sector Policy Directions, 1998; Rural Electrification Policy, 2002; Energy Efficiency Strategy Paper, 2002) to encompass present requirements. It recognizes providing basic energy needs at the lowest possible cost, ensuring energy security, rational



Ensuring Competitiveness of Economy

energy mix, appropriate technology development and promoting energy efficiency and conservation of environment as essential elements. Energy policy, for the first time, has been extended to encompass strategies, targets and milestones addressing key areas such as provision of basic energy needs, energy security, and energy conservation, quality of energy services, consumer protection and environmental

Map 4 : Accessibility potential



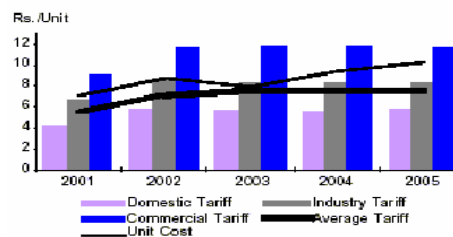
Source, DCS, 2005

impacts. The main policy objectives of the Electricity sector include: 80% households to be provided with electricity by year 2010, 6% of peak demand supplied with renewable energy and increased to 10% by 2015. Fifteen-year generation plans are prepared by the CEB, and the current plan is for 2006-2020.

CEB Act of 1969 and Electricity Act of 1950 presently govern the electricity sector. In addition, several chapters of the Electricity Reforms Act No 20 of 2002 are also effective at present. The sector is regulated by the Minister in charge of

electricity with the assistance/advice of the Chief Electrical Inspector and the CEB. The CEB is expected to be unbundled vertically and horizontally to form one-generation company, a single transmission and bulk-power trading company, and several distribution companies. The regulation of the electricity sector is to be vested with the PUCSL along with the proposed restructuring of the CEB.

Figure 13: Average tariff and cost of electricity

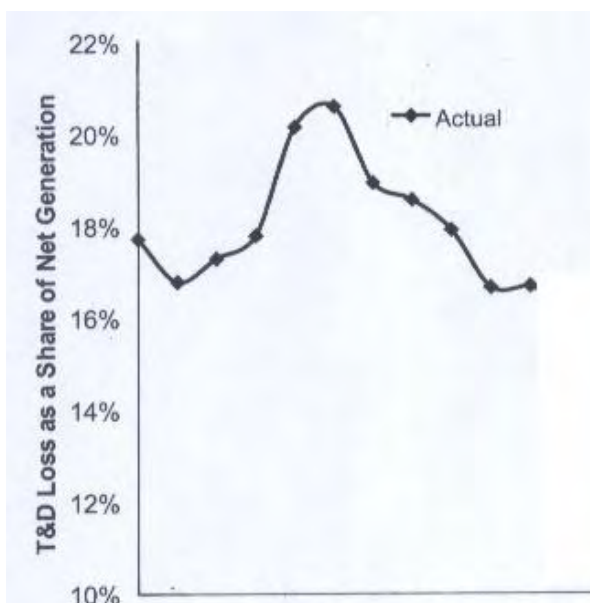


Source: CBSL Annual Report 2005

Ensuring Competitiveness of Economy

The legal framework of the downstream petroleum industry is based on the Ceylon Petroleum Corporation Act No. 28 of 1961 and the Petroleum Products (Special Provisions) Act No. 33 of 2002. The legislations vest the regulatory powers with the Minister in charge of the petroleum industry as well as with the CPC. The activities of the Energy Conservation Fund are to be expanded under the new energy policy and converted into the Sustainable Energy Authority. This authority will eventually be responsible of the development of the NCRE sector and energy conservation programmes in the country.

Figure 14 : Electricity distribution and transmission losses



Source: Ten year horizon development framework (2006), Department of National Planning, Ministry of Finance

Posts and Telecommunication:

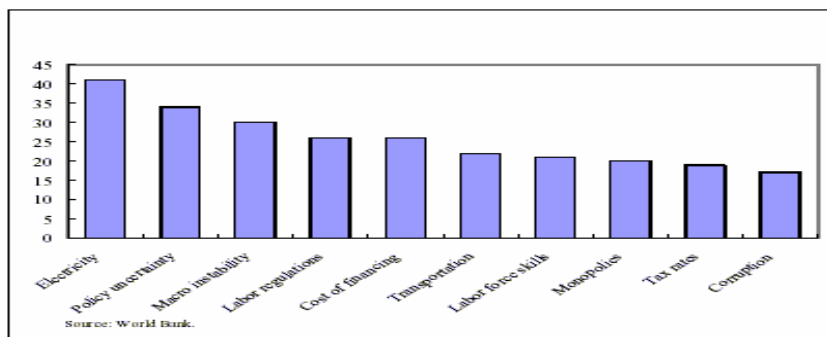
De-regulation of Telecommunication Sector and liberalization of telecommunication services was the main policy of the Government and the telecom regulator was given powers to regulate the sector at minimal levels. This was effected through the Sri Lanka Telecommunication Act (1999) under which the Telecommunications Regulatory Authority was established. Information and Communication Technology (ICT) has been recognized by the government as one of the potential industries to be developed. The postal services are provided by the Department of Posts under the Postal Services Act. Government has accepted main reforms in the Postal Sector, but the delay of implementing the reforms has deprived the technological and efficient service provisions.

Liberalization of postal services since 2000 allowed the new entry of courier services. The regulation of all public utilities such as telecommunication, electricity, and energy was brought under a public utilities commission under a new law passed in 2003.



Ensuring Competitiveness of Economy

Figure 15: Sri Lanka investment climate



Source: IMF Country Report No. 05/337, September 2005

6.3 Sustainable Development Objectives and strategies

Objective 1: Develop small and medium industries to be a significant part of a vibrant and internationally competitive industrial sector.

Strategies:

- Provision of technical and financial services to SMEs
- Transferring Best Available Technologies and Best Environmental Practices to SMEs, prioritizing preventive measures

Objective 2: Enhance the physical infrastructure and services to cater to a growing economy and trade.

Strategies:

- Development of road transport infrastructure and networks
- Major development of sea and air ports
- Developing inland waterways as a low cost transport mode



Ensuring Competitiveness of Economy

- Developing selected towns as economic centres (similar to Dambulla, Hingurakgoda, Embilipitiya etc), based on strategic location, with necessary infrastructure.

Objective 3: Meet the energy needs of a growing economy with minimum environmental cost.

Strategies:

- Diversifying fuels for electricity generation away from oil or fuels of which the price is indexed to oil prices
- Reform and restructuring of the energy sector to enable both State and private sector investments in its development
- Fuel diversification in the transport sector
- Promoting supply side and end-use energy efficiency (generation, distribution and use of electricity)

Objective 4: Establish internationally recognised principles of sustainable development and standards in industries.

Strategies:

- Promotion of Triple Bottom Line accounting and reporting in enterprises
- Facilitating compliance with international standards (ISO, HACCP, EU regulations etc)
- Promotion of life cycle management in designing, manufacturing, consumption and disposal of products, based on principles of sustainable consumption and production
- Integration of the strategies to encourage re-use, reduce, recycle and final disposal of waste
- Promotion of tourism based on environmental sustainability and social responsibility
- Harmonising incentives provided through the tax system and those provided by the BOI
- Introducing market based instruments and other financial incentives to make concern for the environment attractive

Ensuring Competitiveness of Economy

Objective 5: Incorporate green principles in public management

Strategies:

- Introduction of Green Procurement process to the Government procurement procedure under the guidance of the National Procurement Agency
- Incorporation of the principles of green accounting into the National Accounting System

6.4 Targets/ Indicators

Indicator	Targets				Monitoring
	2005/06	2010	2015/16	2035/36	
1. GDP growth rate		8% (2007)	9-10% (2012)	7-8%	CBSL, DCS, IPS
2. GNP per capita	\$ 1197		\$ 3960 \$ 13000 (PPP)	\$ 15178*	
3. Investment/GDP ratio	30%	35% (medium term)		50% (long term)	
4. External Debt/GDP ratio	48%	36%		5%	
5. Budget deficit		5%		0%	
6. Halving of unemployment			3.8%	0%	
7. 5% average annual growth in productivity (Rs '000 per person) during the next 10 years. Agriculture Industry Services			116 228 258		
8. Proportion of SME's with environmental certification and having sustainable procedures and technologies				65%	
9. Industry sector contribution to GDP	27%	32%	34%	50%	

Ensuring Competitiveness of Economy

Indicator	Targets				Monitoring
	2005/06	2010	2015/16	2035/36	
					IPS
10. Number of export processing zones		19	26		Industries Ministry
11. Proportion of cities in the country with green transportation mode			20%	50%	
12. Number of towns developed on the basis of strategic location			12%	30%	
13. Electricity transmission and distribution losses	17-18%	13.5% (2009)	12%	2%	CEB, PUCSL
14. Share of hydro, oil, coal & NCRE:					
Hydro			19.9%	15%	CEB, PUCSL
Oil			2.2%	5%	
Coal			67.3%	55%	
NCRE	2.5%		10.7%	25%	
15. Energy efficiency codes and labelling		All appliances labelled by 2010; EE building codes mandatory by 2009			PUCSL, UDA
16. Proportion of companies with Triple Bottom Line Reporting system			25%	65%	
17. Proportion of tourism enterprises that can be classified as green enterprises			25%	75%	
18. Indicator for adoption of green procurement by government agencies					
19. Indicator for incorporation of green principles in national accounting					

* Computed on CAGR basis at the rate of 7% per year



Improving Social Development

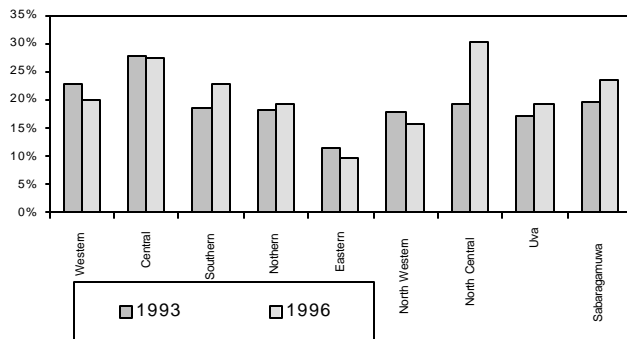
7.1 Status and trends

Sri Lanka has a long history of being a welfare state. Key social welfare delivery actions implemented by the Government include basic income maintenance programmes, poverty reduction programmes, safety net programmes, integrated rural development programmes, food subsidy programmes, production input subsidies such as fertilizer subsidy, shelter programmes, free health care services, free education, social relief in times of disaster, the *Samurdhi* programme, *Gamidiriya* programme, free meal for school children programme, *Janasevana* programme and *Gamanagama* programme. Current expenditure on social welfare by the government for providing food subsidies, free education and health etc is about 4% of national GDP. About two million benefited directly from the *Samurdhi* income supplementary programme in 2005. The government spent approximately 43% of total health expenses of the country amounting to 1.9% of GDP in 2005. The annual subsidy on fuel and fertilizer is about 1.4% of GDP.

Health:

Large investments on social welfare have produced positive and commendable achievements in some of the social indicators, especially health indicators. The Infant mortality rate (11 per thousand live births (2003)) and maternal mortality rate (4.7 per 10,000 live births (2001)) are far ahead of other developing countries. Sri Lanka is on track to realising MDG 4 i.e., to reduce child mortality, and reaching its specific target to “reduce under 5 mortality rate by two-thirds between 1990 & 2015” (Target 5). This is based on

Figure 16: Mortality rate under 5 years by province



Source: Registrar General Department, Public health survey 2000

Sri Lanka's performance in all three indicators: Under 5 mortality rate per 1000 live births, Infant mortality rate per 1000 births, and Proportion of 1-yr old children immunised against measles.

However, malnutrition has been increasing among children and married women – 17% of children under 5 years are born

underweight; 22% of married women in the reproductive age group are malnourished (2000) which has debilitating effects on the mental and physical development of the unborn child and in turn on human



Improving Social Development

capital development. Disaggregation of national data on the conditions of human welfare reveals wide regional disparities with social indicators such as literacy rate, educational attainment, nutrition, and fertility levels reported lower in the estate sector, compared to other segments. Mortality rates are relatively high in the estate sector where one in every 20 babies died in the first year of life. Similarly 'Under 5 mortality' is highest in the estate sector compared to rural and urban sectors.

Table 6: Selected indicators, Sri Lanka and other countries

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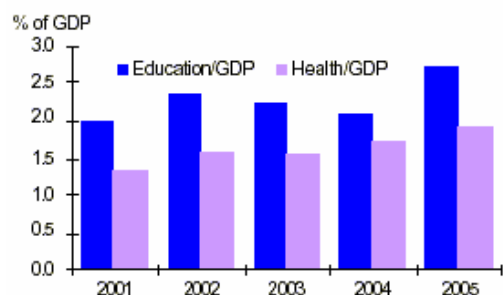
Source: Health, Nutrition and population Comparative Data, HNP Stats, World Bank [Retrieved on June 13, 2006 from <http://devdata.worldbank.org/hnpstats/cd.asp>] and Sri Lanka DHS 2000 (DCS, 2002).

Changes in demographic profile, over-exploitation of the environment, and displacement of people have contributed to increasing non communicable diseases such as cancer, diabetes and cardiovascular and respiratory diseases. Malaria was widespread in Sri Lanka till 1940 and since then has been controlled with the reduction of fatalities. However, it has recently re-emerged as a problem with highest incidence reported in the Northern, Uva and North-western provinces according to Health Ministry figures. Incidence of dengue has also increased in the recent past. The incidence of vector borne diseases is expected to rise due to impacts of climate change. The reported number of deaths due to HIV/AIDS was 131 at the end of 2004, however, it is estimated that about 3500 persons are living with HIV in Sri Lanka at the end of 2003. Prevalence of Tuberculosis in Sri Lanka is on the rise (6174 in 1991 to 8884 in 2002). In 2000 high numbers were reported from the Western Province (3159), the highest in Colombo district. Mental illness, substance abuse, depression and suicides are also on the increase. Problems related to aging, and, deteriorating healthcare for the elderly and the disabled are emerging issues.

Figure 17: Government expenditure on health and education



Improving Social Development



Source: Source: CBSL, Annual Report 2005

Independent Sri Lanka gave high priority to expansion of free education and today the school student population has increased to about 3 million. Sri Lanka now leads South Asia and most developing countries in the area of school enrolment and literacy. The higher education sector has expanded to 13 national universities, 6 post graduate institutes, 5 other higher education institutes, 4 affiliated university colleges with a total student population of about 35,000. Further opportunities for post-secondary education are provided by public advanced technical institutes and vocational training institutes. The most recent additions to the education system in the country are first, the “international schools” – privately run fee levying English medium schools catering to both local and International examinations, and second, the privately owned higher education institutes and IT training institutes some of which are affiliated with foreign universities and colleges. The introduction of these fee levying ‘international schools’ have created a new stratification in the education system as only those with means have been able to afford the significantly higher tuition fees.

Private sector investment, catering to the increasing demand for quality healthcare services, has been increasing over the last two decades. However this has been mainly on curative care and in the urban areas.

Education:

A vibrant education system emphasizing quality and relevance are essential elements of sustainable development efforts of any nation.

Table 7: Sri Lanka MDG Targets

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Improving Social Development

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Improving Social Development

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Source: World development indicators data base, April 2004, Cited in IMF Country Report No. 05/337, September 2005

1/ In some cases the data are for earlier or later years than those stated

2/ Halve, between 1990 and 2015, the proportion of people who's income is less than 1 dollar a day. Halve between 1990 and 2015 the proportion of people who suffer from hunger



Improving Social Development

- 3/ Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
- 4/ Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015
- 5/ Reduce by two thirds between 1990 and 2015, the under five mortality rate
- 6/ Reduce three quarters, between 1990 and 2015, the maternal mortality ratio
- 7/ Have halted by 2015, and begun to reverse, the spread of HIV / AIDS . Have halted by 2015 and begun to reverse the incidence o Malaria and major diseases
- 8/ Integrate the principles of sustainable development into country policies and reverse the loss of environmental resources. Have by 2015 the proportion of people without sustainable access to safe drinking water
- 9/ Develop further an open rule based predictable non discriminatory trading and financial system. Address the special needs of the least developed countries. Address the special means of landlocked countries and small island developing states

Although Sri Lanka has achieved high literacy rates, the country spends less than 5% of its GDP on education, a relatively low figure when compared with fast developing countries in Asia. Per capita expenditure on education in Sri Lanka is less than Rs. 500/. The non availability of adequate funds has starved Sri Lankan schools of facilities, particularly in the rural schools.

While general education is free, the poorer educational facilities in the rural areas deny them the equal education enjoyed by their urban counterparts. As rural areas are dominated by the peasant farmers, social inequality in access to education has occurred by default. The extremely poor educational facilities in the estate sector and the lack of attention paid to education by the estate community have placed them at the very bottom in school education from primary to university level. The indigenous community – Veddhas – is also a community suffering from poor educational facilities.

The spatial inequality favouring urban areas has increased since the 1980s. There is a significant gap between the educational facilities in Colombo and other major cities such as Kandy and Galle, and the peripheral regions in the country. This spatial unevenness has precipitated a 'brain drain' from rural areas and a corresponding widening of the urban rural gulf in education. This has created a vicious cycle where more and more investments are made in the urban areas at the expense of the rural areas. Some schools in the rural areas are being closed down due to lack of students who are opting for schools located in towns and cities.

It is the human resources that will add value to the social and natural resources both of which are essential in ensuring sustainable development. Although Sri Lanka ranks high in general literacy, it is still lagging behind in functional literacy required for a modern developing society. The examination driven education and the poor quality of teachers have hampered the quality of education. The prevalence of



Improving Social Development

unemployment and underemployment among the graduates is a major issue. There is a need for improving the quality and relevance of education in relation to human resources demands. While Sri Lanka is highly successful in mass basing its primary and secondary education, the country lags significantly behind other countries in university enrolment; less than 1% of the school graduates find placements in the University system. There is a definite need to expand university education to accommodate those who qualify, and to provide opportunities for those who do not enter the university system, matched with the employment opportunities and capacity in the national economy.



Improving Social Development

Table 8: Key socio-economic indicators by province

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Source: Annual report 2005, Ministry of Finance and Planning

Urbanisation:

The country’s urban population has been steadily increasing over the past few years to its present level of over 30% of the population. Colombo’s slum dwellers have increased three-fold from the early 1990s to 2000. The rate of urbanisation at 2-2.5% far exceeds the annual population growth rate of 1.5%. Unplanned urban population growth has exerted pressure on land and water resources in the cities as well as surrounding areas. This further impacts on the water supply, sewage disposal, waste management, surface drainage and environment related health problems. The urban population is expected to increase from the present 30% to 45% of the population in 2015.

The construction sector contributes 8% of the GDP. On the basis that one family possesses their own house, the present housing requirement of the country is estimated at 4.5 mn. However, the existing housing stock of the country being around 4.15 mn, and accordingly, the present housing backlog being nearly 0.35 Mn. units. As per the latest Census of Housing and Population conducted in 2001, the shortage of housing was 218,295 units with an additional 1,325,880 sub-standard units requiring improvements. The demand for new houses in Sri Lanka is rising at around 100,000 units per year. The growing urbanisation has led to unchecked construction of houses without integrating environmental aspects related to siting, construction materials, etc. The demand of the construction sector on natural resources leads to injudicious extraction from rivers, quarries and clay pits.

It is estimated that 92% of the population had access to safe drinking water by 2005. About 39% of the population has access to pipe-borne water from various water supply schemes. NWSDB is the main utility providing water supplies in the country. Total water production for the year 2005 was about 383 million cubic metres, supplied to about 900,000 consumers.



Improving Social Development

Almost the entire urban and suburban population of Sri Lanka except a part of Colombo, is dependent on on-site systems for sewage disposal. At present the sewage handling system in the Colombo municipality area which dates back to the colonial period has reached its full capacity and requires urgent investment. Similar investments are required even in most other urban centres across the country. The solid waste presently collected by the municipal councils is generally dumped openly without proper management, due to high costs associated with proper dumping sites, substantially damaging the environment. The municipal waste collection, which was about 2,560 tons per day in 2000, is projected to increase to about 2,885 tons per day by year 2010 and therefore the environmental problems associated with it will intensify.

Disaster management:

Landslides, floods and drought are the commonly occurring natural disasters in Sri Lanka. Recurrent disasters have caused losses to human lives, property and the environment and have often eroded development gains. Though considered as “natural” it is known that improper land use and other human activities are predisposing factors. Cyclones and tsunamis are rare but cause severe devastation to life, property and the environment. The tsunami of December 2004 resulted in the loss of 31,000 lives, displacement of approximately 443,000 people with more than 900 children being orphaned, and severe damage to peoples’ livelihoods, coastal ecosystems and infrastructure.

7.2 Policy and Legal framework

Health:

The broad aim of Sri Lanka’s health policy is to increase life expectancy and to improve the quality of life by controlling preventable diseases through health promotion activities. The major thrust of the health policy for the next ten years will be on the following areas: health promotion, prevention and control of diseases; fostering healthy lifestyles; serving the needs of underprivileged, under-served and vulnerable groups; human resources development; strengthening the quality and range of services; minimizing regional differences in the healthcare delivery system; ensuring availability and affordability of efficacious and good quality drugs; encouraging private investment in healthcare provision; improving the health information system; reforming the organizational structure and management for improved efficiency, effectiveness and accountability; ensuring that health resources are optimally utilized; and, recognizing that health and other sector developments are inter-dependent.

Education:



Improving Social Development

Responsibility for the subject of education is divided between the national government and provincial councils. The subject of universities and scientific and technical education and training, along with national schools are reserved for national government while the management of all other schools is vested in the Provincial Councils. The general education policy however remains with the National government.

The achievement of social equity in education has been the consistent education policy in post-independence Sri Lanka. Nationalization of schools in the 1950s was a direct product of this policy. However, since the 1980s fee levying private schools have sprung up in all the major urban centres in the country. The second major policy orientation in education was to ensure spatial equity in educational facilities, so that all children of school going age living in all parts of the country will have the access to schooling facilities. Towards this end primary schools were opened even in remote rural areas and secondary schools with better facilities were opened in the peripheral areas throughout the country.

A third major policy orientation supporting the first two has been to provide education in the vernacular languages. Starting with school education, the switch over to vernacular medium was initiated in the University education in the early 1960s. While the policy was effective in broad basing school and university education, it also contributed to the increasing socio and cultural gap between the Sinhala and Tamil speaking communities. However, the importance of English both as a gateway to the modern world as well as a link language between the two vernacular communities has been increasingly recognized and corrective attempts have been made. The present policy proposals stated in *Mahinda Chintana* have identified the right to free education of our children to be preserved, a programme to teach Tamil language to Sinhala students and Sinhala language to Tamil students, a selected school in each Divisional Secretariat division to be developed as a superior school and top priority to be given to enhance English language proficiency among all children for future directions for education and human resources in the country.

Compulsory education for the age group 5-14 years was enabled by the Education Ordinance No. 31 of 1939. The Session Paper XXIV of 1943 titled Report of the Special Committee on Education, popularly known as Kannangara Report was a landmark as it laid the foundation for free education in the country. Since then a series of laws, amendments, sessional papers, government regulations and circulars have come to define the regulatory context of general education in the country.



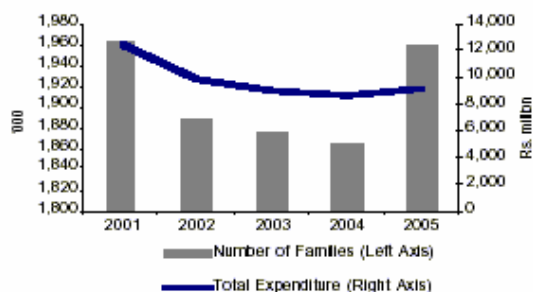
Improving Social Development

The Ministry of Education, headed by the Minister of Education is the apex policy making body for the education sector in Sri Lanka. However a plethora of institutions and statutory bodies are involved in policy formulation and implementation. The National Education Commission set up in 1991 is entrusted with the responsibility to “make recommendation to the President, on educational policy in all its aspects, with a view to ensuring continuity in educational policy and enabling the education system to respond to changing needs in society”. The National Institute of Education established in 1985 is entrusted with facilitation and development of general education in the country. Schools that were declared as ‘national schools’ come under the direct purview of the Department of Education under the Ministry of Education and all other schools come under the Provincial Educational Departments and Ministries.

University education in the island is under the purview of the University Grants Commission established in 1978. Today over 13 Universities which enjoy semi-autonomous powers are functioning in the country. Several hundred non-university tertiary and vocational educational centres are operating all over the island under the jurisdiction of the Tertiary and Vocational Education Commission.

Several attempts have been made during the last decade to assess the status of education and human resources. These findings are documented in the following: Report of the Youth Commission (SP I of 1990), First Report of the National Education Commission (SP V of 1992), An Action Oriented Strategy Towards a National Education Policy – National Education Commission (1995), Presidential Task Force on Education – 1997, Envisioning Education for Human Development: proposals for a National Policy Framework on General Education in Sri Lanka, National Education Commission- 2003 and Education Sector Development Framework and Programme (2006-2010) Policies and Expected Results.

Figure. 18: Samurdhi recipients and expenditure



Source: CBSL Annual Report, 2005.

Urban development:

The national policy on Urban Development is geared to achieving the overall national goal which is a rational, integrated, comprehensive and orderly development by improving the planning, development management, and delivery capacities of the urban centres. At present the Urban Development



Improving Social Development

Authority (UDA) has identified 192 urban centres throughout the country and is responsible for producing development plans for the major urban centres. Urban development is primarily governed by the Urban Development Authority Law of 1978 and its subsequent amendments, and the UDA is empowered to regulate the sector. The Public Utilities Commission of Sri Lanka (PUCSL) Act No 35 of 2002 established the PUCSL as the body to regulate the physical infrastructure sectors inclusive of the electricity industry, the water services industry and petroleum industry. However the regulatory function will be made effective only when the individual industry legislations referring to PUCSL as the designated regulator are enacted.

Water supply and sanitation:

The national policy on water supply is based on the following policy documents - National Policy on Water Supply and Sanitation (August 2002), National Policy on Private Sector Participation in Water Supply and Sanitation (October 1999), Urban Water Supply Policy, National policy for rural water supply and sanitation sector (July 2001), Policy on Quality Assurance of Water Supply & Services provided by the NWSDB, Water Supply and Sanitation Sector Reform Policy (Draft December 2000), Tariff Policy on Drinking Water, National Rainwater Policy and Strategies (September 2005). These policies are broadly aimed at: Providing access to sufficient and safe drinking water to the population of the whole country by 2025; improving service levels and the quality of water supplied in urban and rural areas to meet national standards; making rainwater harvesting mandatory; providing access to adequate sanitation to 70% of the population by 2010 and 100% by 2025; providing piped sewerage systems in the major urban areas and selected growth centres; and, making available standard on-site sanitation to all those not connected to a sewerage system or other sanitation scheme.

The water supply industry is primarily governed by the National Water Supply and Drainage Board Act No 2 of 1974. The NWSDB, while providing the water and sanitation services, also acts as the regulator of the industry while providing policy advice to the government. Municipal and urban councils as well as *Pradeshiya Sabhas* (village councils) require a sewage disposal system to be located on the building plans of all new building permit applications. However, no regulations or guidelines are stipulated for the design of these systems. The PUCSL was established in 2003 to regulate the sector. It is expected that the PUCSL regulatory intervention will be confined only to economic regulation while technical and safety regulation will continue to lie with the NWSDB.

Waste management:



Improving Social Development

The overall declared country policies on waste management are based on the National Strategy for Solid Waste Management (June 2000), National Policy for Rural Sanitation (June 2006) and National Policy on Water Supply and Sanitation (August 2002). The broad aims of the policies are to achieve: Waste avoidance, reduction, reuse, recycling and final disposal in an environmentally sound manner; Access to adequate sanitation to 100% of the population by 2025; Piped sewage systems in the major urban areas and selected growth centres; and, Standard on-site sanitation available to all those not connected to a sewage system or other sanitation scheme. In addition to these declared policies, the provincial councils and local authorities adopt their own *ad hoc* policies from time to time depending on the needs of the local population.

The Local Government Acts, Urban Council Ordinance and Pradeshiya Sabha Act have clearly and adequately provided for the management and disposal of solid waste in the respective areas. Under Section 12 of NEA, the CEA is empowered to give directions to local authority necessary for safeguarding and protecting the environment. The MOE along with the CEA are the national level institutions responsible for regulation of waste management.



Improving Social Development

Housing and Construction:

The Government is implementing special housing programs for targeted groups, and the Budget for 2006 proposed to provide housing loans at a concessionary interest rate to Government Servants through commercial banks. Special tax reductions to import construction equipment by the private sector contractors are also provided. The National Housing Development Authority Act of 1979 is responsible for all matters related to housing construction, development, and regulations.

Disaster management:

In a major policy effort to develop and consolidate vital institutional mechanisms for disaster management, the 'Sri Lanka Disaster Management Act' was passed on the 13 of May 2005. This Act provides for a framework for disaster risk management in Sri Lanka and addresses disaster management (DM) holistically, leading to a policy shift from response based mechanisms to a proactive approach toward disaster risk management; and for establishment of institutional and legislative systems for a framework for disaster risk management.

7.3 Objectives and strategies

Objective 1: Build a healthy society with equitable access to healthcare services.

Strategies:

Integrating preventive and curative healthcare and welfare considerations in healthcare delivery
Supporting and encouraging the development of Ayurveda to a level that proudly complements the healthcare system and services that Sri Lanka can offer to the world at large

Objective 2: Develop human capital for a knowledge based society.

Strategies:

Ensuring spatial equality in the distribution of education facilities and resources
Ensuring spatial equality in access to information and IT
Capacity building and re-training of service providers (teachers, curriculum developers, extension and technology transfer personnel, non-formal sector) continuously
Incorporating sustainable development topics in the curricula of the formal education system



Improving Social Development

Enhancing the knowledge base through increased investment in R&D

Objective 3: Empower communities for full participation in development decisions.

Strategies:

Strengthening of grass roots organizations, including fisheries and farmers societies and cooperatives, for sustainable development

Decentralizing the management of rural water schemes and village sanitation programs with participation of Local authorities, CBO'S and community groups, and small entrepreneurs for sustainable management

Restoration of communities in conflict affected areas

Uplifting vulnerable sections of society such as the old, disabled, and victims of the armed conflict and of gender based violence.

Objective 4: Provide the required utility services in urban centres in compliance with environmental and health standards.

Strategies :

Integrated planning within the urban development sector with proper coordination with other sectors such as water supply and sanitation, housing, energy supply and urban transport

Managing water supply and sewerage systems for cost effective service delivery

Integration of sustainability principles in housing development and construction

Objective 5: Minimize the impact of natural disasters on the community.

Strategies:

Strengthening disaster risk reduction and disaster response mechanisms



Ensuring Good Governance

8.1 Status and trends

Governance cuts across all sectors of development activity. Two events have occurred with far reaching implications for the framework of governance in Sri Lanka. These are, first, the shift towards a liberalized economy and transfer of significant responsibility for production and delivery of services to the private sector. The second is the devolution of power to provinces establishing provinces as tiers of government and introducing multi-level governance. Their synergistic effect should have led to far reaching changes in governance arrangements. However, governance frameworks are yet to take form and shape. Hence the current context for the practice of governance is delineated by public sector action systems that set the framework for decision making in the public domain.

The current politico-administrative arrangements for performing public functions constitutes the outcome of a process of evolution with successive constitutional and administrative reforms being superimposed upon what is fundamentally a centre-driven system. The system is constituted at the apex by central Ministries, Departments, and Public Enterprises operating a de-concentrated district and divisional network of sub-national offices. Policies and programmes are formulated at the centre and their implementation directed and controlled from the centre. Policies and programmes tend to be generic for all areas of the country, with little or no sub-national diversity.

The centralized structure is modified by Provincial Councils that provide for a devolved political system whereby the functions of government are allocated between the Centre and the Provinces. Devolution introduces a multi-level (three-tiered) system of government with Local Government as the third tier. It posits decision making regarding service delivery in respect of devolved functions at the provincial and local levels. In the ensuing structure of government, governance responsibilities for sustainable development are assigned between national, provincial and local levels in guaranteeing rights and obligations of all through *Equity* and *Universality* in citizen transactions.



Ensuring Good Governance

Table 9: Selected indicators of human capital development and governance

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Sources: World Bank, 2005, World Development Indicators and Governance Research Indicators cited in IMF Country Report No. 05/337, September 2005

Devolution and sharing of political power are inseparably linked with the resolution of the ethno-nationalistic conflict. The ongoing ethno-nationalistic conflict has not only crowded out public investment in infrastructure and other productive sectors, but seriously affected the social fabric and stability of the country. The country lost thousands of persons and a large number were disabled. Severe disruption of economic activities in the country and diversion of government investment to high priority defence and security expenditure have curtailed poverty reduction. The conflict has hindered entrepreneurship and social and economic mobility among people, affected tourist arrivals from time to time, and caused displacement of people. A considerable extent of forests is inaccessible making management not possible. Increased defence expenditure due to the conflict, at 4-6% of GDP since 1986¹, has widened the fiscal deficit, reducing resources available for economic development and raised the burden of public debt. The total government debt which was 77% of GDP in 1980 increased to 106% by 2004. The production loss alone due to the war has been estimated to be around 2% of GDP.

Key concerns in ensuring good governance and achieving the aspirations of all citizens are:

¹ Except in 2004 when defence expenditure was 3% of GDP.



Ensuring Good Governance

- Despite devolution of powers under the Thirteenth Amendment the administration remains centralized and suffers from a tradition of politicization and patronage.
- Lack of clarity at the policy level in the demarcation of authority, responsibilities and functions at the three levels of government affecting the efficiency and effectiveness in the delivery of public services as well as undermining its focus on and relevance for poverty reduction.
- Lack of appropriate mechanisms for policy coordination and focusing upon trans-sectoral issues in the context of a multiplicity of sector and sub-sector programmes. In the absence of mechanisms for ensuring coherence in policy, operational service delivery practices tend to be *ad hoc* and unpredictable.
- Lack of continuity in public policies arising from the changes in the governing political regimes. The drastic changes in the public bureaucracy following change in government have seriously limited institutional memory entailing problems in policy implementation.
- Discontinuities in the policy framework resulting in changes in policy direction add to unpredictability and uncertainty about the future, a necessity for the private investor.
- Inadequate system oversight and a weak regulatory framework affect legitimacy of, and confidence in, public actions. As far as the citizen is concerned, the problem is aggravated by the absence of alternate dispute resolution mechanisms closer to the communities where they live in seeking speedy redress from the legal and regulatory system.
- The widespread perception is that corruption is rife in Sri Lanka. The work of the Commission to Investigate Allegations of Bribery and Corruption is hampered by its legal authority and staffing. The debilitating effects of corruption add to the crisis in credibility of the government. Corruption imposes numerous handicaps on the poor in terms of accessing the entitlements they have a right to receive.
- The ethno-nationalistic conflict, which has hitherto proved intractable, has had a serious impact on socio-economic development and inflicted considerable damage to natural resources.

⁹ Sri Lanka, with a score of 3.3, ranked 84th (together with five other countries) out of 163 countries in the 2006 Transparency International Corruption Perceptions Index.



Ensuring Good Governance

8.2 Policy and Legal framework

Provincial Councils as a new level of governance between the central and local governments were introduced by the 13th Amendment to the Constitution adopted in 1987. While *adherence to the rule of law* is fundamental, the ensuing legal and regulatory arrangements for governance must ensure *social inclusion and citizen rights to life, services and property*. The Constitution provides for a Chapter on fundamental rights which includes important principles such as non-discrimination and equality before law. Some rights such as the right to life and economic, social and cultural rights, which are not explicitly covered in the Constitution, are interpreted in the course of the decisions of the Supreme Court.

Parliament has a key oversight role responsibility. At the apex is the Parliamentary oversight system. The Parliamentary Consultative Committees are chaired by the relevant Minister whose ministry is the subject of such oversight. The Committees on Public Accounts and on Public Enterprise complement the Consultative Committees in the Parliamentary oversight system.



Ensuring Good Governance

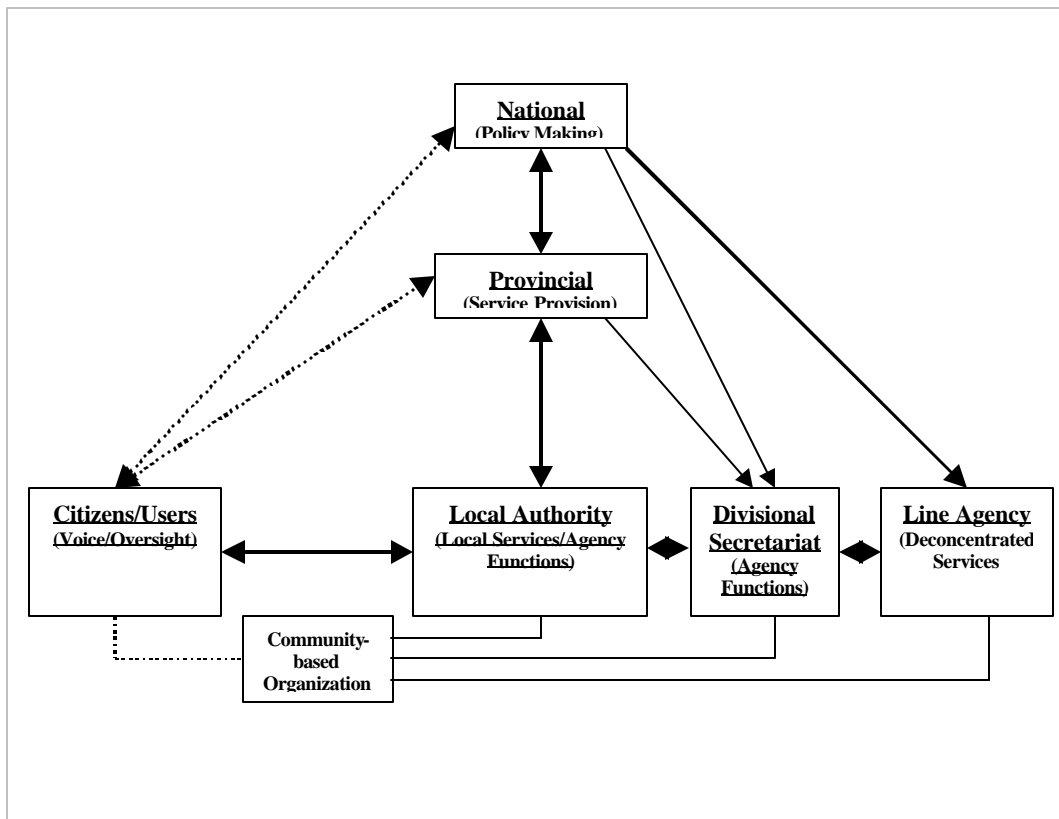


Figure 19: Service provision relations

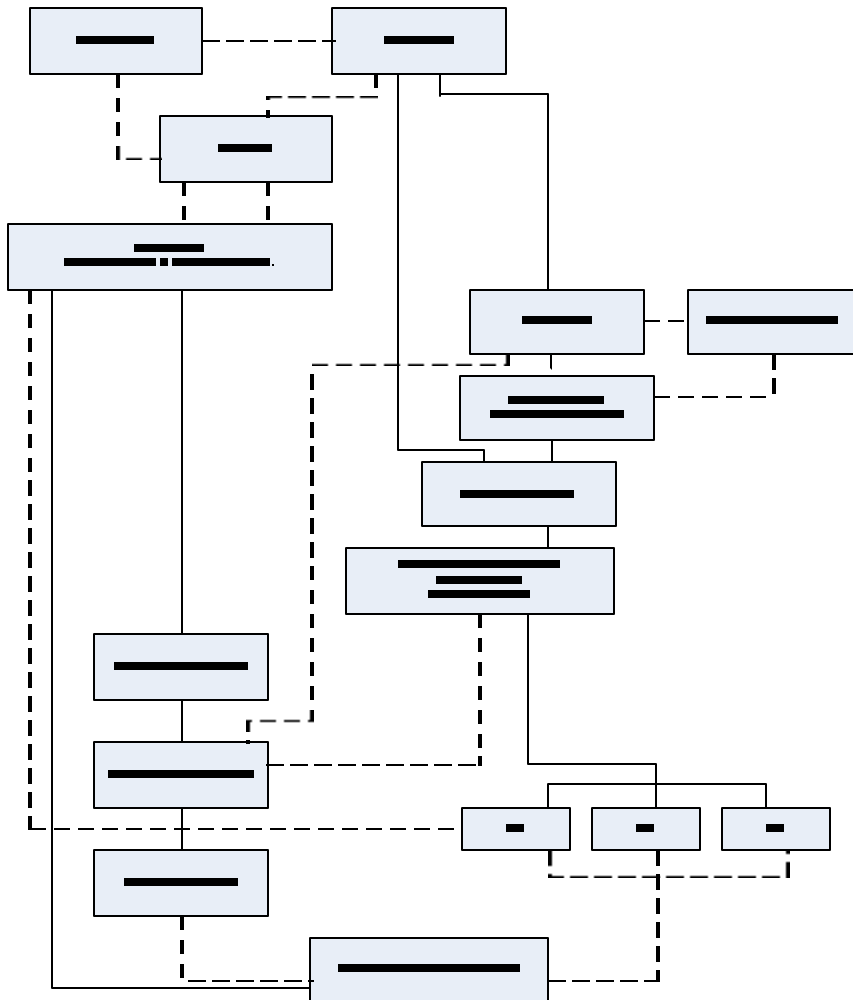
A number of oversight bodies function under the purview of the Seventeenth Amendment to the Constitution, notably the Human Rights Commission, Police Commission, Public Service Commission, Elections Commission and the Judicial Services Commission. The amendment seeks to provide for the independence and neutrality of these oversight bodies. The key oversight bodies in the national integrity system are the Auditor General and Commission to Investigate Allegations of Bribery and Corruption (CIABC). The office of the Auditor General constitutes the “fulcrum” of the country’s integrity system functioning as watchdog over public sector financial integrity and credibility of reported information. Legal provision for control of bribery was first made with the enactment of the Bribery Act of 1954, establishing the Department of the Bribery Commissioner. The Commission to Investigate Bribery Act No.19 of 1994 established the CIABC. The new law gave a more comprehensive statutory definition of “corruption” that would constitute a misuse of public office.



Ensuring Good Governance

The shift to a liberalized economic regime has created the need for legal and regulatory arrangements that would facilitate the effective management of the expanding role of the private sector. A multi-faceted regulatory system is established in the areas of banking, listed companies, registered companies, trading, telecommunication and specific industry areas by resolution of Parliament. The modernization of the legal and regulatory framework is the necessary basis for the promotion of not only a level business environment and reduced transaction costs, but also to protect consumer right to standard services.

Figure 20: Structure of government administration





Ensuring Good Governance

8.3 Sustainable Development Objectives and strategies

Objective 1: Improve the governance framework for sustainable development.

Strategies:

- Establishing a decentralised system of governance backed up by appropriate resource allocation
- Improving transparency and citizens' access to information in public decision making
- Eradicating the prevailing high levels of corruption
- Reforming the maintenance of law and order

Objective 2: Ensure peace with justice for all communities.

Strategies:

- Resolution of the ethno-nationalistic conflict

8.4 Targets/ Indicators

Note:

The World Bank governance indicators given here reflect six dimensions of governance, i.e. Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. These indicators are developed by the World bank based on several hundred individual variables measuring perceptions of governance with the statistical aggregation of responses on the quality of governance given by a large number of enterprise, citizen and expert



Ensuring Good Governance

survey respondents in industrial and developing countries, as compiled by a number of survey institutes, think tanks, non-governmental organizations, and international organizations.



Ensuring a Clean and Healthy Environment

9.1 Status and trends

Sri Lanka is endowed with valuable biological resources, abundant water resources, fertile soils, minerals, and a conducive climate. The country has one of the highest numbers of plants and animal species per unit area and it is among the biodiversity “hotspots” in the world. About 14% of the land area is managed for conservation, which is one of the highest proportions in Asia. Sri Lanka enjoys plentiful rainfall from two monsoons; waters are carried through 103 major river basins covering 90% of the island.

The country’s present environment problems are comparatively recent, stemming largely from a growing population and exacerbated by continuing economic development resulting in spiralling consumption. A plethora of environmental problems, such as the excessive exploitation of the land (especially sloping land), deforestation, loss of biodiversity, water pollution and water scarcity, destruction of coral reefs, urban pollution, and solid waste and poverty, may be viewed as consequences resulting from demographic pressures.

Land is the most vital and immediately threatened natural resource in Sri Lanka. The main manifestations of land degradation and its related problems are a decline of arable land, decrease in land fertility and agricultural productivity, loss of irrigation and hydropower generation capacity due to silting of reservoirs and tanks, floods, and landslides. Although Sri Lanka enjoys plentiful rainfall, water has become an environmental issue and some parts of the island face acute water scarcity. Increased demand for water from the expanding industrial sector, rapid urbanization and the consequent generation of waste, industrial effluents, increasing use of agricultural chemicals, fertilizer, herbicides, and increasing salinity in irrigated paddy lands are causing water pollution.

The hazards of chemical pollution of the environment from pesticides and herbicides remains to be assessed in Sri Lanka. Precautions relating to these chemicals focus essentially on human safety and not environmental health. Given that large quantities of these chemicals are used in farmlands close to pristine forest reserves, their impact on non-target organisms and on the environment needs urgently to be assessed, and mitigatory actions taken accordingly.



Ensuring a Clean and Healthy Environment

Table 10: Environmental indicators

Source: National MDG report, 2005

Forest cover remained high up to the end of the 19th century (84% in 1881). Low-intensity multi-crop agricultural regimes supported natural ecosystems, and subsistence agriculture ensured farming systems that preserved soil fertility. These systems have been largely replaced by plantation agriculture, reducing national forest cover to 22% by 2002.

The coastal area has the highest population pressures (30% of the population live in the coastline), the biggest concentration of development projects and the highest degree of industrialization and urbanization (about 24% of the land area). It contains a number of critical habitats (some 80% of fish are harvested through near-shore fishing), and some of the richest biodiversity reserves. Coral mining, clearing of coastal vegetation, clearing of mangroves, sand mining in beaches and coastal dunes, haphazard construction, and the dumping of waste have led to pollution, coastal erosion and degradation of habitats. These critical habitats, which include lagoons, estuaries, mangroves, coral reefs, sand bars and salt marshes, are small and highly vulnerable to exploitation and degradation. Since they shelter valuable species of aquatic life, act as buffer zones for protection from coastal erosion, and have rich non-renewable or slowly renewing natural resources, they need to be managed sustainably.

Biodiversity is being increasingly eroded due to excessive habitat fragmentation and destruction of ecosystems. The main causes are deforestation, filling of wetlands, over exploitation of biological resources such as timber for commercial purposes, destruction of coral reefs, and the pollution of inland and coastal waters. The IUCN's National Red List for Sri Lanka lists 560 species of fauna and 690 species



Ensuring a Clean and Healthy Environment

of flora as threatened with extinction, and dozens of species, including flowering plants, amphibians and freshwater fish, are suspected to have become extinct in the past century.

Solid waste is a growing problem in urban and industrial areas, and also at the level of the village. At present, collection of waste by local authorities reaches more than 3,000 tons per day. The main problem is the absence of satisfactory measures for the collection and disposal of solid waste in properly engineered landfills and the lack of facilities for safe disposal of hazardous and clinical waste. Although local authorities are mandated to manage solid waste they are short of resources to do so.

Air pollution in Sri Lanka is as yet an urban problem and largely restricted to Colombo where vehicular emissions have been identified as the main source of pollutants. This problem is aggravated by the current fuel pricing policy that promotes the use of diesel over petrol, the inadequacy of the road network and the high concentration of vehicles in Colombo, resulting in heavy traffic congestion.

The legislation relating to the environment, by and large, tends towards a “command and control” approach rather than a participatory and incentivized one. Many statutes are overlapping, stringent and too detailed. In some instances, the fines stipulated are rendered unrealistic by inflation. In most cases enforcement of laws and regulations is weak as the responsibility is shared between several agencies.

9.2 Policy and Legal framework

The Constitution of Sri Lanka, 1978 has clearly recognized in Article 27 (14) that *“the State shall protect, preserve and improve the environment for the benefit of the community”* and 28 (f) further states that *“it is the duty of every person in Sri Lanka to protect nature and conserve its riches”*. The National Environment Policy (NEP) 2003 acknowledges this and provides the directions to conserve environment in all its aspects. Other policies include: National Watershed Management Policy of 2004, National Forestry Policy of 1995, National Wildlife Policy of 2000, National Policy on Air Quality Management of 2000, Clean Air 2000 action plan, and National Involuntary Settlement Policy of 2002. The national environmental action plan “Caring for the Environment 2003-2007” has made efforts in translating these policies into actions.

The following major sub-sector policies and action plans also relate to environmental issues: Policy framework of the Ministry of Agriculture, Lands & Forestry (1995), draft Land Use Policy, Coastal 2000



Ensuring a Clean and Healthy Environment

Action Plan, draft Water Resources Policy of 2000, National Pollution Management Policy of 1996. In the absence of a National Fisheries Policy, the Fisheries and Aquatic Resource Act of 1996 introduced several new measures for the protection of threatened aquatic species.

Sri Lanka is a party to many international conventions, protocols, and agreements on environment and the government gives high priority to keep national commitments to international legal instruments ratified by the country.

There are well over 100 statutes directly or indirectly dealing with environmental matters, some dating back to more than 100 years. The National Environment Act No 47 of 1980 and subsequent amendments is the main legislation to safeguard the environment.

The enactment of the National Environment Act provided the platform to set up the necessary institutional framework to safeguard the environment. The key institutions and coordination mechanisms are: CEA; MOE; National Environmental Council to advise CEA; decentralization through provincial council arrangements; co-ordination mechanisms for sectoral co-ordination of the environment concerns such as Committee on Integrating Environment and Development Policies (CIEDP); and Committees on Environment Policy and Management (CEPOMs). EIA and EPL schemes have been made mandatory under the National Environment Act.

Establishment of the Global Affairs Division and the National Ozone Unit in the Ministry of Environment, and establishment of National Co-ordinating Committees on various conventions and protocols are the major institutional arrangements set up to meet the international commitments.

9.3 Sustainable Development Objectives and strategies

Objective 1: Sustainable management of natural resources

Strategies:

Strengthening enforcement of environmental laws through training, capacity building and provision of resources

Instituting appropriate fiscal measures to promote environment friendly practices

Protection of water bodies, canal systems and wetlands in urban areas



Ensuring a Clean and Healthy Environment

Developing a community based environment and natural resources safeguard mechanism at local level

Improving the knowledge base on natural resources contributions to poverty reduction, including analysis of values of subsistence and environmental benefits

Objective 2: Mainstream environmental dimensions into the sectoral development planning process

Strategies:

Moving towards greener urban transportation and clean air

Promoting the use of economically viable, environment friendly, renewable energy resources, with emphasis on non conventional energy resources

Optimizing energy consumption through energy efficiency in enterprises and promoting substitution of fossil fuels by renewable energies in economic and production sectors

Enforcing compliance of the Energy sector utilities with safety and environmental standards stipulated by the State

Institutionalising appropriate policy evaluation and project appraisal instruments and mechanisms, such as SEA, for evaluating their impacts on environment

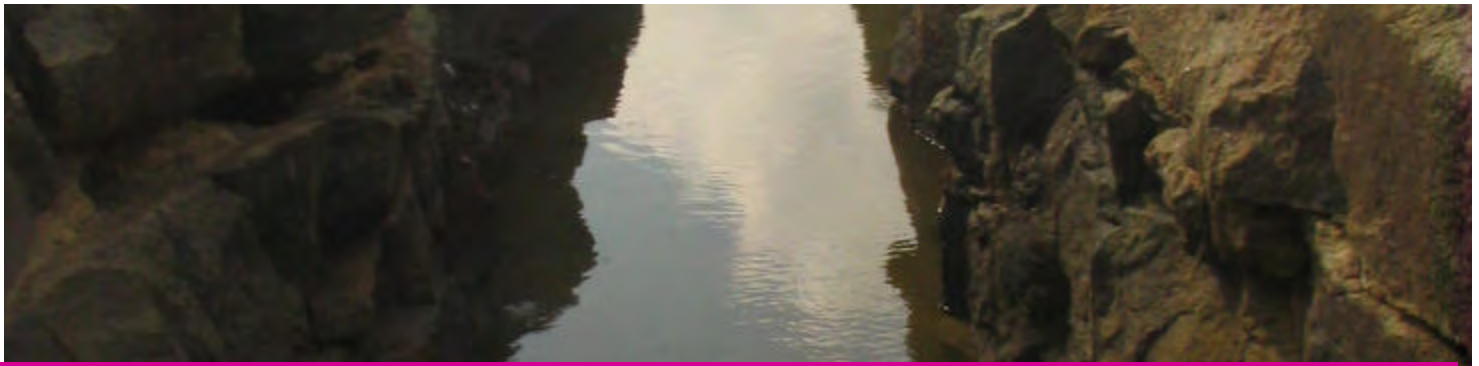
Adopting the precautionary principle to address unfavourable externalities arising from agriculture, industry, energy and other sectors of the economy



Ensuring a Clean and Healthy Environment

9.4 Targets/ Indicators

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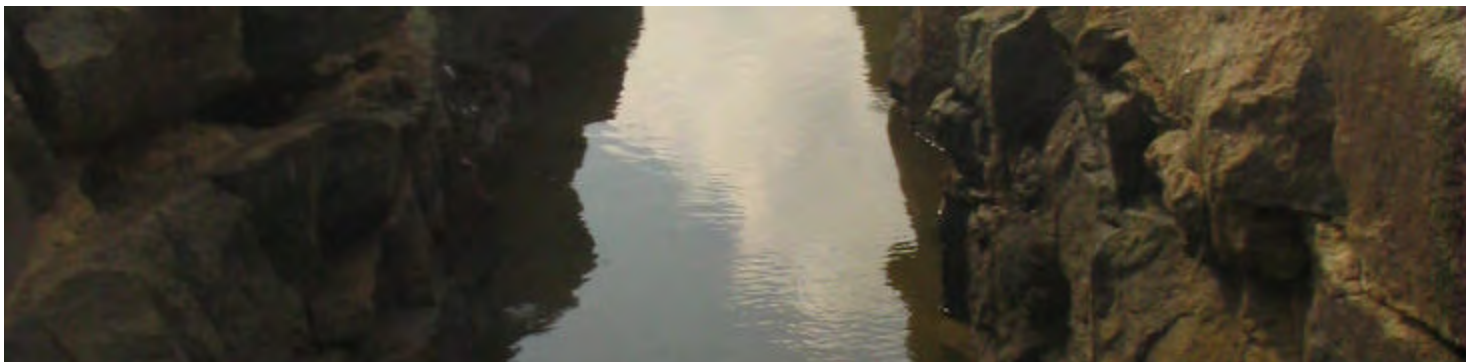


Way Forward

The stakeholders had identified their own versions of appropriate modalities for implementation and monitoring of the NSDS. These were in the form of three specific models based on existing institutional mechanisms in the country.

One model was to develop a structure for implementation of the SLSSD based on the structure and modalities of the Committee on Environment & Policy Management (CEPOM) established in the Ministry of Environment, aiming at integrating environmental policies and action plans in other sectors. This institutional arrangement was designed to facilitate the participation of government and non-government organizations such as NGOs and the civil society for integrating development and environmental policies of the country. Committee on Integrating Environment and Development Policies (CIEDP) and Committees on Environment Policy and Management (CEPOMs) are the two implementing bodies. The CIEDP is a high level committee, and is co-chaired by the Secretary of the Ministry of Finance, and the Secretary of the Ministry of Environment. The role of CIEDP is to supervise the functioning of eight CEPOMs formed to coordinate the sustainable development strategies and environment related policy matters. Eight CEPOMs cover different sectors: land and water, biodiversity, coastal and marine, industry, built environment, energy, environment and health. Each CEPOM is co-chaired by the Secretary of a relevant Ministry, and the Secretary of the Ministry of Environment. The mechanism is not functional at present as originally intended. The absence of any strong administrative or legal mandate for this arrangement, frequent changes of the institutions, agencies and ministries, and also in the distribution of subjects and functions seem to have hindered the effective functioning.

The second suggestion was to study and align the implementation body of NSDS with the National Council for Economic Development (NCED) that had been established under the Ministry of Finance as a body comprising of private and government sectors to provide advice on development of economic policies and programmes. The new entity could be rechristened as the National Council for Sustainable Economic Development (NCSED). The NCED was setup with an executive order by the President in year 2004 as a special unit attached to the presidential secretariat. It aimed to facilitate development of partnership with the private sector, NGOs and integrate them in the policy formulation process. In September 2005, the NCED was attached to the Ministry of Finance and Planning and functioned as a part of the National Planning Department. The role of the NCED has been redefined to facilitate as an interface to participate effectively and efficiently in the development framework process. There are in all 23 cluster groups established within which the NCED brings together private and public sector stakeholders to jointly develop cluster strategies, and action plans. These clusters are co-chaired by the



Way Forward

Secretary of line Ministries and a key partner from public sector and NGOs. The NCED facilitates this process of formulating cluster strategies and action plans and draws these strategies and relevant policy issues into the planning and policy formulation process and annual budget preparation exercise. Currently, NCED is staffed by the Executive Director and three senior Directors, analysts and secretarial staff. NCED is established under the Director General and the Secretary, Ministry of Finance and Planning. Among the sector clusters, sustainability of cluster strategies are not ensured formally and are being addressed informally. There is not yet any cluster or mechanism designated for addressing sustainable development issues in the cluster strategies and plans.

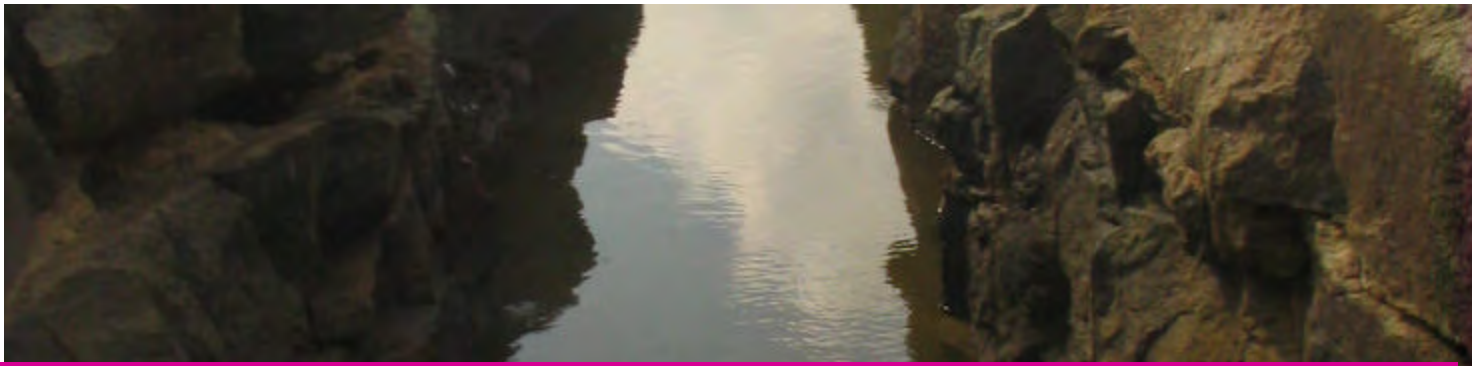
The final suggestion was to establish the implementation mechanism through a parliamentary bill as a policy making, approving and implementation monitoring body under the leadership of His Excellency, the President. The structure of the implementation body could be developed to enable wider participation of relevant Cabinet Ministers, Chief Ministers of provincial councils and secretaries of key Ministries, NGOs and civil society with an advisory council appointed with implementation, monitoring and advisory functions.

In addition, existing models from the Asia-Pacific region could also be explored for developing the appropriate NSDS implementation model for Sri Lanka. Three models are presented as below:

MONGOLIAN NATIONAL COUNCIL FOR SUSTAINABLE DEVELOPMENT (MNCSD) MODEL

The NCSD Mongolia has been given a clear mandate by the government resolution in 1996. The role of the MNCSD is to co-ordinate and provide overall guidance on the Mongolian Action programme for the twenty first century (MAP 21) development process and its implementation. MNCSD advise the Chair of the state and the president on sustainable development policy and strategy, next steps in building the new management system related to sustainable development and on policies that foster Mongolian participation in regional and global sustainable development process.

MNCSD provides policy directions to the Management and Co-ordination Working Group (MCWG), line Ministries, project implementation Unit, District governments and Economic, social and Environmental Committees (ESECs). MCWG is established under the MNCSD to co-ordinate the inputs of different Ministries and government agencies. It is the body that finalizes the NCSD decisions involving the project Implementation Unit (PIU) staff. Since 1999, this body is recognized as the Implementation Co-ordination



Way Forward

Working Group concentrating its efforts to co-ordinate central and local government activities of MAP 21 implementation. MNCSD is decentralized in the form of having local branches headed by district and city capital Governors that in turn establish working groups comprised of leading experts in relevant fields and civil servants from different ministries. MAP 21 PIU consults with a wide range of stakeholders prior to MCWG and NCSD meetings and prepares drafts of MNCSD decisions.

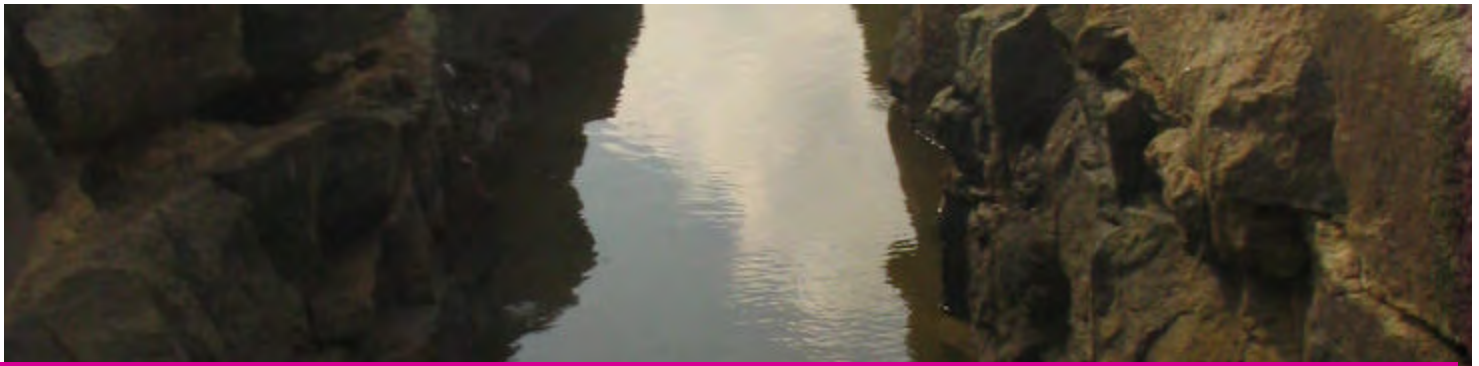
PHILIPPINES COUNCIL FOR SUSTAINABLE DEVELOPMENT MODEL

The Philippine Council for Sustainable Development (PCSD) was established to chart the direction and co-ordinate implementation of sustainable development in the Philippines. The PCSD was established through an Executive order on 15th September 1992. It is supported by four committees addressing social and economic dimensions, conservation and management of resources, strengthening the role of major groups and means of implementation of Agenda 21. In addition, there are four other sub committees on atmosphere, biodiversity, water resources and land under the Committee on conservation and management. Four sub committees under the Committee on implementation of Agenda 21 include subcommittees on financing arrangements, science and technology, water resources, legal and institutional arrangement.

The PCSD is further served by a secretariat comprising of two components, one to co-ordinate the government related operations and provide overall technical and administrative requirements, and the other to co-ordinate and consolidate activities and inputs of civil society. The PCSD encourages the creation of local councils and 16 so far have been established.

NATIONAL COUNCIL ON COMPETITIVENESS AND SUSTAINABLE DEVELOPMENT FOR THAILAND MODEL (NCCSD)

The NCCSD in Thailand was formed by expanding the sustainable development sub-committee of the National Environment Board (NEB) established following the UNCED in 1992 for implementing Agenda 21. The NCCSD is chaired by the Prime Minister and served by a Secretariat headed by the Secretary General and two deputy secretary generals responsible for Office of Economic Competitiveness Development and Office of Natural Resources, Science and Technology Planning respectively. In 2001, an advisory body called the National economic and Social Advisory Council (NESAC) comprising of ninety-nine eminent scholars and business elite was established.



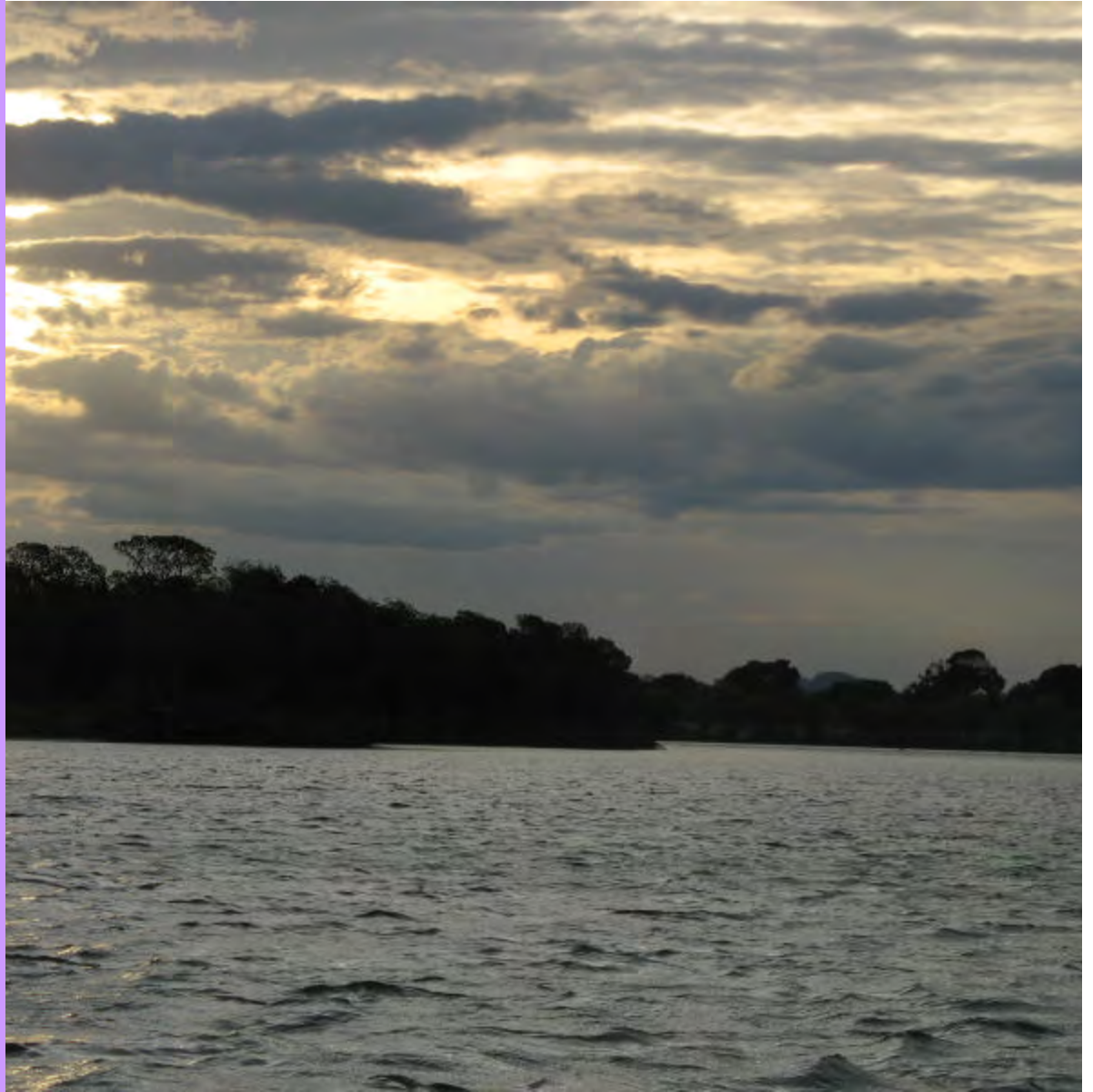
Way Forward

The establishment of an implementation mechanism/body for the NSDS was widely called for by the stakeholders of the Sri Lanka NSDS development process. It is imperative to ensure the following while developing the modalities of the concerned institutional mechanism

- Since the NSDS implementation mechanism is a decision making body seeking to enhance the roles and responsibilities of government ministries and agencies, as well as private sector and civil society, it should be established as a strong, a political organization, transparent in all of its actions, and towards producing people-oriented, pro-poor and equitable outcomes. In addition, appropriate mechanisms should be devised through committees and sub-committees to have a wide coverage of stakeholder consultation
- It is essential to equip the implementation mechanism according adequate legal and executive powers with official status, and other necessary powers for it to accomplish its mission without any form of external influence.

Background

1



Developing the SLSSD

2



Framework for SLSSD



Country Analysis

4



Eradicating poverty

5



Competitiveness in Economy

6



Improving Social Development

7



8

Ensuring a Clean and Healthy Environment

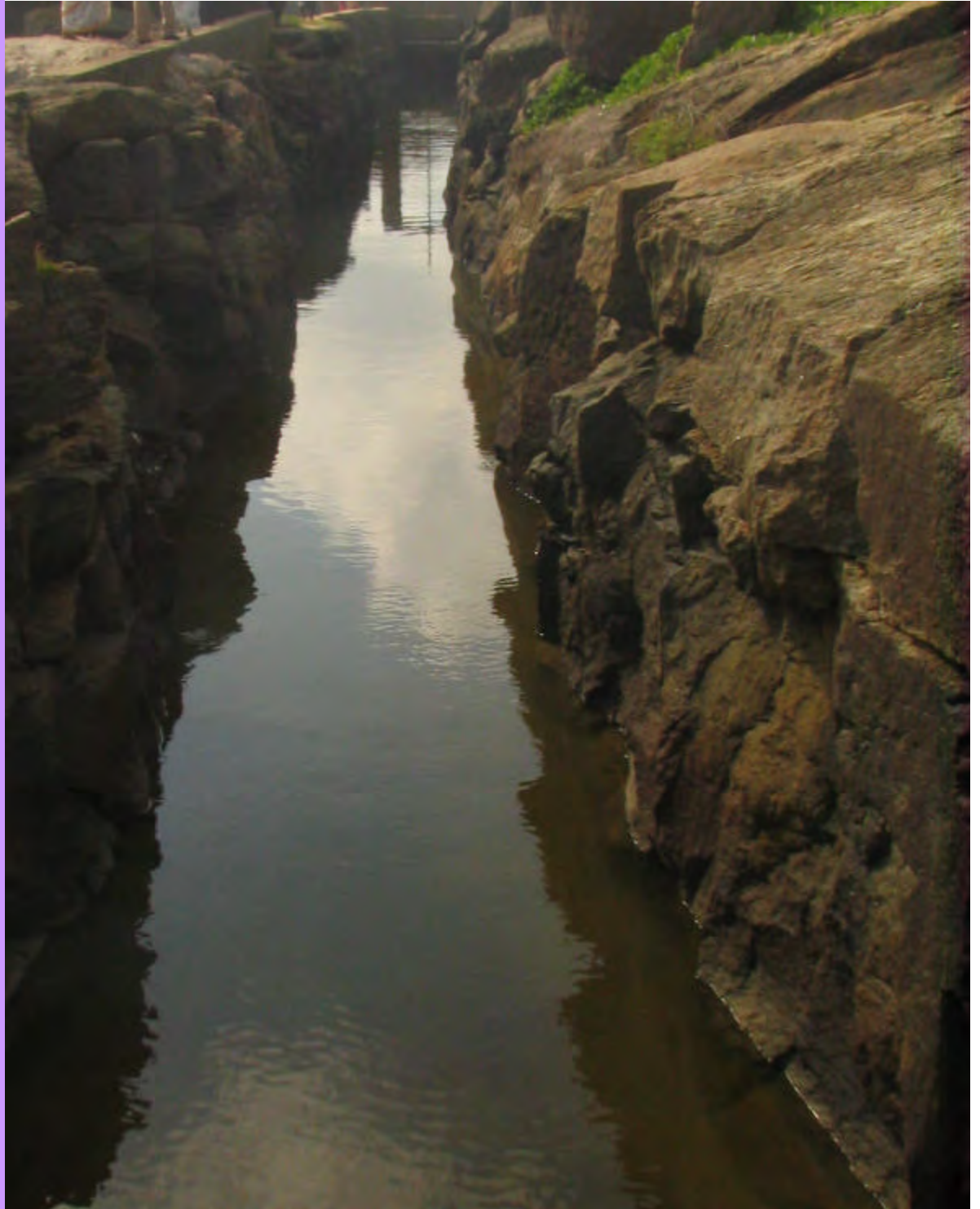


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Ensuring a Clean and Healthy Environment



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Annex V

NSDS Panel Meeting - Waters Edge, Battaramulla 27th November 2006

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ANNEX VI

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