# Develop a Global Partnership for Development

## Goal 8


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## Present Status

The globalisation process, which gathered prominence in recent years, has integrated the developed and the developing world in many spheres such as economics, politics and social development. As far as Sri Lanka is concerned, this situation underlines the necessity for establishing a global partnership that is supportive of and contributes to the achievement of MDGs in the local context.

A distinct characteristic common to the first seven goals is their specificity in prescribing the actions to be taken by developing countries in order to achieve the targets. On the contrary, the eighth goal prescribes the necessity of a partnership for development, or a mechanism for a linkage between the two worlds namely, the developed and the developing. Thus, the eighth goal draws attention on both developing and more importantly, on developed countries. The developing countries should commit to mobilise domestic resources to finance programmes and to strengthen governance, democracy, human rights and social justice, while the developed countries should adjust policies and direct their resources to facilitate the efforts of developing countries. It is appropriate to attach greater prominence to this goal over the others as the main goal in reaching the MDGs by 2015, as developing countries neither have the necessary resources to reach MDGs by themselves nor can wait for economic growth to generate the resources needed.

# Target 12

## Develop Further an Open, Rule-based Predictable, Non-discriminatory Trading and Financial System

Experience has shown that lowering trade barriers, simultaneously with domestic structural reforms, has significantly assisted the economic development of countries. The international trading system has brought significant benefits in various ways to several countries, especially the developed countries and some developing countries that have managed to take advantage of it. However, the system is also imbalanced in ways that disadvantage many developing countries. Nevertheless, gains from trade are the most widely available external sources of growth and resources for attaining the MDGs. International trade can make an economy more efficient, reduce prices to consumers, provide employment, increase the profits of firms and thus increase government tax revenue. Therefore, a partnership for trade would help developing countries to maximise benefits from trade. A true partnership should remove constraints on trade, which has been estimated to cost developing countries much more than all the Official Development Assistance (ODA) they receive.

## Status and Trends

In recent years, the focus of Sri Lanka's trade policy has seemingly shifted towards regionalism, which is considered a springboard for broader trade liberalisation. Nevertheless, Sri Lanka recognises that its long-term trade and other economic interests are best served by a stable and liberalised multilateral trading system that supports the needs of developing nations. Although Sri Lanka had made substantial progress in liberalising trade as a part of its extensive economic reform programme introduced in the late 1970s, trade liberalisation efforts have slowed during very recent times and the reform efforts have been less robust. Trade related and other economic policies have lacked stability, adversely affecting transparency and predictability of the trade policy regime.

## Regional/Bilateral Trade Arrangements

In view of the importance of trade with its neighbouring countries Sri Lanka has actively promoted the development of regional links, while also being committed to the promotion of a restriction free multilateral trading system. Sri Lanka is a signatory to the South Asian Preferential Trading Arrangement (SAPTA), Bangkok Agreement (BA), Generalised System of Preferences (GSP), and Global System of Trade Preferences (GSTP) Schemes. However, these regional agreements have not been as successful as originally anticipated. In addition, Sri Lanka has entered into a Free Trade Agreement with India, the Indo-Sri Lanka Free Trade Agreement (ISFTA) followed by a Comprehensive Economic Partnership Agreement (CEPA), a FTA with Pakistan and a, Trade and Investment Framework (TIFA) with the USA. Sri Lanka is also a party to the Bangladesh, India, Myanmar, Sri Lanka, and Thailand - Economic Cooperation (BIMST-EC) Agreement.

## Sri Lanka and the Multilateral Trading System

At present there is considerable rethinking on the nature of the multilateral trading system by developing countries, many of which have become disillusioned by various aspects of the system. There is widespread acceptance that the rules and processes at the WTO are imbalanced and the situation

Sri Lanka's concern with the implementation of the Uruguay Round included: the lack of liberalisation in the agricultural and textiles sectors, the increasing resort to contingency measures by developed countries against imports from developing countries, the non-implementation of provisions related to special and differential treatment, and the growing trend on the part of developed countries towards legalism (WTO, 2004).

In the context of the MDGs, there is a clear rationale for improving and reforming the WTO system of rules and the decision-making process. Developed countries need to provide greater opportunities for developing countries to expand their opportunities for export. This can lead to increased export earnings and foreign exchange and income, thereby providing extra resources for financing measures to meet the MDGs 1-7. More importantly, an expansion of exports would lead to the creation of more jobs directly benefiting the poor. Problems caused to developing countries by the existing agreements need to be rectified. There is an urgent need to redress the imbalances and problems of the WTO agreements. Failure to do so can adversely affect the realisation of several of the goals. It would most certainly hinder Goal 8 which is striving for a global partnership for development. On the other hand, Sri Lanka should work towards strengthening its integration within the bilateral and regional trading arrangements so that mutual benefits can be achieved.

## Challenges

- Sri Lanka remains extremely vulnerable to external developments due to its concentration in few export products (garments and tea) and in one or two export markets (US and EU). This highlights the need to further diversify its exports not only to strengthen the resilience of the economy but also better exploit the comparative advantage, keeping in line with changing global market trends

- Exploied market opportunities in developed countries to export products and services including textiles, agriculture, value added products based in local raw materials and skilled labour

- Review implementation problems of existing agreements to resolve imbalances and problems faced by developing countries

- Reorientation of the operational principles and rules of the WTO so that the development principle is accorded the highest priority and rethinking the mandate and scope of the WTO

- Sri Lanka and other developing countries should work towards deepening integration among themselves under existing bilateral and regional trading agreements, such as ILFTA, SAPTA/SAFTA, BA, GSTP, covering areas like trade in services, trade-related investment etc.

# Target 13

**Deal Comprehensively with the Debt Problems of Developing Countries through National and International Measures in order to make Debt Sustainable in the Long Run**

## Official Development Assistance in Sri Lanka

Overseas Development Assistance (ODA) has been a major source of development funding, financing as much as half the public investment programme. However in per capita terms ODA has reduced drastically from US$ 42.9 in 1990 to US$ 14.3 in 2000. Net ODA has also dropped from 9% of gross national income in the early 1990s to 2.1% in 2002.

The importance of foreign aid in the Sri Lankan economy goes back to nearly four decades with the institution of the Sri Lanka Aid Consortium in 1965. The type of aid Sri Lanka has received changed from food and commodity aid in the 1960s to project and programme aid in mid-1980s, and to aid aimed at policy reforms in the 1990s. Foreign aid has played an important role in the country's development, both as a major source of development finance and a component in closing the foreign exchange gap.

ODA commitments to Sri Lanka have declined from US$ 925 million recorded in 1990 to US$ 840 million by 2002 (Table 35). ODA commitments by the bilateral donors have been prominent during the period; for example, in 1995 bilateral donors accounted for 78% of total aid commitment. The Government of Japan (bilateral), the Asian Development Bank, and the World Bank (multilateral) have been Sri Lanka's major donor partners during the period. Together they have accounted for more than 70% of total commitments during the greater part of 1990-2002.

Throughout the period, more than 70% of aid commitments consisted of concessional loans. Another significant feature is that the share of the loan component in total ODA of three major donors has increased significantly during the concerned period. For instance, the loans component of Japanese ODA increased from 60% in 1990 to 87% in 2002. The share of the loan component of the other two multilateral institutions has also accounted for over 90% of their total ODA to Sri Lanka in the latter part of 1990, partially attributing to the country's transition from a low-income country to a lower-middle-income country.

Donors have disbursed a total of US$ 9,892 million worth of foreign aid during 1990-2002 amongst different sectors of the economy. Economic Infrastructure and Social Infrastructure have been the most favoured sectors for foreign aid during the period. Economic and social infrastructure accounted for 34.9% (US$ 3,454 million) and 19.7% (US$ 1,946 million), of total disbursement respectively during the period, while the agricultural sector accounted for 14.8% (US$ 1,468 million) of total disbursement. Sub-sectors like power and energy, ground transport, water and sewerage, banking and finance, and balance of payments, etc. have been most favoured for foreign aid during 1990-2002. However, in recent years other sectors such as rural development, rehabilitation, social welfare, private sector development, trade, and information technology have been given more priority.

**Table 34: Aid Dependency (1995-2002)**

| Country | Net Official Development Assistance (US$ Mn) | | | Aid Per Capita (US$) | | | Aid as percentage of GNI | | | Aid as percentage of Gross National Capital Formation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1995 | 2000 | 2002 | 1995 | 2000 | 2002 | 1995 | 2000 | 2002 | 1995 | 2000 | 2002 |
| Bangladesh | 1,292 | 1,171 | 930 | 11 | 9 | 7 | 3.4 | 2.5 | 1.8 | 17.8 | 10.8 | 9 |
| India | 1,739 | 1,487 | 1,055 | 2 | 1 | 1 | 0.5 | 0.3 | 0.2 | 1.8 | 1.4 | 1 |
| Nepal | 433 | 390 | 355 | 21 | 17 | 15 | 9.6 | 6.9 | 6.4 | 39.1 | 29.1 | 26 |
| Pakistan | 824 | 703 | 2,173 | 7 | 5 | 15 | 1.4 | 1.2 | 3.6 | 7.3 | 7.3 | 24 |
| Sri Lanka | 555 | 276 | 342 | 31 | 15 | 18 | 4.3 | 1.7 | 2.1 | 16.6 | 6.1 | 10 |

Source: World Development Indicators 2002, World Bank

The definition of foreign aid includes Offcial Development Assistance (ODA), Export credit, and commercial borrowings

**Table 35: ODA Commitment, Disbursement and Its Relative Importance - (1990-2002)**

(US $ Million)

| Item | Year | Total ODA | Loan | Grant | ODA (AD) | ODA as a percentage of GDP |
|---|---|---|---|---|---|---|
| Bilateral Donors | 1990 | 393.2 | 247.8 | 145.4 | 360.4 | 4.5 |
| | 1995 | 405.0 | 262.7 | 142.3 | 399.2 | 3.1 |
| | 2000 | 190.0 | 99.9 | 90.3 | 269.2 | 1.6 |
| | 2002 | 369.0 | 315.8 | 53.2 | 249.7 | 1.5 |
| Multilateral Donors | 1990 | 532.2 | 521.1 | 11.1 | 249.2 | 1.7 |
| | 1995 | 114.3 | 102.1 | 12.2 | 220.8 | 1.7 |
| | 2000 | 141.5 | 135.6 | 5.9 | 135.3 | 0.8 |
| | 2002 | 470.6 | 412.4 | 58.2 | 269.2 | 1.6 |
| Total | 1990 | 925.4 | 768.9 | 156.5 | 609.6 | 7.6 |
| | 1995 | 519.3 | 364.8 | 154.5 | 620.0 | 4.8 |
| | 2000 | 331.5 | 235.5 | 96.2 | 404.5 | 2.4 |
| | 2002 | 839.6 | 728.2 | 111.4 | 518.9 | 3.1 |

Source: Department of External Resources

## Challenges

The main challenge for Sri Lanka with regard to ODA is the effective and efficient utilisation especially in the wake of the significantly high inflow of relief aid for Tsunami reconstruction and rebuilding. Although Sri Lanka cannot be fully satisfied with its aid utilisation levels, the implementation of new policies together with the National Procurement Agency (NPA) are expected to overcome most of the impediments with regard to aid utilisation.

As foreign aid is of crucial importance for rebuilding the nation after the Tsunami disaster, it is important for Sri Lanka to clearly lay down the needs and the relevant strategies in utilising the committed aid. In addition, there should be an in-built mechanism in the foreign aided projects to guarantee its sustainability in the long term.

## Debt and Debt Management

Sri Lanka is classified as a "moderately indebted country". The stock of foreign debt increased from US$ 5.8 billion in 1990 to US$ 9.6 billion in 2002 recording an increase of 64%, as a percentage of GNI, the foreign debt stock declined from 71% in 1991-96 to 57% in 2002. The debt servicing payments to export earning also declined from 15% in 1991-96 to 13% in 2002. Foreign debt to government debt also declined during the same period indicating reliance on domestic borrowings to finance budget deficits.

However, total outstanding debt stock of the government as a percentage of GDP increased from 96% (US$ 7.7 billion) in 1990 to 105% (US$ 17.4 billion) in 2002. The share of domestic debt to total debt increased from 43% (US$ 3.3 billion) in 1990 to 57% (US$ 9.9 billion) in 2002, largely due to reducing long-term concessional loans and higher fiscal spending on the conflict in the North and East. Domestic Debt service payment to total debt service has increased from 34% (US$ 0.61 billion) to 85% (US$ 2.47 billion) in 2002.

**Table 36: Government Debt Indicators**

(%)

| Year | 1990 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|
| Government debt/GDP | 96 | 95 | 93 | 86 | 91 | 95 | 97 | 103 | 105 |
| - Domestic debt/GDP | 42 | 43 | 46 | 44 | 46 | 49 | 54 | 58 | 60 |
| - Foreign debt/GDP | 55 | 52 | 47 | 42 | 45 | 46 | 43 | 45 | 46 |
| - Foreign debt/exports | 183 | 146 | 134 | 115 | 125 | 129 | 110 | 115 | 126 |
| Total debt service/GDP | 10 | 12 | 11 | 9 | 11 | 9 | 14 | 13 | 18 |
| Total debt service/ Government revenue | 47 | 53 | 52 | 43 | 61 | 51 | 79 | 71 | 102 |
| - Domestic debt service Government revenue | 34 | 43 | 41 | 33 | 47 | 36 | 65 | 56 | 85 |
| Total debt service/ Government expenditure | 34 | 38 | 37 | 35 | 43 | 37 | 52 | 46 | 71 |
| - Domestic debt service /Govt.expenditure | 25 | 30 | 29 | 27 | 33 | 26 | 43 | 37 | 59 |
| Foreign debt service/ exports | 9 | 6 | 6 | 6 | 7 | 8 | 7 | 7 | 8 |
| Domestic interest/GDP | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 6 | 7 |
| Domestic interest/Govt. current expenditure | 24 | 24 | 25 | 27 | 24 | 26 | 25 | 29 | 32 |
| Foreign interest/Exports | 4 | 3 | 3 | 2 | 2 | 2 | 2 | 2 | 2 |

Note: (a) goods and services exports
Source: Central Bank of Sri Lanka, Annual Report (various years)

# Target 14

## Develop and Complement Strategies for Decent and Productive Work for Youth

The main message of the Global Employment Trends for Youth, published by ILO in 2004 was that "Unless the potential of young people can be used in a productive way, neither youth nor economies as a whole will face a bright future".

The universal recognition of the fact that the possibilities for young people to create their own, decent work are limited, has drawn much attention during the last couple of decades. Especially, the 1990s witnessed the emergence of national and international concern over youth

unemployment and kinds of available job opportunities for young men and women (ILO 2004). Further, there is greater chance that low-quality jobs and/or joblessness among youth would lead to poverty, illiteracy, ill-health, HIV/AIDS, crime, and conflict both in this generation and the next, and this works as a vicious circle. Hence, with these in mind, heads of states in the Millennium Declaration agreed to formulate and implement concerted plans to make sure of a decent job for every youth, thereby incorporating Productive Work for Youth as a target under MDG 8.

## Status and Trends

Sri Lanka's youth (age 15-19: teenagers and 20-24: young adults) were nearly 17% (3.1 million) of the total population in 2002. It can be seen that the relative importance of youth in the total population has declined during the concerned decade due to changes in demographic indicators (see Table 37). Labour force participation ratio has declined for the teenager-age group while it has increased for the young adult group, indicating that more teenagers choose to engage in their schooling or vocational training before joining the labour force during the concerned period. Male labour force participation is higher in both age-groups than female during the relavant period.

The age-specific unemployment rate has been higher for the teenager group than that for young adults. However, when taking into account the contribution to total unemployment from each age group, it is clear that the 20-24 age group has contributed to over 40% of total unemployment except in 1995. In other words, over 40% of unemployed people are from the 20-24 age group during the last decade. Altogether, teenage and young adult age groups have accounted for over 60% of total unemployment during the concerned period. This indicates the gravity of the youth unemployment problem in Sri Lanka and it has a bearing on overall unemployment.

Another significant feature is that the majority of the unemployed have qualified in at least the GCE (O/L) exam, indicating that despite achievement in education there is a high chance of unemployment. In 2002, 54% of total unemployed people were, either qualified in the GCE (O/L) exam or above (Table 37). While unemployment has remained high among the educated, interestingly, unemployment among GCE (O/L) qualified has slightly declined while that of GCE (A/L) and above has increased during 1990-2002 period.

Main reasons for the high youth unemployment in Sri Lanka could be attributed to the low GDP growth, low domestic capital formation, a mismatch between skill demand and supply in the labour market, labour market rigidities, labour regulations and individual attitudes and characteristics in the household.

**Table 37: Sri Lanka Youth Employment and Unemployment (1990-2002)**

| | 1990 | | 1995 | | 2000 | | 2002 | |
|---|---|---|---|---|---|---|---|---|
| **Age Group** | **(15-19)** | **(20-24)** | **15-20)** | **(20-25)** | **(15-20)** | **(20-26)** | **(15-22)** | **(22-27)** |
| Youth Population | 1,602,130 | 1,298,894 | 1,765,784 | 1,465,447 | 1,729,811 | 1,485,089 | 1,567,451 | 1,622,557 |
| Labour force participation rate (%) | 31.5 | 75.5 | 26.8 | 63.7 | 25.6 | 64.3 | 25.3 | 66.6 |
| Total labour force | 506,172 | 980,657 | 472,965 | 933,489 | 443,062 | 954,243 | 396,948 | 1,080,403 |
| No. of Unemployed | 242,748 | 383734 | 188,240 | 274,446 | 121,177 | 208,979 | 114,718 | 264,699 |
| Unemployment (as a % of age group labour force) | 48.0 | 39.1 | 39.8 | 29.4 | 27.4 | 27.4 | 28.9 | 24.5 |
| Unemployment (as a % of total labour force) | 20.2 | 40.3 | 21.1 | 38.2 | 19.5 | 44.4 | 19.9 | 47.1 |
| Unemployment (as a % of total youth population) | - | - | 10.7 | 18.7 | 7.0 | 14.1 | 7.3 | 16.3 |
| Unemployment among GCE (O/L) qualified (% of total) | 26.5 | | 29.1 | | 26.0 | | 25.1 | |
| Unemployment among GCE (A/L) qualified & above (% of total) | 15.4 | | 18.4 | | 25.3 | | 29.2 | |

Source: Quarterly Report (various), Sri Lanka Labour Force Survey, DCS

## Challenges

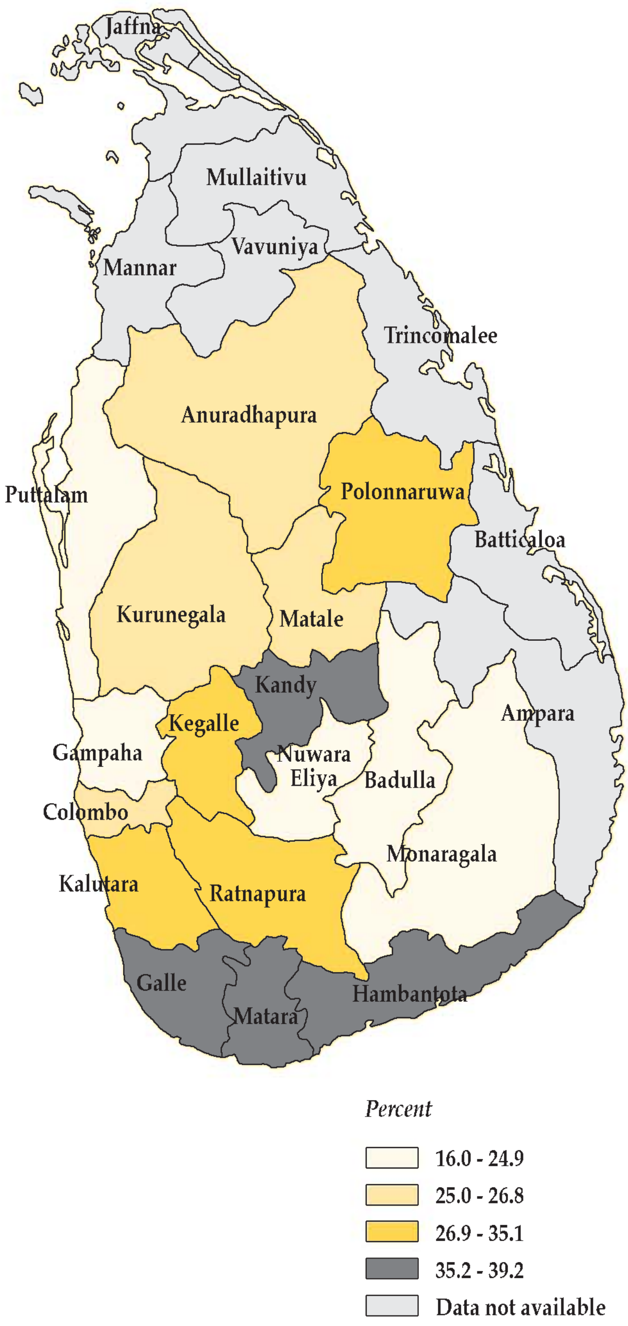
Given Sri Lanka's experience on youth unrest during 1970-71, 1998-89, and to a certain extent on the North and East conflict, it is important to take into account growing unemployment and under-employment among youth, most of whom are educated and in rural areas. Therefore it is important to co-operate with relevant stakeholders, the private sector, civil societies, NGOs, international organisations, such as Youth Employment Network (YEN), and youth societies, to formulate a youth employment policy plan that ensures the availability of quality employment opportunities for young people. In this endeavour, the government can broadly spell out its youth employment policy in four areas; quality, employment, creation to be brought to the centre of its macro economic policy, thereby changing the incentive structure and existing labour regulations; improve employability of the youth through introducing necessary changes and undertaking investment in the education and vocational training system and make a proper link between school-to-work transition; encouraging, facilitating and helping young people to launch into the business world as entrepreneurs; eliminate any existing, discrimination against gender, class, creed, cast, and race, etc., thereby guaranteeing equal opportunities (see Box 4).

**Box 4: Major Concerns under the Youth Employment Policy**

| **Employability** | **Equal opportunities** |
|---|---|
| Education | Gender |
| Vocational/skill training | Youth and HIV/AIDS |
| Career guidance | Youth in conflict |
| Employment service | Youth with disabilities |
| Life Skills | |
| Self Development | |
| **Entrepreneurship** | **Employment creation** |
| Employment policies development | Micro/Small enterprise |
| Active labour market policies | Cooperatives |
| Employment programmes | Finance/Microfinance/Credit |
| Social entrepreneurship | Leadership |

Source: www.ilo.org.

**Map 11: Unemployment Rate 15-24 year-olds**




Source: DCS-QLFS

# Target 15

## In Cooperation with the Private Sector Make Available the Benefits of New Technologies Especially Information and Communications Technology.

With the growing evidence of the developmental impact of Information and Communication Technology (ICT) on a country's economy, Sri Lanka needs to have a strong partnership with the private sector to "ensure that the benefits of new technologies, specially information and communication technologies are available to all." The ICT sector may be broadly divided into two components: the infrastructure or telecom sub sector and IT sub sector, which is, for the most part, enabled by the former.

Over the past decade, the telecommunications sector in Sri Lanka has changed significantly. Fixed (wire-line andWLL -Wireless Local Loop) telephone connections grew by over 700% since 1990 from 121,388 in 1990 to 881,108 by 2002. The introduction of WLL telephone services in the mid-1990s by private companies spurred competition in the fixed phone market. Currently, wire-line connections account for 87% of fixed phones market, while WLL connections account for the remainder. During this period, cellular connections recorded phenomenal growth, partly due to the long waiting list for fixed phones. In 1990, there were only 1010 connections, which had increased to 907,422 by 2002. While cellular phones increased steadily and significantly, fixed connections grew, but at a slow rate. In 2002, the number of cellular connections surpassed fixed telephone connections. WLL connections, payphones and radio paging have declined slightly in the recent past, which could be attributed to the growing popularity of cellular phones. With these developments, the tele-density has increased to 9.6 per 100 persons in 2002 from less than 1 in 1990.

Currently there are 150,000 personal computers (PCs) in use in the country, which means a density of 0.79 PCs for every 100 persons. The total number of internet users in Sri Lanka was 200,000 which means there were 1.06 users for every 100 persons though the figure is put at 2 per every 100 persons if one takes into account the total number of internet/e-mail accounts in use. Internet access is growing but at a rate less than potential. While internet and e-mail facilities were available as early as 1984, their use was restricted to a few mainly due to high cost and lack of computer literacy. Internet access on a commercial basis became available in 1995 and now there are almost 30 licensed operating Internet Service Providers (ISPs) (UNDP, 2004). Dialup access is moderately priced and competitive but the accompanying high per-minute cost of voice telephone usage is significantly high.

**Table 38: ICT Indicators (1995-2002)**

| Telecommunications | 1995 | 2000 | 2002 |
|---|---|---|---|
| **Fixed line** | | | |
| Operators | 1 | 1 | 1 |
| Subscribers | 204,350 | 653,144 | 768,620 |
| New connections | 24,556 | 90,647 | 69,258 |
| Applicants on waiting list | 237,800 | 248,486 | 306,268 |
| **Wireless local loop** | | | |
| Operators | N.A. | 2 | 2 |
| Subscribers | N.A. | 114,267 | 114,488 |
| Telephone density (Telephones per 100 persons) | 1.1 | 4.2 | 4.7 |
| **Cellular** | | | |
| Operators | 4 | 4 | 4 |
| Subscribers | 51,316 | 430,202 | 907,422 |
| Public pay phones Operators | 4 | 6 | 6 |
| Telephone booths | N.A. | 8,222 | 6,681 |
| **Radio paging** | | | |
| Operators | 5 | 4 | 4 |
| Subscribers | 9,565 | 7,009 | 5,516 |
| **Internet & e-mail** | | | |
| Operators | N.A. | 21 | 29 |
| Subscribers | N.A. | 40,497 | 70,082 |

Source: Central Bank of Sri Lanka, Annual Reports

Although the volumes in software industry is relatively small in Sri Lanka, the year on year growth has accelarated stedily over the past decade. Presently the IT exports are around US$ 80 million in 2003, up from US$ 50 million in 2002, despite the slow down in the world economy, which caused a major decline in IT spending the world over. With earnings per employee being significantly higher than those of other major foreign exchange earners, this is an area in which Sri Lanka has considerable potential, not only in terms of earning foreign exchange but also in attracting FDI as well as generating employment opportunities. Currently, there are about 50 Sri Lankan software development firms, several of which have proven themselves locally as well as globally and can be judged as world-class. On the other hand, Sri Lanka has not developed hardware manufacturing capacity; only a few components are manufactured locally. Nevertheless, locally assembled PCs have gained popularity in the domestic market due to wide price differences between locally assembled PCs and import branded machines.

## Challenges

**Need for urban-rural partnership in ICT infrastructure development**

Telecommunication and internet users are mainly concentrated in Greater Colombo given the concentration of economic activity of the country in this area, where one-fifth of the population resides. Thus, 70% of the country's communication infrastructure is based in the Western Province. The spread of ICT beyond the Western Province

has been limited due to the high cost of internet access, lack of proficiency in English and computer literacy skills. (UNDP, 2004). ISPs have not installed local internet servers outside major cities due to low internet proliferation outside Colombo. Moreover, in the rural areas the supply of people with IT skills at all levels is substantially low. The digital divide between urban and rural areas could have serious implications for Sri Lanka's development effort.

**High Cost of ICT Related Services**

A major impediment to the spread in the usage of ICT is its high cost. This has discouraged current and potential users from using them more widely and regularly. At present ICT could be of little help to the Sri Lankan rural community, as the traditional channels are not only more economical but also more convenient. Compared to industrialised countries, telecommunication and internet charges in Sri Lanka are relatively high and even within the country these charges vary, with higher charges for a resident outside Greater Colombo area, widening the already existing urban-rural disparity. The quality of internet access, in terms of speed of internet access also varies in different parts of the island due to lack of international bandwidth, and poor quality of telecommunication facilities (UNDP, 2004).

**Insufficient Literacy for ICT Development**

The general ICT knowledge especially in the rural areas is low. Although the government has fully recognised the need and the importance of ICT, penetration levels are at a low level. In addition, Sri Lanka lacks the human resources of skilled personnel in ICT. The shortage of highly skilled professionals is acute and their skills take time to mature and thus cannot be acquired overnight. But once a person acquires the necessary ICT skills, the prospects of emigration are high or the probability for them to move to an urban area is common.

Apart from low computer literacy, the quality of English education is poor, and this has a negative impact on the ability to use ICT. A major constraint in popularising ICT has been the non-availability of standard fonts in the local languages, Sinhala and Tamil. Though Unicode maps for both languages have been developed, many font developers have evolved their own standards. The lack of standardisation has constrained local language content generation.

**Absence of a Proper, Adequate and Enabling Legal Framework**

It is evident that Sri Lanka lacks proper measures to safeguard the interest of software developers, the absence of a specific policy framework to cover internet use and specific laws or regulations to cover the operation of cyber cafes or tele-centres. The required legal infrastructure for electronic transactions, privacy and security regulations are not fully facilitating IT sector development.

## Movement of Natural Persons

Poor economic development and the lack of opportunities in Sri Lanka have contributed to large-scale labour migration. The strong emphasis on social development policies, since Sri Lanka became independent in 1948, led to the achievement of high literacy levels and other human development indicators resulting in the creation of a substantial professional middle class. Sri Lanka's early entrance into the globalisation and liberalisation process provided this class with the opportunity to migrate and seek more lucrative employment overseas. This "brain drain" has contributed considerably to a vicious cycle, where poor growth creates lack of opportunities for the educated work force. Sri Lanka is one of the first countries to export female labour and the only country to export women and domestic workers with little or no restrictions.

Migrant remittances play a major role on the balance of payments of Sri Lanka. During the last five years, private remittances have accounted for approximately 15% of the total imports. As the highest net foreign exchange earner for the country, remittances, which have been over 7% of the GDP also helped to sustain the liberalised trade and exchange regime, especially when the country moved into a free-float exchange regime in 2001. Furthermore, in 2001, around 85% of the trade balance was offset through private remittances.

In the 1990s, private remittances were second only to export earnings from garments (Table 37). However, when we look at net export earnings, private remittances are the main foreign exchange earner for the country.

There is a high import content in garment exports as most of the fabric is imported.

**Table 39: Private Remittances and Foreign Exchange Earnings (Rs. Million), 1991 - 2001**

| Year | Private Remittances | Tea | Rubber | Coconut | Garments | Total Export | % of Private Remittances /Total exports |
|---|---|---|---|---|---|---|---|
| 1991 | 18,311 | 17,867 | 2,641 | 2,619 | 31,652 | 82,225 | 22.3 |
| 1992 | 24,037 | 14,893 | 2,960 | 3,691 | 49,176 | 107,855 | 22.3 |
| 1993 | 30,592 | 19,911 | 3,086 | 2,796 | 62,349 | 138,175 | 22.1 |
| 1994 | 34,992 | 20,964 | 3,582 | 3,761 | 68,945 | 158,554 | 22.1 |
| 1995 | 40,482 | 24,638 | 5,713 | 5,271 | 94,946 | 195,092 | 20.8 |
| 1996 | 46,003 | 34,068 | 5,753 | 6,091 | 105,341 | 226,801 | 20.3 |
| 1997 | 54,445 | 42,533 | 4,640 | 6,940 | 134,445 | 274,193 | 19.9 |
| 1998 | 64,517 | 50,280 | 2,808 | 6,110 | 159,303 | 310,398 | 20.8 |
| 1999 | 74,342 | 43,728 | 2,305 | 9,119 | 171,068 | 325,171 | 22.9 |
| 2000 | 87,697 | 53,133 | 2,179 | 9,174 | 226,930 | 420,114 | 20.9 |
| 2001 | 103,180 | 61,602 | 2,129 | 7,348 | 227,360 | 430,372 | 24.0 |
| 2002 | 123,183 | 63,105 | 2,552 | 8,009 | 232,027 | 449,850 | 27.4 |
| 2003 | 136,466 | 65,936 | 3,717 | 8,926 | 231,652 | 495,426 | 27.5 |

Source: Central Bank of Sri Lanka

## Challenges

- Migration may be a source of empowerment for the migrant personally. However, the family may face hardship arising out of separation and disturbance of social arrangements, which in some cases would also result in disruption of relationships. On the other hand, the family may enjoy the benefits of higher as well as more stable incomes through remittances while migrant workers face hardships in the country of their employment

- Placement agencies in Sri Lanka are reputed to profit at the cost of exploited workers through incomplete or even inaccurate information to the migrant worker, apart from collecting unreasonable charges. These agencies should be properly monitored and standardised

- A commonly repeated concern among labour importing countries is job displacement and losses in destination countries. As the displaced workers are a persistent political issue, the subsequent social and political fallout creates pressures for labour screening policies, bringing this on political agendas of developed countries. However, from the efficiency, productivity and equity perspectives, there are gains

- For the migrants there are concerns about exploitation. The type of work in the importing country could be different from what they expected, leading to exploitation. Also female domestic workers often experience violence, sexual abuse and harassment by employers. There are significant number of reported cases of harassment of female domestic workers from Sri Lanka

- Migrants tend to be in their reproductive ages (more so with female migrants), where young children are left behind by mothers seeking migrant employment, there can be possible adverse effects on socialisation and the education of the children. For example, in Sri Lanka and the Philippines female workers tend to be between 25 and 39 years old, are married and have one or more children

- Lack of recognition of professional qualifications results in lower status or lower paid work in areas like accountancy, teaching, medicine and nursing. In the absence of a mutual recognition system, professionals and skilled manpower, migrants often endup with lower wages, salaries and benefits, where professional and technical workers make up a significant share of all overseas workers and there are concerns about the brain drain

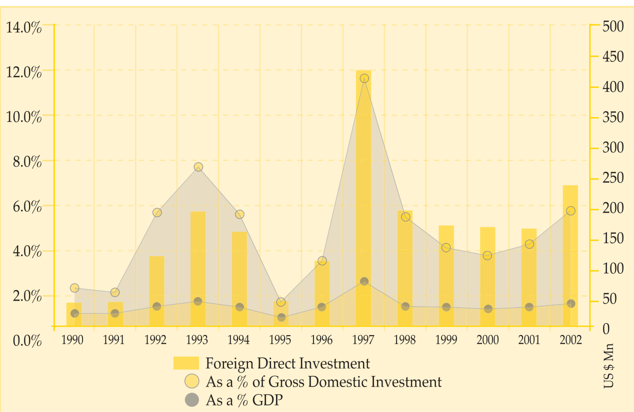
- It is important to note that negotiations on Mode 4 under the WTO can work towards reducing some of the problems associated with exploitation and lower status of temporary migrants

- While temporary migration provides several human development benefits, it is also important to recognise that the basic employment problem is not solved by temporary migration. For returnees, employment remains a serious concern. There are also problems relating to resettlement, reintegration with families and society faced by returning workers

## Foreign Direct Investment in Sri Lanka

During 1990-2002 the inflow of FDI to Sri Lanka has fluctuated from year to year due to its high sensitivity to economic reforms, changes in incentive structure, political instability, etc. FDI inflows to Sri Lanka increased from US$ 42 million in 1990 to US$ 242 million in 2002 (Figure 21). Although FDI inflows increased consecutively from 1990 to 1993, it dropped in the following years due to lack of progress in economic reforms. The increase in FDI inflows in 1997 was due to the privatisation of 35% of Sri Lanka Telecom that brought US$ 220 million investment. Although Sri Lanka's position, in terms of FDI/GDP and FDI/Gross Domestic Capital Formation (GDCF), has been ahead of its South Asian neighbors, Sri Lanka has been far behind compared to South-East Asian countries during the period (Investment Policy Review of Sri Lanka, UNCTAD 2004). Sri Lanka has, on average, been able to attract FDI accounting for just 4.5% of GDCF during 1991-95, and it has slightly increased to 5.5% during 1996-2002. On average, the FDI to GDP ratio has been less than 2% during the last decade. Sri Lanka's FDI per capita (FDI stock during 1981-2002) is US$ 140.6. However, FDI performance in 1990s has been more encouraging compared to the past (Investment Policy Review of Sri Lanka, UNCTAD 2004).

**Figure 21: Foreign Investment in Sri Lanka, (1990-2002)**




Source: Asian Development Bank and World Development Report 1996 and 2003.

At the end of 2000, as a percentage of the total cumulative FDI inflow into Sri Lanka, the service sector and manufacturing sectors had absorbed nearly 55.6% and 41.7% of FDI respectively, while agriculture accounted just 2.7%. In recent years a large amount of FDI went into sectors such as telecommunication, real estate development, etc., with the opening of the service sector to foreign investment. The larger share of FDI in the manufacturing sector has been channeled into the textile and garments sub-sector.

## Challenges

- There are two major challenges in dealing with FDI in Sri Lanka - attracting more FDI and encouraging more equitable regional distribution of investment. Sri Lanka should give priority to improving its investment climate, which serves not only for investors (local and foreign) but also for society as a whole. Steps should be taken to introduce reforms in the public sector to improve efficiency and to free it from corruption and bureaucratic hurdles; to invest in infrastructure (especially semi-urban and rural) and human capital (education and skill development); and to reform existing labour laws and regulations

- It is evident that there is a significant unequal distribution of FDI and local investment in the rural and war- affected areas in Sri Lanka. It is vital to enhance the investment opportunities in these areas in order to uplift the living standards of the people and create new employment opportunities. With the amendment to the BOI Law to establish five Regional Economic Development Commissions (REDCs), covering all 25 districts in Sri Lanka is expected to promote resource-based development within the respective regions, encourage and promote the establishment of manufacturing, commercial, agricultural and service enterprises within the region, and widen and strengthen the base of the regional economy