

*Comments and Reactions from
Institute of Policy Studies of Sri Lanka (IPS) researchers
on the 2021 Budget proposals*

Macro-economic Stability and Growth

Dr. Dushni Weerakoon, Executive Director

Budget 2021 has been arrived at under an exceptional level of uncertainty. The course of the COVID-19 pandemic may mean that certain public health measures will prevail for the next year. Even once these measures are withdrawn; it is unrealistic to assume that fiscal policy will revert to its pre-crisis setting, owing to different spending priorities and a slow-burn scenario for revenue generation.

Underpinning the trajectory for fiscal ratios is the all-important underlying assumptions on growth recovery. Sri Lanka's Budget 2021 works on the assumption of 5% growth in 2021,¹ but the balance of risks to the country's economic and fiscal outlook is tilted to the downside. Domestic financing of an expanded deficit is set at a heavy 8.3% which can trigger a reversal of the current low interest rate regime, adding to interest costs as well as squeezing GDP growth. However, with a high public investment target of over 6% of GDP, the government has retained sufficient flexibility to adjust numbers should downside risks dominate.

Jobs

Nisha Arunatilake, Director of Research

The budget proposes to realign foreign loans towards investing in the rural economy in a variety of areas including development of roads and rural health facilities, upgrading rural information and communication infrastructure (ICT), improving access to renewable energy for rural households, and introducing technology to develop farms. This initiative is in line with international best practices. Evidence shows that investing in employment intensive public investment programmes is the best means of reviving growth and creating jobs during a recession.² The programme hopes, not only to create jobs but also to modernise and develop the rural economy.

¹ MOF, Fiscal Management Report 2020-21.

² ILO, 2020,

COVID-19: job creation through Employment Intensive Public Works Programmes.

https://labordoc.ilo.org/discovery/fulldisplay?docid=alma995073693202676&context=L&vid=41ILO_INST:41ILO_V2&lang=en&search_scope=ALL_ILO&adaptor=Local%20Search%20Engine&tab=ALL_ILO&query=sub,contains,employment,AND&query=any,contains,COVID-19,AND&sortby=date_d&mode=advanced&offset=0

A similar public investment programme was used by the Chinese government to maintain economic growth in the aftermath of the Global Financial Crisis in 2008.³ The 2008 stimulus package of the Chinese government – amounting to 13 percent of China’s 2008 GDP – was able to maintain growth rates above 9 per cent during the 2008 to 2010 period despite recessions in Europe and the United States of America. The proposed investment in the 2021 budget would also help to revive the rural economy. The actual impact will depend on the size of the investment.

Employment and Social Protection

Priyanka Jayawardena, Research Economist

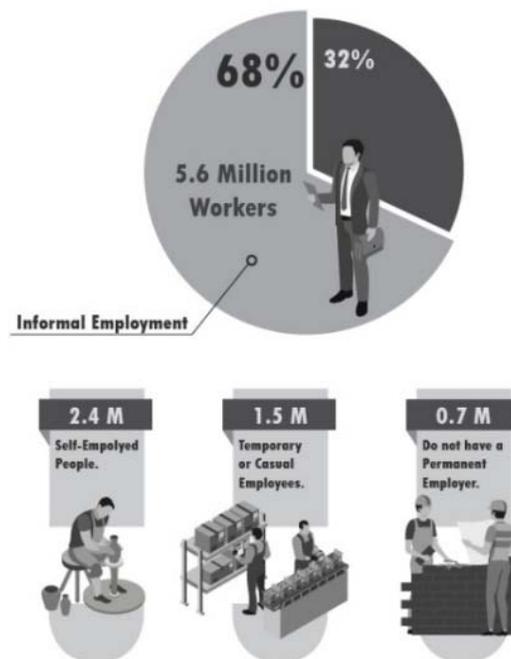
The COVID-19 pandemic has been a wake-up call for Sri Lanka, exposing serious gaps in the country’s labour market policies and social protection systems. Budget 2021 recognises the importance of introducing new social insurance scheme to support those who have temporarily lost livelihoods. This is a good move given that precariousness of [1.7 million private sector temporary, whereas 88% of them are not covered under Employees Provident Fund \(EPF\) benefits.](#)

Given that Employees Trust Fund (ETF) provides some income support when unemployed, the government can consider further strengthening of the proposed insurance scheme through converting the ETF fund as a proper UI scheme. Going forward, the ETF fund could be transformed into an UI scheme for all categories of workers, based on a fair sharing of the cost between employers, workers, and the government.

IPS research [“COVID-19 and Sri Lanka’s Labour Market Gaps: Permanent Protection for Temporary Employees”](#) highlights the importance of UI as an option that could encourage protection of incomes rather than protecting jobs. Further, it has pointed out that flexible labour policies would be beneficial as this would encourage more companies to recruit employees to the permanent carder rather than the existing practice of having large numbers of contract or temporary workers.

³ Koty, A. C. (2020, April 6). Why China’s COVID-19 Stimulus Will Look Different Than in the Past. Retrieved from China Briefing: <https://www.china-briefing.com/news/chinas-stimulus-measures-after-covid-19-different-from-2008-financial-crisis/>

Further, the Budget proposals recognise the coverage gaps of the country's social protection system for informal workers -- self-employed workers, daily waged workers as well as migrant workers. With the current social security system, [only 29% of the of the total employed benefit from employment-based social protection schemes](#). Further, many migrant returnees who lost their jobs due to the current crisis are not receiving social protection in either (host or home) country. Budget 2021 proposes to extend the social protection to those not covered yet and it proposes to introduce a contributory pension scheme for the self-employed.



Social Protection

Ganga Tilakaratna, Research Fellow and Head of Poverty and Social Welfare Policy Research, and Lakshila Wanigasinghe, Research Assistant

Several initiatives have been proposed focusing on rural development and provision of job opportunities in the farming, fisheries, and agricultural sectors etc. These measures are essential as they aim at reducing the existing income disparities and the urban-rural divide. While these proposals are admirable, no notable changes have been made on social protection allocations towards highly vulnerable groups such as persons with disabilities and elders. With respect to persons with disabilities it is vital to ensure inclusive access to resources and elimination of societal bias towards these individuals. Extended protection towards elders should be of key focus with the emerging trend of an aging population in the country.

Female Labour Force Participation (FLFP)

Sunimalee Madurawala, Research Economist

Budget 2021 proposes to generate 16,000 job opportunities by establishing 150 small garments and 200 handloom villages. [For women in rural areas, lack of job opportunities is the main barrier preventing participating in the labour force.](#) Setting up industries in close proximity using resources available in the villages will help to create more job opportunities especially for women in rural areas. The budget proposal on development of day-care centres and community centres will also be helpful to increase the FLFP. [Low FLFP experienced by the country can be reduced by addressing issues arising due to 'non-economic' factors \(i.e., marriage, children, etc.\).](#) This type of government intervention is a progressive step in this regard.

It is proposed to amend the Employees' Provident Fund Act to expand the retirement age for both men and women up to 60 years. The decision is taken based on the life expectancy, that is currently higher for women. This would give an opportunity for women in the much older age categories to either continue their jobs or join the labour force. Currently, women in the age category of 40+ has the lowest labour force participation rate (33.8 %) compared to the women in the other age categories (except 15-19 age category).⁴

Women Owned and Led Micro, Small and Medium Enterprises (WMSME) - promotion of women entrepreneurs is important as it provides employment opportunities for women. The proposal on the establishment of 'Network of Samurdhi Women's Shops' would help to address [a major constraint faced by WMSME; poor networking.](#) Further, proposals on credit facility for Small and Medium-scale Enterprises', 'Jaya Isura' concessionary loan scheme for SMES, and debt relief for micro finance loans granted for women in drought-affected districts' would benefit MSME sector.

Education

Nisha Arunatilake, Director of Research

The budget recognises the need to improve university education and vocational training to improve human resources in the country to meet the demands of a knowledge driven economy. One main objective of the proposal is to improve university education to reduce graduate unemployment. However, the mismatch between skills of graduates and the demands of the labour market is only one factor contributing to graduate unemployment. Along with improving the quality and relevance of university education, other areas such as improving the attractiveness of private sector employment, reducing the disparities in benefits associated

⁴ Department of Census and Statistics (2019), Sri Lanka Labour Force Survey 2018, Department of Census and Statistics, Colombo

with public and private employment, and making recruitment into private and public sectors competitive are important.

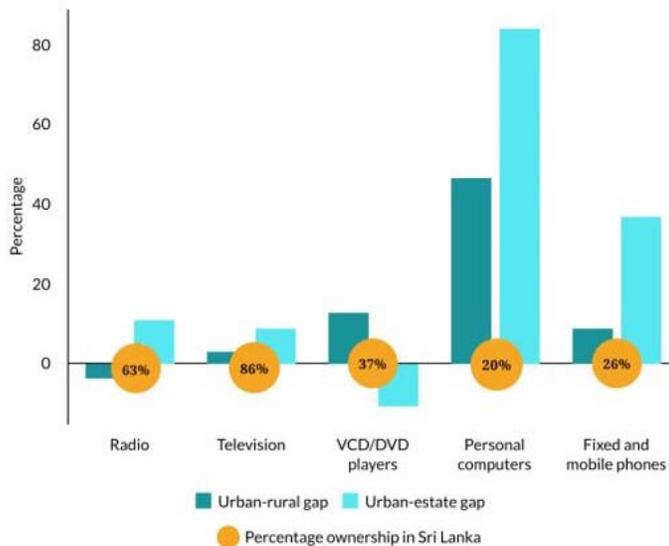
Development of the vocational training sector is also a welcome move by the government. But as with the university sector the quality of facilities is only one factor impeding the development of the sector. Difficulties in attracting young people to the sector, difficulties in attracting trainers, under-utilisation of resources due to overall of programmes, are some of the other issues facing the sector.⁵ These issues also need to be addressed to ensure the sustainable development of the sector.

Education

Ashani Abayasekera, Research Economist

The allocation of Rs. 3000 million for distance education – including upgrading the *E-Thaksalawa* learning portal, strengthening of provincial IT education centers, and providing television sets to rural schools to increase access to newly launched educational programs such as *Guru Gedara* – are encouraging proposals to minimise education inequities which have intensified during the pandemic. As highlighted by IPS in its 2020 State of the Economy (SOE) Report, while improving access to online education is crucial, making use of other modes in the interim – to which rural households have more access – is equally important (Figure 1). Apart from schools, ensuring device availability in households is also necessary, given that accessing school equipment is restricted during COVID-19 lockdowns.

Figure 1: Urban-Rural and Urban-Estate Gaps in Household Device Ownership in Sri Lanka, 2016



Source: Department of Census and Statistics of Sri Lanka. (2018). *Household Income and Expenditure Survey – 2016: Final Report*. http://www.statistics.gov.lk/HIES/HIES2016/HIES2016_FinalReport.pdf

⁵ National Education Commission, 2018, National Policy on Technical and Vocational Education, Colombo: NEC.

Continuation of allocations for school meal programmes is another positive step; however, given that children may have limited access to this program in the event of COVID-19 related school closures, other methods of delivering food to needy students should be considered. Some approaches suggested in SOE 2020 include converting allocations for school meal programmes to cash vouchers or food packs and expanding school meal programmes with extra-nutritious meals when schools reopen.

Plans to renovate principal and teacher quarters in rural schools is another positive initiative, particularly in addressing teacher shortages. This is one recommendation based on an [IPS study on teacher quality](#) to attract and retain qualified and experienced teachers in rural areas who are currently in low supply. A related proposal to provide higher educational opportunities to educators, curriculum developers, and educational professionals is also important in this regard. Teacher development should additionally focus on professional development of teachers including distance teaching skills, given the eventuality of increased reliance on remote learning in the future.

Considerable emphasis has also been placed on encouraging greater enrolment in vocational training via student scholarships and tax exemptions for institutes. This needs to also be accompanied by addressing credibility and reputation problems with respect to the quality of education delivered in these institutes, through standardising syllabi and improving the quality of teachers.

Health

Nisha Arunatilake, Director of Research

The budget proposals correctly identify the need to expand the health services to effectively safeguard people from pandemics such as COVID-19 as well as from Non-Communicable Diseases (NCDs), through development of rural hospitals. The frequency of pandemics has increased with time due to globalisation and greater movement of people. As we are experiencing now, pandemics can hold back development. As such it is wise to develop infrastructure to safeguard people from future pandemics.

The attention given to NCD treatment is also commendable given that, NCDs cause close to 50 per cent of total deaths in public hospital in Sri Lanka.⁶ But as with COVID-19, emphasis should be given not only to the treatment of NCDs but also to the prevention of NCDs. Personal behaviours such as tobacco and alcohol use, physical inactivity, unhealthy diets as well as environmental factors are leading causes of NCDs. Policies for controlling these NCD risk factors is important for reducing the incidence of NCDs. In this regard, attention given to up lift sports and facilitate physical activity in urban areas is commendable.

⁶ MOHNIM (2017), Annual Health Bulletin 2016, Ministry of Health, Nutrition and Indigenous Medicine, Colombo

Health

Ashani Abayasekera, Research Economist

The allocation of an additional Rs. 18 million to the health sector to manage the COVID-19 pandemic is an expected and welcome move. However, expenditure for the health sector still ranks at fifth place, considerably below transport and defence expenditure. Further, the only specific item mentioned with regard to COVID-19 services is developing quarantine centers, whereas ramping up PCR testing, which is the critical need of the hour, is not mentioned.

Allocations for upgrading district and base hospitals to the National Hospital level is a welcome move, given that district hospitals are heavily under-resourced. At present, Provincial Councils receive only about 40% of their allocated budget due to cash flow constraints, according to findings of an [ongoing IPS study](#) on Sri Lanka's health sector. Sri Lanka is expected to face significant challenges in terms of elderly care and newly emerging non-communicable diseases such as Alzheimer's disease and mental illness in the coming decade. While the allocation of Rs. 10,000 million as financial assistance for elders over 70 years is a positive move in this context, much more needs to be done in developing infrastructure related to elderly care, including specialised physicians and other healthcare workers, elderly homes, insurance schemes, and access to health services.

In contrast, the budget proposes more spending on pediatric care, which is already relatively well-developed in the country; there is a crucial need to start investing in geriatric care, starting by introducing the subject in the school curricula.

Health and Education

Thisali de Silva, Research Assistant

Investment in public health is critical for the coming year and economic activities should move alongside the pandemic. Additional allocation for expanding health services is essential. However as per an [ongoing IPS study](#) many health experts opine that the most pressing issue is the lack of trained human resources, particularly for preventive health care (PHIs, PMWs and even nurses) and laboratory services.

Also, the health staff is highly exposed to COVID-19 which could further reduce our capacity. Some measurements should have been taken to increase the human resource capacity (importing technicians, quick trainings or allocations to buy advanced equipment to reduce human time such as auto extractors). Focus on improving adult service centres is a correct and an urgent requirement as the population is reaching towards rapid aging thus would be more vulnerable with the corona pandemic. The extra attention and redirection of other health funds towards COVID response might cause negative impacts on our well-shaped health indicators, with this regard budget allocations for manufacturing of medicines, nutritional development of infants and pregnant mothers should be appreciated.

The proposal to upgrade the nursing schools to degree awarding institutions has both pros and cons, as revealed in an [on-going IPS study](#). The recognition will be high and could improve quality as well. On the other hand, demand to learn nursing is low at present and a considerable number of students are encouraged by the allowance paid during the training period. A degree awarding institution cannot provide this and there is a risk for a further reduction of applicants. Provisions have been made to expand educational opportunities in national universities and medicine is the first discipline indicated. According to Health HR experts, we do not lack doctors; we lack preventive healthcare professionals and laboratory technicians. Also, there would be an oversupply of doctors in the future with more than 10,000 students studying medicine abroad, the government might not be able to cater jobs for all. Thus, if provisions are made to expand medical education within our universities, a mechanism is needed to reduce/restrict foreign medical graduates.

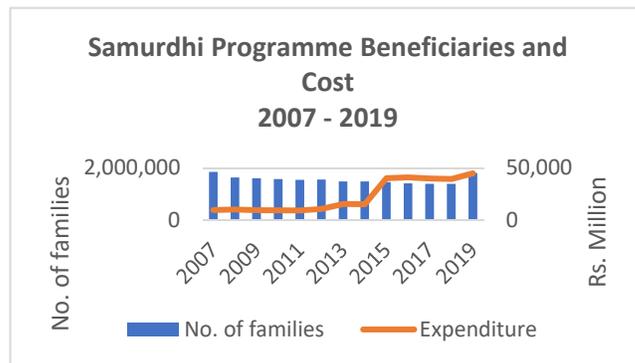
Pension Scheme

Nisha Arunatilake, Director of Research

It is commendable that the government is interested in providing various groups such as the self-employed and migrant workers with pension-schemes. But experience suggests the difficulties in sustaining the functioning of such contributory schemes.⁷ Also, most self-employed have highly variable incomes making regular contributions towards a pension scheme difficult. It is better to provide a treasury financed pension scheme to these vulnerable groups, similar to the public servant pension scheme. This can be financed through a tax.

Samurdhi

Ganga Tilakaratna, Research Fellow and Head of Poverty and Social Welfare Policy Research, and Lakshila Wanigasinghe, Research Assistant



Source: CBSL Annual Reports, various years

⁷ UNESCAP, 2015, Income Security for Older Persons in Sri Lanka. <https://www.unescap.org/sites/default/files/SDD%20Working%20Paper%20Ageing%20Income%20Sri%20Lanka%20v2-5.pdf>.

The proposed initiative for encouraging female entrepreneurship among Samurdhi families is a commendable step towards increasing female labour-force participation. The 'Samurdhi enterprise development loan scheme' which promises low interest loans for entrepreneurial ventures of Samurdhi recipients is also a good initiative to encourage families to utilise their skills profitably.

A long-term benefit of such initiatives is the ability of households to increase their incomes over time such that they are eventually able to graduate out of the Samurdhi programme. While these are good initiatives that would ideally move families out of poverty, it is essential to develop more comprehensive exit mechanisms for the Samurdhi subsidy programme. The absence of such has led to a continuous increase in the number of Samurdhi recipients followed by a steady increase in program costs over the years. This has also contributed to considerable inclusion and exclusion errors within the cash transfer programme.

Migration

Bilesha Weeraratne, Research Fellow and Head of Migration and Urbanisation Research

The 2021 budget proposes to introduce a contributory pension scheme for Sri Lankan migrant workers. This proposal is based on the recommendations of the Expert Committee for Establishment of Social Security Scheme for Migrant Workers, of which I am a member. The committee identified that, in the context of the growing aging population and high number of returning temporary migrant workers and the significant contribution they make to the Sri Lankan economy, such a contributory pension scheme is important to support migrant workers during their old age.

However, similar proposals were made during many previous budgets. The committee also identifies that, in 1989-1996 Members Contribution Fund of Sri Lanka Foreign Employment Bureau and the "Sesatha" Pension Scheme in 2007 by the Sri Lanka Social Security Board and the Sri Lanka Bureau of Foreign Employment (SLBFE) were previous efforts of pension schemes for migrant workers. If the proposed scheme is to go beyond previous attempts, it is important to disentangle the pension scheme from political uncertainty, ensure sustainability of the scheme by developing the appropriate institutional and legal framework and providing a sound social security fund and a fund management system, as well as make the scheme inclusive for all types of migrant employees.

The Budget 2021 and the national policy direction indicate focusing on higher skilled workers for labour migration. To address this situation, the budget proposes an integrated programme with the participation of vocational training institutes, Sri Lanka Bureau of Foreign Employment and foreign employment agencies. Additionally, as already indicated [by IPS research](#), Sri Lanka should also focus on up-skilling blue-collar workers into digital-collar workers, by going beyond traditional methods and accrediting skills acquired through non-conventional education.

As [noted in IPS research](#) over 85% of Sri Lanka's annual migrant workers head to the Middle-East. In addition to addressing the immediate remittance objective of the proposal, such diversification would also contribute to improve the [migrant workers wellbeing and minimise assimilation issues](#) and vulnerability of remittances to the [geopolitical situation in the Middle East region](#).

As regularly recommended through [IPS research](#) it is [important to encourage](#) remittances through formal channels. The proposed LKR 2 per dollar above the normal exchange rate for the foreign exchange remittances sent by foreign workers to banks in Sri Lanka, is thus a commendable effort to encourage regular remitters to use formal channels of remittances.

Budget 2021 indicated the effort to extend the marine drive up to Moratuwa, as part of efforts to ease the traffic congestion in Colombo and its suburbs. [Upcoming IPS research](#), show that when coupled with policies to decrease vehicle ownership such as the current import ban on vehicles such road expansion efforts are more fruitful in decreasing traffic congestions.

Budget 2021 proposes non-residents could purchase super luxury condominiums utilising, foreign currency earnings made in Sri Lanka, earnings in foreign countries or a loan obtained from a Bank outside Sri Lanka. Nevertheless, as [indicated by IPS research](#) this would drive a further wedge in the already segmented housing market in urban areas in Sri Lanka.

Food Security

Manoj Thibbotuwawa, Research Fellow, IPS

Budget 2021 has mainly focused on import substitution and promotion of local production through subsidies as anticipated in National Policy Framework Vistas of Prosperity and Splendour. It has proposed to reduce the importation of several crops such as maize, potatoes, big onion, red onion, ulundu, green gram, peanut, soy bean, kurakkan, cowpea and sesame by increasing the local production.

However, the [National Strategic Review of Food Security and Nutrition](#) done by IPS highlighted that the yield levels of most of these food crops have stagnated during recent times at unimpressive levels even by developing country standards. Thus, unless there is a substantial increase in present yield levels, domestic production will not be able to meet national requirements even under present levels of per capita food consumption. However, the budget 2021 has failed to propose measures to improve the yield levels of those crops, which is very essential to go with the import substitution. Otherwise, poor consumers would have to suffer due to lack of access to those foods aggravating malnutrition problems.

Table 7: Yield trend, projections and targets of major food crops

Food product	Yield (t/ha)						% change	Yield projection		Targeted yield, (t/ha)	
	2010	2011	2012	2013	2014	2015		2018	2025	2018	2025
Rice	4.5	4.0	4.4	4.3	4.3	4.4	-0.2	4.4	4.3	5.5	6
Maize	3.2	3.2	3.7	3.1	3.4	3.7	3.5	4.1	5.2	7.5	9
Sorghum	1.2	1.4	1.5	1.4	1.4	1.7	7.9	2.1	3.6	4	4.5
Green gram	1.2	1.2	1.3	1.3	1.3	1.3	3.0	1.5	1.8	2.8	3
Cowpea	1.1	1.2	1.4	1.3	1.3	1.4	5.2	1.6	2.3	2.8	3
Soya bean	1.8	1.5	1.2	1.8	1.7	1.8	3.2	2.0	2.5	4	4.5
Black gram	1.0	0.8	1.0	0.9	0.9	0.9	-2.1	0.8	0.7	2.5	3
Ground nuts	1.5	2.0	2.0	2.0	2.1	1.7	4.6	2.0	2.7	2.5	2.8
Red onion	11.9	11.8	11.9	12.1	13.0	12.5	1.1	13.0	14.0	14	16
Big onion	11.4	10.8	12.7	13.2	14.3	12.2	2.1	13.0	15.0	40	45
Chillies	3.7	3.4	4.0	4.8	4.6	4.7	5.3	5.5	7.9	35	40

Source: DCS crop yield data and FCRDI yield targets

Budget 2021 has proposed to provide fertiliser free of charge for paddy cultivation. However, [IPS research](#) has shown that the impact of fertiliser price is marginal for paddy supply. Also, [IPS SOE 2006](#) highlighted the necessity of proper identification of the proportion of farmers who are truly in need of the subsidy and proper distribution of subsidised fertiliser by a system such as a voucher scheme in order to prevent the wastage of important resources which could utilise for other efficient alternatives. Also, it emphasised that the fertiliser subsidy should be merely a short-term policy goal and the government has a greater role to play in developing infrastructure and R&D as long term investments. In that front, Budget 2021 has proposed to modernise existing rice stores at Hambantota, Batticaloa and Kahandawa which is a very positive move. It will also contribute to improve foods system resilience of the country which has shown to be vulnerable during pandemics like COVID-19.

Another positive measure to improve the food system resilience of the country is the proposal to maintain a buffer stock of 8,000 metric tons of rice in compliance to the mandatory requirement of SAARC Food Bank. IPS SOE report 2020 highlighted that Sri Lanka needs to strengthen its storage capacity and to maintain a buffer stock of essential food items as a National Food Bank with nodal points at Provincial Council level which could act as the nodal point for SAARC Food Bank.

Continuation of the Government paddy purchasing programme and Guaranteed Price Scheme could be considered as short-term measures to improve food system resilience. However, as [IPS research](#) has noted realistic determination of guaranteed price based on information on market conditions and targeting government purchasing schemes to vulnerable groups of small producers are required for the success of the above proposals.

[IPS research](#) emphasised the need of introducing an effective price stabilisation scheme for rice with the partnership of private sector to minimise the fluctuations of prices through a market-based implementation mechanism. Budget 2021 proposal on empowering Cooperative Rice Mills to produce 5,000 metric tons of rice per month and expanding Lak Sathosa outlet network would be good initiatives.

Climate Change

Manoj Thibbotuwawa, Research Fellow, IPS

Extreme weather events such as droughts and floods have become a common issue that affects the farmers in Sri Lanka. There are several provisions in the current budget for increasing climate resilience. Budget 2021 proposes to share practical and theoretical knowledge among 16,000 farmers about climate resilient agricultural methods and technology. [IPS climate change research](#) has highlighted the importance of bridging the climate information and communications gaps for effective adaptation decisions by farmers. Also, Budget 2021 proposes implementation of Contributory Crops Insurance Scheme for selected crops. However, attempts to introduce indemnity-based crop insurance schemes have been failed in Sri Lanka. [IPS has highlighted](#) that Index-based climate insurance when introduced with a proper education and awareness component has the ability to overcome issues in related to available indemnity-based insurance.

Renewable Energy

Athula Senaratne, Research Fellow

The budget proposal 2021 contains few number of environment related proposals; some are directly focusing on conservation of environment while others can indirectly benefit the environment. Of them, expansion of renewable energy in power generation can be considered as one of the most important proposals. Budget proposals stress the high cost of foreign exchange for import of fossil fuels for power generation and proposes to increase the solar based power generation from current 300 MW by additional 1000 MW during the period of 2021-2023. Hence, renewable energy supply is identified as an import substitution industry. Budget has extensive proposals for expansion of renewable energy, especially solar power for domestic electricity supply by introducing concessionary loan schemes to low-income households and public servants. In addition, the budget proposes to setting up roof-top solar units in public buildings, religious places, schools, hospitals and defense establishments and promotes solar units in rural areas as a source of power for agriculture through rural entrepreneur scheme supported by 10,000 transformers. Moreover, budget propose to give tax incentives for large scale investments on off-shore wind and floating solar power plants above the capacity of 100 MW by offering tax holidays for seven years. Overall, the budget proposes for ambitious programme for expanding renewable energy in power generation with the objective of reducing the rising dependency on fossil fuels. While the saving foreign expenditure spent on importing fossil fuel appears to be the key objective of the programme, this can generate several environmental benefits such as reduction of air

pollution, decreasing associated health risks and costs, and reduction of GHG emissions thereby helping to mitigate global climate change. They can be considered as the co-benefits and may be more important in terms of achieving the long-term goals of sustainable development. Moreover, this would significantly enhance Sri Lanka's capacity for fulfilling the international commitments to mitigate climate change that the country has pledged to Paris Climate Agreement through Nationally Determined Contributions (NDCs).

Environment

Ruwan Samaraweera, Research Assistant

Banning of single use plastics from January 2021

The proposal to reduce the impact of single use plastics on environment is extremely important due to the challenges faced by local government authorities when managing solid waste. This is a negative externality of the improper disposal of single use plastics. For 2020, around 8,141 MT⁸ of waste was generated per day in Sri Lanka wherein from those only 32% is collected on average. Recycling of single use plastic waste in Sri Lanka is yet at a minimal level.

Reducing the impact of single use plastics is emphasised in the National Strategy on Solid Waste Management (2000), the National Policy on Solid Waste Management (2007) and The National Policy on Waste Management (NPWM (2019)). However, prior to banning the polythene or single use plastics, proper alternatives should be introduced to the public. This could be done through awareness programmes on the alternatives, prices and local vendors. This could be led by government agencies, non-governmental organisations and private initiatives. Simultaneously, the cost-efficient production of eco-friendly packaging should be promoted.

It appears most of these ecofriendly packaging currently available in the market are plant-based. A sudden increase of demand for these products will lead to rise in demand for raw materials, which could also damage the environment indirectly (especially, if the raw materials are harvested from forests). On the other hand, single use plastic may be phased out gradually within a specified limited period while alternatives are being introduced. Otherwise, the government will face pressures to lift the proposed protective measures.

'Surakimu Ganga' river pollution control programme

Another promising proposal is "Surakimu Ganga" which aims to conserve the water resources in 103 natural river basins in the country used for irrigation, drinking, generation of power, industries, tourism and other needs. Pollution of river water can be from industrial wastes, gray water or household wastes, or from natural causes such that soil erosion which are induced by human activities. This can be in upstream, midstream and downstream levels. In some cases, if the polluted water contaminated with heavy metal residuals from agrochemicals, chronic diseases might emerge among users. Allocation of money is a positive aspect.

⁸ Basnayake B. F.A., Ariyawansa R. T. K., Karunaratna A. K., Werahera S. M., Mannapperuma N. (2020), Sustainable Waste Management Challenges in Sri Lanka. In book: Sustainable Waste Management Challenges in Developing Countries (pp.352-382). DOI: 10.4018/978- 1-7998-0198-6.ch015.

Nevertheless, the effective usage of the money to achieve the stated objective is a challenge. Therefore, careful design of activities, proper implementation and monitoring is required. Otherwise, money would be wasted. Moreover, success would be contingent on public participation.

Reforestation and conservation programme

The Budget also proposes to the forest coverage and Rs. 3,500 million is proposed to be allocated for the accelerated reforestation programme during 2021-2023. Reforestation is a good and necessary strategy to cope up with the rate of deforestation in the country. According to the UN REDD+ report, the official forest cover in 2010 was 2.1 million ha with a notable annual deforestation rate of 8,088 ha/yr estimated for the period from 2000 to 2010⁹.

If this high deforestation will go on, it is estimated that at the end of 2030, less than 10% of forest cover would remain in Sri Lanka.¹⁰ However, the recent policy reformations on the other protected forests raise questions on the government's true intentions. Lack of surveillance is one of the constraints in preventing illegal logging in dense forests. Strengthening surveillance using SLAF will be a good intervention however, the reforestation should be done by the forest department instead of the SLAF.

Technological Infrastructure

Dilani Hirimuthugodage, Research Economist, IPS

In order to strengthen Intellectual Property Rights (IPRs), Budget 2021 highlights the importance of introducing new laws and organisational structures in the technology-based entrepreneurial economy. It is a much-needed and a timely proposal as Sri Lanka is positioned at the middle of the Fourth Industrial Revolution (4IR). In the technology-based entrepreneurial economy, the government is expected to play a major role as a catalyst in [fostering innovation](#), supporting partnerships for technology transfer and commercialisation, and providing access to technological infrastructure, etc.

To drive the wave of technology-based entrepreneurial economy effective enforcement of the existing IPR policy and also effective management of IP is crucial. As highlighted in the [IPS Sri Lanka : State of the Economy 2019](#) report, modernising the existing IPR regime to address issues arising from new technology applications from the Internet of Things (IoT), Artificial Intelligences (AIs) and big data is needed. Further, the [blog article](#) also explained the importance of introducing new laws/ modernising existing laws in to stimulate innovations, patenting software, protecting new plant varieties, strategies or guidelines to protect big data etc.

Such efforts should be complemented by capacity building in the form of technically sound IP examiners (especially in patents and trademarks at the National Intellectual Property Office) to explore IP applications based on new technologies.

⁹ https://redd.unfccc.int/files/sri_lanka___s_forest_reference_level_submission_to_the_unfccc-06jan2017.pdf

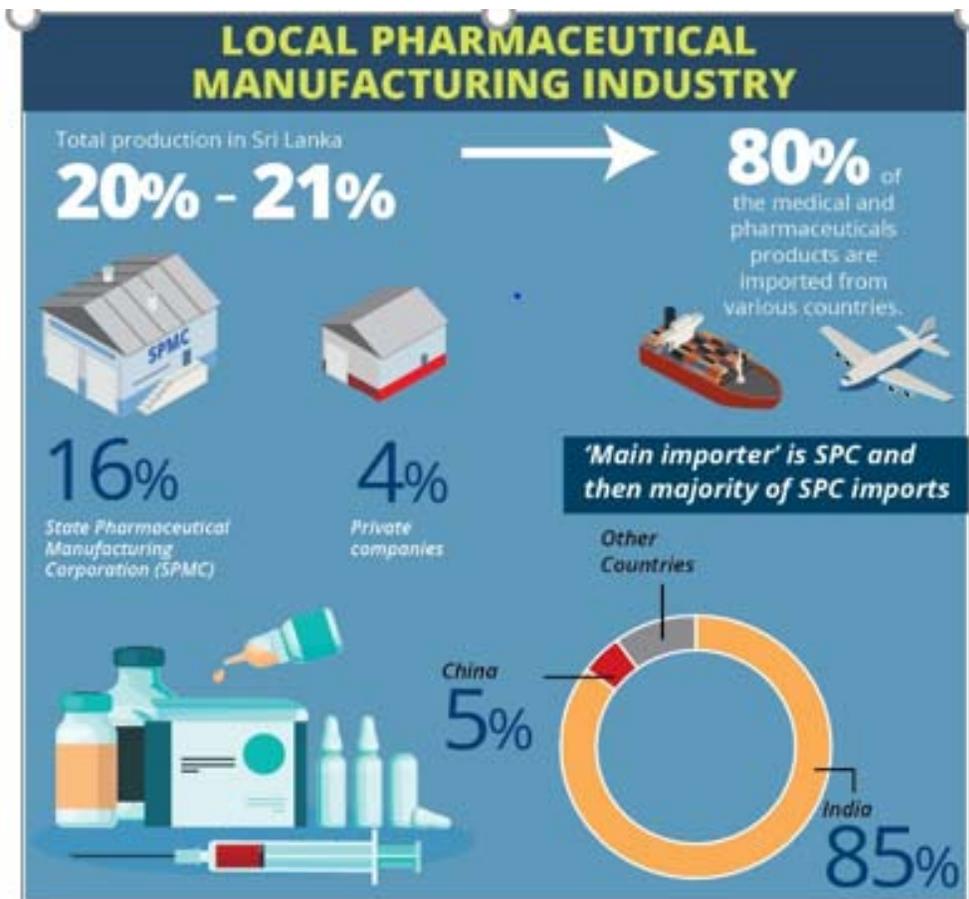
¹⁰ <https://www.iosrjournals.org/iosr-jestft/papers/vol8-issue7/Version-2/G08723539.pdf>

Manufacturing of Medicines

Dilani Hirimuthugodage, Research Economist, IPS

The proposal on increasing the production capacity of the State Pharmaceutical Manufacturing Corporation (SPMC) to expand the production of essential pharmaceuticals is very important during the period of pandemic as Sri Lanka is mostly depended on imported drugs (See Figure). Pharmaceutical manufacturing data indicates that the current capacity to develop pharmaceutical products and related technologies is weak in Sri Lanka. Investments in pharmaceutical sector, technology gaps in pharmaceutical products, limited amount of technology transfer are some of the issues faced by the sector in enhancing local production as stated on the [IPS Sri Lanka : State of the Economy 2020](#) report. Further, this report highlights the importance of encouraging and enhancing local pharmaceutical manufacturing through promoting innovations in health and medicine through institutional development, investments and coordination among all areas relevant to public health.

Figure: Local Pharmaceutical Manufacturing Industry



Source: State of the Economy (2020), Institute of Policy Studies of Sri Lanka

Cigarette Tax Reforms

Harini Weerasekera, Research Officer, IPS

Budget 2021 proposes to improve the efficiency of tax collection through the introduction of an online-managed single, special Goods and Service Tax (GST) to replace the various goods and service taxes that are currently imposed on cigarettes (and other goods such as alcohol, vehicles, betting and gaming, etc.). While efforts to simplify and digitise taxes are commendable, replacing excise duty on cigarettes with a GST (if applied on price, as GSTs traditionally are) is a step backward.

IPS research on cigarette tax reforms in Sri Lanka finds that the existing specific excise tax regime for cigarettes is in line with best practices outlined in the WHO Framework Convention for Tobacco Control, to which Sri Lanka is a signatory. Specific excise taxes that are levied on the volume of the product, are recommended for cigarettes, over ad-valorem taxes such as GST, which are levied on the price of the product. This is because when applied on price, the producer has the incentive to reduce cigarette prices (under-shift) in order to evade taxes; which will result in government revenue losses from cigarettes.

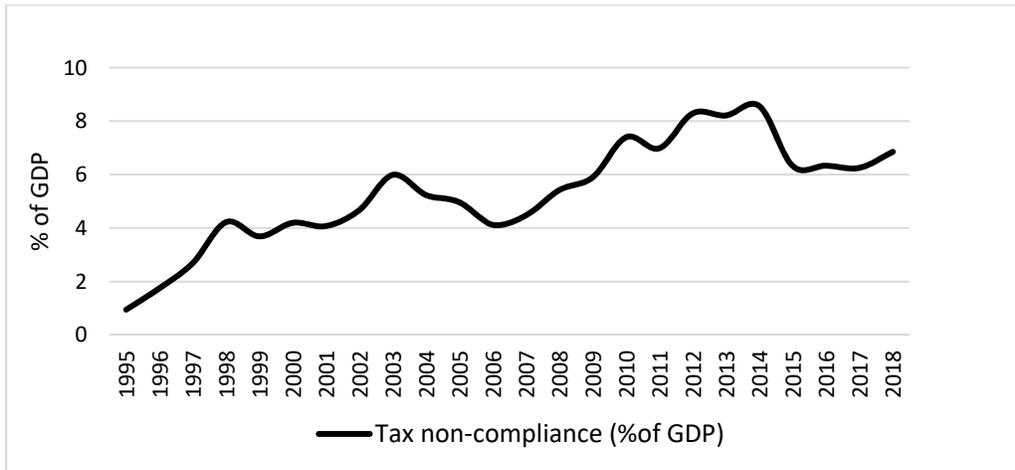
Instead of changing the type of tax applied on cigarettes to one that will potentially yield lower revenue, IPS research proposes to improve the efficiency of tax collection by streamlining the existing 5-tier excise tax structure for cigarettes to a uniform excise tax, that is annually adjusted for inflation. The GoSL can increase tax revenue from cigarettes by LKR 37 billion by 2023, if these proposals are implemented in the 2020-2023 period. This is beneficial for both fiscal and health policy.

Tax Policy

Chamini Thilanka, Research Assistant, IPS

As mentioned in the 2021 Budget speech, tax laws are expected to be amended **to facilitate online tax administration**. This would be a good initiative to enhance the efficiency of tax administration and tax system transparency. However, all these efforts should be in line with the objective of minimising the tax non-compliance (potential tax and actual tax gap) which shows an increasing trend over-time due to lack of transparency in the fiscal operation, complexity in calculations and many other discretionary measures in operation. The mechanism which would be adopted in online tax administration should be followed by a regular monitoring system. Since the tax revenue in the country continuously records a considerably low level, improving tax compliance would create a conducive environment for the government revenue aspect. Further, growing informal sector businesses should be formalised by integrating them into mainstream and promote real competition by extending the access to services enjoyed by formal business which would lead to improve tax compliance as well as tax revenue.

Figure 1: Tax non-compliance in Sri Lanka



Source: Compiled based on Annual Reports (various years), Central Bank of Sri Lanka. Colombo

Urban Development and Housing

Chathurga Karunanayake, Research Assistant, IPS

Condominiums

Offering foreign residents the ability to purchase super luxury condominiums utilising foreign currency earnings made in Sri Lanka, earnings in foreign countries or a loan obtained from a bank outside Sri Lanka is a good move to foster the growth of the booming condominium industry and the real estate sector. This will make investing in Sri Lanka's real estate sector much more appealing to foreign investors and will position the country as an ideal investment destination with opportunities for expatriates as well as dual citizens to invest in real estate market as intended.

While these aspects are praiseworthy, it is important for the government to come up with a robust regulatory framework to address the possible issues arising from this growing segment. As indicated by IPS [research](#) even though many government bodies are involved in the approval process, monitoring mechanisms, when it comes to inspecting for environmental concerns there exists many gaps. It is thus vital that the approval process has a clear long-term vision those includes environment concerns as an area of priority. It is high time that 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. Attention must also be given on having proper set of regulations, which are monitored throughout, is more vital than all other concerns.

Urban Housing

The 2021 Budget addresses one of the prevailing pressing issues pertaining to the urban housing sector in Sri Lanka by proposing construction of 50,000 urban housing units and granting ownership of a house to shanty dwellers. Given that those living in shanties are the hardest hit during a pandemic; this can be a steppingstone to building resilience in underprivileged urban settings.

While the proposed programme would assist in tackling the lack of access to housing among vulnerable groups, it is also important that the Government provides a more equitable and a long-term solution to those in shanties by not only introducing measures to relocate them but also coming up with solutions to upgrade their living standards. In doing so, as IPS [research](#) shows this requires proper urban planning to manage Sri Lanka's dense population and enforcement of policies to ensure a successful relocation exercise, not only in urban centres but also in peri-urban areas and suburbs.

Finally, while providing them shelter it is also important that measures are taken to assist the livelihoods of the underprivileged through promoting economic inclusion. As suggested by IPS [research](#) this can include aspects such as improving marketplaces and kiosks for street vendors and supporting local employment opportunities through labour-intensive works that would bring in permanent solutions to the most concerning issues of the shanty dwellers.



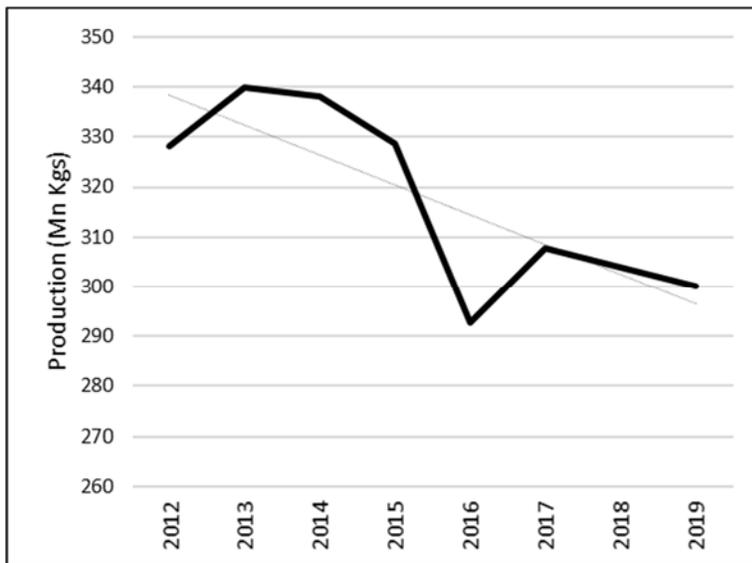
Tea Sector

Nimesha Dissanayaka, Research Assistant

The Budget proposes to provide subsidies of Rs. 500,000 per Hectare for replantation of tea, Rs. 310,000 per Hectare for new plantation and Rs. 100 per plant for infilling to tea small holders under the encouragement of tea plantation and Rs.500,000 per Hectare for medium and large-scale plantations for replantation of tea. It also proposes to renovate 150 tea factories using funds of the Tea Board and government funds in 2021. It also proposes to introduce automated tea plucking machines, to use new techniques in tea cultivation, mitigate the impact of adverse weather and to enhance the usage of organic fertiliser. Most importantly, it proposes to increase the daily wage of estate workers to Rs.1,000 from January 2021.

These are commendable efforts to address the existing issue of tea industry. Tea production has been on a declining trend over the past few years. [A wake-up call for Sri Lanka's tea industry](#) discusses the issues of the tea industry and proposed solutions for this. Currently in Sri Lanka, [the area under tea cultivation is stagnant or shrinking](#), productivity is low, replanting rate is low, production costs are high and there is a shortage of labor willing to work in the industry. Therefore, introducing modern emerging production technologies, enhancing technical skills and innovation capacity, together with improvements in warehousing and packaging facilities and quality assurance throughout the value chain are critical areas to be addressed. Consequently, the above budgetary proposals would enhance the tea production and productivity. However, areas such as tea diversification and global trade marketing will be the timely needs of the tea industry, which needs more attention from the government.

Figure: Annual production of tea in Sri Lanka (2012-2019)



Source: Sri Lanka Tea Board

Poverty

Wimal Nanayakkara, Senior Visiting Fellow, IPS

The proposed 'production economy' will boost local industries, as well as the agriculture, livestock and fisheries sectors. This will help to create employment opportunities for the poor and vulnerable. Also, high priority has been given to improve the entire education system including skills development will help to reduce poverty to a great extent, as education is the key to break the inter-generational poverty trap.

Further, a large proportion of those engaged in agriculture, livestock and fisheries sectors are among poorest. All proposals to improve these sectors, including the introduction of modern technology will definitely help to improve the living standards of families depending on these activities. Proper mechanisms need to be developed to help them to market their produce, as some middlemen are trying cart away bulk of the profit, affecting both producers and consumers, at present. If properly handled, this sector could make a significant contribution to Sri Lanka's export sector. It is also necessary develop strategies to minimise the post-harvest losses, which is around 30 to 40 percent for most vegetables at present.

SMEs

Kithmina Hewage, Research Economist, IPS

The government's decision to relax several restrictions on imports will be welcomed by small-businesses who are dependent on imported raw materials. Similarly, the availability of loan schemes for SMEs will provide significant relief to a hard-hit sector. The broader challenge, however, will be to remove structural obstacles that are inhibiting SME access to finance and improve financial literacy in the sector. Moreover, greater support will be required by SMEs to reenter the economy and adapt to new consumer demands in a post-COVID-19 world.

Overall, the government should be mindful that a broad import substitution policy would increase costs of production for SMEs, heighten inflationary pressures, and undermine Sri Lanka's export competitiveness across sectors.

Lastly, it is important to recognise that the budget's success or failure will depend entirely on the government's commitment towards implementation, fiscal discipline, and policy stability. Historically, Sri Lankan governments across the political spectrum have done poorly on these metrics leading to significant negative effects on the economy, particularly small businesses and low-income households.