

**REPORT ON THE SRI LANKA DEVELOPMENT FORUM**  
**29-30 January 2007**  
**Galle, Sri Lanka**

**I. INTRODUCTION**

1. The Sri Lanka Development Forum (the forum) was held in Galle, in the south of the country, on 29-30 January 2007. The forum was inaugurated by His Excellency President Rajapakse who also chaired the first session and delivered the Inaugural Address. Six key development partners, among them ADB, presented their opening statements at this session. Subsequent sessions were chaired by Sarath Amunugama, the Minister of Enterprise Development and Investment Promotion. Delegations from over 50 countries and international development agencies attended. The panels for all session comprised of ministers and some sessions included development partners, including ADB.<sup>1</sup> On the second day, the Government presented its 10 year development strategy, the 'Mahinda Chintana: Vision for a New Sri Lanka' (*Mahinda Chintana*) as the basis for ensuing discussions. There was a session on the infrastructure development strategy, and on lagging regions as outlined in the 'Mahinda Chintana'. The closing session was a general discussion on donor assistance and implementation issues (there was no formal pledging session). This was followed by a press conference, with both ADB and World Bank participation.

**II. BACKGROUND**

2. This is the third time a Development Forum was held in-country. The Government informed the development partners that the key purpose of this forum was to discuss the new 10 year development plan, the 'Mahinda Chintana Vision for a New Sri Lanka'. However, this intention was met by a certain degree of skepticism among the donor group. In light of the ongoing conflict and intensification of fighting in the east of the country since August 2006, any discussion on the country's long term growth potential and strategy would need to include the ongoing conflict, and its ramifications for Sri Lanka's development. Following close liaison between the Steering Committee of the Donor Group (of which ADB and World Bank are key members) and the Government, the Government proposed an agenda that addressed conflict and humanitarian issues as well as the presentation and discussion on the *Mahinda Chintana*. Immediately before the forum, the Government announced that 18 members of the United National Party, the main opposition party, were joining the Government. These moves reflected an effort by President Rajapakse to strengthen the position of the Government in Parliament and foster the emergence of a consensus among political parties on a possible political solution to the conflict. This process of political realignment is continuing.

**III. KEY POINTS OF THE FORUM**

**A. Conflict and Development**

3. The opening statements of the development partners focused very much on the conflict, and its impact on human suffering and Sri Lanka's economic development. While the human costs are unquantifiable, the conflict also leads to growing income inequality, and the economic costs in terms of forgone investment and growth cannot be ignored. President Rajapakse in his Inaugural Address stressed the Government's commitment to seeking a negotiated settlement

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<sup>1</sup> ADB's delegation comprised Vice-President (O1) Liqun Jin, Richard Vokes (Country Director), Johanna Boestel (Country Economist), Hasitha Wickremasinghe (Economics Officer).

but highlighted the non-cooperation of the Liberation Tigers of Tamil Ealam (LTTE) as the main cause of the prolonged conflict. He stressed the need to separate terrorism from conflict and development. To safeguard key economic centers and the public from attacks is a prerogative of the government and is, according to a presentation by the central bank governor, also a basic imperative of the country's macroeconomic management. The Government also explained the role of the security forces and assured the development partners of its intention to minimize civilian casualties. In response to the earlier concerns raised by the Donor Group Steering Group, the Government gave a detailed account of actions taken so far to supply basic goods to the conflict affected areas in the north, mechanisms to safeguard human rights, and the safety of civilians in the east. In addition to the concern about the resurgent conflict and the humanitarian crisis developing in the east, some development partners also expressed concern about the negative press coverage on INGOs and their role in the reconstruction efforts in the north and east.

## **B. Economic Policies and the Government's 10 year Development Strategy**

4. The second day focused on the 10 year development strategy - *Mahinda Chintana*. The secretary to the treasury gave a frank account of political realities, noting the weak ownership of major reforms undertaken under earlier Governments. He explained that the *Mahinda Chintana* embodies a more gradual approach to reform, combining the positive attributes of market economic policies, including encouragement of foreign direct investment (FDI) with support for domestic enterprises. The core of the *Mahinda Chintana* is to achieve high growth rates through investment in large scale infrastructure and the knowledge economy, and focus on rural development to help lagging regions. The *Mahinda Chintana* is completely home grown and has a high degree of country ownership. The secretary to the treasury stated the Government does not intend to borrow commercially unless on favorable terms, in an attempt to assuage concerns about the fast growth of foreign denominated domestic debt. In line with other Government presentations, he also stressed the importance of parallel development strategies in the conflict affected areas, and in the rest of the country.

5. The strategies for key infrastructure sectors and social sectors of the *Mahinda Chintana* were presented by relevant ministry secretaries. These included roads, ports, power, education, and health. The Government pointed out that the major infrastructure projects were located in different regions of the country, and in some regions several projects were initiated to build up those regions into development hubs.

6. The forum also reviewed the progress made in the disbursement and commitment of development assistance in 2006 and some of the implementation challenges. Based on ongoing and almost completed negotiations, and existing funding in the pipeline, \$4.5 billion is available. The Government hopes to attract more development assistance to fund its 3-year medium term expenditure framework of \$9 billion.

7. Development partners assured the Government of their continued support for the *Mahinda Chintana*. However, several concerns were raised during the discussions. The International Monetary Fund (IMF) and the World Bank in a joint presentation stressed the need for greater productivity gains, and that an increase in investment alone might not in itself lead to higher growth. Hard infrastructure, such as expressways to key regions is important, but other crucial factors and policies that favor private sector growth should not be neglected. ADB's comments focused primarily on sector issues, pointing out the need of reducing administrative overlaps, regulatory reform needed to attract private sector investment in infrastructure (a key in the *Mahinda Chintana*), and the need to continue sector policy discussions in a smaller forum.

#### IV. IMPLICATIONS FOR ADB OPERATIONS

8. Given the general support for the *Mahinda Chintana* and its goals, ADB will use this document as a base for its long-term engagement in Sri Lanka, and as a base for its Country Partnership Strategy to be finalized by 2007. The agenda to fight poverty and bring about the conditions for higher growth remains large. Large pockets of poverty exist in Colombo's urban slums; the absolute number of poor households in the western province is almost on a par with the number of poor households identified in the poorest non-conflict areas. Significant poverty continues to exist also in the central tea plantation regions of the country, as well as in the north and east. The lack of infrastructure and connectivity has been identified in key assessments undertaken by ADB and the World Bank as the biggest obstacle to private sector development, after macroeconomic stability and peace.

9. Working in conflict affected regions has been affected by the conflict. However, wherever possible, work continues. Tendering of small infrastructure projects in Trincomalee under NECORD<sup>2</sup> resumed on 3 February 2007. ADB will work with all concerned stakeholders to try and finalize the processing of the Jaffna Water Supply project. If realized, it would be of important symbolic value in the current environment.

10. ADB's 2007 program is aligned to the *Mahinda Chintana* that focuses on heavy investment in infrastructure, the knowledge economy, and urban/rural development to promote lagging regions. ADB will continue its support in these areas. The extension of Colombo Port, the first public private partnership on such a scale in the country is important to maintain and strengthen Sri Lanka's global competitiveness and Sri Lanka's export oriented sectors. During the forum, the Government frequently mentioned this project, and the extension of the southern highway from two to four lanes, as well as a possible Northern Expressway from the south to Jaffna, as key projects under the *Mahinda Chintana*. A \$70 million secondary education modernization project will support the Government's strategy to increase equal access to quality education across the country and help Sri Lanka enter the knowledge economy.

#### V. CONCLUSION

11. The forum provided a useful opportunity for both the Government and international community to set out their respective concerns both on the conflict situation and on the country's development agenda. Despite remaining differences over the conflict and how best to revive the peace process, there was general agreement in the forum on the need to continue to support the Government in meeting the development needs of all Sri Lankans. The forum also recognized the country's wider development needs as outlined in the *Mahinda Chintana*. The Government took note of the concerns of the development partners on the humanitarian crisis, and on the negative perception in some parts of Sri Lanka of the role of INGOs.

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<sup>2</sup> ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Democratic Socialist Republic of Sri Lanka for the North East Community Restoration and Development Project*. Manila.