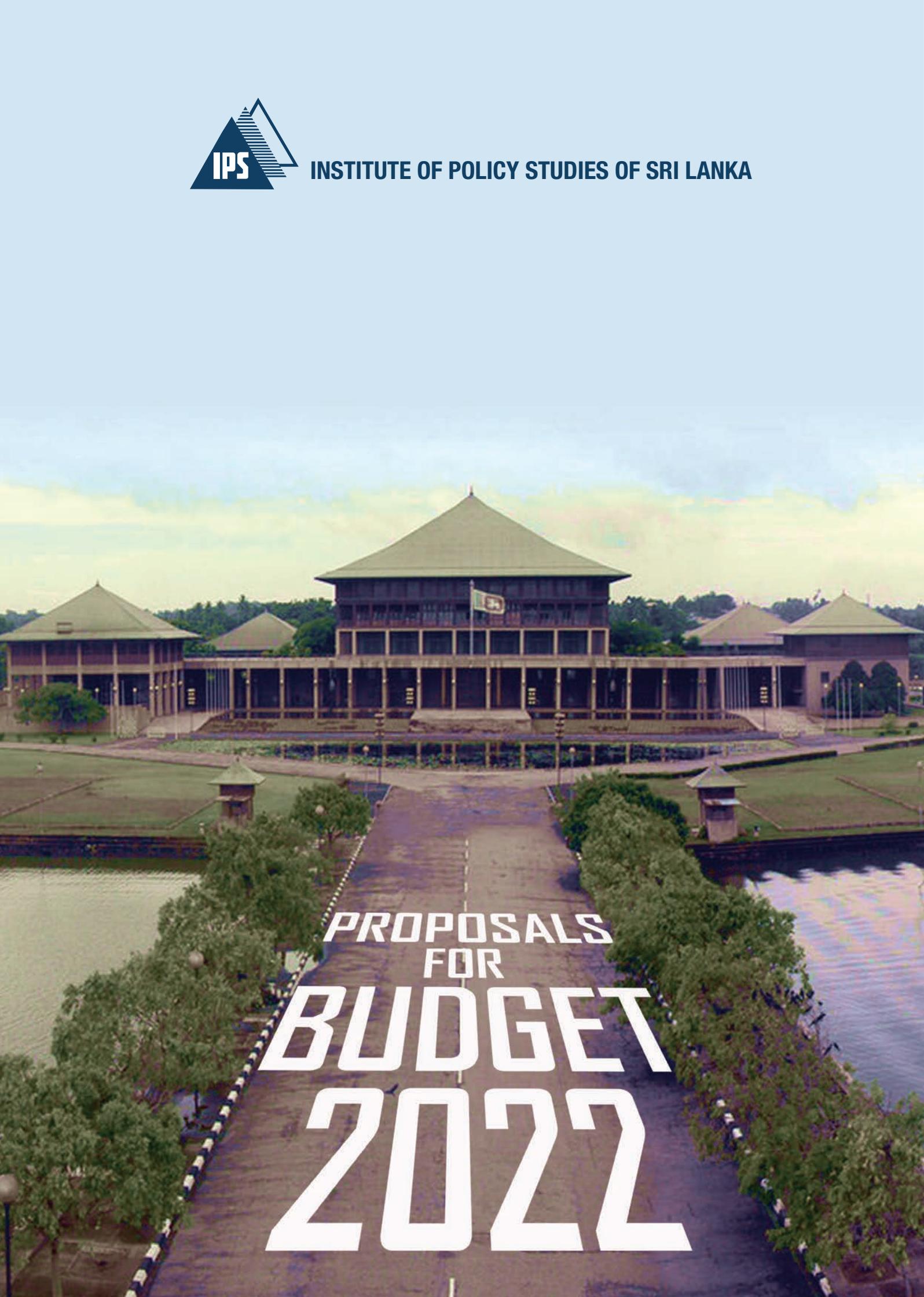


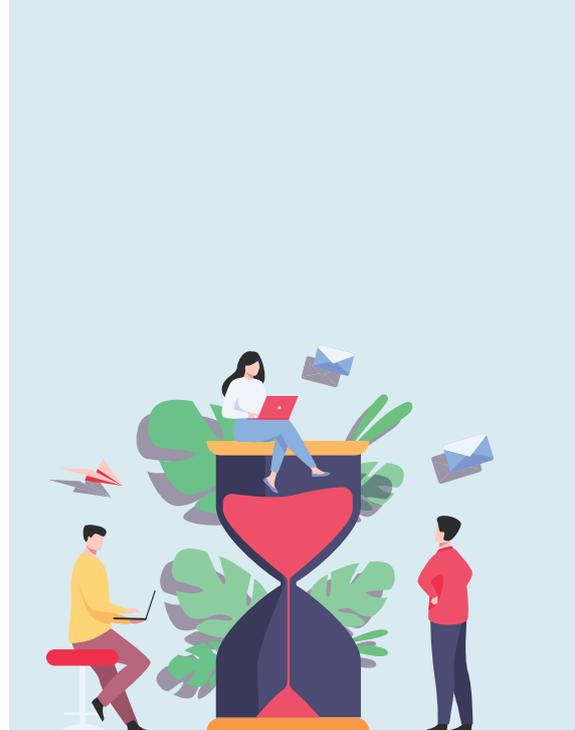


INSTITUTE OF POLICY STUDIES OF SRI LANKA

An aerial photograph of the Parliament Building in Sri Lanka, a large, traditional-style building with a prominent central tower and multiple wings, surrounded by a large green lawn and a body of water. A long, paved walkway leads from the foreground towards the building. The sky is a mix of blue and light green, suggesting a clear day.

**PROPOSALS
FOR
BUDGET
2022**

PRODUCTIVE CITIZEN AND HAPPY FAMILY



Differently Abled and Disabled People, Persons with Disabilities

Policy Issue - Ensuring financial security for persons with disability (PWDs)

The Government's Policy Framework, Vistas and Prosperity and Splendour (VPS) recognises the importance of the rights of PWDs and states that the government is 'committed to their economic, and social security rights and recognises that they need equal opportunities to improve their quality of life'.¹ As such, ensuring economic and financial security of the PWDs in Sri Lanka is an important policy area.

However, currently the cash assistance programme aimed at assisting PWDs (implemented by the National Secretariat for Persons with Disabilities (NSPD) covers only a fraction of PWDs from low-income households. This is primarily due to inadequate allocation of resources for this programme. As of May 2020, the disability assistance programme covered 72,000 persons while another 37,492 persons were in the waitlist of this programme.

Moreover, another 14,149 PWDs were identified during the first wave of the pandemic by the 'rural committees' set up at the divisional level, as eligible for the cash assistance. Both the waitlisted and 'newly identified persons by the rural committees received the LKR 5,000 cash allowance during the first wave of the pandemic.² Yet, they have not yet been included in the NSPD's disability assistance programme.



¹ Chapter on A Productive Citizen and a Happy Family. P. 27.

² Institute of Policy Studies of Sri Lanka (2021). 'Sri Lanka: State of the Economy 2021' (Chapter 9). Colombo: Institute of Policy Studies of Sri Lanka.

Recommendation

We recommend extending assistance to all PWDs, especially those from low-income households to ensure their economic and financial security. Extending benefits to current waitlisted persons alone will require an additional budget allocation of around LKR 2,250 million in 2022 while extending it to those identified by the rural committees too (subject to a re-assessment of their eligibility for the assistance) will require a further allocation of around LKR 849 million.

Policy Issue - Securing working women from the negative impacts of the COVID-19 pandemic

The VPS has explicitly stated the importance of improving the labour force participation (LFP) of women. However, recent labour market data for Sri Lanka show that a larger share of women have become economically inactive, lowering the already low labour force participation of women because of COVID-19. As the COVID-19 related restrictions are relaxed, there will be more opportunities for women to participate in the labour market.

Recommendation

We recommend training and job matching programmes to facilitate skill acquisition and improving employability, especially for women. Online training programmes can be facilitated by industries with labour shortages, with possible job opportunities for those successfully trained. These programmes can be coordinated by the various institutions coming under the purview of the Tertiary and Vocational Education and Training (TVET) sector.

Health First

Policy Issue - Reducing tobacco smoking prevalence

Reducing smoking prevalence following the recommendations of the World Health Organization (WHO) guidelines is a clear objective of the VPS. Although smoking rates have come down considerably over time, still more than a quarter of males are smokers, and as such, smoking remains a significant health threat killing more than 20,000 Sri Lankans, annually.

Further, in 2016, tobacco smoking cost the Sri Lankan economy LKR 213.8 billion, equivalent to 1.6% of its GDP. Recent studies show that smoking is currently prevalent among selected population groups. Thus, there is a need to target specific groups (e.g., construction workers, drivers, youth groups those who are not in schools or any other education institute) to reduce smoking prevalence in the country.



Recommendations

We recommend launching targetted programmes for building awareness on the benefits of smoking cessation and providing cessation support to existing smokers. These new programmes can be done by realigning existing programmes focussing on high smoking prevalence groups. As such, they will not be an additional burden on government expenditure. But such programmes will help to reduce the tobacco smoking prevalence and reduced tobacco smoking-related illnesses, deaths, and the burden of cost.

Policy Issue - Improving child nutrition

The VPS recognises the importance of improving child nutrition. To date, successive governments have taken many measures to improve child and maternal nutrition. However, the situation has only improved marginally during 2006 – 2016 decade. A study by the Institute of Policy Studies of Sri Lanka (IPS) on child malnutrition reveals that the 'life cycle effect' is one of the main contributors to the high prevalence of child malnutrition, especially among the poor. The study reveals that dietary issues are caused by food insecurity and the lack of awareness about proper nutrition among the poor. Among the various nutritional programmes in the country, the Maternal and Child Health (MCH) supplementation programme by the Family Health Bureau (FHB) is one of the most beneficial, as it covers the entire life course interventions, as recommended by the World Health Organization (WHO). However, this is the programme with the least resources at present.

Recommendations

Streamlining existing nutrition programmes to focus on the most effective ones can improve the nutrition outcomes of the country. The country's annual public investment on key nutrition-specific interventions is approximately LKR 15 billion. Of this, 40% was absorbed by the school meal programme, followed by the pregnant mother's food allowance programme (37%) and the Thriposha programme (16%). The FHB medicine and supplements in the MCH programme accounted for only 5%. We recommend expanding budgetary allocations for the MCH programme and providing targetted benefits to the most vulnerable in other nutrition programmes to improve nutrition in the country. For instance, the expansion of the pregnant mother's targetted food allowance programme to a universal programme in 2015 was a substantial increase in expenses. There is potential to gain some fiscal space by changing the supplementary feeding programme (Thriposha), for pregnant and lactating women, to target pregnant women at risk rather than all. Likewise, pregnant mother's food allowance programme should be targetted in deprived regions.

New Vistas of Human Resource Development

Policy issue – Improving access to quality vocational training

Technologies have influenced labour markets throughout history, but the present-day transformations stand apart given their speed, magnitude, and the complexity of change. Scientific breakthroughs in a broad spectrum of fields, such as genetics, artificial intelligence, nanotechnology, and 3D printing, are feeding into innovations that redefine how people live, work, and interact with each other. These innovations are constantly creating and altering production processes and revolutionising the operations of a large spectrum of industries. These transformations are also restructuring labour markets. Technological changes are affecting labour markets in multiple ways.

Here, changing the occupation skill profiles of countries, increasing the demand for high skilled workers are noteworthy. In this backdrop, developing the tertiary level skills development in the country is critical.

Recommendation

Although a variety of Tertiary Education and Vocational Training (TVET) institutions are involved in providing training in the country, their effectiveness in improving access to TVET is limited. This is due to variety of reasons including resource gaps, teacher shortages and governance issues. To overcome this problem, we recommend streamlining the public sector provision of TVET education. Money saved from streamlining provision of services can be used to provide eligible candidates financial support to participate in most effective TVET programmes (public, private or joint) in the trades of their choice. Partnerships with the private sector and industry training can alleviate problems of lack of access to high-tech equipment. We also recommend investing in public sector capacity for provision of support services to the sector -- such as monitoring and evaluation, curriculum development, and the quality assurance of TVET institutions -- to improve the efficiency of the sector.



Reawakening School Education

Policy issue – Improving access to quality early childhood education

The Early Childhood Care and Education (ECCE) sector is one of the most important sectors of education, providing a solid foundation for a child's education trajectory. However, access to ECCE education in the country is low. In 2019, only 55.6% of 3 to 5-year-olds were enrolled in preschool education in the country.³ Further, there are large inequities in access to pre-school



education with access lower in rural and estate sectors and among poorer households. The public presence in this sector in the provision of core as well as support services, such as curriculum development and teacher training, is inadequate.

Recommendation

Public funds need to be allocated to implement the ECCE policies that have been developed to improve access to the ECCE sector for low-income households, and to align ECCE education with general education.⁴ Government involvement is important in improving access to children from under-privileged backgrounds, through the provision of scholarships, or by setting up ECCE centres where there is low supply of ECCE centres. At the same time, the functioning of ECCE should be monitored for improving quality.

A Culture of ‘Working for the Country’

Policy issue - Limited reintegration support for returning migrant workers

The importance of return and reintegration was aptly highlighted during the COVID-19 pandemic in 2020 and 2021. Available estimates indicate that by early January 2021, a total of 128,470 Sri Lankans wanted to return, while only 60,470 or 47% had been repatriated. Recent IPS research shows that “such limited capacity to repatriate and delays in repatriation is the first indication of weaknesses in Sri Lanka’s preparedness for the return and reintegration of migrant workers in a crisis”.⁵ The VPS aims to develop a culture of ‘Working for the Country’. Limited return and reintegration support for returnees in terms of social and psychosocial dimensions restrict the capacity of a returned migrant worker to reintegrate with his family and community and contribute to the economy. Reintegration issues experienced during the COVID19 pandemic were amplified by the low base level of return and reintegration support service structures that were operational in Sri Lanka before the pandemic.⁶ Addressing such inadequacies in reintegration support would contribute to happy families as well as productive citizens among returned migrant workers.



Recommendation

As a solution to the above problem, it is important to implement the existing policy on ‘Return and Reintegration’ introduced in 2015. A critical implementation aspect of this policy is integrating reintegration support policies into the mandates of the relevant ministries and providing necessary budgetary allocations for the same. This will result in faster and more successful reintegration of returnees to their families, communities and the economy.

³ Sri Lanka Ministry of Women and Child Affairs and Dry Zone Development, 2019.

⁴ See for example, (Sri Lanka Ministry of Women and Child Affairs and Dry Zone Development, 2019), and (National Education Commission, 2019).

⁵ Institute of Policy Studies of Sri Lanka (2021). ‘Sri Lanka: State of the Economy 2021’, Colombo: Institute of Policy Studies of Sri Lanka.

⁶ *Ibid.*

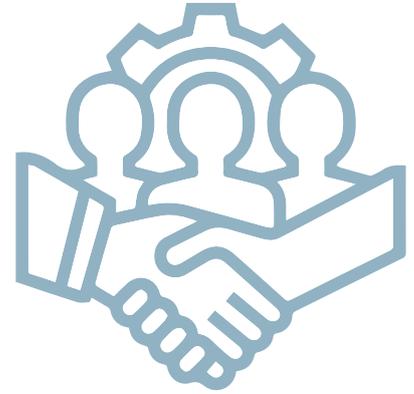
A Culture of ‘Working for the Country’

Policy Issue - Gaps in recruitment sector for foreign employment

Labour migration and related remittances play an important role in the Sri Lankan economy. Recruitment for foreign employment is an important component of labour migration. Given that the number of migrant workers has reduced drastically during the pandemic period, concerted efforts will need to be made to facilitate foreign employment, when the pandemic situation improves. Findings from a recent study conducted by IPS shows several areas to focus on improving business practices of recruitment agents would be beneficial for promoting foreign employment. The absence of an effective international marketing strategy to promote Sri Lankan migrant workers to foreign employers have led to the recruitment agents micro-managing recruitments by resorting to unfair competitive behaviour with agents from other countries of origin. This leads to additional costs for the agent which is likely to be passed to potential migrant workers seeking employment.

Recommendation

To address this, we propose establishing a centralised and effective international marketing strategy to promote migrant workers from Sri Lanka. This needs to be coordinated by the Ministry of Foreign Affairs and the State Ministry of Foreign Employment Promotion and Welfare, with necessary resources and budgetary allocations. The above proposal will improve the efficiency of recruitment agents. It will also indirectly contribute to increasing remittances.



PEOPLE CENTRIC ECONOMY



A People Centric Economy

Policy issue - Streamlining tobacco tax increases to increase government revenue and reduce tobacco-related costs

IPS research shows that increasing tobacco taxes has the twin benefits of improving health as well as increasing government revenue. Both these outcomes are clearly identified policy focuses in the VPS. The VPS further elaborate the use of WHO recommended actions for controlling tobacco use. At a juncture when government finances are tight, policy solutions such as taxing tobacco which can be leveraged to boost government revenue without threatening economic growth are essential. Increasing tobacco taxes in the forthcoming Budget could raise substantial amounts of additional revenue for the government.

The WHO Framework Convention for Tobacco Control (FCTC) Protocol recommends indexing tobacco taxes to account for inflation and simplifying tobacco taxes to make implementation easier. In keeping with these recommendations, IPS working with the National Authority on Tobacco and Alcohol (NATA) Subcommittee on Tobacco Taxation, proposed a formula for annually adjusting cigarette taxes in line with inflation and GDP growth. Such a move will ensure that cigarettes remain unaffordable to youth and the poor overtime, while increasing government revenue and decreasing health costs associated with smoking. In the long-run, we also recommend simplifying the current five-tier tax system to a single tier. The proposed indexation formula can be applied in the current tax system as well as in the proposed new Special Goods and Services Tax (GST).



Recommendation

Given that cigarette taxes have not been revised in nearly two years, since December 2019, the government should use this opportunity to raise taxes, to attain the twin benefits of improved health and fiscal outcomes. IPS estimates that the government could have earned nearly LKR 20 billion in additional excise tax revenue from cigarettes in 2020, if cigarette taxes had been raised by 10% in line with inflation and streamlined to a uniform tax. This amounts to nearly 1.5% of total government revenue in 2020. A similar revenue gain can be expected from a 10% increase in tobacco taxes this year.

It should also be noted that a recent nationwide poll by the Alcohol and Drug Information Centre (ADIC) authority shows that close to 90% of those surveyed are in favour of increasing tobacco taxes to raise government revenue.⁷

Small and Medium Industries

Policy Issue- Developing the creative and cultural industries

Developing the small and medium industries (SMIs) sector in Sri Lanka is a main policy area identified in the VPS. Much of Sri Lanka's creative economy -- which comprises of traditional and modern cultural and creative industries -- fall into the category of SMIs. A moderate estimate of the GDP contribution from the sector was nearly 1.06% in 2014. Further, nearly 3% of the economically active workforce are involved in the cultural and creative industries.

Lack of linkages to connect rural cultural and creative industry artisans with the relevant institutes and public services is one of the main policy issues in this sector in Sri Lanka. This is despite programmes to support and encourage creative business activities conducted by various public institutions. Lack of awareness, lack of coordination among various sectors of government, and limited attention given to emerging cultural sectors -- such as fashion designing, software, graphic designing, digital media -- are some identified issues in this sector.

Recommendation

We recommend streamlining government programmes relating to creative and cultural programmes and building capacity in the public institutions to provide efficient and effective services to artisans in creative industries. The outcomes of initiatives to develop the sector must be monitored and adjusted to improve effectiveness overtime. Special attention needs to be given by public institutions to fill the above-mentioned policy gaps. Proposed actions will attract rural youth into the sector, which will generate new employment opportunities and support the development of the rural sector.



⁷ Alcohol and Drug Information Centre, Nationwide Public Opinion Survey on Increasing Tobacco Taxes, April 29, 2021, Press Release. Colombo: Alcohol and Drug Information Centre.

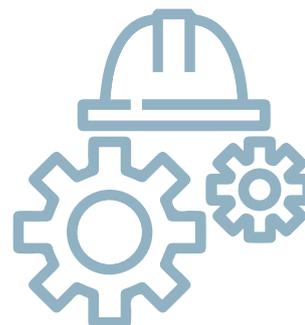
Small and Medium Industries

Policy Issue - Protecting intellectual property rights (IPRs) of creative and cultural artisans

A main aspect of developing the creative and cultural industries sector relates to protecting the IPRs of artisans. Most cultural and creative artisans are not aware of their IPRs, and their associated benefits. Even though the Sri Lankan legal system provides protection for creativity via patents, trademarks, copyrights, and geographical indications, etc., relevant artisans are not aware of how to make use of these facilities.

Recommendation

It is important to raise awareness on the importance of IPRs and their benefits such as royalty payments, premium price increases, etc. We propose providing resources to the National Intellectual Property Office (NIPO) as the main government institute in IP sector to develop awareness material in print, visual and social media and provide other support to protect IPRs of artisans. This will attract new innovations, new technologies, new markets, and private investments to the cultural and creative industries.



Agriculture to be Developed through Advanced Technology

Policy Issue - National food security

National food security is not only a question of availability, but includes the other factors like food prices, food usage, and food supply stability. Hence, all these aspects influencing food security should be considered in policy formulation. While the Government's Policy Framework, VPS recognises the importance of introducing an agricultural crop management system, there is no proper mechanism to monitor how this will affect food usage, prices, and supply. At present, the farming community is compelled to suffer massive losses during the harvesting season because of the seasonal glut in supply. Meanwhile, intermediaries and the other players in the high end of the value chain gain because they can control prices through controlling supply. This has profound implications on the food security of the country and the welfare of farmers.

Recommendation

We recommend establishing an electronic-based monitoring system for the food systems so that domestic food production, imports, market prices, input availability etc., could be continuously monitored to ensure national food availability and household access to food.⁸ A regular monitoring system can safeguard the local food supply from international trade restrictions and



possible malpractices by local traders. Giving priority for establishing a holistic and coherent mechanism to ensure high-quality data and information is important in this regard. This information should be easily accessible across sectors for monitoring risks to food security. Such a system can provide valuable information for policymakers to take action to ensure food security. Big data tools such as satellites, telecommunication networks, sensors, drones, and smartphones have the potential to address the food system challenges by improving availability of information.

⁸ Manoj Thibbotuwawa, Athula Senaratne, Puspa Sharma, Paras Kharel, Nimesha Dissanayaka, Ruwan Samaraweera, Dikshya Singh and Avinash Gupta (Forthcoming). The future of food security in an age of pandemics: Building a modern and resilient food system in Sri Lanka and Nepal. Occasional Paper Series No. 73. Southern Voice Secretariat.

Agriculture to be Developed through Advanced Technology

Policy Issue - Developing e-commerce for increased food system resilience

As communities are increasingly dependent on markets for their food security and nutrition, properly functioning market chains and the uninterrupted flow of agricultural products are key elements within food systems. Shocks that disrupt market activities such as disasters and pandemics can cause considerable damage to households' food availability, as well as their access to and utilisation of food.

The Government's Policy Framework, VPS recognises the importance of introducing a new strategic plan for product marketing including systems of pre-contracts between producers and exporters. However, at present, the farming community is poorly connected with markets and intermediaries gain arbitrage opportunities while rural producers receive lower prices due to lack of market information, poor infrastructure, weaker bargaining positions, and lengthy marketing channels.

IPS research proposes to increase the capacity of e-commerce to minimise the problems in food supply chains and to ensure food system resilience⁹. The increased demand for digital marketing platforms during the COVID-19 pandemic could be capitalised on to promote the capacity of e-commerce at both ends of the food supply chain.

For example: The Govipola Mobile App and the pilot project on Smart Agri Village were funded by the EU. Such Information and Communication Technology (ICT) platforms, despite capacity concerns, have already proven useful to increase the resilience of the actors in the food system such as farmers, traders, and consumers.

Further, a mechanism needs to be developed to help connect smallholders to the e-commerce platform to prevent elite capture of the digital marketplace. In this regard, linking farmers' cooperatives with the e-commerce platform or building Public-Private-Producer-Partnerships (4P) could be crucial.

Recommendation

We recommend public investments in developing an e-commerce-platform to create a digital marketplace to connect farmers and markets and to increase the availability of product and price information to buyers and sellers, to improve food availability, and food security while protecting farmer welfare.



⁹Institute of Policy Studies of Sri Lanka (2021). 'Sri Lanka State of the Economy 2021', Colombo: Institute of Policy Studies of Sri Lanka.

A Revolution in the Use of Fertiliser

Policy Issue- Strengthening the Regulatory and Enforcement Mechanism for Organic Fertiliser Imports



The Government's Policy Framework, the VPS proposed a revolution in the use of fertiliser. It recognises the importance of promoting the use of organic agriculture to minimise the negative consequences of chemical fertilisers on human lives such as non-communicable diseases.

While the initial proposal was to promote the use of organic fertilisers during the next ten years, the sudden ban on the importation of chemical fertilisers and agrochemicals by the Gazette No 2226/48 of May 6, 2021 was unexpected. The proposed ban on chemical fertiliser imports will be a significant shock to the agricultural systems of Sri Lanka and most likely will be untenable. Sri Lanka must revisit the import ban before it fails due to its implementation challenges creating massive disruption to the country's agricultural sector.

IPS research suggests that Sri Lanka can adopt a 'sustainable intensification' approach that anticipates a gradual reduction of the use of chemical inputs combined with good agroecological production practices, to increase organic fertiliser use overtime.¹⁰ Further to the ban, the government has decided to import organic fertilisers. Unlike inorganic fertilisers, which are inert materials, organic fertilisers are highly environment-specific live materials that could have irreversible environmental repercussions.

Therefore, the regulatory, implementation, and enforcement mechanism of the quality standards must be strengthened with immediate effect (with the coordination of relevant government institutions like National Plant Quarantine Service (NPQS); SLSI; Sri Lanka Atomic Energy Agency; ITI, etc) to ensure that food ecosystems in the country are not adversely affected by switching to a 100% organic fertiliser policy.

Recommendation

We propose prudent application of a combination of instruments in place of the import ban on chemicals such as tariffs on chemical fertiliser imports, tax concessions/subsidies for local production of organic fertiliser to promote the production and use of organic fertiliser. Along with this, the quality of chemical fertiliser imports needs to be regulated to safeguard local agriculture. Programmes to build awareness on efficient use of organic fertiliser can also help farmers with the shift to organic fertiliser use.

¹⁰ Based on Reforming Fertilizer Import Policies for Sustainable Intensification of Agricultural Systems in Sri Lanka: Is there a Policy Failure? accessed on https://www.canr.msu.edu/prci/publications/Policy-Research-Notes/PRCI_PRN_3.pdf

A RIGHTEOUS, DISCIPLINED AND LAW-ABIDING SOCIETY



Social Protection

Policy Issue - Repositioning social protection

Social security is a key policy focus in the VPS. Sri Lanka has made progress in social security to workers through legislative changes since the mid-1990s. The International Labour Organization (ILO) Social Security (Minimum Standards) Convention, 1952 (No. 102) (ILO C.102) specifies nine key branches of benefits that social security programmes are expected to deliver. These are: medical care, sickness, unemployment, old age benefit, employment injury, family benefit, maternity benefit, invalidity benefit, and survivor's benefit. Although different social security schemes are available in Sri Lanka to provide some types of benefits under all nine schemes, their coverage is very low.

Further, Sri Lanka is yet to ratify the minimum standard in social security as specified in the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) (ILO C.102). The need for social security was accentuated during the COVID-19 pandemic.

Many social protection schemes in other countries that have started with the main intention of providing retirement benefits have expanded their benefits to cover other types of social security, as they understand the importance of these programmes for providing relief to people during various adverse shocks.

Recommendations

In many countries, social security contributions are channelled to diverse funds for providing various types of social security benefits (i.e., maternity benefits, sickness benefits). We propose using a similar system (e.g., system used in Nepal) to expand life-cycle social security to workers contributing to Employees' Trust Fund (ETF). Our calculations show that about 1.5% of the wage bill (or half of the ETF contributions) is sufficient to cover maternity benefits, sickness benefits, and unemployment benefits to meet the minimum requirements specified in ILO C.102 for those contributing to ETF.



A further 0.2% of the total wage bill could cover wage support to firms to retain the workers who contribute to ETF in times of disaster. We recommend following international best practices and optimising the use of ETF fund to provide wider benefits to its contributors. Such a scheme will enable workers to benefit from social security throughout their lifecycle and facilitate the ratification of the ILO C.102 of minimum social security standards. Further, greater life-cycle benefits will encourage more workers to contribute to ETF. This will have minimum impact on the budget as allocations for the most part will be from the ETF fund. Such a change in focus should be done in concurrence with different stakeholders to maintain transparency and trust.