

Comments on 2019 Budget

Below are comments and reactions from Institute of Policy Studies of Sri Lanka (IPS) researchers on the 2019 Budget proposals.

Macroeconomic Stability and Growth

Dushni Weerakoon, Executive Director, IPS

The 2019 Budget offered some pre-election ‘relief’ as anticipated; a consistent downward trend in current spending is set to reverse for the first time since 2015. However, the overall direction is clearly one of restraint in order to retain the fiscal consolidation gains made since mid-2016, most notably a surplus on the primary account.

Nonetheless, the 2019 Budget estimates will test macroeconomic stability in the months ahead. Space to maneuver has been carved out by setting overly ambitious revenue and public investment targets. A similar exercise in 2018 saw a revenue forecast of 15.6% of GDP materialise to an actual 14%, with public investment spending cut as a result to 4.4% of GDP from a forecast of 5.4%. 2019 is likely to be a repeat of this familiar exercise.

Thus, tighter macroeconomic conditions expected in 2019 – following a spike in public debt to 84% of GDP and low growth of 3% in 2018 – will leave little room for missteps in setting monetary and exchange rate policies in tandem with fiscal policy. With domestic financing of the fiscal deficit set to double to 4% of GDP in 2019, tight monetary policy conditions will keep the overall growth outlook to a modest 3.5%.

Enterprise Sri Lanka

Nisha Arunatilake, Director of Research, IPS

‘Enterprise Sri Lanka’ is a good initiative. However, it does not give preference to those with National Youth Council certificates. It is important that all proposals are evaluated for their merit. Also, bankers should be trained to evaluate projects for their feasibility and profitability. Rather than reprimanding bank officials who do not provide loans, the capacity of the bank officials should be improved to assist potential entrepreneurs to develop their business plans and benefit from this initiative. It is also

encouraging to see that this initiative goes beyond just improving access to credit. The 2019 Budget outlines plans to connect the entrepreneurs with markets and businesses. This will help successful entrepreneurs to link with national and global value chains.

Trade

Janaka Wijayasiri, Research Fellow, IPS and Nipuni Perera, Research Officer, IPS

The 2019 Budget reflects the government's policy of pursuing an outward-oriented economy by reducing barriers to trade both domestically and internationally, through gradual phase out of para-tariffs, while improving market access for exports. [These should improve the competitiveness of Sri Lanka's exports through the reduction of cost of imported inputs for consumers, and help to deepen Sri Lanka's engagement with the world.](#) The 2019 Budget continued to support last year's Export Market Access Programme and the National Export Strategy (NES) with a view towards improving Sri Lanka's export performance and diversification. The Budget rightly recognises the need to upgrade the country's quality infrastructure to promote exports as well as ensure the quality of products imported to Sri Lanka [given that standards have acted as non-tariff barriers](#) for local produce in accessing markets abroad.

The Budget underlines the need to integrate Sri Lanka into regional value chains given its poor participation levels, and capitalise on this through trade agreement negotiations with India, China, and Thailand and learn from existing agreements such as [Singapore](#) and [India](#). It also includes specific measures to promote key export sectors such as fisheries, spices (cinnamon), gem and jewelry, and [tourism](#), which hold potential as growth sectors. Cognizant of fallouts of trade liberalisation and to minimise the impact on industries and employment, a Trade Adjustment Package has been proposed to complement legislations on anti-dumping and safeguards introduced last year. These could address fears of opening up to competition and overcome protectionism, which have affected the welfare of the country. Other important proposals include setting up a Trade and Productivity Commission akin to Australia's Productivity Commission to oversee the latter and a number of trade facilitation measures to reduce the cost of trading across borders, which are encouraging. However, more can be done towards facilitating trade through the development of a [national single window for trade](#), which require urgent attention of policymakers in the country.

Taxation (Para-tariffs and Excise Duties)

Harini Weerasekera, Research Officer, IPS

Para-tariffs on imports are to be phased out over a five-year period (continuing from phase out of 1200 tariff in November 2017). Products belonging to selected sectors such as tourism, manufacturing and construction will be tariff free over a shorter time span of three years. 10% of all HS codes (those considered to be sensitive items) will not be subject to a complete para-tariff phase-out.

Research points to the complexity of Sri Lanka's existing border tax schedule, which has led to issues such as [border tax evasion](#), potentially through underreporting/mislabeling of imports. Hence, phasing out of para-tariffs is a crucial step forward in minimising inefficiencies at the border. However, ad-hoc revisions and delays in implementing these changes as seen in the past, will be counterproductive.

Upward revisions in taxes on cigarettes, hard-liquor, selected vehicles, and casino licenses/entrance fees are to be implemented. While revenue gains are expected from taxing these goods, the government's stated focus on re-orienting the direct-to-indirect tax ratio towards higher direct taxation is not visible in the 2019 Budget. Proposals to further strengthen the direct tax base have not been made. In fact, the tax-mix has become even more regressive - rather than progressive - in recent years: the direct-to-indirect tax ratio which stood at 20.5:79.5 in 2015, stands at 16.4:83.6 in 2018, according to [IPS' Sri Lanka: State of the Economy 2018](#) report.



Migration

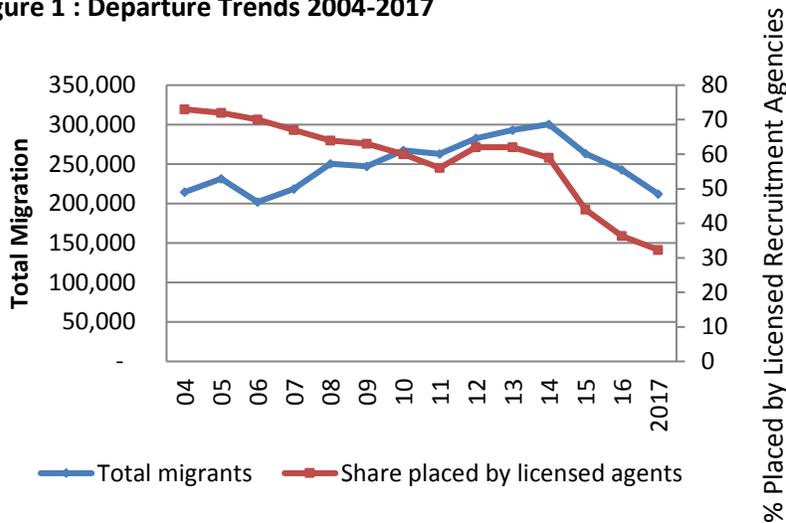
Bilesha Weeraratne, Research Fellow, IPS

An emerging trend observed in departures for labour migration in recent years is the decline in placement by licensed recruitment agencies and an increase in the 'on own' placements. The increase in 'on own' placements tends to raise departures unregistered with the Sri Lanka Bureau of Foreign Employment (SLBFE).

The 2019 Budget proposal to offer a loan of up to Rs. 10 million, where the government would bear 70% of the interest cost, with loan tenure of 15 years and a two-year grace period, would encourage migrant

workers to register with SLBFE prior to departure. In addition to enabling migrant workers to make their dream home a reality, this initiative would also promote migrants’ access to GoSL-initiated safety and welfare facilities at the country of destination.

Figure 1 : Departure Trends 2004-2017



Source: CBSL, various years.

Nevertheless, as indicated in a recent [blog](#), the growing popularity of the ‘gig economy’ and the availability of various platforms that offer opportunities for virtual labour migration, blur the lines between physical migrants and virtual migrants. As such, the Budget proposals could have been more futuristic to look beyond traditional sources of labour migration via SLBFE registration, and attempt to capture the larger group of workers who bring in foreign exchange into Sri Lanka.

Female Labour Force Participation (FLFP)

Nisha Arunatilake, Director of Research, IPS

The 2019 Budget proposes to improve female labour force participation through several approaches. First, it proposes to improve child and elderly care facilities. In addition, the Budget proposes for schools to have child care facilities in schools. Giving multiple options for child care facilities is a welcome move. Not all female workers are able to take their children to work, to be put in child care facilities offered by the employers. Many low skilled workers travel long distances in public transport to get to work. In such instances they might prefer to have child care facilities closer to home.

It is also encouraging to see that the government is subsidising the wages of mothers on maternity leave. Many small firms can afford to pay wages to mothers on leave and continue with their business activities. It is better if these concessions can be extended to match those enjoyed by workers in the public sector to lessen the disparity between the two sectors.

The proposed amendments to legislation to allow part-time work, flexible work, and work from home are also welcome.

Female Labour Force Participation (FLFP)

Sunimalee Madurawala, Research Economist, IPS

The 2019 Budget recognises the importance of increasing the female labour force in Sri Lanka, which has been stagnant at around 30%-36 % for many years. Lack of child and elderly care facilities and inflexible labour laws have been identified as the main reasons for low FLFP by the Budget.

[Gender Equality in Human Development: What's Holding Sri Lanka Back?](#), discussed this issue and proposed solutions for this.

More efficient government intervention in this regard, for instance, regulating and monitoring existing day-care centers and crèches, is a practical step that should be taken immediately. More formalised regulatory frameworks would also encourage the private sector to make more investments on day-care centers and crèches and thereby, close the gap in supply. Research on female labour market issues also suggest that the provision of an allowance to working mothers, in order to cover child care costs (for example, such as the Child Care Benefit (CCB) payment in Australia and Universal Child Care Benefit (UCCB) in Canada) would be beneficial to employees as well as to the economy as a whole, as it would bring down the work-related costs of working mothers and, thus, encourage them to remain in employment.

The importance of [women's leadership and barriers](#) they face in taking leadership positions is highlighted below.



Education

Nisha Arunatilake, Director of Research, IPS

Giving a few students opportunities to study in top universities in the world is not a favourable proposal. For one, only a few will benefit from this. Also, there is no guarantee that these students will return to the country. Even if they come back, whether there will be jobs for them to do in Sri Lanka is a concern. It is better to facilitate top class educational facilities within Sri Lanka, and give scholarships for more students to attend those facilities.

The 'my future' initiative in the 2019 Budget is a good proposal. Many who pass A Levels are unable to attend university. This initiative will provide opportunities for students to engage in high quality tertiary education activities outside the universities.

It would have been better to see more initiatives to improve the skills of teachers. The present Budget has allocated money for training in-service teachers. But, the need is also for improving teacher training before individuals are recruited to the teacher service. There is an urgent need to improve the pre-service training of science teachers in the country. Also, recruitment into teacher service needs to be streamlined so that only the best, well trained teachers are recruited into the system.

The Budget proposes to provide vocational training through the involvement of the army. Sri Lanka already has a large network of vocational and technical training institutions. As such, the need for the army to get involved in providing training is questionable.

Education

Ashani Abayasekara, Research Officer, IPS

Proposed investments in improving school infrastructure as well as teacher training are welcome initiatives in the 2019 Budget. IPS [research](#) shows that students from privileged schools with more infrastructure facilities outperform their less privileged counterparts at nationally competitive examinations such as the O-Levels. Further, given Sri Lanka's limited facilities for pre-service teacher training, offered via two avenues—a Bachelor of Education (BEd) and a three-year National Diploma in Teaching (NDT)—the share of suitably trained teachers at recruitment is strikingly low: IPS [research](#) reveals that only 45% of science and 16% of mathematics teachers are subject trained at recruitment. As such, as outlined in the Budget, it is important to pursue in-service teacher training programs, while simultaneously working towards expanding pre-service training opportunities.

The proposed “STEM+A master plan”, allowing the pursuing of flexible combinations of subjects, is another important proposal, given Sri Lanka's currently low enrollments in STEM education. However, the effectiveness of this proposal would depend on the ability to expand access to science education at the secondary level; School Census data indicates that currently only 10% of schools are of Type 1AB, offering science streams at the A-Levels.

The proposal to modernise the education curricula, with a focus on more analytical and creative learning, as opposed to rote learning, is also noteworthy. Sri Lanka needs urgent reforms in making its education more relevant to meet changing demands in the labour market. According to a World Bank study, currently only around 32% of arts graduates are employed, although 55% of total undergraduate enrollment is in the arts, law, management, and commerce streams. Further, the recent Labour Demand Survey conducted by the Department of Census and Statistics finds that 32.5% of first-time job seekers coming from university or other higher education institutions are poorly prepared, primarily due to lack of job-specific required skills or competencies as well as soft skills. It is however important to spell out how exactly the curricula will be modernised, what new modules will be incorporated, and how learning in specified areas will be measured and evaluated.

A priority area not explicitly addressed in the 2019 Budget is with regard to reducing disparities in access to education. IPS [research](#) shows that equitable access to school education decreases in higher grades: A-Level enrollment rates vary from only 29% in the poorest household income decile to 73% in the richest decile. To ensure that all Sri Lankan students have a fair chance of benefitting from proposed scholarship schemes such as the Scholarship for Educational Excellence (SEE) Fund, where top performers at the A Levels will receive scholarships to pursue undergraduate education at top international universities, access to good secondary and collegiate level education must first be made available.

Education

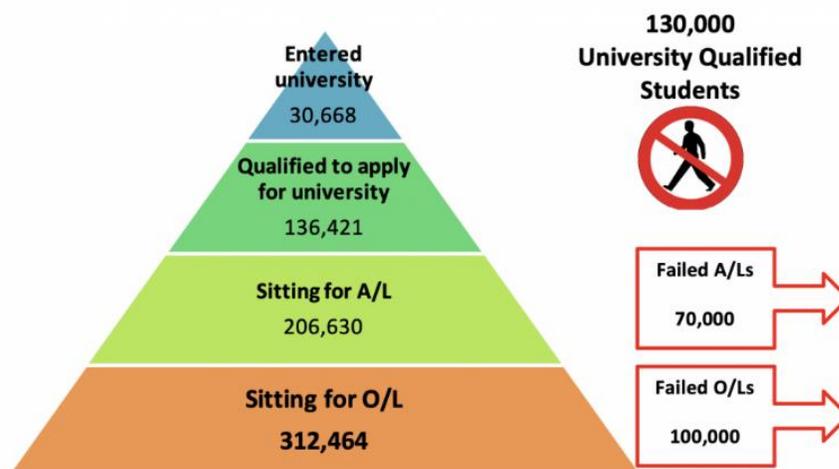
Priyanka Jayawardena, Research Economist, IPS

The proposed STEM+A initiative, which allow students to pursue a combination of subjects such as Mathematics with Music or Biology with English, is welcome. As highlighted in [IPS research](#) Sri Lanka has an excess of Arts graduates in the country. Of the university admissions, nearly one-third are Arts graduates. Further, according to [Graduate Employment Census 2012](#), a majority of the unemployed (57%) and underemployed graduates (50%) were from the Arts discipline. Among unemployed Arts graduates, 65% were willing to change the field. Thus, it shows that providing better opportunities to learn market-oriented subjects, such as ICT, in the Arts stream will reduce the mismatch between the demands of the market and the skills of graduates.

Limited enrolment for science related fields at higher levels of education is mainly due to the limited access to A-Level science streams at school level. For example, as of 2015, less than 10% of schools had the facilities to teach A-Level in the science stream. Thus, the proposed initiative to improve laboratories, class rooms, libraries, sanitary & water facilities, teachers' quarters etc. is a good move to strengthen access to science education while improving the quality of education.

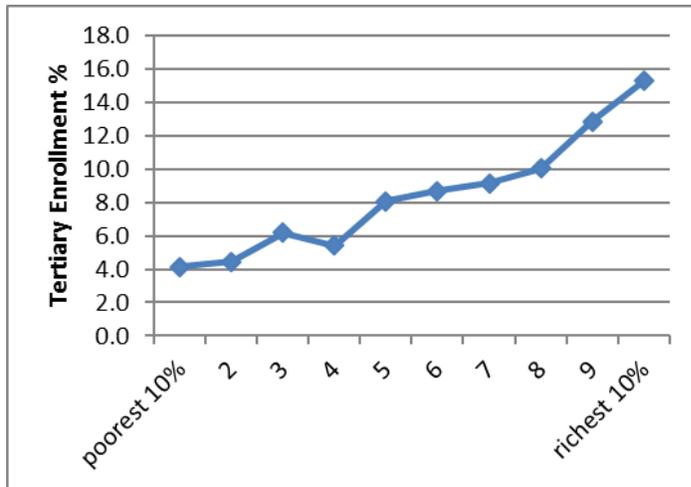
The proposed loan scheme, "My Future" under "Enterprise Sri Lanka" which enables students to pursue undergraduate education at non-state universities also a good initiative to expand opportunities for skill development. As highlighted by [IPS research](#), each year, about 130,000 students who qualify, have to abandon their ambitions to enter a university.

Performance in National Exams, 2017



Further, [IPS research](#) shows that the transition from school to vocational training is not smooth. Poor children in particular have limited access to skills development programmes. Variations in tertiary enrolments among 15-29 year olds by income groups is quite high in Sri Lanka.

Tertiary Enrolment 15-29 Year Olds by Income Groups, 2016

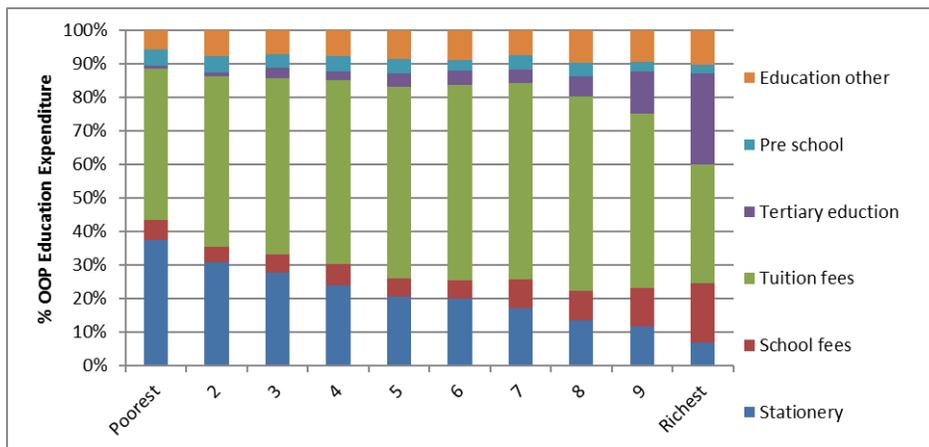


Source: Author's calculations using HIES 2016 data.

Note: Tertiary education is enrolment in university, TEVT, and other educational institutes.

Also, [IPS research](#) highlights that it is mostly the richest 20 per cent of households who bear tertiary education related costs. Of the households that spend on tertiary education, on average Rs. 12,930 per month is spent for tertiary education. Given that the average total monthly expenditure of the poorest 10% of households is around Rs. 19,720, affordability of these costs is questionable. As such, these costs may negatively affect school education as well as skill development of poor children.

Distribution of Out-of-Pocket Expenditure on Education, 2016



Source: Author's calculations using HIES 2016 data.

Persons with Disabilities

Nisha Arunatilake, Director of Research, IPS

IPS [research](#) shows that the employment opportunities are less for persons with disabilities. It is good to see that the government is paying attention to improving the employability of persons with disabilities. In addition, the government is providing incentives for firms to hire persons with disabilities. Increasing the allowance given to persons with disabilities and extending the coverage of this allowance are also very good. Many persons with disabilities need to spend additional funds to move about. Without additional support they might not be able to continue with their educational activities and improve skills.

Pensions and Samurdhi

Ganga Tilakaratna, Research Fellow, IPS

The 2019 Budget proposes to develop ‘an objective, transparent, and measurable criteria’ to streamline the Samurdhi program in a more effective manner and to include around 600,000 deserving households who are currently excluded from this program. This is a commendable effort to address the existing targeting errors of the Samurdhi program. IPS [research](#) has highlighted the extent of the targeting errors of the Samurdhi subsidy program and the need for clearly defined eligibility criteria to address these gaps.

The Budget proposal to minimise disparities in pensions is a good initiative. However, given the increasing costs of a non-contributory pension scheme, its sustainability is a concern, particularly in the wake of a rapidly ageing population in Sri Lanka. More importantly, the current social security schemes in Sri Lanka fail to provide old-age financial protection to a large portion of the population, particularly those working in the informal sector. This highlights the need for further reforms in the retirement system. IPS [research](#) on Sri Lanka’s social protection system discusses in detail the need for reforms to the current retirement system.

Urban Development – Solid Waste Management

Bilesha Weeraratne, Research Fellow, IPS

The Budget 2019 proposes a Rs.7,600 million government investments and future private sector investment in Aruwakkalu to address solid waste management in the city of Colombo.

[In Colombo district alone, on average, 8,419 tons of solid waste is generated per day by households for collection by local authorities.](#) Given the magnitude of solid waste generation and the scale of negative externalities, it is hoped that these proposed initiatives would also involve measures to make citizens more responsible about solid waste disposal.

Environment

Kanchana Wickramasinghe, Research Economist, IPS

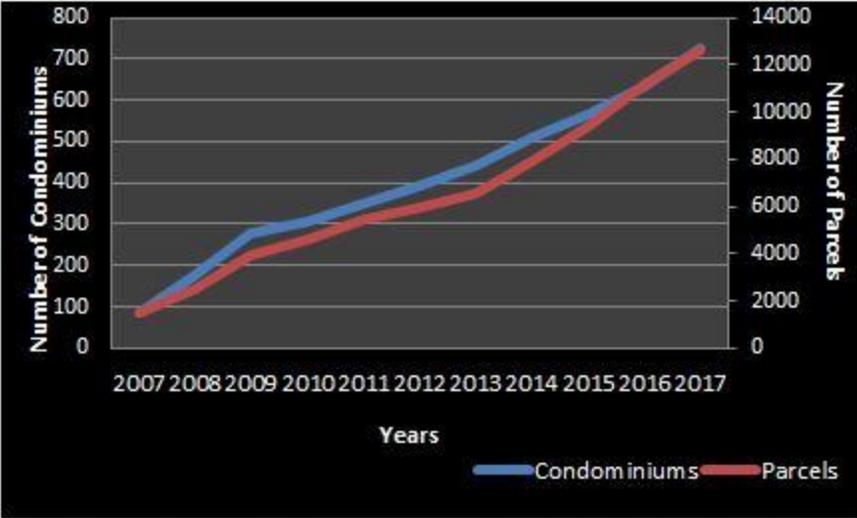
The proposal to establish community-based green clubs, at Divisional Secretariat level, to carry out environmental conservation activities such as tree planting, beach cleaning, and waste segregation, with the involvement of students, is an interesting initiative. This would facilitate the improvement of environmental literacy among the young generation and thereby help minimise existing environmental issues. If appropriate education and awareness programmes can be designed and implemented, targeting the volunteers, it will greatly help to increase the effectiveness of the initiative.

Housing

Chathurga Karunanayake, Research Assistant, IPS

Granting residential visas for three years to foreign nationals who invest USD 400,000 or more in condominiums with effect from this year is a great incentive in encouraging more investments in the condominium market which has faced an upswing. However, while promoting such investments, the government must have a robust regulatory framework to address the possible issues of this growing segment. IPS [research](#) specifically shows that environmental concerns are being largely ignored in these condo developments. Even though many government bodies are involved in the approval process, monitoring mechanisms in terms of inspecting for environmental concerns warrant in depth attention. Therefore, it is vital that the approval process has a clear long-term vision. Furthermore, IPS research shows that the most problematic element in condominiums in the country is “the lack of a monitoring process”. Therefore, it would be timely to introduce a ‘Green Certificate’ system to condominiums that have to be renewed periodically, to make sure environmentally-friendly measures are being practiced in condominiums whilst promoting them among foreign investors. Lastly, it should be noted that, having a proper set of regulations which are monitored throughout is more vital than all other concerns.

Growth of Condominiums in Colombo during 2007 -2017



Source: Annual Certifications issued by Condominium Management Authority

For more information on the contributing researchers, please visit <http://www.ips.lk/people/>.