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Inclusive Growth and Poverty Reduction in the New Asia and Pacific

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POVERTY STRATEGY FORMULATION AND IMPLEMENTATION IN FRAGILE AND SMALL ECONOMIES – WHAT IS DIFFERENT?

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Overview:

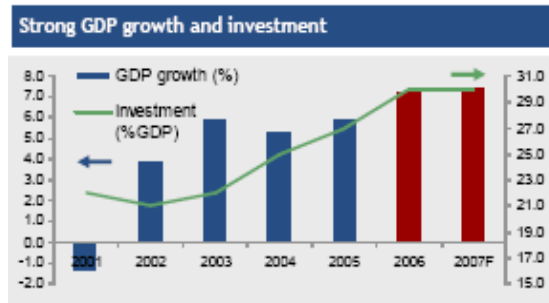
- 1) Majority of states in the world are small economies. Given the structure of small economies the shocks that these economies are experiencing in the recent past makes them have pockets which are fragile in nature. A point to note is that Sri Lanka is in no way fragile in nature as the GDP growth in the last two years have averaged at 6.5 percent and historically 4-5 percent whilst on social indicators Sri Lanka is on track to achieve most of the Millennium development goals.
- 2) In the development of PRS in fragile economies, the key differences is the lack of information for poverty analysis, attention to more urgent needs leading to a lack of ownership, in adequate institutional capacity, changing policies and the absence of a detail evaluation method. However, with a micro level planning and implementation process overcoming this hurdle is possible.
- 3) When a country moves to a middle income category the needs will shift to a more inclusive growth strategic phase. But during the transition the needs continues to be in infrastructure and competitive growth strategies like what we see in Sri Lanka.

1. Majority of states in the world are small. Currently there are almost 193 of them. Proliferation of small states is a trend we will see in the future too. Small developing economics have structural and institutional characteristics, which affect the process of economic growth, constrain their ability to complete, increase their vulnerability to external events and tends to limit their capacity for adjustment. In the recent times most small economics have experienced shock from high and volatile oil prices, tsunamis, intermitted natural disasters like landslides, floods and droughts and continued escalation of terrorist attacks has made these economics have pockets of fragile geographical areas. Sri Lanka's resilient economy and pockets of Fragile areas

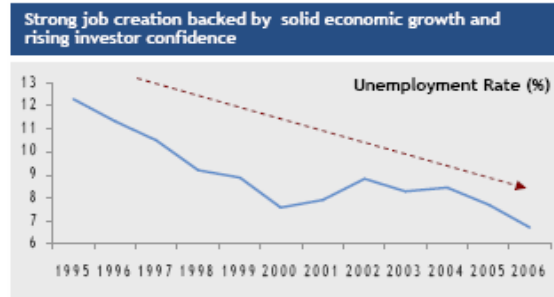
2. Sri Lanka is no way a fragile economy. The country has experienced accelerated growth over the past two years despite severe shocks such as rising oil prices, tsunamis, droughts, land slides and the escalation of terrorism but due to resiliency of the economy growth has averaged at 6.5% during the last 2 year and 4-5 per cent historically. The Per capita income has risen above US \$ 1355 has made it a middle income country. The economic growth has led to the unemployment rate dropping to 6.4 per cent. This has come about through successful structural and economic reforms implemented over the last twenty five years.

3. The private sector accounts for 85% of GDP and some blue chip companies listed on invest overseas. Sri Lanka growth has outperformed countries in the region and has been rated as single B and BB. Refer figure I and II for details.

Figure 1: Key Economic indicators:



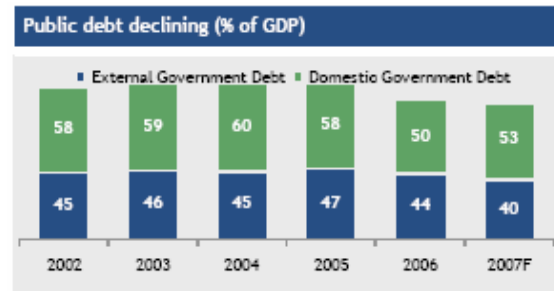
Source; Central Bank of Sri Lanka



Source: Central Bank of Sri Lanka

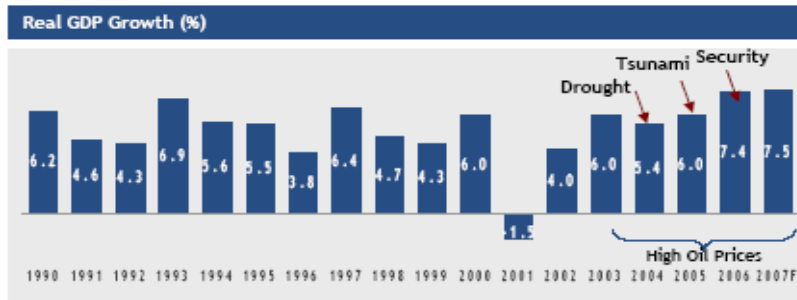


Source; Central Bank of Sri Lanka



Source; Central Bank of Sri Lanka

Figure 2: GDP Growth and comparison in the South Asian Region

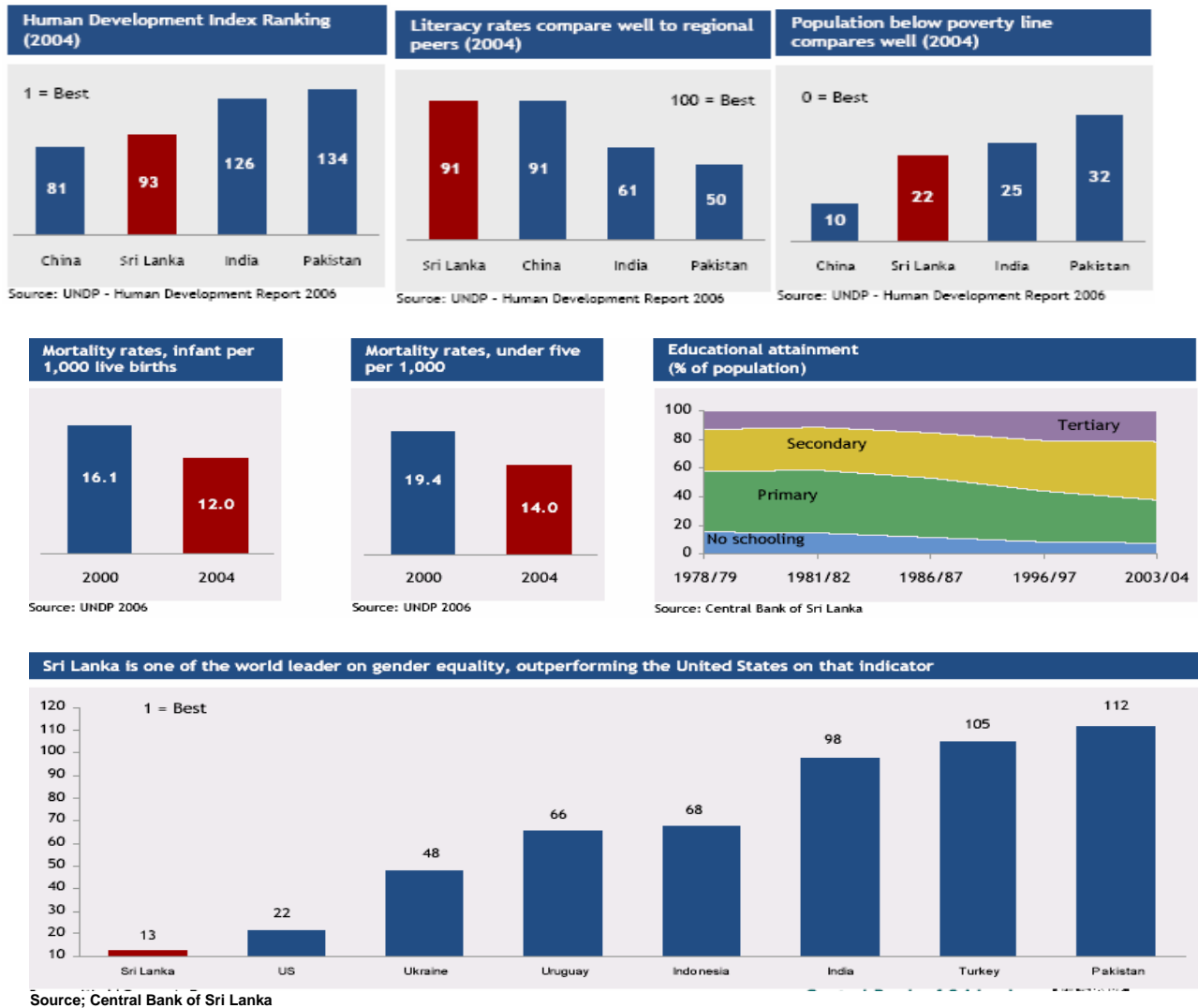


Source: World Economic Outlook 1900-2004, Central Bank of Sri Lanka 2005-2007F



Source: WEO, Central Bank of Sri Lanka

4. On the social indicators Sri Lanka is on track to achieve most of the MDG's. Figure 3 highlights the performance of the key indicators. However, despite its strong commitment to social policies and respectable growth, Sri Lanka may find it difficulties to meet some of the key MDG's namely halving poverty and child malnourishment, and improving environmental sustainability due to challenges from within and due to external shocks we continue to experience.

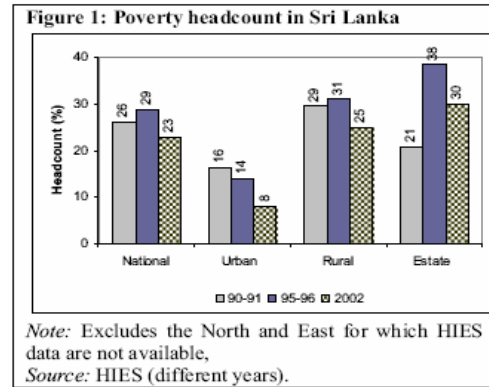
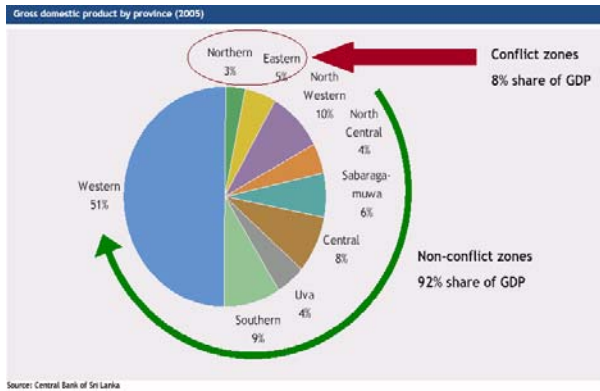
Figure 3: Key Social Indicators

5. Whilst there is a robust GDP growth the Western Province accounted for 51 percent of the GDP. In addition to the disparities in growth between the Western Province and the rest of the country, the slow pace of poverty reduction in Sri Lanka is linked to rising inequality among income groups. Average per capita consumption grew by 50 per cent for the richest consumption quintile but only 2 per cent for the poorest quintile. The Gini Coefficient of per capita consumption in Sri Lanka increased at an annual rate of 2 per cent, much higher than for East Asian Comparator countries with the exception of China.

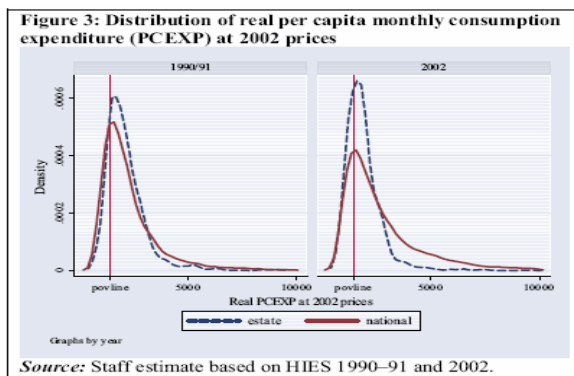
6. If the line coefficient for consumption inequality remains unchanged at the level of 2002 and growth continues at the same rate as it did in 2004 and 2005, poverty will fall by more than 50% to 8.2% by 2015. If however, consumption inequality increases – as it did in the last 10 years – poverty will fall to 14.8% from 26% in 1990/91 (World Bank,

2006) Further, urban poverty halved between 1990-91 and 2000, while rural poverty declined by less than 5 percentage points, and poverty in the Estates increased by about 50 per cent making this sector the poorest in the country. This brings to light the fragile areas of the economy that exists in a small economy even though a country is progressive.

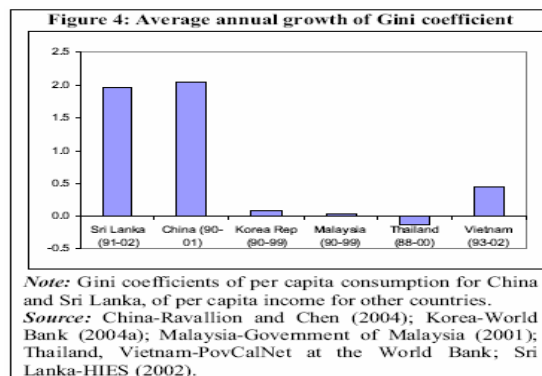
Figure 4: GDP Contribution, Poverty and Gini Coefficient



Note: Excludes the North and East for which HIES data are not available, Source: HIES (different years).



Source: Staff estimate based on HIES 1990-91 and 2002.



Note: Gini coefficients of per capita consumption for China and Sri Lanka, of per capita income for other countries. Source: China-Ravallion and Chen (2004); Korea-World Bank (2004a); Malaysia-Government of Malaysia (2001); Thailand, Vietnam-PovCalNet at the World Bank; Sri Lanka-HIES (2002).

1 WHAT WILL BE THE KEY FOCUS OF FRAGILE ECONOMIES?

7. Access to Economic Infrastructure; The rural and urban markets needs better connectivity and electrification. This will lead to a positive impact on competitiveness and poverty (which is closely correlated to accessibility indicators).

Provinces	Average accessibility index	% of households with electricity	% share of firms with electricity	% of firms with a land line/mobile phone	% of firms located in a community with a bank
Western	3.8	92	79	24	70
Central	3.1	73	80	7	47
Southern	3.1	78	68	18	62
North Western	3.1	69	61	15	70
North Central	2.9	66	61	8	75
Uva	2.8	57	62	23	78
Sabaragamuwa	3.3	62	76	15	70

Source; Central Bank of Sri Lanka

Country	Access to electricity (2000) (percent)	Telephone mainlines per 1,000 people (2003)	Road density (km/sq. km) (1997-2002)
Sri Lanka	76 ¹	49	1.51
China	99	209	0.19
Korea, Rep.	100	538	0.88
Malaysia	97	182	0.20
Thailand	82	105	0.11
Vietnam	36	54	0.29

Source: World Bank, WDI (2005); ¹: 2003 figures from SBSL Annual Report (2004) (the figure for Sri Lanka was 64 percent in 2000 - according to WDI, 2005)

8. Raising agricultural productivity will be another key area of focus. With around sixty percent of the rural households into agriculture in a country like Sri Lanka, it will cut across fragile areas of a country. This may be common to other countries of New Asia and Pacific.

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, WDI (2005).

	1982-90	1991-00	1998-02
Agriculture	2.8	1.6	0.4
Tea	2.9	3.4	2.5
Rubber	-1.2	4.3	-2.3
Coconut	-3.8	2.5	-3.2
Rice	-0.3	-0.7	0.6
Other	6.3	1.9	0.8

Source: Central Bank of Sri Lanka

9. In line with above the investment in Sri Lanka will be in the areas of market connectivity, power and agricultural productivity.

- Upper Kotmale Hydro Power Project - US \$ 350 mn
- Norochchale Coal Power Plant - US \$ 455 mn
- Keravalapitiya Power Plant - US \$ 500 mn
- Hambantota Port - US \$ 355 mn
- Galle Port - US \$ 450 mn
- Trincomalee Investment & Tourist Zones - Private sector
- Irrigation development projects - US \$ 700 mn
- Southern Highway - In progress
- Northern Highway - In progress

10. This leads up to the discussion if the pro poor strategies have worked in small economies. With the Western Province accounting for 51 per cent of the GDP contribution taking place due to Market oriented reforms that were implemented in the 1980's and 1990's (which were essentially pro poor) one can arguably say that these strategy has worked. However the pro poor strategies would not have worked if not for the reforms that were made in areas such as trade, industrial and investment areas which disproportionately benefited the Western Province.

11. However, if this strategy is to work in the rest of the country the economic infrastructure had to be in place – like the port of Colombo and road connectivity with its allied services supporting the pro poor strategy that was implemented.

12. If the pro poor strategies that worked in the western province need to be launched to the rest of the country the same policy changes will have to be made in areas such as agriculture and the non farming sectors of the economy. Figure 5 highlights the need for reforms in sectors like agriculture so that economic development can be increased in these areas.

FIGURE 5: Average yields of selected crops in selected countries – 2002 -2004

Commodity	Sri Lanka	China	India	Indonesia	Pakistan	Thailand	Viet Nam
Rice	3,394	6,170	3,006	4,517	2,988	2,676	4,694
Maize	1,103	4,964	1,874	3,241	2,319	3,656	3,333
Groundnut	585	2,904	975	2,013	971	1,512	1,678
Soybean	1,049	1,781	865	1,270	1,250	1,356	1,317
Potatoes	16,543	15,462	18,555	18,555	15,051	12,054	13,159
Eggplant	6,882	18,631	16,146	7,034	10,556	5,826	
Cabbage	13,889	18,743	21,330	20,334	14,856	11,011	17,972
Chilies	2,888	19,160	9,182	3,808		14,000	
Tomatoes	7,593	26,121	14,789	12,678	9,964	26,095	
Sugarcane	56,966	65,376	62,731	69,710	48,378	68,862	54,215
Pepper	623	1,530	237	718		3,093	1,733
Tea	1,450	863	1,690	1,405		295	1,011
Coconut	4,271	10,099	4,809	6,013	4,000	4,327	6,804
Rubber	798	1,292	1,596	896		1,623	876

Source: Food and Agriculture Organization statistical database.

13. A point noting is that the overall template of the country is in line with the ADB's current capability and countries requirement

ADB's operations by Sector, 2006

Sector	Loans		Grants	
	(\$ million)	%	(\$ million)	%
Agriculture and Natural Resources	807.17	11	133.60	25
Education	250.90	3	46.66	9
Energy	1,369.50	19	3.00	1
Finance	1,787.00	24	72.05	13
Health, Nutrition, and Social Protection	-	-	71.99	13
Industry and Trade	10.00	0.1	0.50	0.1
Law, Economic Management, and Public Policy	220.00	3	8.30	2
Transport and Communications	1,433.20	19	131.40	24
Water Supply, Sanitation, and Waste Management	638.82	9	1.00	0.2
Multisector	879.70	12	69.90	13
Total	7,396.29	100	538.40	100

Note: Totals may not add up because of rounding.

Source: <http://www.adb.org/About/glance.asp>

14. Whilst we can see that the current product range that ADB currently offers is in line to the development needs of the country we must note that once the countries infrastructure is in line to the development needs of a middle income country, there will be increasingly less need and less demand for such traditional support of large-scale infrastructure projects. This can lead to engagements with donor developments units like ADB to minimize as the focus will more to the softer side of development like product design. Which means the strategic shift must take place now so that by 2020 the ADB

would have sharpened the edge to better meet the changing requirements of the economic landscape of a country which will be the characteristics seen in most middle income countries.

15. This can give light to the changing role of the ADB in the realm of change taking place in the Asia Pacific region. The challenge is for organizations like the ADB to identify the changing trends in the market places of New Asia and the Pacific so that a comparative advantage can be developed.

2 DIFFERENCES IN POVERTY STRATEGY FORMULATION AND IMPLEMENTATION IN FRAGILE ECONOMIES;

16. **Poverty Analysis;** Given that fragile economies are vulnerable to man made disasters and natural disasters the collection of data for decision making becomes a challenging task. I.e. In Sri Lanka in the North East we are using data gathered in 2002 and 2004 for developing strategy. However with the liberalization of these areas from the LTTE we have been able to correct this.

17. **Ownership;** Given the uncertainty in the environment and more pressing priorities that the policy makers have to focus their attention on, there is a lack of ownership to the poverty reduction strategy (PRS). In Sri Lanka there is a district level and provincial level steering committee driving the Eastern Re-awakening drive that cuts across the district secretary, NGO's, INGO's, Ministry representatives, Security Personnel and civil society members.

18. **Institutional Capacity;** A key issue in fragile economies. Resources are limited and management time. There is need to focused on more urgent needs that the country requires. Mainly due the volatility of the market.

19. **Implementation Mechanism;** One of the most difficult tasks when it comes to the reality of PRS. If the PRS becomes part of the budgetary process than the control element becomes systemized.

20. **Implementation Vs quality of service;** I have seen in many instances the PRS is evaluated based on the moneys spent Vs the estimated cost rather *than* on the actual delivery of the service. This again is a characteristic in fragile economies due to lack of focus and inadequate human capital. Hence a need for a more detail evaluation mechanism will help speed up the projects.

21. **Policy priorities;** It is important to ensure that policies are conceptualized based on market needs and linked to the Poverty Reduction Strategy. Especially In fragile economies we see constant changes in the policy that delays the development requirement.

22. **Political Economy;** A new word emerging in the Poverty Reduction Strategy process. It is important we get sensitive to this term where all stakeholders are involved in the formulation and implementation mechanism but with a political agenda in mind. It is the reality and we need to be sensitive to this factor in the planning and implementation stages.

3 THE PROCESS OF POVERTY STRATEGY FORMULATION AND IMPLEMENTATION IN FRAGILE ECONOMIES;

23. **The New Micro Level Framework**; A major dimension of the practice of the pro-poor approach is an intimate access to the grassroots level where the poor live and struggle against poverty. This translates directly to *the secretariats (The smallest developmental unit)* as the vital new framework of development and poverty reduction at micro level.

24. The *Divisional Secretariats* will be the centre where majority of communities will participate in decision making and planning to improve the economic and social status of the people.

25. This in turn will be fed into a district development plan where once again a set of stake holders will get involved identify priorities and location specific strategies for economic growth. The financial flows to DS Divisions from different sources and accountability happens at this end at agreed time lines.

26. The district level plan comes together to formulate the National poverty reduction strategy .Since the public expenditure is under the control of the *Divisional Secretary* this helps the Divisional Secretary to monitor and coordinate.The Government, private sector, social organizations, religious leaders, donors and above all the community, are partners in this process of evaluating the progress made on each poverty reduction strategy.

27. One of the key strategies followed to improve the targeting of poverty reduction strategies (PRS) was a re-segmentation exercise. It was realized that there is a big difference in approaching the poor as a heterogeneous group as opposed to a homogenous group. The new six segments that emerged from this exercise were;

- Very poor(20% of the population): Need is Cash transfer schemes
- Less Poor(13% of the population): Need micro financing and income generation activity
- Youth of Very Poor and Less Poor: Livelihood opportunities
- Differently Abled Poor: Empower them to be partners to development
- Conflict – Affected Poor and Internally displaced and need shelter
- Tsunami Poor: Reconstruction of houses

28. New Ministries to drive development opportunities:

(i)	Ministry of Samurdhi and Poverty Alleviation
(ii)	Ministry of Women's Empowerment and Social Welfare
(iii)	Ministry of Social Welfare in Provincial Council
(iv)	Ministry of Small and Rural Industries
(v)	Ministry of Sports and Youth Affairs
(vi)	Ministry of Rehabilitation
(vii)	Ministry of Fisheries and Aquatic Resources
(viii)	Ministry of Plantation Industries
(ix)	Ministry of Healthcare, Nutrition & Uva Wellassa Development
(x)	Ministry of Provincial Councils and Local Government
(xi)	Department of Land Commissioner & Provincial Land Commissioner

(xii)	Provincial Department of Agriculture, Animal Husbandry and Health
(xiii)	Department of Export Agriculture
(xiv)	Tea Small Holders Development Authority
(xv)	National Youth Service Council
(xvi)	National Apprentice Authority
(xvii)	Department of Health (Provincial Councils)

29. Each of these Ministries develops micro plans from a bottom up basis using the Divisional secretariat for the implementation and evaluation at the ground level. The resegmentation helped the overall coverage of the people in the poverty belt.

4 SRI LANKA 10 YEAR DEVELOPMENT PLAN - VISION

30. The vision sets out ambitious growth targets (over 8 per cent) by 2010 aimed at reducing poverty incidence to 12 per cent by 2015 (from the current 23 in 2002). Raise total investment from 28 – 30 per cent of GDP in 2006 to 34 per cent in 2010. Public sector savings (currently negative) is expected to contribute 5 percentage points of GDP to gross domestic savings by 2010. FDI's to be 2 percent of GDP.

31. Sectorally, growth in agriculture (is targeted to double. Historically trends to reach 4-5 percent a year, industry to grow to around 8-9 per cent whilst services expected to grow the fastest.

32. **Macro Economic Policies:** Fiscal and monetary policies will aim at supporting higher growth rates through price stability while providing adequate resources for private sector growth. The budget deficit to be 5 per cent of GDP by 2010 and public deficit to 85 per cent of GDP by 2008. Domestic borrowing to be contained at 3 per cent of GDP and non concession foreign financing to be kept at 1-2 per cent of GDP.

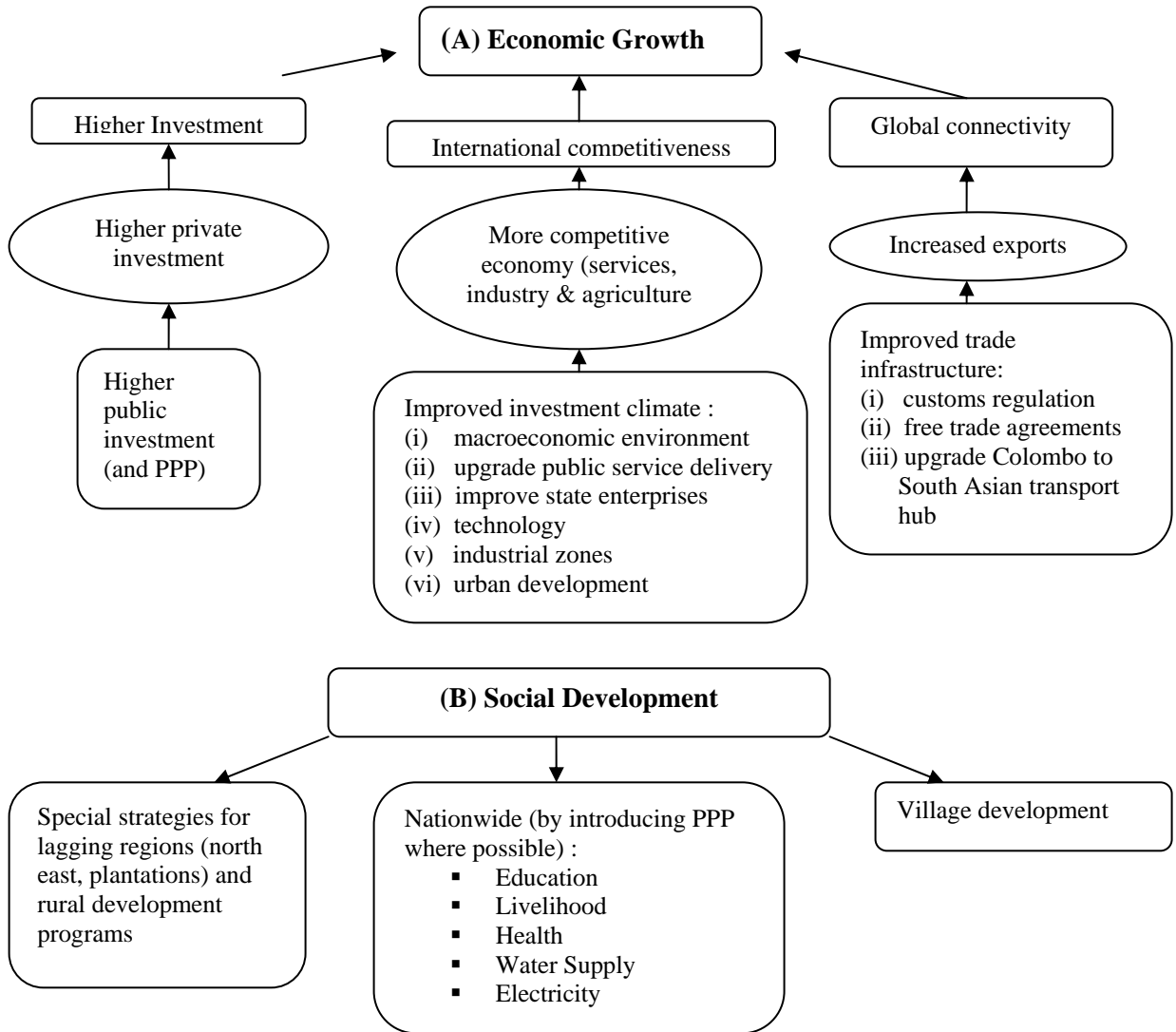
33. **Public Sector:** The overall thrust is to make the public sector more efficient and modern through rationalization of function of public agencies to ensure they remain relevant and transparent. Key strategies are to devolve power to communities to improve accountability of public institutions, avoid overlap and duplicate of various structures and strengthen the capacity and authority of local institutions in service delivering

34. **Agriculture:** The key strategies are to achieve food security and rising income of small farmers, increasing competitiveness through modern technology, shifting to commercial agriculture and promoting diversification to higher value products.

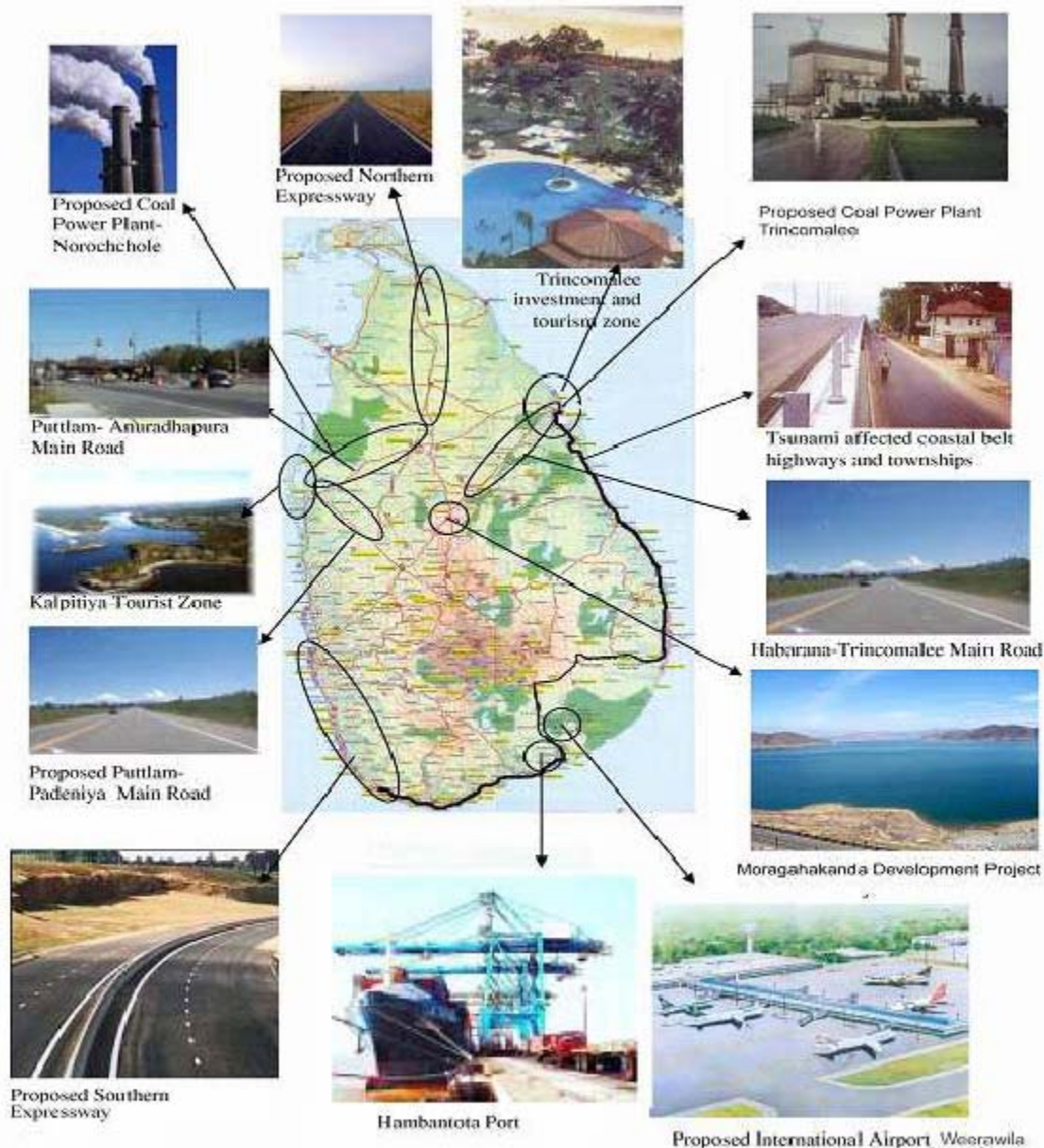
35. **Social Protection:** The key strategies are to shift the thrust from cash grants to the provision of livelihood opportunities, supporting savings based micro finance, Improving coordination among divisional level programmes and enhance livelihood opportunities

36. Implementation will take place through a *village uplifting programmes* where they become small countries of growth. 119 of the poorest districts in the country is been targeted with high quality schools, bringing in clean water supply, infrastructure and roads, subsidize a nation wide fertilizer subsidy (Small scale tea, paddy and farming), paddy purchase programmes and rehabilitate minor irrigation tanks. This is aimed at increasing Agricultural growth by 5% from the current 1%.

The Sri Lanka Government's Development Strategy (10 Year Plan)



Key New Infrastructure developmental initiatives in the 10 year plan



Source: Ministry of Finance and Planning

5 WAY FORWARD FOR ADB IN SRI LANKA

37. When a small country is moving towards a middle income economy the need for infrastructural development will reduce in demand and the need for product design and regional work that includes inclusive growth will be required.

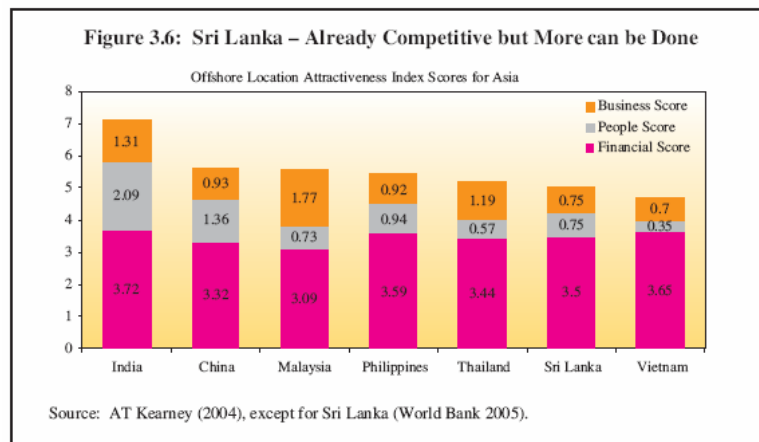
38. Performance based allocation should not be used as a criteria when offering developmental finance to fragile economies or areas where pockets of fragility exists. The

best example is the East of Sri Lanka where a maga developmental initiative is taking place and concessionary funding should be extended.

39. In Sri Lanka the need for the next 4 years will be a two pronged strategy by the ADB which in infrastructure/competitiveness development and socially inclusive growth projects. This includes services such as Improving management of state of state banks/ fiscal management, how to improved access to finance, higher skills and infrastructure. They focus areas will be Financial market strengthening through stability and competition, Better public infrastructure –roads and power, Better urban Infrastructure – water and sewerage and Improved access to quality tertiary education.

40. Socially inclusive development which will include Social development in North/East on livelihood projects through (Rural financing), small infrastructure (Hospitals and schools) and provide skill and training, Provision of basic services (Clean water supply, education and electricity.

41. In the regional Imbalances and lagging regions linking markets(provincial roads to growth centers and main Roads, Strengthen productivity(rural electiciification, reliable water supply, better financial services, new companies out side western province, higher productivity in agribusiness, working on human resource development in the East and Skill training for the BPO sector



42. Small economies can benefit from regional cooperation but this will be essentially to a country like Sri Lanka on the area of tourism. But countries like Nepal can benefit in many sectors.

43. Hence overall the new approach of ADB could be on 3 pillars. Private sector development, capacity development and governance.

44. The challenge is if ADB has the comparative advantage in providing knowledge and skills to provide the soft skill with the traditional mode of playing a donor to countries requirements. However, one will have to analyze the changing product range of ADB and its capability of delivering this new design to the policy holders of a country that includes the private sector in the new model. One should also sketch the power of the brand ADB and its implication to the new values that it wraps in the years to come in the market place in New Asia and the Pacific.

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Sri Lanka 10 year developmental Plan