

Annex B10

Policy Matrix for the Poverty Reduction Strategy Reform Agenda and World Bank/Partner Programs of Support

Input/Policy Change	Output/Intermediate Indicators	Outcome	Bank Group Interventions Lending <sup>1</sup>	Other Donors
<b>A. Monetary and Fiscal Policy for Poverty Reduction</b>				
<b>1</b> <b>Fiscal Consolidation</b> Increase revenues, reduce expenditures, contain quasi-fiscal losses and reduce contingent liabilities Of which:	Reduce fiscal deficit to 7.5% of GDP in 2003, 6.4% in 2004 and 5.1% in 2005	Lower inflation	<b>Economic Reform TA (FY03)</b>	ADB, IMF
<b>1.1</b> Increase the equity, efficiency and administrative simplicity of the tax system	Increase domestic revenues from 16.8% in 2002 to 18.7% of GDP in 2005 by broadening the GST tax base and simplifying the tax system	Reduced deficit and inflation, Lower government borrowing from the banking system	<b>PRSC I</b>	
<b>1.2</b> Phase out multiple tax exemptions and transform BOI into a promotional authority	BOI Transition Plan prepared by 2003; number of BOI tax concession schemes reduced; no new BOI concessions awarded by 2005	Greater uniformity in the enterprise tax regime	<b>PRSC III</b>	
<b>1.3</b> Improve efficiency and effectiveness of public expenditures	Public expenditures estimated at 25.7% in 2002 and will be gradually reduced to 23.6% by 2005; Defense expenditures contained at 3% of GDP in 2005; Samurahi outlays will be reduced in real terms	Lower inflation, Lower budget deficit and reduced government borrowing from the domestic banking system		
<b>1.4</b> Eliminate waste and duplication in public spending	By 2005, program budgeting system, medium term expenditure framework and public expenditure information system operable	Greater correspondence between public spending and desired development results		
<b>1.5</b> Stem quasi-fiscal losses in the state-enterprise	Financial losses of the major state enterprises reached 2% of GDP in 2000. Financial to be reduced to near zero by 2005; Restructuring program underway for five largest state enterprises	Lower inflation, lower net lending by government, reduced borrowing by state enterprises from domestic banks. Competition in service delivery to reduce costs		
<b>2</b> <b>Maintain price stability</b> and a sustainable balance of payments by means of:			Central Bank Strengthening	IMF
<b>2.1</b> Maintain exchange rate on a market-determined free float as of 2001	Stable real exchange rate achieved by 2004	Economy-wide competitiveness maintained and stable external balance		
<b>2.2</b> Ensure expansion of monetary base consistent with price stability	Open market operations used for monetary management and the Monetary Policy Committee expanded	Stable expansion of the money supply; Greater public accountability and awareness of monetary policy decision-making		
<b>2.3</b> Enhance capital flows and rebuild reserves	Reserves have fallen to under 3 months of import cover in 2001, raised to nearly 4 months of import cover by 2005			
<b>2.4</b> Reduce short-term domestic borrowing	Public debt to be reduced from 110% of GDP in 2002 to 87% by 2005	Lower inflation and reduced government borrowing from the domestic banking system		
<b>B. Reform Structural Policy to Support Pro-Poor Growth</b>				
<b>1 Trade and Investment Policy Reform</b>				
<b>1.1</b> Enhance global integration through a liberal trade and foreign investment regime	Existing import monopolies eliminated and protection reduced	Increase in the growth rate of imports and exports of goods and services	Investment Climate Survey	ADB, USAID

<sup>1</sup> Items in bold are new lending operations proposed in this CAS. Other items are on-going operations.

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<p><b>1.2</b> Enhance consumer's legal protection from unfair market activity instead of relying on direct government market controls</p> <p><b>1.3</b> Widen scope for business entry and exit</p>	<p>Uniform and stable protection regime for food products introduced</p> <p>Consumer Protection Authority established by 2003</p> <p>New Companies Act and Bankruptcy legislation promulgated by 2005</p>	<p>Increase in consumer welfare</p> <p>Decrease in market imperfections</p>	<p>PRSC I (FY03)</p> <p>PRSC II (FY04)</p> <p>PRSC III (FY05)</p> <p>PRSC IV (FY06)</p>	
<p><b>2 Labor Market Reform</b></p> <p>Expand employment opportunities and the flexibility of the labor market</p>	<p>Adoption of new involuntary separation procedures</p> <p>Revision of the Industrial Disputes Act, Factory Ordinance, Termination of Employment of Workman's Act</p> <p>Passage of an Employment and Industrial Relations Act</p>	<p>Increased mobility and productivity of the labor force</p>	<p>Economic Reform TA (FY03)</p> <p>PRSC I (FY03)</p> <p>PRSC II (FY04)</p>	<p>ADB, ILO</p>
<p><b>2.2</b> Promote harmonious labor relations</p> <p><b>3 Financial Sector Reform</b></p> <p>3.1 Improve performance of the two large state banks</p> <p>3.2 Improve the soundness of the financial system</p>	<p>People's Bank restructured</p> <p>New Monetary Law, Banking Law and Exchange Management Law enacted</p>	<p>Greater stability of the financial system</p> <p>Increase in the domestic savings rate</p>	<p>Central Bank Strengthening</p> <p>Economic Reform TA (FY03)</p> <p>PRSC I (FY03)</p> <p>IFC (investments in banks, NBFIs, insurance, pensions)</p>	<p>ADB, IMF, Sweden</p>
<p><b>3.3</b> Expand investment opportunities in the financial sector</p>	<p>Full foreign ownership of brokerage companies</p>	<p>Increase in equity investment</p>		
<p><b>3.4</b> Expand and enhance the soundness of the pension system</p>	<p>Superannuation Regulatory Commission Established</p>	<p>Cost of the pension system reduced</p>	<p>Economic Reform TA (FY03)</p>	<p>IMF</p>
<p><b>4 Public Enterprise Reforms</b></p> <p>4.1 Encourage remaining SOEs to operate as competitively as possible</p>	<p>Liquidation of unviable SOEs</p>	<p>Lower budget deficit and reduced government borrowing from the domestic banking system</p>	<p>Economic Reform TA (FY03)</p>	<p>ADB, IMF, Japan</p>
<p>4.2 Open scope for greater private initiative and public-private partnerships in areas hitherto assigned to SOEs</p>	<p>Independent multi-sector infrastructure regulatory authority established for water supply, power and ports</p>	<p>Increased private investment in physical infrastructure</p>	<p>PRSC I (FY03)</p> <p>IFC (post-privatization investments)</p>	
<p>4.3 Stem losses in major SOEs and reform Government's ownership and exclusionary service role in these sectors</p>	<p>Tariffs set to reflect economic costs in major SOEs; Enterprise restructuring and reform program mounted in Posts, CEB, CWE, CPC and rails</p>	<p>Lower budget deficit and reduced government borrowing from the domestic banking system</p>		
<p><b>5 Power Sector Reform</b></p>	<p>New Electricity Act Promulgated</p>	<p>Enabling environment created for the power sector</p>	<p>Economic Reform TA (FY03)</p>	<p>ADB, Germany, Japan</p>
<p>5.1 Meet national power demand in an affordable and efficient manner</p>	<p>Government power companies unbundled into generation, transmission and distribution companies</p>	<p>Increased private investment in the power sector</p>	<p>PRSC I (FY03)</p> <p>IFC (investments in power generation/T&amp;D)</p>	
<p>5.2 Reform the energy utilities and create greater scope for private sector initiative in energy</p>	<p>Lifeline subsidy on first electricity block to be financed through the budget by 2005</p>	<p>Improved access by the poor to power and energy</p>		
<p>5.3 Maintain a lifeline tariff policy to ensure that a basic allotment of affordable</p>				

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<p><b>5.4</b> Ensure that CEB, after unbundling and restructuring, can continue to play a positive role in power sector development</p>	<p>CEB/LECO financially restructured by 2003</p>	<p>Lower budget deficit and reduced government borrowing from the domestic banking system</p>		
<p><b>C. Reduce Conflict-Related Poverty</b></p>				
<p><b>1.1</b> Forge a lasting peace</p>	<p>Mutual ceasefire in 2002, followed by peace talks</p>	<p>Pre-conditions satisfied</p>		<p>EU, France, Germany, India, Norway</p>
<p><b>1.2</b> Consolidate peace</p>	<p>Establish post conflict planning and mine action by 2003</p>	<p>RRR process facilitated</p>	<p>Needs Assessments Social Assessment of the Conflict-affected Areas</p>	<p>Norway, UN agencies</p>
<p><b>1.3</b> Deliver more effective relief</p>	<p>Free movement of goods</p>	<p>Increased labor mobility</p>		<p>EU, France, Germany, Norway, UN agencies</p>
<p><b>1.4</b> Ease, within bounds posed by security concerns, restrictions inhibiting private and public relief delivery</p>	<p>Restrictions on currency, food, transport services and civilian crossing days largely eliminated by 2002</p>	<p>Decrease in incidence of poverty and malnutrition in conflict areas</p>		
<p><b>1.5</b> Foster better institutional coordination on relief delivery</p>	<p>National and district coordinating committees on relief and rehabilitation established by 2003</p>	<p>Decrease in incidence of poverty and malnutrition in conflict areas</p>		<p>EU, Germany, UN agencies</p>
<p><b>1.6</b> Promote voluntary resettlement of internally displaced persons to reduce the numbers of those in welfare centers</p>	<p>Mount an emergency relocation program involving funding for mine clearing, resettlement allowance and post-resettlement assistance for sustainable livelihoods.</p>	<p>Decrease in extent of deprivation, isolation and alienation in conflict areas. Clear the backlog of internally displaced households and returnees by 2004.</p>	<p><b>North East Emergency Reconstruction (FY03)</b></p>	<p>EU, Germany, UN agencies</p>
<p><b>1.7</b> Foster rehabilitation in conflict-affected regions</p>	<p>Rehabilitation projects mounted to improve economic and social services</p>	<p>Increase in quality of life in conflict areas</p>	<p><b>North East Emergency Reconstruction (FY03)</b></p>	<p>EU, Germany, UN agencies</p>
<p><b>1.8</b> Foster social harmony by investing in ethnic reconciliation</p>	<p>Identify cards issued to all plantation workers and IDPs by 2005</p>	<p>Process of social integration facilitated</p>	<p>General Education II/TETD NEIAP Legal/Judicial Reform <b>Second Community Water (FY03)</b> <b>Infrastructure Rehabilitation/ Capacity Building in the NE (FY05)</b></p>	<p>ADB, EU, Germany, Other Bilaterals, UNDP</p>
			<p>Social Assessment of the Conflict-affected Areas AAA on General</p>	<p>EU, Germany, UNDP</p>

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1.9 Implement RRR Framework	Establish RRR Secretariat fully functional by 2003	Coordination of RRR activities facilitated	AAA Education	EU, Germany, Holland, UK, UNDP
<b>D. Create Opportunities for Pro-Poor Growth</b>				
<b>1 Connect Poor Regions to Dynamic Markets</b>				
1.1 Ensure the poor can efficiently reach dynamic global markets	SLPA restructured by 2004; Southern Port initiated by 2006; Funding Secured for the Galle Port	Increased export opportunities for SMEs	IFC (investments in ports)	ADB, Japan
1.2 Build a modern expressway network to lower the transport and marketing costs faced by the poor	Construction of southern highway initiated by 2003; Colombo-Kandy expressway and outer circular ring road initiated by 2006	Expansion of income-generating opportunities for the poor	IFC (investments in toll roads)	ADB, Japan, Sweden
1.3 Repair, maintain and rehabilitate strategic roads to lower farm-to-market costs	Private sector to be provided some Rs. 4 billion to maintain roads by 2004	Expansion of income-generating opportunities for the poor		ADB, Japan
1.4 Reduce road safety risks facing the poor	Road safety secretariat fully operational by 2004	Reduced number of road accidents in poor areas		ADB, Sweden
1.5 Improve the bus system	Explicit subsidies to be provided for uneconomic bus routes in rural areas by 2004	Increased labor mobility in poor areas		India
1.6 Modernize the railways	Evidence of private sector involvement in operating specific lines; Adjustment in tariffs to reflect costs	Increase in labor mobility among the poor		India, Japan
<b>2 Bridging Information to the Poor: Closing the Digital Divide</b>				
2.1 Make telecommunications facilities accessible to the poor	Telephone access raised from 6.4 per 100 in 2000 to 13 per hundred by 2005 through private provision	Improved access by the poor to information	e-Lanka (FY04), IFC	Japan
2.2 Transform the postal system into an information and finance portal	Postal services restructured and commercialized by 2005	Improved access by the poor to information		
2.3 Bringing internet into the countryside	Internet penetration raised to 6 per 1000 by 2005 and computer training centers established in all districts by 2005	Improved access by the poor to information	e-Lanka (FY04)	Japan, Norway, Sweden, UNDP, UNESCO
<b>3 Revitalizing Rural Development to Reduce Rural Poverty</b>				
3.1 Promote welfare-increasing rural to urban migration	5 to 10 percent increase in urban share by 2005	Increase in standard of living of the poor		
3.2 Improve property rights and the management of rural lands	Implementation of new land titling pilot program; Deregulation measures introduced into the Land Development Ordinance, the Land Grants Act and the State Land Ordinance	Improved land market in rural areas	Land Policies: Lessons from the LIL	Sweden
3.3 Raise productivity and incomes in small-holder agriculture	Tea output to reach 310 mm kg, rubber output to reach 110 mm kg; and coconut output to reach 3000 million nuts by 2004; Private sector participation in dairy, agro-input provision and extension services improved through divestiture and other public reform	Increased growth of real incomes in rural areas	PRSC II (FY04)	ADB, Japan
3.4 Transform tree crop plantations into engines for regional development and poverty eradication	Target programs for combating alcoholism and indebtedness reach a majority of the estate work force by 2005	Improved social and economic welfare of the estate labor force		ADB, Japan, Netherlands, Norway
3.5 Modernize the agricultural marketing system	New dedicated economic centers established and Diambulla market expanded with private investment	Environment created for high-income agriculture in rural areas		

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3.6 Improve water resource management	Water use entitlement system is operable by 2005	Increase in yields of irrigated crops	Mahaweli Land and Water Management (FY06)	ADB, EU, Japan, Netherlands, Norway
3.7 Foster off-farm employment by enhancing access to sustainable rural electrification.	Electricity reaching 80 percent of all households by 2005	Expansion of rural industries and employment opportunities for the poor	Renewable Energy for Economic Development	
4 Foster SME Development				
4.1 Improve the policy setting for SMEs	Deregulation committee operable	Increased trade and investment		ADB, EU, Germany, Japan, Sweden
4.2 Improve business support services aimed at SMEs	Public funding provided to link SMEs with private sector business service providers	Improved competitiveness through technology transfer		
5 Assist Ultra-Poor Communities with Direct Interventions				
5.1 Increase private sector participation in rural development activities	CBOs actively involved in designing and implementing sustainable income and employment generating projects in selected ultra-poor regions	Enhanced pro-poor growth	Community Development for the South (FY04)	ADB, Germany
6 Mainstream Poverty Reduction Objectives in Sector Development Strategies				
6.1 Integrate poverty reduction and industrial policy	Industrial zones to be expanded in secondary cities	Growth of non-farm income and employment opportunities		ADB, Germany, Japan, Norway, Sweden, USAID
6.2 Integrate poverty reduction and tourism policy	Vocational training to be competency based; private sector participation rises by 2005 to reach more than half of total vocational training support	Development of skills required for high-value tourism		UNDP, WTO
6.3 Integrate poverty reduction and overseas employment promotion	Migrant housing, insurance and self-employment schemes introduced	Improved welfare of migrant labor force		ILO, UNDP
E. Investing in People				
1 Equip all students with the necessary knowledge and skills to suit the modern employment market by:				
1.1 Improving the quality of the basic education system	At least 80% of schools serving poorer areas have been staffed with trained teachers by 2005	Higher level of human capital accumulation among rural poor	General Education II/TETD Education Sector Operation (FY05)	ADB, Germany, Japan, Norway, UK
1.2 Modernizing the secondary schools	At least 60% of in-service teachers receive appropriate training in subject content and pedagogy in accredited, continuing teacher-education institutions by 2005	Regional disparities in education reduced	General Education II/TETD Education Sector Operation (FY05)	ADB, Germany, Japan, Norway, UK
1.3 Better matching vocational training and labor market demands	Government institutions restructured to focus on small business development	Increased employment opportunities for educated youth	General Education II/TETD Education Sector Operation (FY05)	ADB, Germany, Japan, Norway, UK
1.4 Expanding access and improve the quality and relevance of tertiary training	University Competitive Funds Created & Accreditation system established for quality control by 2004	Increased employment opportunities for university graduates	Distance Learning Improving Relevance and Quality of Undergraduate Education (FY03)	
1.5 Instilling the ideals of ethnic harmony and democratic pluralism among the younger generation	Social harmony programs introduced in secondary and tertiary curriculum	Prospects for future ethnic conflicts minimized	General Education II/TETD	Germany, UK

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<b>1.6</b> Promoting increased knowledge of health and nutrition among the poor	Public health awareness programs mounted for target groups	Increase in share of population with access to health insurance	Health Policy Note	Austria, China, France, Japan, Korea, UNFPA, WHO
<b>1.7</b> Expanding access to affordable health care for the poor	National Health Sector Program adopted by 2003	Increase in health standards of rural and urban poor	Health Policy Note	Austria, China, France, Japan, Korea, UNFPA, WHO
<b>1.8</b> Rationalizing medical care delivery to focus more resources on the needs of the poor	Public spending on health maintained at 8-10 percent of total expenditures	Increase in health standards of rural and urban poor	Health Policy Note	Austria, China, France, Japan, Korea, UNFPA, UNICEF, WHO
<b>1.9</b> Improving the health and nutritional status of children under five years	Improved MCH programs implemented nation-wide with focus on nutrition	Increase in nutritional standards of rural and urban poor	Health Policy Note Nutrition and Environmental Health	Austria, China, France, Japan, Korea, UNFPA, WHO
<b>2</b> Provide safe water and suitable sewage and sanitation systems to all				
<b>2.1</b> Improve access to safe water in rural areas	RWSSP rural drinking water supply expansion policy adopted & implemented	Increase in share of population with access to safe drinking water	Second Community Water (FY03)	ADB, Germany, Japan, Norway, UNDP
<b>2.2</b> Improve access to sewage and sanitation systems	Sewage improvement projects in Greater Colombo and industrial parks implemented; Private-public partnerships in local municipal landfills implemented	Quality of environment in industrial zones improved		
<b>3</b> Restructure the Social Protection System, by:				
<b>3.1</b> Improve access and quality of care for the poorest groups	Spending for social services to increase by 30 percent from Rs.1.4 billion in 2002 by 2004	Increase in health and nutritional standards among hardcore poor and socially excluded groups		Australia, UNDP, UNICEF, WFP
<b>3.2</b> Sharpen the focus and impact of the Samurdhi Program	Exit mechanism introduced and limited to deserving beneficiaries by 2004	Type I and Type II errors reduced or eliminated from targeted assistance	PRSC II (FY04)	
<b>3.3</b> Improve urban habitats for the poor	Community-led development of under served settlements to deliver a range of services: target coverage of >10%	Increase in share of urban poor with adequate shelter and sanitation	Financing of Municipal Services	ADB, Japan, Netherlands, Norway
<b>3.4</b> Expand the supply of affordable, quality housing for the poor	Provision of 200,000 housing units in township clusters to estate workers	Increase in share of estate population with adequate shelter and sanitation		Germany, UNHCR
<b>3.5</b> Reduce urban air pollution	Clean Air Action Plan Implemented		IDF Grant GEF activities	
<b>F. Reforming Governance and Empowering the Poor</b>				
<b>1.1</b> Reform public service to make it more accountable to the poor	Establishment of independent commissions for police, judiciary, elections and public service	Foundation laid for democratic pluralism	TA for Governance/ Civil Service Reform CPAR CFAA	ADB, Australia, Japan, Norway, Sweden, UNDP
<b>1.2</b> Foster decentralization to tap local	Increased volume of concessionary loans and grants	Decrease in the incidence of poverty in the	CPAR	Norway, Sweden,

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knowledge for poverty reduction	awarded to local government for poverty reduction	provinces	AAA CFAA	UNDP
<b>1.3</b> Foster sustainability in the area of coastal preservation	Community groups established to inventory and manage coastal zones Coastal erosion control investment mounted on southwest coast	Mechanisms for facilitating sustainable pro-poor growth established in coastal areas		ADB, Netherlands, Norway
<b>1.4</b> Foster sustainability in the area of forestry	Leases provided to poor farmers to farm and maintain protected forest buffer zones	Mechanism for facilitating sustainable pro-poor growth established in remote rural areas		ADB, Australia
<b>1.5</b> Involve communities in eco-tourism and wildlife preservation	Buffer communities formed CBOs participate in park management	Sustainable pro-poor growth generated through community development	<b>Community Development for the South (FY04)</b>	ADB, Netherlands
<b>1.6</b> Empower the poor by enhancing their legal rights	Increased number of legal aid centers	Scope for broad-based social development expanded	Judicial/Legal Reform	ADB, Netherlands
<b>2</b> <b>Gender Development</b>				
<b>2.1</b> <b>Combat gender discrimination</b>	Increased support for women's micro-credit through the EDP Increased number of guidance and counseling centers for victims of violence against women	Gender biases reduced in micro-enterprise development		Canada, ILO, UNDP
<b>3</b> <b>Expand Opportunities for Micro-Enterprise Development</b>				
<b>3.1</b> Promote micro-credit facilities to help the poor effectively manage risk	Increased number of programs linking micro-credit organizations to commercial banks	Pro-poor growth promoted through sustainable micro-enterprise development	<b>IFC (micro-credit)</b>	ADB, Canada, Japan