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IPS Proposals for the Interim Budget

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Food related issues coming to the fore in Sri Lanka (File pic)

Ahead of the presentation of the Interim Budget, the Institute of Policy Studies of Sri Lanka (IPS) has recommended policy proposals for inclusion in the forthcoming Budget. Some key policy issues and recommendations follow.

Trade Policy

Despite strict import controls, Sri Lanka's trade deficit in merchandise goods widened in 2021. The slight increase was mainly due to the sharp price movements in the world market, with the import reduction patterns across categories being consistent with the post-pandemic controls. As consumer goods imports are prioritised, including food imports, it generates two key undesirable impacts. First, it impacts food security and nutrition needs. Second, high food prices will incentivise a further resource shift – such as labour – to agriculture, raise wage costs for sectors like manufacturing and impact their competitiveness. In this context, two key recommendations are:

Prioritise imports for industrial expansion and food security needs: IPS research shows that about 88% of food imports are now subject to quantitative or price restrictions. The Special Commodity Levy (SCL) on items such as canned fish, green/black gram, cowpea, palm oil, and black gram flour should be removed to ensure that food security and caloric needs are met. Licensing restriction on maize imports which feeds poultry production costs must also be revisited. Sri Lanka must prioritise fertiliser imports and reintroduce fertiliser subsidies to



paddy and vegetable farmers to raise productivity and prevent a resource shift that will impact overall economic efficiency.

Focus on increasing exports in sectors that use minimum foreign raw materials: There are certain products in which Sri Lanka enjoys a comparative advantage in global markets, requiring low imported raw materials in production such as tea, spices and mineral products like graphite. To meet immediate needs, bottlenecks such as fertiliser shortages should be addressed to raise productivity and export earnings whilst mineral resources can be auctioned to increase revenues.

Education Policy

The COVID-19 pandemic and the current economic crisis have severely affected the education sector. Health concerns, union action, social unrest and transport issues have resulted in frequent school closures. Inadequate budget allocations and improper recruitment of teachers have deteriorated the quality of education. Recent news items have highlighted difficulties faced by schools due to shortages of paper and other materials necessary for the functioning of schools. Further, deterioration of school facilities has affected the effective functioning of schools. Interruptions to school-based relief measures such as the school meal programmes can also increase school dropouts and malnutrition. Data from the Ministry of Finance reveals that public investment in education has remained just above 1%. Of this minuscule allocation, a large share is spent on teacher salaries. Frequent absorptions to the teaching cadre to provide jobs to unemployed graduates has worsened this situation crowding out funds from other necessary education inputs.

The government has recommended online lessons as a solution to difficulties in conducting on-site school classes. But IPS research shows that the access to online lessons is not equitable due to poor access to the internet, lack of necessary devices and high cost of data. In this context, two key recommendations are:

Increase public investment in education: Public investment in education should be increased and an adequate share of such investments should be dedicated to increasing the quality of education delivery such as the maintenance of school facilities, paper, and maintenance of school-centred relief programmes (e.g. school meals). This can be done by putting a cap on the share of government spending on salaries and wages of total expenditure in education. Given the lower enrolment rates for A-Levels, the government should consider introducing targeted financial assistance programmes for deserving children from poorer families to continue their studies.

Minimise school closures due to transport issues: Increase the existing fleet of school buses and provide adequate fuel for school buses to limit school closures due to transport issues. Measures should also be taken to ensure that children do not travel long distances to attend schools so that schools can function uninterrupted even in times of crisis.

Food Security and Nutrition Policy

IPS research shows that long-term environmental, social, and economic trends heightened by domestic and international challenges have eroded the resilience of Sri Lanka's agri-food systems. On the global front, the COVID-19 pandemic and the Russia-Ukraine conflict are generating a global recession with high world market prices of food, oil, and fertiliser. At the local level, crop failures have resulted from poor government policies such as the chemical fertiliser import ban. Inflationary pressures arising from a combination of factors including excessive money printing and the sudden free float of the exchange rate have also taken a toll on domestic food prices and food supply. All these have resulted in low farm incomes, high food prices, food shortages and hunger and malnutrition. In this context, two key recommendations are:

Introduce a targeted food ration scheme for the poor and strengthen nutritional assistance: As an immediate measure to help the poor and marginalised who are the most vulnerable, introduce a targeted food ration scheme covering essentials like rice, wheat flour and dhal. Strengthen nutritional assistance programmes such as the School Meals programme, 'Thriposha' and 'Poshana Malla'. Support from the World Food Programme (WFP), Food and Agriculture Organization (FAO) and regional (SAARC) and bilateral sources can be sought for this purpose.

Promote community gardens in the short term: Promote community gardens that include neighbourhood community gardens and school gardens. The way a community garden is set up and maintained can vary greatly from one to the other. These can be established in an empty land and the neighbours can look after it. It can be even in private land where the neighbours can share the harvest in exchange for labour. Some examples of community gardens include Virginia Avenue Community Garden, Washington, D.C., and Community Gardens Australia.

Health Policy

Sri Lanka's health system is recognised as an efficient, low-cost model. However, changing demographic and disease patterns along with domestic finance issues threaten the sustainability of the health sector. Inadequate service provision in the public sector and shortages of medicine and equipment are driving people towards the private sector causing inequities in access to healthcare, as not all can afford private sector healthcare. Over half of the existing budget is allocated for wages leaving very little resources for all other health inputs. As a result, investments in this vital sector have been curtailed over the past few years. Further, changing lifestyles have exacerbated the risk factors for non-communicable diseases (NCDs). Four major behavioural risk factors directly contribute to the escalating NCDs in the country: tobacco use, physical inactivity, alcohol misuse, and unhealthy dietary patterns. In this context, two key recommendations are:

(To be continued)

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